

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

RECOMMENDED DECISION

Before
Jeffrey A. Watson
Administrative Law Judge

Chad L. Allensworth
Administrative Law Judge

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I. INTRODUCTION

On March 20, 2025, Columbia Gas of Pennsylvania, Inc. filed proposed Supplement No. 392 to Tariff Gas Pa. P.U.C. No. 9 with the Pennsylvania Public Utility Commission (Commission). The Company proposed increasing rates to produce additional overall annual revenues of \$110.5 million per year, a 12.0% increase in the overall distribution revenue requirement, to be effective May 19, 2025.

Under the Company's proposal, the total bill for a residential customer purchasing 70 therms per month would increase from \$138.52 to \$154.29, an increase of \$15.77 or 11.38%. The Company also proposed increasing the monthly residential customer charge from \$17.25 to \$31.97, an increase of \$14.72 or 85.3%. Additionally, Columbia seeks approval to convert its pilot Weather Normalization Adjustment (WNA) into a permanent program, implement a Revenue Normalization Adjustment (RNA), introduce an Economic Development Distribution Service tariff, and renew its residential energy efficiency program and establish a new commercial energy efficiency program.

Since 2006, Columbia has filed twelve rate cases yielding approved rate increases in excess of \$487 million. Columbia's WNA Pilot has produced approximately \$74 million in additional revenues from Columbia ratepayers subject to the WNA in the five most recent heating seasons.¹ When compared to the other Pennsylvania jurisdictional natural gas distribution companies, Columbia has the highest average monthly bill for a residential heating customer using 73.7 Ccf/Month.²

¹ I&E St. No. 3-SR, at 15.

² I&E St. No. 2, at 6.

Based upon our careful and exhaustive review of the record evidence, we recommend that the Commission deny Columbia's proposed tariff in its entirety. We conclude that Columbia failed to meet its burden of proof that the proposed rate increase, rate design, and alternate rate mechanisms are in the public interest and will result in just and reasonable rates consistent with the Public Utility Code. Accordingly, we recommend the Commission deny this base rate request, and keep in place the rates, charges and provisions having been previously approved.

Alternatively, should this Commission disagree with our recommendation to deny Columbia's proposed filing and any rate increase, we recommend that the Commission approve an overall revenue increase of \$66,424.574.

We also recommend the monthly residential customer charge remain at \$17.25, without mains, and that the Company's WNA and RNA proposals be denied. Additionally, we recommend that Columbia's request for approval to introduce an Economic Development Distribution Service tariff, and renew its residential energy efficiency program and establish a new commercial energy efficiency program be denied. Finally, we recommended that Columbia's new rates become effective the first day of the fully projected future test year (FPFTY), January 1, 2026.

The suspension deadline is December 19, 2025. The last reasonable public meeting before the suspension deadline is December 4, 2025.

II. HISTORY OF THE PROCEEDING

A. Filings/Hearings

On March 24, 2025, the Commission's Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance.

On March 28, 2025, Linda Allison filed a Formal Complaint at Docket No. C-2025-3054434.

On April 8, 2025, the Office of Consumer Advocate (OCA) filed a Formal Complaint, Public Statement, and Notice of Appearance at Docket No. C-2025-3054484.

On April 11, 2025, the Office of Small Business Advocate filed a Formal Complaint at Docket No. C-2025-3054550.

On April 11, 2025, Linda Slick filed a Formal Complaint at Docket No. C-2025-3054552.

On April 11, 2025, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) filed a Petition to Intervene.

On April 17, 2025, Terri Walker filed a Formal Complaint at Docket No. C-2025-3054662.

On April 24, 2025, Pennsylvania State University (PSU) filed a Formal Complaint at Docket No. C-2025-3054780.

On April 24, 2025, the Commission entered an Order instituting an investigation to determine the lawfulness, justness, and reasonableness of the rates, rules, and regulations contained in Columbia's proposed tariff. The Commission also suspended by operation of law the proposed tariff until December 19, 2025, and assigned this matter to the Office of Administrative Law Judge for the prompt scheduling of hearings culminating in the issuance of a Recommended Decision.

On April 24, 2025, a Prehearing Conference Order and a Prehearing Conference Notice were issued scheduling a telephonic Prehearing Conference for May 7, 2025, at 9:00 a.m., and we were assigned as the Administrative Law Judges (ALJs) to preside over this matter.

On April 28, 2025, Columbia filed its Supplement No. 399 to Tariff Gas Pa. P.U.C. No. 9, pursuant to the Commission's April 24, 2025, Order suspending the proposed rates and rules contained in Supplement No. 392 to Tariff Gas Pa. P.U.C. No. 9 until December 19, 2025.

On May 5, 2025, the Pennsylvania Weatherization Providers Task Force (Task Force) filed a Petition to Intervene.

On May 7, 2025, the Prehearing Conference was convened as scheduled. Counsel for Columbia, I&E, OCA and OSBA appeared, as well as counsel for the PSU, CAUSE-PA, and Task Force (collectively, Parties). Linda Slick, an individual Complainant, also attended the conference.

On May 8, 2025, an Interim Order was entered establishing a litigation schedule and discovery procedures to be followed in this proceeding.

On May 9, 2025, a Prehearing Order was entered consolidating the complaints of the statutory advocates, PSU, Terri Walker, Linda Slick, and Linda Allsion with the above-docketed rate proceeding. In addition, the Petitions to Intervene filed by CAUSE-PA and Task Force were granted. The litigation schedule was also memorialized. In-person public input hearings were tentatively scheduled for 1:00 p.m. and 6:00 p.m., on June 3, 2025, at the Washington County Crossroads Center, 95 West Beau Street, Washington, Pennsylvania, and public input hearings by telephone were tentatively scheduled for June 4, 2025, at 1:00 p.m. and 6:00 p.m. The Parties were subsequently informed that additional in-person public input hearings would be scheduled in York, Pennsylvania on June 11, 2025, at 1:00 p.m. and 6:00 p.m.

On May 12, 2025, Alexandra Garlitz filed a Formal Complaint at Docket No. C-2025-3055233.

On May 14, 2025, an Interim Order was entered modifying the litigation schedule to permit supplemental direct testimony related to the York public input hearings.

On June 3, 2025, the first in-person public input hearing was held at 1:00 pm in Washington, Pennsylvania. Testimony was presented by consumer Complainant Alexandra Garlitz. Ms. Garlitz brought a number of her utility bills to the hearing, and Attorney Appleby, counsel for OCA, indicated she would redact Ms. Garlitz's personal information from them and provide the redacted copies to the Parties and request their admission into the record.³ Ms. Garlitz's bills were marked for identification as Garlitz Exhibit 1.⁴ The Parties were advised that they could submit written objections to the exhibits within seven days from receipt of the redacted exhibit copies. On June 11, 2025,

³ Tr. at 68-71.

⁴ Tr. at 70.

Counsel for OCA provided the undersigned ALJs and the Parties with redacted Garlitz Exhibit 1, consisting of a cover page and 34 pages, for admission into the record. No Party raised any objection to the admission of Garlitz Exhibit 1.

Testimony was also presented by Richard Culbertson. Mr. Culbertson provided the Parties with copies of a document purported to be his written testimony.⁵ Mr. Culbertson's eight-page written statement was marked for identification as Richard Culbertson Exhibit 1.⁶ Attorney Appleby also asked for a link to the article Mr. Culbertson had requested to be admitted into the record to be considered as if it were attached in printing to the document.⁷ The Parties were advised that they had seven days to submit written objections to the admission of Richard Culbertson Exhibit 1.⁸ No Party raised any objection to the admission of Culbertson Exhibit 1.

A second in-person public input hearing was held in Washington, Pennsylvania, at 6:00 p.m., on June 3, 2025. Testimony was given by Carla Dunlap.⁹

The first telephonic public input hearing was convened as scheduled on Wednesday, June 4, 2025, at 1:00 p.m. Testimony was presented by Daniel Skvarla,¹⁰ Ethan Story, a representative of the Center for Coalfield Justice (CCJ),¹¹ and Alexander Louderback.¹²

⁵ Tr. at 75-76.
⁶ Tr. at 97-98.
⁷ Tr. at 100-101.
⁸ Tr. at 102.
⁹ Tr. at 137.
¹⁰ Tr. at 166-167.
¹¹ Tr. at 176-177.
¹² Tr. at 185-186.

A second telephonic public input hearing was held on June 4, 2025, at 6:00 p.m. Testimony was presented by Andrea Evans¹³ who addressed Columbia bills which she offered as exhibits.¹⁴ Ms. Evans' January 17, 2025 bill and February 17, 2025 bill were marked as Evans Exhibit 1, and her account number, name, and address were redacted at the hearing.¹⁵ The redacted Evans Exhibit 1 was admitted into evidence without objection, and the redacted copy was provided by email transmission to all counsel on June 5, 2025.¹⁶ Testimony was also presented by Kim Brown¹⁷ and Joyce Schlag.¹⁸

Two in-person public input hearings were held in York, Pennsylvania, on June 11, 2025. No witnesses testified at either the 1:00 p.m. or the 6:00 p.m. hearings.

On June 6, 2025, an In-Person Evidentiary Hearing Notice was issued scheduling the in-person evidentiary hearing in Harrisburg, Pennsylvania, for August 6 – August 8, 2025.

On June 9, 2025, Columbia filed a Motion for a Protective Order. Columbia averred that no party indicated that it opposed the proposed Protective Order.

On June 26, 2025, an Interim Order was entered granting Columbia's Motion for a Protective Order and adopting the proposed Protective Order attached to its Motion.

¹³ Tr. at 214.
¹⁴ Tr. at 216.
¹⁵ Tr. at 219-220.
¹⁶ Tr. at 223.
¹⁷ Tr. at 224.
¹⁸ Tr. at 232.

On July 7, 2025, a Formal Complaint was filed by Daniel and Stacy Chronister at Docket No. C-2025-3056194.

On July 29, 2025, an Interim Order was entered admitting the redacted documents marked as Garlitz Exhibit 1, consisting of a cover page and 34 pages, identified at the in-person public input hearing held on June 3, 2025, at 1:00 p.m. in Washington, Pennsylvania, into the record. In addition, the documents marked as Richard Culbertson Exhibit 1, consisting of 8 pages, and identified at the in-person public input hearing held on June 3, 2025, at 1:00 p.m. in Washington, Pennsylvania, were admitted into the record.

On July 31, 2025, an Interim Order was entered confirming the procedural hearing requirements in this proceeding.

On August 1, 2025, an Interim Order was entered establishing the requirements for the submission of briefs and settlement documents, and imposing a deadline for the filing of briefs, settlement documents and objections to settlement.

The evidentiary hearing was convened as scheduled on August 6, 2025, and concluded on August 7, 2025. Counsel for Columbia, I&E, OCA and OSBA appeared, as well as counsel for PSU, CAUSE-PA, and Task Force. No individual Complainant attended the evidentiary hearing.

The following Statements and Exhibits were admitted into the evidentiary record at the hearing:

<u>PARTY</u>	<u>STATEMENTS/EXHIBITS</u>
Columbia	Columbia Gas 1 - Initial Filing-Tariff Supplement No. 392 to Columbia's Tariff Gas Pa. PUC No. 9, Standard Data Responses GASCOS 1-2, GASROR 1-23 and GASRR 1-55 and Exhibits 1-17, Exhibits 101-117 and Exhibits 400-414
	Columbia Statement Number 1 - Direct Testimony of Mark Kempic
	Columbia Statement Number 1-R Rebuttal Testimony of Mark Kempic
	Columbia Statement Number 1-RJ - Rejoinder Testimony of Mark Kempic
	Columbia Statement Number 2 - Direct Testimony of Michael E. Girata
	Columbia Statement Number 2-R - Rebuttal Testimony of Michael E. Girata with Exhibit MEG-1R
	Columbia Statement Number 3 - Direct Testimony of May Battig with Exhibits MLB-1 and MLB-2
	Columbia Statement Number 4 - Direct Testimony of Joseph Vassalotti with Exhibit JV-1 – CONFIDENTIAL
	Columbia Statement Number 4-R - Rebuttal Testimony of Joseph Vassalotti with Exhibits JV-1R through JV-13R
	Columbia Statement Number 5 - Direct Testimony of John J. Spanos with Appendix A and Exhibit JJS-1
	Columbia Statement Number 5-R - Rebuttal Testimony of John J. Spanos with Exhibit JJS-1R
	Columbia Statement Number 5-RJ - Rejoinder Testimony of John J. Spanos
	Columbia Statement Number 6 - Direct Testimony of Kevin L. Johnson with Exhibits KLJ-1 through 12 KLJ-7
	Columbia Statement Number 6-R - Rebuttal Testimony Kevin L. Johnson with Exhibit KLJ-1R - Columbia Statement Number 6-RJ - Rejoinder Testimony of Kevin L. Johnson with Exhibits KLJ-1RJ and KLJ-2RJ
	Columbia Statement Number 7 - Direct Testimony of Raymond A. Brumley
	Columbia Statement Number 7-R - Rebuttal Testimony of Raymond A. Brumley with Exhibits RB-1R through 9 RB-3R
	Columbia Statement Number 7-RJ - Rejoinder Testimony of Raymond A. Brumley
	Columbia Statement Number 8 - Direct Testimony of Vincent V. Rea with Appendices A through D and Exhibits VVR-1 through 18 VVR-12
	Columbia Statement Number 8-R - Rebuttal Testimony of Vincent V. Rea

	Columbia Statement Number 9 - Direct Testimony of Nicole M. Paloney with Exhibits NP-1 and NP-2
	Columbia Statement Number 9-R - Rebuttal Testimony of Nicole M. Paloney with Exhibits NP-1R through NP-3R
	Columbia Statement Number 10 - Direct Testimony of Jennifer Harding
	Columbia Statement Number 10-R - Rebuttal Testimony of Jennifer Harding with Exhibits JH-1R and JH-2R
	Columbia Statement Number 11 - Direct Testimony of Julie E. Covert with Exhibits JEC-1 and JEC-2
	Columbia Statement Number 11-R - Rebuttal Testimony of Julie E. Covert with Exhibits JEC-1R and JEC-2R
	Columbia Statement Number 12 - Direct Testimony of Ribeka Danhires
	Columbia Statement Number 12-R - Rebuttal Testimony of Ribeka Danhires with Exhibits RD-1R and RD-2R
	Columbia Statement Number 13 - Direct Testimony of Joseph A. Nunley with Exhibits JAN-1 through JAN-3
	Columbia Statement Number 13-R - Rebuttal Testimony of Joseph A. Nunley
	Columbia Statement Number 13-RJ - Rejoinder Testimony of Joseph A. Nunley with Exhibits JAN-1RJ and JAN-2RJ
	Columbia Statement Number 14 - Direct Testimony of Brian Scutta
	Columbia Statement Number 15 - Direct Testimony of George Jonda
	Columbia Statement Number 16 - Direct Testimony of Deborah A. Davis
	Columbia Statement Number 16-R - Rebuttal Testimony of Deborah A. Davis
	Columbia Statement Number 17 - Direct Testimony of John Taylor with Exhibit JDT-1
	Columbia Statement Number 17-R - Rebuttal Testimony of John Taylor with Exhibits JDT-1R and JDT-2R
	Columbia Statement Number 17-RJ - Rejoinder Testimony of John Taylor with Exhibit JDT-1RJ
	Columbia Statement Number 18 - Direct Testimony of Jason Leal
	Columbia Statement Number 18-R - Rebuttal Testimony of Jason Leal with Exhibits JL-1R through JL-5R
	Columbia Statement Number 20-R - Rebuttal Testimony of Wendi Hunter with Exhibits WH-1R through WH-3R
	Columbia Statement Number 21-RJ - Rejoinder Testimony of Elizabeth Owens Columbia Hearing Exhibit 3

I&E	I&E Statement Number 1 - Direct Testimony of Getachew Bedasa with I&E Exhibit Number 1 - I&E Statement Number 1-R - Rebuttal Testimony of Getachew Bedasa
	I&E Statement Number 1-SR - Surrebuttal Testimony of Getachew Bedasa
	I&E Statement Number 2 - Direct Testimony of D.C. Patel with I&E Exhibit Number 2
	I&E Statement Number 2-SR - Surrebuttal Testimony of D.C. Patel with I&E Exhibit Number 2-SR
	I&E Statement Number 3 - Direct Testimony of Esyan A. Sakaya with I&E Exhibit Number 3
	I&E Statement Number 3-SR - Surrebuttal Testimony of Esyan A. Sakaya with I&E Exhibit Number 3-SR
	I&E Statement Number 4 - Direct Testimony of Alexander Pankiw
	I&E Statement Number 4-SR - Surrebuttal Testimony of Alexander Pankiw
OCA	OCA Statement 1 - Direct Testimony of Michael Deupree with Appendix A, Exhibits MWD-1 through MWD-11 and Verification
	OCA Statement 4 - Direct Testimony of Jerome D. Mierzwa with Verification
	-OCA Statement 4-R - Rebuttal Testimony of Jerome D. Mierzwa with Exhibit JDM-1R and Verification
	OCA Statement 4-SR - Surrebuttal Testimony of Jerome D. Mierzwa with Verification
	OCA Statement 5 - Direct Testimony of Roger Colton with Exhibits RDC-1 through RDC-3 and Verification
	OCA Statement 5-SR - Surrebuttal Testimony of Roger Colton with Verification
	OCA Statement 6 - Direct Testimony of Barbara Alexander with Exhibits BA-1 through BA-7 and Verification - PUBLIC AND CONFIDENTIAL
	OCA Statement 6-SR - Surrebuttal Testimony of Barbara Alexander with Verification
	OCA Statement 7 - Direct Testimony of Stacy L. Sherwood with Attachment A and Verification
	OCA Statement 7-SR - Surrebuttal Testimony of Stacy L. Sherwood with Verification
	OCA Hearing Exhibit 1 - List of Evidence
	OCA Cross Exhibit 1 - Excerpts of Prepared Direct Testimony of John J. Spanos and Associated Exhibits on Behalf of Columbia Gas of Kentucky, Inc., Case 23 Number 2024-00092

	OCA Cross Exhibit 2 - Excerpts of Prepared Direct Testimony of John J. Spanos and Associated Exhibits on Behalf of Columbia Gas of Maryland Inc., Case Number 9701
	OCA Cross Exhibit 4 - Excerpts of Prepared Direct Testimony of John J. Spanos and Associated Exhibits on Behalf of Columbia Gas of Virginia, Inc., Case Number PUR-2024-00030
	OCA Cross Exhibit 5 - Excerpts of Prepared Direct Testimony of John J. Spanos and Associated Exhibits on Behalf of Columbia Gas of Ohio, Inc., Case Numbers 21-637-GA-AIR, 21-638-GA-ALT, 21-639-GA-UNC, 21-640-GA-AAM
OSBA	OSBA Statement Number 1 - Direct Testimony of Mark D. Ewen with Exhibits IEc-1 and IEc-2 and Verification
	OSBA Statement Number 1-R - Rebuttal Testimony of Mark D. Ewen with Exhibit IEc-R1 and Verification
	OSBA Statement Number 1-S - Surrebuttal Testimony of Mark D. Ewen with Exhibit IEc-S1 and Verification
CAUSE-PA	CAUSE-PA Statement 1 - Direct Testimony of Harry S. Geller with Appendices A through D and CAUSE-PA Exhibits 1 and 2
	CAUSE-PA Statement 1-SR - Surrebuttal Testimony of Harry S. Geller with Appendix A
	CAUSE-PA Statement 2 - Direct Testimony of Patrick M. Cicero with Appendices A and B and Exhibit PC-1
	CAUSE-PA Statement 2-SR - Surrebuttal Testimony of Patrick M. Cicero with Appendix A
	CAUSE-PA Hearing Exhibit 2 - Sample Bill
	CAUSE-PA Hearing Exhibit 3 - Understanding Your Bill
	CAUSE-PA Hearing Exhibit 4 - Bill Inserts
PSU	PSU Statement Number 1 - Direct Testimony of James L. Crist with Exhibits JC-1 through JC-3 – (PUBLIC AND CONFIDENTIAL)
	PSU Statement Number 1-R - Rebuttal Testimony of James L. Crist with Exhibit 1-R – (PUBLIC AND CONFIDENTIAL)
	PSU Statement Number 1-SR - Surrebuttal Testimony of James L. Crist with Exhibits 1-SR through 3-SR – (PUBLIC AND CONFIDENTIAL)
	PSU Verification of James L. Crist
Task Force	TASK FORCE Statement Number 1 Direct Testimony of Jennifer Warabak

On August 26, 2025, Main Briefs were filed by Columbia, I&E, OCA, OSBA, CAUSE-PA, Task Force, and PSU.

On September 2, 2025, an Interim Order was entered regarding the filing of Reply Briefs and compliance with the Interim Orders of the undersigned ALJs.

Reply Briefs were filed on September 5, 2025, by Columbia, I&E, OCA, OSBA, CAUSE-PA, Task Force and PSU.

The record closed on September 5, 2025, the deadline for the filing of Reply Briefs.

The hearing record consists of the transcripts and the above-referenced statements, exhibits and documents, as well as all briefs. This matter is now ready for a Recommended Decision.

B. Public Input Hearings

On June 3, 2025, the first in-person public input hearing was held at 1:00 p.m. in Washington, Pennsylvania.

Ms. Garlitz, a retired resident and Columbia Gas customer, was first to testify. She testified that she filed a Complaint in this proceeding, and she has complained about her utility bills to the Attorney General, Governor Shapiro, and other elected and non-elected officials including President Trump. Ms. Garlitz explained that she is a widow who lives in a large house and stated that her January gas bill was \$861, but only \$132 of which was for the gas used. She asserted that with there being natural gas right under her house, it is absurd that customers have to pay excessive distribution fees for Pennsylvania gas. She suggested that Columbia offer a discount to senior citizens, as she has been retired for 26 years, and lost half her income upon the death of her husband, and has not received a cost of living increase from social security in 23

years. Ms. Garlitz explained that she lives on her retirement and social security benefits and she does not want to move because of increased utility costs.¹⁹

On cross-examination, Ms. Garlitz explained that Columbia Gas had put her on a budget plan which rose from \$200 per month in December to between \$378 and \$397 per month. Ms. Garlitz brought approximately 15-20 of her utility bills to the hearing. She explained that she has triple pane windows and 12-inch-thick walls, and that she keeps her thermostat at 69 degrees and has to use blankets to keep warm. Ms. Garlitz also testified she has a fear of being cold in her own house as it brings back painful memories for her. She also stated that the amount Columbia Gas is charging to distribute Pennsylvania gas is pure greed, and that people need to be more compassionate. She closed by explaining that she makes too much money to be able to go to a high rise, but still does not make enough to afford higher gas bills, and that, under the circumstances, she is currently in a state of limbo.²⁰

Richard Culbertson, a Pittsburgh resident, Columbia Gas customer, and self-described asset management expert, also provided testimony. Mr. Culbertson provided the Parties with a document purported to be his written testimony. Mr. Culbertson contended that gas utility management and governance are all about various forms of asset management, addressed the due process clauses of the 5th and 14th Amendments and asserted the Commission is not prepared to provide him or others due process in this rate case, and that a 12% increase in rates is an enormous sum that is due consideration by the Commission.²¹

Mr. Culbertson further contended that Title 66, Section 1319 states that the Commission shall allow any public utility to recover all prudent and reasonable costs

¹⁹ Tr. at 64-67.

²⁰ Tr. at 69-72.

²¹ Tr. at 73-81.

only in accordance with appropriate accounting principles, and that Columbia's rate case process establishing rates through black box settlements is not consistent with appropriate accounting principles. He explained that lawyers cannot jump into the realm of accountants and auditors without background experience, and he has not seen the Commission provide information in this case as to why Columbia Gas's accounting principles are just and reasonable. Mr. Culbertson asserted that information regarding Columbia Gas's accounting measures must be included in the docket to show it is free from waste, fraud, abuse, and mismanagement.²²

Mr. Culbertson also asserted that the financial affairs and duties of the Commission shall be subject to audits made in accordance with generally accepted auditing standards, and he has not seen a financial audit of the Commission done since 1968, and that those who make the rules and approve certain situations should not be auditing their own work. He alleged that the Commission violated Article 8, Section 10 of the Pennsylvania Constitution, the GAO (Government Accountability Office) yellow book, and public accounting standards. Further, he asserted that the Commission is subject to 2 C.F.R. 200 which includes audits, and there has yet to be a financial audit done on the Commission; therefore, by deciding the outcome of rate cases, the Commission is violating due process. Mr. Culbertson suggested that because Judge Watson has been involved in other rate cases with Columbia Gas, he is thereby reviewing his own work and should consider removing himself from this proceeding.²³

Mr. Culbertson testified that Columbia Gas has the highest gas rates, and his recent bill shows 88% of the charges were distribution charges and the remaining 12% was the supply charge for the gas used. He then discussed the rate comparison table included in his documents, contending that Columbia Gas charges the highest rates and

²² Tr. at 82-84.

²³ Tr. at 84-90.

the proposed rate increase raises a ‘red flag’ with respect to due process. Mr. Culbertson also referenced the NiSource 224 proxy statement and claimed that 75% of compensation for top management is based upon net operating earnings per share, and questioned where the safeguards are to ensure that customers are paying just and reasonable rates. He then discussed the implications of AI (artificial intelligence), and referenced an article written by Vice Chair Barrow claiming that utility ratepayers are funding big tech’s power.²⁴

Mr. Culbertson stated that the path of profits lies in investing in infrastructure, and the Commission has approved large, accelerated infrastructure spending for Columbia Gas. He testified neither Columbia Gas nor the Commission have reliable internal controls, and the proceeding should be paused since the Commission is ill prepared to fulfill their responsibility to determine utilities’ rates per the Pennsylvania Constitution and public utilities laws. He continued that customers are not given due process in establishing Columbia Gas’s rates, and the revenue normalization adjustment works to pass business risks to consumers. Mr. Culbertson closed his direct testimony by demanding that the proceeding be paused so that a competent third party can conduct a financial audit on the Commission.²⁵

On cross examination, Mr. Culbertson explained that he prepared Richard Culbertson Exhibit 1. He then clarified that he pays one bill to Columbia Gas for one of the rental properties he owns, and the rate increases put unneeded pressure on his tenants who already struggle with various personal and economic issues. Also, it was further determined that the article Mr. Culbertson was referencing in his testimony did not specifically name Columbia Gas of Pennsylvania. Mr. Culbertson explained that he was not aware of the development of a new economic development rate class proposed in Columbia Gas’s rate filing.

²⁴ Tr. at 91-96.

²⁵ Tr. at 98-100.

Mr. Culbertson's eight-page written statement was marked for identification as Richard Culbertson Exhibit 1. Attorney Appleby also asked for a link to the article Mr. Culbertson had requested to be admitted into the record to be considered as if it were attached in printing to the document. The Parties were advised that they had seven days to submit written objections to the admission of Richard Culbertson Exhibit 1.²⁶ No Party raised any objection to the admission of Culbertson Exhibit 1, which was subsequently admitted into evidence.

A second in-person public input hearing was held in Washington, Pennsylvania, at 6:00 p.m., on June 3, 2025. Testimony was presented from one witness, Carla Dunlap, a Washington resident and Columbia Gas customer. Ms. Dunlap first pointed out that on her bill, Columbia Gas said it was asking for \$84.7 million, but the amount stated during the hearing was \$110.5 million. She then explained she has a friend who has a low income and participates in Columbia Gas's Customer Assistance Program (CAP), and is having to pay an extra charge that is supposedly going to non-CAP customers. She explained that her friend called the Company to inquire about this charge, but was dismissed rather than given any answers. Ms. Dunlap explained that whenever she calls Columbia Gas she wishes to speak to a real person rather than an automated voice telling her to go to the website or download an app, and expressed her frustration with being dismissed over the phone. She closed by questioning where the money from the rate increase is going and pointed out that although the Company claims to be giving back to the community, they do not have enough programs in place to help low-income customers afford their bills.²⁷

²⁶ Tr. at 97-102.

²⁷ Tr. at 137-140.

On cross-examination, Ms. Dunlap explained that she did not know what charge her friend that is enrolled in the CAP program was referring to, but there is something in the fine print on her bill stating that a portion goes to help non-CAP customers.²⁸

The first telephonic public input hearing was convened as scheduled on Wednesday, June 4, 2025, at 1:00 p.m. Daniel Skvarla, a retired Ellwood City resident and Columbia Gas customer, was first to testify. Mr. Skvarla asked how many times Columbia Gas plans to come back and ask for another \$100 million from its customers. He also inquired about who is on the independent committee which makes the decisions as to how much the rates may be raised, and also wanted to know who represents customers of the Company. He went on to claim that NiSource, Columbia Gas's parent company, is worth \$15 billion. He also asked for the removal of the weather normalization and revenue normalization charges and claimed that \$60 of his \$67 gas bill was made up of delivery charges. He closed by stating that he represents the public, and the Company's charges amount to robbery.²⁹

On cross-examination, counsel for OCA, Attorney Guthrie, asked Mr. Skvarla to further explain why the weather normalization charge should be removed. Mr. Skvarla explained that it is a charge based on nothing, that he is not God and therefore cannot control the weather, and that he does not believe the Company has any right to charge customers for the climate changing. Attorney Guthrie then asked Mr. Skvarla to explain why the revenue normalization charge should be removed. Mr. Skvarla explained that he is on a fixed income and nobody normalizes his revenue, so therefore he should not have a duty to normalize the revenue of Columbia Gas.³⁰

²⁸ Tr. at 142.

²⁹ Tr. at 166-170, 175.

³⁰ Tr. at 171-173.

Ethan Story, a Columbia Gas customer testifying on behalf of the Center for Coalfield Justice (CCJ), was next to testify. Mr. Story claimed that although he was unaware whether CCJ was a Columbia Gas customer, it rents property located within the Company's service territory. He explained that CCJ is a 501(c)(3) nonprofit organization with a mission to "improve policies and regulations governing fossil fuel extraction and use to educate, empower, and organize coalfield residents and to protect environmental health." He stated that CCJ is concerned with Columbia Gas's continued effort to shift the financial burden of infrastructure investments and corporate profits onto its customers, and believes the proposed rate increase is excessive and unjustified. He pointed out that this would be the Company's 12th rate increase in the last 15 years, and establishes a troublesome pattern of imposing recurring financial burdens on consumers. Mr. Story contended that Columbia Gas's position that it needs to raise the rates 11.4% for accelerated pipeline replacement does not support a price hike of such a magnitude, and the Company has failed to show why it needs such an increase. In addition, he argued that the increase in the six monthly consumer charges is harmful, regressive, and penalize ratepayers who try to reduce consumption through conservation, efficiency, or economic necessity. He also characterized the weather normalization and revenue normalization adjustments as being inconsistent with equitable rate design and continues to burden ratepayers while protecting the Company's profit margin.³¹

Mr. Story explained that CCJ is concerned with Columbia Gas's proposed creation of a new economic development distribution service rate class because it has yet to address the rate implications for other customer classes, particularly residential customers. He further contended that limited assistance programs do not justify a systematic rate hike that will harm households not enrolled in the program, and also undermines economic incentives for ratepayers to conserve energy. He closed by urging the Commission to thoroughly scrutinize Columbia Gas's proposed rate increase, and

³¹ Tr. at 176-181.

contended that rate design should prioritize affordability, encourage conservation, and distribute costs equitably.³²

Alexander Louderback, a Dover resident and software developer for National Philanthropic Trust, also testified. Mr. Louderback stated that the proposed increase places a substantial financial burden on residents and businesses across Columbia Gas's service territory. His primary concern was the 85% increase in the fixed base customer charge, and he contended that it is a deeply regressive charge that disproportionately burdens vulnerable customers including seniors on fixed incomes, low-income families, and customers trying to conserve energy. He testified that the weather normalization adjustment incentivizes Columbia Gas to continue drilling and destroying the environment, and as temperatures increase, a heavier burden will be imposed on customers. He also stated this inhibits customers' ability to make a positive impact on the environment. Mr. Louderback went on to assert that the OCA stated that the residential rate increase will be closer to 17% rather than the 11% that the Company stated, and will have a severe impact on households across Pennsylvania. He also stated that the CEO of Columbia Gas's parent company received a 38% raise last year, and argued that the majority of Columbia Gas's customers are not fortunate enough to receive a 38% raise. Mr. Louderback closed by contending that Columbia Gas's proposal to increase rates so soon after its last adjustment places an unacceptable burden on ratepayers, and he asked the Commission keep in mind the current fragile economic state of the county, prioritize ratepayer's financial wellbeing, and deny the proposed rate increase.³³

A second telephonic public input hearing was held on June 4, 2025, at 6:00 p.m. Andrea Evans, a Pittsburgh resident and Columbia Gas customer, was first to

³² Tr. at 181-183.

³³ Tr. at 185-190.

testify. Ms. Evans stated that Columbia has already received two rate increases in 2022 together totaling a 25% increase and received an additional 9% increase in January 2025. She included two of her highest gas bills from this past winter as exhibits. She pointed out that she only uses gas to heat her home, and these bills show Ms. Evans was charged \$654.52 and \$668.90 with the cost of gas ranging between \$91.16-\$99, and the distribution fees ranging between \$382.29 to over \$400. She explained that she keeps her thermostat at 62 degrees all winter, and just seven years ago she kept her thermostat at 69 degrees and her gas bill never approached \$600. She stated that although she understands Columbia Gas needs to make improvements, the rate increases are too frequent and far exceed the cost of inflation. She further testified that heating bills are starting to look more and more like mortgage payments, and although there are programs to assist “really poor” people with their bills, people in Ms. Evans’ position are forced to lower their thermostats to unhealthy levels so that they are able to afford the bill. She explained that it appears that nobody seems to care about consumers’ ability to pay for these rate increases, and it seems as though heating is becoming a luxury that only rich people can afford.³⁴

Ms. Evans further testified that the weather normalization charge serves as another example showing that heat is a luxury rather than a necessity, and although Columbia Gas claims on its website that over time the charges should even out to there being no additional charge, it only serves as another way to drive up delivery costs. She stated that she had made a list of all her weather normalization charges totaling \$234.96 from November of 2023 to May of 2024, but did not enter this list as an exhibit. She went on to explain that over the last calendar year, there was only one month she was not charged a weather normalization fee. She closed by arguing that the weather

³⁴ *Id.* at 214-218.

normalization fee only acts to mitigate any revenue losses thanks to the warmer climates, and Columbia Gas should roll back rates so that people can afford to heat their homes.³⁵

Kim Brown, a retired Bradford resident and Columbia Gas customer, also testified. Ms. Brown stated that she agreed with everything Ms. Evans said, and that although she is on the budget plan with Columbia Gas, her budget has gone up incredibly. She explained that until December 19, 2024, her bill was \$170 monthly, but increased to \$181 in January 2025, and increased to \$219 in May 2025. She explained that she is on a fixed income, and when she called Columbia Gas it was explained to her that she would have to have a shut-off notice in order to qualify for its crisis program, to which she expressed disagreement. Although Ms. Brown did not specify whether these were the charges before the budget plan discount, she stated that her December bill was \$284, her January bill was \$409.54, her February bill was \$415.75, her March bill was \$299.78, and her April bill was \$231.18.³⁶

Ms. Brown explained that when she called to inquire about the charges, Columbia Gas explained that the charges were to cover the cost Columbia Gas had to pay other companies for the natural gas. She again explained that she is on a fixed income and it is getting increasingly difficult to keep up with her bills, and that she has to keep her house at 68 degrees. She also noted that she applied for assistance with her bills but she made \$80 too much to qualify, and the assistance programs have not raised their income requirements to properly reflect the rise in utility rates. She concluded by saying that there are lots of people in her position, and she is unhappy with the increased rates.³⁷ On cross examination, Ms. Brown explained that her house is a single story, energy efficient modular home. She further explained that she lives in a neighborhood in the city of Bradford, not in a remote location.

³⁵ Tr. 218-219

³⁶ Tr. 224-226.

³⁷ Tr. at 227-228.

Joyce Schlag, a retired Pittsburgh resident and Columbia Gas customer, also testified at the 6:00 hearing. Ms. Schlag urged the Commission to reject the proposed rate increase as it is unfair to charge customers for services they did not receive or request. She explained that like Ms. Brown, she is a senior citizen widow that has to keep her thermostat on 68 degrees to be able to afford her gas bill. She explained that she tries very hard to conserve energy, and it is unfair for Columbia Gas to charge her for the energy that she does not consume. Ms. Schlag closed by expressing her anger for having to pay for additional service she did not receive. On cross examination, Ms. Schlag clarified that she was talking about the weather normalization rate when saying that she was paying for service she was not receiving.³⁸

Two in-person public input hearings were held in York, Pennsylvania, on June 11, 2025. No witnesses testified at either the 1:00 p.m. or the 6:00 p.m. hearings.

C. Description of the Company

Columbia Gas is a “public utility” and “natural gas distribution company” (NGDC) as those terms are defined in Sections 102 and 2202 of the Public Utility Code, 66 Pa.C.S. §§ 102, 2202. As such, Columbia Gas provides natural gas distribution, sales, transportation, and/or supplier of last resort services to approximately 445,000 retail customers in portions of 26 counties of Pennsylvania, primarily in central, southcentral and southwestern Pennsylvania.

³⁸ Tr. at 232-235.

D. Rate Requests

Columbia Gas' increase request, as filed, proposes to increase rates designed to produce an overall revenue increase of approximately \$110.5 million annually, or an approximate increase of 12%, in overall distribution revenue requirement. As previously stated, this is the twelfth rate increase request case since 2006 yielding approved rate increases in excess of \$487 million. In addition, Columbia's WNA Pilot has produced approximately \$74 million in additional revenues from Columbia ratepayers subject to the WNA in the five most recent heating seasons.³⁹ This has resulted in Columbia having the highest average monthly bill for a residential heating customer using 73.7 Ccf/Month compared to other gas distribution companies.⁴⁰ Furthermore, Columbia proposes to increase the residential monthly customer charge from \$17.25 to \$31.97, an increase of \$14.72 or 85.3%.

As will be further discussed herein, this Recommended Decision recommends that the Commission deny the request of Columbia Gas to increase the base rate, as requested, because it is contrary to the public interest and will create unreasonable, unfair and unjust rates.

We conclude that Columbia has failed to meet its burden of proof in the present proceeding to show that its filing, including the proposed rate increase, rate design, and alternate rate mechanisms, as set forth below, are in the public interest and will result in just and reasonable rates consistent with the Public Utility Code.

Accordingly, we recommend the Commission deny this base rate request, and keep in place the rates, charges and provisions having been previously approved.

³⁹ I&E St. No. 3-SR, p. 15.

⁴⁰ I&E St. No. 2, p. 6.

However, in the alternative, should the Commission choose not to approve this recommendation, we summarized each of the Parties' position on each major category argued by the Parties followed by our alternate recommendation at the end of each category.

III. FINDINGS OF FACT

1. Columbia Gas of Pennsylvania, Inc., has its principal office in Canonsburg, Pennsylvania, and provides natural gas distribution service in portions of 26 counties in Pennsylvania, primarily in the Western half of the Commonwealth, as well as parts of Northwest, Southern and Central Pennsylvania.⁴¹

2. Columbia delivers natural gas service to approximately 446,000 residential, commercial, and industrial customers.⁴²

3. Columbia Gas is a wholly owned subsidiary of NiSource.⁴³

4. On March 20, 2025, Columbia Gas filed Supplement No. 392 to Tariff Gas Pa. P.U.C. No. 9 (Supplement 392) pursuant to 66 Pa.C.S. § 1308, seeking a general rate increase.⁴⁴

5. Columbia Gas' base rate filing requested an overall revenue increase of approximately \$110.5 million per year.⁴⁵

⁴¹ Columbia St. No. 1, at 3.

⁴² *Id.*

⁴³ *Id.*

⁴⁴ Columbia St. No. 1, at 4.

⁴⁵ I&E St. No. 1, at 2.

6. Columbia's Future Test Year rate base is \$3,489,139,254.⁴⁶

7. The Company agreed to provide the Bureau of Investigation and Enforcement and the Office of Consumer Advocate with an update to Columbia Exhibit No. 108, Schedule 1 no later than April 1, 2026, under this docket number, which should include actual capital expenditures, plant additions, and retirements by month for the twelve months ending November 30, 2025.⁴⁷

8. Columbia has filed nine base rate cases in a span of twelve years requesting a cumulative total additional revenue increase of \$717.35 million.⁴⁸

9. When compared to the other Pennsylvania jurisdictional natural gas distribution companies, Columbia has the highest average monthly bill for a residential heating customer using 73.7 Ccf/Month.⁴⁹

10. Columbia's request for the amortization of a regulatory asset regarding the sale of the Blackhawk Storage Facility was not part of Columbia's original March 20th filing.⁵⁰

11. Columbia raised the issue of the requested amortization of a regulatory asset regarding the sale of the Blackhawk Storage Facility in its July 17, 2025 rebuttal testimony.⁵¹

⁴⁶ I&E St. No. 3; *See also* Columbia Ex. No. 108, at 3.

⁴⁷ I&E St. No. 3-SR, at 3.

⁴⁸ I&E St. No. 2, at 6.

⁴⁹ *Id.*

⁵⁰ I&E St. No. 3-SR, at 4.

⁵¹ *Id.*

12. Columbia's average historic filing frequency for base rate cases is 16 months $((12 + 12 + 24) = 48 \div 3)$.⁵²

13. Columbia elected to use the Fully Projected Future Test Year to determine its base rates and the first day of the FPFTY is January 1, 2026.⁵³

14. If Columbia is permitted to charge new rates effective on December 18, 2025, instead of January 1, 2026, then at the full revenue increase request of \$110,496,797, the Company would recover a minimum unsupported and unreasonable additional revenue increase of \$4,238,233 $(\$110,496,797 \div 365) \times 14$ for that 14-day period from ratepayers.⁵⁴

15. Columbia performed and provided three Allocated Cost of Service Studies.⁵⁵

16. Most Parties agreed that the customer charges for rate classes RS, RDS, and RC2 should stay at the current rate of \$17.25.⁵⁶

17. The proposed customer charges for SGS1, SGS2, and SDS/LGSS customers are consistent with the applicable customer cost analysis.⁵⁷

⁵² I&E St. No. 1, at 7.

⁵³ I&E St. No. 2, at 105; Columbia St. No. 4, at 3.

⁵⁴ I&E St. No. 2, at 107.

⁵⁵ I&E St. No. 3, at 36; Columbia St. No. 6, at 4-5.

⁵⁶ I&E St. No. 3, at 43; I&E St. No. 3-SR, at 38-40.

⁵⁷ I&E St. No. 3, at 43.

18. Historical data shows that Columbia has recovered over \$74 million in revenue through the application of the Weather Normalization Adjustment from the Columbia rate payers.⁵⁸

19. The current administrative costs associated with Columbia's Energy Efficiency Plan are approximately 45%.⁵⁹

20. The current distribution system improvement charge rate established by the Commission for gas utilities is 10.25%.⁶⁰ Columbia used a HTY that is a twelve-month period ended no more than 120 days prior to the filing.⁶¹

21. Columbia used a FTY that is a twelve-month period beginning immediately after the end of the HTY. Columbia also used a FPFTY that is the twelve-months beginning January 1, 2026, which is the twelve-month period beginning with the first month that the new rates will be placed in effect *after* application of the full suspension period.⁶²

22. I&E recommends that Columbia provide a report by April 1 of 2026 and 2027 updating Columbia's Exhibit No. 108 for actual plant additions and retirements for the FTY and FPFTY.⁶³

⁵⁸ I&E St. No. 3-SR, at 15.

⁵⁹ I&E St. No. 2, at 89-90, 93.

⁶⁰ *Report on Quarterly Earnings for Year Ended March 31, 2025*, Docket No. M-2025-3055266 (Order entered July 24, 2025), Attachment G.

⁶¹ 52 Pa. Code § 53.52(b)(2). Columbia used a HTY ended November 30, 2024, which is less than 120 days prior to the March 20, 2025, filing date.

⁶² 66 Pa.C.S. § 1308(d).

⁶³ I&E St. No. 3, at 3.

23. Columbia does not oppose this recommendation, which has been included in prior Columbia rate case settlements.⁶⁴

A. Summary of Public Input Hearing Testimony

24. At the public input hearings in this proceeding, Columbia customers testified that they are struggling to pay their current Columbia bills and are worried about the effect that the proposed increase will have on their communities, especially during a time of high inflation affecting household expenses like rent and grocery prices.⁶⁵

25. At the public input hearings in this proceeding, Columbia customers testified that Columbia's proposed residential customer charge increase disproportionately affects low-income customers and seniors on fixed incomes, and affects customers' ability to afford their bills through usage reduction.⁶⁶

26. At the public input hearings in this proceeding, Columbia customers testified that the vast majority of their Columbia bills are distribution charges and are not commodity costs.⁶⁷

27. At the public input hearings in this proceeding, Columbia customers testified that the Company's frequency of rate case filings in recent years is increasing their rates substantially.⁶⁸

⁶⁴ Columbia St. No. 9-R, at 44.

⁶⁵ Tr. 138, 140, 179, 180, 182-83, 187, 189-90, 216, 217, 219, 225-26, 227, 228.

⁶⁶ Tr. 180, 187.

⁶⁷ Tr. 66, 169, 182, 216, 226; Evans Ex. 1.

⁶⁸ Tr. 168, 179, 189, 215-16, 217.

28. At the public input hearings in this proceeding, Columbia customers testified that Columbia's Weather Normalization Adjustment Pilot resulted in substantial bill increases with few credits and that the proposed Weather Normalization Adjustment and Revenue Normalization Adjustment should be denied because it charges them for natural gas consumption they do not use.⁶⁹

B. Overall Position on Rate Case

29. Columbia has requested a rate increase 10 times since 2009, including five rate increases requested since 2020.⁷⁰

30. In exchange for the Company's obligation to serve its customers, Columbia does not face risks associated with a competitive market, receives a monopoly franchise and an opportunity to recover a return of all prudently incurred expenses and capital investment, as well as a return on the value of property placed into public service; this bargained-for exchange is known as the regulatory compact.⁷¹

31. "Regulatory lag has long been recognized as a key component of the overall regulatory compact given the discipline it can impose on utility operational and investment decisions."⁷²

32. In the time between rate cases, a utility must be disciplined in how it incurs expenses and makes capital investment.⁷³

⁶⁹ Tr. 169, 172, 173, 181, 187-88, 218-19, 233, 234.

⁷⁰ OCA St. 5, at 7.

⁷¹ OCA St. 1, at 14.

⁷² *Id.* at 7-9.

⁷³ *Id.* at 8.

33. 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, 2026.⁷⁴

34. Columbia included an inflation rate factor of 4% for 2025 and 5% for 2026 in its projected rate base balance.⁷⁵

C. Accumulated Depreciation

35. Columbia's depreciation reserve is the book reserve brought forward from the book reserve approved by the Commission in Columbia's last base rate proceeding.⁷⁶

36. The book reserve was projected generally using the straight-line remaining life method, with the Equal Life Group (ELG) procedure.⁷⁷

37. The Company's current claim for accrued depreciation in this proceeding is made on the same basis as it has been for over forty years.⁷⁸

D. Cash Working Capital

38. Columbia included a cash working capital claim for its materials and supplies, prepayments and gas storage underground balances.⁷⁹

⁷⁴ OCA St. 2, at 4; Columbia Ex. 108 at 3.

⁷⁵ OCA St. 2, at 7.

⁷⁶ Columbia St. No. 5, at 5.

⁷⁷ Columbia St. No. 5, at 4-5; Columbia Ex. 109, Attachment A, at 41-46.

⁷⁸ Columbia St. No. 5, at 5.

⁷⁹ OCA St. 2, at 10; Columbia Ex. 108.

39. In its cash working capital claim, the Company included a Gross Domestic Product (GDP) inflation factor of 2.93% for 2025, and the 3.05% GDP inflation factor for 2026.⁸⁰

40. Columbia's rate base includes an addition of \$948,060 for materials and supplies.⁸¹

41. Columbia's rate base includes an addition of \$5,577,551 for various prepayments.⁸²

42. Columbia's updated rate base claim for Gas Stored Underground is \$48,893,536.⁸³

43. Columbia deducts from rate base an amount of \$4,813,210 for customer deposits based upon an HTY 13-month average balance.⁸⁴

44. In Columbia's claimed capitalized materials and supplies/prepayments balance, the Company included inflation adjustments of 2.93% and 3.05%.⁸⁵

⁸⁰ OCA St. 2, at 11.

⁸¹ Columbia Ex. 108, Sch. 5.

⁸² Columbia Ex. 108, Sch. 6.

⁸³ Columbia Ex. JV-1R, at 12.

⁸⁴ Columbia St. No. 11, at 10; Columbia Ex. 108, Sch. 9.

⁸⁵ OCA St. 2SR, at 8.

E. Consolidated Tax Adjustment

45. The Company's claimed present rate revenues are \$919,007,833.⁸⁶

46. Currently, Columbia uses the ALG depreciation expense procedure for plant installed prior to 1976 and the ELG procedure for plant installed in 1976 and subsequent years.⁸⁷

F. O&M and A&G Expenses

47. Columbia proposes a labor expense balance of \$38,770,674.⁸⁸

48. Columbia proposes to include \$2,568,807 in total incentive compensation expenses in its revenue requirement the FPFTY period.⁸⁹

49. Only 30% of the Company's proposed incentive compensation weighting pertain to objectives that directly benefit ratepayers, with the remaining 70% weighted towards financial performance.⁹⁰

50. Columbia included \$754,446 in Long-Term Incentive (LTI) stock awards in its labor costs for the FPFTY period, including performance share unit and restricted stock unit components.⁹¹

⁸⁶ OCA St. 2, at 15.

⁸⁷ Columbia St. 5, at 4; Tr. 318-19.

⁸⁸ OCA St. 2, at 16.

⁸⁹ *Id.* at 18.

⁹⁰ OCA St. 2, at 20.

⁹¹ OCA St. 2, at 21.

51. Only 30% of the Company's proposed LTI stock awards weighting pertain to objectives that directly benefit ratepayers, with the remaining 70% weighted towards financial performance.⁹²

52. Columbia proposes to recover \$8,915,459 in other employee benefits in the FPFTY period.⁹³

53. Columbia requests \$19,014,191 in outside services for the FTY and \$18,013,909 for the FPFTY.⁹⁴

54. 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.⁹⁵

55. Columbia proposed \$4,452,228 for Corporate Insurance in the FPFTY.⁹⁶

56. Columbia included a 3.05% inflation factor for the FPFTY when calculating its requested Corporate Insurance expense.⁹⁷

57. Columbia proposed \$405,057 for Injury and Damage (I&D) expense.⁹⁸

⁹² OCA St. 2SR, at 12-13.

⁹³ OCA St. 2, at 23; Columbia Ex. 104 Sch. 1.

⁹⁴ OCA St. 2, at 24.

⁹⁵ *Id.*

⁹⁶ OCA St. 2, at 26.

⁹⁷ *Id.*

⁹⁸ *Id.* at 27.

58. Columbia's Employee Expenses of \$554,925 in the HTY and \$637,383 in the FPFTY include employee recognition gifts, event tickets used for employee morale or team building purposes, and other entertainment expenses that support employee engagement.⁹⁹

59. Columbia witness Leal corrected the Company's employee expense claim, identifying that \$417,305 of the claimed expense balance related to clothing allowance and not to gifts and entertainment expenses.¹⁰⁰

60. The \$417,305 for the Company's updated expense is \$21,524 less than the total employee expense claim and the difference is attributed to "non-customer oriented costs."¹⁰¹

61. The sum of the \$(24,083) and \$(21,524) results in a total proposed adjustment of \$(45,607).¹⁰²

62. Columbia claimed a membership expense balance of \$682,796.¹⁰³

63. Columbia's customers see no benefit from the Company's participation in these organizations, related to the membership expense, as they are related to civic causes or lobbying.¹⁰⁴

⁹⁹ *Id.* at 28-29.

¹⁰⁰ OCA St. 2SR at 16.

¹⁰¹ *Id.*

¹⁰² OCA St. 2SR, at 16.

¹⁰³ OCA St. 2, at 31; OCA Ex. DM-SR-20.

¹⁰⁴ OCA St. 2SR, at 16-17.

64. Columbia proposed a \$2,075,819 balance related to its Utilities and Fuel used in Company Operations for the FPFTY.¹⁰⁵

65. Columbia included deflation factors of 2.93% for the FTY balance and 3.05% for the FPFTY balance.¹⁰⁶

66. Columbia proposed \$391,359 in advertising expense for the FPFTY.¹⁰⁷

67. Columbia included deflation factors of 2.93% for the FTY balance and 3.05% for the FPFTY balance.¹⁰⁸

68. The Company's materials and supplies account "2020 Facilities Maintenance and Repairs Materials" increased from "\$42,478 in 2022, \$174,598 in 2023 and \$946,461 in 2024."¹⁰⁹

69. The three-year average of these expenses is \$558,615.¹¹⁰

70. The Company's materials and supplies account "2020 Facilities Maintenance and Repairs Materials" improperly included costs which were inadvertently assigned outside services expense by the vendor.¹¹¹

¹⁰⁵ OCA St. 2, at 31; Columbia Ex. 104, Sch. 1 at 2.

¹⁰⁶ OCA St. 2, at 32.

¹⁰⁷ OCA St. 2, at 32; Columbia Ex. 104, Sch. 1 at 2.

¹⁰⁸ OCA St. 2, at 32.

¹⁰⁹ OCA St. 2, at 33.

¹¹⁰ *Id.* at Ex. DM-SR-24.

¹¹¹ OCA St. 2SR at 17.

G. NiSource Corporate Services Company (NCSC) Shared Services

71. 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.¹¹²

72. For the FPFTY, Columbia included \$4,012,229 in the portion of claimed NCSC expenses associated with 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.¹¹³

73. Unlike the LTI compensation expense the Company claimed for its own activities, the allocated LTI compensation expense from NCSC is not broken down by category.¹¹⁴

74. "[T]here is no way to discern whether the Restricted Stock / LTI compensation costs actually benefit ratepayers."¹¹⁵

75. Columbia proposes to include a portion of NCSC allocated Supplemental Executive Retirement Plan (SERP) expense in rates for a requested allowance of \$136,102 in the FPFTY.¹¹⁶

¹¹² OCA St. 2, at 34.

¹¹³ OCA St. 2SR at 36.

¹¹⁴ *Id.* at 21.

¹¹⁵ OCA St. 2SR at 21.

¹¹⁶ OCA St. 2, at 37.

76. “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.”¹¹⁷

77. Disallowance of the recovery of SERP costs included within the allocated portion of NCSC expense, results in an adjustment of \$(136,102).¹¹⁸

78. Columbia’s allocated share of NSCS expenses included a requested allowance of \$5,029,637 for short-term incentive compensation.¹¹⁹

79. OCA recommended that 70% of the allocated portion of NCSC STI expense be disallowed, consistent with its recommendation regarding the Company’s directly-incurred STI expense, or an adjustment of \$(3,520,746) for a recommended allowance of \$1,508,891.¹²⁰

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

80. Columbia included a \$130,450 net balance for Diversity, Equity, and Inclusion (DEI) costs.¹²¹

81. Columbia did not present metrics designed or evaluated to demonstrate ratepayer value and “these appear to be costs to benefit the Company such as corporate branding, imaging and touting Company stewardships.”¹²²

¹¹⁷ *Id.* at 37.

¹¹⁸ OCA St. 2SR at 19.

¹¹⁹ *Id.* at 22-23.

¹²⁰ *Id.* at 23.

¹²¹ OCA St. 2, at 28.

¹²² *Id.* at 19-20.

82. Columbia claims \$1,321,000 of rate case expense normalized over 12 months.¹²³

83. 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.¹²⁴

84. Columbia does not budget internal CAP administrative costs or any universal service program at the program level and does not provide the constituent categories of costs within the claim administrative costs account.¹²⁵

85. “The purpose of recovering costs through the Rider USP is to ensure that budgeted (or projected) costs can be reconciled against actual costs.”¹²⁶

86. 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.¹²⁷

87. The Company requested a taxes other than income expense allowance of \$4,500,883, which includes payroll taxes, property taxes, license and franchise, sales and use taxes and other taxes other than income taxes.¹²⁸

¹²³ Columbia Ex. 104, Schedule 2 at 16.

¹²⁴ Columbia Ex. 104, Sch. 1 at 2; OCA St. 2 at 41.

¹²⁵ OCA St. 5, at 112-14.

¹²⁶ OCA St. 5, at 113.

¹²⁷ OCA St. 2 at 44.

¹²⁸ *Id.* at 43.

88. The Company's payroll tax rate is 7.2234%.¹²⁹

89. Columbia's composite property tax rate is 0.00026287%.¹³⁰

90. Columbia proposed 11.35% return on equity which includes a 0.25% upward management performance adder adjustment.¹³¹

91. Columbia requested a capital structure of 54.4% common equity and 45.6% debt, inclusive of short- and long-term debt components.¹³²

I. Capital Structure

92. OCA witness Garrett used the same utility proxy group as Columbia witness Rea, which contains six natural gas companies and is referred to as "Gas LDC Group."¹³³

93. Since the time Columbia witness Rea conducted his analysis, Value Lines' betas have been notably reduced.¹³⁴

94. The most recent betas published by Value Line are more reflective of market expectations for the risk of a utility stock than the beats relied upon by Columbia witness Rea.¹³⁵

¹²⁹ *Id.* at 43.

¹³⁰ *Id.* at 43.

¹³¹ OCA St. 3, at 12.

¹³² *Id.* at 50; Columbia Ex. VVR-5.

¹³³ OCA St. 3, at 12.

¹³⁴ *Id.* at 39.

¹³⁵ *Id.* at 39-40.

J. Revenue Allocation and Rate Design

95. Columbia presented three different cost-of-service studies in this proceeding that differ in how they allocate the cost of mains: one using the Customer-Demand method, one using the Peak & Average method, and one using an average of the two.¹³⁶

96. Under Columbia's proposed revenue allocation, the LDS/LGSS customer class would receive a subsidy of \$19,252,450 and Flex rate customers would receive a subsidy of \$42,650,000 for a total of \$61,902,450 in inter-class cross-subsidization borne by chiefly residential and small business customers.¹³⁷

97. Because Flex rate customers receive service at contract rates, any revenue allocated to the Flex rate customer class except through customer charge increases cannot be reasonably recovered by the Company.¹³⁸

98. The residential customer class currently pays the highest proportion of subsidies provided to other customer classes relative to its revenues.¹³⁹

K. Rate Design/Tariff Structure

99. A customer charge should approximate customer-related costs directly attributable to a customer, or those "costs that change directly with its addition or subtraction of a customer."¹⁴⁰

¹³⁶ OCA St. 4 at 5.

¹³⁷ *Id.* at 10.

¹³⁸ Columbia St. 6, at 20.

¹³⁹ OCA St. 4, at 11.

¹⁴⁰ *Id.* at 14.

100. Columbia proposes to increase the fixed residential customer charge from \$17.25 per month to \$31.97 per month, an increase of \$14.72 or 85%.¹⁴¹

101. The Company currently charges the highest residential customer charge of any natural gas distribution company in Pennsylvania.¹⁴²

102. The Company's proposed residential customer charge of \$31.97 includes costs that do not vary with the addition or subtraction of a single customer, such as mains costs and uncollectible expenses.¹⁴³

103. Mains costs "are driven by the loads placed upon [the distribution system], not the number of customers served."¹⁴⁴

104. Based on the Company's noticed usage amount of 70 therms and noticed bill impact of an increase of \$15.77 from \$138.52 to \$154.29, the portion of residential customers' bills occupied by the customer charge would increase under the Company's proposal. Based on a bill of \$138.52, the current customer charge comprises 12% of a current residential customer's bill. Based on a bill of \$154.29, the Company's proposed customer charge would comprise 21% of a residential customer's bill.

105. "Increasing the fixed monthly customer charge increases the portion of a bill that a low-income customer cannot avoid by adjusting the customer's usage."¹⁴⁵

¹⁴¹ *Id.*

¹⁴² *Id.* at 15.

¹⁴³ *Id.* at 15-16.

¹⁴⁴ OCA St. 4, at 13-14.

¹⁴⁵ OCA St. 5, at 81.

106. High energy burdens not only affect customers' ability to pay their bills, but affect the quality of life for low-income customers.¹⁴⁶

107. The proposed customer charge increase represents an additional \$177 *each year* that Columbia's low-income customers already struggling to afford their bills will be forced to pay without the opportunity to avoid the rate increase.¹⁴⁷

108. A very small portion (23%) of Columbia's estimated low-income customer population are enrolled in the Company's CAP, with only 40% of customers enrolled in Columbia's CAP being enrolled in the percentage of income program (PIP) component of CAP, or less than 10% of the Company's overall estimated low-income population.¹⁴⁸

109. "Any increase in the Residential customer charge would reduce the incentive to engage in energy conservation and would limit the benefits residential customers can realize from engaging in energy conservation actions."¹⁴⁹

L. Alternative Ratemaking

110. Pennsylvania's annual heating degree days are anticipated to decrease by 13% by mid-century and 25% by end-of-century compared to the historical baseline.¹⁵⁰

¹⁴⁶ *Id.* at 82.

¹⁴⁷ *Id.* at 87.

¹⁴⁸ OCA St. 5, at 79.

¹⁴⁹ OCA St. 4SR, at 5-6.

¹⁵⁰ CAUSE-PA St. 2 at 51, n.98.

111. As weather warms, the WNA is far more likely to surcharge customers on net each year than it is to provide net credit.¹⁵¹

112. In total, since its inception in the 2013/2014 heating season, Columbia's WNA has resulted net additional charges to customers of approximately \$74.2 million that they would not have otherwise been charged based on usage.¹⁵²

113. Since the 2019/2020 heating season, Columbia's WNA has resulted in net charges to customers of approximately \$78.9 million that they would not have otherwise been charged based on usage.¹⁵³

114. The net charges to customers in the most recent six years of the WNA were more than 16 times larger than the net credits to customers in the first six years of the WNA.¹⁵⁴

115. The WNA is not necessary for Columbia to have a fair opportunity to recover its Commission approved revenue requirement and is not beneficial to customers.¹⁵⁵

116. Adding the WNA during the winter months exacerbates low-income customers' already unaffordable energy burdens.¹⁵⁶

¹⁵¹ *Id.*

¹⁵² CAUSE-PA St. 2 at 45-46; CAUSE-PA St. 2-SR at 13 (*see* n.39).

¹⁵³ CAUSE-PA St. 2 at 46, T.11; CAUSE-PA St. 2-SR at 13, n.39.

¹⁵⁴ CAUSE-PA St. 2, at 46.

¹⁵⁵ *Id.* at 47; OCA St. 1 at 15.

¹⁵⁶ CAUSE-PA St. 2, at 53-54; OCA St. 5 at 93.

117. In combination with its extremely high proposed customer charge, Columbia's WNA and RNA would fully insulate Columbia from the traditional business risks associated with reductions in usage, while fully shifting that risk to consumers.¹⁵⁷

118. There is no cap on the WNA or RNA that Columbia could surcharge any one customer.¹⁵⁸

119. The WNA is an overly complex calculation that operates against how most customers perceive their utility bills to work.¹⁵⁹

120. The RNA would reduce incentives for customers to engage in efficiency or consumption reduction measures because it would take back some or all those savings in the subsequent year.¹⁶⁰

121. The RNA will 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.¹⁶¹

122. There is no evidence that the RNA will reduce the frequency of rate cases.¹⁶²

¹⁵⁷ CAUSE-PA St. 2, at 27-28; OCA St. 1 at 15.

¹⁵⁸ CAUSE-PA St. 2, at 61.

¹⁵⁹ *Id.*

¹⁶⁰ CAUSE-PA St. 2, at 73; OCA St. 1 Ex. MWD-1 p. 1; PSU St. 1, at 23.

¹⁶¹ OCA St. 5, at 101-104.

¹⁶² CPA St. 17, at 51:3-7.

123. There is no cap on the amount of RNA revenue that Columbia could surcharge any one customer, which may result in extraordinary reconciliation charges.¹⁶³

124. The RNA is not transparent or easily understandable for consumers.¹⁶⁴

125. Pursuant to the Settlement Agreement resolving the Company's 2024 rate increase request, which was approved by the Commission, the Company's WNA Pilot will continue until an order is entered in this proceeding, as the first rate case filed by the Company after December 14, 2024.¹⁶⁵

126. The Company's WNA is a ratemaking mechanism that adjusts customer bills during the winter heating season (November through May) based on deviations from what the Company defines as "normal" weather. Specifically, it applies a formula using the ratio of normal heating degree days (HDDs) to actual HDDs, multiplied by a customer-specific heating usage factor, to generate either a credit or a surcharge on the bill. The WNA is limited to weather-related usage changes and applies to residential customers only.¹⁶⁶

127. In the five most recent hearing seasons, "the Company *never* issued a refund to consumers under the WNA despite claiming that the mechanism is symmetrical."¹⁶⁷

¹⁶³ CAUSE-PA St. 2, at 76; OCA St. 1, Ex. MWD-1 p. 2.

¹⁶⁴ CAUSE-PA St. 2, at 76; OSBA St. 1 at 18; OCA St. 1, Ex. MWD-1 p. 2.

¹⁶⁵ *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2024-3046519 (Joint Petition for Settlement filed Aug. 28, 2024) at ¶ 35.

¹⁶⁶ OCA St. 1, at 50.

¹⁶⁷ *Id.* at 55 (emphasis in original).

128. The proposed WNA reduces customers' incentive to conserve or invest in energy efficiency measures by recapturing bill savings due to reduced usage during warmer-than-normal weather.¹⁶⁸

129. The proposed WNA disproportionately harms Columbia's low-income customers.¹⁶⁹

130. The proposed WNA does not provide rate stability, as evidenced by the fact that Columbia has filed a rate increase request, on average, every year and a half since the WNA Pilot was implemented.¹⁷⁰

131. The proposed WNA reduces customers' bill stability and the Company's budget bill program provides better bill stability than the proposed WNA.¹⁷¹

132. The proposed WNA is likely to continue charging customers as weather becomes warmer over time.¹⁷²

133. The proposed WNA "weaken[s] the positive impacts regulatory lag has on promoting cost containment between rate cases."¹⁷³

134. The proposed WNA includes no check or cap on earnings, which means that there is no ceiling on how much revenue the proposed WNA can extract from Columbia's residential customers.¹⁷⁴

¹⁶⁸ OCA Ex. MWD-1 at 3.

¹⁶⁹ OCA St. 5, at 79.

¹⁷⁰ OCA Ex. MWD-1, at 3; OCA St. 5, at 7.

¹⁷¹ OCA St. 5, at 99-100.

¹⁷² Columbia St. 17, at 40-41.

¹⁷³ OCA Ex. MWD-1, at 4.

¹⁷⁴ *Id.* Ex. at 4.

135. “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.”¹⁷⁵

136. The Company’s communication materials regarding the WNA Pilot are inadequate because they represent the WNA Pilot as working to the benefit of both customers and the Company, which has not historically been the case, and do not provide customers with an individualized calculation of that customer’s WNA charge or credit.¹⁷⁶

137. Columbia has provided no credible evidence that the revenue extracted through the WNA pilot supported improvements in its reliability- and safety-related investments.¹⁷⁷

138. The Company has not proposed revisions or improvements to its WNA Pilot in the proposed WNA other than making it permanent and has not identified criteria or performance metrics by which the WNA Pilot would be evaluated.¹⁷⁸

139. Columbia’s proposed RNA “would compare actual base rate revenue per customer to the benchmark revenue per customer established in this proceeding. Any differences would be tracked monthly, adjusted for actual customer counts, and reconciled annually through a charge or credit to customers.”¹⁷⁹

¹⁷⁵ *Id.* Ex. at 4.

¹⁷⁶ OCA St. 6, at 23-25.

¹⁷⁷ OCA Ex. MWD-1, at 4.

¹⁷⁸ OCA St. 1, at 53.

¹⁷⁹ *Id.* at 17.

140. The Company presented no credible evidence that its quality of service would improve as a result of the RNA.¹⁸⁰

141. The proposed RNA will likely result in net charges to customers subject to the RNA.¹⁸¹

142. The Commission has not previously approved a full revenue decoupling mechanism.¹⁸²

143. The proposed RNA is contrary to cost causation principles by charging customers a fixed monthly surcharge due to unrecovered demand- and throughput-related costs from prior periods.¹⁸³

144. The proposed RNA does not improve customers' capacity utilization.¹⁸⁴

145. Reductions in consumption associated with installing energy efficiency measures or conservation efforts – or due to large-scale economic pressures such as inflation or a global pandemic – would result in RNA charges the subsequent year.¹⁸⁵

¹⁸⁰ Columbia Ex. JDT-2R at 4 (citing 52 Pa. Code § 69.3302(a)(14)).

¹⁸¹ OCA St. 1, at 36-37.

¹⁸² See *Pa. PUC v. Pa.-American Water Co.*, Docket Nos. R-2023-3043189 *et al.* (Order entered July 22, 2024) (*PAWC 2023*); *Pa. PUC v. Columbia Gas of Pa.*, Docket Nos. R-2020-3028835 *et al.* (*Columbia 2020*).

¹⁸³ OCA Ex. MWD-1 at 1.

¹⁸⁴ *Id.*

¹⁸⁵ OCA St. 1, at 15.

146. The proposed RNA does not calculate the fixed monthly surcharge on a per-customer basis.¹⁸⁶

147. The Company proposed an expansion of its Energy Efficiency Program which is not related to its proposal to implement an RNA.¹⁸⁷

148. The proposed RNA would recapture a customer's non-commodity-related bill savings due to reduced usage, conservation, or the installation of energy efficiency measures.¹⁸⁸

149. The proposed RNA would recapture the portion of weather-sensitive usage which is not adjusted by the Company's proposed WNA or WNA Pilot, including during months when the WNA's deadband would eliminate a bill adjustment.¹⁸⁹

150. The proposed RNA would reduce the Company's incentives to control costs and disincentives to overcapitalize between rate cases due to regulatory lag.¹⁹⁰

151. The proposed RNA includes no significant consumer protections.¹⁹¹

152. Over a number of years, the proposed RNA operates to guarantee Columbia's collection of its authorized revenue requirement.¹⁹²

¹⁸⁶ Columbia St. 17, at 47, 49.

¹⁸⁷ OCA Ex. MWD-1, at 1.

¹⁸⁸ OCA St. 1SR, at 15.

¹⁸⁹ OCA Ex. MWD-1, at 2.

¹⁹⁰ OCA St. 1, at 46; OCA St. 1SR at 14.

¹⁹¹ OCA MWD-1, at 2.

¹⁹² Columbia St. 17, at 51.

153. The proposed RNA provides unconditional revenue decoupling without requiring Columbia to achieve performance-related objectives to warrant the opportunity to decouple its revenues from throughput.¹⁹³

154. Columbia did not provide any adequate consumer education materials or a plan regarding how it will educate customers or bill them for the RNA.¹⁹⁴

155. The proposed RNA would not improve Columbia's system reliability.¹⁹⁵

M. Customer/Quality of Service

1. *Root Cause Analysis*

156. Columbia should be required to develop and implement a root cause analysis of customer disputes, informal and formal complaints, and BCS findings, particularly those identified as "verified" and "infractions" on a regular basis.¹⁹⁶

157. "Columbia has a database that contains closed customer disputes and the results of BCS informal complaints, but there is no evidence of analysis of trends or internal actions undertaken in response to this information."¹⁹⁷

158. "Columbia has not conducted a root cause analysis of customer complaint trends."¹⁹⁸

¹⁹³ OCA Ex. MWD-1, at 1.

¹⁹⁴ OCA St. 6, at 23-26; OCA St. 6SR, at 1-2.

¹⁹⁵ OCA Ex. MWD-1 at 2.

¹⁹⁶ OCA St. 6, at 17.

¹⁹⁷ *Id.* at 15-16.

¹⁹⁸ *Id.*

159. “Focusing solely on looking at individual complaints fails to recognize that a single complaint may reflect a more serious problem or concern.”¹⁹⁹

N. Payment Arrangement Policy

160. Columbia should routinely evaluate its payment arrangements to identify the factors that contribute to the success or failure of its agreements and take steps to internalize the results of that analysis in its implementation of payment arrangements and communications with customers.²⁰⁰

161. “Columbia’s justified PAR [PARs are customer informal complaints to BCS about the terms of the utility’s payment arrangement] rate increased from .03 in 2021 to .06 in 2023.”²⁰¹

162. 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.²⁰²

O. Columbia Billing and Payment Policies

163. “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

¹⁹⁹ *Id.* at 16.

²⁰⁰ *Id.* at 17.

²⁰¹ OCA St. 6, at 14-15.

²⁰² *Id.* at 17.

residential customers paid \$35,332,095 MORE than the PTC. In only two months was there even a slight benefit from NGS prices.”²⁰³

164. Columbia should target 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.²⁰⁴

165. Columbia should be required to review its scripts for any automated chat box or “app” to ensure that all the customer rights associated with these transactions are provided for customers.²⁰⁵

P. Universal Service Programs

166. “[T]here is a significant low-income customer population that is *not* participating in CAP and that will be adversely affected by the Company’s proposed rate increase.”²⁰⁶

167. “Over the [most recent] 24-month period, excluding the winter months with no shutoffs, Columbia disconnected service to 12,254 Confirmed Low-Income customers, while entering into only 10,894 payment arrangements in those same months.”²⁰⁷

168. “The average arrears at the time of disconnection [for Confirmed Low-Income customers] ranged from a low of \$757 to a high of \$1,579.”²⁰⁸

²⁰³ *Id.* at 21.

²⁰⁴ OCA St. 6 at 21.

²⁰⁵ OCA St. 6, at 22; OCA St. 6SR at 15.

²⁰⁶ OCA St. 5, at 24.

²⁰⁷ *Id.* at 66.

²⁰⁸ *Id.* at 66.

169. Columbia should initiate a screening process at the time a household first applies to receive service from Columbia to determine whether the applicant: (1) should be classified as a Confirmed Low-Income customer; and (2) should be referred to the CAP application process.²⁰⁹

170. Half of the Confirmed Low-Income customers disconnected are not being reconnected.²¹⁰

171. The Company's self-service workflow do not provide a reference to the fact that a low-income customer is exempt, by both statute and PUC regulation, from being required to post a cash security deposit.²¹¹

172. Columbia proposed a two-year pilot in which the Company would provide a one-time grant to assist with the payment of outstanding balances for customers who are otherwise eligible to re-enter the Company's CAP.²¹²

173. The Rider USP "is not a mechanism for Columbia Gas to use to recover costs imposed by federal and state agencies."²¹³

174. Columbia "has not established the propriety of collecting the Energy Assistance Team (EAT) costs through the Rider USP."²¹⁴

²⁰⁹ OCA St. 5SR, at 16.

²¹⁰ *Id.*

²¹¹ OCA St. 5, at 78.

²¹² Columbia St. 16, at 3.

²¹³ OCA St. 5, at 114.

²¹⁴ OCA St. 5SR, at 17.

175. Columbia has done very little cross-program implementation that relates to other low-income programs and CARES is not a category of costs recoverable through the Rider USP.²¹⁵

Q. Energy Efficiency Programs

176. Columbia's EE&C Plan includes three energy efficiency programs designed to reduce natural gas consumption by 2.7 million Dth in the first-year savings over the three-year Plan.²¹⁶

177. Phase II continues the Residential Prescriptive (RP) and Online Audit Kit (OAK) programs from Phase I and also adds a Small Commercial program.²¹⁷

178. The total proposed cost of the Plan is \$7,884,579 over the three plan years with annual budgets from \$2.5 million to \$2.8 million.²¹⁸

179. In order to develop the forecasted levels of participation, the Company relied upon its historical performance from Phase I, market data from the 2018 Act 129 Residential Baseline Survey, market data from the 2018 Act 129 Residential Baseline Survey, the 2009 Residential Energy Consumption Survey, Columbia Gas Rate Division Data Request on Residential customer forecasts, and climate data.²¹⁹

²¹⁵ OCA St. 5, at 114.

²¹⁶ OCA St. 7, at 2-3.

²¹⁷ *Id.* at 3.

²¹⁸ *Id.* at 3.

²¹⁹ *Id.* at 8.

180. In Rebuttal, Company witness 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.²²⁰

181. "The Company should coordinate with the EDCs in which its service territory overlaps on energy efficiency offerings, including thermostats and weatherization to avoid customer and contractor confusion."²²¹

182. "The Company should encourage the adoption of weatherization measures prior to the implementation of new heating equipment."²²²

183. The same vendor which assisted the Company to develop its Energy Efficiency Plan is the same vendor which provides an evaluation of the success of the Plan.²²³

184. The Company requests Commission authorization to implement a new tariff schedule, the Economic Development Distribution Service Rate (Rate EDDS).²²⁴

185. The Company "has recently received an inquiry from a potential customer that may qualify for service under the proposed EDDS rate schedule" but the Company's discussions with the prospective customer are still preliminary.²²⁵

²²⁰ Columbia St. 13-R, at 11.

²²¹ OCA St. 7, at 11.

²²² *Id.* at 11-12.

²²³ *Id.* at 12-13.

²²⁴ OCA St. 1, at 58.

²²⁵ Columbia St. 9-R at 35.

R. Eligible Customer Lists

186. Columbia proposed to broaden the scope of private customer information it will be able to provide to undisclosed third-parties under its tariff.²²⁶

187. 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.²²⁷

188. If Columbia’s pro forma usage were developed using a 10-year normal weather definition, it would reduce pro forma revenues at present rates and increase the revenue deficiency by approximately \$19 million.²²⁸

S. Blackhawk

189. Blackhawk is a gas storage field that was owned by Columbia. For many years, Blackhawk served as a peaking asset to provide gas on cold days.²²⁹

190. On January 29, 2025, filed an application for a certificate of public convenience to transfer the property.²³⁰

191. Columbia included in this case operating expenses, plant in service,

²²⁶ OCA St. 6, at 17.

²²⁷ *Pa. PUC v. Columbia Gas of Pa. Inc.*, Docket No. G-2025-3056022, Letter (June 30, 2025) (June 30, 2025 Letter).

²²⁸ Columbia St. No. 2-R, at 5-6.

²²⁹ Columbia St. No. 1-R, at 23.

²³⁰ *Application of Columbia Gas of Pennsylvania, Inc. to Transfer by Sale to Pin Oak Energy Partners LLC of its Blackhawk Storage Field located in South Beaver Township, Beaver County, Pennsylvania*, (“*Application Order*”) Docket No. A-2025-3053161 (Order entered April 24, 2025) at 3.

accrued depreciation, accumulated deferred income taxes and gas in storage associated with Blackhawk.²³¹

192. On April 24, 2025, the Commission approved the application for a certificate of public convenience to sell Blackhawk.²³²

193. The sale subsequently closed on June 20, 2025.²³³

194. Columbia's FPFTY long-term debt cost rate is 5.22%. Columbia's FPFTY short-term debt cost rate is 5.00%.²³⁴

195. The Commission's 2023 Universal Service Programs and Collections Report for 2023 lists Columbia as having the highest CAP credit per CAP customer of all gas utilities.²³⁵

196. The monthly Residential customer cost excluding mains is \$29.43.²³⁶

197. The monthly Residential customer cost including a mains component is \$77.16.²³⁷

198. Based on these customer charge calculations, Columbia proposes a Residential customer charge of \$31.97.²³⁸

²³¹ Columbia St. No. 11, at 5, n.1.
²³² *Application Order*, Order at 5-6.
²³³ Columbia St. No. 4-R, at 9.
²³⁴ Columbia Ex. VVR-4, at 1.
²³⁵ Columbia St. No. 9, at 12.
²³⁶ Columbia Ex. No. 111, Sch. 2, at 16.
²³⁷ *Id.* at 25.
²³⁸ Columbia St. No. 17, at 11.

199. In 2023, the Company created a team to identify opportunities to improve call center performance, which developed and implemented several measures to enhance customer satisfaction, improve call center performance, and foster employee engagement.²³⁹

200. These measures included: (1) a new mentorship program for new CSRs; (2) a New Hire Engagement and Recognition program to improve retention of CSRs; (3) new CSR empathy training to improve customer satisfaction; and (4) new Real-Time Analyst positions to monitor call center performance in real time.²⁴⁰

201. Ms. Alexander states that the root cause analysis should be developed using input from interested stakeholders within 6 months of the adoption of a final order in this proceeding.²⁴¹

202. Ms. Alexander claims that the Company has no internal documentation that reflects an analysis of trends and issues, determines the root cause, or reflects documented changes to the complaint process.²⁴²

203. The Company explained that it does track complaints by issue and that its Regulatory Compliance department also holds regular meetings with the call center and other customer-facing teams to review complaint trends and address emerging concerns.²⁴³

²³⁹ Columbia St. No. 9-R, at 17-18.

²⁴⁰ Columbia St. No. 9-R, at 17-18.

²⁴¹ OCA St. 6, at 16-17.

²⁴² *Id.* at 15.

²⁴³ Columbia St. No. 9-R, at 24.

204. Columbia witness Paloney described that these collaborative discussions often lead to targeted refresher training or individualized coaching to reinforce proper procedures and improve customer interactions.²⁴⁴

205. Ms. Alexander testifies that the Company is outperforming other NGDCs in Bureau of Consumer Services (BCS) reports concerning customer complaints and payment arrangement disputes that require BCS investigation.²⁴⁵

206. Ms. Alexander testifies that the Company's "justified" complaint rate and its verified infraction²⁴⁶ rate were the lowest of all other Pennsylvania NGDCs in 2023.²⁴⁷

207. Ms. Alexander testifies that the Company's justified payment arrangement cases increased by .03% between 2021 and 2023.²⁴⁸

208. OCA witness Alexander recommends that the Company review its scripts for automated chat programs and IVR scripting to ensure compliance with consumer protection rights.²⁴⁹

209. The Company agreed to conduct a thorough review of its workflow and scripting regarding consumer protections for these areas and to report its findings to

²⁴⁴ Columbia St. No. 9-R, at 24.

²⁴⁵ See OCA St. 6, at 14-15.

²⁴⁶ Verified infractions in this context relate to findings that utilities have not complied with Chapter 56 of the Commission's regulations. OCA St. 6, at 15.

²⁴⁷ OCA St. 6, at 14-15.

²⁴⁸ *Id.*

²⁴⁹ OCA St. 6, at 22.

its Universal Service Advisory Council (USAC) within 6 months of the final order entered in this proceeding.²⁵⁰

210. OCA witness Alexander also recommends that the Company evaluate and report on the effectiveness of its payment plans and related policies and identify potential reforms or enhancements that could improve the overall success rate of these arrangements.²⁵¹

211. OCA witness Alexander recommends that the Company be required to revise its training materials and provide additional training to ensure compliance with all applicable consumer protections and rights for residential customers facing service termination.²⁵²

212. Ms. Alexander raises concerns regarding the training and procedures followed by the Company's field technicians at the time-of-service termination.²⁵³

213. The Company's current policies and training are fully compliant with all regulatory requirements.²⁵⁴

214. The written notice left at the premises after termination also informs customers of their rights.²⁵⁵

215. Ms. Alexander argues in Surrebuttal that she intends only that field technicians be trained to recognize and respond to all potential customer rights that may

²⁵⁰ Columbia St. No. 9-R, at 27.

²⁵¹ OCA St. 6, at 17.

²⁵² *Id.* at 19.

²⁵³ *Id.* at 19.

²⁵⁴ Columbia St. No. 9-R, at 26.

²⁵⁵ *Id.*

be raised by the customer, not that they be required to reiterate all possible rights at the time of termination.²⁵⁶

216. The Company's termination work orders are not generated for any account that is in dispute.²⁵⁷

217. The Company's training materials address the four circumstances in which a utility must halt termination in the field.²⁵⁸

218. Pursuant to the settlement reached in the Company's last base rate case at Docket No. R-2024-3046519,²⁵⁹ the Company is proposing a Speech Analytics Pilot Program that will use Speech Analytics Technology (SAT) to review customer calls to identify customers that may be eligible for Columbia's Customer Assistance Program (CAP) and were not referred to CAP during a customer service call.²⁶⁰

219. The Speech Analytics Pilot has two primary goals: (1) to verify that existing Company policies related to CAP referrals are being followed; and (2) to improve the rate of referrals to CAP by identifying key contacts, conversations, and words or phrases that would more quickly recognize a CAP-eligible customer and use those to adjust processes to make appropriate referrals to CAP as soon as possible.²⁶¹

²⁵⁶ OCA St. 6SR, at 12-13.

²⁵⁷ Columbia St. No. 9-R, at 26.

²⁵⁸ 52 Pa. Code § 56.94(1).

²⁵⁹ *See Columbia Gas of Pa. v. Pa. PUC*, Docket No. R-2024-3046519, at 21 (Order entered Nov. 21, 2024) ("Columbia will present a pilot program involving the use of speech analytics no later than the Company's next USECP review or base rate proceeding, whichever comes first. As discussed in the Direct Testimony of OCA witness Colton, the Company will include the USAC in the development of the speech analytics pilot. The Company may recover the costs thereof through its Universal Services Rider.").

²⁶⁰ Columbia St. No. 16, at 7.

²⁶¹ *Id.*

220. SAT is a tool that uses artificial intelligence natural language processing to analyze customer conversations from live or recorded audio data.²⁶²

221. In Phase I of the Speech Analytics Pilot, the Company will use SAT to screen recordings of calls related to payment arrangements, while in Phase II the Company will expand its call screening to recordings of a sample size of all call types, with the intention to expand screening to all calls.²⁶³

222. In both phases, the Company will look for specific, words, phrases, or themes, as recommended by the Company's USAC, to identify customers that were not referred to CAP but may be eligible based on the conversation.²⁶⁴

223. The Company will consult the USAC to provide feedback regarding the appropriate words and phrases the SAT will use in the Pilot. The Company will also share preliminary findings and ongoing results with its USAC.²⁶⁵

224. The Company's estimated annual budget for the Speech Analytics Pilot is \$300,000, which includes the prorated portion of the annual licensing fee for SAT, programming the SAT, analyzing results, and related training.²⁶⁶

225. The Company proposes recovering costs related to the Speech Analytics Pilot through its Rider USP.²⁶⁷

²⁶² *Id.*, at 8.

²⁶³ *Id.*

²⁶⁴ Columbia St. No. 16, at 8.

²⁶⁵ *Id.*, at 10.

²⁶⁶ *Id.*, at 9.

²⁶⁷ *Id.*

226. OCA witness Colton recommends approval of the Company's Speech Analytics Pilot, with costs recoverable through Rider USP.²⁶⁸

227. CAUSE-PA witness Mr. Geller is concerned that artificial intelligence (AI) tools like SAT "have the potential to infuse bias within the modeling, which could result in disproportionate outcomes based on factors such as race, ethnicity, gender, age, primary language, or education level."²⁶⁹

228. The Company will not be using demographic data in its implementation of SAT and will instead focus on specific words and phrases to help identify eligible customers for enrollment in CAP.²⁷⁰

229. The Company will also evaluate its plan for any inherit bias prior to implementation and draw on the experience of its USAC to ensure that the SAT screens for the appropriate words and phrases to identify eligible customers.²⁷¹

230. Mr. Geller cautions that the Company should not rely solely on its USAC for this task and recommends seeking input from other organizations with expertise and experience in this area.²⁷²

231. The Company clarified in Rebuttal that it will not rely solely on the USAC and that the NiSource Data Science Team will build the framework for the Speech Analytics Pilot.²⁷³

²⁶⁸ OCA St. 5, at 73-74.

²⁶⁹ CAUSE-PA St. 1, at 32.

²⁷⁰ Columbia St. No. 16-R, at 5-6.

²⁷¹ *Id.*

²⁷² CAUSE-PA St. 1, at 32.

²⁷³ Columbia St. No. 16-R, at 5.

232. Mr. Geller also recommends that the Company be prohibited from sharing data collected through the Speech Analytics Pilot with any third parties other than the contractors who help develop the SAT used.²⁷⁴

233. I&E witness Patel opposes rate recovery of the Company's annual expense claim of \$300,000 for the Company's proposed Speech Analytics Pilot.²⁷⁵

234. Mr. Patel argues that the use of SAT is not mandated by any statute or regulation.²⁷⁶

235. The Company committed to proposing this Speech Analytics Pilot as part of the settlement of its last base rate case.²⁷⁷

236. Mr. Patel claims that the Company has not supported the \$300,000 annual expense of the Pilot.²⁷⁸

237. In Direct Testimony, Columbia identified that the SAT budget is to cover Columbia's prorated portion of the SAT licensing fee, programming the SAT, analyzing results and training.²⁷⁹

²⁷⁴ CAUSE-PA St. 1, at 33.

²⁷⁵ I&E St. No. 2, at 100.

²⁷⁶ *Id.*

²⁷⁷ *See Columbia Gas of Pa. v. Pa. PUC*, Docket Nos. R-2024-3046519, at 21 (Order entered Nov. 21, 2024) ("Columbia will present a pilot program involving the use of speech analytics no later than the Company's next USECP review or base rate proceeding, whichever comes first. As discussed in the Direct Testimony of OCA witness Colton, the Company will include the USAC in the development of the speech analytics pilot. The Company may recover the costs thereof through its Universal Services Rider.").

²⁷⁸ I&E St. No. 2, at 101.

²⁷⁹ Columbia St. No. 16, at 9.

238. Mr. Patel argues that recovery of costs through the Rider USP will provide the Company with a guaranteed return without any metrics of success or corresponding benefits to customers.²⁸⁰

239. The Company will be able to gauge the success of the Speech Analytics Pilot through increased CAP enrollments and has committed to working with its USAC to develop reporting metrics and to provide regular updates to the USAC with the results.²⁸¹

240. The success of the Speech Analytics Pilot will also be evaluated by a required third-party evaluation.²⁸²

241. The SAT for the Speech Analytics Pilot is not currently being used in Columbia's call centers and was purchased for use in the proposed Pilot.²⁸³

242. Accelerating CAP enrollments through the Speech Analytics Pilot will benefit all Columbia customers by avoiding additional arrears accumulated prior to enrollment, preventing terminations, and increasing successful monthly payments.²⁸⁴

243. The purpose of a pilot program is to develop novel programs to address relevant issues.²⁸⁵

244. Columbia's next USECP filing is due in April 2030.²⁸⁶

²⁸⁰ I&E St. No. 2, at 101.

²⁸¹ Columbia St. No. 16-R, at 19.

²⁸² *Id.*

²⁸³ *Id.*, at 19-20.

²⁸⁴ *Id.*, at 20.

²⁸⁵ *Id.*, at 19.

²⁸⁶ *Id.*, at 7.

245. The Company is proposing a two-year CAP Arrearage Pilot Program (CAP Pilot) to help customers who were removed from CAP for non-payment return to the program.²⁸⁷

246. The Company proposes a \$100,000 budget for this pilot, to be recovered through its Rider USP. Columbia estimates that the CAP Pilot will provide assistance to at least 153 customers and has budgeted for up to 270 customers to be served through the program based on average arrears.²⁸⁸

247. Under the proposed CAP Pilot, the Company will issue grants up to \$650 for the payment of CAP arrears to facilitate re-entry into CAP.²⁸⁹

248. Customers will be approved for the grant by the current CAP administrator, Dollar Energy Fund (DEF), while the Company's EAT will be responsible for posting the grants to customer accounts.²⁹⁰

249. Once the grant is posted, the customer will be re-enrolled in CAP.²⁹¹

250. To be eligible for the CAP Pilot, customers must meet all existing CAP requirements as specified in the Company's USECP and must have outstanding CAP arrears. Customers will be eligible for only one grant through the CAP Pilot.²⁹²

²⁸⁷ Columbia St. No. 16., at 3, 5.

²⁸⁸ *Id.*

²⁸⁹ *Id.*, at 3.

²⁹⁰ *Id.*

²⁹¹ *Id.*

²⁹² *Id.*, at 4.

251. The \$650 grant amount is in line with the maximum hardship fund grant awarded through the Company's Hardship Fund and the Company's records reveal that most CAP customers owe less than \$650 in arrears.²⁹³

252. Initial referrals to the CAP Pilot will be made by Company CSRs, and if additional funds remain after 3 months of the Pilot's initiation, the Company will provide reach out to potentially eligible customers in writing.²⁹⁴

253. The Company will report on the progress of the proposed CAP Pilot through reports at USAC meetings, as well as through annual reports to its USAC.²⁹⁵

254. No party opposes the Company's proposed CAP Pilot.

255. Mr. Geller recommends that the CAP Pilot term be extended to three years with a budget of \$244,200, and that the Company conduct targeted outreach to all potentially eligible customers regarding the CAP Pilot, including in October prior to the winter heating season and in March before the winter moratorium ends.²⁹⁶

256. The Company believes a 2-year pilot with a budget of \$100,000 will provide enough data to analyze results and determine effectiveness of the CAP Pilot.²⁹⁷

257. Mr. Geller argues that the extension of the program will align with the filing of the Company's next USECP, but the Company's next USECP is not due until 2030, which is more than three years away.²⁹⁸

²⁹³ *Id.*, at 4.

²⁹⁴ *Id.*, at 5-6.

²⁹⁵ *Id.*, at 6-7.

²⁹⁶ CAUSE-PA St. 1, at 35, 37.

²⁹⁷ Columbia St. No. 16-R, at 6.

²⁹⁸ *Id.*, at 6-7.

258. The Company's proposed outreach includes targeted referrals to the CAP Pilot in the initial months of the program followed by broader outreach to potentially eligible customers if funds remain.²⁹⁹

259. The Company determined the budget for the CAP Pilot by reviewing its records for removed CAP customers with incomes at or below 150% of the FPIG who owe both CAP and non-CAP arrears.³⁰⁰

260. The Company found that there were 150 qualified customers with applications on file and outstanding arrearages, who have average CAP arrears of \$370.³⁰¹

261. The \$100,000 budget would allow the Company to process 270 similarly situated applicants, which the Company anticipates is within its internal team's capacity to manage while providing a good sample size to evaluate the impact of the CAP Pilot.³⁰²

262. If the Pilot is approved, the Company commits to reviewing the CAP Pilot data points to be collected with its USAC and filing annual results at the Company's most recent USECP docket.³⁰³

²⁹⁹ Columbia St. No. 16, at 6.

³⁰⁰ *Id.*, at 5.

³⁰¹ *Id.*

³⁰² *Id.*

³⁰³ Columbia St. No. 16-R, at 7.

263. The Company proposes to recover EAT costs associated with the administration of Universal Services programs like CARES and CAP through its Rider USP.³⁰⁴

264. Under the Company's proposal, approximately \$220,000 in annual costs would be shifted from recovery under O&M expenses to the Rider USP.³⁰⁵

265. Currently, Universal Services costs associated with the EAT are recovered in base rates.³⁰⁶

266. Columbia's EAT is responsible for the administration of all energy assistance activities, from outreach and processing grants to trouble shooting issues, including the administration of CAP, LIHEAP, CRISIS, the Homeowner Assistance Fund, the Emergency Rental Assistance Program, hardship funds, and the Security Deposit Assistance Fund.³⁰⁷

267. The EAT is currently experiencing additional workload due to new outreach coordination, including the coordination of data sharing from the Department of Human Services ("DHS") and the streamlining of CAP applications, which requires additional staffing.³⁰⁸

268. Columbia's Universal Service programs are subject to a third-party evaluation every six years, where the costs and effectiveness of program measures are scrutinized.³⁰⁹

³⁰⁴ Columbia St. No. 16, at 10.

³⁰⁵ *Id.*, at 14.

³⁰⁶ *Id.*, at 10.

³⁰⁷ *Id.*, at 11.

³⁰⁸ *Id.*, at 12.

³⁰⁹ Columbia St. No. 16-R, at 15.

269. In addition, the Commission’s Bureau of Audits conducts a review of the reasonableness and prudence of all rider-recovered expenses.³¹⁰

270. The Company has undergone multiple audits, all of which found no evidence of over-recovery related to internal administrative costs of LIURP.³¹¹

271. CAUSE-PA witness Geller “caution[s]” that recovery through Rider USP should be limited to costs for staff that work exclusively on the Company’s Universal Services programs and recommends limiting the proposed tariff language to specifically list the programs and costs that are recovered under Rider USP.³¹²

T. Automatic Enrollment of LIHEAP Grant Recipients Into CAP

272. CAUSE-PA proposes that the Company automatically enroll into CAP all customers that receive a LIHEAP grant and agree to share their information via the DHS data sharing agreement.³¹³

273. Mr. Geller asks the Commission to require Columbia to file a petition to amend its USECP to implement the auto-enrollment.³¹⁴

274. Mr. Geller claims that the auto-enrollment process would “help to reduce administrative burdens for both the Company and the customer.”³¹⁵

³¹⁰ Columbia St. No. 16-R, at 15.

³¹¹ Columbia St. No. 16, at 14.

³¹² CAUSE-PA St. 1, at 61.

³¹³ *Id.*, at 25.

³¹⁴ *Id.*, at 25.

³¹⁵ *Id.*, at 26.

275. Auto-enrollment would only be possible for a portion of the customers identified by CAUSE-PA. For example, customers who have previously participated in CAP may not be eligible for enrollment due to an existing CAP balance, failure to cooperate with weatherization, or if the receipt of the LIHEAP grant causes a credit on the account.³¹⁶

276. The Company would need to manually review and follow-up on the accounts not eligible for CAP, which in turn would lead to a significant increase in time and resources of the Company's EAT.³¹⁷

277. Customers who are automatically enrolled in CAP would not have the opportunity to review and agree to the responsibilities associated with CAP participation.³¹⁸

278. These program responsibilities include providing proof of income to the Company on a regularly scheduled basis, notifying the Company of any changes in household size or income, agreeing to make bill payments every month, accepting changes to CAP approved by the Commission, and cooperating with weatherization.³¹⁹

279. The Company cannot decide for its customers whether CAP is financially beneficial for their households.³²⁰

³¹⁶ Columbia St. No. 16-R, at 2.

³¹⁷ *Id.*, at 3.

³¹⁸ *See Petition of Peoples Natural Gas Company LLC – to Amend 2019-2023 Universal Service and Energy Conservation Plan*, Docket No. P-2024-3052324, at 20 (Order entered April 24, 2025).

³¹⁹ Columbia St. No. 16-R, at 3.

³²⁰ *Id.*, at 2.

280. CAP requires periodic confirmation of financial eligibility as well as commitment to specific program terms and services.³²¹

281. Both CAUSE-PA witness Geller and OCA witness Colton recommend a more thorough screening of applicants and customers when customers contact Columbia's call center to connect or transfer service.³²²

282. Under these proposals, the Company would be required to screen all applicants for their income level at the time they establish or transfer service to identify whether they are low-income or may be eligible for energy assistance.³²³

283. The majority of customers contacting Columbia to initiate or transfer service are not identified as low-income and approximately 82% of the Company's customer base does not meet low-income criteria.³²⁴

284. Annual funding for the Company's LIURP is set at \$5,425,000 for the years 2026 and 2027.³²⁵

285. Mr. Geller recommends that the LIURP budget be increased by a percentage equal to any approved increase to residential rates approved in this proceeding.³²⁶

³²¹ See Columbia St. No. 16-R, at 2-3.

³²² CAUSE-PA St. 1, at 30-31, OCA St. 5, at 65.

³²³ CAUSE-PA St. 1, at 30-31; OCA St. 5, at 68.

³²⁴ Columbia St. No. 16-SR, at 4.

³²⁵ I&E St. No. 1-R, at 5.

³²⁶ CAUSE-PA St. 1, at 41.

286. Ms. Warabak recommends that the LIURP budget be increased by \$1,500,000 so that an additional 100 jobs can be completed annually.³²⁷

287. For covered NGDCs, the Commission's regulations require that a utility's LIURP budget shall be at least 0.2% of the utility's jurisdictional revenues.³²⁸

288. The Company's current LIURP budget is slightly less than 1% of its jurisdictional revenues, or five times higher than the Commission's minimum standard.³²⁹

289. The Commission's 2023 Universal Service Program and Collections Performance Reports shows that Columbia customers are already paying on average \$14.00 annually for the LIURP program as compared to the \$9.00 average of all Pennsylvania natural gas customers.³³⁰

290. The Company's non-profit weatherization providers are currently behind in their production for 2025 and have reported they are unable to complete Columbia jobs due to the prioritization of other projects, while the Company is competing with other utilities for the availability of its for-profit weatherization providers.³³¹

291. CAUSE-PA recommends that the Company's Health & Safety Pilot funds should be separated from the LIURP budget and rolled over if unspent.³³²

³²⁷ Task Force St. 1, at 7.

³²⁸ See 52 Pa. Code § 58.4(a).

³²⁹ Columbia St. No. 16-R, at 8.

³³⁰ *Id.*

³³¹ *Id.*, at 10.

³³² CAUSE-PA St. 1, at 44-45.

292. Currently, the Company's Health & Safety Pilot has an annual budget of \$600,000, and any unused funds are redirected to support other weatherization measures and heating system repairs.³³³

293. LIURP funds are already subject to a rollover, so any remaining Health & Safety Pilot funds carry over for future use.³³⁴

294. No property has been denied Health & Safety funding due to lack of available funding to date.³³⁵

295. Task Force witness Warabak recommends that the Company increase its contribution to its Hardship Fund by a percentage equal to any approved increase to residential rates approved in this proceeding and that Hardship Funds be distributed in accordance with the percentage of low-income customers in the counties served by the Company.³³⁶

296. The Company currently has more than \$1,000,000 in Hardship Funds.³³⁷

297. The Company has established processes to direct eligible customers to its CAP, whenever possible. As a result, only those customers that are over income for CAP, decline participation in CAP or require financial assistance for CAP re-entry receive Hardship Funds.³³⁸

³³³ Columbia St. No. 16-R, at 10-11.

³³⁴ *Id.*, at 11.

³³⁵ *Id.*

³³⁶ Task Force St. 1, at 7.

³³⁷ Columbia St. No. 16-R, at 22.

³³⁸ *Id.*

298. Since January 2025, the number of customers entering CAP has doubled compared to the enrollment levels during the first six months of each of the prior six years.³³⁹

299. In his Direct Testimony, OCA witness Colton identified an omission regarding the Company's policy to waive security deposits to low-income customers in its self-service workflow and scripting.³⁴⁰

300. Mr. Colton recommends a thorough review of these channels to ensure that the availability of a low-income exemption is communicated to customers.³⁴¹

301. The Company is proposing in this case its Phase II Three-Year Energy Efficiency Plan (Phase II Plan or Plan).³⁴²

302. The voluntary Phase II Plan is based on the successful implementation of the Company's Energy Efficiency Pilot Program (EE Pilot), and the updates in the Plan are based on energy efficiency efforts across other NGDC Energy Efficiency and Conservation (EE&C) plans in Pennsylvania.³⁴³

303. The Company is proposing to continue its two existing energy efficiency programs from the EE Pilot and launch a new, third energy efficiency program.³⁴⁴

³³⁹ Columbia St. No. 16-R, at 22.

³⁴⁰ OCA St. 5, at 78.

³⁴¹ *Id.*

³⁴² The Company's Phase II Plan was attached to the Direct Testimony of Columbia witness Nunley as Ex. JAN-2.

³⁴³ *Id.*, at 23.

³⁴⁴ *Id.*

304. The Phase II Plan will be implemented across three years starting in January of 2026.³⁴⁵

305. The Plan's three programs are designed to help the Company's residential and small commercial customers reduce their energy consumption, improve efficiency, and conserve resources.³⁴⁶

306. Overall, the Phase II Plan is projected to provide lifetime savings of 2.7 million dekatherms (Dths) of natural gas at an implementation cost of \$7.9 million over three years.³⁴⁷

307. Columbia's voluntary Phase II Plan was developed using the guiding principles of the Commission's Act 129 *Phase IV Implementation Order*.³⁴⁸ For example, the Phase II Plan employs the Total Resource Cost (TRC) test laid out in the *Phase IV Implementation Order* to determine the cost-effectiveness of its plan measures and the Plan's budget is well under the 2% cap that Act 129 imposes on electric efficiency programs in Pennsylvania.³⁴⁹

308. The Company's EE Pilot was originally approved as part of the Company's 2022 Rate Case at Docket No. R-2022-3031211, with a budget of \$4 million for the years 2023 to 2025.³⁵⁰

³⁴⁵ Columbia St. No. 13, at 8.

³⁴⁶ *Id.*

³⁴⁷ *Id.*

³⁴⁸ See *Energy Efficiency and Conservation Program*, Docket No. M-2020-3015228 (Order entered June 18, 2020) ("*Phase IV Implementation Order*"), clarified, Docket No. M-2020-3015228 (Order entered Mar. 12, 2020).

³⁴⁹ See Ex. JAN-2, at 5, 9-10.

³⁵⁰ Columbia St. No. 13, at 3.

309. The EE Pilot has two programs: (1) the Residential Prescriptive (RP) Program, which provides incentives for high-efficiency natural gas fired equipment; and (2) the Online Audit Kit (OAK) Program, which provides customers with a customized online audit that then allows them to receive a space heating and/or water heating kit at no cost.³⁵¹

310. In the Company's 2024 rate case, the EE Pilot was updated to shift funding between programs to support additional prescriptive rebate measures. The updated EE Pilot was approved, with the budget remaining \$4 Million for the years 2023 to 2025.³⁵²

311. Through the Pilot Program, the OAK Program exceeded program goals, with 2,455 water savings kits and 1,339 space heating savings kits distributed in the first five months of program operation.³⁵³

312. The Company's Annual Report on 2023 program performance showed TRC net benefits of \$1.8 million in just five months of program operation for the participating residential Columbia Gas customers.³⁵⁴

313. The Phase II Plan reflects two major changes in programming.³⁵⁵

314. First, the Company is proposing to expand the measure offerings in the RP Program, adding three new rebate offerings to provide customers with more

³⁵¹ Columbia St. No. 13, at 3-4.

³⁵² *Id.*, at 3.

³⁵³ *Id.*, at 4.

³⁵⁴ *Id.*, at 7.

³⁵⁵ *Id.*, at 8.

natural gas saving opportunities. These additional rebate offerings include boiler reset controls, efficient fireplace inserts, and single packaged vertical units.³⁵⁶

315. Second, the Company is proposing the addition of a Small Commercial (SC) Program. The SC Program will provide natural gas saving opportunities through equipment rebates to small commercial customers by providing rebates for installing energy efficient equipment for heating, water heating, steam process, commercial cooking and dishwashing, and controls, as well as rebates for making improvements to the building shell through insulation and air sealing.³⁵⁷

316. The OAK Program will continue unchanged from the EE Pilot.³⁵⁸

317. The total Phase II Plan portfolio is projected to cost \$7.9 million over three years, or an average of \$2.6 million per year.³⁵⁹

318. At this level of investment, over the three years of the Phase II Plan, the Plan is projected to return a present value of TRC net benefits of \$17.1 million, in 2025 dollars, with a TRC benefit-cost ratio (BCR) of 2.49.³⁶⁰

319. Together, the Phase II Plan programs are projected to save 160 thousand incremental annual Dths of natural gas and 2.7 million Dths over the lifetime of the measures installed.³⁶¹

³⁵⁶ Columbia St. No. 13, at 8.

³⁵⁷ *Id.*

³⁵⁸ *Id.*, at 9.

³⁵⁹ *Id.*

³⁶⁰ *Id.*

³⁶¹ *Id.*, at 12.

320. The Phase II Plan is projected to save 7,629 MWh of electricity and 508 million gallons of water over the lifetime of the measures installed.³⁶²

321. The emission reduction of over 164,575 short tons of CO₂ is expected to occur from program activity, which is equivalent to removing over 6,286 cars from the road permanently.³⁶³

322. The Plan is also projected to generate between 81 and 162 net additional new jobs over the lifetime of the efficiency measures installed.³⁶⁴

323. The RP Program aims to reduce lost opportunities for efficiency improvements during the turnover of natural gas space heating and water heating equipment.³⁶⁵

324. The existing Pilot RP program will continue into Phase II by providing incentives for furnaces, boilers, combination space and water heating boilers, tankless water heaters, WIFI-enabled thermostats, natural gas heat pumps, and insulation and air sealing.³⁶⁶

325. The RP Program uses ENERGY STAR® criteria as a minimum efficiency level, when available.³⁶⁷

³⁶² Columbia St. No. 13, at 12.

³⁶³ *Id.*

³⁶⁴ *Id.*, at 13.

³⁶⁵ *Id.*, at 17.

³⁶⁶ *Id.*

³⁶⁷ *Id.*

326. The RP Program is expected to cost \$3.8 million in nominal dollars over three years and save 1.72 million Dth of natural gas over the lifetime of measures installed.³⁶⁸

327. The RP Program is also projected to save 6,690 MWh of electricity and approximately 107 thousand tons of CO₂ over the lifetime of the installed measures, which is equivalent to permanently removing over 4,074 cars from the road.³⁶⁹

328. The OAK Program is projected to provide present value TRC net benefits of \$7.3 million with a BCR of 5.78.³⁷⁰

329. The SC Program is designed to overcome market barriers to energy efficiency space heating, water heating, commercial cooking, and building shell upgrades by providing incentives to businesses that install high efficiency equipment and make improvements to their buildings.³⁷¹

330. The SC Program provides incentives for commercial sized boilers, water heaters, fryers, griddles, dishwashers, process steam traps, single packaged vertical units, advanced rooftop unit controls, and insulation and air sealing.³⁷²

331. The program uses ENERGY STAR® criteria as a minimum efficiency level, when available.³⁷³

³⁶⁸ Columbia St. No. 13, at 17.

³⁶⁹ *Id.*

³⁷⁰ *Id.*, at 19.

³⁷¹ *Id.*, at 20-21.

³⁷² *Id.*

³⁷³ *Id.*

332. The Company plans to operate with the existing third-party implementor currently implementing the RP program.³⁷⁴

333. The Company also plans to utilize the existing RP and OAK evaluator to complete a full impact and process evaluation of the SC Program once program activity reaches levels of statistical significance.³⁷⁵

334. The SC Program is projected to provide present value TRC net benefits of \$2.1 million with a BCR of 1.80.³⁷⁶

335. The A&R Program covers up to \$3,600 of weatherization work at no cost for customers up to 250% of the FPIG. The A&R Program can also be stacked with the proposed Phase II Plan, thereby providing eligible customers up to \$4,800 of no-cost insulation and air-sealing measures.³⁷⁷

336. The Company retains Green Energy Economics Group, Inc. (GEEG) to perform the portfolio's evaluations.³⁷⁸

337. In Rebuttal, the Company committed to address three of OCA witness Sherwood's recommendations in a Compliance Plan filing for an approved Phase II Plan. Specifically, Columbia agreed to: (1) use the most recent available market information to support the development of its portfolio in future filings; (2) file all evaluation, measurement, and verification (EM&V) reports completed on the Phase II

³⁷⁴ *Id.*, at 21.

³⁷⁵ *Id.*

³⁷⁶ *Id.*, at 20.

³⁷⁷ Columbia St. No. 13-R, at 10.

³⁷⁸ *Id.*

Plan programs at this docket; and (3) coordinate with EDC programs, when appropriate.³⁷⁹

338. Ms. Sherwood recommends to only provide rebates for smart thermostats that are also eligible for potential EDC smart thermostat demand response programs.³⁸⁰

339. While the Commission has allowed EDCs to develop smart thermostat demand response programs as part of their Act 129 program offerings if they choose, it is unclear if any EDCs will offer these programs or whether they will offer compatible thermostats.³⁸¹

340. Ms. Sherwood recommends requiring Columbia to provide a bonus incentive to customers who install a new heating system along with air sealing and insulation.³⁸²

341. If the installed measures are not appropriately sized, installing both measures together would not necessarily lead to greater savings.³⁸³

342. The RP Program design already provides a rebate for a portion of the incremental cost of each measure. Customers that install heating systems and perform air sealing and insulation on their homes at the same time receive rebates for both measures.³⁸⁴

³⁷⁹ *Id.*, at 11.

³⁸⁰ OCA St. 7, at 11.

³⁸¹ Columbia St. No. 13-R, at 12.

³⁸² OCA St. 7, at 12.

³⁸³ Columbia St. No. 13-R, at 12-13.

³⁸⁴ *Id.*

343. Mr. Geller claims that low-income customers not enrolled in CAP are paying for EE&C programs that benefit higher income customers but do not provide specific, proportionate low-income measures.³⁸⁵

344. Mr. Geller also opposes the approval of a voluntary EE&C plan that does not offer dedicated low-income programming to all customers at or below 150% of the FPIG.³⁸⁶

345. All customers who pay into the EE Rider, including low-income customers who are not enrolled in CAP, are able to participate in Columbia's EE&C programs.³⁸⁷

346. To date during the EE Pilot, 550 customers have been referred to Columbia's various dedicated low-income programs when they indicated income levels at or below 250% of the FPIG.³⁸⁸

347. Act 129 is only applicable to Pennsylvania EDCs with over 100,000 customers.³⁸⁹

348. Columbia offers the A&R Program, which is a dedicated program for customers up to 250% of the FPIG who do not qualify for LIURP. These customers receive a free energy audit and up to \$3,600 worth of energy efficiency improvements to their homes at no cost.³⁹⁰

³⁸⁵ CAUSE-PA St. 1, at 52.

³⁸⁶ *Id.*, at 49.

³⁸⁷ Columbia St. No. 13-R, at 14.

³⁸⁸ *Id.*

³⁸⁹ *Id.*

³⁹⁰ *Id.*, at 15.

349. Alternatively, Mr. Geller proposes that if Plan is approved, either all confirmed low-income customers should be exempt from the EE Rider or Columbia should be directed to expand funding for its A&R Program and Emergency Repair Program (ERP) and rollover any unused funds to the next year.³⁹¹

350. Mr. Geller recommends that the A&R Program and ERP budgets be increased by a percentage equivalent to the total cost increase between Phase I and Phase II of Columbia's Plan, or by \$243,75015 and \$292,500, respectively.³⁹²

351. Since the A&R Program's inception in 2009, no household has been denied assistance due to a lack of funding.³⁹³

352. The Company just increased its ERP funding in 2024.³⁹⁴

353. In addition to LIURP, customers also pay an additional \$5.00 annually for the ERP and the A&R Program.³⁹⁵

354. Currently, any unspent funds from the programs are credited during the annual Rider USP reconciliation each February and reduce the total Rider USP collected in the following year.³⁹⁶

355. I&E witness Patel also recommends that the Company's Phase II Plan be rejected.³⁹⁷

³⁹¹ CAUSE-PA St. 1, at 52.

³⁹² *Id.*

³⁹³ Columbia St. No. 16-R, at 13.

³⁹⁴ *Id.*, at 14.

³⁹⁵ *Id.*

³⁹⁶ *Id.*, at 13.

³⁹⁷ I&E St. No. 2, at 93-94.

356. The Commission has approved voluntary natural gas EE&C plans from Philadelphia Gas Works (PGW), UGI Gas, PECO, and Columbia through its EE Pilot.³⁹⁸

357. These existing NGDC energy efficiency portfolios have been in place for more than a decade without a statutory mandate or the threat of civil penalties.³⁹⁹

358. Ms. Alexander recommends that the Company be required to send targeted educational messages to these shopping customers explaining how to compare NGS charges per therm to the PTC and “urg[ing]” them to compare rates on a monthly basis.⁴⁰⁰

359. Mr. Geller recommends that the Commission require the Company to develop a targeted letter for low-income shoppers being charged rates higher than the PTC that is sent at least once every 6 months and includes clear instructions for applying to CAP.⁴⁰¹

360. The Company regularly advises customers of the PTC to provide them with information to help make decisions regarding shopping.⁴⁰²

361. The Company also provides customers the phone numbers and website addresses of each licensed NGS operating in its service territory and a calculator

³⁹⁸ Columbia St. No. 13-R, at 3.

³⁹⁹ *Id.*

⁴⁰⁰ OCA St. 6, at 21.

⁴⁰¹ CAUSE-PA St. 1, at 60.

⁴⁰² Columbia St. No. 1-R, at 22.

that allows customers to compare shopping costs based on their actual consumption and the NGS's actual quoted prices.⁴⁰³

362. In this proceeding, Columbia proposes to implement Rate EDDS to allow it to serve extremely large load customers such as data centers.⁴⁰⁴

363. Rate EDDS will treat these extremely large load customers as non-jurisdictional to protect jurisdictional customers from bearing the risks associated with serving these unique, large users.⁴⁰⁵

364. Columbia proposes to enter into individual, specialized contracts with these unique users that reflect their specific costs and service requirements. Columbia does not currently have an existing rate schedule that can accommodate data centers.⁴⁰⁶

365. In subsequent rate cases, any costs for serving Rate EDDS customers will be separated out in the cost of service study to ensure that jurisdictional customers are not bearing costs for Rate EDDS customers.⁴⁰⁷

366. Columbia does not currently have a rate schedule that can accommodate extremely large users such as data centers. Columbia has already had an inquiry from a potential customer that may qualify for the service.⁴⁰⁸

⁴⁰³ Columbia St. No. 1-RJ, at 9.
⁴⁰⁴ Columbia St. No. 9, at 40-50.
⁴⁰⁵ Columbia St. No. 9-R, at 37.
⁴⁰⁶ *Id.*
⁴⁰⁷ Columbia St. No. 9, at 45-47.
⁴⁰⁸ Columbia St. No. 9-R, at 35.

367. Several of the parties argue it is premature for the Commission to approve Rate EDDS because Columbia does not have customers that are interested in the service.⁴⁰⁹

368. Between the time of the filing and rebuttal testimony, the Company has received an inquiry from an interested potential customer.⁴¹⁰

369. CAUSE-PA witness Cicero testified that the Company should wait to have Rate EDDS until the Commission acts in its proceeding regarding Interconnection and Tariffs for Large Load Customers at Docket No. M-2025-3054271.⁴¹¹

370. This proceeding relates to issues regarding interconnection of electric customers to the electric grid.⁴¹²

371. I&E witness Sakaya expressed concerns that the non-jurisdictional nature of the service would preclude Commission oversight resulting in costs being subsidized by jurisdictional customers.⁴¹³

372. Columbia's tariff establishes procedures for the release of customer information through the Eligible Customer List (ECL).⁴¹⁴

⁴⁰⁹ See, e.g., OCA St. No. 1, at 59.

⁴¹⁰ Columbia St. No. 9-R, at 35.

⁴¹¹ CAUSE-PA St. No. 2, at 78.

⁴¹² See Secretarial Letter issued April 12, 2025.

⁴¹³ I&E St. No. 3, at 33-34.

⁴¹⁴ Columbia Ex. 14, Sch. 2, Attachment A, at 261 (Tariff Page 227a).

373. By Order entered March 13, 2025, the Commission directed changes to its guidelines for ECLs.⁴¹⁵

374. In Rebuttal, Columbia submitted a revised Tariff Page 227a to bring its tariff into compliance with the Commission’s Order. The revised page updated timing of ECL from three to five years, removed the need for customers to reaffirm their decision to opt-out if the customer previously opted-out, renamed the solicitation to ECL Refresh from Triennial Letter, and allows electronic methods to communicate regarding the ECL.⁴¹⁶

375. OCA witness Alexander and CAUSE-PA witness Geller each propose to remove the words “third party” from Section 4.5.4 of the tariff.⁴¹⁷

376. The words “third party” are contained in Columbia’s existing Tariff Section 4.5.4.⁴¹⁸

377. OSBA witness Ewen recommends that Columbia conduct a competitive analysis for each flex customer every two years.⁴¹⁹

378. Columbia is authorized by its tariff to negotiate discounted rates for distribution service to respond to competition from alternative fuels.⁴²⁰

⁴¹⁵ Guidelines for Eligible Customer Lists, Docket No. M-2010-2183412 (Order entered Mar. 13, 2025).

⁴¹⁶ Columbia St. No. 12-R, at 3.

⁴¹⁷ Columbia OCA St. No. 6SR, p. 17; CAUSE-PA St. No. 1-SR, at 34.

⁴¹⁸ Columbia Ex. 14, Sch. 2, Attachment A, p. 261 (Tariff Page 227a).

⁴¹⁹ OSBA St. No. 1, at 10.

⁴²⁰ Columbia Ex. 14, Sch 2, Attach. A, at 93.

379. Columbia undertakes an analysis of competitive conditions whenever it negotiates a new or renewal of a flex agreement.⁴²¹

380. Flex agreements are based on the unique circumstances of individual customers, with the economic analysis of whether the customer could bypass Columbia's system based upon known market conditions.⁴²²

381. Recent flex rate agreements are generally for a term of around five years.⁴²³

382. To conduct a valid competitive analysis, the Company would need the competitive customer to update their bypass options and costs, as Columbia has only limited information as to current options and costs.⁴²⁴

383. Performing these analyses can be time-consuming and costly, involving both internal customer staff and outside consultants.⁴²⁵

384. While circumstances may change over time, absent a specific provision to update the contract, the contractual rate will remain the same throughout the duration of the contract. Thus, the results of any analysis performed now would not impact Columbia's ability to change the terms of the previously-negotiated contract, and it is not likely that a customer would be willing to spend the resources to update the information.⁴²⁶

⁴²¹ OSBA St. No. 1, at 10.

⁴²² Columbia St. No. 9-R, at 42.

⁴²³ *Id.*

⁴²⁴ Columbia St. No. 9-R, at 43.

⁴²⁵ *Id.*

⁴²⁶ *Id.*

385. Conversely, if the purpose of the analysis would be to shorten contract terms to every two years, this will lead to more competitive customers selecting the certainty of their bypass option rather than rate reviews every two years.⁴²⁷

386. The resulting loss of Flex rate customer revenue will then shift cost recovery of fixed costs to remaining customers.⁴²⁸

U. Rate Impacts on Low Income Households

387. Columbia's current rates are already unaffordable for low-income families.⁴²⁹

388. Columbia has 91,881 estimated low-income customers and 70,114 confirmed low-income customers.⁴³⁰

389. Only 20,988 Columbia customers were enrolled in Columbia's customer assistance program (CAP) as of December 2024.⁴³¹

390. Since 2006, Columbia has filed twelve rate cases totaling approved rate increase of more than \$487 million.

391. Columbia's distribution rates have greatly outpaced the rate of inflation since 2006.⁴³²

⁴²⁷ *Id.*

⁴²⁸ *Id.*

⁴²⁹ CAUSE-PA St. 1, at 5-6.

⁴³⁰ *Id.*, at 11.

⁴³¹ *Id.*, at 24-25.

⁴³² CAUSE-PA St. 1 at 111; *see also* CAUSE-PA St. 2.

392. Columbia currently has the highest rates of all Pennsylvania gas distribution companies (NGDCs).⁴³³

393. Low-income families already struggle to make ends meet each month and are regularly forced to make untenable choices between affording utility services and other basic necessities – such as food, medicine, medical care, and housing.⁴³⁴

394. Any additional increase in the cost of necessities, including the rates for basic gas service, will result in increased unaffordability for low-income households, leading to increased terminations and uncollectible expenses.⁴³⁵

395. Columbia's low-income customers carry disproportionate levels of residential customer debt, and are far more likely to have their service terminated for nonpayment.⁴³⁶

a. In December 2024, Columbia's confirmed low-income (non-CAP) customers carried 40% of residential customer debt, though they made up just 12% of the residential customer class.⁴³⁷

b. In 2024, confirmed low-income (non-CAP) households were terminated at a rate of 11%, compared to 2% for non-low-income residential households.⁴³⁸

⁴³³ CAUSE-PA St. 2, at 21

⁴³⁴ CAUSE-PA St. 1, at 12.

⁴³⁵ *Id.*, at 10.

⁴³⁶ *Id.*, at 16.

⁴³⁷ *Id.*, at 18, T. 5 & T.6.

⁴³⁸ CAUSE-PA St. 1, at 17, T.4.

c. In 2024, confirmed low-income (non-CAP) shopping customers were terminated at a rate of 25%.⁴³⁹

396. Confirmed low-income households that are not participating in CAP are more than twice as likely to face involuntary termination than households enrolled in CAP, underscoring the need to improve CAP enrollment.⁴⁴⁰

397. If the Commission approves a rate increase in this case, without substantial mitigation through expanded programs and improved consumer protections, it will have a severe and detrimental impact on low income families across Columbia's service territory.⁴⁴¹

V. Universal Service Issues

398. Columbia's next USECP is not due to be filed until 2030 – long after any approved increase in rates will take effect.⁴⁴²

399. In 2024, 6,481 of Columbia's LIHEAP recipients were not enrolled in CAP, despite the fact they were known by the Company to be income-eligible for a lower rate through CAP based on their qualification for LIHEAP.⁴⁴³

400. On June 13, 2024, in anticipation of the DHS LIHEAP Data Sharing Program, the Commission issued an Order encouraging utilities to participate in the data

⁴³⁹ CAUSE-PA St. 1, at 58, T.13.

⁴⁴⁰ *Id.*, at 17.

⁴⁴¹ *Id.*, 1 at 12.

⁴⁴² CPA St. 16-R, at 7.

⁴⁴³ CAUSE-PA St. 1, at 25.

sharing program for uses such as streamlined outreach and enrollment and/or auto-recertification.⁴⁴⁴

W. Energy Efficiency & Conservation Pilot

401. Columbia did not include any dedicated low-income programming as part of its Phase II EE&C Plan.⁴⁴⁵

402. While Columbia's A&R and ERP budgets were each expanded in the previous rate case settlement to address Columbia's lack of low-income programming within its Phase I EE&C, Columbia has not proposed to expand these programs through the Phase II EE&C.⁴⁴⁶

403. Columbia has consistently underspent the allocated budget for its A&R and ERP, undermining the settlement provisions designed to address Columbia's lack of dedicated low-income programming within its Phase I EE&C program.⁴⁴⁷

404. While some low-income customers participated in Columbia's Phase I EE&C, they did not participate on a proportionate scale.⁴⁴⁸

⁴⁴⁴ 2023 Review of All Jurisdictional Fixed Utilities' Universal Service Programs, Docket No. M-2023-3038944, at 5 (Order entered June 13, 2024).

⁴⁴⁵ CAUSE-PA St. 1, at 49.

⁴⁴⁶ CAUSE-PA St. 1, at 50-51, 54, 56, (citing Joint Pet. for Settlement, Docket No. R-2022-3031211).

⁴⁴⁷ CAUSE-PA St. 1, at 53, T.9.

⁴⁴⁸ CAUSE-PA St. 1, at 47.

X. Competitive Market Issues

405. Columbia's residential and low-income shopping customers are consistently charged commodity rates that, on average, substantially exceed the applicable default service price – adding hundreds of dollars to bills each year and exacerbating the negative consequences of high energy burdens on low income customers.⁴⁴⁹

406. Persistently higher average prices in the competitive market are creating a host of consequences for individual consumers and other ratepayers - including higher termination rates, collections costs, and universal service costs.⁴⁵⁰

Y. Eligible Customer List

407. Columbia's tariff uses broad language that allows it to provide eligible customer list (ECL) data and information to any third party, without restraint.⁴⁵¹

408. The purpose and scope of the ECL is to provide information about eligible customers to licensed suppliers for the purposes of supporting competition.⁴⁵²

409. Columbia interprets its ECL tariff to permit the Company to share sensitive ECL data with any third party, regardless of whether they are licensed as an EGS.⁴⁵³

⁴⁴⁹ CAUSE-PA St. 1 at 58; CAUSE-PA Ex. 1 & 2; *see also* OCA St. 6 at 20, OCA Ex. BA-5.

⁴⁵⁰ CAUSE-PA St. 1 at 58.

⁴⁵¹ CAUSE-PA St. 1-SR at 34; OCA St. 6-SR at 16-17.

⁴⁵² *See* Guidelines for Eligible Customer Lists, Docket No. M-2010-2183412, at 13-14, 19 (Order entered Mar.13, 2025).

⁴⁵³ Tr. at 406: 1-19.

IV. DISCUSSION

A. Summary of Issues and Arguments

This base rate proceeding primarily involves various issues which were addressed by the Parties in their Main Briefs as set forth below.

The Discussion Section that follows is divided into various major sections addressing specific issues and various sub issues. A common base rate briefing outline was not provided by all Parties as directed by our Interim Order dated August 1, 2025. Therefore, the undersigned ALJs have used our best efforts to organize and address the positions of the Parties. Our recommended disposition is included at the end of each major category.

B. Burden of Proof

In a rate case, it is axiomatic that the burden of proof to demonstrate the rates sought are just and reasonable lies squarely on the utility proposing the rates rather than a party challenging the implementation of those rates.⁴⁵⁴ Public utilities have the burden to establish the justness and reasonableness of every element of their rate increase proposals in all proceedings conducted under Section 1308(d) of the Public Utility Code. Moreover, “[p]ursuant to Section 102 of the [Public Utility] Code, a public utility’s rates include, *inter alia*, every individual charge that utility demands for any service offered, rendered, or furnished by the utility, whether received directly or indirectly.”⁴⁵⁵

⁴⁵⁴ See 66 Pa.C.S. § 315(a); see also, *Lower Frederick Twp. v. Pa. Pub. Util. Comm’n*, 48 Pa. Cmwlth. 222, 226-27, 409 A.2d 505, 507 (1980) (*Lower Frederick*); *Brockway Glass v. Pa. Pub. Util. Comm’n*, 63 Pa. Cmwlth. 238, 437 A.2d 1067 (1981) (*Brockway Glass*).

⁴⁵⁵ *Metro. Edison Co. v. Pa. Pub. Util. Comm’n*, 22 A.3d 353 (Pa. Cmwlth. 2011) (emphasis added) (citing 66 Pa.C.S. § 102).

The standard of proof, which a public utility must meet, is set forth in Section 315(a) of the Public Utility Code (Code), 66 Pa.C.S. § 315(a), which specifies that, “[i]n any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceeding upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.” Pennsylvania’s Commonwealth Court has upheld this standard of proof and has applied it in base rate proceedings,⁴⁵⁶ even when the question concerning an element of the base rate increase request was raised by a party instead of the public utility.⁴⁵⁷

In this proceeding, the burden of proof lies squarely with Columbia Gas because it is the public utility seeking permission from the Commission to increase its base rate and change some elements of rate base. The burden of proof did not shift to any statutory party or individual challenging the requested rate increase. Instead, the utility’s burden, to establish the justness and reasonableness of every component of its rate request, is an affirmative one and remains with the public utility throughout the course of the rate proceeding.⁴⁵⁸

Under the Code, rates charged by public utilities must be just and reasonable and cannot result in unreasonable rate discrimination.⁴⁵⁹ As indicated above,

⁴⁵⁶ *Lower Frederick*; *See also Brockway Glass*.

⁴⁵⁷ *See Pa. Pub. Util. Comm’n. v. National Fuel Gas Distribution Corp.*, 1994 Pa. PUC LEXIS 134 *5 (1994); *Pa. Pub. Util. Comm’n v. Breezewood Telephone Company*, 74 Pa. PUC 431 (1991); and *Pa. Pub. Util. Comm’n v. Equitable Gas Co.*, 57 Pa. PUC 423, 471 (1983).

⁴⁵⁸ *See also* 66 Pa.C.S. § 1501, requiring a utility to have reasonable rules governing service. There is no similar burden placed on parties which challenge a proposed rate component. *See Berner v. Pa. Pub. Util. Comm’n*, 382 Pa. 622, 631, 116 A.2d 738, 744 (1955).

⁴⁵⁹ 66 Pa.C.S. §§ 1301, 1304.

the public utility seeking a general rate increase has the burden of proof to establish the justness and reasonableness of every element of the rate increase request.⁴⁶⁰

C. Parties' Briefing Positions Concerning Rate Increase Request

1. *Columbia Gas' Position*

Columbia submits the driver of its proposed increase continues to be the substantial capital investment needed to replace at-risk, bare steel, ineffectually coated steel and first-generation plastic pipe (also known as Adyl-A or pre-1982 plastic pipe). Columbia's budget to replace facilities provides approximately \$312.7 million to be invested in 2025 and \$343.7 million to be invested in 2026 for plant replacement.⁴⁶¹

Columbia explains it is in the midst of major infrastructure improvements to maintain safe and reliable service to customers and to successfully execute its infrastructure improvement program, it must have reasonable access to capital markets to attract capital investment.

Columbia has proposed a cost rate for common equity of 11.35%, based on an evaluation of multiple cost of equity models. Columbia submits the cost rate for common equity in this case should be set at a rate that is meaningfully above the current distribution system improvement charge (DSIC) rate of 10.25%.⁴⁶²

⁴⁶⁰ 66 Pa.C.S. § 315(a); *Pa. Pub. Util. Comm'n v. Aqua Pa., Inc.*, Docket No. R-00038805, 236 PUR 4th 218, 2004 Pa. PUC LEXIS 39 (Aug. 5, 2004).

⁴⁶¹ Columbia St. No.7, at 19.

⁴⁶² *Report on Quarterly Earnings for Year Ended March 31, 2025*, Docket No. M-2025-3055266 (Order entered July 24, 2025), Attachment G. It is noted that the DSIC rate of 10.25% was established with a calculated DCF of 10.77%. *Id.*

The Company submits I&E's recommended return on common equity of 10.51%⁴⁶³ reflects I&E's sole reliance on its Discounted Cash Flow (DCF) methodology, and Columbia asserts using a single methodology to derive a rate of return on common equity recommendation ignores the flaws inherent in each method.

The Company asserts OCA's proposed adoption of a hypothetical capital structure is improper and that OCA's proposed 8.9% rate of return on common equity⁴⁶⁴ is supported by an improper DCF calculation, which, Columbia argues, relies on an unreasonably low growth rate component.⁴⁶⁵

OCA and I&E also do not include any component for management performance in the cost of equity recommendation.⁴⁶⁶

Rate Base. Columbia asserts that OCA's proposed \$14.5 million adjustment to rate base ignores the evidence that Columbia consistently meets and exceeds its plant addition budget in order to stay on track with its main replacement program.⁴⁶⁷

Depreciation Expense. The Company explains OCA proposes a nearly \$46 million reduction to Columbia's depreciation expense, proposing a change to the method used for over 40 years in Pennsylvania to compute depreciation. Columbia submits that OCA's proposal shifts recovery of depreciation from current customers to future customers, and Columbia argues, it will increase future depreciation expense while increasing rate base, and resulting return, to be borne by future customers.

⁴⁶³ I&E St. 2, at 11.

⁴⁶⁴ OCA St. No. 3, at 57.

⁴⁶⁵ *Id.*, at 27.

⁴⁶⁶ *See* Columbia M.B. at 11.

⁴⁶⁷ *Id.*

Other Expenses. Columbia argues OCA's proposal includes a nearly \$1.7 million adjustment to labor expense using a vacancy factor. OCA and I&E also propose various expense adjustments to disallow varying amounts of incentive compensation, even though Columbia argues its incentive plans include components that require customer benefits through improved service.

Revenue Stability. Columbia submits its residential customer charge should be increased to properly reflect customer costs, which costs, it asserts, far exceed the current residential customer charge. Columbia also submits that its WNA should be approved to operate on a permanent basis, using a 3% deadband. Although in recent years the WNA has provided more revenues to Columbia than credits to customers, Columbia asserts this has been due to an extended stretch of warmer-than-normal years. Columbia argues, in no event should Columbia's rates be structured to deprive it of a reasonable opportunity to recover its authorized revenues by ignoring the unpredictability of weather.

Columbia also argues it's RNA should be adopted as a pilot program, which the Company claims breaks the link between utility revenues and volumes, thereby removing financial disincentives for Columbia to promote energy efficiency.

Bill Impacts. Columbia explains, at its proposed revenue requirement, a typical Residential sales customer using 70 therms of gas per month will see an increase in their monthly bill from \$138.52 at current rates to \$154.29, or by 11.38%. A Small C&I customer using 150 therms of gas per month will see an increase in their monthly bill from \$240.61 to \$269.45, or by 11.99%. The class average bill impacts of the Company's proposed rate increase are shown on Exhibit No. 103, Schedule 8, page 1, column 7. Graphs of the bill impacts for Residential and C&I customers are provided in Exhibit No. 111, Schedule 5, pages 1-9.

2. *I&E's Position*

I&E explains it's total proposed revenue requirement for the Company is \$996,415,410⁴⁶⁸ which represents an increase of \$78,643,542 to the Company's claimed present rate revenues of \$917,771,868.⁴⁶⁹ I&E explains its recommendation incorporates I&E adjustments proposed to O&M expenses in this proceeding.⁴⁷⁰

3. *OCA's Position*

a. *Overall Position on Rate Filing*

OCA submits that Columbia's request for an additional \$110.5 million in annual revenue far exceeds the amount of revenue necessary for it to provide safe, reliable, and adequate service at just and reasonable rates to its 446,000 customers. Instead, according to OCA, Columbia could provide safe and adequate service at just and reasonable rates with an annual revenue decrease of \$36.3 million.

OCA asserts Columbia already collects the highest revenue per unit of natural gas in the Commonwealth, and the third-highest for the 25 NGDCs offering service in the mid-Atlantic region, surpassed only by NGDCs offering service to New York City.⁴⁷¹ OCA submits, this is, in part, because Columbia has requested a rate increase 10 times since 2009, including five rate increase requests since 2020.⁴⁷² The continued upwards pressure on rates for Columbia's captive customers due to its

⁴⁶⁸ I&E St. No. 1-SR, at 4; *See also* App. A, Table I *infra*.

⁴⁶⁹ I&E St. No. 1-SR, at 4.

⁴⁷⁰ *See* I&E St. No. 1; I&E St. No. 1-R; and I&E St. No. 1-SR.

⁴⁷¹ OCA Ex. MWD-7.

⁴⁷² OCA St. 5, at 7. The OCA notes that the Company's rate increase request filed in 2019 at Docket No. R-2019-3010039 was subsequently withdrawn.

frequent requests for greater revenues, according to OCA, is driving an affordability crisis in its service territory, exacerbated by recent and current economic conditions.⁴⁷³ OCA asserts low-income customers, middle-income customers, and seniors with fixed incomes are the hardest hit⁴⁷⁴ and that it is in both the utility's interest and the customers' interest that rates remain affordable.⁴⁷⁵

OCA asserts the Company's proposals far exceed the rates required to enable the Company to provide adequate and reasonable service.

Nevertheless, OCA asserts, in pursuit of revenue stability, Columbia requests that its volumetric risks be shifted entirely to ratepayers through customer charges above the indicated customer-related cost of service, the conversion of its sunseting WNA Pilot into a permanent mechanism, and the implementation of a RNA.⁴⁷⁶ OCA asserts Columbia has provided no evidence of benefit to consumers through these initiatives.⁴⁷⁷ Rather, according to OCA, Columbia seeks to provide the same level and quality of service and request rate increases with the same frequency while eliminating risks inherent in its own ability to perform.⁴⁷⁸

⁴⁷³ *Id.*, at 32-41.

⁴⁷⁴ *Id.*, at 38, 46.

⁴⁷⁵ *Pa. PUC v. Roaring Creek Water Co.*, 73 Pa. PUC 373, 400 (1990) (*Roaring Creek 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.").

⁴⁷⁶ Columbia St. 1, at 9; Columbia St. 6, at 13-14.

⁴⁷⁷ *See, e.g.*, OCA St. 1, at 40-41 (noting that utility commissions approving decoupling mechanisms have recognized the shift in risk from the utility to its ratepayers); 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.").

⁴⁷⁸ 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 recommends that the Commission authorize a rate decrease in this proceeding of \$36.3 million.

b. Overall Position on Revenue Requirement

Columbia requests a \$110,444,676 revenue requirement increase.⁴⁷⁹ OCA explains that OCA witness Mugrace calculated a \$36,316,933, or 3.96%, revenue requirement decrease at OCA witness Garrett's 7.06% overall rate of return recommendation, which includes an 8.9% return on equity.⁴⁸⁰ OCA witness Mugrace's overall recommended adjustments are as follows:

- Rate base balance should be set at \$3,861,622,942, which is \$16,241,227 higher than the Company's proposed rate base balance of \$3,845,381,715.
- Rate of return on rate base should be set at \$272,630,580, which is \$56,149,557 lower than the Company's claimed amount of \$328,780,137. The difference is based on OCA witness Garrett's recommended rate of return of 7.06%, which includes a recommended return on equity of 8.90% and a capital structure consisting of 47.68% long-term debt, 2.32% short-term debt, and 50% common equity.
- Operating revenue at present rates should be set at \$919,077,834, which is the same as Company's present rate revenue of \$919,077,833.
- Operating expenses should be set at \$565,003,970, which is \$62,987,939 lower than the Company's proposed operating expenses of \$627,991,908.
- Requested revenue requirement annual increase should be reduced by \$63.615 million, based upon OCA witness Garrett's recommendation to set depreciation expense balance at \$84,887,176 using the average life group (ALG) procedure, which

⁴⁷⁹ OCA St. 2SR, at 1.

⁴⁸⁰ *Id.*, at 4.

is \$45,802,423 lower than the Company's claimed depreciation expense balance of \$130,689,599 using the equal life group (ELG) procedure.

- Income tax expense should be \$55,267,855, which is \$17,543,486 lower than the Company's proposed income taxes of \$72,811,341. OCA witness Mugrace accepted the Company's Proposed Investment Tax Credit of \$(78,757).

- Overall, based on the recommendations of OCA witnesses Mugrace and Garrett, the OCA recommends an overall revenue requirement annual decrease of \$36,316,933, which is \$146,813,730 lower than the Company's proposed revenue requirement annual increase of \$110,496,797.⁴⁸¹

4. *OSBA's Position*

OSBA explains that since 2008, Columbia has submitted thirteen base rates filings. Prior to 2008, Columbia had not filed a base rates case since 1995.⁴⁸²

OSBA submits that Columbia has the highest residential and small commercial base rates among large natural gas distribution companies in the Commonwealth.⁴⁸³ Given what OSBA characterizes as the apparent lack of a long-term competitive analysis of its distribution business, the OSBA questions whether the Company has demonstrated that its overall capital spending plan is prudent.

With regard to the Company's overall revenue requirement, at a minimum, OSBA supports a reduction in Columbia's requested Return on Equity of 11.35% as

⁴⁸¹ OCA St. 2SR at 4.

⁴⁸² OSBA St. No. 1, at 5.

⁴⁸³ *Id.*, at 6.

argued by I&E and OCA.⁴⁸⁴ In addition, OSBA submits the Commission should advise Columbia that future capital expenditures have not been shown to be part of a demonstrably prudent long term investment plan, and that it can be subjected to *ex post* prudence reviews should they become stranded. At a minimum, OSBA asserts, the Commission should require Columbia to demonstrate that it has a long-term viable business as part of its next LTIIP filing.

5. CAUSE-PA's Position

a. Overall Position on Rate Increase

CAUSE-PA explains that the Commission must determine the justness and reasonableness of rates, and all attendant policies, programs, and terms and conditions of service, for Columbia's gas delivery service under Chapter 13⁴⁸⁵ and other provisions of the Public Utility Code.⁴⁸⁶ In making this determination, the Commission must consider the impact of rates on consumers.⁴⁸⁷ CAUSE-PA asserts affordability and quality of service are critically important concerns when setting rates,⁴⁸⁸ and are embedded duties enshrined in the Choice Act – which contains a multitude of interconnected duties and responsibilities.

⁴⁸⁴ See I&E Statement 2-SR, at 4-54 (recommending an ROE of 10.51%); OCA Statement 3-SR, at 2-12 (recommending an ROE of 8.9%).

⁴⁸⁵ 66 Pa.C.S. § 1301 *et seq.*

⁴⁸⁶ See 66 Pa.C.S. § 2201 *et seq.*

⁴⁸⁷ *Federal Power Comm'n v. Hope Nat'l Gas Co.*, 320 U.S. 591, 603 (1944) (“[T]he fixing of ‘just and reasonable rates’, involves a balance of the investor and consumer interests.”)

⁴⁸⁸ *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835, at 46-47 (Order entered Feb. 19, 2021), *citing* 66 Pa.C.S. §§ 523, 526(a); *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1019-21 (Pa. Cmwlth. 2006)); *Pa. PUC v. Twin Lakes Util., Inc.*, 2020 Pa. PUC LEXIS 340, *46-54 (Order entered Mar. 26, 2020).

CAUSE-PA asserts that the record in this proceeding demonstrates that Columbia's current rates are already unaffordable for low-income families – making access to continued service inaccessible to thousands of households and creating a cascade of consequences for these households and the surrounding communities.⁴⁸⁹ In turn, Columbia's inequitable rate design and alternative ratemaking proposals fail to consider consumer interests.

CAUSE-PA supports OCA's recommendation that the Commission decrease Columbia's revenue requirement by \$36,316,933, or -3.96%, consistent with sound depreciation policy⁴⁹⁰ and reject Columbia's rate design and alternative ratemaking proposals, and require adoption of substantial reforms to Columbia's policies, procedures, programs, and services to ensure low-income customers can maintain service to their homes consistent with the requirements in the Choice Act.⁴⁹¹ Columbia's low-income customers already struggle to afford service at existing rates.

According to CAUSE-PA, based on the Self Sufficiency Standard, a family of four in the counties served by Columbia requires an income ranging from approximately \$69-\$90,000 to reasonably afford basic needs without assistance.⁴⁹²

As of December 2024, only 20,988 of Columbia customers were enrolled in Columbia's Customer Assistance Program (CAP), which provides rate relief and arrearage management for low-income households.⁴⁹³ CAUSE-PA asserts Columbia's low-income customers carry a disproportionate amount of debt and are far more likely to have their service terminated for nonpayment.⁴⁹⁴

⁴⁸⁹ CAUSE-PA St. 1, at 5-6.

⁴⁹⁰ OCA St. 2-SR, at 3.

⁴⁹¹ CAUSE-PA St. 1, at 6; *see* 66 Pa.C.S. §§ 2202, 2203(8), 2206(c).

⁴⁹² CAUSE-PA St. 1, at 9-10.

⁴⁹³ *Id.*, at 24-25.

⁴⁹⁴ *Id.*, at 16.

CAUSE-PA asserts more than 1 in 10 confirmed low-income (non-CAP) customers were involuntary terminated in 2024, compared to 2 in 100 non-low-income residential customers.⁴⁹⁵ In addition, confirmed low-income customers that are not participating in CAP are more than twice as likely to face involuntary termination than households enrolled in CAP,⁴⁹⁶ underscoring the importance of improving CAP enrollment to improve collections and prevent involuntary termination of service.⁴⁹⁷

CAUSE-PA argues Columbia's low-income customers also carry substantially higher levels of arrears compared to non-low-income residential customers. CAUSE-PA submits non-CAP CLI customers carry 40% of the dollars in residential customer debt despite making up only 12% of the residential population.⁴⁹⁸

CAUSE-PA submits acute issues in the competitive residential supply market are exacerbating energy insecurity, further impacting low-income termination rates and driving up universal service costs and collections expenses. According to CAUSE-PA, in 2024, low-income shopping customers were charged on average \$276.86 (\$23/month) more than the default service price.⁴⁹⁹ As a result, low-income shopping customers faced a 25% termination rate.⁵⁰⁰

Taken together, CAUSE-PA submits these troubling indicators of deep energy insecurity across Columbia's service territory demonstrate that Columbia's low-income consumers already struggle to pay for gas service at existing rates.⁵⁰¹

⁴⁹⁵ CAUSE-PA St. 1, at 17.

⁴⁹⁶ See CAUSE-PA Main Brief Section XII.A

⁴⁹⁷ *Id.*, at 17.

⁴⁹⁸ CAUSE-PA St. 1, at 18.

⁴⁹⁹ *Id.*, at 57-58, T.11, 12; CAUSE-PA Ex. 2.

⁵⁰⁰ *Id.*, at 58, T.13

⁵⁰¹ *Id.*, at 18-19.

Columbia's rates outpace inflation and are the highest in the state.

Over the last 20 years, CAUSE-PA asserts, Columbia's residential *distribution* rates for average heating customers (70 therms) have increased by 121% - from \$47.58 in 2005 to \$105.09 in 2025 at proposed rates.⁵⁰² In this time, Columbia has filed twelve rate cases, totaling approved distribution rate increases of more than \$487 million.⁵⁰³ CAUSE-PA submits, even comparing rates *inclusive of gas costs*, Columbia has the highest rates of all Pennsylvania NGDCs.⁵⁰⁴

CAUSE-PA notes that household income for low-income families has not nearly kept pace with the rapid increase in Columbia's distribution rates. From 2006 to 2025, the household income for a family of four at 150% FPL only increased 60% (from \$30,000 to \$48,225 per year), which is in line with the rate of inflation over that time period.⁵⁰⁵ CAUSE-PA submits that Columbia's frequent requests to increase revenues is unsustainable, and would result in unjust and unreasonable rates – especially for the tens of thousands of low income families in Columbia's service territory that already struggle to maintain basic service to their home.

b. *Columbia's Rate Proposal Would Have Severe and Unmitigated Consequences for Low-Income Households and Will Drive Up Collections and Termination Rates*

CAUSE-PA argues that if the Commission approves a rate increase in this case, it will have a severe and detrimental impact on low-income families across its service territory – forcing more low-income families to make untenable choices between affording utility services and other basic necessities – such as food, medicine, medical

⁵⁰² CAUSE-PA St. 2, at 21.

⁵⁰³ *Id.* at 24

⁵⁰⁴ CAUSE-PA St. 2, at 21

⁵⁰⁵ CAUSE-PA St. 1, at 11.

care, and housing.⁵⁰⁶ CAUSE-PA further submits Columbia’s proposed rate increase would substantially increase the portion of low-income customers’ energy burdens that are attributable to their gas bill.⁵⁰⁷

c. *Columbia’s Proposed Rate Design and Alternative Rate Mechanisms Further Exacerbate Negative Outcomes for Low-Income Consumers*

CAUSE-PA further argues Columbia’s proposed rate design, together with its proposed alternative rate mechanisms, erode the ability of low-income customers to control energy costs or mitigate the effects of any rate increase through reduced usage or energy efficiency measures.⁵⁰⁸ CAUSE-PA explains these rate mechanisms also have a direct impact on universal service programs, further driving up costs for participants and other residential customers and contradicting the statutory and regulatory objectives of the programs.⁵⁰⁹

CAUSE-PA notes Columbia is proposing to recover 99.96% of its proposed residential rate increase through its fixed charge – increasing the fixed component of the bill from \$17.25 to \$31.97.⁵¹⁰ CAUSE-PA submits this proposal is not based on direct costs and, as such, is misaligned with fundamentals of ratemaking and is not supported by substantial evidence.⁵¹¹ If approved, CAUSE-PA explains Columbia’s fixed charge would be nearly 200% higher than the next highest charge in the state.⁵¹² CAUSE-PA further notes the Commission previously rejected Columbia’s proposal to increase its

⁵⁰⁶ CAUSE-PA St. 1, at 12, 51.

⁵⁰⁷ *Id.*, at 15.

⁵⁰⁸ CAUSE-PA St. 2, at 37, 43-52.

⁵⁰⁹ CAUSE-PA St. 2, at 57-58; 66 Pa.C.S. §§ 2202, 2203(8); 52 Pa. Code § 58.1.

⁵¹⁰ CAUSE-PA ST. 2, at 40.

⁵¹¹ *Id.*, at 43; I&E St. 3 at 46.

⁵¹² *Id.*, at 42-44.

residential customer charge by a far lower margin, finding that the charge violated the principles of gradualism and key conservation goals.⁵¹³

CAUSE-PA also explains it opposed Columbia's proposal to make permanent its pilot WNA charge, which CAUSE-PA asserts has already added over \$74.2 million in additional charges for residential and low-income customers, inappropriately shifting the risk of warming weather onto customers through a complicated formula that deprives consumers of savings gained through efficiency or conservation.

- d. *Critical Enhancements to CAP and Low-Income Efficiency Programs and Targeted Education for Low-Income Shopping Customers Would Help to Mitigate Energy Insecurity and, In Turn, Reduce Collections Costs and Termination Rates*

CAUSE-PA further asserts that Columbia's universal service and energy conservation programs are grossly undersubscribed and require substantial improvement to mitigate acute energy insecurity. These reforms are necessary, according to CAUSE-PA, to achieve the universal service and energy conservation mandates enshrined in the Choice Act which require implementation of "policies, practices and services that help residential low-income retail gas customers ...to maintain natural gas supply and distribution services"⁵¹⁴ – and are especially critical if the Commission were to approve any rate increase in this proceeding.

CAUSE-PA contends Columbia must improve access to and enrollment in CAP, which currently reaches only 23% of the estimated eligible population,⁵¹⁵ as CAP enrollment substantially reduces termination rates and corresponding collections costs.⁵¹⁶

⁵¹³ *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835, at 264-265 (Opinion and Order entered Feb. 19, 2021).

⁵¹⁴ 66 Pa.C.S. §§ 2202, 2203(8).

⁵¹⁵ CAUSE-PA St. 1, at 17, T. 4.

⁵¹⁶ *Id.*

CAUSE-PA outlines a variety of methods – including expanded utilization of LIHEAP data, routine screening, and expanded efforts to address program re-entry – which, it asserts, would measurably improve enrollment rates without the added consumer risks associated with Columbia’s Speech Analytics pilot proposal.⁵¹⁷

CAUSE-PA submits the Commission must also reign in Columbia’s chronic underspending within key programs, including its Health and Safety Pilot, its Emergency Furnace Repair Program, and its Audits and Rebates Program.⁵¹⁸ In addition to correcting consistent underspending, CAUSE-PA asserts the Commission should also authorize increased investment in LIURP and Hardship Fund program to offset any approved rate increase in the case.⁵¹⁹

CAUSE-PA also contends the Commission must reject Columbia’s effort to launch a Phase II Energy Efficiency and Conservation Plan (EE&C) which lacks dedicated and proportionate low-income programming.⁵²⁰ This is neither just nor reasonable, as CAUSE-PA submits, vulnerable low-income households are required to pay for these programs without deriving equitable benefit.⁵²¹

Finally, CAUSE-PA argues the Commission must require Columbia to perform targeted education and outreach to low-income shopping customers to help reduce high termination rates and control collections and universal service program costs,⁵²² and tighten control over the release of its Eligible Customer List to third parties.⁵²³

⁵¹⁷ CAUSE-PA M.B. at 31

⁵¹⁸ *Id.*

⁵¹⁹ *Id.*

⁵²⁰ *Id.*

⁵²¹ *See* 66 Pa.C.S. § 2806.1(b)(1)(i)(G)

⁵²² CAUSE-PA M.B. at 32.

⁵²³ *Id.*

6. *TASK FORCE's Position*

The Task Force did not specifically address this issue.

7. *Pennsylvania State University's Position*

Pennsylvania State University did not take a position on this issue.

8. *ALJs' Discussion/Recommendations*

Columbia is required to “furnish adequate and reasonable service to the public, and it is allowed to charge such just and reasonable rates as will enable it to properly function.”⁵²⁴ One of the Company’s primary concerns is ensuring recovery of all costs associated with satisfying its “obligation to serve and the fixed expense incurred associated with that obligation.”⁵²⁵ As explained by OCA, in exchange for its obligation, the Company receives a monopoly franchise and an opportunity to recover a return of all prudently incurred expenses and capital investment, as well as a return on the value of property placed into public service; Columbia does not face risks associated with a competitive market, which would not guarantee a captive customer base or the opportunity to earn.⁵²⁶ This is the bargained-for exchange known as the regulatory compact.⁵²⁷

⁵²⁴ *Pittsburgh v. Pa. PUC*, 128 A.2d 372, 383 (Pa. Super. 1956) (*Pittsburgh 1956*).

⁵²⁵ Columbia St. 1, at 9-11.

⁵²⁶ *Pittsburgh 1956*, 128 A.2d at 382-383.

⁵²⁷ OCA St. 1, at 14.

However, the regulatory compact requires checks on utilities in order to function, including ensuring that a utility does not abuse its monopoly franchise and captive customer base in a manner which would not be permissible in a competitive market.⁵²⁸ In the time between rate cases, a utility must be disciplined in how it incurs expenses and makes capital investment.⁵²⁹ In addition, the General Assembly has determined that regulatory lag should not affect plant investment relating to safety and reliability and that some regulatory lag is appropriately mitigated through the use of a forecasted test year.⁵³⁰ The current ratemaking tools to address regulatory lag, therefore, “demonstrate the recognition that the beneficial impact of regulatory lag must be tempered by other processes that incentivize utilities to make investments in non-revenue generating improvements that are in the public interest.”⁵³¹ The remaining effects of regulatory lag – to the extent they are felt by a utility which files annual or near-annual rate cases – reduce incentives to overcapitalize and increase incentives to cost efficiencies, which are beneficial to ratepayers by reducing a utility’s long-term costs.⁵³²

Although Columbia seeks the rate increase identified above, no evidence indicates that it is unable to earn sufficient revenue to comply with its obligation to serve and provide reliable, safe, and adequate service or that, in the absence of revenue stability mechanisms, it is deprived of a reasonable opportunity to earn its authorized revenue

⁵²⁸ OCA St. 1, at 9.

⁵²⁹ *Id.*, at 8.

⁵³⁰ 66 Pa.C.S. §§ 315(e), 1353.

⁵³¹ OCA St. 1SR, at 4-5.

⁵³² OCA St. 1, at 11.

requirement.⁵³³ For example, despite decreasing usage per customer trends, the Company's revenue per customer has continued to increase over time.⁵³⁴

In pursuit of revenue stability, Columbia requests that volumetric risks be shifted to ratepayers through customer charges above the indicated customer-related cost of service, the conversion of its sunseting the WNA Pilot into a permanent mechanism, and the implementation of a RNA.⁵³⁵ Columbia has provided no substantial or credible evidence of benefit to consumers through these initiatives.⁵³⁶

Columbia is well aware of the risks inherent in providing natural gas distribution service, including that customers' usage of natural gas has been declining over time as a result of improved efficiency in home appliances and reduced throughput for heating purposes.⁵³⁷ We agree with OCA that the billing determinants used by Columbia, which were not challenged by any party in this proceeding, establish that the current customer and volumetric charge structure are sufficient to meet the Company's revenue requirement. That is all that is required for the Company to have a reasonable opportunity to recover its authorized revenue. The inclusion of revenue stability

⁵³³ OCA St. 1, at 6, 16, 39, 56 ("The Company has not demonstrated that the existing regulatory framework in Pennsylvania is failing to support timely and adequate cost recovery. Rather, the evidence, including statements made by its parent company, suggests that regulatory lag is already being effectively managed. The Commission should reaffirm the value of regulatory lag as a structural feature of traditional ratemaking and recognize that further erosion of this principle is neither necessary nor justified in this case.").

⁵³⁴ OCA Ex. MWD-5.

⁵³⁵ Columbia St. 1, at 9; Columbia St. 6, at 13-14.

⁵³⁶ *See, e.g.*, OCA St. 1 at 40-41 (noting that utility commissions approving decoupling mechanisms have recognized the shift in risk from the utility to its ratepayers); 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.").

⁵³⁷ *See* Columbia St. 2, at 10-12.

assurances for the Company merely increase rates to the Company's captive customers without providing more efficient or satisfactory service.⁵³⁸

Ratemaking is a prospective exercise designed to incentivize favorable customer and utility behavior over time, as determined by the Commission. As OCA argues, the Company's rate increase request is excessive and threatens the long-term affordability and energy efficiency goals of its customers while removing or reducing incentives for the Company to be disciplined with expenses and investments.

In addition, CAUSE-PA submits that Columbia has failed to meet its burden in the present proceeding to show that its proposed rate increase, rate design, and alternative rate mechanisms – as well as associated programs, terms, and conditions of service, will benefit customers, are in the public interest and will result in just and reasonable rates consistent with the Public Utility Code.

The Commission must determine the justness and reasonableness of rates, and all attendant policies, programs, and terms and conditions of service, for Columbia's gas delivery service under Chapter 13⁵³⁹ and other provisions of the Public Utility Code.⁵⁴⁰ In making this determination, the Commission must consider the impact of rates on consumers.⁵⁴¹ The Commission has a "duty to set 'just and reasonable' rates,

⁵³⁸ *Phila. Suburban Transp. Co. v. Pa. PUC*, 281 A.2d 179, 186-87 (Pa. Cmwlth. 1971) ("rates must be designed to furnish the most efficient and satisfactory service at the lowest reasonable price for the greatest number of customers, i.e., the public generally").

⁵³⁹ 66 Pa.C.S. § 1301 *et seq.*

⁵⁴⁰ *See* 66 Pa.C.S. § 2201 *et seq.*

⁵⁴¹ *Federal Power Comm'n v. Hope Nat'l Gas Co.*, 320 U.S. 591, 603 (1944) ("[T]he fixing of 'just and reasonable rates', involves a balance of the investor and consumer interests.")

reflecting a balance of consumer and investor interests.”⁵⁴² Affordability and quality of service are critically important concerns when setting rates.⁵⁴³

Columbia Gas seeks a \$110.5 million increase to its revenue requirement and an increase in the fixed residential customer charge, from \$17.25 to \$31.97 monthly, an increase of 85%. This proceeding is unique among typical base rate proceedings because several parties advocated that the Commission should deny the increase request on its face, or even decrease the Company’s current rate revenue, asserting Columbia Gas’ failure to consider and appreciate the financial constraints faced by a large number of its customers, such that an increase would result in unjust and unreasonable rates. While ratepayers of Columbia Gas struggle to pay for basic life necessities, Columbia Gas insists it cannot continue to provide safe and reliable service without a \$110.5 million rate increase obtained from ratepayers, many of whom are facing significant financial struggles and the inability to pay their basic bills.

Several of the parties in this proceeding (OCA, CAUSE-PA and I&E) argued against the Commission approving Columbia Gas’s rate increase proposal. No party recommended Columbia Gas should *never* be allowed to raise rates, instead arguing that raising rates under the existing circumstances is inappropriate and contrary to the public interest.

These advocates spoke passionately about the need to establish utility rates that are just, reasonable, and do not unreasonably benefit the utility's investors at the

⁵⁴² *Popowsky v. Pa. PUC*, 542 Pa. 99, 107-108 (1995) (emphasis added); 66 Pa.C.S. § 1301.

⁵⁴³ *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835, at 46-47 (Opinion and Order entered Feb. 19, 2021) (citing 66 Pa.C.S. §§ 523, 526(a)); *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1019-21 (Pa. Cmwlth. 2006)); *Pa. PUC v. Twin Lakes Util., Inc.*, 2020 Pa. PUC LEXIS 340, *46-54 (order entered Mar. 26, 2020).

expense of unreasonably burdening the utility's ratepayers. The parties stressed that the Commission has broad discretion in determining whether rates are reasonable.

The objecting parties noted that particularly troubling was that Columbia Gas is requesting another significant increase, at a time when Pennsylvanians, many struggling financially, need natural gas to meet their needs.

As explained in *Popowsky v. Pa. Pub. Util. Comm'n*, 665 A.2d 808 (Pa. 1995), the Commission's regulatory discretion to determine if a requested rate is just and reasonable is not confined merely to "an absolute or mathematical formulation but rather to confer upon the regulatory body the power to make and apply policy." The Commission has the authority to determine a requested increase is unreasonable and will lead to an unjust and unreasonable rate for a utility's customers, based upon all surrounding circumstances.

At a public input hearing in this proceeding, Ms. Evans testified she sets her thermostat at 62 degrees during the winter in order to be able to afford her heating bill, which she said is starting to look more like a mortgage payment. A number of customers voiced their objections to the increase proposed by Columbia. Ms. Evans testified it appears nobody seems to care about the customers' ability to pay for these increases and that heating your home is becoming a luxury that only rich people can afford.⁵⁴⁴

The Commission understands and realizes that it must balance the interests of the utility, the ratepayers, the investors, and the public interest. Based upon all of the record evidence in this case, including the evidence presented by the Parties and the testimony from the public at the public input hearings, we recommend that the

⁵⁴⁴ Tr. at 216-218.

Commission deny Columbia Gas' request to increase the base rate, and that the current rates, having previously been approved, be maintained.

However, recognizing that the Commission may choose not to approve this recommendation, we have reviewed the base rate request in its entirety and provide a recommendation for the Commission to consider as an alternative if the Commission determines the evidence presented does not justify an outright denial of Columbia Gas' base rate increase request. The remainder of this Recommended Decision includes the Parties' positions on the major categories that are elements of a base rate, with the our alternative recommendations included at the end of each category.

D. Parties Briefing Positions Regarding Rate Base

1. *Columbia Gas' Position*

The Company's updated claimed rate base reflects the projected balance as of the end of the FPFTY of \$3,839.638,127.⁵⁴⁵ The balance reflects Plant in Service, Depreciation Reserve, Working Capital, Deferred Income Taxes, Customer Deposits and Customer Advances projected as of December 31, 2026. This updated balance also reflects the removal of Blackhawk Storage Facility (Blackhawk) net plant, accumulated deferred income taxes and gas in storage, resulting from the sale of Blackhawk earlier this year.⁵⁴⁶

Columbia explains OCA proposes to reduce plant in service for the FPFTY by \$14,507,711 to remove inflationary assumptions used by Columbia to develop its budgeted plant additions for the future test year (FTY) and FPFTY.⁵⁴⁷ OCA also

⁵⁴⁵ Columbia Ex. JV-1R, at 2.

⁵⁴⁶ Columbia M.B. at 14.

⁵⁴⁷ OCA St. No. 2, at 7-9.

proposes a reserve offset of \$236,476 associated with OCA's budgeted plant addition adjustment; and a reduction of \$45,802,423 associated with OCA's proposed change to the long-established method of computing depreciation expense in Pennsylvania.⁵⁴⁸

OCA also proposed to reduce Columbia's projected 13-month balances for Materials and Supplies and Prepayments by a total amount of \$319,457,⁵⁴⁹ to incorporate a Consolidated Tax Adjustment (CTA) of \$2,263,821 as a reduction to rate base⁵⁵⁰ and to disallow certain capitalized employee benefit costs.

a. *Plant In Service FTY and FPFTY Plant Additions*

Columbia explains its FTY and FPFTY plant additions are derived from the Company's forecasted capital budget.⁵⁵¹ Detailed plant additions and retirements, by month, are provided in Columbia Ex. 108, Sch. 1. The Company's Age and Condition Budget Class reflects Columbia's projected expenditures for mains, services, and meter replacements.⁵⁵² Columbia's budget projects Age and Condition FTY plant additions of \$312,583,000 and FPFTY plant additions of \$343,538,800.⁵⁵³

In developing its Age and Condition budgets, Columbia explains the average cost of main replacements when Columbia began its accelerated main replacement project in 2007 was \$81.25 per foot, whereas the cost was \$335 per foot in

⁵⁴⁸ *Id.*, at 9-10.

⁵⁴⁹ *Id.*, at 11-12.

⁵⁵⁰ *Id.*, at 48.

⁵⁵¹ Columbia St. No. 7, at 4.

⁵⁵² *Id.*, at 5.

⁵⁵³ *Id.*, at 4.

2024.⁵⁵⁴ Columbia witness Brumley identified that, in developing its budgets, Columbia anticipated increases of 4% to unit costs for plant replacements in 2025 and 5% in 2026.⁵⁵⁵

Columbia submits OCA witness Mugrace calculated an adjustment that would lower Columbia's projected capital expenditures for 2025 and 2026 by \$14,507,711, derived using a ratio of the Company's actual 2024 contractor costs to total Age and Condition expenditures and applying that ratio to projected 2025 and 2026 Age and Condition capital expenditures to estimate projected contractor costs. According to Columbia, the 4% and 5% were then applied to his projected contractor costs for the years 2025 and 2026 to derive the total disallowance of \$14,507,711.⁵⁵⁶

b. Depreciation Reserve

The Company's depreciation reserve as of the end of the FPFTY was calculated by Gannett Fleming Valuation and Rate Consultants, LLC (Gannett Fleming). Columbia explains the depreciation reserve is the book reserve brought forward from the book reserve approved by the Commission in Columbia's last base rate proceeding,⁵⁵⁷ projected generally using the straight-line remaining life method, with the Equal Life Group (ELG) procedure.⁵⁵⁸ Columbia submits its current claim for accrued depreciation in this proceeding is made on the same basis as it has been for over forty years.⁵⁵⁹

The only proposed adjustments to Columbia's Accrued Depreciation Reserve are with respect to the OCA's proposed \$14.5 million plant additions adjustment and the OCA's proposal to change the Company's depreciation method from the ELG

⁵⁵⁴ Columbia St. No. 7, at 17.

⁵⁵⁵ OCA St. No. 2, at 7.

⁵⁵⁶ *Id.*, at 8.

⁵⁵⁷ Columbia St. No. 5, at 5.

⁵⁵⁸ *Id.*, at 4-5; Columbia Ex. 109, Attachment A, pat 41-46.

⁵⁵⁹ Columbia St. No. 5, at 5.

procedure to the Average Service Life (ASL) procedure. Columbia asserts that OCA's proposed adjustment to Columbia's plant additions is improper, and therefore, the related \$236,476 adjustment to the Company's depreciation reserve should be rejected. Further, as explained in Section VI of Columbia's main brief, Columbia argues OCA's proposed adjustment to the Company's annual depreciation expense by adopting the ASL procedure should be rejected, and thus the Company's depreciation reserve should similarly not be recomputed.

c. Additions To Rate Base

Columbia includes three additions to rate base. According to Columbia, the first is Materials and Supplies that Columbia purchases in advance to use to provide service;⁵⁶⁰ the second is Prepayments for leases, insurance, regulatory commission fees and permits;⁵⁶¹ and the third is Gas Stored Underground, which Columbia asserts is gas principally purchased in non-winter months to meet customer demand in Winter months.⁵⁶² The Company did not make a Cash Working Capital claim in this case.⁵⁶³ Columbia notes the only party to challenge the Company's Additions to Rate Base is OCA.

(1) Materials and Supplies

Columbia's rate base includes an addition of \$948,060 for materials and supplies.⁵⁶⁴ This amount is the 13-month average of historical monthly balances in

⁵⁶⁰ Columbia Ex. 108, Sch. 5.

⁵⁶¹ Columbia Ex. 108, Sch. 6.

⁵⁶² Columbia Ex. 108, Sch. 7.

⁵⁶³ Columbia Ex. 108, at 3.

⁵⁶⁴ Columbia Ex. 108, Sch. 5.

Account 154, Plant Materials, adjusted by applying the Gross Domestic Product (GDP) deflator for the FTY and FPFTY.⁵⁶⁵

OCA proposes a \$56,977 reduction to the Company's materials and supplies claim. The adjustment reflects OCA's position that the experienced 13-month average balance for Materials and Supplies should be used.⁵⁶⁶ Columbia asserts it is continually replacing items in its materials and supplies inventory and if inflation is not considered, the FPFTY balance of materials and supplies will be understated, thereby adversely affecting Columbia's ability to earn a fair return.⁵⁶⁷

(2) Prepayments

Columbia's rate base also includes an addition of \$5,577,551 for various prepayments.⁵⁶⁸ This amount is the 13-month average of historical monthly balances for the individual categories of prepayments, adjusted by applying the GDP deflator for the FTY and FPFTY.⁵⁶⁹

Columbia submits accumulated deferred income taxes (ADIT) generally OCA proposes a \$262,481 reduction to the Company's prepayments claim, reflecting OCA's position that the experienced 13-month average balance for prepayments should be used.⁵⁷⁰

(3) Gas Stored Underground

⁵⁶⁵ Columbia St. No. 11, at 6-7.

⁵⁶⁶ OCA St. No. 2, at 11.

⁵⁶⁷ Columbia St. No. 4-R, at 12.

⁵⁶⁸ Columbia Ex. 108, Sch. 6.

⁵⁶⁹ Columbia St. No. 11, at 7.

⁵⁷⁰ OCA St. No. 2, at 11.

Columbia's updated claim for Gas Stored Underground is \$48,893,536⁵⁷¹ which reflects the removal of gas in storage at Blackhawk. Columbia submits no parties challenged the Company's claim for an addition to rate base for gas stored underground.

d. Deductions from Rate Base

(1) Customer Deposits

Columbia explains it reflects customer deposits as a deduction from rate base and are considered a source of cost-free capital.⁵⁷² Columbia deducts an amount of \$4,813,210 based upon an HTY 13-month average balance.⁵⁷³ Columbia submits no party has opposed the Company's claim.

(2) Accumulated Deferred Income Taxes

Columbia submits accumulated deferred income taxes (ADIT) are a reduction to rate base, including the ADIT set forth in the Company's rate base calculation, as adjusted for the removal of Blackhawk, of \$502,797,835.⁵⁷⁴

OCA asserts \$8,696,047 should be added back, to reflect offsetting effects of its proposed adjustments to plant in service and depreciation.⁵⁷⁵ The Company does not agree with either the plant in service adjustment or the depreciation adjustment that produce this ADIT adjustment.⁵⁷⁶

⁵⁷¹ Columbia Ex. JV-1R, at 12.

⁵⁷² Columbia St. No. 4, at 28. Interest paid to customers on customer deposits are reflected as an expense for ratemaking purposes.

⁵⁷³ Columbia St. No. 11, at 10; Columbia Ex. 108, Sch. 9.

⁵⁷⁴ Columbia Ex. JV-1R, at 12.

⁵⁷⁵ OCA St. No. 2, at 13-14.

⁵⁷⁶ Columbia St. No. 10-R, at 3-4.

(3) Consolidated Tax Adjustment

Columbia asserts that Act 40 of 2016, Pub. L. 332 (Act 40), which added Section 1301.1 to the Public Utility Code, was enacted to eliminate the “consolidated tax savings adjustment” (CTA) from Pennsylvania ratemaking.⁵⁷⁷ Prior to Act 40, decisions of the Commonwealth Court required the Commission to adjust rates to reflect “savings” achieved from a utility’s participation in its parent company’s consolidated tax return.⁵⁷⁸ Columbia asserts Act 40 prohibits CTA adjustments.⁵⁷⁹

Columbia asserts Act 40 eliminated the CTA, and the Company has fully complied with the Act’s use of funds requirements. Columbia asserts OCA witness Mugrace’s adjustment is an attempt to continue the CTA, although in a different form.

According to Columbia, Section 1301.1(a) makes clear that tax reductions achieved by other affiliated companies in a consolidated income tax return may not be used to reduce a utility’s tax expense or rate base. Section 1301.1(b) describes how incremental utility operating income produced by the operation of Section 1301.1(a) should be used by affected utilities until the sunset of Section 1301.1(b) on December 31, 2025.

Columbia witness Harding testified that the Company’s *pro forma* capital additions for reliability or infrastructure projects in the FTY is \$316.8 Million and for the FPFTY is \$329.3 Million, which is greater than \$2.26 million, which is 50% of the amount of what would have been the CTA under prior ratemaking principles, and that the

⁵⁷⁷ Columbia St. No. 10-R, at 4.

⁵⁷⁸ See, e.g., *PUC v. PPL Gas Utilities Corp.*, Docket Nos. R-0061398, 2007 Pa. PUC LEXIS 779 at *128-133 (Opinion and Order entered Feb. 8, 2007) (litigating consolidated tax savings adjustment).

⁵⁷⁹ 66 Pa.C.S. § 1301.1(b).

Company's general corporate purpose expense will also exceed 50% of the tax benefit resulting from elimination of the CTA.⁵⁸⁰

Columbia further argues that OCA's proposal has been considered, and definitively rejected, by the Commission. In *Pa. PUC v. UGI Utilities, Inc. – Electric Division (UGI Electric)*,⁵⁸¹ OCA argued that both the rate base and the general corporate purposes portions of the CTA should be accounted for in determining rates,⁵⁸² which was rejected by the Commission.⁵⁸³

2. *I&E's Position*

a. *Fair Value*

Columbia's claimed rate base for the end of the FPFTY (December 31, 2026) is \$3,845,381,715.⁵⁸⁴ Columbia's FTY rate base is \$3,489,139,254.⁵⁸⁵ Therefore, I&E finds that \$356,242,461 (\$3,845,381,715 - \$3,489,139,254) of rate base additions are associated with the FPFTY.⁵⁸⁶

b. *FPFTY Reporting Requirements*

I&E recommends that that the Company be required to provide the Bureau of Investigation and Enforcement and the Office of Consumer Advocate with an update to Columbia Exhibit No. 108, Schedule 1 no later than April 1, 2026, under this docket

⁵⁸⁰ Columbia St. No. 10, at 11. *See also* Columbia St. No. 10-R, at 5.

⁵⁸¹ Docket No. R-2017-2640058 (Order entered October 25, 2018).

⁵⁸² *Id.*, at 149.

⁵⁸³ *Id.*, at 152; Columbia Main Brief at 24.

⁵⁸⁴ I&E St. No. 3, at 3 (citing Columbia Ex. No. 108, at 3, col. 5).

⁵⁸⁵ *Id.* (citing Columbia Ex. No. 108, at 3, col. 3).

⁵⁸⁶ *Id.*; *See also* Columbia Ex. No. 108, Sch. 1.

number, which should include actual capital expenditures, plant additions, and retirements by month for the twelve months ending November 30, 2025.⁵⁸⁷ Additionally, I&E recommended that the Company be required to provide actuals through December 31, 2026, no later than April 1, 2027.⁵⁸⁸

I&E submits the Company agreed with I&E's recommendation; therefore, I&E's recommendation should be approved.⁵⁸⁹

3. *OCA's Position*

a. *Plant in Service – Inflation Adjustment*

OCA explains 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, 2026.⁵⁹⁰

In reaching these totals, Columbia included an inflation rate factor of 4% for 2025 and 5% for 2026.⁵⁹¹ OCA witness Mugrace recommended disallowing the inflation rate factor adjustments.⁵⁹²

OCA asserts the Commission has repeatedly required specificity by the utility when the utility uses an inflation factor to estimate cost increases in the test year,

⁵⁸⁷ I&E St. No. 3, at 3-4.

⁵⁸⁸ *Id.*, at 4.

⁵⁸⁹ I&E St. No. 3-SR, at 3.

⁵⁹⁰ OCA St. 2 at 4; Columbia Ex. 108 at 3.

⁵⁹¹ OCA St. 2, at 7.

⁵⁹² OCA St. 2, at 7-8.

and the Commission has disallowed inflation factors that are too speculative in nature.⁵⁹³ 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.”⁵⁹⁴ Additionally, the Commission found that Aqua’s “application of a General Price Adjustment to 22% of expenses is neither targeted nor specific.”⁵⁹⁵

By failing to establish a factual or evidentiary basis for the actual, specific inflation factors utilized, OCA submits, Columbia should not be able to recover such costs, as it bears the burden of proof.⁵⁹⁶

b. Accumulated Depreciation

OCA recommends two adjustments to the Company’s accumulated depreciation reserve. The first is based on OCA witness Mugrace’s adjustment to the Company’s utility plant in service account. OCA witness Mugrace recommended an adjustment of \$(14,507,711) to Columbia’s claimed utility plant in service amount.⁵⁹⁷ Based on Mr. Mugrace’s calculation, he recommends an adjustment of \$(236,476) to accumulated depreciation based on his recommended reduction to the Company’s utility plant in service balance.⁵⁹⁸

⁵⁹³ *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*).

⁵⁹⁴ *Pa. PUC v. Aqua Pa. Water Co.*, 2022 Pa. PUC LEXIS 161, *50-51. (Order entered May 16, 2022) (*Aqua 2022*).

⁵⁹⁵ *Id.* at *51.

⁵⁹⁶ 66 Pa.C.S. § 315(e).

⁵⁹⁷ OCA M.B. at 47.

⁵⁹⁸ *Id.*; see also OCA Ex. DM-6, DM-32.

Mr. Mugrace's second adjustment is based on the recommendation of OCA witness Garrett that the Company utilize the ALG procedure instead of the ELG procedure when calculating its depreciation rates for the purposes of depreciation expense.⁵⁹⁹ Because accumulated depreciation represents the sum of depreciation expense collected by the Company over the life of its plant in service, OCA submits an adjustment to depreciation expense requires a corresponding reduction to the depreciation reserve.⁶⁰⁰ OCA witness Garrett recommended an overall reduction to Columbia's depreciation expense claim of \$45,802,423.⁶⁰¹ Based on Mr. Garrett's recommended adjustment, Mr. Mugrace made a corresponding reduction to Columbia's claimed accumulated depreciation of \$45,802,423.⁶⁰² OCA submits that, if the Commission adopts the OCA's recommended adjustment to depreciation expense, Mr. Mugrace's adjustment to accumulated depreciation should be adopted as well.

c. Cash Working Capital

OCA explains, in its filing, Columbia only included a cash working capital claim for its materials and supplies, prepayments and gas storage underground balances.⁶⁰³ However, OCA 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."⁶⁰⁴

OCA witness Mugrace removed the Gross Domestic Product (GDP) inflation factor of 2.93% for 2025, and the 3.05% GDP inflation factor for 2026.⁶⁰⁵ OCA

⁵⁹⁹ OCA St. 2, at 10; OCA St. 3 at 61-66.

⁶⁰⁰ OCA St. 3, App'x C at 6.

⁶⁰¹ OCA Ex. DJG-17.

⁶⁰² OCA St. 2, at 10; OCA Ex. DM-SR-6.

⁶⁰³ OCA St. 2, at 10; Columbia Ex. 108.

⁶⁰⁴ OCA St. 2, at 10-11.

⁶⁰⁵ *Id.* at 11.

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 \$319,457.⁶⁰⁶ This proposal by OCA reduces Columbia’s working capital balance to \$56,625,024.⁶⁰⁷

d. Accumulated Deferred Income Taxes (ADIT)

OCA recommends that Columbia’s ADIT balance be reduced by \$67,372.⁶⁰⁸ 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 2026.⁶⁰⁹ This results in a \$916,650 decrease to Columbia’s revenue requirement.⁶¹⁰

e. Materials & Supplies/Prepayments

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.”⁶¹¹ Although Company witness Covert argued that OCA witness Mugrace removed only the 2025 2.93% GDP deflator and the 2026 3.05% GDP deflator,⁶¹² OCA submits there is no need to include inflation or deflation adjustments as OCA witness Mugrace sets the prepayments as well as the materials and supplies balance

⁶⁰⁶ OCA St. 2, at 12.

⁶⁰⁷ OCA St. 2, at 12; OCA Ex. DM-3.

⁶⁰⁸ OCA St. 2, at 13; OCA Ex. DM-7.

⁶⁰⁹ OCA St. 2, at 13; OCA Ex. DM-7.

⁶¹⁰ OCA St. 2SR, at 7.

⁶¹¹ OCA St. 2SR, at 8.

⁶¹² Columbia St. 11-R, at 2.

at the 2025 actual cost level with no further inflationary adjustments needed.⁶¹³ This adjustment reduces the revenue requirement by approximately \$31,280.⁶¹⁴

f. Consolidated Income Tax Adjustment

OCA recommends that Columbia be required to commit 50% of its consolidated tax expense adjustment, or \$2,263,821, to utility working capital.⁶¹⁵ This adjustment reduces the revenue requirement by approximately \$2.359 million.⁶¹⁶

As Columbia is expected to invest \$316.8 million in infrastructure projects in the FTY and an additional \$329.3 million in the FPFTY period, OCA submits 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 40.⁶¹⁷ OCA asserts, Columbia has not specifically identified how it the 50% differential would be used for general corporate purposes.⁶¹⁸

OCA submits Columbia did not provide any specifics as to whether the 50% of the differential would be used in any way to benefit Pennsylvania ratepayers.⁶¹⁹ OCA witness Mugrace testified that “one might conclude from this that Columbia therefore basically intends to use that money for the benefit of its stockholders and not apply it in any manner to provide a quantifiable ratepayer benefit or in a manner that directly benefits service to Pennsylvania customers.”⁶²⁰

⁶¹³ OCA St. 2SR, at 8.

⁶¹⁴ *Id.*, at 5.

⁶¹⁵ OCA St. 2 at 48.

⁶¹⁶ OCA St. 2SR at 9; OCA Ex. DM-SR-3.

⁶¹⁷ OCA St. 2 at 47.

⁶¹⁸ *Id.*

⁶¹⁹ *Id.*

⁶²⁰ *Id.*

g. Conclusion

OCA's recommended rate base balance is \$3,861,622,942, which is \$16,241,227 higher than the Company's proposed Rate Base balance of \$3,845,381,715.⁶²¹ OCA recommends the removal of the portion of rate base which constitutes "inflationary adjustments" for the FTY and FPFTY that are not supported by sufficient evidence but rely on inflation factors to support additions to rate base that are not tied to specific projects, plant accounts, or other measures of rate base. OCA submits its remaining adjustments to the Company's rate base balance – those regarding accumulated depreciation, cash working capital, and accumulated deferred income tax – flow from other adjustments to rate base, depreciation expense, and operating and management expenses.

4. *OSBA's Position*

OSBA did not address this issue.

5. *CAUSE-PA's Position*

CAUSE-PA did not take a position on rate base in this proceeding.

6. *TASK FORCE's Position*

The Task Force did not address this issue.

7. *PSU's Position*

⁶²¹ OCA St. 2SR, at 4.

PSU did not address this issue.

8. *ALJs' Discussion/Recommendations*

a. *Rate Base*

The proposed adjustments to remove inflationary assumptions will be addressed later in this decision.

OCA proposes to reduce Columbia's depreciation reserve by \$46,038,899 reflecting two items (1) a reserve offset of \$236,476 associated with OCA's budgeted plant addition adjustment and (2) a reduction of \$45,802,423 associated with OCA's proposed change to the method of computing depreciation expense.

Based upon the record evidence, we agree with the arguments advanced by Columbia, which will not be repeated here, and recommend that the proposals advanced by OCA regarding the proposed reserve offset of \$236,476 associated with the Plant addition adjustment and the proposed reduction of \$45,802,423 regarding the proposed method of computing depreciation expense be denied.

b. *Depreciation Reserve*

Columbia's depreciation reserve was calculated using the straight-line remaining life method with the Equal Life Group procedure. Columbia's current claim for accrued depreciation in this proceeding is made on the same basis as it has been for approximately forty years.

OCA proposes to change the Company's method from the ELG procedure to the Average Service Life procedure.

Based upon the record evidence in this particular proceeding and the arguments of the parties, we agree with Columbia that OCA's proposed adjustment to the Company's annual depreciation expense by adopting the ASL procedure in this proceeding should be rejected.

Columbia has been using the ELG method for approximately forty years and the evidence suggests the ELG method has provided an acceptable cost allocation in this instant proceeding.

E. Revenues

1. Columbia Gas' Position

Columbia explains its FPFTY pro forma revenues at present rates, inclusive of purchased gas cost revenues, riders, late payment fees, Gas Procurement Charge revenues, Merchant Function Charge revenues and miscellaneous revenues, are \$916,958,770⁶²². Columbia notes, no party proposed any adjustment to Columbia's FPFTY revenues at present rates. Columbia submits its projection of pro forma residential and commercial customer usage, used to develop pro forma revenues, reflects an assumption of temperatures using a normal weather definition of 20-year average heating degree days (HDD) ending December 31, 2024.⁶²³ According to Columbia, if pro forma usage were developed using a 10-year normal weather definition, it would reduce

⁶²² See Columbia Ex. 103, at 15.

⁶²³ Columbia St. No. 2-R, at 2.

pro forma revenues at present rates and increase the revenue deficiency by approximately \$19 million.⁶²⁴

2. *I&E's Position*

a. *Overall Revenue Requirement*

I&E asserts Columbia has consistently filed base rate cases to primarily recover the capital cost of its pipeline infrastructure replacement program, which has consistently increased.⁶²⁵ Columbia has filed nine base rate cases in a span of twelve years requesting a cumulative total additional revenue increase of \$717.35 million. When compared to other Pennsylvania jurisdictional natural gas distribution companies, I&E explains, Columbia has the highest average monthly bill for a residential heating customer using 73.7 Ccf/Month.⁶²⁶ In consideration of the above and the record evidence presented, I&E recommends the Commission consider the impact any rate increase will have on Columbia's customers given the recent history of the many rate increases.

b. *Blackhawk Storage Facility Sale – Requested Amortization*

I&E notes Columbia's request for the amortization of a regulatory asset regarding the sale of the Blackhawk Storage Facility was not part of Columbia's original March 20th filing. Columbia only raised the issue of the requested amortization four months later in its rebuttal testimony served on July 17, 2025⁶²⁷ The request was for a regulatory asset to defer and amortize the non-depreciable loss on the sale of \$5,031,739 and the expenses for the feasibility study of \$389,005, for a total of \$5,420,743 to be

⁶²⁴ Columbia St. No. 2-R, at 5-6.

⁶²⁵ *Id.*, at 5-6.

⁶²⁶ *Id.*, at 9.

⁶²⁷ I&E St. No. 3-SR, at 4 (citing Columbia St. No. 4-R, at 6-10).

amortized over five years, producing an annual amortization expense of \$1,084,149 (\$5,420,743 ÷ 5 years).⁶²⁸

I&E indicates in its Main Brief that it opposes the inclusion of the regulatory asset in this current base rate case. I&E notes Columbia stated in its application, and the Commission noted in its Order approving the sale, that Columbia “anticipates that, in a base rate proceeding filed after Commission approval of the sale *and the closing of the transaction [emphasis added]*, the Company’s claimed cost of service will reflect both the divestiture of the Blackhawk Storage Field, reduced operation, and maintenance costs associated with that asset.”⁶²⁹ The Commission noted that Columbia stated that “[t]he treatment of the proceeds from the sale will be determined in a future base rate proceeding.”⁶³⁰ I&E submits Columbia’s March 20, 2025 base rate filing was and is not a “future base rate proceeding” occurring after the April 24, 2025 Blackhawk Order.

I&E also asserts there are legitimate questions regarding the prudence of the Blackhawk related feasibility study⁶³¹ and questions whether the amount of money spent on this study was prudent and in the interest of ratepayers⁶³² and is one more reason to disallow inclusion of the regulatory asset in this base rate case. Accordingly, I&E recommends the Commission disallow the inclusion of the requested regulatory asset in this case.

⁶²⁸ *Id.*

⁶²⁹ I&E St. No. 3-SR, at 5 quoting *Application of Columbia Gas of Pennsylvania, Inc. to Transfer by Sale to Pin Oak Energy Partners LLC of its Blackhawk Storage Field located in South Beaver Township, Beaver County, Pennsylvania* (“Blackhawk Order”), Docket No. A-2025-3053161, at 4 (Order Entered April 24, 2025).

⁶³⁰ Blackhawk Order, at 4.

⁶³¹ I&E St. No. 3-SR, at 6-7.

⁶³² *Id.*

3. *OCA's Position*

OCA did not propose any adjustments to the Company's FPFTY revenues under present rates.

4. *OSBA's Position*

OSBA did not address this issue.

5. *CAUSE-PA's Position*

CAUSE-PA did not take a position on operating revenue in this proceeding.

6. *TASK FORCE's Position*

The Task Force did not address this issue.

7. *PSU's Position*

The Pennsylvania State University did not address this issue.

8. *ALJs' Discussion/Recommendations*

Columbia Gas presented sufficient evidence to show its FPFTY *pro forma* revenues at present rates, inclusive of purchased gas cost revenues, riders, late payment fees, Gas Procurement Charge revenues, Merchant Function Charge revenues and miscellaneous revenues, are \$916,958,770.

No party proposed any adjustment to Columbia's FPFTY revenues at present rates. However, I&E opposed the inclusion of the regulatory asset in this current base rate case and Columbia's request for the amortization of a regulatory asset as the sale of the Blackhawk Storage Facility was not part of Columbia's original March 20th filing. Columbia only raised the issue of the requested amortization four months later in its rebuttal testimony served on July 17, 2025.⁶³³

I&E submits Columbia's March 20, 2025 base rate filing was and is not a "future base rate proceeding" occurring after the April 24, 2025 Blackhawk Order.

I&E also asserts there are legitimate questions regarding the prudence of the Blackhawk related feasibility study⁶³⁴ and questions whether the amount of money spent on this study was prudent and in the interest of ratepayers⁶³⁵ and is one more reason to disallow inclusion of the regulatory asset in this base rate case. Accordingly, I&E recommends the Commission disallow the inclusion of the requested regulatory asset in this case and that the treatment of the proceeds from the sale of Blackhawk, and the related issues raised by I&E shall be addressed in the next Columbia base rate proceeding. We agree with I&E that the treatment of the proceeds from sale will be determined in a future base rate proceeding and will not be addressed in this proceeding.

F. Depreciation Expense

1. *Columbia Gas' Position*

⁶³³ I&E St. No. 3-SR, at 4 (citing Columbia St. No. 4-R, at 6-10).

⁶³⁴ I&E St. No. 3-SR, at 6-7.

⁶³⁵ *Id.*

Columbia's updated FPFTY depreciation expense claim, reflecting the removal of Blackhawk and including the amortization of net salvage, is \$154,650,832.⁶³⁶ Columbia submits the calculation of annual depreciation expense and net salvage was prepared in accordance with standard procedures long accepted by this Commission.⁶³⁷

Columbia notes that OCA proposes two adjustments to depreciation expense: 1) the disallowance of \$236,476 associated with Mr. Mugrace's proposed \$14.5 Million adjustment to Columbia's plant additions, and 2) OCA's proposed \$45,802,423 reduction resulting from OCA's proposal to recompute annual depreciation accruals using the ASL procedure.⁶³⁸ Columbia asserts that OCA's proposed change will create higher, and continually increasing, rate base in the future and will result in increased rates to customers in about 10 years compared to the continued use of the ELG procedure.

a. *Determination of Annual Depreciation Accruals*

Columbia explains the unrecovered original cost of property (original cost less accrued depreciation) must be recovered over the life of the property as part of the cost of providing service. The Company uses the straight line, remaining life depreciation method, with the ELG procedure, to allocate the unrecovered original cost to the annual revenue requirement to be borne by current and future customers.⁶³⁹

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

⁶³⁶ Columbia Ex. JV-1R, at 7.

⁶³⁷ Columbia St. No. 5, at 4-5.

⁶³⁸ OCA St. No. 3, at 60. The ASL procedure is also known as the Average Life Group ("ALG") procedure. Columbia St. No. 5-R, at 5.

⁶³⁹ Columbia St. No. 5, at 4.

b. Description of ELG and ALS Procedures

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

For the ELG procedure, a group of property (e.g., a vintage within a property account) is subdivided into groups having equal service lives. The size of these “equal life groups” is based on the estimated survivor characteristics of the account. Depreciation can then be calculated for each equal life group based on the straight line method, meaning that an equal amount of the group’s service value is recorded as depreciation expense in each year of service. The total depreciation for an account is the summation of the calculated depreciation for each equal life group. Based on the survivor curve estimate for an account, the ELG procedure mathematically estimates the life for each unit in the account, and then depreciates each unit over its expected life. The procedure is also known as the Unit Summation Procedure.

* * *

While the ELG procedure calculates depreciation for each equal life group, the ASL (or “ALG”) procedure depreciates every asset within an account over the average life of the entire account. Using equal life groups, rather than an average life, as the basis for depreciation provides a more precise calculation that better matches recovery with consumption of assets by depreciating assets that have shorter lives than the average over their shorter lives (and the longer-lived assets over their longer lives) as opposed to depreciating all assets over the average life for the group.⁶⁴⁰

⁶⁴⁰ Columbia St. No, 5-R. at 4-5.

Columbia asserts the ELG procedure appropriately matches cost recovery to service consumption of the asset, thereby better ensuring that current customers are paying for the assets in use.

Columbia submits the survivor curve developed for each property account is used to divide an account into equal life groups. Under the ELG procedure, the survivor curve determines the percentages of the property account that is in each equal life group, which allows for the calculation of the annual accrual for the entire property group.⁶⁴¹ In contrast, Columbia submits, under the ASL procedure, the depreciation expense for all property in the account is calculated based on the average service life of the entire group.⁶⁴² In so doing, the ASL procedure fails to take into account the reality of dispersion of retirements in a large group.

Columbia asserts, in actual utility operations, only a small percentage of a plant account will be retired at the average service life.⁶⁴³

c. ELG and ASL Procedures

OCA proposes to change from the use of the ELG procedure to the use of the ASL procedure.

According to Columbia, a change to a lower depreciation rate, through the adoption of ASL in this case, produces a short-term reduction to rates; however, the lower depreciation rate creates a higher rate base, as the depreciation reserve is depressed in comparison to the continued use of the ELG procedure.⁶⁴⁴ Over a relatively short

⁶⁴¹ Columbia St. No. 5-R, at 9.

⁶⁴² *Id.*, at 9-10.

⁶⁴³ *Id.*, at 11.

⁶⁴⁴ Columbia St. No. 5-RJ, at 6.

period of time, Columbia asserts, customers' rates will be greater than if the ELG procedure continues to be used, as the increasing rate base, multiplied by a pre-tax return of 10% or more, will quickly exceed the 2% to 3% depreciation rate resulting from the ELG procedure.

Columbia asserts the ELG is the predominant method used in Pennsylvania for gas, electric and water utilities, and has been used consistently for over 40 years.⁶⁴⁵ Columbia concludes the use of the straight-line, remaining life depreciation method, with the ELG procedure, has been a common and long-accepted depreciation process in Pennsylvania and that OCA has not offered evidence to justify a change to the ASL procedure. Accordingly, Columbia submits its depreciation expense claim should be accepted.

2. *I&E's Position*

I&E did not present any record evidence or make any recommendations regarding depreciation expense other than using the Company's as-filed depreciation expense in I&E's analysis of Columbia's base rate filing and in conjunction with all other I&E base rate calculations.

3. *OCA's Position*

a. *Depreciation Expense*

OCA submits that the Company's proposed recovery of excessive amounts charged to operating expenses for annual depreciation would lead to consumers paying unjust and unreasonable rates to the extent of \$63.615 million. OCA asserts it carried its

⁶⁴⁵ Columbia St. No. 5-R, at 13.

burden of production to show that use of the Average Life Group ⁶⁴⁶ procedure over the Company's claimed Equal Life Group procedure will produce just and reasonable rates. OCA claims that a significant majority of state commissions approve of the ALG procedure, leaving Pennsylvania in the small minority of jurisdictions that approve of the ELG procedure.

- 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*

OCA explains that “a utility is entitled under the law to recover from the rate payers the original cost of construction of its depreciable plant.”⁶⁴⁷ Additionally, “it is clear in our law that ‘[i]n 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.’”⁶⁴⁸ In other words, OCA explains, annual depreciation is the return *of* the investment, which is returned through the depreciation O&M expense over the life of the plant.⁶⁴⁹

Regarding depreciation procedures, OCA witness Garrett testified that “[t]he average life’ and ‘equal life’ grouping procedures are the two most common.”⁶⁵⁰ In practice, depreciation experts tend to rely on either the ALG procedure or the ELG procedure, as is the case here.⁶⁵¹

⁶⁴⁶ The average life group procedure is also referred to as the average service life procedure. Tr. 318.

⁶⁴⁷ *Id.*

⁶⁴⁸ *Penn Sheraton*, at 627.

⁶⁴⁹ OCA St. 2 at 42; OCA St. 2SR, at 25; OCA Ex. DM-SR-32.

⁶⁵⁰ OCA St. 3, App. C at 4-5.

⁶⁵¹ OCA St. 3, at 60 (emphasis added).

The primary issue before the Commission in this case concerns 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.⁶⁵²

OCA explains Columbia uses the ALG procedure for plant installed prior to 1976 and the ELG procedure for plant installed in 1976 and subsequent years.⁶⁵³ OCA witness Garrett testified that “[u]nder the ALG procedure, a constant accrual rate is calculated based on the average life of all property in the group.”⁶⁵⁴ As such, “use of the average life results in the same depreciation rate applied to each age interval.”⁶⁵⁵ OCA witness Garrett further testified that “[u]nder the ELG procedure, property is divided into subgroups (also referred to as “vintages”) that each have a common life.”⁶⁵⁶ OCA asserts, under the ELG procedure, depreciation expense will always be higher in early years when utilities make recent capital investments as depreciation expense is frontloaded under ELG.⁶⁵⁷

OCA further asserts Columbia’s use of the ELG depreciation procedure instead of the ALG procedure “has an impact of approximately \$45 million to depreciation expense as of the 2026 depreciation study.”⁶⁵⁸

OCA argues Columbia’s decision to use the ELG instead of ALG procedure has an immense revenue requirement impact and represents 58% of Columbia’s \$110.5 million requested revenue increase.⁶⁵⁹

⁶⁵² OCA St. 3 SR, at 14.

⁶⁵³ Columbia St. 5, at 4; Tr. 318-19.

⁶⁵⁴ OCA St. 3, at 61.

⁶⁵⁵ *Id.*

⁶⁵⁶ *Id.*

⁶⁵⁷ OCA St. 3SR, at 13.

⁶⁵⁸ *Id.* at 14.

⁶⁵⁹ \$110.5 million x .58 (58%) = approximately \$64 million.

- 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*

OCA explains use of a 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.

- d. *Case Law Does Not Prohibit the Adoption of ALG Procedure*

While the Company is entitled to recover depreciation expense to ensure the utility is whole and the integrity of its investment maintained, the utility bears the burden of demonstrating that its claimed amounts to recover in expenses are not excessive.⁶⁶⁰

OCA also explains the Commission is not bound by any particular methodology or procedure in determining annual depreciation expense.⁶⁶¹

OCA notes, the only limitation on procedure is that the Commission must provide for the computation of a utility's accumulated depreciation and annual depreciation expense on a reasonably consistent basis.⁶⁶²

⁶⁶⁰ 66 Pa.C.S. § 315(a); see *Lindheimer*, 292 U.S. at 169; see *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 606 (1944) (*Hope*).

⁶⁶¹ *Pa. Power & Light Co. v. Pa. Pub. Util. Com.*, 311 A.2d 151, 158 (Pa. Cmwlth. 1973) (*Pa. Power*) (citing *Pittsburgh v. Pa. Pub. Util. Comm'n*, 222 A. 2d 395 (Pa. Super. 1966) (*Pittsburgh*) and *Philadelphia v. Pa. Pub. Util. Comm'n*, 102 A. 2d 428 (Pa. Super. 1954) (*Philadelphia*)).

⁶⁶² *Pa. Power*, at 158.

- e. *The Public Utility Code and Commission Regulations do not Prohibit the Adoption of the ALG Procedure*

OCA notes the Public Utility Code does not require that a utility's currently utilized depreciation procedure for certain plant must be accepted indefinitely.⁶⁶³ OCA maintains that it carried its burden of production to demonstrate that the ALG procedure should be adopted, to the extent Section 73.9(c) of the Commission's regulations is interpreted to shift the burden of proof to the OCA, there is a conflict between regulation and statute, and the statute must control.⁶⁶⁴ OCA submits it has presented substantial evidence that Columbia's continued use of ELG results in excessive amounts charged to operating expenses for depreciation and therefore results in unjust and reasonable rates.

- f. *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*

OCA submits the use of the ALG procedure will permit the Company's recovery of reasonable amounts charged to operating expenses for annual depreciation, as required by *Lindheimer* and *Hope*, but will remove excess amounts from being charged in rates. Specifically, OCA witness Garrett testified that Columbia's depreciation expense balance should be set in the FPFTY at \$84,887,176, in contrast with the Company's claimed depreciation expense balance of \$130,689,599.⁶⁶⁵ According to OCA, the

⁶⁶³ 66 Pa.C.S. § 1703 (emphasis added).

⁶⁶⁴ *Victory Bank v. Commonwealth*, 190 A.3d 782, 783 (Pa. Cmwlth. 2018) ("It is axiomatic that a statute is law and trumps an administrative agency's regulations. In addition, where there is a conflict between a statute and a regulation which purports to implement the statute's provisions the regulation must give way.")

⁶⁶⁵ OCA St. 3, at 5-6 (Figure 3).

adjustment of \$45,802,423 is to remove the excess amounts charged to operating expense for annual depreciation based on use of the ELG procedure.⁶⁶⁶

OCA concludes that the record evidence demonstrates that Columbia's continued use of ELG results in unjust and unreasonable rates. OCA submits that use of the ALG procedure will permit the Company's accumulated depreciation and annual depreciation to be calculated on a reasonably consistent basis, as required by *Pa. Power*. OCA maintains requiring Columbia to switch to the ALG procedure also ensures reasonable consistency with Columbia's current depreciation treatment of pre-1976 plant under the ALG procedure.⁶⁶⁷

g. *Substantial Record Evidence Shows That the Use of ELG Depreciation Unreasonably Accelerates Recovery of Depreciation Expense*

OCA witness Garrett testified that the depreciation rates calculated under the ELG procedure results in higher depreciation rates in early years relative to later years.⁶⁶⁸

OCA submits the use of ALG instead of ELG results in a \$44 million difference in expense amounts between the two procedures and an approximately \$63.615 million difference in revenue requirement.⁶⁶⁹

OCA concludes that substantial evidence shows that ELG results in accelerated depreciation.

⁶⁶⁶ \$110.5 million x .58 (58%) = approximately \$64 million.

⁶⁶⁷ Columbia St. 5-R, at 4.

⁶⁶⁸ OCA St. 3, at 61.

⁶⁶⁹ OCA St. 3 at 63; OCA St. 2SR, at 25-26.

h. *Substantial Record Evidence Shows That the Use of ELG Procedure is Inconsistent with the Well-Established “Matching Principle” of Ratemaking*

OCA submits the well-established “matching principle” of ratemaking requires that expenses, revenue, and rate base match over the same time period.⁶⁷⁰ For example, if post-test year additions to expenses and revenues are allowed, “the balance established by the test year is lost and the matching principle is violated.”⁶⁷¹ Two basic principles of public utility ratemaking are that: 1) a public utility only earns money from its rate base and 2) a public utility does not earn money on its expenses.⁶⁷² “A utility is not permitted to pad its estimates of annual depreciation so as to meet unknown contingencies, or to compensate for possible future errors in judgment.”⁶⁷³

While depreciation mechanics should correct depreciation overcharges over the life of a utility’s plant investment, since utilities have constantly growing plant in service, compared to the ALG procedure, OCA submits the choice to use the ELG procedure results in higher depreciation rates for current customers.⁶⁷⁴

⁶⁷⁰ *Pa. PUC v. NFGD*, 1994 Pa. PUC LEXIS 135, *13 (Oct. 7, 1994)-
(*NFGD*).

⁶⁷¹ *Id.*; see also *Re. Niagra Mohawk Power Co.*, 1986 N.Y. PUC LEXIS 3, *97 (Dec. 19, 1986)(a plant running for 50 years but packing all of its depreciation accruals into the first 40 years would violate generational equity and the matching principle).

⁶⁷² *Pa. Power*, at 159.

⁶⁷³ *Pa. Power*, at 157.

⁶⁷⁴ OCA St. 3SR, at 13; see also *Lindheimer*, at 154 (“though the calculations are mathematical, the underlying predictions of life of plant and salvage are essentially matters of opinion...opportunities for excessive allowances for depreciation, even under a correct system of accounting, are always present.”).

- i. *Substantial Record Evidence Shows That the ELG Procedure Results in Intergenerational Inequity Among Consumers Paying Utility Rates*

OCA further argues Columbia's use of the ELG procedure results in intergenerational inequity. As stated in *Re Minnegasco, Inc.* "[a]s a general rule, it is inequitable and economical [sic] unsound to ask one 'generation' of captive ratepayers to bear the cost of providing service to another."⁶⁷⁵ OCA submits Columbia's current ratepayers should not be required to pay accelerated depreciation costs for the potential that years from now those rates may be lower to future customers, who may or may not be the same customers paying accelerated rates now.

OCA submits the ELG procedure is an accelerated form of depreciation, which causes current customers to pay greater depreciation expense than future customers for the same level of utility service, resulting in intergenerational inequity.⁶⁷⁶

- j. *A Super Majority of State Commissions Approve the ALG Procedure and Pennsylvania is in the Small Minority of Jurisdictions that Approve the ELG Procedure*

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."⁶⁷⁷

⁶⁷⁵ *Re Minnegasco, Inc.*, 143 PUR4th 419, 426 (May 3, 1993) (Re Minnegasco is not available on LEXIS so the OCA has appended the case in full to this brief as Appendix D); *see also Re Limerick Nuclear Generating Station*, 1982 Pa. PUC LEXIS 102, *65 Order (May 7, 1982).

⁶⁷⁶ *See Re Limerick Nuclear Generating Station*, 1982 Pa. PUC LEXIS 102, *65 Order (May 7, 1982) ("Intergenerational inequities -- Current consumers should not pay for a plant from which they may not be around to benefit.")

⁶⁷⁷ OCA St. 3, at 61.

k. *Conclusion – Substantial Evidence Demonstrates That Columbia’s Proposal to Continue Using the ELG Depreciation Procedure Results in Unjust and Unreasonable Rates*

Columbia’s continued use of the ELG procedure, according to OCA, 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.⁶⁷⁸ As OCA maintains, the Commission has the legal authority to protect ratepayers from unjustified rate increase proposals, including Columbia witness Spanos’ proposal to use the ELG procedure solely for the Columbia Gas utility operating in the Commonwealth of Pennsylvania.⁶⁷⁹

OCA submits substantial record evidence demonstrates that the ALG procedure produces just and reasonable rates while the ELG procedure is a form of accelerated depreciation.⁶⁸⁰ OCA maintains, requiring Columbia to switch to the ALG procedure ensures reasonable consistency between annual depreciation and accrued depreciation, is consistent with Columbia’s treatment of pre-1976 plant under the ALG procedure, and is also consistent with all other Columbia Gas companies in other jurisdictions, all of which use the ALG procedure. As the ALG procedure results in a just and reasonable application of depreciation rates compared to the ELG procedure given the realities of ratemaking, OCA asserts, the Commission should adopt OCA witness Garrett’s depreciation rates, which were calculated using the ALG procedure.⁶⁸¹

⁶⁷⁸ OCA St. 2SR, at 26.

⁶⁷⁹ See Sections VI.B; VI.E.

⁶⁸⁰ See Section VI.C.

⁶⁸¹ OCA St. 3, at 66.

4. *OSBA's Position*

OSBA did not address this issue.

5. *CAUSE-PA's Position*

CAUSE-PA did not take a position on depreciation expense in this proceeding.

6. *TASK FORCE's Position*

The Task Force did not address this issue.

7. *PSU's Position*

The Pennsylvania State University did not address this issue.

8. *ALJs' Discussion/Recommendations*

a. *Depreciation Expense*

OCA proposes two adjustments to depreciation expense: (1) the disallowance of \$236,471 associated with Mr. Mugrace's proposed \$14.5 million adjustment to Columbia's plant additions, and (2) OCA's proposed \$45,802,423 reduction resulting from OCA's proposal to recompute annual depreciation accruals using the ASL procedure. Based upon the record evidence and the arguments of the Parties, we recommend that both depreciation expenses proposed by OCA be denied.

No Party opposed the use of the straight line life method; however, OCA proposed to switch from the ELG procedure to the ASL procedure. For all the reasons advanced by Columbia, we also recommend that OCA's proposal to switch from the ELG procedure to the ASL procedure be denied.

Columbia asserts the ELG procedure appropriately matches cost recovery to service consumption of the asset, thereby better ensuring that current customers are paying for the assets in use. Columbia also argues the use of the straight-line remaining life depreciation method, with the ELG procedure has been a common and long accepted depreciation process in Pennsylvania and OCA has not offered evidence sufficient to justify a change to the ASL procedure in this particular case. Accordingly, we agree with Columbia that the Company's depreciation expense claim is appropriate, based upon the evidence presented in this particular proceeding, and therefore should be accepted.

While we do not conclude that the ASL or the ELG procedure is a preferred method in this Recommended Decision, the evidence shows here that Columbia has a long-standing history of using the ELG method, which is widely used in Pennsylvania, and which provides an appropriate allocation in the particular circumstances presented in this proceeding. Accordingly, it is recommended that OCA's proposal to adopt the ASL method in this proceeding be denied.

G. O&M and A&G Expenses

1. *Columbia Gas' Position*

a. Labor Expense

Columbia's FPFTY Labor expense is \$38,671,131.⁶⁸² This amount reflects the removal of (\$99,544) associated with the sale of Blackhawk.⁶⁸³ Columbia explains this amount is a slight increase, of approximately 3%, over the Company's normalized HTY labor expense of \$37,521,285.⁶⁸⁴

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

Columbia asserts OCA witness Mugrace took a three-year average of vacancies, multiplied by the Company's 50.57% labor expense ratio, to develop a three-year average vacancy of 31 employees. Mr. Mugrace then divided 31 by the projected number of employees for the FPFTY to develop a ratio of 4.3812%, which he then applied to the Company's FPFTY labor expense to derive his adjustment.

Columbia asserts Mr. Mugrace's adjustment is in error as he is applying a vacancy rate to a FPFTY claim that already is adjusted to reflect vacancies, because Columbia's labor expense claim is based upon actual filled positions as of the end of the HTY, and not upon authorized positions.⁶⁸⁵

⁶⁸² Columbia Ex. JV-1R, at 6.

⁶⁸³ *Id.*

⁶⁸⁴ Columbia Ex. 104, Sch. 1, at 3.

⁶⁸⁵ Columbia St. No. 18-R, at 5.

b. Other Employee Benefits

Columbia's Other Employee Benefits expense for the FPFTY is \$8,915,459.⁶⁸⁶ Columbia explains Other Employee Benefits reflect the costs of employee health and dental insurance, 401(k) plan, and long-term disability. OCA proposes an adjustment of \$390,741 to Other Employee Benefits, associated with its proposed vacancy adjustment.⁶⁸⁷ I&E proposes an adjustment of \$1,161,324 to Other Employee Benefits, resulting from its proposed use of a 20% benefits-to-expense ratio.⁶⁸⁸

Columbia asserts OCA's adjustment depends entirely upon its improper labor expense adjustment and should be rejected.

I&E's adjustment is based upon a three-year average ratio of benefits expense to payroll expense.⁶⁸⁹ Columbia asserts the use of a historic three-year average is an inappropriate approach to projecting health and medical costs, as the ratio used understates future costs because healthcare costs are rising at a faster rate than payroll costs.

Columbia submits it did not rely upon a ratio of historic expense to payroll to develop its Other Employee Benefits expense but instead relied upon the advice of actuarial experts to project its expense.

⁶⁸⁶ Columbia Ex. JV-1R, at 6; Columbia Ex. 104, Sch. 1, at 4.

⁶⁸⁷ OCA St. No. 2, at 23-24.

⁶⁸⁸ I&E St. No. 1, at 14.

⁶⁸⁹ *Id.*

c. Cash Based Incentive Compensation

Columbia includes \$2,568,807 in FPFTY expense for cash-based, short-term incentive (STI) awards.⁶⁹⁰ OCA has proposed to disallow \$1,798,165, or 70%, of this amount.⁶⁹¹ Columbia submits that public utilities are entitled to recover all reasonable expenses, including incentive compensation, incurred to provide service to customers. Columbia explains, in *Butler Township v. Pa. PUC*,⁶⁹² the Commission sought to disallow a portion of rate case expense, on the basis that shareholders benefited from rate increases. The Commonwealth Court stated the general rule is that a public utility is entitled to recover in rates those expenses reasonably necessary to provide service to its customers and to earn a fair rate of return on the investment and plant used and useful in providing service. Columbia explains the Court concluded there was no evidence in the record that the ... expenses claimed were unreasonable, imprudently incurred or excessive in amount.⁶⁹³

Columbia asserts the Commission has established a bright line test for incentive compensation expense. If the incentive compensation programs of the utility are reasonable and provide a benefit to ratepayers, then they may be recovered in their entirety.⁶⁹⁴ Columbia submits the Commission has reaffirmed this standard in several recent cases.⁶⁹⁵ In *UGI Electric*, the Commission rejected a proposal to disallow incentive compensation that included, in part, financial metric.⁶⁹⁶

⁶⁹⁰ Columbia Ex. 104, Sch. 1, at 4.

⁶⁹¹ OCA St. No. 2, at 19-21.

⁶⁹² 473 A.2d 219 (Pa. Cmwlth. 1984).

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

⁶⁹⁴ *See, e.g., PPL Electric 2012*, at 26.

⁶⁹⁵ *See UGI Electric* at 73-74; *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-2021-3027385 (Order entered May 16, 2022), at 100 (“*Aqua 2022*”).

⁶⁹⁶ *UGI Electric*, at 73-74.

Columbia argues it has demonstrated that its STI awards plans include both financial and operating metrics and goals which include safety, customer satisfaction, quality of service and operational excellence.⁶⁹⁷

d. *Incentive Compensation – Stock Rewards*

Columbia notes that OCA and I&E have proposed to disallow stock rewards, which are long-term incentive (LTI) compensation. OCA proposes to disallow \$754,446 in stock rewards included as a Columbia expense in the FPFTY, and an additional \$225,510 in capitalized costs.⁶⁹⁸ OCA also proposes to disallow \$4,012,229 in stock reward expense allocated to Columbia from NCSC and \$493,890 in capitalized stock rewards allocated from NCSC.⁶⁹⁹

I&E proposes to disallow 100% of NCSC allocated stock rewards expense.⁷⁰⁰

Columbia asserts that the stock rewards are not based solely on financial metrics such as earnings or stock price, and that the Company now includes important customer value goals in determining the level of stock awards to be granted, including operational excellence, safety, employee engagement and environmental measures.⁷⁰¹ Thus, Columbia concludes, the provision of stock rewards benefits customers, as well as shareholders.

⁶⁹⁷ GAS-RR-027 Attachment B.

⁶⁹⁸ OCA St. No. 2, at 22.

⁶⁹⁹ *Id.*

⁷⁰⁰ I&E St. No. 1, at 18.

⁷⁰¹ Columbia St. No. 20-R, at 5-6; Columbia Ex. WH-3R, at 5.

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

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

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

We agree with the ALJ that the stock-based compensation benefits ratepayers. We find that the stock-based compensation is linked to performance objectives that benefit consumers, including controlling costs and compliance initiatives. Accordingly, the OCA Exception No. 5 is denied.^[702]

⁷⁰² *Aqua 2022* at 98-101.

e. Inflation/Deflation Adjustments

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

1. Outside Services – (\$7,354)
2. Corporate Insurance - \$131,774
3. Injuries and Damages - \$51,257
4. Employee Expenses – (\$11,362)
5. Company Memberships – (\$6,788)
6. Utilities and Company Use Gas – (\$28,758)
7. Advertising – (\$11,366)⁷⁰³

f. Rate Case Expense

Columbia's claim for rate case expense is \$1,321,000, normalized over a one-year period.⁷⁰⁴

I&E argues that rate case expense should be normalized over a 16-month period, based upon the filing interval of Columbia's last four base rate cases.⁷⁰⁵ OCA proposes a 14-month normalization period, based upon the Company's filing of 6 base rate cases since 2018.⁷⁰⁶

11. ⁷⁰³ Columbia Ex. 104, Sch. 2, at 4, 7, 8, 9, 10, 11, 15, Columbia St. No. 4-R, at

⁷⁰⁴ Columbia Ex. 104, Sch. 2, at 16.

⁷⁰⁵ I&E St. No. 1, at 7.

⁷⁰⁶ OCA St. No. 2SR, at 23-24.

Columbia explains it has used a twelve-month normalization period because Columbia anticipates the need to file annual rate cases for the foreseeable future.⁷⁰⁷ The Company's capital expenditures for the years 2025-2029 are expected to total over \$2.23 Billion.⁷⁰⁸ Columbia submits 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 initiatives⁷⁰⁹ and normal wage and inflation increases.

Columbia also explains I&E proposes an over 26% reduction to Columbia's claimed rate case expense, to \$975,162, based upon the Company's spending in its last litigated case in 2020.⁷¹⁰ Columbia asserts basing an adjustment on only a single historical experience is inappropriate and not reflective of the various novel and important issues being litigated in this case.

g. Outside Services

Columbia's FPFTY claim for Outside Services is \$18,013,909.⁷¹¹ OCA witness Mugrace proposes a \$1,444,261 reduction to Columbia's FPFTY Outside Services expense.⁷¹² According to Columbia, OCA derives its adjustment by computing an average percentage reduction in outside services expense for the periods 2021 through 2024, and applying that percentage (8.57%) to the Company's HTY Outside Services expense.⁷¹³

⁷⁰⁷ Columbia St. No. 4-R, at 14.

⁷⁰⁸ Columbia St. No. 1-R, at 2.

⁷⁰⁹ See, e.g., Columbia St. No. 14, at 11-12.

⁷¹⁰ I&E St. No. 1, at 6.

⁷¹¹ Columbia Ex. 104, Sch. 1, at 4.

⁷¹² This adjustment is separate from the inflation-related adjustment explained in Section VI E of this brief.

⁷¹³ OCA St. No. 2, at 25-26.

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

A portion of Outside Services represents a critical balance between internal and external labor resources. The Company strategically supplements its internal workforce with external service providers to meet workload demands, address resource constraints, and access specialized expertise. This hybrid resourcing model ensures that Columbia can respond effectively to customer needs, meet compliance obligations, and deliver safe and reliable service, particularly when internal resources are fully deployed or specific technical capabilities are needed.⁷¹⁴

Columbia explains historic levels of underspending vs. budget in outside services can be offset by overspending in other categories. For example, Mr. Leal demonstrated that some of the underspending in outside services during the HTY was redirected to cover increases in internal labor and materials and supplies.⁷¹⁵ The budget process, according to Columbia, takes into account these shifting uses, and it is unfair to isolate and reduce one cost element while not recognizing offsetting increases to other cost elements.

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

⁷¹⁴ Columbia St. No. 18-R, at 11-12.

⁷¹⁵ Columbia St. No. 18-R, at 11; Columbia Ex. JL-5R.

h. Employee Expenses

Columbia's original claim for FPFTY Employee Expenses was \$1,275,033.⁷¹⁶ Columbia asserts, that included in this amount is a pro forma adjustment of \$198,554 to remove non-recoverable employee expenses.⁷¹⁷

A breakdown of the components of the Company's claim is as follows⁷¹⁸

Table JL-1R

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

Columbia explains it examined the projection of costs included in the budget for Employee Expenses – Other and determined that \$417,305 of budgeted costs for Clothing Allowance was inadvertently included.⁷¹⁹ Columbia updated its breakdown of Employee Expenses to reflect the correct categorization, as shown in Table JL-1R, above.

⁷¹⁶ Columbia Ex. 104, Sch. 1, at 4; Columbia St. No. 18-R, at 18.

⁷¹⁷ Columbia Ex. 104, Sch. 1, at 4; Columbia St. No. 18-R, at 18.

⁷¹⁸ Columbia St. No. 18-R, at 18.

⁷¹⁹ *Id.*, at 17.

Columbia further explains it then reviewed its claim in light of OCA's adjustments and agreed with OCA witness Mugrace that all amounts reflected in Employee Expenses – Other should be removed from the claim.⁷²⁰ Columbia identified that \$187,628 of its total non-recoverable expense adjustment of \$198,554 was for Employee Expenses – Other. Accordingly, Columbia reflected a further adjustment of \$32,450 to remove all remaining Employee Expense – Other costs⁷²¹ which is reflected in the Company's final claimed revenue allowance in the case.⁷²² Columbia believes this should resolve OCA's original \$438,829 adjustment.

Columbia disagrees with Mr. Mugrace's further Meals and Entertainment adjustment. Columbia submits it identified that \$10,926 of non-recoverable entertainment costs were incurred, based upon a review of actual HTY expenses⁷²³ which is already part of the original \$198,554 that Columbia removed as non-recoverable expense. Accordingly, Columbia asserts no further adjustment is appropriate.

i. Company Memberships

Columbia claims an amount of \$682,796 for Company Memberships which it asserts assist it in operating efficiently and maintaining awareness of regulatory trends and issues. This amount includes an adjustment to remove lobbying expenses from the claim.⁷²⁴ OCA proposes to disallow \$260,661⁷²⁵ and asserts the only dues that should be allowed are American Gas Association dues of \$407,424.

⁷²⁰ Columbia St. No. 4-R, at 17.

⁷²¹ *Id.*, at 17.

⁷²² Columbia Ex. JV-1R, at 6.

⁷²³ Columbia St. No. 4-R, at 17.

⁷²⁴ Columbia Ex. 104, Sch. 2, at 15.

⁷²⁵ OCA Ex. DM-20. This is exclusive of the inflation-related adjustment explained in Section VII E of this brief.

Columbia argues OCA’s proposed disallowance of utility industry association dues and chamber of commerce dues is unreasonable, arguing neither chambers of commerce or utility industry associations, such as the Energy Association, can be considered “fraternal, social or sports clubs or organizations.”⁷²⁶ In addition, Columbia asserts membership in utility industry associations provide opportunities for Columbia to participate in peer networking, roundtables, and committees where utilities can share best practices, troubleshoot challenges, and collaborate on innovations.⁷²⁷

j. Materials and Supplies Expense

Columbia’s FPFTY expense for Materials and Supplies is \$6,080,827.⁷²⁸ OCA proposes a \$558,615 adjustment to this expense.⁷²⁹ Columbia asserts OCA developed its proposed adjustment based upon a review of Subaccount 2020 – Facilities, Maintenance Repair and Materials, identifying a substantial increase in this subaccount, and proposing to use a three-year historic average of expense for this subaccount.⁷³⁰

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

⁷²⁶ 66 Pa.C.S. § 1316.1.

⁷²⁷ Columbia St. No. 18-R, at 20.

⁷²⁸ Columbia Ex. 104, Sch. 2, at 4.

⁷²⁹ OCA St. No. 2, at 33.

⁷³⁰ *Id.*

Columbia notes for Outside Services, where the expense showed a declining trend (due in part to the change in accounting), OCA used a three-year average percentage of declining expense, however, for Materials and Supplies, which showed an inclining trend, OCA used a three-year average of the expense.

k. Supplemental Executive Retirement Plan

Columbia FPFTY NCSC costs include an amount of \$136,102 in Supplemental Executive Retirement Plan (SERP) costs. OCA proposes to disallow SERP costs, claiming that the costs do not benefit customers.⁷³¹ Columbia asserts the SERP provides supplemental retirement benefits to certain employees and is part of the total compensation and benefits plan provided by NiSource.

l. Workplace Connections

OCA proposes to disallow \$130,450 in cost for three employees who work in the NiSource Workforce Connections team.⁷³² Columbia asserts that Workplace Connections benefit customers by attracting talent and retaining talent through inclusion, and by improving the connections that Columbia's employees have among themselves and the communities where Columbia serves. Communities and partnerships – Maximizing the value of partnerships to do even more good in all of the communities Columbia serves.

Columbia concludes Workplace Connections enables a more effective workforce, which is clearly a benefit to customers and explains the Commission

⁷³¹ OCA St. No. 2, at 337.

⁷³² OCA St. No. 2, at 38-39; OCA Ex. DM-9.

recognizes the importance of supporting a diverse workplace, for the benefit of utility customers, recognizing diversity as an important business objective.⁷³³

m. Recovery of Energy Assistance Team Costs

Columbia has proposed to recover the costs of its current Energy Assistance Team (EAT) through its Rider USP – Universal Service Program, shifting recovery of EAT costs into its Rider USP. Because EAT costs are currently recovered through base rates, Columbia proposed that, if EAT costs are recovered through Rider USP, then its base rate revenue requirement should be reduced accordingly. Columbia calculated the EAT labor and benefits costs, and associated payroll taxes, to be \$225,136.

Columbia asserts OCA has opposed the shift in recovery of EAT costs from base rates to Rider USP and OCA witness Mugrace has proposed to disallow recovery of EAT costs from base rates.⁷³⁴

Columbia notes that no party has claimed that EAT costs are unreasonable or otherwise should not be recoverable, and the only issue presented is whether recovery should be through Rider USP or should continue in base rates.

n. Blackhawk

Columbia asserts that Blackhawk is a gas storage field that was recently owned by Columbia. As part of its 2016 Purchased Gas Cost proceeding, Columbia explains it stated its intention to retire Blackhawk.⁷³⁵

⁷³³ 52 Pa. Code § 69.801.

⁷³⁴ OCA St. No. 2, at 41.

⁷³⁵ Columbia St. No. 1-R, at 23.

Late in 2024, Columbia asserts it negotiated an arms-length sale of Blackhawk⁷³⁶ with an unaffiliated third party, and on January 29, 2025, filed an application for a certificate of public convenience to transfer the property for consideration of \$214,000.⁷³⁷

Columbia explains, while the application was pending before the Commission, Columbia filed this rate case and did not know whether its application would be approved and whether the sale would be consummated. Accordingly, Columbia included in this case operating expenses, plant in service, accrued depreciation, accumulated deferred income taxes and gas in storage associated with Blackhawk.⁷³⁸

Columbia explains that on April 24, 2025, the Commission approved the application⁷³⁹ and the sale subsequently closed on June 20, 2025, after the due date for other parties' direct testimony. Accordingly, Columbia updated its claim in rebuttal to reflect the sale of Blackhawk.⁷⁴⁰ Included in the updated claim was a proposed five-year amortization of a net loss of \$5,031,739 on the transaction plus the cost of a feasibility study of \$389,005 that was undertaken prior to sales negotiations.⁷⁴¹ Columbia asserts the claimed loss is primarily associated with the book value of the remaining gas in storage that was transferred as part of the transaction.⁷⁴²

⁷³⁶ Columbia undertook a request for proposal process in which it sought offers from 22 prospective purchasers. Only two entities chose to bid, and Columbia selected the best offer. Columbia St. No. 1-RJ, at 3.

⁷³⁷ *Application Order*, Order at 3.

⁷³⁸ Columbia St. No. 11, at 5, n.1.

⁷³⁹ *Application Order*, Order at 5-6.

⁷⁴⁰ Columbia St. No. 4-R, at 4; Columbia Ex JV-1R, pp. 6 (expenses), 7 (depreciation accrual), 9 (taxes other than income), 10 (income taxes) and 12 (rate base).

⁷⁴¹ Columbia St. No. 4-R, at 9-10.

⁷⁴² *Id.*

I&E opposed several portions of Columbia's claim. I&E witness Bedasa proposed that the O&M expense removal be increased to \$470,000, from the \$229,783 identified by the Company.

I&E also challenged the proposed amortization, asserting that the Company should have requested deferral and amortization of the loss when it submitted its application.⁷⁴³ However, Columbia asserts an application proceeding is not a proper forum to seek approval of ratemaking treatment of resulting proceeds from a sale.⁷⁴⁴

I&E also argues that Columbia asserted it would address this issue in its next rate case.⁷⁴⁵

I&E also questioned the prudence of the feasibility study that Columbia undertook, arguing that the cost of the study exceeded the ultimate purchase price.⁷⁴⁶ Columbia asserts, at the time Columbia undertook the feasibility study, it had no idea what a sale price might be and the purpose of the study was to examine if the property could be put to a higher or better use that would benefit customers.⁷⁴⁷

2. *I&E's Position*

a. *Rate Case Expenses*

I&E disagreed with the Company's claimed total rate case expense of \$1,321,000.⁷⁴⁸ I&E also disagreed with applying a 12-month normalization period,

⁷⁴³ I&E St. No. 1-SR, at 18.

⁷⁴⁴ Columbia St. No. 1-RJ, at 2.

⁷⁴⁵ *Id.*

⁷⁴⁶ I&E St. No. 3-SR, at 6.

⁷⁴⁷ Columbia St. No. 1-RJ, at 4.

⁷⁴⁸ *Id.*, at 6; I&E St. No. 1-SR, at 6-7.

because, I&E asserts, it is not supported by the Company's historic actual rate case expenses and the historic rate case filing frequency.⁷⁴⁹

I&E recommends an allowance of \$731,372 or a reduction of \$589,628 (\$1,321,000 - \$589,628) to the Company's claim⁷⁵⁰ based upon the actual rate case expense incurred and claimed in recent cases with the last litigated rate case in 2020⁷⁵¹ which resulted in the Company spending only 73.82% ($\$782,522 \div \$1,060,000$) of the total claim.⁷⁵²

I&E further argues that Columbia's average historic filing frequency is 16 months ($(12 + 12 + 24) = 48 \div 3$), which I&E argues supports I&E's recommended normalization period.⁷⁵³ I&E argues the Company's rate case expense normalization of 12 months is speculative and is not supported by the historic filing frequency, and the Company is merely relying on its expectation of future base rate case filings.

Accordingly, I&E recommends an allowance of \$731,372 or a reduction of \$589,628 (\$1,321,000 - \$589,628) to be normalized over 16-months for rate making purposes.⁷⁵⁴

b. Other Employee Benefits Expense

The Company is claiming other employee benefits expense in the amount of \$8,915,459⁷⁵⁵ which includes insurance premium costs for health, dental and vision

⁷⁴⁹ I&E Ex. 1, Sch.1.p.2; I&E M.B. at 22.

⁷⁵⁰ *Id.*

⁷⁵¹ *Id.* (citing I&E Ex. No. 1, Sch. 1, at 2).

⁷⁵² *Id.*

⁷⁵³ *Id.*

⁷⁵⁴ I&E St. No. 1, at 6-7; I&E St. No. 1-SR, at 5-8.

⁷⁵⁵ I&E St. No. 1, at 11 (citing Columbia Vol. 6, Ex. No. 104, Sch. 1, at 2).

(medical), 401K plan contributions, group life and long-term disability insurance, profit sharing, and other benefits.⁷⁵⁶

I&E, on the other hand, recommends an allowance of \$7,754,135 for other employee benefits expense, or a reduction of \$1,161,324 (\$8,915,459 - \$7,754,135) to the Company's claim based on a benefits-to-payroll expense factor of 20% as explained in I&E witness Mr. Bedasa's testimony and exhibits.⁷⁵⁷

After considering the historic variance in the actual benefits expense as compared to the budgeted amounts, I&E explains it recommends adjusting the FPFTY benefits expense claim to 20% of the payroll expense claim as follows: Total FPFTY Payroll Expense Claim of \$38,770,674 x 20% = \$7,754,135 recommended allowance, or a reduction of \$1,161,324 (\$8,915,459 - \$7,754,135) to the Company's claim.⁷⁵⁸

I&E asserts that while the Company tried to offer an explanation, including why the Company has historically underspent benefits expense as compared to the budgeted expense, it did not provide an explanation for prior years' underspending, and eventually admitted to the underspending.⁷⁵⁹ As such, I&E asserts that a gap between budgeted amounts and actual expenses incurred would create an unjust and unreasonable burden on ratepayers if the Company's claim is allowed.⁷⁶⁰

I&E submits it accepts that other employee benefits may fluctuate over the years, and asserts that I&E's recommendation does not contradict this premise.⁷⁶¹ Accordingly, I&E recommends an allowance of \$7,754,135 for other employee benefits

⁷⁵⁶ *Id.*, at 12; I&E Ex. No. 1, Sch. 2, at 2-4.

⁷⁵⁷ *Id.*, at 11-14; I&E St. No. 1-SR, at 8-12.

⁷⁵⁸ *Id.*, at 14.

⁷⁵⁹ *Id.*, at 9-10 (citing Columbia St. No. 18-R, at 9).

⁷⁶⁰ *Id.*

⁷⁶¹ I&E St. No. 1-SR, at 11.

expense, or a reduction of \$1,161,324 (\$8,915,459 - \$7,754,135) to the Company's claim.⁷⁶²

c. Other Rents and Leases

I&E explains the Company is claiming other rents and leases expense of \$545,640⁷⁶³ which includes communications equipment and lines, office machines, and other items.⁷⁶⁴ The Company's FPFTY claim for other rents and leases expense is based on adjustments made to the FTY by \$71,365 and the FPFTY by (\$928).⁷⁶⁵

I&E recommends an allowance of \$475,203 for other rents and leases expense, or a reduction of \$70,437 (\$545,640 - \$475,203) to the Company's claim.⁷⁶⁶ I&E argues, using the most recent known and measurable amounts, this expense has trended downward year after year from 2022 to 2024 (from \$532,730 in 2022, to \$505,142 in 2023, and \$475,203 in 2024).⁷⁶⁷ Additionally, I&E submits the Company provided no support for the FTY and FPFTY increases,⁷⁶⁸ only arguing it applied an inflation rate on the three-year average.⁷⁶⁹

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

⁷⁶² *Id.*, at 12.

⁷⁶³ I&E St. No. 1, at 15 (citing Columbia Vol. 6, Ex. No. 104, Sch. 1, at 2).

⁷⁶⁴ *Id.*, at 14 (citing Columbia St. No. 4, at 12).

⁷⁶⁵ *Id.*, at 15 (citing Columbia Vol. 6, Ex. No. 104, Sch. 1, at 2).

⁷⁶⁶ *Id.*, at 15; I&E St. No. 1-SR, at 14.

⁷⁶⁷ *Id.*, at 15.

⁷⁶⁸ *Id.*, at 15-16 (citing I&E Ex. No. 1, Sch. 3, at 3).

⁷⁶⁹ I&E St. No. 1-SR, at 13-14.

d. Allocated Compensation – Stock Awards Expense

The Company is claiming stock awards of \$4,528,579, which are included in the total NiSource Corporate Services Company (NCSC) expense claim.⁷⁷⁰ These NCSC expenses are a part of the NCSC employees' service charge, based on a budgeted allocation in the FTY and FPFTY claims based on the HTY 2024 normalized expense level and ratemaking adjustments.⁷⁷¹

I&E submits NCSC was established to provide centralized services to the individual operating companies within NCSC and to coordinate the allocation and billing of charges to the NCSC operating companies for services provided by both NCSC directly and by third-party vendors.⁷⁷² The rendering of services on a centralized basis, I&E asserts, enables the affiliates to realize benefits from economies of scale by leveraging the use and specialized expertise of personnel and equipment across the whole enterprise.⁷⁷³

I&E recommends complete disallowance of the \$4,528,579 claim for NCSC allocated stock awards expense.⁷⁷⁴ I&E asserts stock awards are a type of incentive compensation linked to financial goals and targets such as earnings per share⁷⁷⁵ which are specifically shareholder-oriented goals and not ratepayer-oriented goals.⁷⁷⁶ While there may be other requirements that are operational in nature, I&E submits the primary target is financial goals.⁷⁷⁷ Therefore, I&E submits stock awards should not be

⁷⁷⁰ I&E St. No. 1, at 17 (citing I&E Ex. No. 1, Sch. 4, at 1).

⁷⁷¹ I&E St. No. 1, at 16.

⁷⁷² *Id.*

⁷⁷³ *Id.*

⁷⁷⁴ I&E St. No. 1; I&E St. No. 1-SR, at 17.

⁷⁷⁵ *Id.*, at 18.

⁷⁷⁶ *Id.*

⁷⁷⁷ *Id.*

funded by ratepayers. I&E argues allowing this claim in rates would result in higher rates and revenues at the expense of ratepayers, which would directly benefit the parent company's financial goals. Additionally, I&E notes the stock awards are limited to leadership positions.⁷⁷⁸

Columbia noted that that 75%-80% of goals are earnings per share and shareholder return-related.⁷⁷⁹ I&E argues this only affirms its concern that these awards, that are limited to certain top-level executives, are mainly of benefit to shareholders and should not be recovered from ratepayers.⁷⁸⁰ Therefore, I&E recommends complete disallowance of the \$4,528,579 claim for NCSC allocated stock awards expense.

e. Interest on Customer Deposits

The Company claims \$373,107 interest expense on customer deposits.⁷⁸¹ The Company's FPFTY claim is based on calculating 8% interest on the 2024 average customer deposit balance of \$4,663,841 ($\$4,663,841 \times 0.08 = \$373,107$).⁷⁸² I&E explains the Company indicated it did not make further adjustments to this item for either the FTY or the FPFTY because it has made no projected change to the HTY balance for customer deposits.⁷⁸³

I&E reviewed the claim and recommended an allowance of \$326,469 for interest on customer deposits, or a reduction of \$46,638 ($\$373,107 - \$326,469$) to the Company's claim.⁷⁸⁴ I&E argues Columbia should pay the ratepayers the legal rate of

⁷⁷⁸

Id.

⁷⁷⁹

I&E St. No. 1-SR, at 15-16.

⁷⁸⁰

Id., at 16.

⁷⁸¹

I&E St. No. 1, at 19 (citing Columbia Vol. 6, Ex. No. 104, Sch. 1, at 2).

⁷⁸²

I&E St. No. 1, at 19 (citing Columbia Vol. 2, Ex. No. 4, Sch. 2, at 29).

⁷⁸³

I&E St. No. 1, at 19 (citing Columbia St. No. 4, at 28).

⁷⁸⁴

Id., at 20.

interest on the customers' security deposit based on an updated interest rate each year.⁷⁸⁵ Based on information provided by the Company in response to I&E-RE-49-D, I&E explains it adjusted the interest on customer deposits by multiplying the updated interest rate of 7% for 2025 by the average customer deposit balance of \$4,663,841.⁷⁸⁶ This produces I&E's recommended allowance of \$326,469 ($\$4,663,841 \times 0.07$).⁷⁸⁷ Accordingly, I&E recommends an allowance of \$326,469 for interest on customer deposits.

f. Cash Working Capital

In Columbia's 2024 base rate proceeding Columbia agreed to perform a lead/lag study in its first base rate case filed after January 1, 2026, as agreed in the 2024 settlement at Docket No. R-2024-3046519.⁷⁸⁸ As this case was filed before January 1, 2026, Columbia did not include a lead/lag study in this case.

I&E explains it continues to recommend that based on the settlement agreement mentioned above, the Company should include a lead/lag study in its first base rate case to be filed on or after January 1, 2026.⁷⁸⁹

g. Energy Assistance Team (EAT)

The Company is proposing to recover Energy Assistance Team (EAT) employee costs associated with Customer Assistance, Referral and Evaluation Services program (CARES) and Customer Assistance Program (CAP) through the USP rider.⁷⁹⁰

⁷⁸⁵ *Id.*

⁷⁸⁶ *Id.* (citing I&E Ex. No. 1, Sch. 5, at 2).

⁷⁸⁷ *Id.*

⁷⁸⁸ See I&E St. No. 1, at 20-22; See also I&E Ex. No. 1, Sch. 6, at 1.

⁷⁸⁹ See I&E St. No. 1, at 22.

⁷⁹⁰ See I&E St. No. 2, at 103-104 (citing Columbia St. No 16, at 10-12).

Currently, the Universal Service Costs associated with the Company's EAT, which handles the administration of LIHEAP/CRISIS and CAP accounting, are recovered in base rates.⁷⁹¹ The Company wants to remove recovery of the EAT employee costs, which is approximately \$220,000 annually, from base rates and move recovery to the USP rider.⁷⁹²

I&E recommended the Commission reject the Company's proposal to move EAT labor cost recovery from base rates to the USP rider for two reasons.⁷⁹³ First, moving EAT cost recovery from base rates to USP rider provides Columbia a guaranteed recovery of EAT labor costs and eliminates the Commission's authority to review reasonableness and prudence of EAT labor costs.⁷⁹⁴ Second, I&E disagrees with Columbia witness Davis's claim that shifting EAT cost recovery through the USP rider will permit the Company to appropriately staff for fluctuating demands for additional staffing.⁷⁹⁵ I&E submits fluctuation in staffing needs is a routine event in business operations for the Company at large for various reasons, which is required to be managed appropriately as the staffing need changes.⁷⁹⁶ Additionally, keeping all staffing costs under O&M, according to I&E, ensures no duplicate recovery of related costs in base rate proceedings.⁷⁹⁷ I&E asserts, theoretically, if this request is approved, the Company could add or remove employees without scrutiny.⁷⁹⁸ Therefore, I&E recommends the Commission reject the Company's proposal to move EAT labor cost recovery from base rates to the USP rider.

⁷⁹¹ *Id.*

⁷⁹² *Id.*, at 104.

⁷⁹³ *Id.*, at 105.

⁷⁹⁴ *Id.*; *See also* I&E St. No. 2-SR, at 65-66.

⁷⁹⁵ *See* I&E St. No. 2, at 103-104; I&E St. No. 2 SR, at 65-66.

⁷⁹⁶ *See* I&E St. No. 2, at 103-104; I&E St. No. 2 SR, at 65-66.

⁷⁹⁷ I&E St. No. 2-SR, at 66.

⁷⁹⁸ I&E St. No. 2, at 105.

3. *OCA's Position*

OCA asserts the Company's claims for operations and maintenance (O&M) and administrative and general (A&G) expenses are inflated, largely unsupported by evidence as being known and measurable, and/or do not result in ratepayer benefit. OCA witness Mugrace proposed several adjustments to the Company's projected operating expense levels as follows:

OCA Recommended Expense Adjustments⁷⁹⁹

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)

⁷⁹⁹ OCA Ex. DM-SR-9.

OCA contends 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.⁸⁰⁰

a. *Inflation Adjustments*

OCA recommends that the Company's requested inflation adjustments, including the use of historical averaging to determine future expenses, be disallowed. OCA submits that the Commission should reject all claimed expense increases that are not supported by targeted or specific data demonstrating increases to each claimed expense.⁸⁰¹

OCA argues Columbia should not be permitted to recover expense increases that it has not demonstrated are known and measurable.⁸⁰² OCA submits inflation adjustments, including those premised on historical averages of the costs experienced by the utility, are rife with uncertainty and speculative guess work as opposed to one that is bounded by reasonable projections.⁸⁰³

b. *Labor Expense*

OCA explains 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

⁸⁰⁰ *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”).

⁸⁰¹ *Aqua 2022* at *50-51.

⁸⁰² 66 Pa.C.S. § 315(e).

⁸⁰³ OCA St. 2, at 25.

headcount in the FTY and FPFTY period.⁸⁰⁴ Accordingly, Columbia had a reduction of 13 employees from the November 30, 2023 period.⁸⁰⁵ Columbia indicated that it had the following employee vacancies from 2021 through 2024:

2021	60	(December 2021)
2022	57	(year-end)
2023	64	(year-end)
2024	65	(year-end) ⁸⁰⁶

OCA asserts utilizing the above vacancy levels for 2022-2024, a three-year average, computes to 62 average employee vacancies per year.⁸⁰⁷ OCA submits, applying the Company's 50.57% (O&M percentage) results in an average net vacancy of 31 employees.⁸⁰⁸

OCA further asserts, using an accurate vacancy rate ratio for Columbia's labor expense balance ensures that ratepayers are not paying for vacant positions at the Company, as explained by OCA witness Mugrace.⁸⁰⁹

OCA explains witness Mugrace took Columbia's average level of employees as represented by Columbia to reach a four-year average of 715.⁸¹⁰ 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%.⁸¹¹ Mr. Mugrace took this

⁸⁰⁴ *Id.*

⁸⁰⁵ *Id.*

⁸⁰⁶ *Id.* at 17.

⁸⁰⁷ *Id.*

⁸⁰⁸ *Id.*

⁸⁰⁹ *Id.* at 17-18.

⁸¹⁰ *Id.* at 17.

⁸¹¹ *Id.*

4.3812% and multiplied that ratio by the Company's proposed labor balance of \$38,770,674 to arrive at an adjustment of \$1,698,606.⁸¹²

c. Incentive Compensation

OCA notes that Columbia proposes to include \$2,568,807 in total incentive compensation for the FPFTY period⁸¹³ which contains the following performance measures and weightings as follows:

Financial – adjusted earnings per share	70%
Operational Excellence Operations/Process Failure	10%
Safety- Dart	5%
Safety PVC	5%
Customer Experience	10%
Total	100% ⁸¹⁴

Based upon the testimony from OCA witness Mugrace, OCA asserts the financial metrics related to Columbia's incentive compensation are predominantly geared towards achieving Columbia's net operating earnings per share with a 70% weighting, with the remaining 30% geared towards Occupational Health and Safety, Customer Care, Customer Satisfaction and Customer Safety.⁸¹⁵

Accordingly, OCA witness Mugrace recommended that only the 30% of the incentive compensation costs that are geared toward customer-oriented benefits be allowed for recovery in rates.⁸¹⁶ OCA witness Mugrace testified that his proposal is necessary to provide adequate service to ratepayers.⁸¹⁷ Rather, as identified by Mr.

⁸¹² *Id.*; OCA Ex. DM-SR-10.

⁸¹³ OCA St. 2, at 18.

⁸¹⁴ *Id.* at 19.

⁸¹⁵ OCA St. 2, at 20-21.

⁸¹⁶ OCA St. 2, at 20.

⁸¹⁷ OCA St. 2SR, at 11.

Mugrace, the Company’s position “appears to be an all or nothing approach to compensation in that without appropriate incentive compensation, employees would not be to perform their duties” or be appropriately incentivized to do so.⁸¹⁸

d. *Restricted Stock and Long-Term Incentive (LTI)*

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.⁸¹⁹ However, OCA asserts Columbia did not provide any reason as to why the 70% of these stock awards dedicated to meeting net operating earnings per share targets should be charged to its ratepayers or explain how the 70% of these stock awards dedicated to meeting net operating earnings per share targets provide customer-oriented service.⁸²⁰ 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 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.^[821]

⁸¹⁸ *Id.* at 13.

⁸¹⁹ OCA St. 2, at 21.

⁸²⁰ *Id.*

⁸²¹ *Id.*

OCA explains witness Mugrace’s recommendation is similar to that described *supra* regarding the Company’s proposed incentive compensation generally.⁸²² While the Company claimed that 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.⁸²³ 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.”⁸²⁴ OCA submits 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.⁸²⁵ As a result, the OCA recommends that only 30% of the Company’s claimed LTI expense of \$754,446 be allowed for ratemaking purposes, or an adjustment of \$(528,112) for a total allowance of \$226,334.

e. Other Employee Benefits

Columbia proposes to recover \$8,915,459 in other employee benefits in the FPFTY period.⁸²⁶ As OCA witness Mugrace incorporated a vacancy rate ratio of 4.3812% for Columbia’s labor expense, OCA submits a corollary adjustment to Columbia’s Other Employee Benefits is necessary for the FPFTY period.⁸²⁷ This adjustment reduces Columbia’s revenue requirement by approximately \$543,000.⁸²⁸ While the Company disagreed with the basis of OCA witness Mugrace’s recommended adjustment, OCA asserts the Company did not present evidence that the adjustment was

⁸²² *Id.*; see also OCA St. 2, at 20.

⁸²³ OCA St. 2SR, at 12-13.

⁸²⁴ *Id.*

⁸²⁵ OCA St. 2, at 20-21.

⁸²⁶ *Id.* at 23; Columbia Ex. 104 Sch. 1.

⁸²⁷ OCA St. 2, at 23.

⁸²⁸ *Id.*, at 15.

incorrectly calculated and should, therefore, be accepted as reasonable.⁸²⁹ OCA recommends that, if the Commission adopts OCA's proposed vacancy rate ratio adjustment, that this same adjustment be flowed through the employee benefits expense claim as well.

f. Outside Services

Columbia requests \$19,014,191 in outside services for the FTY and \$18,013,909 for the FPFTY.⁸³⁰ However, OCA notes, 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.⁸³¹ As noted above, OCA submits 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.⁸³²

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 ⁸³³

As shown above, Outside Services costs historically varied from a low of 4.52% to a high of 31.36%.⁸³⁴ OCA witness Mugrace testified that "[t]hese variances

⁸²⁹ OCA St. 2SR, at 14.

⁸³⁰ OCA St. 2, at 24.

⁸³¹ *Id.*, at 24.

⁸³² *Id.*, at 25.

⁸³³ *Id.*, at 25.

⁸³⁴ OCA St. 2SR, at 15.

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.”⁸³⁵ OCA witness Mugrace further testified that “Outside Services can fluctuate widely depending on the pool of contractors, materials and costs needed, and resources allocated. OCA explains not all the work may be performed as planned and within the time frame stated by the Company.”⁸³⁶ OCA explains that, although Columbia opposes the basis of Mr. Mugrace’s adjustment, the Company did not challenge the calculation of the adjustment.⁸³⁷ Accordingly, OCA witness Mugrace recommended using the 8.57% three-year average to normalize this expense based upon the historical costs, or a reduction of \$(1,444,261) to the Company’s claimed allowance.⁸³⁸ This adjustment results in an approximately \$2 million decrease to revenue requirement.⁸³⁹

g. Corporate Insurance

Columbia proposed \$4,452,228 for Corporate Insurance in the FPFTY.⁸⁴⁰ Similar to other Columbia proposals, Columbia included a 3.05% inflation factor for the FPFTY when calculating its requested Corporate Insurance expense.⁸⁴¹ As inflation related adjustments are not known and measurable, according to OCA, and do not reflect the true costs of expenses, OCA witness Mugrace recommended disallowing the inflation factor, which results in an adjusted balance of \$4,320,454, which is a \$131,774 revenue requirement reduction compared to Columbia’s proposal.⁸⁴² While the Company disagreed with the basis of Mr. Mugrace’s adjustment, OCA asserts Columbia did not

⁸³⁵ *Id.*

⁸³⁶ OCA St. 2, at 26.

⁸³⁷ OCA St. 2SR, at 15.

⁸³⁸ OCA St. 2, at 26.

⁸³⁹ OCA St. 2SR, at 15; OCA Ex. DM-SR-14.

⁸⁴⁰ OCA St. 2, at 26.

⁸⁴¹ *Id.*

⁸⁴² OCA St. 2 at 27; OCA Ex. DM-SR-17.

present evidence that the adjustment was incorrectly calculated and, therefore, OCA asserts witness Mugrace's calculation should be accepted as reasonable.⁸⁴³

h. Injury and Damages

Columbia proposed \$405,057 for Injury and Damage (I&D) expense.⁸⁴⁴ However, Columbia included inflation factors when calculating its proposal.⁸⁴⁵ 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.⁸⁴⁶ OCA submits the Company did not challenge the reasonableness of Mr. Mugrace's calculation for the adjustment, though it disagreed with the basis of the adjustment.⁸⁴⁷ OCA recommends that the Commission adopt Mr. Mugrace's proposed adjustment of \$(51,257) to the Company's claimed balance of \$405,057 for a total allowance of \$353,800.⁸⁴⁸

i. Employee Expenses

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.⁸⁴⁹ OCA witness Mugrace recommended an adjusted disallowance balance in the amount of \$45,607 \$(24,083 related to 50% allowed Meals/Entertainment and \$21,524 related to Employee

⁸⁴³ See Columbia St. 4-R, at 2, 11 (identifying the corporate insurance adjustment but not commenting on the reasonableness of Mr. Mugrace's calculation).

⁸⁴⁴ OCA St. 2, at 27.

⁸⁴⁵ OCA St. 2, at 27-28.

⁸⁴⁶ OCA St. 2, at 27-28; OCA Ex. DM-SR-18.

⁸⁴⁷ See Columbia St. 4-R, at 2, 11 (identifying the injuries and damages adjustment but not commenting on the reasonableness of Mr. Mugrace's calculation).

⁸⁴⁸ OCA St. 2, at 27.

⁸⁴⁹ *Id.*, at 28-29.

Expenses).⁸⁵⁰ This adjustment reduces Columbia's revenue requirement by approximately \$47,500.⁸⁵¹

Columbia's Meals/Entertainment expense in relation to its net employee expenses are as follows:

<u>Description</u>	<u>FTY Amount</u>	<u>FPFTY Amount</u>	<u>OCA</u>
Meals / Entertainment	\$84,567	\$48,166	\$24,083
Employee Expenses (net)	\$362,248	\$438,829	\$0 ⁸⁵²

The OCA recommends that 50% of the Company's Meals and Entertainment, or \$24,083, be allowed in rates.⁸⁵³ 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.^[854]

OCA asserts 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."⁸⁵⁵ Ratepayers should not be paying for

⁸⁵⁰ OCA St. 2SR, at 16; OCA Ex. DM-SR-19.

⁸⁵¹ OCA St. 2SR, at 16.

⁸⁵² OCA St. 2, at 29.

⁸⁵³ OCA St. 2, at 29.

⁸⁵⁴ *Id.*

⁸⁵⁵ *Id.*

entertainment-related costs, company sponsored events for the benefit of the employees which may include entertainment related expenses, or other sports related entertainment.⁸⁵⁶ OCA contends Columbia has not demonstrated that such entertainment/meal expenses are connected to incentivizing superior utility service.

In response to Mr. Mugrace’s recommendation to disallow these expenses, Columbia witness Leal corrected the Company’s employee expense claim, identifying that \$417,305 of the claimed expense balance related to clothing allowance and not to gifts and entertainment expenses.⁸⁵⁷ Mr. Mugrace accepted the clothing allowance as reasonable, but found that the difference between the total employee expenses claim and the clothing allowance, or \$21,524 were not adequately explained by the Company.⁸⁵⁸ Based on the Company’s correction, OCA explains Mr. Mugrace recommended that the \$21,524 difference be disallowed as “non-customer oriented costs” in addition to the 50% of meals and entertainment costs he recommended be disallowed in his direct testimony, or \$24,083.⁸⁵⁹ In total, Mr. Mugrace’s updated recommendation is an adjustment of \$(45,607).⁸⁶⁰

Absent adequate justification for how Columbia’s claimed entertainment/meals expenses are connected to providing safe and adequate utility service, OCA submits Mr. Mugrace’s recommendation to disallow the portion of the Company’s claimed employee expenses substantially outweighs the evidence presented by Columbia, and should be accepted. Therefore, OCA recommends that the

⁸⁵⁶ *Id.*

⁸⁵⁷ OCA St. 2SR, at 16.

⁸⁵⁸ *Id.*

⁸⁵⁹ *Id.*

⁸⁶⁰ *Id.*

Commission adopt its proposed disallowance of \$45,607.⁸⁶¹ This adjustment has a revenue requirement impact of \$(45,607).⁸⁶²

j. Company Memberships

OCA recommends a \$258,217 reduction to Columbia's proposed claimed membership expense balance of \$682,796.⁸⁶³

OCA witness Mugrace removed the Company's 2.93% and 3.05% inflation adjustment from the claimed expense.⁸⁶⁴ Mr. Mugrace also recommended removal of membership dues and other organization fees from the Company's claimed expenses regarding Chamber of Commerce membership fees.⁸⁶⁵ OCA submits, the Code does not permitted recovery of costs of "membership fees, dues or charges to fraternal, social or sports clubs or organizations."⁸⁶⁶ OCA argues Columbia's customers see no benefit from the Company's participation in these organizations, as they are related to civic causes or lobbying, and the Company should not be able to recover the costs of memberships, which reflect its corporate citizenship and should be incurred below-the-line.⁸⁶⁷

⁸⁶¹ *Id.*

⁸⁶² *Id.*

⁸⁶³ OCA St. 2, at 31; OCA Ex. DM-SR-20.

⁸⁶⁴ OCA St. 2, at 31.

⁸⁶⁵ *Id.*, at 30-31.

⁸⁶⁶ 66 Pa.C.S. § 1316.1.

⁸⁶⁷ *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).

Although Columbia contends that chamber of commerce dues do not fall within the type of expenses identified under Section 1316.1 of the Code, OCA explains Columbia provided no evidence that the Company's membership in state and local chambers of commerce provide ratepayer benefits.⁸⁶⁸ OCA also asserts the averments made by Columbia regarding its participation in state and local chambers of commerce demonstrate that these are primarily social and lobbying organizations, without an explanation as to why it could not develop partnerships with local businesses or be attuned to local issues if it does not record these dues above the line.⁸⁶⁹

Absent evidence that there is any direct benefit to ratepayers, OCA concludes Columbia's claim is substantially outweighed by the arguments presented by OCA witness Mr. Mugrace and requests that Columbia not be permitted the costs of Chamber of Commerce membership, and that the Commission adjust the Company's membership expenses by \$(258,217).⁸⁷⁰ This adjustment reduces Columbia's revenue requirement by approximately \$353,000.⁸⁷¹

k. Utilities – Fuel Used in Company Operations

Columbia proposed a \$2,075,819 balance related to its Utilities and Fuel used in Company Operations for the FPFTY.⁸⁷² As discussed in Section VII.A, OCA witness Mugrace recommends 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.⁸⁷³ OCA witness Mugrace also recommends adjustments related to

⁸⁶⁸ OCA St. 2SR, at 16-17.

⁸⁶⁹ See Columbia St. 4-Rf at 20-21.

⁸⁷⁰ OCA St. 2, at 31; OCA Ex. DM-SR-20.

⁸⁷¹ OCA St. 2SR, at 17; OCA Ex. DM-SR-20.

⁸⁷² OCA St. 2, at 31; Columbia Ex. 104, Sch. 1 at 2.

⁸⁷³ OCA St. 2, at 32.

deflation or increases in the Company's adjustments.⁸⁷⁴ This adjustment increases Columbia's costs related to Utilities – Fuel Used in Company Operations by \$28,758, or \$2,104,577.⁸⁷⁵ While the Company disagrees with the basis of Mr. Mugrace's adjustment, OCA submits the Company provided no further evidence regarding this expense or the reasonableness of Mr. Mugrace's calculation.⁸⁷⁶

1. Advertising

Columbia proposed \$391,359 in advertising expense for the FPFTY.⁸⁷⁷ As discussed in Section VII.A, OCA witness Mugrace recommends disallowance of Columbia's deflation factors for the FTY and the FPFTY periods of 2.93% and 3.05%, respectively.⁸⁷⁸ These adjustments increases Columbia's advertising expense by \$11,366.⁸⁷⁹ Therefore, the OCA requests that the Commission disallow \$11,366 of the Company's proposed advertising expense of \$402,724 for a total allowance of \$391,358.⁸⁸⁰ Though the Company disagrees with the basis of Mr. Mugrace's adjustment, Columbia did not present other evidence regarding Mr. Mugrace's calculation of this adjustment.⁸⁸¹

⁸⁷⁴ OCA St. 2, at 32.

⁸⁷⁵ OCA St. 2, at 32; OCA Ex. DM-21.

⁸⁷⁶ See Columbia St. 4-R, at 2, 11 (identifying the utilities and fuel adjustment but not commenting on the reasonableness of Mr. Mugrace's calculation).

⁸⁷⁷ OCA St. 2, at 32; Columbia Ex. 104, Sch. 1 at 2.

⁸⁷⁸ OCA St. 2, at 32.

⁸⁷⁹ OCA St. 2, at 32; OCA Ex. DM-22.

⁸⁸⁰ OCA St. 2, at 32.

⁸⁸¹ See Columbia St. 4-R, at 2, 11 (identifying the advertising expense adjustment but not commenting on the reasonableness of Mr. Mugrace's calculation).

m. Materials and Supplies

OCA recommends that a three-year normalization adjustment be used for one account within Columbia's claimed materials and supplies expenses for an allowance of \$558,615.⁸⁸² This adjustment reduces Columbia's revenue requirement by approximately \$776,000.⁸⁸³

OCA witness Mugrace notes 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."⁸⁸⁴ 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.⁸⁸⁵

OCA explains 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 technique used to smooth out the effects of an expense item that occurs at regular intervals in irregular amounts.^[886]

⁸⁸² OCA Ex. DM-SR-24.

⁸⁸³ OCA St. 2SR, at 18.

⁸⁸⁴ OCA St. 2, at 33.

⁸⁸⁵ *Id.*

⁸⁸⁶ *Pa. PUC v. Phila. Gas Works*, Docket No. R-2023-3037933, at 82-83 (Opinion and Order entered Nov. 9, 2023) (*PGW 2023*) (citing *Pa. PUC v. Total Environmental Solutions, Inc.*, Docket Nos. R-00072493 (Order July 30, 2008) (*TESI*) at 72).

OCA asserts that, 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.⁸⁸⁷

OCA notes the Company identified the account for which OCA witness Mugrace recommended a three-year normalization adjustment was inflated due to a vendor error which inadvertently assigned outside services expense to this cost account.⁸⁸⁸ The Company asserts this accounting error had no impact on its FPFTY revenue requirement.

OCA concludes, because Columbia has failed to provide sufficient evidence regarding how the accounting error identified by its witness was corrected in the Company's rate filing, it is appropriate to disallow any aberrant costs included in account 2020 Facilities Maintenance and Repairs Materials. Accordingly, the OCA recommends that the Commission adopt Mr. Mugrace's proposed three-year normalization for this account to ensure that ratepayers are only paying for costs justified by sufficient evidence and adjust the claimed materials and supply expense of \$6,080,827 by \$(558,615) for a total allowance of \$5,522,212.⁸⁸⁹

n. NiSource Corporate Services Company (NCSC) Shared Services

The Company claimed an allowance of allocated affiliate service company charges of \$79,191,884 from the NiSource Corporate Services Company.⁸⁹⁰ Columbia's allocated share of the costs of the services provided by NCSC are explained by OCA witness Mugrace:

⁸⁸⁷ OCA St. 2, at 33.

⁸⁸⁸ OCA St. 2SR, at 17.

⁸⁸⁹ OCA Ex. DM-SR-24.

⁸⁹⁰ OCA St. 2, at 34.

In accordance with FERC Order 684, centralized service companies like NCSC must use a cost accumulation system provided such system supports the allocation of expenses to the services performed and readily identifies the source of the expense and the basis for the allocation. NCSC uses a billing pool system to collect costs that are applicable and billable to affiliates, including Columbia. NCSC directs all personnel to charge an affiliate directly whenever possible so that costs associated with services rendered to affiliates can be directly billed, allowing a user to directly bill a single company for costs incurred. NCSC's charges for services are billed at cost. System controls are in place that restrict certain departments or groups to only use billing pools that allocate to companies benefitting from the services those departments provide.^[891]

Based on the components of the cost allocated by NCSC to Columbia for which Columbia is requesting recovery from ratepayers, OCA witness Mugrace proposed several adjustments, including long-term incentive compensation and stock awards, Supplemental Executive Retirement Plan (SERP) costs, discretionary bonuses, and capital incentive costs.⁸⁹² Based on these adjustments, OCA witness Mugrace recommends that \$7,669,077 of the Company's claim be disallowed, for a final allowance of \$71,522,807.⁸⁹³ The totality of Mr. Mugrace's recommended adjustments to the Company's allocated portion of NCSC expenses results in a revenue requirement impact of approximately \$10.651 million.⁸⁹⁴

⁸⁹¹ *Id.*, at 35-36 (citations omitted).

⁸⁹² *Id.*, at 34-38.

⁸⁹³ OCA Ex. DM-SR-27.

⁸⁹⁴ OCA St. 2SR, at 23.

o. Long-Term Incentive (LTI) Compensation

Columbia proposes to collect from ratepayers 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.⁸⁹⁵ For the FPFTY, the balance of these awards totals \$4,012,229.⁸⁹⁶ 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.^[897]

Accordingly, OCA recommends disallowing the \$4,012,229 for PSU and RSU for ratemaking purposes.⁸⁹⁸ OCA explains ratepayers should not be required to pay for compensation which promotes NCSC's shareholder interests and growth.⁸⁹⁹ OCA submits, 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.⁹⁰⁰

While Columbia argued that LTI awards help the Company retain employees, Mr. Mugrace replied that "[t]he Company has not shown that without these

⁸⁹⁵ OCA St. 2, at 36.

⁸⁹⁶ *Id.*, at 36.

⁸⁹⁷ *Id.*

⁸⁹⁸ *Id.*

⁸⁹⁹ *Id.*

⁹⁰⁰ *Id.*

stock awards it would deteriorate the Company's ability to provide safe and reliable service to its customers."⁹⁰¹ Unlike the LTI compensation expense the Company claimed for its own activities, the allocated LTI compensation expense from NCSC is not broken down by category.⁹⁰² Without detailing the basis for the award of PSUs and RSUs, OCA witness Mugrace concluded that "there is no way to discern whether the Restricted Stock / LTI compensation costs actually benefit ratepayers."⁹⁰³ For the reasons set forth by Mr. Mugrace, the OCA recommends that the Commission disallow \$4,012,229 from the claimed allocation of NCSC expense, or the portion related to LTI which is not demonstrated to benefit ratepayers.

p. *Supplemental Executive Retirement Plan*

Columbia proposes to include Supplemental Executive Retirement Plan (SERP) expense in rates.⁹⁰⁴ Columbia included SERP costs totaling \$133,954 in the HTY, \$145,608 in the FTY and \$136,102 in the FPFTY.⁹⁰⁵ OCA submits SERP costs should be disallowed for ratemaking purposes as there are no discernable benefits accruing to ratepayers from SERP.⁹⁰⁶ OCA witness Mugrace testified as follows:

These types of costs benefit and accrue to the Company by retaining key employees and are used as rewards for the benefit of key employees. 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.^[907]

901 OCA St. 2SR, at 20-21.

902 *Id.*, at 21.

903 *Id.*

904 OCA St. 2, at 37.

905 *Id.*

906 *Id.*

907 *Id.*

OCA argues there is no nexus between the recovery of SERP expenses from ratepayers and ratepayer benefits.⁹⁰⁸ While Columbia claims that SERP costs assist the Company in retaining employees, OCA submits there is no component of SERP costs which is shown to be tied to providing adequate, safe, or reliable service, especially considering there is no guarantee that employees will benefit from the full value of the allocated SERP expense.⁹⁰⁹ As SERP costs do not directly benefit ratepayers, the OCA recommends disallowing Columbia's the proposed recovery of \$136,102 for the SERP cost component of the allocated NCSC expense.⁹¹⁰

q. Short Term Incentive (STI) Compensation

Columbia's allocated share of NSCS expenses included a requested allowance of \$5,029,637 for short-term incentive compensation.⁹¹¹ 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.⁹¹² Mr. Mugrace's recommended adjustment is \$(3,520,746) for a recommended allowance of \$1,508,891.⁹¹³ Accordingly, OCA argues only the 30% of the Company's STI expenses which pertain directly to providing safe, adequate, and reliable services should be permitted.⁹¹⁴

⁹⁰⁸ OCA St. 2SR, at 19.

⁹⁰⁹ *Id.*, at 18-19.

⁹¹⁰ *Id.*, at 18.

⁹¹¹ *Id.*, at 22-23.

⁹¹² *Id.*, at 23.

⁹¹³ OCA Ex. DM-SR-27.

⁹¹⁴ OCA M.B. at 114.

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

Columbia included a \$130,450 net balance for DEI costs.⁹¹⁵ However, OCA asserts there is no evidence supporting a nexus between ratepayer benefits and Columbia's DEI incentives.⁹¹⁶ OCA witness Mugrace testified:

I am recommending disallowance of DEI costs for ratemaking purposes. I believe these types of costs do not benefit ratepayers in the provision of safe and reliable utility service. These types of costs reflect organizational frameworks which seek to promote the fair treatment and full participation of all people who have been subject to discrimination. 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.^[917]

OCA explains 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.⁹¹⁸ OCA submits Columbia provided no evidence regarding whether these costs actually produce benefits or any evaluated metrics to demonstrate ratepayer value.⁹¹⁹ Though the Company argued that its "Workplace Connections" program assists in retaining employees, the Company did not present metrics designed or evaluated to demonstrate ratepayer value and, instead, in the opinion of OCA witness Mugrace, "these appear to be costs to benefit the Company such as corporate branding, imaging and

⁹¹⁵ OCA St. 2, at 28.

⁹¹⁶ *Id.*

⁹¹⁷ *Id.*

⁹¹⁸ 66 Pa.C.S. § 315.

⁹¹⁹ OCA St. 2SR, at 20.

touting Company stewardships.”⁹²⁰ As such, the OCA recommends disallowance of the \$130,450 of the Company’s claimed DEI expense.⁹²¹

s. Rate Case Expense

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.⁹²² With this adjustment, the OCA recommendation reduces Columbia’s revenue requirement by \$253,000.⁹²³

OCA explains its witness, Mr. Mugrace reviewed Columbia’s rate case filings since 2018 and found that Columbia filed six rate cases⁹²⁴ the equivalent to filing one rate case every fourteen months or 1.16 years.⁹²⁵ As such, OCA witness Mugrace recommended normalizing Columbia’s rate case expense over 14 months, reducing Columbia’s rate case expense from \$1,321,000 to \$1,138,793, a reduction of \$182,207.⁹²⁶

By adjusting the normalization period from 12-months to 14-months, OCA asserts Columbia’s rate case expense will be normalized based on its historic frequency of rate filings. OCA submits Mr. Mugrace’s adjustment to the rate case expense conforms with Commission precedent and reduces the annual normalized rate case

⁹²⁰ *Id.*, at 19-20.

⁹²¹ *Id.*, at 20.

⁹²² OCA St. 2SR, at 23.

⁹²³ OCA St. 2SR, at 24.

⁹²⁴ OCA St. 2SR, at 23.

⁹²⁵ *Id.*

⁹²⁶ *Id.*; OCA Sch. DM-SR-28.

expense by \$182,207 for an allowance of \$1,138,793.⁹²⁷ Accepting this adjustment produces an overall revenue requirement decrease of approximately \$253,000.⁹²⁸

t. Uncollectible Expense

OCA explains it accepted Columbia's computation of its level of uncollectible expense.⁹²⁹ 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 0.01346130.⁹³⁰ As a result, if the Commission accepts the revenue requirement recommendation supported by OCA witness Mugrace, OCA recommends that the Commission apply Mr. Mugrace's methodology for the calculation of the applicable uncollectible expense adjustment.

u. Rider Universal Service Plan (USP)

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.⁹³¹ OCA witness Colton recommended that \$220,000 of administrative costs be disallowed.⁹³² Mr. Colton identified that Columbia does not budget internal CAP administrative costs or any universal service program at the program level and does not provide the constituent categories of costs within the claim administrative costs

⁹²⁷ OCA Sch. DM-SR-28.

⁹²⁸ OCA St. 2SR, at 24.

⁹²⁹ OCA St. 2, at 40.

⁹³⁰ OCA St. 2SR, at 24-25; OCA Ex. DM-SR-1, DM-SR-9, DM-SR-29.

⁹³¹ Columbia Ex. 104, Sch. 1 at 2; OCA St. 2 at 41.

⁹³² OCA M.B. at 118.

account.⁹³³ As stated by Mr. Colton, “[t]he purpose of recovering costs through the Rider USP is to ensure that budgeted (or projected) costs can be reconciled against actual costs,” which is inconsistent with the Company’s stated budgeting practices.⁹³⁴ Based on Mr. Colton’s testimony, OCA witness Mugrace recommended a \$220,000 disallowance from the Rider USP balance.⁹³⁵ This adjustment reduces the revenue requirement by approximately \$306,000.⁹³⁶

v. Depreciation and Amortization Expense

The Company proposed a depreciation and amortization expense of \$149,371,200 and a five-year net negative salvage expense of \$5,484,681.⁹³⁷ As discussed herein, OCA witness Garrett recommended that Columbia switch depreciation grouping procedures from the ELG to the ALG.⁹³⁸ OCA witness Garrett calculated that, if Columbia’s depreciation expense were calculated using the ALG procedure instead of the ELG procedure, then the expense would be reduced by \$45,802,423.⁹³⁹ Based on OCA witness Garrett’s recommendation, OCA witness Mugrace recommended a depreciation expense balance adjustment of \$(45,802,423).⁹⁴⁰ 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 \$236,476.⁹⁴¹ OCA submits the sum of these two adjustments is a reduction of \$46,038,898 to the Company’s claimed depreciation

⁹³³ OCA St. 5, at 112-14.

⁹³⁴ *Id.*, at 113.

⁹³⁵ OCA St. 2SR, at 25; OCA Ex. DM-SR-31.

⁹³⁶ *Id.*

⁹³⁷ OCA St. 2, at 42.

⁹³⁸ OCA St. 3, at 61-66.

⁹³⁹ OCA Ex. DJG-17.

⁹⁴⁰ OCA St. 2SR, at 25-26.

⁹⁴¹ OCA St. 2, at 42.

expense.⁹⁴² After grossing this amount up to account for federal and state taxes and uncollectible expense, OCA submits this adjustment reduces Columbia's requested revenue requirement by \$63.615 million.⁹⁴³

w. *Conclusion Regarding Expenses*

OCA explains 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.⁹⁴⁴ The Company's request to recover costs which are not supported by sufficient evidence because they rely on inflationary adjustments or to recover costs that 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. 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 shown to be known and measurable or to provide direct ratepayer benefit. The sum of the OCA's recommended operating expense adjustments is \$(17,185,516).⁹⁴⁵

4. *OSBA's Position*

OSBA did not address this issue.

⁹⁴² *Id.*; OCA Ex. DM-SR-32.

⁹⁴³ OCA St. 2SR, at 26.

⁹⁴⁴ 66 Pa.C.S. § 315(a)(e).

⁹⁴⁵ OCA St. 2SR, at 4.

5. *CAUSE-PA's Position*

CAUSE-PA did not take a position on O&M and A&G expenses in this proceeding.

6. *TASK FORCE's Position*

The Task Force did not address this issue.

7. *PSU's Position*

Pennsylvania State University did not address this issue.

8. *ALJs' Recommendations*

a. *O&M and A&G Expenses-Generally*

It is well settled that a utility is entitled to recover its reasonably and prudently incurred expenses.⁹⁴⁶ Operating and maintenance expenses, if properly and prudently incurred, are allowed as part of the overall base rate computation. As such, a public utility is entitled to recover all reasonable and normal operating and maintenance expenses incurred by providing regulated service.⁹⁴⁷ To the extent that expenses are not incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable through rates. The public utility requesting a

⁹⁴⁶ *UGI Corp. v. Pa. PUC*, 410 A.2d 923, 932 (Pa. Cmwlth. 1980).

⁹⁴⁷ *Weste Pa. Water Company v. Pa. PUC*, 422 A.2d 906 (Pa. Cmwlth. 980).

rate increase and seeking to recover expenses has the burden of showing that the rate requested, including all claimed expenses, is just and reasonable.⁹⁴⁸

b. Labor Expenses

Columbia's FPFTY Labor expense is \$38,671,131.⁹⁴⁹ This amount reflects the removal of (\$99,544) associated with the sale of Blackhawk.⁹⁵⁰

OCA proposed a \$1,698,622 adjustment to Columbia's FPFTY Labor expense, based upon a claimed 4.3812% vacancy ratio.

Columbia asserts Mr. Mugrace's adjustment is in error as he is applying a vacancy rate to a FPFTY claim that already is adjusted to reflect vacancies, because Columbia's labor expense claim is based upon actual filled positions as of the end of the HTY, and not upon authorized positions.⁹⁵¹

The record evidence establishes that 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.⁹⁵² Columbia indicated that it had the following employee vacancies from 2021 through 2024:

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

⁹⁴⁹ Columbia Ex. JV-1R, at 6.

⁹⁵⁰ *Id.*

⁹⁵¹ Columbia St. No. 18-R, at 5.

⁹⁵² *Id.*

2021	60	(December 2021)
2022	57	(year-end)
2023	64	(year-end)
2024	65	(year-end) ⁹⁵³

OCA asserted utilizing the above vacancy levels for 2022-2024, a three-year average, computes to 62 average employee vacancies per year and applying the Company's 50.57% (O&M percentage) results in an average net vacancy of 31 employees.⁹⁵⁴

OCA took Columbia's average level of employees as represented by Columbia to reach a four-year average of 715.⁹⁵⁵ Next, OCA 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%.⁹⁵⁶ 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 \$1,698,606.⁹⁵⁷

Based upon the record evidence and the arguments of the Parties, we recommend that the OCA's proposed adjustment to Columbia's labor expense be denied.

c. Other Employee Benefits

OCA asserted utilizing the above vacancy levels for 2022-2024, a three-year average, computes to 62 average employee vacancies per year and applying the Company's 50.57% (O&M percentage) results in an average net vacancy of 31 employees.⁹⁵⁸

⁹⁵³ *Id.*, at 17.

⁹⁵⁴ *Id.*

⁹⁵⁵ *Id.*, at 17.

⁹⁵⁶ *Id.*

⁹⁵⁷ *Id.*; OCA Ex. DM-SR-10.

⁹⁵⁸ *Id.*

For the reasons stated above, we recommend that OCA's proposed adjustment to Other Employee Benefits based upon OCA witness Mugrace's vacancy rate ratio be denied.

d. Columbia Incentive Compensation⁹⁵⁹ / Cash-Based Incentive Compensation⁹⁶⁰

(1) Cash-Based Incentive Compensation

Columbia includes \$2,568,807 in FPFTY expense for cash-based, short-term incentive (STI) awards.⁹⁶¹ OCA has proposed to disallow \$1,798,165, or 70%, of this amount.⁹⁶²

Columbia asserts the Commission has established a bright line test for incentive compensation expense. If the incentive compensation programs of the utility are reasonable and provide a benefit to ratepayers, then they may be recovered in their entirety.⁹⁶³ Columbia submits the Commission has reaffirmed this standard in several recent cases,⁹⁶⁴ including *UGI Electric*, where the Commission rejected a proposal to disallow incentive compensation that included, in part, a financial metric.⁹⁶⁵

Columbia's incentive compensation plan contains the following performance measures and weightings:

⁹⁵⁹ See OCA M.B. at 94.

⁹⁶⁰ See Columbia M.B. at 47.

⁹⁶¹ Columbia Ex. 104, Sch. 1, at 4.

⁹⁶² OCA St. No. 2, at 19-21.

⁹⁶³ See, e.g., *PPL Electric 2012*, at 26.

⁹⁶⁴ See *UGI Electric* at 73-74; *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-2021-3027385 (Order entered May 16, 2022), at 100 ("*Aqua 2022*").

⁹⁶⁵ *UGI Electric*, at 73-74.

Financial – adjusted earnings per share	70%
Operational Excellence Operations/Process Failure	10%
Safety- Dart	5%
Safety PVC	5%
Customer Experience	10%
Total	100% ⁹⁶⁶

It is well established that 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.⁹⁶⁷ 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.”⁹⁶⁸ 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.⁹⁶⁹ 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.”⁹⁷⁰ 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.”⁹⁷¹

⁹⁶⁶ *Id.*, at 19.

⁹⁶⁷ *Pa. PUC v. PPL Elec. Util. Corp.*, Docket No. R-2012-2290597 (Order entered Dec. 28, 2012) (*PPL 2012*).

⁹⁶⁸ *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).

⁹⁶⁹ *Pa. PUC v. Aqua Pa. Inc. Docket No. R-2021-3027385* (Order entered May 16, 2022) at 100.

⁹⁷⁰ *Pa. PUC v. Pa.-American Water Co.*, 2021 Pa. PUC LEXIS 55 at *59 (Feb. 25, 2021) (*PAWC 2021*).

⁹⁷¹ *Id.*, at *60.

OCA established that the financial metrics related to Columbia's incentive compensation are predominantly geared towards achieving Columbia's net operating earnings per share with a 70% weighting, with the remaining 30% geared towards Occupational Health and Safety, Customer Care, Customer Satisfaction and Customer Safety.⁹⁷² As OCA witness Mugrace testified:

I am recommending that the Incentive Compensation that was paid out for achieving an Earnings Per Share ("EPS") metric be disallowed from the Company's revenue requirement increase (70%). My recommendation is based upon the fact that the majority of the Company's Incentive Compensation payments are aligned with the Company's financial goals and earnings per share growth with minimal being attributable to the benefit of customers. I do not believe that ratepayers should pay for incentive compensation, which promotes shareholders' interest and the alignment of shareholder growth. I do not see a nexus between shareholder interest and the alignment of shareholder growth and customer-oriented benefits in the area of safe and reliable utility service. The shareholder should be required to fund these costs if they believe it benefits ratepayers.^[973]

Although Columbia asserted the entire incentive compensation plan is required to retain and attract employees, OCA established that Company witness Hunter provided no explanation as to why the 70% of the incentive compensation expense OCA witness Mugrace recommends disallowing is necessary to provide adequate service to ratepayers.⁹⁷⁴

⁹⁷² OCA St. 2, at 20.

⁹⁷³ OCA St. 2 ,at 21.

⁹⁷⁴ OCA St. 2SR, at 11.

Based upon the record evidence, we agree with the position advanced by OCA, and recommend an adjustment of \$(1,798,165) to the Company's claimed incentive compensation expense of \$2,568,807.⁹⁷⁵

e. Columbia Short-Term Incentive (STI) Compensation

Columbia's allocated share of NSCS expenses included a requested allowance of \$5,029,637 for short-term incentive compensation.⁹⁷⁶ Based on Mr. Mugrace's review of the STI compensation plan as discussed above, 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.⁹⁷⁷ Mr. Mugrace's recommended adjustment is \$(3,520,746) for a recommended allowance of \$1,508,891.⁹⁷⁸ Based upon the record evidence in this proceeding, OCA argues and we agree that only 30% of the Company's STI expenses which pertain directly to providing safe, adequate, and reliable services should be permitted.⁹⁷⁹

f. NCSC Incentive Compensation – Stock Rewards⁹⁸⁰

- (1) Restricted Stock and Long-Term Incentive (LTI)⁹⁸¹
- (2) Allocated Compensation – Stock Awards Expense⁹⁸²
- (3) NiSource Corporate Services Co. (NCSC) Shared Services

⁹⁷⁵ *Id.*

⁹⁷⁶ *Id.*, at 22-23.

⁹⁷⁷ *Id.*, at 23.

⁹⁷⁸ OCA Ex. DM-SR-27.

⁹⁷⁹ *Supra*, Section VII.C.

⁹⁸⁰ See Columbia M.B. at 50

⁹⁸¹ See OCA M.B. at 97.

⁹⁸² See I&E M.B. at 26

(4) Long Term Incentive (LTI) Compensation ⁹⁸³

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.⁹⁸⁴ However, OCA asserts 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 should be charged to ratepayers or how these stock awards provide customer-oriented service.⁹⁸⁵ OCA witness Mugrace recommended disallowing these costs for the FPFTY period as ratepayers should not be charged costs related to stock awards.

OCA explains witness Mugrace's recommendation is similar to that described *supra* regarding the Company's proposed incentive compensation generally.⁹⁸⁶ 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.⁹⁸⁷ 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."⁹⁸⁸ We agree with OCA that Columbia presented no credible 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.⁹⁸⁹ As a result, the OCA recommends that only 30% of the Company's claimed LTI expense of \$754,446 be

⁹⁸³ See OCA M.B. at 111

⁹⁸⁴ OCA St. 2, at 21.

⁹⁸⁵ OCA St. 2, at 21.

⁹⁸⁶ *Id.*; see also OCA St. 2 at 20.

⁹⁸⁷ OCA St. 2SR, at 12-13.

⁹⁸⁸ *Id.*

⁹⁸⁹ OCA St. 2, at 20-21.

allowed for ratemaking purposes, or an adjustment of \$(528,112) for a total allowance of \$226,334.

We agree with the proposal of OCA witness Mugrace generally for the same reasons addressed above regarding the Company's proposed incentive compensation. 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 or credible explanation as to how the 70% of the LTI component Mr. Mugrace recommends disallowing provides direct or indirect benefits to ratepayers.⁹⁹⁰ OCA established that the Company did not presented credible 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. Accordingly, based upon the record evidence, we recommend that only 30% of the Company's claimed LTI expense of \$754,446 be allowed for ratemaking purposes, or an adjustment of \$(528,112).

g. NCSC LTI Compensation and Stock Awards

Columbia proposes to collect from ratepayers 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.⁹⁹¹ For the FPFTY, the balance of these awards totals \$4,012,229.⁹⁹²

I&E recommends complete disallowance of the \$4,528,579 claim for NCSC allocated stock awards expense.⁹⁹³ I&E asserts stock awards are a type of

⁹⁹⁰ OCA St. 2SR, at 12-13.

⁹⁹¹ OCA St. 2, at 36.

⁹⁹² *Id.* at 36.

⁹⁹³ *Id.*, at 17; I&E St. No. 1-SR, at 17.

incentive compensation linked to financial goals and targets such as earnings per share⁹⁹⁴ which are specifically shareholder-oriented goals and not ratepayer-oriented goals.⁹⁹⁵ While there may be other requirements that are operational in nature, I&E submits the primary target is financial goals.⁹⁹⁶ Therefore, I&E submits stock awards should not be funded by ratepayers. Additionally, I&E notes the stock awards are limited to leadership positions.⁹⁹⁷

OCA recommends disallowing the \$4,012,229 for PSU and RSU for ratemaking purposes,⁹⁹⁸ explaining ratepayers should not be required to pay for compensation which promotes NCSC's shareholder interests and growth.⁹⁹⁹ OCA submits, 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.¹⁰⁰⁰

Without detailing the basis for the award of PSUs and RSUs, OCA witness Mugrace explained "there is no way to discern whether the Restricted Stock / LTI compensation costs actually benefit ratepayers."¹⁰⁰¹ Based upon the record evidence in this proceeding and the testimony of Mr. Mugrace, the OCA recommends and we agree that it is appropriate to disallow \$4,012,229 from the claimed allocation of NCSC expense, being the portion related to LTI which is not demonstrated to benefit ratepayers. Accordingly, we will reject I&E proposal to disallow the entire \$4,528,579 claim for associated stock awards expense.

⁹⁹⁴ I&E St. No. 1-SR, at 18..

⁹⁹⁵ *Id.*

⁹⁹⁶ *Id.*

⁹⁹⁷ *Id.*

⁹⁹⁸ *Id.*

⁹⁹⁹ *Id.*

¹⁰⁰⁰ *Id.*

¹⁰⁰¹ *Id.*

h. NiSource Corporate Company (NCSC) Shared Services

The Company claimed an allowance of allocated affiliate service company charges of \$79,191,884 from the NiSource Corporate Services Company.¹⁰⁰² Columbia's allocated share of the costs of the services provided by NCSC are explained by OCA witness Mugrace:

In accordance with FERC Order 684, centralized service companies like NCSC must use a cost accumulation system provided such system supports the allocation of expenses to the services performed and readily identifies the source of the expense and the basis for the allocation. NCSC uses a billing pool system to collect costs that are applicable and billable to affiliates, including Columbia. NCSC directs all personnel to charge an affiliate directly whenever possible so that costs associated with services rendered to affiliates can be directly billed, allowing a user to directly bill a single company for costs incurred. NCSC's charges for services are billed at cost. System controls are in place that restrict certain departments or groups to only use billing pools that allocate to companies benefitting from the services those departments provide.^[1003]

Based on the components of the cost allocated by NCSC to Columbia for which Columbia is requesting recovery from ratepayers, OCA witness Mugrace proposed several adjustments, including long-term incentive compensation and stock awards, Supplemental Executive Retirement Plan (SERP) costs, discretionary bonuses, and capital incentive costs.¹⁰⁰⁴ Based on these adjustments, OCA witness Mugrace recommends and we agree that \$7,669,077 of the Company's claim be disallowed.¹⁰⁰⁵

¹⁰⁰² OCA St. 2, at 34.

¹⁰⁰³ *Id.*, at 35-36 (citations omitted).

¹⁰⁰⁴ *Id.*, at 34-38.

¹⁰⁰⁵ OCA Ex. DM-SR-27.

Based upon the record evidence, Columbia has failed to meet its burden of proof establishing that these expenses are fair and necessary or that they pertain to providing safe, adequate and reliable service to customers.

i. *Inflation Adjustments*

It is well settled that a utility is entitled to recover its reasonably and prudently incurred expenses.¹⁰⁰⁶ Operating and maintenance expenses, if properly and prudently incurred, are allowed as part of the overall base rate computation. As such, a public utility is entitled to recover all reasonable and normal operating and maintenance expenses incurred by providing regulated service.¹⁰⁰⁷ To the extent that expenses are not incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable through rates. The public utility requesting a rate increase and seeking to recover expenses has the burden of showing that the rate requested, including all claimed expenses, is just and reasonable.¹⁰⁰⁸ We agree with the Company that it has established the inflation adjustments proposed are appropriate based upon the facts in this proceeding.

j. *Inflation Factors*

OCA asserts the Company's claims for operations and maintenance (O&M) and administrative and general (A&G) expenses are inflated, largely unsupported by evidence as being known and measurable, and/or do not result in ratepayer benefit. OCA

¹⁰⁰⁶ *UGI Corp. v. Pa. PUC*, 410 A.2d 923, 932 (Pa. Cmwlth. 1980).

¹⁰⁰⁷ *Western Pa. Water Co. v. Pa. PUC*, 422 A.2d 906 (Pa. Cmwlth. 980).

¹⁰⁰⁸ 66 Pa.C.S. § 315(a); *See also Cup v. Pa. PUC*, 556 A.2d 470 (Pa. Cmwlth. 1989).

witness Mugrace proposed several adjustments to the Company's projected operating expense levels as follows:

OCA Recommended Expense Adjustments¹⁰⁰⁹

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)

OCA contends 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.¹⁰¹⁰

OCA recommends that the Company's requested inflation adjustments, including the use of historical averaging to determine future expenses, be disallowed.

¹⁰⁰⁹ OCA Ex. DM-SR-9.

¹⁰¹⁰ *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").

Although OCA argues inflation adjustments, including those premised on historical averages of the costs experienced by the utility, are rife with uncertainty and speculative guess work as opposed to one that is bounded by reasonable projections, we disagree with OCA’s conclusion that Columbia’s claimed inflation gross-up adjustments are not known and measurable.

In *Pennsylvania Pub. Util. Commission v. Wellsboro Elec. Co. R-2019-3008208* (Order entered April 9, 2020) (*Wellsboro 2020*),¹⁰¹¹ the Commission determined that the utility bears the burden of proving that its inflationary adjustments represent known and measurable changes to costs over time and that all adjusts to expense claims “directly relate to the actual costs expected to be incurred in each expense account in the FPFTY.”¹⁰¹²

As OCA asserted, the Commission may, based upon the specific evidence presented, reject the notion that because costs have increased in the past and inflation exists is sufficient substantiation of the claims advanced by a utility. However, here, upon considering the specific facts and evidentiary record presented in this case and the arguments advanced by the parties, we recommend that OCA’s specific expense adjustments removing Columbia’s inflation adjustments presented in this proceeding be denied.

k. Rate Case Expense

Columbia’s claim for rate case expense is \$1,321,000, normalized over a one-year period.¹⁰¹³ I&E argues that rate case expense should be normalized over a 16-

¹⁰¹¹ *Wellsboro 2020*, at 40.

¹⁰¹² *Wellsboro 2020*, at 40.

¹⁰¹³ Columbia Ex. 104, Sch. 2, at 16.

month period, based upon the filing interval of Columbia's last four base rate cases.¹⁰¹⁴ OCA proposes a 14-month normalization period, based upon the Company's filing of 6 base rate cases since 2018.¹⁰¹⁵

Columbia asserted I&E also proposed a reduction of over 26% to Columbia's claimed rate case expense, to \$975,162, based upon the Company's spending in its last litigated case in 2020.¹⁰¹⁶ Columbia asserts basing an adjustment on only a single historical experience is inappropriate and not reflective of the various novel and important issues being litigated in this case.

I&E disagreed with the Company's claimed total rate case expense of \$1,321,000¹⁰¹⁷ and disagreed with applying a 12-month normalization period, because I&E asserts it is not supported by the Company's historic actual rate case expenses and the historic rate case filing frequency.¹⁰¹⁸

I&E recommended an allowance of \$731,372 or a reduction of \$589,628 (\$1,321,000 - \$589,628) to the Company's claim.¹⁰¹⁹ I&E argued the Company's response to I&E discovery provided the actual rate case expense incurred and claimed in recent cases with the last litigated rate case being in 2020,¹⁰²⁰ and resulting in the Company spending only 73.82% ($\$782,522 \div \$1,060,000$) of the total claim.¹⁰²¹

¹⁰¹⁴ I&E St. No. 1, at 7.

¹⁰¹⁵ OCA St. No. 2SR, at 23-24.

¹⁰¹⁶ I&E St. No. 1, at 6.

¹⁰¹⁷ *Id.*, at 6; I&E St. No. 1-SR, at 6-7.

¹⁰¹⁸ I&E St. No. 1, at 6; I&E St. No. 1-SR, at 7-8.

¹⁰¹⁹ *Id.*

¹⁰²⁰ *Id.* (citing I&E Ex. No. 1, Sch. 1, at 2).

¹⁰²¹ *Id.*

With regard to the normalization period, I&E argued the Company's proposed normalization period failed to properly rely upon the historic data and is speculative in nature. In contrast to the Company's claimed 12-month normalization period, I&E recommended a 16-month normalization period, which it claimed is validated by the Company's recent filing history.¹⁰²² I&E further argued the Company's rate case expense normalization of 12 months is speculative and is not supported by the historic filing frequency, and the Company is merely relying on its expectation of future base rate case filings.

In the *Emporium Water Company*¹⁰²³ base rate case, the *City of DuBois*¹⁰²⁴ base rate case, and most recently the *Columbia Gas*¹⁰²⁵ base rate case, the Commission found in favor of I&E's recommendation for a normalization period based on the actual historic filing frequency.

Although OCA did not recommend any adjustment to the level of expense claimed, it did 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.¹⁰²⁶ With this adjustment, the OCA recommendation reduces Columbia's revenue requirement by \$253,000.¹⁰²⁷

The Commission has consistently held that rate case expenses are normal operating expenses, and normalization should be based on the historical frequency of the

¹⁰²² See I&E St. No. 1, at 7 (citing I&E Ex. No. 1, Sch. 1, at 2).

¹⁰²³ *Pa. PUC v. Emporium Water Co*, Docket No. R-2014-2402324, at 50 (Order Entered Jan. 28, 2015).

¹⁰²⁴ *Pa. PUC v. City of DuBois – Bureau of Water*, Docket No. R-2016-2554150, at 65-66 (Order Entered Mar. 28, 2017).

¹⁰²⁵ *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835, at 78, (Order Entered Feb. 19, 2021).

¹⁰²⁶ OCA St. 2SR, at 23.

¹⁰²⁷ *Id.*, at 24.

utility's rate filings.¹⁰²⁸ OCA witness Mugrace reviewed Columbia's rate case filings since 2018 and found that Columbia filed six rate cases.¹⁰²⁹ This is equivalent to filing one rate case every fourteen months or 1.16 years.¹⁰³⁰ As such, OCA witness Mugrace recommended normalizing Columbia's rate case expense over 14 months, instead of the Company's proposed normalization period of 12 months.¹⁰³¹ This reduces Columbia's rate case expense from \$1,321,000 to \$1,138,793, a reduction of \$182,207.¹⁰³²

While the Company claims that it "anticipates a need to file annual rate cases," the Commission has consistently rejected a utility's basis for concluding that the length of time until its next anticipated rate case is the appropriate period over which to normalize rate case expense.¹⁰³³ As OCA argued, there is no reason to guess rate case filing frequency when the facts are readily observable and able to be reflected in rates.

The Commission determines the number of months between a public utility's rate case filings to find the length of time over which this cost should be normalized. *See e.g., Pa. Pub. Util. Comm'n v. City of DuBois - Bureau of Water*, Docket No. R-2016-2554150 (Order Entered March 28, 2017); *Pa. Pub. Util. Comm'n v. Emporium Water Company*, Docket No. R-2014-2402324, at 50 (Order Entered Jan. 28,

¹⁰²⁸ *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154 (Pa. Cmwlth. 1996); *Pa. PUC v Columbia Water Co.*, 2009 Pa. PUC LEXIS 1423 (2009); *Pa. PUC v. Nat'l Fuel Gas Dist. Corp.*, 84 Pa. PUC 134, 175 (1995); *Pa. PUC v Roaring Creek Water Co.*, 73 Pa. PUC 373, 400 (1990); *Pa. PUC v. West Penn Power Co.*, 119 PUR4th 110, 149 (Pa. PUC 1990).

¹⁰²⁹ OCA St. 2SR, at 23.

¹⁰³⁰ *Id.*

¹⁰³¹ *Id.*, at 23-24.

¹⁰³² *Id.*; OCA Sch. DM-SR-28.

¹⁰³³ *Compare* OCA St. 2SR, at 23 (describing the Company's response to Mr. Mugrace's proposed adjustment) *with Pa. PUC v. Columbia Water Co.*, Docket No. R-2023-3040258 (Order entered Jan. 18, 2024) at 34 ("an actual, historical filing pattern offers the best evidence for anticipating a company's future behavior, with respect to filing its next base rate case").

2015); *Irwin A. Popowsky v. Pa. Pub. Util. Comm'n*, 674 A.2d 1149, 1154 (Pa.Cmwlth. 1996); *Pa. Pub. Util. Comm'n v. Borough of Media Water Works*, 1990 WL 10702673 (Pa. P.U.C. 1990).

We agree with OCA that under the circumstances, and based upon Columbia Gas' actual filing history, the appropriate length of time is 14 months. It is reasonable to use a normalization period that more closely aligns with what Columbia Gas has done than to base the normalization period upon what Columbia Gas proposes it will do in the future. Accordingly, we recommend that OCA's proposed adjustment for rate case expenses, a 14-month normalization period, be approved. We recommend that the I&E's proposed adjustment be denied.

By adjusting the normalization period from 12-months to 14-months, we agree that Columbia's rate case expense will be normalized based on its historic frequency of rate filings. Accordingly, this adjustment to the rate case expense will reduce the annual normalized rate case expense by \$182,207 for an allowance of \$1,138,793.

1. Outside Services

Columbia's FPFTY claim for Outside Services is \$18,013,909.¹⁰³⁴ OCA witness Mugrace proposed a \$1,444,261 reduction to Columbia's FPFTY Outside Services expense.¹⁰³⁵ Columbia argued OCA's proposed adjustment improperly assumes that Columbia can continue to reduce Outside Services costs, which would deny

¹⁰³⁴ Columbia Ex. 104, Sch. 1, at 4.

¹⁰³⁵ This adjustment is separate from the inflation-related adjustment explained in Section VI E of this brief.

Columbia the financial resources to undertake important safety initiatives that are reflected in the FPFTY budget.

Columbia witness Leal testified as follows:

A portion of Outside Services represents a critical balance between internal and external labor resources. The Company strategically supplements its internal workforce with external service providers to meet workload demands, address resource constraints, and access specialized expertise. This hybrid resourcing model ensures that Columbia can respond effectively to customer needs, meet compliance obligations, and deliver safe and reliable service, particularly when internal resources are fully deployed or specific technical capabilities are needed.¹⁰³⁶

OCA explained that Columbia requested \$19,014,191 in outside services for the FTY and \$18,013,909 for the FPFTY,¹⁰³⁷ which 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.¹⁰³⁸ OCA argued 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.¹⁰³⁹

OCA witness Mugrace testified that “Outside Services can fluctuate widely depending on the pool of contractors, materials and costs needed, and resources allocated. OCA explains not all the work may be performed as planned and within the time frame stated by the Company.”¹⁰⁴⁰ OCA explains, although Columbia opposes the basis of Mr. Mugrace’s adjustment, the Company did not challenge the calculation of the

¹⁰³⁶ Columbia St. No. 18-R, at 11-12.

¹⁰³⁷ OCA St. 2, at 24.

¹⁰³⁸ *Id.*, at 24.

¹⁰³⁹ *Id.*, at 25.

¹⁰⁴⁰ OCA St. 2, at 26.

adjustment.¹⁰⁴¹ Accordingly, OCA witness Mugrace recommended using the 8.57% three-year average to normalize this expense based upon the historical costs, or a reduction of \$(1,444,261) to the Company's claimed allowance.¹⁰⁴² Based on the record evidence and the arguments of the Parties, we find that Columbia has presented substantial evidence to support its claim for Outside Services. Accordingly, we recommend that OCA's proposed adjustments to Outside Service expense be denied.

m. Employee Expenses

Columbia's original claim for FPFTY Employee Expenses was \$1,275,033.¹⁰⁴³ Columbia explained in its Main Brief that included in this amount is a pro forma adjustment of \$198,554 to remove non-recoverable employee expenses.¹⁰⁴⁴

Columbia provided a breakdown of the components of the Company's claim as follows:¹⁰⁴⁵

¹⁰⁴¹ OCA St. 2SR, at 15.

¹⁰⁴² OCA St. 2, at 26.

¹⁰⁴³ Columbia Ex. 104, Sch. 1, at. 4; Columbia St. No. 18-R, at 18.

¹⁰⁴⁴ Columbia Ex. 104, Sch. 1, at 4; Columbia St. No. 18-R, at 18.

¹⁰⁴⁵ Columbia St. No. 18-R, at 18.

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

Columbia explained it examined the projection of costs included in the budget for Employee Expenses – Other and determined that \$417,305 of budgeted costs for Clothing Allowance was inadvertently included.¹⁰⁴⁶ Columbia updated its breakdown of Employee Expenses to reflect the correct categorization, as shown in Table JL-1R, above.

In light of proposed adjustments of OCA witness Mugrace, Columbia explained in its Main Brief that it agrees that all amounts reflected in Employee Expenses – Other should be removed from the claim.¹⁰⁴⁷ Columbia identified that \$187,628 of its total non-recoverable expense adjustment of \$198,554 was for Employee Expenses – Other. Accordingly, Columbia reflected a further adjustment of \$32,450 to remove all remaining Employee Expense – Other costs¹⁰⁴⁸ which is reflected in the Company’s final claimed revenue allowance in the case.¹⁰⁴⁹ Columbia explained in its Main Brief that it believed the above adjustments should resolve OCA’s original \$438,829 adjustment.

¹⁰⁴⁶ Columbia St. No. 18-R, at 17.

¹⁰⁴⁷ Columbia St. No. 4-R, at 17.

¹⁰⁴⁸ *Id.*

¹⁰⁴⁹ Columbia Ex. JV-1R, at 6.

Columbia disagreed with Mr. Mugrace's further Meals and Entertainment adjustment and argued it identified that \$10,926 of non-recoverable entertainment costs were incurred, based upon a review of actual HTY expenses¹⁰⁵⁰ which Columbia asserts, is already part of the original \$198,554 that Columbia removed as non-recoverable expense. Accordingly, Columbia argued no further adjustment is appropriate.

OCA identified Columbia's Employee Expenses of \$554,925 in the HTY and \$637,383 in the FPFTY, which included employee recognition gifts, event tickets used for employee morale or team building purposes, and other entertainment expenses that support employee engagement.¹⁰⁵¹ OCA witness Mugrace recommended an adjusted disallowance balance of \$45,607 \$(24,083 related to 50% allowed Meals/Entertainment and \$21,524 related to Employee Expenses).¹⁰⁵² This adjustment reduces Columbia's revenue requirement by approximately \$47,500.¹⁰⁵³

OCA identified Columbia's Meals/Entertainment expense in relation to its net employee expenses are as follows:

<u>Description</u>	<u>FTY Amount</u>	<u>FPFTY Amount</u>	<u>OCA</u>
Meals / Entertainment	\$84,567	\$48,166	\$24,083
Employee Expenses (net)	\$362,248	\$438,829	\$0 ¹⁰⁵⁴

OCA recommends that 50% of the Company's Meals and Entertainment, or \$24,083, be allowed in rates.¹⁰⁵⁵ OCA witness Mugrace testified:

¹⁰⁵⁰ Columbia St. No. 4-R, at 17.

¹⁰⁵¹ *Id.*, at 28-29.

¹⁰⁵² OCA St. 2SR, at 16; OCA Ex. DM-SR-19.

¹⁰⁵³ OCA St. 2SR at 16.

¹⁰⁵⁴ OCA St. 2, at 29.

¹⁰⁵⁵ *Id.*

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.^[1056]

OCA provided testimony to establish Columbia's ratepayers draw no benefit from Columbia's employee entertainment events and as Columbia did not break down these costs, OCA witness Mugrace testified that "it is difficult to segregate out which expenses are meal-related, and which are entertainment related."¹⁰⁵⁷ OCA asserted, ratepayers should not 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 entertainment¹⁰⁵⁸ and the Company did not demonstrate that such entertainment/meal expenses are connected to incentivizing superior utility service.

Columbia explains in its Reply Brief that OCA proposes an adjustment to remove \$21,524 from Employee Expenses – other related to employee gifts and entertainment and 50% or \$24,083 from melas and entertainment. Columbia asserts OCA's proposed adjustments are duplicative and improper.¹⁰⁵⁹ OCA in its Reply Brief submits both adjustments reflect a 50% reduction as calculated by Mr. Mugrace as he determined the claims are noncustomer-oriented costs.¹⁰⁶⁰

¹⁰⁵⁶ *Id.*

¹⁰⁵⁷ *Id.*

¹⁰⁵⁸ *Id.*

¹⁰⁵⁹ Columbia Reply Brief at 31.

¹⁰⁶⁰ OCA Reply Brief at 63-64.

As OCA explained in its Main Brief, Columbia witness Leal corrected the Company's employee expense claim, identifying that \$417,305 of the claimed expense balance related to clothing allowance and not to gifts and entertainment expenses.¹⁰⁶¹ OCA explained that it accepted the clothing allowance as reasonable, but found that the difference between the total employee expenses claim and the clothing allowance, or \$21,524 were not adequately explained by the Company.¹⁰⁶²

Based on the Company's correction, OCA witness Mugrace recommended that the \$21,524 difference be disallowed as "non-customer oriented costs" in addition to the 50% of meals and entertainment costs he recommended be disallowed in his direct testimony, or \$24,083.¹⁰⁶³ In total, Mr. Mugrace's updated recommendation is an adjustment of \$(45,607).¹⁰⁶⁴

Based upon the record evidence, and the failure to provide adequate evidence regarding how the Company's claimed entertainment/meals expenses are connected to providing safe and adequate utility service, we agree with the proposal of OCA to disallow the portion of the Company's claimed employee expenses and recommend OCA's proposed disallowance of \$21,524 from Employee Expenses other related to employee gifts and entertainment and \$24,083 from meals and entertainment. 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."¹⁰⁶⁵

¹⁰⁶¹ OCA St. 2SR, at 16.

¹⁰⁶² *Id.*

¹⁰⁶³ *Id.*

¹⁰⁶⁴ *Id.*

¹⁰⁶⁵ *Popowsky v. Pa. PUC*, 683 A.2d 958, 961 (Pa. Cmwlth. 1996) (*Popowsky 1996*).

n. *Inflation/Deflation Adjustments*

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

Outside Services – (\$7,354)
Corporate Insurance - \$131,774
Injuries and Damages - \$51,257
Employee Expenses – (\$11,362)
Company Memberships – (\$6,788)
Utilities and Company Use Gas – (\$28,758)
Advertising – (\$11,366)¹⁰⁶⁶

Columbia explains it used the Gross Domestic Product Implicit Price Deflator to derive annual inflation rates of 2.93% for the FTY and 3.05% for the FPFTY. Columbia applied the inflation rates to the identified cost elements. For those cost elements where the adjustment proposed by Columbia is negative, Columbia explains 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 the reasons set forth above, we recommend that OCA's proposed adjustments to reflect inflationary/deflationary adjustments to the seven cost elements identified by OCA be denied.

o. *Corporate Insurance*

Columbia proposed \$4,452,228 for Corporate Insurance in the FPFTY.¹⁰⁶⁷ Similar to other Columbia proposals, Columbia included a 3.05% inflation factor for the FPFTY when calculating its requested Corporate Insurance expense.¹⁰⁶⁸ OCA witness

¹⁰⁶⁶ Columbia Ex. 104, Sch. 2, at 4, 7, 8, 9, 10, 11, 15; Columbia St. No. 4-R, at 11.

¹⁰⁶⁷ OCA St. 2, at 26.

¹⁰⁶⁸ *Id.*

Mugrace recommended disallowing the inflation factor, which results in an adjusted balance of \$4,320,454, which is a \$131,774 revenue requirement reduction compared to Columbia's proposal.¹⁰⁶⁹ Based upon the reasoning above, we agree with Columbia and recommend that OCA's proposed adjustment to be denied.

p. Injury and Damages

Columbia proposed \$405,057 for Injury and Damage (I&D) expense.¹⁰⁷⁰ However, Columbia included inflation factors when calculating its proposal.¹⁰⁷¹ 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.¹⁰⁷² OCA submits the Company did not challenge the reasonableness of Mr. Mugrace's calculation for the adjustment, though it disagreed with the basis of the adjustment.¹⁰⁷³ Based upon the reasons set forth above, we recommend that Mr. Mugrace's proposed adjustment of \$(51,257) to the Company's claimed balance of \$405,057 for a total allowance of \$353,800,¹⁰⁷⁴ should be denied.

q. Outside Services

¹⁰⁶⁹ OCA St. 2, at 27; OCA Ex. DM-SR-17.

¹⁰⁷⁰ OCA St. 2 at 27.

¹⁰⁷¹ *Id.*, at 27-28.

¹⁰⁷² OCA St. 2, at 27-28; OCA Ex. DM-SR-18.

¹⁰⁷³ See Columbia St. 4-R, at 2, 11 (identifying the injuries and damages adjustment but not commenting on the reasonableness of Mr. Mugrace's calculation).

¹⁰⁷⁴ OCA St. 2, at 27.

Columbia’s FPFTY claim for Outside Services is \$18,013,909.¹⁰⁷⁵ OCA witness Mugrace proposed a \$1,444,261 reduction to Columbia’s FPFTY Outside Services expense.¹⁰⁷⁶

OCA explained that Columbia requested \$19,014,191 in outside services for the FTY and \$18,013,909 for the FPFTY,¹⁰⁷⁷ which 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.¹⁰⁷⁸ OCA argued 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.¹⁰⁷⁹

The evidence established that 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 ¹⁰⁸⁰

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.”¹⁰⁸¹ OCA witness Mugrace further testified that “Outside

¹⁰⁷⁵ Columbia Ex. 104, Sch. 1, at 4.

¹⁰⁷⁶ This adjustment is separate from the inflation-related adjustment explained in Section VI E of this brief.

¹⁰⁷⁷ OCA St. 2, at 24.

¹⁰⁷⁸ *Id.*, at 24.

¹⁰⁷⁹ *Id.*, at 25.

¹⁰⁸⁰ *Id.*, at 25.

¹⁰⁸¹ *Id.*

Services can fluctuate widely depending on the pool of contractors, materials and costs needed, and resources allocated. OCA explains not all the work may be performed as planned and within the time frame stated by the Company.”¹⁰⁸² OCA explains, although Columbia opposes the basis of Mr. Mugrace’s adjustment, the Company did not challenge the calculation of the adjustment.¹⁰⁸³ Accordingly, OCA witness Mugrace recommended using the 8.57% three-year average to normalize this expense based upon the historical costs, or a reduction of \$(1,444,261) to the Company’s claimed allowance.¹⁰⁸⁴

Based upon the evidence presented, we disagree with OCA that this reduction to normalize the Outside Services expense and the inflation adjustment proposed by OCA is necessary or appropriate and we recommend that the adjustment proposed by OCA be denied.

r. Company Memberships

Columbia claims an amount of \$682,796 for Company Memberships. This amount includes an adjustment to remove lobbying expenses from the claim.¹⁰⁸⁵ OCA proposes to disallow \$260,661¹⁰⁸⁶ and asserts the only dues that should be allowed are American Gas Association dues of \$407,424.

OCA recommends a \$258,217 reduction to Columbia’s proposed claimed membership expense balance of \$682,796.¹⁰⁸⁷ OCA witness Mugrace proposed a

¹⁰⁸² OCA St. 2, at 26.

¹⁰⁸³ OCA St. 2SR, at 15.

¹⁰⁸⁴ OCA St. 2, at 26.

¹⁰⁸⁵ Columbia Ex. 104, Sch. 2, at 15.

¹⁰⁸⁶ OCA Ex. DM-20. This is exclusive of the inflation-related adjustment explained in Section VII E of this brief.

¹⁰⁸⁷ OCA St. 2, at 31; OCA Ex. DM-SR-20.

removal of the Company's 2.93% and 3.05% inflation adjustment from the claimed expense.¹⁰⁸⁸ Mr. Mugrace also recommended removal of membership dues and other organization fees from the Company's claimed expenses regarding Chamber of Commerce membership fees.¹⁰⁸⁹

OCA submits, the Code does not permitted recovery of costs of "membership fees, dues or charges to fraternal, social or sports clubs or organizations."¹⁰⁹⁰ OCA further argues Columbia's customers see no benefit from the Company's participation in these organizations, as they are related to civic causes or lobbying, and the Company should not be able to recover the costs of memberships, which reflect its corporate citizenship and should be incurred below-the-line.¹⁰⁹¹

Absent credible evidence that there is any direct benefit to ratepayers, we agree with OCA and conclude Columbia's claim is substantially outweighed by the arguments presented by OCA witness Mr. Mugrace. We further recommend that Columbia not be permitted the costs of Chamber of Commerce membership, and that the Company's membership expenses be adjusted by \$(258,217).¹⁰⁹² We reject OCA's proposal to remove the inflation adjustment from this expense.

¹⁰⁸⁸ OCA St. 2, at 31.

¹⁰⁸⁹ OCA St. 2, at 30-31.

¹⁰⁹⁰ 66 Pa.C.S. § 1316.1.

¹⁰⁹¹ *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).

¹⁰⁹² OCA St. 2, at 31; OCA Ex. DM-SR-20.

s. Materials and Supplies Expense

Columbia's FPFTY expense for Materials and Supplies is \$6,080,827.¹⁰⁹³ OCA proposes a \$558,615 adjustment to this expense.¹⁰⁹⁴ Columbia asserts OCA developed its proposed adjustment based upon a review of Subaccount 2020 – Facilities, Maintenance Repair and Materials, identifying a substantial increase in this subaccount, and proposing to use a three-year historic average of expense for this subaccount.¹⁰⁹⁵

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

Columbia notes for Outside Services, where the expense showed a declining trend (due in part to the change in accounting), OCA used a three-year average percentage of declining expense, however, for Materials and Supplies, which showed an inclining trend, OCA used a three-year average of the expense.

OCA witness Mugrace asserted that a three-year normalization was reasonable and testified that "[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

¹⁰⁹³ Columbia Ex. 104, Sch. 2, at 4.

¹⁰⁹⁴ OCA St. No. 2, at 33.

¹⁰⁹⁵ *Id.*

Set-14-5 the Company has not provided a reason for these increased costs over the years.”¹⁰⁹⁶

Based upon the evidence presented that the account was inflated due to a vendor error which inadvertently assigned outside services expenses to this cost account, we agree with Columbia that the shifting of expenses between accounts due to an accounting change or error is not a basis to disallow the expense. Accordingly, we recommend that the adjustment to Materials and Supplies expense proposed by OCA be denied.

u. NiSource Corporate Services Company (NCSC) Shared Services

(1) Supplemental Executive Retirement Plan

Columbia FPFTY NCSC costs include an amount of \$136,102 in Supplemental Executive Retirement Plan costs. OCA proposes to disallow SERP costs, claiming that the costs do not benefit customers.¹⁰⁹⁷ Columbia asserts the SERP provides supplemental retirement benefits to certain employees and is part of the total compensation and benefits plan provided by NiSource. Columbia further asserts it is part of the total rewards philosophy that provides an appropriate mixture of compensation, benefits and retirement income that is competitive with both utility and general industry employers, necessary to attract and retain quality employees responsible for providing safe, reliable and cost-effective service to Columbia’s customers.¹⁰⁹⁸

¹⁰⁹⁶

Id.

¹⁰⁹⁷

OCA St. No. 2, at 337.

¹⁰⁹⁸

Columbia St. No. 20-R, at 3, 11.

OCA explains Columbia included SERP costs totaling \$133,954 in the HTY, \$145,608 in the FTY and \$136,102 in the FPFTY.¹⁰⁹⁹ OCA submits SERP costs should be disallowed for ratemaking purposes as there are no discernable benefits accruing to ratepayers from SERP.¹¹⁰⁰ OCA witness Mugrace testified as follows:

These types of costs benefit and accrue to the Company by retaining key employees and are used as rewards for the benefit of key employees. 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.^[1101]

We agree with OCA that there is no record evidence to establish any nexus between the recovery of SERP expenses from ratepayers and ratepayer benefits.¹¹⁰² While Columbia claims that SERP costs assist the Company in retaining employees, the record fails to establish any component of SERP costs which is shown to be tied to providing adequate, safe, or reliable service, especially considering there is no guarantee that employees will benefit from the full value of the allocated SERP expense.¹¹⁰³ As SERP costs do not directly benefit ratepayers, the we recommend disallowing Columbia's proposed recovery of \$136,102 for the SERP cost component of the allocated NCSC expense.¹¹⁰⁴

v. Workplace Connections/Diversity Equity and Inclusion (DEI) Expense

1099 *Id.*

1100 *Id.*

1101 *Id.*

1102 OCA St. 2SR, at 19.

1103 *Id.* at, 18-19.

1104 *Id.*, at 18.

Columbia asserts that Workplace Connections benefit customers by attracting talent and retaining talent through inclusion, and by improving the connections that Columbia's employees have among themselves and the communities where Columbia serves.¹¹⁰⁵ Columbia concludes Workplace Connections enables a more effective workforce.¹¹⁰⁶

Columbia explains that the Commission has also offered guidelines for utilities to implement diversity programs and Columbia concludes that Workplace Connections helps Columbia with these guidelines.

OCA proposes to disallow \$130,450 in cost for three employees who work in the NiSource Workforce Connections team.¹¹⁰⁷ OCA witness Mugrace contends these costs do not benefit customers¹¹⁰⁸ and asserts there is no evidence supporting a nexus between ratepayer benefits and Columbia's DEI incentives.¹¹⁰⁹ OCA witness Mugrace testified:

I am recommending disallowance of DEI costs for ratemaking purposes. I believe these types of costs do not benefit ratepayers in the provision of safe and reliable utility service. These types of costs reflect organizational frameworks which seek to promote the fair treatment and full participation of all people who have been subject to discrimination. 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.^[1110]

¹¹⁰⁵ Columbia St. No. 20-R, at 13-14.

¹¹⁰⁶ 52 Pa. Code § 69.801.

¹¹⁰⁷ OCA St. No. 2, at 38-39; OCA Ex. DM-9.

¹¹⁰⁸ *Id.*

¹¹⁰⁹ *Id.*

¹¹¹⁰ *Id.*

The Company has the burden of proving that its proposed expense is prudent and reasonable before it can recover the cost of that expense from ratepayers.¹¹¹¹ Although the Company indicated it is committed to enhance workplace culture, to recognize employees through employee resource groups and to hold the Company accountable by tracking progress toward goals, the Company did not establish any evidence of any benefit to its customers.

In addition, while promoting and improving various aspects of diversity in the workplace is an important objective, the Company concludes its Workplace Connections program helps Columbia comply with Commission guidelines, without any evidence of its progress or success, let alone how such progress is a benefit to its customers.

Columbia provided no evidence regarding whether these costs actually produce benefits or any evaluated metrics to demonstrate ratepayer value.¹¹¹² Though the Company argued that its “Workplace Connections” program assists in retaining employees, the Company did not present metrics designed or evaluated to demonstrate ratepayer value and, instead, in the opinion of OCA witness Mugrace, “these appear to be costs to benefit the Company such as corporate branding, imaging and touting Company stewardships.”¹¹¹³ As such, we recommend that the adjustment proposed by OCA be approved and that the claim of \$130,450 related to the Company’s claimed Workplace Connections DEI expense be disallowed.

w. *Recovery of Energy Assistance Team Costs/Rider Universal Service Plan (USP)*

¹¹¹¹ 66 Pa.C.S. § 315.

¹¹¹² OCA St. 2SR, at 20.

¹¹¹³ *Id.*, at 19-20.

Columbia has proposed to recover the costs of its current Energy Assistance Team (EAT) through its Rider USP – Universal Service Program, shifting recovery of EAT costs into its Rider USP. Because EAT costs are currently recovered through base rates, Columbia proposed that, if EAT costs are recovered through Rider USP, then its base rate revenue requirement should be reduced accordingly. Columbia calculated the EAT labor and benefits costs, and associated payroll taxes, to be \$225,136.

Columbia submits that no party has claimed that EAT costs are unreasonable or otherwise should not be recoverable, and the only issue presented is whether recovery should be through Rider USP or should continue in base rates.

I&E submits that currently, the Universal Service Costs associated with the Company's EAT, which handles the administration of LIHEAP/CRISIS and CAP accounting, are recovered in base rates.¹¹¹⁴ The Company wants to remove recovery of the EAT employee costs, which is approximately \$220,000 annually, from base rates and move recovery to the USP rider.¹¹¹⁵

I&E recommended that the Company's proposal to move EAT labor cost recovery from base rates to the USP rider be rejected.¹¹¹⁶ I&E asserts moving EAT cost recovery from base rates to USP rider provides Columbia a guaranteed recovery of EAT labor costs and eliminates the Commission's authority to review reasonableness and prudence of EAT labor costs.¹¹¹⁷ In addition, I&E disagrees with Columbia witness Davis's claim that shifting EAT cost recovery through the USP rider will permit the Company to appropriately staff for fluctuating demands for additional staffing.¹¹¹⁸

¹¹¹⁴ *Id.*

¹¹¹⁵ *Id.*, at 104.

¹¹¹⁶ *Id.*, at 105.

¹¹¹⁷ *Id.* See also I&E St. No. 2-SR, at 65-66.

¹¹¹⁸ I&E St. No. 2, at 105; see also I&E St. No. 2 SR, at 65-66.

I&E submits fluctuation in staffing needs is a routine event in business operations for the Company at large for various reasons, which is required to be managed appropriately as the staffing need changes.¹¹¹⁹ Furthermore, keeping all staffing costs under O&M, according to I&E, ensures no duplicate recovery of related costs in base rate proceedings.¹¹²⁰ I&E argues that, theoretically, if Columbia's request would be approved, the Company could add or remove employees without scrutiny.¹¹²¹ Accordingly we agree with I&E's recommendation that the Commission reject the Company's proposal to move EAT labor cost recovery from base rates to the USP rider.

x. *Blackhawk*

Columbia asserts in late 2024, Columbia negotiated an arms-length sale of Blackhawk¹¹²² with an unaffiliated third party, and on January 29, 2025, filed an application for a certificate of public convenience to transfer the property for consideration of \$214,000.¹¹²³

Columbia explains, while the application was pending before the Commission, Columbia filed this rate case and did not know whether its application would be approved and whether the sale would be consummated. Accordingly, Columbia included in this case operating expenses, plant in service, accrued depreciation, accumulated deferred income taxes and gas in storage associated with Blackhawk. In direct testimony, Columbia noted the pending status of the application and stated that if

¹¹¹⁹ I&E St. No. 2, at 105; see also I&E St. No. 2 SR, at 65-66.

¹¹²⁰ I&E St. No. 2-SR, at 66.

¹¹²¹ I&E St. No. 2, at 105.

¹¹²² Columbia undertook a request for proposal process in which it sought offers from 22 prospective purchasers. Only two entities chose to bid, and Columbia selected the best offer. Columbia St. No. 1-RJ, at 3.

¹¹²³ *Application Order*, Order, at 3.

the sale was approved prior to the close of the record in this case, Columbia would update its filing to remove Blackhawk.¹¹²⁴

Columbia explains that on April 24, 2025, the Commission approved the application¹¹²⁵ and the sale closed on June 20, 2025, after the due date for other parties' direct testimony. Under the circumstances, Columbia updated its claim in rebuttal to reflect the sale of Blackhawk.¹¹²⁶ Included in the updated claim was a proposed five-year amortization of a net loss of \$5,031,739 on the transaction plus the cost of a feasibility study of \$389,005 that was undertaken prior to sales negotiations.¹¹²⁷ Columbia asserts the claimed loss is primarily associated with the book value of the remaining gas in storage that was transferred as part of the transaction.¹¹²⁸

I&E submits Columbia's request for the amortization of a regulatory asset regarding the sale of the Blackhawk Storage Facility was not part of Columbia's original March 20, 2025 filing. Columbia only raised the issue of the requested amortization four months later in its July 17, 2025 rebuttal testimony.¹¹²⁹

It is well settled that administrative agencies, like the Public Utility Commission, are required to provide due process to the parties appearing before them. This requirement is satisfied when the parties are afforded notice and the opportunity to appear and be heard.¹¹³⁰ Based upon the specific facts and averments presented by the Parties, it appears that due process may require that these issues be addressed in the next

¹¹²⁴ Columbia St. No. 11, at 5, n.1.

¹¹²⁵ *Application Order*, Order at 5-6.

¹¹²⁶ Columbia St. No. 4-R, at 4; Columbia Ex JV-1R, at 6 (expenses), 7 (depreciation accrual), 9 (taxes other than income), 10 (income taxes) and 12 (rate base).

¹¹²⁷ Columbia St. No. 4-R, at 9-10.

¹¹²⁸ *Id.*

¹¹²⁹ I&E St. No. 3-SR, at 4, *citing* Columbia St. No. 4-R, at 6-10.

¹¹³⁰ *Schneider v. Pa. PUC*, 479 A.2d 10 (1984).

base rate proceeding filed by the Company in order for the Parties and the public to be provided appropriate notice and an opportunity to properly address the issues related to the Company's request.

Based upon evidence in this proceeding, I&E argues, and we agree, that the inclusion of the regulatory asset in this current base rate case should not be permitted and this matter should be addressed, where appropriate, in the Company's next base rate proceeding.

H. Other Adjustments

1. *Rider Universal Service Plan (USP)*

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.¹¹³¹ OCA witness Colton recommended that \$220,000 of administrative costs be disallowed.¹¹³² Mr. Colton identified that Columbia does not budget internal CAP administrative costs or any universal service program at the program level and does not provide the constituent categories of costs within the claim administrative costs account.¹¹³³ As stated by Mr. Colton, "[t]he purpose of recovering costs through the Rider USP is to ensure that budgeted (or projected) costs can be reconciled against actual costs," which is inconsistent with the Company's stated budgeting practices.¹¹³⁴ Based on Mr. Colton's testimony, OCA witness Mugrace recommended and we agree with the proposed \$220,000 disallowance from the Rider USP balance.¹¹³⁵ Accordingly, we

¹¹³¹ Columbia Ex. 104, Sch. 1, at 2; OCA St. 2, at 41.

¹¹³² OCA M.B. at 118.

¹¹³³ OCA St. 5, at 112-14.

¹¹³⁴ *Id.* at 113.

¹¹³⁵ OCA St. 2SR, at 25; OCA Ex. DM-SR-31.

recommend that the disallowance of \$220,000 from the Rider USP balance, as proposed by OCA, be approved.

2. *Utilities – Fuel Used in Company Operations*

Columbia proposed a \$2,075,819 balance related to its Utilities and Fuel used in Company Operations for the FPFTY.¹¹³⁶ OCA witness Mugrace recommends 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.¹¹³⁷ OCA witness Mugrace also recommends adjustments related to deflation or increases in the Company's adjustments.¹¹³⁸ This adjustment increases Columbia's costs related to Utilities – Fuel Used in Company Operations by \$28,758, or \$2,104,577.¹¹³⁹ While the Company disagrees with the basis of Mr. Mugrace's adjustment, OCA submits the Company provided no further evidence regarding this expense or the reasonableness of Mr. Mugrace's calculation.¹¹⁴⁰ For the same reasons provided above related to adjustments for inflation/deflation factors, we recommend that the OCA's proposed adjustment to Utilities – Fuel Used in Company Operations by \$28,758 be denied.

3. *Advertising*

Columbia proposed \$391,359 in advertising expense for the FPFTY.¹¹⁴¹ OCA witness Mugrace recommends disallowance of Columbia's deflation factors for the

¹¹³⁶ OCA St. 2, at 31; Columbia Ex. 104, Sch. 1 at 2.

¹¹³⁷ OCA St. 2, at 32.

¹¹³⁸ *Id.*

¹¹³⁹ OCA St. 2 at 32; OCA Ex. DM-21.

¹¹⁴⁰ See Columbia St. 4-R at 2, 11 (identifying the utilities and fuel adjustment but not commenting on the reasonableness of Mr. Mugrace's calculation).

¹¹⁴¹ OCA St. 2, at 32; Columbia Ex. 104, Sch. 1 at 2.

FTY and the FPFTY periods of 2.93% and 3.05%, respectively.¹¹⁴² These adjustments increases Columbia's advertising expense by \$11,366.¹¹⁴³ Therefore, the OCA requests that the Commission disallow \$11,366 of the Company's proposed advertising expense of \$402,724 for a total allowance of \$391,358.¹¹⁴⁴ OCA explained that, although the Company disagrees with the basis of Mr. Mugrace's adjustment, Columbia did not present other evidence regarding Mr. Mugrace's calculation of this adjustment.¹¹⁴⁵ For the same reasons provided above related to inflation/deflation factors we recommend that OCA's proposal to disallow \$11,366 of the Company's proposed advertising expense of \$402,724 be denied.

4. *Uncollectible Expense*

OCA explains it accepted Columbia's computation of its level of uncollectible expense.¹¹⁴⁶ However, OCA submits, 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 0.01346130.¹¹⁴⁷ As a result, if the Commission accepts the revenue requirement recommendation supported by OCA witness Mugrace, OCA recommends that the Commission apply Mr. Mugrace's methodology for the calculation of the applicable uncollectible expense adjustment. Based upon the discussion related to revenue requirement herein we recommend that this proposed adjustment by OCA be denied.

¹¹⁴² OCA St. 2, at 32.

¹¹⁴³ OCA St. 2, at 32; OCA Ex. DM-22.

¹¹⁴⁴ OCA St. 2, at 32.

¹¹⁴⁵ *See* Columbia St. 4-R, at 2, 11 (identifying the advertising expense adjustment but not commenting on the reasonableness of Mr. Mugrace's calculation).

¹¹⁴⁶ OCA St. 2, at 40.

¹¹⁴⁷ OCA St. 2SR, at 24-25; OCA Ex. DM-SR-1, DM-SR-9, DM-SR-29.

5. *Depreciation and Amortization Expense*

The Company proposed a depreciation and amortization expense of \$149,371,200 and a five-year net negative salvage expense of \$5,484,681.¹¹⁴⁸ OCA witness Garrett recommended that Columbia switch depreciation grouping procedures from the ELG to the ALG.¹¹⁴⁹ OCA witness Garrett calculated that, if Columbia's depreciation expense were calculated using the ALG procedure instead of the ELG procedure, then the expense would be reduced by \$45,802,423.¹¹⁵⁰ Based on OCA witness Garrett's recommendation, OCA witness Mugrace recommended a depreciation expense balance adjustment of \$(45,802,423).¹¹⁵¹ 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 \$236,476.¹¹⁵² OCA submits the sum of these two adjustments is a reduction of \$46,038,898 to the Company's claimed depreciation expense.¹¹⁵³ After grossing this amount up to account for federal and state taxes and uncollectible expense, OCA submits this adjustment reduces Columbia's requested revenue requirement by \$63.615 million.¹¹⁵⁴ Based upon the discussion related to OCA's proposal to use the ALG and not the ELG depreciation method, we recommend that OCA's proposed adjustment be denied.

6. *Other Rents Leases*

¹¹⁴⁸ OCA St. 2, at 42.

¹¹⁴⁹ OCA St. 3, at 61-66.

¹¹⁵⁰ OCA Ex. DJG-17.

¹¹⁵¹ OCA St. 2SR, at 25-26.

¹¹⁵² OCA St. 2, at 42.

¹¹⁵³ *Id.*; OCA Ex. DM-SR-32.

¹¹⁵⁴ OCA St. 2SR, at 26.

I&E explains the Company is claiming other rents and leases expense of \$545,640¹¹⁵⁵ which includes communications equipment and lines, office machines, and other items.¹¹⁵⁶ According to I&E, the Company's FPFTY claim for other rents and leases expense is based on adjustments made to the FTY by \$71,365 and the FPFTY by (\$928).¹¹⁵⁷

I&E recommends an allowance of \$475,203 for other rents and leases expense, or a reduction of \$70,437 (\$545,640 - \$475,203) to the Company's claim.¹¹⁵⁸ I&E argues, using the most recent known and measurable amounts, this expense has trended downward year after year from 2022 to 2024 (from \$532,730 in 2022, to \$505,142 in 2023, and \$475,203 in 2024).¹¹⁵⁹ I&E argues and we agree that the Company provided no evidence in the record to support the FTY and FPFTY increases,¹¹⁶⁰ only arguing it applied an inflation rate on the three-year average.¹¹⁶¹

Accordingly, based upon the record evidence presented and in the absence of support for a higher claim, we recommend that I&E's proposal for an allowance equal to the supported HTY actual expense of \$475,203, be approved.

7. *Interest on Customer Deposits*

The Company claims \$373,107 interest expense on customer deposits.¹¹⁶² The Company's FPFTY claim is based on calculating 8% interest on the 2024 average

¹¹⁵⁵ I&E St. No. 1, at 15 (citing Columbia Vol. 6, Ex. No. 104, Sch. 1, at 2).

¹¹⁵⁶ *Id.*, at 14 (citing Columbia St. No. 4, at 12).

¹¹⁵⁷ *Id.*, at 15 (citing Columbia Vol. 6, Ex. No. 104, Sch. 1, at 2).

¹¹⁵⁸ *Id.*, at 15; I&E St. No. 1-SR, at 14.

¹¹⁵⁹ *Id.*, at 15; I&E St. No. 1-SR, at 14.

¹¹⁶⁰ *Id.*, at 15-16 (citing I&E Ex. No. 1, Sch. 3, at 3).

¹¹⁶¹ I&E St. No. 1-SR, at 13-14.

¹¹⁶² I&E St. No. 1, at 19 (citing Columbia Vol. 6, Ex. No. 104, Sch. 1, at 2).

customer deposit balance of \$4,663,841 ($\$4,663,841 \times 0.08 = \$373,107$).¹¹⁶³ I&E submits the Company indicated it did not make further adjustments to this item for either the FTY or the FPFTY because it has made no projected change to the HTY balance for customer deposits.¹¹⁶⁴

I&E submits it reviewed the claim and recommended an allowance of \$326,469 for interest on customer deposits, or a reduction of \$46,638 ($\$373,107 - \$326,469$) to the Company's claim.¹¹⁶⁵ I&E argues Columbia should pay the ratepayers the legal rate of interest on the customers' security deposit based on an updated interest rate each year.¹¹⁶⁶ Based on information provided by the Company in response to I&E-RE-49-D, I&E explains it adjusted the interest on customer deposits by multiplying the updated interest rate of 7% for 2025 by the average customer deposit balance of \$4,663,841.¹¹⁶⁷ This produces I&E's recommended allowance of \$326,469 ($\$4,663,841 \times 0.07$).¹¹⁶⁸ Accordingly, based on the record evidence, we agree that the adjustment proposed by I&E for an allowance of \$326,469 for interest on customer deposits be approved.

8. *Cash Working Capital*

In Columbia's 2024 base rate proceeding Columbia agreed to perform a lead/lag study in its first base rate case filed after January 1, 2026, as agreed in the 2024

¹¹⁶³ *Id.* (citing Columbia Vol. 2, Ex. No. 4, Sch. 2, at 29).

¹¹⁶⁴ *Id.* (citing Columbia St. No. 4, at 28).

¹¹⁶⁵ *Id.*, at 20.

¹¹⁶⁶ *Id.*

¹¹⁶⁷ *Id.* (citing I&E Ex. No. 1, Sch. 5, at 2).

¹¹⁶⁸ *Id.*

settlement at Docket No. R-2024-3046519.¹¹⁶⁹ As this case was filed before January 1, 2026, Columbia did not include a lead/lag study in this case.

I&E explains it continues to recommend that based on the settlement agreement mentioned above, the Company should include a lead/lag study in its first base rate case to be filed on or after January 1, 2026.¹¹⁷⁰

No party provided any objection to the recommendation from I&E and, under the circumstances, we agree that I&E's recommendation that Columbia perform a lead/lag study in its first base rate case filed after January 1, 2026, as agreed in the 2024 settlement at Docket No. R-2024-3046519, be approved.

I. Taxes

1. *Columbia Gas' Position*

a. *Taxes other than Income Taxes*

Columbia's FPFTY Taxes Other Than Income Taxes, as adjusted for Blackhawk removal is \$4,493,642.¹¹⁷¹ Columbia notes 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, which Columbia asserts should be denied.

b. *Income Taxes*

¹¹⁶⁹ See I&E St. No. 1, at 20-22; See also I&E Ex. No. 1, Sch. 6, at 1.

¹¹⁷⁰ See I&E St. No. 1, at 20-22; See also I&E Ex. No. 1, Sch. 6, at 1.

¹¹⁷¹ Columbia Ex. JV-1R, at 8.

Columbia notes no party has proposed disallowance of Income Tax expenses, other than as related to their respective other adjustments to rate base, expenses and return.¹¹⁷²

2. *BIE's Position*

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

3. *OCA's Position*

a. *Income Taxes*

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.¹¹⁷³ OCA witness Mugrace adopted the Company's method of calculating its tax obligations.¹¹⁷⁴ 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 less than the Company's claimed income tax expense of \$(72,811,341).¹¹⁷⁵

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

¹¹⁷² Columbia M.B. at 74.

¹¹⁷³ OCA St. 2, at 44.

¹¹⁷⁴ *Id.*, at 45.

¹¹⁷⁵ OCA St. 2SR, at 4; OCA Ex. DM-SR-34.

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).^[1176]

OCA explains it 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 regarding the appropriate revenue requirement for the Company.

b. Taxes other than Income Tax

The Company requested a "Taxes Other Than Income Tax" expense allowance of \$4,500,883, which includes payroll taxes, property taxes, license and franchise, sales and use taxes and other taxes other than income taxes.¹¹⁷⁷ OCA witness

¹¹⁷⁶ OCA St. 2, at 45.

¹¹⁷⁷ *Id.*, at 43.

Mugrace recommended adjustments to the Company's payroll tax and property tax allowances based on his recommendations regarding Columbia's claimed labor expense and utility plant in service balances, respectively.¹¹⁷⁸ Mr. Mugrace described his adjustment to the Company's claimed payroll tax as follows:

Since I adjusted labor and incentive compensation, I am making the associated adjustments to reflect my recommended levels using the Company's Payroll Tax Rate of 7.2234%. My Payroll Tax balance is \$2,798,543, a reduction of \$187,573.^[1179]

Further, Mr. Mugrace stated:

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.^[1180]

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 \$4,309,435.¹¹⁸¹ 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.

4. *OSBA's Position*

¹¹⁷⁸ *Id.*

¹¹⁷⁹ *Id.*

¹¹⁸⁰ *Id.*

¹¹⁸¹ *Id.*

OSBA did not address this issue.

5. *CAUSE-PA's Position*

CAUSE-PA did not propose any adjustments, including to taxes, to the Company's FPFTY revenues under current rates.

6. *TASK FORCE's Position*

The task force did not address the issue.

7. *PSU's Position*

The Pennsylvania State University did not address this issue.

8. *ALJs' Discussion/Recommendations*

Concerning its FPFTY Taxes Other Than Income Taxes, Columbia claimed \$3,825,546 was a reasonable cost, and noted the only proposed adjustments from I&E and OCA concerned the payroll taxes.

No party proposed disallowance of Income Tax expense, other than as related to their respective other adjustments to rate base, expenses and return. Based on the adjustment made in this proceeding, we recommend the income tax adjustments and adjustments to the taxes other than Income Tax expense allowance consistent with this Recommended Decision and the ALJ Rate Tables attached to this Recommended Decision and marked as Appendix A.

a. Income Taxes

In its Reply Brief, OCA explained Columbia claimed a total income tax expense of \$72,811,34. OCA witness Mugrace adopted the Company's method of calculating its tax obligations. However, due to the proposed adjustment by OCA regarding rate base, O&M expense, depreciation expense, capital structure and return on equity, OCA recommended an income tax expense allowance of (\$55,267,855) which is \$17,543,486 less than the Company's claimed total income tax expense of (\$72,811,341).¹¹⁸² As Columbia explained no party proposed disallowance of the income tax expense except as related to respective adjustments to rate base, expenses and rate of return. Accordingly, we recommend approval of Columbia's methodology for calculating its income tax expense and the adjustments for an income tax allowance consistent with the overall recommendations set forth in this Recommended Decision.

b. Taxes other than Income Taxes

OCA explains it proposed an adjustment to taxes other than Income Taxes associated with proposed labor and incentive compensation adjustments proposed by OCA. OCA's overall recommendation was an adjustment of (\$191,397) for an allowable balance of \$4,309,435.¹¹⁸³ Although we recommend that the specific adjustment expressed by OCA be denied, based upon the recommended decision, we recommend the income tax adjustments and adjustments to the taxes other than Income Tax expense allowance consistent with this Recommended Decision and the ALJ Rate Tables attached to this Recommended Decision and marked as Appendix A.

J. Rate of Return

¹¹⁸² OCA Reply Brief, at 82-83.

¹¹⁸³ OCA Reply Brief, at 84.

1. *Columbia Position*

a. *Introduction*

Columbia submits I&E's 10.51% return on equity (ROE) recommendation, is deficient for several reasons, including its selection of a proxy group, its lack of leverage and flotation cost adjustments, and its failure to include an adjustment for management performance, and is insufficient to support ongoing infrastructure investment. Columbia asserts that OCA's recommendation of 8.90%, using a hypothetical capital structure, contrary to established precedent, is unjustifiably low and is based on the results from a variety of unreasonable methodologies.¹¹⁸⁴

Columbia submits its proposed use of its actual capital structure is proper and in accordance with precedent, and that its proposed return on common equity of 11.35%, inclusive of a 25-basis point adjustment for management effectiveness, is fully supported by the record.

(1) Rate of Return Components

In determining the overall rate of return, Columbia explains the Commission uses the weighted average cost of capital method, which determines the percentages of long-term debt, short-term debt and common equity in the Company's capital structure. It then determines the cost rate of capital for each component and weighs it by multiplying the percentages of each class of capital by the applicable cost rate. Columbia's proposed cost of capital is as follows:

¹¹⁸⁴ OCA's recommended ROE of 8.90% is computed at its proposed hypothetical capital structure. At the Company's actual capital structure, OCA would further reduce its recommendation to 8.70%. OCA St. No. 3, at 3, 55.

Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	43.28%	5.22%	2.26%
Short-Term Debt	2.32%	5.00%	0.12%
Common Equity	54.40%	11.35%	<u>6.17%</u>
Total			<u>8.55%</u> ¹¹⁸⁵

Columbia submits no party has challenged the Company's claimed cost rates for long-term debt or short-term debt.¹¹⁸⁶ The issues of dispute involve Columbia's capital structure ratio and cost rate of common equity.

b. Capital Structure Ratios

The only party to challenge Columbia's capital structure is OCA. I&E adopted the Company's capital structure.¹¹⁸⁷ OCA proposes a hypothetical capital structure of 2.32% short-term debt, 47.68% long-term debt and 50% equity.¹¹⁸⁸ Columbia asserts OCA's use of a hypothetical capital structure is unreasonable and contrary to precedent, and should be rejected.

(1) Columbia's Capital Structure

¹¹⁸⁵ Columbia Ex. VVR-4, at 1.

¹¹⁸⁶ OCA's Rate of Return recommendation table shows a cost rate for long-term debt of 5.2%, although this appears to be a result of rounding to a single decimal point. OCA St. No. 3, at 58, Figure 14.

¹¹⁸⁷ I&E St. No. 2, at 12.

¹¹⁸⁸ OCA retains the Company's capital structure rate and cost rate for short term debt, but shifts 4.4% of Columbia's capital from equity to long-term debt, while retaining the Company's long term debt cost rate. OCA Ex. DJG-16. This amounts to a hypothetical shift of over \$171.9 Million in capital from common equity to long-term debt. Columbia Ex. VVR-5 (\$3,906,890,949 x 4.4%).

Columbia's capital structure of 54.4% common equity, 43.28% long-term debt and 2.32% short-term debt is its projected actual capital structure as of December 31, 2026, the end of the FPFTY.¹¹⁸⁹ The Company's FPFTY capital structure is based upon its actual capital structure at November 30, 2024, updated for changes during the FTY and FPFTY.¹¹⁹⁰ Columbia explains the changes are to finance the Company's FTY and FPFTY net rate base additions of approximately \$685 Million.¹¹⁹¹

Columbia witness Mr. Rea explained that Columbia's common equity ratio is within the range of actual common equity ratios of his proxy group of gas companies (the Gas LDC Group) used in this proceeding¹¹⁹² and that Columbia's FPFTY common equity ratio, computed on a permanent capitalization basis (i.e., excluding spot-in-time short term debt) is well within the range of forecasted common equity ratios of the Gas LDC Group, computed on a permanent capital basis.¹¹⁹³ I&E's proxy group has a range of experienced five-year average common equity ratios from 35.96% to 60.16%.¹¹⁹⁴ OCA's witness, Mr. Garrett, uses a proxy group that is the same as Mr. Rea's Gas LDC Group, and Mr. Garrett acknowledged that two of those proxy group companies have debt ratios that are less than the debt ratio claimed by Columbia, as reported by *Value Line Investment Survey* (Value Line).¹¹⁹⁵

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

(1) Applicable Legal Standards

¹¹⁸⁹ Columbia St. No. 8, at 43.

¹¹⁹⁰ Columbia Ex. VVR-5, at 1.

¹¹⁹¹ Columbia Ex. 108, at 3.

¹¹⁹² Columbia St. No. 8, at 44.

¹¹⁹³ *Id.*, at 44-45

¹¹⁹⁴ I&E St. No. 2, at 23.

¹¹⁹⁵ Tr. 523; OCA Ex. DJG-13.

Columbia explains, the Commission has determined that a utility’s actual capital structure is to be used, absent circumstances where the actual capital structure is atypical for the type of utility service being offered.¹¹⁹⁶ In determining whether the claimed capital structure is atypical, the Commission has looked to see whether the capital structure used by the utility is outside the range of that employed by the barometer group of companies considered in the rate of return analysis.

Columbia explains in *PPL Electric 2012*, PPL Electric proposed to use its actual capital structure. Both I&E and OCA proposed to use a hypothetical capital structure. I&E argued in favor of a hypothetical capital structure based upon a calculated industry average. OCA proposed a hypothetical capital structure that was based on an average of PPL Electric’s capital structure for a recent five-year period. The Commission rejected I&E’s and OCA’s contentions and adopted the Company’s proposed capital structure.¹¹⁹⁷

Columbia explains, the Commission has reaffirmed its prior decisions on capital structure in three recent decisions. In *Columbia 2021*, the Commission rejected an OCA proposal to adopt a hypothetical capital structure of 50% common equity and 50% debt, stating “we find no reason to deviate from the established Commission precedent, or to impose OCA’s hypothetical capital structure on the Company.”¹¹⁹⁸ Columbia submits the Commission adopted similar conclusions in *Aqua 2022 and PAWC 2024*.¹¹⁹⁹

¹¹⁹⁶ See, *Pa. PUC v. City of Lancaster – Water*, 1999 Pa. PUC Lexis 37 at *17; *Pa. PUC v. City of Bethlehem*, 84 Pa. P.U.C. 275, 304 (1995); *Carnegie National Gas Co. v. Pa. PUC*, 433 A.2d 938, 940 (Pa. Cmwlth. 1981).

¹¹⁹⁷ *2012 PPL Electric*, at 68.

¹¹⁹⁸ *Columbia 2021*, at 118.

¹¹⁹⁹ See also *Aqua 2022*, at 138-41; *Pa. PUC v. Pennsylvania-American Water Company*, (“PAWC 2024”) Docket No R-2023-3043189 (Order entered July 22, 2024), Order at 157-60.

(2) OCA has Failed to Demonstrate that Columbia's Proposed Capital Structure is Atypical

Columbia argues OCA's only evidence is that the Company's equity ratio exceeds the average of Mr. Garrett's proxy group and many non-regulated industries have higher average debt ratios than Columbia's actual debt ratio.¹²⁰⁰ However, Columbia asserts the Commission has made clear in *Columbia 2021* and the numerous other cases cited above, the average proxy group capital structure is not the standard employed to determine if a Company's actual capital structure is atypical. Rather, the standard is whether the Company's actual capital structure is atypical, as measured by the barometer group range.

Columbia argues OCA has not shown that Columbia's capital structure is outside the norm for comparable gas companies.

(3) Debt Cost Rate

Columbia's FPFTY long-term debt cost rate is 5.22%. Columbia's FPFTY short-term debt cost rate is 5.00%.¹²⁰¹ Columbia submits no party has challenged these debt cost rates and that they should be adopted in the context of Columbia's actual FPFTY capital structure ratios for debt.

d. Return on Common Equity

(1) Columbia's Cost Rate for Common Equity Capital

¹²⁰⁰ OCA St. No 3, at 50-52.

¹²⁰¹ Columbia Ex. VVR-4, at 1.

Columbia witness Rea summarized his approach to determining the cost rate for common equity and the results of his analysis in his direct testimony, as follows:¹²⁰²

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

Mr. Rea summarized his conclusions from the foregoing data:

Based upon these measures of central tendency, I have concluded that Columbia's cost of equity is presently in the range of 10.85 - 11.35 percent, and that point estimate in the middle of this range, or 11.10 percent, fairly reflects the Company's cost of equity in the current market environment. In making this determination, I relied predominately on my quantitative results for the Gas LDC Group, as shown in Table VVR-2 above, which constitutes my core proxy group in this proceeding. At the same time, the composite results for all three of the proxy groups that I evaluated, as shown in Table VVR-3 above, produces estimates of the cost of equity that are very similar to the results for the Gas LDC Group on a standalone basis. These

¹²⁰² Columbia St. No. 8, at 7-8.

results further validate the benefits of evaluating complementary proxy groups in corroborating the results produced for the Gas LDC Group.

Additionally, as noted earlier, the Company has proposed a 0.25 percent upward adjustment to my point estimate of the cost of equity in recognition of the Company's strong record of management effectiveness as discussed in the Direct Testimony of Columbia witness Paloney. After incorporating this proposed adjustment, it is my recommendation that the Commission should adopt a cost of equity of 11.35 percent in the determination of a fair rate of return for the Company in this proceeding.^[1203]

(a) Barometer Group

Columbia explains Mr. Rea used a barometer group of six gas companies as his core proxy group, referred to as the "Gas LDC Group." Mr. Rea applied the following selection criteria in making this determination: (i) Value Line Industry Classification as a Natural Gas Utility; (ii) Value Line Safety Rank of "1," "2" or "3"; (iii) S&P corporate credit rating no lower than BBB-, or Moody's long-term issuer rating of no lower than Baa3; (iv) operating income from the company's regulated gas distribution operations equals or exceeds 60 percent of the company's consolidated operating income; (v) company must currently pay dividends and must not have discontinued or reduced its dividend during the previous five years (2019-2023); and (vi) company is not, and has not recently been, an acquisition target.¹²⁰⁴ The six companies used by Mr. Rea are:

Atmos Energy Corp.
NiSource Inc.
Northwest Natural Gas Co.
ONE Gas, Inc.
Southwest Gas Holdings, Inc.

¹²⁰³ Columbia St. No. 8, at 9-10.

¹²⁰⁴ *Id.*, at 19.

Spire, Inc.¹²⁰⁵

OCA witness Garrett used the same proxy group as Mr. Rea.¹²⁰⁶

I&E witness Patel excluded one company, Southwest Gas Holdings, Inc., and added two companies, Chesapeake Utilities Corp. and New Jersey Resources Corp., to Mr. Rea's Gas LDC Group to create his barometer group.¹²⁰⁷ In this proceeding, Columbia explains, the selection of companies to include in the proxy group as between Mr. Patel and Mr. Rea, standing alone, does not have a material impact upon the DCF results. As explained by Mr. Rea, if Mr. Patel had used Mr. Rea's Gas LDC Group rather than his gas proxy group, Mr. Patel's DCF estimate of Columbia's cost of equity would be approximately 11 basis points higher.¹²⁰⁸

Columbia witness Rea did not agree with the two additions, and one deletion, to his Gas LDC Group. Mr. Rea excluded Chesapeake Utilities because it has not been assigned long-term credit ratings by either S&P or Moody's and derives less than 35 percent of its consolidated net income from its gas distribution operations. The lack of long-term credit ratings, according to Columbia, makes it very difficult to conduct a proper risk assessment of Chesapeake Utilities relative to Columbia and the other proxy group companies.¹²⁰⁹ Similarly, Columbia asserts New Jersey Resources derives only 45 percent of its consolidated operating income from gas distribution operations, while the remainder of its operating income is derived from the company's Clean Energy, Energy Services and Storage and Transportation business segments.¹²¹⁰ Columbia asserts this also makes the Company inappropriate to include in a barometer group.

¹²⁰⁵ *Id.*, at 19-20.

¹²⁰⁶ OCA St. No. 3, at 12.

¹²⁰⁷ I&E St. No. 2, at 14.

¹²⁰⁸ Columbia St. No. 8-R, at 15-16.

¹²⁰⁹ *Id.*, at 14.

¹²¹⁰ *Id.*

Columbia argues Mr. Patel’s exclusion of Southwest Gas Holdings from his gas proxy group is improper. According to Columbia, Mr. Patel excluded this company because it did not meet his criteria that 50 percent or more of the company’s revenue be generated from regulated gas utility operations. Mr. Patel asserts that this is an appropriate screening criterion “because revenues represent the percentage of cash flow a company receives from each business line related to providing a good or service.”¹²¹¹ However, Mr. Rea explained that percentage of revenues is not an appropriate screen to eliminate Southwest Gas Holdings from the proxy group.¹²¹²

Mr. Rea also developed two other separate comparable-risk proxy groups to provide a further measure of the appropriate ROE for Columbia. Mr. Rea explained the reasoning for, and the development of, his additional proxy groups.¹²¹³

To develop his combination gas and electric utility group, Mr. Rea developed risk characteristic criteria similar to that used to derive his Gas LDC Group - (i) Value Line Industry Classification as an electric utility; (ii) Value Line Safety Rank of “1”, “2” or “3;” (iii) S&P corporate credit rating no lower than “BBB-”, and Moody’s senior secured debt rating no lower than “Baa3”; (iv) company must have been engaged in *both* the natural gas distribution and electric distribution businesses for at least the past five years; (v) company must *not* currently operate nuclear power generation facilities, be a significant independent power producer, or have major gas transmission and storage operations; (vi) company must currently pay dividends and must not have discontinued or reduced their dividend payments during the previous five years (2019 to 2023); and (vii) company must not have recently been an acquisition target.¹²¹⁴ Columbia asserts, the

¹²¹¹ I&E St. No. 2, at 15-16.

¹²¹² Columbia St. No. 8-R, at 14-15.

¹²¹³ Columbia St. No. 8, at 27-28.

¹²¹⁴ *Id.*, at 30.

selected Combination Utility Group has a very similar investment risk profile to the Gas LDC Group.¹²¹⁵

Mr. Rea also presented separate ROE analyses for a Non-Regulated Group.¹²¹⁶ Columbia asserts the selected Non-Regulated Group has a slightly lower risk profile compared to the Gas LDC Group.¹²¹⁷

(b) DCF

Mr. Rea's DCF analysis consists of a current cash yield (dividend), future income in the form of growing dividends and price appreciation (growth), flotation cost and a leverage adjustment. For the Gas LDC Group, the indicated DCF Estimate is 10.97%. For the Combination Utility Group, the indicated DCF Estimate is 10.57%, and for the Non-Regulated Group, the indicated DCF Estimate is 11.27%.¹²¹⁸

(i) *Dividend Yield*

Mr. Rea derived the dividend yield for his three proxy groups by dividing the projected dividends for each group, derived from Value Line and dividing the projected dividends by the composite average of the 30-day, 60-day and 90-day average historic stock prices.¹²¹⁹ The resulting dividend yield for the Gas LDC Group is 3.7%, for the Combination Utility Group is 3.8% and for the Non-Regulated Group is 2.2%.¹²²⁰

¹²¹⁵ *Id.*, at 32.

¹²¹⁶ Columbia St. No. 8, at 33 (emphasis added).

¹²¹⁷ *Id.*, at 36-37.

¹²¹⁸ *Id.*, at 58-61.

¹²¹⁹ Columbia St. No. 8, Appendix A, at 1-2. Mr. Rea explained that he uses a weighted average approach to prices to place greater emphasis on recent stock price, while mitigating potential effects of short-term price fluctuations.

¹²²⁰ Columbia Ex. VVR-7, at 3; Columbia Ex. VVR-8, at 3; Columbia Ex. VVR-9, p. 3.

Columbia submits Mr. Rea's dividend yield for the Gas LDC Group is equivalent to that of I&E based upon an average of spot and 52-week average prices (3.63%) and somewhat above the dividend yield of OCA based solely upon a 30-day average stock price (3.5%).¹²²¹

(ii) *Growth Rate*

Columbia explains, the DCF is an expectational model and investors do not purchase based on past earnings.¹²²²

In addition to considering historic growth rates, Mr. Rea placed substantial weight upon projected earnings growth rates. Columbia asserts projected earnings growth rates are among the factors most heavily referenced by stock analysts, whereas dividend per share growth rates are at the bottom of the list of factors relied upon by investment analysts.¹²²³ Mr. Rea relied upon three separate sources of projected earnings growth: S&P Global Market Intelligence, Zacks, and Value Line.¹²²⁴ Columbia explains in reviewing the DCF results from these three separate projected growth forecasts, Mr. Rea applied a low-end and high-end screen to remove outlier results. Mr. Rea applied principles used by the Federal Energy Regulatory Commission ("FERC") to set low-end and high-end outlier thresholds of 7.00% and 2x the median result of the entire proxy group.¹²²⁵

¹²²¹ I&E St. No. 2, at 40, OCA Ex. DJG-3.

¹²²² Columbia St. No. 8, Appendix A, at 4; Columbia Ex. VVR-7, at 1.

¹²²³ Columbia St. No. 8-R, at 35.

¹²²⁴ Columbia St. No. 8, Appendix A, at 5.

¹²²⁵ Columbia St. No. 8, Appendix B, at 2-5.

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

(iii) *Leverage Adjustment*

Mr. Rea asserts the leverage adjustment to DCF results is required when the average market value equity capitalization of the proxy companies is materially different from the book value equity capitalization.¹²²⁶

Mr. Rea calculated a leverage adjustment of 0.64% to be added to the DCF results of his three proxy groups.¹²²⁷ Columbia explains the Commonwealth Court has held that the decision of whether to adopt a leverage adjustment is within the Commission's discretion and consistent with the Commonwealth Court decision in *PA American*.

Columbia submits the Commission has accepted the leverage adjustment in a number of cases.¹²²⁸ Columbia asserts, while the Commission declined to adopt Aqua's proposed leverage adjustment, it ultimately approved an 11.0% cost of common equity, which was also inclusive of a 22-basis point adjustment for managerial performance.¹²²⁹

Columbia argues in *PUC v. City of Lancaster Bureau of Water*,¹²³⁰ the Commission declined to adopt a leverage adjustment. Columbia explains, the Commission simply exercised its discretion in that proceeding not to adopt a leverage

¹²²⁶ Columbia St. No. 8, at 57 and Appendix C, at 1.

¹²²⁷ Columbia St. No. 8, Appendix C, at 3-4.

¹²²⁸ Columbia M.B. at 99-100.

¹²²⁹ *Aqua 2008*, at 53-54.

¹²³⁰ Docket Nos. R-2010-2179103 (Order dated July 14, 2011).

adjustment, citing the *Aqua 2008* case that it was unnecessary to adopt the leverage adjustment in that proceeding.¹²³¹ Columbia asserts, it is appropriate to adopt the leverage adjustment in this proceeding to account for the mismatch between market and book values of the Company's capitalization.

Columbia argues the *City of Lancaster* decision is distinguishable as the City is not an investor-owned utility, such as Columbia. In its Order, Columbia explains the Commission specifically recognized that the City did not have the same financial risk profile as an investor-owned utility.¹²³² Columbia asserts it is clear from the Order that this lower risk profile impacted the Commission's decision in that proceeding.

(iv) *Flotation Cost Adjustment*

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

When common equity is employed to finance a utility's rate base, it is either derived from new stock sales or from the retention of undistributed earnings. In cases where a utility or its parent company "floats" a new equity issuance, significant issuance or flotation costs are involved, including underwriting discounts, legal fees, accounting fees and printing costs. After subtracting these out-of-pocket costs from the transaction's gross proceeds, the company is left with net proceeds which are materially lower than the amount invested by the company's equity investors. Considering that only net proceeds can be invested into a company's rate base, the amount invested by equity investors which funds flotation-related costs will never earn a fair return for those investors. As such, if a flotation cost adjustment is not made to the "bare-bones" cost of equity determined by the various market-based models, the company's equity investors will not earn a fair

¹²³¹ *Id.*, at 79.

¹²³² *City of Lancaster*, at 54 (emphasis added).

return on their entire investment, thereby understating the company's legitimate revenue requirement. This is contrary to established regulatory practices for debt issuance costs, which are typically capitalized at the time of issuance and amortized over the life of the outstanding debt, therefore being fully recoverable through the cost of service ratemaking process.¹²³³

(v) *CAPM*

Columbia witness Mr. Rea also prepared a capital asset pricing model (CAPM) analysis to estimate the cost of common equity for his three proxy groups. The CAPM analysis determines a “risk-free” interest rate based on U.S. Treasury obligations and an equity risk premium that is proportional to the systematic risk of a stock, as measured by beta, which are summed to produce the cost rate of equity.¹²³⁴ Mr. Rea presented three CAPM estimates: a traditional CAPM, a traditional CAPM with size adjustment, and an Empirical CAPM (ECAPM).¹²³⁵

For all three models, Mr. Rea determined the risk free (Rf) rate to be 4.65% based on current and forecasted yields on long-term Treasury bonds. Specifically, Mr. Rea relied upon a recent average of the implied forward rate for the 30-year Treasury bond over the 2025-2029 forecast period, which is 4.81 percent, and the Q4, 2024 actual average yield for the 30-year Treasury bond, which is 4.50 percent.¹²³⁶ Mr. Rea recommended the use of longer-term Treasury bonds because, he submits, they closely parallel the investment characteristics of common stock, as both are long-term capital and because, like common stock, they reflect long-term inflation expectations of investors and are subject to less volatility than shorter-term Treasury securities.¹²³⁷

¹²³³ Columbia St. No. 8, Appendix D, at 1.

¹²³⁴ Columbia St. No. 8, at 62-63.

¹²³⁵ *Id.*, at 5.

¹²³⁶ *Id.*, at 68.

¹²³⁷ *Id.*, at 67.

For the market premium ($R_M - R_F$) component of the CAPM analysis for all three models, Mr. Rea calculated a 7.00% premium, based upon an average derived from long-term historical data (7.17% premium) and forecasted market returns (6.83% premium).¹²³⁸ To derive the prospective market returns, Mr. Rea undertook a forward-looking DCF analysis for both the S&P Index and the Value Line 1,700 stock universe.¹²³⁹

For the beta measure of systematic risk, Mr. Rea used the published betas from Value Line for all three proxy groups. The average betas used were 0.91 for the Gas LDC Group, 0.92 for the Combination Utility Group and 0.91 for the Non-Regulated Group.¹²⁴⁰

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

$$K = R_F + \beta(R_M - R_F) + \text{flotation}$$
$$11.05\% = 4.65\% + 0.91(7.00\%) + 0.03$$

Columbia submits the Traditional CAPM results for the Combination Utility Group and the Non-Regulated Group are 11.12% and 11.05%, respectively.¹²⁴¹

Columbia asserts the Traditional CAPM with size adjustment model adjusts the Traditional CAPM results based upon the size of the companies in the proxy group. According to Columbia, academic studies have shown that small capitalization stocks

¹²³⁸ Columbia St. No. 8, at 69-70.

¹²³⁹ *Id.*, at 65-66.

¹²⁴⁰ *Id.*, at 70.

¹²⁴¹ *Id.*, at 74.

have historically earned returns that are materially higher than the returns predicted by the CAPM.¹²⁴²¹²⁴³

Columbia asserts, to correct for the inherent deficiencies of the CAPM relative to smaller capitalization stocks, the *Kroll Cost of Capital Navigator* reports size premiums, which can be used to more accurately estimate the return expectations of investors relative to small and mid-capitalization stocks. Based upon an average market capitalization of \$9.1 Billion, the Gas LDC Group would be classified as a Decile 3 portfolio and assigned a size premium of 0.61 percent. Based on an average market capitalization of \$19.4 Billion, the Combination Utility Group would be classified as a Decile 2 portfolio and assigned an average size premium of 0.46 percent. Columbia submits based upon an average market capitalization of \$136.1 Billion, the Non-Regulated Group would be classified as a large-cap, Decile 1 Portfolio, and assigned a size premium of negative -0.06 percent.¹²⁴⁴

Columbia submits the Traditional CAPM with size adjustment result for the Gas LDC Group is 11.02%, computed as follows:

$$\begin{aligned} K &= R_F + \beta(R_M - R_F) + \text{size} + \text{flotation} \\ 11.66\% &= 4.65\% + 0.91(7.00\%) + 0.61 + 0.03 \end{aligned}$$

Columbia also asserts the Traditional CAPM with size adjustment results for the Combination Utility Group and the Non-Regulated Group are 11.58% and 10.99%, respectively.¹²⁴⁵

¹²⁴² See Michael Annin, “*Equity and the Small-Stock Effect*,” Public Utilities Fortnightly, October 15, 1995, 42-43; and Eugene F. Fama and Kenneth R. French, “*The Cross-Section of Expected Stock Returns*,” The Journal of Finance, 48 (June 1992), at 427-465.

¹²⁴³ Columbia St. No. 8, at 71.

¹²⁴⁴ *Id.*, at 71-72.

¹²⁴⁵ *Id.*, at 74.

Regarding his ECAPM analysis, Mr. Rea explained that extensive empirical evidence has demonstrated that the risk-return relationship between beta and stock returns is flatter than what is predicted by a traditional CAPM.¹²⁴⁶ The ECAPM adjusts for this by placing a 25% weighting on overall market risk premium and a 75% weighting on the company-specific, beta-adjusted risk premium.¹²⁴⁷ The ECAPM result for the Gas LDC Group is 11.21%, for the Combination Utility Group is 11.26% and for the Non-Regulated Group is 11.21%.¹²⁴⁸

(c) Risk Premium

Columbia witness Rea also performed a risk premium (RPM) analysis to determine the cost of common equity. The RPM is based upon the fundamental principle that an equity investor in a given company has a greater risk than a bond holder in the same company because interest on bonds is paid before any return is received by the equity investor, and the bond holder receives a return of its capital before an equity investor receives any return of capital in the event of bankruptcy or the dissolution of the subject company.¹²⁴⁹ Mr. Rea determined the RPM cost of common equity by estimating the prospective long-term bond yields (C_D) for each of the proxy groups based upon their average credit ratings and then estimating the appropriate equity risk premium (P_R) for each of the three groups.¹²⁵⁰

Mr. Rea established the 6.06% bond yield for the Gas LDC Group by first evaluating forecasted bond yields for AAA rated corporate bonds and then making a

¹²⁴⁶ Columbia St. No. 8, at 72.

¹²⁴⁷ *Id.*, at 73.

¹²⁴⁸ *Id.*, at 74.

¹²⁴⁹ *Id.*, at 75

¹²⁵⁰ *Id.*, at 76.

credit spread adjustment to account for the Gas LDC Group's lower average long-term credit ratings of BBB+ from S&P and Baa1 from Moody's.¹²⁵¹

Mr. Rea developed his historical risk premium of 5.89% from an analysis of results for the 98-year period between 1926-2023 as reported by the *Kroll Cost of Capital Navigator*.¹²⁵² For purposes of computing projected risk premiums, Mr. Rea used the same data that he used for his CPM analysis. From this data, he derived a prospective equity risk premium of 6.07%.¹²⁵³ The average of the historical and projected risk premiums is 5.98%, which when adjusted by the Gas LDC Group beta value produces an indicated risk premium of 5.44%.¹²⁵⁴ Mr. Rea further undertook a risk premium analysis of holding period returns for the S&P 500 Utilities Index, which yielded a risk premium of 4.85%.¹²⁵⁵ The result is an average risk premium for the Gas LDC Group of 5.15% (5.44%+4.85%)¹²⁵⁶

The RPM approach result for the Gas LDC Group is 11.23% (6.06% bond yield +5.15% risk premium + 0.03% flotation cost).¹²⁵⁷ The RPM approach results for the Combination Utility Group and the Non-Regulated Group are 11.23% and 11.38%, respectively.¹²⁵⁸

¹²⁵¹ Columbia St. No. 8, at 77-78.

¹²⁵² *Id.*, at 80.

¹²⁵³ *Id.*, at 82.

¹²⁵⁴ *Id.*

¹²⁵⁵ *Id.*, at 83-84.

¹²⁵⁶ *Id.*, at 84.

¹²⁵⁷ *Id.*

¹²⁵⁸ *Id.*, at 85.

(d) Cost of Equity Should Include an Increment for Management Performance

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

(2) Opposing Parties Common Equity Cost Rate Recommendations Must be Rejected

(a) I&E's Return Common Equity Cost Rate Recommendations Must be Rejected

According to Columbia, I&E witness Patel based his 10.51% rate of return on common equity recommendation solely on the results of his DCF method and prepared a CAPM analysis, but only as a “comparison” to his DCF result.¹²⁵⁹

Columbia submits the use of a single methodology to derive a cost of common equity recommendation is fundamentally flawed.¹²⁶⁰

Columbia witness Rea concluded that Mr. Patel's DCF evaluation was largely consistent with investor expectations in the current market, but understated the cost of equity due to: 1) Mr. Patel's proxy group selections; 2) Mr. Patel's failure to include a leverage adjustment; and 3) Mr. Patel's failure to include a flotation cost adjustment.¹²⁶¹

Columbia submits the primary flaw in Mr. Patel's principal CAPM analysis is it incorrectly relies upon the yield of 10-year Treasury notes instead of long-term

¹²⁵⁹ I&E St. No. 2, at 30.

¹²⁶⁰ Columbia St. No. 8-R, at 65.

¹²⁶¹ *Id.*, at 40.

bonds, which produces a systematic understatement of the risk-free rate.¹²⁶² Columbia also submits Mr. Patel's CAPM analysis is understated by failing to reflect a size adjustment.

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

OCA witness Garrett recommends a cost rate for common equity of 8.90%, and only in the context of OCA's proposed hypothetical capital structure.¹²⁶³ If the Company's actual capital structure is used, Mr. Garrett would reduce his recommended ROE to 8.70%. Columbia argues there are numerous serious flaws in Mr. Garrett's analysis, which produce an erroneous result that should not be relied upon.

Columbia argues Mr. Garrett's CAPM analysis produces results so low as to be demonstrably unjustified. According to Columbia, the primary weakness in Mr. Garrett's analysis is his total reliance on surveys, publications and implied ERPs.¹²⁶⁴

(3) Increment for Management Effectiveness

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

(a) Evidence of Columbia's Management Effectiveness

Columbia submits it has a strong focus on safety, having begun its program to replace priority pipe in 2007, long before the establishment of LTIPs and DSIC

¹²⁶² Columbia St. No. 8-R, at 67-68.

¹²⁶³ OCA St. No. 3, at 3, 55.

¹²⁶⁴ Columbia St. No. 1-R, at 48.

mechanisms¹²⁶⁵ resulting in a substantial downward trend of grade 2 leaks found on Columbia's distribution system and it has implemented other safety measures throughout the Company.¹²⁶⁶

Columbia submits it is committed to delivering the highest level of customer service to its low-income customers using an all-inclusive approach. Identified low-income customers are screened and referred to one or more of Columbia's many assistance programs.¹²⁶⁷ To manage the various programs, and to coordinate with outside agencies and vendors, Columbia explains it has a dedicated Energy Assistance Team (EAT) to provide a single point of contact and has a full-time staff member who conducts community outreach.¹²⁶⁸

In addition, Columbia explains it employs a full-time Quality Assurance Coordinator for its internally managed LIURP program, which contributes to the Company's average 20% reduction in gas usage per completed job.¹²⁶⁹ Columbia is also the only company in Pennsylvania to use an individualized measure of projected savings to guide auditors and crews on the maximum spend for each home, which Columbia submits provides the opportunity to achieve the best savings.¹²⁷⁰ Columbia also has developed a Health and Safety Pilot for CAP customers.¹²⁷¹ The Company also has focused on increasing LIURP participation for customers who reside in rental properties and has increased its number of introductory letters to landlords to obtain landlord consent.¹²⁷²

¹²⁶⁵ Columbia St. No. 1, at 17.

¹²⁶⁶ Columbia St. No. 9, at 14, 35-36

¹²⁶⁷ *Id.*, at 4-8.

¹²⁶⁸ *Id.*, at 7-9.

¹²⁶⁹ *Id.*, at 9-10.

¹²⁷⁰ *Id.*, at 10.

¹²⁷¹ *Id.*, at 10-11.

¹²⁷² *Id.*, at 11-12.

Columbia submits it has designed its CAP payment program to benefit customers and that the Commission's 2023 Universal Service Programs and Collections Report for 2023 lists Columbia as having the highest CAP credit per CAP customer of all gas utilities.¹²⁷³

Columbia also performed well in the Commission's most recent Utility Consumer Report and Evaluation (UCARE), ranking among the best in most categories for the gas industry, which includes consumer complaint rates, justified consumer complaint rates, Payment Arrangement Request (PAR) rates, Commission Infraction Rates,¹²⁷⁴ and Columbia's Justified Consumer Complaint Rate of 3.4%, compared to the gas industry average of 11.6%.¹²⁷⁵

Columbia asserts its recent Quality of Service Performance Report further demonstrates Columbia's commitment to quality service to customers, and states that overall call center performance, avoidance of deferred billings, on time meter reading and dispute reporting demonstrate quality customer service.¹²⁷⁶

In addition, Columbia submits customer satisfaction scores from the most recent J.D. Power survey show Columbia achieved an overall Customer Satisfaction Index score of 736 in the annual J.D. Power Gas Residential survey; in 2024, Columbia moved into the East Large category from the East Midsize category in previous years; the Company outperformed the Large Eastern utility average of 730 by 6 points.; and

¹²⁷³ Columbia St. No. 9, at 12.

¹²⁷⁴ *Id.*, at 19-23.

¹²⁷⁵ *Id.*, at 20.

¹²⁷⁶ *Id.*, at 23-28.

Columbia scored at or above the large eastern utility averages in Safety & Reliability, Billing & Payment, and Customer Care.¹²⁷⁷

Columbia also explains it has been successful in implementing Chapter 14 regulations, having reduced its gross residential write-off ratio from 4.07% in 2005 to 2.00% in 2023 and net residential write-offs went from 2.79% in 2005 to 1.37% in 2023.¹²⁷⁸

Columbia also explains it continues to examine ways to improve the customer experience, with online information and payment options and that Columbia also submits it is dedicated to investing in the communities it serves. Columbia asserts it has donated more than \$633,000 to 118 non-profit organizations in its service area in 2024.

2. *BIE's Position*

a. *Introduction – Rate of Return Standards*

¹²⁷⁷ Columbia St. No. 9, at 31-32.

¹²⁷⁸ *Id.*, at 32.

The Company claimed the following rate of return:¹²⁷⁹

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

I&E recommended the following rate of return for the Company:¹²⁸⁰

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

I&E explains the sum of the weighted cost rates produces the overall rate of return.¹²⁸¹ This overall rate of return is multiplied by the rate base to determine the return portion of a company's revenue requirement.¹²⁸²

¹²⁷⁹ I&E St. No. 2, at 11.

¹²⁸⁰ *Id.*, at 11; I&E St. No. 2-SR, at 53-54.

¹²⁸¹ I&E St. No. 2, at 5, 11.

¹²⁸² *Id.*, at 5.

b. Proxy Group

I&E explains a proxy group is a set of companies that have similar traits as compared to the subject utility.¹²⁸³ This group of companies acts as a benchmark for determining the subject utility's rate of return in a base rate case.¹²⁸⁴ Further, a proxy group's cost of equity is used as a benchmark to satisfy the long-established guideline of utility regulation that seeks to provide the subject utility with the opportunity to earn a return similar to that of companies with corresponding risks and uncertainties.¹²⁸⁵

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

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

¹²⁸³ I&E St. No. 2, at 12.

¹²⁸⁴ *Id.*

¹²⁸⁵ *Id.*

6. The company must be operating in a state that has a deregulated gas utility market.¹²⁸⁶

Mr. Patel's proxy group included seven companies.¹²⁸⁷ I&E disagreed with the Company's selection of proxy group companies.¹²⁸⁸ Columbia argues that consolidated income rather than company revenues, is more closely correlated to the net cash flows a company receives from each line of business¹²⁸⁹ even though the Commission rejected this theory in the past. I&E explains in the most recent Columbia Water Company base rate proceeding, the Commission concluded:

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

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

¹²⁸⁶ *Id.*, at 13.

¹²⁸⁷ *See Id.*, at 14 for the complete list.

¹²⁸⁸ *See* I&E St. No. 2, at 12-20; I&E St. No. 2-SR, at 6-9 for the complete proxy group analysis and arguments against the use of the Company's selected proxy group.

¹²⁸⁹ I&E St. No. 2-SR, at 2, *citing* Columbia St. No. 8-R, at 15.

Based on the specific record developed in the instant case, we find that the percentage of revenues generated from regulated utility operations, in this instance regulated water utility operations, is the appropriate criterion to include when setting Columbia's proxy group. Therefore, we concur with I&E that Essential Utilities should be excluded from the proxy group that we will use in setting the authorized ROE and the resulting overall rate of return for Columbia in this proceeding.¹²⁹⁰

I&E recommends that the Commission consider only the gas distribution utilities group when evaluating Columbia's requested return on equity (ROE) in this proceeding.¹²⁹¹ Further, I&E reiterates that the percentage of revenues is an appropriate criterion in selection of the proxy group companies and recommends that Southwest Gas Holdings, Inc. should not be included in the proxy group because it derives less than 50% of its revenue from its regulated gas operation revenues.¹²⁹²

c. Capital Structure

A capital structure represents how a firm has financed its rate base with different sources of funds.¹²⁹³ The primary sources of funding are long-term debt and common equity. A capital structure may also include preferred stock and/or short-term debt.¹²⁹⁴

I&E recommends using the Company's claimed capital structure as it falls within the range of the I&E proxy group's 2024 capital structures, which is the most

¹²⁹⁰ I&E St. No. 2-SR, at 7-8 (citing *Pa. PUC v. Columbia Water Company*, Docket No. R-2023-3040258, at 75, 76, 77 (Order Entered January 18, 2024)).

¹²⁹¹ *Id.*, at 20.

¹²⁹² I&E St. No. 2-SR, at 9.

¹²⁹³ I&E St. No. 2, at 20.

¹²⁹⁴ *Id.*

recent information available at the time of I&E's analysis.¹²⁹⁵ The most recent five-year average ranges of I&E's proxy group companies' capital structure ratios are from 39.33% to 57.23% long-term debt, 0.51% to 12.82% short-term debt, and 35.96% to 60.16% common equity, with an overall five-year average of 47.42% long-term debt, 7.85% short-term debt, and 44.73% common equity.¹²⁹⁶

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

I&E recommended using the Company's FPFTY claimed short-term debt cost rate of 5.00% and long-term debt cost rate of 5.22%.¹²⁹⁷

I&E explains Columbia obtains its short-term debt from the NiSource intra-system financing vehicle, commonly referred to as the "money pool," which has commercial paper as its underlying source.¹²⁹⁸ The proposed short-term interest rate in this case was determined on the basis of the forecast of the Federal Funds target rate of 4.00%, plus 0.50%, which reflects the recent historical yield differential between the Fed Funds rate and the commercial paper borrowing rate for NiSource's commercial paper credit rating of A-2 at S&P and P-2 at Moody's for a 75-day duration, plus an additional 0.50% risk premium to recognize uncertainty surrounding the degree to which the Federal Reserve Board will continue reducing the Federal Funds target rate.¹²⁹⁹

Although I&E does not agree with the interest premium adder, I&E explains it is not adjusting for it in this case due to the minimal impact on the overall result.¹³⁰⁰ Therefore, in consideration of the record evidence presented, I&E recommends

¹²⁹⁵ I&E St. No. 2, at 20-24; I&E St. No. 2-SR, at 10.

¹²⁹⁶ *Id.*, at 23 (citing I&E Ex. No. 2, Sch. 2).

¹²⁹⁷ *Id.*, at 25 (citing Columbia Ex. No. VVR-4).

¹²⁹⁸ *Id.*, at 25 (citing Columbia St. No. 8, at 48).

¹²⁹⁹ I&E St. No. 2, at 25; I&E St. No. 2 SR, at 48-49.

¹³⁰⁰ *Id.*, at 26.

the Company's FPFTY claimed short-term debt cost rate of 5.00% and long-term debt cost rate of 5.22%.

e. Cost of Common Equity

I&E recommends using the Discounted Cash Flow (DCF) method as the primary method to determine the cost of common equity.¹³⁰¹ Additionally, I&E provides a Capital Asset Pricing Model (CAPM) analysis to be used as a comparison, not as a check, to the DCF results.¹³⁰² According to I&E, the DCF method has the most widespread regulatory acceptance and I&E still recommends primary reliance on the DCF method due to the shortcomings associated with the CAPM method.¹³⁰³

I&E recommends using the DCF for a variety of reasons.¹³⁰⁴ According to I&E, the DCF is appealing to investors since it is based on the concept that the receipt of dividends in addition to expected appreciation is the total return requirement determined by the market.¹³⁰⁵ The use of a growth rate and expected dividend yield are also strengths of the DCF, as this recognizes the time value of money and is forward-looking.¹³⁰⁶ The use of the utility's own, or in this case the proxy group's, stock prices and growth rates directly in the calculation also causes the DCF to be industry and company specific.¹³⁰⁷ Further, the current inflationary and economic trends are most certainly reflected in a stock's price, which is used in determining the dividend yield, and the earnings growth

¹³⁰¹ I&E St. No. 2, at 28-29.

¹³⁰² *Id.*, at 29.

¹³⁰³ *Id.*; *See* I&E St. No. 2, at 31-35 for an analysis of the shortcomings of the CAPM method.

¹³⁰⁴ *See Id.*, at 29-20.

¹³⁰⁵ *Id.*, at 29 (citing David C. Parcell, "The Cost of Capital – A Practitioner's Guide," 2020 Edition, at 153).

¹³⁰⁶ *Id.*

¹³⁰⁷ *Id.*

rates forecasted by independent professional analysts.¹³⁰⁸ Therefore, I&E asserts the DCF contains the most up-to-date projected information of any model and is the superior method for determining the rate of return for the current economic market conditions because it measures the cost of equity directly.¹³⁰⁹

I&E witness Patel, explained why the CAPM should not be used as a primary method and explained why it should only be used as a comparison to, not a check of, the DCF.¹³¹⁰ Mr. Patel disagrees with a method that provides the CAPM comparable weight to the DCF method.¹³¹¹ In fact, I&E submits the extreme variations in the CAPM analysis results between Columbia's (11.66%), and I&E's (10.51%) only highlight the unreliability and subjectivity of the CAPM while Columbia's DCF results (10.97%) more closely aligns with I&E's DCF results (10.51%).¹³¹² These variations highlight the problems with CAPM and invalidate CAPM from establishing an appropriate ROE for ratemaking.¹³¹³

I&E recommends a cost of common equity of 10.51% for Columbia in this base rate proceeding.¹³¹⁴ I&E's recommendation is based on the use of the DCF method.¹³¹⁵ I&E used the CAPM result only to present a comparison to the DCF results.¹³¹⁶ I&E's DCF analysis uses the proxy group companies' spot dividend yield, a 52-week dividend yield, and five-year earnings growth forecasts.¹³¹⁷ In calculating the

¹³⁰⁸ *Id.*

¹³⁰⁹ *Id.*, at 29-30; *See also* I&E St. No. 2 at 25-34 for a complete discussion and critique of the other cost of common equity methodologies.

¹³¹⁰ *See* I&E St. No. 2-SR, at 26.

¹³¹¹ *Id.*

¹³¹² *Id.*

¹³¹³ *Id.*

¹³¹⁴ I&E St. No. 2, at 38 (citing I&E Ex. No. 2, Sch. 1); *See also*, I&E St. No. 2-SR, at 53-54.

¹³¹⁵ *Id.*, at 38-48.

¹³¹⁶ *Id.*

¹³¹⁷ *Id.*

dividend yield, I&E uses the forecasted dividend, and with the five-year earnings growth forecasts, the DCF result provides a forward-looking estimation for the cost of equity that would be more appropriate and consistent for FPFTY ratemaking.¹³¹⁸

f. *Weight Given to CAPM, ECAPM, and RP Methods*

I&E disagrees with Columbia's reliance on the CAPM, ECAPM, and RP methods.¹³¹⁹ While I&E is not opposed to providing the Commission with the results of the CAPM methodology for a point of comparison to the results of the DCF calculation, I&E explains it is opposed to giving the CAPM, ECAPM, and RP models considerable weight.¹³²⁰ For the reasons discussed in the I&E rate of return testimony, I&E submits it is inappropriate to give the CAPM, ECAPM, and RP model results similar weight to the DCF as Columbia has attempted to do in creating their indicated cost of equity range of 10.85% to 11.35% and recommending the middle of this range or an 11.10% cost of equity for Columbia.¹³²¹

I&E submits the CAPM and ECAPM (a modified version of CAPM) measure the cost of equity indirectly and can be manipulated by the time period chosen.¹³²² Since the RP is a simplified version of the CAPM, it suffers these same flaws.¹³²³ I&E explains Columbia acknowledges that it is not aware of any instances where a utility commission overseeing base rate proceedings explicitly adopted the ECAPM and RP results as presented by Columbia witness Rea in the past three years (I&E Exhibit No. 2, Schedule 13, pp. 1-2).¹³²⁴

¹³¹⁸

Id.

¹³¹⁹

I&E St. No. 2, at 47-48.

¹³²⁰

Id., at 47.

¹³²¹

See Id., at 27-36, 41-46.

¹³²²

Id.

¹³²³

Id.

¹³²⁴

Id., at 47-48.

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

g. Risk Analysis

The Company set forth a variety of claimed risk factors in this proceeding.¹³²⁵ Columbia cites to various business risks such as market competition; bypass threats due to pipelines; large customer group attrition; regulatory mechanisms; weather normalization disallowance; revenue normalization disallowance; and fixed customer charge adjustments.¹³²⁶

I&E asserts most companies in the natural gas utility sector face similar potential risks of bypass or competition with other suppliers and alternative energy sources.¹³²⁷ In this regard, I&E submits the companies within I&E's proxy group provide a good measure of the risk associated with competition from alternate suppliers.¹³²⁸ Though Columbia witness, Mr. Rea, admits to not studying the risk of bypass threat of each company in his proxy group, he acknowledges that he is aware that bypass is usually a threat to all LDCs when there are a number of interstate pipelines in close proximity to large volume users served by an LDC or when customers of the LDC are in close proximity to gas producing wells.¹³²⁹

I&E submits the risks referenced by Columbia affect the entire gas utility industry, therefore, Columbia faces the same exposure to these risks and uncertainties as

¹³²⁵ See I&E St. No. 2, at 48-57.

¹³²⁶ *Id.*, at 48-49 (citing Columbia St. No. 8, at 39).

¹³²⁷ *Id.*, at 49.

¹³²⁸ *Id.*

¹³²⁹ *Id.* (citing I&E Ex. No. 2, Sch. 14).

all the other companies in the proxy groups.¹³³⁰ I&E submits the cost of equity is adequately measured by I&E's proxy group and Columbia's equity rich capital structure adequately compensates for the risk differentials claimed by Columbia.¹³³¹ Accordingly, I&E recommends that any additional consideration for the Company's risk profile and making corresponding adjustments or adders in determining the cost of equity for Columbia is unwarranted, unjustified, and unsupported.

h. Elimination of "Low-End" DCF Results

Columbia chose to eliminate the DCF results of one of the companies from its calculations because of what Columbia determined was a "low-end" DCF result.¹³³² I&E disagrees with the elimination of a "low-end" DCF result from the DCF calculations because the decision is subjective and introduces additional unnecessary bias.¹³³³ I&E asserts that the low-end DCF results of the eliminated company are due to lower forecasted growth rates by S&P Global and Zacks. I&E submits Columbia ignored the fact that analysts making earnings per share growth forecasts are aware of the economic conditions and the operation and financial conditions of the gas utility and consider all other factors that they believe impact future growth.

Adding the "low-end" result back in yields results with averages of 9.96% $[(9.92\% + 9.42\% + 10.53\%) \div 3]$ rather than 10.43% $[(10.70\% + 10.10\% + 10.50\%) \div 3]$.¹³³⁴

¹³³⁰ See I&E St. No. 2, at 48-57; I&E St. No. 2-SR, at 27-31 for a complete discussion and critique of Columbia's Risk Analysis claims.

¹³³¹ *Id.*

¹³³² I&E St. No. 2, at 57-58.

¹³³³ *Id.*, at 58-60; See also I&E St. No. 2-SR, at 10-12.

¹³³⁴ See I&E St. No. 2, at 59-60.

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

i. Leverage Adjustment

I&E explains the Company proposed to make a 64-basis point leverage adjustment to the result of its DCF analysis to account for applying a market valued cost of equity to a book value capital structure.¹³³⁵ I&E argues the Company’s proposed 64-basis point (0.64%) leverage adjustment should be rejected because it is based on inappropriate characterization of financial risk and is inconsistent with Commission precedent, and is actually a pass-through burden on ratepayers.¹³³⁶

I&E witness D.C. Patel testified that the rating agencies assess financial risk based upon a company’s booked debt obligations and the ability of its cash flow to cover the interest payments on those obligations.¹³³⁷ The agencies use a company’s financial statements for their analysis, not market capital structure.¹³³⁸ I&E asserts it is a company’s financial statements that affect the market value of the stock, and, therefore, the financial statements and the book value capital structure are relied upon in an analysis such as that done by rating agencies.¹³³⁹

I&E witness Patel also provided a summary of recent Commission orders where he concludes the Commission rejected proposed leverage adjustments.¹³⁴⁰ First, in

¹³³⁵ Columbia St. No. 8, App. C, at 3.

¹³³⁶ I&E St. No. 2, at 62-67.

¹³³⁷ *Id.*, at 63.

¹³³⁸ *Id.*

¹³³⁹ *Id.*

¹³⁴⁰ *Id.*, at 63-65.

Pa. PUC v. Aqua Pennsylvania, Inc.,¹³⁴¹ the Commission rejected the ALJ’s recommendation for a leverage adjustment stating, “[t]he fact that we have granted leverage adjustments in the past does not mean that such adjustments are indicated in all cases.”¹³⁴²

Second, in *Pa. PUC v. City of Lancaster – Bureau of Water*,¹³⁴³ the Commission agreed with the I&E position and stated, “any adjustment to the results of the market based DCF are unnecessary and will harm ratepayers. Consistent with our determination in *Aqua 2008* there is no need to add a leverage adjustment.”¹³⁴⁴

Third, in *Pa. PUC v. UGI Utilities, Inc. – Electric Division*,¹³⁴⁵ the Commission agreed with the I&E position and stated, “we conclude that an artificial adjustment in this proceeding is unnecessary and contrary to the public interest. Accordingly, we decline to include a leverage adjustment in our calculation of the DCF cost of equity.”¹³⁴⁶

Fourth in *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*,¹³⁴⁷ the Commission adopted the ALJ’s recommendation to use I&E’s DCF methodology, which excluded the use of a leverage adjustment.¹³⁴⁸

¹³⁴¹ *Pa. PUC v. Aqua Pa., Inc.*, at Docket No. R-00072711 (Order Entered July 31, 2008).

¹³⁴² *Id.*, at 38.

¹³⁴³ *Pa. PUC v. City of Lancaster – Bureau of Water*, at Docket No. R-2010-2179103 (Order Entered July 14, 2011).

¹³⁴⁴ *Id.*, at 79.

¹³⁴⁵ *Pa. PUC v. UGI Utilities, Inc. – Electric Division*, at Docket No. R-2017-2640058 (Order Entered October 25, 2018).

¹³⁴⁶ *Id.*, at 93-94.

¹³⁴⁷ *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, at Docket No. R-2020-3018835 (Order Entered February 19, 2021)

¹³⁴⁸ *Id.*, at 137-141.

Fifth, in *Pa. P.U.C. v. PECO Energy Company – Gas Division*,¹³⁴⁹ the Commission similarly adopted the ALJ’s recommendation to use I&E’s DCF methodology, which excluded the use of PECO’s proposed leverage adjustment.¹³⁵⁰

Finally, the Commission again adopted the ALJ’s recommendation to use I&E’s DCF methodology and exclude a proposed leverage adjustment in *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*¹³⁵¹

Furthermore, I&E asserts if the Commission were to approve the proposed leverage adjustment to the cost of equity, it would force ratepayers to fund an exorbitant additional amount of \$18,568,996 annually to cover the increase of the inflated rate of return along with the associated impact resulting from increases to income taxes and uncollectibles.¹³⁵²

I&E also argues that investors are aware of and base their decisions on book value debt and equity ratios for the regulated utilities, therefore, no adjustment is needed.¹³⁵³ The Company’s proposed adjustment would only serve to manipulate the DCF’s market-based methodology and would cause substantial harm to ratepayers through higher rates.¹³⁵⁴ Therefore, I&E recommends that the Company’s proposed leverage adjustment be rejected in its entirety.

j. Flotation Cost Adjustment

¹³⁴⁹ *Pa. PUC v. PECO Energy Company – Gas Division*, at Docket No. R-2020-3018929 (Order Entered June 22, 2021).

¹³⁵⁰ *Id.*, at 172-173.

¹³⁵¹ *Pa. PUC. v. Aqua Pa., Inc.*, at Docket No. R-2021-3027385 (Order Entered June 22, 2021), at 154-155.

¹³⁵² I&E St. No. 2, at 66.

¹³⁵³ *Id.*, at 67.

¹³⁵⁴ *Id.*

The Company proposed a 3 basis point (0.03%) adder to all cost of equity analyses to adjust for flotation cost, or costs associated with the new issuances of common stock, in this case by Columbia's parent company NiSource, Inc.¹³⁵⁵ I&E recommends this proposed adder be rejected, as there is no indication that NiSource will issue new stocks during the FPFTY when the new rates will be effective, and flotation costs are accounted for on the books of the issuer company, making it inappropriate to present the potential impact of this cost on FPFTY equity cost rate based on a historic O&M expense such as flotation cost.¹³⁵⁶ I&E submits an allowance to recover historic flotation costs in this manner would represent inappropriate retroactive ratemaking¹³⁵⁷ and would force ratepayers to fund a significant additional amount of \$870,421 annually to cover the increase of the inflated rate of return along with the associated impact resulting from increases to income taxes, uncollectibles, and assessments.¹³⁵⁸

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

k. *Risk Free Rate of Return*

Though the Company's calculation of risk-free rate is similar to I&E's, Company witness Rea used the 30-year Treasury Bond as the relevant treasury yield, while I&E uses the 10-year Treasury Note.¹³⁵⁹ I&E recommends the Commission

¹³⁵⁵ I&E St. No. 2, at 67 (citing Columbia St. No. 8, App. D, at 2-3).

¹³⁵⁶ I&E St. No. 2, at 69.

¹³⁵⁷ I&E St. No. 2-R, at 22.

¹³⁵⁸ I&E St. No. 2, at 70.

¹³⁵⁹ *Id.*, at 71.

continue its historic practice¹³⁶⁰ of recognizing the 10-year Treasury Note as the superior measure for the risk-free rate, as long-term Treasury Bonds have substantial maturity risk associated with the market risk and the risk of unexpected inflation.¹³⁶¹ I&E maintains that the 10-year Treasury Note is more appropriate to balance the short-term volatility risk and the long-term inflation risk.¹³⁶²

1. CAPM Market Risk Premium

Columbia used a 7.00% market risk premium in their CAPM analysis results, which was calculated by averaging the prospective market risk premium of 6.83% (prospective market return of 11.48% minus risk free rate of 4.65%) and Kroll's historic average market risk premium (1926-2023) of 7.17%.¹³⁶³

I&E rejects this application of a market risk premium and argues that the Company inappropriately mingled the historic risk premium with the prospective risk premium and used the average of 7.00% $((6.83\% + 7.17\%) \div 2)$ risk premium in their CAPM analysis.¹³⁶⁴ Since the cost of equity is determined for the FPFTY, using a historic risk premium skews the prospective market risk premium and the CAPM results.¹³⁶⁵ I&E submits the Company should have used the prospective risk premium of 6.83% rather than using a 7.00% average risk premium, which unnecessarily inflates their

¹³⁶⁰ See *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order entered October 25, 2018), at 99. (Disposition of Capital Asset Pricing Model (CAPM)).

¹³⁶¹ I&E St. No. 2, at 72.

¹³⁶² *Id.*

¹³⁶³ I&E St. No. 2, at 73 (citing Columbia Ex. VVR-11, at 1).

¹³⁶⁴ *Id.*

¹³⁶⁵ *Id.*

CAPM results. In fact, Kroll's latest forecast (April 15, 2025) equity risk premium is 5.50%,¹³⁶⁶ which is lower than Columbia's prospective risk premium of 6.83%.¹³⁶⁷

In addition, using the prospective risk premium, I&E submits Columbia's CAPM results would be 10.87% as opposed to 11.02%.¹³⁶⁸ If Columbia would have used Kroll's risk premium of 5.50%, then Columbia's CAPM results would be 9.66%.¹³⁶⁹

Finally, I&E's cost of common equity recommendation is based on the DCF method as the primary method to determine the cost of common equity.¹³⁷⁰ I&E is providing the results of its CAPM analysis as a comparison, and not as a check, to its DCF results.¹³⁷¹ I&E's inclusion of the Kroll ERP in its CAPM analysis is to provide more information to the Commission as it has recently expressed an interest in the CAPM model.¹³⁷² I&E submits Kroll is a trusted and publicly available source that bases its recommended ERP on current and forecasted economic and financial conditions.¹³⁷³ I&E argues Columbia witness Rea's opposition to I&E's use of Kroll's ERP further demonstrates that the inputs to the CAPM are highly subjective and can lead to wildly different results.¹³⁷⁴ I&E submits this is not the case with the DCF inputs and analysis results, which is another reason the DCF methodology should be controlling.¹³⁷⁵

¹³⁶⁶ *Id.*, p. at 73-74 (citing Kroll Cost of Capital Inputs Updated to Reflect Heightened Uncertainty in Global Economy (accessed on May 29, 2025)).

¹³⁶⁷ *Id.*, at 74.

¹³⁶⁸ *Id.* (citing Columbia Ex. VVR-11, at 1).

¹³⁶⁹ *Id.*

¹³⁷⁰ I&E St. No. 2-SR, at 36.

¹³⁷¹ *Id.*

¹³⁷² *Id.*

¹³⁷³ I&E St. No. 2-SR, at 36.

¹³⁷⁴ *Id.*

¹³⁷⁵ *Id.*

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

m. *Size Premium Adjustment to CAPM*

I&E recommends that the Company's proposal to use a CAPM size adjustment of 61-basis points (0.61%) be disallowed.¹³⁷⁶ I&E argues the Company's proposed size adjustment is unnecessary and unsupported because none of the technical literature the Company cited in testimony supporting investment adjustments related to the size of a company is specific to the utility industry, and is thus irrelevant in this proceeding.¹³⁷⁷

I&E cites Dr. Annie Wong to support its recommendation to reject the Company's proposal.¹³⁷⁸ In her article "Utility Stocks and the Size Effect: An Empirical Analysis," Dr. Wong concludes:

The objective of this study is to examine if the size effect exists in the utility industry. After controlling for equity values, there is some weak evidence that firm size is a missing factor from the CAPM for the industrial but not for utility stocks. This implies that although the size phenomenon has been strongly documented for the industrials, the findings suggest that there is no need to adjust for the firm size in utility rate regulation.¹³⁷⁹

I&E argues Columbia presented no evidence to support application of a non-utility study regarding a size adjustment for risk to a utility setting. Additionally, the

¹³⁷⁶ I&E St. No. 2, at 74-79; I&E St. No. 2-SR, at 37-43.

¹³⁷⁷ I&E St. No. 2, at 75.

¹³⁷⁸ *Id.*, at 76-78

¹³⁷⁹ Dr. Annie Wong, "Utility Stocks and the Size Effect: An Empirical Analysis," *Journal of Midwest Finance Association* 1993, at 95-101.

Commission has recently rejected the application of a size adjustment to the CAPM cost of equity calculation where it agreed that the same literature the Company cites is not specific to the utility industry,¹³⁸⁰ and the Company has not cited to any case where the Commission has approved such a size adjustment to CAPM analysis.¹³⁸¹ Absent any credible evidence to refute Dr. Wong's findings, I&E asserts the Company's proposed size adjustment to its CAPM results should be rejected, as the addition of 61 basis points for the size premium adjustment in this case would force ratepayers to fund an excessive additional amount of \$17,698,574 annually to cover the increase of the overstated rate of return along with the associated impact resulting from increases to income taxes and uncollectibles.¹³⁸² The additional articles cited by the Company, particularly the study by Dr. Thomas Zepp, according to I&E, does not contain enough credible evidence to refute Dr. Wong's findings,¹³⁸³ and further the analysis by I&E witness Patel supports the argument that it is not appropriate to link the small size effect of non-regulated companies with the regulated utility industry due to the notable differences between the industries such as reduced competition and regulatory ratemaking mechanisms.¹³⁸⁴

n. ECAPM

I&E asserts the ECAPM is a modified version of the CAPM which attempts to address the belief that the actual risk versus return correlation is flatter than what is predicted by the CAPM.¹³⁸⁵ The use of the ECAPM in estimating the cost of capital does not increase the validity of the result, according to I&E, but instead it injects another

¹³⁸⁰ *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order Entered October 25, 2018) , at 100 (Disposition of Cost of Common Equity).

¹³⁸¹ I&E St. No. 2, at 77.

¹³⁸² *Id.*, at 77-78.

¹³⁸³ I&E St. No. 2-SR, at 39.

¹³⁸⁴ *Id.*, at 39-42.

¹³⁸⁵ I&E St. No. 2, at 79.

measure of subjectivity to the CAPM in an attempt to make the Security Market Line more accurate.¹³⁸⁶

Accordingly, I&E recommends the Commission entirely reject Columbia's calculated ECAPM results of 11.18% without the flotation cost adjustment and 11.21% with the flotation cost adjustment.¹³⁸⁷

o. Management Performance

The Company has proposed an upward adjustment of 25 basis points (0.25%) to the cost of equity results based on the Company's exceptional management performance.¹³⁸⁸ I&E disagrees and asserts that true strong management performance is earning a higher return through its efficient use of resources and cost cutting measures.¹³⁸⁹ The greater net income resulting from cost savings and true efficiency in management and operations is then available to be passed on to shareholders.¹³⁹⁰ Therefore, according to I&E, Columbia, or any utility, should not be awarded additional rate of return basis points for doing what they are required to do in order to provide adequate, efficient, safe, and reasonable service under 66 Pa.C.S. § 1501.¹³⁹¹

The Company argues that Columbia has demonstrated exceptional management performance based on its commitment to low-income customers, the results from the Utility Consumer Activities Report and Evaluation (UCARE) and quality of

¹³⁸⁶ *Id.*; See also I&E St. No. 2-SR, at 43-45.

¹³⁸⁷ *Id.*, at 80.

¹³⁸⁸ I&E St. No. 2, at 80-81; I&E St. No. 2-SR, at 49-50.

¹³⁸⁹ I&E St. 2, at 80-85; I&E St. No. 2 SR, at 49-53.

¹³⁹⁰ I&E St. No. 2, at 85.

¹³⁹¹ *Id.*

service reports, process improvements enhancing customer service, employee and system safety, and management audit performance.¹³⁹²

I&E rejects the Company's arguments and asserts that, first, many of the arguments presented by Columbia fall within the categories of reliability, customer satisfaction, and safety which are required of every public utility company under 66 Pa. C.S.A. § 1501.¹³⁹³ Second, the costs and expenses to implement the Company's cited programs are recovered from ratepayers via base rates or through a DSIC mechanism for capital expenditure recovery.¹³⁹⁴ Third, if the Company is as effective at controlling operating and maintenance costs, those savings should flow through to ratepayers and/or investors.¹³⁹⁵ Fourth, the claimed savings to the ratepayers would likely be offset by the addition of basis points for management performance as ratepayers would have to fund the additional costs. I&E argues, this would defeat the purpose of cutting expenses to benefit ratepayers, particularly as the 0.25% adder would result in an additional amount of \$7,253,514 annually that the ratepayers must cover.¹³⁹⁶ Finally, given that this case is the Company's ninth base rate case filed since 2014,¹³⁹⁷ I&E points out that Columbia customers have encountered increased rates on an almost annual basis in addition to standard rate surcharges.¹³⁹⁸

I&E explains, though the issuance of equity points to recognize exemplary management performance must be done on a case-by-case basis, previous issuances by the Commission of additional points for exemplary management performance, such as a

¹³⁹² I&E St. No. 2, at 81 (citing Columbia statement No. 9 at 3-40).

¹³⁹³ I&E St. No. 2, at 81.

¹³⁹⁴ *Id.*, at 82.

¹³⁹⁵ *Id.*

¹³⁹⁶ I&E St. No. 2, at 82, I&E St. No. 2-SR, at 87.

¹³⁹⁷ I&E St. No. 2, at 6.

¹³⁹⁸ *Id.*, at 82.

2021 case where Aqua was awarded 25 additional basis points¹³⁹⁹ would not be comparable, as the *Aqua* decision cited specific efforts by Aqua to rescue troubled water/wastewater systems (some at the Commission’s request) and prevent health concerns regarding drinking water.

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

[The ALJ] agreed with I&E, the OCA, and the OSBA that Columbia failed to provide sufficient evidence to support its proposal for an additional twenty-basis points for “strong management performance.” The ALJ reasoned that while effective operating and maintenance cost measures should flow through to ratepayers and/or investors, Columbia’s proposal defeats the purpose of cutting expenses to benefit ratepayers, particularly during a pandemic when so many ratepayers have experienced reduced household income from job loss or reduction in hours. Therefore, the ALJ recommended that no upward management effectiveness adjustment be made to the Company’s cost of equity.¹⁴⁰⁰

Therefore, in consideration of the above and the record evidence presented, I&E recommends that the Commission not award Columbia additional basis points for doing what they are required to do by the Public Utility Code and Commission regulations in order to provide adequate, efficient, safe, and reasonable service.¹⁴⁰¹

¹³⁹⁹ *Pa. PUC v. Aqua Pa., Inc.*, Docket No. R-2021-3027385, at 168-173 (Order entered May 16, 2022).

¹⁴⁰⁰ *Columbia Gas*, at 134.

¹⁴⁰¹ I&E St. No. 2, at 80-85; I&E St. No. 2-SR, at 50-53.

p. *Inflated Growth Rate*

I&E recommends that the Company's assertion that DCF growth rates can be determined subjectively and inflated be rejected.¹⁴⁰²

I&E submits the Company subjectively "chose" a DCF growth rate of 7.50% even though the average growth rate of the Company's sources is 7.13%.¹⁴⁰³

I&E asserts DCF growth rates should be established by mathematical formulation, and that any alternative method is subjective and introduces additional and unnecessary bias and should be avoided when possible.¹⁴⁰⁴ Further, the Company's use of a higher growth rate than the average of the Company's proxy group ignores the fact that analysts making earnings per share growth forecasts are already aware of the economic conditions and the state of the gas utility industry.¹⁴⁰⁵ I&E submits the reasons the Company has given for choosing 7.50% are factors that are already included in the earnings per share growth forecasts; thus, choosing a growth rate higher than the average of the Company's proxy group would account for the same factors twice.¹⁴⁰⁶

I&E concludes, since analysts' projected growth forecasts are most often overly optimistic, there is no need to arbitrarily and non-formulaically increase the estimates used in a DCF analysis¹⁴⁰⁷ and recommends the Company's proposed subjective and inflated DCF growth rate be summarily rejected.

¹⁴⁰² I&E St. No. 2, at 36-38; I&E St. No. 2-SR, at 7-9.

¹⁴⁰³ I&E St. No. 2, at 36-37.

¹⁴⁰⁴ I&E St. No. at 37; I&E St. No. 2-SR, at 8-9.

¹⁴⁰⁵ I&E St. No. at 37; I&E St. No. 2-SR, at 8-9.

¹⁴⁰⁶ I&E St. No. at 37; I&E St. No. 2-SR, at 8-9.

¹⁴⁰⁷ I&E St. No. 2, at 38.

q. Conclusion – Overall Rate of Return

I&E recommends that the Company should be afforded the opportunity to earn an overall rate of return of 8.10%.¹⁴⁰⁸ This recommended overall rate of return is comprised of a weighted average of a 2.26% rate of return on long-term debt, a 0.12% rate of return on short-term debt, and a 5.72% rate of return on common equity.¹⁴⁰⁹ I&E notes that I&E's recommended return on common equity of 10.51% is higher than the average return on equity of 9.73% of all gas utility rate cases decided/approved by state regulatory authorities in the first quarter of 2025.¹⁴¹⁰ Additionally, the average of equity ratios authorized for gas utilities was 52.13% in 2024, while Columbia is claiming a higher equity ratio of 54.40%.¹⁴¹¹

3. *OCA's Position*

a. Introduction

OCA witness Garrett recommends that Columbia's proposed return on equity and capital structure should be rejected as they are not supported by substantial evidence and would result in unjust and unreasonable rates. OCA witness Garrett recommends the following:

- 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.¹⁴¹²

¹⁴⁰⁸ I&E St. No. 2-SR, at 53-54.

¹⁴⁰⁹ *Id.*

¹⁴¹⁰ *Id.*, at 54.

¹⁴¹¹ *Id.*

¹⁴¹² OCA St. 3 at 3, 56.

OCA asserts Mr. Garrett's recommendations make proper use of accepted financial theory and realistically reflect today's capital cost environment. OCA witness Garrett's proposed adjustments to the Company's ROE and capital structure result in an overall 7.06% weighted rate of return.¹⁴¹³ Adopting OCA witness Garrett's recommended adjustments to ROE and capital structure would result in a revenue requirement reduction of \$54.6 million.¹⁴¹⁴

(1) Columbia's Proposed Capital Structure Strays Significantly from Columbia's Proposed Proxy Group

OCA asserts Columbia's requested capital structure is inappropriate and inconsistent with Pennsylvania case law. Columbia's requested capital structure includes a high common 54.4% equity ratio, 43.28% long-term debt, and 2.32% short-term debt.¹⁴¹⁵ OCA explains witness Garrett used the same utility proxy group as Columbia witness Rea, which contains six natural gas companies and is referred to as "Gas LDC Group."¹⁴¹⁶ However, Columbia witness Rea also conducted a cost of equity analysis with a "Combination Utility Group" proxy group and a "Non-Regulated Utility Group" proxy group.¹⁴¹⁷ OCA witness Garrett testified that "it is not necessary to perform cost of equity analyses on a proxy group beyond the Gas LDC Group."¹⁴¹⁸

OCA asserts that precedent recognizes the capital structure for companies that are wholly-owned subsidiaries, like Columbia, is not limited to an actual capital structure, and the Commission may make adjustments where circumstances may be

¹⁴¹³ *Id.*, at 3.

¹⁴¹⁴ *Id.*, at 3-4.

¹⁴¹⁵ OCA St. 3SR at 9; Columbia St. 8 at 43-44.

¹⁴¹⁶ OCA St. 3 at 12.

¹⁴¹⁷ OCA St. 3, at 12.

¹⁴¹⁸ OCA St. 3, at 51.

unfair to customers. The Pennsylvania Superior Court has held that the capital structure of utilities that are wholly-owned subsidiaries may not be one which it would maintain if it were obliged to obtain its debt and equity financing on the open market rather than from a parent company.¹⁴¹⁹ The Court further explained:

In such instances the actual capital structure may be weighted too heavily on the debt side or the equity side...The use of the actual capital structure in such peculiar circumstances might be unfair to either the utility or its customers, depending upon whether debt or equity is disproportionately high. Under such circumstances the commission must make adjustments based upon substantial evidence in order to reach a fair result.^[1420]

Additionally, according to Value Line, the average capital structure mix for the proxy group consists of 55% debt and 45% equity.¹⁴²¹ This debt ratio is notably higher than Columbia's proposed capital structure consisting of only 46% debt.¹⁴²² There are nearly 2,000 firms in U.S. industries with higher debt ratios than 50% and with an average debt ratio of approximately 63%.¹⁴²³

OCA concludes Columbia failed to meet its burden of proof in establishing that a 54.4% equity ratio is supportable or reasonable for ratemaking purposes.

b. Debt Cost Rate

OCA states it accepts Columbia's debt cost rate.

¹⁴¹⁹ *Riverton Consol. Water Co. v. Pa. PUC*, 140 A.2d 114, at 121 (Pa. Super. 1958).

¹⁴²⁰ *Id.*

¹⁴²¹ OCA St. 3, at 50.

¹⁴²² *Id.*

¹⁴²³ OCA St. 3, at 51.

(1) OCA’s Recommended Return on Common Equity is Supported by Substantial Evidence and Results in Just and Reasonable Rates

OCA explains, in arriving at a recommended 8.9% ROE, OCA witness Garrett used a Discounted Cash Flow (DCF) model, including an Analyst-Growth and Sustainable Growth model, and a Capital Asset Pricing Model (CAPM) at both the proxy debt ratio and at the Columbia-proposed debt ratio (also known as the Hamada CAPM) to the proxy group provided by Columbia.¹⁴²⁴

OCA witness Garrett recommended the highest cost of equity result from the range of cost of equity calculations: 8.9%.¹⁴²⁵

OCA witness Garrett’s rate of return recommendations are as follows¹⁴²⁶:

Capital Component	Proposed Ratio	Cost Rate	Weighted Cost
Long-Term Debt	47.68%	5.2%	2.5%
Short-Term Debt	2.32%	5.0%	0.1%
Common Equity	<u>50.00%</u>	8.9%	<u>4.5%</u>
Total	100.0%		7.06%

(2) Mr. Garrett’s Discounted Cash Flow Model is Reasonable and Supported by Substantial Evidence

¹⁴²⁴ OCA St. 3, at 57-58.

¹⁴²⁵ *Id.*, at 57.

¹⁴²⁶ *Id.*, at 58.

OCA submits the Discounted Cash Flow (DCF) Model is commonly presented in rate proceedings and considered when assessing a utility's authorized ROE.¹⁴²⁷ There are three primary inputs in the DCF Model: (1) stock price; (2) dividend; and (3) the long-term growth rate.¹⁴²⁸ The stock prices and dividends are known inputs based on recorded data, while the growth rate must be estimated.¹⁴²⁹

OCA witness Garrett used two variants of the DCF model: one using analysts' projected growth rates published by Value Line and the other using the maximum sustainable growth rate based on the U.S. Gross Domestic Product (GDP). The results of these DCF analyses are 7.5% and 7.3%, respectively.¹⁴³⁰

(3) OCA Witness Garrett's Analyst Growth Rate DCF Relies on Value Line's Publication without Modification

Analyst growth rates refer to short-term projections of earnings growth published by institutional research analysts such as Value Line and Bloomberg.¹⁴³¹ Mr. Garrett used Value Line's growth rate, which resulted in a 7.5% ROE when inputted into the DCF formula.¹⁴³² As Mr. Garrett testified in response to Mr. Rea's critique, "[t]his means that Value Line analysts project annual dividend growth for the proxy companies at an annual rate not much higher than projected GDP growth, which is about 3.7% over the long-run."¹⁴³³

¹⁴²⁷ OCA St. 3, at 24-25.

¹⁴²⁸ *Id.*, at 20.

¹⁴²⁹ *Id.*

¹⁴³⁰ OCA St. 3, at 27.

¹⁴³¹ OCA St. 3, at 24.

¹⁴³² OCA St. 3SR, at 5; OCA Ex. DJG-6.

¹⁴³³ OCA St. 3SR at 5.

(4) OCA Witness Garrett's Sustainable Growth Rates DCF is Reasonably Based on the U.S. Gross Domestic Product Growth

OCA asserts the aggregate growth rate of the economy is typically a limiting factor for the growth rate in the DCF model.¹⁴³⁴ Mr. Garrett explained that for mature companies in mature industries such as public utilities, the terminal growth rate should not exceed nominal GDP growth.¹⁴³⁵

OCA explains, according to the Congressional Budget Office's Budget Outlook, the long-term forecast for nominal U.S. GDP growth is 3.7%.¹⁴³⁶ For mature companies in mature industries, such as utility companies, the terminal growth rate should not exceed nominal GDP growth. The sustainable growth rate DCF model resulted in a 7.3% ROE, which is very similar to the analyst growth rate DCF model's 7.5% ROE result.¹⁴³⁷

(5) OCA Witness Garrett's DCF Model Relies on Data from Financial Institutions without Alteration while Columbia Witness Rea's DCF Analysis Subjectively Overstates the Appropriate Rate of Return

Both the DCF Model utilizing the analyst growth rates and the DCF Model utilizing a sustainable growth rate resulted in a similar cost of equity: 7.5% (Analyst Growth) and 7.3% (Sustainable Growth).¹⁴³⁸ Accordingly, the highest DCF result that OCA witness Garrett was able to obtain was 7.5%.

¹⁴³⁴ OCA St. 3, at 26.

¹⁴³⁵ *Id.*, at 26.

¹⁴³⁶ *Id.*, at 27.

¹⁴³⁷ OCA St. 3SR at 5; OCA Ex. DJG-6.

In contrast, OCA argues Columbia witness Rea's DCF analysis is overstated through the use of unsustainably high growth rates for some proxy companies.¹⁴³⁹ Mr. Rea's DCF conducted on the Gas LDC group produced a result of 10.97%, which OCA submits is excessive.¹⁴⁴⁰ OCA asserts Mr. Rea eliminated several results of the proxy companies from his DCF analysis because he subjectively considered them to be too low¹⁴⁴¹ and removed any individual DCF estimate below 7%.¹⁴⁴² However, OCA submits Mr. Rea did not remove any of his higher DCF results for the proxy companies, which are as high as 13.4%.¹⁴⁴³

OCA witness Garrett testified that the perpetual growth rates that Mr. Rea used for some proxy companies are unrealistically high and are unsustainable, as follows:

For example, Mr. Rea assumes an annual long-term growth rate of 10% for Southwest Gas. This means Mr. Rea is suggesting the company's earnings will growth by 10% each year, every year, in perpetuity. This 10% growth estimate is from Value Line. However, Value Line is representing this to be a short-term annual growth rate over the next few years. It is Mr. Rea who is suggesting that this annual earnings growth rate can be achieved each year in perpetuity.^[1444]

OCA submits, as Mr. Rea is using long-term growth rates that Value Line represents as short-term growth rates over the next few years, the cost of equity results indicated by Mr. Rea's DCF model are unreasonably high and should not be adopted.¹⁴⁴⁵ By comparison, OCA witness Garrett uses the long-term growth rate provided by Value

¹⁴³⁹ OCA St. 3, at 27.

¹⁴⁴⁰ *Id.*, at 27.

¹⁴⁴¹ *Id.*, at 27-28.

¹⁴⁴² *Id.*, at 28.

¹⁴⁴³ *Id.*, at 28.

¹⁴⁴⁴ OCA St. 3, at 28.

¹⁴⁴⁵ *Id.*, at 28.

Line (analyst expectations model) and GDP (sustainable growth model) as provided by the U.S. Congressional Budget Office.¹⁴⁴⁶ As such, OCA witness Garrett's DCF results are based on a solid mathematical foundation without alternation.

c. Capital Asset Pricing Model

OCA explains the Capital Asset Pricing Model (CAPM) is a market-based model founded on the principle that investors expect higher returns for incurring additional risk.¹⁴⁴⁷ The CAPM estimates this expected return.¹⁴⁴⁸ The Commission has recently held that the CAPM is properly used as a check on the reasonableness of the DCF:

We conclude that methodologies other than the DCF can be used as a check upon the reasonableness of the DCF derived ROE calculation. Historically, we have relied primarily upon the DCF methodology in arriving at ROE determinations and have utilized the results of the CAPM as a check upon the reasonableness of the DCF derived equity return.^[1449]

In calculating the CAPM, OCA witness Garrett determined the appropriate values or ranges of the three model inputs: 1) risk-free rate; (2) beta, and; (3) equity risk premium. OCA St. 3 at 29. OCA witness Garrett's CAPM resulted in an 8.9% cost of equity, but only if the proxy group average debt ratio is assumed.¹⁴⁵⁰ Otherwise, OCA witness Garrett calculated an 8.7% CAPM.¹⁴⁵¹

¹⁴⁴⁶ *Id.*, at 27.

¹⁴⁴⁷ *Id.*, at 28.

¹⁴⁴⁸ *Id.*

¹⁴⁴⁹ *Pa. PUC v Aqua Pa., Inc.*, Docket No. R-2021-3027385, 2022 Pa PUC LEXIS 161, *83, (Opinion and Order entered May 16, 2022) (*Aqua 2022*).

¹⁴⁵⁰ OCA St. 3 at 31.

¹⁴⁵¹ *Id.*

(1) OCA Witness Garrett's Risk-Free Rate is Reasonably Based on U.S. Treasury Securities

The risk-free rate is simply the level of return investors can achieve without assuming any risk.¹⁴⁵² OCA witness Garrett testified that, even though no investment is technically devoid of risk, investors often use U.S. Treasury securities to represent the risk-free rate because they accept that those securities essentially contain no default risk.¹⁴⁵³ The Treasury issues securities with different maturities, including short-term Treasury Bills, intermediate-term Treasury Notes, and long-term Treasury Bonds.¹⁴⁵⁴ OCA witness Garrett noted that “[s]hort-term rates are subject to greater volatility and thus can lead to unreliable estimates. Instead, long-term Treasury bonds are usually used to represent the risk-free rate in the CAPM.”¹⁴⁵⁵ OCA witness Garrett considered a 30-day average of daily U.S. Treasury yield curve rates on 30-year Treasury bonds for the risk-free rate, which result in a risk-free rate of 4.89%.¹⁴⁵⁶

(2) OCA Witness Garrett's Beta is the Most Recent Value Line Beta

Beta represents the sensitivity of a given security to movements in the overall market.¹⁴⁵⁷ An index such as the S&P 500 Index is used as a proxy for the market portfolio.¹⁴⁵⁸ A security with a beta greater than 1.0 is riskier than the market portfolio while a security with a beta less than 1.0 is less risky than the market portfolio.¹⁴⁵⁹

¹⁴⁵² OCA St. 3 at 29.

¹⁴⁵³ *Id.*, at 29.

¹⁴⁵⁴ *Id.*

¹⁴⁵⁵ OCA St. 3 at 30.

¹⁴⁵⁶ *Id.*, at 30.

¹⁴⁵⁷ OCA St. 3, at 30.

¹⁴⁵⁸ *Id.*

¹⁴⁵⁹ OCA St. 3, at 30.

Mr. Garrett used betas recently published by Value Line Investment Survey.¹⁴⁶⁰ The beta for each proxy company is less than 1.0, and the average beta for the total proxy group is only 0.83. As such, OCA witness Garrett noted that there is an objective measure to prove the concept that utility stocks are less risky than average stock in the market.¹⁴⁶¹ OCA witness Garrett further testified that “[w]hile there is evidence suggesting that betas published by sources such as Value Line may actually overestimate the risk of utilities (and thus overestimate the CAPM), I used the betas published by Value Line in the interest of reasonableness.”¹⁴⁶²

(3) OCA Witness Garrett Appropriately Relied on Expert Surveys and an Implied Equity Risk Premium based on Respected Financial Institutions and Scholars

OCA asserts the Equity Risk Premium (ERP) is arguably the most important factor in estimating the cost of capital through the CAPM.¹⁴⁶³ OCA witness Garrett used two methods to estimate the ERP: (1) expert surveys and (2) calculating the implied ERP.

The expert survey approach to estimating ERP relies on surveys of professors, analysts, chief financial officers, and other executives, asking what experts think the ERP is.¹⁴⁶⁴ The IESE Business School conducts an expert survey every year and its 2025 survey reported an average ERP of 5.5%.¹⁴⁶⁵

¹⁴⁶⁰ *Id.*, at 31.

¹⁴⁶¹ *Id.*, at 31.

¹⁴⁶² *Id.*

¹⁴⁶³ *Id.*, at 37.

¹⁴⁶⁴ OCA St. 3, at 34.

¹⁴⁶⁵ *Id.*, at 34.

OCA witness Garrett testified that the implied equity risk premium approach is arguably the best approach. OCA witness Garrett provided an extensive discussion of the implied ERP calculation.¹⁴⁶⁶

For his final ERP estimate used in the CAPM analysis, OCA witness Garrett considered the results of expert surveys, the estimated ERP reported by Kroll, the estimated ERP calculated by Dr. Damodaran, and the implied ERP based on Mr. Garrett's calculations.¹⁴⁶⁷ OCA witness Garrett used the average from these sources to arrive at the 5.1% ERP for his CAPM.¹⁴⁶⁸

d. Conclusion as to the OCA's CAPM Recommendation

Using inputs for the risk-free rate, beta, and ERP discussed above, OCA witness Garrett estimated that Columbia's CAPM cost of equity is 8.9%, but only if the proxy group average debt ratio is assumed.¹⁴⁶⁹ As 8.9% is the highest cost of equity OCA witness Garrett was able to reasonably obtain, Mr. Garrett recommended an 8.9% return on equity for Columbia.¹⁴⁷⁰

(1) 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.¹⁴⁷¹ Mr. Rea also conducted another variation of the CAPM called the "empirical CAPM" (ECAPM), which resulted in a 11.21% cost of

¹⁴⁶⁶ *Id.*, at 34-36.

¹⁴⁶⁷ *Id.*, at 37.

¹⁴⁶⁸ *Id.*

¹⁴⁶⁹ OCA St. 4, at 39.

¹⁴⁷⁰ OCA St. 3, at 38.

¹⁴⁷¹ *Id.*, at 38.

equity for the Gas LDC Group.¹⁴⁷² 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.¹⁴⁷³ Mr. Rea also applied a size premium to his final results, which caused his CAPM results to be as high as 11.66%.¹⁴⁷⁴

(2) Mr. Rea's CAPM Beta is Outdated

OCA asserts while OCA witness Garrett and Columbia witness Rea both relied on betas published by Value Line, since the time Mr. Rea conducted his analysis, Value Lines' betas have been notably reduced.¹⁴⁷⁵ OCA witness Garrett testified that "[t]his indicates the relative stability of utility stock prices during times of market volatility, and is not surprising."¹⁴⁷⁶ Mr. Rea used an average beta of 0.91 for the Gas LDC Group.¹⁴⁷⁷

Using the same proxy group with more recent market data from Value Line, OCA witness Garret used an average beta of 0.80 for the Gas LDC Group.¹⁴⁷⁸ While OCA witness Garrett agrees that Value Line can be a reliable source for beta estimates, the more recent betas published by Value Line are considerably lower than those used by Mr. Rea in his CAPM analysis and should be utilized as they are more up-to-date.¹⁴⁷⁹

¹⁴⁷²

Id.

¹⁴⁷³

Id., at 38-39.

¹⁴⁷⁴

Id., at 39.

¹⁴⁷⁵

Id.

¹⁴⁷⁶

Id.

¹⁴⁷⁷

OCA St. 4, at 39.

¹⁴⁷⁸

OCA St. 3, at 39.

¹⁴⁷⁹

Id., at 39-40.

(3) Mr. Rea's Equity Risk Premiums are Excessive

Columbia witness Rea considered ERPs in his CAPM analysis ranging from 6.83% to 7.17%.¹⁴⁸⁰ By comparison, the ERPs OCA witness Garrett considered, according to OCA, were from objective and reliable sources, which resulted in an average ERP of 5.1%.¹⁴⁸¹

OCA explains Mr. Rea's ERP is significantly higher than other estimates for ERP. For example, the 2025 IESE Business School expert survey reports an average ERP of 5.5%.¹⁴⁸² Similarly, Kroll (formerly Duff & Phelps) recently estimated an ERP of 5.5%.¹⁴⁸³ Dr. Damodaran, one of the leading experts on the ERP, recently estimated an ERP of only 4.3%.¹⁴⁸⁴

(4) Mr. Rea's Size Premium Adjustment is Unreasonable

OCA asserts Columbia witness Rea adds a 0.43% size premium adjustment for Columbia to his traditional CAPM results based on his opinion that Columbia's size relative to the proxy group has an increasing effect to its risk relative to the proxy group.¹⁴⁸⁵ OCA witness Garrett noted that Columbia should not receive any upward adjustment or consideration to its cost of equity estimate or authorized ROE due to size.¹⁴⁸⁶ OCA asserts the "size effect" phenomenon was controversial and short-lived¹⁴⁸⁷

¹⁴⁸⁰ *Id.*, at 40.

¹⁴⁸¹ *Id.*

¹⁴⁸² *Id.*

¹⁴⁸³ *Id.*

¹⁴⁸⁴ OCA St. 3, at 41.

¹⁴⁸⁵ OCA St. 3 at 41.

¹⁴⁸⁶ *Id.*, at 42.

¹⁴⁸⁷ *Id.*, at 42-44.

and adding a 0.43% size premium adjustment for Columbia artificially inflates the cost of equity and should be denied.

(5) Mr. Rea's Additional Risk Premium Model Significantly Overestimates the Cost of Equity

In addition to the CAPM, which is a risk premium model, Columbia witness Rea also conducted another type of risk premium model which ultimately produced the highest result of 11.23% for the Gas LDC Group.¹⁴⁸⁸ In response, Mr. Garrett testified:

First, Mr. Rea's personal risk premium model adds no marginal value to estimating cost of equity beyond the CAPM – a risk premium mode that resulted in a Nobel Prize in economics and has been used by investors, managers, and analysts around the world for decades. Furthermore, Mr. Rea's personal risk premium method suffers from the same overestimated betas and risk premiums that were present in his traditional CAPM. Finally, Mr. Rea's risk premium model considers, in part, data as old as 1926. This contradicts Mr. Rea's acknowledgement that cost of equity is a forward-looking process. Indeed, the process of estimating the cost of equity is inherently current and forward-looking. It may be helpful to look at a relatively short period in the past to help project future market indicators (such as 30 days of stock prices in the DCF Model, or a few years of market operating earnings for the ERP). However, market data which predates the Great Depression is simply not relevant for estimating Columbia's cost of equity in 2025.^[1489]

Accordingly, OCA asserts the Commission should reject the results of Mr. Rea's risk premium model and focus on the results of the DCF and CAPM models presented in this proceeding.

¹⁴⁸⁸ *Id.*, at 44-45.

¹⁴⁸⁹ OCA St. 3 at 44-45.

e. Management Performance Premium

- (1) Columbia's Performance does not Merit the Granting of a 25 Basis Point Performance Management Adder

Columbia's proposed 11.35% return on equity includes a 0.25% upward adjustment for management performance primarily relying upon the testimony of Columbia witness Nicole Paloney as support for the performance management adder.¹⁴⁹⁰ OCA witness Garrett testified that he is not aware of a regulator from another jurisdiction that specifically recognized management performance as having an increasing effect on the authorized ROE.¹⁴⁹¹

OCA witnesses Colton and Alexander addressed the Company's claims of "superior" performance. Mr. Colton examined the Company's performance regarding low-income customers, and Ms. Alexander examined the Company's customer service. Mr. Colton and Ms. Alexander both concluded that the Company's initiatives and performance areas do not reflect "superior" performance compared to other NGDCs in Pennsylvania.¹⁴⁹² OCA asserts Columbia's proposal for a 0.25% upward adjustment for management performance is unjustified, unreasonable, and should be denied by the Commission.

- (2) Columbia's Management Performance Regarding Low Income Customers has not been Superior and does not Merit a Management Performance Adder

In his review of the Company's claims of "superior" performance, Mr. Colton examined the Company's service quality for low-income customers and its

¹⁴⁹⁰ OCA St. 3 at 56; Columbia Gas St. 8 at 4.

¹⁴⁹¹ OCA St. 3 at 56.

¹⁴⁹² OCA St. 5, at 42; OCA St. 6 at 9.

universal service programs. OCA witness Colton testified that Company witness Paloney substantially over-states the Company's role in promoting and providing universal service programs to its low-income customers.

f. LIHEAP Performance

Company witness Paloney specifically cites to Columbia's performance related to its Low-Income Home Energy Assistance Program (LIHEAP) in support of the Company's claim for superior performance for low-income customers and its commitment to low-income customers.¹⁴⁹³

OCA submits that Ms. Paloney omitted from her analysis that Columbia's LIHEAP and Crisis recipients have been steadily trending downward.¹⁴⁹⁴ In Table 10 in his Direct Testimony,¹⁴⁹⁵ OCA witness Colton showed that the number of LIHEAP recipients have substantially decreased over the last three program years:

Table 10. No. of LIHEAP and Crisis Recipients and Dollars of LIHEAP and Crisis Grants (OCA-IV-17)				
	LIHEAP CASH	CRISIS	LIHEAP CASH	CRISIS
2022-2023	16,176	3,398	\$6,398,936.66	\$1,904,485.83
2023-2024	15,561	2,630	\$5,830,855.00	\$1,112,887.02
2024-2025	13,991	1,939	\$3,950,821.89	\$845,500.03

OCA asserts Table 10 and the Company's statistics regarding LIHEAP performance demonstrate that even though Columbia claims exemplary performance in this area, Columbia's performance is not, in fact, superior. Mr. Colton testified:

¹⁴⁹³ Columbia St. 9, at 8-9.

¹⁴⁹⁴ OCA St. 5, at 48.

¹⁴⁹⁵ *Id.*

Although in Rebuttal Testimony, Ms. Paloney claims that the Company received virtually the same number of LIHEAP grants in 2024-2025 as in 2023-2024 (within 267 grants),¹⁴⁹⁶ OCA explains Ms. Paloney does not address the fact that there has been a clear downward trend for receipt of LIHEAP by Columbia Gas customers from 2017 through 2025.¹⁴⁹⁷ OCA concludes that Columbia has not met its burden to demonstrate that its claimed performance with respect to obtaining LIHEAP assistance for its low-income customers is exemplary.

(1) Columbia’s Gas’s Efforts to Serve its Low-Income Customers have not been Exemplary as Demonstrated by the BCS Universal Services Report

OCA witness Colton examined Columbia witness Rea’s and Paloney’s claims of “superior” service to low-income customers by reviewing Columbia’s performance in comparison to other Pennsylvania NGDCs in the annual Bureau of Consumer Services Universal Service Programs and Collections Performance reports (BCS report). Mr. Colton testified that the BCS report states that when the legislature adopted the mandate for universal service programs, “the General Assembly wanted to ensure that...natural gas service remain universally available to all customers in the state. Both Acts contain provisions that require utilities to establish programs to maintain affordable electric and gas service for low-income customers.”¹⁴⁹⁸ OCA submits the BCS report measures each of the natural gas utility’s performance areas in meeting the statutory objectives. In key performance areas including CAP payment rate, the dollars which each utility forgives through their respective CAP each year, termination rates and reconnection rates, and CAP credit in comparison to CAP bills, OCA submits Columbia’s

¹⁴⁹⁶ Columbia St. 9-R, at 3.

¹⁴⁹⁷ OCA St. 5SR ,at 1-2, Figure 1.

¹⁴⁹⁸ OCA St. 5, at 51, quoting the 2023 BCS annual report at 3 and citing the Natural Gas Choice and Competition Act, 66 Pa. C.S. § 2202.

performance has consistently been lower than its natural gas utility counterparts in Pennsylvania.

Mr. Colton also examined the “payment rate” of each utility’s CAP. The CAP Payment Rate (in full) is calculated the same for each of the utilities and “is calculated by dividing the total number of full monthly CAP payments made by the total number of monthly CAP bills rendered.”¹⁴⁹⁹ OCA asserts he found that Columbia Gas has been “dead last in the CAP payment rate each year.”¹⁵⁰⁰ OCA provides that Columbia’s poor CAP payment rate is explained by Table 1 below:¹⁵⁰¹ :

Table 1. CAP Payment Rate by Year (2021 – 2023) ¹⁵⁰² (Penn Natural Gas Distribution Companies)			
	2021	2022	2023
Columbia Gas	52.5%	44.7%	46.6%
NFG	71.5%	72.7%	66.6%
PECO	70.2%	70.2%	70.8%
Peoples	53.1%	55.9%	58.7%
PGW	58.2%	64.0%	60.2%
UGI	89.6%	92.0%	79.7%
State average	62.8%	64.1%	62.4%

Mr. Colton examined the metric that measures the percentage of CAP bills that were paid in full by CAP participants¹⁵⁰³ and concluded the CAP Payment Rate is a better metric for evaluation of management performance.¹⁵⁰⁴

¹⁴⁹⁹ OCA St. 5, at 49 (citing 2023 BCS annual report at 66).

¹⁵⁰⁰ OCA St. 5, at 50.

¹⁵⁰¹ OCA St. 5, at 50, Table 11.

¹⁵⁰² *Id.* at 67.

¹⁵⁰³ OCA St. 5SR, at 3.

¹⁵⁰⁴ *Id.*

In addition, OCA witness Colton testified that the facts demonstrate that “Columbia has the worst performance of any natural gas utility. The Columbia Gas performance (46.6% is substantially below the statewide natural gas average (62.4%).”¹⁵⁰⁵

OCA submits Columbia’s performance for the annual arrearage forgiveness is substantially below the areas of performance of other Pennsylvania natural gas utilities, and like with the CAP payment rate is the lowest in the Commonwealth. OCA witness Colton presented evidence in his Surrebuttal Testimony which demonstrates that Columbia routinely forgives substantially fewer arrears than other Pennsylvania natural gas utilities. OCA asserts the low amount of arrears forgiven relative to other natural gas utilities in Pennsylvania is not because Columbia customers carry low arrears and the low-income customers for Columbia carry substantially higher arrears than other Pennsylvania natural gas utilities as discussed above.¹⁵⁰⁶

Mr. Colton also examined the Company’s termination rates and reconnection rates in comparison to the other Pennsylvania natural gas utilities and concluded Columbia’s performance fell significantly short of the statewide average for reconnections.¹⁵⁰⁷ OCA witness Colton testified:

BCS reports that in 2023, while Columbia Gas had an average of 10,305 Confirmed Low-Income customers in debt, it terminated a total of 5,974 Confirmed Low-Income customers. For every 100 Confirmed Low-Income customers in debt, in other words, Columbia disconnected service to 60 Confirmed Low-Income accounts. Making this performance even worse, according to OCA is the fact

¹⁵⁰⁵ *Id.*

¹⁵⁰⁶ OCA St. 5SR, at 5.

¹⁵⁰⁷ OCA St. 5, at 51-52.

that BCS reports that Columbia Gas reconnected only 2,936 Confirmed Low-Income customers once they had been disconnected (49%).¹⁵⁰⁸

OCA asserts, in contrast to Columbia's performance, the statewide average reconnection rate was 76.6% for Confirmed Low-Income customers of natural gas utilities versus Columbia Gas's reconnection rate of 49.1%. In fact, OCA asserts Columbia's reconnection rate was the lowest for all of the natural gas utilities. OCA explains the next lowest reconnection rate was for UGI Gas, 74.7%. The highest reconnection rate was for PECO Gas, at 90.8%.¹⁵⁰⁹ As OCA witness Colton testified "no other natural gas utility in Pennsylvania has a reconnection rate for Confirmed Low-Income customers that falls below 70%, let alone one that falls below 50% as does Columbia Gas."¹⁵¹⁰

Mr. Colton also examined Columbia witness Paloney's claim that their superior management can be found in the fact that "[t]he Commission's 2023 Universal Service Programs and Collections Performance Report lists the Company as having the highest CAP credit per CAP customer of all gas utilities, thereby providing the most benefits for its CAP customers."¹⁵¹¹ However, OCA asserts Ms. Paloney's statements only tell a portion of the story. While Columbia does have a higher CAP credit, Columbia's average bills were also higher than all but two other utilities in the state. OCA witness Colton testified:

Paloney's conclusion, however, does not flow from that fact that she cites. I do not dispute that Columbia Gas provided a higher CAP credit than any other Pennsylvania natural gas utility. What Columbia witness Paloney did not cite, however, is the fact that despite this high credit,

¹⁵⁰⁸ OCA St. 5, at 51 (footnotes omitted).

¹⁵⁰⁹ OCA St. 5, at 52.

¹⁵¹⁰ OCA St. 5, at 52.

¹⁵¹¹ Columbia St. 9 at 12; OCA St. 5, at 53.

Columbia's CAP participants were not better off than the CAP participants of other natural gas utilities. BCS also reports the average CAP bill for each utility. As can be seen, even though Columbia Gas may provide a higher CAP credit, that higher credit does not result in lower CAP bills. Indeed, even though Columbia provides the highest CAP credit of Pennsylvania's natural gas utilities, only PGW and UGI Gas have higher monthly CAP bills in the state.^[1512]

OCA asserts the higher CAP credit is not a reflection of superior management, but instead a reflection that Columbia's bills are so much higher than the bills of other Pennsylvania natural gas utilities.¹⁵¹³ OCA witness Colton testified that "[i]t is hardly evidence of exemplary Columbia Gas management to note that the Company's monthly heating bills are nearly \$60 higher than the next highest utility (Columbia Gas: \$289.10 vs. PGW \$232.14)."¹⁵¹⁴

OCA witness Colton also examined the payment outcomes for Columbia's CAP using the same 2023 BCS report that Columbia witness Paloney cited. OCA witness Colton testified:

[t]hat BCS report publishes the total dollars of CAP bills along with the total dollars of CAP payments on an annual basis. According to the BCS report, in 2023, while Columbia rendered \$18,529,098 in CAP bills, it collected \$12,635,348 in CAP payments (68%). Other natural gas utilities did much better, with PECO (Gas) collecting 87% of what is billed to CAP customers. Peoples collecting 79%, and UGI Gas collecting 76%.^[1515]

¹⁵¹² OCA St. 5, at 54.

¹⁵¹³ *Id.*

¹⁵¹⁴ OCA St. 5, at 54.

¹⁵¹⁵ *Id.*, at 55.

OCA submits Columbia's collection rate was again below its peers. In response to Ms. Paloney's claim that Columbia demonstrates superior management because the average CAP bill for Columbia customers has been consistently lower than the average CAP bill for Pennsylvania natural gas utilities, OCA witness Colton testified:

Her conclusion, however, does not follow from her premise. All that Ms. Paloney's data shows is that, historically, Columbia has had a different mix of CAP participants by income than other Pennsylvania natural gas utilities. In contrast, in 2023, the year I used for comparison, the mix of CAP participants by income between Columbia Gas and other state natural gas utilities was relatively constant. While 74% of participants fell in the bottom two tiers of FPL in 2023, the statewide average of CAP falling into those bottom two tiers was 73.5%.^[1516]

OCA witness Colton reviewed Columbia witness Paloney's citation to the Company's CARES (Customer Assistance Referral and Evaluation Services) program in support of the Company's assertions regarding its commitment to low-income customers.¹⁵¹⁷ However, OCA submits that the Company's assertions regarding its CARES program are overstated. OCA witness Colton testified:

BCS reports each year the total dollars of direct benefits (including LIHEAP) that each Pennsylvania natural gas utility generates for its CARES participants. According to BCS, in 2023, Columbia Gas in its administrative dollars for CARES and generated \$40,933 in direct benefits applied to CARES accounts (including LIHEAP) in 2023.^[1518]

¹⁵¹⁶ OCA St. 5SR at 8, citing 2023 Bureau of Consumer Services Universal Services and Collections Performance Report, at 59
<https://www.puc.pa.gov/media/3195/2023-universal-service-report-final.pdf> (Last accessed Aug/ 22, 2025)

¹⁵¹⁷ OCA M.B. at 154

¹⁵¹⁸ OCA St. 5, at 55 (footnotes omitted).

OCA witness Colton noted, only NFG had fewer benefits applied to CARES participants. Moreover, OCA asserts 2023 was not an aberration. In 2022, Columbia generated only \$30,967 in direct benefits to CARES accounts and in 2021, the total was \$30,499.¹⁵¹⁹ In response to Columbia witness Paloney’s claim that the CARES team is “trained to assist and complete CAP, LIHEAP and hardship fund applications for our most vulnerable customers”¹⁵²⁰ OCA witness Colton also examined the Company’s intra-company collaboration regarding universal services. Mr. Colton testified “Columbia Gas, however, reports the number of CARES customers which participate in multiple programs each year.”¹⁵²¹ Mr. Colton found that the Company worked with 2,311 CARES customers over the four-year period between 2021 and 2024, but had very poor cross-program performance within the Company. He testified that Columbia’s cross-enrollment results were to:

- Enroll a total of two (2) customers in both CARES and LIURP over the most recent four-year period;
- Enroll a total of 25 customers in both CARES and CAP over the most recent four-year period (with number declining each year);
- Enroll a total of one (1) customer in CARES, LIURP and CAP, and only one (1) in CARES, LIURP and the Company’s hardship fund, over the most recent four-year period.
- Enroll a total of only six (6) customers in CARES, CAP and the Hardship Fund over the most recent four year period.¹⁵²²

As OCA witness Colton testified, “[t]he best cross-program performance by the Columbia Gas Team...involves the CARES Team cross-enrolling a total of fewer

¹⁵¹⁹ OCA St. 5, at 56.

¹⁵²⁰ Columbia St. 9, at 8.

¹⁵²¹ OCA St. 5, at 56.

¹⁵²² OCA St. 5, at 57.

than 100 of the total 2,311 CARES customers in the Company's Hardship Fund over the most recent four-year period."¹⁵²³

OCA submits a similar lack of cross-program coordination occurs regarding the Hardship Fund. OCA witness Colton testified that "[s]etting aside 2021 data as reflecting unusual circumstances affected by COVID, in the three years 2022 through 2024, fewer than 50 Columbia Gas customers participated in both LIURP and the Hardship Fund, while fewer than 70 participated in both CARES and the Hardship Fund."¹⁵²⁴ He testified that this lack of cross-program intracompany coordination occurs even though the following occurs:

- CAP participants have paid fewer than half of their CAP bills;
- For every 100 Confirmed Low-Income Columbia Gas customers in debt, Columbia disconnected service to 60 Confirmed Low-Income accounts.
- Columbia Gas reconnected fewer than half of the Confirmed Low-Income customers once they had been disconnected (49%).¹⁵²⁵

Columbia witness Paloney also cites to the Hardship Fund and the \$150,000 contribution to the Dollar Energy Fund as evidence of exemplary management.¹⁵²⁶ OCA witness Colton testified:

[w]hat she does not testify to is the fact that, as reported in the Company's annual report to BCS, the Columbia Gas contribution to its Hardship Fund has been set at \$150,000 per year going back to at least 2017. In contrast, according to the PUC's annual rate comparison report, the Columbia Gas average heating bill in 2017 was \$184.63 as compared

¹⁵²³ *Id.*

¹⁵²⁴ *Id.*, at 57-58.

¹⁵²⁵ OCA St. 5, at 58.

¹⁵²⁶ OCA St. 5, at 59.

to its 2024 bill of \$289,10. While the Company's bills increased 60%, in other words, the Company's support of its Hardship Fund did not increase at all.^[1527]

OCA asserts the Company does not pursue any innovative fundraising, provide any administrative contributions, and in the last four years, the Company has raised no money from companies other than itself, made no contributions from settlements or fines, and has raised no money from "other sources" for the Hardship Fund.¹⁵²⁸ Columbia's ratepayer/employee contribution have remained the same at \$375,000 per year since 2017 as well.¹⁵²⁹

OCA submits, in Rebuttal testimony, Ms. Paloney overstates Columbia's efforts to raise money for its Hardship Fund. She claims that the Company secured pipeline credits and refunds in the amount of \$375,000 per year when available, but those funds were not reported in the BCS report for the four-year period from 2021 through 2023.¹⁵³⁰ She also asserts that the Company currently has \$1 million in Hardship Funds as "responsible stewardship."¹⁵³¹ Mr. Colton did not agree that having \$1 million in Hardship Funds was "responsible stewardship."¹⁵³²

OCA witness Colton identified numerous additional factors which OCA asserts demonstrate that Columbia has not provided superior service to its low-income customers and that the Company reaches only a little over a quarter of its CAP customers. Mr. Colton testified:

¹⁵²⁷ OCA St. 5, at 59.

¹⁵²⁸ OCA St. 5, at 59.

¹⁵²⁹ *Id.*

¹⁵³⁰ Columbia St. 9-R, at 11.

¹⁵³¹ *Id.*

¹⁵³² OCA St. 5SR, at 9.

Columbia Gas has enrolled a fraction of its estimated low-income customers in its CAP and that enrollment is declining. In 2023, while Columbia had an estimated 91,415 low-income customers, it had enrolled only 23,875 (26.1%) of those estimated low-income customers into the Company's CAP. In 2024, while the number of estimated low-income customers increased to 91,881, the number of average monthly CAP participants had declined to 21,391 (23.3%).^[1533]

OCA asserts Columbia also has three times more nonpayment disconnections for Confirmed Low-income customers than for residential customers as a whole.¹⁵³⁴ OCA witness Colton testified:

In 2023, for example, Columbia had a termination rate (i.e., number of disconnections per 100 customers) of 2.5 for residential customers and a termination rate for Confirmed Low-Income customers of 8.3 (a rate 3.32 times higher than the residential rate). This termination rate has remained constant over the past several years. In 2022, the residential termination rate was 2.8% compared to a Confirmed Low-Income rate of 8.7. In 2021, the residential termination rate was 2.4%, compared to the Confirmed Low-Income rate of 8.0.^[1535]

OCA submits a disconnected Confirmed Low-Income customer is less likely by far to be reconnected as a Columbia Gas customer than for any other utility in Pennsylvania.¹⁵³⁶ Columbia's reconnection rate was 49.1% in 2023, and in 2024, it was only slightly higher at 51.8%.¹⁵³⁷ Instead of enrolling Confirmed Low-Income customers

¹⁵³³ OCA St. 5, at 60-61.

¹⁵³⁴ OCA St. 5, at 61.

¹⁵³⁵ OCA St. 5, at 61.

¹⁵³⁶ OCA St. 5, at 61.

¹⁵³⁷ OCA St. 5, at 62.

in CAP, Columbia has elected to seek payment arrangements as a means to address low-income arrears.¹⁵³⁸

OCA further submits Columbia substitutes collection efforts over enrollment of non-CAP Confirmed Low-Income customers into CAP. OCA witness Colton concluded:

rather than enrolling Company customers which Columbia Gas has a reasonable basis to believe to be low-income into CAP, Columbia continues to resort to collection efforts directed towards its non-CAP Confirmed Low-Income customers even when those collection efforts have been proven to be ineffective.

OCA witness Colton noted that one impact of this ineffective management of low-income debt is the fact that the Company has a 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 (6.8% Confirmed Low-Income vs. 2.0% residential in 2023).¹⁵³⁹ Columbia witness Paloney attempts to rebut Mr. Colton's assessment of the gross write-off ratio.¹⁵⁴⁰ However, OCA asserts the Company examines the wrong metric, and in particular, she responds to a metric that Mr. Colton did not raise. OCA witness Colton testified:

[t]he question when considering how effectively Columbia Gas addresses the payment difficulties of its low-income customers is not how Columbia Gas compares to other natural gas utilities, but rather how the low-income customers of Columbia Gas compare to the non low-income customers of Columbia Gas. That is, and a fact that witness Paloney does not seek to dispute, is that Columbia

¹⁵³⁸ OCA St. 5, at 62.

¹⁵³⁹ OCA St. 5, at 62-63 (footnote omitted).

¹⁵⁴⁰ Columbia St. 9, at 14.

Gas has one of the highest ratios of low-income to non-low-income write-off percentages in Pennsylvania. The Columbia Gas ratio is substantially higher than the statewide natural gas average. Only two natural gas utilities (PECO, NFG) have higher ratios.^[1541]

(2) Columbia's Customer Service Performance also Fails to Achieve Superior Performance

In response to Columbia witness Kempic's Rebuttal Testimony that this rate case and the performance management adder are not about "rewarding NiSource shareholders" but about safety and the remaining prone to fail pipe,¹⁵⁴² OCA witness Alexander testified "Mr. Kempic is incorrect as to the purpose of this increase in the rate of return for management performance."¹⁵⁴³ OCA witness Alexander disagreed with any increase in the rate of return beyond what is necessary to meet the Company's statutory obligations. She testified:

[a]ny increase in the rate of return beyond that necessary to meet the Company's statutory obligations results in higher rates for Columbia's customers and higher returns to Columbia's shareholders. Mr. Patel on behalf of I&E calculated that Columbia's higher rate of return would result in a rate increase of over \$7 million compared to its proposed rate of return based on standard ratemaking calculations. Either Mr. Kempic wants to raise rates and shareholder profits to continue its regulated and necessary work to maintain its distribution system (the costs and plans for which are already reflected in Columbia's proposed revenue requirement without any management incentive) or Columbia wants a "reward" that would increase what is otherwise necessary for just and reasonable rates. My description of what Columbia is proposing is accurate.^[1544]

¹⁵⁴¹ OCA St. 5SR, at 14.

¹⁵⁴² Columbia St. 1-R, at 19 (footnotes omitted).

¹⁵⁴³ OCA St. 6, at 3.

¹⁵⁴⁴ OCA St. 6, at 3 (footnotes omitted).

Columbia witness Paloney testified that Columbia’s 2023 performance “as reflected in the UCARE report with regards to the five major natural gas companies, is among the best in most categories across the Pennsylvania gas utility industry.”¹⁵⁴⁵ However, OCA submits Ms. Alexander’s testimony demonstrated that Ms. Paloney’s metrics were selective, and that she ignored areas that reflected average or below average or the trend in deterioration in several areas.¹⁵⁴⁶ In particular, OCA witness Alexander reviewed the Company’s call center performance, customer satisfaction surveys, and the Company’s claim for success pursuant to a JD Power survey.

(3) Call Center Performance

Ms. Alexander reviewed the Company’s Call Center performance and found that its performance was not “superior” as claimed by Columbia. OCA submits the call center is an essential function and 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. As OCA witness Alexander testified “[t]he Company operates its customer call center with NiSource employees who operate 100% virtually to serve the customers of all of its gas distribution companies, including Pennsylvania.”¹⁵⁴⁷ The OCA recommends that the evidence does not justify any increased profits in Columbia’s rate of return. OCA submits any rate increase approved in this proceeding should require Columbia to maintain its 2024 performance at a minimum during the rate effective year to avoid the potential that increased rates are not accompanied by a lack of attention and commitment in this area once the rate case is concluded. OCA further submits, for its Call Center, Columbia did not achieve its own internal objective of 80% of the calls answered within

¹⁵⁴⁵ Columbia St. 9, at 20; OCA St. 6 at 10.

¹⁵⁴⁶ OCA St. 6, at 10.

¹⁵⁴⁷ OCA St. 6 at 11.

30 seconds.¹⁵⁴⁸ The Company does not have an objective regarding call abandonment. OCA witness Alexander testified:

Columbia's annual average percent of calls answered within 30 seconds was the lowest (worst) of all Pennsylvania NGDCs from 2021-2023 (74%, 74%, and 73% respectively). The other NGDCs reported better results of 80% or higher for most years (higher percentage of calls answered within 30 seconds). The only NGDC that reported lower results than Columbia for any year was the UGI Gas' 2022 results of 73%. With regard to the annual average call abandonment rate (referring to the customers who hang up after entering the queue to speak to a representative), Columbia's percentage rate for 2021-2023 (7%, 7%, and 6%, respectively) was worse (higher) than two of the four other NGDCs and in 2023 was the highest of the other NGDCs with the exception of UGI-Gas at 7%. In 2024 Columbia improved its call center performance results and reported 83% of calls answered within 30 seconds with a 2.25% call abandonment rate.^[1549]

OCA recommends that the evidence does not justify any increased profits in Columbia's rate of return. OCA asserts any rate increase approved in this proceeding should require that Columbia to maintain its 2024 performance at a minimum during the rate effective year to avoid the potential that increased rates are not accompanied by a lack of attention and commitment in this area once the rate case is concluded. OCA submits this recommendation is similar to the Company's own internal performance objective.¹⁵⁵⁰

¹⁵⁴⁸ *Id.*, at 12.

¹⁵⁴⁹ OCA St. 6, at 11-12. OCA witness Alexander attached to her Direct Testimony a Confidential Ex. BA-2 which provides the current call center performance for 2022 through March 2025.

¹⁵⁵⁰ OCA St. 6, at 12-13.

(4) Customer Satisfaction Surveys

In support of the performance management adder, Ms. Paloney also presented the Company's results of Commission's customer satisfaction surveys that are conducted with the same methodology for all NGDCs. However, as Ms. Alexander noted, Ms. Paloney's charts do not discuss or present the data that compares Columbia's results with other NGDCs.¹⁵⁵¹

OCA submits, as with the Call Center performance, Ms. Paloney again attempts to reject the use of the Commission's survey results while relying on the UCARE and Quality of Customer Service Reports to support her recommendation of "superior" performance¹⁵⁵² and instead seeks to rely on results from survey results from its own consultants or to outside entities. OCA witness Alexander testified that "[t]hese other survey results lack transparency in methodology and results compared to the Commission approved survey methodology and results purchased in the PUC annual reports."¹⁵⁵³

Ms. Alexander concluded that these results do not reflect "superior" or "high level" customer service performance, and she found the trend in deterioration from 2021 to 2023 to be "disturbing."¹⁵⁵⁴ The customer survey results from the PUC reports demonstrate that the Company does not have superior customer satisfaction results.

¹⁵⁵¹ OCA St. 6, at 13; Columbia St. 9 at 28-31.

¹⁵⁵² Columbia St. 9-R, at 7.

¹⁵⁵³ OCA St. 6, at 8.

¹⁵⁵⁴ *Id.*, at 14.

(5) J.D. Power Customer Satisfaction Survey

Columbia witness Paloney also presented the results of the J.D. Power customer satisfaction survey in support of the “superior” performance claim.¹⁵⁵⁵ OCA witness Alexander testified that the results are not appropriate to be relied upon because the surveys are conducted with a proprietary methodology and do not allow for a comparison with other Pennsylvania NGDCs that are already available with the Commission’s survey results.¹⁵⁵⁶ In particular, the survey results also do not include peer results for Pennsylvania utilities since Columbia does not have access to that data.¹⁵⁵⁷

4. *OSBA’s Position*

OSBA did not address this issue.

5. *CAUSE-PA’s Position*

CAUSE-PA did not propose a specific rate of return in this proceeding.

CAUSE-PA asserts Columbia’s proposed rate of return is excessive and one of many areas where “the Commission has an abundance of discretion that it can and should exercise in restraining the monopolistic tendencies of a utility who has captive ratepayers.”¹⁵⁵⁸

CAUSE-PA submits that Columbia’s customers have no choice of gas distribution providers. Residential customers, including low income customers, must buy

¹⁵⁵⁵ Columbia St. 9 at 30.

¹⁵⁵⁶ OCA St. 6, at 14.

¹⁵⁵⁷ OCA St. 6, at 8.

¹⁵⁵⁸ CAUSE-PA St. 2 at 13.

that service at the Commission authorized and tariffed rate.¹⁵⁵⁹ They are not readily able to negotiate a different rate with Columbia, like some larger users.¹⁵⁶⁰

CAUSE-PA suggests the Company places an excessive and undue emphasis on the higher return on equity at the expense of the lower cost of debt. CAUSE-PA asserts Columbia's requested ROE of 11.35% is more than two times higher than its cost of debt and, when applied to Columbia's chosen capitalization ratio, will have a significant impact on the overall rate of return and, ultimately, on the overall revenue requirement.¹⁵⁶¹

CAUSE-PA further asserts Columbia's capital structure is equity-skewed at the expense of consumers and has the effect of artificially increasing the rate of return required in this case.¹⁵⁶²

CAUSE-PA explains the effect of this reduction in overall Rate of Return from 8.55% to 8.28% to the overall annual revenue requirement increase is \$17.7 million which is the difference between the \$110.5 million sought by Columbia in this case and the \$92.8 million that would be required if the PUC were to impute a 50/50 capital structure.¹⁵⁶³ Similar reductions can be made to the overall revenue requirement be carefully scrutinizing the required ROE. According to CAUSE, reducing Columbia's requested ROE to 8.9% – consistent with the recommendation of the OCA witness Garrett, would save consumers tens of millions of dollars annually.¹⁵⁶⁴

¹⁵⁵⁹ *Id.*

¹⁵⁶⁰ *Id.*

¹⁵⁶¹ *Id.*, at 14.

¹⁵⁶² OCA St. 3 at 49: 4-5.

¹⁵⁶³ *Id.*

¹⁵⁶⁴ CAUSE-PA St. 2, at 16; OCA St. 3 at 57.

CAUSE-PA supports the recommendation of OCA witness Garrett, who conducted an in depth cost of capital analysis and recommended a ROE of 8.9% and a capital structure of 50% total debt and 50% equity, and an overall rate of return of 7.06%.

¹⁵⁶⁵ CAUSE submits this structure and a reduced ROE provide sufficient, but not excessive, capital to Columbia that would allow it to receive a fair rate of return on its investments and protects the interest of consumers by requiring them only to pay rates that are necessary to ensure the financial viability of the company, not rates that are extractive in the sense that they are excessive.

6. *TASK FORCE's Position*

The Task Force did not specifically address this issue.

7. *PSU's Position*

The Pennsylvania State University did not address this issue.

8. *ALJs' Discussion/Recommendations*

As explained herein, not all Parties utilized a common brief outline with common headings and subheadings, as ordered by our Order dated August 1, 2025, and is common practice in these proceedings. Accordingly, the undersigned ALJs have used our best efforts to address the issues presented in the Briefs of the Parties. To address the issues and sub issues regarding rate of return, the undersigned ALJs will substantially follow the outline provided in the Main Brief of I&E.

¹⁵⁶⁵ OCA St. 3, at 3, 57-58.

a. Rate of Return

I&E provided a summary of the concept of rate of return and the legal requirements used to appropriately determine an appropriate rate of return in Commission proceedings, as summarized below.

Rate of return is one of the components of the revenue requirement formula.¹⁵⁶⁶ Rate of return is the amount of revenue an investment generates in the form of net income.¹⁵⁶⁷ It is typically expressed as a percentage of the amount of an asset base at a particular point in time, which in base rate proceedings, is the projected rate base balance at the end of the test year.¹⁵⁶⁸

In the revenue requirement formula used in base rate cases ($RR = E + D + T + (RB \times ROR)$) the rate of return is expressed as a percentage.¹⁵⁶⁹ The calculation of that percentage is independent of the determination of the appropriate rate base value for ratemaking purposes.¹⁵⁷⁰ As such, the appropriate total dollar return is dependent upon the proper computation of the rate of return and the proper valuation of the Company's rate base.¹⁵⁷¹

A fair and reasonable overall rate of return is one that will allow the utility an opportunity to recover those costs prudently incurred by all classes of capital used to finance the rate base during the prospective period in which its rates will be in effect.¹⁵⁷²

¹⁵⁶⁶ *Id.*, at 2.

¹⁵⁶⁷ *Id.*

¹⁵⁶⁸ *Id.*

¹⁵⁶⁹ *Id.*

¹⁵⁷⁰ *Id.*

¹⁵⁷¹ *Id.*

¹⁵⁷² *Id.*

The Commission has the authority to determine the fair revenue requirement and rate of return, which the utility has the opportunity to earn, but not a guarantee to earn.¹⁵⁷³

The *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*¹⁵⁷⁴ and *Federal Power Commission v. Hope Natural Gas Co.*,¹⁵⁷⁵ cases set forth the principles that are generally accepted by regulators throughout the country as the appropriate criteria for measuring a fair rate of return as follows:

- A utility is entitled to the opportunity of a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures;
- A utility is entitled to the opportunity of a return level reasonably sufficient to assure financial soundness;
- A utility is entitled to the opportunity of a return sufficient to maintain and support its credit and raise necessary capital; and,
- A fair return can change (increase or decrease) along with economic conditions and capital markets.¹⁵⁷⁶

I&E explains, in base rate proceedings, the overall rate of return is traditionally calculated using the weighted average cost of capital method.¹⁵⁷⁷ To calculate the weighted average cost of capital, a company's capital structure must first be determined by comparing the percentage of each capitalization component which has

¹⁵⁷³ I&E St. No. 2, at 3-4.

¹⁵⁷⁴ *Bluefield Water Works & Improvements Co. v. Pub. Service Comm'n of West Virginia*, 292 U.S. 679, 692-93 (1923) (*Bluefield*).

¹⁵⁷⁵ *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) (*Hope Natural Gas*).

¹⁵⁷⁶ I&E St. No. 2, at 3-4.

¹⁵⁷⁷ *Id.*, at 4.

financed the rate base to total capital.¹⁵⁷⁸ In Columbia's case, the capital components consist of long-term debt, short-term debt, and common equity.¹⁵⁷⁹

Next, the effective cost rate of each capital structure component must be determined.¹⁵⁸⁰ The historical component of the debt cost rate can be computed accurately, and any future debt issuances are based on estimates.¹⁵⁸¹ The cost rate of common equity is not fixed and is more difficult to measure.¹⁵⁸² Because of this difficulty, a proxy group is used.¹⁵⁸³ Then, each capital structure component percentage is multiplied by its corresponding effective cost rate to determine the weighted capital component cost rate.¹⁵⁸⁴

Finally, the sum of the weighted cost rates produces the overall rate of return.¹⁵⁸⁵ This overall rate of return is multiplied by the rate base to determine the return portion of a company's revenue requirement.¹⁵⁸⁶

In addition, Columbia explained:

A public utility, whose facilities and assets have been dedicated to the service of the public, is entitled to an opportunity to earn a fair rate of return on its investment. The standards to be used by the Commission in determining what return rate is fair are well-established, having been set forth by the United States Supreme Court in *Bluefield*

¹⁵⁷⁸ *Id.*, at 4-5.

¹⁵⁷⁹ *Id.*, at 5.

¹⁵⁸⁰ *Id.*

¹⁵⁸¹ *Id.*

¹⁵⁸² *Id.*

¹⁵⁸³ *Id.*

¹⁵⁸⁴ *Id.*

¹⁵⁸⁵ I&E St. No. 2, at 5, 11.

¹⁵⁸⁶ *Id.*, at 5.

Waterworks and Imp. Co. v. P.S.C. of West Virginia (“*Bluefield*”)¹⁵⁸⁷ as follows:

Rates which are not sufficient to yield a reasonable return on the value of the property at the time it is being used to render service are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility of its property in violation of the Fourteenth Amendment.

The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.¹⁵⁸⁸ These principles have been adopted and applied by the appellate courts of Pennsylvania in numerous cases.¹⁵⁸⁹

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

*. . . a return on the value of the [utility’s] property which it employs for the convenience of the public equal to that generally being made at the same time on investments in other business undertakings which are attended by corresponding risks and uncertainties. . . .*¹⁵⁹⁰

Twenty-one years after *Bluefield*, the Supreme Court reiterated that standard in *Federal Power Commission v. Hope Natural Gas Co.*,¹⁵⁹¹ as follows:

¹⁵⁸⁷ 262 U.S. 679, 690 (1923).

¹⁵⁸⁸ *Bluefield*, 262 U.S. at 693.

¹⁵⁸⁹ See, e.g., *Riverton Consolidated Water Co. v. Pa. PUC*, 186 Pa. Super. 1, 140 A.2d 114 (1958); *City of Pittsburgh v. Pa. PUC*, 182 Pa. Super. 376, 126 A.2d 777 (1956); *Lower Paxton Twp. v. Pa. PUC*, 13 Pa. Cmwlth. 135, 317 A.2d 917 (1974).

¹⁵⁹⁰ *Bluefield*, 262 U.S. at 692 (emphasis added).

¹⁵⁹¹ 320 U.S. 591, 603 (1944).

From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital. (emphasis added).

Later, in reaffirming *Hope*, the Supreme Court, in *Duquesne Light Co. v. Barasch*¹⁵⁹² observed that “[o]ne of the elements always relevant to setting the rate under *Hope* is the return investors expect given the risk of the enterprise.”

The determination of a fair rate of return thus requires the review of many factors, including: (1) the earnings that are necessary to assure confidence in the financial integrity of the company and to provide a reasonable credit profile to permit access to capital markets on reasonable terms, and (2) the amount of the investment, the size and nature of the utility and, its business and financial risks, in comparison to other enterprises.¹⁵⁹³ Moreover, the Commission’s findings must be based upon substantial and competent evidence on the record before it, not upon speculation or hypothesis.¹⁵⁹⁴

b. *Return on Common Equity Proposed by the Parties*

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

¹⁵⁹³ *Pa. PUC v. Pennsylvania Gas and Water Co. - Water Division*, 19 Pa. Cmwlth. 214, 233, 341 A.2d 239 (1975); *Lower Paxton Twp., supra*.

¹⁵⁹⁴ *Ohio Bell Telephone Co. v. Pub. Util. Comm. of Ohio*, 301 U.S. 292 (1937); *United States Steel Corp. v. Pa. PUC*, 37 Pa. Cmwlth. 195, 390 A.2d 849 (1978); *Octoraro Water Co. v. Pa. PUC*, 38 Pa. Cmwlth. 83, 391 A.2d 1129 (1978).

Columbia proposes a return on common equity of 11.35%, inclusive of a 25-basis point adjustment for management effectiveness. I&E proposes a return on equity of 10.51% and OCA proposes a ROE of 8.90%.

c. Rate of Return Components

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

Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	43.28%	5.22%	2.26%
Short-Term Debt	2.32%	5.00%	0.12%
Common Equity	54.40%	11.35%	<u>6.17%</u>
Total			<u>8.55%</u> ¹⁵⁹⁵

No party has challenged the Company's claimed cost rates for long-term debt or short-term debt.¹⁵⁹⁶ The issues of dispute involve Columbia's capital structure ratio and cost rate of common equity.

d. Capital Structure/Proxy Group

¹⁵⁹⁵ Columbia Ex. VVR-4, p. 1.

¹⁵⁹⁶ OCA's Rate of Return recommendation table shows a cost rate for long-term debt of 5.2%, although this appears to be a result of rounding to a single decimal point. OCA St. No. 3, at 58, Figure 14.

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

1. Fifty percent or more of the company’s revenues must be generated from 4 the regulated gas utility industry.
2. The company’s stock must be publicly traded.
3. Investment information for the company must be available from more than one source, which must include Value Line.
4. The company must not be currently involved in an announced merger or the target of an acquisition.
5. The company must have four consecutive years of historic earnings data.
6. The company must be operating in a state that has a deregulated gas utility market.¹⁵⁹⁷

Columbia argues that consolidated income rather than company revenue is more closely correlated to the net cash flows a company receives from each line of business¹⁵⁹⁸ even though the Commission rejected this theory in the past. I&E explains in the most recent Columbia Water Company base rate proceeding, the Commission concluded:

In Columbia Gas 2021, we stated the following regarding the proxy group at issue in that proceeding: First, as I&E and the ALJ pointed out, a company’s revenues represent the percentage of cash flow the company receives from each business line related to providing a good or service. Therefore, if less than fifty percent of revenues come from

¹⁵⁹⁷ I&E St. No. 2, at 12-13; I&E M.B., at 35.

¹⁵⁹⁸ I&E St. No. 2-SR, at 2 (citing Columbia St. No. 8-R, at 15).

the regulated gas sector, the company is not comparable to the subject utility as it does not provide a similar level of regulated business.

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

Based on the specific record developed in the instant case, we find that the percentage of revenues generated from regulated utility operations, in this instance regulated water utility operations, is the appropriate criterion to include when setting Columbia's proxy group. Therefore, we concur with I&E that Essential Utilities should be excluded from the proxy group that we will use in setting the authorized ROE and the resulting overall rate of return for Columbia in this proceeding.^[1599]

I&E disagreed with the Company's selection of proxy group companies.¹⁶⁰⁰ I&E recommends and based upon the record evidence and the argument of the parties, we agree that the Commission consider only the gas distribution utilities group when evaluating Columbia's requested return on equity (ROE) in this proceeding.¹⁶⁰¹ Further, I&E reiterates that the percentage of revenues is an appropriate criterion in selection of the proxy group companies and recommends, and we agree, that Southwest Gas

¹⁵⁹⁹ I&E St. No. 2-SR, at 7-8 (citing *Pa. PUC v. Columbia Water Company*, Docket No. R-2023-3040258, at 75, 76, 77 (Order Entered January 18, 2024)).

¹⁶⁰⁰ See I&E St. No. 2, at 12-20; I&E St. No. 2-SR, at 6-9 for the complete proxy group analysis and arguments against the use of the Company's selected proxy group.

¹⁶⁰¹ I&E St. No. 2-SR, at 7-8; I&E M.B., at 36-37.

Holdings, Inc. should not be included in the proxy group based upon the record evidence and it derives less than 50% of its revenue from its regulated gas operation revenues.¹⁶⁰²

(1) Capital Structure

Columbia's capital structure of 54.4% common equity, 43.28% long-term debt and 2.32% short-term debt is its projected actual capital structure as of December 31, 2026, the end of the FPFTY.¹⁶⁰³ The Company's FPFTY capital structure is based upon its actual capital structure at November 30, 2024, updated for changes during the FTY and FPFTY.¹⁶⁰⁴ The changes are to finance the Company's FTY and FPFTY net rate base additions of approximately \$685 Million.¹⁶⁰⁵

Columbia asserts it's common equity ratio is within the range of actual common equity ratios of his proxy group of gas companies (the Gas LDC Group) used in this proceeding.¹⁶⁰⁶ Columbia further asserts it's common equity ratio, computed on a permanent capitalization basis (i.e., excluding spot-in-time short term debt) is well within the range of forecasted common equity ratios of the Gas LDC Group, computed on a permanent capital basis.¹⁶⁰⁷

I&E recommends using the Company's claimed capital structure as it falls within the range of the I&E proxy group's 2024 capital structures, which is the most recent information available at the time of I&E's analysis.¹⁶⁰⁸ The most recent five-year average ranges of my proxy group companies' capital structure ratios are from 39.33% to

¹⁶⁰² I&E St. No. 2-SR, at 9.

¹⁶⁰³ Columbia St. No. 8, at 43.

¹⁶⁰⁴ Columbia Ex. VVR-5, at 1.

¹⁶⁰⁵ Columbia Ex. 108, at 3.

¹⁶⁰⁶ Columbia St. No. 8, at 44.

¹⁶⁰⁷ Columbia St. No. 8, at 44-45

¹⁶⁰⁸ I&E St. No. 2, at 20-24; I&E St. No. 2-SR, at 10.

57.23% long-term debt, 0.51% to 12.82% short-term debt, and 35.96% to 60.16% common equity, with an overall five-year average of 47.42% long-term debt, 7.85% short-term debt, and 44.73% common equity.¹⁶⁰⁹

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

I&E recommends using the Company's FPFTY claimed short-term debt cost rate of 5.00% and long-term debt cost rate of 5.22%.¹⁶¹⁰

I&E explains Columbia obtains its short-term debt from the NiSource intra-system financing vehicle, commonly referred to as the "money pool," which has commercial paper as its underlying source.¹⁶¹¹ The proposed short-term interest rate in this case was determined on the basis of the forecast of the Federal Funds target rate of 4.00%, plus 0.50%, which reflects the recent historical yield differential between the Fed Funds rate and the commercial paper borrowing rate for NiSource's commercial paper credit rating of A-2 at S&P and P-2 at Moody's for a 75-day duration, plus an additional 0.50% risk premium to recognize uncertainty surrounding the degree to which the Federal Reserve Board will continue reducing the Federal Funds target rate.¹⁶¹²

Although I&E does not agree with the interest premium adder, I&E explains it is not adjusting for it in this case due to the minimal impact on the overall result.¹⁶¹³ Based on the record evidence presented, I&E recommends and we agree with the Company's FPFTY claimed short-term debt cost rate of 5.00% and long-term debt cost rate of 5.22%.

¹⁶⁰⁹ *Id.*, at 23 (citing I&E Ex. No. 2, Sch. 2).

¹⁶¹⁰ *Id.*, at 25 (citing Columbia Ex. No. VVR-4).

¹⁶¹¹ *Id.*, at 25 (citing Columbia St. No. 8, at 48).

¹⁶¹² I&E M.B., at 38.

¹⁶¹³ *Id.*, at 26.

f. Cost of Common Equity

I&E recommends using the Discounted Cash Flow (DCF) method as the primary method to determine the cost of common equity.¹⁶¹⁴ Additionally, I&E provides a Capital Asset Pricing Model (CAPM) analysis to be used as a comparison, not as a check, to the DCF results.¹⁶¹⁵ According to I&E, the DCF method has the most widespread regulatory acceptance and I&E still recommends primary reliance on the DCF method due to the shortcomings associated with the CAPM method.¹⁶¹⁶

Based upon the record evidence and the reasons stated above, we agree it is appropriate to use the DCF in this proceeding. The use of a growth rate and expected dividend yield are also strengths of the DCF, as this recognizes the time value of money and is forward-looking.¹⁶¹⁷ The use of the utility's own, or in this case the proxy group's, stock prices and growth rates directly in the calculation also causes the DCF to be industry and company specific.¹⁶¹⁸ Further, the current inflationary and economic trends are most certainly reflected in a stock's price, which is used in determining the dividend yield, and the earnings growth rates forecasted by independent professional analysts.¹⁶¹⁹ The evidence supports the conclusion that the DCF contains the most up-to-date projected information of any model and is the superior method for determining the rate of return for the current economic market conditions because it measures the cost of equity directly. We further agree that the CAPM should not be used as a primary method in this proceeding. The extreme variations in the CAPM analysis results between Columbia's (11.66%), and I&E's (10.51%) only highlight the unreliability and subjectivity of the

¹⁶¹⁴ I&E St. No. 2, at 28-29.

¹⁶¹⁵ *Id.*, at 29.

¹⁶¹⁶ I&E St. No. 2, at 31-35; I&E M.B., at 37-40.

¹⁶¹⁷ *Id.*

¹⁶¹⁸ *Id.*

¹⁶¹⁹ *Id.*

CAPM while Columbia's DCF results (10.97%) more closely aligns with I&E's DCF results (10.51%).¹⁶²⁰

Based upon the record evidence we agree with I&E's recommendation of a cost of common equity of 10.51% for Columbia in this base rate proceeding,¹⁶²¹ based on the use of the DCF method.¹⁶²² I&E used the CAPM result only to present a comparison to the DCF results.¹⁶²³ I&E's DCF analysis uses the proxy group companies' spot dividend yield, a 52-week dividend yield, and five-year earnings growth forecasts.¹⁶²⁴ In calculating the dividend yield, I&E uses the forecasted dividend, and with the five-year earnings growth forecasts, the DCF result provides a forward-looking estimation for the cost of equity that would be more appropriate and consistent for FPFTY ratemaking.¹⁶²⁵

g. *Inflated Growth Rate*

I&E recommends that the Company's assertion that DCF growth rates can be determined subjectively and inflated be rejected.¹⁶²⁶ I&E submits the Company subjectively "chose" a DCF growth rate of 7.50% even though the average growth rate of the Company's sources is 7.13%.¹⁶²⁷

¹⁶²⁰ *Id.*

¹⁶²¹ I&E St. No. 2, at 38 (citing I&E Ex. No. 2, Sch. 1); *See also*, I&E St. No. 2-SR, at 53-54.

¹⁶²² *See* I&E St. No. 2-SR, at 26; I&E M.B., at 40.

¹⁶²³ *Id.*

¹⁶²⁴ *Id.*

¹⁶²⁵ *Id.*

¹⁶²⁶ I&E St. No. 2, at 36-38; I&E St. No. 2-SR, at 7-9.

¹⁶²⁷ I&E M.B., at 56.

I&E asserts DCF growth rates should be established by mathematical formulation, and that any alternative method is subjective and introduces additional and unnecessary bias and should be avoided when possible.¹⁶²⁸ Further, the Company's use of a higher growth rate than the average of the Company's proxy group ignores the fact that analysts making earnings per share growth forecasts are already aware of the economic conditions and the state of the water utility industry.¹⁶²⁹ I&E submits the reasons the Company has given for choosing 7.50% are factors that are already included in the earnings per share growth forecasts; thus, choosing a growth rate higher than the average of the Company's proxy group would account for the same factors twice.¹⁶³⁰

I&E concludes, since analysts' projected growth forecasts are most often overly optimistic, there is no need to arbitrarily and non-formulaically increase the estimates used in a DCF analysis¹⁶³¹ and recommends the Company's proposed subjective and inflated DCF growth rate be rejected.

Based upon the record evidence in this case and the arguments of the parties, we agree, in this proceeding, that the Company's proposed subjective and inflated DCF growth rate be rejected.

h. *Weights Given to CAPM, ECAPM, and RP Methods*

I&E explained it is not opposed to providing the Commission with the results of the CAPM methodology for a point of comparison to the results of the DCF calculation, however it is opposed to giving the CAPM, ECAPM, and RP models

¹⁶²⁸ *Id.*

¹⁶²⁹ *Id.*

¹⁶³⁰ *Id.*

¹⁶³¹ I&E St. No. 2, at 38.

considerable weight.¹⁶³² For the reasons discussed in the I&E rate of return testimony, we agree that it is inappropriate to give the CAPM, ECAPM, and RP model results similar weight to the DCF as Columbia has attempted to do in creating their indicated cost of equity range of 10.85% to 11.35% and recommending the middle of this range or an 11.10% cost of equity for Columbia.¹⁶³³ Accordingly, little weight was given to the CAPM, ECAPM, and RP models, while we relied upon the DCF results in arriving at this Recommendation.

i. Risk Analysis

The Company set forth a variety of claimed risk factors in this proceeding.¹⁶³⁴ Columbia cites to various business risks such as market competition; bypass threats due to pipelines; large customer group attrition; regulatory mechanisms; weather normalization disallowance; revenue normalization disallowance; and fixed customer charge adjustments.¹⁶³⁵

I&E asserts most companies in the natural gas utility sector face similar potential risks of bypass or competition with other suppliers and alternative energy sources¹⁶³⁶ and I&E argues the companies within I&E's proxy group provide a good measure of the risk associated with competition from alternate suppliers.¹⁶³⁷ Columbia witness Rea acknowledged to not studying the risk of bypass threat of each company in his proxy group but indicated he is aware that bypass is usually a threat to all LDCs when there are a number of interstate pipelines in close proximity to large volume users served

¹⁶³² *Id.*, at 47.

¹⁶³³ *See Id.*, at 27-36, 41-46.

¹⁶³⁴ *See* I&E St. No. 2, at 48-57.

¹⁶³⁵ *Id.*, at 48-49 (citing Columbia St. No. 8, at 39).

¹⁶³⁶ *Id.*, at 49.

¹⁶³⁷ *Id.*

by an LDC or when customers of the LDC are in close proximity to gas producing wells.¹⁶³⁸

We agree that Investors voluntarily buy and hold shares of stocks in natural gas utility companies, indicating they are aware of these risks and the returns.¹⁶³⁹ I&E submits and we agree that the cost of equity is adequately measured by I&E's proxy group and Columbia's equity rich capital structure adequately compensates for the risk differentials claimed by Columbia.¹⁶⁴⁰ Accordingly, we recommend that any additional consideration for the Company's risk profile and making corresponding adjustments or adders in determining the cost of equity for Columbia be denied as being unjustified and unsupported.

j. *Elimination of "Low-End" DCF Results*

Columbia eliminated the DCF results of one of the companies from its calculations because of what Columbia determined was a "low-end" DCF result.¹⁶⁴¹ I&E disagreed with the elimination of a "low-end" DCF result from the DCF calculations asserting the decision is subjective and introduces additional unnecessary bias.¹⁶⁴² I&E argued the low-end DCF results of the eliminated company are due to lower forecasted growth rates by S&P Global and Zacks and that Columbia ignored the fact that analysts making earnings per share growth forecasts are aware of the economic conditions and the operation and financial conditions of the gas utility and consider all other factors that they believe impact future growth.

¹⁶³⁸ *Id.* (citing I&E Ex. No. 2, Sch. 14).

¹⁶³⁹ *Id.*, at 57.

¹⁶⁴⁰ *Id.*

¹⁶⁴¹ I&E St. No. 2, at 57-58.

¹⁶⁴² *Id.*, at 58-60; *See also* I&E St. No. 2-SR, at 10-12.

I&E submitted that adding the “low-end” result back in yields results with averages of 9.96% $[(9.92\% + 9.42\% + 10.53\%) \div 3]$ rather than 10.43% $[(10.70\% + 10.10\% + 10.50\%) \div 3]$.¹⁶⁴³

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

k. Leverage Adjustment

I&E explains the Company proposed to make a 64-basis point leverage adjustment to the result of its DCF analysis to account for applying a market valued cost of equity to a book value capital structure.¹⁶⁴⁴ I&E argues the Company’s proposed 64-basis point (0.64%) leverage adjustment should be rejected because it is based on inappropriate characterization of financial risk and is inconsistent with Commission precedent, and is actually a pass-through burden on ratepayers.¹⁶⁴⁵

I&E witness Patel also provided a summary of recent Commission orders where he concludes the Commission rejected proposed leverage adjustments,¹⁶⁴⁶ as summarized above.

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

¹⁶⁴³ *Id.*, at 59-60.

¹⁶⁴⁴ Columbia St. No. 8, App. C, at 3.

¹⁶⁴⁵ I&E St. No. 2, at 62-67.

¹⁶⁴⁶ *Id.*, at 63-65.

uncollectibles.¹⁶⁴⁷ I&E also argues that investors are aware of and base their decisions on book value debt and equity ratios for the regulated utilities, therefore, no adjustment is needed.¹⁶⁴⁸ The Company's proposed adjustment would only serve to manipulate the DCF's market-based methodology and would cause substantial harm to ratepayers through higher rates.¹⁶⁴⁹ Based upon the record evidence and the precedent cited by the parties, we agree with I&E's recommendation that the Company's proposed leverage adjustment be rejected in its entirety

1. Flotation Cost Adjustment

The Company proposed a 3 basis point (0.03%) adder to adjust to all cost of equity analyses to adjust for flotation cost, or costs associated with the new issuances of common stock, in this case by Columbia's parent company NiSource, Inc.¹⁶⁵⁰ I&E recommends this proposed adder be rejected, as there is no indication that NiSource will issue new stocks during the FPFTY when the new rates will be effective, and flotation costs are accounted for on the books of the issuer company, making it inappropriate to present the potential impact of this cost on FPFTY equity cost rate based on a historic O&M expense such as flotation cost.¹⁶⁵¹ I&E submits an allowance to recover historic flotation costs in this manner would represent inappropriate retroactive ratemaking¹⁶⁵² and would force ratepayers to fund a significant additional amount of \$870,421 annually to cover the increase of the inflated rate of return along with the associated impact resulting from increases to income taxes, uncollectibles, and assessments.¹⁶⁵³

¹⁶⁴⁷ I&E St. No. 2, at 66.

¹⁶⁴⁸ *Id.*, at 67.

¹⁶⁴⁹ *Id.*

¹⁶⁵⁰ I&E St. No. 2, at 67 (citing Columbia St. No. 8, App. D, at 2-3).

¹⁶⁵¹ I&E St. No. 2, at 69.

¹⁶⁵² I&E St. No. 2-R, at 22.

¹⁶⁵³ I&E St. No. 2, at 70.

Based on the evidence presented, we agree with I&E's recommendation that the proposed flotation cost adder should be rejected in its entirety.

m. Risk Free Rate of Return

The Company's calculation of risk-free rate is similar to I&E's. Columbia witness Rea used the 30-year Treasury Bond as the relevant treasury yield, while I&E uses the 10 year Treasury Note.¹⁶⁵⁴ I&E recommends the Commission continue its historic practice¹⁶⁵⁵ of recognizing the 10-year Treasury Note as the superior measure for the risk-free rate, as long-term Treasury Bonds have substantial maturity risk associated with the market risk and the risk of unexpected inflation.¹⁶⁵⁶ I&E argued and we agree that based on the evidence presented in the instant case, the 10-year Treasury Note is more appropriate to balance the short-term volatility risk and the long-term inflation risk.¹⁶⁵⁷

n. CAPM Market Risk Premium

Columbia used a 7.00% market risk premium in their CAPM analysis results, which was calculated by averaging the prospective market risk premium of 6.83% (prospective market return of 11.48% minus risk free rate of 4.65%) and Kroll's historic average market risk premium (1926-2023) of 7.17%.¹⁶⁵⁸

¹⁶⁵⁴ *Id.*, at 71

¹⁶⁵⁵ *See Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order entered October 25, 2018), at 99. (Disposition of Capital Asset Pricing Model (CAPM)).

¹⁶⁵⁶ I&E St. No. 2, at 72.

¹⁶⁵⁷ *Id.*

¹⁶⁵⁸ I&E St. No. 2, at 73 (citing Columbia Ex. VVR-11, at 1).

I&E disagreed with this application of a market risk premium and argues that the Company inappropriately mingled the historic risk premium with the prospective risk premium and used the average of 7.00% $((6.83\% + 7.17\%) \div 2)$ risk premium in their CAPM analysis.¹⁶⁵⁹ Since the cost of equity is determined for the FPFTY, using a historic risk premium skews the prospective market risk premium and the CAPM results.¹⁶⁶⁰ I&E argues Columbia should have used the prospective risk premium of 6.83% rather than using a 7.00% average risk premium, which unnecessarily inflates their CAPM results. In fact, Kroll's latest forecast (April 15, 2025) equity risk premium is 5.50%,¹⁶⁶¹ which is lower than Columbia's prospective risk premium of 6.83%.¹⁶⁶²

In addition, using the prospective risk premium, Columbia's CAPM results would be 10.87% as opposed to 11.02%.¹⁶⁶³ If Columbia would have used Kroll's risk premium of 5.50%, then Columbia's CAPM results would be 9.66%.¹⁶⁶⁴

I&E's cost of common equity recommendation is based on the DCF method as the primary method to determine the cost of common equity¹⁶⁶⁵ and I&E explained it provided the results of its CAPM analysis as a comparison, and not as a check, to its DCF results.¹⁶⁶⁶ I&E explained it's inclusion of the Kroll ERP in its CAPM analysis is to provide more information to the Commission as it has recently expressed an interest in the CAPM model.¹⁶⁶⁷ I&E argues Kroll is a trusted and publicly available source that bases its recommended ERP on current and forecasted economic and financial

¹⁶⁵⁹ *Id.*

¹⁶⁶⁰ *Id.*

¹⁶⁶¹ *Id.*, at 73-74 (citing Kroll Cost of Capital Inputs Updated to Reflect Heightened Uncertainty in Global Economy (accessed on May 29, 2025)).

¹⁶⁶² *Id.*, at 74.

¹⁶⁶³ *Id.* (citing Columbia Ex. VVR-11, at 1).

¹⁶⁶⁴ *Id.*

¹⁶⁶⁵ I&E St. No. 2-SR, at 36.

¹⁶⁶⁶ *Id.*

¹⁶⁶⁷ *Id.*

conditions.¹⁶⁶⁸ I&E further argues Columbia witness Rea’s opposition to I&E’s use of Kroll’s ERP demonstrates that the inputs to the CAPM are highly subjective and can lead to wildly different results.¹⁶⁶⁹ I&E recommended, and we agree, the DCF methodology should controlling¹⁶⁷⁰ and recommend the Commission reject Columbia’s use of a 7.00% market risk premium in their CAPM analysis.

o. Size Premium Adjustment to CAPM

We agree that the Company’s proposal to use a CAPM size adjustment of 61-basis points (0.61%) be disallowed.¹⁶⁷¹ As I&E argued, the Company’s proposed size adjustment is unnecessary and unsupported because none of the technical literature the Company cited in testimony supporting investment adjustments related to the size of a company is specific to the utility industry, and is thus irrelevant in this proceeding.¹⁶⁷²

I&E cites Dr. Annie Wong to support its recommendation to reject the Company’s proposal.¹⁶⁷³ In her article “Utility Stocks and the Size Effect: An Empirical Analysis,” Dr. Wong concludes:

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

¹⁶⁶⁸ I&E St. No. 2-SR, at 36.

¹⁶⁶⁹ *Id.*

¹⁶⁷⁰ *Id.*

¹⁶⁷¹ I&E St. No. 2, at 74-79; I&E St. No. 2-SR, at 37-43.

¹⁶⁷² I&E St. No. 2, at 75.

¹⁶⁷³ *Id.*, at 76-78

industrials, the findings suggest that there is no need to adjust for the firm size in utility rate regulation.^[1674]

Columbia failed to establish sufficient evidence to support application of a non-utility study regarding a size adjustment for risk to a utility setting. Based upon the evidence in this proceeding, the Company's proposed size adjustment to its CAPM results should be rejected, as the addition of 61 basis points for the size premium adjustment in this case would force ratepayers to fund an excessive additional amount of \$17,698,574 annually to cover the increase of the overstated rate of return along with the associated impact resulting from increases to income taxes and uncollectibles.¹⁶⁷⁵

p. ECAPM

I&E argues the ECAPM is a modified version of the CAPM which attempts to address the belief that the actual risk versus return correlation is flatter than what is predicted by the CAPM.¹⁶⁷⁶ Use of the ECAPM in estimating the cost of capital does not increase the validity of the result, according to I&E, but instead it injects another measure of subjectivity to the CAPM in an attempt to make the Security Market Line more accurate.¹⁶⁷⁷ The ECAPM reduces the purpose of the beta, which is the only company-specific variable in the CAPM model.¹⁶⁷⁸ I&E submits this additional layer of subjectivity provides an even stronger basis to rely on the DCF as the primary method to calculate a utility's cost of equity.¹⁶⁷⁹ Based upon the evidence presented in this proceeding, and the arguments of the parties, we agree with I&E's recommendation to

¹⁶⁷⁴ Dr. Annie Wong, "Utility Stocks and the Size Effect: An Empirical Analysis," *Journal of Midwest Finance Association* 1993, at 95-101.

¹⁶⁷⁵ *Id.*, at 77-78.

¹⁶⁷⁶ I&E St. No. 2, at 79.

¹⁶⁷⁷ *Id.* See also I&E St. No. 2-SR, at 43-45.

¹⁶⁷⁸ *Id.*; *Id.*, at 43-44.

¹⁶⁷⁹ *Id.*, at 79-80; *Id.*, at 44.

entirely reject Columbia's calculated ECAPM results of 11.18% without the flotation cost adjustment and 11.21% with the flotation cost adjustment.¹⁶⁸⁰

q. Management Performance

The Company has proposed an upward adjustment of 25 basis points (0.25%) to the cost of equity results based on the Company's exceptional management performance.¹⁶⁸¹ I&E disagrees and asserts that true strong management performance is earning a higher return through its efficient use of resources and cost cutting measures.¹⁶⁸² The greater net income resulting from cost savings and true efficiency in management and operations is then available to be passed on to shareholders.¹⁶⁸³ Therefore, according to I&E, Columbia, or any utility, should not be awarded additional rate of return basis points for doing what they are required to do in order to provide adequate, efficient, safe, and reasonable service under 66 Pa.C.S. § 1501.¹⁶⁸⁴

The Company argues that Columbia has demonstrated exceptional management performance based on its commitment to low-income customers, the results from the Utility Consumer Activities Report and Evaluation (UCARE) and quality of service reports, process improvements enhancing customer service, employee and system safety, and management audit performance.¹⁶⁸⁵

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

¹⁶⁸⁰ *Id.*, at 80.

¹⁶⁸¹ I&E St. No. 2, at 80-81; I&E St. No. 2-SR, at 49-50.

¹⁶⁸² *Id.*, at 80-85; *Id.*, at 49-53.

¹⁶⁸³ I&E St. No. 2, at 85.

¹⁶⁸⁴ *Id.*

¹⁶⁸⁵ I&E St. No. 2, at 81 (citing Columbia statement No. 9 at 3-40).

C.S.A. § 1501.¹⁶⁸⁶ I&E also argues the costs and expenses to implement the Company's cited programs are recovered from ratepayers via base rates or through a DSIC mechanism for capital expenditure recovery.¹⁶⁸⁷ Third, I&E argues if the Company is as effective at controlling operating and maintenance costs, those savings should flow through to ratepayers and/or investors.¹⁶⁸⁸ I&E also asserts the claimed savings to the ratepayers would likely be offset by the addition of basis points for management performance as ratepayers would have to fund the additional costs. I&E submits this would defeat the purpose of cutting expenses to benefit ratepayers, particularly as the 0.25% adder would result in an additional amount of \$7,253,514 annually that the ratepayers must cover.¹⁶⁸⁹ Finally, given that this case is the Company's ninth base rate case filed since 2014,¹⁶⁹⁰ I&E stresses that Columbia customers have encountered increased rates on an almost annual basis in addition to standard rate surcharges.¹⁶⁹¹

I&E explains, though the issuance of equity points to recognize exemplary management performance must be done on a case-by-case basis, for exemplary management performance, such as a 2021 case where Aqua was awarded 25 additional basis points,¹⁶⁹² for the specific efforts by Aqua to rescue troubled water/wastewater systems (some at the Commission's request) and prevent health concerns regarding drinking water.

For all of the reasons summarized in the explanation of the positions of the parties above, we find that Columbia has failed to provide sufficient evidence to support

¹⁶⁸⁶ I&E St. No. 2, at 81.

¹⁶⁸⁷ *Id.*, at 82.

¹⁶⁸⁸ *Id.*

¹⁶⁸⁹ I&E St. No. 2, at 82, I&E St. No. 2-SR, at 87.

¹⁶⁹⁰ I&E St. No. 2, at 6.

¹⁶⁹¹ *Id.*, at 82.

¹⁶⁹² *Pa. PUC v. Aqua Pa., Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, at 168-173 (Order entered May 16, 2022).

its proposal for an additional twenty-five basis points for “strong management performance.” Accordingly, we reject the proposal for an upward management effectiveness adjustment be made to the Company’s cost of equity.

r. *ALJs’ Conclusion – Overall Rate of Return*

Columbia submits its proposed use of its actual capital structure is proper and in accordance with precedent, and that its proposed return on common equity of 11.35%, inclusive of a 25-basis point adjustment for management effectiveness, is fully supported by the record.

Columbia asserts I&E’s 10.51% return on equity recommendation, is deficient for several reasons, including its selection of a proxy group, its lack of leverage and flotation cost adjustments, and its failure to include an adjustment for management performance, and is insufficient to support ongoing infrastructure investment.

Columbia argues that OCA’s recommendation of 8.90%, using a hypothetical capital structure, is contrary to established precedent and is unjustifiably low, is based on the results from a variety of unreasonable methodologies,¹⁶⁹³ and is outside any reasonable rate of return on invested capital.

Consideration was given to the proposals of Columbia and OCA as well as the arguments advanced by CAUSE-PA and the Parties in this proceeding. However, based upon the record evidence in this proceeding, the undersigned ALJs agree with the recommendation and rationale advanced by I&E and recommends that the Company should be afforded the opportunity to earn an overall rate of return of 8.10%, comprised

¹⁶⁹³ OCA’s recommended ROE of 8.90% is computed at its proposed hypothetical capital structure. At the Company’s actual capital structure, OCA would further reduce its recommendation to 8.70%. OCA St. No. 3, at 3, 55.

of a weighted average of a 2.26% rate of return on long-term debt, a 0.12% rate of return on short-term debt, and a 5.72% rate of return on common equity.¹⁶⁹⁴

K. Rate Structure and Rate Design

1. *Columbia Gas' Position*

a. *Cost of Service Study*

(1) Allocated Cost of Service Principles

Columbia submits it's proposed allocation of revenue among the rate classes is primarily driven by the cost to serve each class, as directed by the Commonwealth Court in the *Lloyd* case.¹⁶⁹⁵ Consistent with the Commonwealth Court's directive in *Lloyd*, Columbia submits a proposed revenue allocation will only be found to be reasonable where it moves distribution rates for each class closer to the full cost of providing service.¹⁶⁹⁶

Columbia explains that any significant departure from the results of a cost of service study requires the proponent to fully justify the deviation, and although cost of service studies may appear to have great precision, the Commission has recognized that the cost of service study is a guide to designing rates and is only one factor, albeit an important one, to be considered in the rate setting process.¹⁶⁹⁷ Cost allocation studies

¹⁶⁹⁴ *Id.*

¹⁶⁹⁵ *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006) *app. den.*, 591 Pa. 676, 916 A.2d 1104 (2007) ("*Lloyd*").

¹⁶⁹⁶ *Pa. Pub. Util. Comm'n v. PPL Electric Utils. Corp.*, Docket No. R-00049255, 2007 Pa. PUC LEXIS 55 (Order on Remand entered July 25, 2007).

¹⁶⁹⁷ *See, e.g., Aqua 2008*, 2008 Pa. PUC LEXIS 50; *Pa. PUC v. West Penn Power Co.*, Docket Nos. R-901609, et al., 1990 Pa. PUC LEXIS 142, 73 Pa. PUC 454, 119

require a considerable amount of judgment and are described as more of an accounting/engineering art rather than science.¹⁶⁹⁸

(2) Allocated Cost of Service Studies

Columbia explains it prepared three ACOS studies in support of its proposed rates: the Customer-Demand Study¹⁶⁹⁹ and the Average Study¹⁷⁰⁰ in order to demonstrate the range of generally accepted cost allocations. The ACOS studies are based on the FPFTY ending December 31, 2026.¹⁷⁰¹

Columbia states the Customer-Demand and Peak & Average studies provide the outside limits of possible allocations of mains to the various classes of service.¹⁷⁰² Since the cost of mains represents the majority of plant costs, Columbia submits mains allocation has a critical effect on the assignment of costs of service to the customer classes.¹⁷⁰³

The Customer-Demand study allocates mains costs based on the number of customers (Customer) and the Company's peak day design (Demand). In the Peak & Average study, mains costs are allocated 50% based on the Company's peak design day (Peak) and 50% based on the Company's throughput (Average). The Average Study is a

P.U.R.4th 110 (Order dated Dec. 13, 1990); *Pa. PUC v. Pennsylvania Power & Light Co.*, 55 PUR 4th 185, 249 (Order dated Aug. 19, 1983).

¹⁶⁹⁸ *Application of Metropolitan Edison Co.*, R-00974008 (Order dated June 30, 1998); *Pa. PUC v. Pennsylvania Power & Light Co.*, 55 PUR 4th 185 (Order dated Aug. 19, 1983).

¹⁶⁹⁹ See Columbia Ex. No. 111, Schedule 1, the Peak & Average Study (Ex. No. 111, Schedule 2).

¹⁷⁰⁰ See Columbia Ex. No. 111, Schedule 3.

¹⁷⁰¹ Columbia St. No. 6, at 4.

¹⁷⁰² Columbia St. No. 6, at 4.

¹⁷⁰³ *Id.*, at 9.

combination of the Customer-Demand and Peak & Average studies and gives equal weight to both methods.¹⁷⁰⁴

Columbia submits, the three factors, number of customers, peak demand and average use, are generally accepted as drivers of mains costs. The cost of a main is substantially defined by its size, which is based upon the length of a main and its diameter. Peak demand determines the diameter of a main, and the number of customers will drive its length. Columbia asserts the Customer-Demand study produces results that are generally more favorable to the Industrial class, while the Peak & Average Study produces results that are generally more favorable to the Residential class. Columbia submits that the results of these two studies provide a reasonable range of returns for use as a guide in establishing appropriate rates.

Columbia explains it primarily used the Peak & Average Study to guide the revenue allocation and rate design process.¹⁷⁰⁵ Columbia submits, in Columbia's 2020 rate case, the Commission stated, "we find that the Peak & Average allocation methodology is the most appropriate allocation methodology to use in this proceeding because it is based on the premise of load-based investment."¹⁷⁰⁶ Consistent with the Commission's Order in the 2020 rate case and with the methodology used since the Company's 2021 rate case, the Company provides that it continues to utilize the Peak & Average Study as the primary study to serve as a guide to allocate the proposed revenue increases in this case.¹⁷⁰⁷

¹⁷⁰⁴ *Id.*, at 5.

¹⁷⁰⁵ *Id.*, at 17.

¹⁷⁰⁶ *Pa. PUC et al. v. Columbia Gas of Pa.*, Docket No. R-2020-3018835, at 218 (Order entered Feb. 19, 2021).

¹⁷⁰⁷ *Columbia St. No. 6*, at 17.

Columbia asserts the demand component by class used by the Company was provided by NCSC's Energy Supply and Optimization Department and represents expected requirements under design day conditions. The calculation reflects design day total requirements, and thus assumes suppliers will make deliveries necessary to meet customer requirements.¹⁷⁰⁸ Columbia notes customers served under rate schedules MLS and MLDS were excluded from the allocations of mains under all studies because these customers are served directly from or in close proximity to an interstate pipeline. According to Columbia, MLS and MLDS customers are directly assigned the cost of mains used to serve the class.¹⁷⁰⁹

(3) Customer Charge Studies

In addition to the ACOS studies, Columbia prepared a cost analysis supporting the minimum or system charges for all rate schedules.¹⁷¹⁰ The cost analysis contains two studies.¹⁷¹¹ The first study is the Company's traditional customer charge study based on the Customer-Demand study and includes the customer portion of mains costs. The second study was conducted for comparison purposes and excludes the customer component of mains.

Columbia asserts it is appropriate to include a customer component of mains in the Minimum System Customer Charge study because of the way the distribution system is designed. Columbia asserts 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. Columbia further submits, at a minimum, fixed costs that have a direct

¹⁷⁰⁸ *Id.*, at 8.

¹⁷⁰⁹ *Id.*, at 9.

¹⁷¹⁰ *Id.*, at 3.

¹⁷¹¹ Columbia Ex. No. 111, Schedule 2, at 14-30.

relationship to the number of customers served by the Company and should, therefore, be recovered equally from all customers within a rate class.¹⁷¹²

b. Revenue Allocation

(1) Proposed Revenue Allocation and Alterations

(a) Columbia's Proposed Revenue Allocation

Columbia explained it allocated the proposed revenue requirement to the rate schedules using the FPFTY non-gas revenues for each customer group being allocated a portion of the increase. In order to develop allocation percentages, rate schedules were assigned to groups. All Residential rate schedules ((Residential Sales Service (RSS) and Residential Distribution Service (RDS or Choice)) were grouped together. The following Commercial and Industrial (C&I) customers using less than 6,440 therms annually were combined: Small General Service-1 (SGS-1), Small Commercial Distribution-1 (SCD-1) and Small General Distribution Service-1 (SGDS-1). The other customer groups include Small General Service-2 (SGS-2), Small Commercial Distribution-2 (SCD-2) and Small General Distribution Service-2 (SGDS-2) (those with annual usage between 6,440 and 64,400 therms); Small Distribution Service (SDS) and Large General Sales Service (LGSS) (commercial and industrial customers using between 64,400 and 540,000 therms annually); Large Distribution Service (LDS) and LGSS (commercial and industrial customers using greater than 540,000 therms annually); Main Line Distribution Service (MLDS); and Negotiated Contract Service plus flex rate customers (NCS or Flex).¹⁷¹³

¹⁷¹² Columbia St. No. 6, at 14-15.

¹⁷¹³ Columbia St. No. 6, at 7.

The table below summarizes Columbia's revenue allocation proposal.

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

The Company explained it selected the Peak & Average ACOS study to guide the revenue allocation and rate design process, while using all three ACOS studies to evaluate the reasonableness of the proposed revenue allocation.¹⁷¹⁴ Columbia submits it made certain adjustments to the revenue allocation based upon the initial results of the Peak & Average ACOS study. The results of the ACOS study indicated that five rate classes – RS/RDS, SGS-1/SGDS-1, SGS-2/SGDS-2, SDS/LGSS and MLDS – are overcontributing compared to the rate of return earned on rate base and two rate classes – LDS/LGSS and Flex – are under contributing based upon the P&A methodology.¹⁷¹⁵ The following table shows the unitized return results for the classes at present rates:

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

¹⁷¹⁴ *Id.*, at 4.

¹⁷¹⁵ Columbia Ex. No. 111, Sch. 3, at 3.

Columbia submits its proposed revenue allocation moves the unitized returns for the classes towards parity (unitized returns of 1.00) with no class yet at parity. Columbia also proposed to limit the rate increases for each class to no more than 1.5 times the total system average increase of 16.73%.¹⁷¹⁶

(b) Other Parties' Revenue Allocation Proposals

The other parties' revenue allocation proposals are set forth in the table below:¹⁷¹⁷

Table KLJ-1RJ

<u>Customer Class</u>	<u>Columbia</u>	<u>I&E</u>	<u>OCA</u>	<u>OSBA</u>	<u>PSU</u>
RS/RDS	66.86%	66.86%	59.26%	64.74%	66.86%
SGSS1/SCD1/SGDS1	9.65%	9.65%	11.16%	8.90%	10.55%
SGSS2/SCD2/SGDS2	10.93%	10.93%	12.75%	10.35%	11.83%
SDS/LGSS	6.84%	6.84%	8.02%	7.20%	7.74%
LDS/LGSS	5.73%	5.73%	8.81%	8.81%	3.02%
MDS/NSS	0.00%	0.00%	0.00%	0.00%	0.00%
FLEX	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

Columbia submits I&E agrees with the Company's revenue allocation proposal. OCA and OSBA recommend increasing the LDS/LGSS class to 2.0 times system average in order to reduce the allocation to their respective classes.¹⁷¹⁸ Columbia asserts PSU's allocation is based upon its flawed modifications to the Customer-Demand study, and PSU recommends higher increases to the SGSS1, SSGS2 and SDS classes in order to reduce the allocation to the LDS class.

¹⁷¹⁶ Columbia St. No. 6, at 19.

¹⁷¹⁷ Columbia St. No. 6-RJ, at 2.

¹⁷¹⁸ Columbia St. No. 6-RJ, at 2.

c. Rate Design/Tariff Structure

Columbia explains its rate design proposal is designed to recover the Company's total cost of service. In designing its proposed rates, the Company asserts it pursued three objectives to establish the amount of revenue to be recovered through the customer charge; designed rates to be just and reasonable and minimize cross-class subsidies; consideration of customer impacts of its proposed rate design; and the Company proposed to recover fixed costs through the customer charge at least proportional to the percentage recovery of fixed costs in current rates. Columbia witness Johnson testified the proportion of fixed costs recovered through the residential customer charge has eroded since the Company's 2012 base rate case and the proposed rate design for residential customers proposes to correct this erosion and recover a higher proportion of fixed costs through the customer charge.¹⁷¹⁹

d. Residential Rate Design

Columbia's current Residential rate structure includes a customer charge, a volumetric charge, a WNA and a proposed RNA. Columbia is proposing to increase the Residential customer charge and recover the remaining revenue allocated to the Residential customer class through the volumetric (distribution) charge.

Columbia proposes to increase the Residential customer charge from \$16.75 to \$31.97. The remaining Residential revenue increase was assigned to the volumetric charge for a resulting rate of \$10.4458 per Dth.¹⁷²⁰

¹⁷¹⁹ Columbia St. No. 6, at 21.

¹⁷²⁰ *Id.*, at 21.

Columbia performed two customer charge calculations, one including mains and the other excluding mains.¹⁷²¹ The monthly Residential customer cost excluding mains is \$29.43.¹⁷²² The monthly Residential customer cost including a mains component is \$77.16.¹⁷²³ Based on these customer charge calculations, Columbia proposes a Residential customer charge of \$31.97. Columbia asserts the proposed increase represents a meaningful movement toward appropriate full fixed cost recovery.

(1) The Company's Proposed Customer Charge Better Aligns with Cost Causation than the Other Parties' Proposals

Columbia asserts that nearly all of the Company's distribution system costs are fixed and do not vary with usage.¹⁷²⁴ The Company's total fixed costs per residential customer are \$77.16 per month.¹⁷²⁵ Columbia argues even the Company's proposed customer charge of \$31.97 does not nearly come close to recovering the Company's fixed costs. Columbia argues its proposal will allow the Company to recover more fixed costs on a fixed basis and reduce volatility that results from the mismatch that occurs when the vast majority of fixed costs are recovered through volumetric rates.

(2) Higher Fixed Monthly Charges (with Correspondingly Lower Volumetric Charges) Benefit Low Income Customers

Columbia asserts recovering fixed distribution system costs through higher fixed customer charges and correspondingly lower volumetric rates provides multiple benefits for the majority of Columbia's low-income customers, including lower annual rates as low-income customers have higher average usage than other residential

¹⁷²¹ *Id.*, at 22.

¹⁷²² Columbia Ex. No. 111, Sch. 2, at 16.

¹⁷²³ Columbia Ex. No. 111, Sch. 2, at 25.

¹⁷²⁴ Columbia St. No. 17, at 6.

¹⁷²⁵ *Id.*, at 9-10.

customers. Columbia submits, on average, Columbia's low-income customers used 17% more gas than other residential customers in 2023-2024.¹⁷²⁶ Columbia also asserts a higher customer charge with correspondingly lower volumetric charges benefits higher usage customers.

(3) The Benefits of Higher Fixed Charges Outweigh Any Perceived Detriments

Columbia explains I&E, OCA and CAUSE-PA all propose no increase to Columbia's current residential customer charge of \$17.25 per month.¹⁷²⁷

Columbia also argues the criticism that higher fixed charges will discourage conservation¹⁷²⁸ is flawed. Columbia submits, low-income customers, while higher users, are largely not able to conserve due to the costs of making their homes more efficient or buying more efficient furnaces and appliances.¹⁷²⁹ Columbia argues an overall reduction in bills for high-usage low-income customers through higher customer charges and lower volumetric rates is a greater benefit than distribution bill conservation savings because these customers are not able to effectively reduce their usage. Further, Columbia explains it is not proposing to decrease the current level of volumetric distribution charges.

Columbia notes the only customer charge analyses presented in this case are the Company's analyses which support a customer charge in the range of \$27.69 -

¹⁷²⁶ *Id.*, at 18.

¹⁷²⁷ I&E St. No. 3, at 43; OCA St. No. 4, at 16; CAUSE-PA St. No. 2, at 41.

¹⁷²⁸ *See* CAUSE-PA St. No. 2, at 33.

¹⁷²⁹ Tr. 478.

\$77.16.¹⁷³⁰ Columbia argues sound ratemaking principles dictate that rates must be designed to recover costs.¹⁷³¹

(4) Small C&I Customer Rate Design

For Small General Service customers using less than or equal to 6,440 therms annually, the customer charge studies produce a range of customer costs from \$33.13 (excluding mains) to \$87.76 (including mains).¹⁷³² Columbia's current customer charge for these customers is \$33.00 per month. Columbia proposed to increase the current customer charge proportionally to the overall base rate increase for this customer class resulting in a proposed customer charge of \$39.00.¹⁷³³

For Small General Service customers using between 6,440 and 64,400 therms annually, the Company's customer charge studies produce a range of customer costs from \$66.12 (excluding mains) to \$204.92 (including mains).¹⁷³⁴ Columbia's current customer charge for these customers is \$63.00 per month. Columbia proposed to increase the current customer charge proportionally to the overall base rate increase for this customer class resulting in a proposed customer charge of \$75.00.¹⁷³⁵

(5) Large C&I Customer Rate Design

Columbia's proposed SDS/LGSS customer charge for customers whose usage is between 64,400 therms and 110,000 therms is \$358.00. The current SDS/LGSS customer charge is \$304.32. The proposed SDS/LGSS monthly customer charge for

¹⁷³⁰ Columbia St. No. 6-RJ, at 5-6.
¹⁷³¹ Columbia St. No. 17-RJ, at 8-9.
¹⁷³² Columbia Ex. No. 111, Sch. 2, at 16, 25.
¹⁷³³ Columbia St. No. 6, at 22.
¹⁷³⁴ Columbia Ex. No. 111, Sch. 2, at 16, 25.
¹⁷³⁵ Columbia St. No. 6, at 23.

customers whose usage is between 110,000 therms and 540,000 therms is \$1,623.00. The current SDS/LGS customer charge is \$1,308.38.

The table below shows the proposed and current monthly customer charges for the LDS/LGSS rate class:¹⁷³⁶

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

Columbia explains none of the parties opposed the Company's proposed customer charges for the Large C&I class.

(6) Gas Procurement Charge Rider

Columbia also proposes a Gas Procurement Charge (GPC) of \$0.00113 per therm. Columbia Exhibit No. KLJ-6 shows the calculation of the proposed GPC. Columbia notes no party challenged the Company's proposed GPC.

e. Summary and Alternatives

Columbia submits its revenue allocation proposal is based upon its P&A study, which is supported by I&E. Columbia also submits OCA supports the Company's

¹⁷³⁶ See Columbia Ex. No.111, Sch. 6.

P&A study but proposes a more aggressive approach to reduce costs for residential customers and increase costs for large customers.

2. *I&E's Position*

a. *Effective Date of New Rates*

I&E explains that Columbia, in its filing, declared that it was using the Fully Projected Future Test Year to determine its base rates and the first day of the FPFTY is January 1, 2026.¹⁷³⁷ However, when asked in discovery about the effective date of new rates, Columbia indicated that the effective date of its new rates will be December 18, 2025.¹⁷³⁸

This issue was raised by Columbia in the Miscellaneous Section of its Briefs and will be addressed in the Miscellaneous Section of this Recommended Decision below.

b. *Allocated Cost of Service*

I&E explains it agrees with the Company's use of the peak and average methodology to allocate any potential revenue increases among Columbia customer classes.¹⁷³⁹ I&E also agrees with the Company continuing to show a separate customer class for flex rate customers.¹⁷⁴⁰ I&E believes that this is important so that the Commission can determine the cost to provide service to the flex and non-flex customers and the subsidy being provided by tariff rate customers.

¹⁷³⁷ I&E St. No. 2, at 105; *See also*, Columbia St. No. 4, at 3.

¹⁷³⁸ *Id.*, at 105-106 (citing I&E Ex. No. 2, Sch 18, at 1).

¹⁷³⁹ I&E St. No. 3, at 38; I&E St. No. 3-SR, at 36-37.

¹⁷⁴⁰ I&E St. No. 3, at 38; I&E St. No. 3-SR, at 36-37; I&E M.B., at 60.

I&E recommends using the peak and average methodology to allocate any potential revenue increases among Columbia customer classes; and that the Company continuing to show a separate customer class for flex rate customers.

c. Revenue Allocation

I&E explains Columbia prepared two customer cost analyses presented in Columbia Exhibit No. 111, Schedule 2, pp. 16 and 25.¹⁷⁴¹ The Company's first customer cost analyses shown on Columbia Exhibit No. 111, Schedule 2, p. 11 allocates a portion of the cost of mains to customers.¹⁷⁴² The Company's second customer cost analyses shown on Columbia Exhibit No. 111, Schedule 2, p. 25 does not allocate any portion of the cost of mains to customers.¹⁷⁴³

I&E argues that the Commission established in Columbia's 2020 base rate case that mains are not properly included as a customer cost.¹⁷⁴⁴ Therefore, in consideration of the record evidence presented and the relevant Commission precedent, I&E recommends that the Company's customer cost analysis that does not include the cost of mains should be utilized in this proceeding; and, the Company's customer cost analysis that includes the cost of mains should not be considered.¹⁷⁴⁵

¹⁷⁴¹ See, I&E St. No. 3, at 39-42; *See also*, I&E St. No. 3-SR, at 37-38.

¹⁷⁴² I&E St. No. 3, at 39-42; I&E St. No. 3-SR, at 40-41; I&E M.B., at 61.

¹⁷⁴³ *Id.*, at 41.

¹⁷⁴⁴ See *Id.*, at 41-42 (citing *Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835, at 218 (Opinion and Order entered Feb. 19, 2021)).

¹⁷⁴⁵ *Id.*, at 42.

d. Rate Design – Customer Charges

Columbia set forth its proposed rate design and proposed customer charges based on its original requested overall revenue increase of approximately \$110.5 million at Columbia Exhibit No. 103, Schedule 8, pages 5-9.¹⁷⁴⁶ I&E explains it applied the customer cost analysis that does not include the cost of mains and concluded that customer charges for the RS, RDS, and RC2 classes are too high.¹⁷⁴⁷ Instead, I&E recommended the customer charges for rate classes RS, RDS, and RC2 stay at the current rate of \$17.25.¹⁷⁴⁸

I&E supported its recommendation to keep the customer charges for rate classes RS, RDS, and RC2 stay at the current rate of \$17.25 by arguing, first, Columbia's Residential customer charge proposal is out of line with the Residential customer charges of other NGDCs in the Commonwealth.¹⁷⁴⁹ Second, a high fixed monthly customer charge is inconsistent with the Commission's general goal of fostering energy conservation because actual usage becomes less of a cost saving measure.¹⁷⁵⁰ And, finally, the Company's analysis of customer costs includes costs that are not appropriately included in a customer charge and is based on the Company's requested increase, which in all likelihood will be higher than the increase authorized by the Commission in this proceeding.¹⁷⁵¹

I&E explains it did, however, accept the proposed customer charges for LDS class customers because higher usage customers generally favor a higher fixed

¹⁷⁴⁶ See I&E St. No. 3, at 42-46.

¹⁷⁴⁷ *Id.*, at 42-43; See also I&E St. No. 3-SR, at 38-40.

¹⁷⁴⁸ I&E St. No. 3, at 43; I&E St. No. 3-SR, at 38-40.

¹⁷⁴⁹ *Id.*, at 44-45.

¹⁷⁵⁰ *Id.*, at 44.

¹⁷⁵¹ See, *Id.*, at 42-46.

charge and lower usage charges.¹⁷⁵² I&E explains it also accepted the proposed customer charges for SGS1, SGS2, and SDS/LGSS customers as the proposed charges are consistent with the applicable customer cost analysis.¹⁷⁵³

Accordingly, I&E recommends the customer charges for rate classes RS, RDS, and RC2 stay at the current rate of \$17.25.

e. Scale Back of Rates

I&E recommends that if the Commission grants an increase less than the amount requested by the Company, then I&E recommends that all proposed increases to customer charges and usage rates be scaled back proportionately based on the ACOSS that is ultimately approved by the Commission.¹⁷⁵⁴

Finally, I&E asserts it is generally accepted that gradualism is a well-established ratemaking concept that seeks to limit the immediate increases customers receive when rates are increased and instead seeks to implement a necessary significant rate changes on a more gradual basis over time. If the Commission should approve a rate increase, then, I&E asserts, the Commission has the discretion¹⁷⁵⁵ to apply the concept of gradualism if the Commission determines the rate increase would result in a sudden and excessive increase that would violate the concept of gradualism.

3. *OCA's Position*

¹⁷⁵² *Id.*, at 43.

¹⁷⁵³ *Id.*

¹⁷⁵⁴ I&E St. No. 3, at 47; I&E St. No. 3-SR, at 40-41.

¹⁷⁵⁵ *See Columbia Gas Order*, at 44-55, Docket No. R-2020- 3018835 (Order Entered February 19, 2021 (for a comprehensive discussion of the Commission's discretionary authority)).

a. Revenue Allocation and Rate Design

OCA requests that the Commission grant significant weight to the Peak & Average (P&A) allocated cost of service (ACOS) study presented by the Company, which OCA submits is reasonable and is consistent with the Commission's precedent for the allocation of the costs of mains.¹⁷⁵⁶ OCA asserts the Company's request to increase the residential customer charge from \$17.25 to \$31.97, or by \$14.72 or 85% – despite currently being among the highest customer charges among NGDCs in the Commonwealth, should be rejected as inconsistent with Commission precedent, cost causation, and principles of equity

b. Cost of Service Study

OCA explains the Company provides service to the following rate classes:

- Residential Sales Service and Residential Distribution Service (RSS/RDS);
- Low-Volume Small General Sales Service, Small Commercial Distribution Service, and Small General Distribution Service (SGSS/DS-1);
- High-Volume Small General Sales Service, Small Commercial Distribution Service, and Small General Distribution Service (SGSS/DS-2);
- Small Distribution Service and low-volume, Large General Sales Service (SDS/LGSS);
- Large Distribution Service and high-volume, Large General Sales Service (LDS/LGSS);
- Main Line Distribution Service “MLDS); and
- Flexible Rate Provisions and Negotiated Contract Service (Flex).¹⁷⁵⁷

¹⁷⁵⁶ OCA St. 4 at 4-8 (citing *Columbia 2020* at 218).

¹⁷⁵⁷ OCA St. 4 at 4.

OCA submits the Commission has held the long-standing position that “distribution mains exist and are related to both annual demands and peak demands. Both annual and peak demands must be recognized in the allocation of distribution mains cost if the allocation is to be in accord with the principle of cost-causality.”¹⁷⁵⁸ The Commission has expressly and consistently rejected the notion that the classification of costs associated with natural gas distribution mains should include any customer component.¹⁷⁵⁹

- (1) OCA Submits Evidence of Record Does Not Indicate a Sufficient Basis to Move Away from the Commission’s Precedent Supporting the P&A Methodology and that the Results of the Company’s P&A ACOS are Reasonable and Should be Given Significant Weight

OCA witness Mierzwa submits that the P&A methodology presented by the Company in this case meets all three of the Commission’s criteria: (1) it does not include a customer component, (2) it recognizes the costs of peak demand, and (3) it recognizes the role that annual throughput plays in distribution system design and buildout.¹⁷⁶⁰

- (2) The Customer-Demand ACOS is Unsupported by Cost Causation Principles and Commission Precedent and Should be Given no Weight

OCA explains PSU recommends that the Commission rely on the Company’s Customer-Demand study because PSU witness Crist contends that recognizing the role that annual throughput plays in the design and buildout of a natural gas distribution system is not consistent with cost causation principles.¹⁷⁶¹ OCA submits the arguments raised by PSU should be given little weight because they are inconsistent

¹⁷⁵⁸ See *Columbia 2020* at 217; *PGW 2023* at 137.

¹⁷⁵⁹ See *Columbia 2020* at 213-218.

¹⁷⁶⁰ OCA St. 4, at 5.

¹⁷⁶¹ PSU St. 1, at 17.

with Commission precedent, which has identified that, at least for Columbia's distribution system, the number of customers is not a factor of cost causation while throughput is.¹⁷⁶²

c. Revenue Allocation

OCA explains that the Commission considers the results of cost of service studies to address ratemaking concerns such as unreasonable inter- and intra-class subsidization through revenue allocation.¹⁷⁶³ The Commission may also consider non-cost factors when determining the appropriate cost of service for each class.¹⁷⁶⁴ Non-cost considerations include rate gradualism and affordability, among others.

OCA explains, after determining the appropriate ACOS methodology, the Commission then determines inter-class rates, "which involves the assignment of the revenue requirement between the various customer classes."¹⁷⁶⁵ Revenue allocation should seek to eliminate class cross-subsidization and move customer classes towards their cost of service.¹⁷⁶⁶ However, the Commission is also charged with balancing public policy considerations such as gradualism, incentivizing conservation, and ensuring that rates are affordable for all customers when allocating revenues between classes.¹⁷⁶⁷

OCA witness Mierzwa proposed a revenue allocation which, OCA asserts, more accurately reflects customers' cost causation than that recommended by the

¹⁷⁶² *Columbia 2020* at 217-18.

¹⁷⁶³ *Lloyd v. Pa. PUC*, 904 A. 2d 1010, 1020 (Pa. Cmwlth. 2006).

¹⁷⁶⁴ *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).

¹⁷⁶⁵ *PECO Gas 2020* at 247.

¹⁷⁶⁶ *Lloyd v. Pa. PUC*, 904 A. 2d 1010, 1020 (Pa. Cmwlth. 2006).

¹⁷⁶⁷ *PGW 2023* at 146; *PECO Gas 2020* at 247.

Company without violating equitable principles.¹⁷⁶⁸ To determine which customer classes should receive rate increases and if any customer classes should receive rate decreases, Mr. Mierzwa first determined the relative rate of return for each customer class at present rates and at proposed rates.¹⁷⁶⁹ A relative rate of return (RROR) “of less than 1.0 indicates that a customer class is providing revenues that are less than that class’s indicated cost of service,” while an RROR “of 1.0 indicates that a customer class is providing revenues that are equal to that class’s indicated cost of service, and a [RROR] greater than 1.0 indicates that a customer class is providing revenues that are greater than that class’s indicated cost of service.”¹⁷⁷⁰

Based on the Company’s revenue allocation, Mr. Mierzwa developed the following table:

Columbia Proposed Revenue Distribution ¹⁷⁷¹						
Class	Present Rates	Proposed Rates	Increase	Percent	Relative Rate of Return	
					Present Rates	Proposed Rates
RSS/RDS	\$472,225,754	\$546,101,990	\$73,876,236	15.6%	1.19	1.18
SGSS/DS-1	58,132,981	68,791,241	10,658,260	18.3%	1.11	1.10
SGSS/DS-2	65,814,353	77,886,598	12,072,245	18.3%	1.12	1.10
SDS/LGSS	43,113,653	50,669,037	7,555,384	17.5%	1.14	1.11
LDS/LGSS	29,678,996	36,012,952	6,333,956	21.3%	0.40	0.47
MLDS	1,890,168	1,890,168	0	0.0%	38.05	28.83
FLEX	3,120,443	3,121,087	644	0.0%	(0.53)	(0.40)
Total	\$673,976,348	\$784,473,073	\$110,496,725	16.4%	1.00	1.00

OCA submits, as can be seen from this table, the Company’s proposal makes insignificant movement towards cost of service for the RSS/RDS, SGSS/DS-1,

¹⁷⁶⁸ OCA St. No. 4, at 11.

¹⁷⁶⁹ OCA St. No. 4, at 8.

¹⁷⁷⁰ *Id.*

¹⁷⁷¹ *Id.*, at 9.

SGSS/DS-2, and SDS/LGSS classes which are currently subsidizing the LDS/LGSS and Flex rate classes. OCA witness Mierzwa found the Company's proposal to be unreasonable for these reasons, and instead recommended the following revenue allocation:

OCA Proposed Revenue Distribution ¹⁷⁷²							
Class	Present Rates	Proposed Rates	Increase	Percent	Relative Rate of Return		Change
					Present Rates	Proposed Rates	
RES	\$472,225,754	\$537,704,353	\$65,478,599	13.9%	1.19	1.15	\$(8,397,637)
DS-1	\$58,132,981	70,467,256	12,334,275	21.2%	1.11	1.15	1,676,015
DS-2	\$65,814,353	79,904,990	14,090,637	21.4%	1.12	1.14	2,018,392
GSS	\$43,113,653	51,974,631	8,860,978	20.6%	1.14	1.15	1,305,594
LGSS	\$29,678,996	39,410,589	9,731,593	32.8%	0.40	0.57	3,397,637
MLDS	\$1,890,168	1,890,168	(0)	0.0%	38.05	28.83	(0)
FLEX	\$3,120,443	3,121,087	644	0.0%	(0.53)	(0.40)	(0)
Total:	\$673,976,348	\$784,473,073	\$110,496,725	16.4%	1.00	1.00	\$0

OCA submits the primary points of contention regarding revenue allocation are: (1) whether and to what extent the LDS/LGSS should receive a greater rate increase than proposed by the Company and (2) if the LDS/LGSS class receives a greater rate increase, how the increased rates from the LDS/LGSS class should be applied to lower the rate increases for the subsidizing classes. OCA submits that the LDS/LGSS should receive a rate increase equal to 2.0 times the system average increase, instead of the 1.5 times recommended by the Company.¹⁷⁷³ Based on the increased amount of revenue allocated to the LDS/LGSS customer class, OCA recommends that the Commission move the subsidizing customer classes to approximately the same RROR so that each class is subsidizing LDS/LGSS and Flex rate customers the same amount following the rate increase.¹⁷⁷⁴

¹⁷⁷² *Id.*, at 11.

¹⁷⁷³ *Id.*, at 11.

¹⁷⁷⁴ OCA St. 4, at 12.

- (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

OCA asserts, under present rates, LDS/LGSS and Flex rate customers are currently being subsidized by the other customer classes, with RRORs of 0.40 and (0.53), respectively.¹⁷⁷⁵ Despite this, under the Company's proposed rate increase, OCA contends, LDS/LGSS would receive a subsidy of \$19,252,450 and Flex rate customers would receive a subsidy of \$42,650,000 for a total of \$61,902,450 in inter-class cross-subsidization borne by chiefly residential and small business customers.¹⁷⁷⁶ Because Flex rate customers receive service at contract rates, any revenue allocated to the Flex rate customer class except through customer charge increases cannot be reasonably recovered by the Company and, therefore, no party recommended increasing the allocation of a revenue increase to Flex customers.¹⁷⁷⁷ However, the parties disagreed with how to address the issue of the subsidy currently being provided to LDS/LGSS customers.

OCA explains it recommended that the revenue allocated to LDS/LGSS customers be increased from 1.5 times the system average increase to 2.0 times the system average increase.¹⁷⁷⁸ This increase would reduce the subsidy being provided to LDS/LGSS by approximately \$3,397,637 compared to the Company's proposal.¹⁷⁷⁹ OCA submits the Company disagreed with the OCA and OSBA because the Commission in *Columbia 2020* applied a 1.5 times system average increase ceiling for purposes of gradualism, which a 2.0 times increase exceeded.¹⁷⁸⁰

¹⁷⁷⁵ *Id.*, at 10.

¹⁷⁷⁶ *Id.*

¹⁷⁷⁷ *See* Columbia St. 6, at 20.

¹⁷⁷⁸ OCA St. 4, at 11.

¹⁷⁷⁹ *Id.*, at 10.

¹⁷⁸⁰ Columbia St. 6-R at 10-11.

OCA asserts that fundamentally, the question is one of gradualism: whether the ceiling applied as an upper limit on a rate increase to ensure that the rate increase does not induce rate shock is appropriately 1.5 times (supported by Columbia) or 2.0 times (supported by the OCA and OSBA). OCA witness Mierzwa stated that “typically an increase of 1.5 to 2.0 times the system average increase is considered consistent with the concept of gradualism.”¹⁷⁸¹

- (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

Though OCA and OSBA agree that the appropriate gradualism ceiling for Rate LDS/LGSS is 2.0 times the system average increase instead of the 1.5 times used by the Company, OCA and OSBA disagree with how to allocate the difference in revenue among the customer classes currently subsidizing Rate LDS/LGSS.

OSBA witness Ewen and OCA witness Mierzwa “proposed the same revenue increases for the LDS/LGSS, MLDS and Flex rate customer classes, but different increases for the RSS/RDS, SGSS/DS-1, SGSS/DS-2, and SDS/LGSS customer classes.”¹⁷⁸² Under OCA’s revenue allocation proposal, the subsidy Rates RSS/RDS, SGSS/DS-1, SGSS/DS-2, and SDS/LGSS provide to LDS/LGSS and Flex rate customers are essentially equalized, meaning that they pay the same share of the subsidy as compared to each other.¹⁷⁸³ OCA submits this recommendation is reasonable and should be given greater weight by the Commission because there is no cost of service basis for RSS/RDS customers to pay a greater share of the subsidy than the other rate classes.

¹⁷⁸¹ OCA St. 4, at 11.

¹⁷⁸² *Id.*

¹⁷⁸³ *Id.*

d. Rate Design/Tariff Structure

OCA explains the Commission in *PECO Gas 2020*, stated “[r]ate design requires a careful balance of the competing interests of customer classes as well as prudent application of the principles of cost causation, gradualism, and overall fairness.”¹⁷⁸⁴ One important component of a rate design is the fixed customer charge which does not vary with customers’ usage. A customer charge should approximate customer-related costs directly attributable to a customer, or those “costs that change directly with its addition or subtraction of a customer.”¹⁷⁸⁵ However, in considering movement towards cost-of-service for the approximation of direct customer costs in a customer charge, the Commission also considers important policy issues, such as gradualism, the effect on conservation, affordability, and other policy objectives.¹⁷⁸⁶ The OCA recommends rejecting the residential customer charge increase proposed by the Company.

(1) Columbia’s Residential Customer Charge is Inconsistent with Cost Causation Principles

OCA submits mains costs are not appropriately included in a customer charge because they are not customer-related and do not vary with the addition or subtraction of a single customer.¹⁷⁸⁷ Uncollectible expense, similarly, does not vary with the addition or subtraction of a single customer.¹⁷⁸⁸ Excluding mains and uncollectible

¹⁷⁸⁴ *PECO Gas 2020*, at 274.

¹⁷⁸⁵ OCA St. 4, at 14.

¹⁷⁸⁶ *Columbia 2020*, at 264 (Commission adopts the ALJ’s decision to reject Columbia’s proposed fixed customer charge increase as violating the principle of gradualism, harming low-income customers, and discouraging conservation efforts).

¹⁷⁸⁷ *Id.*, at 13-14 (citing *Columbia 2020* at 217).

¹⁷⁸⁸ *Id.*, at 16.

costs from the Company's customer cost analysis reduces the calculated customer charge to \$27.70, which is less than the \$31.97 proposed by Columbia.¹⁷⁸⁹

OCA argues Columbia has failed to meet its burden of proof in this instance. First, the \$31.97 residential customer charge proposed by Columbia includes costs which are not even customer-related, because the proposed customer charge includes mains costs which, as stated by OCA witness Mierzwa "are driven by the loads placed upon [the distribution system], not the number of customers served."¹⁷⁹⁰ While Columbia witness Taylor argues that demand-related costs are "fixed," do not vary with usage, and should be included in a customer's fixed monthly charge, OCA explains Mr. Taylor provides no support for why the Company's customer charge analysis should ignore both the Company's P&A ACOS study or Commission precedent which both indicate that mains costs are not customer-related.¹⁷⁹¹

OCA submits, "fixed" is not a category of cost causation. Whether a cost is "fixed" simply means that the cost is associated with plant that has been placed in service, not the cost basis for why the cost was incurred which is the subject of an ACOS study.

In addition, OCA asserts costs such as uncollectible costs which are not customer-related are not appropriately included in a customer charge.¹⁷⁹² OCA argues Columbia has produced no evidence that uncollectible expense varies with the addition or subtraction of a single customer and, therefore, should not be permitted to recover uncollectible expense through customer charges.¹⁷⁹³

¹⁷⁸⁹

Id.

¹⁷⁹⁰

OCA St. 4, at 13-14.

¹⁷⁹¹

Columbia St. 17-R, at 27.

¹⁷⁹²

OCA St. 4SR, at 3.

¹⁷⁹³

Aqua 2004 at *98.

As stated by the Commission in *Aqua 2004*, customer-related costs beyond meters and service lines may be considered for inclusion in the customer charge on a case-by-case basis, subject to scrutiny.¹⁷⁹⁴

(2) Columbia's Residential Customer Charge is Inconsistent with Gradualism

OCA asserts the Commission has previously approved increases which are based in cost of service but are moderated in accordance with the principle of gradualism, where an increase in rates towards full cost of service is phased in over time to prevent customers from rate shock or facing too high of a bill increase all at once.¹⁷⁹⁵

OCA asserts under the Company's proposal, the residential customer charge would increase by 85%.¹⁷⁹⁶ This increase is far greater than the 16% increase Columbia proposes for the residential customer class as a whole and is greater than the 14% increase for the residential customer class supported by OCA witness Mierzwa.¹⁷⁹⁷

(3) Columbia's Residential Charge Exacerbates Affordability Concerns

In deciding on the appropriate size of a customer charge increase, OCA argues the Commission must consider the agency afforded to Columbia's low-income customers: any reduction in low-income customers' agency to control their bills results in

¹⁷⁹⁴ *Id.*

¹⁷⁹⁵ *See, e.g., PGW 2023*, at 164.

¹⁷⁹⁶ OCA St. 4, at 13.

¹⁷⁹⁷ *Id.*, at 9, 11.

increasing concern over the unsafe methods to which such customers may resort to afford to heat their homes.¹⁷⁹⁸

(4) Columbia's Residential Customer Charge Reduces Incentives to Pursue Energy Efficiency and Conservation

OCA asserts, by placing a greater portion of a residential customer's monthly bill in the customer charge, which sends no price signal to customers, than in the volumetric portion of a customer's bill, the Company's proposal mutes incentives to conserve energy in contravention of the Commission's long-standing policy.¹⁷⁹⁹ Price signals in rates are intended to shape long-term customer behavior; by having a \$31.97 customer charge, the price signal for rationed access to connection with Columbia's distribution system may outweigh the price signals regarding how customers' usage affects the design and buildout of Columbia's distribution system.¹⁸⁰⁰

The Company has presented no evidence to distinguish its proposal in this proceeding from *Columbia 2020*, when a less extreme customer charge increase was rejected, in part, because of the impact of the increase on energy efficiency incentives.¹⁸⁰¹ As a result, OCA argues the evidence presented by the Company in this case should be given little weight and its proposal to increase its residential customer charge should be rejected.

¹⁷⁹⁸ *Pa. PUC v. Roaring Creek Water Co.*, 73 Pa. PUC 373, 400 (1990) (*Roaring Creek 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.").

¹⁷⁹⁹ OCA St. 4, at 16.

¹⁸⁰⁰ See *PECO Gas 2020* at 274 ("Improved price signals can translate into more economically efficient energy usage"); see also *Columbia 2020* at 217 (cost causation for natural gas distribution requires reflection of both peak demand and annual throughput).

¹⁸⁰¹ *Columbia 2020*, at 264-65.

- (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

OCA, I&E, and CAUSE-PA all agree that the Company should maintain its current customer charge.¹⁸⁰² OCA argues the Company's proposal to increase its residential customer charge is inconsistent with cost causation, violates the principles of gradualism, would have an adverse impact on low-income customers, and reduces incentives for customers to conserve energy or engage in energy efficiency measures. Further, Columbia already charges the highest residential customer charge in the Commonwealth and would nearly double the next-highest residential customer charge if its proposal to increase its customer charge to \$31.97 were approved.¹⁸⁰³ If the Commission were to approve Columbia's proposal, then, OCA submits, Columbia's residential customer charge would be unreasonably out-of-step with the other residential customer charges in the tariffed rates of Pennsylvania NGDCs.

e. Summary and Alternatives

OCA argues it's supported cost-of-service study, revenue allocation, and residential customer charge recommendations are supported by the evidence of record and Commission precedent. OCA submits, as compared to the proposals of the Company, the OSBA, and PSU, the OCA's proposed revenue allocation more closely aligns with equitable principles and cost causation. The Company's proposed deviations from Commission policy and precedent are, inversely, not supported by evidence of record and should be afforded little weight.

¹⁸⁰² OCA St. 4, at 16; I&E St. 3, at 43; CAUSE-PA St. 2, at 41-42.

¹⁸⁰³ OCA St. 4, at 15.

Should the Commission not adopt the Company's proposed revenue requirement, OCA recommends that the Commission scale-back any rate increase proportionately according to the recommendation of OCA witness Mierzwa, with the exception of Rate MLDS and Flex rate customers.¹⁸⁰⁴

4. *OSBA's Position*

a. *Cost of Service Study*

OSBA explains it accepts the use of the P&A COSS methodology for this proceeding. OCA and I&E also relied upon the P&A COSS methodology in their respective direct testimony.¹⁸⁰⁵

OSBA indicates it would welcome a Commission decision which would allow gas distribution utilities to consider the results of a CD COSS, as proposed by PSU.¹⁸⁰⁶ OCA submits the CD method is more reflective of cost causation because it recognizes that mains are sized to meet peak demands and that there are scale economies to serving larger customers.¹⁸⁰⁷

b. *Revenue Allocation*

(1) Legal Standards

As the Commonwealth Court observed in *Lloyd*, the goal of ratemaking is to move the customer classes to their cost of service.

¹⁸⁰⁴ OCA St. 4, at 12.

¹⁸⁰⁵ OCA St. No. 4, at 8; I&E St. No. 3, at 38.

¹⁸⁰⁶ OSBA Reply Brief, at 8.

¹⁸⁰⁷ OSBA St. No. 1-R, at 1-2.

OSBA asserts all three revenue allocations, proposed by Columbia, OCA and OSBA are based upon the results of Columbia's P&A COSS methodology. The differences between the three proposals are essentially how quickly any given customer class is moved to (or towards) their respective cost of service.

OSBA disagrees that equalizing relative rates of return is an appropriate goal for this, or any other, rate proceeding. A better metric for progress towards cost of service, according to OSBA, is the percentage increase, for each customer class, compared to the system average percentage increase.¹⁸⁰⁸

In addition, OSBA asserts the OCA proposal results in increases to the small business customers of Columbia, on the order of 1.26 to 1.30 times the system average increase. OSBA submits, these are customer classes that the P&A COSS demonstrates are already over-recovering their respective cost of service.¹⁸⁰⁹ Further, according to OSBA, increasing the rates so that Columbia's small business classes are moving even further from their respective cost of service violates the requirements of *Lloyd* and Section 1301 of the Code.

OSBA further argues that any revenue allocation adopted by the Commission should be proportionally scaled back to allocate the final revenue increases to the Company's customer classes, consistent with prior practice.

c. Rate Design/Tariff Structure

According to the calculations presented by Columbia, OSBA explains the customer charge for an SGS1 customer, using less than 644Dth/year, should be set at

¹⁸⁰⁸ OSBA St. No. 1-S, at 3.

¹⁸⁰⁹ OSBA St. No. 1-S, at 3.

\$33.13 based upon the Company receiving the full \$110.5 revenue increase. Columbia proposes to increase the customer charge for the SGS1 customer class to \$39.00. The current customer charge for an SGS1 customer is \$33.00.¹⁸¹⁰

OSBA explains, according to the calculations presented by Columbia, the customer charge for an SGS2 customer, using more than 644Dth/year, should be set at \$66.12 (based upon the Company receiving the full \$110.5 million revenue increase). Columbia proposes to increase the customer charge for the SGS2 customer class to \$75.00. The current customer charge for an SGS2 customer is \$63.00.¹⁸¹¹

If the Commission awards Columbia a revenue increase of less than \$110.5 million, the OSBA recommends that the SGS1 customer charge remain at \$33.00, and that the SGS2 customer charge be proportionally scaled back from \$66.12.

d. *Summary and Alternatives*

OSBA accepts the use of the P&A COSS methodology for purposes of this proceeding. OSBA would not object if the Commission instead decided to consider the CD COSS methodology as a guide for cost allocation in this proceeding.

OSBA recommends the use of its proposed revenue allocation, which moves the various customer classes closer to their respective cost of service while not moving Columbia's small business customers further away from their cost of service as the OCA revenue allocation does.

¹⁸¹⁰ OSBA St. No. 1, at 16.

¹⁸¹¹ OSBA St. No. 1, at 16.

The OSBA recommends that, if the Commission awards Columbia a revenue increase less than \$110.5 million, the SGS1 customer charge remain at \$33.00, and that the SGS2 customer charge be proportionally scaled back from \$66.12.

5. *CAUSE-PA's Position*

a. *Cost of Service*

CAUSE-PA did not take a position on cost of service in this proceeding.

b. *Revenue Allocation*

CAUSE-PA did not take a position on revenue allocation in this proceeding.

c. *Tariff Structure*

CAUSE-PA's positions on tariff structure are set forth in the sections addressing Alternative Ratemaking and Tariff Issues.

d. *Summary and Alternatives*

CAUSE-PA did not propose an alternative revenue allocation.

(1) Rate Design

(a) Residential Customer Charge

- (i) *The Commission Should Reject Columbia's Excessive Residential Customer Charge, as the Proposal Improperly Includes Indirect Costs and Will Erode Conservation and Efficiency Goals – Falling Hardest on Low Income Households*

CAUSE-PA explains in Columbia’s 2020 rate case, the Commission rejected the Company’s proposal to increase its residential customer charge by 37.3%, from \$16.75 to \$23.00,¹⁸¹² determining, *inter alia*, that Columbia’s proposed fixed charge increase violated the principles of gradualism and was “contrary to the Commission’s goal of encouraging customers to conserve energy.”¹⁸¹³

CAUSE asserts Columbia’s requested increase to its residential customer charge, proposing to increase the monthly fixed fee from \$17.25 to \$31.97¹⁸¹⁴ accounts for approximately 99.96% of the annual increase that Columbia is seeking from its residential customers.¹⁸¹⁵ CAUSE submits the total bill increase for customers using an average of 70 Therms per month would be \$15.77 more per month.¹⁸¹⁶ Of this amount, \$14.72 of the increase would be recovered through the customer charge, and just \$1.05 would be recovered through the volumetric charge.¹⁸¹⁷

CAUSE argues if approved, this high fixed charge rate design will severely undermine the ability of residential consumers to offset the impact of Columbia’s rate increase through efficiency and conservation, falling hardest on low-income households that rely on conservation to help control costs and exacerbating the already-pronounced affordability gap.¹⁸¹⁸

Mr. Taylor asserts that the identified customer costs related to providing monthly distribution services to residential customers are \$29.43 per customer per month

¹⁸¹² *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No R-2020-3018835, at 264-265 (Opinion and Order entered Feb. 19, 2021).

¹⁸¹³ *Id.*

¹⁸¹⁴ CAUSE-PA St. 2, at 19-20.

¹⁸¹⁵ *Id.*, at 20.

¹⁸¹⁶ CPA St. 1, at 7.

¹⁸¹⁷ CAUSE-PA St. 2, at 20.

¹⁸¹⁸ CAUSE-PA St. 2, at 28; OCA St. 5 at 89-91.

and the demand related costs for customers are \$47.73 per month, for a total of \$77.16 per month.¹⁸¹⁹ CAUSE explains, implicit in Mr. Taylor’s analysis is that the fixed customer charge for customers should be \$77.16 per month.¹⁸²⁰ CAUSE-PA strongly disagrees with this assessment.

CAUSE asserts fixed customer charges should generally be set as low as possible and should be designed to recover no more than the direct costs to serve a customer, meaning those charges that change directly with the addition or subtraction of a customer.¹⁸²¹ CAUSE argues they should not include costs such as demand or capacity costs, which are better allocated at the class level rather than the customer level.¹⁸²² CAUSE asserts customers are buying the delivery of quantities of gas service from Columbia, and are not interested in buying or paying for a gas distribution system that does not deliver gas.¹⁸²³ As such, it makes the most sense to spread the costs for demand and capacity of the system over all units of the commodity sold, by including them in the volumetric charge rather than the fixed charge.¹⁸²⁴

CAUSE asserts there is no direct customer cost basis to support Columbia’s proposed \$31.97 customer charge and, as such, it is not supported by substantial evidence.¹⁸²⁵

¹⁸¹⁹ CAUSE-PA St. 2, at 28-29.

¹⁸²⁰ *Id.*, at 29.

¹⁸²¹ *Id.* at 30; I&E St. 3, at 46.

¹⁸²² CAUSE-PA St. 2, at 30.

¹⁸²³ *Id.*

¹⁸²⁴ *Id.*

¹⁸²⁵ *Pa. PUC v. PECO Energy Company – Gas Division*, Order, Docket No. R-2020-3018929, at 274 (Order entered June 22, 2021); *Pa. PUC v. PPL Gas Util. Corp.*, Order, Docket No. R-00061398, at 137 (Order entered Feb. 8, 2007); *Pa. PUC v. PPL Elec. Util. Corp.*, Docket No. R-2012-2290597, at 131 (Order entered Dec. 28, 2012).

CAUSE also argues that Columbia’s proposal undermines the explicit goals of Columbia’s Low Income Usage Reduction Program to “reduce residential energy bills” for low income, high usage customers.¹⁸²⁶ Low income households are disproportionately at risk of termination and often lack the ability to control usage due to poor housing stock and older, less efficient appliances; thus, it is critical that they continue to have access to effective conservation tools capable of producing meaningful and lasting bill reductions.¹⁸²⁷ CAUSE submits by reducing the bill savings achievable through LIURP, Columbia’s fixed charge proposal threatens the continued effectiveness of ratepayer investments in LIURP that are intended to reduce energy consumption, delinquencies, collections, and uncollectible costs, producing an unjust and unreasonable result.¹⁸²⁸

CAUSE further argues the ability to achieve bill savings through energy efficiency and conservation measures is especially important for households with income above 150% but less than 200% of poverty.¹⁸²⁹ These households are ineligible for CAP or LIHEAP but are eligible for energy efficiency and conservation services through the federal Weatherization Assistance Program (WAP), which has income guidelines of up to 200% of the Federal Poverty Level (FPL).¹⁸³⁰ They need to retain the ability to reduce

¹⁸²⁶ *Id.* at 33 (citing 52 Pa. Code § 58.1) (“The programs are intended to assist low-income customers conserve energy and reduce residential energy bills. The reduction in energy bills should decrease the incidence and risk of customer payment delinquencies and the attendant utility costs associated with uncollectible accounts expense, collection costs and arrearage carrying costs.”).

¹⁸²⁷ CAUSE-PA St. 2 ,at 34.

¹⁸²⁸ *Id.*, at 33 (citing 52 Pa. Code § 58.1) (LIURP is intended to “decrease the incidence and risk of customer payment delinquencies and the attendant utility costs associated with uncollectible accounts expense, collection costs and arrearage carrying costs.”).

¹⁸²⁹ *Id.*, at 34.

¹⁸³⁰ *Id.*, at 34.

their monthly energy costs through adoption of comprehensive energy efficiency and conservation programming.¹⁸³¹

Columbia argues that a higher fixed charge promotes bill stability, which it suggests is a benefit to low income customers; however, CAUSE explains a bill that is stable but unaffordable is meaningless for low income customers.¹⁸³² Enrollment in CAP provides a stable monthly bill based on a customer's ability to pay and is far more useful to create actual bill stability than a higher fixed customer charge.¹⁸³³ Furthermore, CAUSE submits Columbia is legally required to offer the option of budget billing which is meant to produce bill stability without decreasing incentives for conservation and energy efficiency.¹⁸³⁴

For the reasons set forth above, CAUSE-PA submits that Columbia has failed to meet its burden of showing that its proposed fixed monthly residential customer charge is just and reasonable and, as such, this charge should not be increased.¹⁸³⁵ CAUSE concludes Columbia's fixed residential customer charge is not properly rooted in direct costs¹⁸³⁶ and it would represent a radical departure from Commission policy that rate design should encourage conservation and efficiency, disproportionately impacting low income customers and depriving all customers of the ability to reduce their gas distribution bill through usage reduction.

¹⁸³¹ *Id.*, at 34.

¹⁸³² CAUSE-PA St. 2, at 41.

¹⁸³³ *Id.*, at 41.

¹⁸³⁴ *Id.*, at 41.

¹⁸³⁵ CAUSE-PA St. 2, at 33; OCA St. 4, at 14; OCA St. 5, at 89-91; WPTF St. 1 at 4-5; I&E St. 3 at 45-46.

¹⁸³⁶ *See Pa. PUC v. PECO Energy Company – Gas Division*, Order, Docket No. R-2020-3018929, at 274 (Order entered June 22, 2021); *Pa. PUC v. PPL Gas Util. Corp.*, Order, Docket No. R-00061398, at 137 (Order entered Feb. 8, 2007); *Pa. PUC v. PPL Elec. Util. Corp.*, Docket No. R-2012-2290597, at 131 (Order entered Dec. 28, 2012).

6. *TASK FORCE's Position*

The Task Force did not specifically address these issues.

7. *PSU's Position*

a. *Rate Structure and Rate Design*

(1) Cost of Service Study

(a) Introduction

PSU asserts the Company's Customer-Demand Study should serve as the primary guide for allocating the revenue increase in this case because the number of customers and the peak demand are the only significant factors the Company considers in the design of its gas distribution system as demonstrated by the Company's actual construction and engineering considerations when designing its system. PSU asserts the Peak and Average Study should be rejected as the sole basis for cost allocation because it allocates an excessive amount of gas mains to the LDS/LGSS class compared to the actual miles of mains required to serve these customers. PSU concludes this results in an improper cross-class subsidization.

(b) The Evidence Shows that the Customer Demand Study Provides the Most Accurate Reflection of Cost Causation

PSU asserts "Under the cost causation principle, it has been traditionally required that all approved energy rates reflect to some degree the costs actually caused by

the customer who must pay for them.”¹⁸³⁷ Such studies provide “a benchmark for evaluating customer class¹⁸³⁸ cost responsibility with the fundamental purpose of aiding in the accurate and reasonable design of rates by identifying all the capital and operating costs incurred by the utility in serving its customers, and then directly assigning or allocating these costs to each individual rate class based on established principles of cost-causation.”¹⁸³⁹

PSU witness James Crist asserts, a natural gas distribution company’s design and construction of gas mains, as well as the related operation and maintenance expenses, are demand driven.¹⁸⁴⁰ PSU asserts, the allocation of these items significantly impacts the outcome of the Company’s cost of service studies.¹⁸⁴¹

PSU Witness Mr. Crist opined that the Company departed from its historical reliance on the Average Study¹⁸⁴² and instead relied on the Peak and Average Study only because alleged errors in the Company’s 2020 customer-demand study caused the Administrative Law Judge in that base rate proceeding to recommend use of the Peak and Average Study.¹⁸⁴³ The errors identified in the 2020 customer-demand study,

¹⁸³⁷ *Phila. Indus. and Com. Gas Users Group v. Pa. Pub. Util. Comm’n*, 2025 WL 2177932, at *3 (Pa. Cmwlth. 2025) (citing *Lloyd*, 904 A.2d at 1015).

¹⁸³⁸ *See id.* (“For purposes of cost allocation, customers are grouped into separate ‘homogenous’ classes according to usage patterns and service characteristics common among groups of customers.”).

¹⁸³⁹ *Pa. Pub. Util. Comm’n v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835 *et al.*, at 187-188 (Opinion and Order entered Feb. 19, 2021).

¹⁸⁴⁰ PSU St. No. 1, Direct Testimony of J. Crist at 8-9.

¹⁸⁴¹ Columbia St. No. 6, Direct Testimony of K. Johnson 9:16-17.

¹⁸⁴² PSU St. No. 1-R, Rebuttal Direct Testimony of J. Crist at 2:27-29 and 3:1 (“The Company’s decision to utilize the Peak & Average [Study] is a departure from the Company’s practice in nine previous rate cases from 2008 through 2020 where the Company used its average [study] as the basis for determining class rates of return and revenue allocation.”).

¹⁸⁴³ PSU St. No. 1, Direct Testimony of J. Crist at 11.

according to PSU, are not present in the current Customer-Demand Study,¹⁸⁴⁴ and that Study provides the most accurate reflection of cost causation.

- (c) The Peak and Average Study Should be Rejected as the Sole Basis for Cost Allocation Because it Allocates an Excessive Amount of Gas Mains to the LDS/LGSS Class

PSU submits the Peak and Average Study erroneously allocates an excessive amount of gas mains to the LDS/LGSS Class when compared to the actual miles of mains serving these customers and cannot serve as the sole basis for cost allocation in this proceeding.

PSU asserts witness Crist presented detailed data from the Company regarding the length of gas mains that were assigned to the LDS/LGSS Class. First, the Company's witness, Kevin Johnson, estimated that the peak and average study allocated 958 miles of mains pipe dedicated to the LDS/LGSS Class, which he based on pipe diameter information and the average cost per foot of pipe.¹⁸⁴⁵ The Peak and Average Study thus allocated 12 miles of gas mains for each LDS/LGSS customer:

Dividing the 958 miles of mains pipe assigned to the LDS/LGSS rate class by the 79 customers that make up the LDS/LGSS rate class results in the assignment of approximately 12 miles of mains for each LDS/LGSS customer.^[1846]

PSU submits the allocation of 12 miles of mains per customer is grossly excessive. Second, the Company also provided data relating to the 10 largest non-MDLS

¹⁸⁴⁴ PSU St. No. 1, Direct Testimony of J. Crist at 12.

¹⁸⁴⁵ PSU St. No. 1, Direct Testimony of J. Crist, Ex. JC-2 (Response (c) to PSU 1-014).

¹⁸⁴⁶ PSU St. No. 1, Direct Testimony of J. Crist, Ex. JC-2 (Response (c) to PSU 1-014).

or Flex customers and relating to all 79 LDS/LGSS customers.¹⁸⁴⁷ Using that data, Mr. Crist concluded that there is “significantly less lengths of pipeline connected to the 10 largest, or to all 79 LDS/LGSS customers, tha[n] what was allocated to the LDS/LGSS group in the Peak & Average study.”¹⁸⁴⁸

(d) The Commission Must Decide This Case Based on the Evidence Here, Not Based on Prior Distinguishable Decisions

In the Company’s 2020 proceeding, PSU asserts, the Commission determined that the “Peak & Average allocation methodology is the most appropriate allocation methodology to use in this proceeding because it is based on the premise of load-based investment.”¹⁸⁴⁹ PSU argues, this determination was based on the following logic: “[gas m]ains investment is driven by the loads placed upon it, not by the number of customers served.”¹⁸⁵⁰ However, PSU submits the evidence presented in this case contradicts that reasoning. Moreover, PSU argues when comparing the allocation of mains under the Peak and Average study to the actual reality of mains needed to serve industrial customers, PSU argues the Peak and Average study over allocates *miles* of mains to these customers, demonstrating that it is erroneous and cannot be relied upon.

(e) The Company’s Average Study is an Acceptable Compromise

PSU argues, though primary reliance on the Customer-Demand Study is appropriate in this proceeding, the Company’s Average Study is an acceptable

¹⁸⁴⁷ PSU St. No. 1, Direct Testimony of J. Crist, Confidential Ex. JC-3 (Responses to PSU 1-016 and PSU 1-019).

¹⁸⁴⁸ PSU St. No. 1-SR, Surrebuttal Testimony of J. Crist at 2:11-13.

¹⁸⁴⁹ *Pa. Pub. Util. Comm’n v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835 *et al.*, at 218 (Opinion and Order entered Feb. 19, 2021).

¹⁸⁵⁰ *Id.* at 217.

compromise because it balances the interests of residential customers and industrial class customers.¹⁸⁵¹

PSU submits the alleged flaw in the 2020 customer-demand study that OCA identified is not present in the Company's 2025 Customer-Demand Study¹⁸⁵² and the Average Study is an acceptable alternative to Penn State for this reason and because the new evidence regarding the Company's engineering process introduced by Mr. Crist recommends reliance on the Customer-Demand Study.

(2) Revenue Allocation

PSU maintains that:

The Customer-Demand cost of service study is the only cost of service study in this case that is based on cost causation, and, therefore, the allocations must be based on the Customer-Demand [Study] ¹⁸⁵³

If, however, the Commission permits sole reliance on the Peak and Average Study, PSU submits, then principles of gradualism¹⁸⁵⁴ dictate that the increase to the LDS/LGSS Class be capped at 1.5 times the average system increase.

8. *ALJs' Recommendations*

a. *Legal Standard*

¹⁸⁵¹ Columbia St. No. 6, Direct Testimony of K. Johnson at 5:1-6.

¹⁸⁵² PSU St. No. 1, Direct Testimony of J. Crist at 12.

¹⁸⁵³ PSU St. No. 1-R, Rebuttal Testimony of J. Crist at 17:28-3:1.

¹⁸⁵⁴ See *Lloyd*, 904 A.2d at 1020 (gradualism is the principle under which utility rates are gradually increased in order to avoid rate shock, as part of what is overall considered a reasonable rate under the circumstances and is permitted in implementing large rate increases).

Section 1301(a) of the Public Utility Code states, as follows:

Regulation. – Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission.¹⁸⁵⁵

Section 1304 of the Public Utility Code states, as follows:

No public utility shall, as to rates, make or grant any unreasonable preference or advantage to any person, corporation, or municipal corporation, or subject any person, corporation, or municipal corporation to any unreasonable prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service.^[1856]

As I&E explained, a utility’s rate structure implements the Commission’s approved revenue increase to determine how the overall increase will be allocated among the utility’s various rate classes. Once a class revenue allocation is determined, development of a rate design will address how the tariffed rates and rate elements will generate the allocated revenues. A properly designed rate structure will not unduly burden one class of ratepayers to the benefit of another. Under the Public Utility Code, “[n]o public utility shall ... make or grant any unreasonable preference to any person, corporation ... No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service.”¹⁸⁵⁷ Differences in rates charged to different classes are permissible so long as there is reasonable basis

¹⁸⁵⁵ 66 Pa.C.S. § 1301(a).

¹⁸⁵⁶ 66 Pa.C.S. § 1304.

¹⁸⁵⁷ 66 Pa.C.S. § 1304.

for the discrepancy.¹⁸⁵⁸ Generally “public utility rates should enable the utility to recover its cost of providing service and should allocate this cost among the utility’s customers in a just, reasonable and nondiscriminatory manner.”¹⁸⁵⁹

b. *Allocated Cost of Services Studies*

We agree with the Company’s use of the peak and average methodology to allocate any potential revenue increases among Columbia customer classes.¹⁸⁶⁰ We also agree with the Company by continuing to show a separate customer class for flex rate customers.¹⁸⁶¹ We agree with I&E’s assertion that this is important so that the Commission can determine the cost to provide service to the flex and non-flex customers and the subsidy being provided by tariff rate customers.

We agree with the Company’s use of the peak and average methodology to allocate any potential revenue increases among Columbia customer classes.¹⁸⁶² We also agree with the Company continuing to show a separate customer class for flex rate customers.¹⁸⁶³ We agree with I&E’s assertion that this is important so that the Commission can determine the cost to provide service to the flex and non-flex customers and the subsidy being provided by tariff rate customers. Accordingly, we recommend that the Company utilize the peak and average methodology to allocate any potential revenue increases among Columbia customer classes; and that the Company continue to show a separate customer class for flex rate customers. We further agree with OCA that

¹⁸⁵⁸ See generally, *Peoples Natural Gas Company v. Pa. PUC*, 409 A.2d 446 (Pa. Commw.1979).

¹⁸⁵⁹ See generally *Pa. PUC. v. West Penn Power*, 73 Pa. PUC 454, 510, 199 PUR 4th 110 (1990).

¹⁸⁶⁰ I&E St. No. 3, at 38; I&E St. No. 3-SR, at 36-37.

¹⁸⁶¹ I&E St. No. 3, at 38; I&E St. No. 3-SR, at 36-37.

¹⁸⁶² I&E St. No. 3, at 38; I&E St. No. 3-SR, at 36-37.

¹⁸⁶³ I&E St. No. 3, at 38; I&E St. No. 3-SR, at 36-37.

the evidence of record does not indicate a sufficient basis to move away from the Commission's precedent supporting the P&A methodology in similar circumstances as presented here, and that the results of the Company's P&A ACOS to allocate any potential revenue increases among Columbia customer classes are reasonable and should be given significant weight.

c. Revenue Allocation

I&E explains Columbia prepared two customer cost analyses presented in Columbia Exhibit No. 111, Schedule 2, pp. 16 and 25.¹⁸⁶⁴ The Company's first customer cost analyses shown on Columbia Exhibit No. 111, Schedule 2, p. 11 allocates a portion of the cost of mains to customers.¹⁸⁶⁵ The Company's second customer cost analyses shown on Columbia Exhibit No. 111, Schedule 2, p. 25 does not allocate any portion of the cost of mains to customers.¹⁸⁶⁶

We conclude that the Commission established in Columbia's 2020 base rate case that in circumstances as are presented in this proceeding, mains are not properly included as a customer cost.¹⁸⁶⁷ Therefore, in consideration of the record evidence presented and the relevant Commission precedent, we recommend that the Company's customer cost analysis, that does not include the cost of mains, should be utilized in this proceeding; and, the Company's customer cost analysis that includes the cost of mains should not be considered.¹⁸⁶⁸

¹⁸⁶⁴ See, I&E St. No. 3, at 39-42; See also, I&E St. No. 3-SR, at 37-38.

¹⁸⁶⁵ I&E St. No. 3, at 40-41.

¹⁸⁶⁶ *Id.*, at 41.

¹⁸⁶⁷ See *Id.*, at 41-42 (citing *Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835, p. 218 (Opinion and Order entered Feb. 19, 2021) .

¹⁸⁶⁸ *Id.*, at 42.

Based on the Company's revenue allocation, OCA Witness Mierzwa developed the following table:

Columbia Proposed Revenue Distribution ¹⁸⁶⁹						
Class	Present Rates	Proposed Rates	Increase	Percent	Relative Rate of Return	
					Present Rates	Proposed Rates
RSS/RDS	\$472,225,754	\$546,101,990	\$73,876,236	15.6%	1.19	1.18
SGSS/DS-1	58,132,981	68,791,241	10,658,260	18.3%	1.11	1.10
SGSS/DS-2	65,814,353	77,886,598	12,072,245	18.3%	1.12	1.10
SDS/LGSS	43,113,653	50,669,037	7,555,384	17.5%	1.14	1.11
LDS/LGSS	29,678,996	36,012,952	6,333,956	21.3%	0.40	0.47
MLDS	1,890,168	1,890,168	0	0.0%	38.05	28.83
FLEX	3,120,443	3,121,087	644	0.0%	(0.53)	(0.40)
Total	\$673,976,348	\$784,473,073	\$110,496,725	16.4%	1.00	1.00

OCA explains it recommended that the revenue allocated to LDS/LGSS customers be increased from 1.5 times the system average increase to 2.0 times the system average increase.¹⁸⁷⁰ This increase would reduce the subsidy being provided to LDS/LGSS by approximately \$3,397,637 compared to the Company's proposal.¹⁸⁷¹ OCA submits the Company disagreed with the OCA and OSBA because the Commission in *Columbia 2020* applied a 1.5 times system average increase ceiling for purposes of gradualism, which a 2.0 times increase exceeded.¹⁸⁷² PSU disagreed with the OCA and OSBA because it disagrees with the use of the P&A ACOS study as a basis for performing revenue allocation.¹⁸⁷³

OCA argues that fundamentally, the question is one of gradualism: whether the ceiling applied as an upper limit on a rate increase to ensure that the rate increase

¹⁸⁶⁹ *Id.*, at 9.

¹⁸⁷⁰ OCA St. 4, at 11.

¹⁸⁷¹ *Id.*, at 10.

¹⁸⁷² Columbia St. 6-R, at 10-11.

¹⁸⁷³ PSU St. 1-R, at 7.

does not induce rate shock is appropriately 1.5 times (supported by Columbia) or 2.0 times (supported by the OCA and OSBA). OCA witness Mierzwa stated that “typically an increase of 1.5 to 2.0 times the system average increase is considered consistent with the concept of gradualism.”¹⁸⁷⁴ While the Commission did apply a gradualism ceiling of 1.5 times in *Columbia 2020*, that is because the Commission adopted the OCA’s proposed revenue allocation which included a 1.5 times increase for the SDS/LGSS and LDS/LGSS customer classes, not because a 2.0 times increase was unsupported by the record.¹⁸⁷⁵

Though the OCA and OSBA agree that the appropriate gradualism ceiling for Rate LDS/LGSS is 2.0 times the system average increase instead of the 1.5 times used by the Company, OCA and OSBA disagree with how to allocate the difference in revenue among the customer classes currently subsidizing Rate LDS/LGSS.

d. Rate Design – Customer Charges

Columbia set forth its proposed rate design and proposed customer charges based on its original requested overall revenue increase of approximately \$110.5 million at Columbia Exhibit No. 103, Schedule 8, pages 5-9.¹⁸⁷⁶ I&E explains it applied the customer cost analysis that does not include the cost of mains and concluded that customer charges for the RS, RDS, and RC2 classes are too high.¹⁸⁷⁷ Instead, I&E recommended the customer charges for rate classes RS, RDS, and RC2 stay at the current rate of \$17.25.¹⁸⁷⁸

¹⁸⁷⁴ OCA St. 4, at 11.

¹⁸⁷⁵ *Columbia 2020*, at 233.

¹⁸⁷⁶ See I&E St. No. 3, at 42-46.

¹⁸⁷⁷ *Id.*, at 42-43; See also I&E St. No. 3-SR, at 38-40.

¹⁸⁷⁸ I&E St. No. 3, at 43; See also I&E St. No. 3-SR, at 38-40.

I&E explains it did, however, accept the proposed customer charges for LDS class customers because higher usage customers generally favor a higher fixed charge and lower usage charges.¹⁸⁷⁹ I&E explains it also accepted the proposed customer charges for SGS1, SGS2, and SDS/LGSS customers as the proposed charges are consistent with the applicable customer cost analysis.¹⁸⁸⁰

Accordingly, we agree with OCA and I&E and recommend that the residential customer charge increase proposed by the Company be rejected and that the customer charges for rate classes RS, RDS, and RC2 stay at the current rate of \$17.25.

e. Rate Design/Tariff Structure

We agree with OCA that Columbia's residential customer charge is inconsistent with cost causation principles. 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."¹⁸⁸¹ The Company's proposal of \$31.97 also includes costs that do not vary with the addition or subtraction of a single customer, such as mains costs and uncollectible expenses.¹⁸⁸² We agree with OCA that mains costs are not appropriately included in a customer charge as they are not customer-related and do not vary with the addition or subtraction of a single customer.¹⁸⁸³ Uncollectible expense, similarly, does not vary with the addition or subtraction of a single customer.¹⁸⁸⁴ Excluding mains and uncollectible costs from the Company's customer cost analysis

¹⁸⁷⁹ *Id.*, at 43.

¹⁸⁸⁰ *Id.*

¹⁸⁸¹ OCA St. 4, at 15-16.

¹⁸⁸² *Id.*

¹⁸⁸³ *Id.*, at 13-14 (citing *Columbia 2020* at 217).

¹⁸⁸⁴ *Id.*, at 16.

reduces the calculated customer charge to \$27.70, which is less than the \$31.97 proposed by Columbia.¹⁸⁸⁵

We conclude that Columbia has failed to meet its burden of proof in this instance. The \$31.97 residential customer charge proposed by Columbia includes costs which are not even customer-related, because the proposed customer charge includes mains costs which, as stated by OCA witness Mierzwa “are driven by the loads placed upon [the distribution system], not the number of customers served.”¹⁸⁸⁶

The record establishes that Columbia does not currently charge residential customers, or any customers, a demand charge.¹⁸⁸⁷ Instead, in Pennsylvania, demand-related costs are recovered through volumetric rates, as are throughput-related costs, such as the costs associated with distribution mains.¹⁸⁸⁸

In addition, costs such as uncollectible costs which are not customer-related are not appropriately included in a customer charge.¹⁸⁸⁹ Columbia has produced no evidence that uncollectible expense varies with the addition or subtraction of a single customer and, therefore, should not be permitted to recover uncollectible expense through customer charges.¹⁸⁹⁰ As stated by the Commission in *Aqua 2004*, customer-related costs beyond meters and service lines may be considered for inclusion in the customer charge on a case-by-case basis, subject to scrutiny.¹⁸⁹¹

¹⁸⁸⁵

Id.

¹⁸⁸⁶

OCA St. 4, at 13-14.

¹⁸⁸⁷

Columbia St. 6, at 3.

¹⁸⁸⁸

PGW 2023, at 163.

¹⁸⁸⁹

OCA St. 4SR, at 3.

¹⁸⁹⁰

Aqua 2004, at *98.

¹⁸⁹¹

Id.

As various Parties have suggested, the Commission has previously approved increases which are based in cost of service but are moderated in accordance with the principle of gradualism, where an increase in rates towards full cost of service is phased in over time to prevent customers from rate shock or facing too high of a bill increase all at once.¹⁸⁹² Furthermore, the evidence establishes that the residential customer charge proposed by Columbia violates the principle of gradualism, and any increase towards that charge should be moderated.

Drastically changing the portion of a customer's bill occupied by the residential customer charge, negatively affects customers' ability to respond to the proposed rate increase by adjusting their usage or budgeting, especially during the summer months when customers have low to no usage.

We conclude, based upon the record evidence that Columbia's proposed \$31.97 residential customer charge should be rejected and the existing customer charge of \$17.25 should be maintained.

We further conclude that, by placing a greater portion of a residential customer's monthly bill in the customer charge, which sends no price signal to customers, than in the volumetric portion of a customer's bill, the Company's proposal mutes incentives to conserve energy in contravention of the Commission's long-standing policy.¹⁸⁹³ Although Columbia contends that customers may see lower overall annual bills under its proposed customer charge, Columbia presents no evidence regarding how customers interpret the line items on their bills to reflect their understanding of the cost-effectiveness of usage reduction measures.¹⁸⁹⁴ The Company has presented no evidence to distinguish its proposal in this proceeding from *Columbia 2020*, when a less extreme

¹⁸⁹² See, e.g., *PGW 2023*, at 164.

¹⁸⁹³ OCA St. 4, at 16.

¹⁸⁹⁴ Columbia St. 17-R, at 33.

customer charge increase was rejected, in part, because of the impact of the increase on energy efficiency incentives.¹⁸⁹⁵ As a result, the Company's proposal to increase its residential customer charge should be rejected.

Columbia argues that a higher fixed charge promotes bill stability, which it suggests is a benefit to low-income customers; however, we agree with CAUSE-PA that a bill that is stable but unaffordable is meaningless for low-income customers.¹⁸⁹⁶

For the reasons set forth above, we conclude that Columbia has failed to meet its burden of showing that its proposed fixed monthly residential customer charge is just and reasonable and, as such, this charge should not be increased.¹⁸⁹⁷ Furthermore, the customer charge is not properly rooted in direct costs¹⁸⁹⁸ and it would represent a radical departure from Commission policy that rate design should encourage conservation and efficiency, disproportionately impacting low income customers and depriving all customers of the ability to reduce their gas distribution bill through usage reduction.

Based upon the record evidence, we conclude that the Company's proposal to increase its residential customer charge is inconsistent with cost causation, violates the principles of gradualism, would have an adverse impact on low-income customers, and reduces incentives for customers to conserve energy or engage in energy efficiency measures.

¹⁸⁹⁵ *Columbia 2020*, at 264-65.

¹⁸⁹⁶ CAUSE-PA St. 2, at 41.

¹⁸⁹⁷ CAUSE-PA St. 2, at 33; OCA St. 4, at 14; OCA St. 5, at 89-91; WPTF St. 1 at 4-5; I&E St. 3 at 45-46.

¹⁸⁹⁸ *See Pa. PUC v. PECO Energy Company – Gas Division*, Order, Docket No. R-2020-3018929, at 274 (order entered June 22, 2021); *Pa. PUC v. PPL Gas Util. Corp.*, Order, Docket No. R-00061398, at 137 (order entered Feb. 8, 2007); *Pa. PUC v. PPL Elec. Util. Corp.*, Docket No. R-2012-2290597, at 131 (order entered Dec. 28, 2012).

Accordingly, we recommend that the Commission adopt the recommendation that the P&A COSS, without costs of mains, regarding the selection of an appropriate cost of service study methodology and allocation of revenue consistent with that cost study be approved.

f. Scale Back of Rates

In the event the Commission grants an increase less than the amount requested by the Company, we recommend that all proposed increases to customer charges and usage rates be scaled back proportionately based on the P&A ACOSS.¹⁸⁹⁹

Finally, it is generally accepted that gradualism is a well-established ratemaking concept that seeks to limit the immediate increases customers receive when rates are increased and instead seeks to implement a necessary significant rate changes on a more gradual basis over time. If the Commission should approve a rate increase, then we recommend that the Commission apply the concept of gradualism in order to prevent a sudden and excessive increase to the ratepayers.

g. ALJs' Summary Regarding Revenue Allocation and Rate Structure

(1) Cost of Service Study (COSS)

The ALJs recommend the Commission use the Peak & Average COSS, without costs of mains, to be utilized in this base rate proceeding. The Peak & Average COSS' allocation of mains cost is the most appropriate, sound and reasonable method for cost allocation in this proceeding.

¹⁸⁹⁹ I&E St. No. 3, p. 47; I&E St. No. 3-SR, at 40-41.

The ALJs accept the Peak & Average ACOSS¹⁹⁰⁰ as the most reasonable of the COSS alternatives provided in this proceeding.

(2) Revenue Allocation

The COSS study used plays a pivotal role in the allocation of any revenue increase. However, COSS is only one factor but other factors are operative here: to provide rate stability and predictability, with as few unexpected changes as possible, i.e., gradualism; provide for the total revenue requirement; public acceptability and feasibility of application; and fairly apportion the total cost of service among the various customer classes.

Because Columbia Gas' proposed revenue allocation is based on the results of its COSS, which includes a proposed customer charge with mains costs, resulting in an excessive increase, and which the ALJs find unreasonable, the Company's proposed revenue allocation is likewise unreasonable and not a clear reflection of the costs to Columbia Gas for providing service to the various customer classes.

The ALJs agrees with I&E that if the Commission determines to approve less than the full requested increase, then all customer charges and usage rates should be scaled back proportionately based on the allocated cost of service study the Commission approves.¹⁹⁰¹ Accordingly, the ALJs recommend the Commission order a proportional scale back of rates if less than the full increase is granted, consistent with the conclusions made in this Recommended Decision and the ALJ Rate Tables attached to this Recommended Decision as Appendix A.

¹⁹⁰⁰ See Table 5 attached to OCA Schedule JDM-1.

¹⁹⁰¹ I&E St. No. 3, at 24-25; Columbia St. No. 3-R, at 15.

L. Alternative Ratemaking

1. *Columbia Gas' Position*

a. *Summary of Columbia's WNA*

Columbia has had Rider WNA as a pilot program for over 10 years. Columbia's WNA adjusts residential customer bills in the heating months – November through May, to reflect the normalized weather-related HDD that are used to develop rates in each rate case. If HDDs are more than 3% colder than normal, customers receive a reduction in their bills to better reflect the normalized level of HDDs that were used to develop base rates in this proceeding. If HDDs are more than 3% warmer than normal, customers receive an increase in their bill to better reflect the normalized HDDs that were used to develop rates in this proceeding.¹⁹⁰² Columbia submits the purpose of the WNA is to levelize revenues for both customers and the Company to better reflect the level of revenues that are authorized for recovery in this proceeding. Columbia submits the WNA adjusts residential customers' monthly commodity charges based on the actual temperatures experienced during the month.

Columbia asserts, under the existing WNA, the Company and customers are protected, in part, from usage variations due to weather. Columbia contends the WNA adjusts only the temperature sensitive portion of customers' bills to reflect normal weather levels. By distinguishing between base load Columbia submits and temperature sensitive load, each customer bill is calculated to mitigate the undesirable impacts of warmer than normal or colder than normal weather.¹⁹⁰³

¹⁹⁰² Columbia St. No. 17-R, at 7.

¹⁹⁰³ Columbia St. No. 17-R, at 7.

b. *The WNA is in the Public Interest and Should be Approved as a Permanent Tariff Provision*

Given the substantial recovery of the Company's fixed costs in volumetric distribution changes and the variation in annual heating requirements due to weather, Columbia submits a WNA is necessary for an NGDC to have a reasonable chance to recover its revenues as set in a base rate proceeding. Columbia asserts if it did not have the WNA in place, it would have lost approximately \$74 Million since the inception of the WNA due to warmer than normal weather and would not have been able to recoup those losses without a WNA. In addition to substantial recovery of costs in volumetric distribution charges, Columbia asserts the recent trend of warming weather increases the risk of recovery.

Columbia asserts the WNA also levelizes costs for customers and decreases their bills in colder than normal months.¹⁹⁰⁴ When weather is significantly colder than normal, customers' bills also can be significantly higher than normal due to substantially increased usage. Columbia submits the WNA reduces these higher-than-normal bills for customers when they need it the most.

c. *The Other Parties' Objections to the WNA Should be Rejected*

(1) Columbia's WNA is Similar to Peoples' WNA – Not PECO's Proposed WNA

Columbia asserts the Commission recently approved a WNA for Peoples in a litigated proceeding despite OCA's objections.¹⁹⁰⁵ Columbia asserts it's WNA is similar to Peoples' approved WNA – not PECO's proposed WNA, and therefore, the Commission's PECO decision is not applicable.

¹⁹⁰⁴ Columbia St. No. 17-R, at 11-12.

¹⁹⁰⁵ *Peoples WNA Order*.

Columbia explains PECO proposed a 1% deadband, relied on 30-years of weather data and had limited reporting requirements.¹⁹⁰⁶ Columbia submits the Commission also noted that Philadelphia Gas Works (PGW) had billing issues with the month of May and that PECO was located in a similar service area as PGW. Further, the Commission noted that PECO was both a gas and electric utility and could benefit from changing weather.¹⁹⁰⁷ Columbia asserts none of these factors apply here. Columbia submits it has a 3% deadband, uses 20-years of weather data and has comprehensive reporting requirements that have been in place for many years. Columbia is not located near PECO's or PGW's service territories and has not had May billing issues like PGW. Columbia's service territory is closer to Peoples', UGI Gas's and National Fuel's service territory. Columbia also does not provide electric service. In addition, Columbia asserts it has had very few formal complaints related to the WNA.¹⁹⁰⁸

Columbia's argues WNA is not similar to PECO's WNA, and the *PECO WNA Order* is not applicable especially given the Commission's recent decision approving a permanent WNA for Peoples.¹⁹⁰⁹

d. *The WNA is Not Structurally Biased or Asymmetric*

Columbia argues, under the WNA, weather-related risk is shared symmetrically between the Company and customers. Columbia contends if weather is more than 3% colder in a winter month than the normalized HDDs that are used to develop rates, customers receive a credit on their bills. If weather is more than 3%

¹⁹⁰⁶ *PA PUC v. PECO Energy Company – Gas Division*, Docket Nos. R-2024-3046932 *et al.* (Order entered Dec. 12, 2024), at 100 (“*PECO WNA Order*”).

¹⁹⁰⁷ *Id.*, at 96.

¹⁹⁰⁸ Tr. 376-377.

¹⁹⁰⁹ *See Peoples WNA Order*.

warmer in a given month than the normalized HDDs that are used to develop rates, Columbia asserts customers receive a charge on their bills.¹⁹¹⁰

e. *The WNA does Not Undermine Conservation Efforts*

OCA and CAUSE-PA argue that the WNA discourages conservation.¹⁹¹¹ Columbia witness Taylor testified these assertions were incorrect.¹⁹¹² Columbia asserts the WNA does not discourage conservation.

d. *The WNA does Not Constitute “Take or Pay” Pricing*

Columbia asserts several of the parties in this proceeding argue that the WNA should be denied because it constitutes “take or pay” pricing.¹⁹¹³ Columbia asserts they fail to acknowledge that the Company’s distribution system costs are fixed and must be paid for by customers regardless of the volumes of gas that are consumed, yet a substantial among of these costs are targeted for recovery in volumetric distribution charges.

Columbia states customers want a distribution system that is built to deliver gas during peak winter periods¹⁹¹⁴ and they must pay for this system irrespective of the gas volumes that are used. Columbia asserts the WNA is necessary for the Company to

¹⁹¹⁰ OCA witness Deupree states that the Company’s use of a 20-year average may overstate HDDs in a given year due to recent warming trends. OCA St. No. 1, at 53. Mr. Deupree fails to acknowledge that the 20-year average HDDs are not only used in the WNA but are used to develop rates in the case. The HDDs must match for the WNA mechanism to work properly. If the HDDs are too high in the WNA, then they are also too high in the base rate calculation. If HDDs are reduced in the WNA, they must also be reduced for developing rates.

¹⁹¹¹ See, e.g., OCA Ex. MWD-1, at 3.

¹⁹¹² Columbia St. No. 17-R, at 6.

¹⁹¹³ See Columbia St. No. 17-R, at 8.

¹⁹¹⁴ Columbia St. No. 17, at 6.

recover its costs due to the fact that much of its fixed costs are recovered through volumetric rates and volumetric cost recovery is directly impacted by abnormal weather. Columbia argues customers are taking service from a distribution system that is designed to deliver gas to them in peak winter conditions and must pay for this system even when peak conditions do not exist.

e. *The WNA does Not Adversely Affect Low Income Customers*

Columbia notes several of the parties argue that the WNA adversely affects low-income customers. Columbia submits the WNA treats all customers the same based upon their individual usage patterns.

f. *Budget Billing does Not Accomplish the WNA's Goals*

OCA witnesses Alexander and Colton argue that the Company should enroll more customers on budget billing as opposed to adopting a WNA.¹⁹¹⁵ In response, Columbia asserts budget billing is not the same and does not accomplish the same goals as a WNA. Columbia asserts the WNA mechanism stabilizes the effects of weather impacts on revenue while budget billing spreads a customer's annual bill over a 12-month period. Budget billing does not recover revenues that are lost due to warmer than normal weather and does not credit customers for higher bills resulting from colder than normal weather.¹⁹¹⁶

¹⁹¹⁵ See OCA St. 5, at 96-97.

¹⁹¹⁶ Columbia St. No. 17-R, at 10-11.

g. *The WNA Mechanism Contains Customer Protections*

In response to I&E's assertion that the WNA does not provide any customer protections,¹⁹¹⁷ Columbia responds Columbia's WNA mechanism has a 3% deadband.¹⁹¹⁸ Also, Columbia submits the WNA mechanism only adjusts for HDD variations as compared to the HDDs that are used to develop rates in base rate proceedings. Columbia submits this protects customers from paying for more than would be collected under normal weather conditions, minus the deadband.¹⁹¹⁹ Columbia claims other consumer protections include the fact that the WNA is calculated individually for each customer so that each individual customer benefits from their conservation measures and the fact that Columbia has extensive WNA reporting requirements.

h. *The Company Assists Customers to Help Them Understand the WNA and How the WNA Impacts their Bills*

Several parties argue that the WNA should be discontinued because it is difficult for customers to understand and difficult for them to calculate their WNA bill impacts.¹⁹²⁰ Further, parties assert that Columbia's WNA educational materials are deficient.¹⁹²¹ Columbia asserts the fact that the WNA may be difficult to understand without assistance or that it is difficult to calculate the WNA bill adjustment without assistance are not sufficient or reasonable reasons to deny the WNA.

Columbia asserts most if not all utility rates are complex and difficult to understand. Columbia argues, the fact that utility rates are often difficult to understand does not mean that they should be discontinued.

¹⁹¹⁷ I&E St. No. 3, at 13.

¹⁹¹⁸ Tr. 435.

¹⁹¹⁹ Columbia St. No. 17-R, at 7.

¹⁹²⁰ See e.g., CAUSE-PA St. No. 2, at 61.

¹⁹²¹ See e.g. OCA St. 6, at 23-25.

i. *Revenue Loss Due to Abnormal Weather Conditions is Not Regulatory Lag*

OCA witness Deupree argues that regulatory lag is desirable when setting utility rates and that the WNA is designed to address regulatory lag. Mr. Deupree also argues that if the Company loses revenues due to weather, it can simply file another rate case.¹⁹²² Columbia asserts this argument distorts the effects of revenue loss related to weather and the need for the WNA to address abnormal weather variations.

j. *The Other Parties' Alternative WNA Conditions Should be Denied*

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

k. *The Commission Should Not Adopt a 5% Deadband*

I&E argues that if the Commission approves the WNA, it should impose a 5% deadband as opposed to a 3% deadband. Columbia asserts I&E's proposal to adopt a 5% deadband is inconsistent with the deadbands that have been approved by the Commission for all other NGDCs. Columbia argues adopting a 5% deadband simply puts more weather related volumetric cost recovery risk onto the Company without any reason for treating Columbia differently from other investor-owned NGDCs with WNAs in the Commonwealth.

¹⁹²² OCA St. No. 1, at 8.

1. *The HDDs Used for the WNA Must Match the HDDs Used to Determine Revenues*

I&E suggests that the Company use a 10-year average to determine HDD.¹⁹²³ At the hearing, Mr. Sakaya agreed that the HDD used for the WNA needed to match the HDD used to develop rates.¹⁹²⁴

The Company agreed to evaluate the best historical period to use to develop HDD for both the WNA and its revenue requirement in its next case.¹⁹²⁵

m. *The Company Should Not be Required to Remove any Months from the WNA Calculation*

CAUSE-PA argued that the Company should remove the months of November, April and May from the WNA calculation if the WNA is approved.¹⁹²⁶ I&E argued that the Company should remove the month of May.¹⁹²⁷ Columbia argues these proposals should not be adopted. Columbia witness Taylor explained that the proposals to remove these months from the WNA calculation are arbitrary and ignore weather patterns in Pennsylvania.¹⁹²⁸

n. *Confirmed Low-Income Customers Should Not be Excluded from the WNA*

CAUSE-PA argues that confirmed low-income customers should be excluded from the WNA.¹⁹²⁹ Columbia asserts the WNA serves to reduce higher bills during peak winter conditions and reduce winter energy burdens. In addition, Columbia

¹⁹²³ I&E St. No. 3, at 21.

¹⁹²⁴ Tr. 451.

¹⁹²⁵ Columbia St. No. 2-R, at 4.

¹⁹²⁶ CAUSE-PA St. No. 2, at 64.

¹⁹²⁷ I&E St. No. 3, at 21.

¹⁹²⁸ Columbia St. No. 17-R, at 16.

¹⁹²⁹ CAUSE-PA St. No. 2, at 64.

explains confirmed low-income customers are not a separate customer class and the Public Utility Code specifically prohibits discrimination in rates.¹⁹³⁰

o. Revenue Normalization Adjustment

(1) Summary of Columbia's Proposed RNA

(a) Columbia Proposes to implement Rider RNA

Columbia's witness Taylor testified that the Company would develop a Benchmark Base Revenue Per Customer (BRPC) that would consist of the Commission authorized revenues for the FPFTY divided by the number of customers determined in the case for each rate schedule.¹⁹³¹ At the end of each year, the Company will compare the BRPC with the Actual Base Revenues Per Customer (ARPC) and calculate the over or under-collection that resulted for each. Any over-collections will be credited to the customers in those rate schedules through an RNA surcredit. Any under-collections will be credited to the Company through a surcharge. The RNA rate will be calculated following the end of the calendar year and billed over a 12-month period, beginning in April of the same year the calculation is performed. Columbia submits both refunds and recoveries will be subject to a 6% interest rate.¹⁹³²

(b) The RNA is Authorized by Statute

Columbia submits Act 58 of 2018 amended the Public Utility Code by providing the Commission with express statutory authority to approve alternative rate

¹⁹³⁰ 66 Pa.C.S. § 1304.

¹⁹³¹ Columbia St. No. 17, at 43-44.

¹⁹³² *Id.*, at 45.

mechanisms, such as revenue decoupling, in a utility's base rate proceeding. The RNA is a "decoupling mechanism" as defined by Section 1330 of the Code.¹⁹³³

Columbia submits the Commission's Policy Statement¹⁹³⁴ provides fourteen factors that the Commission will consider when evaluating alternative ratemaking proposals. Columbia asserts it has considered each of the factors listed in the Policy Statement that are applicable to the Company's proposal to implement the RNA.¹⁹³⁵

(c) The RNA is in the Public Interest and Should be Approved

Columbia asserts the RNA promotes revenue stabilization because it relies on distribution revenue per customer, not usage per customer. Once the Company's revenue requirement is set through a base rate proceeding, a benchmark revenue per residential customer is established. Columbia submits, because the link between level of throughput and base revenue recoveries is broken, reduced throughput will not lead to revenue and earnings erosion due to under-recovery.¹⁹³⁶ In this way, Columbia submits, the RNA aligns the Company's and its customers' interests as they pertain to energy efficiency and conservation initiatives. Columbia argues the RNA addresses the Company's need to recover its fixed distribution system costs that do not vary with usage, while at the same time removing a major disincentive for the Company to promote conservation and efficiency.

¹⁹³³ 66 Pa.C.S. §§ 1330(b)(1).

¹⁹³⁴ *Fixed Utility Distribution Rates Policy Statement, Final Policy Statement Order*, Docket No. M-2015-2518883 (Order entered July 18, 2019).

¹⁹³⁵ *See* Columbia St. No. 17, at 48-52.

¹⁹³⁶ Columbia St. No. 17, at 49-50.

Columbia asserts the benefits of the RNA are listed below:¹⁹³⁷

1. The RNA ensures recovery of fixed costs in line with cost-of service, preventing over- or under-collection and better aligning distribution revenues with cost causation principles.
2. The RNA stabilizes recovery of fixed distribution costs, ensuring Columbia can invest in infrastructure to meet peak and long-term capacity needs while reducing under-recovery risk during low-usage periods.
3. The RNA calculates revenue targets by customer class and assigns adjustments individually within each class, preventing both inter-class and intra-class cost shifting.
4. The RNA provides customer protections including no over-recovery of authorized revenue, regulatory oversight and customer transparency.

(d) The Other Parties Objections to the RNA Should be Rejected

Columbia submits the other parties in this proceeding oppose implementation of the RNA. Columbia explains several of the parties argue that the RNA guarantees rate recovery without providing customer protections.¹⁹³⁸ Columbia asserts the RNA does not guarantee earnings but simply aligns actual revenues with authorized revenues¹⁹³⁹ as the fixed customer charge recovers such a small percentage of fixed costs. Columbia also asserts the RNA also offers important customer protections such as prevention of over-recovery. Columbia also explains the parties argue that the Company has not proved the need for greater rate stabilization.¹⁹⁴⁰ However, Columbia argues that its distribution system costs are fixed, yet the majority of costs are recovered

¹⁹³⁷ Columbia St. No. 17, at 48-52.

¹⁹³⁸ CAUSE-PA St. No. 2, at 69; OCA St. No. 1, at 2.

¹⁹³⁹ Columbia St. No. 17-R, at 22.

¹⁹⁴⁰ See e.g., OCA St. No. 1, at 27.

through volumetric charges.¹⁹⁴¹ Columbia asserts even with the WNA, the Company has under-recovered its authorized revenues by approximately \$69 Million since 2019.¹⁹⁴²

OCA witness Deupree argues that the RNA removes incentives for the Company to control costs.¹⁹⁴³ Columbia responds that the RNA does not affect the Company's obligation to manage its costs.¹⁹⁴⁴ Columbia still has a strong incentive to control expenses and capital improvement costs and is also subject to audits for recommendations on how to control costs.

OCA also argues that the RNA discourages energy efficiency and conservation.¹⁹⁴⁵ However, the Company responds that customers are still incented to reduce their gas usage through the volumetric components of their bills, including gas commodity charges. Columbia asserts the RNA is designed to stabilize recovery of fixed distribution costs, not volumetric costs.

Other parties also argue that the RNA can harm individual users under certain circumstances, such as if an individual's usage is constant and others are not constant.¹⁹⁴⁶ Columbia asserts these are minor concerns and the Company believes that the overall policy goals of providing for the recovery of fixed costs while encouraging conservation of natural resources outweigh the parties' criticisms.

¹⁹⁴¹ See Columbia St. No. 17, at 6; Columbia St. No 6-R, at 14.

¹⁹⁴² Columbia St. No. 17, at 38, Table 6.

¹⁹⁴³ OCA St. No. 1, at 20.

¹⁹⁴⁴ Columbia St. No. 17-R, at 20.

¹⁹⁴⁵ OCA Ex. MWD-1, at 1.

¹⁹⁴⁶ I&E St. No. 3, at 26.

p. *Conclusions as to the RNA*

The Company asserts the RNA is needed in addition to the WNA to allow the Company an opportunity to reduce revenue loss due to the mismatch between recovering fixed distribution costs through volumetric rates.

2. *I&E's Position*

I&E explains Columbia has proposed both making its' pilot Weather Normalization Adjustment permanent and initiating a Revenue Normalization Adjustment. The Commission has noted in recent cases that Act 58 of 2018 was approved on June 28, 2018, and went into effect on August 27, 2018, and was codified at 66 Pa. C.S. § 1330.¹⁹⁴⁷ Section 1330(a)(1) of the Code states that “the commission may approve an application by a utility in a base rate proceeding to establish alternative rates and rate mechanisms.”¹⁹⁴⁸

The Commission may authorize the implementation of alternative ratemaking mechanisms, such as decoupling mechanisms like the WNA; however, in order to implement an alternative ratemaking mechanism, the utility must provide substantial evidence that the specific mechanism proposed by the utility would result in just and reasonable rates.¹⁹⁴⁹

The Commission explained to determine “just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose” of the Commission’s policy and the policy laid out in Section 1330, the Commission, in a

¹⁹⁴⁷ See *Pa. PUC v. PECO Energy Company - Gas* (“PECO WNA Order”), Docket No. R-2024-3046932, at 14 (Order Entered Dec. 12, 2024) .

¹⁹⁴⁸ 66 Pa. C.S. § 1330(a)(1); PECO WNA Order, at 1.

¹⁹⁴⁹ 66 Pa. C.S. §§ 315(a), 1330; *Id.*, at 15.

Policy Statement, developed 14 factors to be considered.¹⁹⁵⁰ I&E explains section 1330, however, does not waive the Code’s burden of proof requirements, or the Administrative Agency Law’s requirement that the decisions of Commonwealth agencies (including the Commission) be supported by substantial evidence.¹⁹⁵¹

Further, I&E explains the Commission noted in its PECO WNA Order “it is a primary concern of the Commission that alternative ratemaking is, in some way, rooted in the cost of service.”¹⁹⁵² As is stated at 52 Pa. Code § 69.3301, “an alternative rate design methodology should reflect the sound application of cost-of-service principles, establish a rate structure that is just and reasonable, and consider customer impacts.”¹⁹⁵³

a. *Weather Normalization Adjustment*

In its base rate filing, Columbia requested that the Commission allow Columbia’s current WNA pilot to become permanent.¹⁹⁵⁴ Historical data shows that Columbia has recovered over \$74 million in revenue through the application of the WNA from the Columbia rate payers.¹⁹⁵⁵

I&E’s analysis of Columbia’s current WNA included utilizing the guidance provided by the Commission in its 2019 Statement of Policy where the Commission identified fourteen factors to consider when evaluating an alternative rate making mechanism.¹⁹⁵⁶ I&E explains it focused on Policy Questions Nos. 1, 5, 6, 12 and 13.¹⁹⁵⁷

¹⁹⁵⁰ *Id.*, at 15 (citing 52 Pa. Code § 69.3302(a)).

¹⁹⁵¹ See 2 Pa. C.S. § 704; *See*, 2 Pa.C.S. § 704.

¹⁹⁵² *Id.*, at 16.

¹⁹⁵³ PECO WNA Order, at 16-17 (quoting 52 Pa. Code §§ 69.3301, 69.3302(a)).

¹⁹⁵⁴ I&E St. No. 3, at 9 (citing Columbia St. No. 17, at 9).

¹⁹⁵⁵ *See* I&E St. No. 3-SR, at 15; I&E Ex. No. 3-SR, Sch. 1, at 4.

¹⁹⁵⁶ *See* I&E St. No. 3, at 10, *citing* Statement of Policy (“2019 Statement of Policy”), Docket No. M-2015-2518883, Order entered July 18, 2019.

¹⁹⁵⁷ *See* I&E St. No. 3, at 10-16; I&E St. No. 3-SR, at 10-17.

I&E argued that Columbia's WNA does not properly align revenues with cost causation principles as to both fixed and variable costs.¹⁹⁵⁸ I&E also argued that Columbia's WNA serves to shift costs from customers who can afford to make efficiency improvements to those customers who cannot afford to make efficiency improvements while at the same time creating an imbalance in the WNA share to cover the revenue shortfall not based on actual usage.¹⁹⁵⁹ Further, I&E asserts that WNAs in general and the WNA billing process are too complex and confusing to customers.¹⁹⁶⁰

In consideration of I&E's analysis of Columbia's existing WNA pilot program relative to the Commission's Policy Questions and the reasoning applied in the PECO Gas proceeding relative to the WNA,¹⁹⁶¹ I&E recommends that the pilot program be allowed to expire and no permanent WNA be put in place.¹⁹⁶²

If, however, the Commission decides to allow Columbia to move forward with its WNA, then I&E recommended certain changes be made to the WNA in an effort to soften its impact on Columbia's rate payers, especially those that try to conserve usage to reduce their monthly bill. I&E recommends that if the Commission decides to approve the WNA on a permanent basis, three (3) modifications should be made to the WNA.¹⁹⁶³ First, the shoulder month of May should be removed from the WNA. Second, the time period used to determine normal HDDs be shortened to ten years. And third, the deadband should be increased to 5%.

¹⁹⁵⁸ I&E M.B., at 66-67.

¹⁹⁵⁹ I&E St. No. 3-SR, at 12-13.

¹⁹⁶⁰ *Id.*, at 16-17.

¹⁹⁶¹ See I&E St. No. 3, at 18 (citing *Pa. PUC v. PECO Energy Company – Gas*, Docket No. R-2024-3046932, pp. 94-101 (Order Entered December 12, 2024)).

¹⁹⁶² *Id.*, at 8.

¹⁹⁶³ I&E St. No. 3, at 18; I&E St. No. 3-SR, at 16-17.

First, I&E asserts the month of May is not a winter or traditional heating month in Pennsylvania but more appropriately a shoulder month when customers can expect to start seeing their heating bills decline.¹⁹⁶⁴ By including May in its calculation, customers could see WNA bill increases as late as June.¹⁹⁶⁵

Second, I&E argued that by utilizing a twenty-year weather cycle to determine normal HDDs, the Company is ignoring what even the Company argues is a “recent” winter weather warming trend that is representative of Pennsylvania winters, which results in more winter months falling short of “normal” based on how the Company calculates what is “normal.”¹⁹⁶⁶ Using a twenty-year cycle rather than a ten-year cycle results in an “historical bias” that diminishes the effect of the claimed recent trends and results in providing revenue to the Company when instead, customers should be realizing savings.¹⁹⁶⁷ I&E submits the Company cites to a recency bias in a claimed weather warming trend yet won’t recognize that same recency bias when calculating what is “normal” regarding their HDD.

Finally, if the goal of the WNA is to improve stability regarding customer bills and Company revenue, I&E asserts a 5% deadband adequately captures what could be considered normal weather fluctuations in Pennsylvania and places more of the burden for calculating and forecasting weather variations back onto the Company as a normal part of doing business.¹⁹⁶⁸ I&E asserts the Company is far better equipped to meet that challenge than the customers.

¹⁹⁶⁴ I&E St. No. 3, at 19; I&E St. No. 3-SR, at 19; I&E M.B., 68.

¹⁹⁶⁵ I&E St. No. 3, at 19; I&E St. No. 3-SR, at 20; I&E M.B., at 68.

¹⁹⁶⁶ I&E St. No. 3, at 19,; I&E St. No. 3-SR, at 17-19; I&E M.B., at 68.

¹⁹⁶⁷ I&E St. No. 3, at 19,; I&E St. No. 3-SR, at 20; I&E M.B., at 68.

¹⁹⁶⁸ I&E St. No. 3, at 19,; I&E St. No. 3-SR, at 20; I&E M.B., at 68-69.

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

I&E opposes the RNA and recommends that the Commission deny implementation of an RNA.¹⁹⁶⁹ I&E noted that the Company has repeatedly proposed enacting the RNA in previous rate cases and I&E has opposed the RNA every time.¹⁹⁷⁰ Most recently, the Company proposed to enact an RNA in its 2020, 2021, 2022, and 2024 base rate cases at Docket Nos. R-2020-3018835, R-2021-3024296, R-2022-3031211, and R-2024-3046519.¹⁹⁷¹

I&E cites the Commission's July 18, 2019 Statement of Policy.¹⁹⁷² I&E reviewed the fourteen factors set forth in the Statement of Policy and stated its concerns regarding Policy Questions 1, 2, 8, 10 and 12,¹⁹⁷³ ultimately concluding that Columbia's current system of rates and charges, which include fixed monthly customer charges, a purchased gas adjustment mechanism, and potentially a distribution system improvement charge provide Columbia with the revenue stability it needs.¹⁹⁷⁴ Therefore, I&E asserts Columbia has not met its burden of proving that these revenue sources are inadequate.¹⁹⁷⁵ Additionally, I&E argues the Company has not presented credible evidence that implementation of the RNA will result in fewer base rate cases, thus removing any

¹⁹⁶⁹ I&E St. No. 3, at 23.

¹⁹⁷⁰ *Id.*, at 22.

¹⁹⁷¹ *Id.*

¹⁹⁷² *Id.*, at 24 (citing 2019 Statement of Policy).

¹⁹⁷³ *Id.*, at 24-28.

¹⁹⁷⁴ *Id.*, at 28.

¹⁹⁷⁵ *Id.*

benefit from the residential customers.¹⁹⁷⁶ Finally, I&E asserts that the RNA will have a chilling effect on voluntary conservation by the ratepayers.¹⁹⁷⁷

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

3. *OCA's Position*

a. *Weather Normalization Adjustment*

- (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

OCA argues while the Commission *may* authorize the implementation of alternative ratemaking mechanisms, such as decoupling mechanisms like the proposed WNA, the proposing utility must provide substantial evidence that the specific mechanism, *proposed by the utility*,¹⁹⁷⁸ would result in just and reasonable rates.¹⁹⁷⁹ Section 1330 does not waive the Public Utility Code's burden of proof requirements, or the Administrative Agency Law's requirement that the decisions of Commonwealth

¹⁹⁷⁶ *Id.* (citing Columbia St. No. 17, at 51).

¹⁹⁷⁷ *Id.*

¹⁹⁷⁸ The OCA emphasizes here that the Commission's determination in this proceeding to approve Columbia's request to implement a permanent mechanism must be supported by the record in this case and not based on the approval of prior WNA mechanisms pursuant to settlement agreements. *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).

¹⁹⁷⁹ 66 Pa.C.S. §§ 315(a), 1330.

agencies – including the Commission – be supported by substantial evidence.¹⁹⁸⁰ In other words, there is no mandate that the Commission *must* implement a proposed alternative ratemaking mechanism, even if the proposed mechanism is based on a pilot which was previously approved pursuant to a settlement agreement

OCA asserts, pursuant to the Settlement Agreement resolving the Company’s 2024 rate increase request, which was approved by the Commission, the Company’s WNA Pilot will continue until an order is entered in this proceeding, as the first rate case filed by the Company after December 14, 2024.¹⁹⁸¹ OCA explains Columbia enjoys no presumption of reasonableness for the WNA Pilot which is currently in effect; rather, the Company bears the burden of proof for the proposed continuation of its WNA on a permanent basis, as the Pilot will be discontinued when an order is entered in this proceeding.¹⁹⁸² OCA explains the Company must demonstrate that the WNA results in just and reasonable rates and is distinguishable from other decoupling mechanisms which the Commission found did not meet its policy objectives.¹⁹⁸³ The Company has failed to do so.

OCA asserts Columbia’s WNA Pilot has systematically overcharged customers without providing commensurate benefits to customers, extracting

¹⁹⁸⁰ See 2 Pa.C.S. § 704 (providing that the decisions of Commonwealth agencies be supported by substantial evidence to survive review of an appellate court).

¹⁹⁸¹ *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2024-3046519 (Joint Petition for Settlement filed Aug. 28, 2024) at ¶ 35 (available at: <https://www.puc.pa.gov/pcdocs/1846633.pdf>).

¹⁹⁸² 66 Pa.C.S. § 315(a); *Burleson*, 461 A.2d at 1236; *cf. Zucker v. Pa. PUC*, 401 A.2d 1377, 1379-80 (Pa. Cmwlth. 1979).

¹⁹⁸³ 66 Pa.C.S. § 1301; 52 Pa. Code § 69.3301-69.3302; *Bell Atl. – Pa.*, 672 A.2d at 354; *see 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>); *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>).

approximately \$74 million in additional revenues for Columbia from customers subject to the WNA in the five most recent heating seasons.¹⁹⁸⁴ “During this period, OCAS asserts, the Company *never* issued a refund to consumers under the WNA despite claiming that the mechanism is symmetrical. OCA argues, this pattern reveals that the WNA has functioned as a one-sided charge, imposing consistent financial burdens on ratepayers while failing to deliver measurable bill stability or balance.”¹⁹⁸⁵

OCA witness Deupree testified:

To determine “just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose” of the Commission’s policy and the policy laid out in Section 1330, the Commission developed 14 factors it considers in a policy statement.¹⁹⁸⁶ This policy statement was enacted following the passage of Section 1330 of the Code, which permits the Commission to use alternative rate mechanisms to further policy objectives, including energy efficiency.¹⁹⁸⁷ Section 1330 specifically states that “[i]t is the policy of the Commonwealth that utility ratemaking should encourage and sustain investment through appropriate cost-recovery mechanisms to enhance the safety, security, reliability or availability of utility infrastructure and be consistent with the efficient consumption of utility service.”¹⁹⁸⁸ While no one factor is dispositive, the totality of all factors weigh against the authorization and implementation of Columbia’s proposed WNA.^[1989]

¹⁹⁸⁴ OCA St. 1 at 55; OCA Ex. MWD-11; CAUSE-PA St. 2-SR at 14.

¹⁹⁸⁵ OCA St. 1 at 55 (emphasis in original).

¹⁹⁸⁶ 52 Pa. Code § 69.3302(a); *see* OCA Ex. MWD-1 at 3-4 (evaluating the WNA proposed under the Commission’s 14 policy factors).

¹⁹⁸⁷ 66 Pa.C.S. § 1330.

¹⁹⁸⁸ 66 Pa.C.S. § 1330(a)(2).

¹⁹⁸⁹ OCA M.B., at 209-210

OCA explains Columbia’s WNA fails to address the Commission’s first policy factor regarding the alignment of revenues with fixed and variable cost causation.¹⁹⁹⁰ Namely, the WNA adjusts the variable portion of customers’ bills while purporting to recover annual fixed costs of providing gas distribution service.¹⁹⁹¹ OCA submits Columbia’s cost of service study does not identify cost-causation as being “fixed” or “variable”; rather, costs are identified as being, *inter alia*, customer-related, demand-related, and throughput-related.¹⁹⁹² OCA asserts the demand- and throughput-related costs currently recovered through volumetric charges, including the cost of distribution mains, are the costs which are largely recovered through the proposed WNA. Therefore, according to OCA, the proposed WNA operates to adjust customers’ natural gas usage based on weather, creating an inverse relationship between Columbia’s cost of service – as defined by the manner in which distribution rates are designed in Pennsylvania – and how those costs are recovered.¹⁹⁹³

OCA explains the proposed WNA also does not impact Columbia’s capacity utilization, as it only adjusts customers’ usage based on weather and not based on utilization, providing no benefit under the Commission’s second policy factor.¹⁹⁹⁴ Columbia’s argument that the WNA permits more timely recovery of the cost of investments in capacity sufficient to meet peak demands are inapposite, as the second policy factor does not pertain to cost recovery of capacity investment but, instead, refers to the efficiency of a utility’s distribution system.¹⁹⁹⁵ OCA submits the WNA neither

¹⁹⁹⁰ 52 Pa. Code § 69.3302(a).

¹⁹⁹¹ OCA Ex. MWD-1 at 3.

¹⁹⁹² Columbia Ex. KLJ-1.

¹⁹⁹³ See *PECO Gas 2024* at 96.

¹⁹⁹⁴ 52 Pa. Code § 69.3302(a); OCA Ex. MWD-1 at 3.

¹⁹⁹⁵ *Fixed Service Utilities Distribution Rates Policy Statement*, Docket No. M-2015-2518883 (Order entered July 18, 2019) at 13-14 (“As a measure, capacity utilization can be used to judge the efficiency of an electric distribution system. We are interested in consideration of rates by our electric utilities which can work to increase

operates to decrease Columbia's ratio of peak demand to average demand nor insulate ratepayers from rate increases due to the inefficient usage of Columbia's distribution system, as the WNA merely adjusts customers' usage to reflect the weather normal Columbia used to estimate consumption in this proceeding.

Under the third policy factor, which considers a mechanism reflecting the level of demand associated with a customer's anticipated consumption, OCA argues the proposed WNA fails to meet the Commission's criterion.¹⁹⁹⁶ The proposed WNA adjusts customers' heat-sensitive usage to increase – or, less likely, to decrease – their billed consumption based on differences in weather between the predicted “normal” and the actual weather experience; it is unclear how an adjustment to consumption based on weather could reflect the level of demand associated with anticipated consumption.¹⁹⁹⁷ Rather, according to OCA, a customer's anticipated consumption is based on their meter readings, actual weather, and recent weather trends, not the “normal” weather for which they are billed under the proposed WNA.

The fourth policy factor, which considers inter- and intra-class cost shifting under the mechanism proposed, weighs against implementation of the proposed WNA.¹⁹⁹⁸ OCA asserts Columbia's system is subject to significant interclass cost-shifting under present rates; according to OCA witness Mierzwa, Rate LDS/LGSS and FLEX customers are currently being subsidized by approximately \$68,236,406, particularly by the residential customer class.¹⁹⁹⁹ Not only does the proposed WNA provide Columbia with a

distribution system capacity utilization to foster system efficiency and insulate customers from rate increases.”) (available at: <https://www.puc.pa.gov/pcdocs/1627831.docx>).

¹⁹⁹⁶ 52 Pa. Code § 69.3302(a).

¹⁹⁹⁷ OCA Ex. MWD-1 at 3.

¹⁹⁹⁸ 52 Pa. Code § 69.3302(a).

¹⁹⁹⁹ OCA St. 4 at 9-10 (providing that, under present rates, Rate RSS/RDS customers have the second-highest relative rate of return of 1.19 while Rate LDS/LGSS customers have a relative rate of return of 0.40 and Rate FLEX customers have a relative rate of return of -0.53).

more significant extraction of revenues from the residential customer class, OCA submits such revenues may be in excess of the actual cost to serve residential customers and include recovery of costs to serve classes currently benefiting from cross-class subsidization. In this way, despite the fact that the proposed WNA is only applicable to the residential customer class, it is a tool which further enables inter-class cross-subsidization due to the pre-existing revenue deficiencies from other customer classes being allocated to the residential customer class.²⁰⁰⁰ Furthermore, OCA submits the proposed WNA can also enable intra-class cost-shifting to the extent that low-income customers have a lesser ability to control their natural gas usage during the heating season than non-low-income customers, resulting in greater WNA charges and lesser WNA credits for customers with usage patterns inconsistent with that assumed by the proposed WNA.²⁰⁰¹

Regarding the fifth and sixth of the Commission's policy factors, which consider the impact of an alternative ratemaking mechanism on incentives and disincentives for pursuing energy efficiency, OCA argues the Company has failed to demonstrate that the proposed WNA will preserve existing incentives to conserve energy.²⁰⁰²

OCA asserts, in essence, the only way for a customer to avoid a WNA charge during a period of warmer-than-normal weather is to have zero weather-sensitive usage, due to the way that the proposed WNA is calculated. The proposed WNA does not consider reduced usage due to energy efficiency and conservation and, instead, adjusts

²⁰⁰⁰ See 66 Pa.C.S. § 1304 ("No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service."). The OCA notes that the Company submitted no analysis in this proceeding as to why only the residential customer class should be subject to the proposed WNA.

²⁰⁰¹ OCA Ex. MWD-1, at 3.

²⁰⁰² 52 Pa. Code § 69.3302(a); OCA Ex. MWD-1 at 3.

customers' usage solely due to changes in weather.²⁰⁰³ The addition of an unavoidable rate increase which is affected by factors beyond the customer's control, according to OCA, will interfere with customers' calculus to determine if reduced consumption or installation of energy efficiency measures will actually be cost-effective.

In addition, OCA asserts, Columbia has failed to demonstrate that the proposed WNA should be approved under the Commission's seventh policy factor, which considers the effect of the alternative ratemaking mechanism on low-income customers and CAP.²⁰⁰⁴ Company witness Taylor claims that the proposed WNA does not impact low-income customers who are enrolled in CAP under a percentage of income bill plan (PIP).²⁰⁰⁵ OCA explains the Commission's policy statement draws a distinction which Columbia does not: low-income customers are distinct from CAP customers. Only approximately 23.3% of Columbia's estimated low-income population is enrolled in the Company's CAP, and not all CAP customers are enrolled in the Percentage of Income Payment (PIP) component of Columbia's CAP.²⁰⁰⁶ OCA argues this discrepancy demonstrates that the Company's reliance on the existence of its PIP component to address the effect that the proposed WNA has on *all* low-income customers is insufficient. Rather, low-income customers are overall less sensitive to changes during the heating season, exhibiting different heating usage behaviors when compared to non-low-income customers, since, as identified by OCA witness Colton, "they can be expected to turn on their heating units earlier in the season and keep those units running until later in the season."²⁰⁰⁷ OCA argues this discrepancy is consistent with low-income customers often living in less well-weatherized homes and using less efficient heating systems.²⁰⁰⁸

²⁰⁰³ OCA Ex. MWD-1, at 3.
²⁰⁰⁴ 52 Pa. Code § 69.3302(a).
²⁰⁰⁵ Columbia St. 17, at 31.
²⁰⁰⁶ OCA St. 5, at 79.
²⁰⁰⁷ *Id.*, at 95.
²⁰⁰⁸ *Id.*

Under the eighth of the Commission's policy factors, considering how the alternative ratemaking mechanism affects rate stability, OCA asserts the Company has failed to provide evidence that the proposed WNA provides rate stability.²⁰⁰⁹ This, according to OCA, is demonstrated by the frequency of the Company's rate filings, with the instant proceeding being the eighth rate increase request filed by Columbia since it was permitted to implement its WNA on a pilot basis in 2013 (five rate increase requests since 2019): since the WNA Pilot was first implemented, Columbia has filed a rate case, on average, every year and a half.²⁰¹⁰

OCA argues Columbia's WNA Pilot has not worked to increase stability for customers' rates because the Company is still consistently seeking near-annual revenue increases, placing a significant upwards pressure on rates over time irrespective of the agency the WNA provides Columbia to extract additional revenues during warmer than normal winters when it would otherwise need to tighten its belt.

OCA further argues the proposed WNA does not provide bill stability. While, in the abstract, the proposed WNA may *theoretically* provide bill stability by providing a more consistent bill for a given month during the heating season, meaning that, for example, bills in February may be adjusted to similar levels of usage each year, theoretical bill stability provides little benefit to Columbia's customers.²⁰¹¹ OCA argues bill stability is difficult to achieve without the rate stability provided by less frequent rate increase requests. OCA witness Colton demonstrated in his testimony, by contrast, that the proposed WNA imposes substantial harms to customers without providing the benefit of more stable natural gas heating bills.²⁰¹²

²⁰⁰⁹ 52 Pa. Code § 69.3302(a).

²⁰¹⁰ OCA St. 5 at 7 (providing the Company's 10 most recent rate increase requests were filed in 2009, 2010, 2012, 2014, 2016, 2019, 2020, 2021, 2022, and 2024).

²⁰¹¹ See Columbia St. 17, at 32.

²⁰¹² OCA St. 5, at 99.

Instead of implementing the proposed WNA, OCA submits Columbia should create greater access to its budget billing program, which provides enrolled customers with actual bill stability, not merely bill stability in the abstract as the Company purports the proposed WNA is intended to provide.

The ninth policy factor considers how weather impacts utility revenue under the alternative ratemaking mechanism; under the proposed WNA, Columbia's revenue sees significant benefits due to increasingly frequent warmer winters.²⁰¹³ Since the WNA Pilot was implemented in the 2013-2014 heating season, eight out of the 12 heating seasons which have occurred have been warmer-than-normal overall – meaning they resulted in net WNA charges – with no heating seasons resulting in net credits since before the 2019-2020 heating season.²⁰¹⁴ OCA argues, despite claiming that the WNA Pilot is a symmetrical mechanism, since the fall of 2019, the WNA Pilot has functioned only as a benefit to Columbia without producing any benefit to its customers.²⁰¹⁵ OCA asserts even Company witness Taylor admits that this one-sidedness is a function of the flaws inherent in a WNA mechanism, meaning that the proposed WNA is likely to continue charging customers as weather becomes warmer over time.²⁰¹⁶ OCA argues, due to the proposed WNA's inadequacies as an alternative ratemaking mechanism, variance in weather serves only as a boon to Columbia to the detriment of its customers.

As stated by Mr. Taylor, “[t]he WNA does not impact the Company’s rate case frequency nor does it effect [sic] regulatory lag,” which OCA asserts, means, under the Commission’s tenth policy factor, neither customers nor the Commission see any benefit from the proposed WNA, despite resulting in additional annual revenues eight out

²⁰¹³ 52 Pa. Code § 69.3302(a).

²⁰¹⁴ OCA St. 1, at 55.

²⁰¹⁵ *Id.*

²⁰¹⁶ Columbia St. 17, at 40-41.

of the last 12 heating seasons.²⁰¹⁷ The proposed WNA’s increased revenue stream mutes the ratepayer benefits of regulatory lag, according to OCA, by providing greater incentive for Columbia to manage its costs over time, and has not reduced the frequency of the Company’s rate filings to provide Columbia customers with greater rate stability, despite the inter-rate case mechanisms available to Columbia to continue increasing revenues without filing for a rate increase request.²⁰¹⁸

Regarding the eleventh policy factor, which considers how the alternative ratemaking mechanism interacts with other surcharges, the OCA and the Company are in agreement that the proposed WNA does not interact with other surcharges. However, under Section 1357(d)(1) of the Public Utility Code, OCA submits the Distribution System Improvement Charge (DSIC) applies to revenues recovered under the proposed WNA, meaning that customers’ WNA charges will be compounded by the additional percentage amount of the DSIC, creating a bump in Columbia’s revenues over and above any WNA charges.²⁰¹⁹

Under the Commission’s twelfth factor, regarding consumer protections, OCA asserts Columbia’s proposed WNA is clearly deficient.²⁰²⁰ The proposed WNA includes no check or cap on earnings, which means that there is no ceiling on how much revenue the proposed WNA can extract from Columbia’s residential customers.²⁰²¹

²⁰¹⁷ 52 Pa. Code § 69.3302(a); Columbia St. 17 at 32.

²⁰¹⁸ OCA St. 1, at 11-17.

²⁰¹⁹ 66 Pa.C.S. § 1357(d)(1) (“The distribution system improvement charge shall be expressed as a percentage carried to two decimal places and shall be applied in a manner consistent with section 1358 (relating to customer protections) to each customer under the utility’s applicable rates and charges. The charge shall not be applied to amounts billed for public fire protection service by water utilities and the State tax adjustment surcharge.”).

²⁰²⁰ 52 Pa. Code § 69.3302(a).

²⁰²¹ OCA Ex. MWD-1, at 4; *see PECO Gas 2024*, at 95 (“there is no ‘ceiling’ for the revenue that PECO can collect through the WNA” it proposed in that proceeding).

While the Company claims that the proposed WNA does not, or cannot, over-recover revenues, Columbia witness Taylor points to no part of the way the proposed WNA is applied to customer bills to demonstrate why this is true; rather, implied in Mr. Taylor's statement is the underlying assumption of the proposed WNA that all customers behave perfectly, proportionately responding to changes in weather from year to year by adjusting their natural gas usage with efficient heating equipment and well-weatherized homes.²⁰²²

Though essential, the Company's purported customer protection of providing transparency regarding the proposed WNA, including disclosures and education materials, according to OCA, is not a protection²⁰²³ but rather, educating customers regarding their rates is a core utility function, one which Columbia has performed inadequately with respect to the WNA Pilot.

As a result, under the Commission's thirteenth policy factor, regarding consumer understandability, OCA submits Columbia's proposed WNA falls short.²⁰²⁴ Despite WNAs not being "a new concept to the regulated utility industry" and that Columbia has been billing the WNA Pilot for over a decade, OCA explains the WNA charge remains a difficult-to-understand bill component that customers cannot predict in advance of their monthly bill.²⁰²⁵

²⁰²² Columbia St. 17, at 33, 37.

²⁰²³ Columbia St. 17, at 33.

²⁰²⁴ 52 Pa. Code § 69.3302(a).

²⁰²⁵ *Compare* Columbia St. 17 at 33-34 *with* Tr. 367-368 (describing how customers may need to call the Company to determine the inputs to their WNA calculation) *and* *PECO Gas 2024* at 98-100 ("the 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.").

Because the WNA changes every month based on factors beyond customers' control – the weather, OCA asserts “[c]ustomers 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.”²⁰²⁶ Furthermore, OCA argues the Company’s communication materials regarding the WNA Pilot are inadequate because they represent the WNA Pilot as working to the benefit of both customers and the Company, which has not historically been the case, and do not provide customers with an individualized calculation of that customer’s WNA charge or credit.²⁰²⁷

Finally, according to OCA, Columbia has not demonstrated that the WNA Pilot has improved its system reliability or overall quality of service, meaning that no benefit is shown under the Commission’s fourteenth policy factor.²⁰²⁸ Despite having a greater amount of revenue extracted from its customers each year due to the WNA Pilot, OCA submits Columbia has provided no evidence that this revenue supported improvements in its reliability.²⁰²⁹ The WNA Pilot is not tied to achieving particularly reliability or quality of service improvement goals and has not reduced the Company’s frequency of rate case filings, meaning that Columbia’s investment in reliability improvements is subject to minimal regulatory lag and can easily be recovered in the next rate case through increased base rate revenues without the need for the additional revenues provided by the WNA.²⁰³⁰ OCA asserts the proposed WNA merely reduces the benefits associated with regulatory lag for customers, such as a reduced incentive to overcapitalize and stronger incentive to control costs while having no effect on reliability improvements.²⁰³¹

²⁰²⁶ OCA Ex. MWD-1, at 4.

²⁰²⁷ OCA St. 6, at 23-25.

²⁰²⁸ 52 Pa. Code § 69.3302(a).

²⁰²⁹ OCA Ex. MWD-1 at 4.

²⁰³⁰ *Id.*

²⁰³¹ *Id.*

Therefore, OCA submits each of the policy considerations addressed demonstrates that the WNA is more likely to result in ratepayer harm without providing commensurate benefit to ratepayers, the Commission, or the Company's quality of service. OCA concludes the Commission's policy factors clearly establish that the proposed WNA would not result in just and reasonable rates and should be denied.

The Company's customers who testified at the public input hearings in this case do not support the Company's proposal to make permanent the current WNA Pilot. The public input hearing testimony from this proceeding is summarized in detail in OCA Exh. RDC-3. Witness Story testified the WNA:

[P]rotect[s] Columbia's revenue stream due to decreased consumption, effectively shifting the risk of weather and usage variability away from the utility and onto the ratepayers. Such measures are inconsistent with equitable rate design and send a problematic signal. Ratepayers will pay more regardless of usage while Columbia's profit margins remain protected.^[2032]

One customer expressed confusion over the cost basis for WNA charges. Consumer Witness Schlag testified:

[I]t is totally unfair to charge people for services, products that they don't receive and did not request. I also am a senior citizen and a widow and on a fixed income, and I keep my thermostat at 68. And I am cold in my house a lot of times. And it doesn't make sense that as I try to be very careful how much I consume, that the gas company is charging me for what I don't consume.^[2033]

2032 Tr. 181.

2033 Tr. 233.

To the extent that the Company argues that the WNA Pilot has been adequately explained to customers, OCA submits the Company has not sufficiently informed customers that, from its perspective, the WNA is intended to recover fixed costs which are otherwise not recovered through the volumetric component of customers' bills.²⁰³⁴ Rather, it is clear that Columbia's customers perfectly understand what the WNA Pilot *actually did*, which is adjust their bills to reflect expected usage during warmer-than-normal weather to increase revenue to the Company, instead of what the Company claims the intention of the WNA Pilot was.

Consumer Witness Evans' experience with the WNA Pilot showed a high level of charges which:

totaled \$234.96 that I paid during the weather normalization period that ran from November 2023 through May 2024... for every month except for one [during the 2024-2025 heating season], I was again charged a weather normalization charge. I received one month of a credit of three dollars and some cents.^[2035]

OCA argues Ms. Evans' testimony is supported by the overall impact of the WNA Pilot, which reflected over \$74 million in net charges, benefiting the Company to the detriment of its customers.²⁰³⁶ This is especially true in recent years, as Mr. Taylor stated at hearings, with the last three heating seasons exceeding half of all revenue collected by the Company.²⁰³⁷

Columbia witness Taylor identified in his direct testimony, there is no evidence to support the conclusion that the WNA – if made permanent – would achieve

²⁰³⁴ Columbia St. 17, at 9-10.

²⁰³⁵ Tr. 218-19.

²⁰³⁶ CAUSE-PA St. 2-SR, at 14.

²⁰³⁷ Tr. 366.

markedly different results. OCA argues the asymmetrical results identified by consumer Witness Ms. Evans are due to the fundamental flaws in how the WNA assesses credits and charges because, as Columbia witness Taylor states, “there is not an equivalent probability that actual weather will have an equivalent probability of either being above or below “normal” given the current industry practice for the way that normal weather is defined.”²⁰³⁸ Instead, as described by consumer Witness Louderback, in each year “Pennsylvania’s residents will be charged more and more.”²⁰³⁹

(2) OCA Submits Columbia’s Use of the FPPTY and DSIC and its Frequent Filing Demonstrate that it Does Not Need the Proposed WNA to Earn Sufficient Revenue

(a) OCA Asserts the Proposed WNA’s Departure from Principles of Cost Causation is Unwarranted and Unsupported

OCA argues the proposed WNA unnecessarily departs from principles of cost-causation. One of the primary considerations included by the General Assembly in Section 1330 of the Public Utility Code with respect to the implementation of alternative ratemaking mechanisms is that such mechanisms “should encourage and sustain investment through appropriate cost-recovery mechanisms to enhance the safety, security, reliability or availability of utility infrastructure and be consistent with the efficient consumption of utility service.”²⁰⁴⁰ The Commission, similarly, considered the alignment of utility revenue recovery with cost causation when designing its Policy Statement regarding alternative ratemaking mechanisms.²⁰⁴¹

²⁰³⁸ Columbia St. 17, at 38-39.

²⁰³⁹ Tr. 188.

²⁰⁴⁰ 52 Pa. Code § 69.3301 (“an alternative rate design methodology should reflect the sound application of cost-of-service principles”); 66 Pa. C.S. § 1330(a) (factors 1, 3, 4, and 14 directly pertain to cost-of-service considerations).

²⁰⁴¹ 52 Pa. Code § 69.3302(a)(1).

However, OCA asserts, the proposed WNA departs from principles of cost-causation. Specifically, the proposed WNA is calculated to adjust customers' heat-sensitive usage based on how much warmer or colder than "normal" the actual weather is measured to be.²⁰⁴²

According to OCA, 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 variations. Rather, the proposed WNA recovers costs associated with a purported "value of service" instead of an actual "cost of service," so it is contrary to the principles of cost causation to adjust customers' usage (i.e., their contribution to the class's throughput) to reflect costs previously incurred to serve peak demand.²⁰⁴³

OCA argues the Commission has consistently supported the recovery of fixed costs through volumetric distribution rates *because* such costs are not fixed in the long-term.²⁰⁴⁴ In the *Columbia 2010* proceeding, as part of its general rate increase request, Columbia proposed a rate design which would shift "virtually all distribution costs to the fixed customer charge component" of residential rates.²⁰⁴⁵ The Commission rejected this proposal, stating "[s]uch a proposal would have achieved Columbia's goals of stable revenues, but at the expense of consumer interests in benefiting from energy efficiency investments."²⁰⁴⁶ The Commission has consistently provided that volumetric

²⁰⁴² OCA St. 1, at 50-51.

²⁰⁴³ *Phila. Indus. and Comm. Gas Users Group v. Pa. PUC*, 2025 Pa. Commw. LEXIS 133, ** 38-41 (Pa. Cmwlth. 2025) (cost causation "is a 'forward-looking principle'" and it is unclear if the use of a "retrospective benefits principle" can be consistent with the requirement that rates be just and reasonable).

²⁰⁴⁴ *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2010-2215623 (Order entered Oct. 14, 2011) (*Columbia 2010*) at 51-53 (available at: <https://www.puc.pa.gov/pcdocs/1149780.docx/>).

²⁰⁴⁵ *Id.*

²⁰⁴⁶ *Id.*

distribution rates are the proper mechanism to recover the cost of service which does not vary with the addition or subtraction of a single customer, even if the utility claims that such costs are fixed.

- (3) The Proposed WNA Disincentivizes Conservation and Energy Efficiency by Customers because the WNA Captures Customers' Bill Savings Earned Through Their Reduced Usage

When setting rates, the Commission has long recognized two characteristics of traditional ratemaking and rate design: that customers understand what costs of service their bill contributes towards, or “price signals,” and that the customer be incentivized to conserve energy and reduce their commodity consumption.²⁰⁴⁷ However, OCA asserts, the proposed WNA both distorts price signals and reduces the efficacy of customers’ conservation efforts.

OCA asserts, a WNA provides *no* price signal to customers because WNA charges do not relate to any service provided by the Company and, instead, reflect historical weather patterns and the purported value of the service provided to customers.

Because the WNA provides inaccurate price signals, customers have a more difficult time determining whether limiting their consumption or improving their home’s energy efficiency is worthwhile. As stated above, accurate price signals are an important part of rate design because they properly incentivize customer conservation of utility service.²⁰⁴⁸ OCA asserts the WNA’s distortion of price signals makes it more difficult for

²⁰⁴⁷ See, e.g., *Pa. PUC v. PECO Energy Co. – Gas Div.*, Docket No. R-2020-3018929 (Order entered June 17, 2021) (*PECO Gas 2020*) at 275 (available at: <https://www.puc.pa.gov/pcdocs/1708475.docx>).

²⁰⁴⁸ See *PECO Gas 2021* at 274 (“Improved price signals can translate into more economically efficient energy usage.”).

customers to determine if investment in energy efficiency measures are sufficiently beneficial to outweigh the cost, or to reward customers for reduced consumption.

(4) Columbia's Proposed WNA Disproportionately Harms the Company's Low Income Customers

OCA argues Columbia's low-income customers, with the exception of those enrolled in the Company's PIP, are disproportionately harmed by the WNA Pilot. Instead, Columbia's low-income customers are better served by the Company's support for its budget billing program, as the WNA Pilot has not yielded the benefits to customers which theoretically support the WNA Pilot's implementation. According to Columbia witness Taylor, the WNA Pilot may provide "lower bill variability during colder than average periods when gas commodity costs may be higher from increased consumption. In addition, customers who are currently enrolled to pay their bills based on a percentage of their household income see little to no impact to their bills under the WNA mechanism."²⁰⁴⁹ However, OCA witness Colton's review of the WNA Pilot's results found that low-income customers saw significant charges added to their bills due to warmer than normal weather without producing credits, and especially not producing credits of sufficient size to outweigh the impact of the WNA Pilot charges.²⁰⁵⁰ The increase in bills due to WNA Pilot charges, according to OCA significantly outweighs the theoretical prospective benefit of potential credits – which occur infrequently and are of smaller size than the WNA Pilot charges – for customers living paycheck-to-paycheck.

As described by OCA witness Colton, "[b]udget billing allows a customer to spread annual bills in equal installments over an 11-month period (with Month 12 being a reconciliation month). By enrolling in budget billing, a customer will know from month-to-month what their natural gas bill will be. The bills become more predictable,

²⁰⁴⁹ Columbia St. 17, at 31.

²⁰⁵⁰ OCA St. 5, at 92.

and thus more payable.”²⁰⁵¹ Though the budget billing programs targets month-to-month bill volatility instead of the year-to-year volatility addressed by the WNA Pilot, low-income customers do not value bill volatility in the abstract. Customers may struggle to evaluate the year-over-year trends in their bill in a particular billing period (e.g., their bill every January), especially when Columbia requests rate increases every 16 months. As a result, the WNA makes it more difficult for customers to estimate, and, therefore, budget for, their monthly bills during the heating season.

However, the Company limits enrollment in budget billing to customers who have no arrears.²⁰⁵² This limitation means that the “very customers who would most benefit from budget billing, in other words, are those who would be excluded by the Company’s budget billing restrictions.”²⁰⁵³ According to the data reviewed by Mr. Colton, the Company’s confirmed low-income customers have high seasonal variability in the amount that they owe in arrears, with greater arrearage balances during winter months, even though the number of accounts in arrears has low seasonal variability.²⁰⁵⁴ OCA submits, budget billing, by contrast, would smooth out the seasonal volatility in the amount of arrears because each budget billing plan is calculated so that the customer owes the same amount each month, if customers in arrears were permitted to take advantage of the program.

While Mr. Taylor argues that budget billing and the WNA have different objectives as customers may still pay more in colder-than-normal winters than they would if the WNA were not in effect, OCA submits his testimony overlooks the

²⁰⁵¹ *Id.*, at 96-97 (citations omitted).

²⁰⁵² *Id.*, at 97.

²⁰⁵³ *Id.*

²⁰⁵⁴ *Id.*, at 98.

consistent one-sided results of the WNA Pilot to date.²⁰⁵⁵ For the Company, the WNA does have a different objective than for customers – that being revenue stability – however, the goal of revenue stability should not come at any cost, especially when such costs are disproportionately higher for the Company’s customers least able to afford them. There is, by contrast, little support for the argument that the WNA is also designed to benefit customers by reducing bills during colder-than-normal winters.²⁰⁵⁶ As stated by OCA witness Colton:

There can be little question that if the purpose of Columbia Gas is not simply to preserve its revenue stream, but is to help customers improve the predictability and stability of their monthly bills, as was at least initially argued to be the purpose of WNA when it was first presented by witness Kempic and witness Taylor, budget billing is a better mechanism than the WNA to accomplish that purpose.^[2057]

Based on the history of the WNA Pilot, Mr. Colton concluded that the WNA Pilot does not increase the stability of natural gas heating bills to customers.²⁰⁵⁸ Rather, it shifts revenue risk from the Company to its customers in a way which disproportionately affects low-income customers because they have different usage patterns from non-low-income customers. According to OCA, low-income customers are affected by weather more than other residential customers: they bear a higher burden of heating costs during colder-than-normal and warmer-than-normal heating seasons.²⁰⁵⁹ OCA concludes, Columbia did not provide evidence to rebut the data which demonstrates this fact.

²⁰⁵⁵ Compare Columbia St. 17-R .at 10-11 and Columbia St. 17-RJ at 5 with CAUSE-PA St. 2-SR at 14 (“the WNA has surcharged more than \$74.2 million on net since Columbia first implemented its pilot WNA in 2013”).

²⁰⁵⁶ See Columbia St. 1 at 9; Columbia St. 17 at 28.

²⁰⁵⁷ OCA St. 5SR. at 21.

²⁰⁵⁸ *Id.* at 99.

²⁰⁵⁹ OCA St. 5SR. at 21-22.

OCA argues the circumstances presented in this proceeding are identical with respect to the impact of the proposed WNA on low-income customers, and the Commission should find in this case, as in *PECO Gas 2024*, that the WNA should be denied, in part, due to the effect on low-income customers.

(5) Overall, Columbia has Failed to Meet its Burden of Proof that the Proposed WNA is a Just and Reasonable Rate

OCA argues, despite the significant ratepayer harm caused by the WNA Pilot, Columbia has proposed no improvements or adjustments to its WNA Pilot: the Company simply requests that the Pilot be made into a permanent mechanism.²⁰⁶⁰ OCA concludes the Commission should deny this request, for the reasons outlined above, and permit the WNA Pilot to end as agreed-to in the 2024 rate case Settlement.

Columbia has not proposed adjustments to its calculations of “normal” weather, which contributes to the WNA’s asymmetry, or demonstrated that the calculations of “normal” weather produces just and reasonable results.²⁰⁶¹ As further described by OCA witness Deupree:

Despite operating the WNA on a pilot basis for over a decade, the Company has never identified criteria or performance metrics by which the WNA would be evaluated. The Company has not defined what would constitute success under the pilot, nor has it conducted any assessment of customer bill stability, fairness, or long-term cost impacts. Without such evaluative benchmarks, the Commission and stakeholders are left with no meaningful way to determine whether the WNA has functioned as intended or delivered any benefits to ratepayers. The Company’s current request to make the WNA permanent underscores the Company’s disregard for the evidentiary

²⁰⁶⁰ Columbia St. 17. at 37.

²⁰⁶¹ OCA St. 1. at 53-54.

and procedural standards typically expected in ratemaking.²⁰⁶²

Even though the Company has operated the WNA Pilot for over a decade, OCA asserts the Company has nothing to show for it, except for the extraction of \$74 million from ratepayers. Columbia has presented no evidence that the WNA Pilot has decreased its revenue volatility, improved its ability to invest in reliability and quality of service improvements, or that its customers are satisfied with the results of the WNA Pilot.²⁰⁶³ The Company has not claimed that its cost of capital is reduced due to the WNA Pilot.²⁰⁶⁴ Indeed, according to OCA, none of the policy objectives laid out by the Commission for alternative ratemaking mechanisms, or by Section 1330 of the Public Utility Code, have been met by the WNA Pilot.²⁰⁶⁵ Therefore, the OCA respectfully requests that the Commission deny the Company's request to continue its WNA mechanism as a permanent program and terminate the WNA consistent with Columbia's 2024 rate case settlement, because the Company has not demonstrated by a preponderance of the evidence that the WNA would be a just and reasonable rate if implemented on a permanent basis.

b. Revenue Normalization Adjustment

(1) The Company's Proposed RNA Would not Result in Just and Reasonable Rates

OCA submits, as described *supra* regarding the proposed WNA, the proposed RNA is not necessary for Columbia. The Company has access to sufficient alternative ratemaking tools through the usage of the FPFTY and the potential to use the

²⁰⁶² *Id.* at 54 (citations omitted).

²⁰⁶³ OCA St. 1. at 50-56.

²⁰⁶⁴ Columbia St. 8. at 38-43.

²⁰⁶⁵ *See* OCA Ex. MWD-1 at 3-4; *see also* 66 Pa.C.S. § 1330(a); 52 Pa. Code §§ 69.3301, 3302.

DSIC to virtually eliminate regulatory lag and have recovery ranging from prospective to contemporaneous for its investments in plant.²⁰⁶⁶ This is especially true, according to OCA, considering Columbia's near-annual rate increase requests. OCA argues the Company presented no argument that its quality of service would improve as a result of the RNA, only that it would be exposed to less throughput-related revenue risk.²⁰⁶⁷ Instead, according to OCA, the proposed RNA will almost certainly charge customers for a distribution service they did not use without providing any benefit to customers consistent with a reduced rate of return, improved quality of service, meeting energy efficiency goals, or otherwise providing a tangible benefit.²⁰⁶⁸

Columbia presented no evidence in this proceeding, according to OCA, sufficient to distinguish its RNA proposed in this case from those specifically rejected by the Commission in *PAWC 2023* and *Columbia 2020* and, for the reasons set forth in those proceedings, the Commission should similarly deny the requested RNA in this case.

OCA argues there are several clear reasons why Columbia failed to meet its burden of proof that the proposed RNA would result in just and reasonable rates. The OSBA, I&E, 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.²⁰⁶⁹ First, the proposed RNA does not satisfy the Commission's policy factors regarding alternative ratemaking mechanisms.²⁰⁷⁰ Second, the proposed RNA presents no opportunity for benefit to the Company's customers. Third, the proposed RNA removes the Company's incentive to control its costs between rate cases and provides a long-term guarantee of earnings

²⁰⁶⁶ 66 Pa.C.S. §§ 315(e), 1353.

²⁰⁶⁷ Columbia Ex. JDT-2R at 4 (citing 52 Pa. Code § 69.3302(a)(14)).

²⁰⁶⁸ OCA St. 1. at 36-37.

²⁰⁶⁹ See OSBA St. 1. at 17-20; I&E St. 3. at 21-28; I&E St. 3SR. at 23-31; CAUSE-PA St. 2. at 65-78; CAUSE-PA St. 2SR. at 21-22; PSU St. 1. at 20-24.

²⁰⁷⁰ OCA Ex. MWD-1. at 1-2 (citing 52 Pa. Code § 69.3302(a)).

regardless of performance. Fourth, the proposed RNA is contrary to the principles of cost causation. Fifth, the proposed RNA will require Columbia's customers to sacrifice potential bill savings from conservation and energy efficiency improvements to the benefit of the Company. For these reasons, OCA asserts the proposed RNA should be denied, as the Company has not demonstrated that the proposed RNA would result in just and reasonable rates.

(2) The Proposed RNA is Deficient Under the Commission's Policy Factors

As described *supra*, the Commission has developed fourteen policy factors which are assessed to determine whether a proposed alternative ratemaking mechanism would result in just and reasonable rates.²⁰⁷¹ Under the Commission's policy factors, OCA asserts, the Company's proposed RNA is deficient and would not result in just and reasonable rates.

According to OCA, the proposed RNA is contrary to the Commission's first policy factor.²⁰⁷² Namely, the proposed RNA merely appears as a surcharge on customers' bills and does not reflect the recovery of costs associated with customer-, demand-, or throughput-related cost causation.²⁰⁷³ Rather, the proposed RNA is not calculated to recover a particular kind of cost; so long as the cost is a distribution cost and not a commodity cost, the RNA will attempt to recover it via a surcharge.

OCA asserts the proposed RNA does not improve customers' capacity utilization, resulting in no benefit under the Commission's second policy factor.²⁰⁷⁴ As described *supra*, in the Commission's Policy Statement regarding alternative ratemaking

²⁰⁷¹ *Supra*; 52 Pa. Code §§ 69.3301, 69.3302(a).

²⁰⁷² OCA Ex. MWD-1 at 1.

²⁰⁷³ *Id.*

²⁰⁷⁴ OCA Ex. MWD-1 at 1; 52 Pa. Code § 69.3302(a)(2).

mechanisms, the Commission described “capacity utilization” as aligning a customer’s peak and actual demands.²⁰⁷⁵ While the Company claims that the RNA “supports efficient capacity utilization by stabilizing the recovery of fixed distribution costs,” OCA asserts Columbia hides the ball as to explaining how the RNA mechanism supports capacity utilization.²⁰⁷⁶ Namely, the RNA charges customers for the portion of demand- and throughput-related costs which were not recovered in the prior year; in other words, even though a customer may be more energy efficient by decreasing their annual usage and peak demand, the amount of peak demand that Columbia estimated in its prior rate case will still be recovered. The recovery of peak demand-related costs during periods of non-peak usage does not incentivize efficient utilization of the Company’s distribution system, it merely charges customers the same amount for distribution service regardless of usage.

Columbia argues the proposed RNA also does not reflect demand associated with anticipated consumption levels, thus failing to satisfy the Commission’s third policy factor.²⁰⁷⁷ The proposed RNA, as designed, retroactively recovers revenue which the Company did not collect due to its customers’ reduced consumption; any error in the Company’s projections of usage, which are unlikely to be accurate as described *supra* regarding the WNA’s deficiencies, may result in greater RNA charges than anticipated.²⁰⁷⁸ Reductions in consumption associated with installing energy efficiency measures or conservation efforts – or due to large-scale economic pressures such as inflation or a global pandemic – would result in RNA charges the subsequent year.²⁰⁷⁹ The proposed RNA in no way reflects actual or anticipated demands, or else demand would be incorporated into the equation; rather, the proposed RNA merely checks

²⁰⁷⁵ *Fixed Service Utilities Distribution Rates Policy Statement*, at 13-14

²⁰⁷⁶ Columbia Ex. JDT-2R at 1.

²⁰⁷⁷ OCA Ex. MWD-1 at 1.

²⁰⁷⁸ *Id.*

²⁰⁷⁹ OCA St. 1, at 15.

whether projected revenues equal actual revenues without consideration as to why those two numbers may be different.

OCA argues intra-class cross-subsidization may occur under the proposed RNA, contrary to the Commission's fourth policy factor.²⁰⁸⁰ While the RNA is calculated on a per-class basis, which eliminates the risks of inter-class cross-subsidization, pre-existing cross-subsidization will be furthered under the proposed RNA.²⁰⁸¹

OCA argues, under the fifth and sixth of the Commission's policy factors, the proposed RNA would not result in just and reasonable rates because it does not affect disincentives and reduces incentives for pursuing energy efficiency.²⁰⁸² OCA submits the Company has not provided evidence that it faces any disincentive to promote energy efficiency with its customers.

Further, under the proposed RNA, OCA contends customers sacrifice the distribution portion of their bill savings associated with reduced usage due to energy efficiency improvements or conservation. Namely, if the Company does not collect the full BRPC due to customers' conservation efforts in one year, in the following year the difference between the BRPC and ARPC will be spread out over a year, resulting in a surcharge for a prior year's usage reduction efforts.²⁰⁸³ As a result of these bill increases, customers may view their conservation efforts as meaningless because they are ultimately penalized through surcharges for their avoided distribution costs. Under the proposed RNA, any distribution bill savings due to usage reduction are borrowed against next

²⁰⁸⁰ OCA Ex. MWD-1, at 1.

²⁰⁸¹ *Supra*, OCA St. 4, at 9-10 (Rate LDS/LGSS and FLEX customers are currently being subsidized by approximately \$68,236,406, particularly by the residential customer class).

²⁰⁸² OCA Ex. MWD-1, at 1.

²⁰⁸³ OCA St. 1SR, at 15.

year's bills. The Commission agreed in *PAWC 2023*, stating that the proposed decoupling mechanism "will hinder customer conservation efforts and could cause customers who take measures to reduce their water consumption to share some of their bill savings with" the utility.²⁰⁸⁴

Under the Commission's eighth policy factor, regarding rate stability, OCA submits the proposed RNA would provide no benefit to the Company's customers.²⁰⁸⁵ Rather, the RNA charges customers for the amount of revenue that the Company did not collect in the prior calendar year; customers have no way to know or predict the amount of revenue under-collection and how that will translate into a surcharge on their bills. Importantly, there is no limit to how high the RNA surcharge can be. Even if calculated correctly and functioning as intended, the RNA could still comprise a significant percentage of customers' bills, especially during summer months where there is no heating usage.²⁰⁸⁶ The proposed RNA also does not include a proposal to include a deadband, which the Commission has favored for WNAs and would reduce the potential bill volatility resulting from the proposed RNA.²⁰⁸⁷ There is also no evidence to support the conclusion that the proposed RNA, if implemented, would reduce the number of rate cases filed by Columbia, which cause a significant amount of bill volatility for the Company's customers with rates changing every 12 to 18 months.²⁰⁸⁸

OCA argues the Company has presented no evidence that the proposed RNA will reduce the frequency of its rate case filings or provides needed relief from regulatory lag and, therefore, the Commission's tenth policy factor weighs against

²⁰⁸⁴ *PAWC 2023*, at 307.

²⁰⁸⁵ OCA Ex. MWD-1 at 2.

²⁰⁸⁶ OCA St. 1 at 45.

²⁰⁸⁷ *Id.*; see *Columbia 2020*, at 264-65 (upholding the ALJ's determination that the Company's WNA Pilot deadband should not be removed).

²⁰⁸⁸ OCA St. 1, at 48-49.

implementation of the proposed RNA.²⁰⁸⁹ Namely, Columbia did not state that it will file rate cases less frequently if the proposed RNA were approved: it will remain on a burdensome 12- to 18-month filing cycle. The Company's failure to commit to reducing the frequency of the constate rate increases inflicted on its customers demonstrates that the proposed RNA is intended to be a one-sided, retroactive extraction of the revenue the Company failed to collect in the year prior and is not intended to benefit the Company's customers.²⁰⁹⁰

Furthermore, OCA asserts the proposed RNA would eliminate the benefits to customers associated with regulatory lag. Regulatory lag disincentivizes overcapitalization while incentivizing cost-savings, creating benefits for customers and opportunities for a utility to increase its efficiency to the benefits of its shareholders.²⁰⁹¹ The proposed RNA shifts the risks associated with regulatory lag to Columbia's customers while reducing the Company's disincentives to overcapitalize and incentives to reduce costs, since it is able to recover not only prospective investment through the FPFTY but retroactive revenues it was unable to collect previously.²⁰⁹²

While the OCA and Columbia agree that the RNA applies only to base rates and does not impact surcharges, the proposed RNA – similar to the WNA – presents the potential for harm under the Commission's eleventh policy factor.²⁰⁹³ Namely, the DSIC applies to revenues recovered under any rate, including alternative ratemaking mechanisms, other than the rates specifically identified in Section 1357(d)(1) of the Public Utility Code.²⁰⁹⁴ This means that, if Columbia were to implement the DSIC and customers were subject to a monthly charge under the RNA, then the DSIC would collect

²⁰⁸⁹ OCA Ex. MWD-1 at 2.

²⁰⁹⁰ OCA St. 1, at 49.

²⁰⁹¹ *Id.* at 13-16.

²⁰⁹² *Id.* at 46; OCA St. 1SR at 14.

²⁰⁹³ OCA Ex. MWD-1, at 2.

²⁰⁹⁴ 66 Pa.C.S. § 1327(d)(1).

additional revenue for Columbia based on the RNA's charges, despite not reflecting investment in DSIC-eligible plant during the period in which the DSIC is in effect.

OCA contends the proposed RNA also includes no consumer protections, making it clearly deficient under the Commission's twelfth policy factor.²⁰⁹⁵ The Company claims that the proposed RNA has four consumer protections: no over-recovery of revenues, no cross-subsidization, regulatory oversight, and customer transparency.²⁰⁹⁶ According to OCA, first, the statement that the RNA does not over-recover revenues directly contradicts the Company's statement that the RNA does not guarantee revenue. In a given year the proposed RNA might over-recover revenues but the following year the over-recovered amount will offset any potential RNA charges and potentially be refunded as credits and, by the same reasoning, if the RNA under-recovers in a given year then the following year the under-recovered amount will increase the revenue to be collected under the RNA.²⁰⁹⁷ OCA argues Columbia cannot have it both ways: benefits to the Company and the customer must be viewed over the same time horizon to be compared evenly and, if viewed in perpetuity, the RNA guarantees earnings without over-recovering on revenue whereas, if viewed over the course of a single year, the RNA does not guarantee earnings but can over-recover. Either way, an assurance against over-earning is unlikely to materialize as a protection for customers because customers could still be subject to uncapped, significant bill increases for a calendar year despite the fact that those customers may receive a small credit for over-collections in the following year.

While there is some assurance that there will be no inter-class cross-subsidization under the RNA except for the amount authorized by the Commission, OCA

²⁰⁹⁵ OCA MWD-1, at 2.

²⁰⁹⁶ Columbia St. 17, at 51-52.

²⁰⁹⁷ *Compare* Columbia St. 17 at 51 ("If revenues exceed the benchmark, customers receive refunds or credits, ensuring that Columbia does not collect more than authorized") *with* Columbia St. 17-R at 22 ("The RNA is not a guarantee of earnings, it simply aligns actual revenues with revenues already authorized by the Commission").

submits there is likely to be intra-class cross-subsidization.²⁰⁹⁸ OCA argues the regulatory oversight provided by the Commission is not tied to the achievement of a particular objective. Rather, it is a mathematical exercise to ensure that the RNA is not being miscalculated; like the WNA Pilot has historically proven, even an alternative ratemaking mechanism that is calculated correctly is still able to cause significant ratepayer harm.²⁰⁹⁹

OCA further argues Columbia's customers' experience with the WNA Pilot demonstrates that the Company's assurance of future customer education is insufficient to warrant being described as a customer protection. OCA witness Alexander's review of the Company's communication and education materials for the WNA Pilot found them to be misleading and inadequate; this is compounded by Columbia's failure to produce documentation regarding how it will present the RNA to customers or how much will be required in rates to educate customers on, and bill them for, the RNA.²¹⁰⁰ Ms. Alexander's discussion also bears on the Commission's thirteenth policy factor, regarding customer's ability to understand the mechanism, where the proposed RNA is also deficient.²¹⁰¹

This additional surcharge on customer bills, along with the quarterly rate changes that occur under PAWC's DSIC, according to OCA, would only add to that complexity and confusion."²¹⁰²

²⁰⁹⁸ OCA Ex. MWD-1, at 1.

²⁰⁹⁹ See *Popowsky v. Pa. PUC*, 869 A.2d 1144, 1156 (Pa. Cmwlth. 2005) *alloc. denied* *Popowsky v. Pa. PUC*, 895 A.2d 552 (Pa. 2006) ("the 'cursory' review undertaken for a surcharge is not a substitute for the review undertaken in a base rate case to determine whether a rate is just and reasonable") (citing *Masthope Rapids Property Owners Council v. Pa. PUC*, 581 A.2d 994, 1001 (Pa. Cmwlth. 1990)).

²¹⁰⁰ OCA St. 6 at 23-26; OCA St. 6SR at 1-2.

²¹⁰¹ OCA Ex. MWD-1, at 2.

²¹⁰² *PAWC 2023* at 308.

OCA argues Columbia's customers would see no benefit to the distribution system's reliability, in contravention of the Commission's fourteenth policy factor.²¹⁰³ The proposed RNA does not permit decoupling only in the event that the Company demonstrates that it is making improvements to system reliability, which is the purpose of the DSIC.²¹⁰⁴

OCA argues, by reviewing the Commission's 14 policy factor considerations, it is clear that the proposed RNA would not result in just and reasonable rates. Instead, the proposed RNA would operate to increase the Company's revenues without providing a corresponding benefit to consumers. Indeed, the Company posits nowhere in testimony that the proposed RNA will benefit customers. Without providing just and reasonable compensation to Columbia's customers for the business risk shifted onto them under the proposed RNA, there is no basis to conclude that the proposed RNA is an appropriate ratemaking mechanism to implement for Columbia.

(3) The Proposed RNA Presents No Potential Benefit to Columbia's Customers and is Likely to Result in Increased Rates

Without an understanding of how the proposed RNA would affect customers, OCA submits, Columbia has failed to meet its burden of proof that the proposed RNA can result in just and reasonable rates. In the absence of any data supplied by the Company to support its RNA proposal, OCA witness Deupree looked to the experience of other jurisdictions with decoupling. A survey of 65 natural gas utilities with decoupling shows that, during the period reviewed, 72.3% of reconciliations under the decoupling mechanism generated surcharges, with 18.5% of all reconciliations being surcharges of greater than three percent.²¹⁰⁵ By comparison to surcredits of greater than

²¹⁰³ OCA Ex. MWD-1, at 2.

²¹⁰⁴ OCA St. 1SR, at 5.

²¹⁰⁵ OCA Ex. MWD-6.

three percent, during the period reviewed, surcharges of greater than three percent were six times more likely to occur than surcredits of greater than three percent.²¹⁰⁶ The results of a different study reviewed by Mr. Deupree reached the same conclusion, finding that jurisdictions with decoupling experienced more significant rate increases over a period of 12 years in comparison to those without decoupling, with a particularly negative effect on low-income customers, without resulting in the policy aims for which the mechanisms were approved.²¹⁰⁷ As a result, OCA asserts, not only are decoupling mechanisms more likely to produce charges than credits, they are more likely to produce significant charges than significant credits, with a disproportionate impact on low-income customers, without achieving the stated policy goals.

Furthermore, OCA asserts the proposed RNA is not conditional or targeted to improve Columbia's performance. Columbia has not tied its RNA to energy efficiency or demand-side management goals.²¹⁰⁸ As described by OCA witness Deupree, "the proposal lacks the kind of integrated framework that other jurisdictions have adopted when approving decoupling mechanisms in conjunction with robust, performance-based energy efficiency commitments."²¹⁰⁹ Instead, the Company has proposed to expand its current energy efficiency programs irrespective of the approval of the RNA.²¹¹⁰ The Company has not proposed any reliability standards associated with the proposed RNA, which has also been employed in other jurisdictions.²¹¹¹ In sum, under the proposed RNA, OCA contends Columbia will continue the *status quo* but extract additional revenues from its customers.

²¹⁰⁶ *Id.*; OCA St. 1, at 37.

²¹⁰⁷ OCA St. 1, at 38-39.

²¹⁰⁸ OCA St. 1, at 31.

²¹⁰⁹ *Id.*

²¹¹⁰ *See* OCA St. 7.

²¹¹¹ OCA St. 1, at 40-41.

OCA asserts Columbia proposes no goals to achieve, no measures of success, and no ratepayer benefits associated with the proposed RNA. As a result, the proposed RNA should be denied.

(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

OCA explains the Commission in *PAWC 2023* found that PAWC's proposed RDM "would produce guaranteed rate recovery where no guarantee existed in the past and shift the risk of recovery entirely onto customers without any benefit."²¹¹² Due to the utility's "frequency of filing base rate cases, along with its use of the FPFTY and the DSIC, we further find that PAWC has not demonstrated a need for the proposed RDM."²¹¹³ That same reasoning applies here, and Columbia has presented no sufficient basis to distinguish its proposed RNA from PAWC's proposed decoupling mechanism.²¹¹⁴

OCA argues, although the Company is technically correct that the proposed RNA does not guarantee earnings, the Company is only correct when looking at year one: any amount not collected through the RNA in the first year will be rolled over for collection in the second year.²¹¹⁵ The proposed RNA, unlike how the Company currently recovers demand- and throughput-related costs, is not volumetric and any customer receiving service from Columbia would pay the same amount each month towards the prior year's under-collection, meaning that there is virtually zero revenue risk because the

²¹¹² *PAWC 2023* at 308.

²¹¹³ *Id.*

²¹¹⁴ While PAWC utilizes the DSIC to recover the cost of DSIC-eligible plant investment between rate cases and Columbia does not, this is largely due to the frequency of Columbia's rate increase requests, which are more frequent than PAWC's. As a result, Columbia's lack of usage of the DSIC is not a sufficient distinguishing factor.

²¹¹⁵ Columbia St. 17-R, at 21.

RNA surcharge is unavoidable. Under the proposed RNA, demand- and throughput-related costs are recovered on a per-customer basis, contrary to principles of cost causation and the manner in which the Commission determined rate design in the Company's rate case.

- (5) The Proposed RNA is Contrary to Cost Causation because it Recovers Demand- and – throughput- Related Costs as a Fixed, Unavoidable Charge

OCA argues the proposed RNA charges customers based on revenues which were not previously collected by the Company. However, rates are designed based on principles of cost causation, with a customer charge recovering direct customer-related costs and the volumetric charge recovering demand- and throughput-related costs.²¹¹⁶ The proposed RNA is not based in recovering a particular category of cost consistent with cost causation; rather, the RNA paints with broad strokes to retroactively recover *any* cost which was not previously collected through a fixed monthly surcharge irrespective of the function of the cost recovered.²¹¹⁷

In *PICGUG*, the Commonwealth Court recently determined that it is unclear whether “value of service” is consistent with cost causation and, therefore, it is unclear whether rates can be just and reasonable if they are premised on backwards-looking value of service principles.²¹¹⁸ OCA argues the proposed RNA directly violates this holding. Under the proposed RNA, all costs which were charged to customers in the year prior are deemed to be “fixed” even though “fixed” is not a category of cost causation, and costs recovered through the proposed RNA as a fixed surcharge may be

²¹¹⁶ OCA St. 4, at 14.

²¹¹⁷ OCA St. 1, at 18.

²¹¹⁸ *PICGUG*, 2025 Pa. Commw. LEXIS 133 at ** 1-2.

throughput-related, such as mains costs, and are appropriately considered to vary with usage.²¹¹⁹

OCA explains cost causation is a forward-looking exercise.²¹²⁰ Rates should be designed to allocate to future beneficiaries of a system's design and construction their fair share of their customer class's costs.²¹²¹ According to OCA, the proposed RNA is, by contrast, designed to charge future customers for the revenue collected by past customers' payment and usage patterns: it is not forward-looking, consistent with fundamental principles of cost causation, but pushes forwards the difference between the revenue the Company believes it is entitled to collect in comparison to that which it previously had a reasonable opportunity to collect.

As a result, OCA contends the proposed RNA directly contradicts cost causation by (1) not targeting specific costs, such as customer-related costs, which a customer directly caused the system to incur but did not pay for and (2) not charging the same customer which caused the difference in revenue between the BRPC and ARPC their allocated share of that difference. Due to the overly broad nature of the costs recovered under the proposed RNA, OCA contends, the RNA cannot be consistent with cost causation.

- (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

²¹¹⁹ OCA St. 4, at 13.

²¹²⁰ *PICGUG*, 2025 Pa. Commw. LEXIS 133 at * 39.

²¹²¹ *Id.*

OCA contends, under the proposed RNA, the Company will be able to recover all distribution costs associated with customers' usage reduction from the year prior. While customers may be able to see the benefits of reduced usage through a reduction to their commodity costs, the experience of Columbia's customers indicates that commodity costs are a relatively small portion of their overall bill.²¹²² OCA asserts, after the first year that the proposed RNA is in effect, customers will begin to lose all benefits incurred in the year prior associated with their reduced usage due to the RNA surcharge for reduced consumption. In *PAWC 2023*, the Commission denied the requested decoupling mechanism, in part, because the proposed mechanism would erode customers' bill savings due to reduced consumption.²¹²³ Like in *PAWC 2023*, the only way for a Columbia customer to reduce their natural gas bill is to conserve energy.²¹²⁴

By implementing the RNA, the customer's distribution cost savings will be collected the following year, spread across all customers in their rate class. Customers will only see clear price signals resulting from conservation during the test period for the proposed RNA during which the ARPC is established; however, once the surcharge goes into effect, the customer's total bill may not decrease due to conservation proportionate to their conservation efforts.²¹²⁵ One of the Company's primary motivations for pursuing the proposed RNA, according to OCA, is due to customers' usage reduction efforts which cause actual throughput to dip below the throughput projections relied upon in setting base rates.²¹²⁶ Given the Company's intention to collect the distribution-related cost savings from customer conservation through the proposed RNA, OCA concludes the

²¹²² Tr. 167 (Witness Skvarla testified that, for his \$67 Columbia bill, only \$7 reflected the cost of the natural gas commodity consumer, with the remaining portion resulting from distribution charges).

²¹²³ *PAWC 2023*, at 308.

²¹²⁴ *Id.*; see also OCA Ex. BA-5 (finding that residential natural gas customers that shop for a natural gas supplier significantly overpay for natural gas commodity charges, indicating that CHOICE is an ineffective way to reduce bills).

²¹²⁵ OCA St. 1SR, at 15.

²¹²⁶ *Id.*

RNA is clearly designed to interfere with customers' attempts to reduce their bills by decreasing their consumption.

c. *Overall, Columbia has Failed to Meet its Burden of Proof that the RNA is a Just and Reasonable Rate*

Under the Commission's policy factors, OCA contends, the proposed RNA would not result in just and reasonable rates.²¹²⁷ The proposed RNA presents no potential for customer benefit while providing Columbia with a virtual guarantee to recover any revenues it did not collect in prior periods without consideration of the reason those costs were not collected. Columbia is not entitled to a guarantee to recover its authorized revenue requirement.²¹²⁸ It is especially not entitled to collect costs caused by customers' demand and throughput characteristics through a fixed surcharge that does not vary with usage.²¹²⁹ OCA continues, the proposed RNA will disproportionately harm Columbia's low-income customers and will reduce customers' agency to control their natural gas heating bills through reducing consumption.²¹³⁰

OCA concludes, no evidence of record indicates that the Company is unable to continue to provide adequate, safe, and reliable service under traditional ratemaking or through the suite of alternative ratemaking mechanisms already available to distribution utilities in Pennsylvania (i.e., the FPFTY and DSIC).²¹³¹ Despite declines in actual usage per customer in recent years, the Company's revenue per customer has increased, in part due to throughput growth from the connection of new customers.²¹³²

²¹²⁷ 66 Pa.C.S. § 1301; 52 Pa. Code §§ 69.3301-3302.

²¹²⁸ *Hope, supra*; *Bluefield, supra*.

²¹²⁹ *Lloyd*, 904 A.2d at 1020.

²¹³⁰ OCA St. 5, at 104-07.

²¹³¹ OCA St. 1, at 29.

²¹³² OCA St. 1, at 28-29; OCA Ex. MWD-5.

OCA contends approval of the proposed RNA would not incentivize Columbia to address its cost inefficiencies. Instead, if the proposed RNA were approved, the Company would have reduced incentives to control costs because it bears less risk associated with revenue recovery and can rely on RNA charges to cover any cost inefficiencies.²¹³³ Ratepayers would be harmed, not only because of the likelihood of higher bills under the RNA, but also because of the potential for Columbia to overcapitalize or become increasingly cost inefficient resulting in higher rates in any subsequent rate increase. In exchange for these potential harms, the proposed RNA provides no benefits: no reduction to return on equity, no performance-based goals, and no consumer protections against potentially significant RNA surcharges.

Accordingly, OCA concludes Columbia has failed to satisfy its burden of proof to demonstrate that the proposed RNA would result in just and reasonable rates. The proposed RNA is an example of a monopolistic excess as a revenue extraction mechanism designed to meet the aims of the Company regardless of the cost to consumers. The Commission, considering the interests of consumers, should not permit such excesses.²¹³⁴ Therefore, the OCA requests that the Commission deny Columbia's request for approval to implement the proposed RNA.

4. *OSBA's Position*

a. *Weather Normalization Adjustment*

The OSBA did not address this issue in their main brief.

²¹³³ OCA St. 1SR, at 14-15.

²¹³⁴ 71 P.S. § 309-5.

b. Revenue Normalization Adjustment

OSBA opposes implementing an RNA for Columbia. While an RNA would reduce risk for Columbia, OSBA explains the Company has not offered a concomitant reduction in its ROE. Furthermore, by shifting the financial risks associated with gas consumption variability from Columbia to the Company's ratepayers, OSBA asserts the risk will now fall on the residential and small business customers in the form of rate adjustments to "normalize" revenue.²¹³⁵

OSBA contends Columbia is a monopoly utility that has financial options that eliminate any need for an RNA. OSBA submits Columbia's parent company, NiSource, Inc., has a market capitalization of \$20.22 billion, employs a fully project future test year in its rate cases, and employs a distribution system improvement charge.

OSBA concludes there is no record evidence that Columbia requires an RNA and the Commission should deny the Company's request for an RNA.

5. *CAUSE-PA's Position*

CAUSE-PA explains the Commission's Distribution Rates Policy Statement enumerates factors to evaluate alternative ratemaking mechanisms, such as Columbia's proposed WNA and RNA.²¹³⁶ The Policy Statement is intended to "promote the efficient use of electricity, natural gas and water through technologies and information," and provides that "an alternative rate design methodology should reflect the sound application of cost of service principles, establish a rate structure that is just and reasonable, and *consider customer impacts*."²¹³⁷

²¹³⁵ OSBA Statement No. 1, at 18.

²¹³⁶ 52 Pa. Code § 69.3302 (a).

²¹³⁷ 52 Pa. Code §§ 69.3301 (emphasis added).

The Policy Statement sets forth fourteen factors to evaluate whether an alternative ratemaking mechanism is just and reasonable.²¹³⁸ These factors include: the effect on low income customers and customer assistance programs, the impact on energy efficiency programming, alignment with cost causation principals, and the prevention of improper cost shifting, appropriate consumer protections, and whether design is understandable to consumers.²¹³⁹ As explained in detail below, CAUSE asserts, an evaluation of these standards demonstrates that neither Columbia’s WNA nor its proposed RNA are just and reasonable alternative distribution ratemaking mechanisms.²¹⁴⁰ As such, the Commission must reject Columbia’s proposal to continue its WNA and its proposal to implement an RNA.

a. *Weather Normalization Adjustment*

CAUSE contends the Commission should reject Columbia’s proposal to continue this rate mechanism, as it has resulted in a net \$74.2 million in additional charges to customers that they would not have otherwise been charged in the absence of the WNA.²¹⁴¹ The WNA applies to residential customers, including CAP customers, each month from November through May.²¹⁴² Columbia describes the WNA as “adjusting the delivery portion of a customer’s bill to reflect ‘normal’ weather conditions rather than actual weather.”²¹⁴³

²¹³⁸ 52 Pa. Code § 69.3302 (a).

²¹³⁹ 52 Pa. Code § 69.3302 (a).

²¹⁴⁰ *Id.*

²¹⁴¹ CAUSE-PA St. 21 at 45-46; CAUSE-PA St. 2-SR at 13 (*see fn. 39*).

²¹⁴² *See* Tariff Rider WNA (“A [WNA] shall be applied to bills for Residential customers under Rate Schedules RSS, RDS, and CAP, for the heating season of November through May.”)

²¹⁴³ CPA St. 17, at 28:5-6.

CAUSE asserts Columbia’s proposal to implement a permanent WNA should be rejected as the WNA shifts most weather-related risk from the utility to customers;²¹⁴⁴ the WNA formula requires an overly complicated and nuanced calculation that is difficult for customers to understand, because it charges customers for their hypothetical usage rather than their actual usage;²¹⁴⁵ and while the formula is technically, mathematically bi-directional, in practice, the WNA has substantially worked to the detriment of customers and the benefit of Columbia,²¹⁴⁶ resulting in millions of dollars of additional charges to customers for service they did not use.²¹⁴⁷

(1) Columbia’s pilot WNA Improperly Shifts Unreasonable Weather-Related Risk to Consumers, Adding Tens of Millions of Dollars to Residential Bills

The WNA bills customers not based on their actual usage at the time they use service but based on what these customers would have used had the number of Heating Degree Days (HDDs) been the same as the 20-year average number of heating degree days.²¹⁴⁸ In effect, this shifts weather-related risk from Columbia to its customers by assuming that Columbia is entitled to revenue based on its calculation of “normal” weather based on a calculation of HDDs at the time rates are set.²¹⁴⁹ While originally billed as a mechanism to mitigate weather related risks for customers (colder than normal) and the Company (warmer than normal), CAUSE contends the results of the pilot have been overwhelmingly one-sided – resulting in tens of millions of dollars in additional costs to consumers.²¹⁵⁰

²¹⁴⁴ CAUSE-PA St. 2, at 44; OCA St. 1 at 15; I&E St. 3, at 13-15.

²¹⁴⁵ CAUSE-PA St. 2, at 45; I&E St. 3., at 15-16.

²¹⁴⁶ CAUSE-PA St. 2, at 45; I&E St. 3, at 13-15.

²¹⁴⁷ CAUSE-PA St. 2, at 45.

²¹⁴⁸ Columbia St. 17, at 28:5-6. (Columbia Witness John Taylor describes the WNA as “a method of adjusting the delivery portion of a customer’s bill to reflect ‘normal’ weather conditions rather than actual weather” at the time the usage is billed).

²¹⁴⁹ CAUSE-PA St. 2 at 45.

²¹⁵⁰ *Id.*, at 43-65.

CAUSE explains the WNA initially operated in a more balanced manner in the first 6 years (2013/2014 through 2018/2019), resulting in a net credit to customers of approximately \$4.7 million.

2019/2020	\$4,979,367
2020/2021	\$5,327,158
2021/2022	\$2,530,224
2022/2023	\$17,441,275
2023/2024	\$36,341,358
2024/2025	\$12,296,217
Subtotal for 19/20 – 24/25	\$78,915,599
Subtotal for 13/14-18/19	(\$4,697,114)

CAUSE-PA asserts the net charges to customers in the most recent 6 years of the WNA were more than 16 times larger than the net credits provided in the first 6 years to the detriment of Columbia’s customers. CAUSE explains two changes were made to Columbia’s WNA rider at the end of the 2018/2019 heating seasons as a result of its 2018 Columbia rate case: (1) Columbia eliminated October from its WNA formula and (2) Columbia decreased its deadband from 5% to 3%.²¹⁵¹ CAUSE submits it is unclear exactly how these changes affected the revenue generated by the WNA other than elimination of the deadband resulted in more money assessed against customers as opposed to being included in the deadband and therefore not charged. According to CAUSE, it is also clear that that the projections of “normal” weather at the time rates have been set since at least 2018 have not matched actual weather at the time bills were billed in a meaningful or sufficient way to create an on-net, bi-directional benefit for consumers.²¹⁵²

²¹⁵¹ CAUSE-PA St. 2, at 46.

²¹⁵² *Id.*, at 46.

CAUSE explains, by shifting the very real risk of warming weather to consumers, Columbia insulates itself from the fluctuations that would normally be part of its traditional business risk as the delivery of natural gas is and always has been a weather dependent business.²¹⁵³ This approach is particularly problematic for low income customers, who lack the financial ability to absorb unexpected costs from weather-driven rate adjustments.²¹⁵⁴

CAUSE asserts Columbia is also able to charge a Distribution System Improvement Charge once it meets its net plant in service rate base.²¹⁵⁵ This type of financial protection is not available to customers.²¹⁵⁶ CAUSE submits Columbia is better positioned to absorb the effects of variable weather conditions without passing these risks down to consumers; therefore, instead of offloading the risk to ratepayers, it would be more appropriate for the utility to manage the risk.²¹⁵⁷

CAUSE further explains, low income customers do not have any margin month in and month out to spend more on energy costs.²¹⁵⁸ These customers have disproportionately high energy burdens which rise even in the winter months, requiring some customers to spend as much as 20% of their monthly income for gas service alone.²¹⁵⁹ Adding the WNA charge during these months exacerbates these already unaffordable energy burdens.²¹⁶⁰ In winter months that are warmer than normal, these customers are expecting a lower bill – not a weather adjusted bill.²¹⁶¹ They have no

²¹⁵³ *Id.*, at 46; OCA St. 1 at 15.

²¹⁵⁴ CAUSE-PA St. 2, at 46.

²¹⁵⁵ CAUSE-PA St. 2, at 48-49.

²¹⁵⁶ *Id.*, at 48-49.

²¹⁵⁷ *Id.*

²¹⁵⁸ CAUSE-PA St. 1, at 14-15

²¹⁵⁹ *Id.* at 14-15, T. 3.

²¹⁶⁰ CAUSE-PA St. 2, at 48.

²¹⁶¹ CAUSE-PA St. 2, at 48.

ability to plan for the WNA as it is illogical from the perspective of an end user who expects a lower bill when the weather is warmer.²¹⁶²

CAUSE submits, in this proceeding, Columbia could have seen the unidirectional nature of the WNA since 2019 as an opportunity to course correct and propose a mechanism that was fairer to ratepayers and that restored some of the WNA's early bi-directional attributes. Instead, it sought to double down on a rate mechanism that is one-sided and has resulted in more than \$74 million in additional charges for customers that they would not have been assessed in the absence of the WNA. CAUSE contends there is no credible or substantial evidence in this case suggesting that the WNA is going to return to its bi-directional roots.

(2) The WNA is not Necessary for Columbia to Have a Fair Opportunity to Recover its Commission Approved Revenue Requirement and is Not Beneficial to Customers

CAUSE explains, having come in for rate increases almost yearly since 2008, Columbia has increased rates by almost \$500 million during this period.²¹⁶³ Despite this, Columbia asserts that without the WNA it would not “be afforded a rate structure that provides a fair opportunity to recover its Commission approved revenue requirement.”²¹⁶⁴ CAUSE submits this argument is specious for several reasons, as it incorrectly presumes that rates and rate projections are outside of Columbia's control and ignores the fact that when Columbia is setting rates it gets the benefit of projecting rates into the future, based on a Fully Projected Future Test Year;²¹⁶⁵ there are many variables, besides weather, that impact Columbia's ability to recover its revenue requirement;²¹⁶⁶

²¹⁶² *Id.* at 48.

²¹⁶³ CAUSE-PA St. 2, at 24.

²¹⁶⁴ CPA St. 17, at 28.

²¹⁶⁵ CAUSE-PA St. 2, at 47.

²¹⁶⁶ *Id.*, at 49.

CAUSE explains weather has always been a factor for Columbia as it is in the weather sensitive business, and it is one of many factors that influence whether Columbia can collect its authorized revenue requirement. Moreover, *Columbia is not guaranteed recovery of a specific revenue requirement*; rates are set at a point in time prospectively and are designed to recover an authorized revenue requirement, but do not guarantee that recovery.²¹⁶⁷ CAUSE contends all rate setting is based on projections about the future and Columbia is not entitled to assurance during ratemaking that it will be able to recover net revenues; instead, utilities are granted the *opportunity* to recover their authorized revenue increase.²¹⁶⁸ In Pennsylvania, there is no statutory guarantee of net revenues, judicial or Commission precedent which supports the guarantee of recovering net revenues, and the public interest weighs against guaranteeing levels of revenues.²¹⁶⁹

CAUSE submits Columbia has the right to set rates based on a fully projected future test year which helps mitigate the risk and regulatory lag inherent in ratemaking and the recovery of revenue designed to collect an authorized revenue requirement.²¹⁷⁰ If Columbia gets its projections about the future use of its customers wrong because of variables outside of its control – like weather or the economy – it has all the tools that it needs to course correct, including by filing a rate case.

CAUSE contends weather is a normal business risk for Columbia as a gas distribution service provider. As a monopoly, it has sought to insulate against that risk through the WNA and, as a result, customers have paid more than \$74 million in

²¹⁶⁷ *Id.*, at 49; *Hope*, 320 U.S. at 603 (citing *FPC v. Natural Gas Pipeline Co.* 315 U.S. 575, 590 (1942)) (regulation does not insure that the business shall produce net revenues).

²¹⁶⁸ *Hope*, 320 U.S. at 603.

²¹⁶⁹ *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).

²¹⁷⁰ *See generally Use of Fully Projected Future Test Year 52 Pa. Code Chapter 53*, Final Form Order, Docket No. L-2012-2317273 (Order entered Jan. 8, 2025)

additional charges than they otherwise would have paid absent the WNA.

(3) Columbia's Pilot WNA Contradicts Each of the Enumerated Factors in the Commission's Distribution Rates Policy Statement.²¹⁷¹

Columbia has the burden of proof to demonstrate that its WNA produces just and reasonable rates as implemented and proposed.²¹⁷² CAUSE submits Columbia has failed to do so and has also failed to demonstrate that its WNA satisfies the Commission's objectives in its Distribution Rates Policy Statement, which was established to evaluate the justness and reasonableness of alternative rate design proposals.

(a) 69.3301(a)(1): Columbia's WNA Does not Align Revenues with Cost Causation Principles²¹⁷³

CAUSE contends, by charging customers more through the WNA when usage is low, the Company is requiring customers to pay for a product that they are not receiving, which stands in direct opposition to cost of service and cost causation principles.²¹⁷⁴ CAUSE submits the WNA actually assesses customers more when they use less during winter months and surcredits them when they use more, which deviates from cost causation principles and assumes that Columbia is *entitled* to recover its revenue requirement regardless of the usage or throughput of its customers due to variations in weather, even though Columbia is in a weather intensive business.²¹⁷⁵

²¹⁷¹ 52 Pa. Code §§ 69.3301, 69.3302.

²¹⁷² 66 Pa.C.S. §§ 315(a), 1301, 1330.

²¹⁷³ 52 Pa. Code § 69.3302 (a)(1).

²¹⁷⁴ I&E St. 3, at 12.

²¹⁷⁵ CAUSE-PA St. 2, at 55.

(b) 69.3302(a)(2): Columbia's WNA is Not Beneficial to the Company's Capacity Utilization²¹⁷⁶

CAUSE asserts the determinative factor in whether a WNA surcharge or surcredit is assessed has nothing to do with capacity utilization, it has to do with weather and whether the number of HDDs is greater or lesser than the 20-year average for the period in question.²¹⁷⁷ Thus, the WNA has no impact of the Company's capacity utilization. In fact, as noted above, WNA assesses charges on customers for throughput not consumed due to weather conditions, meaning customers are charged when the weather is warmer than normal and they use less of the system's capacity.²¹⁷⁸ It also provides customers with a credit if the weather is colder than normal and they use more of the system's capacity.²¹⁷⁹ CAUSE concludes the WNA does not provide any benefit to capacity utilization and this factor does not support the continuation of the WNA.²¹⁸⁰

(c) 69.3302(a)(3): Columbia's WNA Does Not Reflect the Level of Demand Associated with the Customer's Anticipated Consumption Levels²¹⁸¹

By design, rates are set to meet the revenue requirement at a fixed point in time and then rates are billed based on the actual weather experienced. The goal is that these two things reasonably approximate each other such that rates are billed to reflect demand at the time the system is used. CAUSE contends the WNA breaks this paradigm because customers see rate increases through WNA charges when they reduce consumption. That is, Columbia's WNA does not reflect the level of demand associated with the customer's anticipated consumption levels, because the WNA generates revenue

²¹⁷⁶ 52 Pa. Code § 69.3302 (a)(2)

²¹⁷⁷ CAUSE-PA St. 2 at 55-56 (responding to CPA St. 17, at 30).

²¹⁷⁸ *Id.*

²¹⁷⁹ *Id.* at 56.

²¹⁸⁰ OCA St. 1, Ex. MWD-1 at 3.

²¹⁸¹ 52 Pa. Code § 69.3302(a)(3).

for Columbia only when consumption is less than projected – and therefore demand is less than anticipated.²¹⁸² Thus, CAUSE contends, the WNA does not seek to align demand with consumption, it seeks to align revenue collection with revenue projection despite reduced demand for the Company’s services. CAUSE submits the fact that Columbia’s WNA has generated \$74.2 million in additional revenue over the past 6 years demonstrates that it inherently does not reflect the level of demand associated with anticipated consumption levels.²¹⁸³

(d) 69.3302(a)(4): Columbia’s WNA Does Nothing to Limit or Eliminate Interclass and Intraclass Cost Shifting.²¹⁸⁴

While the WNA is not likely to lead to interclass cost shifting, CAUSE contends it also does not eliminate any such shifts that are included in the revenue allocation or rate design approved by the Commission.²¹⁸⁵ As to intraclass cost shifting, OCA witness Deupree asserts, it is very likely that the “WNA creates possibility of intraclass cost shifting to the extent that smaller use residential customers typically have a greater percentage of natural gas use that is temperature-sensitive compared to larger use residential customers.”²¹⁸⁶ This means that customers will be paying a larger share of WNA charges than they are causing simply by virtue that a larger percentage of their bill would be subject to the WNA adjustment.

²¹⁸² CAUSE-PA St. 2, at 56.

²¹⁸³ CAUSE-PA St. 2, at 56; OCA St. 1, Ex. MWD-1 at 3 of 4.

²¹⁸⁴ 52 Pa. Code § 69.3302 (a)(4).

²¹⁸⁵ CAUSE-PA St. 2, at 56.

²¹⁸⁶ OCA St. 1, Ex. MWD-1,7 at 3 of 4.

(e) 69.3302(a)(5): Columbia's WNA Does Not Eliminate Disincentives for the Promotion of Energy Efficiency²¹⁸⁷

CAUSE asserts there is no evidence in this case that without the WNA, Columbia would be disincentivized to promote energy efficiency. It is required to promote energy efficiency through its LIURP for high use, low income customers and receives full cost recovery for doing so through its Rider USP.²¹⁸⁸ Columbia also has a voluntary energy conservation and usage reduction program that it has run for several years that is not connected to its WNA or the revenue that it generates from the WNA. Cost recovery for this program comes from a separate EE&C Rider.²¹⁸⁹

Moreover, CAUSE explains the WNA is an adjustment that is tied to changes in HDDs not to changes in customer use through energy efficiency and conservation.²¹⁹⁰ If HDDs are lower than normal, customers will be charged a WNA charge regardless of whether they took steps to conserve or did not take steps to conserve. Reductions in consumption from energy efficiency are not a part of the rate mechanism. CAUSE argues Columbia has failed to demonstrate in the absence of a WNA they would have reduced incentives to promote energy efficiency program.²¹⁹¹

²¹⁸⁷ 52 Pa. Code § 69.3302 (a)(5).

²¹⁸⁸ 52 Pa. Code §§ 58.3, 58.4(a); CPA Tariff at 146-147 ("Rider USP – Universal Service Plan").

²¹⁸⁹ CPA Tariff at 164-164a ("Rider EE – Energy Efficiency Rider").

²¹⁹⁰ OCA St. 1, Ex. MWD-1 at 3 of 4.

²¹⁹¹ *Id.*

(f) 69.3302(a)(6): From the Perspective of Customers, Columbia's WNA Disincentivizes Adoption of Residential Efficiency Measures.²¹⁹²

CAUSE asserts there is nothing about the WNA that incentivizes energy efficiency, but from the perspective of the customer, the existence of the WNA may well disincentivize energy efficiency. When customers who undertake these measures during periods that are warmer than normal, they will see an increase in their bill due to WNA charges despite having reduced their usage through energy efficiency and conservation.²¹⁹³ CAUSE contends, from the perspective of the customers, the WNA reduces incentives to engage in efficiency or consumption reduction measures because they would readily perceive that it takes back some or all those savings.²¹⁹⁴ CAUSE argues, while conservation and energy efficiency may reduce the impact the WNA charge on a customer's bill, since the charge is weather-based not usage based, it will nevertheless erode LIURP savings in months when the weather is warmer than normal and, because of the WNA, customers will pay more each month. It thus has a significant detrimental impact on the ability of low income customers to improve bill affordability through energy efficiency measures because more of their bill will be subject to variables outside of their control through efficiency improvements.²¹⁹⁵

(g) 69.3302(a)(7): Columbia's WNA has a Detrimental Impact on Low-Income Customers and Customer Assistance Programs²¹⁹⁶

CAUSE submits the WNA has already added tens of millions of dollars to residential bills that wouldn't have otherwise been charged, adding to the

²¹⁹² 52 Pa. Code § 69.3302 (a)(6).

²¹⁹³ OCA St. 1, Ex. MWD-1, at 3 of 4

²¹⁹⁴ CAUSE-PA St. 2, at 57.

²¹⁹⁵ *Id.*

²¹⁹⁶ 52 Pa. Code § 69.3302 (a)(7).

disproportionately high energy burdens carried by Columbia’s nearly 70,000 low income customers who are not enrolled in CAP.²¹⁹⁷ Adding the WNA charge during the winter months, when energy burdens can already exceed 20% for households not enrolled in CAP, serves to exacerbate already unaffordable energy bills – in turn contributing to disproportionate levels of arrears and terminations for low income households not enrolled in CAP.²¹⁹⁸

While enrollment in CAP will help mitigate the impact of the WNA for some participants, CAUSE asserts it does not eliminate the impact on all participants and other ratepayers who support the program through rates. CAP participants who receive a percentage of bill (POB) CAP rate will experience an increase in their POB CAP rate at their next quarterly adjustment following assessment of a WNA charge.²¹⁹⁹ While CAP recipients who receive a percentage of income (PIP) CAP rate will not see an increase in their asked-to-pay amount because their bill is capped at a set percentage of their income, the cost of the CAP program will increase dollar for dollar to recover the additional WNA charges.²²⁰⁰ The additional charges levied through the WNA also contribute to higher initial bills for these customers, requiring greater levels of assistance to keep their CAP rate at the applicable percentage of income.²²⁰¹ The higher charges levied by the WNA also contribute to higher arrearages amassed *prior* to entry into CAP, requiring greater amount of arrearage amassed that need to be forgiven.²²⁰² CAUSE explains both of these categories of costs are paid by non-CAP residential customers through Columbia’s rider USP, which is artificially inflated by the additional WNA charges assessed for gas a CAP household does not use.²²⁰³

²¹⁹⁷ CAUSE-PA St. 1, at 14-15, T. 3.

²¹⁹⁸ *Id.* at 13-16; CAUSE-PA St. 2, at 53-54; OCA St. 5, at 93.

²¹⁹⁹ CAUSE-PA St. 2, at 58.

²²⁰⁰ *Id.* at 58.

²²⁰¹ CAUSE-PA St. 2, at 58; CAUSE-PA St. 1, at 23-24.

²²⁰² CAUSE-PA St. 1, at 23; CAUSE-PA St. 1-SR, at 27; CPA St. 16-R, at 20.

²²⁰³ CAUSE-PA St. 1, at 24; CAUSE-PA St. 1-SR, at 27; CPA St. 16-R, at 20.

CAUSE asserts the perverse impact of Columbia's WNA on low income programs is not limited to CAP – and has a corresponding impact on Columbia's LIURP and Hardship Fund. LIURP prioritizes high usage CAP customers for usage reduction services to help reduce universal service costs paid for by other ratepayers. CAUSE submits the WNA erodes the bill savings achievable through LIURP – which, in turn, erodes the ability to reduce the CAP costs recovered through the rider USP. The Hardship Fund, in turn, provides emergency grant assistance to low and moderate income households experiencing acute financial hardship. CAUSE submits these programs are already inadequately funded to serve identified need. The WNA will increase the amount of assistance in each grant, thereby reducing the number of grants made.

CAUSE concludes these broad impacts of Columbia's WNA on Columbia's CAP, LIURP, and Hardship Fund programs will harm low income households and other residential ratepayers, and accordingly, the WNA should be denied.

- (h) 69.3302(a)(8): There is No Evidence that Columbia's WNA Will or Has Produced More Stable Bills for Customers.²²⁰⁴

CAUSE contends there is no basis in the way the WNA operates to conclude that it will or has produced more stable bills,²²⁰⁵ as the WNA will either increase or decrease a customer's monthly bill based on weather, which is outside the customer's control.²²⁰⁶ CAUSE submits Columbia has also provided no evidence that customers will see or benefit from more stable distribution charges over time,²²⁰⁷ and explains bills that are stable but not affordable do not provide a benefit to low income

²²⁰⁴ 52 Pa. Code § 69.3302 (a)(8).

²²⁰⁵ CAUSE-PA St. 2, at 59; OCA St. 1, Ex. MWD-1, at 3.

²²⁰⁶ CAUSE-PA St. 2, at 59.

²²⁰⁷ *Id.*

consumers.²²⁰⁸ CAUSE concludes CAP enrollment (or budget billing for customers over income for CAP) are far more effective ways to achieve bill stabilization, and are required to offered by law.²²⁰⁹

(i) 69.3302(a)(9): Columbia’s WNA Inequitably Shifts the Financial Risk of Warming Weather onto Customers²²¹⁰

According to CAUSE, while the WNA purports to be a revenue-neutral mechanism – and Columbia goes so far as to assert that “[o]ver time, your bill should total the same as it would without applying the WNA, which simply provides a more even method of collecting delivery costs”²²¹¹ – the fact of the matter is that the WNA has surcharged more than \$74.2 million on net since Columbia first implemented its pilot WNA in 2013.²²¹² CAUSE submits, if left in place, this trend will continue as there is no real debate about the direction that our weather is headed long term given the impacts of climate change.²²¹³ Pennsylvania’s annual heating degree days are anticipated to decrease by 13% by mid-century and 25% by end-of-century compared to the historical baseline.²²¹⁴

CAUSE concludes, while the WNA is working as intended – it is charging customers for usage that they do not have because we have fewer heating degree days now than we did in the past – customer are very likely to continue to have to pay ever increasing costs under the WNA if it is permitted to continue.

²²⁰⁸ *Id.*

²²⁰⁹ CAUSE-PA St. 2, at 41; CAUSE-PA 2-SR at 9-10; OCA St. 5 at 92.

²²¹⁰ 52 Pa. Code § 69.3302 (a)(9).

²²¹¹ Columbia St. 17-R, at 10 (citing and quoting the Company’s website at: <https://www.columbiagaspa.com/bills-and-payments/understanding-your-bill>).

²²¹² CAUSE-PA St. 2-SR, at 14.

²²¹³ CAUSE-PA St. 2, at 51, n.98.

²²¹⁴ *Id.*

(j) 69.3302(a)(10): Columbia's WNA Does Not Impact the Frequency of Rate Case Filings and Affect Regulatory Lag²²¹⁵

Columbia acknowledges that the WNA does not impact the Company's rate case frequency, nor does it reduce the effect of regulatory lag on the company.²²¹⁶ However, CAUSE asserts, the WNA reduces the *positive impacts of regulatory lag for consumers* by weakening cost containment between rate cases.²²¹⁷

CAUSE asserts the WNA removes these incentives and thus works in favor of the utility by increasing rates, but against consumers because it does not necessarily promote efficient use of the system nor does it – at least in the case of Columbia – reduce the frequency of rate cases.

(k) 69.3302(a)(11): Columbia's WNA Would Work in Tandem with its Proposed RNA to Deprive Consumers of Any Potential Benefit²²¹⁸

CAUSE asserts, the asymmetrical nature of Columbia's WNA, in favor of the Company, will be further cemented by the introduction of Columbia's proposed RNA – forcing consumers to pay a surcharge for warming weather, while allowing Columbia to insulate itself from lost revenue through the RNA following issuance of any sur-credit.²²¹⁹ “Under the WNA, if the weather sensitive volumetric usage is surcharged through a WNA for nearly 60% of each the year (November – May), then Columbia is made whole when the weather is warmer than the historical average.”²²²⁰ With the RNA,

²²¹⁵ 52 Pa. Code § 69.3302 (a)(10).

²²¹⁶ CPA St. 17, at 32.

²²¹⁷ CAUSE-PA St. 2, at 8:12-20.

²²¹⁸ 52 Pa. Code § 69.3302 (a)(11).

²²¹⁹ CAUSE-PA St. 2, at 60.

²²²⁰ *Id.*, at 60.

even in the rare case where there is a month when Columbia provides a credit through the WNA, that credit will be recovered through the RNA surcharge to the extent that the overall billed revenue was not equal to the authorized revenue.²²²¹ CAUSE contends the RNA would also take back any un-surcharged weather-related revenue shortfalls that are not greater than the deadband.²²²² If allowed to continue, CAUSE submits, Columbia's WNA will work in concert with its proposed RNA to deprive customers of any potential benefit and further weaken the already minimal consumer protections.

(l) 69.3302(a)(12): Columbia's WNA Lacks Appropriate Consumer Protections, and in Fact Places Consumers at Greater Risk²²²³

CAUSE contends there is no cap on the amount of WNA revenue Columbia could surcharge any one customer²²²⁴ and while there would be some Commission oversight to ensure that the WNA was calculated correctly, there is no backstop to prevent excessive charges to individual consumers.²²²⁵ In addition, CAUSE contends, in at least so far as it does not exempt all confirmed low income customers and imposes the surcharge on CAP customers, the WNA will exacerbate energy insecurity for these households (for confirmed low income customers not enrolled in CAP and for CAP customers who pay a percentage of their budget bill) without any safeguards to ensure they can continue to maintain service at rates that are affordable. CAUSE asserts the WNA will simply exacerbate energy insecurity for low income households without any corresponding adjustments to universal service programs to help ensure low income customers can maintain service to their home or to otherwise prevent the programs from

²²²¹ *Id.*, at 60.

²²²² *Id.*, at 61.

²²²³ 52 Pa. Code § 69.3302 (a)(12).

²²²⁴ *Id.*

²²²⁵ *Id.*

incurring higher costs.²²²⁶ CAUSE concludes this is inconsistent with the universal service requirements embedded in the Choice Act.²²²⁷

(m) 69.3302(a)(13): Columbia's WNA is Overly Complex and Not Understandable for Consumers²²²⁸

CAUSE contends the WNA is an overly complex calculation that operates in contrast to how most customers perceive their utility bills to work.²²²⁹ Customers generally understand that when the weather is colder than normal, they will pay more, but when the weather is warmer than normal, they will pay less. The WNA works in the exact opposite way and makes it appear to customers that they are paying for service they do not use.²²³⁰ While the WNA is included on the bill, this inclusion of the WNA as a line item on the bill does not mean the charge is transparent.²²³¹

The mechanics of the WNA are difficult to understand for individuals not steeped in principles of utility ratemaking, as most consumers are not.²²³² CAUSE explains Columbia's WNA calculation in its tariff reads as follows:

$$\begin{aligned}\text{WNBT} &= \text{BLMT} + [(\text{NHDD}/\text{AHDD}) \times (\text{AMT}-\text{BLMT})] \\ \text{WNAT} &= \text{WNBT}-\text{AMT} \\ \text{WNA} &= \text{WNAT} \times \text{Distribution Usage Charge}^{2233}\end{aligned}$$

²²²⁶ CAUSE-PA St. 2, at 61.

²²²⁷ 66 Pa.C.S. §§ 2202, 2203(7)-(8), 2206(a).

²²²⁸ 52 Pa. Code § 69.3302 (a)(13).

²²²⁹ CAUSE-PA St. 2 at 50, 61.

²²³⁰ *Id.* at 62.

²²³¹ *Id.* at 50-51, 62; OCA St. 6, at 23-25.

²²³² CAUSE-PA St. 2, at 51.

²²³³ CAUSE-PA St. 2, at 51; Columbia Gas of Pa. Inc., Tariff Supplement No. 388 to Tariff Gas – Pa P.U.C. No. 9, Fourteenth Revised Page 162.

While Columbia's tariff explains each of the abbreviations above, CAUSE submits it is not reasonable to assume that customers will understand this multi-step, multivariable algebraic equation.²²³⁴ The WNA calculation and baseload usage are not readily available on the customer's bill, so consumers must contact the Company for explanation.²²³⁵ But the record suggests that Columbia does not appropriately respond to customer inquiries about the WNA charge.²²³⁶ CAUSE argues it strains credulity to suggest that the average customer knows what a heating degree day is or in which months they occur or how a "normal" versus an "actual" heating degree day is determined.²²³⁷ Most customers do not know how Columbia's rates are set or that they are set based on a 20-year average of heating degree days and that any deviation below 97% or above 103% of that average is what will produce a credit or a charge on their bills. CAUSE concludes the WNA is not easy to understand and is divorced from the way most regular folks would understand their bills to work.

CAUSE asserts Columbia's public-facing communications regarding the WNA are also misleading and falsely assert that the mechanism works evenhandedly and that WNA adjustments should result in no change to the total bill over time.²²³⁸ However, CAUSE submits the WNA has consistently operated in favor of the utility, to the detriment of customers.

²²³⁴ CAUSE-PA St. 2, at 51

²²³⁵ I&E St. 3 at 15-16; I&E Ex. No. 3, Sch. 3. at 1-5; *See* August 6, 2025, Evidentiary Hearing Transcript (Tr.) at 366:5-367:5.

²²³⁶ OCA St. 6, at 24-25.

²²³⁷ CAUSE-PA St. 2-SR, at 15-16.

²²³⁸ CAP Statement No. 17-R, at 10 (citing and quoting the Company's website at: <https://www.columbiagaspa.com/bills-and-payments/understanding-your-bill>).

(n) 69.3302(a)(14): Columbia's WNA Does Not Support Improvements in Utility Reliability²²³⁹

CAUSE argues Columbia has not provided evidence that the WNA would support improvements in utility reliability other than protecting its ability to collect its revenue requirement.²²⁴⁰ CAUSE further asserts the WNA is not tied to the achievement of any reliability improvements or performance in any way by Columbia,²²⁴¹ but reduces the positive attributes associated with traditional ratemaking – such as a lack of guaranteed revenue recovery – and, thus, may decrease incentives for Columbia to remain efficient.²²⁴² Furthermore, CAUSE submits, in the absence of the WNA, Columbia can file a rate case, as it frequently does, using a fully projected future test year to address its concerns about capital improvement and can implement a DSIC surcharge at the end of the FPFTY if necessary.²²⁴³

(4) Summary of Reasons to Deny WNA

CAUSE contends Columbia's WNA undermines energy efficiency and disproportionately burdens low income customers, raising deep concerns about fairness and equity.²²⁴⁴ While this mechanism protects Columbia from revenue volatility, CAUSE asserts it transfers the financial risk of warmer weather onto customers who may have already reduced their consumption to manage tight household budgets.²²⁴⁵ CAUSE explains, for low income households, which often face difficult choices between heating,

²²³⁹ 52 Pa. Code § 69.3302 (a)(14).

²²⁴⁰ CPA St. 17, at 34.

²²⁴¹ *Id.*, at 62.

²²⁴² *Id.*

²²⁴³ *Id.*

²²⁴⁴ CAUSE-PA St. 2, at 63.

²²⁴⁵ *Id.*

food, and other essentials, these additional charges undermine their ability to plan for and manage utility expenses effectively.²²⁴⁶

Upon considering the Company's proposed WNA in the context of the Commission's guiding policy statements on alternative ratemaking methods, as well as the statutory basis for such methods, CAUSE concludes the Company's proposal should be rejected because it undermines cost-of-service principles, reduces consumer incentives to reduce energy usage, obscures price signals and makes customer bills more unpredictable, has a disproportionate impact on low-income customers, is difficult to understand for consumers, and lacks any consumer protections.²²⁴⁷

(5) If the Commission Allows the WNA to Continue it Should Be Substantially Reformed

CAUSE-PA asserts Columbia has failed to meet its burden of demonstrating that the WNA produces just and reasonable rates and for all the reasons outlined above it should be denied. If the Commission determines that the WNA should remain in place, CAUSE submits there are several reforms that should occur that would mitigate the worst outcomes of the WNA for consumers. Specifically, as Mr. Cicero explained in his direct testimony, it should be reformed as follows:

First, the WNA should remain a pilot for a limited period and not be made permanent and each of the additional recommendations below should be incorporated into any WNA that is ultimately permitted to continue.²²⁴⁸

Second, all confirmed low income customers with income at or below 150% FPL should be exempt from the WNA charge . Mr. Cicero explained "[T]hese customers already face monthly challenges to be able to afford their bill each

²²⁴⁶ *Id.*

²²⁴⁷ 66 Pa.C.S. § 1330(a)(2); 52 Pa. Code §§ 69.3301, 69.3302.

²²⁴⁸ CAUSE-PA St. 2, at 64.

month and the addition of surprise charges on their bill because the weather is warmer than what was historically normal is both unfair in general and unreasonable as applied to economically vulnerable households.”²²⁴⁹ As a part of this recommendation, Columbia should be required to eliminate the WNA surcharge for CAP customers. CAP customers who are enrolled in Columbia’s percentage of income payment do not pay these charges directly because their bills are capped at their percentage of income bills; however, for CAP customers whose CAP bills are based on a percent of budget bill, the imposition of the WNA unreasonably increases these customers’ CAP bills.²²⁵⁰ In addition, since CAP customers do not pay their full tariff bill, the imposition of the WNA on CAP bills needlessly increases the costs of the CAP program paid for by other residential customers.²²⁵¹

Third, the months in which the WNA is operable should be reduced to the period from December through March, in alignment with the winter moratorium. Mr. Cicero explained, “If [December through March] are the only months when economically vulnerable households must retain service because of the possibility of cold weather, it is unreasonable to allow Columbia to assess a weather-related charge in the additional months of November, April, or May.”^[2252]

Fourth, Columbia should be required to propose in its next rate case changes to the WNA formula. Mr. Cicero recommended the following changes: (1) Columbia should be required to calculate its normal heating degree days based on a rolling 10-year average that is updated annually so that the formula always calculates the most recent 10 years of weather; and, (2) Columbia should propose that WNA be applied on a per class basis, reconciled annually, and surcharged over the full 12-months of the subsequent year.^[2253] Both of these changes would likely improve

2249

Id.

2250

CAUSE-PA St. 2, at 63.

2251

Id.

2252

Id.

2253

Id., at 65.

stability of bills for customers when an WNA is applied and would eliminate the hardship that currently exists by imposing WNA charges during the highest usage and most expensive bills in the winter where energy burdens are at their highest.^[2254]

Accordingly, although CAUSE-PA requests the Commission to order Columbia to discontinue its WNA, if the Commission decides to allow it to continue, it should only do so on the condition that it is amended in line with the recommendations above.

b. Revenue Normalization Adjustment

CAUSE-PA explains, in Columbia's 2020 rate case, the Commission rejected the Company's proposal to implement an RNA.²²⁵⁵ The Commission adopted findings from the Recommended Decision, which concluded that Columbia failed to prove the RNA Rider was needed and reasonable, or that the RNA Rider would result in rates that are just, reasonable and in the public interest.²²⁵⁶ The Recommended Decision also found that Columbia failed to show its current rates and systems of revenue streams would fail to provide revenue stability.²²⁵⁷

In the current proceeding, Columbia has again proposed an RNA, which, according to CAUSE, is a full decoupling mechanism that will operate in parallel with its WNA to guarantee collection of Columbia's full authorized revenue requirement from its customers, regardless of how much energy a customer uses.²²⁵⁸ Essentially, if Columbia's full annual revenue requirement is granted, including the increase sought in

²²⁵⁴ CAUSE-PA St. 2 at 65.

²²⁵⁵ *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No R-2020-3018835, at 264-265 (Opinion and Order entered Feb. 19, 2021).

²²⁵⁶ *Id.* (citing RD at 403).

²²⁵⁷ *Id.*

²²⁵⁸ *See* CPA St. 17, at 43.

this case, CAUSE contends, Columbia will set rates to collect its total authorized gas revenue requirement.²²⁵⁹ Thus, the RNA would guarantee the ability of Columbia to recover its full revenue requirement – representing a substantial departure from the current standard which only allows a public utility a “reasonable opportunity” (*not a guarantee*) to earn a fair rate or return.²²⁶⁰

CAUSE-PA argues, where the WNA shifts the financial risk of lower usage due to warming weather onto customers, the RNA shifts *all* of the traditional business risk of reductions *for any reason* onto consumers.²²⁶¹

According to Mr. Taylor’s testimony, had the RNA been in place over the years 2019 – 2024, these true ups would have cost ratepayers approximately \$68.9 million.²²⁶² Columbia has not provided any estimate of the bill impacts or analysis of any potential benefits to consumers due to the RNA.²²⁶³ CAUSE submits there is no evidence in the record that the RNA would provide any benefit to consumers.

Consumers, particularly low income consumers, have an interest in safe, reliable, and affordable gas distribution service to heat their homes, cook their food, and provide hot water.²²⁶⁴ They receive no benefit from paying a surcharge in one year because in aggregate they and other customers did not use enough gas the prior year.²²⁶⁵ CAUSE further explains the RNA would cost approximately \$350,000 to implement and

²²⁵⁹ CAUSE-PA St. 1, at 65; OCA St. 1 at 17.

²²⁶⁰ CAUSE-PA St. 1, at 66.

²²⁶¹ OCA St. 1, Ex. MWD-1 p. 1-2; OSBA St. 1 at 17; PSU St. 1 at 23-24.

²²⁶² *Id.*, at 67-68 (*referencing* CPA St. 17 at 38, T. 6).

²²⁶³ *Id.*, at 68.

²²⁶⁴ *Id.*

²²⁶⁵ CAUSE-PA St. 2, at 68-69.

Columbia would pass that cost onto consumers, requiring them to pay so that Columbia can secure its guaranteed revenue collection.²²⁶⁶

(1) The RNA is Contrary to the Commission's Distribution Rate Policy

(a) 69.3302(a)(1): Columbia's RNA Violates Cost Causation Principles²²⁶⁷

CAUSE asserts the RNA assumes that Columbia is entitled to recover its revenue requirement regardless of the usage or throughput of its customers.²²⁶⁸ While the RNA may be mathematically bi-directional and is not designed to allow recovery of more than the authorized revenue requirement, it does not align revenues with cost causation.²²⁶⁹ Instead, the RNA fixes in time the revenue requirement that Columbia targets and guarantees it to receive this revenue requirement regardless of nearly any externality and regardless of how well or poorly Columbia manages its collections.²²⁷⁰

CAUSE asserts the RNA is entirely revenue driven with no consideration of other factors that are considered in establishing a revenue requirement, which makes it a prime example of single-issue ratemaking.²²⁷¹

(b) 69.3302(a)(2): Columbia's RNA Does Not Support Fixed Capacity Utilization²²⁷²

²²⁶⁶ *Id.* at 70.

²²⁶⁷ 52 Pa. Code § 69.3302 (a)(1).

²²⁶⁸ CAUSE-PA St. 2, at 70; OCA St. 1, Ex. MWD-1 p. 1.

²²⁶⁹ CAUSE-PA St. 2, at 70.

²²⁷⁰ *Id.* at 70-71; OSBA St. 1, at 17.

²²⁷¹ I&E St. 3, at 25-26.

²²⁷² 52 Pa. Code § 69.3302 (a)(2).

(c) 69.3302(A)(3): Columbia's RNA Does Not Reflect the Level of Demand Associated with the Customer's Consumption Levels²²⁷³

CAUSE asserts the RNA, by design, is targeted to meet Columbia's revenue requirement at a fixed point in time.²²⁷⁴ While that design is based on anticipated consumption at the end of the FPFTY, it fixes that revenue requirement as an entitlement despite projections of revenue loss based on weather and other factors.²²⁷⁵ CAUSE asserts Columbia's forecasts can be prone to errors, which can bias future RNA surcharges²²⁷⁶ and if Columbia's projections about use per customer are incorrect then the revenue requirement guarantee (baked in because of the RNA) will be targeted to collect revenue that may be higher or lower than needed.²²⁷⁷

(d) 69.3302(a)(4): Columbia's RNA Does Nothing to Limit or Eliminate Interclass and Intraclass Cost Shifting²²⁷⁸

CAUSE asserts Columbia is proposing to base its RNA on a per customer basis, which mitigates some intraclass cost shifting,²²⁷⁹ however, it exacerbates harm for customers who engage in energy efficiency because it means that Columbia will take back from each customer the savings that they generate in one year the next year assuming that overall revenue requirement contribution is not met for that class.²²⁸⁰

²²⁷³ 52 Pa. Code § 69.3302(a)(3).

²²⁷⁴ CAUSE-PA St. 2, at 71.

²²⁷⁵ *Id.* at 71.

²²⁷⁶ *Id.*; OCA St. 1 Ex. MWD-1 p. 1.

²²⁷⁷ CAUSE-PA St. 2 at 71.

²²⁷⁸ 52 Pa. Code § 69.3302 (a)(4).

²²⁷⁹ CAUSE-PA St. 2, at 72.

²²⁸⁰ CAUSE-PA St. 2, at 72.

(e) 69.3302(a)(5): Columbia's RNA Does Not Eliminate Disincentives for the Promotion of Energy Efficiency²²⁸¹

CAUSE submits Columbia does not currently have disincentives to pursue or promote energy efficiency programs²²⁸² and Columbia's energy efficiency programs are collected through pass through charges.²²⁸³ These programs are either required by law (i.e. LIURP) or already voluntarily proposed by Columbia – their voluntary EE&C program. CAUSE explains Columbia has proposed no enhancements to these programs because of its proposed RNA.²²⁸⁴ With the RNA, according to CAUSE, Columbia will be unconcerned about its throughput, but this will reduce any incentive by Columbia to efficiently manage its operations²²⁸⁵ and will disincentivize customers from participating in energy efficiency programs as it will undercut any resultant bill reductions.²²⁸⁶

(f) 69.3302(a)(6): Columbia's RNA Disincentivizes The Employment of Residential Efficiency Measures²²⁸⁷

The RNA surcharges all customers in a rate class a flat fee if in the prior year, there was a revenue shortfall for that class for any reason.²²⁸⁸ This fact, according to CAUSE generates two seemingly contradictory results: (1) customers who can engage in energy efficiency may have a reduced incentive to do so, and (2) customers who cannot reduce their usage may nevertheless end up paying more because other customers have reduced their usage.

²²⁸¹ 52 Pa. Code § 69.3302 (a)(5).

²²⁸² CAUSE-PA St. 2, at 72; OCA St. 1, Ex. MWD-1 p. 1.

²²⁸³ CAUSE-PA St. 2, at 72.

²²⁸⁴ *Id.*

²²⁸⁵ CAUSE-PA St. 2, at 72.

²²⁸⁶ *Id.*, at 73.

²²⁸⁷ 52 Pa. Code § 69.3302 (a)(6).

²²⁸⁸ CAUSE-PA St. 2, at 65-66.

CAUSE asserts the RNA 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.²²⁸⁹

(g) 69.3302(a)(8): There Is No Evidence That Columbia's RNA Would Produce More Stable Bills for Consumers²²⁹⁰

CAUSE contends there is no basis in the way the RNA operates to conclude that it will produce more stable bills for consumers.²²⁹¹ The RNA will either increase or decrease a customer's bill in one year based on their total class having used less or more than was determined that they would use when rates were set.²²⁹² There is no evidence that customers will see or benefit from more stable distribution charges over time.²²⁹³ Further, CAUSE asserts, the Company fails to include a cap on surcharges under the proposed RNA; therefore, the proposed RNA may result in extraordinary reconciliation charges.²²⁹⁴ The RNA increase will continue irrespective of the steps that those households take to reduce their usage because the RNA guarantees revenue for Columbia.²²⁹⁵

CAUSE submits Columbia should be focused on increasing CAP enrollment – which actually does provide predictable and affordable bills for program participants.

²²⁸⁹ OCA St. 5, at 101-104.

²²⁹⁰ 52 Pa. Code § 69.3302 (a)(8).

²²⁹¹ CAUSE-PA St. 2, at 74.

²²⁹² *Id.* at 74; I&E St. 3, at 27.

²²⁹³ CAUSE-PA St. 2, at 74.

²²⁹⁴ OCA St. 1, Ex. MWD-1 at 2.

²²⁹⁵ CAUSE-PA St. 2, at 74.

- (h) 69.3302(a)(9): Columbia’s RNA, While Facially Weather Neutral, Would Deprive Consumers Of Any WNA Credits in Colder Than Normal Months²²⁹⁶
- (i) 69.3302(a)(10): Columbia’s RNA Would Not Impact the Frequency Of Rate Case Filings nor Affect Regulatory Lag²²⁹⁷

Despite guaranteeing collection of an authorized revenue requirement, Columbia concedes that there is no evidence that the RNA will reduce the frequency of rate cases.²²⁹⁸ CAUSE contends, from a consumer perspective, this is a “lose-lose situation” where Columbia can guarantee full recovery of approved revenues while also seeking ongoing increases in rates.²²⁹⁹

In addition, CAUSE contends, the proposed RNA would adjust the rate for participating classes on a period-by-period basis outside of the framework of rate case filings.²³⁰⁰ This means that customers will consistently have their rates adjusted to account for revenue shortfall or surplus without the transparency and due diligence that accompany a rate case.²³⁰¹

- (j) 69.3302(a)(11): Columbia’s RNA Would Work in Concert with the WNA to Deprive Customers in the Few Instances Where The WNA Would Provide a Credit²³⁰²

CAUSE submits the proposed RNA would work in concert with the WNA to deprive customers in the few instances where the WNA provides credit to

²²⁹⁶ 52 Pa. Code § 69.3302 (a)(9).
²²⁹⁷ 52 Pa. Code § 69.3302 (a)(10).
²²⁹⁸ CPA St. 17 at 51:3-7.
²²⁹⁹ CAUSE-PA St. 2 at 75.
²³⁰⁰ OSBA St. 1 at 17.
²³⁰¹ *Id.*; I&E St. 3 at 27.
²³⁰² 52 Pa. Code § 69.3302 (a)(11).

consumers²³⁰³ taking that credit, along with any under-collection because of the WNA deadband, back in the next year to the extent that the overall billed revenue was not equal to the authorized revenue.²³⁰⁴

(k) 69.3302(a)(12): Columbia’s RNA Lacks Appropriate Consumer Protections²³⁰⁵

CAUSE asserts the RNA will exacerbate energy insecurity for non-CAP low income households without any protection to assist these households to maintain service at affordable rates.²³⁰⁶ CAUSE contends the purported “consumer protections” cited by Columbia for the WNA and RNA are not actual consumer protections.²³⁰⁷ CAUSE explains there is no cap on the amount of RNA revenue that Columbia could surcharge any one customer, and may result in extraordinary reconciliation charges.²³⁰⁸ Further, while Columbia asserts that the Commission would provide scrutiny between rate cases, CAUSE asserts the scrutiny is limited to mathematical scrutiny to ensure that the RNA was calculated correctly, not whether the charges were or were not excessive.²³⁰⁹

(l) 69.3302(a)(13): Columbia’s RNA is Complicated and Not Transparent or Understandable for Consumers²³¹⁰

CAUSE contends the RNA is not transparent or understandable for consumers, concluding it is implausible that customers will readily understand or accept

²³⁰³ CAUSE-PA St. 2 at 75.

²³⁰⁴ *Id.*

²³⁰⁵ 52 Pa. Code § 69.3302 (a)(12).

²³⁰⁶ CAUSE-PA St. 2 at 76.

²³⁰⁷ CAUSE-PA St. 2 at 76.

²³⁰⁸ *Id.*; OCA St. 1, Ex. MWD-1 at 2.

²³⁰⁹ CAUSE-PA St. 2 at 76.

²³¹⁰ 52 Pa. Code § 69.3302 (a)(13).

this surcharge.²³¹¹ Cause explains Columbia has not developed or implemented any customer communications about the RNA. Thus, Columbia’s assertions cannot be tested with any rigor in this case, which alone is a reason to reject the charge.²³¹² Further, when asked in discovery how customers will be able to verify that the RNA charge on their bill is accurate, Columbia responded that customers “will be able to compare the monthly RNA amount determined in the Company’s annual reconciliation filing with the amount included in their bills for this line item.”²³¹³ CAUSE contends this means that customers will have to understand the multi-variable, algebraic equation used to calculate the RNA charge if they want to test the accuracy of Columbia’s calculation.²³¹⁴ CAUSE concludes, it is unreasonable to expect customers to be able to figure out this calculation to confirm the accuracy of the charge.²³¹⁵

(m) 69.3302(a)(14): Columbia’s RNA Would Not Support
Improvements in Utility Reliability²³¹⁶

CAUSE submits Columbia has failed to demonstrate that the RNA will help support improvements in reliability.²³¹⁷ CAUSE submits the RNA is not tied to any achievement of reliability improvements or performance in any way.²³¹⁸ In the absence of the RNA, Columbia can (and quite frequently does) file a rate case using a fully projected future test year (FPFTY) to address any and all concerns about capital improvement and can implement a DSIC surcharge if necessary, at the end of the FPFTY.²³¹⁹

²³¹¹ *Id.*

²³¹² CAUSE-PA St. 2 at 77.

²³¹³ *Id.*

²³¹⁴ *Id.*

²³¹⁵ *Id.*

²³¹⁶ 52 Pa. Code § 69.3302 (a)(14).

²³¹⁷ CAUSE-PA St. 2 at 77.

²³¹⁸ *Id.*; OCA St. 1 Ex. MWD.

²³¹⁹ CAUSE-PA St. 2 at 77.

Accordingly, CAUSE-PA argues the Commission should reject Columbia's proposed RNA as it does not provide any material benefits to Columbia ratepayers and would likely compound energy insecurity for low income households.²³²⁰ While Columbia argues it would benefit from guaranteed revenue as authorized in this and future rate cases, CAUSE asserts it has not carried its burden to demonstrate that the RNA would be a better approach than traditional ratemaking and the scrutiny that rate cases would provide.²³²¹

6. *TASK FORCE's Position*

The Task Force did not address this issue in its Main Brief.

7. *PSU's Position*

The Pennsylvania University did not address this issue in its Main Brief.

8. *ALJs' Recommendations*

a. *Weather Normalization Adjustment*

The WNA is a form of alternative ratemaking that is expressly authorized by statute in Pennsylvania. Section 1330(b) of the Public Utility Code allows the Commission to approve alternative ratemaking mechanisms, including decoupling mechanisms.²³²² The statute defines a decoupling mechanism, in part, as:

²³²⁰ CAUSE-PA St. 2 at 77-78.

²³²¹ *Id.* at 78.

²³²² 66 Pa.C.S. § 1330(b)(1)(i).

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

The Commission has classified a WNA as a limited decoupling mechanism.²³²³

In addition, the Commission has issued a Policy Statement setting forth certain rate considerations that it evaluates when determining whether an alternative ratemaking mechanism is just and reasonable.²³²⁴

The stated purpose of the WNA is to adjust the temperature sensitive portion of a customer's bill in order to mitigate the impacts of warmer or colder than normal weather.²³²⁵ In other words, presumably customers are billed less than what a traditional bill calculation would require during colder than normal heating seasons and billed more during warmer than normal heating seasons.

The ALJs have carefully reviewed the extensive positions of the parties set forth in the Briefs filed in this proceeding. Under the WNA, the Company can adjust a customer's base rate bill, which was calculated based on Commission-approved rates, outside the scope of a base rate case and without requiring the Commission's approval. The WNA is a departure from traditional ratemaking, which the Commission approved, but such an adjustment made without Commission oversight should only occur when

²³²³ See Alternative Ratemaking Methodologies, Docket No. M-2015-2518883, (Tentative Order entered Mar. 2, 2017) at 7.

²³²⁴ 52 Pa. Code § 69.3307.

²³²⁵ Columbia St. No. 3 at 16.

circumstances create an extraordinary departure from normal operating conditions, such as abnormal weather. Without an extraordinary set of circumstances, there is no need, on the interest of the public is for Columbia Gas to reconcile the day-to-day temperature variations that are part and parcel with normal business.

The Commission may authorize the implementation of alternative ratemaking mechanisms,²³²⁶ such as decoupling mechanisms like the WNA; however, in order to implement an alternative ratemaking mechanism, the utility must provide substantial evidence that the specific mechanism proposed by the utility would result in just and reasonable rates.²³²⁷ Based upon the evidence, the company falls short in attempting to meet this burden.

The Commission explained to determine “just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose” of the Commission’s policy and the policy laid out in Section 1330, the Commission, in a Policy Statement, developed 14 factors to be considered.²³²⁸ As I&E explained, Section 1330, however, does not waive the Code’s burden of proof requirements, or the Administrative Agency Law’s requirement²³²⁹ that the decisions of Commonwealth agencies (including the Commission) be supported by substantial evidence.²³³⁰

Furthermore, as I&E explained, the Commission noted in its PECO WNA Order “it is a primary concern of the Commission that alternative ratemaking is, in some way, rooted in the cost of service.”²³³¹ “[A]n alternative rate design methodology²³³²

²³²⁶ 66 Pa. C.S. §§ 315(a), 1330.

²³²⁷ *Id.*, at 15.

²³²⁸ *Id.*, at 15 (citing 52 Pa. Code § 69.3302(a)).

²³²⁹ *See* 2 Pa.C.S. § 704.

²³³⁰ *See*, 2 Pa.C.S. § 704.

²³³¹ I&E M.B., at 65-66.

²³³² 52 Pa. Code § 69.3301.

should reflect the sound application of cost-of-service principles, establish a rate structure that is just and reasonable, and consider customer impacts.”²³³³

In its base rate filing, Columbia requested that the Commission allow Columbia’s current WNA pilot to become permanent.²³³⁴ The Company argued that its WNA ensures that neither Columbia nor ratepayers are harmed by fluctuating revenues related to fluctuations in weather sensitive usage.²³³⁵ Historical data shows that Columbia has recovered over \$74 million in revenue through the application of the WNA from the Columbia rate payers.²³³⁶

In response to Columbia’s request to make its WNA pilot permanent, the parties to this proceeding recommended the Commission reject the Company’s request and disallow the WNA from being applied going forward.²³³⁷

The parties thoroughly addressed the guidance provided by the Commission in its 2019 Statement of Policy where the Commission identified fourteen factors to consider when evaluating an alternative rate making mechanism.²³³⁸ Columbia’s WNA does not properly align revenues with cost causation principles as to both fixed and variable costs.²³³⁹ In addition, Columbia’s WNA serves to shift costs from customers who can afford to make efficiency improvements to those customers who cannot afford to make efficiency improvements while at the same time creating an imbalance in the WNA share to cover the revenue shortfall not based on actual usage.²³⁴⁰

²³³³ PECO WNA Order, at 16-17 (quoting 52 Pa. Code §§ 69.3301, 69.3302(a)).

²³³⁴ I&E St. No. 3, at 9 (citing Columbia St. No. 17, at 9).

²³³⁵ *Id.*

²³³⁶ *See* I&E St. No. 3-SR, at 15; I&E Ex. No. 3-SR, Sch. 1, at 4.

²³³⁷ I&E St. No. 3, at 11.

²³³⁸ *See* I&E St. No. 3, p. 10 (citing Statement of Policy (“2019 Statement of Policy”), Docket No. M-2015-2518883, (Order entered July 18, 2019)).

²³³⁹ *Id.*, at 12.

²³⁴⁰ I&E St. No. 3-SR, at 12-13.

Further, while some may see the 3% deadband as a customer protection, in reviewing the application of the WNA since being utilized by Columbia, the WNA, as applied by Columbia, did not afford any substantial protection to consumers at all.²³⁴¹ Finally, the record evidence clearly established that the WNA billing process are too complex and confusing to customers.²³⁴² In consideration of analysis by the parties, especially with regard to Columbia’s existing WNA pilot program relative to the Commission’s Policy Questions and the reasoning applied in the PECO Gas proceeding relative to the WNA,²³⁴³ we recommend that the pilot program be allowed to expire and no permanent WNA be put in place.²³⁴⁴

As OCA explained, 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.²³⁴⁵ “During this period, OCAS asserts, the Company *never* issued a refund to consumers under the WNA despite claiming that the mechanism is symmetrical. We agree with OCA’s conclusion that this pattern reveals that the WNA has functioned as a one-sided charge, imposing consistent financial burdens on ratepayers while failing to deliver measurable bill stability or balance.”²³⁴⁶ As OCA explained, despite the issues presented since the initiation of the program, Columbia makes no proposal in the instant case, to work towards developing a more effective WNA mechanism; instead, the Company merely seeks to continue the WNA

²³⁴¹ *Id.*, at 14-16.

²³⁴² *Id.*, at 16-17.

²³⁴³ See I&E St. No. 3, at 18 (citing *Pa. PUC v. PECO Energy Company – Gas*, Docket No. R-2024-3046932, pp. 94-101 (Order entered Dec. 12, 2024)).

²³⁴⁴ *Id.*, p. 8.

²³⁴⁵ OCA St. 1 at 55; OCA Ex. MWD-11; CAUSE-PA St. 2-SR at 14.

²³⁴⁶ OCA St. 1 at 55 (emphasis in original).

Pilot indefinitely without correcting or addressing the numerous and varied issues raised by the parties that result in one-sided adjustments.²³⁴⁷

Furthermore, upon considering the Company's proposed WNA in the context of the Commission's guiding policy statements on alternative ratemaking methods, as well as the statutory basis for such methods, we agree with CAUSE-PA and conclude the Company's proposal should be rejected because it undermines cost-of-service principles, reduces consumer incentives to reduce energy usage, obscures price signals and makes customer bills more unpredictable, has a disproportionate impact on low-income customers, is difficult to understand for consumers, and lacks any meaningful consumer protections.²³⁴⁸

If, however, the Commission decides to allow Columbia to move forward with its WNA, which we believe should not occur, then I&E recommended certain changes be made to the WNA in an effort to soften its impact on Columbia's rate payers, especially those that try to conserve usage to reduce their monthly bill. I&E recommends that if the Commission decides to approve the WNA on a permanent basis, three (3) modifications should be made to the WNA.²³⁴⁹ First, the shoulder month of May should be removed from the WNA. Second, the time period used to determine normal HDDs be shortened to ten years. And third, the deadband should be increased to 5%. We agree with a portion of I&E's alternate recommendation as described below.

I&E explained the month of May is not a winter or traditional heating month in Pennsylvania but more appropriately a shoulder month when customers can expect to start seeing their heating bills decline.²³⁵⁰ We agree in part with I&E and

²³⁴⁷ *Id.* at 42.

²³⁴⁸ 66 Pa.C.S. § 1330(a)(2); 52 Pa. Code §§ 69.3301, 69.3302.

²³⁴⁹ I&E St. No. 3, at 18; I&E St. No. 3-SR, at 16-17.

²³⁵⁰ I&E St. No. 3, at 18; I&E St. No. 3-SR, at 19.

instead recommend as proposed by CAUSE-PA, that the months in which the WNA would be operable would be reduced to December through March.

Second, by utilizing a twenty-year weather cycle to determine normal HDDs, the Company is ignoring what even the Company argues is a “recent” winter weather warming trend that is representative of Pennsylvania winters, which results in more winter months falling short of “normal” based on how the Company calculates what is “normal.”²³⁵¹ Using a twenty-year cycle rather than a ten-year cycle results in an “historical bias” that diminishes the effect of the claimed recent trends and results in providing revenue to the Company when instead, customers should be realizing savings.²³⁵²

Finally, if the goal of the WNA is to improve stability regarding customer bills and Company revenues, I&E established a 5% deadband adequately captures what could be considered normal weather fluctuations in Pennsylvania and places more of the burden for calculating and forecasting weather variations back onto the Company as a normal part of doing business.²³⁵³

I&E established and we agree these three rational adjustments to Columbia’s WNA as modified by the WNA period of December through March, would add additional protection for the customers from fluctuating monthly usage billing and would encourage conservation by the ratepayers in the event that the WNA would be allowed to continue. Therefore, in consideration of all of the above and the record evidence presented, we agree that if Columbia’s WNA is made permanent, the Commission should apply the three modifications recommended by I&E.

²³⁵¹ I&E St. No. 3, at 19; I&E St. No. 3-SR, at 20; I&E M.B., at 68.

²³⁵² I&E St. No. 3, at 19; I&E St. No. 3-SR, at 20; I&E M.B., at 68.

²³⁵³ I&E St. No. 3, at 19; I&E M.B., at 69.

In addition, although CAUSE-PA strongly advocated WNA program, should be terminated in the event the WNA program should continue, CAUSE-PA recommends the following adjustments be made. First, the WNA should remain a pilot for a limited period and not be made permanent and each of the additional recommendations below should be incorporated into any WNA that is ultimately permitted to continue.²³⁵⁴ We agree with this alternative recommendation.

Second, all confirmed low-income customers with income at or below 150% FPL should be exempt from the WNA charge. As established in this proceedings, these customers already face monthly challenges to be able to afford their bill each month and the addition of surprise charges on their bill because the weather is warmer than what was historically normal is both unfair in general and unreasonable.”²³⁵⁵ As a part of this alternate recommendation, it is recommended that Columbia be required to eliminate the WNA surcharge for CAP customers. CAP customers who are enrolled in Columbia’s percentage of income payment do not pay these charges directly because their bills are capped at their percentage of income bills; however, for CAP customers whose CAP bills are based on a percent of budget bill, the imposition of the WNA unreasonably increases these customers’ CAP bills.²³⁵⁶ In addition, since CAP customers do not pay their full tariff bill, the imposition of the WNA on CAP bills needlessly increases the costs of the CAP program paid for by other residential customers.²³⁵⁷ We agree with this alternate recommendation.

Third, the months in which the WNA is operable should be reduced to the period from December through March, in alignment with the winter moratorium. As CAUSE-PA witness Cicero explained, “If [December through March] are the only

²³⁵⁴ CAUSE-PA St. 2 at 64.

²³⁵⁵ *Id.*

²³⁵⁶ CAUSE-PA St. 2 at 63.

²³⁵⁷ *Id.*

months when economically vulnerable households must retain service because of the possibility of cold weather, it is unreasonable to allow Columbia to assess a weather-related charge in the additional months of November, April, or May.²³⁵⁸ We agree with this alternate recommendation.

Fourth, CAUSE recommends Columbia should be required to propose in its next rate case changes to the WNA formula. Mr. Cicero recommended the following changes: (1) Columbia should be required to calculate its normal heating degree days based on a rolling 10-year average that is updated annually so that the formula always calculates the most recent 10 years of weather; and, (2) Columbia should propose that WNA be applied on a per class basis, reconciled annually, and surcharged over the full 12-months of the subsequent year.²³⁵⁹ Although Columbia may propose charges in its WNA formula and should consider the recommendation made by Mr. Cicero based upon the alternate recommendations we have recommended, as proposed by I&E, we will not include this “Fourth” recommendation advanced by CAUSE-PA in this proceeding.

Accordingly, we agree that the WNA program should be discontinued, if the Commission would decide to continue the program, careful consideration should be given to the modifications identified above and proposed by I&E and CAUSE-PA.

b. Revenue Normalization Adjustment

In its filing, Columbia proposed to implement a Revenue Normalization Adjustment and apply it to its non-CAP residential and Commercial and Industrial customers.²³⁶⁰ An RNA is described as a decoupling mechanism that separates a utility distribution revenue from its level of sales, thereby “breaking the link” so that a utility

²³⁵⁸ *Id.*

²³⁵⁹ *Id.* at 65.

²³⁶⁰ I&E St. No. 3, at 21 (citing Columbia St. No. 17, at 43).

may recover an established amount of revenues, even as sales vary.²³⁶¹

I&E explained it opposes the RNA and recommends that the Commission deny implementation of an RNA.²³⁶² I&E noted that the Company has repeatedly proposed enacting the RNA in previous rate cases and most recently, the Company proposed to enact an RNA in its 2020, 2021, 2022, and 2024 base rate cases at Docket Nos. R-2020-3018835, R-2021-3024296, R-2022-3031211, and R-2024-3046519.²³⁶³

I&E cites the Commission's July 18, 2019 Statement of Policy²³⁶⁴ and in particular Policy Questions 1, 2, 8, 10 and 12,²³⁶⁵ ultimately concluding that Columbia's current system of rates and charges, which include fixed monthly customer charges, a purchased gas adjustment mechanism, and potentially a distribution system improvement charge provide Columbia with the revenue stability it needs.²³⁶⁶ I&E concludes and we agree that Columbia has not met its burden of proving that these revenue sources are inadequate.²³⁶⁷ Additionally, I&E argues, and we agree that the Company has not presented credible evidence that implementation of the RNA will result in fewer base rate cases, thus removing any benefit from the residential customers.²³⁶⁸ Finally, I&E asserts that the RNA will have a chilling effect on voluntary conservation by the ratepayers.²³⁶⁹

In addition, OCA argued and we agree that Columbia presented no credible evidence in this proceeding, sufficient to distinguish its RNA proposed in this case from those specifically rejected by the Commission in *PAWC 2023* and *Columbia 2020* and,

²³⁶¹ *Id.* (citing Columbia St. No. 17, at 46).

²³⁶² I&E St. No. 3, at 23.

²³⁶³ *Id.*

²³⁶⁴ *Id.*, at 24 (citing 2019 Statement of Policy).

²³⁶⁵ *Id.*, at 24-28.

²³⁶⁶ *Id.*, at 28.

²³⁶⁷ *Id.*

²³⁶⁸ *Id.* (citing Columbia St. No. 17, at 51).

²³⁶⁹ *Id.*

for the reasons set forth in those proceedings, the Commission should similarly deny the requested RNA in this case.

OCA argues there are several clear reasons why Columbia failed to meet its burden of proof that the proposed RNA would result in just and reasonable rates. The OSBA, I&E, 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.²³⁷⁰ As explained above, the proposed RNA does not satisfy the Commission's policy factors regarding alternative ratemaking mechanisms.²³⁷¹ Second, the proposed RNA presents no opportunity for benefit to the Company's customers. Third, the proposed RNA removes the Company's incentive to control its costs between rate cases and provides a long-term guarantee of earnings regardless of performance. Fourth, the proposed RNA is contrary to the principles of cost causation. Fifth, the proposed RNA will require Columbia's customers to sacrifice potential bill savings from conservation and energy efficiency improvements to the benefit of the Company. For all of the reasons set forth above, OCA asserts and we agree, the proposed RNA should be denied, as the Company has not demonstrated that the proposed RNA would result in just and reasonable rates.

In addition, CAUSE-PA argues and we agree that the Commission should reject Columbia's proposed RNA as it does not provide any material benefits to Columbia ratepayers and would likely compound energy insecurity for low income households.²³⁷² While Columbia argues it would benefit from guaranteed revenue as authorized in this and future rate cases, CAUSE asserts it has not carried its burden to

²³⁷⁰ See OSBA St. 1 at 17-20; I&E St. 3 at 21-28; I&E St. 3SR at 23-31; CAUSE-PA St. 2 at 65-78; CAUSE-PA St. 2SR at 21-22; PSU St. 1 at 20-24.

²³⁷¹ OCA Ex. MWD-1 at 1-2 (citing 52 Pa. Code § 69.3302(a)).

²³⁷² CAUSE-PA St. 2 at 77-78.

demonstrate that the RNA would be a better approach than traditional ratemaking and the scrutiny that rate cases would provide.²³⁷³

The undersigned ALJs recommend the Commission deny this RNA proposal. In addition to the above, we conclude that Columbia has failed to provide sufficient evidence to demonstrate a need for more revenue stabilization measures when Columbia has filed base rate cases frequently, avers it will file base rate cases more frequently moving forward, and given the FPFTY and the DSIC. The Company has not shown the RNA will result in fewer base rate increases, thus removing any benefit from the residential customers.²³⁷⁴ In addition, the Company did not sufficiently and credibly present, explain and support its proposed alternative ratemaking mechanism as required pursuant to the Commission's Statement of Policy (Order entered July 18, 2019; Docket No. M-2015-2518883).

Finally, Columbia Gas failed to prove the RNA program is needed and reasonable, or that the program will result in rates that are just, reasonable and in the public interest. The Company did not show its current rates and systems of revenue streams will fail to provide revenue stability. Columbia Gas' current system of rates and charges include fixed monthly customer charges, a mechanism to adjust the purchased gas cost and a distribution system improvement charge. All of these charges provide Columbia Gas with revenue stability and Columbia did not prove these stability measures are inadequate.

Finally, the RNA program, as presented, is simply unfair to Columbia's customers. As various customers testified at the public input hearings, many consumers are struggling to pay their bills and to keep up with the frequent increases in their utility

²³⁷³ *Id.* at 78.

²³⁷⁴ I&E St. No. 3 at 11.

bills. Now, customers are required to somehow additional charges included on their utility bills as well as the confusing calculations used by the Company. The charges, and method by which they are calculated, are not easily understandable to many consumers and may result in customers being uninformed about how to determine their usage, the cost of their usage, the amount they are billed for their usage and other charges, let alone how they can somehow reduce their overall bill in order to pay for their utility charges.

M. Customer Service/Quality of Service

Service²³⁷⁵ must be adequate, efficient, safe, and reasonable.²³⁷⁶ In setting just and reasonable rates, the Commission “shall consider...the efficiency, effectiveness and adequacy of service of each utility.”²³⁷⁷ The Commission can direct the adequate, reasonable, safe, sufficient service to be observed and furnished by the utility.²³⁷⁸ The Commission can order improvements to service as a condition of any rate increase.²³⁷⁹ The Commission has recognized that “[a] base rate proceeding ‘is the proper venue for hearing [] customer service issues.’”²³⁸⁰ In the 2023 PGW base rate case, the Commission explicitly identified that the following factors were relevant considerations in evaluating

²³⁷⁵ “Service” is used broadly and inclusively, and captures “any and all acts done, rendered, or performed” by public utilities. 66 Pa. C.S. § 102; *West Penn Power Co. v. Pa. PUC*, 578 A.2d 75, 77 (Pa. Cmwlth. Ct. 199)). As such, all parts of a public utility’s customer service must be 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., Andracchio Johnson v. Duquesne Light Co.*, Docket No. C-2022-3032695, 2023 PA. PUC LEXIS 343 at *17, Order (Dec. 21, 2023) (citing *Lolly v. Duquesne Light Co.*, Docket No. C-2010-2167824, (Order entered May 9, 2011).

²³⁷⁶ 66 Pa.C.S. § 1501.

²³⁷⁷ 66 Pa.C.S. § 523.

²³⁷⁸ 6 Pa.C.S. §§ 1504, 1505.

²³⁷⁹ *Pa. PUC v. Pa. Gas & Water Co.*, 74 PUR4th 238, 244-45 (1986) (PG&W 1986); *Pa. PUC v. Phila. Gas Works*, 2000 Pa. PUC LEXIS 876, *41-44, (Order entered Nov. 22, 2000) (*PGW 2000*).

²³⁸⁰ *PUC v. Phila. Gas Works*, 2023 PA. PUC LEXIS 93, at 193 Order entered Apr. 20, 2023) (*PGW 2023*).

whether PGW’s proposed rates were just and reasonable: (1) PGW’s management quality, efficiency, and effectiveness; (2) service quality and reliability; and (3) effect on universal service.²³⁸¹ The Commission may also condition a portion of a utility’s requested rate increase on its compliance with service adequacy objectives.²³⁸² The burden of proof to demonstrate that a public utility’s services are adequate is on the utility; other parties are not required to demonstrate the utility services are inadequate for the Commission to decide that such is the case.²³⁸³

1. *Call Center Performance*

The call center is the means by which customers can speak to the Company about their service needs, file a complaint, ask for a payment plan or otherwise engage in negotiations. Columbia operates its customer call center with NiSource employees who operate 100% virtually to serve the customers of all of its gas distribution companies, including Pennsylvania.”²³⁸⁴

²³⁸¹ *PGW 2023* at 193-194, citing 52 Pa. Code §§ 69.2703(a)(6)-(8). Although the Commission’s citation was made in the context of a Policy Statement applicable to PGW’s cash flow ratemaking method, it would be antithetical to public policy and the principles of just and reasonable ratemaking to determine that Columbia’s status as an investor-owned utility somehow exempts it from meeting these standards. On the contrary, since Columbia is seeking a management performance award of 25 basis points, scrutiny of the ratemaking considerations identified for PGW becomes even more important in this case.

²³⁸² *Nat’l Utils. v. Pa PUC*, 709 A.2d 972, 977-78 (Pa. Cmwh. 1998) (quoting *D.C. Transit System, Inc. v. Wash. Metro. Transit Comm’n*, 466 F.2d 394, 417 (D.C. Cir. 1972)).

²³⁸³ 66 Pa.C.S. § 315(c); *Pa. PUC v. Duquesne Light Co.*, Docket No. R-2021-3024750, at n. 14 (Order entered Dec. 16, 2021) (“While Section 315(a) addresses the utility’s burden with respect to ‘rates,’ Section 315(c) also places on the utility the burden to show that the service and facilities it provides are ‘adequate, efficient, safe, and reasonable[.]’”

²³⁸⁴ OCA St. 6 at 11.

a. Columbia's Position

Columbia opposes OCA's proposal that any approved rate increase must include a requirement that Columbia maintain its 2024 call center performance levels throughout the FPFTY.²³⁸⁵

Columbia argues it has already taken various actions to improve its call center since 2023, which includes: (1) a new mentorship program for new CSRs; (2) a New Hire Engagement and Recognition program to improve retention of CSRs; (3) new CSR empathy training to improve customer satisfaction; and (4) new Real-Time Analyst positions to monitor call center performance in real time.²³⁸⁶ Based on its actions, Columbia indicates that in 2024, it answered 83% of calls within 30 seconds and achieved a 2.25% call abandonment rate²³⁸⁷ both of which exceed the Company's internal performance standards of 80% and 2.5%, respectively.²³⁸⁸

b. I&E's Position

I&E did not brief this issue.

c. OCA's Position

OCA argues that the Company failed to meet its own internal objective of answering 80% of calls within 30 seconds from 2021 to 2023.²³⁸⁹ Specifically, OCA

²³⁸⁵ OCA St. 6-R, at 5.

²³⁸⁶ Columbia St. No. 9-R, at 17-18.

²³⁸⁷ OCA St. 6, at 11-12.

²³⁸⁸ Columbia St. No. 9-R, at 18-19. In her Direct Testimony, Ms. Alexander states that Columbia does not appear to have established a formal target for call abandonment rates. OCA St. 6, p. 12. In Rebuttal, the Company clarified that it does have an internal performance standard for the call abandonment rate, which is 2.5%. Columbia St. No. 9-R, pp. 18-19.

²³⁸⁹ OCA St. 6 at 12.

asserted that between 2021 and 2023, the percentage of calls answered within 30 seconds was 74%, 74% and 73%, respectively.²³⁹⁰ This was the lowest amount Pennsylvania NGDC for that period.

Furthermore, Columbia's average call abandonment rate in the same period was 7%, 7% and 6%, respectively.²³⁹¹ This was the higher than two of the other four NGDCs in this period and was the second highest among other NGDCs in 2023.

OCA argues that any rate increase approved in this proceeding should require Columbia to maintain its 2024 call center performance.

d. OSBA's Position

OSBA did not brief this issue

e. TASK FORCE's Position

TASK FORCE did not brief this issue.

f. PSU's Position

PSU did not brief this issue.

²³⁹⁰ OCA St. 6 at 11-12. OCA witness Alexander attached to her Direct Testimony a Confidential Ex. BA-2 which provides the current call center performance for 2022 through March 2025.

²³⁹¹ OCA St. 6 at 11-12. OCA witness Alexander attached to her Direct Testimony a Confidential Ex. BA-2 which provides the current call center performance for 2022 through March 2025.

g. ALJs' Recommendation

Based upon the record evidence we agree with Columbia that there is no need to impose a requirement that Columbia maintain its 2024 call center performance numbers as part of this rate proceeding. While it is important that any potential rate increase for Columbia avoid the potential of an accompanying decrease in call center performance, we do not believe that the rate increase should be contingent on whether Columbia's future call center performance deteriorates below the 2024 performance level.²³⁹² Furthermore, the record already reflects that Columbia internal performance standards related to its call center and it has taken several steps to improve its call center performance since 2023, resulting in improvement in 2024 call center performance that meets Columbia's internal performance standards. Accordingly, we recommend that OCA's recommendation be rejected and that Columbia not be required to maintain its 2024 call center performance levels throughout the FPFTY as part of this rate proceeding.

2. *Customer Complaint Root Cause Analysis*

a. Columbia's Position

Columbia opposes OCA's proposal that it develop and implement a root cause analysis of customer disputes, including formal and informal complaints. Columbia maintains that that OCA has not demonstrated any need to develop and implement a root cause analysis for customer disputes and that its opinion that the Company is experiencing a "deterioration" is baseless.

Columbia argues that it already tracks complaints by issue and that its Regulatory Compliance department also holds regular meetings with the call center and

²³⁹² OCA St. 6SR, at 5.

other customer-facing teams to review complaint trends and address emerging concerns.²³⁹³ These collaborative discussions often lead to targeted refresher training or individualized coaching to reinforce proper procedures and improve customer interactions.²³⁹⁴ Columbia maintains that this current approach, which is focused on identifying patterns and addressing systemic issues through regular reviews and targeted interventions, is a more efficient and effective method for improving customer experience than undergoing a formal root cause analysis.²³⁹⁵

b. I&E's Position

I&E did not brief this issue

c. OCA's Position

OCA recommends that Columbia be required to develop and implement a root cause analysis of customer disputes, informal and formal complaints, and BCS findings, particularly those identified as “verified” and “infractions” on a regular basis.²³⁹⁶ OCA asserts that this analysis should be developed in consultation with stakeholders within six months of the adoption of the final order in this proceeding, including focus on a system-wide dive into trends and the underlying causes of complaints.²³⁹⁷

OCA contends that Columbia’s current process does not involve analysis of customer complaint trends and this lack of analysis and response to customer complaints

²³⁹³ Columbia St. No. 9-R, at 24.

²³⁹⁴ Columbia St. No. 9-R, at 24.

²³⁹⁵ Columbia St. No. 9-R, at 24.

²³⁹⁶ OCA St. 6, at 17.

²³⁹⁷ OCA St. 6, at 17, Ex. BA-3 (example of a proper root cause analysis).

and lack of proactive oversight is a significant defect in Columbia's customer service program.²³⁹⁸ OCA further contends that focusing solely on looking at individual complaints fails to recognize that a single complaint may reflect a more serious problem or concern.²³⁹⁹

OCA also argues that the Company's current tracking only constitutes the first step of a root cause analysis. The next steps would be 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.²⁴⁰⁰

d. OSBA's Position

OSBA did not brief this issue.

e. CAUSE-PA's Position

CAUSE-PA did not brief this issue.

f. TASK FORCE's Position

TASK FORCE did not brief this issue.

²³⁹⁸ OCA St. 6 at 16.

²³⁹⁹ *Id.*

²⁴⁰⁰ OCA St. 6SR at 9.

g. PSU's Position

PSU did not brief this issue.

h. ALJs' Recommendation

We agree with OCA's position. While Columbia currently tracks customer complaints and holds regular meetings with the call center and other customer-facing teams to review complaint trends and address emerging concerns, this is more likely to delay identification and resolution of customer trends or defects in training materials. OCA's recommendation to require Columbia to develop and implement a root cause analysis of customer disputes, complaints and BCS findings on a regular basis is likely to allow the Company to identify and resolve customer issues and defects in training materials prior to waiting for the issue to be identified via multiple BCS complaints similar to what occurred in a prior defective denial of service letter from the Company.

Accordingly, we recommend that the Commission require Columbia to develop and implement a more rigorous root cause analysis of customer disputes, informal and formal complaints, and BCS findings, particularly those identified as "verified" and "infractions" on a regular basis. The analysis should be developed in consultation with stakeholders within six months of the adoption of the final order in this proceeding. 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.

3. Use of Automated Scripts and Bots

Automated scripts and bots are electronic tools that are designed engage with a customer's account and eliminate calls to the call center. Since August 2021,

Columbia’s mobile app has had more than 724,444 downloads since it launched in August 2021, and the Company has recorded more than 352,000 Start, Stop & Move transactions through the Service Request Module since it went live in April 2021. These self-service options are providing customers with a quick and easy way to service their Columbia account – on their own time schedules – without necessitating a call to the call center.²⁴⁰¹

a. Columbia’s Position

Columbia agrees to OCA’s recommendation that the Company review its scripts for automated chat programs and IVR scripting to ensure compliance with consumer protection rights.²⁴⁰² Columbia further agrees to report its findings to its Universal Service Advisory Council (USAC) within 6 months of the final order entered in this proceeding.²⁴⁰³

b. I&E’s Position

I&E did not brief this issue.

c. OCA’s Position

OCA recommends that the Commission should require Columbia to review its scripts for any automated chat box or “app” to ensure that all the customer rights associated with these transactions are provided for customers. The results of the analysis

²⁴⁰¹ OCA St. 6 at 22.

²⁴⁰² OCA St. 6, at 22.

²⁴⁰³ Columbia St. No. 9-R, at 27.

should then be reported to the stakeholders within six months after the final order of this proceeding.²⁴⁰⁴

d. OSBA's Position

OSBA did not brief this issue.

e. CAUSE-PA's Position

OSBA did not brief this issue.

f. TASK FORCE's Position

OSBA did not brief this issue.

g. PSU's Position

PSU did not brief this issue

h. ALJs' Recommendation

We agree with Columbia that a review of the Company's scripts for automated chat box or "app" will benefit both the Company and its customers. However, we do not find that review of the scripts require collaboration from all parties. The Company's in-house review with reporting is sufficient.

²⁴⁰⁴ OCA St. 6 at 22; OCA St. 6SR at 15.

Accordingly, we recommend that Columbia be required to review its scripts for any automated chat box or “app” to ensure that all the customer rights associated with these transactions are provided for customers. We further recommend that Columbia be required to report results to the stakeholders within six months after the final order of this proceeding.

4. *Billing and Payment Policies*

a. *Columbia’s Position*

Columbia opposes OCA’s recommendation that the Company evaluate and report on the effectiveness of its payment plans and related policies and identify potential reforms or enhancements. The Company argues that there is no allegation that it is not adhering to the Public Utility Code, the Commission’s orders or regulations, or the Company’s Commission-approved tariff related to payment agreements.²⁴⁰⁵ To the contrary, the Company argues that it already strictly adheres to all collection procedures outlined in the Public Utility Code and regulations.²⁴⁰⁶

b. *I&E’s Position*

I&E did not brief this issue.

c. *OCA’s Position*

OCA recommends that Columbia be required to evaluate and report on its payment plans, their policies and identify the factors that contribute to the success or

²⁴⁰⁵ See OCA St. 6, at 17; OCA St. 6SR, at 11.

²⁴⁰⁶ Columbia St. No. 9-R, at 25.

failure of its agreements and use those results for potential reforms and changes that are likely to ensure greater success with payment plans.²⁴⁰⁷ OCA argues that its recommendation is supported by the fact that there was an increase in justified payment arrangement requests noted by the BCS from .03% in 2021 to .06 in 2023.²⁴⁰⁸

OCA indicates that the Company does not currently undertake any reasonable steps to evaluate the success or failure of its payment arrangements.²⁴⁰⁹ OCA contends that this should include the Company providing billing disclosures and notifications for customers who are shopping.

Furthermore, OCA argues that nowhere in the Competition Act does it state that an NGDC cannot provide customers with education about shopping. Columbia does provide information to customers about shopping. Moreover, OCA argues that 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.²⁴¹⁰

d. OSBA's Position

OSBA did not brief this issue.

e. CAUSE-PA's Position

CAUSE-PA did not brief this issue.

²⁴⁰⁷ OCA St. 6 at 17.

²⁴⁰⁸ OCA St. 6 at 14-15.

²⁴⁰⁹ OCA St. 6 at 18.

²⁴¹⁰ OCA St. 6SR at 15.

f. *TASK FORCE's Position*

TASK FORCE did not brief this issue.

g. *PSU's Position*

PSU did not brief this issue.

h. *ALJs' Recommendation*

We agree with OCA's position. While Columbia's current billing and payment policy does not violate the Code, Commission regulation or a Commission order, we cannot ignore even a small uptick in justified payment arrangement requests as this may be a signal of larger problems in the future. The fact that Columbia does not currently undertake any evaluation of the success or failure of its payment arrangements leaves little chance of improvement in this area.

Accordingly, we recommend that the Commission require Columbia to evaluate and report on its payment plans, its policies in this area and identify potential reforms and changes that are likely to ensure a greater success with payment plans. At a minimum, the Commission should require Columbia to target educational messages to the choice customers to emphasize how to compare NGS charges. The Company should be required to initiate this process within six months of a final order in this base rate proceeding.

5. *Field Termination Training Materials*

a. Columbia's Position

Columbia argues that its current policies and training for field technicians at the time of service termination are fully compliant with all regulatory requirements, and it is unnecessary to require Columbia to revise its field termination training materials.²⁴¹¹ The training materials include the four conditions under which termination cannot occur.²⁴¹² The Company further argues that OCA overlooks the multiple contacts the Company has with customers prior to termination that inform customers of their rights.²⁴¹³

The Company contends that the point of field contact is not the appropriate time to reiterate all consumer protections and rights due to safety risks on both sides.

b. I&E's Position

I&E did not brief this issue

c. OCA's Position

OCA recommends that the Company be required to evaluate the results of its termination and reconnection of service policies.²⁴¹⁴ OCA asserts that the Company does not evaluate its termination and reconnection of service and that this may contribute to higher uncollectible costs.

²⁴¹¹ Columbia St. No. 9-R, at 26.

²⁴¹² See OCA St. 6, at 18.

²⁴¹³ Columbia St. No. 9-R, at 26.

²⁴¹⁴ OCA St. 6 at 18.

OCA contends that it is not suggesting that field technicians recite all applicable customer rights, but it is arguing that Company employees be educated and trained on all potential rights that may be encountered and how to respond.²⁴¹⁵

OCA recommends that the Company evaluate and revise its training materials to comply with all the applicable consumer protections and rights for residential customers facing termination of service to include regular reporting 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.²⁴¹⁶

d. OSBA's Position

OSBA did not brief this issue.

e. CAUSE-PA's Position

CAUSE-PA did not brief this issue.

f. TASK FORCE's Position

TASK FORCE did not brief this issue.

g. PSU's Position

PSU did not brief this issue.

²⁴¹⁵ OCA St. 6SR at 12-13.

²⁴¹⁶ OCA St. 6 at 19.

h. ALJs' Recommendation

We agree with Columbia that the Company's current field termination training materials include the necessary components from the Commission's regulations on when termination cannot occur. Thereby the Company's employees are adequately trained. Moreover, employees cannot reasonably be expected to anticipate and be ready to respond to every scenario raised by a customer facing termination.

Additionally, there are multiple contacts with the customer prior to the actual termination which includes information on the customer's rights. Thus, the customers are sufficiently advised of their rights prior to termination and they always have the option to reach out to the call center. To require the employee to further discuss rights at the time of termination places an undue burden on the employees and exposes both the employee and customer to unneeded safety risks at a time when the situation may already be emotional.

N. Universal Service Programs

1. *Columbia's Speech Analytics Pilot*

In the Company's last base rate case at Docket No. R-2024-3046519,²⁴¹⁷ the parties agreed via settlement that the Company may propose a Speech Analytics Pilot

²⁴¹⁷ See *Columbia Gas of Pa. v. Pa. PUC, et al.*, Docket Nos. R-2024-3046519, *et al.*, at 21 (Order entered Nov. 21, 2024) ("Columbia will present a pilot program involving the use of speech analytics no later than the Company's next USECP review or base rate proceeding, whichever comes first. As discussed in the Direct Testimony of OCA witness Colton, the Company will include the USAC in the development of the speech analytics pilot. The Company may recover the costs thereof through its Universal Services Rider.").

Program that will use Speech Analytics Technology (SAT) to review customer calls to identify customers that may be eligible for Columbia's Customer Assistance Program (CAP) and were not referred to CAP during a customer service call. The Speech Analytics Pilot has two primary goals: (1) to verify that existing Company policies related to CAP referrals are being followed; and (2) to improve the rate of referrals to CAP by identifying key contacts, conversations, and words or phrases that would more quickly recognize a CAP-eligible customer and use those to adjust processes to make appropriate referrals to CAP as soon as possible.²⁴¹⁸ SAT is a tool that uses artificial intelligence natural language processing to analyze customer conversations from live or recorded audio data.²⁴¹⁹

a. Columbia's Position

Columbia contends that its Speech Analytics Pilot (SAP) Program should be approved as filed. In Phase I of the SAP, the Company will use SAT to screen recordings of calls related to payment arrangements, while in Phase II the Company will expand its call screening to recordings of a sample size of all call types, with the intention to expand screening to all calls.²⁴²⁰ In both phases, the Company will look for specific, words, phrases, or themes, as recommended by the Company's USAC,²⁴²¹ to identify customers that were not referred to CAP but may be eligible based on the conversation.²⁴²² The Company will consult the USAC to provide feedback regarding the appropriate words and phrases the SAT will use in the Pilot. The Company will also

²⁴¹⁸ Columbia St. No. 16, at 7.

²⁴¹⁹ *Id.*, at 8.

²⁴²⁰ *Id.*

²⁴²¹ Columbia's USAC is made up of low-income customer advocates who provide feedback and input on the Company's Universal Service programs.

²⁴²² Columbia St. No. 16, at 8.

share preliminary findings and ongoing results with its USAC.²⁴²³ The Company proposes recovering costs related to the SAP through its Rider USP.²⁴²⁴

The Company contends that its proposed Speech Analytics Pilot will have safeguards in place to address CAUSE-PA's concerns.

In regards to CAUSE-PA's concern that artificial intelligence (AI) tools like SAT "have the potential to infuse bias within the modeling, which could result in disproportionate outcomes based on factors such as race, ethnicity, gender, age, primary language, or education level," the Company states that it will not be using demographic data in its implementation of SAT.²⁴²⁵ Instead, the Company will focus on specific words and phrases to help identify eligible customers for enrollment in CAP.²⁴²⁶

The Company contends that CAUSE-PA's concern about relying solely on USAC has been adequately addressed.

The Company provides that it has existing, stringent guidelines in place regarding sharing sensitive customer information to third parties and data security in general, and has clarified that no raw data collected through the Speech Analytics Pilot will be shared with third parties.²⁴²⁷ The Company contends that CAUSE-PA's concern over sharing data collected through the Speech Analytics Pilot has been adequately addressed.

²⁴²³ *Id.*, at 10.

²⁴²⁴ *Id.*

²⁴²⁵ CAUSE-PA St. 1, at 32.

²⁴²⁶ Columbia St. No. 16-R, at 5-6.

²⁴²⁷ Columbia St. No. 16-R, at 6.

Columbia indicates that I&E opposes rate recovery of the Company's annual expense claim of \$300,000 for the Company's proposed Speech Analytics Pilot based on six reasons.²⁴²⁸ Columbia rejects all six of I&E's rational for opposing the Speech Analytics Pilot.

First, the Company contends that although use of SAT is not mandated by any statute or regulation, the Company is committed to its proposal in accordance with the settlement from the prior base rate case at R-2024-3046519. The Company also argues that use of pilots to improve Universal Service programs has been encouraged by the Commission.²⁴²⁹

Second, the Company contends that it has supported the \$300,000 annual expense of the Pilot, which it has indicated will cover Columbia's prorated portion of the SAT licensing fee, programming the SAT, analyzing results and training.²⁴³⁰

Third, the Company disagrees with OCA's stance that recovery of costs through the Rider USP will provide the Company with a guaranteed return without any metrics of success or corresponding benefits to customers.²⁴³¹ The Company contends that it will gauge the success of the Speech Analytics Pilot through increased CAP enrollments and the Company has committed to working with its USAC to develop reporting metrics and to provide regular updates to the USAC with the results.²⁴³²

Fourth, the Company contends that the SAT for the Speech Analytics Pilot is not currently being used in Columbia's call centers and was purchased for use in the

²⁴²⁸ I&E St. No. 2, at 100.

²⁴²⁹ Columbia St. No. 16-R, at 19.

²⁴³⁰ Columbia St. No. 16, at 9.

²⁴³¹ I&E St. No. 2, at 101.

²⁴³² Columbia St. No. 16-R, at 19.

proposed Pilot.²⁴³³ The Company further argues that all customers will benefit from this pilot based on acceleration of CAP enrollments thereby avoiding additional arrears accumulated prior to enrollment, preventing terminations and increasing successful monthly payments.²⁴³⁴ As such, recovering fees for the pilot from the overall customer base is justified.

Fifth, the Company contends that it will be developing metrics to assess the success of the pilot and that this is the purpose of doing a pilot.²⁴³⁵

Finally, the Company contends that the pilot should not be delayed for the next Universal Service and Energy Conservation Plan (USECP) proceeding. This will allow the Company to test the effectiveness of the Pilot and realize any benefits in time for any process changes to be incorporated in the Company's next USECP filing, which will not be until April 2030.²⁴³⁶

b. I&E's Position

I&E opposes the Company's annual budgeted expense claim of \$300,000 for the Speech Analytics Pilot (SAP) program to be recovered from ratepayers using the USP rider for multiple reasons.²⁴³⁷ First, I&E contends that the SAP program is not mandated by statute or regulation.²⁴³⁸ Second, I&E contends that the Company has failed to support its claimed expense of \$300,000.²⁴³⁹

²⁴³³ Columbia St. No. 16-R, at 19-20.

²⁴³⁴ Columbia St. No. 16-R, at 20.

²⁴³⁵ Columbia St. No. 16-R, at 19.

²⁴³⁶ Columbia St. No. 16-R, at 21.

²⁴³⁷ *Id.*

²⁴³⁸ *Id.*, at 101.

²⁴³⁹ *Id.*

Third, I&E argues that approval of the Company's SAP program as proposed provides the Company with a guaranteed expense recovery without any established measurement of success or real term benefit to ratepayers.²⁴⁴⁰

Fourth, I&E contends that the Company is currently using the following software applications for speech analytics, which eliminates the need for the SAP program: NICE Engage, Azure AI Services and Large Language Model.²⁴⁴¹

Fifth, I&E argues that there is no proven benchmark or other utilities SAT experience or performance metrics that justify or support the Company's expense claim. I&E claims that this means the proposed SAP is speculative thereby making the expense claim unjustified and unsupported in this proceeding.²⁴⁴²

Finally, I&E argues that the SAP pilot should be proposed in Columbia's Universal Service Energy Conservation Plan proceeding where all stakeholders would have an opportunity to review and evaluate the SAP.²⁴⁴³

c. OCA's Position

OCA recommends approval of the Company's SAP program agreed to in the last base rate proceeding and extended an additional year.²⁴⁴⁴

²⁴⁴⁰ *Id.*

²⁴⁴¹ *Id.* (citing I&E Ex. No. 2, Sch. 17).

²⁴⁴² *Id.*

²⁴⁴³ See I&E St. No. 2, pp. 102-103 (citing *Pa. PUC v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929 (Order Entered June 22, 2021); and *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835 (Order Entered February 19, 2021)).

²⁴⁴⁴ OCA Main Brief, at 311.

d. OSBA's Position

OSBA did not brief this issue.

e. CAUSE-PA's Position

CAUSE-PA opposes Columbia's SAP pilot on the basis that it is insufficient to address chronic under-enrollment of low-income customer in CAP. CAUSE-PA contends that the SAP adds cost, increases risk of bias and risk of data disclosure without clear or guaranteed outcomes that will benefit ratepayers. CAUSE-PA further contends that AI tools have potential for bias even when demographic data is not used based on language and phrases, which could lead to discriminatory outcomes.²⁴⁴⁵

CAUSE-PA contends that the Company should, in consultation with the USAC, identify a consultant trained in identifying potential bias in AI data modeling to help with development.²⁴⁴⁶

CAUSE-PA also expresses concern on use of speech analytics data to make decisions impacting individual consumers and how the data will be protected since there is no statute or regulation governing non-disclosure. CAUSE-PA argues that any data collected should be kept within a closed system and not used to train external or third-party AI systems.²⁴⁴⁷ CAUSE-PA recommends that the Company should be required to memorialize its commitment to not disclose raw data with third parties and that any shared data would be scrubbed and limited to high-level data focusing on lessons learned and changes in policy or procedure.²⁴⁴⁸

²⁴⁴⁵ CAUSE-PA St. 1 at 32.

²⁴⁴⁶ *Id.*

²⁴⁴⁷ *Id.* at 32-33.

²⁴⁴⁸ CPA St. 16-R at 5.

f. TASK FORCE Position

TASK FORCE did not brief this issue.

g. PSU's Position

PSU did not brief this issue.

h. ALJs' Recommendation

In its last base rate case at PUC Docket No. R-2024-3046519, the parties agreed that Columbia would present a speech analytics pilot program involving use of speech analytics at the earlier of its next Universal Service and Energy Conservation Plan (USECP) review or its next base rate proceeding. The Opinion and Order in that decision also indicated that the Company would include USAC in the development of the pilot and that the Company may recover the costs thereof through its Universal Services Rider. *Pa. Pub. Util. Comm'n v. Columbia Gas of Pa., Inc.*, Docket No. R-2024-3046519 (Opinion and Order entered Nov. 21, 2024).

In accordance with the opinion and order, Columbia has presented its SAP program as part of the current base rate filing. We agree with Columbia's position and recommend that its SAP program should be approved. Columbia proposes to develop its SAP program in two phases. In Phase I, the Company will use SAT to screen recordings of calls related to payment arrangements, while in Phase II the Company will expand its call screening to recordings of a sample size of all call types, with the intention to expand screening to all calls.²⁴⁴⁹ In both phases, the Company will look for specific, words,

²⁴⁴⁹ *Id.*

phrases, or themes, as recommended by the Company's USAC,²⁴⁵⁰ to identify customers that were not referred to CAP but may be eligible based on the conversation.²⁴⁵¹ To develop this, the Company will consult the USAC to provide feedback regarding the appropriate words and phrases the SAT will use in the Pilot. The Company will also share preliminary findings and ongoing results with its USAC.²⁴⁵² The estimated annual budget for the SAP is \$300,000, which includes the prorated portion of the annual licensing fee for SAT, programming the SAT, analyzing results, and related training.²⁴⁵³

Columbia's development plan for the SAP is sufficient for a pilot. The SAP will allow Columbia to gather needed data to determine its level of success and whether it should be expanded. We agree with CAUSE-PA's that recommends that the Company should be required to memorialize its commitment to not disclose raw data with third parties and that any shared data would be scrubbed and limited to high-level data focusing on lessons learned and changes in policy or procedure.

Accordingly, it is recommended that the Commission approve Columbia's SAP program as presented with the modification that the Company memorialize its commitment on data sharing.

²⁴⁵⁰ Columbia's USAC is made up of low-income customer advocates who provide feedback and input on the Company's Universal Service programs.

²⁴⁵¹ Columbia St. No. 16, at 8.

²⁴⁵² *Id.*, at 10.

²⁴⁵³ *Id.*, at 9.

2. *The Company's CAP Arrearage Pilot Program*

a. *Columbia's Position*

The Company is proposing a two-year CAP Arrearage Pilot Program (CAP Pilot) to help customers who were removed from CAP for non-payment return to the program. The Company proposes a \$100,000 budget for this pilot. Columbia estimates that the CAP Pilot will provide assistance to at least 153 customers and has budgeted for up to 270 customers based on average arrears.²⁴⁵⁴ Under the proposed CAP Pilot, the Company will issue grants up to \$650 for the payment of CAP arrears to facilitate re-entry into CAP. Customers will be approved for the grant by the current CAP administrator, Dollar Energy Fund (DEF), while the Company's Energy Assistance Team (EAT) will be responsible for posting the grants to customer accounts. Once the grant is posted, the customer will be re-enrolled in CAP.²⁴⁵⁵

To be eligible for the CAP Pilot, the Company contends that customers must meet all existing CAP requirements as specified in the Company's USECP and must have outstanding CAP arrears. Customers will be limited to one grant through the CAP Pilot.²⁴⁵⁶

The Company indicates that no party opposes the proposed CAP Pilot and the only proposed modification is by CAUSE-PA who recommends that the CAP Pilot be extended to three years with a budget of \$244,200 with targeted outreach to all potentially eligible customers.²⁴⁵⁷

²⁴⁵⁴ Columbia St. No. 16., at 3, 5.

²⁴⁵⁵ *Id.*, at 3.

²⁴⁵⁶ *Id.*, at 4.

²⁴⁵⁷ CAUSE-PA St. 1, at 35, 37.

The Company opposes CAUSE-PA's recommended expansion of the CAP Pilot and believes a two-year pilot with a budget of \$100,000 will provide enough data to analyze results and determine effectiveness of the CAP Pilot.²⁴⁵⁸

The Company contends that the \$100,000 budget would allow it to process 270 qualified applicants with an average arrear of \$370, which the Company anticipates is within its internal team's capacity to manage while providing a good sample size to evaluate the impact of the CAP Pilot.²⁴⁵⁹ The Company contends that it is committed to reviewing the CAP Pilot data points to be collected with its USAC and filing annual results at the Company's most recent USECP docket.²⁴⁶⁰

b. I&E's Position

I&E did not brief this issue.

c. OCA's Position

OCA indicates approval of the CAP Pilot program proposed by the Company.

d. OSBA's Position

OSBA did not brief this issue

²⁴⁵⁸ Columbia St. No. 16-R, at 6.

²⁴⁵⁹ Columbia St. No. 16, at 5.

²⁴⁶⁰ Columbia St. No. 16-R, at 7.

e. CAUSE-PA's Position

CAUSE-PA supports the Company's CAP Pilot program with modification. CAUSE-PA argues that the Company has identified 4,022 confirmed low-income customers who were removed from CAP and are ineligible to reenter the program because of owing arrears.²⁴⁶¹ 3,960 of those customers have CAP arrears of \$650 or less and the average arrear is \$370.²⁴⁶² CAUSE-PA contends that the current two-year CAP Pilot would only assist 4% to 7% of the eligible customers with arrears of \$650 or less.²⁴⁶³ CAUSE-PA argues that both the budget and the timeframe for this pilot are insufficient to address the identified need or adequately evaluate the pilot.²⁴⁶⁴ Accordingly, CAUSE-PA recommends that the Company be required to increase the budget for the CAP pilot to \$244,200 per year and extend the time for the pilot until the filing of the Company's next USECP.

f. TASK FORCE's Position

TASK FORCE did not brief this issue.

g. PSU's Position

PSU did not brief this issue.

²⁴⁶¹ CAUSE-PA St. 1 at 34 (citing CPA St. 16, at 4).

²⁴⁶² *Id.* (citing CPA St. 16, at 4).

²⁴⁶³ *Id.*

²⁴⁶⁴ *Id.*

h. ALJs' Recommendation

There is no stated opposition to the Company's CAP Pilot proposal and we agree with the proposal as stated. The Company's two-year pilot will benefit between 153 and 270 eligible customers who were removed from CAP due to arrears by issuance of grants up to \$650. Upon posting of the grant, the customer will be re-enrolled in CAP.

We recognize CAUSE-PA's desire to help more eligible customers by recommending an increase in the budget and timeframe for the pilot, but we believe the Company's proposal will help some customers and will provide the needed data to assess the program.

Accordingly, we recommend that the Commission grant the Company's CAP Pilot proposal with a budget of \$100,000.

3. Company's Proposal To Recover Energy Assistance Team Costs Through Rider USP

a. Columbia's Position

The Company proposes to recover Energy Assistance Teams (EAT) costs associated with the administration of Universal Services programs like CARES and CAP through its Rider USP.²⁴⁶⁵ The Company's EAT is responsible for the administration of all energy assistance activities. EAT administers CAP, LIHEAP, CRISIS, the Homeowner Assistance Fund, the Emergency Rental Assistance Program, hardship funds, and the Security Deposit Assistance Fund, and all EAT responsibilities are directly

²⁴⁶⁵ Columbia St. No. 16, at 10.

related to the administration of energy assistance programming.²⁴⁶⁶ All CAP external administration costs and all costs associated with the LIURP program are already recovered through Rider USP.²⁴⁶⁷

The Company contends that Universal Services costs associated with the EAT are currently recovered in base rates.²⁴⁶⁸ The Company's proposal would shift approximately \$220,000 in annual costs from recovery under Operation and Maintenance expenses to the Rider USP. The Company proposes using existing processes to ensure the allocated EAT costs are only recovered through the Rider USP.²⁴⁶⁹ The Company also proposes minor amendments to the Rider USP provisions in its tariff to account for this change.²⁴⁷⁰

The Company argues that this shift in funding is necessary because EAT is currently experiencing additional workload due to new outreach coordination, including the coordination of data sharing from the Department of Human Services (DHS) and the streamlining of CAP applications, which requires additional staffing. According to the Company, recovering these additional labor costs through Rider USP will permit the Company to appropriately staff for fluctuating demands.²⁴⁷¹ The Company maintains that its internal labor costs related to the outreach and delivery of LIHEAP, CAP, and other energy assistance programs are more appropriately recovered through Rider USP and not base rates.

²⁴⁶⁶ *Id.*, at 11.

²⁴⁶⁷ *Id.*, at 12.

²⁴⁶⁸ Columbia St. No. 16, at 10.

²⁴⁶⁹ *Id.*, at 14.

²⁴⁷⁰ *Id.*, at 15. Specifically, the Company is proposing to add a sentence to the first paragraph under the calculation of the rate to state "and any other replacement or Commission- mandated Universal Service Program or low-income program that is implemented during the period that the rider is in effect." *Id.*

²⁴⁷¹ *Id.*, at 12.

The Company contends that the EAT costs result directly from the administration of Universal Services and energy assistance and the number of employees that staff the EAT is identified and approved in the Company's USECP.²⁴⁷² The Company further argues that the role of the EAT has evolved in recent years to meet the growing demands of coordinating account review and grant approvals with state and local agencies, implementing program changes agreed to in prior rates cases that were proposed by low-income advocates, and participating in the DHS data sharing agreement.²⁴⁷³ Regarding budgets, the Company asserts that it has established processes in place for the recovery of internal labor and expenses associated with the LIURP program through Rider USP. The Company also claims that multiple audits have found no evidence of over-recovery related to internal administrative costs of LIURP. The Company proposes that it would use these existing processes to ensure these EAT costs are only recovered through the Rider USP.²⁴⁷⁴

The Company also rejects OCA's claim that CARES costs are not sufficiently related to assistance programs to warrant recovery. The Company contends that it has thoroughly demonstrated that all of the EAT team responsibilities relate to the delivery of Universal Services and energy assistance to customers.²⁴⁷⁵

The Company contends that it has accounted for CAUSE-PA's concerns that recovery through Rider USP should be limited to costs for staff that work exclusively on the Company's Universal Services programs.²⁴⁷⁶ The Company argues that it has demonstrated that all EAT responsibilities are directly related to delivering Universal Services. Further, the Company's proposed tariff language specifies that cost recovery

²⁴⁷² Columbia St. No. 16-R, at 15.

²⁴⁷³ *See* Columbia St. No. 16, at 13; Columbia St. No. 16-R, p. 15.

²⁴⁷⁴ Columbia St. No. 16, at 14.

²⁴⁷⁵ Columbia St. No. 16, at 11.

²⁴⁷⁶ CAUSE-PA St. 1, at 61.

under the Rider USP is limited to Commission-mandated Universal Service Programs and low-income programs.²⁴⁷⁷

b. *I&E's Position*

I&E opposes the Company's proposal to move EAT labor cost recovery from base rates to the USP rider for two reasons.²⁴⁷⁸ First, I&E contends that moving EAT cost recovery from base rates to USP rider provides Columbia a guaranteed recovery of EAT labor costs and eliminates the Commission's authority to review reasonableness and prudence of EAT labor costs.²⁴⁷⁹ Second, I&E denies that shifting EAT cost recovery through the USP rider will permit the Company to appropriately staff for fluctuating demands

c. *OCA's Position*

OCA opposes the Company's proposal 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. OCA contends that the proposed costs are not appropriate for recovery in the Rider USP and granting the Company's proposal would expand the scope of the Rider USP.

OCA contends that in Calendar Year 2024, Columbia incurred \$65,790 in internal CAP administrative costs. In the twelve months ending March 2025, CAP administrative costs were virtually identical (\$67,027). OCA contends that the Company does not budget internal CAP administrative costs. OCA argues that the purpose of recovering costs through the Rider USP is to ensure that budgeted (or projected) costs can

²⁴⁷⁷ Columbia St. No. 16, at 15.

²⁴⁷⁸ *Id.*, at 105.

²⁴⁷⁹ *Id.*; See also I&E St. No. 2-SR, at 65-66.

be reconciled against actual costs. However, Columbia was unable to provide details on the specific dollar amount of administrative costs for the CAP budgeted. The Company was also unable to disaggregate its internal administrative costs by various cost categories, including “overhead,” “information technology,” and “contingency,” and “other” (specifying what the “other” is), the Company could not provide those dollars.²⁴⁸⁰ Based on this, OCA contends that these costs should not be collected through the Rider USP.²⁴⁸¹

OCA further argues that the Company is seeking to recover the costs for various miscellaneous programs through its Rider USP and this should not be allowed because the Rider USP is not a mechanism for Columbia Gas to use to recover costs imposed by federal and state agencies nor is not intended to be the catch-all through which Columbia Gas is to recover the costs of miscellaneous temporary federal and/or state programs.²⁴⁸² OCA contends that the 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.”²⁴⁸³

Accordingly, OCA opposes the Company’s proposal to move \$220,000 from base rates to the Rider USP be denied.

d. OSBA’s Position

OSBA did not brief this issue.

²⁴⁸⁰ OCA St. 5 at 112.

²⁴⁸¹ OCA St. 5 at 112.

²⁴⁸² OCA St. 5 at 114 (citing Columbia St. 16 at 14).

²⁴⁸³ OCA St. 5SR at 16.

e. CAUSE-PA's Position

CAUSE-PA opposes the Company's proposal to recover the cost of the EAT through its Rider USP rather than its current practice of recovering that cost through base rates except to the extent that the costs are attributable to staff that work exclusively on the Company's Universal Service Programs.²⁴⁸⁴ CAUSE-PA argues that assignment of salaries to the Rider USP that are not exclusively attributable to the administration of Universal Service Programs, runs the risk of the Company artificially inflating its Rider USP costs, which hamper the ability of the Company to fund necessary programs in the long term.²⁴⁸⁵

CAUSE-PA also opposes the Company's proposal to incorporate additional language into its Rider USP.²⁴⁸⁶ Specifically, the Company proposes adding a sentence to the first paragraph under the calculation of the rate to state that states, "and any other replacement or Commission-mandated Universal Service Program or low-income program that is implemented during the period that the rider is in effect."²⁴⁸⁷ CAUSE-PA argues that this would interfere with the Commission's ability to ensure that costs are appropriately allocated between what should be collected in base rates and what should be collected through the rider.²⁴⁸⁸ For these reasons, CAUSE-PA argues that the Commission should reject Columbia's tariff language and require the Company to list the specific programs and costs that are recovered under rider USP.

f. TASK FORCE's Position

TASK FORCE did not brief this issue.

²⁴⁸⁴ CPA St. 16 at 10; CAUSE-PA St. 1 at 61.

²⁴⁸⁵ *Id.*

²⁴⁸⁶ *Id.*

²⁴⁸⁷ Proposed Tariff at p 146.

²⁴⁸⁸ CAUSE-PA St. 1 at 61.

g. PSU's Position

PSU did not brief this issue.

h. ALJs' Recommendation

The Company is proposing to recover EAT employee costs through the USP rider.²⁴⁸⁹ Currently, the Universal Service Costs associated with the Company's EAT, which handles the administration of LIHEAP/CRISIS and CAP accounting are recovered in base rates.²⁴⁹⁰ The Company wants to remove recovery of the EAT employee costs, which is approximately \$220,000 annually, from base rates and move recovery to the USP rider.²⁴⁹¹

We disagree with Columbia's proposal. Commission precedent allows rider recovery of universal-service costs where supported; for Columbia, CAP third-party administrative costs have already been recovered through Rider USP. Whether internal EAT labor belongs in the Rider USP is a case-specific determination made in the rate case/USECP record; there is no statewide rule requiring or forbidding inclusion.

We agree that moving EAT cost recovery from base rates to USP rider provides Columbia a guaranteed recovery of EAT labor costs and eliminates the Commission's authority to review reasonableness and prudence of EAT labor costs.²⁴⁹² We disagree with Columbia's claim that shifting EAT cost recovery through the USP rider will permit the Company to appropriately staff for fluctuating demands for

²⁴⁸⁹ See I&E St. No. 2, at 103-104 (citing Columbia St. No 16, at 10-12).

²⁴⁹⁰ *Id.*

²⁴⁹¹ *Id.*, at 104.

²⁴⁹² *Id.*; See also I&E St. No. 2-SR, at 65-66.

additional staffing.²⁴⁹³ Fluctuation in staffing needs is a routine event in business operations for the Company at large for various reasons, which is required to be managed appropriately as the staffing need changes.²⁴⁹⁴ Additionally, keeping all staffing costs under O&M ensures no duplicate recovery of related costs in base rate proceedings.²⁴⁹⁵ Thus, if this request is approved, the Company could add or remove employees without scrutiny.²⁴⁹⁶

As such, we recommend that the Commission reject the Company's proposal to move EAT labor cost recovery from base rates to the USP rider.

4. *Proposal To Automatically Enroll LIHEAP Grant Recipients Into CAP*

a. *Columbia's Position*

CAUSE-PA proposes that the Company automatically enroll into CAP all customers that receive a LIHEAP grant and agree to share their information via the DHS data sharing agreement.²⁴⁹⁷ CAUSE-PA asks the Commission to require Columbia to file a petition to amend its USECP to implement the auto-enrollment.²⁴⁹⁸ CAUSE-PA claims that the auto-enrollment process would “help to reduce administrative burdens for both the Company and the customer.”²⁴⁹⁹ Columbia argues that auto-enrollment would only be possible for a portion of the customers identified by CAUSE-PA. Customers who have previously participated in CAP may not be eligible for enrollment due to an existing CAP balance, failure to cooperate with weatherization, or if the receipt of the LIHEAP

²⁴⁹³ I&E St. No. 2, at 103-104; I&E M.B., at 29-31.

²⁴⁹⁴ I&E St. No. 2, at 103-104; I&E M.B., at 29-31.

²⁴⁹⁵ I&E St. No. 2-SR, at 66.

²⁴⁹⁶ I&E St. No. 2, at 105.

²⁴⁹⁷ CAUSE-PA St. 1, at 25.

²⁴⁹⁸ CAUSE-PA St. 1, at 25.

²⁴⁹⁹ CAUSE-PA St. 1, at 26.

grant causes a credit on the account.²⁵⁰⁰ As a result, the Company would need to manually review and follow-up on the accounts not eligible for CAP, which in turn would lead to a significant increase in time and resources of the Company’s EAT.²⁵⁰¹

Columbia also contends that customers who are automatically enrolled in CAP would not have the opportunity to review and agree to the responsibilities associated with CAP participation. These program responsibilities include providing proof of income to the Company on a regularly scheduled basis, notifying the Company of any changes in household size or income, agreeing to make bill payments every month, accepting changes to CAP approved by the Commission, and cooperating with weatherization.²⁵⁰² In support of this claim, Columbia points out that the Commission recently rejected a Peoples Natural Gas Company petition (Peoples Petition) seeking to automatically enroll customers into CAP using the shared DHS data in part because “customers who are auto-enrolled in CAP may not understand the program’s requirements and restrictions.”²⁵⁰³

The Company also argues that customers should be given the option to determine whether CAP participation aligns with their household’s financial needs. The Company cannot decide for its customers whether CAP is financially beneficial for their households.²⁵⁰⁴ Moreover, the Company insists that CAP enrollment is distinct from other energy assistance programs, and interest in energy assistance generally does not guarantee that a customer wants be enrolled in an ongoing program with specific requirements like CAP. Furthermore, the Company contends that the language relied on by CAUSE-PA

²⁵⁰⁰ Columbia St. No. 16-R, p. 2.

²⁵⁰¹ Columbia St. No. 16-R, p. 3.

²⁵⁰² Columbia St. No. 16-R, p. 3.

²⁵⁰³ *See Petition of Peoples Natural Gas Company LLC – to Amend 2019-2023 Universal Service and Energy Conservation Plan*, Docket Nos. P-2024-3052324, et al., (Order entered Apr. 24, 2025), p. 20.

²⁵⁰⁴ Columbia St. No. 16-R, p. 2.

indicating a customer's preference for "help" with enrollment and does not place customers on notice that enrollment could be automatic.

Columbia also disagrees with CAUSE-PA's amendments making the auto-enrollment opt-out, and only auto-enrolling "households which are clearly eligible for and will benefit from CAP."²⁵⁰⁵ The Company maintains that said action would still increase program administration costs, including related to the manual follow-up required for customers that opt-out or by reviewing LIHEAP data to screen for CAP eligibility.²⁵⁰⁶

Citing to the Peoples Petition, Columbia argues that none of CAUSE-PA's suggestions guarantee Commission approval and does not resolve the concerns the Commission pointed out with auto-enrollment, including stale income information from the DHS data, differing eligibility and program requirements between LIHEAP and CAP, the impact of enrollment on customers with natural gas suppliers, establishing the proper CAP payment amount and arrearage threshold, and educating auto-enrolled customers on the benefits, responsibilities, and restrictions that come with CAP and how to opt out.²⁵⁰⁷ As such, the Company opposes CAUSE-PA's automatic enrollment proposal.

b. *I&E's Position*

I&E did not brief this issue.

²⁵⁰⁵ CAUSE-PA St. No. 1SR, p. 25.

²⁵⁰⁶ See CAUSE-PA St. No. 1SR, pp 24-27; Columbia St. No. 16-R, pp. 2-3.

²⁵⁰⁷ See *Petition of Peoples Natural Gas Company LLC – to Amend 2019-2023 Universal Service and Energy Conservation Plan*, Docket Nos. P-2024-3052324, et al., pp. 9-23 (Order entered Apr. 24, 2025).

c. OCA's Position

OCA did not brief this issue.

d. OSBA's Position

OSBA did not brief this issue.

e. CAUSE-PA's Position

CAUSE-PA asserts that in 2024, 6,481 of Columbia's LIHEAP recipients were not enrolled in CAP, despite the fact they were known by the Company to be income-eligible for a lower rate through CAP based on their qualification for LIHEAP – which has the same income eligibility threshold.²⁵⁰⁸ To address this deficiency, CAUSE-PA proposes that Columbia should seek to further leverage data obtained through the Pennsylvania Department of Human Service (DHS) LIHEAP Data Sharing Program to automatically enroll LIHEAP recipients into CAP.²⁵⁰⁹

On June 13, 2024, in anticipation of the DHS LIHEAP Data Sharing Program, the Commission issued an Order encouraging utilities to participate in the data sharing program for uses such as streamlined outreach and enrollment and/or auto-recertification.²⁵¹⁰ Through the program, if a LIHEAP recipient checks a box on their LIHEAP application providing their affirmative consent, DHS will share detailed income and household composition data for LIHEAP recipients with participating utilities. To participate, utilities must sign a data sharing agreement with DHS, which includes

²⁵⁰⁸ *Id.* at 25.

²⁵⁰⁹ *Id.* at 25.

²⁵¹⁰ *2023 Review of All Jurisdictional Fixed Utilities' Universal Service Programs*, Docket No. M-2023-3038944, at 5 (Order entered June 13, 2024).

detailed data security parameters and affirmatively requires utilities to use the data for the limited purpose of enrolling or recertifying eligible households into the utilities’ universal service programs.²⁵¹¹

CAUSE-PA indicates that for the utility to receive data about a LIHEAP recipient, that customer must affirmatively consent to participate in the data sharing program – *explicitly indicating they want DHS to share information from their application “to help enroll [their] household in a utility or energy assistance program.”*²⁵¹² As such, CAUSE-PA contends that LIHEAP recipients that opt in to the data sharing program are affirmatively indicating that they want and need help to enroll in CAP.

CAUSE-PA further indicates that Columbia developed a process to simplify enrollment and recertification processes for CAP through the use of LIHEAP data, but these processes still fall short of fully leveraging the benefits possible through full utilization of this critical data sharing program.²⁵¹³

CAUSE-PA argues that adoption of an automated enrollment process through utilization of shared LIHEAP data would help to reduce administrative burdens for both the Company and the customer, which in turn would help to improve CAP enrollment rates and better mitigate the negative impact of Columbia’s proposed rate increase on low income families.²⁵¹⁴ At the same time, an automated enrollment process would promote administrative efficiencies within the program by reducing unnecessary and duplicative administrative costs.²⁵¹⁵

²⁵¹¹ CAUSE-PA St. 1 at 26.

²⁵¹² CAUSE-PA St. 1-SR at 25.

²⁵¹³ CAUSE-PA St. 1 at 28.

²⁵¹⁴ CAUSE-PA St. 1 at 26.

²⁵¹⁵ *Id.* at 26.

CAUSE-PA indicates that any automated enrollment process would require development and proposes that the Commission require Columbia to develop a detailed proposal and file a Petition to amend its USECP to implement an auto-enrollment process within 120 days of the Commission’s final order in this case.²⁵¹⁶ CAUSE-PA further contends that Columbia should be required to follow the Commission’s recent guidance in response to a recent Petition from Peoples Gas for permission to initiate a LIHEAP auto enrollment program.²⁵¹⁷ CAUSE-PA contends that Columbia should consult with its USAC members and seek their feedback regarding the design features of the auto-enrollment process.²⁵¹⁸

CAUSE-PA asserts that these details should be addressed in Columbia’s Petition and should not be used as an excuse to eschew efforts to leverage available data to streamline application requirements and benefit its low income customers.²⁵¹⁹

CAUSE-PA also opposes the Company’s assertion that a LIHEAP grant is enough to create an affordable bill for customers, without CAP enrollment, and believes that Company provides no support for this contention.²⁵²⁰ CAUSE-PA contends that LIHEAP only reaches an estimated 30% of eligible households and is not adequately funded to address existing unaffordability – *let alone increased unaffordability because of Columbia’s rate increase*.²⁵²¹ In the 2024/2025 LIHEAP program year, the average

²⁵¹⁶ *Id.* at 26.

²⁵¹⁷ *Petition of Peoples Natural Gas Company LLC – to Amend 2019-2023 Universal Service and Energy Conservation Plan, Order, Docket No. P-2024-3052324* (Order entered Apr. 24, 2025). The Commission initially denied Peoples Petition without prejudice, though the case remains pending reconsideration at this time. See CAUSE-PA St. 1-SR at 24.

²⁵¹⁸ *Id.* at 26.

²⁵¹⁹ CAUSE-PA St. 1-SR at 26.

²⁵²⁰ *Id.* at 26.

²⁵²¹ CAUSE-PA St. 1 at 19.

LIHEAP Cash grant for gas heating customers was just \$280; whereas, under Columbia's proposed increase, the total bill for a typical residential customer would increase by approximately \$190/year.²⁵²² Thus, CAUSE-PA argues that Columbia's proposed increase would subsume 68% of the average 2024/2025 cash grant for gas consumers.²⁵²³ LIHEAP funding declined precipitously from the 2023/2024 program year to 2024/2025 program year, and continued federal funding for the program is uncertain.²⁵²⁴

CAUSE-PA argues that Columbia is statutorily obligated to ensure that its CAP is adequately funded and accessible to those in need. CAUSE-PA contends that Columbia's rates are already the highest among all NGDCs on an average basis so with its proposal to raise rates even higher, the Company must take steps to improve the enrollment of eligible customers in CAP.²⁵²⁵ CAUSE-PA argues that leveraging LIHEAP data to implement automated CAP enrollment is a necessary step in achieving that goal.²⁵²⁶

f. TASK FORCE's Position

TASK FORCE did not brief this issue.

g. PSU's Position

PSU did not brief this issue.

²⁵²² *Id.*

²⁵²³ *Id.*

²⁵²⁴ *Id.*

²⁵²⁵ 66 Pa.C.S. § 2203(8); CAUSE-PA St. 1-SR at 26.

²⁵²⁶ CAUSE-PA St. 1-SR at 26.

h. ALJs' Recommendation

CAUSE-PA proposes that the Company automatically enroll into CAP all customers that receive a LIHEAP grant and agree to share their information via the DHS data sharing agreement.²⁵²⁷ CAUSE-PA asks the Commission to require Columbia to file a petition to amend its USECP to implement the auto-enrollment.²⁵²⁸

Although, CAUSE-PA asserts that the auto-enrollment process would help to reduce administrative burdens for both the Company and the customer, we agree with Columbia that auto-enrollment would only be possible for a portion of the customers identified by CAUSE-PA.²⁵²⁹ As indicated by Columbia, customers who have previously participated in CAP may not be eligible for enrollment due to an existing CAP balance, failure to cooperate with weatherization, or if the receipt of the LIHEAP grant causes a credit on the account.²⁵³⁰ This would require the Company to manually review and follow-up on the accounts not eligible for CAP, which in turn could lead to a significant increase in time and resources of the Company's EAT.²⁵³¹

Moreover, customers who are automatically enrolled in CAP would not have the opportunity to review and agree to the responsibilities associated with CAP participation, which would include the responsibility to: (a) provide proof of income to the Company on a regularly scheduled basis, (b) notify the Company of any changes in household size or income, (c) agree to make bill payments every month, (d) accept changes to CAP approved by the Commission, (e) cooperate with weatherization.²⁵³² We agree with the Company that it should decide for its customers whether CAP is

²⁵²⁷ CAUSE-PA St. 1, p. 25.

²⁵²⁸ CAUSE-PA St. 1, p. 25.

²⁵²⁹ CAUSE-PA St. 1, p. 26.

²⁵³⁰ Columbia St. No. 16-R, p. 2.

²⁵³¹ Columbia St. No. 16-R, p. 3.

²⁵³² Columbia St. No. 16-R, p. 3.

financially beneficial for their households and we do not believe the option to opt-out of auto-enrollment is sufficient.²⁵³³

Accordingly, we recommend that the Commission reject CAUSE-PA's proposal to enroll into CAP all customers that receive a LIHEAP grant and agree to share their information via the DHS data sharing agreement.

5. *Proposals For Additional Cap Screening*

a. *Columbia's Position*

Both CAUSE-PA and OCA recommend a more thorough screening of applicants and customers when customers contact Columbia's call center to connect or transfer service.²⁵³⁴ Under these proposals, the Company would be required to screen all applicants for their income level at the time they establish or transfer service to identify whether they are low-income or may be eligible for energy assistance.²⁵³⁵ However, the Company argues that the majority of customers contacting Columbia to initiate or transfer service are not identified as low-income and approximately 82% of the Company's customer base does not meet low-income criteria.²⁵³⁶ The Company further argues that requiring financial information during these often initial interactions with customers may be perceived as intrusive, potentially leading to a negative first impression and diminished customer satisfaction.²⁵³⁷ The Company also contends that adopting these proposals will increase the average call handle time and, therefore, could significantly impact current call center performance metrics.

²⁵³³ Columbia St. No. 16-R, p. 2.

²⁵³⁴ CAUSE-PA St. 1, pp. 30-31, OCA St. 5, p. 65.

²⁵³⁵ CAUSE-PA St. 1, pp. 30-31; OCA St. 5, p. 68.

²⁵³⁶ Columbia St. No. 16-SR, p. 4.

²⁵³⁷ Columbia St. No. 16-R, p. 4.

Additionally, CAUSE-PA recommends that the Company begin to review CAP accounts on a monthly basis to ensure customers are receiving the lowest payment option.²⁵³⁸ The Company argues that its CAP account review process is automated, and accounts are already reviewed monthly to determine the lowest monthly payment option for each account.²⁵³⁹ As such, the Company contends that CAUSE-PA's recommended screening is already embedded in the Company's existing review process.

b. I&E's Position

I&E did not brief this issue.

c. OCA's Position

OCA proposes that Columbia screen customers, at the time they apply for service, to determine whether these new customers might be identified as "Confirmed Low-Income" customers as well as whether these customers should be enrolled in the Company's CAP.²⁵⁴⁰ OCA further proposes that the Company develop a script for screening new customers for low-income status in consultation with the Company's Universal Services Advisory Committee (USAC). The basis for this proposal is OCA's assertion that the Company's outreach for its Universal Service programs is largely reactive.²⁵⁴¹

OCA believes that the problem with this approach is that providing outreach at a time of crisis means that the customer may be less inclined to take action

²⁵³⁸ CAUSE-PA St. 1, p. 38.

²⁵³⁹ Columbia St. No. 16-R, pp. 7-8.

²⁵⁴⁰ OCA St. 5 at 65.

²⁵⁴¹ OCA St. 5 at 65-66.

that may provide speculative benefits in the future and is more inclined to make a decision that is limited to resolving the immediate crisis, such as the disconnection.²⁵⁴²

OCA also contends that less than half of Columbia's Confirmed Low-Income customers have their service reconnected.²⁵⁴³

OCA further argues that the Company has not implemented sufficient procedures to determine whether a low-income customer is being appropriately assessed a cash security deposit when the customer applies for service. .²⁵⁴⁴

Accordingly, 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. OCA contends that this screen process presents an opportunity for Columbia to leverage its speech analytics pilot program to determine if the new applicants for service might qualify for the Company's low-income program.²⁵⁴⁵ If the Company has sufficiently reliable information to form a reasonable belief that an applicant is not creditworthy for purposes of imposing a cash security deposit, it should also have, or be able to obtain, derive or develop, sufficient information to form a reasonable belief that the applicant is low-income or is likely to be qualified for CAP.²⁵⁴⁶

OCA disagrees with Columbia's stance that the screening requires financial information or that the screening is intrusive and could lead to a negative first

²⁵⁴² OCA St. 5 at 66.

²⁵⁴³ OCA St. 5 at 68.

²⁵⁴⁴ OCA St. 5 at 68.

²⁵⁴⁵ OCA St. 5 at 68-69.

²⁵⁴⁶ OCA St. 5 at 69.

impression.”²⁵⁴⁷ OCA argues that Columbia’s stance implies that the Company does not already inquire into the potential low-income status of applicants when determining whether a customer must pay a security deposit.

OCA continues that under the regulations, Columbia should 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. 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.²⁵⁴⁸

As such, 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.

d. OSBA’s Position

OSBA did not brief this issue.

e. CAUSE-PA’s Position

CAUSE-PA proposes that to help address Columbia’s low CAP enrollment levels, the Commission should require Columbia to implement routine screening of its applicants and customers to determine eligibility for CAP and other universal service

²⁵⁴⁷ *Id.*

²⁵⁴⁸ OCA St. 5SR at 16.

programs.²⁵⁴⁹ CAUSE-PA indicates that Columbia currently only refers customers to universal service programs when they are seeking a payment arrangement. CAUSE-PA contends that it is imperative to routinely and proactively connect customers with assistance before payment difficulties occur.²⁵⁵⁰ This would include improving Columbia’s identification of low income customers and matching them to critical rate assistance and usage reduction services at the earliest opportunity.²⁵⁵¹ CAUSE-PA argues that improved screening and referrals would help ensure households are receiving the most advantageous available rate.²⁵⁵² CAUSE-PA argues that this is a statutory obligation.²⁵⁵³ Specifically, the section of the Public Utility Code indicating that utilities “shall, after notice of service conditions, compute bills under the rate most advantageous to the patron.”²⁵⁵⁴

CAUSE-PA proposes that to more accurately identify CAP eligible customers and enroll these customers in a CAP rate, Columbia should be required to take the following steps: (a) Screen all new and moving customers for income level at the time their service is established and ask whether they would like information about income qualified programs that may reduce their rate; (b) Screen existing customers for household income level on any non-emergency calls and inquire whether there have been any updates to household income information and (c) Develop a process for routine income screening through Columbia’s online account portal.²⁵⁵⁵

²⁵⁴⁹ CAUSE-PA St. 1-SR at 26.

²⁵⁵⁰ CAUSE-PA St. 1 at 30.

²⁵⁵¹ *Id.*

²⁵⁵² *Id.*

²⁵⁵³ 66 Pa.C.S. § 1303 (“Any public utility, having more than one rate applicable to service rendered to a patron, shall, after notice of service conditions, compute bills under the rate most advantageous to the patron.”)

²⁵⁵⁴ 66 Pa.C.S. § 1303.

²⁵⁵⁵ CAUSE-PA St. 2 at 30-31.

CAUSE-PA argues that Columbia should be required to develop and implement screening and referral recommendations within 90 days of the final order in this proceeding.²⁵⁵⁶

CAUSE-PA disagrees with the Company's argument that additional screening is not necessary because most of the Company's customers do not meet the low-income criteria. CAUSE-PA contends that the point of screening is to identify a smaller, hard-to-reach group within a much larger group. CAUSE-PA submits that Columbia should be more concerned with identifying, referring, and ultimately enrolled in the appropriate Universal Service Programs.²⁵⁵⁷ CAUSE-PA also disagrees that screening should would add to call center time or require additional staff.²⁵⁵⁸ CAUSE-PA contends that this would only require a brief inquiry about whether the household has trouble affording their bill and making appropriate referrals to the EAT team for further screening. If additional EAT team members are necessary to facilitate the screening for household size and income levels, then CAUSE-PA argues that the Company should take those necessary steps to ensure that its low-income customers are properly vetted for and enrolled in CAP.²⁵⁵⁹

CAUSE-PA ultimately argues that despite some upfront costs involved in implementing increased call screening to revise call scripts and train call center staff, the Company would save money on CAP outreach in the long term.²⁵⁶⁰

f. TASK FORCE's Position

²⁵⁵⁶ *Id.*

²⁵⁵⁷ *Id.* at 28.

²⁵⁵⁸ CPA St. 16-R at 4-5.

²⁵⁵⁹ CAUSE-PA St. 1-SR at 28-29.

²⁵⁶⁰ *Id.* at 29.

TASK FORCE did not brief this issue.

g. PSU's Position

PSU did not brief this issue.

h. ALJs' Recommendation

Both CAUSE-PA and OCA propose that the Commission should require Columbia to implement routine screening of its applicants and customers to determine eligibility for CAP and other universal service programs.²⁵⁶¹ Currently, Columbia generally refers customers to universal service programs when they are seeking a payment arrangement or there is some other negative account issue. Columbia opposes the proposal on several grounds, including that it would be intrusive, lead to higher call-handle times, the need for additional employees, the majority of its customers do not meet low-income criteria and it already reviews accounts monthly to determine the lowest monthly payment option. We disagree.

We agree with both CAUSE-PA and OCA on this issue. Improved screening and referrals could help ensure households are receiving the most advantageous available rate and is a statutory requirement.²⁵⁶² Furthermore, proactive CAP enrollment strategies, such as routine screening, also serve as a critical collection and cost containment tool that helps reduce the accrual of unmanageable debts, reduce uncollectible expenses and other collections costs, and reduce the cost of the CAP arrearage management program.²⁵⁶³ We believe that the Company would save money on CAP outreach in the long term.

²⁵⁶¹ CAUSE-PA St. 1-SR at 26.

²⁵⁶² *Id.*

²⁵⁶³ *Id.*

We recommend that the Commission required Columbia to: (a) Screen all new and moving customers for income level at the time their service is established and ask whether they would like information about income qualified programs that may reduce their rate; (b) Screen existing customers for household income level on any non-emergency calls and inquire whether there have been any updates to household income information and (c) Develop a process for routine income screening through Columbia's online account portal.²⁵⁶⁴ Customers identified as income eligible through these processes should be referred to CAP and other universal service programs, as well as LIHEAP.²⁵⁶⁵ However, customers should be able to opt out of providing household income information after being informed that they may be eligible for lower rates and/or free energy efficiency measures if they choose to disclose the information.²⁵⁶⁶ The Commission should require Columbia to develop and implement screening and referral recommendations within 90 days of the final order in this proceeding.²⁵⁶⁷

6. *LIURP Funding*

a. *Columbia's Position*

Columbia indicates that its LIURP provides high-usage low-income customers with needed weatherization services. The Company further indicates that annual funding for the Company's LIURP is set at \$5,425,000 for the years 2026 and 2027.²⁵⁶⁸ Both CAUSE-PA and TASK FORCE recommend that the Company increase its LIURP funding. The Company indicates that CAUSE-PA recommends that the LIURP budget be increased by a percentage equal to any approved increase to residential

²⁵⁶⁴ CAUSE-PA St. 2 at 30-31.

²⁵⁶⁵ *Id.* at 31.

²⁵⁶⁶ *Id.*

²⁵⁶⁷ *Id.*

²⁵⁶⁸ I&E St. No. 1-R, p. 5.

rates approved in this proceeding.²⁵⁶⁹ The Company also indicates that TASK FORCE recommends that the LIURP budget be increased by \$1,500,000 so that an additional 100 jobs can be completed annually.²⁵⁷⁰

The Company opposes both CAUSE-PA and TASK FORCE's recommendations and asserts that its current LIURP spending is sufficient. For covered NGDCs, the Commission's regulations require that a utility's LIURP budget shall be at least 0.2% of the utility's jurisdictional revenues.²⁵⁷¹ The Company's current LIURP budget is slightly less than 1% of its jurisdictional revenues, or five times higher than the Commission's minimum standard.²⁵⁷² The Company also asserts that the Commission's 2023 Universal Service Program and Collections Performance Reports also shows that Columbia customers are already paying on average \$14.00 annually for the LIURP program as compared to the \$9.00 average of all Pennsylvania natural gas customers.²⁵⁷³ Further, the Company avers that its non-profit weatherization providers are currently behind in their production for 2025 and have reported they are unable to complete Columbia jobs due to the prioritization of other projects, while the Company is competing with other utilities for the availability of its for-profit weatherization providers.²⁵⁷⁴ The Company contends that increasing the LIURP budget would only further stretch the resources of the Company's weatherization providers and lead to unspent funds and is unnecessary considering the program's current funding levels. As such, the Company opposes the proposals of CAUSE-PA and TASK FORCE.

b. I&E's Position

²⁵⁶⁹ CAUSE-PA St. 1, p. 41.

²⁵⁷⁰ Task Force St. 1, p. 7.

²⁵⁷¹ See 52 Pa. Code § 58.4(a).

²⁵⁷² Columbia St. No. 16-R, p. 8.

²⁵⁷³ Columbia St. No. 16-R, p. 8.

²⁵⁷⁴ Columbia St. No. 16-R, p. 10.

I&E recommends that no increase in the budgeted LIURP amount be approved in this proceeding.²⁵⁷⁵ I&E reasons that, while TASK FORCE’s and CAUSE-PA’s recommendations are well-intentioned, it is inappropriate to consider an increase in the LIURP budget in this base rate proceeding.²⁵⁷⁶ I&E contends that any potential increase should be addressed in the Company’s Universal Service and Energy Conservation Plan (“USECP”) proceedings, where consideration and evaluation of all other related programs and comments from all stakeholders and interested parties can occur.²⁵⁷⁷

I&E further contends that in the recent PECO Energy Company - Gas Division proceeding, the Commission did not consider CAUSE-PA’s proposals related to CAP and other universal service program issues within the context of the base rate proceeding because they would be more properly considered in its USECP proceeding.²⁵⁷⁸ In that proceeding, the Commission also referenced Columbia’s 2020 base rate proceeding²⁵⁷⁹ where it concluded, “that energy burdens should not be considered separately from other parts of the Company’s CAP and universal service programs but should be considered as part of the Company’s entire universal service plan, including the need for changes and associated costs.”²⁵⁸⁰

I&E also argues that the Notice of Proposed Rulemaking for the *Initiative to Review and Revise the Exhibit Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1-58.18*, states:

²⁵⁷⁵ *Id.*, p. 4.

²⁵⁷⁶ *Id.*

²⁵⁷⁷ *Id.*

²⁵⁷⁸ *Id.*, p. 5-6 (citing *PA PUC v. PECO Energy Company - Gas Division*, (2021 PECO Order), Docket No. R-2020-3018929, pp. 195-196 (Order Entered June 22, 2021)).

²⁵⁷⁹ *Id.*, p. 6 (citing *PA PUC v. Columbia Gas of Pennsylvania, Inc.*, (2021 Columbia Order), Docket No. R-2020-3018835 (Order Entered Feb. 19, 2021)).

²⁵⁸⁰ 2021 PECO Order, p. 195.

[A] LIURP budget can only be revised through a USECP proceeding initiated pursuant to the periodic USECP review process or in response to a petition to amend a USECP earlier than the periodic USECP review process.^[2581]

It also states:

As LIURP is a ratepayer-funded program, considerations impacting its budget determination should be open to scrutiny and comment. USECP proceedings allow all interested parties to provide comments, raise questions, and review information justifying the proposed change to the LIURP budget in an on-the-record proceeding.^[2582]

c. OCA's Position

OCA did not brief this issue.

d. OSBA's Position

OSBA did not brief this issue

e. CAUSE-PA's Position

CAUSE-PA asserts that Columbia should be required to increase its budget for LIURP by a percentage equal to any approved increase in residential rates to help offset the impact of the rate increase on high usage low income households. CAUSE-PA

²⁵⁸¹ Notice of Proposed Rulemaking for the *Initiative to Review and Revise the Ex. Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1-58.18*, (2023 LIURP Rulemaking Order), Docket No. L-2016-2557886, p. 36 (Order Entered May 18, 2023).

²⁵⁸² 2023 LIURP Rulemaking Order, p. 37.

asserts that the Company's proposal to increase residential rates will increase the demand for comprehensive weatherization, conservation, and efficiency services through LIURP to help offset rising energy costs and improve overall bill affordability.²⁵⁸³ As such, CAUSE-PA argues that Columbia's LIURP funding must be increased to ensure the program is able to meet the increased need for comprehensive services.²⁵⁸⁴

CAUSE-PA claims there is a significant unmet need for LIURP services among Columbia's low income customers, which will only grow more pronounced if rates are increased in this proceeding.²⁵⁸⁵ CAUSE-PA indicates that Columbia acknowledges that its low income customers have higher usage levels than other residential customers and often lack control over their usage.²⁵⁸⁶ As such, CAUSE-PA argues that any rate increase will disproportionately increase energy burdens for low income, high usage households, yet the number of households served through LIURP is declining due to increasing costs for operating the program.²⁵⁸⁷

CAUSE-PA argues that Columbia should be required to increase its budget for LIURP by a percentage equal to any approved increase in residential rates as a result of this proceeding.²⁵⁸⁸ CAUSE-PA asserts that this increase will help prevent the program from falling further behind in addressing identified need in the face of the proposed rate increase.²⁵⁸⁹

CAUSE-PA disagrees with I&E's contention that LIURP funding issues are not appropriate for consideration in a rate case. CAUSE-PA argues that this is based on

²⁵⁸³ CAUSE-PA St. 1 at 41.

²⁵⁸⁴ 66 Pa.C.S. § 2203(8).

²⁵⁸⁵ CAUSE-PA St. 1 at 39.

²⁵⁸⁶ CPA St. 17 at 10, 13.

²⁵⁸⁷ CAUSE-PA St. 1 at 40.

²⁵⁸⁸ *Id.* at 41.

²⁵⁸⁹ *Id.*

outdated precedent and fails to realize that both the Commission’s Final Form LIURP rulemaking and recent rate case decisions have explicitly stated that LIURP budgets – as well as other critical universal service issues – are appropriate for consideration in a rate proceeding.²⁵⁹⁰ Specifically, CAUSE-PA asserts that the Commission concluded in its recent Final-Form Rulemaking Order:

We recognize that while it is appropriate to determine the effectiveness and prudence of universal service costs in a USECP proceeding, we also recognize that it is necessary to evaluate the appropriateness of a LIURP funding requirement in non-USECP proceedings such as rate cases. The recoverable costs of a public utility’s universal service programs are borne by its residential ratepayers. **We acknowledge that rate case proceedings, for example, allow parties to, inter alia, consider the justness and reasonableness of the cost of a public utility’s universal service programs including its LIURP.** Accordingly, we have revised § 58.4(a.1) and (c) to clarify that a LIURP budget may be modified subject to approval in a Commission proceeding.^[2591]

CAUSE-PA notes that the LIURP budget established through Columbia’s last USECP proceeding *did not account for the substantial increase in rates proposed by Columbia in this case.*²⁵⁹² This would mean that increasing rates for Columbia’s gas service will cause more households to need and seek comprehensive efficiency services through the program when they are unable to keep up with rising costs.²⁵⁹³

²⁵⁹⁰ CAUSE-PA St. 1-SR at 16; *see Initiative to Review and Revise the Existing Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1—58.18, Final Form Rulemaking Order*, Docket No. L-2016-2557886, at 50, 123 (Order entered Mar. 13, 2025); *see also Pa. PUC v. PGW*, Docket No. R-2023-3037933 at 215-216 (Order entered Nov. 9, 2023).

²⁵⁹¹ *Initiative to Review and Revise the Existing Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1—58.18, Final Form Rulemaking Order*, Docket No. L-2016-2557886, at 123 (Order entered Mar. 13, 2025).

²⁵⁹² CAUSE-PA St. 1-SR at 16.

²⁵⁹³ *Id.*

CAUSE-PA also disagrees with Columbia witness Davis regarding her assertion that the LIURP budget should not be increased because Columbia’s LIURP partners have other commitments and are behind on production.²⁵⁹⁴ Columbia is responsible for administering universal service programs that are adequately funded and available to serve identified need. CAUSE-PA contends that the Company’s assertion that “other funding sources are expected to take precedence over Columbia [LIURP] work” is problematic.²⁵⁹⁵ Specifically, CAUSE-PA asserts that Columbia should not accept that its LIURP will take a back seat to other programs administered by its contractors.²⁵⁹⁶ Further, the fact that the Weatherization Provider Task Force (WPTF) is also recommending an increase in LIURP funding in this case belies Columbia’s assertions that weatherization contractors are not interested or able to take on additional work.²⁵⁹⁷ CAUSE-PA contends that if Columbia has concerns about the ability of its current contractors to deliver services, it should make needed adjustments to its contractor network and program administration rules.²⁵⁹⁸ The Commission’s recent Final LIURP rulemaking permits utilities to spend up to 1% of its LIURP budget to support contractor training, which may help Columbia address workforce challenges for Columbia’s current LIURP contractors.²⁵⁹⁹

Thus, CAUSE-PA argues that it is necessary and appropriate for the Commission to order Columbia to increase its LIURP budget by a percentage equal to any approved increase in residential rates.

²⁵⁹⁴ CPA St. 16-R at 10.

²⁵⁹⁵ *Id.*

²⁵⁹⁶ CAUSE-PA St. 1-SR at 19-20.

²⁵⁹⁷ *Id.* at 20

²⁵⁹⁸ *Id.*

²⁵⁹⁹ *Initiative to Review and Revise the Existing Low-Income Usage Reduction Program (LIURP) Regulations at 125 Pa. Code §§ 58.1—58.18, Final Form Rulemaking Order, Docket No. L-2016-2557886, at 253, Annex A § 58.14c (Order entered Mar. 13, 2025).*

f. TASK FORCE's Position

TASK FORCE indicates that the Company proposes a general increase in distribution rates of approximately \$124.1 million, which for the average residential customer using 70 therms of gas per would increase the costs from \$138.52 to \$154.29, an increase of \$15.77 or 11.38%. TASK FORCE further indicates that the Company is not proposing any increased assistance to help low-income customers deal with a rate increase. Additionally, the Company is proposing to increase its monthly residential customer charge from \$17.25 to \$31.97. TASK FORCE argues that this increase in a fixed cost would result in decreasing a ratepayer's motivation and ability to reduce their bill through conservation.

TASK FORCE indicates that its witness Warabak established that that the Company was not proposing any increase in LIRUP funding in this proceeding despite the fact that if the rate increase was granted residential customers would see their rate increase by 11.38%.²⁶⁰⁰ Ms. Warabak also testified that based on its most recent needs assessment the Company estimates that it has over 24,000 low-income customers in need of LIURP services and that to serve those customers would take 67 years.²⁶⁰¹

TASK FORCE argues that the need for LIURP is exacerbated by the fact that should a rate increase be granted in this case, it will be the fourth rate increase granted to this company since beginning in 2021 (See Docket Nos. R-2021-3024296, R-2022-3031211, R-2024-3046519). Further, the Company is proposing to increase its monthly residential customer and this increase in a fixed cost would result in decreasing a ratepayer's motivation and ability to reduce their bill through conservation.

²⁶⁰⁰ Task Force Stmt. No. 1, p.3.

²⁶⁰¹ *Id.* at 6.

TASK FORCE disagrees with the Company's argument that a rate case is not the appropriate proceeding to address LIURP funding but instead is more appropriate for a Universal Service and Energy Conservation Plan (USECP) proceeding. TASK FORCE indicates that a company's USECP spans five years and as shown here, a company can receive multiple rate increases in that five-year span without any universal funding being addressed. In other words, rates go up for residential customers but assistance to help low-income customers conserve energy and therefore reduce their bills stays stagnant. TASK FORCE argues that is what would happen here if the rate increase is granted without an increase in LIURP funding. TASK FORCE contends that the Commission has an obligation pursuant the Gas Choice Act to ensure that universal service programs are appropriately funded and available. 66 Pa. C.S. §§ 2203(9). Accordingly, TASK FORCE proposes that LIURP funding in this proceeding should be increased commensurate with the rate increase percentage that results to the residential class to ensure that LIURP is appropriately funded and available.

g. PSU's Position

PSU did not brief this issue.

h. ALJs' Recommendation

Both CAUSE-PA and TASK FORCE argue that Columbia should be required to increase its budget for LIURP by a percentage equal to any approved increase in residential rates to help offset the impact of the rate increase on high usage low-income households. Columbia opposes this proposal and I&E argues that any potential increase to LIURP cannot be done in this rate proceeding and must instead be addressed in the Company's USECP proceedings.

Initially, we note that the Commission’s final LIURP regulations (Mar. 13, 2025, Docket L-2016-2557886) require NGDCs like Columbia to fund LIURP at no less than 0.2% of jurisdictional revenues, with budgets subject to revision by Commission order in rate cases. The Commission has clarified that USECP proceedings decide program effectiveness and prudence, while rate cases determine cost recovery and can adjust LIURP budgets. However, there is no precedent requiring LIURP budgets to rise in proportion to residential rate increases automatically; any adjustment must be justified using the regulatory factors (need, participation potential, costs, contractor capacity, and rate impact). Essentially, based on precedence, Columbia’s LIURP budget can be increased in a rate case, but not on a simple “rate increase = LIURP increase” formula.

Thus, we disagree with I&E and the Company in regard to the position that the LIURP budget cannot be addressed in this rate proceeding. However, we agree with the Company that a LIURP increase has not been justified in this matter. Annual funding for the Company’s LIURP is set at \$5,425,000 for the years 2026 and 2027.²⁶⁰² The Commission’s regulations require that a utility’s LIURP budget shall be at least 0.2% of the utility’s jurisdictional revenues.²⁶⁰³ The Company’s current LIURP budget is slightly less than 1% of its jurisdictional revenues, or five times higher than the Commission’s minimum standard.²⁶⁰⁴ The Commission’s 2023 Universal Service Program and Collections Performance Reports shows that Columbia customers are already paying on average \$14.00 annually for the LIURP program as compared to the \$9.00 average of all Pennsylvania natural gas customers.²⁶⁰⁵ Further, the Company’s non-profit weatherization providers are currently behind in their production for 2025 and have reported they are unable to complete Columbia jobs due to the prioritization of other

²⁶⁰² I&E St. No. 1-R, p. 5.

²⁶⁰³ See 52 Pa. Code § 58.4(a).

²⁶⁰⁴ Columbia St. No. 16-R, p. 8.

²⁶⁰⁵ Columbia St. No. 16-R, p. 8.

projects, while the Company is competing with other utilities for the availability of its for-profit weatherization providers.²⁶⁰⁶

Accordingly, we recommend that the Commission deny the recommendations to increase the Company's LIURP finding in this rate proceeding.

7. *Health & Safety Pilot funding*

a. *Columbia's Position*

The Company indicates that CAUSE-PA recommends that the Company's Health & Safety Pilot funds should be separated from the LIURP budget and rolled over if unspent.²⁶⁰⁷ Currently, the Company's Health & Safety Pilot has an annual budget of \$600,000, and any unused funds are redirected to support other weatherization measures and heating system repairs.²⁶⁰⁸ LIURP funds are already subject to a rollover, so any remaining Health & Safety Pilot funds carry over for future use.²⁶⁰⁹ The Company contends that if this recommendation is adopted, funds that could otherwise be used to weatherize a home outside the Health & Safety Pilot may remain unspent simply because there is no immediate need for funding. The Company asserts that no property has been denied Health & Safety funding due to lack of available funding to date, so the recommended separation and roll-over is unnecessary.²⁶¹⁰ As such, the Company argues that the Commission should reject CAUSE-PA's recommendation to separate Health & Safety Pilot funds from LIURP and roll over unspent funds.

²⁶⁰⁶ Columbia St. No. 16-R, p. 10.

²⁶⁰⁷ CAUSE-PA St. 1, pp. 44-45.

²⁶⁰⁸ Columbia St. No. 16-R, pp. 10-11.

²⁶⁰⁹ Columbia St. No. 16-R, p. 11.

²⁶¹⁰ Columbia St. No. 16-R, p. 11.

b. I&E's Position

I&E did not brief this issue.

c. OCA's Position

OCA did not brief this issue.

d. OSBA's Position

OSBA did not brief this issue.

e. CAUSE-PA's Position

CAUSE-PA argues that Columbia should be required to establish an independent budget for the Health and Safety Pilot program and rollover unspent funds. CAUSE-PA contends that while increasing rates will drive the need for additional comprehensive weatherization through LIURP, many eligible households could be prevented from accessing LIURP due to health and safety issues in the home such as structural problems, roof repair, knob and tube wiring, mold, pests, and other related repair needs.²⁶¹¹ If unaddressed, this deepen the divide in relative energy burden for those with the highest usage and greatest corresponding need for usage reduction and weatherization.

CAUSE-PA asserts that Columbia's Health and Safety Pilot is designed to decrease the number of LIURP deferrals due to these health and safety conditions in the

²⁶¹¹ CAUSE-PA St. 1 at 41.

home.²⁶¹² Health and safety deferrals are expensive, causing the Company to walk away from a job after investing time and resources to qualify the household for LIURP and conduct initial energy audits in the home.²⁶¹³ LIURP deferrals are also more likely to impact households with the greatest need for usage reduction services as a result of the condition of their home, driving greater disparities in energy burden for those most in need.²⁶¹⁴

CAUSE-PA contends that the pilot program has been effective at driving meaningful energy and bill savings for participants that would not have otherwise received LIURP treatment.²⁶¹⁵ The Pilot has allowed homes that were previously deferred due to roof leaks, knob and tube wiring and other acute health and safety obstacles to be weatherized through LIURP and has resulted in some of the highest energy savings achieved through Columbia's LIURP.²⁶¹⁶ Homes completed with Health and Safety Pilot funds in 2022 achieved energy reductions ranging from 12.44% to 76.42%.²⁶¹⁷ These are substantial energy savings and provide a multitude of co-benefits – helping improve home health and safety, increase administrative efficiencies, and reduce universal service program costs.

Despite the effectiveness of the pilot, CAUSE-PA argues that implementation has been slow and very few deferred households have been served by the program.²⁶¹⁸

²⁶¹² *Id.*

²⁶¹³ *Id.* at 42.

²⁶¹⁴ CAUSE-PA St. 1 at 42.

²⁶¹⁵ *Id.* at 43.

²⁶¹⁶ CPA St. 9 at 11.

²⁶¹⁷ CPA St. 9 at 11.

²⁶¹⁸ CAUSE-PA St. 1 at 44.

Since 2022, CAUSE-PA asserts that Columbia has underspent its available Health and Safety Pilot budget by \$802,243.66, meaning a significant majority (67%) of the budget went unspent. During that time, Columbia deferred 68 homes with identified health issues, knob and tube wiring, roof leaks, or moisture in the basement, and an additional 19 homes that required additional unspecified incidental repairs.²⁶¹⁹ Columbia's slow implementation of this program has resulted in the loss of hundreds of thousands of dollars approved by the Commission to support this critical pilot program and resulted in missed opportunities to provide needed energy savings to households with the greatest need.²⁶²⁰

CAUSE-PA contends that Columbia's Health and Safety Pilot budget is currently embedded in the LIURP budget and available funds for its Health and Safety Pilot do not roll over from year to year.²⁶²¹ To ensure these funds are spent in the manner intended to help those with the highest usage and greatest need, CAUSE-PA argues that the Commission should require Columbia to maintain an independent budget for its Health and Safety Pilot, separate from and *in addition to* its standard LIURP budget, and to roll forward unspent Health and Safety Pilot funds and add them to the budget for the following year.²⁶²²

CAUSE-PA points out that Columbia agreed in its previous rate case settlement to allot this money to address critical health and safety issues that exacerbate energy insecurity for the most vulnerable households in Columbia's service territory.²⁶²³ According to CAUSE-PA, the Company has failed to spend the allotted budget for its

²⁶¹⁹ *Id.* at 41.

²⁶²⁰ CAUSE-PA St. 1 at 44.

²⁶²¹ *Id.*

²⁶²² *Id.* at 44-45.

²⁶²³ CAUSE-PA St. 1-SR at 22.

intended purpose, which undermines this settlement requirement and the goals embedded therein.²⁶²⁴

Accordingly, CAUSE-PA submits that Columbia should be required to establish an independent health and safety budget that rolls over and is added to the budget for the following year. In turn, to help prevent accrual of a substantial spending backlog, which CAUSE-PA categorizes as unspent funds that exceed 10% of the available budget in a given year, Columbia should be required to explain the reason for the underspending and identify steps it will take to improve spending in the following program year.²⁶²⁵

f. *TASK FORCE's Position*

TASK FORCE did not brief this issue

g. *PSU's Position*

PSU did not brief this issue.

h. *ALJs' Recommendation*

CAUSE-PA argues that Columbia should be required to establish an independent budget for the Health and Safety Pilot program and rollover unspent funds. The Company opposes this proposal. We agree with the Company.

²⁶²⁴ *Id.* at 22.

²⁶²⁵ *Id.* at 45.

Under the Commission’s March 13, 2025, LIURP regulations, utilities must carry any unspent LIURP funds into the next program year. They must also set separate allowance limits for health and safety measures in their USECPs. For Columbia specifically, the Commission approved the 2024–2028 USECP with a Health & Safety Pilot capped at \$400,000 per year. Taken together, these Commission actions establish a clearly defined, separately tracked health-and-safety allowance within LIURP and ensure that unused LIURP funds automatically roll over for future use; the rules do not require a standalone health-and-safety budget beyond this structure.

Currently, the Company’s Health & Safety Pilot has an annual budget of \$600,000, and any unused funds are redirected to support other weatherization measures and heating system repairs.²⁶²⁶ LIURP funds are already subject to a rollover, so any remaining Health & Safety Pilot funds carry over for future use.²⁶²⁷ If CAUSE-PA’s recommendation is adopted, funds that could otherwise be used to weatherize a home outside the Health & Safety Pilot may remain unspent simply because there is no immediate need for funding. To date, no property has been denied Health & Safety funding due to lack of available funding.

Accordingly, we recommend that the Commission deny CAUSE-PA’s recommendation to require Columbia to establish an independent budget for the Health and Safety Pilot program.

²⁶²⁶ Columbia St. No. 16-R, pp. 10-11.

²⁶²⁷ Columbia St. No. 16-R, p. 11.

8. *Hardship Fund*

a. *Columbia's Position*

Columbia's Hardship Fund is a Company-sponsored fund that provides financial assistance through grants to low-income, payment troubled Residential customers. Columbia's Hardship Fund provides cash assistance to eligible customers to reduce arrears, reconnect service or stay a termination of service. The Company contends that TASK FORCE is recommending that the Company increase its contribution to its Hardship Fund by a percentage equal to any approved increase to residential rates approved in this proceeding and that Hardship Funds be distributed in accordance with the percentage of low-income customers in the counties served by the Company.²⁶²⁸

The Company asserts it currently has more than \$1,000,000 in Hardship Funds. The Company also asserts that it has established processes to direct eligible customers to its CAP, whenever possible. As a result, only those customers that are over income for CAP, decline participation in CAP or require financial assistance for CAP re-entry receive Hardship Funds. The Company contends that since January 2025, the number of customers entering CAP has doubled compared to the enrollment levels during the first six months of each of the prior six years. Additionally, the Company indicates that no customers have been denied Hardship Fund assistance due to a lack of funds in recent years.²⁶²⁹ As such, the Company argues that TASK FORCE witness Warabak's recommended increase to the Hardship Funds is unnecessary and should be rejected.

²⁶²⁸ Task Force St. 1, p. 7.

²⁶²⁹ Columbia St. No. 16-R, p. 22.

The Company further contends that if the Commission were to direct a shareholder contribution to the Hardship Fund, Columbia would have a right to seek recovery of those funds. Columbia argues that is entitled to recover in rates all expenses reasonably necessary to provide service to its customers.²⁶³⁰ Directing the Company to undertake a “voluntary” contribution results in the contribution no longer being voluntary. The costs incurred as a direct result of complying with the Commission’s directive to provide funding for a low-income customer program is a prudently incurred expense and would have to be included in rates. As such, the Company opposes TASK FORCE’s proposal that the Commission order Columbia to increase a voluntary contribution should be rejected.

b. I&E’s Position

I&E recommends no increase to the Company’s contribution to its Hardship Fund be approved in this proceeding.²⁶³¹ I&E asserts that if an increase is approved, any increase to the Hardship Fund should be funded by shareholders and not via mandatory ratepayer funding.²⁶³² I&E argues that that it is inappropriate to consider an increase in the Hardship Fund in this base rate proceeding, regardless of the source of the funding.²⁶³³ Columbia’s Hardship Fund is funded by shareholders, customer contributions, fundraising activities, and natural gas supplier refunds and penalty credits.²⁶³⁴ In the absence of any analysis of funding sources or the historic spending

²⁶³⁰ *Butler Township v. Pa. PUC*, 473 A.2d 219, 221 (Pa. Cmwlth. 1984); *T.W. Phillips Gas and Oil Co. v. Pa. PUC*, 81 Pa. Cmwlth. 205, 474 A.2d 355 (Pa. Cmwlth. 1984).

²⁶³¹ I&E St. No. 1-R, p. 8.

²⁶³² *Id.*

²⁶³³ *Id.*

²⁶³⁴ *Id.*

level of the Hardship Fund, it is inappropriate to consider any increase in this base rate proceeding.²⁶³⁵

c. OCA's Position

OCA did not brief this issue.

d. OSBA's Position

OSBA did not brief this issue.

e. CAUSE-PA's Position

CAUSE-PA supports TASK FORCE's proposal²⁶³⁶ that Columbia be required to increase funding for its Hardship Fund program on the basis that increased funding will be critical to help address the increased need for assistance as a result of any approved rate increase in this case.

f. TASK FORCE's Position

TASK FORCE did not brief this issue.

g. PSU's Position

PSU did not brief this issue

²⁶³⁵ *Id.*

²⁶³⁶ WPTF St. 1 at 7.

h. ALJs' Recommendation

TASK FORCE witness Warabak recommends that the Company increase its contribution to its Hardship Fund by a percentage equal to any approved increase to residential rates approved in this proceeding and that Hardship Funds be distributed in accordance with the percentage of low-income customers in the counties served by the Company.²⁶³⁷ The Company currently has more than \$1,000,000 in Hardship Funds.²⁶³⁸ The Company has also established processes to direct eligible customers to its CAP, whenever possible. As a result, only those customers that are over income for CAP, decline participation in CAP or require financial assistance for CAP re-entry receive Hardship Funds.²⁶³⁹ Since January 2025, the number of customers entering CAP has doubled compared to the enrollment levels during the first six months of each of the prior six years.²⁶⁴⁰ No customers have been denied Hardship Fund assistance due to a lack of funds in recent years.²⁶⁴¹

We note that the Commission has not adopted a rule that utility Hardship Fund contributions automatically increase with a base-rate change or be allocated by county; funding levels and policies are addressed on a case-by-case basis in rate cases and USECP proceedings. However, the Commission has approved fixed-dollar shareholder contributions in specific orders/settlements (Duquesne Light and FirstEnergy).

In the current matter, we agree with the Company. There is no basis to find that an increase in the Company's Hardship Fund is warranted in this proceeding.

²⁶³⁷ Task Force St. 1, p. 7.

²⁶³⁸ Columbia St. No. 16-R, p. 22.

²⁶³⁹ Columbia St. No. 16-R, p. 22.

²⁶⁴⁰ Columbia St. No. 16-R, p. 22.

²⁶⁴¹ Columbia St. No. 16-R, p. 22.

Accordingly, we recommend that the Commission deny TASK FORCE's recommendation.

9. *Call Scripting FOR SECURITY DEPOSITS*

a. *Columbia's Position*

The Company asserts that OCA witness Colton identified an omission regarding the Company's policy to waive security deposits to low-income customers in its self-service workflow and scripting.²⁶⁴² As a result, Mr. Colton recommended a thorough review of these channels to ensure that the availability of a low-income exemption is communicated to customers.²⁶⁴³ In Rebuttal the Company committed to conducting a thorough review of its workflow and scripting and to implementing changes to ensure customers are aware of the low-income exemption for security deposits.²⁶⁴⁴ The Company contends that no additional review of the Company's call scripting related to security deposits is necessary.

b. *I&E's Position*

I&E did not brief this issue.

c. *OCA's Position*

As previously indicated in this decision, OCA identified that one of the Company's scripts does not provide the customer the right to avoid a security deposit if qualified as low income and apparently relies on the customer to dispute or refuse the

²⁶⁴² OCA St. 5, p. 78.

²⁶⁴³ *Id.*

²⁶⁴⁴ Columbia St. No. 16-R, p. 17.

proposed deposit without any affirmative notice of this right.²⁶⁴⁵ Based on that omission, OCA recommends that the Commission should require Columbia to review its scripts for any automated chat box or “app” to ensure that all the customer rights associated with these transactions are provided for customers. The results of the analysis should then be reported to the stakeholders within six months after the final order of this proceeding.²⁶⁴⁶

d. OSBA’s Position

OSBA did not brief this issue.

e. CAUSE-PA’s Position

CAUSE-PA indicates that the call scripts that Columbia’s customer service representatives use when referring customers to apply for Universal Service Programs contain inconsistent information regarding the identification documentation requirements for Columbia’s Hardship Fund.²⁶⁴⁷ The scripts reflected a requirement that customers are required to produce social security numbers to apply for the hardship fund, whereas Columbia’s USECP provides alternatives for customers to verify their identity.²⁶⁴⁸

CAUSE-PA witness Geller recommended that Columbia initiate a collaborative with the parties to this proceeding to review the relevant call scripting within 90 days of a final order in this proceeding.²⁶⁴⁹ To facilitate a productive collaborative, Columbia should provide copies of the call scripts to the parties to review at least 14 days prior to the meeting to allow time for review.²⁶⁵⁰

²⁶⁴⁵ OCA St. 6 at 22.

²⁶⁴⁶ OCA St. 6 at 22; OCA St. 6SR at 15.

²⁶⁴⁷ CAUSE-PA St. 1 at 62.

²⁶⁴⁸ *Id.*

²⁶⁴⁹ *Id.* at 63.

²⁶⁵⁰ *Id.*

Thereafter, Company indicated in rebuttal testimony from Ms. Davis that it has corrected the referenced call script and had provided a confidential supplemental discovery response reflecting the correction.²⁶⁵¹ However, the Company chose not to undertake a collaborative approach to the correction, instead offering that the Company would perform an internal review and share the results with the USAC.²⁶⁵²

CAUSE-PA argues that the parties to those agreements should have an opportunity to review Columbia's call scripting to ensure that the information being provided to customers seeking assistance accurately reflects the settlement terms and orders.²⁶⁵³

f. TASK FORCE's Position

TASK FORCE did not brief this issue.

g. PSU's Position

PSU did not brief this issue.

h. ALJs' Recommendation

We agree with Columbia. Review of the Company's scripts for automated chat box or "app" will benefit both the Company and its customers. However, we do not find that review of the scripts require collaboration from all parties. The Company's in-house review with reporting is sufficient.

²⁶⁵¹ CPA St. 16-R at 16.

²⁶⁵² CPA St. 16-R at 16-17.

²⁶⁵³ *Id.*

Accordingly, we recommend that Columbia be required to review its scripts for any automated chat box or “app” to ensure that all the customer rights associated with these transactions are provided for customers. We further recommend that Columbia be required to report results to the stakeholders within six months after the final order of this proceeding.

O. Energy Efficiency Program

1. *Columbia’s Position*

The Company is proposing its Phase II Three-Year Energy Efficiency Plan (Phase II Plan or Plan).²⁶⁵⁴ The voluntary Phase II Plan is based on the successful implementation of the Company’s Energy Efficiency Pilot Program (EE Pilot), and the updates in the Plan are based on energy efficiency efforts across other NGDC Energy Efficiency and Conservation (EE&C) plans in Pennsylvania.²⁶⁵⁵ The Company is proposing to continue its two existing energy efficiency programs from the EE Pilot and launch a new, third energy efficiency program. The Phase II Plan will be implemented across three years starting in January of 2026. The Plan’s three programs are designed to help the Company’s residential and small commercial customers reduce their energy consumption, improve efficiency, and conserve resources. Overall, the Phase II Plan is projected to provide lifetime savings of 2.7 million dekatherms (Dths) of natural gas at an implementation cost of \$7.9 Million over three years.²⁶⁵⁶

²⁶⁵⁴ The Company’s Phase II Plan was attached to the Direct Testimony of Columbia witness Nunley as Ex. JAN-2.

²⁶⁵⁵ *Id.*, p. 23.

²⁶⁵⁶ Columbia St. No. 13, p. 8.

The Company indicates that it is not mandated to enact an EE&C plan under Act 129 of 2008 (Act 129), but Columbia’s voluntary Phase II Plan was developed using the guiding principles of the Commission’s Act 129 *Phase IV Implementation Order*.²⁶⁵⁷ For example, the Phase II Plan employs the Total Resource Cost (TRC) test laid out in the *Phase IV Implementation Order* to determine the cost-effectiveness of its plan measures and the Plan’s budget is well under the 2% cap that Act 129 imposes on electric efficiency programs in Pennsylvania.²⁶⁵⁸ In addition, the Company maintains that, on December 23, 2009, the Commission issued a Secretarial Letter²⁶⁵⁹ encouraging smaller electric distribution companies (EDCs) to file voluntary EE&C Plans that contain the following components: (1) a detailed plan and description of the measures to be offered; (2) sufficient supporting documentation and verified statements or testimony or both; (3) proposed energy consumption or peak demand reduction objectives or both, with proposed dates the objectives are to be met; (4) a budget showing total planned expenditures by program and customer class; (5) tariffs and a section 1307²⁶⁶⁰ cost recovery mechanism; and (6) a description of the method for monitoring and verifying plan results.²⁶⁶¹ The Company argues that its proposed Phase II Plan contains all of these components.²⁶⁶² Thus, although not directly applicable to NGDCs, Columbia asserts that it has used the Commission’s *Phase IV Implementation Order* and EE&C Secretarial Letter as a guide for developing its proposed Phase II Plan.

²⁶⁵⁷ See *Energy Efficiency and Conservation Program*, Docket No. M-2020-3015228 (Order entered June 18, 2020) (“*Phase IV Implementation Order*”), clarified, Docket No. M-2020-3015228 (Order entered March 12, 2020).

²⁶⁵⁸ See Ex. JAN-2, pp. 5, 9-10.

²⁶⁵⁹ See *Re: Voluntary Energy Efficiency and Conservation Program*, Docket No. M-2009-2142851 (Dec. 23, 2009) (“EE&C Secretarial Letter”).

²⁶⁶⁰ 66 Pa.C.S. § 1307.

²⁶⁶¹ EE&C Secretarial Letter at 1.

²⁶⁶² See generally Ex. JAN-2.

As such, the Company argues that the Commission should approve the Phase II Plan as filed.

a. The EE Pilot

The Company's asserts that its EE Pilot was originally approved as part of the Company's 2022 Rate Case at Docket No. R-2022-3031211, with a budget of \$4 Million for the years 2023 to 2025.²⁶⁶³ The EE Pilot has two programs: (1) the Residential Prescriptive (RP) Program, which provides incentives for high-efficiency natural gas fired equipment; and (2) the Online Audit Kit (OAK) Program, which provides customers with a customized online audit that then allows them to receive a space heating and/or water heating kit at no cost.²⁶⁶⁴ In the Company's 2024 rate case, the EE Pilot was updated to shift funding between programs to support additional prescriptive rebate measures. The updated EE Pilot was approved, with the budget remaining \$4 Million for the years 2023 to 2025.²⁶⁶⁵

The Company asserts that its EE Pilot programs have proven successful to date. The OAK Program quickly exceeded program goals, with 2,455 water savings kits and 1,339 space heating savings kits distributed in the first five months of program operation.²⁶⁶⁶ The Company further asserts that preliminary 2024 data shows that in year two, participation in the RP Program exceeded the Company's projections.²⁶⁶⁷ The Company's Annual Report on 2023 program performance showed TRC net benefits of \$1.8 Million in just five months of program operation for the participating residential Columbia Gas customers.²⁶⁶⁸ Given this positive preliminary data and the upward trend

²⁶⁶³ Columbia St. No. 13, p. 3.

²⁶⁶⁴ Columbia St. No. 13, pp. 3-4.

²⁶⁶⁵ Columbia St. No. 13, p. 3.

²⁶⁶⁶ Columbia St. No. 13, p. 4.

²⁶⁶⁷ Columbia St. No. 13, pp. 5-7.

²⁶⁶⁸ Columbia St. No. 13, p. 7.

of customer participation in the EE Pilot programs, the Company decided to transition the existing EE Pilot program into the proposed three-year Phase II Plan, with the expectation of developing energy efficiency Phase updates on an ongoing basis.²⁶⁶⁹

b. Phase II Plan

The Company indicates that it will continue both the OAK Program and the RP Program in the Phase II Plan. The Phase II Plan reflects two major changes in programming. First, the Company is proposing to expand the measure offerings in the RP Program, adding three new rebate offerings to provide customers with more natural gas saving opportunities. These additional rebate offerings include boiler reset controls, efficient fireplace inserts, and single packaged vertical units. Second, the Company is proposing the addition of a Small Commercial (SC) Program. The SC Program will provide natural gas saving opportunities through equipment rebates to small commercial customers by providing rebates for installing energy efficient equipment for heating, water heating, steam process, commercial cooking and dishwashing, and controls, as well as rebates for making improvements to the building shell through insulation and air sealing.²⁶⁷⁰ The Company indicates the OAK Program will continue unchanged from the EE Pilot.²⁶⁷¹

(1) Overall Benefits of the Phase II Plan

The Company indicates that the total Phase II Plan portfolio is projected to cost \$7.9 Million over three years, or an average of \$2.6 Million per year.²⁶⁷² At this level of investment, over the three years of the Phase II Plan, the Plan is projected to

²⁶⁶⁹ Columbia St. No. 13, p. 7.

²⁶⁷⁰ Columbia St. No. 13, p. 8.

²⁶⁷¹ Columbia St. No. 13, p. 9.

²⁶⁷² Columbia St. No. 13, p. 9.

return a present value of TRC net benefits of \$17.1 Million, in 2025 dollars, with a TRC benefit-cost ratio (“BCR”) of 2.49.²⁶⁷³ In addition, the RP, OAK, and SC programs are each cost-effective on their own.²⁶⁷⁴ The Company contends that together, the Phase II Plan programs are projected to save 160 thousand incremental annual Dths of natural gas and 2.7 million Dths over the lifetime of the measures installed.²⁶⁷⁵ The Phase II Plan is projected to save 7,629 MWh of electricity and 508 million gallons of water over the lifetime of the measures installed. The emission reduction of over 164,575 short tons of CO2 is expected to occur from program activity, which is equivalent to removing over 6,286 cars from the road permanently.²⁶⁷⁶ The Plan is also projected to generate between 81 and 162 net additional new jobs over the lifetime of the efficiency measures installed.²⁶⁷⁷

The Company contends that the Phase II Plan will provide for the significant energy savings and economic benefits for customers described above and will also help customers increase the comfort of their homes and businesses and reduce the emission of greenhouse gases.²⁶⁷⁸

(2) RP Program Benefits

The Company indicates that the RP Program aims to reduce lost opportunities for efficiency improvements during the turnover of natural gas space heating and water heating equipment. The existing Pilot RP program will continue into Phase II by providing incentives for furnaces, boilers, combination space and water heating boilers, tankless water heaters, WIFI-enabled thermostats, natural gas heat

²⁶⁷³ Columbia St. No. 13, p. 9.

²⁶⁷⁴ Columbia St. No. 13, p. 16.

²⁶⁷⁵ Columbia St. No. 13, p. 12.

²⁶⁷⁶ Columbia St. No. 13, p. 12.

²⁶⁷⁷ Columbia St. No. 13, p. 13.

²⁶⁷⁸ Columbia St. No. 13, p. 9.

pumps, and insulation and air sealing.²⁶⁷⁹ The RP Program uses ENERGY STAR® criteria as a minimum efficiency level, when available. Phase II of the RP Program will provide customers additional opportunities to save natural gas by providing incentives for boiler reset controls, fireplace inserts, and single packaged vertical units.²⁶⁸⁰ The Company will continue to operate with the existing third-party implementor that is currently implementing the Pilot RP program.²⁶⁸¹

The Company contends that its RP Program is cost-effective and is projected to provide present value TRC net benefits of \$8.6 Million with a BCR of 2.32. The RP Program is expected to cost \$3.8 Million in nominal dollars over three years and save 1.72 million Dth of natural gas over the lifetime of measures installed. The RP Program is also projected to save 6,690 MWh of electricity and approximately 107 thousand tons of CO₂ over the lifetime of the installed measures, which is equivalent to permanently removing over 4,074 cars from the road.²⁶⁸²

(3) OAK Program Benefits

The Company argues that in Phase II, the OAK Program will provide residential customers with a free online audit that will provide targeted information for customers on how to reduce their energy usage and bills. The OAK Program will also provide customers who complete the audit with free, targeted energy savings kits. The Company will utilize the same two third-party implementors currently under contract for the OAK Program.²⁶⁸³

²⁶⁷⁹ Columbia St. No. 13, p. 17.

²⁶⁸⁰ Columbia St. No. 13, pp. 17-18.

²⁶⁸¹ Columbia St. No. 13, p. 18.

²⁶⁸² Columbia St. No. 13, p. 17.

²⁶⁸³ *Id.*, p. 20.

The Company contends that its OAK Program is cost-effective and is expected to cost \$1.7 Million in nominal dollars over three years and save 431.5 thousand Dth of natural gas over the lifetime of measures installed. The OAK Program is projected to provide present value TRC net benefits of \$7.3 Million with a BCR of 5.78. The OAK Program will also save 500.8 million gallons of water and approximately 25 thousand tons of CO₂ over the lifetime of the installed measures, which is equivalent to permanently removing over 964 cars from the road.²⁶⁸⁴

(4) SC Program Benefits

The Company indicates that its SC Program is designed to overcome market barriers to energy efficiency space heating, water heating, commercial cooking, and building shell upgrades by providing incentives to businesses that install high efficiency equipment and make improvements to their buildings. The SC Program provides incentives for commercial sized boilers, water heaters, fryers, griddles, dishwashers, process steam traps, single packaged vertical units, advanced rooftop unit controls, and insulation and air sealing. The program uses ENERGY STAR® criteria as a minimum efficiency level, when available.²⁶⁸⁵ The Company plans to operate with the existing third-party implementor currently implementing the RP program.²⁶⁸⁶ The Company also plans to utilize the existing RP and OAK evaluator to complete a full impact and process evaluation of the SC Program once program activity reaches levels of statistical significance.²⁶⁸⁷

²⁶⁸⁴ Columbia St. No. 13, p. 19.

²⁶⁸⁵ *Id.*, pp. 20-21.

²⁶⁸⁶ *Id.*, p. 21.

²⁶⁸⁷ *Id.*, p. 21.

The Company argues that its SC Program is cost-effective and is expected to cost \$1.5 Million in nominal dollars over three years and save 544 thousand Dth of natural gas over the lifetime of measures installed.

c. *The Company argues that the Commission Should Reject the Other Parties' Recommendations*

The Company indicates that I&E and CAUSE-PA recommend that the Company's proposed Plan be rejected. The Company indicates that OCA supports approval of the Plan along with the adoption of certain recommendations. The Company argues that the Commission should reject the other parties' recommendations and approve the Plan as filed.

d. *OCA's Recommendations Regarding Smart Thermostats and Bonus Rebates*

The Company indicates that OCA witness Sherwood supports approval of the Company's proposed Phase II Plan with certain recommendations.²⁶⁸⁸ The Company argues that two of Ms. Sherwood's recommendations are already being implemented by the Company. First, the Company indicates that the recommendation to cover 80-90% of weatherization costs to qualified low-income customers is already covered by Columbia's Audits and Rebates (A&R) Program.²⁶⁸⁹ The A&R Program covers up to \$3,600 of weatherization work at no cost for customers up to 250% of the FPIG. The A&R Program can also be stacked with the proposed Phase II Plan, thereby providing eligible customers up to \$4,800 of no-cost insulation and air-sealing measures.²⁶⁹⁰ Second, the Company indicates that the recommendation to retain an independent third-party contractor to perform evaluations has already been completed because the Company

²⁶⁸⁸ OCA St. 7, p. 4.

²⁶⁸⁹ OCA St. 7, pp. 11-12.

²⁶⁹⁰ Columbia St. No. 13-R, p. 10.

retains Green Energy Economics Group, Inc. (GEEG) to perform the portfolio's evaluations.²⁶⁹¹ The Company argues that, as the EE Plan developer, GEEG is well positioned to evaluate the plan and make future adjustments based on evaluation results while maintaining independence from the Company.²⁶⁹²

In the Company's Rebuttal, the Company committed to address three of OCA witness Sherwood's recommendations in a Compliance Plan filing for an approved Phase II Plan. Specifically, Columbia agreed to: (1) use the most recent available market information to support the development of its portfolio in future filings; (2) file all evaluation, measurement, and verification (EM&V) reports completed on the Phase II Plan programs at this docket; and (3) coordinate with EDC programs, when appropriate.²⁶⁹³

The Company opposes Ms. Sherwood's recommendation to only provide rebates for smart thermostats that are also eligible for potential EDC smart thermostat demand response programs.²⁶⁹⁴ The Company asserts 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. Columbia also disagrees with Ms. Sherwood's recommendation to require Columbia to provide a bonus incentive to customers who install a new heating system along with air sealing and insulation.²⁶⁹⁵

²⁶⁹¹ Columbia St. No. 13-R, p. 10.

²⁶⁹² *Id.*

²⁶⁹³ *Id.*, p. 11.

²⁶⁹⁴ OCA St. 7, p. 11.

²⁶⁹⁵ OCA St. 7, p. 12.

e. CAUSE-PA's Arguments In Opposition To The Phase II Plan And Proposed Alternatives

(1) The Company's Voluntary Phase II Plan Is Not Required to Have a Dedicated Low-Income Program

The Company indicates that CAUSE-PA witness Geller opposes approval of Columbia's Phase II Plan. Mr. Geller claims that low-income customers not enrolled in CAP are paying for EE&C programs that benefit higher income customers but do not provide specific, proportionate low-income measures.²⁶⁹⁶ Mr. Geller also opposes the approval of a voluntary EE&C plan that does not offer dedicated low-income programming to all customers at or below 150% of the FPIG.²⁶⁹⁷

The Company argues that Mr. Geller overlooks the fact that all customers who pay into the EE Rider, including low-income customers who are not enrolled in CAP, are able to participate in Columbia's EE&C programs. To date during the EE Pilot, 550 customers have been referred to Columbia's various dedicated low-income programs when they indicated income levels at or below 250% of the FPIG.

The Company acknowledges that Mr. Geller is correct that Act 129 requires EDCs to offer dedicated programming for customers at or below 150% of the FPIG, Act 129 is only applicable to Pennsylvania EDCs with over 100,000 customers.²⁶⁹⁸ However, the Company argues that it is an NGDC with a voluntary EE&C plan and therefore not subject to this requirement. In addition, Columbia offers that it has the A&R Program, which is a dedicated program for customers up to 250% of the FPIG who do not qualify for LIURP which allows those customers to receive a free energy audit and up to \$3,600

²⁶⁹⁶ CAUSE-PA St. 1, p. 52.

²⁶⁹⁷ CAUSE-PA St. 1, p. 49.

²⁶⁹⁸ *Id.*, p. 14.

worth of energy efficiency improvements to their homes at no cost. The Company argues that it's A&R program is more robust than the others cites by Mr. Geller.²⁶⁹⁹

(2) CAUSE-PA's Alternative Proposals Should be Rejected

Alternatively, CAUSE-PA witness Geller also proposes that if Plan is approved, either all confirmed low-income customers should be exempt from the EE Rider or Columbia should be directed to expand funding for its A&R Program and Emergency Repair Program (ERP) and rollover any unused funds to the next year. Specifically, Mr. Geller recommends that the A&R Program and ERP budgets be increased by a percentage equivalent to the total cost increase between Phase I and Phase II of Columbia's Plan, or by \$243,75015 and \$292,500, respectively.²⁷⁰⁰

The Company indicates that CAUSE-PA witness Geller's first alternative proposal to exempt all confirmed low-income customers from Columbia's EE Rider would, in turn, remove their eligibility to participate in the Plan rebate offerings generally and receive financial assistance toward the purchase of high efficiency equipment. The Company argues that this could lead to negative outcomes, as without rebates those customers may install lower efficiency equipment at a lower upfront cost, leading to higher long-term energy costs for those customers who could have participated in the program.²⁷⁰¹

The Company argues that Mr. Geller's second alternative proposal to increase A&R Program and ERP budgets and rollover unused funds is not warranted. The Company contends that Mr. Geller bases his proposed dramatic increases to these budgets on the total cost increase between Columbia's Phase I and Phase II EE Plans.

²⁶⁹⁹ *Id.*, p. 15.

²⁷⁰⁰ CAUSE-PA St. 1, p. 52.

²⁷⁰¹ *Id.*, p. 16.

However, a large percentage of the cost increase in the Phase II Plan is due to the addition of the Small Commercial Program. The cost increase as a result of the new SC Program will be paid through the EE Rider for the eligible small commercial rate classes and will have no impact on residential customers of any income level.²⁷⁰² As such, the Company argues that Mr. Geller's proposed increases to the A&R Program and ERP budgets are not proportionate to the budget increases to the Phase II Plan's residential programs.

Second, the Company argues that the A&R Program and the ERP are already sufficiently funded. Since the A&R Program's inception in 2009, no household has been denied assistance due to a lack of funding. The Company contends that allowing A&R program funds to roll over each year as Mr. Geller recommends risks creating a growing surplus of funds collected from ratepayers, which remain unspent over time.²⁷⁰³ The Company asserts that it also just increased its ERP funding in 2024. In addition to LIURP, customers also pay an additional \$5.00 annually for the ERP and the A&R Program and this would only add to what Columbia ratepayers already pay, which is more than other utility ratepayers for energy efficiency programs for low-income customer.²⁷⁰⁴ The Company argues that its customers should not bear additional costs for what are already adequately funded programs and unused funds should be allowed to reduce the total Rider USP during reconciliation.

f. The Commission Should Reject I&E's Arguments In Opposition To The Phase II Plan

The Company asserts that I&E witness Patel recommends that the Company's Phase II Plan be rejected based on the argument that EE&C plans for NGDCs are not mandated by Act 129, that the Company's proposed programs are not necessary

²⁷⁰² *Id.*, p. 16.

²⁷⁰³ Columbia St. No. 16-R, p. 13.

²⁷⁰⁴ Columbia St. No. 16-R, p. 14.

to provide safe and reliable service, and that EE&C plans may not be effective considering the tendency for natural gas appliances to become more efficient over time.²⁷⁰⁵

First, the Company argues that the absence of a statutory mandate, coupled with penalties for noncompliance, should not be the standard for determining whether a voluntary NGDC EE&C plan should be adopted. The Commission has approved voluntary natural gas EE&C plans from Philadelphia Gas Works (PGW), UGI Gas, PECO, and Columbia through its EE Pilot. These existing NGDC energy efficiency portfolios have been in place for more than a decade without a statutory mandate or the threat of civil penalties. The Company offers that if penalties were now established for missing stated goals in voluntary plans, NGDCs may stop offering EE&C plans altogether, since they provide no direct monetary benefit to the administrator and would place the utilities at risk of incurring civil penalties.²⁷⁰⁶

Additionally, the Company argues that the standard that Mr. Patel relies upon (i.e., that an EE&C Plan must be necessary for the provision of safe and reliable service) does not align with the requirements of Act 129 and has not been imposed on any other NGDC requesting approval of a voluntary EE&C plan. The Company contends that this standard is not reflected in Act 129 or in the Commission's December 2009 Secretarial Letter issued at Docket No. M- 2009-2142851, which sets forth requirements for voluntary electric EE&C plans.²⁷⁰⁷

Finally, the Company contends that while it is true that as technology advances, more efficient equipment becomes available in the market, this is true of all equipment, not just equipment powered by natural gas. Extending this logic to electric

²⁷⁰⁵ I&E St. No. 2, pp. 93-94.

²⁷⁰⁶ Columbia St. No. 13-R, p. 3.

²⁷⁰⁷ Columbia St. No. 13-R, pp. 3-4.

powered equipment would negate the need for any Act 129 mandated energy efficiency programs as that technology also becomes more efficient over time.

As such, the Company argues that Mr. Patel's arguments that the Phase II plan is not mandated by law, not necessary to provide safe and reliable service, and that the plans may not be effective considering the tendency for natural gas appliances to become more efficient over time should be rejected. and the Commission should approve the Phase II Plan as filed.

2. *I&E's Position*

I&E argues that the Company's proposal for its Phase II Energy Efficiency Plan (EEP) should be disallowed in this base rate proceeding.²⁷⁰⁸ Alternatively, I&E argues that if the Commission approves considers Columbia's EEP appropriate and reasonable for approval in this proceeding pending the outcome of performance results of EEP Pilot (Phase I) ending in December 2025, then in the interest of ratepayers and as an added consumer protection, I&E recommended the Commission put a maximum annual cap on the plan's total administration cost (exclusive of the incentives cost) at 20% of the annual total EEP cost with any excess administration costs to be refunded to customers through the rider.²⁷⁰⁹

I&E indicates that over the three years of the Phase II EEP, Columbia proposes to spend \$7.9 million on the administration and delivery of two residential energy efficiency programs and one commercial energy efficiency program.²⁷¹⁰ A breakdown of the total projected Phase II EEP cost of \$7.9 million and projected

²⁷⁰⁸ See I&E St. No. 2, at 88-98; I&E St. No. 2-SR, at 54-60 for a complete analysis.

²⁷⁰⁹ See I&E St. No. 2, at 88-98; I&E St. No. 2-SR, at 54-60; I&E M.B., at 79-80.

²⁷¹⁰ I&E St. No. 2, p. 88 (citing Columbia St. No. 13, p. 13).

spending by customer class was set forth in a table provided by Columbia.²⁷¹¹ Further, Columbia provided a breakdown of the total spending at the portfolio level by budget category and year²⁷¹² claiming the FPFTY Phase II EEP expense of \$1,235,965 in the total operation and maintenance expense claim²⁷¹³ and simultaneously including EEP rider revenue of \$1,235,965 in the FPFTY total operating revenues.²⁷¹⁴ Finally, Columbia proposes to recover the EEP costs for the fiscal years 2026-2028 from ratepayers via an EE Rider, which will appear as a separate line item on residential and small commercial customers' bills.²⁷¹⁵ For the fiscal year 2026, the residential program cost of \$1,963,496 and small commercial program cost of \$503,366 Columbia proposes it will be recovered via the EE rider at \$0.00634 per/Therm and \$0.00343 per/Therm respectively.²⁷¹⁶

I&E recommends that the Company's claim for its proposed Phase II EEP be disallowed in its entirety.²⁷¹⁷ I&E contends that disallowance of the proposed EEP would result in a reduction of \$1,235,965 in unnecessary operating expenses and corresponding recovery in customers' rates through the EE Rider.²⁷¹⁸ Further, the Company is claiming EEP rider revenue of \$1,235,965 and includes corresponding expenses of \$1,235,965 in the total operating expense claim of \$222,116,320 for the FPFTY.²⁷¹⁹ I&E also recommended disallowance of the FPFTY EEP rider revenue claim of \$1,235,965 and related expense claim of \$1,235,965 from the total operating expense claim of \$222,116,320.²⁷²⁰

²⁷¹¹ See *Id.*, pp. 88-89 (citing Columbia Ex. JAN-2, p. 5).

²⁷¹² *Id.*, p. 89 (citing Columbia Ex. JAN-2, p. 6).

²⁷¹³ *Id.*, p. 90 (citing Columbia Ex. 104, Sch. 1, p. 2).

²⁷¹⁴ *Id.* (citing Columbia Ex. 102, Sch. 3, p. 3).

²⁷¹⁵ *Id.*, p. 91 (citing Columbia Ex. KLJ-7).

²⁷¹⁶ *Id.*

²⁷¹⁷ See I&E St. No. 2, pp. 91-98 for a complete analysis.

²⁷¹⁸ *Id.*, p. 91 (citing Columbia Ex. 102, Sch. 3, p. 3 and Ex. 104, Sch. 1, p. 2).

²⁷¹⁹ *Id.*

²⁷²⁰ I&E St. No. 2, p. 92.

I&E's recommendation is based on four points of consideration.²⁷²¹ They are:

1. NGDCs are under no mandate under Act 129 to develop the EEP and are therefore subject to no civil penalties for failure to meet stated goals.
2. EEPs are not essential to the provision of safe and reliable natural gas service.
3. Residential home appliances and equipment using natural gas as a source of power are generally more efficient over time, so the implementation of EEP by an NGDC is unnecessary. Additionally, the EEP may not encourage customers' participation in conservation measures by replacing currently working equipment with new ones due to the upfront higher cost of the newer or latest equipment.
4. The EEP portfolio-wide administration costs including marketing, inspection, and evaluation represents 45.41% of the Company's total program investment $((\$2,717,625 + \$449,875 + \$243,000 + \$170,000) \div \$7,884,579)$. A program demonstrating this level of a customer cost to customer value ratio should not be approved.

I&E argues that the main beneficiary, due to the guaranteed recovery through the proposed EEP rider, would be the Company (along with the relatively small number of participants who opt to participate in the EEP) with no threat of a potential penalty or fines if goals are not met.²⁷²² Additionally, I&E argues that unlike electric utilities that are being affected by decommissioning of power plants and the potential huge electric power demand from data centers, there are no similar issues impacting the provision of reliable service by Pennsylvania NGDCs.²⁷²³

²⁷²¹ See *Id.*, pp. 92-93.

²⁷²² *Id.*, p. 94.

²⁷²³ *Id.*

I&E contends that whether an expense is essential, just, and reasonable is the yardstick by which expenses are measured in a rate case claim.²⁷²⁴ The ratepayers are expected to bear all the costs of the program with no risk to the Company if the EEP is unsuccessful.²⁷²⁵ Furthermore, EEP costs are not shown to be necessary for the provision of safe and reliable service, and the advertising and administrative costs associated with the proposed renewed plan are excessive compared to the total budget.²⁷²⁶

The Phase II EEP's portfolio-wide administration cost of the total annual spending budget and customer incentives is summarized in I&E witness D.C. Patel's direct testimony.²⁷²⁷ I&E contends that the referenced data reveals that Columbia's EEP administration costs are excessively high and inefficient when compared to the customer incentive amount by year.²⁷²⁸ At this level of administration cost, Columbia is projecting the number of customer participation by program and year as shown in Mr. Patel's direct.²⁷²⁹

In summary, I&E argues that Columbia provides gas distribution service to approximately 446,000 customers, revealing just 1.98% for 2026, 2.26 % for 2027, and 2.53%for 2028 percent of projected customer participation in the Phase II EEP even after implementing the EEP Pilot for two full years.²⁷³⁰ I&E reasons, in this scenario, all non-participating customers (approximately 98% of Columbia's total customers count) will fund the EEP spending for the perceived benefits to approximately 2% of participating customers.²⁷³¹ Further, I&E contends that if the anticipated customer participation in the

²⁷²⁴

Id.

²⁷²⁵

Id., at 94-95.

²⁷²⁶

See I&E St. No. 2, pp. 95-98.

²⁷²⁷

See Id. (citing Columbia St. No. 13, p. 14; Columbia Ex. JAN-2, p. 6).

²⁷²⁸

Id.

²⁷²⁹

Id. (citing Columbia Ex. JAN-2, pp. 17-18; 28-29).

²⁷³⁰

Id., at 98.

²⁷³¹

Id.

EEP is not achieved or the EEP is not successful, the plan implementation costs would be an imprudent and wasteful expenditure burdening customers' rates via the EEP rider.²⁷³²

As such, I&E recommends that the Company's proposal for its Phase II EEP be disallowed in this base rate proceeding. Alternatively, if the Commission considers Columbia's EEP appropriate and reasonable for approval in this proceeding pending the outcome of performance results of EEP Pilot (Phase I) ending in December 2025, then in the interest of customer protection, I&E recommend the Commission put a maximum annual cap on the plan's total administration cost (exclusive of the incentives cost) at 20% of the annual total EEP cost with any excess administration costs to be refunded to customers through the rider.²⁷³³

3. *OCA's Position*

a. Introduction

OCA indicates that Columbia's EE&C Plan includes three energy efficiency programs designed to reduce natural gas consumption by 2.7 million Dth in the first year savings over the three-year Plan.²⁷³⁴ Phase II continues the Residential Prescriptive (RP) and Online Audit Kit (OAK) programs from Phase I and also adds a Small Commercial program.²⁷³⁵ The total proposed cost of the Plan is \$7,884,579 over the three plan years with annual budgets from \$2.5 million to \$2.8 million.²⁷³⁶

²⁷³² *Id.*

²⁷³³ I&E St. No. 2, p. 98; I&E St. No. 2-SR, p. 60.

²⁷³⁴ OCA St. 7 at 2-3.

²⁷³⁵ OCA St. 7 at 3.

²⁷³⁶ OCA St. 7 at 3.

Ms. Sherwood determined that the Company had met the basic elements for the requirements of a voluntary EE&C Plan pursuant to the Secretarial Letter dated December 23, 2009 in Docket No. M-2009-2142851.²⁷³⁷ Overall, Ms. Sherwood stated that she believed that the program was reasonable, beneficial, and cost-effective for consumers.²⁷³⁸ After comparing the Plan to Columbia Gas' historical EE&C achievements, the forecasted level of costs and savings seems reasonable.²⁷³⁹

OCA witness Sherwood recommended the following changes to the proposed Plan: (1) in future filings, the Company should use the most recent available market information to support development of the portfolio; (2) as part of the Company's rebuttal, the Company should ensure the model utilizes the most current information provided in the Commission's Phase V orders and provide updated information to support the proposed Plan²⁷⁴⁰; (3) the RP should only offer WiFi programmable thermostats that are compatible with the Electric Distribution Companies' (EDC) WiFi programmable thermostat demand response programs if ones are offered; (4) to encourage participation of qualified low-income customers in the RP, the Company should cover up to 80 or 90% of weatherization costs; (5) weatherizing a home can ensure proper sizing of heating units. OCA further contends that the Company should offer a bonus incentive for comprehensive projects completed through the RP for customers which install a new heating system with air sealing and insulation; (6) the Commission should require the Company to file within the docket all evaluation, measurement, and verification reports completed on the programs for transparency; (7) Columbia should retain an independent third-party evaluation contractor to perform its

²⁷³⁷ OCA St. 7 at 5.

²⁷³⁸ OCA St. 7 at 6.

²⁷³⁹ OCA St. 7 at 6.

²⁷⁴⁰ The Phase V Commission Orders referenced include the 2026 TRC Test Final Order in Docket No. M-2024-3048998, the 2026 Technical Reference Manual Final Order in Docket No. M-2023-3044491, and as guidance Phase V Tentative Implementation Order in Docket No. M-2025-3052826.

evaluations; and (8) when appropriate, the Company should coordinate with the EDC programs.²⁷⁴¹

OCA contends that Act 129 EE&C plans must measure and verify savings based upon the TRM and TRC test as approved by the Commission.²⁷⁴² While Columbia's voluntary EE&C Plan is exempt from the requirements, the Company indicates as part of its Plan filing that it will conduct impact and process evaluations of its programs, with the evaluation timing dependent upon the program.²⁷⁴³ OCA witness Sherwood testified, "[f]ormal evaluation of the programs, to verify savings, installation rates, and free ridership is important, particularly as Act 129 electric distribution companies do not offer gas measures."²⁷⁴⁴ OCA witness Sherwood recommended that the Company publicly file its evaluation reports, in a timely manner, at the docket.²⁷⁴⁵

I&E and CAUSE-PA also addressed Columbia's energy efficiency proposals in their respective testimonies. The OCA did not address their respective recommendations in its testimonies.

b. The Company adopted, in full or in part, several of OCA witness Sherwood's recommendations.

I&E indicates that the Company agreed to adopt, in full or in part, some of Ms. Sherwood's recommendation including: (1) to use the most recent 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

²⁷⁴¹ OCA St. 7 at 4-5.

²⁷⁴² The December 23, 2009 Secretarial Letter in Docket No. M-2009-2142851, p 1-2.

²⁷⁴³ OCA St. 7 at 7.

²⁷⁴⁴ OCA St. 7 at 7.

²⁷⁴⁵ OCA St. 7 at 7.

EDC programs.²⁷⁴⁶ The OCA discusses below those adopted recommendations and the additional modifications and clarifications that OCA witness Sherwood recommend still be included.

(1) Market Data

In order to develop the forecasted levels of participation, the Company relied upon its historical performance from Phase I, market data from the 2018 Act 129 Residential Baseline Survey, market data from the 2018 Act 129 Residential Baseline Survey, the 2009 Residential Energy Consumption Survey, Columbia Gas Rate Division Data Request on Residential customer forecasts, and climate data.²⁷⁴⁷ OCA witness Sherwood expressed concerns about the market data used to perform its forecasts because the data was outdated and more recent data is and was available prior to the filing of the rate case.²⁷⁴⁸ She cited to the 2023 Act 129 Residential Baseline Study that was released on March 21, 2024 which updated information used to inform heating and water heating usage by fuel type and by EDC and the 2009 Residential Energy Consumption Survey data was updated twice, in 2015 and again in 2020.²⁷⁴⁹ She also identified that the climate data used by Columbia is based upon the 2021 Technical Resource Manual (TRM). Since that time, the Appendix A was updated on May 25, 2024 to support the 2026 TRM Final Order.²⁷⁵⁰ OCA witness Sherwood testified that the Company should have updated the climate data assumptions and the relevant data that was updated in 2024 for Act 129 Phase V, such as the avoided costs related to electricity and water.²⁷⁵¹

²⁷⁴⁶ OCA St. 7SR at 3.

²⁷⁴⁷ OCA St. 7 at 8.

²⁷⁴⁸ OCA St. 7 at 9.

²⁷⁴⁹ OCA St. 7 at 9.

²⁷⁵⁰ 2026 Technical Reference Manual 2026 TRM Appendix A adopted September 12, 2024 in Docket No. M-2023-304491
<https://www.puc.pa.gov/pcdocs/1848572.xlsx>.

²⁷⁵¹ OCA St. 7 at 9.

Ms. Sherwood testified that “it is unclear to what extent outdated information was used throughout the assumptions supporting the proposed Plan.” She cited an example of whether the avoided cost calculations reflected the updated assumptions provided by Phase V orders on the TRM and TRC. OCA witness Sherwood recommended that if the Company files any future energy efficiency plans with the Commission that it should use the most recent data to support the Plan Development, and that as part of the Rebuttal, the Company should ensure that the model utilizes the most current information provided in the Phase V Orders and provide updated information to support the proposed Plan.²⁷⁵²

In the Rebuttal, Company witness 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.²⁷⁵³ 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.²⁷⁵⁴ She testified that “if as part of that update program modifications are needed, the Company should be required to file those with the Commission.”²⁷⁵⁵

(2) Residential Prescriptive Program

The Residential Prescriptive Program (RP Program) provides opportunities for residential customers to install efficient gas space and water heating equipment in

²⁷⁵² OCA St. 7 at 10.

²⁷⁵³ Columbia St. 13-R at 11.

²⁷⁵⁴ OCA St. 7SR at 3.

²⁷⁵⁵ *Id.*

their homes.²⁷⁵⁶ The program offers Energy Star furnaces, boilers, tankless water heaters, fireplace inserts, and gas heat pumps and insulation, air sealing, and WiFi thermostats. As OCA witness Sherwood testified, the insulation, air sealing, and WiFi thermostats are available through the EDCs' current programs, and based upon the Act 129 Phase V Tentative Order, there is also now the potential for the EDCs to offer demand response programs which may utilize smart thermostats. OCA witness Sherwood testified that there is the potential for confusion by customers and vendors about the measure offerings.

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.²⁷⁵⁷

OCA indicates that the Company adopted the OCA's recommendation 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.²⁷⁵⁸

OCA contends that 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:

[h]owever, 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

²⁷⁵⁶ OCA St. 7 at 10.

²⁷⁵⁷ OCA St. 7 at 11.

²⁷⁵⁸ Columbia St. 13-R at 12.

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.^[2759]

As such OCA argues that the Company should proactively reach out to the EDCs to work with them about the type of smart thermostat demand program and rebate that the EDC may be offering, and if there is a program, they should seek to coordinate the programs.

OCA witness Sherwood also testified that the weatherization of a home is extremely important and is often overlooked as it can be invisible to homeowners.²⁷⁶⁰ Ms. Sherwood supported the Company's inclusion of air sealing and insulation as part of its measure offerings, but she recommended that the enhanced rebate could be redesigned to address the cost barrier for low-income qualified customers.

In Mr. Nunley's Rebuttal Testimony, Columbia claimed that the recommended modification to cover 80-90% of the weatherization costs in the RP program to qualified low-income customers to encourage participation has already been addressed.²⁷⁶¹ OCA disagrees that its recommendation had been addressed.

OCA indicates that the Company did not accept the 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.²⁷⁶² The Company argued that the rebates are designed

²⁷⁵⁹ OCA St. 7SR at 5-6.

²⁷⁶⁰ OCA St. 7 at 11.

²⁷⁶¹ Columbia St. 13-R at 10.

²⁷⁶² OCA St. 7SR at 5; Columbia St. 13-R at 12.

based upon incremental cost and that they do not take into consideration the sizing.²⁷⁶³ As a result, the Company argued that it will not necessarily lead to greater savings even if it could lead to greater system efficiency through proper sizing of the equipment.²⁷⁶⁴

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, OCA argues that the Company should cover up to 80 or 90% of weatherization costs. OCA further argues that the Company should offer a bonus incentive for comprehensive projects completed through the Residential Prescription Program for customers that install a new heating system with air sealing and insulation.

c. An independent third-party evaluator.

OCA witness Sherwood testified that she had concerns regarding the Company's proposed process for evaluation of the program.

In Rebuttal, Columbia claimed that the OCA's recommendation that Columbia should retain an independent third-party evaluation contractor to perform evaluations had already been addressed.²⁷⁶⁵ OCA contends that the Company's response did not address the OCA's concern. Although the Company identified that Green Energy Economics Group'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:

²⁷⁶³ Columbia St. 13-R at 12.

²⁷⁶⁴ *Id.*

²⁷⁶⁵ Columbia St. 13-R at 10.

[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.^[2766]

OCA argues that an independent evaluator is important to ensuring the integrity of the program and that using the same evaluator as the program implementor will expose Columbia to the pitfalls. OCA argues that the Act 129 programs require an independent evaluator and the same should be true for the voluntary programs.

d. Conclusion

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.

²⁷⁶⁶ OCA St. 7SR at 4.

- 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.
- When appropriate, the Company should coordinate with the EDC programs.

4. *OSBA's Position*

OSBA indicates that Columbia is proposing to expand its Energy Efficiency Plan to the Company's small business customers. OSBA supports this proposal and makes additional recommendations for improving the program. First, OSBA recommends budget transparency so that the parties are notified if Columbia plans to shift its budget among programs.²⁷⁶⁷

Second, OSBA recommends that Columbia's proposed marketing plan lacks details. OSBA recommends that the Company include the following details:

- What metrics Columbia will use to understand if the marketing is working.
- How and when Columbia will collect these metrics.
- How and when Columbia will report these metrics.

²⁷⁶⁷ OSBA Statement No. 1, at 21.

- How will Columbia proceed if the small commercial program is not meeting uptake targets.²⁷⁶⁸

Third, OSBA recommends that the Company report program participation by rate class in its annual reports and program updates.²⁷⁶⁹

5. CAUSE-PA'S Position

a. Columbia's proposed Phase II EE&C Plan fails to include dedicated and proportionate low-income programing.

CAUSE-PA indicates that Columbia proposes extending its self-initiated EE&C Pilot into a Phase II, three-year EE&C Plan.²⁷⁷⁰ The Phase I Pilot was approved in Columbia's 2022 Rate Case to run for three years, from 2023 to 2025, with a total budget of \$4 million (\$1.67 million per year).²⁷⁷¹ Columbia's proposed Phase II EE&C Plan would extend the program to run from 2026 through 2028 and would nearly double the current budget for the program to \$7.9 million over those three years (approximately \$2.63 million per year).²⁷⁷²

CAUSE-PA contends that Columbia did not include any dedicated low income programming as part of its Phase I EE&C Plan – nor has it proposed to include any dedicated low income programming as part of its Phase II EE&C Plan.²⁷⁷³ CAUSE-PA argues that Columbia's A&R and ERP budgets were each expanded in the previous rate case settlement to address Columbia's lack of low-income programming within its

²⁷⁶⁸ OSBA Statement No. 1, at 21.

²⁷⁶⁹ OSBA Statement No. 1, at 22.

²⁷⁷⁰ CPA St. 13 at 2.

²⁷⁷¹ *Id.*

²⁷⁷² CPA St. 13 at 8.

²⁷⁷³ CAUSE-PA St. 1 at 49.

Phase I EE&C.²⁷⁷⁴ However, Columbia has not proposed to expand these programs to ensure equitable and proportionate services for low-income households through the Phase II EE&C.²⁷⁷⁵ CAUSE-PA also argues that there is no evidence that low-income customers are deriving a proportionate benefit from participation in Columbia’s general residential EE&C programs.²⁷⁷⁶

CAUSE-PA indicates that the Phase I Plan has two components, a Residential Prescriptive (RP) program and an Online Audits and Kits (OAK) program.²⁷⁷⁷ The RP program provides rebates for energy efficient space and water heating equipment and building shell upgrades, such as insulation and air sealing.²⁷⁷⁸ The OAK provides customers with an online energy audit and a free space heating or water heating kit at no cost.²⁷⁷⁹

In the Phase II Plan, CAUSE-PA indicates that Columbia is proposing to expand the measure offerings in the RP program to include rebates for boiler reset controls, fireplace inserts, and single packaged vertical units.²⁷⁸⁰ Columbia is also proposing to add a Small Commercial (“SC”) program that will provide gas equipment rebates to small commercial customers.²⁷⁸¹

There is currently no explicit statutory or regulatory authorization for ratepayer funded NGDC EE&C plans in Pennsylvania.²⁷⁸² However, the Act 129

²⁷⁷⁴ CAUSE-PA St. 1 at 50-51, 54, 56 (*citing* the Joint Pet. for Settlement in Columbia’s 2022 rate case, Docket No. R-2022-3031211).

²⁷⁷⁵ CAUSE-PA St. 1 at 50-51, 54, 56.

²⁷⁷⁶ CAUSE-PA St. 1-SR at 6.

²⁷⁷⁷ CAUSE-PA St. 1 at 45.

²⁷⁷⁸ *Id.*

²⁷⁷⁹ *Id.*

²⁷⁸⁰ CAUSE-PA St. 1 at 46.

²⁷⁸¹ *Id.*

²⁷⁸² I&E St. 2 at 92-94.

requirements for Pennsylvania EDCs provide a critical public policy touchstone for evaluating the justness and reasonableness of the design and implementation for any ratepayer supported efficiency programming.²⁷⁸³ Notably, in multiple instances, Columbia cites to Act 129 to support its EE&C Plan including its proposed program budget and the cost effectiveness of its plan in accordance with the Total Resource Cost (TRC) test.²⁷⁸⁴

Regarding the treatment of low-income households, Act 129 requires that EDCs offer dedicated, proportional low-income programming *in addition* to that offered under their respective LIURPs.²⁷⁸⁵ Act 129 provides that EDC EE&C Plans “shall include specific energy efficiency measures for households at or below 150% of the Federal poverty income guidelines.”²⁷⁸⁶ The Act further provides: “The number of measures shall be proportionate to those households’ share of the total energy usage in the service territory.”²⁷⁸⁷ In assessing the cost effectiveness of each Act 129 EE&C Plan, the Commission applies the TRC test at the portfolio level, including dedicated low-income programs and their effect on avoided costs from reduced customer arrearages, shutoffs, and collections.²⁷⁸⁸

²⁷⁸³ CAUSE-PA St. 1-SR at 6.

²⁷⁸⁴ CPA St. 13, Ex. JAN-2 at 4-5, 9-10; CPA St. 13-R at 6-7.

²⁷⁸⁵ See 66 Pa.C.S. § 2806.1(b)(1)(i)(G) (“The plan shall include specific energy efficiency measures for households at or below 150% of the Federal poverty income guidelines. The number of measures shall be proportionate to the households’ share of the total energy usage in the service territory. The electric distribution company shall coordinate measures under this clause with other programs administered by the commission or another Federal or State agency. The expenditures of an electric distribution company under this clause shall be in addition to expenditures made under 52 Pa. Code Ch. 58 (relating to residential low income usage reduction programs).”).

²⁷⁸⁶ 66 Pa.C.S. § 2806.1(b)(1)(i)(G) (emphasis added).

²⁷⁸⁷ *Id.*

²⁷⁸⁸ See *2026 Total Resource Cost (TRC) Test*, Docket No. M-2024-3048998, at 52 (Final order entered Nov. 7, 2024).

All Pennsylvania EDCs offer dedicated low-income programming, in line with the Commission's current Phase IV requirements.²⁷⁸⁹ Likewise, other gas EE&C plans in Pennsylvania, such as those offered by Philadelphia Gas Works' (PGW) and UGI Utilities, Inc. – Gas Division's (UGI) provide specific low-income measures as part of their plans.²⁷⁹⁰ The Company points to UGI and PGW's programs as support for why it should be allowed to continue its EE&C Plan; however, CAUSE-PA argues that the Company fails to consider that UGI and PGW offer dedicated low-income measures through their EE&C plans, while Columbia does not.²⁷⁹¹

CAUSE-PA argues that it is unjust and unreasonable to use low-income ratepayer funds to pay for an EE&C program that does not include dedicated and proportionate level of energy efficiency programming directed at low-income customers and specifically designed to produce meaningful energy and bill savings.²⁷⁹² Columbia is a very large NGDC with over 400,000 residential customers, 91,881 of which are estimated to have income at or below 150% FPL.²⁷⁹³ Columbia's self-initiated and ratepayer supported EE&C Plan should be held to the same basic standards as the statutorily authorized EE&C programs run by other large Pennsylvania utilities, including Commission-established policies and best practices to provide just and equitable treatment to its low income customers.²⁷⁹⁴ All EE&C programs should be required to squarely address the needs of low income households by providing direct and

²⁷⁸⁹ CAUSE-PA St. 1 at 49. FirstEnergy Pennsylvania (FE PA) has the most significant amount of overlapping territory with Columbia. FE PA's low income Act 129 offerings include enhanced equipment incentives, expanded weatherization services, EE kits, a behavioral program, school education program, and direct installation targeting low income tenants in multifamily buildings.

²⁷⁹⁰ CAUSE-PA St. 1 at 49.

²⁷⁹¹ CPA St. 13-R at 3.

²⁷⁹² CAUSE-PA St. 1 at 51.

²⁷⁹³ CAUSE-PA St. 1-SR at 7.

²⁷⁹⁴ *Id.* at 7.

proportional programming for low income consumers.²⁷⁹⁵ CAUSE-PA argues that if Columbia is unable or unwilling to operate its EE&C Plan according to these standards and best practices, the plan should be rejected.²⁷⁹⁶

CAUSE -PA contends that while some low-income customers participated in Phase I, they did not participate on a proportionate scale.²⁷⁹⁷ In Phase I, 180 customers that participated in the RP program were identified as confirmed low income (CLI) customers, representing approximately 5% of the 3,888 RP participants reported by Columbia for Phase I and Columbia does not track the income status of OAK participants.²⁷⁹⁸ This level of participation is far from proportionate considering CLI customers represent 17% of Columbia’s residential customers.²⁷⁹⁹

As evidence that low-income customers received a benefit from Columbia’s Phase I EE&C, Mr. Nunley argues that, “550 customers were *referred* from Columbia’s Phase I EE Plan to Columbia’s various dedicated low-income programs when they indicated income levels at or below 250% FPIG.”²⁸⁰⁰ However, he admits that the 550 households referred from the Phase I EE&C program to other low-income programs may have only “*attempted to participate in*” Columbia’s Phase I EE&C program.²⁸⁰¹ Further, CAUSE-PA argues that there is no evidence that any of these 550 households successfully participated in other low income programs following this referral.²⁸⁰² Moreover, these customers include households with self-certified income up to 250% FPL, which is much higher than the Commission’s 150% FPL threshold for

²⁷⁹⁵

Id.

²⁷⁹⁶

Id.

²⁷⁹⁷

CAUSE-PA St. 1 at 47.

²⁷⁹⁸

Id.

²⁷⁹⁹

CAUSE-PA St. 1 at 47.

²⁸⁰⁰

Id. at 14 (emphasis added).

²⁸⁰¹

CPA St. 13-R at 14.

²⁸⁰²

CAUSE-PA St. 1-SR at 6.

universal service and low income Act 129 EE&C programs.²⁸⁰³ Therefore, CAUSE-PA contends that Mr. Nunley's assertion that these customers received a benefit is without merit.

CAUSE-PA contends that while low-income non-CAP customers are eligible to participate in the RP Program, CAP customers are excluded from participation.²⁸⁰⁴ Any CAP customer who contacts Columbia for assistance in applying to the RP program is referred to Columbia's low-income weatherization programs.²⁸⁰⁵ CAP customers are excluded from payment of Columbia's Rider EE which is used to recover the cost of the program.²⁸⁰⁶ However, between 70-77% of Columbia's estimated low-income customers are enrolled in CAP and are required to pay for Columbia's EE&C programs through its Rider EE.²⁸⁰⁷ These households already face disproportionately high energy burdens and often struggle profoundly to afford and maintain energy service to their home, often foregoing food, medicine, and other basic needs just to afford energy bills.²⁸⁰⁸ CAUSE-PA argues that these disparities in energy burden for low-income families are exacerbated by deferred maintenance and other home inefficiencies.²⁸⁰⁹

CAUSE-PA contends that it is fundamentally unreasonable to require low-income households to pay for programs that don't provide specific, proportionate low income measures.²⁸¹⁰ CAUSE-PA respectfully urges the Commission to reject Columbia's proposed Phase II Plan.²⁸¹¹ To the extent that Columbia seeks to resubmit its

2803

Id.

2804

CAUSE-PA St. 1 at 46-47.

2805

Id. at 46.

2806

CAUSE-PA St. 1 at 46.

2807

Id. at 46-48.

2808

Id. at 51-52.

2809

Id.

2810

Id.

2811

Id. at 52.

Phase II Plan proposal, the Commission should require that the request be made via a standalone petition that includes dedicated, proportional low-income programming.²⁸¹² Alternatively, if the Commission approves the Phase II Plan, Columbia should be required to either exempt all confirmed low-income customers from Columbia's EE Rider, or proportionately expand funding for its A&R and ERP programs, as discussed further in subparts 1 and 2, below.²⁸¹³

- b. *If the Commission approves the Phase II EE&C Plan, it should order Columbia to proportionately increase the portion of the A&R Budget that was tied to the settlement approving its Phase I EE&C.*

CAUSE-PA indicates that Columbia agreed to increase funding for its A&R Program to help address the lack of dedicated and proportional low income programming in the EE&C Pilot as part of the Settlement in Columbia's 2022 Rate Case.²⁸¹⁴ CAUSE-PA argues that Columbia's substantial underspending of its A&R budget undermines the prior settlement arrangement, which required Columbia to increase the budget for its A&R program to remedy the lack of dedicated low income programs in Columbia's Phase I EE&C Plan.²⁸¹⁵

CAUSE-PA urges the Commission to either reject Columbia's Phase II EE&C proposal or, alternatively, exempt all confirmed low-income customers from paying for the EE Rider. However, to the extent that the Commission approves the Phase II EE&C Plan and does not exempt low-income customers from the Rider EE, CAUSE-PA argues that Columbia should be required to increase its 2022 settlement obligations related to the additional funding for the A&R program (and ERP program as explained

²⁸¹² *Id.* at 52.

²⁸¹³ *Id.* at 52.

²⁸¹⁴ CAUSE-PA St. 1 at 50-51.

²⁸¹⁵ *Id.* at 53.

below) by an amount proportionate to any increase to Columbia's EE&C Plan budget.²⁸¹⁶ In that Settlement Columbia agreed to increase the A&R budget by \$250k per year in exchange for approval of its Phase I EE&C Plan without dedicated low-income programming.²⁸¹⁷

CAUSE-PA contends that if the Commission does not reject Columbia's Phase II EE&C Plan for lack of dedicated, proportionate low-income programming, this additional \$243,750 per year in A&R funds would help ensure that low-income customers receive an increased benefit that is proportionate to the increase to the non-low income EE&C programs. However, to be truly proportionate and equitable, the additional funding must be combined with CAUSE-PA's above recommendations to roll over the unspent A&R budget and provide no-cost measures to customers at or below 150% FPL.

- c. *If the Commission approves the Phase II EE&C Plan, the Commission should order Columbia to proportionately increase the portion of the ERP Budget tied to the settlement approving its Phase I EE&C.*

CAUSE-PA indicates that Columbia agreed to increase funding for its Emergency Repair Program (ERP), which is part of its USECP, as part of the Settlement in Columbia's 2022 Rate Case.²⁸¹⁸ The ERP provides important benefits to low-income households and helps reduce reliance on unsafe and inefficient heating alternatives when a household's gas heating system is in disrepair.²⁸¹⁹

²⁸¹⁶ *Id.* at 54.

²⁸¹⁷ *Id.*

²⁸¹⁸ *Id.*

²⁸¹⁹ *Id.*

CAUSE-PA contends that to the extent that the Commission does not reject Columbia's proposed Phase II EE&C Plan for failure to include dedicated low income programming (or, alternatively exempt all confirmed low income customers from Rider EE), Columbia should be required to proportionately increase its 2022 settlement obligations related to ERP budget by an amount proportionate to any increase to Columbia's EE&C Plan budget.²⁸²⁰

CAUSE-PA argues that this extra \$292,500 per year would help provide additional vital, potentially lifesaving, services by and help additional vulnerable customers regain their heating and hot water in emergency situations. It would also help offset the inequities due to the lack of low-income programming in Columbia's EE&C.

6. *TASK FORCE's Position*

TASK FORCE did not brief this issue.

7. *PSU's Position*

PSU did not brief this issue.

8. *ALJs' Recommendation*

Initially, we note that for natural gas utilities, EE&C programs are voluntary. However, the Commission has approved such programs and related cost-recovery mechanisms on a case-by-case basis. The Commission has also issued a

²⁸²⁰ CAUSE-PA St. 1 at 56.

Secretarial Letter (Dec. 23, 2009) setting out what voluntary EE&C plans should include, signaling support when proposals meet those criteria.

Columbia is proposing a voluntary Phase II Three-Year Energy Efficiency Plan (Phase II Plan or Plan) to follow its implementation of the Company's Energy Efficiency Pilot Program (EE Pilot) with updates based on energy efficiency efforts across other NGDC Energy Efficiency and Conservation (EE&C) plans in Pennsylvania.²⁸²¹ The Company is proposing to continue its two existing energy efficiency programs from the EE Pilot and launch a new, third energy efficiency program.

Columbia's proposal is opposed by I&E, OCA and CAUSE-PA on various grounds. We agree with I&E, OCA and CAUSE-PA. Columbia did not include any dedicated low-income programming as part of its Phase II EE&C Plan.²⁸²² Moreover, while Columbia's A&R and ERP budgets were each expanded in the previous rate case settlement to address Columbia's lack of low-income programming within its Phase I EE&C, Columbia has not proposed to expand these programs through the Phase II EE&C.²⁸²³

Columbia has not spent its allocated budget for its A&R and ERP, which goes against the prior settlement provisions that were to address Columbia's lack of dedicated low-income programming within its Phase I EE&C program.²⁸²⁴ Although some low-income customers participated in Columbia's Phase I EE&C, they did not participate on a proportionate scale.²⁸²⁵

²⁸²¹ *Id.*, p. 23.

²⁸²² CAUSE-PA St. 1 at 49.

²⁸²³ CAUSE-PA St. 1 at 50-51, 54, 56 (citing Joint Pet. for Settlement, Docket No. R-2022-3031211).

²⁸²⁴ CAUSE-PA St. 1 at 53, T.9.

²⁸²⁵ CAUSE-PA St. 1 at 47.

Accordingly, we recommend that the Commission reject Columbia's proposal for its voluntary Phase II Three-Year Energy Efficiency Plan.

If the Commission chooses to approve the Phase II EE&C Plan, we recommend that Columbia be required to proportionately increase its Audits and Rebates Budget and Emergency Repair Program in accordance with Columbia's 2022 Settlement.

P. Competitive Supply Issues

1. *Columbia's Position*

Columbia explains OCA witness Alexander and CAUSE-PA witness Geller recommend that the Commission require Columbia to send targeted communications to customers who are enrolled with a Natural Gas Supplier (NGS) and paying rates that are higher than the Company's Price to Compare (PTC). Ms. Alexander recommends that the Company be required to send targeted educational messages to these shopping customers explaining how to compare NGS charges per therm to the PTC and "urg[ing]" them to compare rates on a monthly basis.²⁸²⁶ Mr. Geller recommends that the Commission require the Company to develop a targeted letter for low-income shoppers being charged rates higher than the PTC that is sent at least once every 6 months and includes clear instructions for applying to CAP.²⁸²⁷ Columbia submits these proposed communications to shopping customers should be rejected.

Columbia asserts it's current outreach and messaging to its shopping customers is already fully compliant with the Company's responsibilities under the

²⁸²⁶ OCA St. 6, p. 21.

²⁸²⁷ CAUSE-PA St. 1, p. 60. Mr. Geller's proposal would also require the Company to "share a draft and solicit input from the parties to this proceeding and members of its USAC regarding the above communications and the Petition to amend its CAP application." *Id.*

Public Utility Code, the Natural Gas Choice and Competition Act (Competition Act), the Company's Commission-approved tariffs, and the Commission's orders issued in both Columbia's restructuring proceeding and restructuring proceedings generally.²⁸²⁸ The Company submits it already provides customers the phone numbers and website addresses of each licensed NGS operating in its service territory and a calculator that allows customers to compare shopping costs based on their actual consumption and the NGS's actual quoted prices.²⁸²⁹ As such, Columbia submits its customers are already provided the information necessary to evaluate the offerings of NGSs.

Columbia also contends the recommended messaging conflicts with the intent of the Competition Act, that 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 "[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."²⁸³⁰ Columbia contends no language in the Competition Act requires lower rates or costs for natural gas supplied by NGSs. Columbia argues the targeted messaging contemplated by Ms. Alexander and Mr. Geller should be rejected because it could discourage customers from exercising their right to choose their natural gas supplier, which directly conflicts with the purpose of the Competition Act.²⁸³¹

Columbia asserts Mr. Geller's recommendation to narrowly target only low-income customers that are paying supply rates that are higher than the PTC is unnecessarily discriminatory to those customers. Columbia contends, to the extent low-

²⁸²⁸ Columbia St. No. 1-R, p. 21.

²⁸²⁹ Columbia St. No. 1-RJ, p. 9.

²⁸³⁰ 66 Pa.C.S. § 2203(2) (emphasis added).

²⁸³¹ Columbia St. No. 1-R, p. 21.

income customers are paying “excessive” shopping rates, as Mr. Geller argues,²⁸³² those rates are a result of NGS pricing and are not a function of Columbia’s PTC or the information the Company supplies to its customers.²⁸³³

Columbia further asserts it would be improper for the Commission to impose additional communication requirements related to competitive supply rates in this proceeding because supplier interests are not adequately represented in this proceeding.

For the reasons set forth above, Columbia contends the Commission should not require Columbia to send targeted messaging to customers paying supplier rates that are higher than the PTC.

2. *I&E’s Position*

I&E did not specifically address this issue.

3. *OCA’s Position*

a. *Columbia Billing and Payment Policies*

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

OCA recommends additional educational shopping information be provided to customers by Columbia in light of the potential impact on customer bills and the risk to customers of termination due to inability to pay higher prices. OCA witness Alexander reviewed sample bills issued by Columbia to residential customers that

²⁸³² CAUSE-PA St. 1-SR, p. 36.

²⁸³³ Columbia St. No. 1-RJ, p. 9.

include charges by a Natural Gas Supplier.²⁸³⁴ OCA witness Alexander attached a sample bill as Exhibit BA-4.²⁸³⁵ Ms. Alexander identified that the customer's charges on the sample bill for the NGS are several times in excess of the applicable PTC. OCA witness Alexander also included as Exhibit BA-5 an analysis that reflects the NGS charges actually billed to their customers by Columbia and provides the most accurate picture of bill impacts rather than relying on published NGS prices.²⁸³⁶ 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.²⁸³⁷

OCA witness Alexander identified concerns that the Company has not taken action in light of the adverse impact to customer bills.²⁸³⁸

Columbia witness Kempic rejects OCA witness Alexander's recommendation and states that the Company has no obligation to conduct educational actions for customers paying significantly higher prices for NGS prices compared to default service.²⁸³⁹ OCA witness Alexander testified there is no basis for Mr. Kempic's view that Columbia needs a "regulation" or "order" to take responsible action to assist customers who may not be aware of or understand the higher prices being paid.²⁸⁴⁰

²⁸³⁴ OCA St. 6 at 20, Ex. BA-4.

²⁸³⁵ OCA St. 6 at 20.

²⁸³⁶ OCA St. 6 at 20, Ex. BA-5.

²⁸³⁷ OCA St. 6 at 21.

²⁸³⁸ OCA St. 6 at 21 (footnote omitted).

²⁸³⁹ Columbia St. 1-R at 20-21; OCA St. 6 at 21; OCA St. 6SR at 14.

²⁸⁴⁰ OCA St. 6SR at 14.

Ms. Alexander testified that currently the customer service representatives are required to read and solicit the customer's interest in a "choice packet" but no regulation or order requires this action.²⁸⁴¹ 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."²⁸⁴²

OCA submits 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.²⁸⁴³ 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. OCA submits, 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 urge them to compare prices and rates on a monthly basis.²⁸⁴⁴

4. *OSBA's Position*

OCA did not specifically address this issue.

5. *CAUSE-PA's Position*

CAUSE-PA asserts Columbia's residential and low income shopping customers are consistently charged commodity rates that, on average, substantially exceed the applicable default service price, adding hundreds of dollars to bills each year

²⁸⁴¹ *Id.*

²⁸⁴² *Id.*

²⁸⁴³ OCA St. 6SR at 15.

²⁸⁴⁴ OCA St. 6 at 21.

and exacerbating the negative consequences of high energy burdens on low income customers.²⁸⁴⁵ These consistently high commodity prices, according to CAUSE-PA, are driving up collections, termination, and universal service program costs, and exacerbating distribution costs which fall to other residential ratepayers.²⁸⁴⁶ CAUSE asserts Columbia must do more to help educate consumers about the competitive market and ensure low income households are connected to vital rate relief through CAP before accruing unmanageable debts.

CAUSE-PA presents Tables 14 and 15 below to summarize the data presented in CAUSE-PA Exhibits 1 and 2, which details the monthly average charges in excess of the default service price for Columbia’s residential and low income shopping customers. CAUSE submits that in the first three months of 2025, residential and low income shopping customers were charged on average more than \$190 more than the applicable price to compare, equating to an average of more than \$63 in additional costs each month.²⁸⁴⁷

Table 14: R Shopping Charges in Excess of Default Service Price²⁸⁴⁸

Date	Total R Shopping Charges Over Default	Average Per Customer R Shopping Charges Over Default
2022	\$11,180,602	\$223.41
2023	\$12,286,390	\$253.37
2024	\$14,746,740	\$304.94
2025 (Jan-Mar)	\$9,367,049	\$190.97
TOTAL	\$47,580,781	\$972.69

Table 15: CLI (Non-CAP) Shopping Charges in Excess of Default Service Price²⁸⁴⁹

²⁸⁴⁵ CAUSE-PA St. 1 at 58; CAUSE-PA Ex. 1 & 2; *see also* OCA St. 6 at 20, OCA Ex. BA-5.

²⁸⁴⁶ CAUSE-PA St. 1 at 58-59.

²⁸⁴⁷ CAUSE-PA Ex. 1 and 2.

²⁸⁴⁸ CAUSE-PA St. 1 at 57; CAUSE-PA Ex. 1.

²⁸⁴⁹ CAUSE-PA St. 1 at 58; CAUSE-PA Ex. 2.

Date	Total CLI (Non-CAP) Shopping Charges Over Default	Average Per Customer CLI (Non-CAP) Shopping Charges Over Default
2023 (Jun-Dec)	\$975,517	\$104.33
2024	\$2,498,567	\$276.86
2025 (Jan-Mar)	\$1,806,455	\$196.72
TOTAL	\$5,280,538	\$577.92

CAUSE-PA asserts persistently higher average prices in the competitive market are “creating a host of consequences” for individual consumers and other ratepayers, including higher termination rates, collections costs, and universal service costs.²⁸⁵⁰ Low income shopping customers, in particular, are uniquely harmed by higher prices in the competitive market. In 2024, the termination rate for Columbia’s low income shopping customers topped 25% - compared to 14% for low income default service customers.²⁸⁵¹ CAUSE-PA explains, when termination rates increase, so too does the cost of collections that are recovered through rates.²⁸⁵²

CAUSE contends Columbia does not permit customers who are actively enrolled in CAP to shop for competitive supply, which “has likely prevented millions of dollars in unnecessary programmatic costs and higher charges for CAP participants.”²⁸⁵³ However, CAUSE asserts this rule does not fully alleviate the potential for exorbitant competitive market rates to increase universal service program costs. Namely, excessive competitive supply prices can have a direct, dollar for dollar impact on CAP arrearage management costs. As Mr. Geller explained:

²⁸⁵⁰ CAUSE-PA St. 1 at 58.

²⁸⁵¹ *Id.* at 57-58, T.13.

²⁸⁵² Tr. at 392.

²⁸⁵³ CAUSE-PA St. 1 at 59.

When a household is enrolled in CAP for the first time, their pre-program arrearages are frozen and eligible for forgiveness over time.

If a low income shopping customer applies for CAP after shopping at a higher rate, they are likely to enter the program with unnecessarily high arrears which, in turn, would increase the cost of the program supported by other residential ratepayers.²⁸⁵⁴

CAUSE asserts excessive competitive supply prices also erodes the availability of limited hardship fund dollars and undercuts the ability of Columbia's Hardship Fund Program to help low income and other vulnerable households to maintain essential gas services to their home.²⁸⁵⁵

To help safeguard against these severe consequences of excessive pricing in the competitive market, CAUSE-PA submits that the Commission should require Columbia to improve its general residential shopping education,²⁸⁵⁶ and should provide targeted education to low income shopping customers about the availability and benefits of CAP.²⁸⁵⁷ At minimum, CAUSE-PA recommends that Columbia develop a letter with assistance from its Universal Service Advisory Committee (USAC) that provides information about the availability of CAP to low income shopping customers, and instructions for how to enroll.²⁸⁵⁸

CAUSE asserts Columbia objects to this outreach and education, arguing, that CAUSE-PA's proposed "letter writing campaign" would "discriminate" against low income customers and would violate the right of customers to choose.²⁸⁵⁹ At the

²⁸⁵⁴ *Id.* at 59.

²⁸⁵⁵ CAUSE-PA St. 1-SR at 36.

²⁸⁵⁶ OCA St. 6 at 20-21

²⁸⁵⁷ CAUSE-PA St. 1 at 59-60.

²⁸⁵⁸ CAUSE-PA St. 1 at 60.

²⁸⁵⁹ Columbia St. 1-R at 21.

evidentiary hearing, Columbia witness Kempic testified that Columbia cannot “force” low income customers to enroll in CAP²⁸⁶⁰ but acknowledged he did not review the extensive shopping data, but nevertheless argued that he “didn’t need to” in order to reach his conclusion that Columbia’s current education is adequate.²⁸⁶¹ CAUSE points to testimony of Columbia witness Kempic who, when asked whether it was his position that low income shopping customers would rather endure involuntary loss of heating, cooking and hot water than be informed of the availability of a program that could prevent that termination, Mr. Kempic responded: “I can’t speculate as to what’s in a customer’s mind” ... “I don’t know.”²⁸⁶²

CAUSE explains that the Choice Act defines the term “universal service and energy conservation programs” as: “Policies, practices and services that help residential low-income retail customers ... to ***maintain*** natural gas supply and distribution services.”²⁸⁶³ The Act requires that the Commission ensure these programs are “available in each natural gas distribution service territory”²⁸⁶⁴ to, *inter alia*, “***assist low-income retail customers to afford natural gas service***.”²⁸⁶⁵ CAUSE contends the Act recognizes that the ability of low income customers to both ***afford*** and ***maintain*** gas service to their home is of paramount concern, however, at least 1 in 4 of Columbia’s low income shopping customers are categorically unable to afford to maintain service to their home, resulting in involuntary termination at rates which far surpass low income default service customers.

CAUSE argues Columbia’s indifference to excessive commodity charges in the competitive market, and the high corresponding termination rates, collections costs,

²⁸⁶⁰ Tr. at 391: 10.

²⁸⁶¹ Tr. at 391: 1 & 11-25.

²⁸⁶² Tr. at 393: 18-25 & 394: 2-5.

²⁸⁶³ 66 Pa.C.S. § 2202 (emphasis added).

²⁸⁶⁴ 66 Pa.C.S. § 2203(8) (emphasis added).

²⁸⁶⁵ 66 Pa.C.S. § 2203(7) (emphasis added).

and universal service program costs, runs contrary to its obligation to prudently manage collections and minimize costs borne by other ratepayers.²⁸⁶⁶ In addition, according to CAUSE, Columbia’s position also plainly contradicts Columbia’s statutory obligations regarding education and universal service under the Choice Act. CAUSE explains, pursuant to the Choice Act, Columbia has a statutory obligation to educate consumers about the competitive market and to provide “*adequate and accurate information necessary to help them make appropriate choices as to their natural gas service.*”²⁸⁶⁷ This information must “be provided to retail gas customers in an understandable format that enables retail gas customers to compare prices and services on a uniform basis.”²⁸⁶⁸ In turn, Columbia is statutorily required to operate its universal service and energy efficiency programs in a cost effective manner, ensuring that its programs are appropriately funded and available to help low income customers to afford and maintain gas service to their home.²⁸⁶⁹

²⁸⁶⁶ Consumers cannot readily negotiate with a utility and must “rely upon” the Commission to provide “a complete, permanent, and effective bond of protection from excessive rates and charges” of the public utility. *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)). The Commission’s “responsibilities include the protection of future, as well as present, consumer interests.” *Permian Basin*, 390 U.S. at 797.

²⁸⁶⁷ 66 Pa.C.S. § 2206 (c), (d). Notably, section 2206(d) requires each NGDC to implement a customer education plan prior to implementation of a restructuring plan. **However, nothing in the section suggests that an NGDC’s consumer education obligation under this section ends after implementation of the NGDC’s restructuring plan.** CAUSE-PA submits that, given the negative and costly outcomes residential and low income households are experiencing in the competitive market, there is an ongoing need for Columbia to “provide retail gas customers with information necessary to help them make appropriate choices as to their natural gas service.” 66 Pa.C.S. § 2206(d).

²⁸⁶⁸ 66 Pa.C.S. § 2206(c).

²⁸⁶⁹ 66 Pa.C.S. § 2203(7), (8) (“The commission shall ensure that universal service and energy conservation policies, activities and services are appropriately funded and available in each natural gas distribution service territory. ... Programs under this paragraph shall be subject to the administrative oversight of the commission, which shall ensure that the programs are operated in a cost-effective manner.”).

The overarching goal of the Choice Act, according to CAUSE, is to promote competition through deregulation of the energy supply industry, leading to reduced energy costs for consumers, not unbridled competition.²⁸⁷⁰ CAUSE argues the Commission has the authority to effectively limit competition “so that other important policy concerns of the General Assembly, such as access, *affordability*, and cost-effectiveness, may be served.”²⁸⁷¹

Columbia argues that its call scripting, bill, and website offer adequate information to consumers about shopping and the price to compare,²⁸⁷² CAUSE submits evidence revealed through the course of litigation raised substantial questions about this claim.

CAUSE submits, on Columbia’s bill, the price to compare is located in fine print on the back of the bill and key terms related to shopping, such as price to compare and natural gas supplier, do not appear with other common defined terms.²⁸⁷³ Columbia could point to just one bill insert, in February 2025, according to CAUSE, that contained definitions for the terms price to compare and natural gas supplier, though no other

²⁸⁷⁰ *Retail Energy Supply Assoc. v. Pa. PUC*, 230 C.D. 2017 (Pa. Cmwlth. 2017) (citing *CAUSE-PA v. Pa. PUC*, 120 A.3d 1087, 1101 (Pa. Cmwlth. 2015)).

²⁸⁷¹ *Retail Energy Supply Assoc. v. Pa. PUC*, 230 C.D. 2017 (Pa. Cmwlth. 2017) (citing *CAUSE-PA v. Pa. PUC*, 120 A.3d 1087, 1103 (Pa. Cmwlth. 2015), While this case was interpreting the Electric Choice and Competition Act, the two Acts are parallel in their intent and application.

²⁸⁷² Columbia St. 1-R at 20-21; Columbia St. 1-RJ at 6-9; Tr. at 395.

²⁸⁷³ OCA St. 6 at 20; OCA Ex. BA-4; CAUSE-PA Hearing Ex. 2; Tr. at 397:25 to 400: 9. Note that Columbia’s witness argued that there may be more information on a residential distribution service bill; however, the bill sample reviewed is what appears on Columbia’s webpage, Understanding Your Bill, and is consistent with the bill sample for residential shopping customers addressed by OCA witness Barbara Alexander. *See* OCA St. 6 at 20; OCA Ex. BA-4; CAUSE-PA Hearing Ex. 2 & 3.

information was included that might help customers to compare offers or otherwise assess their eligibility for a lower rate through CAP.²⁸⁷⁴

CAUSE points out that, while Columbia has a dedicated webpage that provides information about shopping, no information about shopping information is discussed on Columbia's "Understanding Your Bill" webpage,²⁸⁷⁵ which, CAUSE asserts, is the place most customers who are served by a supplier and have questions about their bill would be most likely to look. When asked whether he thinks that understanding the price bears an important part to understanding your bill, Mr. Kempic responded: "No, I don't."²⁸⁷⁶ In fact, Mr. Kempic testified he "thoroughly disagree[s]" that a primary purpose of the Choice Act was to help lower costs for consumers.²⁸⁷⁷ CAUSE-PA argues Mr. Kempic is wrong on this point.²⁸⁷⁸ CAUSE submits, it is hard to see how Columbia can reasonably claim it provides adequate information to assist consumers to make an informed choice about their energy when its CEO refuses to recognize the critical importance of understanding the price of energy and how it appears on their bill. CAUSE identified the Commission's statement of purpose in section 62.221 of its regulations, implementing the Choice Act, which provides it is "essential that [retail gas shopping customers] are able to compare the price of gas purchased from their incumbent NGDC with that offered for sale by NGSs."²⁸⁷⁹

²⁸⁷⁴ Tr. at 422-424; Columbia Hearing Ex. 3; *see also* CAUSE-PA St. 1-SR at 38.

²⁸⁷⁵ Tr. at 417: 10-18; CAUSE-PA Hearing Ex. 3.

²⁸⁷⁶ Tr. at 414: 8-11.

²⁸⁷⁷ Columbia St. 1-RJ at 9; *see also* Tr. at 420: 2-17.

²⁸⁷⁸ *Retail Energy Supply Assoc. v. Pa. PUC*, 230 C.D. 2017 (Cmwlth. 2017) (citing *CAUSE-PA v. Pa. PUC*, 120 A.3d 1087, 1101 (Pa. Cmwlth. 2015) (explaining the overarching goal of competition through deregulation of the energy supply industry, is to reduce energy costs for consumers, not unbridle competition.).

²⁸⁷⁹ 52 Pa. Code § 62.221; *see also* CAUSE-PA St. 1-SR at 62.

CAUSE-PA submits Columbia’s objections to improving education about shopping and, more specifically, to providing targeted information to low income shopping customers about the availability of CAP and how to enroll are with without merit. CAUSE requests that the Commission help safeguard low income customers and other residential ratepayers from excessive prices in the competitive market, consistent with Columbia’s explicit obligations in the Choice Act.²⁸⁸⁰

6. *TASK FORCE’s Position*

The Task Force did not specifically address this issue.

7. *PSU’s Position*

PSU did not specifically address this issue.

8. *ALJs’ Recommendation*

AS Cause-PA explained the Choice Act defines the term “universal service and energy conservation programs” as: “Policies, practices and services that help residential low-income retail customers ... to **maintain** natural gas supply and distribution services.”²⁸⁸¹ The Act requires that the Commission ensure these programs are “available in each natural gas distribution service territory”²⁸⁸² to, *inter alia*, “**assist low-income retail customers to afford natural gas service**.”²⁸⁸³ AS CAUSE-PA noted, the Act recognizes that the ability of low income customers to both **afford** and **maintain** gas service to their home is of paramount concern. However, the evidence suggests at

²⁸⁸⁰ 66 Pa.C.S. §§ 2202, 2203(7), (8), 2206(c), (d).

²⁸⁸¹ 66 Pa.C.S. § 2202 (emphasis added).

²⁸⁸² 66 Pa.C.S. § 2203(8) (emphasis added).

²⁸⁸³ 66 Pa.C.S. § 2203(7) (emphasis added).

least 1 in 4 of Columbia’s low-income shopping customers are categorically unable to afford to maintain service to their home, resulting in involuntary termination at rates which surpass low-income default service customers.

OCA witness Alexander and CAUSE-PA witness Geller recommend that the Commission require Columbia to send targeted communications to customers who are enrolled with a Natural Gas Supplier and paying rates that are higher than the Company’s Price to Compare. Ms. Alexander recommends that the Company be required to send targeted educational messages to these shopping customers explaining how to compare NGS charges per therm to the PTC and “urg[ing]” them to compare rates on a monthly basis.²⁸⁸⁴ Mr. Geller recommends that the Commission require the Company to develop a targeted letter for low-income shoppers being charged rates higher than the PTC that is sent at least once every 6 months and includes clear instructions for applying to CAP.²⁸⁸⁵ Columbia submits these proposed communications to shopping customers should be rejected.

Columbia asserts it’s current outreach and messaging to its shopping customers is already fully compliant with the Company’s responsibilities under the Public Utility Code, the Natural Gas Choice and Competition Act, the Company’s Commission-approved tariffs, and the Commission’s orders issued in both Columbia’s restructuring proceeding and restructuring proceedings generally.²⁸⁸⁶ The Company submits it already provides customers the phone numbers and website addresses of each licensed NGS operating in its service territory and a calculator that allows customers to compare shopping costs based on their actual consumption and the NGS’s actual quoted

²⁸⁸⁴ OCA St. 6, p. 21.

²⁸⁸⁵ CAUSE-PA St. 1, p. 60. Mr. Geller’s proposal would also require the Company to “share a draft and solicit input from the parties to this proceeding and members of its USAC regarding the above communications and the Petition to amend its CAP application.” *Id.*

²⁸⁸⁶ Columbia St. No. 1-R, p. 21.

prices.²⁸⁸⁷ Accordingly, the Company concludes that it's customers are already provided the information necessary to evaluate the offerings of NGSs.

Columbia also contends the recommended messaging conflicts with the intent of the Competition Act, that 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.” Columbia also argues the targeted messaging contemplated by Ms. Alexander and Mr. Geller should be rejected because it could discourage customers from exercising their right to choose their natural gas supplier, which directly conflicts with the purpose of the Competition Act.²⁸⁸⁸ Finally, Columbia asserts Mr. Geller's recommendation to narrowly target only low-income customers that are paying supply rates that are higher than the PTC is unnecessarily discriminatory to those customers²⁸⁸⁹ and that it would be improper for the Commission to impose additional communication requirements related to competitive supply rates in this proceeding because supplier interests are not adequately represented in this proceeding.

OCA witness Alexander identified that the customer's charges on the sample bill for the NGS are several times in excess of the applicable PTC and addresses concerns that the Company has not taken action in light of the adverse impact to customer bills.²⁸⁹⁰ Columbia witness Kempic responded that the Company has no obligation to conduct educational actions for customers paying significantly higher prices for NGS prices compared to default service.²⁸⁹¹

²⁸⁸⁷ Columbia St. No. 1-RJ, p. 9.

²⁸⁸⁸ Columbia St. No. 1-R, p. 21.

²⁸⁸⁹ Columbia St. No. 1-RJ, p. 9.

²⁸⁹⁰ OCA St. 6 at 21 (footnote omitted).

²⁸⁹¹ Columbia St. 1-R at 20-21; OCA St. 6 at 21; OCA St. 6SR at 14.

In addition, OCA witness Alexander testified there is no basis for Mr. Kempic's view that Columbia needs a "regulation" or "order" to take responsible action to assist customers who may not be aware of or understand the higher prices being paid.²⁸⁹²

CAUSE-PA raised concerns that residential and low income shopping customers are consistently charged commodity rates that, on average, substantially exceed the applicable default service price, adding hundreds of dollars to bills each year and exacerbating the negative consequences of high energy burdens on low income customers.²⁸⁹³ CAUSE-PA further expressed its concerns for the customers explaining these consistently high commodity prices are driving up collections, termination, and universal service program costs, and exacerbating distribution costs which fall to other residential ratepayers.²⁸⁹⁴ CAUSE-PA proposed that Columbia help to address this issue by assisting to educate consumers about the competitive market and ensure low income households are connected to vital rate relief through CAP before accruing unmanageable debts.

OCA and CAUSE-PA identified an issue and proposed a solution to address a concern that that affects a number of Columbia customers. OCA and CAUSE-PA further provided proposals to address and potentially resolve these issues for the benefit of Columbia customers. Columbia essentially responded, in part, that it's customers are already provided the information necessary to evaluate the offerings of NGSs.

²⁸⁹² OCA St. 6SR at 14.

²⁸⁹³ CAUSE-PA St. 1 at 58; CAUSE-PA Ex.s 1 & 2; *see also* OCA St. 6 at 20, OCA Ex. BA-5.

²⁸⁹⁴ CAUSE-PA St. 1 at 58-59.

Columbia's response, fails to address the substance of the issue or propose a solution to alleviate the concern that may have a real detrimental impact on its customers. Instead, Columbia, in part, responded by indicating it was not required to do more to address the issue raised by OCA and CAUSE-PA. While Columbia may take the position provided in the testimony of Columbia witness Kempic, the standard in addressing such consumer related issues is not whether the Company is doing that which is required by law to address customer issues, where a problem clearly exists and the Company's approach has not resolved the issue. Further, there was no credible evidence presented that the issue raised by OCA and CAUSE-PA did not exist or that their proposed resolution would be unduly costly or burdensome to Columbia or that the proposed remedy would run afoul of any Code provision or Commission Regulation. Furthermore, the argument advanced by the Company that "targeting" only low-income customers that are paying supply rates that are higher than the PTC is unnecessarily discriminatory to those customers, is unsupported by the record.

It is well established that a base rate case is the proper venue for hearing the customer service issues raised in the proceeding. In addition, it is not required that a specific law, order or policy be in effect that specifically requires the relief requested by OCA and CAUSE-PA to be implemented by the Company. Section 1501 of the Code requires the utility to provide safe, adequate and reasonably continuous service.²⁸⁹⁵

For all of the reasons set forth above, we recommend that the proposals of OCA and CAUSE-PA be implemented by the Company, consistent with the Ordering paragraphs herein.

Q. Tariff Issues (Not Briefed Above)

²⁸⁹⁵ See *Pa. PUC v. Pennsylvania Gas & Water Co.*, 61 Pa P.U.C. 409 (1986); 66 Pa.C.S. § 1501.

1. *Rate EDDS*

a. *Columbia's Position*

Columbia proposes to implement Rate Economic Development Distribution Service (EDDS) to allow it to serve extremely large load customers such as data centers.²⁸⁹⁶ Rate EDDS will treat these extremely large load customers as non-jurisdictional to protect jurisdictional customers from bearing the risks associated with serving these unique, large users. Columbia proposes to enter into individual, specialized contracts with these unique users that reflect their specific costs and service requirements. Columbia does not currently have an existing rate schedule that can accommodate data centers.²⁸⁹⁷

In subsequent rate cases, any costs for serving Rate EDDS customers will be separated out in the cost of service study to ensure that jurisdictional customers are not bearing costs for Rate EDDS customers.

(1) Columbia argues that Rate EDDS is in the Public Interest.

Columbia indicates that it does not currently have a rate schedule that can accommodate extremely large users such as data centers, but it has already had an inquiry

²⁸⁹⁶ Columbia St. No. 9, pp. 40-50.

²⁸⁹⁷ Columbia St. No. 9-R, p. 37.

from a potential customer that may qualify for the service.²⁸⁹⁸ Ms. Paloney explained as follows:²⁸⁹⁹

The time to create a rate schedule to serve these large-load customers is now, in advance of having to create a rate schedule that would require Commission approval while trying to negotiate contract terms with a customer. Further, tariff modifications outside of a rate proceeding have no statutory procedural timeline, which will have a significant impact on Columbia's ability to provide service to potential large-load customers.

Customers taking service under this rate schedule prioritize timely service as a critical issue during contract negotiations, as they need to know that Columbia has a rate schedule that can fulfill their requirements in advance of beginning any negotiation for service. If an approved rate schedule does not exist, and no timeline can be provided in which to expect Commission consideration of a proposed large-load rate schedule, these customers will find a more progressive state to build, where existing tariff provisions do exist that support the level of service they are looking for.

The Company contends that Rate EDDS is consistent with Governor Shapiro's Ten-Year Strategic plan for economic growth in Pennsylvania. Approving Rate EDDS now will put the Company in a better position to be able to serve data centers and promote economic growth and development. The Company further maintains that there are unique challenges and risks to serving data centers, including the level of utility investment required to provide services and the risk of default. The Company argues that making Rate EDDS non-jurisdictional protects jurisdictional customers from these unique and significant risks.

²⁸⁹⁸ Columbia St. No. 9-R, p. 35.

²⁸⁹⁹ Columbia St. No. 9-R, p. 35, lines 6-18.

(2) Rejection of Other Parties' Criticisms of Rate EDDS

The Company indicates that Several of the other parties in this proceeding oppose Rate EDDS at this time. The Company contends that their criticisms are flawed and should be denied.

The Company indicates that several of the parties argue it is premature for the Commission to approve Rate EDDS because Columbia does not have customers that are interested in the service.²⁹⁰⁰ Columbia argues that waiting until a customer signs up runs the risk of losing the economic growth to the community or even another state due to the inherent delays in seeking a new tariff. Columbia contends that it needs to have a rate schedule in place to be able to accommodate data centers and does not have one at this time.

The Company indicates that CAUSE-PA witness Cicero argues that the Company should wait to have Rate EDDS until the Commission acts in its proceeding regarding Interconnection and Tariffs for Large Load Customers at Docket No. M-2025-3054271.²⁹⁰¹ The Company maintains that this argument fails because this proceeding relates to issues regarding interconnection of electric customers to the electric grid.²⁹⁰² There are significant differences in providing gas or electric service to data centers,²⁹⁰³ and it does not appear that the Commission is addressing gas service issues in the Interconnection Docket especially because NGDCs were not invited to participate.²⁹⁰⁴ CAUSE-PA's arguments to the contrary should not be accepted.

²⁹⁰⁰ See, e.g., OCA St. No. 1, p. 59.

²⁹⁰¹ CAUSE-PA St. No. 2, p. 78.

²⁹⁰² See Secretarial Letter issued April 12, 2025.

²⁹⁰³ Columbia St. No. 9-R, pp. 37-38.

²⁹⁰⁴ See Secretarial Letter issued April 12, 2025.

The Company indicates that I&E witness Sakaya expressed concerns that the non-jurisdictional nature of the service would preclude Commission oversight resulting in costs being subsidized by jurisdictional customers.²⁹⁰⁵ The Company maintains that this argument fails because the Commission and the parties will have oversight of the separation of costs in base rate proceedings. The Company also contends that costs for Rate EDDS will need to be separated out in a cost-of-service study regardless of whether the service is jurisdictional or non-jurisdictional. Making the service non-jurisdictional protects jurisdictional customers from the unique and significant risks associated with service data centers.

(3) Company's Summary on Rate EDDS

The Company indicates that it does not currently have a rate schedule that can effectively accommodate a data center and it needs to be proactive to serve these large customers.

Eligible Customer List

Columbia's tariff establishes procedures for the release of customer information through the Eligible Customer List (ECL). As relevant to this proceeding, Columbia's currently-effective Tariff Rule 4.54 provides as follows:

Privacy of Customer Information. The Company may release private Customer information to third parties, such as NGSs participating in the Company's Choice program, only after informing each Customer via bill insert of its intent to release such information. The Company will notify customers of the option to limit or restrict their private information by:

²⁹⁰⁵ I&E St. No. 3, pp. 33-34.

4.5.4.1 Bill Insert. At least once each year, the Company will include an insert in every customer bill. In addition, each new customer will receive the bill insert in their initial bill.

The bill insert notifies customers: 1) how the customer account and usage information will be used; 2) how to opt-out of the ECL; 3) what their opt-out choice means; and 4) that they may change preferences either by first class mail or via electronic or telephonic means.

4.5.4.2 Triennial Letter. Every three years the Company will mail a letter to the mailing address of every Choice-eligible customer that provides customers with the information contained in the bill insert above, and notifies customers who have previously limited or restricted their information that they must renew that request in order to retain a restricted status of their account information.

4.5.4.3 Customer Request to Restrict Information. Customers may restrict information according to one of the following two restriction options: 1) restrict the release of only the customer's historical usage data; or 2) restrict the release of all private customer information including name, billing address, service address, rate class, rate schedule, account number, meter reading cycle, shopping status, and historical usage.

Each customer may notify the Company of their desire to restrict the release of private information by one of the following options: 1) fill in the necessary information on the form included on the back of the bill insert or included with the triennial letter, and return the form with the regular monthly payment or separately mail to the Company; 2) send a letter to the Company; 3) call the Customer Satisfaction Center at 1-888-460-4332; 4) use the Company's webpage that explains the ECL and options; or 5) e-mail the request to cpacustserv@nisource.com.

Customers may request to restrict the release of information at any time and the Company shall then honor that request

until the next triennial refresh, when the customer must reaffirm their election.^[2906]

By Order entered March 13, 2025, the Commission directed changes to its guidelines for ECLs.²⁹⁰⁷ The order made the following revisions:

- Electric and gas companies will re-solicit their residential and small commercial bases every five years, rather than three years, about their option regarding release of customer information.
- Once a customer has opted-out of the ECL, the election continues until the customer affirmatively elects to opt back in.
- EDCs and NGDCs may use electronic means to communicate with customers about the ECL and to receive responses from customers.
- That all communications regarding the ECL shall be content neutral.

In Rebuttal, Columbia submitted a revised Tariff Page 227a to bring its tariff into compliance with the Commission's Order. The revised page made the following changes:

- Updated timing of ECL from three to five years.
- Removed the need for customers to reaffirm their decision to opt-out if the customer previously opted-out.
- Renamed the solicitation to ECL Refresh from Triennial Letter.

²⁹⁰⁶ Columbia Ex. 14, Sch. 2, Attachment A, p. 261 (Tariff Page 227a).

²⁹⁰⁷ *Guidelines for Eligible Customer Lists*, Docket No. M-2010-2183412 (Order entered March 13, 2025).

- Allows electronic methods to communicate regarding the ECL.²⁹⁰⁸

The Company indicates that OCA witness Alexander and CAUSE-PA witness Geller each propose to remove the words “third party” from Section 4.5.4 of the tariff.²⁹⁰⁹ However, these words, which are contained in Columbia’s existing Tariff Section 4.5.4, are included to comply with Commission regulations. Code Section 62.78 (a) provides:

An NGDC or NGS may not release private customer information to a third party unless the customer has been notified of this intent and has been given a convenient method, consistent with subsection (b), of notifying the entity of the customer’s desire to restrict the release of the private information.²⁹¹⁰

During cross-examination of Columbia witness Kempic, judicial notice was taken of a pending Affiliated Interest Agreement filing by Columbia to facilitate on-bill billing of a non-regulated service offering by a third party.²⁹¹¹ Columbia disputes the relevance of this separate proceeding. Columbia argues that Section 56.13 of the Commission’s regulations authorize bills to include non-basic charges²⁹¹² and Section 2205 (c) of the Public Utility Code authorizes natural gas distribution companies to provide billing services “on behalf of a natural gas supplier or other entity.”²⁹¹³

The Company contends that OCA’s and CAUSE-PA’s proposed deletion of the words “third party” fails to meet the requirements of the Commission’s regulations, which are specifically identified in the March 13, 2025 ECL Order.

²⁹⁰⁸ Columbia St. No. 12-R, p. 3.

²⁹⁰⁹ Columbia OCA St. No. 6SR, p. 17; CAUSE-PA St. No. 1-SR, p. 34.

²⁹¹⁰ 52 Pa. Code § 62.78(a).

²⁹¹¹ Tr. 409-412.

²⁹¹² 66 Pa. Code § 56.13.

²⁹¹³ 66 Pa.C.S. § 2205 (c) (3).

b. I&E's Position

(1) EDDS

I&E raised concerns that no current jurisdictional customers are interested in this new class of service, how these new customers would be classified jurisdictionally, which class(es) of customers would or should pay for all future improvements including a plan on how stranded costs would be handled, and how individual contracts associated with this rate class could possibly never change resulting in potential subsidization by jurisdictional customers.²⁹¹⁴

I&E reiterates its concerns that Columbia's proposal to make the EDDS rate class non-jurisdictional places that rate class outside PUC jurisdiction.²⁹¹⁵ Because of this, any potential future improvements made to that rate class might ultimately result in jurisdictional customers subsidizing the costs of non-jurisdictional customers.²⁹¹⁶ I&E contends that this jurisdictional issue could create stranded cost issues related to transmission between both categories, which will likely only impact jurisdictional customers because of the unregulated operating environment and confidential terms of non-jurisdictional individual contracts.²⁹¹⁷

As such, I&E recommends that Columbia's proposed EDDS rate class be disallowed in its entirety. I&E argues that if the Commission grants Columbia's request to implement the EDDS, then I&E urges the Commission to address the concerns raised by I&E, especially the allocation of costs.

²⁹¹⁴ *Id.*, pp. 29-30.

²⁹¹⁵ I&E St. No. 3-SR, p. 33.

²⁹¹⁶ *Id.*

²⁹¹⁷ *Id.*

c. OCA's Position

(1) Rate EDDS

OCA indicates that the Company requests Commission authorization to implement a new tariff schedule, the Economic Development Distribution Service Rate (Rate EDDS).²⁹¹⁸ Under Rate EDDS, the Company proposes to serve new large load customers “as non-jurisdictional customers, providing the opportunity for the Company to enter into individual contracts with these customers, allowing for billing rates that reflect the costs of their individual needs without the potential for these customers to be subsidized by jurisdictional customers.”²⁹¹⁹ If a non-jurisdictional customer utilized a portion of the distribution system providing service to jurisdictional customers, then that portion would be paid-for by the Rate EDDS customer and not borne solely by Columbia’s jurisdictional customers.²⁹²⁰ OCA further indicates that the Company would provide a cost of service study would be submitted in subsequent rate cases to identify all common costs between jurisdictional and non-jurisdictional customers allocate such costs between them.²⁹²¹

The OCA recommends that the Company’s Rate EDDS be denied. Rate EDDS is, at this stage, premature. While the OCA agrees that the goal of a rate class serving large load customers should be to prevent shifting the risk of recovering stranded investment to captive customers, until more information is available regarding the

²⁹¹⁸ OCA St. 1 at 58.

²⁹¹⁹ *Id.*

²⁹²⁰ *Id.* at 60.

²⁹²¹ *Id.*

customers which would receive Rate EDDS service, OCA indicates that it cannot support the Company's request for approval of the service classification.²⁹²²

As such, OCA requests that the Commission delay approval of the Rate EDDS classification until information is available on the usage characteristics of the customer to be served and how those characteristics are considered in the cost of service studies. OCA contends that at that time, approval of a large load tariff would no longer be premature or speculative, as in the instant proceeding. OCA further argues that if the Commission approves the proposed Rate EDDS, then the OCA respectfully requests that the Commission clarify the information Columbia must provide with its next rate filing to ensure that captive, retail ratepayers bear no costs associated with providing service to Rate EDDS customers.²⁹²³

(2) Eligible Customer List

OCA indicates that Columbia witness Danhires recommends changes to Columbia's Tariff to comply with the Commission's March 13, 2025 Order at Docket No M-2010-2183412²⁹²⁴ regarding the requirement that electric and natural gas utilities create Eligible Customer Lists after mandated customer communications.²⁹²⁵ Ms. Danhires testified:

[a]t the March 13, 2025 Public Meeting, at Docket No. M-2010-2183412, the Public Utility Commission issued an Order that directed natural gas distribution companies ("NDGCs") and electric distribution companies ("EDCs")

²⁹²² OCA St. 1 at 60.

²⁹²³ *Id.*

²⁹²⁴ *Guidelines for Eligible Customer Lists*, Docket No. M-2010-2183412, (Order entered March 13, 2025) (*ECL Order*).

²⁹²⁵ Columbia St. 12-R at Suppl. No. 392 to Tariff Gas- Pa. PUC No. 9, Second Revised Page No. 227a.

to maintain their Eligible Customer Lists (“ECLs”), but revised the program requirements as follows: (1) NGDCs and EDCs must solicit customers once every five years (instead of the current three-year cycle) for participation in the ECL; (2) once a customer has elected to opt-out of the ECL, this election shall remain in place unless the customer affirmatively opts back in (instead of a customer having to affirmatively opt-out with each solicitation); and (3) NGDCs and EDCs may utilize electronic methods to communicate with customers about the ECL. As a result of the March 13, 2025 Order, Columbia’s Tariff Page 227a must be updated to reflect these revisions.²⁹²⁶

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 email of its intent to release such information. The Company will notify customers of the option to limit or restrict their private information...^[2927]

OCA indicates that the underscored language is the proposed change. OCA indicates that it does not have concerns with the addition of the email language, but it 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

²⁹²⁶ Columbia St. 12-R at 1-2.

²⁹²⁷ Columbia St. 12-R at Suppl. No. 392 to Tariff Gas- Pa. PUC No. 9, Second Revised Page No. 227a.

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.^[2928]

Thus, OCA believes that the existing tariff language referring to “third parties” is beyond the scope of the *ECL Order*.

OCA contends that 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.”²⁹²⁹ 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 with customers, in lieu of written notices sent via the U.S. Postal Service.”²⁹³⁰ In Comments, several parties, including OCA and Columbia, proposed to eliminate the ECL.²⁹³¹ The Commission declined the recommendation.²⁹³² The Commission extended the refresh period for the ECL from three years to five years.²⁹³³ The *ECL Order* also addresses means of communication to customers for supplier issues.²⁹³⁴

The Commission also took the opportunity to remind the stakeholders about privacy concerns related to third parties. The *ECL Order* provided:

²⁹²⁸ OCA St. 6 at 17.

²⁹²⁹ ECL Order at 2.

²⁹³⁰ ECL Order at 4.

²⁹³¹ ECL Order at 12.

²⁹³² ECL Order at 12-13.

²⁹³³ ECL Order at 17.

²⁹³⁴ ECL Order at 15.

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.²⁹³⁵

Ms. Danhires testified that the purpose of the tariff changes were to be in compliance with the *ECL Order* changes. However, the OCA believes that the existing 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. OCA contends that 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.

Moreover, OCA argues that this tariff provision change should be viewed in conjunction with recent filing made by Columbia and its impact in that proceeding.

²⁹³⁵ ECL Order at 15 (emphasis added).

The ALJs at the hearing also took judicial notice²⁹³⁶ that the Company had made a filing in Docket Nos. R-2018-2647577 and G-2025-3056022. 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.²⁹³⁷ 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.²⁹³⁸ The letter stated that under the agreement between NiSource Dev. Co. and Pivotal, Pivotal will offer warranty service plans, products, and services to Columbia’s customers and NiSource Dev. Co. will grant a nonexclusive right and license for service marks to be used to market Pivotal’s products.²⁹³⁹ This agreement allows NiSource Dev. Co. to receive a revenue share percentage for the purchase of Pivotal’s products by Columbia’s customers.²⁹⁴⁰ This letter further indicates that NiSource Corporate Services Company (NiSource Service Co.), on behalf of Columbia, will provide billing services offered by Pivotal to Columbia customers in exchange for Pivotal’s payment of certain fees, including annual and monthly service fees.²⁹⁴¹ OCA indicates that it has filed a Protest in the proceeding. In its Protest, the OCA identified concerns with the potential for on-bill financing with Columbia’s affiliate.

OCA argues that 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. As such, OCA recommends that the Commission not allow information from the ECL to be disclosed to unknown third parties.

²⁹³⁶ Tr. 413.

²⁹³⁷ *Pa. PUC v. Columbia Gas of Pa. Inc.*, Docket No. G-2025-3056022, Letter (June 30, 2025) (June 30, 2025 Letter).

²⁹³⁸ *Id.*

²⁹³⁹ *Id.*

²⁹⁴⁰ *Id.*

²⁹⁴¹ *Id.*

d. OSBA's Position

OSBA did not brief this issue.

e. CAUSE-PA's Position

(1) EDDS

CAUSE-PA contends that Columbia's proposed EDDS rate is premature in light of the Commission's active docket to establish statewide policy governing the interconnection of large load customer and should be denied.

CAUSE-PA indicates that Columbia seeks to implement a new EDDS rate schedule to "allow the flexibility to bring on new large load customers that may have short term natural gas or investment needs."²⁹⁴² Specifically, Columbia seeks to serve these customers as "non-jurisdictional customs and provide the opportunity for Columbia to enter into individual contracts with customers taking service under this rate schedule."²⁹⁴³

CAUSE-PA argues that Columbia's EDDS proposal is premature in light of the Commission's active, ongoing proceeding to develop statewide policy guidelines and/or a model tariff for large load customers.²⁹⁴⁴ While the Commission's primary inquiry has been focused on the electric industry, CAUSE-PA contends that the scope of the proceeding broadly encompasses issues which cross electric, gas, and water

²⁹⁴² CPA St. 9 at 41:7-9.

²⁹⁴³ CPA St. 9 at 11-13.

²⁹⁴⁴ CAUSE-PA St. 2 at 78.

utilities.²⁹⁴⁵ Many of the issues that Columbia seeks to address through its proposed EDDS rate class will also be addressed by the Commission. These issues include creating fair rules and procedures that provide transparency to new customers seeking to interconnect, protection for existing customers, and certainty to utilities themselves as they consider potentially significant investments to their infrastructure.²⁹⁴⁶ The results of that proceeding will provide guidance for all jurisdictional utilities seeking to implement large load rates or tariffs.²⁹⁴⁷

CAUSE-PA indicates that Columbia had no requests for this service at the time it was proposed.²⁹⁴⁸ The Company has subsequently received *one* inquiry from a *potential* customer that *may* qualify for this service, which it relies on to justify its proposal without waiting for the Commission to issue a model tariff or statewide policy.²⁹⁴⁹

CAUSE-PA argues that the Commission must exercise utmost caution in approving any new rate schedule or rules and conditions of service before the Commission issues overall guidance about large load connections.²⁹⁵⁰ The potential scale of the investment and the risk of cost shifting is significant and must be explored through the Commission's measured approach with this in the large load tariff proceeding.²⁹⁵¹ CAUSE-PA contends that Columbia and its existing customers (including low income customers) would be better served by waiting for the Commission's guidance before

²⁹⁴⁵ *Id.* at 78.

²⁹⁴⁶ En Banc Hearing Concerning Interconnection and Tariffs for Large Load Customers, Motion of Chairman Steven M DeFrank, Docket No. M-2025-3054271, (Mar. 27, 2025).

²⁹⁴⁷ CAUSE-PA St. 2 at 78.

²⁹⁴⁸ *Id.* at 78-79.

²⁹⁴⁹ CPA St. 9-R at 35-36.

²⁹⁵⁰ CAUSE-PA St. 2-SR at 23.

²⁹⁵¹ *Id.*

implementing a new, special rate class.²⁹⁵² As such, CAUSE-PA argues that the Commission should deny the proposed EDDS rate schedule at this time, without prejudice.

(2) Eligible Customer List

CAUSE-PA indicates that Columbia proposes to make several changes to its tariff pursuant to Commission directives in its March 13, 2025 Order at Docket M-2010-2183412, Eligible Customer List Guidelines. This order updated “the guidelines for Eligible Customer Lists (ECLs) that Electric Distribution Companies (EDCs) make available to Electric Generation Suppliers (EGSs) and that Natural Gas Distribution Companies (NGDCs) make available to Natural Gas Suppliers (NGSs) (collectively suppliers).”²⁹⁵³

The purpose and scope of the ECL is to provide information about eligible customers to *licensed suppliers* for the purposes of supporting competition.²⁹⁵⁴ Witnesses

²⁹⁵² CAUSE-PA St. 2 at 79.

²⁹⁵³ *Guidelines for Eligible Customer Lists*, Order, Docket No. M-2010-2183412 (order entered March 13, 2025).

²⁹⁵⁴ This explicit purpose is evident throughout the Commission’s March 13 Order, which consistently references disclosure of the ECL to suppliers – not third parties. For example, in the order’s conclusion section, the Commission reminded “utilities and suppliers of the importance of maintaining the security and confidentiality of the information on the ECL and of the rules and regulations that address such.” *Guidelines for Eligible Customer Lists*, Order, Docket No. M-2010-2183412, at 19 (order entered March 13, 2025).

The Commission did not admonish unrelated third parties of these rules, as it has never contemplated expanded disclosure of the ECL to unlicensed, non-EGS third parties.

As a further example, in discussing the required communications with customers regarding the ECL, the Commission explained that utilities must include the following: “what [the ECL] is; what information is included on the ECL; how this information is to be used by suppliers; how the information is to be safeguarded by utilities and suppliers; and the potential benefits to the customers of having their information on the ECL.” *Id.* at 18.

for both OCA and CAUSE-PA raise concerns that Columbia’s tariff uses far broader language – allowing it to provide ECL data and information to any third party, without restraint.²⁹⁵⁵ CAUSE-PA argues that this broad language is “overly permissive” – and “could be interpreted to allow the Company to share Customer information with parties other than participating NGS suppliers.”²⁹⁵⁶ At the evidentiary hearing in this matter, Mr. Kempic admitted that this is not only a possibility – Columbia does in fact interpret its ECL tariff to permit the Company to share sensitive ECL data with any third party, regardless of whether they are licensed as an EGS.²⁹⁵⁷

CAUSE-PA urges the Commission to require that Columbia amend its ECL tariff language, section 4.5.4, to strike reference to third parties, and limit ECL access to licensed suppliers in Columbia’s service territory.²⁹⁵⁸

This issue is particularly critical in light of Columbia’s June 30, 2025, filing at its 2018 rate case docket.²⁹⁵⁹ CAUSE-PA contends that this filing ostensibly makes a u-turn from its prior 2019 compliance filing, where it notified the Commission of its decision to discontinue its practice of on-bill billing after serious questions were raised about its prior on-bill billing practices during its 2018 rate case.²⁹⁶⁰ Six years later, in

If the Commission contemplated that third parties would also have access to ECL data and information, it certainly would have identified third parties as potential ECL data recipients in setting forth the required elements of ECL communications.

²⁹⁵⁵ CAUSE-PA St. 1-SR at 34; OCA St. 6-SR at 16-17.

²⁹⁵⁶ CAUSE-PA St. 1-SR at 34.

²⁹⁵⁷ Tr. at 406: 1-19.

²⁹⁵⁸ CAUSE-PA St. 1-SR at 34.

²⁹⁵⁹ At the evidentiary hearing in this matter, ALJs Watson and Allensworth took official notice of Columbia’s recent filings at Dockets R-2018-2647577 and G-2025-3056022. Tr. at 406: 6-9 & 412: 17-21. Pursuant to the ALJ’s request, counsel for CAUSE-PA circulated the noticed documents to the ALJs and all parties via email. Pursuant to 52 Pa. Code 5.406, these publicly available documents were not reproduced for the record.

²⁹⁶⁰ Columbia Gas of Pa., Inc. Notice of Compliance, Docket No. R-2018-2647577, at 1 (filed June 30, 2025).

2025, Columbia notified the Commission via compliance filing of its unilateral decision that, for a fee, it will begin allowing all third parties to bill for non-utility services through the gas bill.²⁹⁶¹ CAUSE-PA maintains that if a third party on-bill biller wishes to pay an additional recurring fee, “Columbia may provide updated customer lists.”²⁹⁶² While Columbia’s filing references data privacy and security, it does not disclose any details about the scope of restrictions on use or sharing it intends to apply.²⁹⁶³

CAUSE-PA raises these issues here specifically because of Columbia’s tariff provision that allows disclosure of ECL to any third party for marketing purposes. As discussed above in section XIV, at the same time as Columbia seeks to sell ECL data to third parties, it has turned a blind eye to excessive prices in the competitive market that are driving up involuntary termination rates, increasing collections and universal service costs for other ratepayers, and exacerbating energy insecurity for low-income families. CAUSE-PA believes that Columbia’s expansive ECL tariff rules will have a further detrimental impact on low-income families, as it may expose economically vulnerable households to targeted marketing for products unrelated to gas service. Notably, in the Commission’s March 13, 2025 Order updating its ECL guidelines, the Commission affirmed inclusion of a “CAP flag” within the ECL, allowing suppliers to identify low income households for the purpose of complying with restrictions on CAP shopping.²⁹⁶⁴ This kind of personal information is extremely sensitive, and disclosure to third parties that are not subject to the Commission’s supplier regulations could result in added harm to low-income families – potentially exposing them to unwanted and unscrupulous marketing efforts that may ensnare households in costs they cannot afford to bear.

²⁹⁶¹ *Id.*

²⁹⁶² Columbia Gas of Pa., Inc.’s Notice of Compliance, Docket No. R-2018-2647577, at 2 (filed June 30, 2025).

²⁹⁶³ Columbia Gas of Pa, Inc. Notice of Compliance, Docket No. R-2018-2647577, at 3 (filed June 30, 2025).

²⁹⁶⁴ Guidelines for Eligible Customer Lists, Order, Docket No. M-2010-2183412, at 13-14 (order entered March 13, 2025).

As such, CAUSE-PA urges the Commission to require Columbia to revise section 4.5.4 of its tariff, regarding its ECL, to eliminate reference to third parties and narrow the scope of ECL disclosure to include only licensed EGSs.

f. TASK FORCE's Position

TASK FORCE did not brief this issue.

g. PSU's Position

PSU did not brief this issue.

h. ALJs' Recommendation

(1) EDDS

Columbia proposes to implement Rate Economic Development Distribution Service (EDDS) to allow it to serve extremely large load customers such as data centers and claims that the Rate EDDS will treat these extremely large load customers as non-jurisdictional to protect jurisdictional customers from bearing the risks associated with serving these unique, large users. Columbia proposes to do this through individual, specialized contracts. Columbia does not have an existing rate schedule that can accommodate data centers.²⁹⁶⁵

Columbia argues that Rate EDDS is in the public interest and making it non-jurisdictional not premature because it has already had an inquiry from a potential

²⁹⁶⁵ Columbia St. No. 9-R, p. 37.

customer and it will protect jurisdictional customers. Furthermore, Columbia contends that being proactive will encourage data center customers to locate in its territory.

Columbia's proposed Rate EDDS is opposed by I&E, OCA and CAUSE-PA. We agree with I&E, OCA and CAUSE-PA. The Rate EDDS proposal is premature given the Commission's active, ongoing proceeding to develop statewide policy guidelines and/or model tariff for large load customers.²⁹⁶⁶

Columbia did not have any requests for this service at the time it was proposed and has only received one potential inquiry since. Moreover, based on the scale of the investment and the risk of cost shifting between jurisdictional and non-jurisdictional customers, Columbia and its existing customers would be better served by waiting for the Commission's guidance before implanting a Rate EDDS.

Accordingly, we recommend that the Commission reject Columbia's Rate EDDS proposal.

(2) Eligible Customer List

Columbia's tariff establishes procedures for the release of customer information to "third parties" through the Eligible Customer List ("ECL"). The purpose and scope of the ECL is to provide information about eligible customers to *licensed suppliers* for the purpose of supporting competition. The Commission's Order at Docket No. M-2010-2183412 directed natural gas distribution companies ("NDGCs") and electric distribution companies ("EDCs") to maintain their Eligible Customer Lists ("ECLs"), but revised the program requirements as follows: (1) NGDCs and EDCs must

²⁹⁶⁶ En Banc Hearing Concerning Interconnection and Tariffs for Large Load Customers, M-2025-3054271.

solicit customers once every five years (instead of the current three-year cycle) for participation in the ECL; (2) once a customer has elected to opt-out of the ECL, this election shall remain in place unless the customer affirmatively opts back in (instead of a customer having to affirmatively opt-out with each solicitation); and (3) NGDCs and EDCs may utilize electronic methods to communicate with customers about the ECL. Columbia argues that it has made the required changes and that the release of information to third parties remains in its tariff and is therefore permitted.

OCA and CAUSE-PA oppose the tariff on the basis that it uses broad language that allows Columbia to provide ECL data and information to any third party without restraint. The language could be interpreted to allow Columbia to share customer information with parties other than NGS suppliers. The guidelines for Eligible Customer Lists only permit NGDCs to disclose the private customer data and information included on the ECL to licensed Natural Gas Suppliers (NGSs) operating in the NGDC's service territory.²⁹⁶⁷ As such, CAUSE-PA and OCA ask the Commission to strike reference to third parties and limit ECL access to licensed suppliers in Columbia's service territory. We agree with OCA and CAUSE-PA.

Columbia's current tariff does not limit third party disclosure to NGS operating in Columbia's service territory. This leaves the potential for Columbia to share customer information.

Accordingly, we recommend that the Commission adopt the restrictions to Columbia's tariff set forth by OCA and CAUSE-PA.

R. Miscellaneous Issues

²⁹⁶⁷ *Guidelines for Eligible Customer Lists*, Docket No. M-2010-2183412 (Order entered March 13, 2025).

1. *Proposed Reporting Requirements*

a. *Columbia's Position*

The Company indicates that I&E recommends that Columbia provide a report by April 1st of 2026 and 2027 updating Columbia's Exhibit No. 108 for actual plant additions and retirements for the FTY and FPFTY.²⁹⁶⁸ Columbia does not oppose this recommendation, which has been included in prior Columbia rate case settlements.²⁹⁶⁹

b. *I&E's Position*

I&E recommends that the Company be required to provide I&E and OCA with an update to Columbia Exhibit No. 108, Schedule 1 no later than April 1, 2026, under this docket number, which is to include actual capital expenditures, plant additions, and retirements by month for the twelve months ending November 30, 2025.²⁹⁷⁰ Additionally, I&E recommends that the Company be required to provide actuals through December 31, 2026, no later than April 1, 2027.²⁹⁷¹

I&E reasoned there is value in determining how closely Columbia's projected investments in future plant align with the actual investments that are made by the end of the FTY and FPFTY.²⁹⁷² I&E argues that determining the correlation between Columbia's projected and actual results will help inform the Commission and the parties

²⁹⁶⁸ I&E St. No. 3, p. 3.

²⁹⁶⁹ Columbia St. No. 9-R, p. 44.

²⁹⁷⁰ I&E St. No. 3, pp. 3-4.

²⁹⁷¹ *Id.*, p. 4.

²⁹⁷² *Id.*

in Columbia's future rate cases as to the validity of Columbia's projections.²⁹⁷³ I&E indicates that the Company does not oppose this recommendation.²⁹⁷⁴

c. OCA's Position

OCA did not brief this issue.

d. OSBA's Position

OSBA did not brief this issue.

e. CAUSE-PA's Position

CAUSE-PA did not brief this issue.

f. TASK FORCE's Position

TASK FORCE did not brief this issue.

g. PSU's Position

PSU did not brief this issue.

²⁹⁷³ *Id.*

²⁹⁷⁴ I&E St. No. 3-SR, p. 3.

h. ALJs' Recommendation

I&E recommends that the Commission require Columbia to provide a report by April 1st of 2026 and 2027 updating Columbia's Exhibit No. 108 for actual plant additions and retirements for the FTY and FPFTY.²⁹⁷⁵ This update is to include actual capital expenditures, plant additions, and retirements by month for each twelve-month term. The Company does not oppose this recommendation.

Accordingly, we recommend that the Commission adopt I&E's recommendation and required Columbia to provide reports by April 1st of 2026 and 2027 updating Columbia Exhibit No. 108 from this proceeding.

2. Competitive Alternative Analysis Every Two Years

a. Columbia's Position

OSBA witness Ewen recommends that Columbia conduct a competitive analysis for each flex customer every two years.²⁹⁷⁶ The Company contends that OSBA's request for such an analysis is unnecessary and should be rejected.

Columbia indicates that it is authorized by its tariff to negotiate discounted rates for distribution service to respond to competition from alternative fuels.²⁹⁷⁷ Columbia undertakes an analysis of competitive conditions whenever it negotiates a new or renewal of a flex agreement.²⁹⁷⁸ Flex agreements are based on the unique circumstances of individual customers, with the economic analysis of whether the

²⁹⁷⁵ I&E St. No. 3, p. 3.

²⁹⁷⁶ OSBA St. No. 1, p. 10.

²⁹⁷⁷ Columbia Ex. 14, Sch 2, Attach. A, p. 93.

²⁹⁷⁸ OSBA St. No. 1, p. 10.

customer could bypass Columbia's system based upon known market conditions.²⁹⁷⁹

Recent flex rate agreements are generally for a term of around five years.²⁹⁸⁰

The Company argues that undertaking an analysis for flex customers every two years is unnecessary, costly and potentially counterproductive to maximizing the revenues that can be obtained from competitive customers. To conduct a valid competitive analysis, the Company indicates it would need the competitive customer to update their bypass options and costs.²⁹⁸¹ The Company contends that performing these analyses can be time-consuming and costly, involving both internal customer staff and outside consultants.²⁹⁸² While circumstances may change over time, absent a specific provision to update the contract, the contractual rate will remain the same throughout the duration of the contract. Thus, the Company contends that the results of any analysis performed now would not impact Columbia's ability to change the terms of the previously-negotiated contract, and it is not likely that a customer would be willing to spend the resources to update the information.²⁹⁸³ Conversely, if the purpose of the analysis would be to shorten contract terms to every two years, this will lead to more competitive customers selecting the certainty of their bypass option rather than rate reviews every two years.²⁹⁸⁴ The Company maintains that the resulting loss of Flex rate customer revenue will then shift cost recovery of fixed costs to remaining customers. As such, the Company argues that OSBA's proposal should not be adopted.

b. I&E's Position

I&E did not brief this issue.

²⁹⁷⁹ Columbia St. No. 9-R, p. 42.

²⁹⁸⁰ *Id.*

²⁹⁸¹ Columbia St. No. 9-R, p. 43.

²⁹⁸² *Id.*

²⁹⁸³ *Id.*

²⁹⁸⁴ *Id.*

c. OCA's Position

OCA did not brief this issue.

d. OSBA's Position

OSBA did not brief this issue.

e. CAUSE-PA's Position

CAUSE-PA did not brief this issue.

f. TASK FORCE's Position

TASK FORCE did not brief this issue.

g. PSU's Position

PSU did not brief this issue.

h. ALJs' Recommendation

The Company indicates that flex agreements are generally for a term of around five years and that OSBA argues in its witness' testimony that the Company should conduct a competitive analysis for each flex customer every two years. The Company argues that this is unnecessary, costly and potentially counterproductive to maximizing the revenues that can be obtained from competitive customers.

No party presented sufficient reason for the Commission to require Columbia to undertake competitive analysis for each flex customer every two years. Therefore, we recommend that the Commission reject this proposal.

3. *Long Term Business Planning*

a. *Columbia's Position*

Columbia indicates that OSBA witness Ewen questions the long-term viability of natural gas service in general, and Columbia's operations in particular. Mr. Ewen references the cost of Columbia's main replacement program and "growing societal and political concerns regarding the burning of fossil fuels," along with "concomitant increasing pressure for electrification" and potential "increased regulation of CO₂ emissions."²⁹⁸⁵ Based upon these generalized concerns, Mr. Ewen asserts that Columbia has not demonstrated that its capital spending is prudent, and that the Commission should advise Columbia "that future capital expenditures have not been shown to be part of a demonstrably prudent long term investment plan, and that they can be subjected to *ex post* prudence reviews should they become stranded."²⁹⁸⁶ The Company indicates that Mr. Ewen further recommends that, at a minimum, the Commission should require Columbia to demonstrate that it has a long-term viable business as part of its next LTIIP filing.²⁹⁸⁷

The Company argues that Mr. Ewen's contentions are based on the faulty premise that natural gas service is becoming more expensive than other energy sources. The Company contends that this is untrue and even older, less efficient gas furnaces are

²⁹⁸⁵ OSBA St. No. 1, p. 7.

²⁹⁸⁶ OSBA St. No. 1, p. 8.

²⁹⁸⁷ *Id.*

less expensive to operate than other heating alternatives.²⁹⁸⁸ The Company further contends any claims that its main extension project will raise rates in the future falsely assume that other fuel alternatives will remain steady in price, while only gas service prices will rise. The Company argues that electric rates are also increasing, and at a higher pace than gas price increases.²⁹⁸⁹

The Company further contends that Mr. Ewen's recommendation ignores that the Commission already undertakes a reasoned review of the Company's long-term capital spending for mains replacement.

The Company indicates that natural gas distribution facilities are reaching the end of their useful lives, and replacement is needed if safe service is to continue. If the facilities are not replaced, customers served by those facilities will face substantial costs to replace all their gas-fired furnaces and appliances, assuming there is sufficient electric generation and capacity to serve that load.

The Company contends that the Commission has previously rejected attempts to mandate studies on the long-term continued operation of natural gas facilities. In *Pa PUC v. Philadelphia Gas Works* ("PGW 2020"),²⁹⁹⁰ The Commission was asked to direct PGW to study the long-term viability of continuing natural gas service. The Commission rejected the request:

Unlike the circumstances presented in the cases cited by the Environmental Stakeholders, expense adjustments were not presented by the Environmental Stakeholders here. In fact, they failed to provide any evidence which would support an affirmative position in this rate case, such as a proposed

²⁹⁸⁸ Columbia St. No. 9-R, p. 10.

²⁹⁸⁹ Columbia St. No. 9-R, p. 11-12. As one example, last year's PJM capacity auction resulted in prices 800% higher than the prior year.

²⁹⁹⁰ Docket No. R-2020-3017206 (Opinion and Order entered Nov. 19, 2020).

adjustment to a specific expense or an adjustment to revenue projections. Rather than propose any specific adjustments in this case, the Environmental Stakeholders made the general assertion that PGW should be required to study (and plan for) climate change and climate regulation.

There is no determination about the function of natural gas utilities thirty, forty, or fifty years from now. The ALJs do not make any such conclusive finding, nor would the evidence support such a finding, because the Environmental Stakeholders have not pointed to any rule or regulation that provides that PGW or any other natural gas company will be forced to cease operations in the future. As noted earlier, former Commissioner Cawley testified on behalf of PGW: “[i]n my experience, the Pennsylvania Public Utility Commission does not engage in such speculation in establishing regulatory policy for the companies it regulates, especially when it would require conclusions (or guesses) about what environmental requirements will be in thirty years.” PGW Exh. 12RJ at 2.

Commissioner Cawley further explained that the Commission would “act *ultra vires*” if it made rate case determinations based on the perceived effects of greenhouse gases or global warming and would “usurp the authority” of DEP. *Id.* Commissioner Cawley testified: “At the least, requiring the Commission to make ratemaking (or other) determinations in response to climate change would create the real possibility of disparate and potentially inconsistent regulation.” *Id.*

PGW notes that, because the testimony of the Environmental Stakeholders did not tie its claims to any specific cost being charged to ratepayers in the test year, and only made hypothetical and speculative assertions, the ALJs found that the Commission did not have jurisdiction to consider the Environmental Stakeholders’ testimony in this case or to consider PGW’s climate change plan in its next case. But to nonetheless declare that the Commission generally has jurisdiction to hear about “environmental matters” in a rate case – not tied to a specific rate case claim or cost – extends the Commission’s jurisdiction beyond the

power the legislature granted to the Commission to establish just and reasonable rates and reasonable and adequate service.

We accept PGW's argument that it is unadvisable for the Commission to make new policy or establish new filing requirements via individual rate cases. We agree with PGW that it would be unfair to impose an undefined filing requirement upon it of the kind recommended by the ALJs in the absence of statutory, regulatory or other legal order or requirement that directs the creation and submission of information that is essentially a climate change plan.^[2991]

The Company argues that OSBA has not offered a basis to require Columbia, alone among all energy utilities in Pennsylvania, to demonstrate that it has a long-term viable business. As such, the Company contends that OSBA's proposal should be rejected.

b. I&E's Position

I&E did not brief this issue.

c. OCA's Position

OCA did not brief this issue.

d. OSBA's Position

OSBA's position is summarised above. OSBA contends that the Commission should require the Company to demonstrate that it has a long-term viable business as part of its next LTIIP filing.

e. CAUSE-PA's Position

CAUSE-PA did not brief this issue.

²⁹⁹¹ PGW 2020 at 93-94.

f. TASK FORCE's Position

TASK FORCE did not brief this issue.

g. PSU's Position

PSU did not brief this issue.

h. ALJs' Recommendation

No party presented sufficient reason for the Commission to require Columbia to demonstrate that it has a long-term viable business. Therefore, we recommend that the Commission reject this proposal.

4. Methane Detector Pilot

a. Columbia's Position

I&E witness Pankiw recommends that the Company implement a pilot methane detector installation program for Smart Remote Methane Detector (SRMD) devices in conjunction with its Advanced Metering Infrastructure (AMI) installation.²⁹⁹² The recommendation builds on the Company's Direct Testimony noting that approximately 330,000 of the Company's Automated Meter Reading (AMR) devices are expected to reach the end of their useful lives and that the Company is planning to install replacement AMI devices in 2026.²⁹⁹³ Mr. Pankiw supports the Company's use of AMI

²⁹⁹² See I&E St. No. 4, pp. 8-9.

²⁹⁹³ Columbia St. No. 7, pp. 7-9. AMR devices offer one-way communications between the meter and the reading device and allow for "drive-by" readings of customer meters. AMI devices offer two-way communications between the meter and the utility,

technology and seeks to leverage its deployment with the use of SRMD devices to improve safety throughout the Company's distribution system.²⁹⁹⁴

The Company contends that it cannot commit to implementation of the pilot program outlined by I&E witness Pankiw, but the Company is willing to evaluate the technologies associated with the integration of AMI and SRMDs for potential future deployment. The Company contends that implementation of this pilot as described would require a comprehensive assessment of the Company's existing IT infrastructure to ensure compatibility and support in integrating AMI and SRMD technologies into current platforms along with the testing for the safe application of automated remote meter shut offs after notification from a compatible methane detection device.²⁹⁹⁵ The Company has investigated the use of SRMDs and found that the functionality for its deployment is not currently available. However, the Company is investigating SRMD solutions that can communicate over cellular networks and/or long-range wide area network (LoRaWAN) protocols that may be compatible with the Company's planned AMI technology. Columbia indicates that it plans to coordinate with the Gas Technology Institute (GTI) and peer utilities to better understand experiences from those who have deployed SRMD solutions.²⁹⁹⁶

The Company contends that because the proposed Methane Detector Pilot still requires significant investigation regarding IT infrastructure, the Company is not currently prepared to implement the proposed pilot program.²⁹⁹⁷ As such, the Company committed in Rebuttal to conducting a thorough investigation into the technical and

interval reads that allow the utility and customers to view daily and hourly usage, and remote shutoff, among other advantages. For a full description of the benefits of AMI devices compared to AMR devices, see Columbia St. No. 7, pp. 7-9.

²⁹⁹⁴ I&E St. No. 4, p. 3.

²⁹⁹⁵ Columbia St. No. 7-R, pp. 6-7.

²⁹⁹⁶ Columbia St. No. 7-RJ, p. 2.

²⁹⁹⁷ Columbia St. No. 7-R, pp. 6-7.

operational requirements necessary to support such integration and to providing the results of this assessment in its next base rate case filing.²⁹⁹⁸ As such, the Company argues that the Commission should reject implementation of I&E's proposed Methane Detector Pilot at this time, and adopt Columbia's proposal to undertake an assessment of technical and operational requirements to integrate AMI and SRMD.

b. I&E's Position

In the direct testimony of I&E witness Alexander PankiwMr. Pankiw highlighted the usefulness and safety benefits of methane detectors within structures and the ability of real-time smart reporting technology to simultaneously notify the customer and the emergency gas response officials to potentially hazardous situations.²⁹⁹⁹ Mr. Pankiw also opined that implementation of a methane detector installation program would provide Columbia's customers with a safety tool that provide early warning alarms signaling a gas leak and a potentially hazardous situation.³⁰⁰⁰ Implementing an early warning audible alarm will afford additional time to safely evacuate and notify the emergency response officials.³⁰⁰¹

Mr. Pankiw recommended that the Company implement a pilot program utilizing SRMDs in a region where Columbia has risky pipe for the installation of 500 to 1000 SRMDs to allow the Company to study the effectiveness of the SRMDs and monitor the related expenses.³⁰⁰² Further, I&E recommended Columbia continue implementing the AMI technology communication network for the notification methodology utilized by these devices as part of its pilot program.³⁰⁰³ I&E suggested that

²⁹⁹⁸ Columbia St. No. 7-R, pp. 6-7.

²⁹⁹⁹ I&E St. No. 4, pp. 2-9.

³⁰⁰⁰ *Id.*, pp. 3-4.

³⁰⁰¹ *Id.*, p. 4.

³⁰⁰² *Id.*, pp. 8-9.

³⁰⁰³ *Id.*, p. 9.

Columbia may choose to use a risk-based approach to maximize the benefits in determining the location and rollout of the SRMD program.³⁰⁰⁴

I&E recommends that Columbia implement a pilot program to study the effectiveness and to monitor expenses. In the alternative, I&E recommends that Columbia implement an internal study to determine whether a pilot program is feasible and how Columbia would implement a pilot program.

c. OCA's Position

OCA did not brief this issue.

d. OSBA's Position

OSBA did not brief this issue.

e. CAUSE-PA's Position

OSBA did not brief this issue.

f. TASK FORCE's Position

TASK FORCE did not brief this issue.

g. PSU's Position

PSU did not brief this issue.

³⁰⁰⁴ *Id.*

h. ALJs' Recommendation

I&E requests that the Commission require the Company to implement a pilot program utilizing SRMD methane detectors in a region where Columbia has risky pipe for the installation of 500 to 1000 SRMDs. I&E argues that this pilot program would provide early warning alarms signaling a gas leak and a potentially hazardous situation thereby affording additional time to safely evacuate and notify the emergency response officials.

Columbia does not directly oppose the pilot recommendation, but indicates that it is not unable to confirm whether its existing IT infrastructure would be compatible and support integrating AMI and SRMD technologies.

We note that in the Commission has previously approved a similar two-year pilot methane detector (MD) program as part of a settlement in *Pennsylvania Public Utility Commission v. UGI Utilities, Inc. – Gas Division* at Docket No. R-2024-3052716. Thus, we find it clear that Commission is in agreement with this type of program. However, in that case, UGI gave no indication that it was unsure if it could support the pilot program.

Accordingly, we agree with I&E's alternative position on this issue to required Columbia to implement an internal study to determine whether a pilot program is feasible and how Columbia would implement a pilot program. We recommend that the Commission direct Columbia to complete an internal study and develop a pilot program in consultation with stakeholders within six months of the adoption of the final order in this proceeding.

V. CONCLUSIONS OF LAW

1. Columbia Gas of Pennsylvania, Inc. (Columbia) is a public utility as defined in Section 102 of the Public Utility Code.³⁰⁰⁵

2. The Commission has jurisdiction over the parties and the subject matter of this proceeding.³⁰⁰⁶

3. The utility requesting the rate increase has the burden of establishing the justness and reasonableness of every element of its requested rate increase.³⁰⁰⁷

4. Columbia has the burden of proving that every element of its proposed rates are just and reasonable.³⁰⁰⁸

5. Columbia Gas, as the base rate filer, must satisfy its burden of proof by a preponderance of evidence.³⁰⁰⁹

6. A preponderance of evidence is such evidence that is more convincing, by even the smallest amount, than that presented by another party.³⁰¹⁰

³⁰⁰⁵ 66 Pa.C.S. § 102.

³⁰⁰⁶ 66 Pa.C.S. § 101, *et seq.*

³⁰⁰⁷ 66 Pa.C.S. §§ 315(a), 1301; *Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980).

³⁰⁰⁸ 66 Pa.C.S. §§ 315(a), 1301, 1308(e).

³⁰⁰⁹ *Samuel J. Lansberry, Inc. v. Pennsylvania Public Utility Commission*, 578 A.2d 600 (Pa. Cmwlth. 1990).

³⁰¹⁰ *Se-Ling Hosiery v. Margulies*, 70 A.2d 854 (Pa. 1950).

7. The Commission must ensure that any adjudication is supported by substantial evidence. “Substantial evidence” is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion.³⁰¹¹

8. A utility which relies on the use of a fully projected future test year “in discharging its burden of proof,” and must provide “appropriate data evidencing the accuracy of the estimates contained in the future test year or a fully projected future test year.”³⁰¹²

9. A public utility may obtain “a rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers[,] as well as a reasonable rate of return on its investment.”³⁰¹³

10. 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.”³⁰¹⁴

11. Given that a utility’s general rate increase request will substantially affect the interests of consumers, the Commission must “consistent with its other statutory responsibilities, take such action with due consideration to the interests of consumers.”³⁰¹⁵

³⁰¹¹ *Norfolk & Western Ry. Co. v. Pennsylvania Public Utility Commission*, 413 A.2d 1037 (Pa. 1980).

³⁰¹² 66 Pa. C.S. § 315(e).

³⁰¹³ *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002) (*Lancaster 2002*).

³⁰¹⁴ *Popowsky v. Pa. PUC*, 683 A.2d 958, 961 (Pa. Cmwlth. 1996) (*Popowsky 1996*).

³⁰¹⁵ 71 P.S. § 309-5.

12. If a utility's service is found to be inadequate, then the Commission "shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate" as supported by the evidence in the proceeding.³⁰¹⁶

13. Under Act 40 of 2016, codified at Section 1301.1 of the Code, 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."³⁰¹⁷

A. Depreciation Expense

14. "A utility is entitled under the law to recover from the rate payers the original cost of construction of its depreciable plant."³⁰¹⁸

15. The Pennsylvania Superior Court defined accrued depreciation (also referred to as accumulated depreciation) as follows: "[a]ccrued depreciation for rate purposes means 'the actual depreciation of the utility's property as it has accrued to the date that fair value is in issue.'"³⁰¹⁹

16. The Commonwealth Court has stated that the Commission is not bound by any particular methodology or procedure in determining annual depreciation expense.³⁰²⁰

³⁰¹⁶ *Id.*

³⁰¹⁷ 66 Pa.C.S. § 1301.1.

³⁰¹⁸ Penn Sheraton at 627.

³⁰¹⁹ Penn Sheraton at 624.

³⁰²⁰ *Pa. Power & Light Co. v. Pa. Pub. Util. Comm'n*, 311 A.2d 151, 158 (Pa. Cmwlth. 1973) (citing *Pittsburgh v. Pa. Pub. Util. Comm'n*, 222 A. 2d 395 (Pa. Super. 1966); *Philadelphia v. Pa. Pub. Util. Comm'n*, 102 A. 2d 428 (Pa. Super. 1954)).

17. The Superior Court stated “it is recognized that accrued depreciation is essentially a judgment figure, based on all the evidence, and the weight to be given any particular estimate is for the commission. The commission is not bound to accept any particular method of estimating accrued depreciation.”³⁰²¹

18. Merely because a utility used a depreciation procedure in the past is neither a justification nor a limitation for determining what constitutes just and reasonable rates in this proceeding.³⁰²²

B. O&M and A&G Expenses

19. The PUC is empowered to disallow expenses of a utility that it concludes are of no direct benefit to ratepayers.³⁰²³

20. 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.”³⁰²⁴ 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 citizenship and should be incurred below-the-line.³⁰²⁵

³⁰²¹ *Pittsburgh* 222 A.2d at 401-402 (upholding a Commission decision to give less weight to a utility’s depreciation study as the Commission had considered all relevant factors in connection with accrued depreciation).

³⁰²² *Pa. Power* at 158.

³⁰²³ *Phila. Elec. Co. v. Pa. PUC*, 552 A.2d 342, 346 (Pa. Cmwlth. 1989).

³⁰²⁴ 66 Pa. C.S. § 1316.1.

³⁰²⁵ *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); *cf. Pa. PUC v. Pa.-American Water Co.*, Docket No. R-00038304, 2003 Pa. PUC LEXIS 498 (Order entered Nov. 26, 2003) at *145.

C. Rate of Return

21. The Pennsylvania Superior Court has held that the capital structure of utilities that are wholly-owned subsidiaries may not be one which it would maintain if it were obliged to obtain its debt and equity financing on the open market rather than from a parent company.³⁰²⁶

D. Revenue Allocation and Rate Design

22. Cost of service is a forward-looking exercise which allocates to future beneficiaries their share of the costs incurred to provide them with service.³⁰²⁷

23. “[D]istribution mains exist and are related to both annual demands and peak demands. Both annual and peak demands must be recognized in the allocation of distribution mains cost if the allocation is to be in accord with the principle of cost-causality.”³⁰²⁸

24. “[A]lthough 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

³⁰²⁶ *Riverton Consol. Water Co. v. Pa. PUC*, 140 A.2d 114 at 121 (Pa. Super. 1958).

³⁰²⁷ *Phila. Indus. and Comm. Gas Users Group v. Pa. PUC*, 2025 Pa. Cmwlth. LEXIS 133, * 38 (Pa. Cmwlth. Aug. 1, 2025) (*PICGUG*).

³⁰²⁸ *Pa. Pub. Util. Comm’n v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835 (Opinion and Order entered Feb. 19, 2021); *Pa. Pub. Util. Comm’n v. Philadelphia Gas Works*, Docket No. R-2023-3037933 (Order entered Nov. 9, 2023).

investment is driven by the loads placed upon it, not by the number of customers served.”³⁰²⁹

25. “Commission precedent, including the proceeding for the *2007 PGW Rate Case*, and the recent proceeding in *Columbia 2020*, weigh against the idea that mains costs include a customer component.”³⁰³⁰

26. The Commission may consider non-cost factors when determining the appropriate cost of service for each class.³⁰³¹

27. Revenue allocation should seek to eliminate class cross-subsidization and move customer classes towards their cost of service.³⁰³²

28. The Commission is charged with balancing public policy considerations such as gradualism, incentivizing conservation, and ensuring that rates are affordable for all customers when allocating revenues between classes.³⁰³³

³⁰²⁹ *Pa. PUC v. Nat’l Fuel Gas Dist. Corp.*, Docket No. R-00942991, 1994 Pa. PUC LEXIS 134, 83 Pa. P.U.C. 262 (Order Dec. 6, 1994) at 91-92.

³⁰³⁰ *Pa. Pub. Util. Comm’n v. Philadelphia Gas Works*, Docket No. R-2023-3037933 (Order entered Nov. 9, 2023) at 137 (citing *Pa. PUC v. Phila. Gas Works*, Docket No. R-00061931, *et al* (Order entered Sept. 28, 2007) at 80; *Columbia 2020* at 217).

³⁰³¹ *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).

³⁰³² *Lloyd v. Pa. PUC*, 904 A. 2d 1010, 1020 (Pa. Cmwlth. 2006).

³⁰³³ *Pa. Pub. Util. Comm’n v. Philadelphia Gas Works*, Docket No. R-2023-3037933 (Order entered Nov. 9, 2023) at 146; *Pa. PUC v. PECO Energy Co. – Gas Div.*, Docket No. R-2020-3018929 (Order entered June 17, 2021) (*PECO Gas 2020*) at 247.

29. “Rate design requires a careful balance of the competing interests of customer classes as well as prudent application of the principles of cost causation, gradualism, and overall fairness.”³⁰³⁴

30. A customer charge should approximate customer-related costs directly attributable to a customer, or those “costs that change directly with its addition or subtraction of a customer.”³⁰³⁵

31. The Commission has previously relied upon the direct cost method of determining customer charges based on the cost of service, where only the costs directly associated with the connection or removal of a customer from the system are considered in the customer charge.³⁰³⁶

32. While the Commission has recognized that indirect customer costs, “such as employee benefits, local taxes and other general and administrative costs . . . may be considered for inclusion in the customer charge, [] such claims are subject to scrutiny on a case-by-case basis.”³⁰³⁷

33. In Pennsylvania, demand-related costs are recovered through volumetric rates, as are throughput-related costs, such as the costs associated with distribution mains.³⁰³⁸

³⁰³⁴ *Pa. PUC v. PECO Energy Co. – Gas Div.*, Docket No. R-2020-3018929 (Order entered June 17, 2021) (*PECO Gas 2020*) at 274.

³⁰³⁵ OCA St. 4 at 14.

³⁰³⁶ *Pa. PUC v. PPL Gas Utilities Corporation*, Docket No. R-00061398, 2007 Pa. PUC LEXIS 2 at *210 (Order entered Feb. 8, 2007) (*PPL Gas 2007*).

³⁰³⁷ *Pa. PUC v. Aqua Pa., Inc.*, Docket No. R-00038805, 2004 Pa. PUC LEXIS 39 at *98 (Order entered July 23, 2004) (*Aqua 2004*).

³⁰³⁸ *Pa. Pub. Util. Comm’n v. Philadelphia Gas Works*, Docket No. R-2023-3037933 (Order entered Nov. 9, 2023) at 163.

E. Alternative Ratemaking

34. Under Section 1330 of the Public Utility Code, the General Assembly authorized the Commission to permit the implementation of alternative rate mechanisms notwithstanding other provisions of law.³⁰³⁹

35. In its declaration of policy, the General Assembly identified that the purpose of alternative rate mechanisms is to (1) create new opportunities for customers through innovations in utility operations and information technologies and (2) encourage and sustain investment through cost-recovery mechanisms enhancing safety and reliability of infrastructure “consistent with the efficient consumption of utility service.”³⁰⁴⁰

36. Rates must still be just and reasonable under the proposed alternative rate mechanism.³⁰⁴¹

37. The utility is still required to satisfy its burden of proof that the proposed alternative rate mechanism will result in just and reasonable rates.³⁰⁴²

F. Weather Normalization Adjustment

38. The Commission has the authority and discretion to permit alternative ratemaking where it will enhance the safety, security, reliability, or

³⁰³⁹ 66 Pa.C.S. § 1330.
³⁰⁴⁰ 66 Pa.C.S. § 1330(a).
³⁰⁴¹ 66 Pa.C.S. § 1301.
³⁰⁴² 66 Pa.C.S. § 315(a), 332(a).

availability of utility infrastructure and is consistent with efficient consumption of utility service.³⁰⁴³

39. Utilities are not entitled to assurance during ratemaking that they will be able to recover net revenues; instead, utilities are granted the opportunity to recover their authorized revenue increase, and the public interest weighs against guaranteeing particular levels of revenue.³⁰⁴⁴

40. Columbia has not met its burden of proving the WNA will enhance the safety, security, reliability, or availability of utility infrastructure and is consistent with efficient consumption of utility service.³⁰⁴⁵

G. Revenue Normalization Adjustment

41. Columbia did not meet its burden of proof that the proposed RNA satisfies the Commission's 14 policy factors regarding whether a proposed alternative rate mechanism would result in just and reasonable rates.

42. Columbia has not met its burden of proving the RNA will enhance the safety, security, reliability, or availability of utility infrastructure and is consistent with efficient consumption of utility service.³⁰⁴⁶

³⁰⁴³ 66 Pa.C.S. § 1330(a)(2).

³⁰⁴⁴ *Hope* at 603; *Pa. Elec. Co. v. Pa. PUC*, 502 A.2d 130, 133-35 (Pa. 1985).

³⁰⁴⁵ 66 Pa.C.S. § 1330(a)(2).

³⁰⁴⁶ 66 Pa.C.S. § 1330(a)(2).

H. Customer / Quality of Service

43. “Service” is used broadly and inclusively, and captures “any and all acts done, rendered, or performed” by public utilities.³⁰⁴⁷

44. In setting just and reasonable rates, the Commission “shall consider...the efficiency, effectiveness and adequacy of service of each utility.”³⁰⁴⁸

45. The Commission can direct the adequate, reasonable, safe, sufficient service to be observed and furnished by the utility.³⁰⁴⁹

46. The Commission has recently and properly recognized that “[a] base rate proceeding ‘is the proper venue for hearing [] customer service issues.’”³⁰⁵⁰

47. The Commission may also condition a portion of a utility’s requested rate increase on its compliance with service adequacy objectives.³⁰⁵¹

48. Columbia should be required to revise its training materials to comply with all the applicable consumer protections and rights for residential customers facing termination of service to reflect the full range of customer rights associated with termination of service to provide adequate and reasonable service.

³⁰⁴⁷ 66 Pa.C.S. § 102; *West Penn Power Co. v. Pa. PUC*, 578 A.2d 75, 77 (Pa. Cmwlth. 1999)).

³⁰⁴⁸ 66 Pa.C.S. § 523.

³⁰⁴⁹ 6 Pa.C.S. §§ 1504, 1505.

³⁰⁵⁰ *PUC v. Phila. Gas Works*, 2023 PA. PUC LEXIS 93, Order at 193 (April 20, 2023) (*PGW 2023*).

³⁰⁵¹ *Nat’l Utils. v. Pa. PUC*, 709 A.2d 972, 977-78 (Pa. Cmwlth. 1998) (quoting *D.C. Transit System, Inc. v. Wash. Metro. Transit Comm’n*, 466 F.2d 394, 417 (D.C. Cir. 1972)).

I. Universal Service Programs

49. Rates set in this proceeding must be just and reasonable, which requires balancing the interests of all customers, including low-income residential consumers, with the interests of the Company.³⁰⁵²

50. NGDCs, specifically, are required to assist low-income customers with affording their natural gas service.³⁰⁵³

51. Pennsylvania regulations provide that income eligible applicants – not customers but applicants – are exempt from being required to post cash security deposits.³⁰⁵⁴

53. Although the ultimate burden of proof does not shift from the utility seeking a rate increase, a party proposing an adjustment to a ratemaking claim of a utility bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment.³⁰⁵⁵

54. Tariff provisions previously approved by the Commission are deemed just and reasonable and, therefore, a party challenging a previously-approved tariff provision bears the burden to demonstrate that the Commission's prior approval is no longer justified.³⁰⁵⁶

³⁰⁵² *Pittsburgh v. Pa PUC*, 126 A.2d 777, 794-85 (Pa. Super Ct. 1956).

³⁰⁵³ 66 Pa.C.S. § 2203(7)

³⁰⁵⁴ 52 Pa. Code § 56.32(e).

³⁰⁵⁵ *See, e.g., Pa. PUC v. PECO*, Docket No. R-891364, *et al.*, 1990 Pa. PUC LEXIS 155 (Order dated May 16, 1990); *Pa. PUC v. Breezewood Telephone Company*, Docket No. R-901666, 1991 Pa. PUC LEXIS 45 (Order dated Jan. 31, 1991).

³⁰⁵⁶ *See, e.g., Pa. PUC v. Philadelphia Gas Works*, Docket Nos. R-00061931, *et al.*, 2007 Pa. PUC LEXIS 45, at *165-68 (Order entered Sept. 28, 2007) (adopting the ALJ's discussion on burden of proof).

55. “Substantial evidence” is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion. More is required than a mere trace of evidence or a suspicion of the existence of a fact sought to be established.³⁰⁵⁷

56. The Commission must ensure that any adjudication is supported by substantial evidence. “Substantial evidence” is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion. *Norfolk & Western Ry. Co. v. Pennsylvania Public Utility Commission*, 413 A.2d 1037 (Pa. 1980).

57. While the burden of proof remains with the public utility throughout the rate proceeding, the Commission has stated that where a party proposes an adjustment to a ratemaking claim of a utility, the proposing party bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment. *Pa. Pub. Util. Comm. v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711 (Opinion and Order entered July 17, 2008).

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

59. To the extent that expenses are not reasonably incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and

³⁰⁵⁷ *Norfolk & Western Ry. Co. v. Pa. P.U.C.*, 489 Pa. 109, 413 A.2d 1037 (1980); *Erie Resistor Corp. v. Unemployment Comp. Bd. of Review*, 194 Pa. Superior Ct. 278, 166 A.2d 96 (1961); *Murphy v. Comm., Dept. of Public Welfare, White Haven Center*, 85 Pa. Commonwealth Ct. 23, 480 A.2d 382 (1984).

found not recoverable through rates. *Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).

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

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

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

63. The Choice Act includes explicit requirements on NGDCs to provide universal service and energy conservation programs and to perform consolidated

billing, fulfill consumer protection and customer service functions, and provide consumer information and education.³⁰⁵⁸

64. The term “universal service and energy conservation programs” is broadly defined as the “[p]olicies, practices and services that help residential low-income retail customers ... to maintain natural gas supply and distribution services.”³⁰⁵⁹ The term explicitly includes: “retail gas customer assistance programs, termination of service protections and consumer protection policies and services that help residential low-income customers and other residential customers experiencing temporary emergencies to reduce or manage energy consumption in a cost-effective manner, such as low-income usage reduction programs and consumer education.”³⁰⁶⁰

65. The Choice Act requires that the Commission ensure universal service and energy conservation programs are appropriately funded and accessible in each natural gas distribution service territory” to, *inter alia*, “assist low-income retail customers to afford natural gas service.”³⁰⁶¹

66. Pursuant to the Choice Act, Columbia has a statutory obligation to educate consumers about the competitive market and to provide “adequate and accurate information necessary to help them make appropriate choices as to their natural gas service.”³⁰⁶²

³⁰⁵⁸ 66 Pa.C.S. §§ 2205, 2206.

³⁰⁵⁹ 66 Pa.C.S. § 2202 (emphasis added).

³⁰⁶⁰ 66 Pa.C.S. § 2202.

³⁰⁶¹ 66 Pa.C.S. § 2203(8).

³⁰⁶² 66 Pa.C.S. §§ 2202; 2206 (c), (d).

67. The Commission may consider additional factors when setting fixed customer charges, such as gradualism, affordability, and incentives to conserve energy, especially to scale back proposed customer charges from the cost of service.³⁰⁶³

68. The Commission’s Distribution Rates Policy Statement enumerates factors to evaluate alternative ratemaking proposals, including Columbia’s WNA and RNA.³⁰⁶⁴

69. The Public Utility Code “seeks to ensure that service remains available to all customers on reasonable terms and conditions.”³⁰⁶⁵

70. Natural gas distribution companies, specifically, are required to assist low-income customers with affording their natural gas service.³⁰⁶⁶

71. Columbia is required to maintain a portfolio of universal service programs that is appropriately funded and administered to assist low income households to connect and maintain service to their home.³⁰⁶⁷

72. The Choice Act requires that the Commission “ensure that universal service and energy conservation policies, activities, and services are appropriately funded and available in each natural gas distribution service territory ... [and] operated in a cost-effective manner.”³⁰⁶⁸

³⁰⁶³ See, e.g., *PECO Gas 2021* at 274 (“Rate design requires a careful balance of the competing interests of customer classes as well as prudent application of the principles of cost causation, gradualism, and overall fairness”).

³⁰⁶⁴ 52 Pa. Code § 69.3302 (a).

³⁰⁶⁵ 66 Pa.C.S. § 1402(3).

³⁰⁶⁶ 66 Pa.C.S. § 2203(7).

³⁰⁶⁷ 66 Pa.C.S. §§ 2202, 2203(7)-(8).; 52 Pa. Code §§ 62.3, 62.4.

³⁰⁶⁸ 66 Pa.C.S. § 2203(8).

73. Universal service and energy conservation issues are a relevant and important area of inquiry in the context of determining whether a utility's rates are just and reasonable and cannot be relegated to a utility's periodic Universal Service and Energy Conservation Plan proceeding.³⁰⁶⁹

74. LIURP budgets – as well as other critical universal service issues – are appropriate for consideration in a rate proceeding.³⁰⁷⁰

J. Phase II Energy Efficiency & Conservation Plan

75. There is currently no explicit statutory or regulatory authorization for ratepayer funded NGDC EE&C plans in Pennsylvania.³⁰⁷¹

76. The guidelines for Eligible Customer Lists only permit NGDCs to disclose the private customer data and information included on the ECL to licensed Natural Gas Suppliers (NGSs) operating in the NGDC's service territory.³⁰⁷²

³⁰⁶⁹ *Initiative to Review and Revise the Existing Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1—58.18, Final Form Rulemaking Order*, Docket No. L-2016-2557886, at 50, 123 (Order entered March 13, 2025); *see also Pa. PUC v. PGW*, Docket No. R-2023-3037933, at 216 (Order entered Nov. 9, 2023).

³⁰⁷⁰ CAUSE-PA St. 1-SR at 16; *see Initiative to Review and Revise the Existing Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1—58.18, Final Form Rulemaking Order*, Docket No. L-2016-2557886, at 50, 123 (Order entered March 13, 2025); *see also Pa. PUC v. PGW*, R-2023-3037933 at 215-216 (Order entered Nov. 9, 2023).

³⁰⁷¹ I&E St. 2, at 92-94.

³⁰⁷² Guidelines for Eligible Customer Lists, Order, Docket No. M-2010-2183412 (Order entered March 13, 2025).

VI. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the rates, rules, and regulations set forth in Supplement No. 392 to Tariff Gas Pa. P.U.C. No. 9, to become effective for service rendered on or after December 19, 2025, as filed, are denied for the failure of Columbia Gas of Pennsylvania, Inc., to meet its burden of proof in this proceeding that the proposed rates, rules and regulations contained in said Supplement are lawful, just and reasonable.

2. That, alternatively, in the event the Commission determines that Columbia Gas of Pennsylvania, Inc., has met its burden of proof regarding any particular rate, rule, and regulation, the rate increase and other proposals set forth in Supplement No. 392 to Tariff Gas Pa. P.U.C. No. 9 are approved as set forth in Ordering Paragraphs 3 through and including 44, below.

3. That the rate increase and other proposals set forth in Supplement No. 392 to Tariff Gas Pa. P.U.C. No. 9 as identified in Ordering Paragraphs 3 through and including 44, below, are hereby approved, to become effective for service rendered on or after January 1, 2026. All other rate increase and other proposals set forth in Supplement No. 392 to Tariff Gas Pa. P.U.C. No. 9 not specifically approved below, are denied.

4. That proposed Supplement No. 392 is denied from becoming effective on December 19, 2025, but Columbia Gas of Pennsylvania, Inc., is authorized and directed to file a compliance tariff supplement setting forth the new rates, rules, and

regulations consistent with this Recommended Decision, on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, *et seq.*, and 53.101, and designed to produce an annual revenue increase of \$66,424,574, to become effective for service rendered on and after January 1, 2026.

5. That Columbia Gas of Pennsylvania, Inc. shall file detailed calculations with its tariff filing, which shall demonstrate to this Commission's satisfaction that the filed rates comply with the proof of revenue, in the form and manner customarily filed in support of compliance tariffs, and consistent with the terms set forth in this Order.

6. That the request of Columbia Gas of Pennsylvania, Inc. to implement, extend or continue a Weather Normalization Adjustment is denied; further, Columbia shall cease operation of its pilot WNA on the effective date of rates approved in this Order.

7. That the request of Columbia Gas of Pennsylvania, Inc. to implement a Revenue Normalization Adjustment is denied.

8. That the request of Columbia Gas of Pennsylvania, Inc. to implement the proposed Economic Development Distribution Service Rate tariff is denied.

9. That Columbia Gas of Pennsylvania, Inc. is authorized and directed to implement its proposed Customer Assistance Program (CAP) Arrearage Pilot, as set forth in this proceeding.

10. That Columbia Gas of Pennsylvania, Inc. shall develop and implement a root cause analysis of customer disputes, informal and formal complaints,

and Bureau of Consumer Service findings, particularly those identified as “verified” and “infractions” on a regular basis. The analysis should be developed in consultation with stakeholders within six (6) months of the adoption of the final order in this proceeding.

11. That Columbia Gas of Pennsylvania, Inc. shall develop and implement screening process at the time a household first applies to receive service from Columbia to determine whether the applicant: (1) should be classified as a Confirmed Low-Income customer; and (2) should be referred to the CAP application process within six months of the adoption of the final order in this proceeding.

12. That Columbia Gas of Pennsylvania, Inc. shall develop and file at this docket number a compliance filing no later than six (6) months after a final order is entered in this proceeding indicating compliance with the terms set forth in this Order.

13. That Columbia Gas of Pennsylvania, Inc. shall comply with all directives, conclusions and recommendations contained in this Commission’s Opinion and Order that are not the subject of individual ordering paragraphs as fully as if they were the subject of specific ordering paragraphs.

14. That the Company’s proposal to move Energy Assistance Team (EAT) labor cost recovery from base rates to the USP rider is rejected in its entirety.

15. That the cost of common equity of 10.51% is accepted.

16. That the overall rate of return of 8.10% is accepted.

17. That the request of Columbia Gas of Pennsylvania Inc. for management performance points to be added to the overall rate of return is denied in its entirety.

18. That the request of Columbia Gas of Pennsylvania Inc. for an inflated growth rate is denied in its entirety.

19. That Columbia Gas of Pennsylvania Inc.'s use of the peak and average methodology to allocate any potential revenue increases among Columbia customer classes is approved in this proceeding and Columbia Gas of Pennsylvania Inc. shall continue to show a separate customer class for flex rate customers.

20. That Columbia Gas of Pennsylvania Inc.'s customer cost analysis that does not include the cost of mains shall be utilized in this proceeding; and, the Company's customer cost analysis that includes the cost of mains is rejected.

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

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

23. That "scale back" of rates shall be proportionately applied to the new rates.

24. That no increase in the budgeted LIURP amount be approved in this base rate proceeding.

25. That no increase to the Company's contribution to its Hardship Fund be approved in this base rate proceeding.

26. That the Company's proposal for its Phase II Energy Efficiency Program (EEP) be denied in its entirety.

27. That if Phase II EEP is approved, then there shall be a maximum annual cap on the plan's total administration costs (exclusive of the incentives cost) at twenty percent (20%) of the annual total EEP cost with any excess administration costs to be refunded to customers through the rider.

28. That Columbia's proposed Economic Development Distribution Service (EDDS) rate class be disallowed in its entirety.

29. That the Company implement an internal study to determine whether a pilot program utilizing Smart Remote Methane Detectors (SRMD) is feasible and how Columbia would implement a pilot program. Further, that Columbia complete the internal study and develop a pilot program in consultation with stakeholders within six (6) months of the adoption of the final order in this proceeding.

30. That Columbia shall implement routine screening of all applicants and customers to determine eligibility for CAP and other universal service programs, including:

- a) Screen all new and moving customers for income level at the time their service is established and ask whether they would like information about income qualified programs that may reduce their rate.

- b) Screen existing customers for household income level on any non-emergency calls and inquire whether there have been any updates to household income information.
- c) Develop a process for routine income screening through Columbia's online account portal.

31. That Columbia shall ensure Speech Analytics Program (SAP) information is kept within Columbia's closed system, and not used to train external or third party artificial intelligence (AI) systems.

32. That Columbia shall not share or otherwise disclose the information collected by the SAP to any third parties other than contractors directly involved in the development of its programming.

33. That Columbia shall take steps to ensure that any third-party contractors are required to keep its customer information confidential, and shall prohibit disclosure to any other parties for any reason.

34. That Columbia's CAP Arrears Pilot is approved to run through for the remainder of its current Universal Service and Energy Conservation Plan (USECP) with an annual budget of \$244,200.

35. That Columbia shall conduct targeted outreach to all potentially eligible customers informing them about the launch of the CAP Arrears Pilot and instructions about how to apply to reenroll in CAP and take advantage of the program.

36. That Columbia shall reevaluate CAP bills monthly to ensure customers receive the most affordable rate and shall amend its USECP to reflect this monthly review.

37. That Columbia shall roll over any unspent Audits and Rebates (A&R) budget at the end of each program year and add those unspent funds to the budget for the following year.

38. That Columbia shall rollover any unspent Emergency Repair Program (ERP) budget at the end of each program year and add those unspent funds to the budget for the following year.

39. That Columbia shall develop a targeted letter for low-income shopping customers that are enrolled with a supplier at a rate which exceeds the applicable default service price. The letter shall inform these customers of the availability of CAP and other universal service programs, including the benefits of each program and how to enroll. Columbia shall send this letter at least once every six (6) months.

40. That Columbia shall revise its tariff language at 4.5.4 to strike reference to third parties and restrict release of the Eligible Customer List (ECL) to Natural Gas Suppliers (NGS) that are licensed by the Commission to operate within Columbia's service territory.

41. That Columbia shall conduct targeted outreach to all potentially eligible customers informing them about the launch of the CAP Arrears Pilot and instructions about how to apply to reenroll in CAP and take advantage of the program.

42. That Columbia shall reevaluate CAP bills monthly to ensure customers receive the most affordable rate and shall amend its USECP to reflect this monthly review.

43. That Columbia's proposed Phase II EE&C Plan is denied, without prejudice. That if Columbia seeks approval of a revised Phase II EE&C Plan, it must include dedicated, full cost, and proportionate low-income programming.

44. That any and all issues in this proceeding related to the sale of the Blackhawk storage facility are denied and the treatment of the proceeds from the sale will be determined in the next base rate proceeding filed by Columbia Gas of Pennsylvania, Inc.

45. That the Complaint filed by the Office of Consumer Advocate filed at No. C-2025-3054484 is dismissed.

46. That the Complaint filed by the Office of Small Business Advocate at No. C-2025-3054550 is dismissed.

47. That the Complaint filed by The Pennsylvania State University filed at No. C-2025-3054780 is dismissed.

48. That the above-captioned respective Complaints of Terri Walker filed at No. C-2025-3044662; Linda Slick filed at No. C-2025-3054552; Linda Allison filed at No. C-2025-3054434; Alexandra Garlitz filed at No. C-2025-3055233, and Daniel and Stacy Chronister filed at No. C-2025-3056194 are dismissed.

49. That, upon acceptance and approval by the Commission of the compliance tariff supplements filed by Columbia, the investigation at Docket No. R-2025-353499, and the above-captioned complaint dockets be marked closed.

Date: October 3, 2025

/s/
Jeffrey A. Watson
Administrative Law Judge

/s/
Chad L. Allensworth
Administrative Law Judge

TABLE I
Columbia Gas of Pennsylvania, Inc.
INCOME SUMMARY
R-2025-3053499

[illegible]

TABLE I(A)
Columbia Gas of Pennsylvania, Inc.
RATE OF RETURN
R-2025-3053499

		Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3) = (1) x (2)]	(4)	[(5) = (3) x (4)]
1.	Total Cost of Debt			2.37600000%		
2.	Long-term Debt	43.28%	5.22%	2.26000000%		2.26%
3.	Short-term Debt	2.32%	5.00%	0.12000000%		0.12%
4.	Preferred Stock	0.00%	0.00%	0.00000000%	0.730829	0.00%
5.	Common Equity	54.40%	10.51%	5.72000000%	0.730829	7.83%
6.		<u>100.00%</u>		<u>8.10000000%</u>		<u>10.21%</u>
7.	Pre-Tax Interest Coverage	4.52				
8.	After-Tax Interest Coverage	3.58				

TABLE I(B)
Columbia Gas of Pennsylvania, Inc.
REVENUE FACTOR
R-2025-3053499

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor (*)	0.01346126
3.	PUC, OCA, OSBA Assessment Factors (*)	0.00000000
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98653874
7.	State Income Tax Rate (*)	0.07490000
8.	Effective State Income Tax Rate	0.07389175
9.	Factor After Local and State Taxes	0.91264699
10.	Federal Income Tax Rate (*)	0.21000000
11.	Effective Federal Income Tax Rate	0.19165587
12.	Revenue Factor (100% - Effective Tax Rates)	0.72099112

(*) Company Main Brief

TABLE II
Columbia Gas of Pennsylvania, Inc.
SUMMARY OF ADJUSTMENTS
R-2025-3053499

	Adjustments (1)	Rate Base (2) \$	Revenues (3) \$	Expenses (4) \$	Depreciation (5) \$	Taxes-Other (6) \$	State Income Tax (7) \$	Federal Income Tax (8) \$
1. RATE BASE:								
CWC:								
2. Int. & Div. (Table IV)								
3. Taxes (Table V)								
4. O & M (Table VI)								
5. REVENUES:			0				0	0
6. EXPENSES:								
7. Blackhawk Reg. Asset (BIE)				(1,084,149)			81,203	210,619
8. Cash-based Incentive comp. (OCA)				(1,798,165)			134,683	349,331
9. STI compensation (OCA)				(3,520,746)			263,704	683,979
10. LTI stock awards (OCA)				(528,112)			39,556	102,597
11. NCSC LTI and stock awards (OCA)				(4,012,229)			300,516	779,460
12. NCSC Shared Services (OCA)				(7,669,077)			574,414	1,489,879
13. Rate Case Expense (OCA)				(182,207)			13,647	35,398
14. Employee Expenses (OCA)				(45,607)			3,416	8,860
15. Company Memberships (OCA)				(258,217)			19,340	50,164
16. SERP (OCA)				(136,102)			10,194	26,441
17. DEI (OCA)				(130,450)			9,771	25,343
18. USP (OCA)				(220,000)			16,478	42,740
19. Other Rents and Leases (BIE)				(70,437)			5,276	13,684
20. Payroll Tax						(129,889)	9,729	25,234
21. TAXES:								
22. Interest Synchronization (Table III)							0	0
23. TOTALS		0	0	(19,655,498)	0	(129,889)	1,481,927	3,843,729

TABLE III
Columbia Gas of Pennsylvania, Inc.
INTEREST SYNCHRONIZATION
R-2025-3053499

	Amount \$
(1)	(2)
1. Company Rate Base Claim	3,839,638,127
2. ALJ Rate Base Adjustments (Table II)	0
3. ALJ Rate Base (Line 1 - Line 2)	3,839,638,127
4. Weighted Cost of Debt (Table IA)	2.37600000%
5. ALJ Interest Expense (Line 3 x Line 4)	91,229,802
6. Company Claim ⁽¹⁾	91,229,802
7. Total ALJ Adjustment (Line 6 - Line 5)	0
8. Company Adjustment ⁽¹⁾	0
9. Net ALJ Interest Adjustment (Line 7 - Line 8)	0
10. State Income Tax Rate (Table IB)	7.49%
11. State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	0
12. Net ALJ Interest Adjustment (Line 9)	0
13. State Income Tax Adjustment (Line 11)	0
14. Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)	0
15. Federal Income Tax Rate	21.00%
16. Federal Income Tax Adjustment (Line 14 x Line 15)	0
⁽¹⁾ Company Rebuttal Testimony	

TABLE IV
Columbia Gas of Pennsylvania, Inc.
CASH WORKING CAPITAL - Interest and Dividends
R-2025-3053499

Accrued Interest		Preferred Stock Dividends		
(1)	Long-Term Debt (2)	Short-Term Debt (3)	(4)	(5)
1. Company Rate Base Claim	\$3,839,638,127	\$3,839,638,127	Company Rate Base Claim	\$3,839,638,127
2. ALJ Rate Base Adjustments	\$0	\$0	ALJ Rate Base Adjustments	\$0
3. ALJ Rate Base	\$3,839,638,127	\$3,839,638,127	ALJ Rate Base	\$3,839,638,127
4. Weighted Cost of Debt	2.26000000%	0.12%	Weighted Cost Pref. Stock	0.00000000%
5. ALJ Annual Interest Exp.	\$86,775,822	\$4,607,566	ALJ Preferred Dividends	\$0
6. Average Revenue Lag Days	0.0	0.0	Average Revenue Lag Days	0.0
7. Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
8. Net Lag Days	0.0	0.0	Net Lag Days	0.0
9. Working Capital Adjustment				
10. ALJ Daily Interest Exp.	\$237,742	\$12,623	ALJ Daily Dividends	\$0
11. Net Lag Days	0.0	0.0	Net Lag Days	0.0
12. ALJ Working Capital	\$0	\$0		\$0
13. Company Claim (1)	\$0	\$0	Company Claim (1)	\$0
14. ALJ Adjustment	\$0	\$0		\$0
15. Total Interest & Dividend Adj.	\$0			
(1) Company Main Brief.				

TABLE V
Columbia Gas of Pennsylvania, Inc.
CASH WORKING CAPITAL -TAXES
R-2025-3053499

	Company Proforma Tax Expense Present Rates	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
Description (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. PUC Assessment	\$0	\$0	\$0	\$0	\$0	\$0.00	0.00	\$0
2. Public Utility Realty	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
3. Capital Stock Tax	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
4.	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
5.	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
6.	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
7.	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
8.	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
9.	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
	\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
10. State Income Tax	\$0	\$1,481,927	\$1,481,927	\$4,908,228	\$6,390,155	\$17,507.27	0.00	\$0
11. Federal Income Tax	\$0	\$3,843,729	\$3,843,729	\$12,730,660	\$16,574,389	\$45,409.28	0.00	\$0
12.	<u>\$0</u>	<u>\$5,325,656</u>	<u>\$5,325,656</u>	<u>\$17,638,888</u>	<u>\$22,964,544</u>			
13.						ALJ Allowance		0
14.						Company Claim (1)		0
15.						ALJ Adjustment		<u>0</u>
(1) Company Main Brief								

TABLE VI
Columbia Gas of Pennsylvania, Inc.
CASH WORKING CAPITAL -- O & M EXPENSE
R-2025-3053499

		Company Pro forma F.T.Y. Expense	ALJ	ALJ Pro forma Expenses	Lag Days	Lag Dollars
Description (1)		(2)	(3)	(4)	(5)	(6)
1.	Service Company	\$0	\$0	\$0	0.00	\$0
2.	Chemicals	\$0	\$0	\$0	0.00	\$0
3.	Group Insurance	\$0	\$0	\$0	0.00	\$0
4.	Insurance, Other	\$0	\$0	\$0	0.00	\$0
5.	Labor	\$0	\$0	\$0	0.00	\$0
6.	Leased Equip./Rent	\$0	\$0	\$0	0.00	\$0
7.	Leased Vehicles	\$0	\$0	\$0	0.00	\$0
8.	Miscellaneous	\$0	\$0	\$0	0.00	\$0
9.	Natural Gas	\$0	\$0	\$0	0.00	\$0
10.	Power	\$0	\$0	\$0	0.00	\$0
11.	Purchased Water	\$0	\$0	\$0	0.00	\$0
12.	Telephone	\$0	\$0	\$0	0.00	\$0
13.	Waste Disposal	\$0	\$0	\$0	0.00	\$0
14.	Post Retirement Benefits	\$0	\$0	\$0	0.00	\$0
15.	Pensions	\$0	\$0	\$0	0.00	\$0
16.		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00</u>	<u>\$0</u>
17.	ALJ Average Revenue Lag	0.0				
18.	Less: ALJ Avg. Expense Lag	<u>0.0</u>				
19.	Net Difference	0.0	Days			
20.	ALJ Pro forma					
21.	O & M Expense per Day	<u>\$0</u>				
22.	ALJ CWC for O & M	\$0				
23.	Less: Company Claim (1)	<u>\$0</u>				
24.	ALJ Adjustment	<u>\$0</u>				
	(1) Company Main Brief					