

COMMONWEALTH OF PENNSYLVANIA



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October 14, 2025

Via Electronic Filing

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

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

Dear Secretary Homsher:

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

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

Respectively,

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Certificate of Service

CERTIFICATE OF SERVICE

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

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

Dated this 14th day of October 2025.

(*) Can receive CONFIDENTIAL information

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

EXCEPTIONS
OF THE
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TABLE OF CONTENTS

I.	INTRODUCTION AND OVERVIEW	1
II.	REVENUE REQUIREMENT	3
	Exception No. 1: The Recommended Decision does not contain any reference to law or support its determination with substantial evidence when adopting Columbia’s proposal to continue using the Equal Life Group depreciation procedure.....	3
	A. Columbia’s use of the ELG procedure results in unjust and unreasonable rates.....	3
	B. The burden of proof for depreciation procedure is that Columbia must show that the depreciation charges to its customers through expenses are not excessive.....	8
	C. The OCA produced substantial evidence showing that Columbia’s continued use of the ELG procedure resulted in unjust and unreasonable rates.....	11
	Exception No. 2: The Recommended Decision’s adoption of inflation factors is a significant deviation from Commission precedent.	14
	Exception No. 3: The Recommended Decision’s rejection of the OCA’s outside services expense adjustment is conclusory and unreasonable.	18
	Exception No. 4: A three-year normalization for Columbia’s fluctuating materials and supply expense is supported by the record.....	20
	Exception No. 5: The OCA’s corollary adjustments to uncollectible expense and taxes should be adopted to reflect the OCA’s reasonable adjustments.	23
	Exception No. 6: If the Recommended Decision adopted I&E’s 10.51% ROE, a 10.51% ROE is excessive.....	26
III.	CUSTOMER SERVICE.....	29
	Exception No. 7: Maintaining Columbia’s 2024 call center performance to ensure that call center performance does not deteriorate is reasonable.....	29
	Exception No. 8: Columbia’s Field Representatives who interact with Pennsylvania consumers should be trained in Pennsylvania consumer rights. ...	30
IV.	REVENUE ALLOCATION AND RATE DESIGN.....	33
	Exception No. 9: The ALJs did not specify the gradualism ceiling for the purposes of revenue allocation or determine how deviations from the Company’s proposed revenue allocation should be allocated among the customer classes... ..	33
V.	CONCLUSION	38

TABLE OF AUTHORITIES

Page(s)

Administrative Decisions

Pa. PUC v Aqua Pa. Water Co.,
Docket Nos. R-2021-3027385 et al., Order (May 16, 2022) 16

Pa. PUC v. Columbia Gas Co., Docket No. R-2020-3018835, Order
(Feb. 19, 2021) 36

Pa. PUC v. PECO Energy Co. – Gas Div., Docket No. R-2020-3018929,
Order (June 17, 2021) 36

Pa. PUC v. Phila. Gas Works, Docket No. R-2023-3037933,
Order (Nov. 9, 2023)..... 23

Pa. PUC v. Total Environmental Solutions, Inc., Docket Nos. R-00072493
et al., Order (July 30, 2008) 23

Pa. PUC v. Wellsboro Elec. Co., Docket No. R-2019-3008208, Order (Apr.
9, 2020) 14, 15

Cases

Federal Power Commission v. Hope Natural Gas Co.,
320 U.S. 591 (1944) 10

Lindheimer v. Illinois Bell Tel. Co., 292 U.S. 151 (1934) 9, 10

Pa. Power & Light Co. v. Pa. Pub. Util. Com.,
311 A.2d 151 (Pa. Cmwlt. 1973) 11

Phila. Suburban Transp. Co. v. Pa. PUC,
281 A.2d 179 (Pa. Cmwlt. 1971) 1, 4

Regulations

52 Pa. C.S. § 73.9(c)..... 7

52 Pa. C.S. § 73.1 7, 8

Statutes

66 Pa. C.S. § 315(e)..... 18

66 Pa. C.S. § 1503(b)..... 32

66 Pa. C.S. § 1703 7

I. INTRODUCTION AND OVERVIEW

On October 3, 2025, Administrative Law Judges Jeffrey A. Watson and Chad Allensworth (ALJs) issued their Recommended Decision (Recommended Decision or R.D.). The OCA files these Exceptions.

The Office of Consumer Advocate (OCA) respectfully urges the Commission to adopt the primary recommendation of ALJs Watson and Allensworth to deny the rate increase request of Columbia Gas of Pennsylvania, Inc. (Columbia or Company) as well as Columbia's request to implement a permanent Weather Normalization Adjustment (WNA), pilot Revenue Normalization Adjustment (RNA), and an 85% increase in the residential customer charge. The evidence presented by the OCA demonstrates that, at present rates, the Company has the opportunity to earn revenues in excess of a reasonable return on its investment.¹ At present rates, the Company already collects the highest revenue per unit of natural gas in the Commonwealth.² Despite declining usage per customer trends, Columbia's revenue per customer continues to increase.³ Additional revenue security in the form of a permanent WNA, pilot RNA, or increased fixed monthly charges is not necessary to provide Columbia with an opportunity to earn a reasonable return when Columbia's billing determinants reflect that the Company will be able to earn its revenue requirement.⁴ Columbia's revenue at present rates is sufficient to ensure that

¹ OCA M.B. at 42-43; *see generally* OCA St. 2, OCA St. 3.

² OCA M.B. at 36; OCA Exh. MWD-7.

³ OCA M.B. at 39; OCA Exh. MWD-5.

⁴ OCA M.B. at 40; *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

the Company can continue to invest in safety- and reliability-related plant improvements without compromising its long-term financial health. ALJs Watson and Allensworth provided a well-reasoned R.D. which scrupulously reviewed the evidentiary record presented in this proceeding and relevant law to arrive at the ultimate conclusion that Columbia did not meet its burden of proof that a rate increase request should be granted in this proceeding.⁵

However, ALJs Watson and Allensworth included in the R.D. an alternative recommendation that, if Columbia is permitted to increase rates in this proceeding, the recommended revenue requirement increase would be \$66,424,574.⁶ The OCA excepts to several components of the ALJs' alternative recommendation. Specifically, the OCA submits that ALJs Watson and Allensworth, in formulating the alternative recommendation, erred in recommending that the OCA's depreciation adjustments, inflation adjustments to rate base and expenses, outside services expense adjustment, materials and supplies expense adjustment, and corollary adjustments to uncollectibles expense, income tax, and taxes other than income tax be denied. In the event that Columbia is granted a rate increase, these adjustments should be adopted by the Commission. Further, the ALJs erred in not accepting the following of OCA's recommendations regarding maintaining Columbia's customer service center performance at 2024 levels, training

service at the lowest reasonable price for the greatest number of customers, i.e., the public generally''").

⁵ R.D. at 442-48.

⁶ R.D. at App'x A.

Columbia's field service representatives in Pennsylvania consumer rights, and revenue allocation.

For the reasons set forth in the OCA's Main and Reply Briefs and below, the OCA respectfully requests that the Commission adopt the Recommended Decision of ALJs Watson and Allensworth, with several minor modifications. However, should the Commission adopt the ALJs' alternative recommendation, the OCA's exceptions below describe several necessary adjustments which are supported by the evidence of record and applicable law.

II. REVENUE REQUIREMENT

Exception No. 1: The Recommended Decision does not contain any reference to law or support its determination with substantial evidence when adopting Columbia's proposal to continue using the Equal Life Group depreciation procedure. R.D. at 137-151, 239; OCA M.B. at 55-88; OCA R.B. at 4-6, 27-48.

A. Columbia's use of the ELG procedure results in unjust and unreasonable rates.

Columbia's choice of depreciation procedure directly increases rates by \$63.615 million.⁷ Substantial and uncontroverted record evidence shows that Columbia's continued use of the Equal Life Group (ELG) procedure unreasonably accelerates recovery of depreciation expense and results in intergenerational inequity.⁸ Moreover, the OCA presented substantial evidence showing that the Average Life Group (ALG) procedure⁹ reasonably allocates depreciation expense throughout the service life of the asset and recovers the cost over the average service life using the same depreciation rate for each

⁷ OCA R.B. at 4.

⁸ OCA M.B. at 58-60, 72-81; OCA R.B. at 5.

⁹ Also referred to as the Average Service Life, or ASL, procedure.

year.¹⁰ Columbia's choice to continue using the ELG procedure represents 58% of Columbia's rate increase request and constitutes a significant rate harm to Columbia's customers specifically.¹¹

Columbia did not rebut the fact that the ELG procedure results in higher depreciation rates for current customers. In fact, Columbia's own evidence showed that ELG recovers more from current customers.¹² Additionally, the OCA showed that a super majority of state commissions approve the use of the ALG procedure, including Pennsylvania.¹³ Indeed, Columbia Gas of Kentucky, Columbia Gas of Virginia, and Columbia Gas of Maryland all use the ALG procedure and has been recommended by Columbia witness Spanos in other jurisdictions.¹⁴

Yet, the Recommended Decision stated as follows:

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.

¹⁰ OCA M.B. at 66-72; OCA R.B. at 5.

¹¹ *Id.*

¹² OCA R.B. at 5.

¹³ OCA R.B. at 5.

¹⁴ OCA M.B. at 82-85; OCA R.B. at 5.

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.¹⁵

The Recommended Decision does not cite to any legal authority in support of its determination, but instead states 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."¹⁶ As such, the ALJs determines that Columbia may continue to use the ELG procedure due to Columbia's current use of ELG, without legal citation, instead of supporting its determination with applicable legal precedent and substantial record evidence.

As discussed extensively in the OCA's Main Brief, Columbia's current use of ELG is not the relevant legal standard.¹⁷ Instead, depreciation procedure is squarely a matter of Commission ratemaking discretion, as there is no state or federal law that mandates a specific depreciation procedure for conducting a depreciation analysis.¹⁸ Moreover, the Public Utility Code and Commission regulations do not prohibit the adoption of the ALG

¹⁵ R.D. at 151.

¹⁶ R.D. at 151.

¹⁷ OCA M.B at 61-63.

¹⁸ OCA M.B. at 61-63.

procedure in Pennsylvania.¹⁹ In fact, Columbia already uses the ALG procedure for its pre-1976 plant.²⁰

There is also no *de facto* authority of a utility's depreciation procedure for its plant in rate base or a mandate that a utility's procedure be accepted indefinitely. In other words, 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.²¹

The Public Utility Code does not require that a utility's currently utilized depreciation procedure for certain plant must be accepted indefinitely.²² Importantly, the Public Utility Code provides the following regarding depreciation:

a) Accounts.--Every public utility shall carry on its books or records of account, proper and reasonable sums representing the annual depreciation on its property used or useful in the public service, which sums shall be based upon the average estimated life of each of the several units or classes of depreciable property. The commission, by appropriate order, after hearing, shall, **except where found to be inappropriate**, establish for each class of public utilities, the units of depreciable property, the loss upon the retirement of which shall be charged to the depreciation reserve.

(b) Statements.--Every public utility shall file with the commission, at such times and in such form as the commission may prescribe, statements setting forth the details supporting its computation of annual depreciation, as recorded on the books or records of accounts of the public utility. **If the commission, upon review of such statements, is of the opinion that the amount of annual depreciation so recorded by any public utility is not**

¹⁹ OCA M.B. at 64-66.

²⁰ OCA M.B. at 69.

²¹ OCA M.B. at 63 citing *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*)).

²² OCA M.B. at 64-66.

reasonable and proper, it may, after hearing, require that provision be made for annual depreciation in such sums as may be found by it to be reasonable and proper. In making its findings, the commission shall give consideration to the experience of the public utility, and the predecessors of the public utility in accumulating depreciation reserves, the retirements actually made, and such other factors as may be deemed relevant.

(c) Use of estimates.--The commission shall not be bound in rate proceedings to accept, as just and reasonable for rate-making purposes, estimates of annual depreciation established under the provisions of this section, but in such rate proceedings it shall give consideration to statements submitted under this section, in addition to such other factors as may be relevant.²³

As shown above, the Public Utility Code does not require that a utility's currently utilized depreciation procedure for certain plant should be accepted indefinitely.

Additionally, the Commission's regulations provide:

(c) In subsequent ratemaking proceedings, the most recent annual depreciation report or service life study approved or deemed approved for accounting purposes only under this chapter, constitutes a rebuttable presumption as to the reasonableness of the accrued depreciation claimed for ratemaking purposes, and the burden of proving the unreasonableness of the accrued depreciation shall be on the challenging party.²⁴

The purpose of the Commission's regulations regarding annual depreciation reports, service life studies, and capital investments plans is "to establish uniform and industry wide reporting requirements designed to improve the Commission's ability to monitor on a regular basis the depreciation practices and capital planning of electric, telephone, gas and water public utilities subject to Commission jurisdiction."²⁵

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

²⁴ 52 Pa. C.S. § 73.9(c) (emphasis added).

²⁵ 52 Pa. Code § 73.1.

Simply put, the practices and procedures in Pennsylvania support a switch to ALG and there is nothing specific to Pennsylvania that requires continued use of ELG. To the contrary, as the ALG procedure simplifies the Commission’s ability to monitor depreciation practices and capital planning for regulated utilities, it furthers the Commission’s regulations regarding depreciation “to establish uniform and industry-wide reporting requirements designed to improve the Commission’s ability to monitor on a regular basis the depreciation practices and capital planning of electric, telephone, gas and water public utilities subject to Commission jurisdiction.”²⁶ On the other hand, continued use of the ELG procedure adds unnecessary complexities and results in unjust and unreasonable rates.²⁷

B. The burden of proof for depreciation procedure is that Columbia must show that the depreciation charges to its customers through expenses are not excessive.

The Recommended Decision applied the incorrect burden of proof by stating that “the OCA has not offered evidence sufficient to justify a change to the ASL procedure in this particular case.”²⁸ Columbia has the burden of proof to show that its proposed rates are just and reasonable, not the OCA.²⁹

This is especially true regarding depreciation, as the U.S. Supreme Court stated as follows regarding the need for the Company to show that its depreciation expense is not excessive:

²⁶ 52 Pa. C.S. § 73.1.

²⁷ See OCA M.B. at 69-70.

²⁸ R.D. at 157.

²⁹ OCA M.B. at 5-7 (internal citations omitted).

[T]he company has the burden of making a convincing showing that the amounts it has charged to operating expenses for depreciation have not been excessive. That burden is not sustained by proof that its general accounting system has been correct. The calculations are mathematical, but the predictions underlying them are essentially matters of opinion.³⁰

Columbia failed to meet its burden of proof in showing that the amounts it charges to operating expenses for depreciation have not been excessive. Columbia cited to no statute, case law, or precedent that requires the continued use of ELG.³¹ The Recommended Decision is also silent regarding statute, case law, or legal precedent that supports Columbia's continued use of ELG despite the excessive charges in rates due to Columbia's use of ELG. Columbia merely asserted that a standard exists, without any legal support, in which they should be able to continue using the ELG procedure due to Columbia's current use of ELG instead of supporting its burden of proof with substantial evidence.³²

The Recommended Decision, while not adopting a new legal standard in favor of ELG, unreasonably accepts Columbia's argument that, since it currently uses the ELG method for some of Columbia's plant, Columbia should be permitted to continue using the ELG procedure.³³ As such, the Recommended Decision states that the ELG procedure "provides an appropriate allocation in the particular circumstances presented in this proceeding."³⁴

³⁰ *Lindheimer v. Illinois Bell Tel. Co.*, 292 U.S. 151, 169 (1934) (*Lindheimer*).

³¹ OCA R.B. at 29.

³² OCA R.B. at 29.

³³ R.D. at 151.

³⁴ R.D. at 151.

Yet, there is uncontested substantial record evidence that Columbia's use of ELG represents 58% of Columbia's \$110.5 million rate increase request as the difference between the ELG and ALG procedures alone is \$44 million.³⁵ The amounts Columbia charges to operating expense for depreciation are clearly excessive.³⁶ 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.³⁷ Continued use of ELG is not required by law or regulation.³⁸ Requiring the OCA to satisfy a burden of proof that the OCA is not responsible for achieving under law or regulation unreasonably shifts the utility's need to provide substantial evidence that rates are just and reasonable to the OCA.

The OCA is not the party that produced, nor was required to produce, a depreciation study for the FFPTY as the OCA does not bear the burden of proof in this case. The OCA only needed to demonstrate, per *Lindheimer*³⁹ and *Hope*⁴⁰, that the ELG procedure for determining annual depreciation expense is unreasonable and that the ALG procedure is reasonable to ensure the Company is whole and the integrity of its investments maintained, which the OCA has successfully demonstrated.⁴¹ The OCA also needed to demonstrate, per

³⁵ OCA M.B. at 67.

³⁶ OCA M.B. at 85-86.

³⁷ See Sections VI.B; VI.E.

³⁸ See Section VI.B.

³⁹ *Lindheimer v. Illinois Bell Tel. Co.*, 292 U.S. 151, 167 (1934) (*Lindheimer*).

⁴⁰ *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 606 (1944) (*Hope*).

⁴¹ OCA M.B. at 71.

*Pa. Power*⁴², that the use of the ALG procedure will permit accumulated depreciation (or book reserves) and annual depreciation expense to be calculated on a reasonably consistent basis, which the OCA also has successfully demonstrated.⁴³

C. The OCA produced substantial evidence showing that Columbia’s continued use of the ELG procedure resulted in unjust and unreasonable rates.

The Recommended Decision states “OCA has not offered sufficient evidence to justify a change to the ASL procedure in this particular case.”⁴⁴ Yet, the OCA provided substantial record evidence supporting a change from ELG to ALG for Columbia.⁴⁵

The record evidence clearly demonstrates that Columbia’s continued use of the ELG procedure results in unjust and unreasonable rates from a mathematical perspective alone.⁴⁶ Again, uncontested substantial record evidence proves that Columbia’s use of ELG represents 58% of Columbia’s \$110.5 million rate increase request as the difference between the ELG and ALG procedures alone is \$44 million.⁴⁷ This is in addition to the factual, legal, and policy evidence proffered by the OCA in its Briefs.⁴⁸ Disregarding the substantial evidentiary record by arguing that the OCA’s evidence was somehow insufficient effectively ignores the substantial record evidence offered by the OCA.

⁴² *Pa. Power & Light Co. v. Pa. Pub. Util. Com.*, 311 A.2d 151, 158 (Pa. Cmwlth. 1973) (*Pa. Power*).

⁴³ OCA M.B. at 71-72.

⁴⁴ R.D. at 151.

⁴⁵ OCA M.B. at 55-88; OCA R.B. at 4-6, 27-48.

⁴⁶ OCA M.B. at 67.

⁴⁷ OCA M.B. at 67.

⁴⁸ OCA M.B. at 55-88; OCA R.B. at 4-6, 27-48.

The magnitude of the unreasonably high amount of depreciation expense Columbia proposes to charge to current ratepayers through Columbia's use of the ELG procedure alone is immediately apparent and mathematically uncontested.⁴⁹ In fact, the particular circumstances presented in this proceeding shows the unreasonable nature of Columbia's continued use of the ELG procedure due to the magnitude of the increase solely attributable to Columbia's choice to use ELG.⁵⁰

Importantly, Columbia did not offer substantial evidence showing that the amounts it charges to operating expenses for depreciation through ELG is not excessive. Instead, Columbia witness Spanos' mere statement that ELG provides for better matching of cost recovery to service consumption, in this jurisdiction, is contrasted with the record evidence proving that in other jurisdictions with Columbia Gas utilities, Mr. Spanos recommends the ALG method.⁵¹

The Recommended Decision relies on Columbia's assertion that "the ELG procedure appropriately matches cost recovery to service consumption of the asset."⁵² Yet, the OCA presented substantial evidence that Columbia's use of the ELG procedure violates the matching principle.⁵³ The Commission already acknowledged that ELG, compared to other depreciation procedures, accelerates recovery as follows:

An account can be divided on a vintage basis, which is simply a grouping of assets by the year in which they were put in service. A vintage can be further subdivided by the ages which different groups of assets in the vintage will

⁴⁹ OCA M.B. at 68.

⁵⁰ OCA M.B. at 85-86.

⁵¹ OCA M.B. at 82-83.

⁵² R.D. at 151.

⁵³ OCA M.B. at 76-78.

probably attain. The equal life group ("ELG") method assumes, for a given estimated life of a mass group and a given vintage that: a certain percentage of the assets will be retired in the first year and should be depreciated 100% in that first year; another percentage of the assets will be retired in the second year and should be depreciated 50% in the first year; another percentage will retire in the third year and should be depreciated 33% in the first year, etc. **The practical effect of ELG as contrasted with other methods is to accelerate the recovery of capital.**⁵⁴

Under ELG, annual depreciation expense is accelerated relative to accrued depreciation.⁵⁵ As such, the depreciation reserve grows disproportionately fast in earlier years, producing mismatches between revenues and expenses.⁵⁶ ALG, by contrast, keeps annual depreciation expense proportional to the depreciation reserve buildup and properly matches revenues and expenses.⁵⁷ ALG results in a reasonably consistent annual depreciation expense relative to accrued depreciation, while ELG creates a mismatch between revenues, expenses, and rate base in violation of the matching principle.⁵⁸

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.⁵⁹ Columbia's choice to continue using the ELG procedure in this proceeding results in unjust and unreasonable rates. Rejecting Columbia's proposal to continue using

⁵⁴ See OCA M.B. at 72 citing *Pa. PUC v. Philadelphia Suburban Water Company*, 1986 Pa. PUC LEXIS 118, *14-15 (emphasis added).

⁵⁵ OCA M.B. at 77.

⁵⁶ OCA M.B. at 77.

⁵⁷ OCA M.B. at 77-78.

⁵⁸ OCA M.B. at 78.

⁵⁹ OCA R.B. at 30.

ELG is not only legally sound, it is essential in preventing the systematic overcharging of current customers due to Columbia's choice of depreciation procedure for years to come. As such, the Commission should reject Columbia's proposal to continue using the ELG procedure and instead require Columbia to use the ALG procedure in order to produce just, reasonable, and non-discriminatory rates.

Exception No. 2: The Recommended Decision's adoption of inflation factors is a significant deviation from Commission precedent. R.D. at 157, 173-175, 210-212, 223; OCA M.B. at 43-51, 89-91, 19-24, OCA R.B. at 13-16, 19-24, 49-50.

The OCA recommended that the inflation factors that Columbia added to their rate increase request be removed.⁶⁰

The Recommended Decision, however, stated as follows:

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*), 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 [sic] to expense claims "directly relate to the actual costs expected to be incurred in each expense account in the FPFTY."

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.⁶¹

⁶⁰ OCA M.B. at 43-51, 89-91, 19-24, OCA R.B. at 13-16, 19-24, 49-50.

⁶¹ R.D. at 212 (internal citations omitted).

While the Recommended Decision cites to *Wellsboro 2020* as support for adopting inflation adjustments, the Commission actually denied Wellsboro's inflation adjustment as follows:

In considering the record evidence and arguments before us, along with the Exceptions and Reply Exceptions of the Parties, we shall adopt the ALJs' recommendation to not allow Wellsboro to apply a blanket three percent inflation adjustment to all of its O&M accounts in its FTY to reach its FPFTY projections. We agree with the ALJs that the Company did not meet its burden in demonstrating that its proposed blanket three percent inflation adjustment to all expenses would meet the "known and measurable" standard for increasing each FTY expense claim in the FPFTY. To state it another way, the Company did not demonstrate that making this blanket adjustment to each expense claim directly relates to the actual costs expected to be incurred in each expense account in the FPFTY. R.D. at 21-23. In our view, the ALJs' recommendation to reject Wellsboro's position is reasonable and consistent with applicable law. Accordingly, we shall deny Wellsboro's Exception No. 1 and adopt the ALJs' recommendation on this issue.⁶²

In *Wellsboro 2020*,⁶³ 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 adjustments to expense claims "directly relate[] to the actual costs expected to be incurred in each expense account in the FPFTY."⁶⁴

As acknowledged in *Wellsboro 2020*, the use of broad inflation adjustments to estimate the cost of additional plant undermines the ratemaking concept of "used and useful" and certainly does not rise to the level of meeting Columbia's burden of proof in

⁶² *Pa. PUC v. Wellsboro Elec. Co.*, Docket No. R-2019-3008208, Order at 40 (Apr. 9, 2020) (*Wellsboro 2020*).

⁶³ *Wellsboro 2020* at 40.

⁶⁴ *Wellsboro 2020* at 40.

this proceeding.⁶⁵ The Commission repeatedly required specificity by the utility when the utility uses an inflation factor to estimate cost increases in the test year, and the Commission has disallowed inflation factors that are too speculative in nature.⁶⁶ In *Aqua 2022*, the Commission provided, “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.”⁶⁷ Additionally, the Commission found that Aqua’s “application of a General Price Adjustment to 22% of expenses is neither targeted nor specific.”⁶⁸

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

These types of inflation-related adjustments do not provide a good index or pattern of increased costs over time. While such types of inflationary increases are useful to develop economic data, they should not be used to develop and set rates for utility service under a ratemaking methodology. Rates once set are collected until they change in another rate case and thus have to be set as just and reasonable rates. The Company has not provided any additional information or evidence showing that these cost increases will be realized or be present in its FPFTY period. If inflation costs were utilized, and if those costs did not materialize when rates are set by the Commission, the Company will recover costs greater than its cost of service and over-recover costs which ratepayers will not be able to get back.⁶⁹

Columbia provided no evidence supporting that its inflation adjustments described above are accurate representations of the costs which the Company knows will be

⁶⁵ OCA R.B. at 14 (internal citations omitted).

⁶⁶ *Id.*

⁶⁷ *Pa. PUC v Aqua Pa. Water Co.*, Docket Nos. R-2021-3027385 et al., Order at 117 (May 16, 2022) (*Aqua 2022*).

⁶⁸ *Id.*

⁶⁹ OCA R.B. at 15 *citing* OCA St. 2SR at 6.

incurred.⁷⁰ Data provided by the Company indicates that its inflation factors were calculated using historical inflation data, which is an inaccurate representation of what levels of inflation will actually be experienced in the future.⁷¹ By failing to establish a factual or evidentiary basis for the actual, specific inflation factors utilized, Columbia should not be able to recover such costs, as it bears the burden of proof.⁷²

Allowing Columbia in particular to incorporate inflation rate factors for 2026 is excessive, speculated, and unsupported.⁷³ Historically, Columbia files rate cases every 14 months.⁷⁴ Including inflation factors in rates is especially unnecessary for Columbia given Columbia's frequent filing history.⁷⁵ Moreover, Columbia noted in a separate section of its Main Brief that it anticipates that it will be filing base rate cases annually, which further goes against the necessity of including excessive inflation factors into Columbia rate base.⁷⁶

The Recommended Decision's adoption of inflation factors for Columbia is a significant deviation from precedent, is unsupported by the record, and should be rejected by the Commission. Allowing regulated utilities to inflate their requests with subjective inflation factors should not be permitted or encouraged.

⁷⁰ OCA R.B. at 15.

⁷¹ *Id.* (internal citations omitted).

⁷² *Id.*

⁷³ OCA R.B. at 15.

⁷⁴ *Id.*

⁷⁵ *Id.*

⁷⁶ *Id.*

Columbia should not be permitted to recover expense increases that it has not demonstrated are known and measurable.⁷⁷ 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.⁷⁸ The OCA's removal of Columbia's inflation factors for both rate base and expense items is reasonable, supported by precedent, and necessary to ensure just and reasonable rates.⁷⁹

Exception No. 3: The Recommended Decision's rejection of the OCA's outside services expense adjustment is conclusory and unreasonable. R.D. at 216-217; OCA M.B. at 100-101; OCA R.B. at 58-61.

Columbia requested \$19,014,191 in outside services for the FTY and \$18,013,909 for the FPFTY.⁸⁰ Columbia's outside service costs historically varied from a low of 4.52% to a high of 31.36% 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

Following a summary of the parties' positions, the ALJs determined as follows:

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

⁷⁷ 66 Pa. C.S. § 315(e); *Aqua 2022*; *Wellsboro 2020*.

⁷⁸ OCA M.B. at 90-91.

⁷⁹ See e.g., *Aqua 2022*; *Wellsboro 2020*.

⁸⁰ OCA R.B. at 58 (internal citations omitted).

Services. Accordingly, we recommend that OCA's proposed adjustments to Outside Service expense be denied.⁸¹

However, the alleged substantial evidence that the ALJs refer to in the Recommended Decision is a mere claim by Columbia that reducing Columbia's outside services expense "would deny Columbia the financial resources to undertake important safety initiatives that are reflected in the FPFTY budget."⁸² The ALJs then quote the following averment 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.

No further evidentiary support is provided in the Recommended Decision regarding Columbia's arguments.⁸³ Simply put, Columbia's vague and unsupported averments do not constitute substantial evidence.

On the other hand, given the significant fluctuation to Columbia's outside services expense, as shown above, OCA witness Mugrace testified that "Outside Services can fluctuate widely depending on the pool of contractors, materials and costs needed, and resources allocated. Not all the work may be performed as planned and within the time frame stated by the Company."⁸⁴ In response to critiques that the OCA's recommended

⁸¹ R.D. at 218.

⁸² R.D. at 216-217.

⁸³ R.D. at 216-217.

⁸⁴ OCA St. 2 at 26.

adjustment to outside services expense would deny Columbia the financial resources to undertake important safety initiatives that are reflected in the FPFTY budget, OCA witness Mugrace testified as follows:

I continue to recommend the use of a three-year average to set Outside Services. The mere fact that this variance has occurred in the past was due to deferral of certain work activities does not change my recommendation. Changes in timing and scope of services does not negate the fact these occurrences may occur going forward. The Company cannot predict with certainty that the Company's forward-looking costs will not vary as in the past. Variations exist as a normal course of business. As I indicated in my direct testimony, these Outside Services costs varied from a low of 4.52% to a high of 31.36%. These variances existed for a reason as the Company has changed its scope and scale of work activity, which is a part of the cost of doing business.⁸⁵

OCA witness Mugrace's adjustment is reasonable and based on Columbia's actual outside service costs over a three-year average.⁸⁶ As such, it should be adopted.

Exception No. 4: A three-year normalization for Columbia's fluctuating materials and supply expense is supported by the record. R.D. at 228-229; OCA M.B. at 108-110; OCA R.B. at 69-70.

The OCA recommended that a three-year normalization adjustment be used for one account within Columbia's claimed materials and supplies expenses for an allowance of \$558,615.⁸⁷ OCA witness Mugrace noticed that the Company's account "2020 Facilities Maintenance and Repairs Materials" increased from "\$42,478 in 2022, \$174,598 in 2023 and \$946,461 in 2024."⁸⁸ 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

⁸⁵ OCA St. 2SR at 15.

⁸⁶ OCA R.B. at 61.

⁸⁷ OCA M.B. at 108.

⁸⁸ OCA St. 2 at 33.

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.⁸⁹

The Recommended Decision stated:

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.

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 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.⁹⁰

⁸⁹ OCA M.B. at 108.

⁹⁰ R.D. at 228-229.

The Company identified that account 2020 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.⁹¹ Though the Company claimed that this accounting error had no impact on its FPFTY revenue requirement, according to Mr. Mugrace:

[T]he Company has not provided any further information. As indicated by Mr. Vassalotti, the Company is currently researching the best method to correct the inadvertent O&M Expense change related to a vendor adjustment. Until such time as the Company's alters or changes its method, I am continuing to recommend the three-year normalization adjustment of \$558,615.⁹²

OCA witness Mugrace further addressed the vendor accounting error in surrebuttal testimony and noted that the accounting error did not change. OCA witness Mugrace's three-year expense normalization adjustment:

I continue to recommend normalizing these costs over a three-year period. But for the accounting change occurring in 2024 and the inadvertent change in the O&M Expense related to a vendor adjustment, the Company has not provided any further information. As indicated by Mr. Vassalotti, the Company is currently researching the best method to correct the inadvertent O&M Expense change related to a vendor adjustment. Until such time as the Company's alters or changes its method, I am continuing to recommend the three-year normalization adjustment of \$558,615.⁹³

As Columbia has failed to provide substantial evidence regarding how the accounting error identified by its witness was corrected in the Company's rate filing, and given that Columbia is currently researching the best method to correct this error, it is

⁹¹ OCA St. 2SR at 17.

⁹² OCA St. 2SR at 18.

⁹³ OCA St. 2SR at 18.

appropriate to disallow any aberrant costs included in account 2020 Facilities Maintenance and Repairs Materials.⁹⁴

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.⁹⁵

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.⁹⁶

Exception No. 5: The OCA's corollary adjustments to uncollectible expense and taxes should be adopted to reflect the OCA's reasonable adjustments. R.D. at 238, 246-247; OCA M.B. at 117-118, 120-123; OCA R.B. at 79-80, 82-84.

The OCA recommended corollary adjustments to uncollectible expense, incomes taxes, and taxes other than income taxes to reflect the OCA's other adjustments.⁹⁷ As the OCA's adjustments are reasonable and as corollary adjustments to uncollectible expense, income taxes, and taxes other than income taxes are necessary to properly reflect the OCA's

⁹⁴ OCA M.B. at 110.

⁹⁵ *Pa. PUC v. Phila. Gas Works*, Docket No. R-2023-3037933, Order at 82-83 (Nov. 9, 2023) (*PGW 2023*) citing *Pa. PUC v. Total Environmental Solutions, Inc.*, Docket Nos. R-00072493, Order (July 30, 2008) (*TESI*) at 72.

⁹⁶ OCA St. 2 at 33.

⁹⁷ OCA R.B. at 79-80, 82-84.

adjustments, the OCA notes that in the event the Commission permits Columbia to increase rates, the OCA's corollary adjustments are necessary.⁹⁸

Regarding uncollectible expense, the Recommended Decision accurately described the OCA's recommendation as follows:

OCA explains it accepted Columbia's computation of its level of uncollectible expense. 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. 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.⁹⁹

Indeed, OCA witness Mugrace accepted Columbia's computation of its level of uncollectible expense.¹⁰⁰ 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 0.01346130.¹⁰¹ This adjustment is reasonable and should be adopted by the Commission in the event that Columbia is granted a rate increase.

⁹⁸ OCA M.B. at 117-118, 120-123; OCA R.B. at 79-80, 82-84.

⁹⁹ R.D. at 238 (internal citations omitted).

¹⁰⁰ OCA M.B. at 117-118.

¹⁰¹ OCA R.B. at 79.

The Recommended Decision also accurately describes the OCA's recommendation regarding income taxes and taxes other than income tax as follows:

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.¹⁰²

The OCA accepted the Company's methodology for calculating its income tax expense and recommends that the Commission adopt Mr. Mugrace's calculated adjustment of \$17,543,486 for an income tax allowance of \$(55,267,855) consistent with the recommendations of OCA witnesses Mugrace and Garrett's regarding the appropriate revenue requirement for the Company.¹⁰³ The OCA's reasonable adjustment to income tax reflects the OCA's other adjustments and should be adopted in the event that Columbia is granted a rate increase.

The Recommended Decision also accurately summarizes the OCA's position regarding taxes other than income taxes as follows:

b. Taxes other than Income Taxes

¹⁰² R.D. at 247.

¹⁰³ OCA R.B. at 83.

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.¹⁰⁴

Due on the sum of the OCA recommended adjustments to property taxes related to Columbia's Utility Plant in Service balance and payroll taxes associated with the OCA's proposed labor and incentive compensation 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 \$4,309,435.¹⁰⁵

The OCA recommends that, if Mr. Mugrace's adjustments to Columbia's claimed labor expense and utility plant in service balances are adopted by the Commission, then the proposed adjustment to taxes other than income tax should be adopted as well.

Exception No. 6: If the Recommended Decision adopted I&E's 10.51% ROE, a 10.51% ROE is excessive. R.D. at 350-351; OCA M.B. at 123-171; OCA R.B. at 85-100.

OCA witness Garrett recommended as follows regarding Columbia's rate of return:

- 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.¹⁰⁶

¹⁰⁴ R.D. at 247.

¹⁰⁵ OCA M.B. at 122-123; OCA R.B. at 84.

¹⁰⁶ OCA M.B. at 123.

The Recommended Decision summarizes and seemingly adopts I&E's argument in favor of a 10.51% return on equity.¹⁰⁷ However, it is not clear whether the Recommended Decision adopted I&E's 10.51% return on equity, as the Recommended Decision adopts a 5.72% ROE.

The Recommended Decision concludes as follows regarding 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, 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 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.**¹⁰⁸

¹⁰⁷ R.D. at 326-350.

¹⁰⁸ R.D. at 350-351 (emphasis added).

The OCA supports a 5.72% ROE, as it is less than the OCA's recommended 8.9% ROE. However, in summarizing I&E's position on the overall return on equity the Recommended Decision states:

I&E recommends that the Company should be afforded the opportunity to earn an overall rate of return of 8.10%. This recommended overall rate of return is comprised of a weighted average of a 2.26% rate of return on long-term debt, a 0.12% rate of return on short-term debt, and a 5.72% rate of return on common equity. I&E notes that I&E's recommended return on common equity of 10.51% is higher than the average return on equity of 9.73% of all gas utility rate cases decided/approved by state regulatory authorities in the first quarter of 2025. 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%.¹⁰⁹

The OCA emphasizes that I&E's recommended 10.51% ROE is excessive and should not be adopted by the Commission. The OCA recommended a market-based return on equity of 8.9% for Columbia, based on a fully substantiated cost of capital analysis, and a hypothetical capital structure of 50% common equity and 50% debt for ratemaking purposes.¹¹⁰ For the reasons discussed in the OCA's Main Brief and Reply Brief, the Commission should adopt the OCA's recommended 8.9% return on equity instead of I&E's 10.51% recommended return on equity as a 10.51% return is unreasonable and excessive.¹¹¹

¹⁰⁹ R.D. at 293 (internal citations omitted).

¹¹⁰ OCA M.B. at 123-171; OCA R.B. at 85-100.

¹¹¹ *Id.*

III. CUSTOMER SERVICE

Exception No. 7: Maintaining Columbia’s 2024 call center performance to ensure that call center performance does not deteriorate is reasonable. R.D. at 505; OCA M.B. at 164-168; OCA R.B. at 105-108.

OCA witness Alexander recommended that Columbia should be required to maintain its 2024 call center 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.¹¹² This recommendation is similar to the Company’s own internal performance objective.¹¹³

The Recommended Decision states:

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. 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.¹¹⁴

OCA witness Alexander testified that Columbia’s call center performance metrics indicated below average performance in 2021-2023.¹¹⁵ Moreover, OCA witness Alexander

¹¹² OCA M.B. at 168.

¹¹³ OCA M.B. at 168.

¹¹⁴ R.D. at 505.

¹¹⁵ OCA M.B. at 166 *citing* OCA St. 6 at 12.

testified that there was measurable improvement in 2024 compared to 2023 and that this improved performance, compared to below average historical performance, formed the basis of her recommendation.¹¹⁶ Additionally, Columbia did not achieve its own internal objective of 80% of the calls answered within 30 seconds.¹¹⁷ Columbia does not have an objective regarding call abandonment.¹¹⁸ OCA witness Alexander testified that “It is entirely reasonable to ask the Commission to ensure that Columbia’s performance does not deteriorate as a condition of any rate increase.”¹¹⁹

The OCA thoroughly discussed the Company’s historic and to date call center performance and believes that maintaining existing performance is a reasonable recommendation as a part of overall quality of service.¹²⁰ The Recommended Decisions’ determination permitting Columbia to not maintain its 2024 call center performance levels is contrary to the public interest and should not be adopted by the Commission.

Exception No. 8: Columbia’s Field Representatives who interact with Pennsylvania consumers should be trained in Pennsylvania consumer rights. R.D. at 516; OCA M.B. at 278-282; OCA R.B. at 147-151.

OCA witness Alexander identified concerns that important consumer protections are not identified or implemented in Columbia’s training materials.¹²¹ OCA witness Alexander testified “the obvious interpretation when the training materials fail to describe and recognize these rights is that the field representatives may not recognize or properly

¹¹⁶ *Id.*

¹¹⁷ OCA M.B. at 165.

¹¹⁸ *Id.*

¹¹⁹ OCA St. 6SR at 7.

¹²⁰ OCA R.B. at 107.

¹²¹ OCA M.B. at 280-281.

respond when those rights are alleged.”¹²² As such, OCA witness Alexander recommended that Columbia revise its training materials to comply with all the applicable consumer protections and rights for residential customers facing termination of service.¹²³ She recommended that the training materials should be improved to reflect the full range of customer rights associated with termination of service.¹²⁴ She also recommended that additional regular reporting should be developed to allow management to track the implementation of this policy and its results once an attempt at contact has been achieved in consultation with stakeholders within 6 months of the final order in this proceeding.¹²⁵

The Recommended Decision rejected OCA witness Alexander’s recommendation and stated:

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.¹²⁶

¹²² OCA M.B. at 281; OCA St. 6SR at 13.

¹²³ OCA M.B. at 282.

¹²⁴ *Id.*

¹²⁵ *Id.*

¹²⁶ R.D. at 516.

The ALJs' recommendation is contrary to the express language of the Public Utility Code for exceptions to discontinuance of service. Regarding personal contact for discontinuance of service, the Public Utility Code states:

(b) Personal contact before service discontinued.--Except when required to prevent or alleviate an emergency as defined by the commission or except in the case of danger to life or property, no public utility referred to in subsection

(a) shall discontinue, and the commission shall not authorize such a public utility to discontinue, except upon request of a customer, for nonpayment of charges or for any other reason, the rendering of service without personally contacting the customer at least three days prior to such discontinuance, in addition to any written notice of discontinuance of service. Personal contact shall mean:

- (1) contacting the customer by means other than writing; or
- (2) contacting another person whom the customer has designated to receive a copy of any notice of disconnection; or
- (3) if the customer has not made such designation, contacting a community interest group or other entity, including local police departments, which have previously agreed to receive a copy of the notice of disconnection and to attempt to contact the customer; or
- (4) if the customer has not made such designation and no such community interest group or other entity has previously agreed to receive a copy of the notice of disconnection, contacting the commission or such other local government unit as the commission shall, by rule or regulation, designate.¹²⁷

As noted above in the Public Utility Code, consumers have certain rights regarding personal contact which create exceptions to discontinuance of service.¹²⁸ Columbia's field

¹²⁷ 66 Pa. C.S. § 1503(b) (emphasis added).

¹²⁸ *Id.*

representatives responsible for personal contact should be aware of these rights given the importance of utility service, and in order for them to be aware of these rights, Columbia's training materials must reflect this information. Indeed, the purpose of the field service representative contact is to terminate essential natural gas utility service for every member of the household in accordance with the Public Utility Code.¹²⁹ OCA witness Alexander testified that "the obvious interpretation when the training materials fail to describe and recognize these rights is that the field representatives may not recognize or properly respond when those rights are alleged."¹³⁰

It is reasonable for the field service representative to be trained to comply with all applicable consumer protections and rights for residential customers facing termination of service. The OCA's recommendation that Columbia's field representatives should be trained to understand consumer rights in Pennsylvania under the Public Utility Code is reasonable and is in the public interest.

IV. REVENUE ALLOCATION AND RATE DESIGN

Exception No. 9: The ALJs did not specify the gradualism ceiling for the purposes of revenue allocation or determine how deviations from the Company's proposed revenue allocation should be allocated among the customer classes. R.D. 394-96, 401-02; OCA M.B. at 179-89; OCA R.B. at 111-13.

In the Recommended Decision, the ALJs agreed with the OCA's position that the Company's proposed Peak & Average (P&A) allocated cost of service (ACOS) study should be utilized for the purposes of revenue allocation and rate design and that the results

¹²⁹ OCA M.B. at 282.

¹³⁰ OCA St. 6SR at 13.

of the P&A ACOS study should be tempered by principles of gradualism.¹³¹ The ALJs, in their recommendation, correctly described the core dispute between the parties regarding revenue allocation:

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. This increase would reduce the subsidy being provided to LDS/LGSS by approximately \$3,397,637 compared to the Company's proposal. 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. 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.

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 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." 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.

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.¹³²

However, the ALJs did not reach a determination regarding whether the appropriate gradualism ceiling for Rate LDS/LGSS customers is 1.5 times – as proposed by

¹³¹ R.D. at 401-02.

¹³² R.D. at 395-96 (citations omitted).

Columbia¹³³ – or 2.0 times the system average increase – as proposed by the OCA¹³⁴ and the OSBA¹³⁵ – and, if the gradualism ceiling is increased to 2.0, how the difference in revenue should be allocated among the remaining classes. Rather, the ALJs recommended:

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.¹³⁶

While the OCA does not contest the ALJs’ recommendation that Columbia’s proposed rate increase should be denied, the OCA excepts to the allocation of any revenue increase in accordance with the Company’s revenue allocation without modification. The OCA supported its recommended modifications to the Company’s proposed revenue allocation with substantial evidence and its recommendations are consistent with principles of cost causation and equity.¹³⁷

Namely, the application of a 2.0 times the system average increase for Rate LDS/LGSS is appropriate because Rate LDS/LGSS customers receive a substantial subsidy and 2.0 times the system average increase is the upper end of the range of reasonable gradualism limitations on a rate increase for a particular class. OCA witness Mierzwa stated that “typically an increase of 1.5 to 2.0 times the system average increase

¹³³ Columbia St. 6-R at 10-11.

¹³⁴ OCA M.B. at 183-86; OCA St. 4 at 11.

¹³⁵ OSBA St. 1 at 13-14.

¹³⁶ R.D. at 682 (Recommended Ordering Paragraph 19).

¹³⁷ OCA M.B. at 179-89; OCA R.B. at 111-13; OCA St. 4 at 8-12; OCA St. 4R at 4; OCA St. 4SR at 7-8.

is considered consistent with the concept of gradualism.”¹³⁸ The Commission has approved rate increases as high as 2.5 times the system average increase, or greater, and found such increases to be just and reasonable.¹³⁹

The current subsidy being provided to Rate LDS/LGSS is significant and requires substantial movement towards the class’s cost of service, and, after applying the OCA’s recommended increase of 2.0 times the system average increase, the class would still receive a subsidy of \$15,854,813, or approximately 40%.¹⁴⁰ The Commission has previously found 1.5 to 2.5 times system average increases as reasonable where “the revenue recognition from that class is still shown to be below its cost to serve and therefore continues to be subsidized by other rate classes.”¹⁴¹ As a result, if the Commission authorizes a rate increase in this proceeding, the OCA respectfully requests that the Commission approve a rate increase for Rate LDS/LGSS customers of 2.0 times the system average increase.

Further, if the Commission does approve a 2.0 times the system average increase for Rate LDS/LGSS customers, the classes subsidizing Rate LDS/LGSS customers should move towards the same relative rate of return instead of moving the same amount towards

¹³⁸ OCA St. 4 at 11.

¹³⁹ *Pa. PUC v. PECO Energy Co. – Gas Div.*, Docket No. R-2020-3018929 (Order entered June 17, 2021) (*PECO Gas 2020*) at 249-50 (available at: <https://www.puc.pa.gov/pcdocs/1708475.docx>).

¹⁴⁰ OCA St. 4 at 10-11.

¹⁴¹ *Pa. PUC v. Columbia Gas Co.*, Docket No. R-2020-3018835 (Order entered Feb. 19, 2021) (*Columbia 2020*) at 233 (available at: <https://www.puc.pa.gov/pcdocs/1693880.docx>); *PECO Gas 2020* at 249-50.

the indicated cost of service.¹⁴² As the ALJs found, “[t]he residential customer class currently pays the highest proportion of subsidies provided to other customer classes relative to its revenues.”¹⁴³ It would be inequitable to allocate revenue to preserve the residential customer class’s continued disproportionate subsidization of the Rate LDS/LGSS and Flex Rate customer classes because there is no cost of service basis for this preservation.¹⁴⁴ Rather, it is more equitable for each class subsidizing the Rate LDS/LGSS and Flex Rate customer classes to be allocate equal, proportionate subsidies.¹⁴⁵

The OCA respectfully excepts to the ALJs’ ordering paragraph which recommends that an authorized rate increase should be allocated in accordance with the Company’s proposed revenue allocation and did not specify any modifications to the allocation. Based on the evidence presented and controlling law, the Company’s unmodified allocation proposal would not equitably allocate a revenue increase because it would not move Rate LDS/LGSS customers as close to cost of service rates as the OCA’s recommended revenue allocation, and would require continued subsidization of that rate class. For these reasons, the OCA requests that the Commission grant significant weight to the revenue allocation proposal of OCA witness Mierzwa and grant less weight to the proposals of the Company and the OSBA, which do not allocate a revenue increase as equitably as the OCA’s proposal.

¹⁴² OCA M.B. at 186-89.

¹⁴³ R.D. at 41 (Finding of Fact 98) (citing OCA St. 4 at 11).

¹⁴⁴ OCA St. 4R at 4.

¹⁴⁵ OCA St. 4SR at 7-8.

V. CONCLUSION

Based on the foregoing and for the reasons articulated in the OCA's Main and Reply Briefs, the OCA respectfully requests that the Commission grant the OCA's Exceptions and adopt the OCA's positions as discussed above.

Respectfully submitted,

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