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October 14, 2025

Via Electronic Filing

Matthew Homsher, Secretary
Secretary's Bureau
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, Second Floor
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v. Columbia Gas of Pennsylvania, Inc.; Docket No. R-2025-3053499, et al.; **PSU EXCEPTIONS**

Dear Secretary Homsher:

Attached you will find The Pennsylvania State University's Exceptions to the October 3, 2025 Initial Decision in connection with the above-captioned docket. Copies of this document have been served in accordance with the attached Certificate of Service.

Very truly yours,

/s/ Erich W. Struble

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Counsel for The Pennsylvania State University

EWS/das
Enclosure

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

EXCEPTIONS OF THE PENNSYLVANIA STATE UNIVERSITY

Respectfully submitted,

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Dated: October 14, 2025

I. INTRODUCTION

The Pennsylvania State University (“Penn State”), by and through its attorneys in this matter, HMS Legal LLP, hereby submits its Exceptions to the Recommended Decision (“RD”) of Administrative Law Judges (“ALJs”) Jeffrey A. Watson and Chad L. Allensworth pursuant to the Secretarial Letter dated October 3, 2025, and 52 Pa. Code § 5.533.

The RD recommends that the Commission deny Columbia Gas of Pennsylvania, Inc.’s (“Columbia”) request to increase the base rate.¹ PSU does not except the RD’s denial of Columbia’s requested rate increase. Recognizing that the Commission may approve a rate increase, Penn State excepts to portions of the RD which alternatively provide for a rate increase.² Specifically, Penn State takes exception to the RD’s alternative recommendations regarding how the rate increase is allocated to the various customer classes.

In the alternative recommendation, the RD incorrectly adopted Columbia’s Peak and Average Cost of Service Study (“COSS”) rather than Columbia’s Customer-Demand COSS or balanced Average COSS. Should the Commission approve a rate increase, the Commission should find that the ALJs erred in recommending adoption of the Peak and Average COSS and the Commission should adopt the Customer-Demand COSS or the Average COSS. The evidence of record clearly and unambiguously shows that the Peak and Average COSS is not consistent with the reality of how Columbia incurs

¹ RD at 117-118.

² RD at 118.

costs for its customers. In the alternative, should the Commission adopt the Peak and Average COSS in this proceeding, Penn State further excepts to the lack of finding of actual allocation of the rate increase to the various customer classes. Penn State submits that if the Commission utilizes Columbia’s Peak and Average COSS, then the Commission should adopt Columbia’s revenue allocation, scaled back proportionally, to develop rates.

II. EXCEPTIONS

A. Penn State Exception No. 1: The Commission should reject the RD’s alternative recommendation to adopt Columbia’s Peak and Average COSS. Finding of Fact (“FOF”) 103, Conclusions of Law (“COL”) 24-25.³

The RD erroneously “agree[d] with the [Office of Consumer Advocate (“OCA”)] that the evidence of record does not indicate a sufficient basis to move away from the Commission’s precedent supporting the [Peak and Average] methodology in

³ Finding of Fact 103: “Mains costs ‘are driven by the loads placed upon [the distribution system], not the number of customers served.’”

Conclusion of Law 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 investment is driven by the loads placed upon it, not by the number of customers served.”

Conclusion of Law 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.”

similar circumstances as presented here.”⁴ The RD made several findings of fact pertaining to revenue allocation and rate design:

- “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.”⁵
- “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.”⁶
- “The residential customer class currently pays the highest proportion of subsidies provided to other customer classes relative to its revenues.”⁷
- “Mains costs ‘are driven by the loads placed upon [the distribution system], not the number of customers served.’”⁸

The RD concluded as a matter of law that “[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 investment is driven by the loads placed upon it, not by the number of customers served.”⁹ Moreover, the ALJs concluded that “Commission precedent,

⁴ RD at 393-94.

⁵ RD at 41, FOF 95.

⁶ RD at 41, FOF 96.

⁷ RD at 41, FOF 98.

⁸ RD at 42, FOF 103.

⁹ RD at 667-68, COL 24.

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.”¹⁰ The RD further concluded that “[r]evenue allocation should seek to eliminate class cross-subsidization and move customer classes towards their cost of service.”¹¹

Penn State excepts to several of these findings of fact and conclusions of law because the evidence of record demonstrates that the Customer-Demand Study is in accord with cost causation principles, and that evidence cannot be ignored based on Commission precedent. The evidence in this proceeding shows that Columbia’s Average COSS is a balanced and fair approach to the allocation of costs, whereas the Peak and Average COSS fails to conform to the evidence of how Columbia designs, constructs, and maintains and thus incurs costs for its distribution system.

1. *The ALJs erred in approving Columbia’s use of the Peak and Average COSS because the evidence supports the Customer-Demand COSS.*

Penn State excepts to finding of fact 103,¹² conclusions of law 24 and 25,¹³ and the ALJs’ statement that 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

¹⁰ RD at 668, COL 25.

¹¹ RD at 668, COL 27.

¹² RD at 42.

¹³ RD at 667-68.

are reasonable and should be given significant weight.”¹⁴ The RD erroneously adopted Columbia’s Peak and Average COSS, which fails to allocate the cost of service reasonably or appropriately under well-settled cost-causation principles and the record evidence in this proceeding.

As the Commonwealth Court has held in *Lloyd*, cost of service is the “polestar” for allocating revenue and cannot be simply ignored. Here, the evidence related to cost of service shows the Peak and Average COSS is not consistent with the reality of how the Company incurs costs because the Peak and Average COSS: (1) considers average demand, which is not a cost driver of gas mains; and (2) fails to consider the number of customers, which is a cost driver of gas mains.

Penn State Witness Mr. Crist testified that “the cost causer of [the Company’s] gas mains is the demand, not the commodity use, of the customer[; a]ll sizing of pipe (the pipe diameter, and subsequent operating system pressure) is determined by demand, which is based on connected load in BTU/hr.”¹⁵ Mr. Crist further stated in his written testimony that “Columbia witness Mr. Taylor explained that the gas mains are designed and built based on peak demand, not annual throughput.”¹⁶ Columbia’s Main Brief made a similar point:

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

¹⁴ RD at 393-94.

¹⁵ PSU St. No. 1, Direct Testimony of J. Crist at 16:18-21.

¹⁶ Columbia St. No. 17, Direct Testimony of J.D. Taylor at 5:6-8.

determines the diameter of a main, and the number of customers will drive its length.¹⁷

Moreover, Columbia's cost of service study witness, Kevin Johnson, testified that:

The allocation of a portion of distribution mains costs on a customer basis is appropriate because of the way the distribution system is designed. Customer-related costs include, at a minimum, the cost incurred by the Company to extend its existing distribution system using a minimum size pipe (2" diameter) to attach a customer to the distribution system. Simply stated, the customer component of mains calculated in the [allocated cost of service studies] represents a minimum fixed cost investment in mains to attach a customer to the distribution system and therefore, has a direct relationship to the number of customers served by the Company.¹⁸

Company witness Mr. Taylor further testified that "of paramount understanding is that demand sets the limit on the amount of usage that can occur at any given moment, and the fixed cost investment in the infrastructure to meet this demand does not change as a result of actual gas flow on the system."¹⁹ Thus, Columbia Gas, the party which designs its mains and incurs and accounts for these costs, has explained that the number of customers drives the cost of mains. Average throughput does not dictate the size of a main and therefore does not dictate the cost of a main. Thus, the record evidence does not support use of the Peak and Average COSS because it does not consider the number of customers which has a direct relationship to the cost of mains, and instead relies on average throughput which

¹⁷ Columbia MB at 135.

¹⁸ Columbia St. No. 6, Direct Testimony of K. Johnson at 14:14-21.

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

has no relationship to the cost of mains.²⁰ The RD, however, failed to contend with this evidence.

Moreover, the RD fails to mention the evidence regarding the Peak & Average COSS's unreliability. Mr. Crist testified that "[a]ctual data show that the costs allocated to the LDS/LGSS class are overstated under all three [cost of service studies] by the Company."²¹ Mr. Johnson confirmed that his Peak and Average COSS relies on unreasonable assumptions related to miles of dedicated gas mains, testifying that the "Company agrees with PSU Witness Crist . . . that it is reasonable to assume Columbia has not built 12 miles of dedicated mains to serve each LDS/LGSS customer."²² The record thus contains uncontroverted evidence from both Mr. Crist *and the Company* that the Peak and Average COSS's assignment of 12 miles of pipe to each of the 79 LDS/LGSS customers is overstated. Because this evidence relates directly to the reliability of the Peak and Average COSS, the ALJs should have addressed it in some way, yet there is no discussion of this evidence in the RD.

²⁰ See PSU St. No. 1-R, Rebuttal Testimony of J. Crist at 17:14-18 ("[The Company's] Peak & Average [cost of service study, which] uses average demand (annual throughput) to assign costs[,] is not supported in the actual method Columbia uses to design, engineer, and build its gas pipeline system. The engineering procedures I submitted proved that only the peak demands and the number of customers are the data used by the Company in the construction of its distribution system.").

²¹ PSU St. No. 1-SR, Surrebuttal Testimony of J. Crist at 4:21-22.

²² Columbia St. No. 6-R, Rebuttal Testimony of K. Johnson at 7:18-8:1.

2. *The ALJs erred in approving Columbia’s use of the Peak and Average COSS because they relied on “precedent” while failing to consider record evidence.*

Penn State excepts to finding of fact 103²³ and conclusions of law 24 and 25.²⁴

As stated above, the RD failed to contend with record evidence that the number of Columbia’s customers drives the cost of mains and evidence that the Peak and Average COSS is unreliable. The RD stated that 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.”²⁵ In referring to the “Commission’s precedent,” the ALJs pointed to cases where the Commission has adopted throughput- and demand-based, as opposed to customer-based, cost of service studies.²⁶

However, Commission decisions rejecting a customer component in mains cost allocation cannot be treated as controlling where the evidence here clearly demonstrates that the cost of gas mains is driven by the number of customers along with the load (i.e. peak demand) that those customers place on the distribution system. Indeed, the law

²³ RD at 42.

²⁴ RD at 667-68.

²⁵ RD at 393-94.

²⁶ See RD at 668, COL 25 and footnote 3030 (citing *Pa. Pub. Util. Comm’n v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835 *et al.* (Opinion and Order entered Feb. 19, 2021) (“*Columbia 2020*”; *Pa. Pub. Util. Comm’n v. Phila. Gas Works*, Docket No. R-2023-3037933 *et al.*, 2023 WL 8714852 (Opinion and Order entered Nov. 9, 2023) (“*PGW 2023*”).

requires the Commission to evaluate the evidence presented in this case to determine appropriate class cost allocation; it may not rely on prior cost of service decisions when the current record demonstrates that a different result is warranted.²⁷

In addition, the RD's reliance on *PGW 2023* is misplaced. First, Philadelphia Gas Works' system and ratemaking posture are fundamentally different from Columbia's. Whereas PGW operates an urban, municipally-owned utility with unique constraints,²⁸ the Columbia system:

serves the suburbs of Pittsburgh along with numerous rural regions in Pennsylvania. Thus, the density of customers served by Columbia is less dense than if it served the major urban cities in the Commonwealth. This illustrates the reason that allocation of the cost of distribution mains should be done on a customer basis because customers in less dense areas require more feet of natural gas distributions mains piping to reach them than customers situated in highly dense urban areas. Cost of gas mains are clearly dependent on the number of customers and installing mains to reach those customers.²⁹

²⁷ *Duquesne Light Co. v. Pa. Pub. Util. Comm'n*, 107 A.2d 745 751 (Pa. Super. 1954) (“The Commission may not ignore recent information and evidence in the record which substantially affects the problem before it.”); *see also Butler Twp. Water Co. v. Pa. Pub. Util. Comm'n*, 473 A.2d 219, 221-22 (Pa. Cmwlth. 1984) (quoting *Aizen v. Pa. Pub. Util. Comm'n*, 60 A.2d 443, 449 (Pa. Super. 1948) (“The declaration of a policy based on general conclusions may not be substituted for an evaluation of the evidence in each case. Although the PUC may adopt and follow a policy with respect to matters within its discretion, the exercise of such discretion is not without limitations. ‘The Commission’s power to act by way of order requires findings of fact, based on the evidence, necessary to support the order. A previously adopted policy may not furnish the sole basis for the Commission’s action in a particular case. Policy cannot be made a substitute for evidence in a proceeding before it.”)).

²⁸ *PGW 2023* at *1.

²⁹ PSU St. No. 1-R, Rebuttal Testimony of J. Crist at 11:22-12:5.

Second, the Commission in *PGW 2023* determined that the evidence in that proceeding did not support adoption of the customer-demand method.³⁰ Here, in contrast, Penn State has provided unrebutted testimony demonstrating that customer count and peak demand are the only significant factors the Company considers in the design of its gas distribution system.

B. Penn State Exception No. 2: The RD failed to recommend which party's method of revenue allocation should be used if the Peak and Average COSS is adopted.

The RD not only erroneously chose the Peak and Average COSS, but it also failed to make a decision regarding how to implement that study to allocate the rate increase across Columbia Gas' customer classes.³¹ Penn State excepts to this lack of finding. Should the Commission choose the Peak and Average COSS, Penn State submits that the Company's revenue allocation, scaled back proportionally, should be utilized to develop rates.

Columbia's witness, Kevin Johnson, described the Company's proposed revenue allocation in his direct testimony, stating:

Columbia's allocation of the proposed base rate revenue increase, which is shown in Exhibit 103, Schedule No. 8, Page 4, Line 19, reflects the following allocations: 66.85% of the overall increase is applied to the residential class; 9.65% of the overall increase is applied to the SGS1/SCD1/SGDS1 class; 10.93% of the overall increase is applied to the SGS2/SCD2/SGDS2 class; 6.84% of the overall increase is applied to the SDS/LGS class; 5.73% of the overall increase is applied to the LDS/LGS class; 0.00% of the overall increase is

³⁰ *PGW 2023* at *80.

³¹ *See generally*, RD.

applied to MLDS customers; and 0.00% of the overall increase is applied to the FLEX customers.

Exhibit 103, Schedule 8, Page 4, Lines 5 and 6 shows the 1 movement toward parity produced by Columbia's proposed revenue allocation using the peak and average ACOS Study. The movement toward parity (unitized return of 1.00) measures each class's return versus the total Company return under current and proposed rates.³²

If the Commission adopts the RD's recommendation to use the Peak and Average COSS, then Columbia's proposed revenue allocation should be used. Columbia relied on the principles of "efficiency, simplicity, continuity, fairness, and earnings stability" in developing its proposed revenue allocation and rates.³³ In addition, Columbia's proposal reflects the principle of gradualism because the "range of base rate revenue increase percentages for any class does not exceed 1.5 times the total system average increase of 16.73%."³⁴ Both Columbia and Penn State disagree with the OCA that an increase of 2.0× the system average increase is compatible with the concept of gradualism for Columbia's customers.³⁵ As the Company's witness Mr. Johnson correctly observes, 1.5× the system average increase "represents the upper bound for rate gradualism used by the Commission in [*Columbia 2020*] . . ."³⁶ Here, the Commission should again limit the increase to any class to 1.5× the system average increase because the record supports this as the upper bound for gradualism.

³² Columbia St. No. 6, Direct Testimony of K. Johnson at 19:15-20:4.

³³ Columbia St. No. 6, Direct Testimony of K. Johnson at 16:3-6.

³⁴ Columbia St. No. 6, Direct Testimony of K. Johnson at 19:11-13.

³⁵ See OCA MB at 185.

³⁶ Columbia St. No. 6-R, Rebuttal Testimony of K. Johnson at 10:11-14.

II. CONCLUSION

For the foregoing reasons, Penn State respectfully requests that the Commission
ORDER:

- a. That Penn State's Exceptions are GRANTED;
- b. That the Commission REJECT the RD's recommendation to use
Columbia's Peak and Average COSS; and
- c. That the Commission ADOPT Columbia's Customer-Demand COSS or
Average COSS.
- d. In the alternative, if the Commission adopts Columbia's Peak and
Average COSS, that the Commission ADOPT Columbia's revenue
allocation, scaled back proportionally.

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Date: October 14, 2025

CERTIFICATE OF SERVICE

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

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Dated this 14th day of October, 2025