PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Public Meeting held December 4, 2025

Commissioners Present:

Stephen M. DeFrank, Chairman, Statement
Kimberly Barrow, Vice Chair, Statement, Concurring in part, Dissenting in part
Kathryn L. Zerfuss, Statement
John F. Coleman, Jr., Concurring in part, Dissenting in part
Ralph V. Yanora

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.

OPINION AND ORDER

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BY THE COMMISSION:

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition are the Exceptions of Columbia Gas of Pennsylvania, Inc. (Columbia or the Company), the Office of Consumer Advocate (OCA), and The Pennsylvania State University (PSU), filed on October 14, 2025, to the Recommended Decision (R.D.) of Administrative Law Judges (ALJs) Jeffrey A. Watson and Chad L. Allensworth, issued on October 3, 2025, in the above-captioned proceeding. Columbia, the Commission's Bureau of Investigation and Enforcement (I&E), the OCA, the Office of Small Business Advocate (OSBA), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), and PSU filed Replies to Exceptions on October 21, 2025.

For the reasons stated, *infra*, we shall grant, in part, and deny, in part, the Exceptions filed by Columbia, the OCA, and PSU, consistent with this Opinion and Order.

As discussed below, Columbia proposed base rate changes that would have increased its total annual natural gas distribution operating revenues by $110,444,676, or by approximately 12.02%, over revenues at present rates, based on a Fully Projected Future Test Year (FPFTY) ending December 31, 2026. Columbia M.B. at Appendix D,

Table I.[1] In this Opinion and Order, we shall approve an annual revenue increase of $55,627,800 to the Company's total revenues at present rates of $919,007,833,[2] or by approximately 6.05%.

[1] In its initial filing, Columbia proposed base rate changes that would have increased its total annual natural gas distribution operating revenues by a slightly higher amount, $110,496,797. *See* Columbia Exh. 102, Sch. 3 at 5. As set forth in Table 1, below, during the rebuttal phase of this proceeding, Columbia prepared a revised statement of its revenue requirement, wherein it proposed its final claimed revenue increase amount of $110,444,676. Columbia explained that this updated proposed revenue increase was made in light of the Company's recent sale of the Blackhawk Storage Facility (Blackhawk) and the corresponding updates to the Company's rate base, operations and maintenance (O&M), depreciation, and amortization expenses and income tax expense in light of this sale.

Table 1: Columbia's Requested Revenue Increase

Columbia Revenues at Current Rates – As Filed in Direct Testimony		$919,007,833	A
Columbia Originally Requested Revenue Increase		**$110,496,797**	B
Columbia Originally Proposed Revenues at Proposed Rates		$1,029,504,630	C=(A + B)
Columbia Revenues at Current Rates – Rebuttal Testimony		$919,007,833	D
Columbia Revised Requested Revenue Increase-Rebuttal Testimony		**$110,444,676**	E
Columbia Revised Proposed Revenues at Proposed Rates-Rebuttal Testimony		$1,029,452,509	F=D + E
Change in Columbia's Requested Revenue Increase Direct v Rebuttal		**($52,121)**	G=(E - B)
Columbia Rev. Req. Updates:	**Rate Base/Expense Adjustment Amount**	**Revenue Increase Adjusted Amount**	
Updates to Return on Rate Base:			
Plant in Service, Working Capital & Deferred Income Taxes	($5,743,588)	($630,166)	
Updates to Operating Expenses:			
Depreciation and Amortization:	($205,013)	($207,810)	
O&M (Labor, Outside Services, Materials & Supplies and Other O&M)	($222,593)	($225,630)	
O&M (Regulatory Asset Amortization)	$1,084,149	$1,098,942	
O&M (Employee Expenses-Other)	($32,450)	($32,893)	
O&M: Interest on Customer Deposits*	($46,638)	($47,275)	
Total O&M Expense Adjustment	$577,455		
Updates to Taxes other than Income Taxes:			
Payroll Taxes	($7,190)	($7,289)	
Total Change in Columbia's Requested Revenue Increase - Rebuttal		**($52,121)**	

*Columbia's update to O&M: Interest on Customer Deposits in rebuttal was **not** as a result of its sale of Blackhawk

See Columbia St. 4-R at 4-6, Table JV-2R.

[2] As discussed in Section VI, *infra,* the Company represented that its total revenues at present rates of $919,007,833 consisted of *pro forma* revenues of approximately $916,958,770 plus forfeited discounts, miscellaneous revenues, and "other" gas revenues totaling approximately $2,049,064. *See* Columbia M.B. at 28; Columbia Exh. 102, Sch. 3 at 3; Columbia Exh. 103 at 15.

I. Introduction and Background

Columbia is a public utility and a natural gas distribution company (NGDC), as those terms are defined in the Public Utility Code (Code), 66 Pa.C.S. §§ 102 and 2202, and provides natural gas distribution, sales, transportation, and/or supplier of last resort services to approximately 446,000 retail customers in portions of twenty-six counties in western, northwestern, southern, and central Pennsylvania. Columbia's principal corporate office is located in Canonsburg, Pennsylvania. Columbia was incorporated on June 23, 1960, as a wholly-owned subsidiary of the Columbia Gas System, Inc., under the Act of May 29, 1885, P.L. 29 of the Commonwealth of Pennsylvania and commenced service as Columbia Gas of Pennsylvania, Inc., on January 1, 1962, when it acquired the Pennsylvania retail business of The Manufacturers Light and Heat Company, which was at that time another wholly-owned subsidiary of the Columbia Gas System, Inc. In 1998, the Columbia Gas System, Inc. became the Columbia Energy Group. The Company is a wholly-owned subsidiary of NiSource Gas Distribution Group, Inc., which is a subsidiary of NiSource, Inc. (NiSource). NiSource acquired the Columbia Energy Group and its subsidiaries, including Columbia, on November 1, 2000. Columbia M.B. at 1; Columbia St. 1 at 3. Columbia last filed for an increase in natural gas distribution rates in 2024, which the Commission addressed in *Pa. PUC, et al. v. Columbia Gas of Pennsylvania Inc.*, Docket Nos. R-2024-3046519, *et al*. (Opinion and Order entered November 21, 2024) (*Columbia Gas 2024*).

Columbia's requested increase in this current base rate filing was based upon data for an FPFTY ending December 31, 2026. Columbia represented that its primary reason for filing its requested increase in annual operating revenues was the Company's ongoing and significant investment to modernize its distribution system through the replacement of pipe and related appurtenances that are reaching the end of their useful lives. Namely, Columbia noted that since 2007, when it began its accelerated

pipeline replacement program, the Company has replaced over 1,491 miles of cast iron and bare steel. Columbia added that during that same time period, it has also replaced over 295 miles of pre-1971 "ineffectively coated steel pipe" and over 155 miles of pre-1982 plastic pipe.[3] Thus, Columbia sought Commission approval to increase its base rates to recover the revenue requirement associated with the capital the Company has invested, and will continue to invest, in its facilities, as part of its continued focus to prioritize spending to address identified risks on the Company's system, including the accelerated pipeline replacement programs, as well as Columbia's ongoing O&M and administrative and general (A&G) expenditures. Columbia submitted that approval of its requested increase is necessary for the Company to continue to provide safe and reliable natural gas service at the lowest reasonable price to its customers, while permitting the Company to have a reasonable opportunity to recover its costs and to earn a fair rate of return. Further, Columbia claimed that approval of its requested increase will demonstrate to the investment community that the Commission continues to support the need for intensified focus on pipeline safety matters, as well as the need for reasonable and predictable earnings. Columbia M.B. at 1-2; Columbia St. 1 at 5-7.

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[3] We note that Columbia has stated on the record that it has approximately 7,800 miles of pipe in Pennsylvania as of January of 2025. Columbia St. 14 at 3. Of that total number, Columbia states that it has replaced approximately 1,950 miles of pipe as of the time of this current proceeding. Columbia M.B. at 1-2. As discussed in Section IV.B, *infra*, during the last seventeen (17) years, Columbia has filed thirteen base rate cases, including this current proceeding. Consequently, based on this information, the Company has replaced approximately 25% of its pipeline. [7800 ÷ 1950 = 25%]. The Company has averaged roughly 115 miles of pipe replacement per year during this seventeen year period of filing base rate cases. [1950 ÷ 17 = 115 miles per year]. We further note that in Columbia's own testimony, the Company acknowledged that it replaced the following number of miles of pipeline in recent years: 82 miles in 2022, 91 miles in 2023, and 117 miles in 2024. *See* Columbia St. 1 at 18. Therefore, given the average of 115 miles of pipeline replacement per year over the last seventeen (17) years, it would take more than an additional fifty (50) years to replace all of the remaining pipeline in the Company's service territory at the current pace of replacement. [7800 - 1950 =5,850 remaining miles of pipe]; [5.850 ÷115 = 50.8 years].

II. History of the Proceeding

The history of this proceeding that follows is summarized from the Recommended Decision of ALJs Watson and Allensworth, the majority of which may be found at pages 3 through 13 of the R.D.

On March 20, 2025, Columbia filed its proposed Supplement No. 392 (Supplement No. 392) to Tariff Gas Pa. P.U.C. No. 9 (Tariff Gas) at Docket No. R-2025-3053499, to be effective for service rendered on or after May 19, 2025. Therein, the Company proposed changes to its natural gas distribution base rates designed to produce an increase in annual operating revenues of approximately $110.497 million per year, representing a 12.0% increase in its overall distribution revenue requirement. The Company also proposed increasing its monthly residential customer charge from $17.25 to $31.97, an increase of $14.72, or 85.3%. Additionally, Columbia sought approval to: (1) convert its pilot Weather Normalization Adjustment (WNA) into a permanent program; (2) implement a Revenue Normalization Adjustment (RNA); (3) introduce a new tariff rate, Rate Economic Development Distribution Service (Rate EDDS); and (4) renew its residential energy efficiency (EE) program and establish a new commercial EE program. Both the residential EE Program and the new commercial EE Program were set forth in the Company's proposed Phase II Three-Year EE Plan (Phase II EE Plan or EE Plan)

On March 24, 2025, I&E filed a Notice of Appearance.

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

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

On April 11, 2025, the OSBA filed a Formal Complaint at Docket No. C-2025-3054550.

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

Additionally, on April 11, 2025, CAUSE-PA filed a Petition to Intervene.

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

On April 24, 2025, PSU filed a Formal Complaint at Docket No. C-2025-3054780.

On April 24, 2025, the Commission entered an Order (*April 2025* Order) instituting an investigation to determine the lawfulness, justness, and reasonableness of the rates, rules, and regulations contained in Supplement No. 392. The Commission also suspended Supplement No. 392 by operation of law until December 19, 2025, and assigned this matter to the Office of Administrative Law Judge (OALJ) for the prompt scheduling of hearings, culminating in the issuance of a Recommended Decision.

On April 28, 2025, Columbia filed Supplement No. 399 to Tariff Gas (Supplement No. 399), pursuant to the *April 2025 Order*, suspending the proposed rates and rules contained in Supplement No. 392 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, a Prehearing Conference was held. Counsel for Columbia, I&E, the OCA, and the OSBA appeared, as well as counsel for CAUSE-PA, the Task Force, and PSU (collectively, the Parties). Additionally, Ms. Slick, a *pro se* Complainant, attended the conference.

On May 9, 2025, a Prehearing Order was entered consolidating the complaints of the OCA, the OSBA, PSU, Ms. Walker, Ms. Slick, and Ms. Allsion with the above-docketed rate proceeding. In addition, the Petitions to Intervene filed by CAUSE-PA and the Task Force were granted.[4]

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

Several in-person and telephonic public input hearings were held in this proceeding.

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 Complainants Ms. Garlitz and Mr. Richard Culbertson.

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

[4] We note that subsequently, the Formal Complaints of Ms. Alexandra Garlitz, filed on May 12, 2025 at Docket No. C-2025-3055233; and Mr. and Ms. Daniel and Stacy Chronister, filed on July 10, 2025, at Docket No. C-2025-3056194, were also consolidated with the above Formal Complaints and the above-docketed rate proceeding.

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

A second telephonic public input hearing was held on June 4, 2025, at 6:00 p.m. Testimony was presented by Ms. Andrea Evans, Ms. Kim Brown and Ms. Joyce Schlag.

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 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.

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

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 any settlement reached in this proceeding.

On August 6, 2025 and August 7, 2025, an evidentiary hearing was held in this matter.

Counsel for Columbia, I&E, the OCA and OSBA appeared, as well as counsel for, CAUSE-PA, the Task Force, and PSU. No *pro se* Complainants attended the evidentiary hearing. Statements and Exhibits for each of the Parties were admitted into the evidentiary record at the hearing.[5]

On August 26, 2025, Main Briefs were filed by Columbia, I&E, the OCA, the OSBA, CAUSE-PA, the 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 ALJs.

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

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

On October 5, 2025, the Commission issued the Recommended Decision of ALJs Watson and Allensworth. Therein, the ALJs recommended that the Commission deny Columbia's requested revenue increase in its entirety. According to the ALJs, 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 Code. Alternatively, the ALJs explained that should the Commission disagree with their primary recommendation to disallow the Company's requested increase in its entirety, then the ALJs recommended that the Commission

[5] *See* Pages 9-12 of the R.D. for a complete list of the Statements and Exhibits admitted into the record at the evidentiary hearing.

approve an increase in annual operating revenues in the amount of approximately $66,424,574, or approximately 7.23% over total revenues at present rates. R.D. at 2.

The ALJs also recommended, *inter alia*, that: (1) the Company's monthly residential customer charge remain at $17.25, without mains; (2) the Company's WNA and RNA proposals be denied; (3) the Company's request for: (a) approval to introduce Rate EDDS, and (b) permission to renew its residential EE Program, and to establish a new commercial EE Program be denied; and (4) that Columbia's new rates become effective the first day of the FPFTY, January 1, 2026. R.D. at 2.

As previously noted, on October 14, 2025, Columbia, the OCA, and PSU filed Exceptions to the Recommended Decision. On October 21, 2025, Columbia, I&E, the OCA, the OSBA, CAUSE-PA, and PSU filed Replies to Exceptions.

III. Public Input Hearings

As noted in the History of Proceeding, *supra*, several public input hearings were held for the purpose of allowing Columbia's customers to provide input regarding the Company's proposed natural gas rate increase. More specifically, two in-person hearings were held on June 3, 2025, two telephonic hearings were held on June 4, 2025, and two more in-person hearings were held on June 11, 2025. A total of nine individuals testified. For a discussion and summary of the public input hearings, *see* pages 5 to 7 and 13 to 23 of the Recommended Decision.

IV. Legal Standards and Other Preliminary Matters

A. Legal Standards

At issue here is the Company's request for a general base rate increase, which is governed by Section 1308(d) of the Code, 66 Pa.C.S. § 1308(d). Section 1308(d) of the Code provides the procedures for changing base rates, the time limitations for the suspension of the new rates, and the time limitations on the Commission's actions. 66 Pa.C.S. § 1308(d).[6] "Under traditional ratemaking, utilities may not change rates charged to customers outside of a base rate case." *McCloskey v. Pa. PUC*, 127 A.3d 860, 863 n.2 (Pa. Cmwlth. 2015).

Section 1301(a) of the Code mandates that "[e]very rate made, demanded, or received by any public utility . . . shall be just and reasonable, and in conformity with [the] regulations or orders of the [C]ommission." 66 Pa.C.S. § 1301(a). Pursuant to the just and reasonable standard, a 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." *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002) (*City of Lancaster*). There is no single way to arrive at just and reasonable rates, and "[t]he [Commission] has broad discretion in determining whether rates are reasonable" and "is vested with discretion to decide what

[6] Among other things, Section 1308(d) of the Code requires the Commission to render a final decision granting or denying, in whole or in part, the general rate increase requested by a public utility, within a general time frame not to exceed seven months from the proposed effective date of the utility's proposed tariff supplement. *See* 66 Pa.C.S. § 1308(d); *see also* 52 Pa. Code § 53.31 (requiring a tariff proposing a rate increase to be effective upon sixty days' advance notice). Unless the utility voluntarily extends the suspension period, the Commission's non-action within this timeframe means, by operation of law, the utility's proposed general rate increase will go into effect, as proposed, at the end of such period. *See* 66 Pa.C.S. § 1308(d).

factors it will consider in setting or evaluating a utility's rates." *Popowsky v. Pa. PUC*, 683 A.2d 958, 961 (Pa. Cmwlth. 1996) (*Popowsky 1996*).

A public utility is entitled to an opportunity to earn a fair rate of return on the value of the property dedicated to public service. *Pennsylvania Gas and Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975) (citations omitted). In determining a fair rate of return, the Commission must adhere to the constitutional standards established by the United States Supreme Court in the seminal cases *Bluefield Water Works and Improvement Co. v. Public Service Comm'n of West Virginia*, 262 U.S. 679, 692-93 (1923) (*Bluefield*) and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) (*Hope Natural Gas*). In *Bluefield*, the Supreme Court stated:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. 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. A rate of return may be too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

Bluefield, 262 U.S. at 692-93. Twenty years later, in *Hope Natural Gas*, the Supreme Court reiterated:

> 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 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.

Hope Natural Gas, 320 U.S. at 603.

The Commission is required to investigate all general rate increase filings. *Popowsky 1996*, 683 A.2d at 961. The burden of proof to establish the justness and reasonableness of every element of a public utility's rate increase request rests solely upon the public utility in all proceedings filed under Section 1308(d) of the Code. 66 Pa.C.S. § 315(a); *see also Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980) (*Lower Frederick*); *see also Brockway Glass Co. v. Pa. PUC*, 437 A.2d 1067 (Pa. Cmwlth. 1981). Section 315(a) of the Code provides as follows:

> **Reasonableness of rates.** – In any proceeding upon the motion of the commission, involving any proposed or existing rate of any public utility, or in any proceedings 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.

66 Pa.C.S. § 315(a). The evidence necessary to meet that burden must be substantial. *Lower Frederick*, 409 A.2d at 507.

In general rate increase proceedings, the burden of proof does not shift to parties challenging a requested rate increase. Rather, the utility's burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one, and that burden remains with the public utility throughout the course of the rate

proceeding. There is no similar burden placed on parties to justify a proposed adjustment to the Company's filing. The Pennsylvania Supreme Court has held:

> [T]he appellants did not have the burden of proving that the plant additions were improper, unnecessary or too costly; on the contrary, that burden is, by statute, on the utility to demonstrate the reasonable necessity and cost of the installations, and that is the burden which the utility patently failed to carry.

Berner v. Pa. PUC, 116 A.2d 738, 744 (Pa. 1955).

However, in proving that its proposed rates are just and reasonable, a public utility need not affirmatively defend every claim it has made in its filing, even those which no other Party has questioned. As the Pennsylvania Commonwealth Court has held:

> While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.

Allegheny Center Assocs. v. Pa. PUC, 570 A.2d 149, 153 (Pa. Cmwlth. 1990) (citation omitted); *see also Pa. PUC v. Equitable Gas Co.*, 73 Pa. P.U.C. 301, 359-60 (1990).

Additionally, Section 315(a) of the Code cannot reasonably be read to place the burden of proof on the utility with respect to an issue the utility did not include in its general rate case filing and which, frequently, the utility would oppose. 66 Pa.C.S. § 315(a). The burden of proof must be on the party who proposes a rate increase beyond that sought by the utility. *Pa. PUC v. Metropolitan Edison Company*, Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5 (Opinion and Order entered January 11, 2007) (*Met-Ed. 2007*). The mere rejection of evidence contrary to that

presented by the public utility is not an impermissible shifting of the evidentiary burden. *United States Steel Corp. v. Pa. PUC*, 456 A.2d 686 (Pa. Cmwlth. 1983).

In their Recommended Decision, the ALJs made 409 Findings of Fact (FOFs) and reached 76 Conclusions of Law (COLs). R.D. at 25-95, 663-78. The Findings of Fact and Conclusions of Law are incorporated herein by reference and are adopted without comment unless they are either expressly or by necessary implication rejected or modified by this Opinion and Order.

Finally, any issue or Exception that we do not specifically address shall be deemed to have been duly considered and denied without further discussion. The Commission is not required to consider expressly or at length each contention or argument raised by the parties. *Consolidated Rail Corp. v. Pa. PUC*, 625 A.2d 741 (Pa. Cmwlth. 1993); *see also, generally, University of Pennsylvania v. Pa. PUC*, 485 A.2d 1217 (Pa. Cmwlth. 1984).

B. Whether any Rate Increase Should be Granted

As an initial matter, we must address whether *any* part of Columbia's requested revenue increase of approximately $110.497 million should be granted. As noted in Table 2, the instant base rate case represents the Company's thirteenth base rate proceeding since 2008.

Table 2: Summary of Columbia's Base Rate Proceedings since 2008

	Docket No.	Test Year Ending	Revenue Increase Requested (in millions)	Revenue Increase Awarded (in millions)	Percent of Requested Increase Awarded
1.	R-2008-2011621	September 30, 2008	$58.9	$41.5	70%
2.	R-2009-2149262	September 30, 2010	$32.3	$12.0	37%
3.	R-2010-2215623	September 30, 2011	$37.8	$17.0	45%
4.	R-2012-2321748	June 30, 2014	$77.3	$55.3	72%
5.	R-2014-2406274	December 31, 2015	$54.1	$32.5	60%
6.	R-2015-2468056	December 31, 2016	$46.2	$28.0	61%
7.	R-2016-2529660	December 31, 2017	$55.3	$35.0	63%
8.	R-2018-2647577	December 31, 2019	$46.8	$26.0	56%
9.	R-2020-3017206	December 31, 2021	$100.4	$63.5	63%
10.	R-2021-3024296	December 31, 2022	$98.3	$58.5	60%
11.	R-2022-3031211	December 31, 2023	$82.2	$44.5	54%
12.	R-2024-3046519	December 31, 2025	$124.1	$74.0	60%
	Total Increase Sought/Awarded between 2008 and 2024		**$813.7**	**$487.8**	**60%**
13.	R-2025-3053499	December 31, 2026	$110.50	--	

See OSBA M.B. at 5, Table IEc-1. Accordingly, the amount of revenue increase to award Columbia in the instant proceeding was a contentious issue among the Parties.

1. Positions of the Parties

Columbia asserted that its request for rate relief, in the form of a final requested increase in annual natural gas distribution operating revenues totaling approximately $110.444 million, was driven primarily by the substantial capital investment that the Company needs to replace at-risk, bare steel, ineffectually coated steel, and first-generation plastic pipe. According to Columbia, the Company has budgeted $312.7 million to replace facilities in 2025, and it projects a $343.7 million investment for plant replacement in 2026. While Columbia represented that it is cognizant of the impact that rate increases have on its customers, the Company also claimed that it undertakes substantial efforts to control capital costs and O&M costs. Columbia M.B. at 8; Columbia R.B. at 2. Columbia further argued that despite the evidence of the Company's substantial investments in infrastructure, and of prevailing market conditions that make it more expensive for Columbia to make these investments,

I&E and the OCA proposed inappropriate adjustments to the Company's requested increase in revenues. Columbia M.B. at 8-9. Columbia further contended that its proposed cost rate for common equity, 11.35%, discussed in Section X.D, *infra*, should be adopted to ensure that Columbia is able to continue to attract the capital investment necessary to successfully and timely execute its infrastructure improvement program. *Id*. at 9.

I&E recommended that the Company receive an increase of $78,643,542 in annual operating revenues. I&E M.B. at 15; I&E 1-SR at 4; I&E R.B. at 12. Alongside its recommended revenue increase, I&E noted that Columbia has consistently filed base rate cases, primarily to recover the capital cost of its pipeline infrastructure replacement program, which has consistently increased. Namely, I&E highlighted that in the past twelve years, Columbia has filed nine base rate cases, representing a filing frequency that is higher than any other regulated utility in Pennsylvania. I&E continued that when compared to the other Pennsylvania jurisdictional NGDCs, Columbia has the highest average monthly bill for a residential heating customer using 73.7 hundred cubic feet (ccf)/Month. Therefore, I&E also asserted that in setting a revenue increase and revenue requirement in this proceeding, the Commission should consider the impact any revenue increase will have on Columbia's customers in light of the Company's high frequency of filing base rate cases. I&E M.B. at 17-18.

The OCA proposed an annual decrease of approximately $36,316,933 to the Company's revenues. OCA M.B. at 28, 36; OCA R.B. at 3; OCA St. 2SR at 3, 4, 24-26; OCA Exh. DM-SR-1. The OCA argued that Columbia collects the highest revenue per unit of natural gas in the Commonwealth, and the highest for the twenty-five (25) NGDCs offering service in the mid-Atlantic region, surpassed only by NGDCs offering service to New York City. OCA M.B. at 36; OCA R.B. at 12; OCA Exh. MWD-7. Turning to the frequency of Columbia's rate cases, the OCA attributed the Company's high level of revenue to the fact that Columbia has requested a rate increase

ten times since 2009, including five rate increases since 2020. OCA M.B. at 36; OCA St. 5 at 7. According to the OCA, Columbia's continuously escalating rates are driving an affordability crisis in the Company's service territory, which is exacerbated by recent and current economic conditions. *Id*. at 37; *Id*. at 32-41.

Although the OCA agreed that Columbia is permitted to charge just and reasonable rates to allow the Company to properly function, the OCA averred that Columbia's proposals in this proceeding far exceed the rates required to meet the Company's service obligations. The OCA explained that while Columbia does bear an obligation to serve, 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. In exchange for its service obligations, the OCA stressed that Columbia does not face risks associated with the competitive market, which would not guarantee a captive customer base and the opportunity to earn, resulting in the bargained-for-exchange known as the regulatory compact. OCA M.B. at 38 (citing *Pittsburgh v. Pa. PUC*, 128 A.2d 372, 382-83 (Pa. Super. 1956)). However, the OCA averred that the regulatory compact imposes checks upon a utility to ensure that it does not abuse its monopoly franchise, including regulatory lag, or the time in between rate cases. The OCA contended that regulatory lag is a key component of the regulatory compact that requires a utility to be disciplined in how it incurs expenses and makes capital investment, and that Columbia's near-annual rate cases reduce the Company's discipline in spending and pursuit of cost-efficiencies. OCA M.B. at 38-39.

The OCA also maintained that no evidence indicates that Columbia is unable to earn sufficient revenue to comply with its service obligations or that, in the absence of revenue stability mechanisms, it is deprived of a reasonable opportunity to earn its authorized revenue requirement. Instead, the OCA contended that Columbia's revenue per customer has continued to increase over time, despite decreasing usage per

customer, demonstrating that revenues are not the problem and that any form of revenue cushion would make the Company whole for inefficiencies. OCA M.B. at 39 (citing OCA Exh. MWD-5; OCA St. 1 at 27-28). Moreover, the OCA claimed that Columbia's unchallenged billing determinants established that the Company's current customer and volumetric charge structure are sufficient to meet the Company's revenue requirement. OCA M.B. at 40-41. Finally, the OCA asserted that the Commission has a duty to protect Columbia's ratepayers from the Company's excessive rate increase request. Accordingly, the OCA insisted that it is appropriate for the Commission to order a *decrease* in annual operating revenues of $36.3 million in this proceeding. OCA M.B. at 41-42; OCA R.B. at 13.

The OSBA calculated that the instant proceeding is the Company's thirteenth base rate proceeding since 2008. Similar to I&E, *supra*, the OSBA continued that as a result of such frequent base rate filings, Columbia now has the highest residential and small commercial base rates of any NGDC under this Commission's jurisdiction. As such, the OSBA posited that the Company has failed to demonstrate that its overall capital spending plan is prudent. While the OSBA did not take an express position on whether, or to what extent, Columbia should be permitted to increase its rates, the OSBA submitted that, at a minimum, the Commission should: (1) award a return on equity (ROE) that is lower than that sought by Columbia; (2) 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; and (3) require Columbia to demonstrate that it has a long-term viable business as part of its next Long-Term Infrastructure Improvement Plan (LTIIP) filing. OSBA M.B. at 4-6.

CAUSE-PA opposed Columbia's requested rate increase in its entirety and argued that the Company failed to meet its burden of proof to demonstrate that its proposed rates, terms, and conditions in its requested rate filing are just, reasonable, and

in the public interest. On the contrary, CAUSE-PA argued, Columbia's existing rates are unjustifiably high, and the OCA's recommendation to decrease the Company's revenue requirement by $36,316,933 should be adopted. CAUSE-PA M.B. at 14, 19 (citing OCA St. 2-SR at 3). In support, CAUSE-PA contended, *inter alia*, that rates for essential utility services, necessary for the basic functions of life, are not just and reasonable if they are unaffordable for the population served. According to CAUSE-PA, tens of thousands of economically vulnerable, low income households in Columbia's service territory are priced out of the market for essential gas service. CAUSE-PA M.B. at 12. Similar to each of I&E, the OCA, and the OSBA, *supra*, CAUSE-PA stressed that Columbia has raised its rates nearly annually since 2008, resulting in distribution charges for an average residential heating customer increasing by 339%, from $53.39 to $181.15, since that time. As such, CAUSE-PA maintained that Columbia's rates are now "radically out of step" with other Pennsylvania NGDCs. *Id*. at 14 (citing CAUSE-PA St. 1 at 5; CAUSE-PA St. 2 at 5, 20-24).

2. Recommended Decision

As their primary recommendation,[7] the ALJs opined that the Commission should deny Columbia's proposed tariff supplement, and the associated proposed revenue increase of approximately $110.444 million, in its entirety and keep in place the Company's existing rates, charges, and provisions. R.D. at 2, 24. The ALJs broadly

[7] As thoroughly addressed, *infra*, the ALJs set forth an alternative recommendation in the event that the Commission disagreed with their recommended denial of Columbia's rate increase in its entirety. Under their alternative recommendation, the ALJs, *inter alia*, recommended that the Commission approve an overall revenue increase of $66,424,574. *See* R.D. at 2, 25. We further note that on page 2 of the Recommended Decision, the ALJs inadvertently noted a recommended increase of $66,424.574 (adding a decimal point rather than a comma). However, it is clear elsewhere in the Recommended Decision, including in the rate tables appended to the R.D., that under their alternative recommendation, the ALJs' recommended annual increase in revenues was $66,424,574.

concluded 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 Code. *Id*.

The ALJs' recommendation to deny Columbia's rate request in its entirety was prefaced by an overarching discussion of the regulatory compact. *See* R.D. at 112-13. Citing to the OCA's testimony, the ALJs indicated that the regulatory compact requires checks on utilities, 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. R.D. at 113 (citing OCA St. 1, at 9). Ultimately, the ALJs found that Columbia's requested rate increase is contrary to the public interest and will create unreasonable, unfair, and unjust rates. R.D. at 24.

According to the ALJs, no evidence in the record supports that Columbia will be unable to earn sufficient revenue to comply with its obligation to provide reliable, safe, and adequate service, absent the requested rate increase and revenue stability mechanisms. R.D. at 113-14. Instead, the ALJs concurred with the position of the OCA that despite usage per customer trends, the Company's revenue per customer has continued to increase over time. R.D. at 114 (citing OCA Exh. MWD-5). Additionally, the ALJs agreed with the OCA that Columbia's billing determinants established that the current customer and volumetric charge structure are sufficient to meet the Company's billing structure, which, the OCA contended, is all that is required for the Company to have a reasonable opportunity to recover its authorized revenue. R.D. at 114.

Finally, the ALJs opined that Columbia's requested rate increase threatened the long-term affordability and energy efficiency goals for customers, while reducing the incentives for the Company to be disciplined with expenses and investments. As part of their analysis, the ALJs noted, *inter alia*, that the Commission has a duty to consider the impact of rates on consumers. R.D. at 115 (citing *Hope Natural Gas*, 320 U.S. at 603).

The ALJs also stressed that this case is unique, in that several parties advocated for the Commission to deny Columbia's rate increase, or even to decrease existing rates, as many of Columbia's ratepayers are facing significant financial struggles. R.D. at 116. After considering evidence presented by Columbia, and by those opposing Columbia's proposed increase, including advocates and the customers who provided public input testimony indicating that the increase would not be affordable, the ALJs recommended that Columbia's requested rate increase be denied and that its existing rates be maintained. *Id*. at 116-18.

3. Columbia Exception No. 1, OCA Introductory Exception, and Replies

In its Exception No. 1, Columbia opposes the ALJs' "*sua sponte*" recommendation to award no rate increase,[8] and the Company avers that the recommendation is unsupported, is contrary to well-founded ratemaking principles, and would improperly deny the Company its constitutional right to an opportunity to earn a fair return. Columbia Exc. at 1, 4-6. At the outset, Columbia points to the Commission's Order entered in the Company's 2020 rate case, which reversed ALJ Katrina L. Dunderdale's recommendation in that proceeding to deny the Company's rate request, and held that it was improper to disregard the traditional ratemaking formula in the context of the COVID-19 pandemic. *Id*. (citing *Pa. PUC, et al. v. Columbia Gas of Pa.*, Docket Nos. R-2020-3018835, *et al*. (Order entered February 19, 2021) (*Columbia Gas 2021*)). Additionally, Columbia cites to the references by the opposing Parties and the ALJs as to the filing frequency of the Company's rate increases over the past approximately twenty years, and the Company argues that such references considered only the costs to customers and failed to reflect the value of Columbia's

[8] While Columbia opposes the ALJs' primary recommendation to deny the Company's rate increase in its entirety, the Company asserts that, when corrected to $74.2 million to correct a double-counting error, the ALJs' alternative recommendation to award a $66.4 million increase "is not unreasonable." Columbia Exc. at 3.

service. Columbia also points to the fact that since 2007, the Company has invested several billion dollars to replace 7.8 million feet of aged pipe, and that it will spend over $650 million more through the FPFTY, to the substantial benefit and safety of customers. *Id*. at 1-2, 6. Columbia claims that the ALJs' recommendation would have the Commission deny the Company any return on its FPFTY plant. *Id*. at 6. Additionally, Columbia emphasizes that it has not paid any dividends to its parent company, NiSource, over the past decade. *Id*. at 1-2.

Columbia also argues that the ALJs' alleged *sua sponte* recommendation to deny *any* rate relief would deprive the Company of a reasonable opportunity to present evidence and substantial argument on why it would be improper to disregard the traditional ratemaking formula in this proceeding. Columbia stresses that no Party submitted evidence or argument that the Commission should disregard the application of the traditional ratemaking formula, and that while the OCA recommended an annual revenue decrease for the Company, no Party argued that the traditional ratemaking formula should be abandoned. Columbia Exc. at 2. According to Columbia, the ALJs' recommendation to award no increase was expressly made to "balance the interests of the utility, the ratepayers, the investors, and the public interest" without applying the traditional ratemaking formula, producing an unconstitutional result. Columbia Exc. at 4. Citing to the Commission's rejection of the recommendation awarding no increase, issued in *Columbia Gas 2021*, the Company references the Commission's recognition of precedent establishing that a public utility is entitled to rates as would permit it to earn a return equal to that generally made on investments in other business undertakings involving similar risks. *Id*. at 4-5 (citing *Bluefield*, 262 U.S. at 692-93; *Hope Natural Gas*).

Further, citing to the Commission's reversal of the ALJ's recommendation to award the Company no rate increase during the early period of the COVID-19 pandemic in *Columbia Gas 2021*, the Company argues that "[n]o reasonable person could

contend that the current social and financial circumstances compare to the situation in 2020." Instead, Columbia asserts, there is no evidence of widespread inability to pay among Columbia's customers, or widespread unemployment in Columbia's service territory. Additionally, Columbia avers that while the Company does serve low income customers who have difficulty paying their bills, the ALJs failed to consider the broad array of programs that the Company offers to assist payment-troubled customers. Columbia Exc. at 5.

Furthermore, Columbia contests the ALJs' assertion that there is no evidence that the Company would be unable to earn sufficient revenues to comply with its obligations to provide reliable, safe, and adequate service without rate relief. Columbia Exc. at 6 (citing R.D. at 113). Columbia avers that the ALJs' alleged *sua sponte* rejection of the traditional ratemaking formula deprives Columbia of the opportunity to develop evidence of the effect that rejection would have upon the Company's ability to meet service obligations, and to its constitutional rights to a fair return. Columbia Exc. at 6. Columbia cites to *Columbia Gas 2021* in which the Company was provided with an opportunity to present expert testimony regarding how disregarding the traditional ratemaking proposals would be unconstitutionally confiscatory and would produce results incapable of reasoned appellate review; however, the Company claims that it was denied that opportunity in this case. *Id*. at 6-7. In an additional claim, Columbia argues that the Commission recently rejected the disposition of a case based upon an issue that was raised, *sua sponte*, whereby the Commission concluded that the presiding ALJ in that proceeding erred in introducing a theory that was not raised by any Party and in recommending the disposition of a non-jurisdictional issue without the opportunity for parties to brief or argue the issue. *See* Columbia Exc. at 6-7 (citing *Application of Aqua Pennsylvania Wastewater, Inc.* [*Application to Acquire the Wastewater System Assets of the City of Beaver Falls*], [Docket No. A-2022-3033138] 2025 Pa. PUC LEXIS 205, at * 61-65 (Opinion and Order entered June 18, 2025) (*Aqua/Beaver Falls*)).

Finally, Columbia contends that the ALJs' recommendation, that no increase be awarded, would deny Columbia an opportunity to earn a fair return under the *Bluefield* and *Hope Natural Gas* constitutional standards, noting that if the Commission directed that no increase be permitted, this would afford the Company an overall rate of return of only 6.85%. Columbia Exc. at 7. According to Columbia, a Commission decision rejecting a rate increase in its entirety would send shock waves through the financial community and would create a strong disincentive for investors to commit new investment capital to regulated utility companies in Pennsylvania. *Id*. at 7-8 (citing Columbia St. 8-R at 10-11). In conclusion, Columbia asserts that the ALJs' recommended rejection of *any* rate increase for the Company should be reversed because it is contrary to the law and to the evidence of record. Columbia Exc. at 8.

In direct contrast to Columbia, in its introduction to Exceptions, the OCA supports the ALJs' primary recommendation to deny the Company's entire rate increase request but wholly opposes the ALJs' alternative recommendation to award a $66.424 million revenue requirement increase to the Company. The OCA avers that in the event that Columbia is granted a rate increase, the OCA's recommended adjustments, including, *inter alia*, depreciation adjustments, removal of inflation/deflation adjustments to certain rate base and expense items, and tax adjustments should be adopted by the Commission. OCA Exc. at 2.[9]

In its Replies to Columbia's Exception No. 1, I&E asserts that Columbia erroneously argues that the ALJs disregarded the traditional ratemaking formula. In addition, I&E disputes the Company's claims that the ALJs reached a determination that is unconstitutional and contrary to the record. I&E R. Exc. at 2-3 (citing Columbia Exc. at 3). I&E also contests Columbia's claim that a Commission decision rejecting

[9] We note that the OCA's arguments here are set forth in the introduction section of the OCA's Exceptions and do not pertain exclusively to any of the OCA's individual Exceptions thereto.

any rate increase in its entirety would send shockwaves through the community, as I&E instead contends that Columbia's rates, compounded by twelve approved rate increases in excess of $487 million since 2006,[10] could arguably result in shockwaves for the ratepaying public. I&E R. Exc. at 3-4. Additionally, I&E maintains that the ALJs correctly concluded that Columbia failed to meet its burden of proof that, *inter alia*, the proposed rate increase would be in the public interest and would result in just and reasonable rates consistent with the Code. Therefore, according to I&E, the ALJs properly recommended that the Commission deny Columbia's rate increase and keep in place the rates, charges, and provisions that were previously approved. *Id*. at 3 (citing R.D. at 2).

In its Replies to Columbia's Exception No. 1, the OCA argues that the ALJs properly exercised the appropriate discretion in determining that Columbia failed to meet its burden of proof to support a general rate increase. In support, the OCA points to the Commission's decision in *Columbia Gas 2021*, and asserts that in that case, the Commission expressly dismissed the Company's argument that divergence from the "ratemaking formula" is unconstitutional. OCA R. Exc. at 2 (citing *Columbia Gas 2021* at 44). According to the OCA, the Commission previously and properly concluded that there is no binding ratemaking formula. OCA R. Exc. at 2 (citing *Popowsky 1996*, 683 A.2d at 961). Instead, the OCA avers, the Commission has broad ratemaking discretion and can make rate determinations that are consistent with applicable law and supported by substantial evidence. OCA R. Exc. at 2 (citing *Popowsky 1996*; *Popowsky v. Pa. PUC*, 665 A.2d 808, 812 (Pa. 1995) (*Popowsky 1995*)).

The OCA also disputes Columbia's claim that the ALJs' determination to recommend that the Commission deny the requested rate increase in its entirety was

[10] As noted in Table 2, *supra*, the instant proceeding is the thirteenth filed since 2008.

made *sua sponte*. Claiming that the record included "substantial evidence" that a rate *decrease* was warranted, the OCA avers that Columbia presented evidence on that issue. Although Columbia was provided with an opportunity to present evidence to meet its burden of proving that a rate increase would result in just and reasonable rates, the OCA argues that the ALJs properly determined that the Company failed to meet that burden. OCA R. Exc. at 2-3.

Moreover, the OCA claims that substantial record evidence supports a finding that absent any rate increase, Columbia would still be able to earn a reasonable return on investment. Specifically, the OCA alleges that Columbia's resulting ROE of 8.22%, without any rate increase, is within the range of credible expert opinions on what constitutes a reasonable ROE. OCA R. Exc. at 3. The OCA further avers that the determination of an allowable ROE which satisfies the constitutional standards of *Bluefield* and *Hope Natural Gas* is not bound solely to an expert's cost of capital analysis and can also consider other ratemaking considerations, such as quality of service and affordability. *Id*. (citing *Pittsburgh v. Pa. PUC*, 126 A.2d 777, 784-85 (Pa. Super. 1956); *Bluefield*, 262 U.S. at 692-93; *Hope Natural Gas*, 320 U.S. at 603; *Pa. PUC, et al. v. Twin Lakes Utilities, Inc*., Docket No. R-2019-3010958 (Opinion and Order entered March 26, 2020) at 48, 80). The OCA concludes by asserting that by adopting the ALJs' primary recommendation to deny Columbia's requested rate increase in its entirety, the Commission has the opportunity to alleviate ratepayers' concerns about affordability and undisciplined spending and rate requests. OCA R. Exc. at 4 (citing *Pa. PUC v. Roaring Creek Water Co.*, 73 Pa. P.U.C. 373, 400 (1990)).

In its Replies to Columbia's Exception No. 1, CAUSE-PA, likewise, disputes Columbia's claim that the ALJs' recommended the rejection of the Company's proposed rate increase "*sua sponte*" without applying the "traditional ratemaking authority." CAUSE-PA R. Exc. at 2. Instead, CAUSE-PA asserts, there is "not a shred of law or policy" to support the existence of a traditional ratemaking formula, and that the

Commission's discretion "imports a flexibility in the exercise of a complicated regulatory function." CAUSE-PA R. Exc. at 3 (citing CAUSE-PA M.B. at 6; *Popowsky 1995*, 665 A.2d at 812). CAUSE-PA explains that the Commission's fundamental job in setting just and reasonable rates is "to restrain the monopolistic tendencies of utilities—ensuring that service is accessible to all customers while providing a utility the *opportunity* to recover prudent and reasonable costs and earn a fair rate of return." CAUSE-PA R. Exc. at 3 (citing CAUSE-PA M.B. at 5-6; *Pa. Gas & Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975); *Hope Natural Gas*, 320 U.S. at 603) (emphasis in original).

CAUSE-PA also argues that Columbia has simply failed to satisfy its burden to establish the justness and reasonableness of each element of its requested rates, based on substantial record evidence. CAUSE-PA R. Exc. at 3 (citing CAUSE-PA M.B. at 11; 66 Pa.C.S. §§ 315(a); 1308(a)). CAUSE-PA contends that there is ample record evidence that Columbia's rates should be *decreased*, and that the ALJs' basis for recommending the rejection of the proposed increase in its entirety was far from "*sua sponte*." CAUSE-PA R. Exc. at 2-3 (citing OCA M.B. at 28, 42-43). Specifically, CAUSE-PA points to evidence including, *inter alia*, that Columbia's rates are already the highest among Pennsylvania's NGDCs, while customers face energy insecurity, and to public input testimony provided by Columbia's customers. CAUSE-PA R. Exc. at 3-4 (citing R.D. at 117; CAUSE-PA M.B. at 18-22; Tr. at 216-18).

Furthermore, CAUSE-PA contests Columbia's reliance upon *Columbia Gas 2021* to argue that the ALJs' recommended denial of any rate increase in this case should also be overturned. CAUSE-PA R. Exc. at 4 (citing Columbia Exc. at 4-5). CAUSE-PA maintains that this instant proceeding is distinguishable from *Columbia Gas 2021,* whereby the ALJ in that proceeding recommended denying Columbia's requested increase based solely on the acute economic hardship associated with the COVID-19 pandemic. In CAUSE-PA's view, the ALJs' recommended denial of any increase in this instant proceeding is based upon "a broader review of all relevant

factors and more detailed balancing of interests." CAUSE-PA R. Exc. at 4 (citing R.D. at 112-18).

Additionally, CAUSE-PA disputes Columbia's claims that the Company's rates are "substantially the same as 20 years ago," when adjusted for inflation, because CAUSE-PA argues that the Company's claim conflates the total bill with the distribution bill to distort the period of low commodity prices to mask the rate impact. CAUSE-PA R. Exc. at 4 (citing Columbia Exc. at 5; CAUSE-PA M.B. at 22-25). In reality, CAUSE-PA asserts, Columbia's distribution rates for average heating customers have increased 121%, from $47.58 in 2005 to $105.09 in 2025, at proposed rates. CAUSE-PA R. Exc. at 4 (citing CAUSE-PA M.B. at 22-25). Noting that Columbia has filed twelve rate cases since 2005,[11] resulting in distribution rate increases of more than $487 million, CAUSE-PA urges the Commission to adopt the ALJs' "well-supported recommendation" that Columbia's base rate increase be rejected, and that the Commission deny the Company's Exception No. 1. CAUSE-PA R. Exc. at 4 (citing CAUSE-PA M.B. at 24).

4. Disposition

We will grant, in part, and deny, in part, Columbia's Exception No. 1. While we agree with Columbia that the ALJs erred in their primary recommendation to deny the Company's rate increase request in its entirety, we disagree with Columbia's claim that the ALJs erred by making a *sua sponte* recommendation and by rejecting the use of a "traditional ratemaking formula." As more fully set forth below, we shall reject both the ALJs' primary recommendation to completely deny Columbia's requested rate relief, as well as their alternative recommendation to award Columbia a $66.4 million

[11] As previously noted in Table 2, *supra*, the instant proceeding is the thirteenth filed since 2008.

increase in annual revenues,[12] because we find that there is a lack of substantial evidence to support either of the ALJs' revenue recommendations.[13] As discussed in Section VI.B, *infra*, our review of the record concludes with the determination that Columbia has met its burden of proof to establish that an increase in annual operating revenues of $55,627,800 is warranted in this case.

As noted throughout the Parties' Briefs and Exceptions, we begin our disposition by acknowledging that in 2021, the Commission previously declined to adopt another ALJ's recommendation to completely deny Columbia's rate request based upon the impact of the COVID-19 pandemic. *See Columbia Gas 2021* at 50-51. We also acknowledge that this instant case is distinguishable in that the ALJs' recommendation to deny Columbia's rate increase request is not predicated upon the impact of the COVID-19 pandemic, but upon their determination that Columbia failed to meet its burden of proof that the proposed rate increase is in the public interest and will result in just and reasonable rates consistent with the Code. R.D. at 2, 24. Nevertheless, the appliable law and standards that the Commission applied in *Columbia Gas 2021* remain the same and apply in this case as well. In *Columbia Gas 2021*, the Commission provided a comprehensive discussion of its ratemaking discretion and of the standards and precedent that govern the Commission's review of utility rate increase requests, and we incorporate that discussion into this case. *See Columbia Gas 2021* at 42-50. While for purposes of brevity, we will not reiterate the Opinion and Order's entire discussion of the governing standards and precedent underlying the Commission's ratemaking review

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[12] As noted above, Columbia did not except to the ALJs' alternative recommendation, and that the Company opined that the "alternative recommendation is not unreasonable in the context of the rate concerns expressed in the RD, if, as explained below, a double counting error is corrected." Columbia Exc. at 3. Columbia alleges that when the double-counting error is corrected, the ALJs' alternative recommendation amounts to an approximately $74.2 million revenue increase. *Id*.

[13] By extension, we shall also grant the OCA's introductory Exception, in part, and deny it, in part, on these same grounds.

authority and obligations from *Columbia Gas 2021*,[14] a few salient points are repeated here in response to the Parties' arguments.

a. The Commission is not Bound by a Prescribed Ratemaking Formula

In *Columbia Gas 2021*, the Commission expressly rejected the notion that there is a prescribed "ratemaking formula" that the Commission must adhere to when determining just and reasonable rates. *Columbia Gas 2021* at 44. On the contrary, the Commission cited the fact that it "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." *Id*. (citing *Popowsky 1996*, 683 A.2d at 961).

The Commission also acknowledged the existence of a set of ratemaking norms, or traditional ratemaking methodologies,[15] that have developed over time and

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[14] In addition to the comprehensive discussion of the Commission's ratemaking discretion, authority, and obligations included on pages 42-50 of *Columbia Gas 2021*, this Opinion and Order also includes an overarching discussion of legal standards for this proceeding. *See* Section IV.A, *supra*.

[15] In *Columbia Gas 2021*, the Commission generally identified traditional ratemaking methodologies as follows:

> [a] utility's cost of service, or revenue requirement, is determined typically through the examination of the following two main components: (1) the allowed total expense claim, plus (2) the allowed return on investment. The allowed total expense claim typically includes the utility's operating expenses, depreciation expense, and taxes that are found to be prudent, reasonably necessary, and fully substantiated in the FPFTY. The allowed return on investment is typically determined by multiplying the utility's allowed rate base claim by the fair rate of return. The allowed rate base claim is typically found to be the net plant (gross plant less accumulated depreciation) plus any other

which have been consistently used by parties to rate cases before the Commission to determine the appropriate level of a utility's requested revenue increase in accordance with all applicable legal and constitutional standards. At the same time, the Commission rejected Columbia's notion that the Commission's "continued use of these traditional ratemaking methodologies to determine the utility's cost of service somehow inherently limits our consideration and weighing of important factors or principles in setting just and reasonable rates, such as quality of service, gradualism, and rate affordability. . . ." *Columbia Gas 2021* at 46-47. The Commission clarified that in the extraordinary circumstances in place during the COVID-19 pandemic, as well as in normal circumstances, ratemaking norms permit the consideration and weighing of important factors such as quality of service, gradualism, and rate affordability. *Id.* at 48.

Importantly, the Commission also acknowledged that the legal standards for ratemaking require the Commission to do more than adhere to a traditional ratemaking methodology to the exclusion of all other considerations. Specifically, the Commission cited its obligation "to balance between the interests of the utility's customers, investors, and the public interest," which it interpreted as additionally requiring the Commission "to weigh evidence or unique considerations related to changes in service, market forces, and the economy." *Columbia Gas 2021* at 48.

> capital items reasonably necessary to provide utility service funded with investor capital, as fully substantiated in the FPFTY.

Columbia Gas 2021 at 47 (internal citations omitted)(traditional ratemaking formula). Although Columbia, in its Exception No. 1, does not define what the Company refers to as "the traditional revenue requirement formula" it appears that the Company is referencing the traditional ratemaking formula described herein. *See* Columbia Exc. at 1-4, 6.

b. The Factor of Risk in Determining a Utility's Cost of Capital

Additionally, the Commission's Opinion and Order in *Columbia Gas 2021* included a discussion of ratemaking norms governing a utility's fair rate of return and the inherent factor of risk. Specifically, the Commission recognized, *inter alia*, that in *Bluefield*, the U.S. Supreme Court stated that a fair return on rate base is one that is "equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties…" *Columbia Gas 2021* at 49 (citing *Bluefield*, 262 U.S. at 692-93). Moreover, the Commission cited that the "return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks." *Columbia Gas 2021* at 49 (citing *Hope Natural Gas*, 320 U.S. at 603). The Commission also acknowledged that "[w]hen determining the cost of capital, the [Commission] must 'give consideration to the utilities financial structure, credit standing, dividends, interests, risks, regulatory lag, wasting assets and any peculiar features of the utility involved.'" *Columbia Gas 2021* at 49 (citing *West Penn Power v. Pa. PUC*, 607 A.2d 1132, 1135 (Pa. Cmwlth. 1992) (*West Penn*)).

c. Columbia's Claims Regarding Due Process

As previously stated, in reaching our determination, it is important to note that while we disagree with the ALJs' primary recommendation to deny Columbia's rate increase request in its entirety, we likewise disagree with Columbia that the ALJs' recommendation was raised "*sua sponte*." We also disagree with Columbia's claim that the ALJs' alleged disregard for the "traditional ratemaking formula" was unconstitutional. *See* Columbia Exc. at 1, 6-8.

At the outset, we shall reject Columbia's claim that the Company was denied an opportunity to develop evidence of the effect of the ALJs' primary

recommendation to deny the Company's requested rate increase. *See* Columbia Exc. at 6. On the contrary, the record in this case included the OCA's position, and supporting evidence, arguing that Columbia's rate increase should not only be denied, but that the Company's rates should also be decreased. OCA M.B. at 28, 36; OCA R.B. at 3; OCA St. 2SR at 3, 4, 24-26; OCA Exh. DM-SR-1. In turn, Columbia responded to the OCA's arguments and claims by offering expert testimony and other evidence seeking to refute the OCA's recommendation. Columbia M.B. at 6; Columbia St. 11-R at 1-3; Columbia St. 18-R at 10-18. Thus, we agree with the OCA that Columbia was provided with an opportunity to present evidence to meet its burden of proving that a rate increase would result in just and reasonable rates, and that the Company availed itself of that opportunity. *See* OCA R. Exc. at 2-3.

Notwithstanding Columbia's litigation against the OCA's recommended rate decreases, it is important to recognize that Columbia is not automatically entitled to any level of rate increase simply by virtue of filing a request to increase its rates. Instead, Columbia, in proposing any increase in rates, bears the burden of proof to show that the rate involved is just and reasonable. *See* 66 Pa.C.S. § 315; *City of Lancaster*; *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1153 (Pa. Cmwlth. 1996) (*Popowsky II 1996*). Additionally, Columbia is required to present substantial evidence to meet its burden of proof. *McCloskey v. Pa. PUC*, 225 A.3d 192, 196 (Pa. Cmwlth. 2020) (*McCloskey 2020*). Thus, contingent upon meeting the requisite burden of proof, Columbia, like any jurisdictional utility seeking a rate increase, faces a range of outcomes in the proceeding, including the possibility that the utility's entire increase may be denied. *See National Utilities, Inc. v. Pa. PUC*, 709 A.2d 972, 979 (Pa. Cmwlth. 1998) (*National Utilities*) (holding that the Fifth and Fourteenth Amendments to the U.S. Constitution were not violated when a public utility was denied a rate increase when it failed to provide adequate service to the public, even if the result was a rate of return less than it would otherwise be entitled to receive).

We acknowledge Columbia's litigation against the OCA's recommended rate decrease, the existence of the OCA's recommendation, and Columbia's response thereto. However, these are not determinative on the issue of due process in this base rate proceeding. The Commission is "vested with discretion to decide what factors it will consider in setting and evaluating a utility's rates." *McCloskey 2020*. The Commission's ratemaking authority should not be construed as being limited to the revenue recommendations made by parties participating in base rate cases, and it is important to recognize that Columbia's burden of proof in this rate proceeding existed irrespective of any revenue recommendations made by the Parties.

In a similar vein, we also find Columbia's reliance upon the Commission's recent decision in the *Aqua/Beaver Falls* proceeding to be misplaced. *See* Columbia Exc. at 6-7. We vacated the ALJ's Recommended Decision in the *Aqua/Beaver Falls Acquisition* case because, *inter alia*, the ALJ raised an issue, *sua sponte*, after the closing of the record and without notice to the parties, invoking concerns of fundamental fairness and due process. *Aqua/Beaver Falls* at 70-71.[16] As explained, *infra*, fundamental fairness and due process concerns do not exist in this base rate proceeding, where Columbia's burden requires the Company to prove, by way of substantial evidence, that it

[16] *Aqua/Beaver Falls* is distinguishable from this proceeding. In *Aqua/Beaver Falls*, the presiding ALJ interpreted an essential term of a settlement provision as being violative of Section 1329(c)(2) of the Code, 66 Pa.C.S. § 1329(c)(2), without any prior notice to the parties. No party raised this argument during the proceeding and thus there was no opportunity to address any arguments pertaining to it. Nonetheless, the presiding ALJ found this settlement provision to be illegal and recommended the complete rejection of the entire settlement as being void and unenforceable in the Recommended Decision and after the close of the record. *Aqua/Beaver Falls* at 69. In contrast here, there are no similar concerns of fundamental fairness and due process which would require us to vacate the Recommended Decision and to possibly order a remand to address any arguments not previously considered. As discussed, *supra*, it is evident in this proceeding that the Parties have had the full opportunity to present evidence and to address the panoply of arguments about the Company's rate request and the arguments advocating for a rate decrease. Accordingly, we find Columbia's reliance on *Aqua/Beaver Falls* for support of its purported due process claims to be without merit.

is entitled to *any* level of the requested revenue increase. In this case, the ALJs determined, *inter alia*, that Columbia failed to meet its burden of proof that the proposed rate increase is in the public interest and will result in just and reasonable rates, consistent with the Code. R.D. at 2, 24.

Although we agree with Columbia that the ALJs' recommendation to deny Columbia's entire rate increase request differs from the Commission's decision in *Columbia Gas 2021*, whereby the recommended denial was consistent with the parties' litigation positions, we do not find that difference to be determinative. *See* Columbia Exc. at 6. While we disagree with the ALJs' primary recommendation to deny Columbia's rate request in its entirety, their recommendation was within the realm of possible outcomes for this case. Accordingly, we conclude that the ALJs did not, *sua sponte*, inject an issue into the instant base rate case that deprived Columbia of fundamental fairness and due process.

Finally, we disagree with Columbia that the ALJs' alleged disregard for the "traditional ratemaking formula" was unconstitutional. *See* Columbia Exc. at 1, 6-8. As thoroughly explained above, precedent establishes that the Commission is not bound by a prescribed ratemaking formula; accordingly, there is no constitutional requirement that the Commission adhere to a particular ratemaking paradigm. Although our analysis and determination of the appropriate rates for Columbia in this proceeding employs a "traditional ratemaking" framework, it does not disturb our previous determination that continued use of such methodologies does not inherently limit our consideration and weighing of factors in setting just and reasonable rates, including quality of service, gradualism, and rate affordability. *See Columbia Gas 2021* at 46-47. To that end, we agree with the OCA that the Commission is not bound by a ratemaking formula, and that Columbia's claims to the contrary disregard established precedent. OCA R. Exc. at 2 (citing *Popowsky 1996*, 683 A.2d at 961; *Popowsky 1995*, 665 A.2d at 812; *Columbia Gas 2021* at 44).

d. Columbia's Revenue Requirement

As we indicated, *supra*, we decline to adopt the ALJs' primary recommendation to deny Columbia's base rate request in its entirety, and to keep in place the rates, charges, and provisions that have previously been approved. *See* R.D. at 24. The ALJs' recommendation was based, *inter alia*, upon their conclusion that no evidence supported that Columbia would be unable to earn sufficient revenue to comply with its obligation to provide reliable, safe, and adequate service, absent the requested rate increase and revenue stability mechanisms. R.D. at 113-14. We disagree.

In their underlying analysis, the ALJs pointed to evidence that focused on the impact of Columbia's rate increases over time, including their recognition that the Company's revenue per customer has continued to increase over time. *See* R.D. at 114 (citing OCA Exh. MWD-5). Additionally, the ALJs pointed to their agreement with the OCA that Columbia's billing determinants establish that the current customer and volumetric charge structure are sufficient to meet the Company's billing structure. The ALJs opined that billing determinants' demonstrated sufficiency "is all that is required for the Company to have a reasonable opportunity to recover its authorized revenue." R.D. at 114.

Although we agree with the ALJs that Columbia's revenue per customer has continued to increase over time, metrics such as revenue per customer and billing determinants may not be viewed in a vacuum, and they are not determinative of just and reasonable rates for Columbia. While determining just and reasonable rates for Columbia does not require the Commission to adhere to a prescribed ratemaking formula, such an evaluation does require the Commission to carefully consider the underlying record, including resolving conflicts in testimony and weighing evidence presented before it. *Duquesne Light Co. v. Pa. PUC*, 643 A.2d 130, 135 (Pa. Cmwlth. 1994).

Additionally, the Commission's determination of whether rates are reasonable is also based on whether the utility receives a fair rate of return. *National Utilities*. We find that the ALJs' recommendation to completely deny Columbia's rate increase is inconsistent with the Commission's obligations to weigh the record evidence and to provide Columbia with a fair rate of return. As thoroughly set forth in the remainder of our disposition, our review of the record evidence concludes with the determination that Columbia met its burden of proof that a revenue increase of $55,627,800 is warranted to enable the Company to comply with its obligation to provide reliable, safe, and adequate service.

Although we decline to adopt the ALJs' recommendation to completely deny Columbia's rate increase request, we agree with the ALJs that the Commission has a "duty to set 'just and reasonable' rates, reflecting a balance of consumer and investor interests." *See* R.D. at 114-15 (citing *Popowsky 1995*, 665 A.2d at 811; 66 Pa.C.S. § 1301). Significantly, the ALJs prefaced their recommendation to deny Columbia's rate request by restating the OCA's explanation of the regulatory compact and of the importance of regulatory lag, or the time between the incurrence of an expense or investment and the time it appears in rates. The ALJs indicated that the regulatory compact requires that checks be placed on utilities for the purposes of, *inter alia*, "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." R.D. at 113 (citing OCA St. 1 at 9). In their consideration of the Parties' overall positions on Columbia's proposed rate increase, the ALJs found that "[r]egulatory 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." R.D. at 30; FOF No. 31 (citing OCA St. 1 at 14).

In their Recommended Decision, the ALJs also considered the fact that Columbia has requested a rate increase ten times since 2009, including five rate increases

since 2020. R.D. at 30; FOF No. 29.[17] Columbia also acknowledged that it has "sought multiple increases since 2008" and that its rates are higher than peer gas utilities in Pennsylvania. *See* Columbia Exc. at 5. Our disposition in this case necessarily considers evidence of the impact of Columbia's nearly annual filing of base rate cases upon both consumer and investor interests. Consistent with our obligations to consider regulatory lag in the context of determining a utility's cost of capital, and to evaluate a utility's ROE commensurately with returns on investment in other enterprises having corresponding risks, we find that Columbia's virtual elimination of regulatory lag makes the Company less risky than other similarly situated NGDCs. *See West Penn*, 607 A.2d at 1135; *Hope Natural Gas*, 320 U.S. at 603.

Multiple parties offered evidence and arguments on the impact that Columbia's frequently filed rate cases have had upon consumers. I&E presented evidence to demonstrate the impact to the Company's rates by way of a comparison to other jurisdictional NGDCs: National Fuel Gas Distribution Corporation (National Fuel Gas), Peoples Natural Gas Company LLC (Peoples), UGI Utilities Inc.-Gas Division (UGI Gas), PECO Energy Company-Gas Division (PECO Gas), and Philadelphia Gas Works (PGW). I&E St. 2 at 9. I&E compared the average monthly bills of these NGDCs' residential heating customers at 73.7 ccf/month and determined that Columbia's average bill of $151.27 per month was significantly higher than the next highest NGDC bill, PGW's monthly bill of $121.74, and dramatically higher than National Fuel Gas at a monthly bill of $71.00. Additionally, I&E noted that its analysis of Columbia's average bill of $151.27 did not consider the $15.77 increase proposed in this case. *Id*. I&E argued that Columbia has the highest rate case filing frequency of any regulated utility in

[17] We note that including the instant proceeding, the Company has requested a rate increase twelve times since 2009: 2009, 2010, 2012, 2014, 2015, 2016, 2019, 2020, 2021, 2022, 2024, and now 2025. *See* OCA St. 5 at 7; OSBA M.B. at 5, Table IEc-1; Table 2, *supra*. Further, as noted in Table 2, the instant rate proceeding is the Company's thirteenth since 2008.

Pennsylvania, and I&E stressed that the Commission should consider the impact that any revenue increase would have on the Company's customers in light of the Company's high filing frequency of base rate cases. I&E St. 2 at 10; I&E M.B. at 17-18.

The OCA submitted that Columbia collects the highest revenue per unit of natural gas in the Commonwealth, and the highest for the twenty-five (25) NGDCs offering service in the mid-Atlantic region, surpassed only by NGDCs offering service to New York City. OCA M.B. at 36; OCA R.B. at 12; OCA Exh. MWD-7. The OCA attributed the Company's high level of revenue to the fact that Columbia has requested a rate increase ten times since 2009, including five rate increases since 2020. OCA M.B. at 36; OCA St. 5 at 7.[18] According to the OCA, Columbia's continuously escalating rates are driving an affordability crisis in its service territory, which is exacerbated by recent and current economic conditions. *Id*. at 37; *Id*. at 32-41. The OSBA contended that as a result of such frequent base rate filings, Columbia now has the highest residential and small commercial base rates of any NGDC under the Commission's jurisdiction. CAUSE-PA stressed, *inter alia*, that Columbia has raised its rates nearly annually since 2008, resulting in distribution charges for an average heating customer increasing by 339%, from $53.39 to $181.15, since that time. CAUSE-PA M.B. (citing CAUSE-PA St. 1 at 5; CAUSE-PA St. 2 at 5, 20-24).

Columbia explained that the Company is filing this base rate case using an FPFTY, as authorized under 66 Pa.C.S. § 315, in order to provide itself with a reasonable opportunity to recover its investment in its distribution system and its operation and maintenance expenditures. Columbia St. 1 at 5-6. Columbia indicated that "[c]onsistent with prior cases, the primary driver for this filing is Columbia's significant investment to modernize its distribution system through the replacement of

[18] As previously noted, including the instant proceeding, this is the twelfth base rate case that Company has filed since 2009. Additionally, as noted in Table 2 above, this instant rate proceeding is the Company's thirteenth since 2008.

pipe and related appurtenances that are reaching the end of their useful lives." *Id.* at 4. Columbia submitted that the ALJs and other Parties' references to the frequency of the Company's rate increases since 2006 considered only the costs to customers and failed to reflect the value of Columbia's service. Columbia Exc. at 1. As noted, *supra*, Columbia pointed to the fact that since 2007, the Company has invested several billion dollars to replace 7.8 million feet of aged pipe, and that it will spend over $650 million more through the FPFTY ending December 31, 2026, to the substantial benefit and safety of customers. *Id*. at 1-2, 6. While Columbia acknowledged the impact that rate increases have on its customers, the Company also claimed that it undertakes substantial efforts to control capital costs and O&M costs. Columbia M.B. at 8; Columbia R.B. at 2.

As part of our obligation to balance between the interests of the utility's customers, investors, and the public interest in this case, we carefully considered all record evidence in determining an overall revenue increase and revenue requirement for Columbia. *See* Section VI.B, *infra*. With respect to our obligation to consider the interest of Columbia's investors, our revenue requirement determination for the Company is designed to ensure that the Company can meet its service obligations and that the Company is provided with a reasonable opportunity to earn a fair rate of return. In turn, with respect to our obligation to consider Columbia's customers and the public interest, we considered Columbia's unique lack of regulatory lag and the commensurate impact of the Company's nearly annual rate increases upon customers' rates as part of our determination to make a downward adjustment to the Company's cost of equity. As more thoroughly explained in Section X.D.3, *infra*, where we establish a rate of return of 10.00% on Columbia's common equity based upon, *inter alia*, our determination to average two of I&E's ROE calculation methods, we further find that our downward adjustment to the Company's requested ROE is also appropriate to recognize the mitigated business risk that the Company experiences.

While we find that rate recognition of Columbia's mitigated business risk is appropriate in this case, our determination should not be construed as compromising or disincentivizing the Company's robust accelerated infrastructure repair and replacement program. We recognize the reality that the primary driver for Columbia's rate filing is related to the Company's continued investment modernizing its distribution system through the replacement of infrastructure that is reaching the end of its useful life. Columbia St. 1 at 4-5.[19] To be sure, unrefuted evidence in this case demonstrates that since 2007, Columbia has invested billions of dollars to replace infrastructure, including over 7.8 million feet of bare steel, cast iron, wrought iron, pre-1971 coated steel, and pre-1982 pipe. Columbia St. 9-R at 31; Columbia St. 14 at 3. In 2024 alone, Columbia replaced 83 miles of bare steel and wrought iron pipe, 13 miles of pre-1982 plastic pipe, and 21 miles of pre-1971 coated steel pipes, for a total of 117 miles. Columbia St. 1 at 17-18. Columbia's commitment to repairing and replacing aging infrastructure is reflected in the fact that the Company has budgeted $312.7 million to replace facilities in 2025, and it projects a $343.7 million investment for plant replacement in 2026. Columbia St. 7 at 4.

Although we agree with Columbia that its projected infrastructure repair and replacement budget is consistent with the budget identified in the Company's current Commission-approved LTIIP for January 1, 2023 through December 31, 2027, it is important to recognize that our disposition of this matter does not modify that budget. *See* Columbia Exc. at 1-2; Columbia St. 1-R at 13-14. As Columbia correctly indicated, the Company's current LTIIP projected an annual replacement budget within the bounds of Columbia's projected spend reflected in this case. *See Petition of Columbia Gas of Pennsylvania, Inc. for Approval of its Third LTIIP*, Docket No. P-2022-3037388

[19] We encourage the Company to continue to modernize its systems and replacing of pipes. As more fully discussed later in this Opinion and Order, we remind and encourage the Company to utilize the distribution system improvement charge (DSIC) for pipeline replacement.

(Opinion and Order entered April 20, 2023) at 17 (projecting an average capital spend of $370.8 million per year).

We reinforce that nothing in our disposition of this proceeding should be interpreted to modify our approval of Columbia's LTIIP or to jeopardize the Company's ability to meet the targets identified therein. Importantly, we note that while Columbia has continually made the decision to recover its infrastructure repair and replacement costs through base rate cases, the Company is also aware of and should utilize the opportunity to recover such costs through a DSIC. *See* Columbia St. 1 at 6.

We agree with the ALJs that, in conjunction with its use of a FPFTY period to project expenses, Columbia has the opportunity to implement a DSIC in between rate cases to ensure that regulatory lag will not affect plant investment related to safety and reliability. *See* R.D. at 113 (citing 66 Pa.C.S. § 1353). By way of further context, Act 11 of 2012 (Act 11), which was enacted *via* Pennsylvania House Bill 1294 (HB 1294 (P.N. 3007) on February 14, 2012, *inter alia*, amended Chapters 3 and 13 of the Code in order to reduce regulatory lag. Under Act 11, utilities became authorized to use an FPFTY to meet their burden of proof in rate cases, and certain jurisdictional utilities became eligible to request permission to implement a DSIC. *Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Final Implementation Order entered August 2, 2012) at 4. With respect to the DSIC, Section 1350 of the Code was enacted to establish a DSIC mechanism to permit certain utilities with distribution or collection systems, including NGDCs like Columbia, to recover the costs related to the repair, improvement, and replacement of eligible property outside of a rate case. 66 Pa.C.S. § 1350.

Since January 1, 2013, utilities have been permitted to petition the Commission to establish a DSIC to provide for "the timely recovery of reasonable and prudent costs incurred to repair, improve, or replace eligible property in order to ensure

and maintain adequate, efficient, safe, reliable and reasonable service." 66 Pa.C.S. § 1353. For NGDCs, property eligible for DSIC recovery includes, *inter alia*, piping, gas service lines, valves, and meters—and we note that those categories of property represent significant cost drivers of the Company's infrastructure repair and replacement budget. *See* 66 Pa.C.S. § 1351(2); Columbia St. 7 at 4.

Importantly, and as the Commission recognized after the enactment of Act 11, the DSIC provisions did more than just provide utilities with an additional rate mechanism to recover the capitalized costs related to repair, improvement and replacement utility infrastructure. Additionally, the Commission explained that "[a] DSIC can reduce regulatory lag, improve access to capital at lower rates, and accelerate infrastructure improvement and replacement." *Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Tentative Implementation Order entered May 11, 2012) at 20.

The Commission's acknowledgment that employing a DSIC would enable utilities to access capital at lower rates while accelerating infrastructure improvement is consistent with goals identified by Pennsylvania Senators in their remarks made during the Pennsylvania Senate's third consideration and final passage of HB 1294 (the DSIC bill):

> The importance of this right now [HB 1294] is that if a utility wants to do infrastructure changes, it needs to go to a rate case. That costs millions of dollars, many months, a lot of delays, and the financial markets that lend these utilities the money will rate these at a different rate. They rate them on the fact they do not know how much return the utility will get or when they will get that return so, therefore, these ratings are not that great. With this DSIC bill, these companies will

> be rated higher, interest rates will be lower, that means savings to the consumer for something that is vitally needed.

Pa. Sen. J. No. 6 at 71 (January 25, 2012) (Senator Tomlinson).

In a similar vein, the Senate record identified the cost savings benefits and efficiencies that utilities and customers were anticipated to realize through DSIC implementation:

> [T]his bill [HB 1294] merely enables our utilities to save money, which in turn, saves our ratepayers money by avoiding lengthy and expensive rate cases. Currently, utility infrastructure rebuilding efforts are being stalled by prohibitive regulatory lag time, so it is imperative that we do all we can to remove these unnecessary and costly delays.

Pa. Sen. J. No. 6 at 72 (January 25, 2012) (Senator Boscola).

In the context of this rate proceeding, we acknowledge the aforementioned Senators' comments because they are relevant to the fact that, through Act 11, members of the General Assembly intended for utilities and ratepayers to benefit in cost savings, efficient infrastructure repair and replacement, and reduction of expensive rate case filings through utilities' ability to implement a DSIC. The accessibility of DSIC funding is of particular significance in the context of Columbia's rate request because, although infrastructure repair and replacement is "the primary driver" of the rate increase that the Company is seeking, the Company has not yet implemented a DSIC. Columbia St. 1 at 4, 6. In its direct testimony, Columbia indicated that the Company "continually assesses whether and when it should file a DSIC," but claimed that DSIC recovery alone is insufficient to address the revenue deficiency because Columbia's requested overall distribution revenue increase in this proceeding exceeds the current 5% cap for a DSIC surcharge. *Id*. at 6; *see also* 66 Pa.C.S. § 1358(a)(1) (establishing that a DSIC may not

exceed 5% of distribution rates billed for an NGDC).[20] Columbia also asserted that when the Company sought the Commission's approval to increase the cap on its DSIC surcharge to 10% in 2016, its request was denied. Columbia St. 1 at 6.

We urge Columbia to again consider seeking DSIC recovery to facilitate timely and cost-efficient infrastructure repair and replacement efforts. To the extent that Columbia believes a DSIC may result in the Company under-recovering expended costs due to the 5% cap, the Company would not forfeit the recovery of any costs, as the Company would become eligible to collect such costs once the DSIC is reset to zero.[21] *See* 66 Pa.C.S. § 1358. We also note that the 2016 DSIC request that Columbia referenced in its direct testimony was made almost a decade ago and without the benefit of the Company's more recent infrastructure repair and replacement statistics, LTIIP, and risk assessment data. *See* Columbia St. 1 at 6. Accordingly, we encourage Columbia to continue its commitment to infrastructure repair and replacement and to do so as cost-efficiently as possible.

Based on the foregoing discussion, we shall grant Columbia's Exception No. 1, in part, and deny it, in part. Further, as we shall decline to adopt the ALJs' primary recommendation to deny the Company's increase in its entirety, we shall,

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[20] In addition to the 5% cap referenced herein, Section 1358 of the Code imposes various customer protections for the DSIC. 66 Pa.C.S. § 1358.

[21] The DSIC charge is reset, or "set to zero" in two instances: (1) at the effective date of new base rates that provide for prospective recovery of the annual costs previously recovered under the distribution system improvement charge; or (2) if, in any quarter, data filed with the Commission in the utility's most recent annual or quarterly earnings report shows that the utility will earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC. 66 Pa.C.S. § 1358(b).

inter alia, discuss the components of the Company's revenue requirement formula[22] in the sections that follow.

C. Effective Date of New Rates

As a threshold consideration, the Commission must consider the effective date of any new rates that will result from this proceeding. I&E has raised a case of first impression disputing the lawful effective date upon which Columbia's proposed rate increase should take effect.

As noted above, Columbia filed Supplement No. 392 to Tariff Gas on March 20, 2025. Therein, it proposed a general rate increase[23] in annual revenues of approximately $110.497 million utilizing the burden of proof based upon data for an FPFTY beginning January 1, 2026, and ending December 31, 2026, in accordance with Section 315(e) of the Code. 66 Pa.C.S. § 315(e); R.D. at 1, 2.[24]

Section 315 was amended to authorize the utility's use of an FPFTY to discharge the Company's burden of proof. *See, e.g., Use of Fully Projected Future Test Year, 52 Pa. Code Chapter 53.51-53.56a*, Docket No. L-2012-2317273

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[22] The specific revenue requirement formula is presented in detail in Section VI.B, *infra*.

[23] A "general rate increase is defined as follows: ". . . As used in this part general rate increase means a tariff filing which affects more than 5% of the customers and amounts to in excess of 3% of the total gross annual intrastate operating revenues of the public utility." 66 Pa.C.S. § 1308(d).

[24] As also noted above, the Company subsequently revised its proposed revenue increase downward to approximately $110.444 million, in light of its sale of Blackhawk.

(Clarified Notice of Proposed Rulemaking Order entered August 24, 2022) (*2022 FPFTY Notice of Proposed Rulemaking*) at 8:

> Act 11 [which amended Section 315] authorized the use of a FPFTY as an alternate to use of a HTY or a FTY. *See McCloskey* at 196-197, 200. A FPFTY uses the public utility's fully estimated data for the twelve-month period beginning with the first month that the new rates would be placed in effect, *after the expiration of the full suspension period allowed by Section 1308(d). UGI Electric* at 25. The goal of Act 11, in authorizing the use of a FPFTY, among other things, was to further reduce regulatory lag and encourage future plant investment to replace aging public utility infrastructure.

Id., at 8; (emphasis added).

In this proceeding, based upon the date Columbia elected to file for a rate increase under Section 1308(d), *i.e.*, March 20, 2025, the Company's proposed Supplement No. 392 to Tariff Gas was suspended by operation of law until December 19, 2025. *April 2025 Order*; R.D. at 3; *see* 66 Pa.C.S. § 1308(d).[25]

On April 28, 2025, Columbia filed Supplement No. 399 to Tariff Gas in response to the *April 2025 Order*. Supplement No. 399 also suspended the proposed rates contained in Supplement No. 392 until on or before, December 19, 2025. R.D. at 4.

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[25] "Whenever there is filed with the commission by any public utility . . . any tariff stating a new rate which constitutes a general rate increase, the commission shall promptly enter into an investigation and analysis of said tariff filing and may by order setting forth its reasons therefor, upon complaint or upon its own motion, upon reasonable notice, enter upon a hearing concerning the lawfulness of such rate, and the commission may, at any time by vote of a majority of the members of the commission serving in accordance with law, permit such tariff to become effective, except that absent such order *such tariff shall be suspended for a period not to exceed seven months from the time such rate would otherwise become effective*." 66 Pa.C.S. § 1308(d) (emphasis added).

Therefore, the Section 1308(d) suspension date, based upon the date Columbia selected to file for the rate increase, is December 19, 2025.

The dispute regarding the effective date of Columbia's proposed rate increase arises based upon the I&E proposal that the effective date of the rate increase is determined by the Company's choice to proceed under Section 315(e), to discharge its burden of proof utilizing the FPFTY. I&E argues that Section 315(e), by its terms, establishes that the Company's choice of the dates of the 12-month period for the FPFTY establishes the date the new rates are to take effect, resulting in an effective date of January 1, 2026. Coulumbia's position is that the effective date of the proposed rate increase is determined by the Company's election to file the rate case on March 20, 2025, which under Section 1308(d) results in a suspension period which expires December 19, 2025, therefore establishing the effective date of the rate increase as December 19, 2025.

1. Positions of the Parties

I&E proposed that the Commission direct Columbia to make any new rates that result from the disposition of this base rate proceeding, become effective January 1, 2026. I&E's proposal was based upon the language of Section 315(e) of the Code,[26] establishing the FPFTY as an option for a utility in discharging its burden of proof, stating:

> [An FPFTY] …shall be the *12-month period beginning with the first month that the new rates will be placed in effect* after

[26] 66 Pa.C.S. § 315(e), which was amended by Act 11 of 2012 (Act 11), expressly authorizes a utility to select the use of the FPFTY as a mechanism under which it may discharge its Section 315 burden of proof.

> the application of the full suspension period permitted under Section 1308(d)(relation to voluntary changes in rates).

66 Pa.C.S. §315(e) (emphasis added).

I&E reasoned that because Columbia voluntarily selected January 1, 2026, to December 31, 2026, as the 12-month period for the FPFTY, Columbia's selection established January 2026, as the "first month that the new rates will be placed in effect," and therefore, by its own choice, Columbia established the effective date of January 1, 2026.

I&E's position was that the effective date of new rates should coincide with the first day of the FPFTY, a date of Columbia's own choosing, under the reasoning that it would be unjust and unreasonable for the Commission to allow Columbia to make new rates effective on December 18, 2025, (*i.e.*, one day prior to the December 19, 2025, suspension date) as the Company's own ratemaking calculations or claims in this base rate filing have been established under Section 315(e) of the Code, 66 Pa.C.S. § 315(e), on the projected changes that will occur pursuant to the FPFTY (*i.e.*, January 1, 2026 through December 31, 2026). I&E. M.B. 58-59; R.B. 32-35.

I&E took the position that Columbia's rate increase, if any, authorized at the conclusion of this proceeding, should not be made applicable during the 14-day period of December 18, 2025, through December 31, 2025, as that period is not supported by Columbia's 2026 FPFTY ratemaking calculation(s). I&E continued, that 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, as proposed in the Company's original filing, the Company would recover a minimum "unsupported and unreasonable" additional revenue increase of $4,238,233, computed as follows: [($110,496,797 ÷ 365) x 14 = $4,238,233]; for that 14-day period. *See* I&E M.B. at 59.

Columbia opposed the I&E proposal to direct that the effective date of Columbia's rate increase extend beyond the December 19, 2025, suspension date. Columbia asserted that under Section 1308(d) of the Code, 66 Pa.C.S. § 1308(d), the I&E proposal was contrary to law, as set forth by the Commonwealth Court's holding applying Section 1308(d) in *Bell Telephone Co. v. Pa. PUC*, 452 A. 2d 86. (Pa. Cmwlth 1982), *affirmed*, 482 A.2d 1272 (Pa 1983) (*Bell*).[27] Columbia M.B. at 234-35.

Columbia cited *Bell* for the proposition that the statutory suspension date of December 19, 2025, as contained in its proposed tariff, or tariff supplement, *i.e.*, Supplement No. 399, is the date on which its proposed rates must be made effective as mandated by the language of Section 1308(d) of the Code, 66 Pa.C.S. § 1308(d). Columbia argued that its position was supported by precedent, per the holding in *Bell*, which established that, in the absence of a final Commission Order on the justness and reasonableness of the proposed rates, at the end of the statutory suspension period, the proposed rates are permitted to become effective as a matter of law on the date the suspension period expired. Columbia M.B. at 235-37 (citing *Bell*). The central language of the *Bell* holding states the following:

> The requested general rate increase may be suspended for *no more* than seven months after the sixty day initial period for Commission review. Before the close of the suspension period, *to avoid the automatic implementation of the proposed increase*, the Commission *must* issue a final order in the matter. The rates in force during the suspension period are those contained in the tariff last approved; *but at the end*

[27] Columbia also cited *National Fuel Gas Distribution Corp. v. Pa. PUC*, 464 A.2d 546 (Pa. Cmwlth 1983) as additional support for its position. Columbia M.B. at 236.

> *of the suspension period, in the absence of a final order of the Commission, the proposed increase takes effect*.

Bell, 452 A.2d at 89 (emphasis added).

In reply to the position of Columbia which, as noted, primarily relied upon Section 1308(d) and the court's analysis in *Bell*, I&E argued that the time limit placed on the Commission's duty under Section 1308(d) to make a final decision and issue an order is not controlling as to when the new rates should go into effect under the circumstances in which a utility opts to utilize the FPFTY under Section 315(e). I&E argued that the Section 1308(d) suspension period, and that Section's provision that, in the absence of a Commission Order, the proposed rates would take effect at the end of the suspension period as the Court found in *Bell*, are not applicable where, as here, the utility has voluntarily opted to discharge its burden of proof utilizing an FPFTY of its own choosing, *i.e.*, January 1, 2026, to December 31, 2026. I&E R.B. at 33-35.

Because Columbia selected January 1, 2026 as the first month of the 12-month FPFTY, I&E maintained that Columbia was bound by the Section 315(e) provision that the first month of the FPFTY is the month in which the new rates will take effect. I&E acknowledged that Section 315 also provided that the first month in the 12-month period in which the rates are to take effect must be after the expiration of the Section 1308(d) suspension period, but argued that where the utility opts to utilize the FPFTY provided for in Section 315(e), the date of the first month in the 12-month FPFTY controls the effective date of rates, rather than the expiration of the Section 1308(d) suspension period. I&E R.B. at 33-35.

I&E reasoned that a final Commission Order approving the new rates and the filing of the new tariff must, according to I&E, logically occur before the new rates can become effective. I&E argued that its proposed reading of Section 315(e) is

consistent with the plain language of that Section and does not conflict with the suspension period established under Section 1308(d). I&E asserted that, consistent with Section 1308(d), Columbia may file its new tariff at the end of the Section 1308(d) suspension period on December 19, 2025, with rates to become effective January 1, 2026, the month in which FPFTY begins, consistent with Columbia's chosen dates for the FPFTY under Section 315(e). I&E R.B. at 33-35.

In I&E's view, the Section 1308(d) timeline simply places a burden on the Commission to act, or the total proposed new rates will take effect. According to I&E, neither the applicable statutes, nor the case law, anticipates or discusses the scenario where a company attempts to add fourteen or more days to the effective date of new rates prior to the beginning date of the FPFTY. I&E R.B. at 33-35.

I&E further distinguished the holding in *Bell* from its application to the scenario where, as here, a utility proceeds under Section 315(e) to utilize the FPFTY. I&E asserted that in *Bell*, the Court weighed the mandate that the Commission must act against the failure of the Commission to act. In contrast, I&E argued, the issue here is not whether the Commission will act to issue an order within the prescribed Section 1308(d) suspension period. Rather, I&E claimed, the Commission will act in a timely manner, and the effective date of new rates must be controlled by Columbia's chosen first month of the FPFTY, January 1, 2026, because the record evidence that was presented to support the new rates was specifically based upon the FPFTY starting January 1, 2026. I&E R.B. at 33-35.

2. Recommended Decision

On consideration of the proposed I&E adjustment, the presiding ALJs, in recommended Ordering Paragraph Nos. 3 and 4, recommended that the Commission adopt the I&E proposal. Pursuant to these recommended ordering paragraphs, the

effective date of rates that will result from this proceeding would commence on the first day of the first month in Columbia's 12-month FPFTY, *i.e.*, January 1, 2026, after the seven-month suspension period under Section 1308(d) has expired. The recommended ordering paragraphs are reprinted 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.

R.D. at 678-79.

3. Columbia Exception No. 2 and Replies

Columbia filed Exceptions to the ALJs' recommendation concerning the effective date of the rate increase. Namely, in its Exception No. 2, Columbia repeats its reliance upon Section 1308(d) of the Code, 66 Pa.C.S. § 1308(d), and *Bell*, *supra*, to argue that the ALJs' recommendation should be reversed on this issue because the I&E proposal is contrary to law. *See* Columbia Exc. at 8-9.

Columbia further argues that I&E misreads the pertinent language of Section 315(e) of the Code, 66 Pa.C.S. § 315(e), to conclude that January 1, 2026, as the first month of the FPFTY, is the month in which the new rates will take effect. To the contrary, Columbia argues that Section 1308(d) and the holding in *Bell*, as well as the language of Section 315(e), supports the Company's position that December 19, 2025, is the date upon which the rates take effect, as the date upon which the suspension period expires. Columbia Exc. at 9 (citing Columbia M.B. at 234-37).

Namely, Columbia notes the following language of Section 315(e):[28]

> **(e) Use of future test year.--**In discharging its burden of proof the utility may utilize a future test year or a fully projected future test year, which shall be the 12-month period beginning with the first month that the new rates will be placed in effect *after application of the full suspension period permitted under section 1308(d) (relating to voluntary changes in rates)*.

Columbia Exc. at 9 (citing 66 Pa.C.S. § 315(e)) (emphasis added).

Columbia reasons that the "first month that the new rates will take effect" is controlled by Section 315(e)'s reference to the time period "after application of the full suspension period permitted under Section 1308(d) (relat[ed] to voluntary changes in

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[28] *See also* definition of FPFTY at 52 Pa. Code § 53.51a (effective August 30, 2025), as follows:

> A 12-consecutive-month period beginning with the first month that the new rates will be in effect *after the application of the full suspension period permitted under 66 Pa.C.S. § 1308 (relating to voluntary changes in rates)* and reflecting estimated results of operations of the public utility.

52 Pa. Code § 53.51a (emphasis added).

rates)." Because the Section 1308(d) suspension period expires on December 19, 2025, Columbia argues that December is the first month the new rates will take effect following the suspension period, not January, as argued by I&E. Columbia Exc. at 9 (citing Columbia M.B. at 234-37).

In Reply to Columbia's Exception No. 2, I&E asserts that Columbia's reading of Section 315(e) is predicated upon flawed logic. I&E reiterates that the entry of a final Commission Order which directs that the rates resulting therefrom should have an effective date based upon Columbia's choice of the month in which the FPFTY begins, *i.e.*, January 1, 2026. I&E maintains that its reading of the language of Section 315(e) is consistent with Section 1308(d), and does not conflict with the holding of *Bell*, which I&E asserts is not applicable in the present case. I&E R. Exc. at 4-5.

4. Disposition

On consideration of the Recommended Decision, the Exceptions, and Reply to Exceptions, we shall adopt the ALJs' Recommendation, as modified. Accordingly, we shall deny Columbia's Exception No. 2, consistent with the following discussion.

Columbia's Exception No.2, and I&E's Replies, thereto, raise a case of first impression before this Commission. Namely, the Commission is required to consider whether a utility's choice to proceed utilizing the option of discharging its burden of proof by the use of an FPFTY, and the selection of dates for the 12-month period of the FPFTY under Section 315(e) of the Code, has the consequence of impacting the effective date of the rate increase sought under Section 1308(d). We conclude that it does. We read the plain language of Section 315(e), in its entirety, as establishing a voluntary frame work under which a utility may avail itself of the advantage of the FPFTY to discharge its burden of proof; however, the utility's voluntary selection of the dates of the 12-month

period of the FPFTY has the legal consequence of setting the effective date of the first month in which the proposed rate increase is to take effect, following the expiration of the Section 1308(d) suspension period. Columbia's position conflates the Section 1308(d) suspension date for this case with the date on which the Company may be permitted to implement new rates; however, as we explain below, these dates are distinct.

It is generally accepted that in Section 1308 cases for voluntary changes in rates, the Section 1308(d) suspension period is controlling on the effective dates of rates. Further, under Section 1308, it is generally accepted that, if the Commission fails to act within the suspension period, then upon the expiration of the suspension period, the proposed rates will automatically take effect. *See* Section 1308(d); *Bell*. However, the application of the general provisions of Section 1308(d), and the holding in *Bell*, are not dispositive of the effective dates of rates, where a utility opts to utilize the FPFTY provision to discharge its burden of proof under Section 315(e).

Upon review, we conclude that I&E's reading of the plain and unambiguous language of Section 315(e) is proper in the circumstances of this case. Further, to the extent any ambiguity may be read into Section 315(e), we conclude that I&E's interpretation, as recommended by the ALJs and as modified by this Opinion and Order, is reasonable under the circumstances.

Under the facts of this proceeding, we conclude that an order that would direct the filing of a tariff or tariff supplement, with an effective date for rates resulting therefrom to begin coincident with the date of the FPFTY adopted herein, is consistent with the clear and mandatory provisions of the Code. The effective date of January 1, 2026, is both consistent with the Section 315(e) provision that the Columbia FPFTY begins with the first month the rates take effect, as well as the Section 315 provision that the rates take effect following the expiration of the Section 1308(d)

suspension period. The fact that the date is beyond the seven-month suspension of Supplement No. 392 that was directed in the *April 2025 Order* is a lawful consequence of Columbia's utilization of the Section 315(e) FPFTY option to discharge the Company's burden of proof.

We agree with I&E that the court's analysis in *Bell* is not relevant in the present case, as *Bell* is distinguishable on the facts. *Bell* did not consider the case in which a utility utilizes an FPFTY under Section 315(e) in a manner that would cause customers to pay higher rates than already established and approved for an existing FPFTY period. Because the rates that Commission approved for Columbia in *Columbia Gas 2024* already account for the Company's projected expenses through December 31, 2025, permitting Columbia to increase rates prior to January 1, 2026 would result in ratepayers being forced to pay higher rates than the Commission has already determined to be just and reasonable through December 31, 2025.

Accordingly, we also agree with I&E that Columbia should not be permitted to recover rates in excess of its current rates, until the effective date of the new rates established under the FPFTY. Notably, Columbia also utilized the Section 315(e) FPFTY in its 2024 rate case, based upon the FPFTY of January 1, 2025 to December 31, 2025. *See Columbia Gas 2024* at 1, 3. If Columbia were permitted to increase its rates during an overlap of the 2025 FPFTY, Columbia would recover rates in excess of the rates established as a result of the settlement agreement in *Columbia Gas 2024*. We conclude this to be an obvious unjust and unreasonable result. This scenario would be an extraordinary case of rate "overlap," as opposed to rate "lag" (rate lag being the scenario in which the company is precluded from a timely recover of its just and reasonable rates- where the rate "overlap," as proposed by Columbia, would authorize recovery of rates in excess of the established just and reasonable rates for a given period). Such "overlap" would effectively approve a higher rate to be placed in effect during a period covered by a prior FPFTY approving a lower rate.

Section 1308(d.1) of the Code, 66 Pa.C.S. § 1308(d.1) prohibits a public utility from filing multiple general rate requests for the same period with the Commission. Such multiple filings are referred to as "pancaking."

As noted by I&E, Section 315(e), which was enacted by the legislature subsequent to Section 1308(d), was a legislative enactment intended, in part, to prevent utilities from suffering rate lag, not to create a scenario for recovery of rates in excess of the established just and reasonable rate for a given period. *See, e.g.*, *2022 FPFTY Notice of Proposed Rulemaking* at 8.

Review of the language of Section 1308(d) in full context, therefore, expressly contemplates the necessity to apply the Commission's expertise in resolving timing and synchronization issues in determining just and reasonable rates - consistent with, and within, the firm seven-month period set out in the law. We note the following, in pertinent part: " . . . The Commission *shall consider the effect of such suspension in finally determining and prescribing the rates to be thereafter charged and collected by such public utility* . . ." 66 Pa.C.S. § 1308(d) (emphasis added).[29]

When the language of Section 1308(d) is considered in the context of the statutory scheme contemplated for a general rate increase, as well as the subsequent enactment of Section 315(e), we find the intent clear and unambiguous that rates which have been subject to our discretionary authority for suspension and investigation, thereafter, place this Commission under a statutory duty to make a final determination as to the justness and reasonableness of said rates for purposes of their effectiveness on a

[29] In this regard, in Sections V.A and XVIII.A of this Opinion and Order, *infra*, we shall adopt the recommendation of I&E that Columbia provide a report updating information concerning actual plant additions and retirements for the Future Test Year (FTY) and the FPFTY as a further tool to monitor the accuracy of FPFTY data in this rate proceeding.

date certain, not to exceed seven months, so long as the utility has not voluntarily altered the effective date of the proposed rates by proceeding under Section 315(e) and selecting a 12-month period FPFTY which establishes an effective date later than the date of the expiration of the Section 1308(d) suspension period.

We also note that both the selection of the dates for the FPFTY under Section 315(e) and the selection of the date upon which to file the Section 1308(d) request for a rate increase are within the control of the Company. It was Columbia, at its sole discretion, which chose to file its request for rate relief on March 20, 2025, resulting in a Section 1308(d) suspension date of December 19, 2025. It was also Columbia which exercised its sole discretion to utilize January 2026 as the first month of the FPFTY in which the rates were to take effect. While the Commission remains obligated to render a determination by the Section 1308(d) suspension date, the consequences of the Commission's failure to do so would be that Columbia's proposed rate increase, which inherently establishes an effective date of January 1, 2026, would take immediate effect. Columbia then, in accordance with Section 1308(d) would be authorized to file rates consistent with its proposed rates, which, by Columbia's choice, would take effect on January 1, 2026.

When interpreting a statute, the courts strive to ascertain the intent of the General Assembly in enacting the law under review. *Povacz v. Pa. PUC*, 280 A.3d 975, 991 (Pa. 2022). The plain language of a statute is the best indication of the General Assembly's intent, and where the statutory language is clear and unambiguous, one must give effect to the plain language thereof. The courts read the words of a statute in context, not in isolation, and in a manner that gives meaning to every provision. *Id*.

As addressed in *McCloskey v. Pa. PUC*, 255 A.3d 416, 423 n.13 (Pa. 2021) (*McCloskey 2021*), when language read in context with the overall statutory framework in which it appears has at least two reasonable interpretations or where any reading of the

statute's plain text raises non-trivial interpretive difficulties, courts should employ the Statutory Construction Act, 1 Pa.C.S. §1501 *et seq*., to resolve the ambiguity.

On review of decisions involving the provisions of Chapter 13 of the Code, 66 Pa.C.S. §§ 1301-1360, "Rates and Distribution Systems," under prior versions of the Code and, former, Public Utility Law, we find that the seven-month suspension period is a strict directive by the General Assembly for the disposition of the Commission's duties under Section 1308(d). The strict timeframe reflects a balance of interests as between ratepayer and utility that has been struck by the General Assembly. *See, e.g., Masthope Rapids Property Owners Council v. Pa. PUC*, 581 A.2d 994, 999 (Pa. Cmwlth. 1990) – ("Public utilities may file for a general rate increase pursuant to Section 1308(d) of the Code, 66 Pa.C.S. § 1308(d). . . A general rate increase may be suspended for a maximum of seven months, after an initial sixty-day review by the Commission. Section 1308(d.1) of the Code, 66 Pa.C.S. § 1308(d.1), however, prohibits a public utility from filing multiple general rate requests with the Commission. Such multiple filings are referred to as 'pancaking.'").

However, we further conclude that a utility may voluntarily alter the otherwise mandatory impact of Section 1308(d) on the effective date of the proposed rates, as did Columbia in the present case, as a consequence of opting to utilize the Section 315(e) FPFTY to discharge its burden of proof, by selecting a 12-month period which commences on a date which falls after the expiration of the Section 1308(d) suspension period. As Columbia's approved and existing rates have already been designed to recover the Company's projected expenses through December 31, 2025, the Company may not implement new rates until January 1, 2026.

Based on the foregoing, we shall deny Columbia's Exception No. 2 and adopt the ALJs' recommendation on this issue, as modified by this Opinion and Order. As such, Columbia shall be authorized and directed to file a compliance tariff or tariff

supplement setting forth the rates, rules, and regulations consistent with the Commission's findings in this Opinion and Order, on at least one day's notice, and designed to produce an annual revenue increase of $55,627,800, as authorized in this Opinion and Order, to become effective for service rendered on and after January 1, 2026.

V. Rate Base

A. Utility Plant in Service

Rate base, also known as measure of value, is the depreciated original cost of a utility's investment in plant a utility has in place to serve customers plus other additions and deductions that the Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers. Rate base is one part of the financial revenue requirement equation, *infra*, that is used by the Commission to determine the appropriate revenue increase and revenue requirement that a utility is granted in a rate proceeding. I&E M.B. at 15-16.

As discussed above, Columbia has requested that the Commission approve an increase in annual operating revenues of approximately $110,444,676. The Company based this increase on an FPFTY ending December 31, 2026, which is designed to provide Columbia with the opportunity to earn an 8.55% overall rate of return, including an 11.35% return on common equity,[30] on a claimed rate base of approximately $3.84 billion. *See* Columbia Exh. JV-1R at 2, 12-13 (accompanying Columbia St. 4-R).

[30] We shall discuss the appropriate return on common equity and overall rate of return to award Columbia in Section X of this Opinion and Order, *infra.*

According to the Company, its final claimed rate base of $3,839,638,127 for the FPFTY reflects depreciated original cost plant in service plus working capital additions for Materials and Supplies (M&S), Prepayments, and Gas Stored Underground,[31] as well as deductions for customer deposits, customer advances, and accumulated deferred income taxes (ADIT) projected as of December 31, 2026. Columbia M.B. at 14 (citing Columbia Exh. JV-1R at 2). Columbia's final claimed rate base balance also reflects the removal of Blackhawk net plant, ADIT, and gas in storage, resulting from the recent sale of Blackhawk.[32]

The depreciated original cost is determined by subtracting the book reserve, which is the accumulation of all prior annual depreciation expense, and other items such as salvage value, from the original cost of the plant in service that is projected to be used and useful in the public service. The depreciated original cost of the plant in service is

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[31] Working capital is the difference between a utility's current assets and its current liabilities, and represents the funds available to meet day-to-day operational needs. Current assets include, *inter alia*, cash (*e.g.*, cash working capital), inventory (*e.g.*, materials and supplies), and prepaid expenses (*i.e.*, prepayments). *See* https://www.jpmorgan.com/insights/treasury/receivables/what-is-working-capital-formula-and-how-to-calculate-it (accessed November 11, 2025). Therefore, cash working capital is a subset of total working capital. We note that Columbia did not make a claim for cash working capital in this proceeding. *See* Columbia M.B. at 21; Columbia Exh. JV-2R at 12.

[32] In direct testimony, Columbia's witness, Ms. Julie E. Covert, noted that an application had been filed by Columbia for approval to transfer ownership of Blackhawk, and that if the sale was approved and went forward, Columbia would revise its claim in this case. *See* Columbia St. 11 at 5, n.1. According to Columbia, the Company completed the sale of Blackhawk on June 20, 2025. Columbia M.B. at 70. As such, impacts from the sale to the revenue deficiency and revenue requirement are shown in Columbia Exhibit JV-2R. *See also* Table 1, *supra.* Additionally, the Company set forth supporting accounting entries in Columbia Exhibit JV-3R. Furthermore, as discussed, in Section VIII.O, *infra*, Columbia requested to establish a regulatory asset to defer and amortize the non-depreciable loss on the sale of $5,031,739 and the expenses related to the feasibility study of $389,005 for a total amount of $5,420,743, to be amortized over a period of five years, or $1,084,149 per year. Columbia M.B. at 70-71.

determined by taking a "snapshot" look at the depreciated original cost value of used and useful utility plant in service at the end of the FPFTY. I&E M.B. at 16.

Further, for a utility plant to be included in rates, the plant must be used and useful in the provision of utility service to the utility's customers. Therefore, by definition, only plant currently providing, or capable of providing, utility service to customers, or plant projected to be completed and in service by the end of the FPFTY is eligible to be reflected in rates. I&E M.B. at 16.

Based upon the adjustments discussed below, we shall approve a final rate base for the Company of $3,825,964,472.[33]

1. Positions of the Parties

As illustrated in Table 3, below, in its initial filing, Columbia proposed a gas plant in service balance in the amount of $5,219,879,725 for the FPFTY ending December 31, 2026. According to the schedule set forth in Table 3, Columbia is projecting net plant additions (gross plant additions less retirements) of $436,529,280 for the FTY ending November 30, 2025, and an additional $436,492,629 for the FPFTY ending December 31, 2026. *See* Columbia Exh. 108 at 3. The Company's forecasted additions to plant in service by month from December 2024 through December 2026 are shown on Schedule 1 of Columbia Exhibit 108. Columbia attributed the levels of projected plant additions to its commitments to replacing aging infrastructure. Columbia St. 1 at 4.

[33] As outlined in Table II of the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall make a total net downward adjustment of $13,673,655 to the Company's claimed final rate base of $3,839,638,127. [($3,839,638,127 – $13,673,655) = $3,825,964,472].

Table 3: Columbia's as-Filed FPFTY Rate Base Claim

	Company Claim Nov. 30, 2024 (Ref. Columbia Exh. 108 at 3)	FTY Adjustments	Company Claim Nov. 30, 2025 (Ref. Columbia Exh. 108 at 3)	FPFTY Adjustments	Company As - Filed Dec. 31, 2026 (Ref. Colombia Exh. 108 at 3)
Gas Plant In Service	$4,346,857,816	$436,529,280	$4,783,387,096	$436,492,629	$5,219,879,725
Gas Stored Underground	$3,794,693	$0	$3,794,693	$0	$3,794,693
Total Plant In Service	$4,350,652,509	$436,529,280	$4,787,181,789	$436,492,629	$5,223,674,418
Less: Accrued Depreciation	$760,315,611	$89,502,819	$849,818,430	$77,393,668	$927,212,098
Accumulated Gas Lost	$163,467	$0	$163,467	$0	$163,467
Depreciated Plant In Service	$3,590,173,431	$347,026,461	$3,937,199,892	$359,098,961	$4,296,298,853
Materials and Supplies	$910,617	$6,575	$917,192	$30,868	$948,060
Prepayments	$5,117,129	$353,673	$5,470,802	$106,749	$5,577,551
Gas Storage Underground	$34,245,989	$6,143,930	$40,389,919	$10,028,951	$50,418,870
Total Working Capital	$40,273,735	$6,504,178	$46,777,913	$10,166,568	$56,944,481
Total Deferred Income Taxes	($465,010,745)	($25,020,178)	($490,030,923)	($13,020,459)	($503,051,382)
Customer Deposits	($4,793,072)	($17,529)	($4,810,601)	($2,609)	($4,813,210)
Customer Advances	$2,012	$962	$2,973	$0	$2,973
Original Cost Measure of Value	**$3,160,645,360**	**$328,493,893**	**$3,489,139,254**	**$356,242,461**	**$3,845,381,715**

See Columbia Exh. 108 at 3.

The Company's revenue deficiency and revenue requirement update related to the sale of Blackhawk, previously mentioned, has incorporated updates to the Company's rate base, O&M and A&G expenses, depreciation and amortization expense, and income tax expense. *See* Columbia Exhs. JV-1R and JV-2R. Specifically, according to Columbia, the sale of Blackhawk resulted in a decrease to the Company's proposed rate base of $5,743,588, as illustrated in Table 4 below.

Table 4: Columbia's Adjustment to its FPFTY Rate Base Claim Related to the Sale of its Blackhawk Storage Facility

	Company As - Filed Dec. 31, 2026 (Ref. Columbia Exh. 108 at 3)	Adjustment Removal of Blackhawk Storage Facility	Company Revised Claim Dec. 31, 2026 (Ref. Columbia Exh. JV-2R at 12)
Gas Plant In Service	$5,219,879,725	($8,130,294)	$5,211,749,431
Gas Stored Underground	$3,794,693	($3,794,693)	$0
Total Plant In Service	$5,223,674,418	($11,924,987)	$5,211,749,431
Less: Accrued Depreciation	$927,212,098	($7,289,719)	$919,922,379
Accumulated Gas Lost	$163,467	($163,467)	$0
Depreciated Plant In Service	$4,296,298,853	($4,471,801)	$4,291,827,052
Materials and Supplies	$948,060	$0	$948,060
Prepayments	$5,577,551	$0	$5,577,551
Gas Storage Underground	$50,418,870	($1,525,334)	$48,893,536
Total Working Capital	$56,944,481	($1,525,334)	$55,419,147
Total Deferred Income Taxes	($503,051,382)	$253,547	($502,797,835)
Customer Deposits	($4,813,210)	$0	($4,813,210)
Customer Advances	$2,973	$0	$2,973
Original Cost Measure of Value	**$3,845,381,715**	**($5,743,588)**	**$3,839,638,127**

See Columbia Exh. JV-2R at 12. Therefore, as reflected in Table 4, the Company's final proposed plant in service balance for the FPFTY ending December 31, 2026 was $5,211,749,431.

In the development of its projected net plant additions through the FPFTY period, Columbia's witness, Mr. Raymond A. Brumley, considered the significant replacement costs and restoration issues that continue to impact the overall unit cost increase when replacing expenditures for mainline and service line replacement work. Columbia St. 7 at 5. Mr. Brumley noted that the average cost of main replacement when the Company began its accelerated main replacement program in 2007 was $81.25 per

foot, whereas the average cost was $355 per foot in 2024. *Id*. at 17. Accordingly, Columbia stated that it has included an inflation rate of 4% and 5% (*i.e.*, inflation adjustments) applied to the average unit costs for 2025 and 2026, respectively, related to contractor pricing.[34] Columbia M.B. at 16-17.

Columbia argued that the OCA's proposal, *infra*, to remove $14,507,711 of the Company's claimed gas plant in service for the FPFTY, reflecting the removal of the Company's inflation factors used to develop its budgeted plant additions for the FTY and FPFTY, "ignores reality," as "[i]ncreasing unit costs are real." Columbia M.B. at 17-18. Columbia argued that the fundamental flaw in the OCA's proposed adjustment is that it focuses on the mechanics of how the Company developed its Age and Condition budgets, rather than the reasonableness of the budgeted items. According to Columbia, over the past three years, the Company has invested, on average, nearly $360 million per year on infrastructure replacement. Columbia St. 7-R at 5. Columbia contends that this past rate of spending on infrastructure replacement is substantial evidence of the reasonableness of Columbia's projected infrastructure replacement.[35]

Further, as demonstrated in Columbia's Main Brief, Columbia has spent, on average, about $20 million more per year than it has budgeted on infrastructure replacement over the past three years:

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[34] We note that as of September of 2025, the inflation rate was 3.01%. *See* https://www.inflationtool.com/rates/usa (accessed November 20, 2025).

[35] Columbia submitted that it has budgeted Age and Condition FTY plant additions of $312.58 million and FPFTY plant additions of $343.539 million. Columbia St. 7 at 4.

Table No. 1
Age & Condition, Replacement & Betterment
Budget vs. Actual ($M)

	2022	2023	2024
Budget	$313,102	$356,317	$350,813
Actual	$324,387	$370,956	$384,655
Variance	$11,285	$14,639	$33,843

See Columbia M.B. at 18. Accordingly, Columbia submitted that the OCA's proposed adjustment to its projected plant additions is without merit and should be rejected. *Id*.

I&E proposed that Columbia be required to provide I&E and the OCA with an update to Columbia Exhibit 108, Schedule 1, by 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. Additionally, I&E contended that the Company should be required to provide "actuals" for these same categories through December 31, 2026, by no later than April 1, 2027. I&E M.B. at 16-17.

Noting that the Company did not oppose I&E's proposal, I&E submitted that its proposal should be approved. *Id*. at 17; *see also* Columbia M.B. at 237.

The OCA proposed that the inflation rate factor adjustments in the Company's plant in service balance be removed. In this regard, the OCA pointed to the testimony of its witness, Mr. Dante Mugrace, who testified, as follows:

> [T]hese types of cost adjustments should not be used for ratemaking purposes because they do not provide a good index of cost increases, but rather reflect an overall broad, blanket-type economic adjustment that [is] typically applied to baskets of goods and services that may or may not be

> related or reflective to costs that are expected to be incurred by Columbia.

OCA St. 2 at 7.

Reflective of the OCA's stance on this issue, Mr. Mugrace calculated an adjustment that would lower Columbia's projected capital expenditures for its FTY and FPFTY by $14,507,711. This adjustment was 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. The 4% and 5% inflation rates were then applied to Mr. Mugrace's projected contractor costs for the years 2025 and 2026 to derive the total disallowance of $14,507,711. *See* OCA St. 2 at 8. Therefore, the OCA proposed a downward adjustment of $14,507,711 to the Company's original claim for gas plant in service in the FPFTY of $5,219,879,725, representing an allowance of $5,205,372,014. [$5,219,879,725 - $14,507,711 = $5,205,372,014]. *See* OCA Exh. DM-SR-3.[36]

In support of its proposed downward adjustment, the OCA asserted that the Commission has repeatedly required specificity by the utility when the utility uses an

[36] We note that the OCA did not revise its proposed final allowance for gas plant in service in light of the Company's sale of Blackhawk. *See, generally*, OCA St. 2SR at 3. However, the OCA's revised proposed final allowance for gas plant in service would have been $5,197,241,720 in light of the Company's final claimed plant in service balance of $5,211,749,431. [$5,211,749,431 - $14,507,711 = $5,197,241,720]. We further note that the OCA's proposed downward adjustment of $14,507,711 to the Company's claimed gas plant in service balance was to amounts that were unaltered by Columbia's sale of Blackhawk. *See, generally*, OCA Exh. DM-SR-5 at n.1 (citing Columbia Exh. 108 Sch. 1 at 6, 13 at lines 32-43); Columbia St. 7-R at 2-3; Columbia St. 11-R at 2, lines 1-5, 11-13. Therefore, the OCA's proposed downward adjustment of $14,507,111 to the Company's claim for gas plant in service, as well as its adjustments to depreciation reserve, ADIT, and depreciation expense in Sections V.B, V.E, and VII, *infra*, would have remained unchanged, had the OCA applied this adjustment to the Company's revised claim.

inflation factor to estimate cost increases in the test year, and the Commission has disallowed inflation factors that are too speculative in nature. OCA M.B. at 44 (citing *Pa. PUC v. Phila. Elec. Co.*, 58 Pa. P.U.C. 7 (1983); *National Fuel Gas Dist. Corp. v. Pa. PUC*, 677 A.2d 861 (Pa. Cmwlth. 1986)).

2. Recommended Decision

While the ALJs did not explicitly recommend adoption of the Company's final proposed plant in service balance of $5,211,749,431 for the FPFTY, they also did not recommend any commensurate adjustments to this claimed balance. Therefore, Table I of Appendix A[37] to the Recommended Decision underscores the ALJs' recommended adoption of the Company's final claimed FPFTY plant in service balance. Consequently, the ALJs' recommendation reflects their corresponding recommendation that the Commission deny the OCA's proposal to remove Columbia's inflation factors used to develop the Company's budgeted plant additions for the FTY and FPFTY.

3. OCA Exception No. 2 and Replies

In its Exception No. 2, the OCA objects to the ALJs' recommended adoption of certain inflation/deflation adjustments proposed by the Company.[38] OCA Exc. at 14-18 (citing R.D. at 157, 173-75, 210-12, 223). The OCA maintains that

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[37] Throughout the Recommended Decision, the ALJs referred to the Appendix attached to the Recommended Decision as "Appendix A." Although there is no such actual identification to the Appendix at the end of the Recommended Decision, we shall nonetheless also refer to this Appendix as Appendix A when citing to it in this Opinion and Order. Appendix A of the Recommended Decision sets forth the rate tables constructed by the ALJs, outlining their recommended revenue increase and revenue requirement.

[38] As discussed in detail in Section VIII of this Opinion and Order, *infra*, in addition to its proposed inflation adjustments to its plant additions, the Company applied inflation or deflation adjustments to certain of its claimed O&M and A&G expenses.

Columbia's proposed use of inflation adjustments in projecting FTY and FPFTY gas plant additions are speculative, as they are: (1) not "known and measurable," (2) not supported by evidence, (3) inconsistent with the "used and useful" standard, and therefore, (4) should be disallowed. According to the OCA, the Commission should require specific, project-based cost evidence rather than generalized inflationary assumptions when setting just and reasonable rates. OCA Exc. at 15-18. The OCA further opines that including inflation factors in Columbia's rates is especially unnecessary given the Company's frequent filing history of base rate cases. *Id*. at 17.

In Reply, Columbia rejects the OCA's claim that the Company's proposed inflation adjustments are speculative, arguing that the ALJs properly recommended that the Commission reject the OCA's proposal to remove these adjustments. The Company submits that the OCA failed to recognize the reasonableness and conservatism of Columbia's budget. Columbia points to its track record of consistently meeting or exceeding its capital budgets and pipeline replacement targets in support of its claims that it is reasonable to expect continued cost growth, and the Company insists that the inclusion of these inflationary factors is necessary for maintaining pace with its LTIIP. Columbia R. Exc. at 7-8.

4. Disposition

Similar to Columbia's attempt, *infra*, to apply inflation adjustments to certain of its FPFTY expense claims,[39] the Company also proposed to include inflationary adjustments in the development of its budgeted plant additions for the FTY and the FPFTY. *See* Columbia M.B. at 16-17. Consistent with our discussion in Section VIII.D of this Opinion and Order, *infra*, regarding our concurrence with the

[39] Conversely, as previously stated, the Company also proposed that it be permitted to apply deflation adjustments to certain of its expense claims.

OCA's proposed removal of Columbia's inflation (and deflation) factors for certain expense items, we likewise find it improper to apply inflation adjustments in projecting the Company's FTY and FPFTY plant additions. Accordingly, we shall decline to adopt the ALJs' recommendation on this issue, and shall instead adopt the OCA's proposal to lower Columbia's projected capital expenditures for its FTY and FPFTY by $14,507,711, reflective of our granting of the OCA's Exception No. 2, *infra*. Based upon the Company's final proposed gas plant in service balance in light of its sale of Blackhawk, this results in a final allowed gas plant in service balance for Columbia of $5,197,241,720 in the FPFTY. [$5,211,749,431 - $14,507,711 = $5,197,241,720].

We acknowledge that accepting the OCA's position does not require an assumption that there are *no* cost increases from the HTY to the FPFTY. Rather, we must accept only the FPFTY projections consisting of cost increases that the Company can demonstrate and explain in the record, as opposed to applying the Company's proposed across-the-board inflation adjustments. In our view, inflating plant balances for forecasted price growth, especially in conjunction with the Company's use of an FPFTY and its frequent base rate case filing history, would potentially allow the Company to earn a return on non-existent or overstated investment.

Additionally, we shall adopt the ALJs' unopposed recommendation that Columbia provide updates to its Exhibit 108, Schedule 1 by April 1, 2026, and April 1, 2027, reflecting actual capital expenditures, plant additions, and retirements, by month, for the twelve months ending November 30, 2025, and through December 31, 2026, respectively.

B. Depreciation Reserve

1. Positions of the Parties

The Company's depreciation reserve, based upon the straight-line, remaining-life method, with the Average Service Life (ASL)[40] procedure applied to plant installed prior to 1976[41] and the Equal Life Group (ELG) procedure for 1976 and subsequent vintages, was calculated by the Company's witness, Mr. John J. Spanos, and was applied to the original costs of Columbia's plant in service at November 30, 2024, November 30, 2025, and December 31, 2026.[42] *See* Columbia St. 5 at 3-4.

As part of his rebuttal testimony, Mr. Spanos explained how the FPFTY levels of plant and accumulated depreciation (or reserve) are developed:

> The process begins with the calculation of depreciation expense and annual deprec[i]ation accrual rates as of a Historical Test Year ("HTY") which is completed using historical, or actual, levels of Plant and Reserve. In the instant case, the HTY date is November 30, 2024. Once depreciation expense and annual depreciation accrual rates are calculated as of the HTY date, they are utilized along with projected levels of plant activity to develop the plant values

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[40] The ASL procedure is also referred to as the Average Life Group (ALG) procedure.

[41] As shown in Columbia Exhibit 109, Attachment B, most pre-1976 assets have either been retired or are mostly depreciated. Approximately $100 million in original cost plant in service, out of $5.1 billion, is pre-1976 vintage plant, and most of that pre-1976 plant is either totally or substantially depreciated. *See* Columbia Exh. 109, Attachment B.

[42] Columbia Exhibit 9 presents the results of the depreciation study as of November 30, 2024. Columbia Exhibit 109, Schedule 1, Attachment A presents the results of the depreciation study as of November 30, 2025. Columbia Exhibit 109, Schedule 1, Attachment B presents the results of the depreciation study as of December 31, 2026. Columbia Exhibits 5 and 105 summarize the results of Columbia Exhibits 9 and 109, respectively.

> and bring forward the reserve to a FTY date at which the levels of depreciation expense and annual depreciation accrual rates are calculated again. In the instant case, the FTY date is November 30, 2025. The final step to calculate the proposed depreciation expense and annual depreciation accrual rates is to utilize the FTY depreciation expense and annual depreciation accrual rates along with projected levels of plant activity to develop the plant values and bring forward the reserve to a FPFTY date where the proposed levels of depreciation expense and annual depreciation rates are calculated. In the instant case, the FPFTY date is December 31, 2026.

Columbia St. 5-R at 25.

As illustrated in Table 4, *supra*, in its initial filing, Columbia claimed a depreciation reserve balance in the amount of $(927,212,098) for the FPFTY ending December 31, 2026. *See* Columbia Exh. 109, Sch. 1, Attachment B; *see also* Columbia Exh. JJS-01 at 13. Subsequently, the Company provided an update related to the sale of Blackhawk. Specifically, according to Columbia, the sale of Blackhawk resulted in a decrease to the Company's proposed depreciation reserve balance of $7,289,719 associated with Underground Storage Plant, as shown in Table 5, below.

Table 5: Summary of Columbia's Claimed Depreciation Reserve for the FPFTY Ending December 31, 2026

	Company As-Filed Dec. 31, 2026	Adjustment	Company Revised Claim Dec. 31, 2026
Amortizable Plant	($46,389,015)	$0	($46,389,015)
Underground Storage Plant	($7,289,719)	$7,289,719	$0
Distribution Plant	($859,121,583)	$0	($859,121,583)
General Plant	($14,175,807)	$0	($14,175,807)
Non Depreciable Plant	($235,974)	$0	($235,974)
Total Depreciation Reserve	($927,212,098)		($919,922,379)

See Columbia Exh. 105 at 7-9; *see also* Columbia Exh. JV-2R at 12.

The OCA proposed to reduce Columbia's depreciation reserve by $46,038,899, reflecting two items: (1) a reserve offset of $236,476 associated with the OCA's budgeted plant addition adjustment;[43] and (2) a reduction of $45,802,423 based on the proposal of the OCA's witness, Mr. David J. Garrett, that the Company utilize the ASL procedure instead of the ELG procedure when calculating its depreciation rates for the purposes of depreciation expense. *See* OCA St. 2 at 9-10; *see also* OCA St. 3 at 61-66; OCA Exh. DJG-17.[44]

2. Recommended Decision

While the ALJs did not explicitly recommend adoption of the Company's proposed depreciation reserve balance of $(919,922,379) for the FPFTY, they also did not recommend any commensurate adjustments to the Company's claim. Accordingly,

[43] As described *supra*, the OCA's witness, Mr. Mugrace, proposed a reduction of $14,507,711 to Columbia's claimed gas plant in service amount.

[44]. This is discussed in greater detail in Section VII, *infra.*

Table II of Appendix A to the Recommended Decision underscores the ALJs' recommendation that the Commission adopt the Company's claimed FPFTY depreciation reserve balance, and reflects their recommendation to deny the OCA's proposed reductions of: (1) $236,476 associated with the OCA's budgeted plant addition adjustment; and (2) $45,802,423 based on the OCA's proposal that the Company utilize the ASL procedure instead of the ELG procedure when calculating its depreciation rates for the purposes of depreciation expense.

3. Disposition

As previously indicated, the only proposed adjustments to Columbia's depreciation reserve balance are with respect to: (1) the OCA's proposed reduction of approximately $14.5 million Columbia's gas plant in service, reflecting the OCA's proposed removal of inflationary adjustments used by Columbia in the development of the Company's budgeted plant additions for the FTY and the FPFTY; and (2) the OCA's proposal to change the Company's depreciation method from the ELG procedure to the ASL procedure.

Therefore, consistent with the OCA's contention that the ALJs improperly recommended that the Commission reject its two proposals, depicted above, the OCA implicitly argues that the Commission should reject the ALJs' recommended adoption of the Company's claimed FPFTY depreciation reserve balance for the reasons set forth in its Exception Nos. 1 and 2.[45]

For the reasons set forth in our dispositions of the issues pertaining to: (1) the OCA's proposed adjustment to Columbia's FPFTY plant in service, reflective of

[45] The OCA's Exception No. 1 is discussed in Section VII of this Opinion and Order, *infra.*

its proposed removal of inflationary adjustments used by Columbia, *supra*; and (2) the OCA's proposal to change the Company's depreciation method from the ELG procedure to the ASL procedure, as discussed in more detail in Section VII, *infra*, we shall adopt, in part, and reverse, in part, the ALJs' recommendation on this issue, and adopt the OCA's proposal to reduce Columbia's claimed depreciation reserve balance by $236,476.[46] Accordingly, we shall grant, in part, and deny, in part, the OCA's implicit Exception on this issue.

C. Uncontested Additions to and Deductions from Rate Base

As previously indicated, added to the Company's claim for depreciated plant in service is an updated claim for Gas Stored Underground in the amount of $48,893,536, which reflects the removal of gas in storage at Blackhawk. Columbia Exh. JV-1R at 12. Additionally, Columbia's rate base has been reduced by $4,813,210 to reflect customer deposits, which the Company considers a source of cost-free capital.[47] Columbia St. 4 at 28; Columbia St. 11 at 10; Columbia Exh. 108, Sch. 9. Lastly, we note

[46] As previously noted, the OCA's proposed adjustment amount would have remained unchanged, had it updated its proposed adjustments to reflect Columbia's updated claims in light of the Company's sale of Blackhawk. Because net plant in service is determined by subtracting the depreciation reserve, which is the accumulation of all prior annual depreciation expense, from plant in service, the reduction of $236,476 to Columbia's claimed depreciation reserve balance results in a $236,476 *addition* to net plant in service. Based upon the Company's final claimed depreciation reserve balance of $(919,922,379), this results in a final allowed depreciation reserve balance for Columbia of $(919,685,903). [$(919,922,379) + $236,476 = $(919,685,903)].

[47] Columbia's customer deposits claim of $4,813,210 was based upon an HTY 13-month average balance. Columbia Exh. 108, Sch. 9.

that a deduction of $2,973 should be made to Columbia's rate base claim to reflect customer advances for construction.[48]

None of the other Parties to this proceeding disputed the Company's additions to rate base for Gas Stored Underground, or deductions from rate base for customer deposits or customer advances for construction.

There being minimal discussion on these issues, the ALJs recommended that the Company's claim for these uncontested rate base items be adopted.[49] No Party filed Exceptions on this issue. Aside from our above correction to apply a downward adjustment of $5,946 to Columbia's rate base, related to the application of the Company's claim for customer advances, we find the ALJs' recommendation to be reasonable. As such, we shall adopt it without further comment.

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[48] Columbia inadvertently added its claim for customer advances to rate base, rather than deducting it from measure of value. *See* Columbia Exh. JV-2R at 12. These ratepayer supplied funds should be deducted from the depreciated plant in service in the determination of net measure of value, just as other ratepayer supplied funds, such as customer deposits, are deducted. Further, the Commission has previously required utilities to treat customer-supplied capital, such as customer advances, as deductions, or offsets, to rate base. *See Pa. PUC v. Philadelphia Suburban Water Company*, 75 Pa. P.U.C. 391, 402 (1991). We note that because the Company's claim for customer advances reflected an addition to rate base, as opposed to a reduction, our adjustment to correct this inadvertent addition will be shown as a downward adjustment of $5,946 to the Company's rate base in Table II of the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order. [$2,973 x 2 = $5,946].

[49] Tables I and II of Appendix A to the Recommended Decision underscores the ALJs' recommended adoption of the Company's claims.

D. Contested Additions to Rate Base – M&S and Prepayments[50]

1. Positions of the Parties

Columbia included an addition of $948,060 for M&S to its rate base. Columbia M.B. at 21 (citing Columbia Exh. 108, Sch. 5). This amount was developed by averaging the monthly balances in Account 154 – Plant Materials for the thirteen months ended November 30, 2024, adjusted by applying the Gross Domestic Product (GDP) deflator[51] (*i.e.*, an inflation factor) for the FTY and the FPFTY. Columbia St. 11 at 6-7.

Columbia's rate base claim also included an addition of $5,577,551 for various prepayments. Columbia Exh. 108, Sch. 6. 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 the FPFTY.[52] Columbia St. 11 at 7.

The OCA's witness, Mr. 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." OCA St. 2 at 10-11. Consequently, the OCA proposed a $56,977 reduction to the

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[50] As noted in Table 4, *supra,* Columbia's claims for working capital additions to its rate base for M&S and Prepayments did not change as a result of its sale of Blackhawk. *See also* Columbia Exh. JV-2R at 12.

[51] The GDP deflator is an economic indicator used to measure the price level in an economy. It is calculated by dividing the nominal GDP (*i.e.*, the GDP at current prices) by the real GDP (*i.e.*, the GDP at constant prices) and multiplying the result by 100. The GDP deflator is mainly used to compare the value of goods and services produced in different years. *See* https://quickonomics.com/terms/gdp-deflator/ (accessed October 25, 2025).

[52] In Columbia's claimed capitalized M&S/Prepayments balance, the Company included inflation adjustments of 2.93% and 3.05% for the FTY and the FPFTY, respectively. Columbia Exh. 108, Schs. 5 and 6.

Company's M&S claim, and a reduction of $262,481 to Columbia's Prepayments claim, which removed the GDP inflation factor of 2.93% for the FTY and the 3.05% GDP inflation factor for the FPFTY, reflecting the OCA's position that the experienced 13-month average balance for M&S and Prepayments should be used. *Id*. at 11.

Columbia argued that the OCA's adjustments are improper, asserting that the Company is continually replacing items in its M&S inventory. According to Columbia, if inflation is not considered, the FPFTY balances of M&S and Prepayments will be understated, thereby adversely affecting Columbia's ability to earn a fair return. Columbia St. 4-R at 12.

2. Recommended Decision

While the ALJs did not explicitly recommend adoption of the Company's proposed M&S and Prepayments working capital account balances of $948,060 and $5,577,551, respectively, for the FPFTY, they also did not recommend any commensurate adjustments thereto. Therefore, Tables I and II of Appendix A to the Recommended Decision underscore the ALJs' recommended adoption of the Company's claimed FPFTY M&S and Prepayments account balances. Consequently, the ALJs' recommendation reflects their corresponding recommendation that the Commission deny the OCA's proposal to remove the Company's inflation factors used to develop its FPFTY rate base claim for M&S and Prepayments.

3. OCA Exception No. 2 and Replies

In its Exception No. 2, the OCA objects to the ALJs' recommendation that the Commission adopt certain inflation/deflation adjustments proposed by the Company. OCA Exc. at 14-18 (citing R.D. at 157, 173-75, 210-12, 223). The OCA maintains its opposition to Columbia's use of inflation adjustments to rate base items for the same core

reasons it opposes inflation and deflation adjustments to expenses, as discussed in Section VIII, *infra*. As previously noted, the OCA is of the opinion that such inflation adjustments are speculative, inconsistent with "known and measurable" standards, and risk permitting the Company to realize unjust over-recovery. OCA Exc. at 14-18.

In Reply, Columbia maintains its opposition to the OCA's proposal to remove the Company's inflation adjustments to certain rate base items, including M&S and Prepayments, for the same core reasons it supports inclusion of inflation and deflation adjustments to certain of its expense projections, and as such, supports the ALJs' recommendation that the Commission reject the OCA's proposal. Columbia R. Exc. at 7-8.

4. Disposition

Similar to Columbia's proposal to apply inflation adjustments to its gas plant in service balance and to certain of its expenses, *infra,* through the use of inflation factors, the Company also proposed to include inflationary adjustments in its rate base to its M&S and Prepayments working capital accounts. *See* Columbia St. 11 at 6-7. Consistent with our discussion in Section VIII.D of this Opinion and Order, *infra*, regarding our concurrence with the OCA's proposed removal of Columbia's inflation and deflation factors for certain expense items, we likewise find it improper to apply an inflation factor in projecting account balances for M&S and Prepayments. Accordingly, we shall decline to adopt the ALJs' recommendation on this issue, and shall instead adopt the OCA's proposed downward adjustments to the Company's rate base of $56,977 for M&S, and $262,481 for Prepayments, reflective of our granting of the OCA's Exception No. 2, *infra*. This results in allowed balances of $891,083 for M&S and $5,315,070 for Prepayments for Columbia in the FPFTY. [$948,060 – 56,977 = $891,083]; [$5,577,551 - $262,481 = $5,315,070].

E. Contested Deductions from Rate Base

1. ADIT

a. Positions of the Parties

Columbia submitted that ADIT are a reduction to rate base. In this proceeding the ADIT set forth in the Company's rate base calculation, as adjusted for the removal of Blackhawk, was $502,797,835. Columbia Exh. JV-1R at 12.

The OCA proposed that the Company's ADIT balance be reduced by $8,696,054, to reflect offsetting effects of the OCA's proposed adjustments to plant in service and depreciation. OCA St. 2SR at 7-8; OCA Exh. DM-SR-7.[53]

As previously explained, the Company does not agree with either the gas plant in service adjustment or the depreciation adjustment that produced the ADIT adjustment proposed by the OCA. Columbia St. 10-R at 3-4.

b. Recommended Decision

The ALJs noted that the only proposed adjustments to ADIT were with respect to the OCA's proposal to reduce Columbia's FTY and FPFTY claimed plant additions, as well as a reduction associated with the OCA's proposed reduction to the Company's claimed depreciation reserve resulting from the OCA's proposal to recompute annual depreciation accruals using the ASL procedure. R.D. at 123.

[53] The OCA noted that any differences are due to rounding issues. OCA St 2SR at 8.

As the ALJs found the OCA's adjustments to net plant additions and its proposal to change the Company's depreciation methodology to be improper, it can be concluded that the ALJs also found the OCA's adjustment to ADIT to be improper.

c. Disposition

As previously indicated, the OCA proposed that the Company's ADIT balance be reduced by $8,696,054, to reflect offsetting effects of its proposed adjustments to plant in service and depreciation. *See* OCA 2SR at 7-8.

Therefore, consistent with the OCA's contention that the ALJs improperly recommended that the Commission reject its proposals to reduce Columbia's FTY and FPFTY claimed plant additions, as well as a reduction associated with the OCA's proposed reduction to the Company's claimed depreciation reserve resulting from the OCA's proposal to recompute annual depreciation accruals using the ASL procedure, *infra*, the OCA implicitly argues that the Commission should reject the ALJs' recommended adoption of the Company's ADIT claim of $502,797,835, as set forth in the Company's rate base calculation, for the reasons set forth in the OCA's Exception Nos. 1 and 2.

For the reasons set forth in our dispositions of the issues pertaining to: (1) the OCA's proposed adjustment to Columbia's FPFTY gas plant in service, reflective of its proposed removal of inflationary adjustments used by Columbia, *supra*; and (2) the OCA's proposal to change the Company's depreciation method from the ELG procedure to the ASL procedure, *infra*, we shall adopt, in part, and reverse, in part, the ALJs' recommendation on this issue, and apply an increase of $922,484 to the Company's ADIT balance, rather than the $8,696,054 reduction proposed by the OCA. The $922,484 increase to the Company's ADIT balance reflects the adoption of the OCA's proposed downward adjustment, *supra*, to remove $14,507,711 from the Company's

claimed plant in service for the FPFTY, reflecting the removal of the Company's inflation factors used to develop its budgeted plant additions for the FTY and FPFTY, as well as the corresponding $236,475 reduction to the Company's claimed depreciation reserve. This results in a final allowed ADIT claim of $503,720,819 for Columbia in the FPFTY. [$502,797,835 +$922,984 = $503,720,819].

The $922,484 increase was calculated based on the Company's methodology presented in Columbia Exhibit JH-1R, shown in Table 6, as follows:[54]

[54] In direct testimony, the OCA's witness, Mr. Mugrace, proposed to add back $13.1 million, to reflect offsetting effects of his proposed adjustments to gas plant in service and depreciation. *See* OCA St. 2 at 13-14. Although Columbia noted that it did not agree with either the gas plant in service adjustment or the depreciation adjustment that produced the OCA's proposed ADIT adjustment, the Company's witness, Ms. Jennifer Harding, identified several mathematical errors in Mr. Mugrace's calculations. Columbia St. 10-R at 2-4. In surrebuttal, Mr. Mugrace accepted Ms. Hardings' adjustments and revised the OCA's proposed adjustment to ($8,696,047), which reflects the OCA's acceptance of the Company's adjustment of the depreciation expense calculation to the $41,409,747 balance, reflecting the decrease in tax repairs of $4,629,116 related to mixed service costs and reduction in capital expenditures. OCA St. 2SR at 7-8. As previously noted, the OCA's proposed adjustment amount would have remained unchanged, had it updated its proposed adjustments to reflect Columbia's updated claims in light of the Company's sale of Blackhawk.

Table 6: Calculation of ADIT Adjustment to Columbia's Claim

			OCA Proposed	Granted
1	Reduction to Plant in Service		($14,507,711)	($14,507,711)
2	Repairs Deduction	23.36%	$3,389,001	$3,389,001
	(Quantification of Repairs on Pipeline (23.36%))			
3	Plant in Service Basis after Repairs		($11,118,710)	($11,118,710)
4	Mixed Service Costs Deduction	0.51%	$56,705	$56,705
	(Quantification of MSC (0.51%))			
5	Plant in Service Basis after MSC		($11,062,004)	($11,062,004)
6	MACRS Depreciation (20 yr) - 1st Year	3.75%	$414,825	
7	Plant in Service Basis after MACRS		($10,647,179)	($10,647,179)
8	MACRS Depreciation (20 yr) - 2nd Year	7.22%	$768,726	$768,726
9	Remaining Plant in Service Basis		($9,878,453)	($9,878,453)
10	**Total Tax Deduction = Sum of Lines 2, 4, 6, 8**		**$4,629,258**	**$4,629,258**
	Book Depreciation Addback			
11	Adj. to Depr. Reserve (Inflation Adustment)		($236,475)	($236,475)
12	Adj. to Depr. Reserve (Change from ELG to ALG Method)		($45,802,423)	$0
13	**Total Book Depreciation Addback**		**($46,038,898)**	**($236,475)**
14	Net Book/Tax Difference = Lines 10 + 13		**($41,409,640)**	**$4,392,783**
15	Federal Tax Rate		21.00%	21.00%
16	**ADIT Adjustment**		**($8,696,024)**	**$922,484**

See Columbia Exh. JH-1R.

Accordingly, we shall grant, in part, and deny, in part, the OCA's implicit Exception on this issue and shall apply an upward adjustment of $922,484 to the Company's ADIT claim.

2. Consolidated Tax Adjustment

a. Positions of the Parties

The OCA's witness, Mr. Mugrace, contended that the Company has not adequately demonstrated its proposed use of the additional income generated from not making a Consolidated Tax Adjustment (CTA) for general corporate purposes and that 50% of the hypothetical CTA, or $2,263,821, should therefore be deducted from rate base as "non-investor-supplied funding for utility working capital." OCA St. 2 at 48.

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, the OCA submitted that this expenditure is greater than the $2.26 million (50% of the $4.53 million differential) that would have been a CTA prior to the enactment of Act 40 of 2016, Pub. L. 332 (Act 40).[55] The OCA submitted that Columbia did not provide any specifics as to whether 50% of the differential would be used in any way to benefit Pennsylvania ratepayers. OCA St. 2 at 47.

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[55] In 2016, the General Assembly enacted Act 40, which added Section 1301.1 to the Code, 66 Pa.C.S. § 1301.1. The purpose of Act 40 was to eliminate the so-called "consolidated tax savings adjustment" from Pennsylvania ratemaking. Columbia M.B. at 24. 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. Columbia M.B. at 24-25 (citing *Pa. PUC v. PPL Gas Utilities Corporation*, Docket No. R-00061398 (Opinion and Order entered February 8, 2007) (*PPL Gas 2007*) at 128-33 (litigating consolidated tax savings adjustment)). Columbia explained that Act 40 prohibits CTA adjustments and requires utilities to compute a hypothetical CTA, which would apply in the absence of Act 40, and to certify that 50% of the differential shall be used to support reliability or infrastructure related to the rate-base-eligible capital investment, as determined by the Commission, and 50% shall be used for general corporate purposes. Columbia M.B. at 25 (citing 66 Pa.C.S. § 1301.1(b)).

Columbia submitted that the OCA's proposed adjustment is fundamentally flawed and that the Company has fully complied with Act 40's "use of funds" requirements. Columbia M.B. at 25. Columbia added that the OCA's specific argument was addressed and rejected by the Commission in *Pa. PUC v. UGI Utilities, Inc. - Electric Division*, Docket No. R-2017-2640058 (Opinion and Order entered October 25, 2018) *aff'd by McCloskey 2020* (*UGI Electric 2018*) ("The statute does not require public utilities to provide specific information concerning how the amounts would be used." *UGI Electric 2018* at 152). *Id*. at 27-28; Columbia R.B. at 9. Columbia noted that the OCA appealed the Commission's determination, and the Commonwealth Court affirmed the Commission. Columbia R.B. at 9 (citing *McCloskey 2020*).

Lastly, Columbia averred that the OCA's proposed CTA adjustment must fail since Section 1301.1(c)(1) of the Code, 66 Pa.C.S. § 1301.1(c)(1), provides that "[s]ubsection (b) shall no longer apply after December 31, 2025." Therefore, given that Columbia's claim is based upon an FPFTY ending December 31, 2026, Columbia averred that the revenue use provisions of the statute are not applicable to the Company's FPFTY. Columbia M.B. at 28.

b. Recommended Decision

There being minimal discussion on this issue, the ALJs found that the OCA's proposal to remove $2,263,821 from the Company's rate base in order to reflect a CTA is improper, as indicated by the absence of any adjustment to rate base for CTA in Table II of Appendix A to the Recommended Decision.

c. Disposition

No Party filed Exceptions on this issue. Finding the ALJs' recommendation to be reasonable and supported by substantial evidence in the record, we adopt it without further comment.

VI. Revenues, Revenue Increase, and Revenue Requirement

A. Revenues at Present Rates

1. Positions of the Parties

Columbia's overall claim for total revenues at present rates for the FPFTY was $919,007,833. This was comprised of: (1) *pro forma* revenues at present rates of approximately $916,958,770, inclusive of purchased gas cost revenues, riders, late payment fees, gas procurement charge (GPC) revenues, merchant function charge revenues, and miscellaneous revenues; and (2) revenues related to forfeited discounts, miscellaneous revenues, and other gas revenues totaling approximately $2,049,064. Columbia M.B. at 28, Appendix D, Table I; Columbia Exh. JV-1R at 2;[56] Columbia Exh. 103 at 15; *see also* OCA St. 2 at 15.[57] Columbia represented that no Party proposed any adjustment to Columbia's FPFTY *pro forma* revenues at present rates or, by extension, its proposed total revenues at present rates. Columbia M.B. at 29.

[56] In this portion of Columbia Exhibit JV-1R, the Company updated its original Columbia Exhibit 102, Schedule 3 at 3 to reflect its updated proposed revenue increase in light of its sale of Blackhawk.

[57] We note that the actual sum of these two numbers is $919,007,834. Therefore, the de minimis difference of $1 is likely due to rounding.

Columbia explained that the Company's projection of *pro forma* residential and commercial customer usage, which it used to develop *pro forma* revenues in the FPFTY, reflected an assumption of temperatures using a normal weather definition of 20-year average heating degree days (HDD) ending December 31, 2024. Columbia added that if its *pro forma* usage had been developed using a 10-year normal weather definition, this would reduce the Company's *pro forma* revenues at present rates and increase Columbia's projected revenue deficiency by approximately $19 million. Columbia M.B. at 29.

Although Columbia represented that no Party proposed any adjustments to the Company's total revenues at present rates for the FPFTY, I&E proposed total revenues at present rates of $917,771,868, representing a reduction of $1,235,965 to the Company's claim. [$919,007,833 - $1,235,965 = $917,771,868]. As discussed in Section XV of this Opinion and Order, *infra*, I&E took the position that the Commission should reject the Company's proposed Phase II EE Plan in its entirety. Therefore, I&E submitted that the Commission should disallow $1,235,965 of Columbia's claimed total revenues at present rates to remove the Company's claimed revenues related to its Phase II Rider EE for the Company's EE Program reconciling mechanism. I&E M.B. at 15, 79, Appendix A, Table II; I&E R.B. at 2; I&E St. 2 at 91-92; I&E St. 1-SR at 4; I&E St. 2-SR at 60.

2. Recommended Decision

The ALJs found that Columbia presented sufficient evidence to demonstrate that its FPFTY *pro forma* revenues at present rates are $916,958,770, inclusive of purchased gas cost revenues, riders, late payment fees, gas procurement charge revenues, merchant function charge revenues, and miscellaneous revenues. The ALJs represented that no Party proposed any adjustment to Columbia's claimed FPFTY total revenues at present rates. Therefore, the ALJs recommended that the Commission

adopt the Company's claimed total revenues at present rates of $919,007,833. R.D. at 136-37, Appendix A, Table I.

Additionally, as discussed in Section XV, *infra*, the ALJs recommended that the Commission reject Columbia's proposed Phase II EE Plan. However, the ALJs did not make a recommendation regarding Columbia's claim of $1,235,965 for revenues at present rates that are associated with the Company's Rider EE. R.D. at 609-10.

3. Columbia Exception No. 19 and Replies

No Party filed Exceptions directly opposing the ALJs' recommendation with regard to the Company's claimed revenues at present rates. However, as discussed in Section XV of this Opinion and Order, *infra*, in its Exception No. 19, Columbia takes issue with the ALJs' recommendation that the Company's Phase II EE Plan should be rejected. Columbia Exc. at 34-39. I&E, the OCA, and CAUSE-PA filed replies to Columbia's Exception No. 19, discussed *infra*. *See* I&E R. Exc. at 12; OCA R. Exc. at 25; and CAUSE-PA R. Exc. at 19-23.

4. Disposition

As discussed in Section XV of this Opinion and Order, we shall grant Columbia's Exception No. 19 and approve Columbia's proposed Phase II EE Plan. In the Recommended Decision, the ALJs, in summarizing the position of I&E, who opposed the Company's proposed Phase II EE Plan, noted I&E's argument, *supra*, that because the Company is claiming Rider EE revenues of $1,235,965 in its total revenues at present rates, such revenues must be disallowed if the Commission rejects the Company's proposal. R.D at 587. However, in recommending that the Company's Phase II EE Plan be rejected, the ALJs made no corresponding recommendation to reduce the Company's total revenues at present rates to remove the revenues associated

with the Company's Rider EE. Additionally, no recommended reduction to the Company's claimed total revenues at present rates appears in the rate tables set forth in Appendix A of the Recommended Decision. Therefore, as set forth in Appendix A of the Recommended Decision, the ALJs recommended that Columbia's claimed total revenues at present rates of $919,007,833 be adopted. *See Id*. at 136-37, 608-10, Appendix A, Tables I and II.

As noted above, no Party directly excepted to the ALJs' recommendation regarding the Company's total revenues at present rates. Because we shall grant the Company's Exception No. 19 and approve the Company's Phase II EE Plan, we find no reason to reduce the Company's claimed total revenues at present rates to remove the Company's claimed revenues for its Rider EE. Accordingly, we shall approve Columbia's claim of $919,007,833 for total revenues at present rates.

B. Revenue Increase and Revenue Requirement

A utility's revenue requirement represents "the total revenue that the utility needs to collect through the rates charged to the public to cover its cost of service." James H. Cawley & Norman J. Kennard, *A Guide to Utility Ratemaking* at 102 (2018 ed.) (*PUC Rate Case Handbook*). The formula to calculate the utility's revenue requirement is set forth, as follows:

$$RR=T+E+D+(RB \times ROR)$$

Where: RR=Revenue Requirement
T=Taxes
E=Operating Expense
D=Depreciation Expense
RB=Rate Base
ROR=Overall Rate of Return

I&E M.B. at 17-18. The central issue in a base rate case involves identifying the appropriate cost of service, or revenue requirement, for the utility, in this case Columbia.[58] *PUC Rate Case Handbook* at 102.

1. Positions of the Parties

Columbia proposed a final revenue requirement of approximately $1,029,452,509, representing an increase of $110,444,676 over total revenues at present rates of $919,007,833. Columbia Exh. JV-1R at 2; Columbia M.B. at Appendix D, Table I.

I&E recommended a final revenue requirement of $996,415,410 for Columbia. This was based upon I&E's recommended increase of approximately $78,643,542 to the Company's claimed total revenues at present rates of $919,007,833 minus a recommended downward adjustment of $1,235,965 to the Company's claimed total revenues at present rates to reflect removal of the Company's claimed revenues for its Rider EE (*i.e.*, from $919,007,833 to $917,771,868).[59] I&E M.B. at 15, 79, Appendix A: Table II; I&E R.B. at 2; I&E St. 1-SR at 4.

As discussed in Section IV.B, *supra*, the OCA proposed an annual *decrease* of approximately $36,316,933 to the Company's revenues. OCA M.B. at 28; OCA R.B.

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[58] We have discussed the Company's rate base, *supra*, and will discuss the remaining components of the Company's revenue requirement formula in the sections that follow.

[59] As noted above, the Company's proposed Phase II EE Plan is discussed in Section XV of this Opinion and Order, *infra.*

at 3; OCA St. 2SR at 3, 4, 24-26; OCA Exh. DM-SR-1.[60] When applied to the Company's claimed total revenues at present rates of $919,007,833, the OCA's proposal would result in a final revenue requirement of $882,690,900.[61] The OCA submitted that in setting forth a revenue requirement for the Company, the Commission should adopt the OCA's recommended adjustments to the Company's rate base, *supra*, and to its expenses and rate of return, *infra.* OCA M.B. at 42-43.

As previously noted, the OSBA did not propose a specific revenue requirement for Columbia. However, as previously noted, the OSBA submitted that, at a minimum, the Commission should: (1) award an ROE[62] that is lower than that sought by Columbia; (2) 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; and (3) require Columbia to demonstrate that it has a long-term viable business as part of its next LTIIP filing. OSBA M.B. at 4-7.

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[60] The OCA's Exhibit DM-SR-1 shows a proposed annual decrease of $36,316,933 applied to the Company's *pro forma* revenues at present rates of $916,958,770, representing final *pro forma* revenues at proposed rates of $880,641,837. However, when this proposed decrease is applied to the Company's total revenues at present rates of $919,007,833, this results in a final proposed revenue requirement of $882,690,900.

[61] We further note that Appendix A, Table I of the OCA's Main Brief depicts a proposed annual decrease in revenues of $26,377,267 applied to the Company's total proposed revenues at present rates of approximately $919,007,834, for a final proposed revenue requirement of $892,630,567. It is unclear why the proposed revenue decrease and revenue requirement outlined in the rate tables accompanying the OCA's Main Brief differs from the amount set forth in the body of the OCA's Main Brief, and as also stated by the OCA several other places in the record in this proceeding.

[62] The appropriate ROE to award Columbia is discussed in Section X.D of this Opinion and Order, *infra.*

CAUSE-PA, likewise, did not propose a specific revenue increase or revenue requirement. However, CAUSE-PA explained that it strongly supports the OCA's recommendation that the Commission decrease Columbia's revenue requirement by $36,316,933, or by 3.96%. According to CAUSE-PA, a mandated decrease in the Company's annual revenue requirement would aid in addressing "identified energy insecurity across Columbia's service territory." CAUSE-PA M.B. at 19.

2. Recommended Decision

As discussed in detail in Section IV.B of this Opinion and Order, *supra*, the ALJs' primary recommendation in this proceeding was that the Commission deny Columbia's proposed revenue increase in its entirety and direct the Company to keep in place the rates, charges, and provisions in effect that were previously approved by this Commission in *Columbia Gas 2024*. However, the ALJs stated that if the Commission disagrees with their primary recommendation, then, alternatively, they recommended an overall revenue requirement of $985,432,407 for Columbia. This alternative recommendation was based on the various adjustments that they recommended the Commission adopt in lieu of their primary recommendation, resulting in an overall distribution revenue increase of approximately $66,424,574 over total revenues at present rates of $919,007,833. The ALJs' recommendation represented an increase of approximately 7.23% in natural gas operating revenues. R.D. at 2, 24-25, 118, Appendix A, Table I.

3. Exceptions and Replies

As discussed elsewhere in this Opinion and Order, Columbia and the OCA each filed Exceptions to certain recommendations the ALJs made regarding the rate base, expenses, and rate of return components of Columbia's revenue requirement.

4. Disposition

As discussed in Section IV.B, *supra,* we have declined to adopt the ALJs' primary recommendation that the Company's proposed revenue increase be denied in its entirety. Accordingly, based upon our findings regarding certain inputs to Columbia's rate base and total revenues at present rates, *supra*, and to the Company's expenses, cost of common equity, and overall rate of return, discussed, *infra*, we shall approve an overall revenue requirement of approximately $974,635,633, which will result in an overall distribution revenue increase of approximately $55,627,800, or 6.05%, on an annual basis. This is outlined in Table I of the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order. This approved revenue requirement is also summarized in Table 7, below, using the components of the revenue requirement formula, *supra*.

Table 7: Summary of the Approved Revenue Requirement for Columbia[63]

RR= T + E + D + (RB x ROR)		
	T	$66,307,904
+	**E**	$454,905,985
+	**D**	$154,414,356
		$675,628,245
	RB	$3,825,964,472
x	**ROR**	7.82%
		$299,007,388
	T+E+D	$675,628,245
+	**(RB x ROR)**	$299,007,388
	Total RR	**$974,635,633**

VII. Depreciation Expense

A. Positions of the Parties

Columbia's updated final FPFTY depreciation expense claim, reflecting removal of Blackhawk and including the amortization of net salvage, was $154,650,832.[64] *See* Columbia Exh. JV-1R at 7. The Company claimed that the

[63] We note that any differences in Table 7 are due to rounding. We further note that T (*i.e.*, Taxes expense) is calculated as the summation of the following tax expenses under the "Total Allowable Revenues" column in Table I of the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase: Taxes, Other expense of $4,359,923, State Income Taxes expense of $9,776,462, and Federal Income Taxes expense of $52,171,519. [$4,359,923 +$9,776,462 + $52,171,519 =$66,307,904].

[64] Columbia's as-filed FPFTY annual depreciation expense claim of $154,855,845 consisted of a depreciation and amortizable expense of $149,371,164 and a five-year net negative salvage expense of $5,484,681. *See* Columbia Exh. 105 at 9-10. In order to reflect the removal of Blackhawk, the Company's annual depreciation and amortizable expense of $149,371,164 was reduced by an annual depreciation expense amount of $205,013 associated with Account 354.10 – Compressor Station Equipment – New. Columbia St. 5-R at 32; Columbia Exh. JV-1R at 7.

calculation of annual depreciation expense and net salvage was prepared in accordance with standard procedures long accepted by this Commission. Columbia St. 5 at 4-5. Specifically, the Company noted that it uses the straight-line, remaining-life depreciation method, with the ELG procedure generally, to allocate the unrecovered original cost to the annual revenue requirement to be borne by current and future customers. *Id*. at 4.

The OCA proposed two adjustments to the Company's depreciation expense claim: (1) the disallowance of $236,476 associated with the proposal of the OCA's witness, Mr. Mugrace, *supra*, that the Company's claimed plant additions be reduced by approximately $14.5 million to remove the Company's use of inflation adjustments; and (2) the OCA's proposed $45,802,423 reduction resulting from the proposal of the OCA's witness, Mr. Garrett, to recompute annual depreciation accruals using the ASL procedure. *See* OCA St. 2 at 9-10; *see also* OCA St. 3 at 60-66. Mr. Garrett testified that, in practice, depreciation experts tend to rely on either the ASL procedure or the ELG procedure, as is the case here. *See* OCA St. 3 at 60.

Columbia's witness, Mr. 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.

Columbia St. 5-R at 4-5.

The OCA contended that its proposal to recompute annual depreciation accruals using the ASL procedure is an attempt to avoid what it characterized as unjust and unreasonable rates resulting from the Company's continued use of the ELG procedure. OCA M.B. at 69-70. According to the OCA, continued use of the ELG procedure imposes an unjustified and unreasonable $63.615 million revenue requirement burden on ratepayers, inflates the depreciation expense balance by approximately $45 million, and represents approximately 58% of Columbia's revenue increase request. OCA St. 2SR at 26. In short, the OCA contended that the ELG procedure is a form of accelerated depreciation that unfairly increases rates by shifting costs to current customers, while the ASL procedure ensures fair cost recovery, proper revenue-expense matching, and consistency with other jurisdictions. OCA M.B. at 55-88; OCA R.B. at 27-47.

The OCA's witness, Mr. 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." As such, "use of the average life results in the same depreciation rate applied to

each age interval." Mr. 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." OCA St. 3 at 61. The OCA asserted that, 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, causing customers to pay more in the early years of an asset's life. OCA St. 3SR at 13.

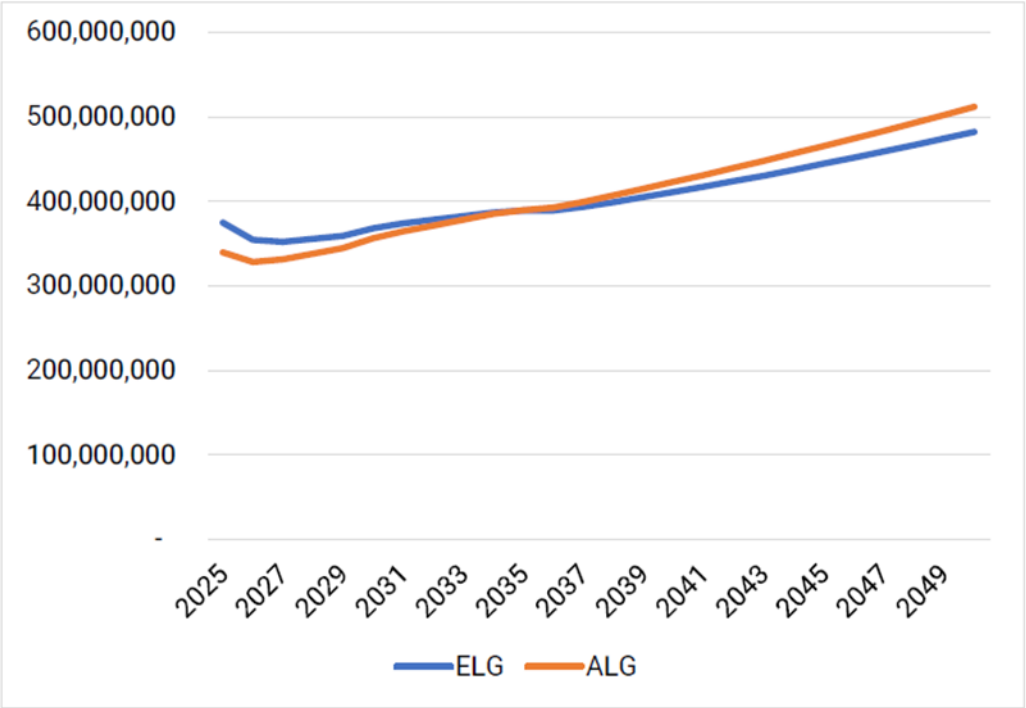
The OCA proposed that the Company instead adopt the ASL method, which, according to the OCA, spreads depreciation more evenly over time and is consistent with standard regulatory practice. Mr. Garret insisted that using the ASL method would yield "significantly fairer rates for customers." OCA St. 3 at 5.

As indicated in its Main and Reply Briefs, Columbia is firmly in favor of continuing to use the ELG procedure with the straight-line, remaining-life depreciation method, which, as argued by the Company, has been used consistently for over forty years in Pennsylvania for gas, electric, and water utilities, and is the predominant and Commission-approved method for calculating depreciation expense in Pennsylvania. *See* Columbia M.B. at 29-41; *see also* Columbia R.B. at 11-20.

Columbia submitted that, contrary to the OCA's contention, the ELG procedure more accurately matches the cost recovery with asset use, reflecting the real dispersion of asset retirements within large plant accounts. Further, Columbia continued, the ELG procedure avoids intergenerational inequity, ensuring each generation of customers pays for the service it receives. As stated in the Company's Main Brief, Columbia averred that "[t]he very nature of the ELG procedure more precisely calculates depreciation expense for assets with like lives…more appropriately match[ing] the recovery of the asset's cost to the period of time over which it is providing service to ratepayers." Columbia M.B. at 38 (citing Columbia St. 5-R at 21-22). In contrast, Columbia contended that the ASL procedure defers recovery of short-lived assets,

making future customers pay for assets that no longer provide service. Columbia R.B. at 15-16.

Columbia argued that, although the ASL procedure might appear to lower current rates, it increases rate base (by lowering accumulated depreciation), leading to higher rates in the long run. 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. Columbia St. 5-RJ at 6. Over a relatively short period of time, Columbia asserted, 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 M.B. at 37. To illustrate this point, Mr. Spanos prepared a roughly 25-year forecast of plant and depreciation reserve balances for Columbia under the two scenarios of maintaining the currently approved ELG procedure or changing to the ASL procedure, as follows:



See Columbia St. 5-R at 17-18. This forecast, Columbia asserted, demonstrates that within approximately ten years, the change to the ASL procedure would result in higher rates than continuation of the ELG procedure, with the gap widening over time thereafter.

Columbia further submitted that the ELG procedure is an accepted practice in Pennsylvania; and that other jurisdictions' differing use of the ASL procedure, as noted by the OCA, is not relevant because these different jurisdictions use other depreciation parameters (*e.g.*, whole-life vs. remaining-life, net salvage treatment). Columbia M.B. at 39-41; Columbia R.B. at 17-18.

B. Recommended Decision

In their Recommended Decision, the ALJs agreed with the Company's depreciation expense claim, noting that 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 the "OCA has not offered sufficient

evidence to justify a change to the ASL procedure in this particular case." R.D. at 133, 150-51, 239.

Additionally, consistent with the ALJs' recommendation to deny the OCA's proposal to remove $14,507,711 of the Company's claimed plant in service for the FPFTY, reflecting the removal of the Company's inflation factors used to develop its budgeted plant additions for the FTY and FPFTY, the ALJs recommended that the OCA's commensurate $236,476 downward adjustment to the Company's depreciation expense claim also be denied.[65]

Accordingly, the ALJs recommended that both of the depreciation expense adjustments proposed by the OCA be denied. R.D. at 133, 150-51, 239.

C. OCA Exception No. 1 and Replies

In its Exception No. 1, the OCA objects to the ALJs' recommendation that Columbia's depreciation expense claim be adopted, maintaining its contention that the Company's use of the ELG depreciation procedure results in unjust and unreasonable rates. OCA Exc. at 3-14.

Although the Company has not disputed that the Commission has the authority to adopt properly supported changes to procedures used to determine depreciation expense and accrued depreciation, the OCA, in its Exception No. 1, remains of the firm opinion that no Pennsylvania law or Commission Regulation prevents the adoption of the ASL procedure. OCA Exc. at 5-8. Additionally, the OCA takes issue with the perceived suggestion of the ALJs that the OCA must justify a change in method,

[65] Tables I and II of Appendix A to the Recommended Decision underscore the ALJs' adoption of the Company's claim for depreciation expense.

asserting that it is Columbia, not the OCA, which bears the burden to prove that the Company's claimed depreciation expense is reasonable. OCA Exc. at 8-11. The OCA also continues its attempt to justify its proposed change to Columbia's depreciation method, and resulting $45,802,423 reduction to Columbia's claimed depreciation expense, by noting the use of its preferred method in other jurisdictions. *Id*. at 4.

The remainder of the OCA's Exception No. 1 is a further reiteration of its arguments in favor of its proposal, contained throughout its testimonies, Main Brief, and Reply Brief, and summarized by the ALJs in their Recommended Decision. *See* OCA M.B. at 55-88; OCA R.B. at 4-6, 27-48; R.D. at 141-49. In summary, the OCA maintains that Columbia's use of the ELG depreciation procedure unjustly accelerates cost recovery and inflates current rates, resulting in intergenerational inequity. OCA Exc. at 3, 13. The OCA contends that by accelerating cost recovery through the continued use of the ELG procedure, the depreciation reserve grows too quickly, leading to mismatches between revenues and expenses. *Id.* at 12-13. Therefore, the OCA continues to support replacing the ELG procedure with the ASL procedure, which, the OCA argues, provides a consistent annual expense and adheres to the matching principle, avoiding intergenerational inequity between current and future customers. *Id.* at 3, 13-14.

In its Replies to Exceptions, Columbia maintains that the continued use of the ELG method for depreciation is the most accurate, equitable, and cost-effective approach for customers over time. Specifically, Columbia argues that:

- The ELG method more accurately matches depreciation expense with how assets are used and ensures that current customers pay for the assets they use, avoiding "intergenerational inequity."

- The OCA's proposal to replace the ELG procedure with the ASL procedure would cause higher future rates and larger rate base balances in approximately ten years, even if it temporarily lowers current rates.

- The ELG method provides timely capital recovery and enhances internally generated funds, which Columbia uses to finance its large-scale infrastructure replacement program under its LTIIP.

- Switching to the ASL methodology would reduce internally generated funds by roughly $45 million annually, potentially slowing Columbia's pipeline replacement schedule or requiring additional investor funding.

- The ELG method has been the predominant depreciation method approved by the Commission for more than 40 years for gas, electric, and water utilities, and it results in lower long-term customer costs.

See Columbia R. Exc. at 2-5.

Columbia submits that a simple example from the rebuttal testimony of the Company's witness, Mr. Spanos, demonstrates why the ELG procedure does not unreasonably accelerate recovery or create intergenerational inequity:

> Assume there are two assets within a group, each costing $1,000. Further assume that Unit A will be in service for five years and Unit B will be in service for 15 years. Under the ELG procedure, this means there are two equal life groups. The annual depreciation rate for Unit A is 20% (1/5), producing an annual accrual of $200, and the annual depreciation rate for Unit B is 6.67% (1/15), producing an annual accrual of $66.67. Thus the annual accruals for the first five years would be $266.67. At the end of year five, Unit A is retired. Under asset accounting procedures, when Unit A is retired, its original cost of $1,000 is removed from plant in service, and the accumulated depreciation reserve is likewise reduced by $1,000. Beginning in Year six, the original cost of Unit B of $1,000 continues in plant in service, and there remains an amount of $333.33 in the depreciation reserve ($66.67 x 5). Thus, with five years of Unit B's 15-year life consumed, accumulated depreciation is exactly one-third of the original cost. Annual depreciation expense for Unit B will continue at $66.67. Further, net rate base beginning in Year six will be $666.67, and will decline each year thereafter.

> In contrast, using the same assumptions and employing the ASL procedure, the average service life of the units is 10 years ([5+15]/2). For the first five years, the annual depreciation amount is $200 ($2,000 x 10%), or $1,000 after five years. When Unit A is retired after Year five, $1,000 is removed from both plant in service and the accumulated depreciation reserve. At the start of Year six, Unit B remains in service with an accumulated depreciation reserve balance of $0. Therefore, for the next 10 years, $100 ($1,000 x 10%) of annual depreciation expense must be recovered under the ASL procedure, even though Unit B is 1/3 of the way through its service life. Moreover, net rate base as of the beginning of Year six ($1,000) will be above the net rate base under the ELG procedure ($666.67). Thus, future ratepayers are being asked to pay both depreciation and return associated with plant that was, in part, used by past customers. This demonstrates the intergenerational inequity of adopting ASL.

Columbia R. Exc. at 3-4 (citing Columbia St. 5-R at 6-8).

D. Disposition

As previously indicated, the OCA proposed two adjustments to the Company's depreciation expense claim: (1) the disallowance of $236,476 associated with its witness, Mr. Mugrace's, proposed downward adjustment of approximately $14.5 million to Columbia's claimed plant additions; and (2) the OCA's proposed $45,802,423 reduction resulting from its witness, Mr. Garrett's, proposal to recompute annual depreciation accruals using the ASL procedure. *See* OCA St. 2 at 9-10; *see also* OCA St. 3 at 60-66.

Having addressed the OCA's proposed $14.5 million adjustment to Columbia's claimed plant additions, *supra*, which generated its proposed commensurate reduction of $236,476 to the Company's depreciation expense claim, our discussion here is limited to the OCA's proposed $45,802,423 reduction to Columbia's claimed

depreciation expense, based on its proposal to change the Company's depreciation method from the ELG procedure to the ASL procedure.

As explained by the OCA's witness, Mr. Garrett, depreciation rates are determined in a depreciation study using a depreciation system. *See* OCA St. 3 at 60. There are basic components, each with a number of variations, used to determine a depreciation system, which is then used to estimate depreciation rates. *Id*. The basic components are: (1) methods; (2) procedures; (3) techniques; and (4) models. As Mr. Garrett testified:

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

OCA St. 3 at 60. Regarding depreciation procedures, Mr. Garrett testified that "[t]he 'average life' and 'equal life' grouping procedures are the two most common." OCA St. 3, Appendix C at 4-5. The primary issue before the Commission concerns the amounts to be recovered in operating expenses for annual depreciation and whether the ELG procedure, the procedure used consistently by Columbia for over forty years to compute depreciation, should be changed to the ASL procedure.[66]

[66] According to Columbia, the ELG method was adopted for the Company in the 1980s and has been used by Columbia ever since. Columbia St. 5-R at 13. The Company testified that the ELG procedure was adopted for Columbia, and many other Pennsylvania utilities, on a going forward basis. Columbia asserted that for this reason, vintages of plant subsequent to the adoption of ELG use the ELG procedure and older vintages use the ASL procedure. For Columbia, vintages 1976 and subsequent use the ELG procedure, and vintages 1976 and prior use the ASL procedure. *Id.*

The OCA proposed that Columbia utilize the ASL depreciation procedure to determine the depreciation expense, arguing that depreciation rates calculated using the ELG procedure result in the front-loading of depreciation rates, leading customers to pay substantially more depreciation expense than is necessary for the utility to recover its investments. OCA M.B. at 85-87. Thus, the OCA implied that a utility has an incentive for higher depreciation because it results in higher customer rates, and therefore, more cash flow for the Company.

Depreciation impacts customer rates in two ways. First, depreciation expense is a direct component of the revenue requirement; however, accumulated depreciation is also a reduction to rate base. Second, a higher level of accumulated depreciation results in a lower rate base, lower return on rate base, and therefore, lower customer rates when compared to a lower level of accumulated depreciation.

Upon review, we find that the alleged benefit of the ASL procedure proposed by the OCA's witness, Mr. Garrett, of lower depreciation expense and a short-term reduction in rates for current customers, is not a result of the procedure itself, but is a result of the proposed change in procedure. As argued by the Company's witness, Mr. Spanos, over time, the depreciation rates generated by the ASL procedure will result in a higher rate base and a higher overall cost to customers in comparison to the continued use of the ELG procedure. Columbia St. 5-RJ at 6. By ignoring the impact of depreciation expense on rate base, the OCA fails to acknowledge that any benefit to current customers from Mr. Garrett's proposal to use ASL depreciation rates only results from the change from the ELG to ASL procedure, not from the overall use of the ASL procedure itself.

As Columbia acknowledged, it is correct to assume that if the Company were to switch from the ELG to the ASL procedure, there would be a short-term benefit to current customers; however, this is only because current customers would benefit from

both lower ASL depreciation rates, as well as from the lower rate base that exists due to the long-standing use of the ELG procedure. Additionally, a switch to the ASL procedure would increase rate base in comparison to the continued use of the ELG procedure (by lowering accumulated depreciation), leading to higher rates in the long run. Therefore, adoption of the ASL procedure would serve as an intergenerational subsidy to current customers at the expense of other generations of customers.

The intergenerational inequity that would be developed from changing to the ASL procedure after approximately forty years of using the ELG procedure is that future customers would be paying less than current and past customers for the recovery of the same assets from which they are receiving service. Although, in both procedures, the cost of each unit of plant is theoretically fully accrued by the time of its retirement, the ELG procedure recognizes the reality of dispersion, rather than calculating the depreciation expense for all property in an account based on the average service life for the entire group, as under the ASL procedure. Specifically, the ELG procedure recognizes that in actual utility operations, only a very small percentage of an account will be retired at the average service life, and therefore, this depreciation procedure allocates costs for each equal life group over the expected life for that group. As such, given that the ELG procedure recovers more of the service cost of the assets earlier in the assets' lives, when the assets are providing a higher level of service, the level of depreciation reserve, or service costs recovered to date, is greater as of the FPFTY than if the ASL procedure had been utilized over the past forty years. This means that if the procedure is now changed to the ASL procedure, the future amount of service cost to be recovered equally each year over the remaining years of the asset's average service life would be less than if the ASL procedure had been used for the previous forty years. In short, future customers will be paying less for the same assets than current or past customers.

We further agree with the Company that there is a strong argument that the ASL procedure results in intergenerational inequity. In this regard, because depreciation expense on shorter-lived assets occurs over the average service life, recovery for these assets is deferred. The ELG procedure correctly matches depreciation expense of the straight-line allocation of service value over the period the assets are in service and avoids the back-end loading of the ASL procedure. Under the ELG procedure, the depreciation for each property group is based on the average service life of the account or vintage. As a result of using an average, the cost of short-term lives is not fully accrued by the time of their retirement, and the service value of long-lived items is more than fully accrued in order to make up for the under accruals of the short-lived items. Therefore, the ELG procedure produces a more equitable recovery by recovering these costs over the actual, shorter, service lives.

Further, we note that this Commission, on numerous occasions, has accepted the use of the ELG procedure, and has done so, specifically in regard to Columbia, for over forty years. We find that other jurisdictions' differing use of the ASL procedure, as noted by the OCA, is not relevant since these jurisdictions use other depreciation parameters (*e.g.*, whole-life vs. remaining-life, net salvage treatment). *See* Columbia M.B. at 39-41; Columbia R.B. at 17-18.

Lastly, the Company's witness, Mr. Spanos, further explained how the OCA's witness, Mr. Garrett's, use of an inconsistent methodology caused overstated reserves and understated depreciation expense, leading to a $45.8 million artificial reduction to annual depreciation expense. Columbia St. 5-R at 24-27; Columbia St. 5-RJ at 7-8. Mr. Spanos's main criticism was that Mr. Garrett applied the ASL depreciation procedure but continued to use book reserve balances developed under the ELG procedure. As Mr. Spanos explained, in Pennsylvania, the standard procedure is to: (1) calculate depreciation for the HTY; (2) bring forward the reserve to the FTY; and then (3) bring that forward again to the FPFTY. Mr. Spanos argued that Mr. Garrett

skipped steps in this process, by calculating depreciation for each test year but not using each year's resulting reserve to project the next, instead inserting ELG-derived reserves into an ASL framework. Columbia St. 5-R at 24-26. In his Rejoinder Testimony, Mr. Spanos added that if Mr. Garrett truly wanted to switch to the ASL procedure, he would need to restate the historical book reserves for the past forty (40) years to match that method. However, Mr. Spanos stressed that Mr. Garrett did not attempt to do so. Columbia St. 5-RJ at 7-8.

Based on our review of the record, the ALJs' Recommended Decision, the Exceptions to the Recommended Decision, and Replies thereto, we agree with the ALJs that the Company presented evidence outweighing the evidence presented by the OCA on this issue. Therefore, we find that the ALJs properly recommended that the Commission reject the OCA's proposal to adopt the ASL procedure in this proceeding. Accordingly, we shall deny the OCA's Exception No. 1.

As such, reflective of our denial of the OCA's Exception No. 1, as well as for the reasons set forth in our disposition in Section V of this Opinion and Order regarding the issue pertaining to: (1) the OCA's proposed downward adjustment to Columbia's claimed FPFTY plant in service; and (2) its derivative proposed adjustment to lower the Company's FPFTY depreciation expense claim by $236,476, *supra*, we shall adopt the OCA's proposal to reduce Columbia's depreciation expense balance by $236,476. This will result in a final allowed depreciation expense of $154,414,356 for Columbia in the FPFTY. [$154,650,832 - $236,476 = $154,414,356].

VIII. O&M and A&G Expenses

Columbia stated that its *pro forma* O&M and A&G expense claims reflect: (1) annualized expenses to the end of the test year, in accordance with traditional ratemaking procedures; and (2) a normalized level of expenses for the FPFTY ended

December 31, 2026. Columbia M.B. at 41 (citing *UGI Electric 2018* at 23). Further, Columbia noted that the basis for the Company's forecasted O&M expense is based on the Company's most recent O&M budget for the twelve months ended December 31, 2026, as adjusted for ratemaking purposes and developed by: (1) operations planning; (2) state financial planning and analysis; and (3) corporate financial planning and analysis. Columbia M.B. at 41-42.

As shown in Table 8, I&E proposed the following allowances and adjustments to the Company's O&M expense claims:

Table 8: Summary of I&E's Proposed Adjustments to Columbia's Claimed O&M Expenses

	Company Claim	I&E Recommended Allowance	I&E Adjustment
O&M Expenses:			
Rate Case Expense	$1,321,000	$731,372	($589,628)
Other Employee Benefits	$8,915,459	$7,754,135	($1,161,324)
Other Rents and Leases	$545,640	$475,203	($70,437)
Allocated Compensation – Stock Awards	$4,528,579	$0	($4,528,579)
O&M and Tax Adjustments for Sale of Blackhawk Storage	($229,783)	($470,000)	($240,217)
Total O&M Adjustments			($6,590,185)

I&E St. 1-SR at 3.[67]

[67] As discussed in Section VIII.O, *infra,* subsequent to the filing of the instant rate case, Columbia requested the deferment and amortization of Blackhawk. In this regard, Columbia proposed to establish a regulatory asset to defer and amortize the non depreciable loss on the sale of $5,031,739 and the expenses related to a feasibility study of $389,005 for a total amount of $5,420,743, to be amortized over a period of five years, or $1,084,149 per year. Thus, the Company included an amortization expense claim of $1,084,000. I&E opposed Columbia's inclusion of the Blackhawk regulatory asset in the

The OCA argued that the Company's projected operating expense levels are inflated, largely unsupported by known and measurable evidence, and/or do not result in any benefit to the Company's ratepayers. Accordingly, the OCA recommended several adjustments to the Company's claims for O&M and A&G expenses, as discussed in detail, below. OCA M.B. at 88-89.

A. Labor Expenses

1. Positions of the Parties

Initially, Columbia anticipated a total labor expense for the FPFTY of $38,770,674. Subsequently, in rebuttal, Columbia reduced its labor expense proposal by $99,544, to reflect the sale and removal of Blackhawk. Thus, Columbia proposed a total labor expense for the FPFTY of $38,671,131. [$38,770,674 – $99,544 = $38,671,131].[68] Columbia Exh. JV-1R at 6. According to Columbia, its claim for labor expense is based upon actual positions filled as of the end of the HTY, not authorized positions. Specifically, Columbia noted that at the end of the HTY, the Company had 715 actual employees and 787 authorized employees, resulting in 72 vacancies. [787 – 715 = 72]. Columbia M.B. at 43-44 (citing Columbia St. 18-R at 5; Columbia Exh. 1 at Attachments A, B).

The OCA posited that Columbia's proposed labor expense is unreasonable and unsupported by the historical data relevant to employee complement. OCA R.B. at 51. The OCA averred that Columbia had an actual employee count of 728 for the

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current base rate case and thus opposed the inclusion of this claim. Therefore, I&E's total proposed reduction to the Company's O&M and A&G expenses was $7,674,185. [$(6,590,185) + $(1,084,000) = $(7,674,185)].

[68] We note that the actual difference between these two numbers is $38,671,130. Therefore, the de minimis difference of $1 is likely due to rounding.

month ending November 30, 2023, 715 employees in the HTY, and the same level of employee headcount in the FTY and FPFTY period, resulting in a reduction of 13 employees from the November 30, 2023 period. [728 – 715 = 13]. Further, the OCA noted that based on vacancy levels from 2022 through 2024, Columbia's three-year average of employee vacancies is 62, or, when applying the Company's O&M percentage of 50.57%, an average net vacancy of 31 employees.[69] Moreover, the OCA calculated a vacancy rate ratio of 4.3812% by dividing the average historic vacancy rate of 31 employees by the three-year average of 715 employees. Furthermore, the OCA asserted that a vacancy rate ratio, essentially, ensures that the Company does not over-earn if Columbia's projected headcount does not materialize. OCA St. 2 at 16-18; OCA St. 2SR at 10-11. Accordingly, the OCA proposed a downward adjustment to labor expense of $1,698,621. OCA Exh. DM-SR-10.[70]

2. Recommended Decision

The ALJs recommended that the OCA's proposed adjustment to Columbia's claim for labor expense be denied. R.D. at 201.

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[69] *See* Columbia Exh. 104, Sch. 2 at 1.

[70] The OCA's Exhibit DM-SR-10 shows a total downward adjustment to labor expense of $1,698,621 in the FPFTY. *See* OCA Exhibit DM-SR-10. Consequently, Appendix A, Table II of the OCA's Main Brief depicts total labor expense of $37,072,052. [$38,770,674 + $(1,698,621) = $37,072,052]; differences likely due to rounding. *See* OCA M.B. at Appendix A, Table II. It is unclear why the OCA's proposed labor expense adjustment provided in the rate tables accompanying the OCA's Main Brief differs from the adjustment amount of $1,698,606 set forth on page 93 of the OCA's Main Brief, and as stated by the OCA in several other documents in the record in this proceeding.

3. Disposition

No Party excepted to the recommendation of the ALJs on this issue. Regarding the labor expense, we agree with the ALJs that the OCA's proposed adjustment to labor expense be denied. Further, we find sufficient support in the record to conclude that the Company's claim for labor expense of $38,671,131 for the FPFTY is reasonable. Columbia's witness, Mr. Jason Leal, testified that the Company's projected labor expenses are "based solely on actual, filled positions as of the end of the HTY, and therefore, already excludes vacancies." Mr. Leal continued: "Columbia used a headcount of 715 filled positions as of the end of the HTY. This methodology, in place since Columbia's 2022 rate case (Docket No. R-2022-3031211), excludes any vacant positions and more accurately reflects labor cost expectations during the FPFTY."[71] Columbia St. 18-R at 5. We are not persuaded by the OCA's argument that a vacancy rate ratio is more reliable than Columbia's specific position methodology. Therefore, we shall adopt the ALJs' recommendation on this issue.[72]

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[71] *See Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2022-3031211, *et al*. (Opinion and Order entered December 8, 2022) (*Columbia Gas 2022*).

[72] We further note that the OCA's proposed adjustment to the Company's claim for labor expense was based on Columbia's originally filed claim of $38,770,674. In OCA Exhibit DM-SR-10, the OCA derived its proposed downward adjustment of $1,698,621 to the Company's originally claimed labor expense by multiplying the Company's original claim by a vacancy rate ratio of 4.3812%. [$38,770,674 x 4.3812% = $1,698,621]. The record indicates that the OCA did not make an adjustment to the Company's claim for labor expense based upon Columbia's revised labor expense claim of $38,671,131. *See, generally*, OCA St. 2SR at 3. However, applying a vacancy rate ratio of 4.3812%, the OCA's revised downward adjustment to the Company's revised claim for labor expense would have been $1,694,260. [$38,671,131 x 4.3812% = $1,694,260]. We likewise would reject the OCA's revised, imputed, downward adjustment for the same reasons as stated above.

B. Other Employee Benefits

1. Positions of the Parties

Columbia proposed to recover $8,915,459 in other employee benefits (OEB) for the FPFTY. Columbia noted that its claim for OEB expense reflects the costs of employee health and dental insurance, a 401(k) plan, and long-term disability. Columbia M.B. at 45 (citing Columbia Exh. JV-1R at 6; Columbia Exh. 104, Sch. 1 at 4). Further, Columbia noted that its projected OEB expense relies upon the advice of actuarial experts who developed a model to project costs that reflect the Company's labor base of 715 filled positions, projected increases to medical costs, and Company-specific data, including claims experience, enrollment, plan design, and demographics. Columbia M.B. at 46-47 (citing Columbia St. 20-R at 4).

I&E recommended a reduction to Columbia's total OEB expense claim of $8,915,459, based on a benefits-to-payroll expense factor of 20%. According to I&E, Columbia's actual benefits expense is consistently 19.99% of payroll expense in the last three years, as shown in Table 9, below:

Table 9: I&E's Calculation of Columbia's Percentage of Benefit Expense to Payroll

Percentage of Benefit Expense to Payroll			
	Payroll Expense	**Benefits Expense**	**% of Benefits Expense**
2022	$37,167,108	$6,603,495	17.77%
2023	$38,414,985	$8,036,006	20.92%
HTY 2024	38,096,593	8,109,063	21.29%
		Three-Year Average	**19.99%**

I&E St. 1 at 13-14. Accordingly, I&E recommended an allowance to OEB expense of $7,754,135, or a reduction of $1,161,324, [$8,915,459 - $1,161,324 = $7,754,135], based on 20% of the Company's anticipated labor expense.[73] I&E St. 1 at 11-14; I&E St. 1-SR at 8-12.

The OCA referred to its proposed vacancy rate ratio of 4.3812% for labor expense, *supra,* to submit that a corollary adjustment to OEB expense is necessary for the FPFTY period. Accordingly, the OCA recommended that, if the Commission adopts the OCA's proposed vacancy rate ratio adjustment, then this same adjustment should be flowed through to the Company's OEB expense claim. OCA M.B. at 99 (citing OCA St. 2 at 15, 23; Columbia Exh. 104, Sch. 1).

[73] We note that while the Company's actual claim for OEB expense did not change in light of the sale of Blackhawk, I&E's recommended allowance of $7,754,135 for the Company's OEB expense was based on 20% of Columbia's initially anticipated labor expense claim of $38,770,674. [$38,770,674 x 20% = $7,754,135]. As discussed in Section VIII.A, *supra*, in rebuttal, Columbia adjusted it's labor expense claim to reflect the sale and removal of Blackhawk. Therefore, under the Company's updated claim for labor expense of $38,671,131, I&E's recommended allowance for OEB expense would have been $7,734,226. [$38,671,131 x 20% = $7,734,226]. As such, I&E's recommended reduction to the Company's OEB expense claim would have been $1,181,233. [$8,915,459 - $7,734,226 = $1,181,233].

2. Recommended Decision

The ALJs recommended that the OCA's proposed adjustment to OEB expense, based upon the OCA's proposed vacancy rate ratio, be denied. R.D. at 202.

3. Disposition

No Party excepted to the recommendation of the ALJs on this issue. The OCA recommended that if the Commission adopts the OCA's proposed vacancy rate ratio adjustment to labor expense, then this same adjustment should be applied to the OEB expense. As discussed in Section VIII.A of this Opinion and Order, *supra*, we agree with the ALJs that the OCA's proposed adjustment to labor expense, based upon applying a vacancy rate ratio, be denied. Thus, we agree with the ALJs that the OCA's proposed vacancy rate ratio adjustment to OEB expense be denied. Furthermore, we find sufficient support in the record to conclude that the Company's claim of $8,915,459 for the FPFTY is reasonable. Therefore, we shall adopt the ALJs' recommendation on this issue.

C. Incentive Compensation

1. Stock Rewards

a. Positions of the Parties

Columbia anticipated cash-based, short-term incentive (STI) compensation of $2,568,807 for the FPFTY. Columbia M.B. at 47 (citing Columbia Exh. 104, Sch. 1 at 4). Columbia posited that cash-based incentive compensation, *inter alia*, motivates employees by setting achievable goals that align rewards with delivering safe, reliable, efficient, and cost-effective service. Columbia St. 20-R at 6-7. Further, Columbia noted

that the Commission has established and reaffirmed that incentive compensation expense programs are recoverable if such programs are reasonable and benefit ratepayers. Columbia M.B. at 48-49 (citing *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597 (Opinion and Order entered December 28, 2012) (*PPL 2012*) at 26; *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711 (Opinion and Order entered July 31, 2008) (*Aqua 2008*) at 20-26; *Pa. PUC v. Duquesne Light Company*, Docket No. R-00860378 (Opinion and Order entered March 10, 1987) (*Duquesne 1987*); *PPL Gas 2007*; *UGI Electric 2018* at 73-74; *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 and R-2021-3027386 (Opinion and Order entered May 16, 2022) (*Aqua 2022*) at 100).

Columbia also claimed $754,446 in long-term incentive (LTI) compensation stock awards expense for the FPFTY. Columbia submitted that its proposed stock reward levels benefit customers and shareholders because they are based on customer value goals, including, *inter alia*: (1) operational excellence; (2) safety; (3) employee engagement; and (4) environmental measures. Columbia M.B. at 50-51 (citing Columbia St. 20-R at 5-6; Columbia Exh. WH-3R at 5). Further, Columbia noted that the Commission recently confirmed that its standard for allowing the full recovery of incentive compensation expenses is equally applicable to incentive compensation in the form of stock awards. Columbia M.B. at 51-52 (citing *Aqua 2022* at 98-101; *UGI Electric 2018*).

Regarding Columbia's claim for cash-based, incentive compensation expense of $2,568,807, the OCA noted that Columbia identified performance measures of 70% related to net operating earnings per share, and 30% related to operational safety and customer experience. OCA St. 2 at 18-19 (citing Columbia GAS-RR-027, Attachment B). Thus, the OCA recommended that only 30% of Columbia's incentive compensation costs be allowed for rate recovery. Accordingly, the OCA recommended a downward adjustment of 70% as an incentive for the Company's claim for cash-based,

incentive compensation expense of $2,568,807, or $1,798,165,[74] to reflect an allowance of $770,642. [$2,568,807 – $1,798,165 = $770,642].[75] OCA M.B. at 97 (citing OCA St. 2SR at 13).

Similarly, the OCA objected to Columbia's claim of $754,446 in restricted stock/LTI compensation because the Company did not provide any reason or explanation as to why 70% of its stock awards dedicated to meeting net operating earnings per share benefits ratepayers or provide customer-oriented service. The OCA submitted that it is unclear how Columbia providing 70% of stock rewards to its employees is a benefit to customers, given that only 30% of the LTI compensation plan is related to ratepayer benefits. Thus, the OCA recommended that only 30% of Columbia's restricted stock/LTI compensation costs be allowed for rate recovery. Accordingly, the OCA recommended a downward adjustment of 70% to the Company's claimed restricted stock/LTI compensation expense of $754,446, *i.e.*, a downward adjustment of $528,112,[76] to reflect an allowance of $226,334. [$754,446 – $528,112 = $226,334].[77] OCA M.B. at 97-99 (citing OCA St. 2 at 20-21; OCA St. 2SR at 12-13).

b. Recommended Decision

The ALJs found that the OCA established that Columbia did not provide an explanation as to why 70% of the Company's claimed cash-based incentive compensation expense, which the OCA recommended disallowing, is necessary to provide adequate service to ratepayers. Thus, the ALJs agreed with the position

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74 [$2,568,807 x 70% = $1,798,165].

75 [$2,568,807 x 30% = $770,642]; [$1,798,165 + $770,642 = $2,568,807].

76 [$754,446 x 70% = $528,112].

77 [$754,446 x 30% = $226,334].

advanced by the OCA. Accordingly, the ALJs recommended a downward adjustment of $1,798,165 to the Company's cash-based STI compensation expense of $2,568,807. R.D. at 204-05 (citing OCA St. 2SR at 11).

The ALJs also agreed with the 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. R.D. at 206 (citing OCA St. 2 at 20-21). Additionally, the ALJs agreed with the OCA that the Company provided no further or credible explanation as to how the 70% of the LTI component, which the OCA recommended disallowing, provides any direct or indirect benefit to ratepayers. R.D. at 207 (citing OCA St. 2SR at 12-13). Moreover, the ALJs found that the OCA established that Columbia did not present 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, the ALJs recommended that only 30% of Columbia's claimed LTI expense of $754,446, or $226,334, [$754,446 x 30% = $226,334], be allowed for ratemaking purposes, resulting in a downward adjustment of $528,112. [$754,446 – $528,112 = $226,334]. R.D. at 207.

c. Columbia Exception Nos. 3 and 4 and Replies

In its Exception No. 3, Columbia argues that the ALJs' recommended disallowance of 70% of the Company's claim for cash-based incentive compensation disregards long-established precedent. Columbia Exc. at 9 (citing R.D. at 204-05). Columbia restates its assertion that the Commission has established and reaffirmed that incentive compensation expense programs are recoverable if such programs are, essentially, reasonable and provide a benefit to ratepayers. Columbia Exc. at 9-10 (citing *PPL 2012* at 26; *Aqua 2008* at 20-26; *UGI Electric 2018* at 73-74; *Aqua 2022* at 98-101; *PPL Gas 2007*; *Duquesne 1987*; *Pa. PUC v. Philadelphia Gas Works*, Docket No.

R-2008-2073938 (Opinion and Order entered December 19, 2008) (*PGW 2008*)). Further, Columbia argues that the OCA's proposed allowance of 30% of the incentive compensation amount is, in effect, a concession that the incentive compensation program provides a benefit to customers, is reasonable, and is prudently incurred. Columbia Exc. at 10 (citing OCA St. 2 at 19-21). Accordingly, Columbia submits that the ALJs' recommendation to disallow a portion of the Company's claimed expense for cash-based incentive compensation should be rejected. Columbia Exc. at 10.

In its Exception No. 4, Columbia argues that the ALJs' recommended disallowance of 70%, or $528,112, of the Company's claimed expense for LTI stock rewards is contrary to the standards for recovery established by the Commission. Columbia Exc. at 10-11 (citing R.D. at 206-07). Columbia maintains that it demonstrated that LTI compensation and stock reward levels benefit customers and shareholders because they are based on important customer goals, including, *inter alia*: (1) operational excellence; (2) safety; (3) employee engagement; and (4) environmental measures. Columbia Exc. at 11 (citing Columbia St. 20-R at 5-7; Columbia Exh. WH-3R at 5). Further, Columbia restates its assertion that the Commission recently confirmed that its standard for allowing the full recovery of incentive compensation expenses is equally applicable to incentive compensation in the form of stock awards. Columbia Exc. at 11-12 (citing *Aqua 2022* at 98-101; *UGI Electric 2018*). Accordingly, Columbia submits that the ALJs' recommendation to disallow a portion of the LTI stock rewards should be rejected.[78] Columbia Exc. at 12.

[78] In its Exception No. 4, Columbia also notes that it has elected not to except to the ALJs' recommended disallowance of the Company's claimed expense for NiSource Corporate Services Company (NCSC) LTI compensation and stock awards expense, *infra*. However, the Company submits that the same analysis is applicable. Columbia Exc. at 12, n.22.

In its Replies, I&E counters that the ALJs correctly considered the testimony of the OCA's witness, Mr. Mugrace, and, therefore, Columbia's Exception Nos. 3 and 4 should be rejected. I&E R. Exc. at 5 (citing R.D. at 202-05).

d. Disposition

We shall deny Columbia's Exception Nos. 3 and 4. We agree with the ALJs' recommendation to adopt the OCA's proposed downward adjustment of $1,798,165, to the Company's cash-based STI compensation expense claim of $2,568,807. As noted by the ALJs and the OCA, Columbia did not explain why 70% of the incentive compensation expense is necessary to provide adequate service to ratepayers, given that only 30% of this claimed expense is related to operational safety and customer experience. *See* OCA St. 2 at 18-19. Accordingly, we shall adopt the ALJs' recommendation to apply a downward adjustment of $1,798,165, [$2,568,807 x 70% = $1,798,165], to reflect a total allowance for cash-based STI compensation expense of $770,642. [$2,568,807 – $1,798,165 = $770,642].

We also agree with the ALJs and the OCA that Columbia failed to present credible evidence that the totality of its LTI compensation plan is reasonable, given that only 30% of the plan is related to safety, customer care, customer satisfaction, or other benefits to ratepayers. Accordingly, we shall adopt the ALJs' recommendation that only 30% of the Company's LTI compensation expense claim of $754,446, or $226,334, [$754,446 x 30% = $226,334], be allowed for ratemaking purposes, resulting in a downward adjustment of $528,112. [$754,446 – $528,112 = $226,334].

2. NCSC Shared Service Charges

a. Positions of the Parties

Columbia proposed an FPFTY balance of $79,191,884 for shared service costs allocated from Columbia to NCSC.[79] Columbia Exh. JV-6R at 28. Columbia anticipated NCSC STI compensation expense for the FPFTY of $5,029,637. Columbia St. 4-R at 31 (citing Columbia Exh. JV-10R at 1). Columbia also anticipated $4,012,229 of NCSC LTI compensation and stock awards expense. Columbia M.B. at 50; Columbia Exh. JV-6R at 28. Additionally, Columbia anticipated a Supplemental Executive Retirement Plan (SERP) expense of $136,102. Columbia posited that a SERP is necessary to attract and retain quality employees responsible for providing safe, reliable, and cost-effective customer service. Columbia M.B. at 63-64 (citing Columbia St. 20-R at 3, 11); Columbia Exh. JV-6R at 28.

I&E recommended a complete disallowance of Columbia's claim for $4,528,579 in NCSC allocated stock awards expense.[80] I&E St. 1-SR at 17; I&E St. 1 at 17 (citing I&E Exh. 1, Sch. 1 at 1). I&E averred that stock awards: (1) are a type of incentive compensation linked to shareholder-oriented goals and targets, such as earnings per share; (2) are not ratepayer-oriented goals, as no portion of any employee's total cash compensation was at risk; and (3) would result in higher rates and revenues at the expense of ratepayers, thereby benefitting the Company. Accordingly, I&E

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[79] NCSC is an affiliate or sister company of Columbia's parent company, NiSource, and is a service company that provides centralized services to Columbia and other operating affiliates. Columbia M.B. at 42 (citing Columbia St. 4 at 17-18); OCA M.B. at 110 (citing OCA St. 2 at 34).

[80] It appears that what I&E characterized as Columbia's claim of $4,528,579 for NCSC allocated stock awards expense is actually associated with the Company's claim for overall stock awards expense.

recommended a complete disallowance of $4,528,579 in stock awards expense. I&E R.B. at 19-20 (citing I&E M.B. at 27).

The OCA proposed a total disallowance of $7,669,077 to Columbia's claim of allocated NCSC shared service charges of $79,191,884, for a final recommended allowance of $71,522,807. [$79,191,884 – $7,669,077 = $71,522,807]. The OCA's total proposed disallowance to NCSC charges was comprised of: (1) $3,520,746 in STI compensation expense; (2) $4,012,229 in LTI compensation and stock awards expense; and (3) $136,102 in SERP expense.[81] OCA M.B. at 110-11 (citing OCA St. 2 at 34-38; OCA Exh. DM-SR-27). The following paragraphs discuss the OCA's proposed expense adjustments to STI compensation, LTI compensation and stock awards, and SERP in further detail.

The OCA submitted that Columbia failed to meet its burden of proof to support its claimed NCSC STI compensation expense with substantial evidence. Accordingly, the OCA recommended a downward adjustment of 70%, *i.e.*, $3,520,746, to Columbia's requested allowance for NCSC STI compensation expense of $5,029,637,[82] for a total recommended allowance of $1,508,891. [$5,029,637 – $3,520,746 = $1,508,891].[83] OCA R.B. at 75 (citing OCA St. 2 at 22-23; OCA Exh. DM-SR-27).

Similarly, the OCA submitted that Columbia's proposal to collect an LTI compensation and stock awards expense represents a benefit to the Company's shareholders because such costs are geared towards: (1) executive pay with no value accruing to the Company's ratepayers in the form of customer-oriented goals; and

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81 [$3,520,746 + $4,012,229 + $136,102 = $7,669,077]. *See* OCA Exh. DM-SR-27.

82 [$5,029,637 x 70% = $3,520,746].

83 [$5,029,637 x 30% = $1,508,891].

(2) achieving financial performance, earnings growth, and alignment with the goals of shareholders. OCA R.B. at 72 (citing OCA St. 2 at 36). Further, the OCA noted that Columbia has not demonstrated that an absence of LTI compensation awards would lessen the Company's ability to provide safe and reliable service to its customers. Moreover, the OCA noted that because Columbia did not provide a breakdown of allocated LTI compensation expense by cost category, there is no way to determine whether restricted stock/LTI compensation costs actually benefit ratepayers. Accordingly, the OCA recommended a complete disallowance of $4,012,229 to Columbia's claim for NCSC LTI compensation and stock awards expense. OCA M.B. at 112 (citing OCA St. 2SR at 20-21; OCA St. 2 at 36).

The OCA also posited that there is no connection between the recovery of SERP expense and a benefit to ratepayers. Further, the OCA noted that under its claimed SERP expense, Columbia retains the benefits in the event an employee leaves the Company or passes away. Accordingly, the OCA recommended a complete disallowance of the Company's claim of $136,102 in anticipated SERP costs. OCA R.B. at 74 (citing OCA St. 2SR at 18-19).

b. Recommended Decision

Regarding Columbia's requested expense claim for NCSC STI compensation expense of $5,029,637, the ALJs agreed with the OCA's argument that only 30% of Columbia's NCSC STI compensation expense should be permitted, as it pertains to providing safe, adequate, and reliable services. Accordingly, the ALJs agreed with the OCA's recommended downward adjustment of $3,520,746 to Columbia's claim for NCSC STI compensation expense. R.D. at 205 (citing OCA St. 2SR at 22-23; OCA Exh. DM-SR-27).

The ALJs also agreed with the OCA that because Columbia did not demonstrate that the LTI compensation portion of NCSC expense is a benefit to ratepayers, it is appropriate to disallow $4,012,229 from the Company's claimed LTI NCSC compensation and stock awards expense. Additionally, the ALJs recommended that the Commission reject the proposal of I&E to disallow the entire $4,528,579 claim associated with overall stock awards expense. R.D. at 208.

Further, the ALJs agreed with the OCA that there is no record evidence to establish any connection between the recovery of SERP expenses and ratepayer benefits. Specifically, the ALJs found that the record fails to establish that any component of SERP costs: (1) directly benefits ratepayers; or (2) provides safe, adequate, or reliable service, especially considering there is no guarantee that employees will benefit from the full value of the allocated SERP expense. Accordingly, the ALJs recommended that Columbia's proposed recovery of allocated NCSC SERP expense of $136,102, be disallowed. R.D. at 230 (citing OCA St. 2SR at 18-19).

In summary, the ALJs agreed with the OCA's proposal to disallow $7,669,077 in allocated NCSC costs.[84] R.D. at 209 (citing OCA Exh. DM-SR-27). The ALJs found that Columbia failed to meet its burden of proof establishing that $7,669,077 of the Company's total claim of $79,191,884 in allocated NCSC expenses are fair and necessary, or that they pertain to providing safe, adequate, and reliable service to customers. R.D. at 210.

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[84] As discussed above, the OCA's proposed downward adjustment of $7,669,077 is comprised of: (1) $3,520,746 in STI compensation expense; (2) $4,012,229 in LTI compensation and stock awards expense; and (3) $136,102 in SERP expense. [$3,520,746 + $4,012,229 + $136,102 = $7,669,077]. *See* OCA M.B. at 110-11 (citing OCA St. 2 at 34-38; OCA Exh. DM-SR-27).

c. Columbia Exception No. 5 and Replies

In its Exception No. 5, Columbia asserts that the ALJs recommended an additional downward adjustment of $7,669,077 in NCSC costs. Columbia explains that an additional disallowance of $7,669,077 is duplicative of the adjustments for: (1) NCSC STI compensation expense of $3,520,746; (2) NCSC LTI compensation and stock awards expense of $4,012,229; and (3) SERP expense of $136,102.[85] Accordingly, Columbia submits that the duplicative NCSC adjustment of $7,669,077 should not be adopted. Columbia Exc. at 12 (citing R.D. at 209-10, Appendix A, Table II; OCA M.B. at 110-14).

In its Replies, I&E notes that the ALJs correctly relied on the testimony of the OCA's witness, Mr. Mugrace. I&E R. Exc. at 6 (citing R.D. at 209-10).

In its Replies, the OCA claims that Columbia is "misrepresenting" the ALJs' recommendation. OCA R. Exc. at 7-8 (citing Columbia Exc. at 12; R.D. at 185-86).

d. Disposition

Upon review, we shall grant Columbia's Exception No. 5, regarding the recommended adjustments to the Company's expense claims that are set forth in Appendix A, Table II of the Recommended Decision. Specifically, we note that in addition to a downward adjustment of $7,669,077 to NCSC shared services expense, Appendix A, Table II of the Recommended Decision also includes a downward adjustment of: (1) $3,520,746 to STI compensation expense; (2) $4,012,229 to NCSC LTI compensation and stock awards expense; and (3) $136,102 to SERP expense.

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[85] [$3,520,746 + $4,012,229 + $136,102 = $7,669,077]. *See* Columbia Exc. at 12.

See R.D. at Appendix A, Table II. As discussed above, the ALJs agreed with the OCA's proposed total downward adjustment of $7,669,077 to NCSC incentive compensation, based on the summation of the OCA's recommended adjustments to NCSC STI compensation expense, NCSC LTI and stock awards expense, and SERP expense.[86] Therefore, a second downward adjustments to the individual expense categories of NCSC STI compensation, NCSC LTI and stock awards, and SERP are unnecessary. Accordingly, we shall modify the Recommended Decision to reverse the adjustments to NCSC STI compensation expense of $3,520,746, to NCSC LTI compensation and stock awards expense of $4,012,229, and to SERP expense of $136,102. The reversal of these adjustments is outlined in Table II of the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order.

Regarding the merits of the allocated NCSC shared service costs, no Party directly excepted to the recommendation of the ALJs to disallow $7,669,077 in allocated NCSC costs.[87] We agree with the ALJs and the OCA that Columbia failed to meet its burden of proof establishing that $7,669,077 of its total claimed expense for allocated NCSC costs of $79,191,884 are fair and necessary, or that such costs pertain to providing safe, adequate, and reliable service to customers. Therefore, in addition to granting Columbia's Exception No. 5 and modifying the Recommended Decision to reverse the superfluous expense adjustments (as discussed in the preceding paragraph), we shall adopt the ALJs' recommendation to disallow a total of $7,669,077 in allocated NCSC shared service costs, to reflect an allowance to NCSC shared service charge expense of $71,522,807. [$79,191,884 – $7,669,077 = $71,522,807].

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[86] [$3,520,746 + $4,012,229 + $136,102 = $7,669,077]. OCA Exh. DM-SR-27.

[87] In its Exception No. 3, Columbia explains that it has elected not to except to the disallowance of 70% of NCSC cash incentive compensation, but argues that the same analysis as that set forth in the balance of its Exception No. 3 is applicable. Columbia Exc. at 10, n.20.

D. Inflation/Deflation Adjustments

1. Positions of the Parties

Columbia proposed the following inflation/deflation adjustments: (1) a deflation adjustment of $(7,354) to its claim for outside services expense; (2) an inflation adjustment of $131,774 to corporate insurance expense; (3) an inflation adjustment of $51,257 to injuries and damages expense; (4) a deflation adjustment of $(11,362) to employee expenses; (5) a deflation adjustment of $(6,788) to Company memberships expense; (6) a deflation adjustment of $(28,758) to utilities and company use gas expense (*i.e.*, the Company's claimed expense for fuel used in Company operations (FUICO)); and (7) a deflation adjustment of $(11,366) to advertising expense.[88] Columbia explained that it applied annual inflation rates of 2.93% for the FTY and 3.05% for the FPFTY, which it derived from the GDP deflator,[89] to the above identified cost categories. Columbia M.B. at 52-53 (citing Columbia Exh. 104, Sch. 2 at 4, 7-11, 15; Columbia St. 4-R at 11). Further, Columbia posited that its inflation/deflation adjustments have been used in a "targeted manner, to recognize that inflation will increase expenses over pro forma HTY levels." Columbia R.B. at 29 (citing Columbia M.B. at 22, n.58).

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[88] Columbia noted that its proposed deflation, or negative, adjustments reflect the *removal* of expenses from the Company's pro forma expense claim, thereby *increasing the amount of expense being removed*. Columbia elaborated, as an example, that it had identified and removed $(121,175) of lobbying costs from outside services for the HTY, and the deflation adjustment of $(7,354) reflects an *increase in the amount removed* from its claim for outside services expense. [$(121,175) + $(7,354) = $(128,529)]. Columbia M.B. at 53 (citing Columbia Exh. 104, Sch. 2 at 4).

[89] The GDP deflator is explained in Section V.D, *supra.*

Similar to its arguments against the Company's application of inflation adjustments to its net plant additions in its rate base, as discussed in Section V.A, *supra*, the OCA disagreed with Columbia's requested application of inflation/deflation adjustments to certain of its expenses. The OCA argued that such adjustments, including those premised on historical average costs, demonstrate speculation and uncertainty. The OCA submitted that the Company should not be permitted to recover expenses that it has not supported by known or measurable data. OCA M.B. at 89-90 (citing *Aqua 2022* at 50-51; 66 Pa.C.S. § 315(e)). Further, the OCA referred to recent Commission decisions to support its contention that "blanket" inflation/deflation adjustments do not meet the known and measurable standard for increasing FTY expense claims in the FPFTY. OCA M.B. at 90-91 (citing OCA St. 2 at 25; *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2023-3037933, (Opinion and Order entered November 9, 2023) (*PGW 2023*) at 72; *Pa. PUC v. Wellsboro Electric Company*, Docket No. R-2019-3008208 (Opinion and Order entered April 29, 2020 (*Wellsboro 2020*) at 40). Moreover, the OCA argued that the Company provided no evidence to support a finding that its proposed inflation/deflation adjustments are accurate representations of the costs which Columbia knows will be incurred. Specifically, the OCA noted that data provided by Columbia indicates that its inflation/deflation factors were calculated using historical inflation data, which is not an accurate representation of actual inflation levels in the future. OCA R.B. at 15 (citing OCA St. 2SR at 5-6). Accordingly, the OCA submitted that the Company's proposed inflation/deflation adjustments should be removed. OCA M.B. at 91.

2. Recommended Decision

The ALJs found that Columbia established that its proposed inflation/deflation adjustments are appropriate, based upon the specific evidence presented and the facts in this proceeding. R.D. at 210, 212.

The ALJs disagreed with the OCA's position that the Company's proposed inflation/deflation adjustments are not known and measurable. The ALJs noted that, in *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 adjustments to expense claims "directly relate to the actual costs expected to be incurred in each expense account in the FPFTY." R.D. at 212. Accordingly, here, the ALJs recommended that the OCA's proposed removal of Columbia's inflation/deflation adjustments to certain of the Company's expenses be denied. R.D. at 212, 223.

3. OCA Exception No. 2 and Replies

As previously noted, in its Exception No. 2, the OCA objects to the ALJs' recommendation to adopt Columbia's requested inflation adjustments to its additions to gas plant in service. In a similar fashion, the OCA, likewise, objects to the ALJs' recommendation that Columbia be permitted to apply its requested inflation/deflation adjustments to certain of its expenses. The OCA refers to *Wellsboro 2020* to argue that the Commission has previously denied inflation adjustments because the utility bears the burden of proving that such adjustments: (1) represent known and measurable changes to costs over time; and (2) directly relate to the actual costs expected to be incurred in each expense category in the FPFTY. Further, the OCA contends that the use of broad inflation adjustments to estimate the cost of additional plant: (1) undermines the ratemaking concept of "used and useful;" and (2) does not meet the Company's burden of proof in this proceeding. OCA Exc. at 15-16 (citing OCA R.B. at 14; *Wellsboro 2020* at 40). Moreover, the OCA contends that the Commission has: (1) required specificity by utilities that use an inflation factor to estimate cost increases in the test year; and (2) disallowed inflation factors that are too speculative in nature. Furthermore, the OCA points out that in *Aqua 2022*, the Commission found that: (1) "allowing [the utility] 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;" and (2) the utility's "application of a General Price Adjustment to 22% of expenses is neither targeted nor specific." OCA Exc. at 16 (citing OCA R.B. at 14; *Aqua 2022* at 117).

The OCA also argues the Company could over-recover if inflation factors are applied. Further, the OCA maintains its position that the Company has provided no evidence that its proposed inflation/deflation adjustments are accurate representations of the costs to be incurred. Moreover, the OCA remains of the opinion that Columbia failed to establish a factual or evidentiary basis for the specific inflation factors used, because the Company's data indicates that its inflation factors were calculated using historical inflation data, which is not an accurate representation of future inflation levels. Furthermore, the OCA argues that allowing Columbia to include inflation rate factors for 2026 is excessive, speculative, and unnecessary given the Company's recent history of filing a rate case, on average, every 14 months, which goes against the necessity of Columbia including inflation factors into its rate base or applying these factors to its expense claims. Accordingly, the OCA maintains its position that the Company should not be permitted to include inflation/deflation adjustments in its cost recovery. OCA Exc. at 16-18 (OCA R.B. at 15; OCA St. 2SR at 6).

In its Replies, Columbia counters that its use of inflation or deflation factors to adjust select expenses is reasonable and, contrary to the OCA's argument otherwise, the Company did not apply an inflation factor to a broad group of expenses. Further, Columbia notes that most of its requested adjustments were deflation adjustments (*i.e.*, negative adjustments to its underlying expense claims) and designed to increase *pro forma* adjustments made by the Company. Moreover, Columbia argues that applying inflation/deflation adjustments to derive *pro forma* FPFTY amounts is consistent with future cost expectations. Accordingly, Columbia submits that the OCA's

Exception No. 2 should be denied. Columbia R. Exc. at 9 (citing Columbia Exh. 104, Sch. 2 at 4).

4. Disposition

Consistent with our finding in Sections V.A and V.D, *supra,* that inflation adjustments should be removed from certain of the Company's rate base claims, we shall decline to adopt the ALJs' recommendation to permit the Company to apply inflation/deflation adjustments to certain of its expense claims. As such, we shall grant the OCA's Exception No. 2 and shall prohibit Columbia from applying its claimed inflation/deflation adjustments to its expense claims for: (1) outside services, (2) corporate insurance, (3) injuries and damages, (4) employee expenses, (5) Company memberships, (6) FUICO, and (7) advertising. We agree with the OCA that the Company did not provide evidence to demonstrate that its proposed inflation/deflation adjustments represent the costs which Columbia knows will be incurred. Stated differently, we find that Columbia did not demonstrate that making these adjustments, which are based on the application of blanket inflation rates of 2.93% and 3.05% for the FTY and the FPFTY, respectively, to the identified expense claims directly relates to the actual costs expected to be incurred in each identified expense account in the FTY and the FPFTY.

To the extent that Columbia contends that its proposed inflation/deflation adjustments meet the "known and measurable" standard for increasing the identified expense claims, we find the OCA's argument and the testimony of the OCA's witness, Mr. Mugrace, to be more compelling. Specifically, Mr. Mugrace summarized the importance of known and measurable cost adjustments in setting rates:

> [I]nflationary adjustments are not known and measurable and they do not accurately provide the true costs of adjusting costs. Inflationary related costs are typically blanket

> increases that are applied to all costs. Costs should be predicated upon known and measurable concepts. 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 [will] 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, [then] the Company will recover costs greater than its cost of service and over-recover costs which ratepayers will not be able to get back.

OCA St. 2SR at 5-6.

Further, the Commission, as the OCA correctly notes, has recently denied inflation adjustments because the utility did not meet its burden in demonstrating that its proposed blanket percentage inflation adjustment to expenses would meet the known and measurable standard for adjusting expense claims over time. OCA Exc. at 15-16 (citing *Wellsboro 2020* at 40; *Aqua 2022* at 116-17). Indeed, absent specific data to demonstrate that the inflation factors were calculated using factual or evidentiary data, we are unable to conclude that Columbia's proposed inflation/deflation adjustments meet the known and measurable standard established by Commission precedent. *See* OCA Exc. at 17. Accordingly, we shall decline to adopt the ALJs' recommendation on this issue and shall grant the OCA's Exception No. 2. Specifically, we shall not allow Columbia to apply the following proposed inflation/deflation expense adjustments of: (1) a deflation adjustment of $(7,354) to its expense claim for outside services; (2) an inflation adjustment of $131,774 to corporate insurance; (3) an inflation adjustment of $51,257 to injuries and damages; (4) a deflation adjustment of $(11,362) to employee expenses; (5) a deflation adjustment of $(6,788) to Company memberships;

(6) a deflation adjustment of $(28,758) to FUICO; and (7) a deflation adjustment of $(11,366) to advertising.

E. Rate Case Expense

1. Positions of the Parties

Columbia anticipated rate case expenses of $1,321,000 for the FPFTY, normalized over a period of twelve months to anticipate the necessity for filing annual rate cases for the foreseeable future. Columbia noted that its 12-month normalization period is based on the capital expenditures of the Company's main replacement program, which is expected to total more than $2.23 billion for 2025 through 2029. Columbia M.B. at 53-55 (citing Columbia Sts. 1-R at 2, 4-R at 14; Columbia Exh. 104, Sch. 2 at 16; *PPL 2012* at 44-48).

I&E disagreed with Columbia's claimed rate case expense and twelve-month normalization period. According to I&E, Columbia's proposed normalization period: (1) fails to rely upon the historical data; and (2) is speculative due to the Company's expectation of future base rate filings. I&E St. 1 at 6-7; I&E St. 1-SR at 6-8. Further, I&E noted that recent Commission Orders have supported the use of a normalization period based on actual, historical filing frequency. I&E M.B. at 23 (citing *Pa. P.U.C. v. Emporium Water Company*, Docket No. R-2014-2402324 (Opinion and Order entered January 28, 2015) (*Emporium 2015*) at 50; *Pa. PUC v. City of DuBois – Bureau of Water*, Docket No. R-2016-2554150 (Opinion and Order entered March 28, 2017) (*City of DuBois 2017*) at 65-66; *Columbia Gas 2021* at 78). As such, I&E recommended a sixteen month normalization period, based on Columbia's average historical filing frequency of 16 months, [(12 + 12 + 24) = 48 ÷ 3 = 16], as shown in Table 10 below:

Table 10: I&E's Recommended Normalization Adjustment to Columbia's Claimed Rate Case Expense

Docket No.	Filing Date	Filing Interval – Months	Average of Three Intervals – Months
R-2025-3053499	03/20/2025	12 months	
R-2024-3046519	03/15/2024	24 months	16 months
R-2022-3031211	03/18/2022	12 months	
R-2021-3024296	03/30/2021		

I&E St. 1 at 7 (citing I&E Exh. 1, Sch. 1 at 2). Accordingly, I&E recommended an allowance of $731,372, or a reduction of $589,628, to Columbia's claim for rate case expense of $1,321,000. [$1,321,000 – $589,628 = $731,372]. I&E M.B. at 22-24 (citing I&E St. 1 at 6-7; I&E St. 1-SR at 5-8).

Although the OCA did not recommend an adjustment to Columbia's rate case expense claim, the OCA did recommend an adjustment to the Company's proposed normalization period to reflect that Columbia has filed six rate cases since 2018, or one rate case every fourteen months. Similar to I&E, the OCA explained that the Commission has consistently held that rate case expenses are normal operating expenses, and normalization should be based on the historical frequency of rate case filings. Further, the OCA noted that the Company's position conflicts with Commission precedent because Columbia anticipates filing another rate case within twelve months, and the appropriate normalization period for rate case expense is the length of time until a utility's anticipated filing of a rate case. Accordingly, the OCA recommended a downward adjustment of $182,207, to Columbia's rate case expense claim of $1,321,000, for a total allowance of $1,138,793. [$1,321,000 – $182,207 = $1,138,793]. OCA M.B. at 115-17 (citing OCA St. 2SR at 23-24; *Columbia Water 2024* at 34; *Popowsky II 1996*; *Pa. PUC v. Columbia Water Co.*, 2009 Pa. PUC LEXIS 1423 (2009); *Pa. PUC v. National Fuel Gas Distribution Corp.*, 84 Pa. P.U.C. 134, 175 (1995) (*NFG 1995*);

Pa. PUC v. Roaring Creek Water Co., 73 Pa. P.U.C. 373, 400 (1990); *Pa. PUC v. West Penn Power Co.*, 119 PUR4th 110, 149 (Pa. PUC 1990)).

2. Recommended Decision

The ALJs agreed with the OCA that, under the circumstances and based upon Columbia's actual filing history, fourteen months is an appropriate and reasonable length of time for normalization, as it more closely aligns with the Company's rate case filing history than to base the normalization period upon the Company's proposal for the future. Accordingly, the ALJs recommended that the OCA's proposed 14-month normalization period adjustment for rate case expense be approved. The ALJs also recommended that I&E's proposed adjustment be denied. R.D. at 216.

The ALJs further agreed that by adjusting the normalization period to fourteen months, the Company's rate case expense will be normalized based on its historical frequency of rate filings. Accordingly, the ALJs recommended a reduction of $182,207 to the Company's claimed rate case expense, for a total allowance of $1,138,793. [$1,321,000 - $182,207 = $1,138,793]. R.D. at 216.

3. Disposition

No Party excepted to the recommendation of the ALJs on this issue. Regarding the Company's claimed rate case expense, we agree with the ALJs and the OCA that fourteen months is a more appropriate and reasonable length of time for normalization, as it more closely aligns with Columbia's actual history and frequency of rate case filings. We are not persuaded by Columbia's position that its proposed rate case expense should be based on a 12-month normalized period. Therefore, we shall adopt the ALJs' recommendation to reduce the Company's claimed rate case expense by $182,207, for a total allowance of $1,138,793. [$1,321,000 - $182,207 = $1,138,793].

F. Outside Services

1. Positions of the Parties

Columbia submitted that the Company strategically supplements its internal workforce with external service providers (*i.e.*, outside services) to meet workload demands, address resource constraints, and access specialized expertise. According to the Company, 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. Columbia St. 18-R at 11-12. Initially, Columbia anticipated outside services expenses for the FPFTY of $18,013,909. Columbia M.B. at 55 (citing Columbia Exh. 104, Sch. 1 at 4); Columbia St. 18-R at 12, 14. Subsequently, in rebuttal, Columbia reduced its proposed outside services expense by $101,230, to reflect the sale and removal of Blackhawk.[90] Thus, Columbia proposed a total outside services expense for the FPFTY of $17,912,679. [$18,013,909 - $101,230 = $17,912,679]. Columbia Exh. JV-2R at 6.

Columbia posited that the Company has reduced outside service costs in prior years by identifying process efficiencies, better aligning resources, and reassessing vendor contracts. Further, Columbia noted that the Company supplements its internal workforce with external service providers to: (1) meet workload demands; (2) address resource constraints; (3) access specialized expertise; (4) ensure effective response to customer needs; (5) meet compliance obligations; and (6) deliver safe and reliable service. Moreover, Columbia noted that the Company's budget process accounts for redirecting underspent outside services costs during the HTY, to address cost increases in

[90] As will be discussed in Section VIII.O, *infra*, Columbia, subsequent to the filing of the instant rate case, requested the deferment and amortization of Blackhawk. *See* Columbia M.B. at 70.

internal labor and materials and supplies. Columbia M.B. at 56-57 (citing Columbia St. 18-R at 11-13; Columbia Exh. JL-5R).

Additionally, as discussed in Section VIII.D of this Opinion and Order, *supra*, Columbia proposed inflation/deflation adjustments to several expense categories, including a deflation adjustment of $(7,354) to outside services expense. *See* Columbia M.B. at 52-53.

The OCA objected to Columbia's requested expense for outside services, as the Company included inflation adjustments of 2.93% and 3.05% for the FTY and the FPFTY, respectively, related to non-recoverable consulting (lobbying) costs and advertising. The OCA reinforced its position that inflation/deflation factor adjustments are not reasonable because they are not known and measurable and do not reflect the true costs of providing services. OCA M.B. at 100 (citing OCA St. 2 at 24-25). The OCA's witness, Mr. Mugrace, compared the level of Columbia's outside service costs for the periods 2021 through 2024, to its level for the 2025 FTY and its 2026 FPFTY periods, and found the following increases and decreases:

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

OCA St. 2 at 25. Accordingly, the OCA recommended using the 8.57% three-year average to normalize outside services expense based on the HTY balance of $16,852,517, or a reduction of $1,444,261.[91] [$16,852,517 x 8.57% = $1,444,261]. OCA St. 2 at 26.

As discussed in Section VIII.D of this Opinion and Order, *supra*, the OCA disagreed with the Company's requested inflation/deflation adjustments to several expense categories, including Columbia's proposed deflation adjustment of $(7,354) to its claimed outside services expense. *See* OCA M.B. at 89-91. Accordingly, the OCA recommended a total downward adjustment to outside services expense of $1,436,907. [$7,354 + $(1,444,261) = $(1,436,907)]. *See* OCA Exh. DM-SR-14.

2. Recommended Decision

The ALJs found that Columbia presented substantial evidence to support its claim for outside services expense. The ALJs disagreed with the OCA that its proposed reduction to normalize outside services expense, and its recommendation to remove Columbia's proposed deflation adjustment, is necessary or appropriate.[92] Accordingly, the ALJs recommended that the OCA's proposed adjustments to outside services expense be denied. R.D. at 218, 226.

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[91] *See* Columbia Exh. JV-6R at 15; *see also* OCA Exh. DM-SR-14. We note that the OCA made its underlying adjustment based upon the Company's HTY balance, and to non-recoverable consulting (lobbying) costs and advertising expenses, which were unrelated to the downward adjustment Columbia made to its claim for outside services expense in light of its sale of Blackhawk. Therefore, the OCA's proposed adjustment to the Company's outside services expense would not have changed in light of the Company's sale of Blackhawk and its subsequent revision to its claim for this expense.

[92] As discussed in Section VIII.D of this Opinion and Order, *supra*, the ALJs recommended that the OCA's proposal to remove the Company's requested inflation/deflation adjustments to several expense categories, including the OCA's proposal to remove Columbia's requested deflation adjustment of $(7,354) to outside services expense, be denied. R.D. at 212, 223.

3. OCA Exception Nos. 2 and 3 and Replies

As discussed in Section VIII.D of this Opinion and Order, *supra*, in its Exception No. 2, the OCA objects to the ALJs' recommendation that the OCA's proposal to remove Columbia's requested inflation/deflation adjustments, including the OCA's proposal to remove Columbia's requested deflation adjustment to the Company's claim for outside services expense of $(7,354), be denied. OCA Exc. at 14-18.

In its Replies, Columbia argues that the OCA's Exception No. 2 should be denied. Columbia R. Exc. at 9.

In its Exception No. 3, the OCA disagrees with the ALJ's recommendation and challenges the ALJs' reliance on Columbia's claim that reducing outside services expenses would deny the Company the financial resources to undertake safety initiatives that are reflected in the FPFTY budget. The OCA counters that Columbia's averments are vague, unsupported, and do not constitute substantial evidence. OCA Exc. at 18-19 (citing R.D. at 216-18).

The OCA argues that the Company's outside services expense can fluctuate widely depending on: (1) the pool of contractors; (2) necessary materials and costs; (3) allocated resources; and (4) whether the work is performed as planned and within the stated time frame. OCA Exc. at 19 (citing OCA St. 2 at 26). Further, the OCA continues to recommend the use of a three-year average to set outside services, arguing that changes in timing and scope of services do not negate the future occurrence of such changes and Columbia cannot predict any variance of its future costs. Moreover, the OCA argues that outside service cost variances indicate that Columbia has changed its scope and scale of work activity. OCA Exc. at 20 (citing OCA St. 2SR at 15). Accordingly, the OCA reinforces its position that based on the Company's actual outside

service costs over a three-year average, the OCA's proposed adjustment is reasonable and should be adopted. OCA Exc. at 20 (citing OCA R.B. at 61).

In its Replies, Columbia counters that the OCA's proposed adjustment to outside services expense is incorrectly based on a three-year average of *percentage changes to expense,* rather than a three-year average of expense. According to Columbia, a three-year average of expense would result in a *pro forma* expense of $22.1 million, which is above the Company's FPFTY claim, and percentage changes produce a pro forma FPFTY outside services expense below the *pro forma* HTY expense. Further, Columbia maintains that it put extensive effort into containment of costs in prior years to produce savings by identifying process efficiencies, better aligning resources, and reassessing vendor contracts. Moreover, Columbia argues that it is unreasonable to conclude that further cost reductions can be obtained in the future. Accordingly, Columbia submits that the OCA's Exception No. 3 should be denied. Columbia R. Exc. at 9-10 (citing Columbia M.B. at 56; Columbia Exh. GAS-RR-052, Attachment A).

4. Disposition

In considering the record evidence and arguments before us, along with the Exceptions and Reply Exceptions of the Parties, we shall decline to adopt the ALJs' recommendation and shall grant the OCA's Exception No. 3, to adopt a three-year average to normalize outside services expense based upon historical costs. To the extent that Columbia contends that its proposed outside service expense claim accounts for cost increases to redirect underspent outside services costs during the HTY, we find the OCA's argument and the testimony of the OCA's witness, Mr. Mugrace, to be more compelling.

The OCA recommended the use of a three-year average to set outside services. The OCA's witness, Mr. Mugrace, testified that Columbia "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." Further, Mr. Mugrace referred to his comparison of outside service cost variances for the periods 2021 through 2024, to the 2025 FTY and its 2026 FPFTY periods. Mr. Mugrace continued: "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."[93] OCA St. 2SR at 15. We are persuaded that the OCA's recommendation is reasonable and prevents the burden of overcollection of outside service expense costs on ratepayers. For this reason, we shall decline to adopt the ALJs' recommendation on this issue, and we shall grant the OCA's Exception No. 3, to apply the OCA's proposed three-year average downward adjustment of $1,444,261 to outside services expense.

Additionally, as discussed in Section VIII.D of this Opinion and Order, *supra*, we shall: (1) decline to adopt the ALJs' recommendation to reject the OCA's proposal to remove Columbia's proposed inflation/deflation adjustments; and (2) grant the OCA's Exception No. 2 to remove Columbia's proposed inflation/deflation adjustments. Accordingly, regarding the Company's claimed outside services expense, we shall: (1) reverse Columbia's proposed deflation adjustment of $(7,354); and (2) adopt a total downward adjustment of $1,436,907, [$7,354 + $(1,444,261) = $(1,436,907)], to reflect a total allowance of $16,475,772. [$17,912,679 + $(1,436,907) = $16,475,772].

[93] *See* OCA St. 2 at 25.

G. Employee Expenses

1. Positions of the Parties

Initially, Columbia anticipated employee expenses of $1,275,033 for the FPFTY, which reflected an adjustment of $198,554, to remove non-recoverable employee expenses.[94] Columbia M.B. at 58-59 (citing Columbia Exh. 104, Sch. 1 at 4; Columbia St. 18-R at 18). Columbia provided the following breakdown of its claim for employee expenses:[95]

Table JL-1R

Line No.	Cost Category	FPFTY Twelve Months Ended December 31, 2026 (1)	Correction (2)	Revised FPFTY Twelve Months Ended December 31, 2026 (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 M.B. at 58 (citing Table JL-1R). In rebuttal, Columbia updated its employee expense claim to reflect a further adjustment of $32,450, to remove all remaining

[94] The adjustment of $198,554 was comprised of: (1) $187,628 in non-recoverable other employee expenses; and (2) $10,926 in non-recoverable entertainment expenses. [$187,628 + $10,926 = $198,554]. Columbia M.B. at 59-60 (citing Columbia St. 4-R at 17).

[95] Columbia noted that it updated its breakdown of employee expenses to reflect the correct categorization of $417,305 for clothing allowance, which was inadvertently included in employee expense-other. Columbia M.B. at 59 (citing Table JL-1R).

employee expense-other costs. Consequently, Columbia submitted a claim for employee expenses for the FPFTY of $1,242,583. [$1,275,033 - $32,450 = $1,242,583]. Columbia M.B. at 59 (citing Columbia St. 4-R at 17; Columbia Exh. JV-1R at 6).

Additionally, as discussed in Section VIII.D of this Opinion and Order, *supra*, Columbia also proposed inflation/deflation adjustments to several expense categories, including a deflation adjustment of $(11,362) to employee expenses. *See* Columbia M.B. at 52-53.

The OCA submitted that Columbia did not adequately explain or justify its employee expense claims for: (1) clothing allowance of $21,524;[96] and (2) meals and entertainment expense of $48,166. Accordingly, the OCA recommended a downward adjustment of $45,607, comprised of: (1) a reduction to clothing allowance expense of $21,524; and (2) a 50% reduction to the Company's claim for meals and entertainment expense, or $24,083 [$48,166 x 50% = $24,083].[97] OCA M.B. at 102-05 (citing OCA 2SR at 16, 29; OCA Exh. DM-SR-19).

As discussed in Section VIII.D of this Opinion and Order, *supra*, the OCA disagreed with the Company's requested inflation/deflation adjustments to several expense categories, including Columbia's proposed deflation adjustment of $(11,362) to the Company's claim for employee expenses. *See* OCA M.B. at 89-91. Accordingly, the OCA recommended a total downward adjustment to the Company's claim for

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[96] The OCA originally recommended a disallowance of $438,829 to employee expenses. Subsequently, Columbia corrected its employee expense claim, identifying that $417,305 of the claimed expense balance was related to clothing allowance, and not to gifts and entertainment expense. Although the OCA accepted the clothing allowance as reasonable, the OCA found that the difference between the total employee expenses claim and the clothing allowance, or $21,524, [$438,829 - $417,305 = $21,524], was not adequately explained. OCA M.B. at 104 (citing OCA St. 2SR at 16).

[97] [$21,524 + $24,083 = $45,607].

employee expense of $34,245 [$11,362 + $(45,607) = $(34,245)]. *See* OCA Exh. DM-SR-19.

2. Recommended Decision

The ALJs agreed with the OCA that Columbia failed to provide adequate evidence regarding how the Company's claim for meals and entertainment expense are connected to providing safe and adequate service. Accordingly, the ALJs agreed with the OCA's proposal to disallow $21,524 for clothing allowance expense and $24,083 for meals and entertainment expense, for a total disallowance to Columbia's claimed employee expense of $45,607. [$21,524 + $24,083 = $45,607]. R.D. at 222.

Additionally, as discussed in Section VIII.D of this Opinion and Order, *supra*, the ALJs recommended that the OCA's proposal to remove the Company's requested inflation/deflation adjustments to several expense categories, including the OCA's proposal to remove Columbia's requested deflation adjustment of $(11,362) to employee expenses, be denied. *See* R.D. at 212, 223.

3. Exceptions and Replies

As discussed in Section VIII.D of this Opinion and Order, *supra,* in its Exception No. 2, the OCA objects to the ALJs' recommendation that the OCA's proposal to remove Columbia's requested inflation/deflation adjustments, including the OCA's proposal to remove Columbia's requested deflation adjustment to outside services expense of $(7,354), be denied. OCA Exc. at 14-18.

In its Replies, Columbia argues that the OCA's Exception No. 2 should be denied. Columbia R. Exc. at 9.

4. Disposition

No Party excepted to the recommendation of the ALJs to disallow a total of $45,607 for employee expenses. We agree with the ALJs and the OCA that Columbia did not provide sufficient evidence to explain or justify the Company's claim for employee expenses pertaining to a clothing allowance of $21,524, and to expenses for meals and entertainment of $24,083. Accordingly, we agree with the ALJs' recommendation to disallow employee expenses of $45,607. [$21,524 + $24,083 = $45,607].

However, as discussed in Section VIII.D of this Opinion and Order, *supra*, we shall: (1) decline to adopt the ALJs' recommendation to reject the OCA's proposal to remove Columbia's proposed inflation/deflation adjustments; and (2) grant the OCA's Exception No. 2 to remove Columbia's proposed inflation/deflation adjustments. Accordingly, regarding employee expenses, we shall: (1) reverse Columbia's proposed deflation adjustment of $(11,362); and (2) adopt a total downward adjustment of $34,245, [$11,362 + $(45,607) = $(34,245)], to reflect a total allowance of $1,208,338 for employee expenses in the FPFTY. [$1,242,583 + $(34,245) = $1,208,338].

H. Corporate Insurance

1. Positions of the Parties

Regarding corporate insurance, Columbia anticipated a balance of $4,452,228 for the FPFTY. Columbia Exhs. JV-1R at 6, JV-6R at 18. Additionally, as discussed in Section VIII.D of this Opinion and Order, *supra*, Columbia proposed inflation/deflation adjustments to several expense categories, including an inflation adjustment of $131,774 to the Company's claimed corporate insurance expense. *See* Columbia M.B. at 52-53.

As discussed in Section VIII.D of this Opinion and Order, *supra*, the OCA disagreed with the Company's requested inflation/deflation adjustments to several expense categories, including Columbia's proposed inflation adjustment of $131,774 to corporate insurance expense. *See* OCA M.B. at 89-91. Accordingly, the OCA recommended a decrease of $131,774, to Columbia's proposed corporate insurance expense balance of $4,452,228, resulting in a total allowance of $4,320,454. [$(131,774) + $4,452,228 = $4,320,454]. OCA M.B. at 101-02 (citing OCA St. 2 at 26-27; OCA Exh. DM-SR-17).

2. Recommended Decision

The ALJs restated their recommendation that the OCA's proposal to remove the Company's requested inflation adjustment of $131,774 to corporate insurance expense be denied. R.D. at 224.

3. OCA Exception No. 2 and Replies

As discussed in Section VIII.D of this Opinion and Order, *supra,* in its Exception No. 2, the OCA objects to the ALJs' recommendation that the OCA's proposal to remove Columbia's requested inflation/deflation adjustments, including the OCA's proposal to remove Columbia's requested inflation adjustment to corporate insurance expense of $131,774, be denied. OCA Exc. at 14-18.

In its Replies, Columbia argues that the OCA's Exception No. 2 should be denied. Columbia R. Exc. at 9.

4. Disposition

As discussed in Section VIII.D of this Opinion and Order, *supra*, we shall: (1) decline to adopt the ALJs' recommendation to reject the OCA's proposal to remove Columbia's proposed inflation/deflation adjustments; and (2) grant the OCA's Exception No. 2 to remove Columbia's proposed inflation/deflation adjustments. Accordingly, regarding the Company's claim for corporate insurance expense, we shall reverse Columbia's proposed inflation adjustment of $131,774, to reflect a total allowance of $4,320,454 for this expense. [$(131,774) + $4,452,228 = $4,320,454].

I. Injury and Damages

1. Positions of the Parties

Regarding its claimed expense for injury and damages, Columbia anticipated a balance of $405,057 for the FPFTY. Columbia Exhs. JV-1R at 6, JV-6R at 19. Additionally, as discussed in Section VIII.D of this Opinion and Order, *supra*, Columbia proposed inflation/deflation adjustments to several expense categories, including an inflation adjustment of $51,257 to its claim for injury and damages expense. *See* Columbia M.B. at 52-53.

As discussed in Section VIII.D of this Opinion and Order, *supra*, the OCA disagreed with the Company's requested inflation/deflation adjustments to several expense categories, including Columbia's proposed inflation adjustment of $51,257 to the Company's claimed injury and damages expense. *See* OCA M.B. at 89-91. Accordingly, the OCA recommended a decrease of $51,257, to Columbia's proposed injury and damages expense balance of $405,057, resulting in a total allowance of $353,800. [$(51,257) + $405,057 = $353,800]. OCA M.B. at 102 (citing OCA St. 2 at 27-28; OCA Exh. DM-SR-18).

2. Recommended Decision

The ALJs restated their recommendation that the OCA's proposal to remove the Company's requested inflation adjustment of $51,257 to injury and damages expense be denied. R.D. at 224.

3. Exceptions and Replies

As discussed in Section VIII.D of this Opinion and Order, *supra*, in its Exception No. 2, the OCA objects to the ALJs' recommendation that the OCA's proposal to remove Columbia's requested inflation/deflation adjustments, including the OCA's proposal to remove Columbia's requested inflation adjustment to injury and damages expense of $51,257, be denied. OCA Exc. at 14-18.

In its Replies, Columbia argues that the OCA's Exception No. 2 should be denied. Columbia R. Exc. at 9.

4. Disposition

As discussed in Section VIII.D of this Opinion and Order, *supra*, we shall: (1) decline to adopt the ALJs' recommendation to reject the OCA's proposal to remove Columbia's proposed inflation/deflation adjustments; and (2) grant the OCA's Exception No. 2 to remove Columbia's proposed inflation/deflation adjustments. Accordingly, regarding the Company's claim for injury and damages expense, we shall reverse Columbia's proposed inflation adjustment of $51,257, to reflect a total allowance of $353,800 for this expense. [$(51,257) + $405,057 = $353,800].

J. Company Memberships

1. Positions of the Parties

Columbia anticipated $682,796 for the Company's costs for membership in certain organizations. According to Columbia, membership in such organizations will provide opportunities to, *inter alia*: (1) connect with other members and the communities at-large; (2) network where utilities can share best practices, troubleshoot challenges, and collaborate on innovations; (3) provide tools for benchmarking, safety tracking, and security; (4) engage with communities and their customers concerning local economic development and improvements; (5) recruit future utility workers; (6) coordinate emergency response during natural disasters and major outages; and (7) reach out to communities in advance of main replacement projects to identify and address possible disruptions.[98] Columbia M.B. at 60-62 (citing Columbia Exh. 104, Sch. 2 at 15; Columbia St. 18-R at 19-21; Columbia Exh. JV-5R).

Additionally, as discussed in Section VIII.D of this Opinion and Order, *supra*, Columbia proposed inflation/deflation adjustments to several expense categories, including a deflation adjustment of $(6,788) to its expense claim for Company memberships. *See* Columbia M.B. at 52-53.

The OCA accepted Columbia's claimed costs related to the American Gas Association (AGA) of $407,424.[99] OCA St. 2 at 30. However, the OCA submitted that Columbia's claim for chamber of commerce membership dues are not necessary and

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[98] Columbia noted that its claimed expense for Company memberships included an adjustment to remove lobbying expenses from the claim. Columbia M.B. at 60 (citing Columbia Exh. 104, Sch. 2 at 15).

[99] AGA quarterly dues = $101,856. [$101,856 x 4 quarters = $407,424]. *See* OCA Exh. St. 2 at 30; *see also* Columbia Exh. JV-5R at 1, 5.

reasonable costs related to the provision of utility service. OCA R.B. at 66 (citing *NFG 1995*; *Pa. PUC v. Pennsylvania-American Water Company*, 79 Pa. P.U.C. 25, 63 (1993) (*PAWC 1993*)). According to the OCA, Columbia did not provide evidence that the Company's membership in state and local chambers of commerce provides ratepayer benefits. Further, the OCA argued that Columbia's averments regarding participation in state and local chambers of commerce demonstrate that these are primarily social and lobbying organizations. Moreover, the OCA submitted that absent evidence that there is any direct benefit to ratepayers, the Company should not be permitted to recover chamber of commerce membership costs. OCA M.B. at 105-06 (citing OCA St. 2 at 31; OCA Exh. DM-SR-20; *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2022-3032167 (Opinion and Order entered June 15, 2023) (*Columbia Gas 2022 Green Path Rider Proceeding*) at 27). Accordingly, the OCA recommended a disallowance of $260,661 to the Company's expense claim for Company memberships. OCA Exh. DM-SR-20.

In addition, as discussed in Section VIII.D of this Opinion and Order, *supra*, the OCA disagreed with the Company's requested inflation/deflation adjustment to several identified expense categories, including Columbia's proposed deflation adjustment of $(6,788) to its claim for Company memberships.[100] *See* OCA M.B. at 89-91. Accordingly, the OCA recommended a total downward adjustment to Columbia's claim for Company memberships of $253,873. [$6,788 + $(260,661) = $(253,873)].[101] *See* OCA Exh. DM-SR-20.

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[100] The OCA noted that it removed Columbia's 2.93% and 3.05% inflation adjustment from the claimed membership dues expense. OCA M.B. at 105 (citing OCA St. 2 at 31).

[101] The OCA's Exhibit DM-SR-20 shows a total adjustment to company memberships expense for the FPFTY of $(253,873). *See* OCA Exh. DM-SR-20. Consequently, Appendix A, Table II of the OCA's Main Brief depicts a total Company memberships expense of $428,924. [$682,796 + $(253,873) = $428,924]. *See* OCA M.B. at Appendix A, Table II. It is unclear why the OCA's proposed adjustment to

2. Recommended Decision

The ALJs agreed with the OCA that, absent credible evidence of any direct benefit to ratepayers, the Company's claim regarding memberships is substantially outweighed by the arguments presented by the OCA. Accordingly, the ALJs recommended that the Company not be permitted to recover chamber of commerce membership costs. The ALJs also restated their recommendation that the OCA's proposal to remove the Company's requested deflation adjustment to Company memberships expense be denied.[102] R.D. at 227 (citing OCA St. 2 at 31; OCA Exh. DM-SR-20).

3. Exceptions and Replies

a. OCA Exception No. 2 and Replies

As discussed in Section VIII.D of this Opinion and Order, *supra*, in its Exception No. 2, the OCA objects to the ALJs' recommendation that the OCA's proposal to remove Columbia's requested inflation/deflation adjustments, including the OCA's proposal to remove Columbia's requested deflation adjustment to outside services expense of $(7,354), be denied. OCA Exc. at 14-18.

Company memberships expense provided as an exhibit to the surrebuttal testimony and in the rate tables accompanying the OCA's Main Brief differs from the adjustment amount set forth in the body of the OCA's Main Brief and as stated by the OCA in several other documents in the record in this proceeding. Nonetheless, as its proposed total downward adjustment of $253,873 appears to have been the OCA's final proposed adjustment for this expense, we shall apply it, in part, in our disposition below.

[102] As discussed in Section VIII.D of this Opinion and Order, *supra*, the ALJs recommended that the OCA's proposal to remove the Company's requested inflation/deflation adjustments to several expense categories, including the OCA's proposal to remove Columbia's requested deflation adjustment of $(6,788) to memberships expense, be denied. R.D. at 212, 223.

In its Replies, Columbia argues that the OCA's Exception No. 2 should be denied. Columbia R. Exc. at 9.

b. Columbia Exception No. 6 and Replies

In its Exception No. 6, Columbia disagrees with the ALJs' recommended disallowance of the Company's claim for membership dues. According to Columbia, the ALJs disregarded record evidence of the benefits of memberships in chambers of commerce and the Energy Association of Pennsylvania (EAP). Columbia Exc. at 12-13 (citing R.D. at 226-27).

Columbia contends that contrary to arguments otherwise, chambers of commerce and the EAP are business and industry organizations that provide benefits to customers. Columbia stresses its position that membership in such organizations will provide opportunities to, *inter alia*: (1) connect with other members and the communities at-large; (2) network where utilities can share best practices, troubleshoot challenges, and collaborate on innovations; (3) identify and recruit future utility workers; (4) engage with communities and their customers concerning local economic development and improvements; (5) provide tools for benchmarking, safety tracking, and security; and (6) coordinate emergency response during natural disasters and major outages. Further, Columbia argues that the Commission has previously recognized the benefits of utility membership in chambers of commerce. Columbia Exc. at 13-14 (citing Columbia St. 4-R at 20-21; *Pa. PUC, et al. v. Pennsylvania-American Water Company*, Docket Nos. R-00943231, *et al.* (Opinion and Order entered July 24, 1995) at 44; *Pa. PUC, et al. v. The Columbia Water Company*, Docket Nos. R-2008-2045157, *et al.* (Opinion and Order entered June 10, 2009) at 59-60). Accordingly, Columbia submits that the ALJs' recommendation to disallow chambers of commerce and EAP dues should not be adopted. Columbia Exc. at 14.

In its Replies, I&E disagrees with the Company's argument challenging the ALJs' recommendation. I&E counters that the ALJs correctly relied on the testimony of the OCA's witness, Mr. Mugrace. Accordingly, I&E submits that the Commission should reject Columbia's Exception No. 6. I&E R. Exc. at 6 (citing Columbia Exc. at 12-14; R.D. at 226-27).

In its Replies, the OCA counters that the Company's statements about potential benefits in the future do not constitute sufficient support for recovery of membership dues. The OCA argues that the same rationale the Commission has applied to disallow the recovery of lobbying expenses and employee gifts in utility rates should be applied here to disallow Columbia's expense claim for chamber of commerce memberships. OCA R. Exc. at 8-9 (citing OCA R.B. at 64-67). Further, the OCA maintains that such costs are neither necessary nor reasonable in relation to the provision of utility service. Moreover, the OCA contends that the ALJs correctly concluded that the Company's participation in such organizations that relate to civic causes or lobbying will not benefit the Company's customers. Accordingly, the OCA submits that Columbia should not be able to recover membership costs and that such costs should be incurred "below-the-line." OCA R. Exc. at 9 (citing R.D. at 226-27; OCA R.B. at 66; OCA St. 2SR at 17; *Columbia Gas 2022 Green Path Rider Proceeding* at 27; *Pa. PUC v. Pa.-American Water Co*., Docket No. R-00038304, 2003 Pa. PUC LEXIS 498 (Opinion and Order entered November 26, 2003) at 145; *NFG 1995*; *PAWC 1993*).

4. Disposition

We shall grant Columbia's Exception No. 6, in part, and deny it, in part. We agree with the ALJs and the OCA that the Company's claim regarding chamber of commerce membership dues is substantially outweighed by the OCA's arguments. However, we do not find the OCA's arguments persuasive as to Columbia's membership

in the EAP. As discussed above, the OCA accepted the Company's costs related to the AGA of $407,424.[103] OCA St. 2 at 30. We find that the EAP, as an industry-specific energy association, is comparable to the AGA. Accordingly, we shall grant Columbia's Exception No. 6 to the extent that Columbia is permitted to recover EAP membership fees of $116,036. *See* Columbia Exh. JV-5R at 5. However, Columbia's Exception No. 6, as it relates to the Company's claim for chamber of commerce membership fees, is denied.

To the extent that Columbia argues that chamber of commerce fees represent a direct benefit to ratepayers, we find the OCA's argument and the testimony of the OCA's witness, Mr. Mugrace, to be more compelling. Specifically, Mr. Mugrace testified that in reviewing Columbia's breakdown of membership costs, such costs "reflect the business network advocacy groups, fraternal, social service clubs, and chambers of commerce that promote the Company in a particular territory or service area and do not reflect any benefits to customers." Mr. Mugrace further testified that chambers of commerce fees "relate to helping small businesses connect with potential customers and promoting economic power in the communities." Mr. Mugrace continued:

> I note that in 66 Pa. C.S. Section 1316.1, recovery of these types of club dues, "no public utility may charge to its customers as a permissible operating expense for ratemaking purposes membership fees, dues or charges to fraternal, social or sports clubs or organization." Ratepayers should not pay for costs that appear to be related to contributions, pledges, sponsorships and donations and in accordance with the statute identified above. These types of costs mainly benefit Columbia as being good corporate citizens, advocacy on

[103] As previously noted, AGA quarterly dues = $101,856. [$101,856 x 4 quarters = $407,424]. *See* OCA Exh. St. 2 at 30; *see also* Columbia Exh. JV-5R at 1, 5.

> policy issues before various agencies and civic related initiatives.

OCA St. 2 at 30-31. We concur with Mr. Mugrace's testimony. Indeed, absent evidence that there is any direct benefit to ratepayers, Columbia should not be permitted to recover costs for membership in such organizations. Accordingly, we shall deny, in part, Columbia's Exception No. 6 to the extent that we shall adopt the ALJs' recommendation that the Company not be permitted to recover chamber of commerce membership costs.

As discussed in Section VIII.D of this Opinion and Order, *supra*, we shall: (1) decline to adopt the ALJs' recommendation to reject the OCA's proposal to remove Columbia's proposed inflation/deflation adjustments; and (2) grant the OCA's Exception No. 2 to remove Columbia's proposed inflation/deflation adjustments. Accordingly, regarding the Company's expense claim for Company memberships, we shall: (1) reverse Columbia's proposed deflation adjustment of $(6,788); (2) grant Columbia's Exception No. 6, in part to permit the Company to claim $116,036 in EAP membership fees; and (3) adopt a total downward adjustment of $137,837, [$6,788 + $(260,661) + $116,036 = $(137,837)], to reflect a total allowance of $544,959 for Company memberships expense. [$(137,837) + $682,796 = $544,959].[104]

[104] As noted above, the OCA's Exhibit DM-SR-20 shows a total adjustment to Company memberships expense for the FPFTY of $(253,873), and Appendix A, Table II of the OCA's Main Brief depicts total memberships expense of $428,924. [$682,796 + $(253,873) = $428,924]. *See* OCA M.B. at Appendix A: Table II; OCA Exh. DM-SR-20. It is unclear why the OCA's proposed adjustment to company memberships expense provided as an exhibit to the surrebuttal testimony and in the rate tables accompanying the OCA's Main Brief differs from the adjustment set forth in the body of the OCA's Main Brief and as stated by the OCA in other documents in the record in this proceeding. Nonetheless, as the OCA's proposed total downward adjustment of $253,873 appears to have been the OCA's final proposed adjustment for this expense, we shall apply it, in part.

K. M&S Expense

1. Positions of the Parties

Initially, Columbia anticipated an M&S expense for the FPFTY of $6,080,827. Subsequently, in rebuttal, Columbia reduced its labor expense proposal by $4,819, to reflect the sale and removal of Blackhawk.[105] Thus, Columbia proposed a total M&S expense for the FPFTY of $6,076,008. [$6,080,827 – $4,819 = $6,076,008]. Columbia Exh. JV-1R at 6.[106]

Columbia noted that an accounting change occurred in 2024 that resulted in an HTY increase in "[account] 2020 – Facilities, Maintenance Repairs, and Materials," in comparison to the prior two historical twelve-month periods ended in November for the years 2023 and 2022. Columbia explained that a vendor invoicing process improvement inadvertently created a change in the O&M expense cost element for the vendor, resulting in a movement of expense from the correct category of outside services to materials and supplies. Further, Columbia noted that it is currently researching the best method to correct the inadvertent vendor category change. Moreover, Columbia represented that this "geography mapping change" has no impact on the Company's FPFTY budget or claim. Columbia St. 4-R at 22.

The OCA's witness, Mr. Mugrace, noted that Columbia's account 2020 Facilities Maintenance and Repairs Materials increased from $42,478 in 2022, to

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[105] As will be discussed in Section VIII.O, *infra*, Columbia, subsequent to the filing of the instant rate case, requested the deferment and amortization of Blackhawk. *See* Columbia M.B. at 70.

[106] As noted in Section V.D of this Opinion and Order, *supra,* the Company applied an inflation adjustment to its working claim for M&S in its rate base. However, Columbia did not propose to apply an inflation/deflation adjustment to its claim for M&S expense.

$174,598 in 2023, and to $946,461 in 2024. According to Mr. Mugrace, this is a significant increase in the year-over-year trends, and thus the cost trend is not representative of likely anticipated FPFTY costs. As such, the OCA proposed a three-year normalization to control the high variance in the cost account. OCA M.B. at 108-09 (citing OCA St. 2 at 33; OCA St. 2SR at 18; OCA Exh. DM-SR-24). Moreover, Mr. Mugrace posited that the Company has not provided any further information beyond asserting that an accounting change occurred in 2024 and that such a change resulted in the movement of expenses from outside services to material and supplies. OCA St. 2SR at 17-18 (citing Columbia St. 4-R at 22). Accordingly, the OCA proposed a downward adjustment of $558,615 to Columbia's total claim for M&S expense, based on a three-year average of historical expenses. OCA St. 2SR at 18.[107]

2. Recommended Decision

The ALJs agreed with Columbia that "shifting" expenses between accounts due to an accounting change or error is not a basis to disallow an expense. Accordingly, the ALJs recommended that the OCA's proposed adjustment to the Company's claim for M&S expense be denied. R.D. at 229.

3. OCA Exception No. 4 and Replies

In its Exception No. 4, the OCA argues that a three-year normalization of the Company's fluctuating levels of M&S expense is supported by the record. Citing the testimony of its witness, Mr. Mugrace, the OCA maintains that a year-over-year cost

[107] We note that the OCA made its underlying adjustment based upon the Company's HTY balance and that this adjustment was also unrelated to the downward adjustment Columbia made to its claim for M&S expense in light of its sale of Blackhawk. Therefore, the OCA's proposed adjustment to the Company's M&S expense would not have changed in light of the Company's sale of Blackhawk and its subsequent revision to its claim for this expense.

trend is not representative of anticipated costs in the FPFTY. OCA Exc. at 20-21 (citing OCA M.B. at 108; OCA St. 2 at 33). Further, the OCA notes the testimony of Mr. Mugrace, who challenged the Company's position that account 2020 was inflated due to an accounting classification error that had no impact on Columbia's FPFTY revenue requirement. Specifically, the OCA states, Mr. Mugrace pointed out that Columbia: (1) has not provided any further information; (2) is currently researching the best method to correct the inadvertent vendor adjustment; and (3) failed to provide substantial evidence regarding how the accounting error identified by Mr. Mugrace was corrected in the rate filing. OCA Exc. at 22 (citing OCA St. 2SR at 17-18). Moreover, the OCA cites to *PGW 2023* to highlight that the Commission made similar adjustments in that proceeding, based upon the OCA's recommendation. Accordingly, the OCA remains of the opinion that a proposed three-year normalization adjustment is appropriate and should be adopted. OCA Exc. at 22-23 (citing OCA M.B. at 110; OCA St. 2 at 33; *PGW 2023* at 82-83).

In its Replies, Columbia counters that the ALJs properly recommended that the Commission reject the OCA's three-year average adjustment to the Company's claim for M&S expense and properly concluded that a change in accounting does not support a disallowance. Accordingly, Columbia requests that the Commission deny the OCA's Exception No. 4. Columbia R. Exc. at 10.

4. Disposition

On consideration of the record evidence and the arguments before us, along with the Exceptions and Reply Exceptions of the Parties, we shall decline to adopt the ALJs' recommendation and shall grant the OCA's Exception No. 4. As such, we shall adopt a three-year normalization of M&S expenses, based upon historical cost trends. To the extent that Columbia contends that its historical trend in M&S expenses is the result of an account change and/or the result of an inadvertent expense classification, we find

the OCA's argument and the testimony of the OCA's witness, Mr. Mugrace, to be more compelling. Specifically, Mr. Mugrace 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." OCA St. 2 at 33. In rebuttal, Mr. Mugrace further testified, as follows:

> 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 [Columbia's witness] Mr. [Joseph] 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 [Columbia] alters or changes its method, I am continuing to recommend the three-year normalization adjustment of $558,615.

OCA St. 2SR at 17. Indeed, as noted by the OCA, Columbia has not provided evidence to substantiate how the accounting error identified by Mr. Mugrace was corrected. *See* OCA Exc. at 22.

We are persuaded that the OCA's proposed adjustment to the Company's claim for M&S expense is reasonable and appropriate. Therefore, we shall decline to adopt the ALJs' recommendation on this issue, and we shall grant the OCA's Exception No. 4, to apply the OCA's proposed three-year normalization downward adjustment of $558,615, to reflect a total allowance for Columbia's M&S of $5,517,393 in the FPFTY. [$6,076,008 + $(558,615) = $5,517,393].

L. SERP

As discussed in Section VIII.D of this Opinion and Order, *supra*, we shall modify the Recommended Decision to reverse the ALJs' recommended individual

downward adjustments to: (1) SERP expense of $136,102, (2) NCSC STI compensation expense of $3,520,746, and (3) NCSC LTI compensation and stock awards expense of $4,012,229. As previously stated, we find that additional downward adjustments to these individual expense categories are unnecessary, given our agreement with the ALJs' recommended downward adjustment of $7,669,077 to the Company's claim for NCSC shared services expense.[108] The reversal of these adjustments is outlined in Table II of the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order.

M. Workplace Connections/Diversity Equity and Inclusion (DEI)

1. Positions of the Parties

Columbia proposed an expense claim of $130,450 for Workplace Connections/DEI costs. Columbia asserted that Workplace Connections benefit customers by attracting and retaining talent through inclusion, and by improving the connections that Columbia's employees have, both among themselves and in the communities where the Company serves. Columbia highlighted that the Company serves in increasingly diverse communities, with an ever-changing and diverse workforce. In this regard, Columbia reasoned that the current workforce includes multiple generations of employees, and it is common knowledge that these different generations have different experiences, styles of work, and expectations of employment. Columbia M.B. at 64-66.

The OCA disagreed with Columbia's expense claim for Workplace Connections/DEI costs related to three employees who work in the NiSource Workforce

[108] [$3,520,746 + $4,012,229 + $136,102 = $7,669,077]. OCA Exh. DM-SR-27.

Connection team. According to the OCA, costs "which seek to promote fair treatment and full participation of all people who have been subject to discrimination" do not benefit customers. The OCA asserted that there is no evidence to support a nexus between Columbia's DEI initiatives and any purported benefits of these initiatives to ratepayers. Rather, the OCA's witness, Mr. Mugrace, argued that "these appear to be costs to benefit the Company such as corporate branding, imaging and touting Company stewardships." As such, the OCA proposed a complete disallowance of $130,450 to the Company's claim for Workplace Connections/DEI expense in the FPFTY. OCA St. 2 at 38-39.

2. Recommended Decision

The ALJs noted that the Company did not present any evidence or metrics to demonstrate that its claimed Workplace Connections/DEI expense produces actual benefits or value to its ratepayers. R.D. at 232. The ALJs agreed with the testimony of the OCA's witness, Mr. Mugrace, that the Company's claimed expenses "appear to be costs to benefit the Company such as corporate branding, imaging and touting Company stewardships," with no benefit flowing to the Company's ratepayers. *Id.* (citing OCA St. 2SR at 20). Accordingly, the ALJs recommended that the Commission disallow the Company's claimed Workplace Connections/DEI expense of $130,450, in its entirety. R.D. at 232.

3. Disposition

No Parties filed Exceptions to the ALJs' recommendation regarding the Company's claimed expense for Workplace Connections/DEI. We agree with the ALJs in this matter. As the ALJs observed, Columbia did not establish any evidence to demonstrate that this claimed expense provides any benefit to the Company's customers.

R.D. at 232. Accordingly, we shall adopt the ALJs' recommendation and shall deny Columbia's claimed Workplace Connections/DEI expense of $130,450, in its entirety.

N. Recovery of Energy Assistance Team/Rider Universal Service Plan (Rider USP)[109]

1. Positions of the Parties

Columbia proposed to recover the costs of its current Energy Assistance Team (EAT) through its Rider USP, shifting recovery of EAT costs from its base rates into its Rider USP. Because EAT costs are currently recovered through base rates, Columbia proposed that, if EAT costs are recovered through its Rider USP, then its base rate revenue requirement should be reduced accordingly. Columbia calculated its EAT labor and benefits costs, and associated payroll taxes, to be $225,136. Columbia M.B. at 66-69.

I&E submitted that currently, the universal service costs associated with the Company's EAT, which handles the administration of Low Income Home Energy Assistance Program (LIHEAP)/CRISIS[110] and Customer Assistance Program (CAP) accounting, are recovered in base rates. I&E disagreed with the Company's proposal to shift the recovery of EAT costs, of approximately $220,000 annually, from its base rates

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[109] In this Opinion and Order, when we use "USP" in conjunction with "Rider," this acronym refers to Rider Universal Service Plan (*i.e.*, Rider USP). When we use USP as a stand alone acronym, USP shall refer to "universal service programs." *See* Tariff Gas at Seventy-eighth Revised Page No. 4, effective December 14, 2024.

[110] CRISIS is a component of LIHEAP, wherein the Company provides grants in the event of heating emergencies for customers that are without heat or are facing a heating emergency due to a threat of disconnection or faulty heating equipment. *See* Columbia St. 9 at 8.

to its Rider USP.[111] I&E asserted that shifting the recovery of EAT costs from the Company's base rates to its Rider USP provides Columbia with a guaranteed recovery of EAT labor costs and eliminates the Commission's authority to review the reasonableness and prudency of these costs. As such, I&E recommended that the Company's proposal to shift EAT labor cost recovery from base rates to the Rider USP be rejected. I&E M.B. at 29-30.

The OCA, likewise, opposed the recovery of the EAT costs through the Rider USP. In addition, the OCA's witness, Mr. Mugrace, recommended that the recovery of $220,000 be removed from base rates. OCA M.B. at 118 (citing OCA St. 2SR at 25; OCA Exh. DM-SR-31); *see also* Columbia M.B. at 68 (citing Tr. at 536-37). However, in its Reply Brief, the OCA submitted that Mr. Mugrace "made an inadvertent error in disallowing $220,000 of administrative costs entirely." Therefore, the OCA clarified that it does not oppose recovery of this $220,000 expense, as long as Columbia's EAT costs remain in the Company's base rates. OCA R.B. at 80, 165-66.

2. Recommended Decision

The ALJs recommended that the Commission reject the Company's proposal to shift the recovery of EAT costs from base rates to its Rider USP. Additionally, the ALJs recommended that the Commission disallow the recovery of $220,000 in administrative costs associated with the Company's EAT/Rider USP

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[111] We note that while Columbia's witness, Mr. Vassalotti, testified that Columbia calculated its EAT labor and benefits costs, and associated payroll taxes, to be $225,136, Columbia's witness, Ms. Deborah. A. Davis, noted that approximately $220,000 of this total is related to O&M expenses. *See* Columbia St. 4 at 44; Columbia St. 16 at 14. Mr. Vassalotti submitted that Columbia disagreed with the proposal of the OCA's Witness, Mr. Mugrace, *infra*, to remove $220,000 from base rates unless the Commission agrees with Columbia's proposal to move recovery of the EAT costs from base rates to Rider USP. Columbia St. 4-R at 28.

balance in the FPFTY. R.D. at 234, 236-37 (citing OCA St. 2SR, at 25; OCA Ex. DM-SR-31); R.D. at Appendix A, Table II.

3. Columbia Exception No. 7 and Replies

In its Exception No. 7, Columbia explains that it does not object to the ALJs' recommendation that the Commission direct the Company to continue to recover its EAT costs through its base rates. However, Columbia submits that the ALJs erred in making their corresponding recommendation that the Commission disallow the recovery of $220,000 in EAT costs through the Company's base rates. Columbia explains that it only included EAT costs as a base rate cost, and not as a Rider USP cost. Columbia Exc. at 14-15. According to Columbia, the OCA's challenge to the Company's recovery of EAT costs was limited to disagreeing with the Company's proposal to shift recovery of this expense from its base rates to its Rider USP. *Id.* at 15 (citing OCA St. 5SR at 25-26). Therefore, Columbia insists that the Commission should not adopt the ALJs' recommended corresponding downward adjustment of $220,000 to the Company's O&M expenses associated with EAT costs. Columbia Exc. at 15.

In its Reply Exceptions, the OCA reinforces that while it opposes recovery of the EAT costs through the Rider USP, it does not oppose recovery of the $220,000 expense if the costs remain in base rates. OCA R. Exc. at 22-23.

4. Disposition

On consideration of the record evidence, we shall grant Columbia's Exception No. 7. Initially, we note that we concur with the ALJs' recommendation, to which no Party objected, that the Company be directed to continue to recover its EAT costs through its base rates. As I&E observed, shifting the recovery of EAT costs from the Company's base rates to its Rider USP provides Columbia with a *guaranteed*

recovery of EAT labor costs and eliminates the Commission's authority to review the reasonableness and prudency of such costs. *See* I&E M.B. at 29-30.

However, given that we shall adopt this recommendation of the ALJs, we disagree with the ALJs' corresponding recommendation to also apply a downward adjustment of $220,000 and thereby deny Columbia's recovery of the administrative costs associated with the Company's EAT through its base rates. As Columbia notes, the OCA opposed only the Company's proposal to shift the recovery of EAT costs from base rates to its Rider USP. Columbia Exc. at 15. However, as the OCA confirms in its Replies to Exceptions, it does not oppose the recovery of the $220,000 in EAT costs if such costs remain in the Company's base rates. OCA R. Exc. at 22-23; *see also* OCA R.B. at 80, 165-66. As such, we shall reverse the ALJs' recommendation that would have reduced the Company's claim by $220,000.

O. Blackhawk

1. Positions of the Parties

Columbia requested to establish a regulatory asset for the deferment and amortization of Blackhawk, a gas storage facility that, until recently, was owned by the Company. Columbia explained that it filed the instant rate case while the Application for a Certificate of Public Convenience (Application) to transfer Blackhawk was pending before the Commission. Further, Columbia noted that at the time of the filing of the instant rate case, the Company was unaware of whether its Application would be approved and whether the sale would be completed. Moreover, Columbia pointed out that it included in the instant rate case operating expenses, plant in service, accrued depreciation, ADIT, and gas in storage associated with Blackhawk. Columbia M.B. at 69-70. Furthermore, Columbia highlighted that in direct testimony, the Company indicated the pending status of the Application and stated that, if the sale was approved

prior to the close of the record, then the Company would update its filing to remove Blackhawk. *Id.* at 70 (citing Columbia St. 11 at 5, n.1).

In rebuttal, Columbia updated its claim to reflect the sale of Blackhawk after the Commission approved the Application. Columbia M.B. at 70 (citing *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*, Docket No. A-2025-3053161 (Opinion and Order entered April 24, 2025) (*Blackhawk Order*)). As a result, Columbia requested a five-year amortization of $5,420,743, comprised of: (1) the non-depreciable loss on the sale of $5,031,739; and (2) feasibility study costs of $389,005. Thus, Columbia requested an annual amortization expense of $1,084,149. [$5,420,743 ÷ 5 years = $1,084,149 per year]. Columbia St. 4-R at 9. Further, Columbia submitted that amortizing the loss of Blackhawk avoids: (1) O&M costs of approximately $232,000 per year; (2) new safety administration requirement costs of approximately $2 million; and (3) facility retirement costs of approximately $5 to $8 million. Columbia M.B. at 73 (citing Columbia St. 1-R at 24).

I&E opposed Columbia's inclusion of the Blackhawk regulatory asset in the current base rate case. I&E explained that the *Blackhawk Order* indicated the following:

> Columbia Gas anticipates that, in a base rate proceeding *filed after Commission approval of the sale* and the closing of the transaction, the [C]ompany's claimed cost of service will reflect both the divestiture of the Blackhawk Storage Field, [and the] reduced operation, and maintenance costs associated with that asset.

I&E St. 3-SR at 5 (citing *Blackhawk Order* at 4) (emphasis in original). However, I&E pointed out that Columbia filed the instant base rate case on

March 20, 2025, prior to the Commission's approval of the sale of Blackhawk (*i.e.*, April 24, 2025). Further, I&E highlighted Columbia's statement that "[t]he treatment of the proceeds from the sale will be determined in a future base rate proceeding." I&E M.B. at 20 (citing *Blackhawk Order* at 4). Moreover, I&E argued that it appears questionable whether the amount of money spent on the feasibility study was prudent and in the interest of ratepayers. I&E M.B. at 20 (citing I&E St. 3-SR at 6-7). Accordingly, I&E recommended that the Commission disallow the inclusion of the Blackhawk regulatory asset in this case. I&E R.B. at 15.

The OCA accepted the Company's proposal. OCA St. 2R at 3.

2. Recommended Decision

The ALJs agreed with I&E that the inclusion of Blackhawk in this current base rate case should not be permitted. The ALJs found that 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 base rate proceeding filed by Columbia, in order for the Parties and the public to be provided appropriate notice and an opportunity to properly address the issues related to Columbia's request. Accordingly, the ALJs recommended that this matter be addressed, where appropriate, in Columbia's next base rate proceeding. Based upon this recommendation, the ALJs further recommended the removal of $1,084,149 associated with Columbia's claimed amortization expense for Blackhawk in the FPFTY. R.D. at 136-37, 235-36; Appendix A, Table II.

3. Disposition

No Party directly excepted to the recommendation of the ALJs on this issue.[112] Regarding Blackhawk, we agree with the ALJs that it is more appropriate to address the sale of this regulatory asset in the next base rate proceeding filed by Columbia. As such, the Company may seek recovery of this regulatory asset in that proceeding. Indeed, as noted by the ALJs, due process requires that the Parties and the public be provided appropriate notice and an opportunity to properly address the issues related to the sale of Blackhawk. Thus, we also agree with the ALJs' recommendation to remove $1,084,149 associated with the Company's claimed amortization expense for Blackhawk in the FPFTY. Therefore, we shall adopt the ALJs' recommendation on this issue without further comment.

P. Utilities – FUICO

1. Positions of the Parties

Regarding its claimed expense for FUICO, Columbia anticipated a balance of $2,075,819 for the FPFTY. Columbia Exhs. JV-1R at 6, JV-6R at 22. Additionally, as discussed in Section VIII.D of this Opinion and Order, *supra*, Columbia proposed inflation/deflation adjustments to several expense categories, including a deflation adjustment of $(28,758) to the Company's claimed FUICO expense. *See* Columbia M.B. at 52-53.

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[112] While no party directly excepted to the recommendation of the ALJs regarding Blackhawk, Columbia requests that the Commission "confirm that delay of consideration of the treatment of the Blackhawk loss may not be used as a basis to disallow recovery in the next Columbia base rate proceeding." Columbia Exc. at 3, n.2. We clarify that Columbia is free to present its proposed regulatory asset related to its sale of Blackhawk in its next base rate case.

As discussed in Section VIII.D of this Opinion and Order, *supra*, the OCA disagreed with the Company's requested inflation/deflation adjustments to several expense categories, including Columbia's proposed deflation adjustment of $(28,758) to its claimed FUICO expense. *See* OCA M.B. at 89-91. Accordingly, the OCA recommended an increase of $28,758, to Columbia's proposed FUICO expense balance of $2,075,819, resulting in a total allowance of $2,104,577. [$28,758 + $2,075,819 = $2,104,577]. OCA M.B. at 107; *see* OCA Exh. DM-SR-21.

2. Recommended Decision

The ALJs restated their recommendation that the OCA's proposal to remove the Company's requested deflation adjustment of $(28,758) to FUICO expense, be denied. R.D. at 237.

3. OCA Exception No. 2 and Replies

As discussed in Section VIII.D of this Opinion and Order, *supra,* in its Exception No. 2, the OCA objects to the ALJs' recommendation that the OCA's proposal to remove Columbia's requested inflation/deflation adjustments, including the OCA's proposal to remove Columbia's requested deflation adjustment to its FUICO expense of $(28,758), be denied. OCA Exc. at 14-18.

In its Replies, Columbia argues that the OCA's Exception No. 2 should be denied. Columbia R. Exc. at 9.

4. Disposition

As discussed in Section VIII.D of this Opinion and Order, *supra*, we shall: (1) decline to adopt the ALJs' recommendation to reject the OCA's proposal to remove

Columbia's proposed inflation/deflation adjustments; and (2) grant the OCA's Exception No. 2 to remove Columbia's proposed inflation/deflation adjustments. Accordingly, regarding the Company's claimed FUICO expense, we shall reverse Columbia's proposed deflation adjustment of $(28,758), to reflect a total allowance of $2,104,577 for this expense. [$28,758 + $2,075,819 = $2,104,577].

Q. Advertising

1. Positions of the Parties

Columbia claimed an advertising expense of $391,359 in the FPFTY. Columbia Exh. JV-1R at 6; Columbia Exh. JV-2R at 6. As noted in Section VIII.D, *supra*, the Company included a deflation adjustment of $(11,366) to its claim for advertising expense. *See* Columbia Exh. 104, Sch. 2 at 11.

As discussed in Section VIII.D of this Opinion and Order, *supra,* the OCA disagreed with the Company's requested inflation/deflation adjustments to several expense categories, including Columbia's proposed deflation adjustment of $(11,366) to its advertising expense claim. *See* OCA M.B. at 89-91. Accordingly, the OCA recommended an increase of $11,366, to Columbia's proposed advertising expense balance of $391,358, resulting in a total allowance of $402,724. [$11,366 + $391,358 = $402,724]. OCA M.B. at 107-08 (citing OCA St. 2 at 32; OCA Exh. DM-22).

2. Recommended Decision

The ALJs restated their recommendation that the OCA's proposal to remove Columbia's requested deflation adjustment of $(11,366) to the Company's advertising expense be denied. R.D. at 237-38.

3. OCA Exception No. 2 and Replies

As discussed in Section VIII.D of this Opinion and Order, *supra*, in its Exception No. 2, the OCA objects to the ALJs' recommendation that the OCA's proposal to remove Columbia's requested inflation/deflation adjustments, including the OCA's proposal to remove Columbia's requested deflation adjustment to advertising expense of $(11,366), be denied. OCA Exc. at 14-18.

In its Replies, Columbia argues that the OCA's Exception No. 2 should be denied. Columbia R. Exc. at 9.

4. Disposition

As discussed in Section VIII.D of this Opinion and Order, *supra*, we shall: (1) decline to adopt the ALJs' recommendation to reject the OCA's proposal to remove Columbia's inflation/deflation adjustments; and (2) grant the OCA's Exception No. 2 to remove Columbia's proposed inflation/deflation adjustments. Accordingly, regarding the Company's claim for advertising expense, we shall reverse Columbia's proposed deflation adjustment of $(11,366), to reflect a total allowance of $402,724 for this expense. [$11,366 + $391,358 = $402,724].

R. Uncollectible Expense

1. Positions of the Parties

Columbia proposed total uncollectible expense balances for the FPFTY of $9,487,724 for the rate base, and $1,187,650 for the unbundled uncollectible expenses. Columbia Exh. 104, Sch. 1 at 2.

The OCA noted that it accepted Columbia's computation of uncollectible expense. However, the OCA's witness, Mr. Mugrace, represented that the Company's uncollectible expense is $(488,873), based on his recommended overall revenue *decrease* of $36,316,933, and the uncollectible account factor of 0.0134613.[113] Mr. Mugrace noted that he did not include an adjustment for uncollectible expense in the overall O&M expense balance because the revenue gross-up factor accounts for all expenses, including uncollectible expense. Further, Mr. Mugrace noted that his recommended adjustment of $(488,873) is shown and incorporated in the revenue deficiency. OCA St. 2SR at 24-25 (citing DM-SR-1, DM-SR-9, DM-SR-29). Accordingly, the OCA submitted that if the Commission accepts the OCA's recommended revenue decrease and revenue requirement, then the Commission should apply the OCA's methodology for the calculation of the applicable uncollectible expense adjustment. OCA M.B. at 117-18.

2. Recommended Decision

The ALJs recommended that the OCA's proposed adjustment to uncollectible expense be denied based upon their discussion regarding their alternative recommendation, *supra*, as to the Company's revenue increase and revenue requirement. R.D. at 238.

3. OCA Exception No. 5 and Replies

In its Exception No. 5, the OCA argues that its proposed corollary adjustment to uncollectible expense is necessary: (1) to properly reflect the OCA's other adjustments; and (2) if the Commission permits Columbia to increase rates. The OCA maintains that its witness, Mr. Mugrace, calculated an uncollectible expense of

[113] [$36,316,933 x 0.0134613 = $488,873]. The uncollectible account factor is set forth in Appendix D, Table I(B) of Columbia's Main Brief.

$(488,873), based on: (1) the totality of O&M expense adjustments being "grossed-up" by a revenue conversion factor of 1.38698; and (2) the OCA's proposed overall revenue decrease of $36,316,933, and the uncollectible account factor of 0.0134613.[114] Accordingly, the OCA remains of the opinion that if the Commission grants Columbia's proposed rate increase, then the Commission should adopt the OCA's proposed uncollectible expense adjustment. OCA Exc. at 23-24 (citing OCA R.B. at 79-80, 82-84; OCA M.B. at 117-18, 120-23).

In its Replies, Columbia counters that the Commission's traditional ratemaking formula recognizes uncollectible expense. Accordingly, Columbia argues that the OCA's Exception No. 5 must be rejected. Columbia R. Exc. at 10-11.

4. Disposition

As discussed in Section VI.B of this Opinion and Order, we have not adopted any of the proposals by the Parties to this proceeding regarding the appropriate revenue increase and revenue requirement to grant the Company. Accordingly, the OCA's Exception No. 5, with respect to its arguments regarding the Company's uncollectible expense, is denied.[115]

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[114] [$(36,316,933) x 0.0134613 = $(488,873)].

[115] The remainder of the OCA's Exception No. 5 is discussed in Section IX.B, *infra.*

S. Other Rents and Leases

1. Positions of the Parties

Columbia anticipated an "other rents and leases expense" for the FPFTY of $545,640. According to Columbia, its proposed rent and lease expense forecast is reasonable because, when compared to a three-year historical average of $504,358,[116] and inflation rates of 2.93% and 3.05% for the FTY and the FPFTY, respectively, are applied, the resulting inflation-adjusted estimate of $534,969 is within 2% of the budgeted amount of $545,640. Further, Columbia noted that its forecast reflected actual expected costs based on current contracts, anticipated renewals, and inflationary trends. Columbia St. 18-R at 15-16 (citing Columbia Exh. 104, Sch. 2 at 20).

I&E proposed an allowance of $475,203 for other rents and leases expense, or a reduction of $70,437. [$545,640 – $475,203 = $70,437]. I&E argued that the Company's other rents and leases expense has trended downward in recent years, from $532,730 in 2022, to $505,142 in 2023, and to $475,203 in 2024. Further, I&E noted that Columbia provided no support for the FTY and FPFTY increases. Accordingly, I&E recommended an allowance equal to the supported HTY actual expense of $475,203. I&E M.B. at 25-26 (citing I&E St. 1 at 15-16; I&E Exh. 1, Sch. 3 at 3).

2. Recommended Decision

The ALJs agreed with the position advanced by I&E for an allowance equal to the supported HTY actual expense of $475,203. Accordingly, the ALJs recommended that an allowance of $475,203, equal to the supported HTY actual

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[116] Columbia explained that it calculated a three-year historical average using 2022, 2023, and HTY 2024 amounts of $532,730, $505,142, and $475,203, respectively. Columbia St. 18-R at 15 (citing Columbia Exh. 104, Sch. 2 at 20).

expense, be approved, representing a reduction of $70,437 to the Company's claimed expense. R.D. at 240.

3. Disposition

No Party excepted to the recommendation of the ALJs on this issue. Regarding other rents and leases, we agree with the ALJs and I&E that an allowance of $475,203 for the Company's claimed expense for other rents and leases, based on a reduction of $70,437, [$545,640 – $475,203 = $70,437], is appropriate. As I&E correctly noted, the Company did not provide evidence supporting the FTY and FPFTY increases. Indeed, in the absence of support for a higher claim, an allowance equal to the supported HTY actual expense is appropriate. *See* I&E Sts. 1 at 15-16, 1-SR at 13-14. Therefore, we shall adopt the ALJs' recommendation on this issue.

T. Interest on Customer Deposits

1. Positions of the Parties

Columbia initially claimed $373,107 for interest on customer deposits, based on an interest rate of 8% pursuant to 66 Pa.C.S. § 1404(c)(6)(i).[117] Columbia applied this interest rate to the 2024 average customer deposit balance of $4,663,841. [$4,663,841 x 8% =$373,107]. Columbia Vol. 2, Exh. 4, Sch. 2, at 29.

I&E disagreed with Columbia's use of an interest rate of 8%, and argued that Columbia should pay its ratepayers at the legal rate of interest on its customers'

[117] We note that Chapter 14 of the Code, 66 Pa.C.S. §§ 1401–1419, sunset on December 31, 2024. *See Sunset of Chapter 14, Title 66 of the Pennsylvania Public Utility Code*, Docket No. M-2024-3052328 (Statement of Policy entered December 24, 2024). To date, Chapter 14 has not been reenacted.

security deposits, which is updated each year. As such, I&E recommended an allowance of $326,469 for interest on customer deposits, representing a reduction of $46,638 to the Company's claim. [$373,107 - $326,469=$46,638]. I&E explained that based on the information provided by Columbia, I&E adjusted the expense for interest on customer deposits by multiplying the updated interest rate of 7% for 2025 by the average customer deposit balance of $4,663,841. [$4,663,841 x 7% = $326,469]. I&E M.B. at 28.

Columbia, in its Reply Brief, argued that in its rebuttal testimony, the Company accepted the adjustment set forth by I&E and reflected I&E's proposed allowance of $326,469 in its final claim for interest on customer deposits in this proceeding. Therefore, Columbia submitted that no further adjustment to this expense claim is appropriate. Columbia R.B. at 38.

2. Recommended Decision

The ALJs agreed with I&E's calculation and the application of an interest rate of 7%. Therefore, the ALJs recommended an allowance of $326,469 for interest on customer deposits, representing a reduction of $46,638 to the Company's initial claim, *supra*. R.D. at 240-41.

3. Columbia Exception No. 8 and Replies

In its Exception No. 8, Columbia submits that in making their recommendation that the Company's claim be reduced, the ALJs failed to recognize that Columbia already accepted I&E's proposed downward adjustment of $46,638. Thus, Columbia stresses that its final claim for interest on customer deposits in this proceeding reflects I&E's recommended allowance. Accordingly, Columbia insists that no further adjustment for interest on customer deposits is necessary. Columbia Exc. at 15.

4. Disposition

On consideration of the record evidence, we shall grant Columbia's Exception No. 8. The record confirms Columbia's assertion that, in its rebuttal testimony, Columbia accepted I&E's recommendation to use the updated interest rate of 7% in calculating the Company's O&M expense for interest on customer deposits. Therefore, Columbia reduced its initial claim of $373,107 by $46,638, for a final claim of $326,469. *See* Columbia St. 4-R at 4; Columbia Exh. JV-1R at 6. Accordingly, we agree with Columbia that no further adjustment to the Company's claimed expense for interest on customer deposits is necessary.

U. Working Capital

1. Positions of the Parties

As noted in Section V.A, *supra*, Columbia stated that it is not making a claim for cash working capital. Columbia M.B. at 21. However, Columbia included a working capital claim for its M&S, prepayments, and gas storage underground balances. Columbia Exh. 108 at 3, Schs. 4-7; *see also* Columbia Exh. JV-2R at 12.[118]

I&E noted that in *Columbia Gas 2024*, the Company agreed to perform a lead/lag study in its first base rate case filed after January 1, 2026. Accordingly, I&E recommended that based on the settlement agreement in *Columbia Gas 2024*, Columbia include a lead/lag study in its first base rate case to be filed on or after January 1, 2026. I&E M.B. at 29 (citing I&E St. 1 at 20-22; I&E Exh. 1, Sch. 6 at 2).

[118] As noted in Section V.A, *supra*, the Company's claimed working capital amounts for M&S and prepayments did not change in light of its sale of Blackhawk.

As discussed in Section V.D, *supra*, the OCA posited that Columbia overstated its working capital claim. The OCA's witness, Mr. Mugrace, removed the inflation factors of 2.93% and 3.05% for the FTY and the FPFTY, respectively, from Columbia's balances of M&S of $948,060, and prepayments of $5,577,551 in its rate base.[119] Accordingly, Mr. Mugrace recommended a reduction to: (1) materials and supplies of $56,977, resulting in a balance of $891,083.
[$948,060 - $56,977 = $891,083]; and (2) prepayments of $262,481, resulting in a balance of $5,315,070. [$5,577,551 - $262,481 = $5,315,070]. Thus, Mr. Mugrace recommended a net decrease of $319,457, [$56,977 + $262,481 = $319,457], to the Company's working capital balance. OCA St. 2 at 10-12 (citing Columbia Exh. 108 at 3, Sch. 4; OCA Exh. DM-3); OCA Exh. DM-SR-3.

2. Recommended Decision

The ALJs agreed with I&E's recommendation that Columbia perform a lead/lag study in its first base rate case filed after January 1, 2026, as agreed to in *Columbia Gas 2024*. Accordingly, the ALJs recommended that I&E's recommendation be approved. R.D. at 242.

3. Disposition

No Party excepted to the recommendation of the ALJs on this issue. We concur with the ALJs' recommendation and shall direct Columbia to perform a lead/lag study in its first base rate case filed after January 1, 2026, as agreed to in *Columbia Gas 2024*.

[119] Mr. Mugrace noted that no inflation factors were used to compute Columbia's gas storage underground balance. OCA St. 2 at 11.

Additionally, as discussed in Section V.D of this Opinion and Order, *supra*, we have adopted the OCA's proposed downward adjustments to the Company's working capital claims in its rate base of $56,977 for M&S and $262,481 for Prepayments, reflective of our granting of the OCA's Exception No. 2.

V. Rider EE

1. Positions of the Parties

As discussed in Section XV of this Opinion and Order, *infra*, the Company proposed a Phase II EE Plan. Columbia St. 13 at 8; Columbia Exh. JAN-2. Columbia included an expense claim of $1,235,965 in the FPFTY related to the Phase II EE Plan. This claimed expense is associated with Columbia's Rider EE for the Company's EE Plan reconciling mechanism. Columbia Exh. JV-1R at 6.[120] *See also* OCA St. 2 at 41.

I&E took the position that the Commission should reject the Company's proposed Phase II EE Plan in its entirety. Accordingly, I&E submitted that the Commission should also deny the Company's corresponding Rider EE expense claim in its entirety, reasoning that "[t]he disallowance of the proposed [Phase II EE Plan] results in a reduction of $1,235,965 in unnecessary operating expenses and corresponding recovery in customers' rates through the EE Rider." I&E M.B. at 79, Appendix A, Table II.

[120] In this portion of Columbia Exhibit JV-1R, the Company updated its original Columbia Exhibit 104, Schedule 1 at 4 to reflect its updated proposed increase to its expenses, in light of its sale of Blackhawk.

2. Recommended Decision

As discussed in Section XV, *infra*, the ALJs noted that Columbia included an expense claim of $1,235,965 under its O&M expenses for its Rider EE. In addition, the ALJs noted I&E's argument, *supra*, that the Company's Phase II EE Plan, and the corresponding Rider EE expense claim, should be denied in its entirety. R.D. at 587. Although the ALJs recommended that the Commission reject Columbia's proposed Phase II EE Plan, the ALJs did not make a recommendation regarding the removal of the Company's associated Rider EE expense claim. We further note that no recommended reduction to the Company's expense claim for its Rider EE appears in the rate tables set forth in Appendix A of the Recommended Decision. *Id*. at 609-10, Appendix A, Table II.

3. Columbia Exception No. 19 and Replies

As discussed in Section XV of this Opinion and Order, *infra*, in its Exception No. 19, Columbia objects to the ALJs' recommendation that the Company's Phase II EE Plan should be denied. Columbia Exc. at 34-39. I&E, the OCA, and CAUSE-PA filed replies to Columbia's Exception No. 19, discussed, *infra*. *See* I&E R. Exc. at 12; OCA R. Exc. at 25; and CAUSE-PA R. Exc. at 19-23.

4. Disposition

As discussed, in detail, in Section XV of this Opinion and Order, we shall grant Columbia's Exception No. 19 and approve Columbia's Phase II EE Plan, without modification. As such, we shall approve the Company's proposed expense claim of $1,235,965 in the FPFTY that is associated with the Company's Rider EE for its EE Plan reconciling mechanism.

IX. Taxes

A. Income Taxes

1. Positions of the Parties

Columbia represented that no Party has proposed any disallowance of the Company's income tax expense, except as related to their respective other adjustments to rate base, expenses, and rate of return. Columbia M.B. at 74; Columbia R.B. at 39.

The OCA submitted that Columbia was correct in stating that no Party proposed any disallowance to the Company's income tax expense claim, except as related to each Party's respective adjustments to rate base, expenses, and rate of return. The OCA explained that, overall, the OCA accepted the Company's methodology for calculating its income tax expense. However, the OCA recommended that the Commission adopt an income tax expense for Columbia that is consistent with the OCA's proposed adjustments regarding the appropriate revenue requirement for the Company. OCA R.B. at 83.

2. Recommended Decision

The ALJs recommended that the Commission approve Columbia's methodology for calculating its income tax expense. The ALJs explained that their adjustments for income tax expense allowance were consistent with their overall recommendations regarding the Company's claims for rate base, expenses, and rate of return, as set forth in their Recommended Decision. R.D. at 247; Appendix A, Table I.

3. OCA Exception No. 5 and Replies

In its Exception No. 5, the OCA restates that it accepted the Company's methodology for calculating its income tax expense. However, the OCA remains of the opinion that the Commission should make adjustments to the Company's claimed income tax expense, consistent with accepting the OCA's proposed adjustments to the Company's claims for rate base, expenses, and rate of return.

In its Replies, Columbia counters that the Commission's traditional ratemaking formula recognizes income tax expense. Columbia adds that expense adjustments do not produce net revenue adjustments for income taxes purposes, as expenses are deductible for income tax purposes. Accordingly, Columbia argues that the OCA's Exception No. 5, as it relates to the Company's claims for income tax expense, must be rejected. Columbia R. Exc. at 10-11.

4. Disposition

As discussed in Section VI.B of this Opinion and Order, *supra*, we have not adopted any of the proposals by the Parties to this proceeding regarding the appropriate final revenue increase and revenue requirement to grant the Company. Accordingly, the OCA's Exception No. 5, with respect to its arguments as to the Company's income tax expense, is denied.

B. Taxes Other than Income Taxes

1. Positions of the Parties

Columbia initially claimed an expense of $4,500,833 for taxes other than income taxes. Columbia Exh. 106 Sch. 2 at 2. Subsequently, Columbia reduced its

claim by approximately $7,191, or from $4,500,833 to $4,493,642, in light of its sale of Blackhawk. Columbia M.B. at 74; Columbia Exh. JV-1R at 8. Columbia represented that the only proposed adjustments to the Company's expense claim for taxes other than income taxes that any of the opposing parties proposed were to payroll taxes associated with the OCA's proposed expense adjustments to labor and incentive compensation, as discussed in Sections VIII.A and VIII.C, *supra*.[121] As noted in those sections of this Opinion and Order, Columbia took the position that the Commission should deny the proposed adjustments the OCA made to these expense claims. Thus, Columbia reasoned, the Commission should also deny the OCA's proposed commensurate adjustments to the Company's expense claim for payroll taxes. Columbia M.B. at 74.

The Company's expense claim for taxes other than income taxes is summarized in Table 11, as follows:

Table 11: Columbia's Claim for Taxes other than Income Taxes in the FPFTY, Adjusted to Account for the Sale of Blackhawk

		As Filed			Blackhawk Storage Facility Adjustment	Adjusted to Remove the Blackhawk Storage Facility		
Line No.	Description	Normalized Twelve Months Ended Nov. 30, 2025	Adjustments	Normalized Twelve Months Ended Dec. 31, 2026	Adjustment	Normalized Twelve Months Ended Nov. 30, 2025	Adjustments	Normalized Twelve Months Ended Dec. 31, 2026
		$	$	$	$	$	$	$
1	FICA	3,027,649	(41,533)	2,986,116	0	3,027,649	(48,723)	2,978,926
2	FUTA & SUTA	97,544	0	97,544	0	97,544	0	97,544
3	Property Tax	1,431,833	(59,673)	1,372,160	0	1,431,833	(59,673)	1,372,160
4	Capital Stock	0	0	-	0	0	0	-
5	License and Franchise	0	0	-	0	0	0	-
6	Sales and Use	37,943	0	37,943	0	37,943	0	37,943
7	Other	7,069	0	7,069	0	7,069	0	7,069
8	Total Taxes Other Than Income Taxes	4,602,038	(101,205)	4,500,833	0	4,602,038	(108,396)	4,493,642

See Columbia Exh. JV-1R at 8.

As noted in Table 11, the Company's original claim of $4,500,833 in expenses for taxes other than income taxes included a claim of $2,986,116 for payroll

[121] However, as noted below, the OCA also proposed adjustments to taxes other than income tax associated with the Company's claim for property tax expense.

taxes expense. The Company subsequently adjusted its claimed payroll taxes expense downward by approximately $7,190 to reflect its sale of Blackhawk, resulting in a revised claim of $2,978,926.[122] [$2,986,116 - $7,190 = $2,978,926]. To derive its claim for payroll taxes expense, the Company multiplied its expense claims for labor expense and cash-based incentive compensation expense, *supra,* by a payroll tax rate of 7.2234%, as summarized in Table 12.

Table 12: Calculation of Columbia's Original and Revised Claims for Payroll Taxes Expense

Columbia's Original Claim for Payroll Taxes Expense	**A**	**B**	**C=A x B**
	O&M Expense	**Payroll Tax Rate**	**Associated Payroll Tax Expense**
Labor Expense	$38,770,673	7.2234%	$2,800,561
+ Cash-Based Incentive Compensation Expense	$2,568,807	7.2234%	$185,555
Total Original Claim for Payroll Taxes Expense			$2,986,116

Columbia's Revised Claim for Payroll Taxes Expense Based Upon its Sale of Blackhawk			
	O&M Expense	**Payroll Tax Rate**	**Associated Payroll Tax Expense**
Labor Expense	$38,671,131	7.2234%	$2,793,370
+ Cash-Based Incentive Compensation Expense	$2,568,807	7.2234%	$185,555
Total Revised Claim for Payroll Taxes Expense			**$2,978,926**

See Columbia Exh. JV-1R at 6, 8-9. *See also* Columbia Exh. 106, Sch 2 at 3.

The OCA proposed a downward adjustment of $187,573 to the Company's original claim for payroll taxes expense, commensurate with the OCA's proposed reductions to the Company's claims for labor expense and cash-based incentive compensation expense, discussed in Sections VIII.A and VIII.C, *supra.* As such, the OCA proposed that the Company be permitted to claim a payroll taxes expense of $2,798,543. [$2,986,116 - $187,573 = $2,798,543]. OCA M.B. at 122; OCA

[122] The Company's original and revised expense claims for payroll taxes are depicted on Line 1 of Table 11 under "FICA" (*i.e.*, a payroll tax that is withheld from employees' paychecks in light of the Federal Insurance Contributions Act of 1935 (FICA)).

Exh. DM-SR-33. The OCA represented that it arrived at its proposed reduction using the Company's payroll tax rate of 7.2234%.[123] OCA M.B. at 122.

As noted in Table 11, *supra*, the Company's claim for taxes other than income taxes also included a claim of $1,372,160 for property tax expense.[124] The OCA proposed a downward adjustment of $3,824 to the Company's claimed property tax expense, commensurate with the OCA's proposed downward adjustment to Columbia's original claim for gas plant in service to remove the Company's proposed inflation adjustments, as discussed in Section V.A, *supra*. OCA M.B. at 122. The OCA explained its proposed downward adjustment by pointing to the testimony of its witness, Mr. Mugrace, who testified, as follows:

> I also adjusted the Property Taxes to reflect the changes in my recommended [gas plant in service]. I [compared] the Company's Property tax level of $1,372,160 to the Company's proposed [gas plant in service] balance of $5,219,879,72[5] and calculated a composite tax rate of 0.00026287%. Using my recommended [gas plant in service] balance of $5,205,372,014 times the composite tax rate of

[123] As discussed in our disposition of this issue below, the record indicates that the OCA did not make a proposed revised adjustment based upon the Company's revised claim for payroll tax expense. *See generally* OCA St. 2SR at 3. Additionally, while the OCA represented in its Main Brief that it arrived at its proposed downward adjustment using the Company's payroll tax rate of 7.2234%, OCA Exhibit DM-SR-33 indicates that the OCA arrived at its proposed downward adjustment using a payroll tax rate of 7.3952%.

[124] As noted in Table 11, above, the Company's claim for property tax expense did not change as a result of its sale of Blackhawk.

> 0.00026287%, I computed a Property Tax expense of $1,368,336, a reduction of $3,824.

OCA M.B. at 122 (citing OCA St. 2 at 43). [$1,372,160 - $1,368,336 = $3,824].[125,]

The OCA noted that the summation of its proposed adjustments to Columbia's claimed expenses for payroll taxes and property tax results in a downward adjustment of $191,397 to the Company's claimed expense for taxes other than income taxes, which yields an allowable balance of $4,309,436 for this expense. [$187,573 + $3,824 = $191,397]; [$4,500,833 - $191,397 = $4,309,436].[126] The OCA submitted that if its proposed adjustments to Columbia's claimed labor expense and gas plant in service balance are adopted by the Commission, then the Commission should also adopt the OCA's proposed adjustment of $191,397 to taxes other than income tax. OCA M.B. at 122-23.

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[125] As discussed in our disposition of this issue, *infra*, although Columbia's claim for property tax expense did not change as a result of its sale of Blackhawk, the OCA's proposed adjustment, thereto, which was described by the OCA's witness, Mr. Mugrace, *supra*, was based upon the OCA's proposed downward adjustment of $14,507,711 to the Company's originally claimed gas plant in service balance of $5,219,879,725. [$5,219,879,725 - $14,507,711 = $5,205,372,014]. *See* Section V.A, *supra*. The record does not contain a proposed revised adjustment by the OCA to Columbia's claimed property tax expense to account for Columbia's revised claim for gas plant in service in light of the Company's sale of Blackhawk. It is apparent that Mr. Mugrace calculated his composite tax rate by dividing the Columbia's claim for property tax expense of $1,372,160 by the Company's original claim for gas plant in service of $5,219,879,723. [$1,372,160 ÷ $5,219,879,723 = 0.026287%]. Therefore, it is likely that in arriving at his proposed adjustment to property tax expense, Mr. Mugrace multiplied the OCA's proposed gas plant in service balance of $5,205,372,014 by a composite tax rate of 0.02687% (*i.e.*, 0.0002687), as opposed to 0.0002687%, as stated by Mr. Mugrace. Multiplying the OCA's proposed plant in service balance by a composite tax rate of 0.0002687% (*i.e.*, by 0.0000026287) would result in an allowance of only $13,683 for property tax expense. [$5,205,372,014 x 0.0002687% = $13,683]. Accordingly, we conclude that Mr. Mugrace made an inadvertent misstatement.

[126] We reinforce that the OCA's stated adjustments were based upon the Company's original claim for taxes other than income taxes.

2. Recommended Decision

The ALJs recommended that the OCA's proposed adjustment of $191,397 to the Company's claimed expense for taxes other than income tax be denied. Instead, the ALJs recommended a downward adjustment of $129,889 to the Company's claim. This recommended adjustment was based upon applying the Company's payroll tax rate of 7.2234% to the ALJs' recommended downward adjustment to Columbia's claimed expense for cash-based incentive compensation of $1,798,165, discussed in Section VIII.C, *supra*. [$1,798,165 x 7.2234% = $129,889]. R.D. at 247, Appendix A, Table II.

3. OCA Exception No. 5 and Replies

In its Exception No. 5, the OCA remains of the opinion that if the Commission adopts the OCA's adjustments to the Company's claims for labor expense and plant in service, then the Commission should also adopt the OCA's proposed adjustments to taxes other than income tax. The OCA restated that these proposed adjustments consisted of a downward adjustment of: (1) $187,573 to the Company's claim for payroll taxes; and (2) $3,824 to the Company's claim for property tax, for a total downward adjustment of $191,397. OCA Exc. at 25-26.[127]

In its Replies to Exceptions, Columbia submits that the OCA "continues to display a misunderstanding of the adjustment process for taxes other than income." According to the Company, few expenses result in adjustments to taxes other than income taxes. Therefore, Columbia argues that the OCA's Exception No. 5, as it relates to the Company's expense claims for taxes other than income tax, must be rejected. Columbia R. Exc. at 10-11.

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[127] As noted in Section VIII.A, *supra*, no party directly excepted to the ALJs' recommendation, which we have adopted, that the OCA's proposed adjustment to Columbia's claim for labor expense be denied.

4. Disposition

On consideration of the record evidence, we shall grant the OCA's Exception No. 5, with respect to the Company's expense claim for taxes other than income tax, in part, and modify the ALJs' recommendation, consistent with the following discussion.

As an initial matter, we note that the OCA's proposed downward adjustments, which it articulated throughout this proceeding, were made to the Company's original expense claim of $4,500,833 for taxes other than income taxes, and not to Columbia's revised expense claim of $4,493,642, which the Company revised in light of its sale of Blackhawk. Therefore, in arriving at the final expense amount that we shall authorize for the Company's claim for taxes other than income taxes, we must first restate what the OCA's proposed adjustments would have been, based upon the Company's revised claim.

a. Columbia's Payroll Taxes Expense

The OCA represented that in arriving at its proposed downward adjustment of $187,573 to the Company's original claim for payroll taxes expense of $2,986,116, the OCA utilized the Company's payroll tax rate of 7.2234%. OCA M.B. at 22. However, in examining the OCA's Exhibit DM-SR-33, it is clear that the OCA made its proposed downward adjustment based upon a payroll tax rate of 7.3952%. We note that if the OCA had utilized the Company's payroll tax rate of 7.2234%, as it represented in its Main Brief, this would have resulted in a proposed downward adjustment of $252,587 to the Company's original expense claim for payroll taxes, or an allowance of $2,733,529. [$2,986,116 - $252,587 = $2,733,529]. This is summarized in Table 13, below.

Table 13: Comparison of the OCA's Proposed Adjustment to Columbia's Original Claimed Expense for Payroll Taxes Using a Payroll Tax Rate of 7.3952% Versus a Payroll Tax Rate of 7.2234%

Columbia's Original Claim for Payroll Taxes	A	B	C=A x B	
	O&M Expense	Payroll Tax Rate	Associated Payroll Tax Expense	
Labor Expense	$38,770,673	7.2234%	$2,800,561	
+ Cash-Based Incentive Compensation Expense	$2,568,807	7.2234%	$185,555	
Columbia's Total Original Claim for Payroll Tax Expense			$2,986,116	D
The OCA's Adjustment to Columbia's Original Claim Using a Payroll Tax Rate of 7.3952%				
	O&M Expense	Payroll Tax Rate	Associated Payroll Tax Expense	
Labor Expense	$37,072,052	7.3952%	$2,741,552	
+ Cash-Based Incentive Compensation Expense	$770,642	7.3952%	$56,991	
The OCA's Total Proposed Allowance for Payroll Tax Expense			$2,798,543	E
Columbia's Original Claim for Payroll Tax Expense	$2,986,116	D		
The OCA's Total Proposed Allowance for Payroll Expense	$2,798,543	E		
OCA Downward Adjustment Based Upon the Application of a Payroll Tax Rate of 7.3952%	**$187,573**	F=(D - E)		
The OCA's Adjustment to Columbia's Original Claim Using a Payroll Tax Rate of 7.2234%				
	G	H	I=G x H	
	O&M Expense	Payroll Tax Rate	Associated Payroll Tax Expense	
Labor Expense	$37,072,052	7.2234%	$2,677,863	
+ Cash-Based Incentive Compensation Expense	$770,642	7.2234%	$55,667	
The OCA's Total Proposed Allowance for Payroll Tax Expense			$2,733,529	J
Columbia's Original Claim for Payroll Tax Expense	$2,986,116	D		
The OCA's Total Proposed Allowance for Payroll Expense	$2,733,529	J		
OCA Downward Adjustment Based Upon the Application of a Payroll Tax Rate of 7.2234%	**$252,587**	K=(D - J)		

See Columbia Exh. JV-1R at 6, 8-9; OCA Exhs. DM-SR-10, DM-SR-11, and DM-SR-33.[128] In our view, it is appropriate to apply the Company's payroll tax rate of 7.2234%.

[128] As noted in Section VIII.A, *supra*, the OCA derived its proposed downward adjustment of $1,698,621 to the Company's original claim for labor expense by multiplying the Company's original claim by a vacancy rate ratio of 4.3812%. [$38,770,673 x 4.3812% = $1,698,621]. *See* OCA Exh. DM-SR-10. Therefore, the OCA's proposed allowance for labor expense based upon the Company's original claim was $37,072,052. [$38,770,673 -$1,698,621 = $37,072,052]. Additionally, as noted in Section VIII.C, *supra*, the OCA proposed a downward adjustment of $1,798,165 to the Company's expense claim of $2,568,807 for cash-based incentive compensation, representing a proposed allowance of $770,642. [$2,568,807 – $1,798,165 = $770,642]. The Company's expense claim for cash-based incentive compensation remained unchanged in light of its sale of Blackhawk.

Next, to properly evaluate the OCA's proposed adjustment to the Company's claimed payroll taxes expense, we must impute what the OCA's revised proposed adjustment would have been in light of the Company's revised expense claim for payroll taxes. As summarized in Table 14, below, if the OCA had made its adjustment based upon the Company's revised expense claim for payroll taxes of $2,978,926, this would have resulted in a proposed downward adjustment of $252,272, representing a proposed allowance of $2,726,654.
[$2,978,926 - $252,272 = $2,726,654]. Included in this amount is a reduction of $122,383 to Columbia's payroll taxes expense claim associated with the Company's claim for labor expense, and an additional reduction of $129,889 to the Company's payroll taxes expense claim associated with its expense claim for cash-based incentive compensation. [$122,383 + $129,889 = $252,272].

Table 14: The OCA's Imputed Adjustment to Columbia's Revised Claim for Payroll Taxes

Columbia's Revised Claim for Payroll Taxes Based Upon its Sale of Blackhawk				
	(1)	**(2)**	**(3)= (1) x (2)**	
	O&M Expense	**Payroll Tax Rate**	**Associated Payroll Tax Expense**	
Labor Expense	$38,671,131	7.2234%	$2,793,370	**A**
+ Cash-Based Incentive Compensation Expense	$2,568,807	7.2234%	$185,555	**B**
Columbia Total Revised Claim for Payroll Tax Expense			$2,978,926	**C=(A+B)**
The OCA's Imputed Adjustment to the Company's Revised Claim				
Labor Expense	$36,976,871	7.2234%	$2,670,987	**D**
+ Cash-Based Incentive Compensation Expense	$770,642	7.2234%	$55,667	**E**
OCA Imputed Total Proposed Allowance for Payroll Tax Expense			$2,726,654	**F=(D+E)**
Columbia's Total Revised Claim for Payroll Tax Expense	$2,978,926	**C**	$122,383	**H**
OCA Imputed Total Proposed Allowance for Payroll Tax Expense	$2,726,654	**F**	$129,889	**I**
OCA Imputed Total Downward Adjustment to Columbia's claim	**$252,272**	**G=(C-F)**	**$252,272**	**J=(H+I)**
Columbia Proposed Payroll Tax for Labor Expense	$2,793,370	**A**		
OCA Imputed Proposed Allowance for Payroll Tax for Labor Expense	$2,670,987	**D**		
OCA Imputed Proposed Downward Adjustment to Payroll Tax for Labor Expense	$122,383	**H=(A-D)**		
Columbia Proposed Payroll Tax for Cash-Based Incentive Compensation	$185,555	**B**		
OCA Proposed Allowance for Payroll Tax for Cash-Based Incentive Compensation	$55,667	**E**		
OCA Proposed Downward Adjustment to Payroll Tax for Cash-Based Incentive Compansation Expense	$129,889	**I=(B-E)**		

See Columbia Exh. JV-1R at 6, 8-9; OCA Exhs. DM-SR-10, DM-SR-11, and DM-SR-33.[129]

As noted in Section VIII.A, *supra*, no Party objected to the ALJs' recommendation that the OCA's proposed downward adjustment to the Company's claim for labor expense should be rejected. Therefore, we have found the ALJs' recommendation to be supported by the record evidence in this proceeding, and we have declined to adopt the OCA's proposed downward adjustment to the Company's claim for labor expense. Consistent with this finding, we shall also decline to make the OCA's proposed commensurate downward adjustment, as imputed above, to reduce Columbia's final expense claim for payroll taxes associated with the Company's final claim for labor expense.

On the other hand, as discussed in Section VIII.C, *supra*, we have adopted the ALJs' recommendation, and the OCA's underlying proposal, that a downward adjustment of $1,798,165 should be applied to the Company's claimed expense of $2,568,807 for cash-based incentive compensation. Accordingly, we shall adopt the ALJs' recommendation to apply a commensurate downward adjustment of $129,889 to the Company's claimed payroll tax expense associated with its claimed expense for cash-based incentive compensation. In doing so, we shall apply the Company's payroll tax rate of 7.2234%. [$1,798,165 x 7.2234% = $129,889].

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[129] As previously noted, the OCA derived its proposed downward adjustment of $1,698,621 to the Company's originally claimed labor expense by multiplying the Company's claim by a vacancy rate ratio of 4.3812%. [$38,770,673 x 4.3812% = $1,698,621]. As such, the OCA's revised downward adjustment to the Company's revised claim for labor expense would have been $1,694,260. [$38,671,131 x 4.3812% = $1,694,260]. *See* OCA Exh. DM-SR-10. Therefore, the OCA's proposed allowance for labor expense based upon the Company's revised claim would have been $36,976,871. [$38,671,131 - $1,694,260 = $36,976,871].

Based upon this adjustment, we shall approve a payroll taxes expense of $2,849,037 for Columbia in the FPFTY. [$2,978,926 - $129,889 = $2,849,037]. The OCA's Exception No. 5, with respect to Columbia's expense claim for payroll taxes, is granted, in part, and denied, in part.

b. Columbia's Property Tax Expense

As discussed in Section V.A, *supra*, we have adopted the OCA's recommendation to remove Columbia's proposed inflation adjustments to the Company's claims for gas plant in service. As such, we shall also apply a commensurate adjustment to the Company's expense claim for property tax. For this reason, we shall grant the OCA's Exception No. 5, in part, as it relates to the Company's claim for property tax expense. However, we shall decline to make the OCA's proposed downward adjustment of $3,824.

As noted in Table 11, above, Columbia's claimed property tax expense of $1,372,160 remained unchanged as a result of the Company's sale of Blackhawk. Nonetheless, the OCA made its proposed adjustment to the Company's property tax expense claim based upon its associated proposed downward adjustment of $14,507,711 to Columbia's *original* claim of $5,219,879,725 for gas plant in service, and *not* to the Company's *final* claim of $5,211,749,431. *See* OCA M.B. at 122. Accordingly, in making the appropriate downward adjustment to Columbia's claim for payroll tax expense, we must apply this adjustment to the Company's final claimed plant in service amount, which the Company revised in light of its sale of Blackhawk.

As set forth in Table 15, below, imputing the OCA's adjustment to Columbia's claimed expense for property tax based upon the Company's final claim for plant in service results in a downward adjustment of $3,830 to the Company's claimed

expense for property tax of $1,372,160, representing an allowance of $1,368,330. [$1,372,160 - $3,830 = $1,368,330].[130]

Table 15: The OCA's Proposed Adjustment to Columbia's Claimed Property Tax Expense

	The OCA's Stated Adjustment to Columbia's Property Tax Expense Claim Based upon the Company's Originally Claimed Gas Plant in Service			**The OCA's Imputed Adjustment to Columbia's Property Tax Expense Claim Based upon the Company's Final Claimed Gas Plant in Service**	
	Columbia's Originally Claimed Gas Plant in Service Balance	$5,219,879,725		Columbia's Final Claimed Gas Plant in Service Balance	$5,211,749,431
less:	OCA Removal of Inflation Adjustments	($14,507,711)	less:	OCA Removal of Inflation Adjustments	($14,507,711)
	OCA Proposed Allowance for Gas Plant in Service	$5,205,372,014		OCA Proposed Allowance for Gas Plant in Service	$5,197,241,720
	OCA Composite Tax Rate	0.026287%		OCA Composite Tax Rate	0.026328%
X	OCA Gas Plant in Service Amount	$5,205,372,014	X	OCA Gas Plant in Service Amount	$5,197,241,720
	OCA Proposed Property Tax Expense Amount	$1,368,336		OCA Proposed Property Tax Expense Amount	$1,368,330
	Company Proposed Property Tax Expense Amount	$1,372,160		Company Proposed Property Tax Expense Amount	$1,372,160
less:	OCA Proposed Property Tax Expense Amount	$1,368,336	less:	OCA Proposed Property Tax Expense Amount	$1,368,330
	OCA Downward Adjustment to Property Tax Expense Claim	$3,824		**OCA Imputed Downward Adjustment to Property Tax Expense Claim**	**$3,830**

[130] As noted in Section V.A, *supra*, the OCA's proposed downward adjustment of $14,507,111 to the Company's claim for gas plant in service would have remained unchanged, had the OCA applied this adjustment to the Company's revised claim. However, the OCA's final proposed allowance for gas plant in service would have changed as a result of the Company's revised claim. As the Company's gas plant in service balance is multiplied by a composite tax rate in arriving at the Company's expense claim for property tax, the OCA's proposed downward adjustment to property tax changes in light of the Company's revised claim for gas plant in service, albeit by a de minimis amount. Nonetheless, we stress the importance of applying any proposed adjustments to an element in light of the utility's *final* claim for that element in a rate proceeding. This includes updating the inputs used in applying the methodology used to reach the adjustment. Thus, in this specific instance, we find that it is important to apply the updated composite tax rate used in making the commensurate adjustment to Columbia's property tax expense, in light of the Company's updated claim for gas plant in service, as discussed in the next footnote.

See Columbia Exh. JV-1R at 8; Columbia Exh. Columbia Exh. JV-2R at 12; OCA St. 2 at 43.[131] Accordingly, the OCA's Exception No. 5, as it relates to Columbia's expense claim for property tax is granted, in part, and denied, in part.

c. Conclusion

In summary, we shall apply: (1) a downward adjustment of $129,889 to Columbia's claimed expense for payroll taxes; and (2) a downward adjustment of $3,830 to the Company's expense claim for property tax, representing an overall downward adjustment of $133,719 to the Company's final expense claim of $4,493,642 for taxes other than income taxes. Therefore, we shall approve an expense claim for taxes other than income taxes of $4,359,923 for Columbia in the FPFTY. [$129,889 + $3,830 = $133,719]; [$4,493,642 - $133,719 = $4,359,923]. Our adjustments to the Company's expense claims for taxes other than income taxes are outlined in Table II of the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order.

Based on the foregoing, we shall grant the OCA's Exception No. 5, in part, and deny it, in part, as it relates to Columbia's expense claim for taxes other than income tax.

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[131] As previously noted, it is likely that the OCA multiplied its proposed plant in service amount by a composite tax rate of 0.02687% (*i.e.*, 0.0002687), and not the composite tax rate of 0.0002687% identified by the OCA's witness, Mr. Mugrace. *See* OCA St. 2 at 43. It is also apparent that Mr. Mugrace calculated his composite tax rate by dividing Columbia's claim for property tax expense of $1,372,160 by the Company's originally claimed plant in service balance of $5,219,879,725. [$1,372,160 ÷ $5,219,879,725 = 0.026287%]. Therefore, calculating the OCA's updated composite tax rate by dividing Columbia's claim for property tax expense of $1,372,160 by the Company's final claimed plant in service balance of $5,211,749,431 results in an imputed composite tax rate of 0.026328%. [$1,372,160 ÷ $5,211,749,431 = 0.026328%], as reflected in Table 15, above.

X. Fair Rate of Return

Rate of return is the amount of revenue an investment generates in the form of net income. In the revenue requirement formula, *supra*, a utility's rate of return is expressed as a percentage. The calculation of that percentage is independent of the determination of the appropriate rate base value for ratemaking purposes. As such, the appropriate total dollar return is dependent upon the proper computation of the rate of return and the proper valuation of the utility's rate base. In addition, 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 authorized rate base during the prospective period in which the utility's rates will be in effect. The Commission has the authority to determine the fair rate of return for a utility. It is important to note that although the utility has the *opportunity* to earn the rate of return authorized by the Commission, the utility is not *guaranteed* to earn the authorized rate of return. I&E M.B. at 31-32 (citing *Bluefield*, 292 U.S. at 692-93, and *Hope Natural Gas*, 320 U.S. at 603).

A. Proxy Groups

A proxy group is a set of companies that have similar traits as those of the subject utility, in this case Columbia. This group of companies acts as a benchmark for determining the subject utility's appropriate cost of equity and, in turn, the appropriate overall rate of return for the utility in a base rate case. A proxy group is typically utilized because applying data exclusively from one company may be less reliable than using data based upon a group of companies. In this regard, the data for any one company may be subject to short-term anomalies that distort that company's ROE. As such, the use of a proxy group of companies smooths out these potential anomalies. 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. I&E M.B. at 34; I&E St. 2 at 12.

1. Positions of the Parties

Columbia utilized a primary proxy group of six gas companies, which it referred to as the "Gas LDC Group." The Company applied the following criteria in selecting the Gas LDC Group:

1. Value Line Investment Survey (Value Line) Industry Classification as a Natural Gas Utility;

2. A Value Line Safety Rank of "1," "2," or "3";

3. A Standard & Poor's (S&P) corporate credit rating no lower than BBB- or a Moody's long-term issuer rating of no lower than Baa3;

4. Operating income from the company's regulated gas distribution operations equals or exceeds 60% of the company's consolidated operating income;

5. The company must currently pay dividends and must not have discontinued or reduced its dividend during the previous five years (2019-2023); and

6. The company is not, and has not recently been, an acquisition target.

Columbia M.B. at 89-90; Columbia St. 8 at 19-20.

As a secondary measure, Columbia also represented that it developed two other separate comparable-risk proxy groups in an effort to refine the appropriate ROE for the Company. Namely, Columbia conducted a cost of equity analysis with: (1) a "Combination Utility Group" proxy group of electric and gas utilities using similar

criteria to that of its Gas LDC Group; and (2) a "Non-Regulated Group." The Company represented that its selected Combination Utility Group has a very similar investment risk profile to its primary Gas LDC Group, while its Non-Regulated Group has a slightly lower risk profile compared to the Gas LDC Group. Columbia M.B. at 92-93.

I&E proposed a proxy group of seven companies, which it referred to as the "Natural Gas Utility" proxy group. In selecting this proxy group, I&E applied the following criteria:

1. 50% or more of the company's revenues were generated from the regulated natural gas industry;

2. The company's stock was publicly traded;

3. Investment information for the company was available from more than one source, including Value Line;

4. The company must not be currently involved in an announced merger or the target of an announced acquisition;

5. The company must have four consecutive years of historic earnings data; and

6. The company must be operating in a state that has a deregulated gas utility market.

I&E submitted that in designing its Natural Gas Utility proxy group, it selected companies that are most like the subject NGDC in this proceeding, *i.e.*, Columbia. I&E M.B. at 35.

I&E disagreed with Columbia's proposed Gas LDC Group, based upon the Company's criterion number 4, *supra*. In I&E's view, in accordance with recent Commission precedent, the percentage of a utility's revenues generated from the regulated natural gas industry is a more appropriate criterion to use in the development of

a proxy group than is the Company's proposed use of the percentage of the utility's income generated from such operations. Therefore, I&E proposed to exclude Southwest Gas Holdings, Inc. (Southwest Gas Holdings) from the proxy group for use in this proceeding because Southwest Gas Holdings derives less than 50% of its revenues from its regulated natural gas operations. Conversely, unlike Columbia, I&E proposed to include Chesapeake Utilities Corp. (Chesapeake Utilities) and New Jersey Resources Corp. (New Jersey Resources) on the basis that both of these companies met I&E's criterion that 50% or more of the company's revenues must be generated from the regulated gas utility industry. I&E added that the Commission should consider only the Company's Gas LDC Group when evaluating Columbia's requested ROE in this proceeding and should disregard the Company's secondary proxy groups in their entirety. I&E M.B. at 35-37; I&E R.B. at 23-24; I&E St. 2 at 14.

The OCA utilized the Company's Gas LDC Group in setting forth its proposed ROE and overall rate of return in this proceeding. Similar to I&E, the OCA took the position that "it is not necessary to perform cost of equity analyses on a proxy group beyond the Gas LDC Group." OCA M.B. at 124; OCA St. 3 at 12.

Columbia disagreed with I&E's proposed "Natural Gas Utility" proxy group. According to Columbia, I&E improperly included Chesapeake Utilities in its proposed proxy group, arguing that this utility has not been assigned long-term credit ratings by either S&P or Moody's and it derives less than 35% of its consolidated net income from its natural gas distribution operations. Columbia reasoned that the lack of long-term credit ratings makes it very difficult to conduct a proper risk assessment of Chesapeake Utilities, relative to Columbia and the companies in the proxy group. In this same vein, Columbia submitted that I&E's proposed inclusion of New Jersey Resources was improper, given that this utility derives only 45% of its consolidated operating income from natural gas distribution operations. Conversely, Columbia disagreed with I&E's proposal to exclude Southwest Gas Holdings from the proxy group. Columbia

took the position that a utility's percentage of revenues is not an appropriate criterion to consider when evaluating whether a company should be included in a proxy group. To the contrary, Columbia reasoned that a utility's operating income, rather than its revenues, is more closely correlated to the net cash flows a utility receives from each line of business. Columbia M.B. at 90-91.

Table 16, below, provides a summary of the companies each Party proposed to be used in their respective natural gas utility proxy groups:

Table 16: Summary of the Proposed Natural Gas Utility Proxy Groups in this Proceeding

Columbia	OCA	I&E
Atmos Energy Corp.	Atmos Energy Corp.	Atmos Energy Corp.
NiSource Inc.	NiSource Inc.	Chesapeake Utilities Corp.
Northwest Natural Gas Co.	Northwest Natural Gas Co.	New Jersey Resources Corp.
ONE Gas, Inc.	ONE Gas, Inc.	NiSource Inc.
Southwest Gas Holdings, Inc.	Southwest Gas Holdings, Inc.	Northwest Natural Gas Co.
Spire, Inc.	Spire, Inc.	ONE Gas, Inc.
		Spire, Inc.

Columbia M.B. at 90; I&E St. 2 at 14; OCA Exh. DJG-13.

2. Recommended Decision

The ALJs agreed with I&E and the OCA that the Commission should consider only the Company's proposed Gas LDC Group, and not its proposed Combination Utility Group or its proposed Non-Regulated Group, when evaluating the Company's requested ROE in this proceeding. However, on review of the record evidence, the ALJs recommended that the Commission adopt I&E's proposed Natural Gas Utility proxy group and reject the Company's proposed Gas LDC Group. The ALJs agreed with I&E that Columbia's proposed criterion to include a company in the proxy group based upon the percentage of *income* generated from that company's regulated natural gas utility industry operations has been rejected by the Commission in several

recent base rate cases. Therefore, the ALJs agreed with I&E that the test for whether a company should be included in the proxy group for use in this proceeding is whether 50% or more of the company's *revenues* are generated from its regulated natural gas utility industry operations. For this reason, the ALJs concurred with I&E that: (1) Chesapeake Utilities and New Jersey Resources should each be included in the proxy group because each of these companies derive 50% or more of their revenues from the regulated natural gas utility industry; and (2) Southwest Gas Holdings should be excluded from the proxy group because it derives less than 50% of its revenues from its regulated natural gas utility operations. R.D. at 334-35.

3. Exceptions and Replies

In its Exception No. 9, Columbia clarifies that it does not object to the ALJs' recommendation to adopt I&E's Natural Gas Utility proxy group. In this regard, the Company asserts that the resulting ROEs using the Discounted Cash Flow (DCF) method for determining the cost of common equity[132] are not materially different when comparing the Company's Gas LDC Group to I&E's Natural Gas Utility proxy group. Columbia Exc. at 16.

4. Disposition

As noted above, no Party filed Exceptions objecting to the ALJs' recommendation on this issue. We find that the ALJs' recommendation is just and reasonable and is supported by ample record evidence. As I&E noted, it is consistent with recent Commission precedent to include or exclude a company from a proxy group based upon the percentage of revenues that company generates from its regulated subject

[132] Along with several other methods for determining the cost of common equity, the DCF method is discussed in detail in Section X.D.1, *infra.*

utility operations, in this case the company's regulated gas utility operations, rather than the percentage of income the utility generates from such operations.

A company's revenues represent the percentage of cash flow that company receives from each business line related to providing a good or service, and the generation of revenue is the first step that drives the company's net income and cash flow. On the other hand, a company's realization of net income depends upon various factors, including, *inter alia*, management, operational, and financial efficiency in the best use of the utility company's assets with available resources, O&M expense containment measures, and capital expenditure programs. Therefore, a utility's revenue composition is a more appropriate measure than is the utility's operating income or net income for establishing a proxy group, because this measure represents the percentage of cash flow a company receives from each business segment. While the financial community is more likely to rely on measures of income, rather than measures of revenue, when making credit assessments and investment decisions, the purpose of constructing a proxy group in a base rate proceeding is to compile a set of companies that have similar risks to the subject utility. We concur with I&E and the ALJs that if less than 50% of revenues for a company in a natural gas utility proxy group are derived from the regulated natural gas industry operations, then that company is not comparable to the subject utility, as it does not provide a similar level of regulated natural gas operations. *See* I&E St. 2 at 15-16; I&E St. 2-SR at 7.

Moreover, we noted the following in *Pa. PUC v. Columbia Water Company*, Docket No. R-2023-3040258 (Opinion and Order entered January 18, 2024) (*Columbia Water 2024*): "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." *Columbia Water 2024* at 76. We reach the same conclusion in this proceeding. Furthermore, we concur with I&E and the ALJs that it is appropriate to apply a proxy group comprised exclusively of natural gas utilities in setting the rate of

return for Columbia. In our view, non-gas distribution utilities and non-utility companies with unrelated or entirely dissimilar business segments are simply not comparable to gas distribution utilities in terms of business risk and financial risk profiles. *See* I&E St. 2 at 19.

Accordingly, we shall adopt the ALJs' recommendation to utilize I&E's Natural Gas Utility proxy group in setting the appropriate rate of return for Columbia in this proceeding.

B. Capital Structure

A utility's capital structure represents how the utility has financed its rate base with different sources of funds. 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. I&E M.B. at 37. Determining the appropriate capital structure in a rate case is crucial in developing the utility's weighted average cost of capital (WACC), which, in turn, determines the overall authorized rate of return in the revenue requirement equation, *supra*.

1. Positions of the Parties

Columbia proposed to utilize a projected actual capital structure for the FPFTY of 54.4% common equity, 43.28% long-term debt, and 2.32% short-term debt. Columbia explained that the Company's FPFTY capital structure is based upon its actual capital structure as of November 30, 2024, updated to reflect changes during the FTY and FPFTY to finance the Company's net rate base additions of approximately $685 million. Columbia represented that the Company's proposed FPFTY actual capital structure ratios are consistent with the actual ratios for the Company at the end of the HTY. As support for its use of an actual capital structure, Columbia argued that its proposed common

equity ratio of 54.4% is within the range of the actual common equity ratios of the companies in Columbia's proposed Gas LDC Group. Columbia M.B. at 81-82. Additionally, Columbia submitted that its proposed use of an actual capital structure is consistent with long-standing Commission precedent that the choice of what capital structure to employ is within the discretion of a utility's management and is not to be changed, absent proof that the capital structure is atypical or outside a range of reasonableness. *Id.* at 82-84 (citing *Columbia Gas 2021*; *Aqua 2022*; *Pa. PUC v. Pennsylvania-American Water Company*, Docket Nos. R-2023-3043189 and R-2023-3043190 (Opinion and Order entered July 22, 2024) (*PAWC 2024*)); Columbia R.B. at 42.

I&E accepted Columbia's proposal to utilize an actual capital structure in this rate proceeding. According to I&E, the Company's proposed capital structure falls within the range of the capital structures of I&E's Natural Gas Utility proxy group for 2024. I&E added that the most recent 5-year average ranges of its Natural Gas Utility 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. I&E M.B. at 37.

The OCA opposed the Company's proposed use of an actual capital structure. Instead, the OCA took the position that the Commission should impose a hypothetical capital structure of 50% common equity and 50% debt.[133] OCA M.B.

[133] Specifically, as noted in Section X.E, *infra*, the OCA proposed a hypothetical capital structure of 50% common equity, 47.68% long-term debt, and 2.32% short-term debt. *See* OCA St. 3 at 58; OCA Exh. DJG-16. In addition, as noted in Section X.D.3, *infra*, the OCA computed its recommended ROE of 8.90% based upon its proposed use of a hypothetical capital structure. If the Commission were to approve the Company's actual capital structure, the OCA explained that it would further reduce its recommended ROE to 8.70%. *See* OCA St. 3 at 37, 55.

at 126. The OCA reasoned that in its decision in *Riverton Consol. Water Co. v. Pa. PUC*, 140 A.2d 114, 121 (Pa. Super. 1958) (*Riverton Consol.*), the Pennsylvania Superior Court (Superior Court) held that the capital structure of a utility that is a wholly-owned subsidiary may not be one which the utility would maintain if it were obliged to obtain its debt and equity financing on the open market rather than from its parent company. The OCA added that in *Riverton Consol.*, the Superior Court determined that the Commission may make adjustments to a utility's capital structure where circumstances indicate that the actual capital structure may be unfair to customers, such as when the actual capital structure may be weighted too heavily to the debt side or the equity side. *Id.* at 125.

Applying the reasoning of the Superior Court to the instant proceeding, the OCA submitted that Columbia, a wholly-owned subsidiary, has proposed an actual capital structure that is weighted too heavily to the equity side. The OCA noted that the average capital structure mix for the companies in Columbia's Gas LDC Group consists of 45% equity and 55% debt. As such, the OCA asserted that authorizing a regulatory capital structure for Columbia with a common equity ratio higher than other comparable utility companies, without justification, would result in unreasonably high rates. OCA M.B. at 125-26.

CAUSE-PA explained that although it did not propose a specific rate of return in this proceeding, it strongly supported the rate of return analysis proffered by the OCA, including the employment of a hypothetical capital structure, in setting the appropriate rate of return for Columbia. Like the OCA, CAUSE-PA opined that the Company's proposed actual capital structure is equity-skewed at the expense of consumers and has the effect of artificially increasing the rate of return the Commission will authorize in this proceeding and, in turn, the rates consumers must pay. Conversely, CAUSE-PA submitted that if the Commission were to apply a hypothetical capital structure of 50% equity and 50% debt, the overall rate of return at the Company's

desired ROE of 11.35% would be reduced by 0.27% (from 8.55% to 8.28%),[134] which would reduce the Company's overall annual revenue requirement increase by $17.7 million, or from the proposed increase of $110.5 million sought by Columbia to $92.8 million. CAUSE-PA M.B. at 35-38.

Columbia added that although the OCA accepted the Company's proposed cost of debt, *infra*, the OCA has done so in the context of its proposed use of a hypothetical capital structure. According to Columbia, this creates a "mismatch," because the hypothetical long-term debt ratio includes nearly $172 million more in debt than the actual debt outstanding for Columbia. Columbia asserted that because the OCA did not attempt to price this additional long-term debt into its proposed hypothetical capital structure, this lends further support for rejecting the OCA's proposal and adopting the Company's proposed use of an actual capital structure. Columbia M.B. at 86.

2. Recommended Decision

The ALJs recommended that the Commission permit Columbia to utilize its projected actual capital structure for the FPFTY of 54.4% common equity, 43.28% long-term debt, and 2.32% short-term debt. As noted above, the ALJs recommended the adoption of I&E's proposed Natural Gas Utility proxy group. As such, the ALJs highlighted that Columbia's claimed actual capital structure falls within the range of the 2024 capital structures for the companies in the Natural Gas Utility proxy group. R.D. at 335, 350, Appendix A, Table I(A).

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[134] Each Party's proposed cost of common equity (*i.e.*, ROE) is discussed in Section X.D, *infra.* Each Party's proposed overall rate of return is discussed in Section X.E, *infra*.

3. OCA Exception No. 6 and Replies

In its Exception No. 6, the OCA, in arguing that the ALJs' recommended ROE, *infra*, is unreasonable, reinforces its position that the OCA's own proposed ROE, *infra*, was based upon the application of a hypothetical capital structure of 50% common equity and 50% debt for ratemaking purposes. Therefore, the OCA implicitly takes issue with the ALJs' recommendation that the Commission adopt the Company's proposed use of an actual capital structure. OCA Exc. at 28.[135]

In its Replies to Exceptions, Columbia remains of the opinion that the OCA's proposed use of a hypothetical capital structure runs contrary to long-standing Commission precedent, wherein such a capital structure should only be used if the utility's proposed capital structure is atypical or outside a range of reasonableness. Columbia insists that because the Company's proposed capital structure ratio falls squarely within the range of capital structure ratios of all parties' proposed proxy groups, and is not atypical, the ALJs' recommendation should be adopted. Columbia R. Exc. at 12.

4. Disposition

We shall utilize the Company's proposed actual capital structure in setting forth the authorized rate of return for Columbia in this proceeding. As noted in Section X.A, above, we have adopted the ALJs' recommendation to apply I&E's proposed Natural Gas Utility proxy group, finding that it is the proxy group in this proceeding that best resembles Columbia. Table 17, *infra*, outlines the most recently

[135] The remainder of the OCA's Exception No. 6 is discussed in Section X.D.3, *infra.*

available capital structures for the companies that comprise I&E's Natural Gas Utility proxy group.

Table 17: Capital Structures of I&E's Natural Gas Utility Proxy Group Companies

Proxy Group Capital Structure

	2024		2023		2022		2021		2020		Average
Atmos Energy Corp.											
Long-term Debt	$ 8,085.015	39.94%	$ 6,833.663	38.08%	$ 5,944.948	38.23%	$5,124.950	39.33%	$ 4,732.850	41.07%	39.33%
Short-Term Debt	-	0.00%	241.933	1.35%	184.967	1.19%	-	0.00%	-	0.00%	0.51%
Common Equity	12,157.669	60.06%	10,870.064	60.57%	9,419.091	60.58%	7,906.889	60.67%	6,791.203	58.93%	60.16%
	20,242.684	100.00%	17,945.660	100.00%	15,549.006	100.00%	13,031.839	100.00%	11,524.053	100.00%	100.00%
Chesapeake Utilities Corp.											
Long-term Debt	1,270.400	44.46%	1,197.625	45.65%	590.780	36.34%	558.474	35.93%	518.371	37.26%	39.93%
Short-Term Debt	196.500	6.88%	179.853	6.86%	202.157	12.43%	221.634	14.26%	175.644	12.63%	10.61%
Common Equity	1,390.200	48.66%	1,246.104	47.50%	832.801	51.23%	774.130	49.81%	697.085	50.11%	49.46%
	2,857.100	100.00%	2,623.582	100.00%	1,625.738	100.00%	1,554.238	100.00%	1,391.100	100.00%	100.00%
New Jersey Resources Corp.											
Long-term Debt	3,038.767	54.94%	2,916.040	56.52%	2,623.784	53.93%	2,303.527	53.43%	2,354.496	54.45%	54.65%
Short-Term Debt	291.800	5.28%	252.100	4.89%	423.950	8.71%	377.300	8.75%	125.350	2.90%	6.11%
Common Equity	2,200.443	39.78%	1,990.735	38.59%	1,817.210	37.35%	1,630.862	37.82%	1,844.692	42.66%	39.24%
	5,531.010	100.00%	5,158.875	100.00%	4,864.944	100.00%	4,311.689	100.00%	4,324.538	100.00%	100.00%
NiSource Inc.											
Long-term Debt	12,090.700	56.55%	11,081.300	50.57%	9,555.500	55.09%	9,211.300	60.71%	9,249.700	63.25%	57.23%
Short-Term Debt	604.600	2.83%	3,048.600	13.91%	1,761.900	10.16%	560.000	3.69%	503.000	3.44%	6.81%
Common Equity	8,684.200	40.62%	7,783.500	35.52%	6,028.900	34.76%	5,400.800	35.60%	4,872.200	33.31%	35.96%
	21,379.500	100.00%	21,913.400	100.00%	17,346.300	100.00%	15,172.100	100.00%	14,624.900	100.00%	100.00%
Northwest Natural Holding Co.											
Long-term Debt	1,755.269	53.02%	1,502.602	52.24%	1,325.132	48.03%	1,124.055	45.90%	940.702	44.08%	48.66%
Short-Term Debt	170.110	5.14%	89.780	3.12%	258.200	9.36%	389.500	15.91%	304.525	14.27%	9.56%
Common Equity	1,385.371	41.84%	1,283.838	44.64%	1,175.441	42.61%	935.146	38.19%	888.733	41.65%	41.78%
	3,310.750	100.00%	2,876.220	100.00%	2,758.773	100.00%	2,448.701	100.00%	2,133.960	100.00%	100.00%
ONE Gas Inc.											
Long-term Debt	2,396.686	37.36%	2,174.701	43.24%	2,679.143	46.07%	3,707.778	56.60%	1,613.228	37.83%	44.22%
Short-Term Debt	914.600	14.26%	88.500	1.76%	552.000	9.49%	494.000	7.54%	418.225	9.81%	8.57%
Common Equity	3,104.548	48.39%	2,765.877	55.00%	2,584.426	44.44%	2,349.532	35.86%	2,233.311	52.37%	47.21%
	6,415.834	100.00%	5,029.078	100.00%	5,815.569	100.00%	6,551.310	100.00%	4,264.764	100.00%	100.00%
Spire Inc.											
Long-term Debt	3,767.100	48.89%	3,624.200	49.96%	3,032.200	45.62%	2,992.800	49.22%	2,482.100	45.88%	47.91%
Short-Term Debt	947.000	12.29%	955.000	13.16%	1,037.500	15.61%	672.000	11.05%	648.000	11.98%	12.82%
Common Equity	2,990.700	38.82%	2,675.300	36.88%	2,576.500	38.77%	2,416.200	39.73%	2,280.300	42.15%	39.27%
	7,704.800	100.00%	7,254.500	100.00%	6,646.200	100.00%	6,081.000	100.00%	5,410.400	100.00%	100.00%
Five-Year Average Capital Structure											
Long-term Debt	47.42%		**Maximum**	57.23%	**Minimum**	39.33%					
Short-Term Debt	7.85%		**Maximum**	12.82%	**Minimum**	0.51%					
Common Equity	44.73%		**Minimum**	35.96%	**Maximum**	60.16%					
	100.00%										

I&E Exh. 2, Sch 2. As outlined in Table 17, the Company's proposed capital structure of 54.4% common equity, 43.28% long-term debt, and 2.32% short-term debt is within the five-year average range of the capital structure ratios of the individual companies that comprise I&E's Natural Gas Utility proxy group. More specifically, these individual companies have a range of 35.96% to 60.16% common equity, 39.33% to 57.23% long-term debt, and 0.51% to 12.82% short-term debt. *See* I&E St. 2 at 23.

We find it appropriate to reinforce our finding, which we have outlined in several recent base rate proceedings before this Commission, that "the use of an actual

capital structure represents the Company's decision, in which it has full discretion, on how to capitalize its rate base. This actual capitalization forms the basis upon which the Company attracts capital." *PAWC 2024* at 158; *see also PPL 2012* at 68; *Columbia Gas2021* at 116; *Pa. PUC* v. *PECO Energy Company - Gas Division*, Docket No. R-2020-3018929 (Opinion and Order entered June 22, 2021) (*PECO 2021*) at 144; and *Columbia Water 2024* at 83. Table 18 outlines the capitalization and capital structure ratios that Columbia has employed, or projects to employ, in each of the test years in this proceeding.

Table 18: Columbia's Investor-Provided Capitalization in the HTY, FTY, and FPFTY

		Actual at November 30, 2024		Estimate at November 30, 2025		Estimate at December 31, 2026	
Line No.		Amount Outstanding	Ratios	Amount Outstanding	Ratios	Amount Outstanding	Ratios
1	**Long Term Debt**	$ 1,385,515,000	43.25%	$ 1,371,000,000	40.17%	$ 1,691,000,000	43.28%
	Common Stock Equity						
2	Common Stock	45,127,800		45,127,800		45,127,800	
3	Additional Paid in Capital	192,889,827		192,889,827		192,889,827	
4	Retained Earnings	1,491,342,462		1,682,836,630		1,887,292,250	
5	**Total Common Equity**	1,729,360,089	53.98%	1,920,854,257	56.28%	2,125,309,877	54.40%
6	**Total Permanent Capital**	3,114,875,089		3,291,854,257		3,816,309,877	
7	**Short Term Debt (12-Month Avg)**	88,936,541	2.78%	121,364,242	3.56%	90,581,073	2.32%
8	**Total Capital Employed**	$ 3,203,811,631	100.00%	$ 3,413,218,499	100.00%	$ 3,906,890,949	100.00%

Columbia Exh. VVR-5. Columbia represented that the Company expects to issue $40 million of new long-term debt in the FTY, $155 million of new long-term debt between the FTY and the FPFTY, and $165 million of new long-term debt in the FPFTY. Columbia also explained that a debt maturity in the amount of $54.515 million will occur in the FTY. In addition, Columbia reflected a projection of retained earnings in the FTY and FPFTY, including an assumption of no dividend payments during the FTY, and $50 million of dividend payments during the FPFTY. Accordingly, based upon these known and measurable changes to its capitalization, the Company projected a capital structure for the FPFTY of 54.4% common equity, 43.28% long-term debt, and 2.32% short-term debt. *See* Columbia St. 8 at 43-44. Additionally, as discussed in Section X.C, *infra*, Columbia proposed a 5.22% cost of long-term debt and a 5.00% cost of short-term debt. None of the Parties to this proceeding have objected to the Company's proposed

cost of debt. This represents the level of long-term debt funding that the Company has deemed appropriate in capitalizing its rate base.

We note that similar to its position in the instant proceeding, the OCA also proposed the imposition of a hypothetical capital structure in *PPL 2012*, *Columbia Gas 2021, PECO 2021*, *Columbia Water 2024*, and *PAWC 2024*. In each of these proceedings, in rejecting the OCA's proposal, the Commission reaffirmed the legal standard that has been established in Pennsylvania for deciding whether to use a party's proposed hypothetical capital structure in setting rates. In pertinent part, this standard is, as follows:

> Absent a finding by the Commission that a utility's actual capital structure is atypical or too heavily weighted on either the debt or equity side, we would not normally exercise our discretion with regard to implementing a hypothetical capital structure.

PAWC 2024 at 158; *see also PPL 2012* at 68; *Columbia Gas 2021* at 116-17; *PECO 2021* at 144-45; *Aqua 2022* at 139; and *Columbia Water 2024* at 84.

Based upon the information outlined in Tables 17 and 18, we find that Columbia's projected actual capital structure is within the range of capital structures employed by the companies in the Natural Gas Utility proxy group and that Columbia has successfully demonstrated the mix of capital the Company will employ to fund its rate base in the FPFTY. We further note that Columbia's claimed common equity ratio of 54.4% is only slightly higher than the common equity ratios adopted by this Commission in other recent fully litigated NGDC base rate proceedings. Namely, in *Columbia Gas 2021*, the Commission approved a common equity ratio of 54.19%, while it approved a common equity ratio of 53.38% in *PECO 2021*. *Columbia Gas 2021* at 118; *PECO 2021* at 147; *see also* Columbia St. 8 at 46-47, Table VVR-6.

We note that both the OCA and CAUSE-PA cited to the Superior Court's decision in *Riverton Consol.*, wherein the Superior Court stated, *inter alia*, that the Commission may make adjustments to a utility's capital structure where circumstances indicate that the actual capital structure may be unfair to customers, such as when the actual capital structure may be weighted too heavily to the debt side or the equity side. *Riverton Consol.*, 140 A.2d at 121. *See* OCA M.B. at 125; CAUSE-PA M.B. at 36. However, in our view, Columbia's proposed capital structure is neither atypical, nor outside a range of reasonableness, as defined by the substantial Commission precedent articulated in several recent base rate proceedings, as outlined above.

Accordingly, we shall likewise decline to adopt the proposal of the OCA to impose a hypothetical capital structure in the instant proceeding. For this reason, we shall: (1) adopt Columbia's proposed actual capital structure of 54.4% common equity, 43.28% long-term debt, and 2.32% short-term debt, and (2) deny the OCA's Exception No. 6 with respect to its arguments in favor of a hypothetical capital structure.

C. Cost of Debt

1. Positions of the Parties

Columbia proposed to use an actual cost of debt comprised of: (1) a cost rate of 5.22% for long-term debt; and (2) a cost rate of 5.00% for short-term debt. I&E and the OCA accepted Columbia's proposed cost rates of long-term debt and short-term debt.[136] Additionally, CAUSE-PA explained that while it did not propose a specific rate

[136] As noted in Section X.E, *infra*, although the OCA stated that it accepted Columbia's proposed actual cost of debt, the table the OCA included in its Main Brief outlining its proposed overall rate of return for the Company set forth a cost rate for long-term debt of 5.20%. This appears to have been as a result of rounding to a single decimal point. *See* OCA M.B. at 126; OCA St. 3 at 58. *See also* Columbia M.B. at 80, n.258.

of return in this proceeding, it strongly supported the rate of return analysis proffered by the OCA, including the OCA's acceptance of the Company's proposed cost of debt rates. Columbia M.B. at 86, Appendix D, Table I(A); I&E M.B. at 37-38; OCA M.B. at 126; CAUSE-PA M.B. at 33, 35, and 36 at Table 6.

2. Recommended Decision

The ALJs observed that no Party disagreed with Columbia's proposal to use its actual cost of long-term debt of 5.22%, or its actual cost of short-term debt of 5.00%. Therefore, the ALJs recommended that the Company's proposal be adopted. R.D. at 335, 350, Appendix A, Table I(A).

3. Disposition

No Party filed Exceptions to the ALJs' recommendation on this issue. Finding the ALJs' recommendation to be reasonable and supported by substantial record evidence, we shall adopt it without further comment. Accordingly, we shall approve a long-term debt cost rate of 5.22% and a short-term debt cost rate of 5.00% for Columbia in this proceeding.

D. Cost of Common Equity

In the instant proceeding, Columbia, I&E, and the OCA each presented a position on a reasonable ROE. The Parties' positions were generally developed through comparison groups' market data, costing models, reflection or rejection of risk and leverage adjustments, and a management performance adjustment, as will be further

addressed below. Table 19, *infra*, summarizes the cost of common equity claims made and the methodologies used by the Parties in this proceeding:

Table 19: Summary of Cost of Equity Claims and Methodologies[137]

Party	DCF	CAPM	ECAPM	RP	ROE
Columbia					**11.35%**
Gas LDC	10.97%	11.05%	11.21%	11.23%	
Combination	10.57%	11.12%	11.26%	11.23%	
Non-Regulated	11.27%	11.05%	11.21%	11.38%	
I&E	10.51%	10.51%			**10.51%**
OCA	7.30%-7.50%	8.70%-8.90%			**8.90%**

See Columbia St 8 at 8-9; I&E M.B. at 40; OCA St. 3 at 57.

[137] As will be discussed below, in the following chart, DCF refers to the Discounted Cash Flow method, CAPM refers to the Capital Asset Pricing Model, ECAPM refers to the Empirical Capital Asset Pricing Model, and RP refers to the Risk Premium method. We further note that neither the OSBA nor CAUSE-PA proposed a specific ROE. Rather, the OSBA stated generally that it "supports a reduction in Columbia's requested Return on Equity of 11.35% as argued by [I&E] and the [OCA]." OSBA M.B. at 6. Similarly, CAUSE-PA explained that while it did not propose a specific rate of return in this proceeding, it strongly supported the rate of return analysis of the OCA, including the OCA's proposed ROE of 8.9%. CAUSE-PA M.B. at 33.

1. Cost of Equity Methods

a. Positions of the Parties

(1) DCF Model

The DCF method applied to a proxy group of similar utilities has historically been the primary determinant utilized by the Commission in determining the cost of common equity. *Pa. PUC v. City of Lancaster – Bureau of Water*, Docket No. R-2010-2179103 (Order entered July 14, 2011) at 56; *Pa. PUC v. PPL Electric Utilities Corp*., Docket No. R-00049255 (Order entered December 22, 2004) (*PPL 2004*) at 59. The DCF model assumes that the market price of a stock is the present value of the future benefits of holding that stock. These benefits are the future cash flows of holding the stock, *i.e.*, the dividends paid and the proceeds from the ultimate sale of the stock. Because dollars received in the future are worth less than dollars received today, the cash flow must be "discounted" back to the present value at the investor's rate of return.

(a) Positions of the Parties

Columbia's DCF model consisted of a dividend yield, a growth rate, a floatation cost, and a leverage adjustment for each of its three proposed proxy groups. Columbia proposed a cost of common equity under the DCF method of 10.97% for the Gas LDC Group, 10.57% for the Combination Utility Group, and 11.27% for the Non-Regulated Group.

Under its dividend yield calculation, the Company used Value Line projected dividends and divided those dividends by the average of the 30-day, 60-day, and 90-day average historic stock prices. Those calculations resulted in a dividend yield

of 3.70% for the Gas LDC Group, 3.80% for the Combination Utility Group, and 2.20% for the Non-Regulated Group. Columbia M.B. at 94.

Columbia utilized both historic and projected growth rates, with an emphasis on forward-looking, projected growth rates. Columbia St. 8, Appendix A at 4-5. The Company used three separate sources of projected earnings growth: S&P Global Market Intelligence, Zacks, and Value Line. Columbia M.B. at 95. From this data, and applying judgment, Columbia recommended a growth rate of 6.60%. Columbia M.B. at 96.

The Company argued that a leverage adjustment should be added to its DCF cost rate. Columbia identified that a leverage adjustment is needed when the average market value equity capitalization of the proxy companies is higher than the corresponding book value equity capitalization. Columbia St. 8, Appendix C at 1. The Company calculated a leverage adjustment of 0.64% that it added to the DCF results for each proxy group. *Id*. at 3-4. Furthermore, Columbia stressed that the Commission has adopted the use of a leverage adjustment in several base rate proceedings. Columbia M.B. at 99-100.

Additionally, the Company asserted that it is necessary to adjust the DCF, and all of its other ROE methodologies, for floatation costs. Columbia stated that when it issues (*i.e.*, floats) new equity, floatation costs such as underwriting discounts, legal fees, accounting fees, and printing costs are incurred. The Company explained that after subtracting the floatation costs from the equity issuance, it is left with proceeds that are lower than the gross investment amount. Columbia pointed out that only net proceeds of an equity issuance can be added to the Company's rate base. Therefore, Columbia claimed that its equity investors will not earn a fair rate of return unless a floatation cost adjustment is made. The Company calculated that a 1.002625% multiple, or 3 basis

points, should be added to the pre-adjusted DCF cost of equity for each of its proxy groups. Columbia St. 8, Appendix D at 1-4.

I&E recommended the DCF method as the primary methodology to determine a utility's cost of equity. I&E employed the standard DCF model, $k = D_1/P_0 + g$, where k is the cost of common equity, D_1 is the dividend expected during the year, P_0 is the current price of the stock, and g is the expected growth rate of dividends. Utilizing this DCF model, I&E calculated that the DCF methodology produces a cost of common equity of 10.51%. I&E St. 2 at 38-39.

I&E argued that a representative dividend yield must be calculated over a time frame that avoids problems of both short-term anomalies and stale data. I&E's dividend yield calculation placed equal emphasis on the most recent spot and the 52-week average dividend yields, resulting in an average dividend yield of 3.63%. I&E St. 2 at 39-40.

I&E used earnings growth forecasts to calculate its expected growth rate. I&E's earnings forecasts were developed from projected growth rates using 5-year estimates from established forecasting entities for its Natural Gas Utility proxy group of companies, yielding an average 5-year growth forecast of 6.87%. I&E St. 2 at 40.

I&E submitted that Columbia's proposed leverage adjustment should be rejected because investors base their decisions on book value debt and equity ratios for regulated utilities, and not on market values, rendering any adjustment unnecessary. I&E also submitted that recent Commission precedent supports rejecting a utility's request for a leverage adjustment. I&E St. 2 at 66-67. I&E also recommended that the Company's floatation cost adjustment be rejected. Since Columbia's parent company, NiSource, has not indicated that it will issue new stock during the FPFTY, and floatation costs are accounted for on the books of the issuing company, I&E reasoned that it is

inappropriate to present the potential impact of this cost in the ROE for the FPFTY, based upon a historical O&M expense such as floatation costs. I&E M.B. at 47.

Columbia disagreed with I&E relying solely on the DCF to calculate the ROE. The Company argued that all ROE methods are flawed, such that the use of other methods captures more investor perspectives into the ROE input data. Columbia M.B. at 114.

Based on two variations of the DCF model, the OCA proposed a cost of equity range between 7.30% and 7.50%. For its DCF analysis, the OCA used the 30-day average of the adjusted closing stock prices for each company in the Company's Gas LDC Group, which, as previously discussed, the OCA utilized in this proceeding. Next, the OCA calculated each Gas LDC Group company's dividend yield by averaging the dividend yield expected to be paid over the next 12 months, as reported by *Yahoo! Finance*. OCA St. 3 at 21-22.

The OCA explained that it used two variations to identify a growth rate for its DCF model. Analysts' growth rates, published by *Value Line*, were used by the OCA to determine an Analyst Growth Rate DCF. Utilizing this growth input resulted in the OCA calculating an ROE of 7.50%. OCA M.B. at 128. Next, the OCA calculated its Sustainable Growth Rate DCF. In this model, the OCA used the U.S. GDP growth rate as the maximum sustainable growth rate. The OCA claimed that mature companies, such as public utilities, should not have a growth rate that exceeds nominal GDP growth.[138] This resulted in an ROE of 7.3% for the OCA's Sustainable Growth Rate DCF calculation. OCA M.B. at 129-31.

[138] The OCA highlighted that, according to the Congressional Budget Office's Budget Outlook, the long-term forecasted nominal U.S. GDP growth is 3.7%. OCA M.B. at 131 (citing OCA St. 3 at 27 (citing Congressional Budget Office Long-Term Budget Outlook, https://www.cbo.gov/publication/59014)).

Like I&E, the OCA claimed that Columbia's proposed leverage and floatation cost adjustment should be rejected. OCA M.B. at 30.

(2) CAPM

The CAPM uses the yield on a risk-free interest-bearing obligation (such as those issued by the U.S. Treasury) plus a rate of return premium that is proportional to the systematic risk of an investment. To compute the cost of equity with the CAPM, three components are necessary: a risk-free rate of return (Rf), the beta measure of systematic risk (β), and the market risk premium (Rm-Rf) derived from the total return on the market of equities, reduced by the risk-free rate of return. The CAPM specifically accounts for differences in systematic risk (*i.e.*, market risk as measured by the beta) between an individual firm or group of firms and the entire market of equities.

Columbia, the OCA, and I&E each used the following standard CAPM formula:

$$k = R_f + \beta(R_m - R_f)$$

Where: k= the cost of equity and the remaining terms are as defined above.

(a) Positions of the Parties

Columbia presented three CAPM models: a traditional CAPM, a traditional CAPM with size adjustment, and an ECAPM. Columbia initially determined the risk-free rate to be 4.65% based on current and forecasted long-term 30-year Treasury Bond yields. Columbia St. No. 8, at 62-65. Columbia also calculated a 7.00% market risk premium component of the CAPM analysis, based upon the average historical data and forecasted returns. The Company used average betas of 0.91 for the Gas LDC

Group, 0.92 for the Combination Utility Group, and 0.91 for the Non-Regulated Group. To correct for deficiencies of the CAPM relative to smaller capitalization stocks, Columbia assigned a size adjustment of 0.61% to the Gas LDC Group, 0.46% to the Combination Utility Group, and –0.06% to the Non-Regulated Group. As with all of its ROE methodologies, the Company added a 0.03% floatation adjustment to its CAPM analysis. *Id*. at 65-70. Based on the aforementioned inputs, Columbia calculated a CAPM cost of common equity of 11.66% for the Gas LDC Group, 11.58% for the Combination Utility Group, and 10.99% for the Non-Regulated Group. *Id*. at 74.

The Company's ECAPM analysis was based on empirical evidence that demonstrates that the risk-return relationship between beta and stock returns is flatter than what is predicted by a traditional CAPM. Columbia's ECAPM adjusted for this difference by placing a 25% weighting on overall market risk premium and a 75% weighting on the company-specific, beta-adjusted risk premium. The ECAPM calculations resulted in ROEs of 11.21% for the Gas LDC Group, 11.26% for the Combination Utility Group, and 11.21% for the Non-Regulated Group. Columbia M.B. at 110-11.

In calculating the CAPM cost of common equity, I&E chose the risk-free rate of return (Rf) of 4.13% from the projected yield on 10-year Treasury bonds as the most stable risk-free measure. I&E explained that its decision to use 10-year Treasury bonds balanced out issues related to the use of long-term bonds and short-term T-Bills. I&E used the average of the betas from the Value Line Investment Survey of 0.80. To estimate the expected return on the overall stock market, I&E stated that it averaged Value Line's 1700 stocks forecast return of 11.93% and the S&P 500's average return starting from the year 1926 to 2024 of 12.29%. I&E explained that the result of the overall stock market returns is 12.11%, which yields a cost of equity result of 10.51%. I&E St. 2 at 42-44. I&E also provided an additional CAPM analysis where it used Kroll's (formerly Duff & Phelps) recommended U.S. Equity Risk Premium (ERP)

of 5.50%. According to I&E, the result of using Kroll's ERP in its CAPM analysis is a 9.36% cost of equity. I&E Exh. No. 2, Sch. 12. In addition, I&E averaged its CAPM analyses, which produced a 9.94% ROE. I&E St. No. 2 at 45. I&E noted that it used its CAPM results only as a point of comparison to its DCF analysis, and stressed that its cost of equity recommendation is based solely on its DCF results. I&E M.B. at 40.

I&E argued that the Company's CAPM inappropriately averaged the historic risk premium with the forecasted risk premium. Since the ROE is determined for the FPFTY, I&E took the position that using a historic risk premium skews the prospective market risk premium and the CAPM results. Furthermore, I&E rejected Columbia's CAPM size adjustment of 0.61%. I&E stated that none of the technical literature the Company cited in its testimony supporting adjustments related to the size of a company is specific to the utility industry and is irrelevant in this proceeding. I&E M.B. at 48-50. Finally, I&E recommended rejecting Columbia's ECAPM methodology. In I&E's view, the ECAPM adds more subjectivity to the CAPM. I&E added that the Company acknowledged in the past three years that no jurisdiction overseeing a utility base rate case has accepted the ECAPM methodology. *Id*. at 52 (citing I&E Exh. 2, Sch. 13 at 1).

Columbia countered that I&E's CAPM ROE is understated because it does not make a size adjustment. Additionally, the Company disagreed with I&E calculating an alternative CAPM utilizing the Kroll ERP. Columbia highlighted that I&E's implied ERP ($R_m - R_f$) of its traditional CAPM of 7.98% is much higher than Kroll's ERP of 5.50%. Columbia M.B. at 115-116.

At the outset, the OCA noted that the Commission recently held in *Aqua 2022* that the CAPM is properly used as a check on the reasonableness of the DCF. OCA M.B. at 133. In its CAPM analysis, the OCA used a 30-day average of 30-year Treasury Bond yields to calculate a risk-free rate of 4.89%. OCA St. 3 at 30. The OCA

used betas from the Value Line Investment Survey, finding an average beta of 0.79 for its proxy group. OCA St. 3 at 31. To find the ERP, the OCA relied on expert surveys and an implied ERP. The OCA calculated the implied ERP by subtracting the risk-free rate from an implied expected market return. Taking the average of these sources, the OCA arrived at a 5.1% ERP. Using this data, the OCA concluded that the proper CAPM ROE is 6.4%. OCA St. 3 at 36-39.

The OCA criticized Columbia's CAPM analysis for using outdated betas that are higher than more recent data from Value Line. Moreover, the OCA noted that the Company's ERP is much higher than the ERPs the OCA used in its CAPM methodology. Lastly, the OCA submitted that Columbia's size adjustment is improper and based on disputed research. OCA St. 3 at 39-42.

(3) RP Model

The RP method 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. The RP method determines the cost of equity by summing the expected public utility bond yield and bond returns subtracted from the ROE over a historical period. Columbia St. 8 at 75.

(a) Positions of the Parties

The Company determined the RP cost of common equity by estimating the prospective long-term bond yields for each of its proxy groups, based upon their average credit ratings, and then estimating the appropriate ERP for each of the three proxy

groups. Columbia St. 8 at 75-76. Columbia evaluated forecasted bond yields for AAA rated corporate bonds and then made a 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. *Id*. at 77-78. The Company developed its 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. Columbia used the same data used for its CAPM analysis to find a projected risk premium of 6.07%. Next, the Company averaged the historical and projected risk premiums, resulting in a 5.98% risk premium and then adjusted by the Gas LDC Group beta value to produce an indicated risk premium of 5.44%. *Id*. at 79-82; Columbia Exh. VVR-12 at 4. Columbia also performed an RP analysis of holding period returns for the S&P 500 Utilities Index, which yielded a risk premium of 4.85%. This resulted in an average risk premium for the Gas LDC Group of 5.15% [(5.44%+4.85%) ÷ 2 =5.15%]. *Id*. at 83-84. Therefore, the Company's RP model resulted in an 11.23% floatation cost of equity for the Gas LDC Group, (6.06% bond yield + 5.15% risk premium + 0.03% floatation cost),[139] 11.23% for the Combination Utility Group, and 11.38% for the Non-Regulated Group. *Id*. at 84-85.

I&E submitted that the RP method should not be used in determining an appropriate cost of equity in a base rate proceeding. I&E pointed out that the RP method is a simplified version of the CAPM model. However, I&E noted that while the CAPM model directly measures the systematic risk of the company through the use of a beta, the RP method does not measure the specific risk of the company. I&E St. 2 at 32-33.

The OCA, likewise, claimed that the Commission should reject Columbia's RP model since it adds no value over its CAPM, as both models measure the risk premium. Further, the OCA claimed that the Company's RP used the same

[139] We note that while Columbia represented that it claimed an RP cost of equity of 11.23% based upon these inputs, the sum of these inputs adds to 11.24%. [6.06% bond yield + 5.15% risk premium + 0.03% floatation cost=11.24%].

overestimated betas and risk premiums as its CAPM. Finally, the OCA asserted that the Commission should focus on the results of the DCF and CAPM models presented in the instant proceeding. OCA M.B. at 141.

b. Recommended Decision

Based on the record evidence, the ALJs recommended that the Commission utilize I&E's DCF methodology in setting the ROE in this proceeding. The ALJs noted that the DCF methodology recognizes the time value of money and is forward-looking based on using a growth rate and dividend yield. Additionally, the ALJs agreed with I&E that the current inflationary and economic trends are reflected in a stock's price, which is used in determining the dividend yield, and the earnings growth rates forecasted by independent professional analysts. Moreover, the ALJs concluded that the CAPM should not be used as a primary method in this proceeding. The ALJs reasoned that extreme variations in the CAPM analysis results between Columbia's proposed CAPM ROE of 11.66%, and I&E's CAPM ROE of 10.51% serve to highlight the unreliability and subjectivity of the CAPM. In contrast, the ALJs noted, Columbia's DCF results of 10.97% more closely align with I&E's DCF results of 10.51%. R.D. at 337-38.

c. Disposition

No Party directly excepted to the ALJs' recommended ROE methodology. Upon our consideration of the record evidence, we agree with the ALJs' conclusion that Commission precedent lends support for using the DCF methodology as advocated by I&E, when setting a utility's authorized ROE in a rate proceeding. In this proceeding, I&E claimed that current inflation and economic conditions are reflected in its DCF. I&E M.B. at 39. However, in *Aqua 2022*, *Columbia Water 2024*, and *PAWC 2024*, the Commission determined that the CAPM methodology more accurately captures forward-

looking changes in inflation. For this reason, we remain of the opinion that the CAPM methodology is useful as a tool in setting the appropriate ROE in a rate proceeding.

We are also persuaded by the arguments of Columbia and the OCA that the Commission recognizes the importance of information provided by other ROE models. We conclude that methodologies other than the DCF can be used as a check upon the reasonableness of the DCF derived ROE calculation. As such, where evidence based on other methods suggests that the DCF-only results may produce an unreasonable ROE, we will consider those other methods, to some degree, in determining the appropriate range of reasonableness for our determination as to the appropriate ROE to award Columbia. Although I&E did not recommend its CAPM as a method to determine Columbia's ROE, I&E did present its CAPM analysis in testimony and briefed the ALJs on this methodology. Considering the above, we shall modify the ALJs' recommendation and shall determine an appropriate ROE for Columbia using informed judgment based on I&E's DCF and CAPM methodologies.

2. Management Effectiveness Adjustment

a. Positions of the Parties

Columbia sought an upward adjustment of 25 basis points to its ROE for management performance. According to Columbia, such an adjustment is warranted because the Company has demonstrated strong managerial effectiveness. Columbia M.B. at 13. Both I&E and the OCA opposed the Company's request.

Columbia argued that in accordance with Section 523 of the Code, 66 Pa.C.S. § 523, the Commission, in addition to weighing other relevant evidence in the record, is obligated to consider a utility's management effectiveness in setting just and reasonable rates in a base rate proceeding. Columbia further submitted that nothing in

Section 523 requires a finding that a utility must outperform all other utilities in the Commonwealth, or that a utility's programs are not funded by customers, before the utility is eligible for an upward adjustment to its rate of return for management performance. According to Columbia, in previous base rate proceedings, the Commission has, where appropriate, included an incremental upward adjustment to the cost of common equity to reflect the subject utility's management effectiveness. Columbia M.B. at 122-23. For example, Columbia noted that in *UGI Electric 2018*, the Commission recognized improved customer satisfaction, workforce safety, and service reliability as relevant factors in assessing an upward adjustment to the subject utility's ROE for management performance. *Id.* at 123 (citing *UGI Electric 2018* at 119).

In support of its request for a management effectiveness adjustment, the Company argued that it provides high quality service and has implemented numerous programs designed to strengthen reliability, enhance the safety of its system, and enhance the service it provides to its customers through, *inter alia*, the following: (1) undertaking an accelerated pipeline replacement program; (2) developing and deploying digital "Work Methods and Accelerator Knowledge Management System" technology to demonstrate to its employees the required steps to improve safety and to incorporate important process safety safeguards and layers of protection through active verification and checks for abnormal conditions, and stop work flags if certain expected conditions are not met during the course of work; (3) administration of various low income programs and universal service programs, including the CAP; (4) controlling the Company's administrative costs such that these costs are the second lowest per active CAP customer (or equivalent program) of any NGDC in Pennsylvania; (5) exploring and administering innovative programs to improve customer service; and (6) providing monetary donations to various charities and non-profit organizations in the communities the Company serves. Columbia St. 9 at 35-36; Columbia M.B. at 123-30; Columbia R.B. at 63-70.

I&E countered that no utility under the jurisdiction of the Commission should be awarded additional basis points to its rate of return for doing what the utility is required to do in order to provide adequate, efficient, safe, and reasonable service in accordance with its responsibilities under Section 1501 of the Code, 66 Pa.C.S. § 1501. Therefore, I&E took the position that the actions Columbia cited to in support of its request for a management effectiveness adjustment fall within the responsibility of every public utility under the Commission's jurisdiction to provide reliable, safe, and reasonable service. According to I&E, true strong management performance is demonstrated through a utility earning a higher return through its efficient use of resources and its implementation of cost cutting measures. I&E submitted that if the Company is effective at controlling operating and maintenance costs, those savings should flow through to ratepayers and/or investors. Thus, I&E argued that any claimed savings to ratepayers would likely be offset by the addition of basis points for management performance, as this would cause ratepayers to fund the additional costs. In this regard, I&E emphasized that if the total amount of the Company's requested 25 basis points for management effectiveness is awarded, the total impact to ratepayers would be $7,253,514 annually.[140] I&E restated its argument, *supra*, that because the instant

[140] We note that I&E's claimed impact to ratepayers was based upon the Company's originally claimed rate base amount of $3,845,381,715. *See* I&E St. 2 at 84. As discussed in Section V of this Opinion and Order, *supra*, the Company subsequently revised its final claimed rate base amount to $3,839,638,127 in light of its sale of Blackhawk. As also discussed in Section V, based upon the adjustments we have made to the Company's claimed rate base, we have approved a final rate base of $3,825,964,472 for Columbia in the FPFTY. Therefore, as shown in Table 20, below, under the final rate base and percent of common equity capital structure that we shall approve for Columbia in this Opinion and Order, an increase of one basis point to the Company's ROE would result in an addition of $288,675 to the Company's revenue

proceeding is the Company's ninth base rate case filed since 2014, Columbia's ratepayers have encountered increased rates on an almost annual basis, in addition to standard rate surcharges. Therefore, I&E asserted that the Commission should reject, in its entirety, the Company's request for an upward adjustment of 25 basis points to its ROE. I&E M.B. at 53-55.

The OCA noted that its witness, Mr. Garrett, testified that he was unaware of a regulator from another jurisdiction that has specifically recognized management performance as having an increasing effect on a utility's authorized ROE. OCA M.B. at 142 (citing OCA St. 3 at 56). According to the OCA, the Company's statements in support of its purported management effectiveness are merely consistent with the requirements of all utilities, as set forth in the Code, and do not represent exceptional performance. OCA R.B. at 102. Additionally, the OCA argued that contrary to the Company's claimed provision of high quality service, Columbia has demonstrated

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requirement. Thus, an addition of twenty-five basis points would result in an addition of $7,216,887 to the Company's revenue requirement. [$288,675.49 x 25 = $7,216,887].

Table 20: Impact on Columbia's Revenue Requirement if the Company's ROE is Increased or Decreased by One Basis Point

		Under the Company's Originally Claimed Rate Base	Under the Company's Final Claimed Rate Base	Under the Rate Base Authorized in this Opinion and Order
A	Common Equity Ratio	54.40%	54.40%	54.40%
B	ROE Increase or Decrease	0.01%	0.01%	0.01%
C= A x B	Weight	0.00544%	0.00544%	0.00544%
D=C	Weight	0.00544%	0.00544%	0.00544%
E	Rate Base	$3,845,381,715	$3,839,638,127	$3,825,964,472
F	Revenue Conversion Facto	1.38697964	1.38697964	1.38697964
G=D x E x F	**Increase or Decrease in Revenue Requirement**	$290,141	$289,707	**$288,675**
H=G x 25	**Increase of 25 Basis Point**	$7,253,514	$7,242,680	**$7,216,887**

We further note that any differences in Table 20 are due to rounding.

inadequacies in the Company's performance with respect to, *inter alia*, promoting affordability, equitable outcomes for low income customers, and quality customer service. Therefore, like I&E, the OCA submitted that the Commission should reject the Company's request for a management effectiveness adjustment. OCA M.B. at 141-71; OCA R.B. at 101-08.

b. Recommended Decision

The ALJs concluded that Columbia failed to provide sufficient evidence to support its proposal to have an additional 25 basis points added to its ROE for "strong management performance." Accordingly, the ALJs recommended that the Commission reject the Company's proposal. In support of this recommendation, the ALJs pointed to the rationale articulated by I&E and the OCA, *supra.* R.D. at 349-50.

c. Exceptions and Replies

In its Exception No. 9, Columbia remains of the opinion that the Company's request for an upward adjustment to its ROE for superior management performance is warranted and is supported by evidence in the record. Nonetheless, Columbia explains that it has decided to withdraw its request for a management effectiveness adjustment, "in recognition of the recommended ROE presented in the R.D." Columbia Exc. at 16.

d. Disposition

As noted above, no Party filed Exceptions objecting to the ALJs' recommendation on this issue. We find that the ALJs' recommendation is just and reasonable and is supported by substantial evidence in the record and shall adopt this recommendation without further comment. Accordingly, we shall adopt the ALJs'

recommendation to deny the Company's requested upward increase to its ROE for management effectiveness.

3. Rate of Return on Common Equity

a. Positions of the Parties

As noted above, four methods of determining the cost of equity were presented for inclusion in the record in this proceeding: (1) DCF; (2) CAPM; (3) ECAPM; and (4) RP. Columbia relied on each of these methodologies in presenting its proposed rate of return on common equity of 11.35%. This figure is inclusive of the Company's requested upward adjustment of 0.25% for management effectiveness, *supra*. Columbia St. 8 at 9-10. However, as noted in Sections X.D.1 and X.D.2, Columbia did not oppose the ALJs' recommendation to calculate the return on common equity in this case by relying principally upon the DCF methodology and has withdrawn its request for a management effectiveness upward adjustment.[141]

As discussed in Section X.D.1, both I&E and the OCA took issue with the Company's analysis in arriving at the proposed cost of equity and argued that equal weight should not be given to the four different methodologies as Columbia did in its evaluation. Additionally, both I&E and the OCA submitted that the Commission has indicated a preference for using the DCF method, while recognizing the Commission has recently used CAPM results to determine a reasonable ROE.

As a result of its DCF analysis, I&E recommended a cost of common equity of 10.51%. I&E M.B. at 40-41.

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[141] As noted below, Columbia submits that given these concessions, it would support a rate of return on common equity of 10.51%. Columbia Exc. at 15.

The OCA recommended a cost of common equity of 8.90%, based on its CAPM model and the use of a hypothetical capital structure. OCA M.B. at 137. The OCA added that if the Commission were to approve the Company's actual capital structure, discussed in Section X.B, *supra*, then the OCA would further reduce its recommended ROE to 8.70%. OCA St. 3 at 37, 55.

b. Recommended Decision

The ALJs recommended that the Commission reject Columbia's proposed rate of return on common equity of 11.35%. Based on the record evidence, the ALJs found that the DCF result provides a forward-looking estimation for the cost of equity that would be more appropriate and consistent for FPFTY ratemaking. Therefore, the ALJs recommended that the Commission adopt a 10.51% ROE for Columbia, as determined by I&E's DCF methodology. R.D. at 337-38.

c. Exceptions and Replies

(1) Columbia Exception No. 9 and Replies

In its Exception No. 9, Columbia explains that it does not except to calculating the return on common equity by relying upon I&E's DCF methodology. However, the Company clarifies that it continues to support the use of multiple methods in setting a utility's ROE to account for problems inherent in all methods used to calculate returns on common equity. Additionally, as noted in Section X.D.2, *supra*, Columbia states that it has withdrawn its request for an upward adjustment to its ROE for management performance. Columbia Exc. at 15-16.

In its Replies to Columbia's Exception No. 9, I&E states that it agrees with the ALJs' reasoning and recommendations regarding the overall rate of return, *infra*, and

a 10.51% ROE. Moreover, I&E states its agreement with the ALJs' recommendation to deny the Company's proposed management performance adjustment. I&E R. Exc. at 6-7.

In its Replies to Columbia's Exception No. 9, the OCA asserts that Columbia removed all support for its proposed 11.35% ROE by accepting I&E's DCF methodology and results, as recommended by the ALJs. However, as stated in its own Exception No. 6, below, the OCA claims that the recommended ROE of 10.51% is excessive and should not be adopted by the Commission. The OCA opines that its proposed ROE of 8.09% and overall rate of return, *infra*, of 7.06% are sufficient to ensure Columbia's ability to attract capital and continue investment to provide safe and reliable service, while guarding the interests of consumers. OCA R. Exc. at 10-11.

(2) OCA Exception No. 6 and Replies

In its Exception No. 6, the OCA questions whether the ALJs recommended a 10.51% ROE or a 5.72% ROE. More specifically, the OCA cites the following statement by the ALJs:

> However, based upon the record evidence in this proceeding, the undersigned ALJs agree with the recommendation and rationale advanced by I&E and [recommend] 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.

OCA Exc. at 27 (citing R.D. at 350-51).

The OCA asserts that it supports an ROE of 5.72%, as it is less than the OCA's recommended 8.9% ROE. However, the OCA claims that if the ALJs, instead recommended that the Commission adopt I&E's proposed ROE of 10.51%, then this

ROE is "unreasonable and excessive." As such, the OCA submits that its proposed ROE of 8.9% should be adopted, in lieu of the ROE proffered by I&E. OCA Exc. at 28.

In its Replies to the OCA's Exceptions, Columbia posits that in citing to the above passage of the Recommended Decision, the OCA has confused return on common equity and weighted return on common equity. In this regard, the Company explains that the ALJs first recommended that the Commission adopt an ROE of 10.51%. Next, Columbia continues, the ALJs explained that when multiplied by the Company's proposed common equity ratio of 54.40%, this produces a weighted cost of equity of 5.72%. Additionally, Columbia notes that Appendix A, Table I(A) of the Recommended Decision confirms that Columbia's common equity capital structure of 54.40%, multiplied by an ROE of 10.51%, produces a weighted cost of equity of 5.72%. Columbia R. Exc. at 11-12. Lastly, the Company argues that, aside from citing to its Main Brief, the OCA offers no arguments in its Exceptions to support its recommended ROE of 8.9%. Therefore, Columbia asserts that the OCA's recommended ROE is unreasonable and that the ALJs properly recommended that it be rejected by the Commission. *Id*. at 12-14.

d. Disposition

On consideration of the record and the positions of the parties, we shall modify the ALJs' recommendation as to the appropriate ROE to award Columbia in this proceeding. We have previously determined in Section X.D.1, above, that we shall utilize I&E's DCF and CAPM methodologies. In *PAWC* 2024, the Commission noted that taking the average of I&E's DCF and CAPM results produces a reasonable ROE, if such a methodology is supported by the specific record developed in the rate proceeding. *See PAWC 2024* at 194-95. As discussed more fully below, in this instant proceeding, we are also persuaded to use informed judgment and to apply both I&E's traditional CAPM and its Kroll ERP CAPM analysis in setting the ROE for Columbia. Further, as a

matter within our discretion to weigh all relevant factors, we shall adjust the ROE for Columbia based upon the Company's demonstrated 0% regulatory lag and relative lack of risk.

With respect to the ROE calculation, Columbia noted that I&E's implied ERP ($R_m - R_f$) of its traditional CAPM was 7.98% and is much higher than Kroll's forecasted ERP of 5.50%. Columbia St. 8-R at 68-69. Based on this information, we find that I&E's traditional CAPM of 10.51%, *supra,* may be overstated. Therefore, we will use the average of I&E's traditional CAPM ROE of 10.51% and I&E's Kroll ERP based CAPM ROE of 9.36%. The average of these CAPM analyses produces a composite CAPM ROE of 9.935%. [(10.51% + 9.36%) ÷ 2 = 9.935%]. *See* I&E St. 2 at 45. We shall further calculate the average of I&E's DCF ROE of 10.51%, and its composite CAPM ROE of 9.935%. This results in a base ROE of 10.22%. [(10.51% +9.935%) ÷ 2 = 10.22%]. We reinforce our finding in *PAWC 2024*, "that we do not strictly endorse averaging the DCF and CAPM in other proceedings where it is determined that methodologies other than the DCF are necessary to determine the utility's ROE." *PAWC 2024* at 195. Nonetheless, in our view, averaging I&E's DCF and a composite of its CAPM ROE to calculate a base ROE of 10.22% for Columbia is reasonable, based upon our informed judgment and the specific record developed in this proceeding.

As we previously explained in Section IV.B, *supra,* we further disagree that Columbia is entitled to a cost of common equity that is no less than the 10.51% recommended by I&E, which we have adjusted to a base ROE of 10.22%, because consideration of Columbia's unique lack of regulatory lag and the commensurate impact of the Company's nearly annual rate increases upon customers' rates is warranted in this proceeding. To that end, in our view, *inter alia*, I&E's analysis did not consider Columbia's decreased business risk resulting from the diminished regulatory lag the Company has experienced since 2020. As referenced, *supra*, a fair return on rate base is

one that is "equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings *which are attended by corresponding risks and uncertainties*…." *Bluefield*, 262 U.S. at 692-93) (emphasis added). Additionally, in determining the cost of capital, the Commission must consider factors that include risk and regulatory lag. *West Penn*, 607 A.2d at 1135.

Having now established that Columbia's base ROE of 10.22% is correctly calculated by applying an average of I&E's recommended DCF ROE and a composite of its CAPM ROE, we shall, as a matter within our discretion, make a further downward adjustment of 22 basis points to the Company's ROE to arrive at a final authorized ROE of 10.00%. [10.22% - 0.22% = 10.00%]. In our view, such an adjustment is pertinent, in order to account for Columbia's reduced business risk that results from the Company's near elimination of regulatory lag. The purpose of our additional adjustment is to recognize the substantial record evidence of the Company's unprecedented rate case filing frequency, virtually extinguished regulatory lag, and the related reduced business risk the Company experiences. Our adjustment is made consistent with the Commission's obligations to consider regulatory lag in the context of determining a utility's cost of capital, and to evaluate a utility's ROE commensurately with returns on investment in other enterprises having corresponding risks. *See West Penn*, 607 A.2d at 1135; *Hope Natural Gas*, 320 U.S. at 603.

The record in this case demonstrates that Columbia has significantly mitigated its regulatory lag since 2020 by filing rate cases on a near-annual basis. I&E submitted evidence identifying Columbia's rate case filing frequency since 2014, and it demonstrated that no other regulated utility in Pennsylvania has filed base rate cases as frequently as the Company in the last twelve years. I&E St. 2 at 5-6. The data contained in I&E's analysis demonstrates that Columbia's rate cases filed in 2020, 2021, 2022, 2024, and 2025 have utilized FPFTYs ending in the respective dates of December 31, 2021, December 31, 2022, December 31, 2023, December 31, 2025, and

now December 31, 2026. *Id*. at 9. In essence, with one exception, 2023, Columbia has virtually eliminated regulatory lag through its near-annual rate increase requests since 2020, and consideration of the Company's reduced regulatory lag is warranted in this case.

While neither Columbia's 11.35% requested cost of common equity for the Company, nor I&E's recommendation of a 10.51% ROE, which we have modified to a base ROE of 10.22%, factored in the Company's mitigated business risk from reduced regulatory lag into their respective ROE proposals, the record evidence supports recognition of the Company's mitigated risk. *See* Columbia Exh. VVR-4; I&E St. 2 at 11. We further acknowledge I&E's argument that Columbia's business risk should be viewed in the context of the Commission's "risk reducing mechanisms such as the DSIC and FPFTY ratemaking to help reduce any regulatory lag in recovery of infrastructure investment or other unforeseen expenditures." I&E St. 2 at 50-51.[142] In turn, Columbia disputed I&E's claim by arguing that the majority of the companies in the Company's proxy group, the Gas LDC Group, already use the same types of regulatory mechanisms that Columbia proposed in this case, and that investors "have already incorporated these mechanisms into their risk perceptions and rate of return." Columbia St. 8 at 42.

Despite Columbia's claims, there is no evidence in this case that I&E or Columbia considered the reduced business risk resulting from the Company's significantly mitigated regulatory lag in light of its near-annual rate filings since 2020; accordingly, there is no analysis or evidence that either the companies in Columbia's Gas LDC Group, or those in I&E's Natural Gas Utility proxy group, have risks of regulatory lag that correspond to Columbia's mitigated business risk. On the other hand, evidence demonstrates that as recently as October 30, 2024, Columbia's parent company,

[142] For a discussion of the Company's opportunity to recover costs through a DSIC, *see* Section IV.B, *supra*.

NiSource, advertised Columbia's 0 month weighted average regulatory lag as part of the Company's business profile for investors. *See* Columbia Exh. Gas-ROR-006, Attachment I at 24 (indicating that Columbia benefits from "100% of capital recovered with zero lag" and the Company has a 0 month weighted average regulatory lag); *see also* Columbia Exh. Gas-ROR-006, Attachment E at 20; OCA Exh. MWD-8 at 8.

While investors realize the benefits of mitigated risk from Columbia's diminished regulatory lag, evidence indicates that the consumers' rates have significantly risen in conjunction with the Company's rate filing frequency. During the period from 2006 to 2024, over which Columbia filed numerous rate cases,[143] the Company's distribution charges for a residential heating customer using 15 Mcf of gas per month increased by $127.76, from $53.39 to $181.15 per month, or by approximately 339%. CAUSE-PA St. 1 at 5; CAUSE-PA St. 2 at 24-25. In short, consumer rates have not realized any rate benefit from Columbia's mitigated business risk associated with the Company's virtual elimination of regulatory lag, and the ROE analyses of Columbia and I&E do not account for this reality. We find that adjusting Columbia's final authorized ROE to 10.00% appropriately recognizes the reduced business risk Columbia experiences as a result of its near-annual base rate case filings and is in the public interest.

Accordingly, we shall deny Columbia's Exception No. 9, and the OCA's Exception No. 6. Additionally, we shall modify the Recommended Decision by authorizing a final ROE of 10.00% for the Company in this proceeding.

[143] As previously noted in Table 2, *supra,* the instant proceeding is the thirteenth base rate proceeding filed by Columbia since 2008.

E. Overall Rate of Return

As previously noted, a utility's WACC is calculated to determine its overall authorized rate of return. The WACC consists of a weighted average of the utility's capital structure, cost of debt, and cost of common equity. The summation of the weighted cost rates produces the utility's overall authorized rate of return. This overall rate of return is multiplied by the utility's rate base to determine the return portion of a utility's revenue requirement. I&E St. 2 at 4-5.

1. Positions of the Parties

Columbia claimed that the Commission should award the Company an overall rate of return of 8.55% in this proceeding. This proposed overall rate of return was comprised of a weighted average of a 5.22% rate of return on long-term debt, a 5.00% rate of return on short-term debt, and an 11.35% rate of return on common equity, inclusive of an upward adjustment of 25 basis points, *i.e.*, 0.25%, for claimed management effectiveness. This was, in turn, based off a projected actual capital structure for the FPFTY of 54.40% common equity, 43.28% long-term debt, and 2.32% short-term debt. Columbia M.B. at 80, Appendix D, Table I(A).

I&E submitted that the Commission should authorize an overall rate of return for the Company of 8.10%. This recommended overall rate of return was comprised of a weighted average of a 5.22% rate of return on long-term debt, a 5.00% rate of return on short-term debt, and a 10.51% rate of return on common equity, and was based off of Columbia's proposed actual capital structure, *supra*. I&E M.B. at 31.

The OCA argued that the Commission should afford the Company an opportunity to earn an overall rate of return of 7.06%. The OCA's proposed overall rate of return was based upon a weighted average of a 5.20% rate of return on long-term

debt,[144] a 5.00% rate of return on short-term debt, and an 8.9% rate of return on common equity. In turn, the OCAs proposal was based upon its proposed use of a hypothetical capital structure of 50% common equity, 47.68% long-term debt, and 2.32% short-term debt. OCA M.B. at 123, 127; OCA St. 3 at 58.

As previously noted, CAUSE-PA did not propose a specific rate of return in this proceeding. However, CAUSE-PA strongly supported the OCA's proposed overall rate of return of 7.06%. According to CAUSE-PA, Columbia's proposed rate of return is excessive. As such, CAUSE-PA reasoned, the Commission's ability to set the authorized overall rate of return for Columbia represents 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." CAUSE-PA stressed that because Columbia's customers have no ability to choose the NGDC from which they receive gas distribution service, residential customers, including low income customers, must consume that service at the rates authorized by the Commission. As such, CAUSE-PA argued that authorizing a rate of return for the Company that is higher than what is necessary will result in an increase in rates that is detrimental to the Company's low income customers. CAUSE-PA M.B. at 33-35.

2. Recommended Decision

The ALJs recommended that the Commission afford the Company an opportunity to earn an overall rate of return of 8.10%. In making this recommendation, the ALJs stressed that they agreed with the proposals and rationale advanced by I&E,

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[144] As noted, *supra*, although the OCA stated that it accepted Columbia's proposed actual cost of debt, the table the OCA included in its main briefs outlining its proposed overall rate of return for the Company set forth a cost rate for long-term debt of 5.2%. OCA M.B. at 126. This appears to have been as a result of rounding to a single decimal point. Columbia M.B. at 80, n.258.

supra. Therefore, the ALJs' recommended overall rate of return for Columbia was based upon their recommendations, *supra*, that the Commission adopt: (1) I&E's proposed Natural Gas Utility proxy group; (2) I&E's proposal that Columbia be permitted to utilize the Company's projected actual capital structure; (3) I&E's proposal that the Commission adopt the Company's actual cost of long-term debt of 5.22% and its actual cost of short-term debt of 5.00%; (4) I&E's proposed methodology for determining a rate of return on common equity, along with I&E's final proposed ROE of 10.51%; and (5) I&E's position that Columbia's proposed management effectiveness adjustment should be denied in its entirety. R.D. at 350-51, Appendix A, Table 1(A).

3. Exceptions and Replies

As outlined above, only Columbia and the OCA filed Exceptions to the ALJs' recommendations regarding a fair rate of return for the Company. Each Party's Exceptions and Replies to Exceptions on the overall rate of return recommended by the ALJs are based on their respective Exceptions and Replies to Exceptions regarding the ALJs' recommended capital structure and the cost of common equity, *supra.*

4. Disposition

For the reasons discussed above, we have adopted the ALJs' recommendation as to the appropriate capital structure and cost of debt for Columbia. Additionally, we have modified the ALJs' recommendation as to the appropriate cost of common equity to authorize Columbia. Table 21, below, summarizes our final determinations regarding Columbia's capital structure, cost of debt, and cost of common

equity, as well as the resulting weighted costs. As this table indicates, we shall set an authorized overall rate of return for Columbia of 7.82%.

Table 21: Columbia Capital Structure – Authorized Overall Rate of Return

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	43.28%	5.22%	2.26%
Short-Term Debt	2.32%	5.00%	0.12%
Common Equity	54.40%	10.00%	5.44%
Total	100.00%		**7.82%**

XI. Rate Structure and Rate Design

This section of our Opinion and Order addresses the ALJs' recommendations pertaining to cost of service, revenue allocation, and rate design. When a utility files for a rate increase and the proposed increase exceeds $1 million, the utility must include with its filing an allocated class cost of service study (ACCOSS or ACCOS Study) in which it assigns to each customer class a rate based upon operating costs that it incurred in providing that service. 52 Pa. Code § 53.53; *Lloyd v. Pa. PUC,* 904 A.2d 1010, 1015 (Pa. Cmwlth. 2006) (*Lloyd*). Cost allocation studies require a considerable amount of judgment and are described as more of an accounting/engineering art rather than a science. *Application of Metropolitan Edison Company*, 90 Pa. P.U.C. 1, Docket No. R-00974008 (Opinion and Order entered June 26, 1998); *Pa. PUC v. Pennsylvania Power & Light Co.*, Docket Nos. R-822169, *et al.* (Opinion and Order entered August 19, 1983). Public utility rates should enable the utility to recover its cost of service and should allocate this cost among its customers. These rates are required by statute to be just, reasonable, and non-discriminatory. 66 Pa.C.S. §§ 1301, 2804(10).

In this proceeding, there are seven different rate classes that Columbia is assigning these costs to, as follows:

1. Residential Sales Service (RSS) and Residential Distribution Service (RDS);[145]

2. Low-volume Small General Sales Service (SGSS), Small Commercial Distribution (SCD), and Small General Distribution Service (SGDS);[146]

3. High-volume SGSS, SCD, and SGDS;[147]

4. Small Distribution Service (SDS) and low-volume Large General Sales Service (LGSS);[148]

5. Large Distribution Service (LDS) and high-volume LGSS;[149]

[145] RSS and RDS were combined as RSS/RDS and presented in Column D of each ACCOSS. *See* Columbia Exh. 111, Schs. 1, 2, and 3.

[146] SGSS, SCD, and SGDS were combined as SGS/(Distribution Service) DS-1 and presented in Column E of each ACCOSS for commercial and industrial (C&I) customers whose annual usage is less than 6,440 therms. *Id.*

[147] SGSS, SCD, and SGDS were combined as SGS/DS-2 and presented in Column F of each ACCOSS for C&I customers whose annual usage is greater than 6,440 therms but less than 64,400 therms. *Id.*

[148] SDS and LGSS were combined as SDS/LGSS and presented in Column G of each ACCOSS for C&I customers whose annual usage is greater than 64,400 therms but less than 540,000 therms. *Id.*

[149] LDS and LGSS were combined as LDS/LGSS and presented in Column H of each ACCOSS for C&I customers whose annual usage is greater than 540,000 therms. *Id*.

6. Main Line Sales Service (MLS) and Main Line Distribution Service (MLDS);[150] and

7. Flexible Rate Provisions and Negotiated Contract Service (FLEX).[151]

A. Allocated Class Cost of Service Study

An ACCOSS is a benchmark for evaluating customer class 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.

Columbia prepared and presented three ACCOSSs in its filing, sponsored by its witness, Mr. Kevin L. Johnson, as he described on pages 4-6 of his direct testimony in Columbia Statement 6. A brief description of each of the three studies is discussed below:

1. Customer-Demand Study: The Customer-Demand Study weights the allocation of mains using a factor based on the number of customers ("Customer") and the Company's peak day design ("Demand"). This method recognizes the customer number component of mains.'[152]

2. Peak & Average Study (P&A ACCOSS): The Peak & Average Study assigns the allocation of mains using a weighting factor of 50% to the

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[150] Rate classes MLS and MLDS were combined as MLS/MLDS due to their unique characteristics of proximity to an interstate pipeline and presented in Column I of each ACCOSS. *Id.*; Columbia St. 6 at 8.

[151] Costs and revenues attributable to customers taking service under Flexible Rate Provisions and Negotiated were combined and identified as FLEX and presented in Column J of each ACCOSS. *Id.*

[152] Columbia Exh. 111, Sch. 1.

Company's peak design day ("Peak") and 50% to the Company's throughput ("Average").[153]

3. Average Study (Average ACCOSS): The Average Study is an average of the Customer-Demand Study and the Peak & Average Study and gives equal weight (50%/50%) to both methods.[154]

Columbia Exhibits KLJ-1 through KLJ-3, attached to Columbia Statement 6, show the development of the allocation factors used in performing the functionalization, classification, and class allocation procedures within each of its ACCOSSs. According to Columbia, although the Company presented three ACCOSSs in the current proceeding as providing a reasonable range of returns, the Company continued to utilize the P&A ACCOSS as the primary guide to allocate the requested revenue increase in this proceeding in recognition of the Commission's Order in *Columbia Gas 2021*. Columbia explained how the P&A ACCOSS was utilized in apportioning the requested increase among the classes with the intention of moving each rate class toward parity with the system average rate of return. Columbia St. 6 at 17-21.

Utilizing its preferred study, the P&A ACCOSS, Columbia quantified the revenue deficiency based on operating costs and revenues, as adjusted for the FPFTY. Columbia Exh. 111, Sch. 2. Despite having updated its rate base, O&M, depreciation and amortization expense, income tax, and taxes other than income taxes expense claims in rebuttal testimony, in order to reflect its recent sale of Blackhawk, as well as updates/corrections to Employee Expenses – Other, and the interest rate used in calculating the O&M expense for interest on customer deposits, Columbia's ACCOSSs reflected the Company's as-filed claims. Stated differently, the Company's revised proposed revenue increase request of $110,444,676 reflected its revisions. *See* Columbia

[153] Columbia Exh. 111, Sch. 2. The Company's customer charge studies are also included as part of the P&A ACCOSS. Columbia Exh. 111, Sch. 2 at 14-30.

[154] Columbia Exh. 111, Sch. 3.

Exhs. JV-1R, JV-2R, and JV-3R. However, Columbia did not revise its ACCOSSs (Columbia Exh. 111, Sch. 1-3), proposed revenue allocation (Columbia Exh. 103, Sch. 8), or requested rates (Columbia Exh. 103, Sch. 7) to be reflective of its revised revenue increase request.

Nevertheless, according to the Company, its three ACCOSSs provided class revenues at proposed rates based upon the Company's attempt to move all classes toward an equalized rate of return (all classes' revenue produce the Company's proposed overall rate of return of 8.55%, discussed in Section X.E, *supra*), which can be used as a rough target for apportioning class revenue increases. Columbia Exh. 111, Sch. 1 at 2, line 13; Columbia Exh. 111, Sch. 2 at 2, line 13; Columbia Exh. 111, Sch. 3 at 2, line 13. The results of such studies can be utilized to determine the relative cost of service for each class and help determine the individual class revenue requirements and, to the extent a particular class is above or below the system average rate of return, show the additional revenues each class is to receive or, conversely, the additional revenues that each class is to contribute to the Company's overall revenues. In addition to the relative provision of revenues, relative rates of return are also provided, which shows how the rate of return for each class compares to the system average rate of return, indicating if each class is either under-paying or over-paying its allocated cost of service. Columbia Exh. 111, Sch. 1 at 2-3, line 14; Columbia Exh. 111, Sch. 2 at 2-3, line 14; Columbia Exh. 111, Sch. 3 at 2-3, line 14. This information is then used to determine the manner in which the proposed revenue increase should be allocated among the various rate classes, with the goal of moving each rate class towards the system average rate of return. The results at equalized rates of return do not necessarily dictate the exact levels of class revenues proposed. As the ALJs indicated, the proposed class revenues may depart from the equalized rates of return in order to recognize a number of factors, including such things as gradualism, to 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. R.D. at 399. However, as the ALJs noted throughout their discussion

and analysis, several of the parties pointed to *Lloyd*, wherein the Commonwealth Court determined that cost of service is the "polestar" of ratemaking. R.D. at 351, 369, 379-80, 391.

1. Positions of the Parties

As previously indicated, Mr. Johnson testified on behalf of Columbia regarding the Company's ACCOSSs, arguing that its P&A ACCOSS provides the most appropriate basis upon which to allocate revenue and is consistent with the Commission's precedent for the allocation of the costs of mains. Columbia M.B. at 136 (citing Columbia St. 6 at 17).

According to the Company, since the cost of mains represents the majority of plant costs for a gas utility, mains allocation has a critical effect on the assignment of costs of service to the customer classes. Columbia St. 6 at 4. Before allocating mains to the rate classes in its ACCOS Studies, Columbia first identified and directly assigned the actual inventory of distribution mains for the MLS/MLDS rate class, as these customers are served directly from, or in close proximity to, an interstate pipeline. *Id*. at 9. According to the Company, the three factors generally accepted as drivers of mains costs are: (1) number of customers; (2) peak demand; and (3) average use. Columbia M.B. at 135.

As I&E explained, Columbia's two cost of service studies (Customer-Demand and P&A ACCOSSs) differ in that each study utilizes a different approach to the allocation of distribution mains investment. In the Customer-Demand ACCOSS, distribution mains investment is allocated based partially on the design day demands of each of the customer classes served by Columbia, and partially on the number of customers in each class. The P&A ACCOSS, however, allocates distribution mains investment to classes, based partially on contributions to peak day demand and

partially on annual, or average daily, demands. I&E St. 3 at 37. Columbia submitted that the results of these two studies provide a reasonable range of returns for use as a guide in establishing appropriate rates. Columbia explained that it primarily used the P&A ACCOSS to guide the revenue allocation and rate design process, consistent with the Commission's Order in *Columbia Gas 2021* and with the methodology used since. Columbia St. 6 at 17.

All of the other Parties in this proceeding, with the exception of PSU, either accepted the Company's P&A ACCOSS and proposed to allocate revenues to the classes based upon that study, or otherwise took no position on the issue. *See* I&E M.B. at 60; OCA M.B. at 171; OSBA M.B. at 8; CAUSE-PA M.B. at 39; *see also, generally*, Task Force M.B.

PSU argued that the P&A methodology is not appropriate because it allocates mains costs based upon annual throughput, which is not consistent with how the distribution system is constructed. PSU M.B. at 9. PSU also argued that the P&A methodology allocates an excessive amount of gas mains to the LDS/LGSS customer 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. *Id*. at 11.

Therefore, PSU asserted that the Company's Customer-Demand ACCOSS should serve as the primary guide for allocating the revenue increase in this proceeding because, according to PSU, the number of customers and the peak demand are the only significant factors the Company considers in the design of its distribution system.[155]

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[155] PSU's witness, Mr. Crist, proposed to modify Columbia's Customer-Demand ACCOSS by directly assigning mains to the LDS/LGSS class in an attempt to make it more favorable to large customers. PSU St. 1-SR at 4. According to the Company's witness, Mr. Johnson, Mr. Crist's methodology is flawed for several reasons, including that it ignores upstream mains footage that LDS/LGSS customers share with other classes. Columbia St. 6-R at 6.

PSU's witness, Mr. James Crist, contended 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. PSU St. 1 at 17. PSU's objection was also based, in part, on the fact that the amount of costs allocated to rate class LDS/LGSS is greater under the P&A methodology than the Customer-Demand methodology. PSU St. 1 at 17, 19. Although PSU argued that it is appropriate in this proceeding to primarily rely on the Customer-Demand ACCOSS, PSU also explained that it could accept the Company's Average ACCOSS because, according to PSU, it balances the interests of residential, commercial, and industrial customers. PSU M.B. at 3-5.

In support of its reliance on the Company's P&A ACCOSS, the OCA noted the Commission's 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." OCA M.B. at 173 (citing *Columbia Gas 2021* at 217; *PGW 2023* at 137). The OCA asserted that 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. OCA M.B. at 173 (citing *Columbia Gas 2021* at 213-18).

The OCA's witness, Mr. Jerome D. Mierzwa, submitted 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. OCA St. 4 at 5. Therefore, the OCA submitted that the arguments raised by PSU should be given little weight because they are inconsistent 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. OCA M.B. at 176.

2. Recommended Decision

In their Recommended Decision, finding PSU's arguments unpersuasive, the ALJs agreed that the Company's proposed P&A ACCOSS should be utilized for the purposes of allocating any potential revenue increase among Columbia's customer classes. R.D. at 393-94, 401-02. Specifically, the ALJs agreed with the OCA, stating 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 [ACCOSS] to allocate any potential revenue increases among Columbia customer classes are reasonable and should be given significant weight." *Id.* at 393-94.

3. PSU Exception No. 1 and Replies

In its Exception No. 1, PSU argues that the ALJs erred in recommending that the Commission adopt the Company's P&A methodology, rather than the Customer-Demand methodology, to allocate distribution mains, because, according to PSU: (1) the cost of mains is causally related only to peak demands and not to annual demands; and (2) the P&A methodology fails to consider the number of customers, which is a cost driver of mains. PSU maintains that the evidence in this proceeding supports use of the Customer-Demand ACCOSS. *Id*. at 7. Consistent with PSU's contention that customer count and peak demand are the only significant factors the Company considers

in the design of its gas distribution system, PSU excepts to the ALJs' Finding of Fact No. 103[156] and Conclusions of Law Nos. 24[157] and 25.[158] R.D. at 42, 667-68.

PSU further asserts that the ALJs' recommendation to adopt the Company's P&A ACCOSS is flawed because the ALJs failed to address pertinent issues raised by PSU's witness, Mr. Crist, as to why the costs of mains must be allocated based on the number of customers served, and whether piping should be designed to meet average demand rather than peak demand. PSU Exc. at 6-8. PSU argues that the ALJs' recommendation also failed to address the over-allocation evidence on mains costs, indicating that the Company's P&A ACCOSS over-allocates mains costs by assigning

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[156] FOF No. 103 states that "[m]ains costs 'are driven by the loads placed upon [the distribution system], not the number of customers served.'" R.D. at 42 (citing OCA St. 4 at 13-14).

[157] COL No. 24 states, as follows:

> [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.

R.D. at 667-68 (citing *Pa. PUC v. National Fuel Gas Distribution Corporation*, Docket No. R-00942991, 1994 Pa. PUC LEXIS 134, 83 Pa. P.U.C. 262 (Opinion and Order entered December 6, 1994) (*National Fuel Gas Distribution*) at 91-92).

[158] COL No. 25 states that "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." R.D. at 668 (citing *PGW 2023* at 137 (citing *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-00061931, *et al.* (Opinion and Order entered September 28, 2007) (*PGW 2007*) at 80; *Columbia Gas 2021* at 217)).

twelve miles of pipe to each of the seventy-nine LDS/LGSS customers.[159] PSU Exc. at 8. Furthermore, PSU contends that the ALJs' recommendation ignores the evidentiary record discussing characteristics of Columbia's suburban and rural service territory. PSU Exc. at 10.

In Replies, Columbia, I&E, and the OCA maintain that the ALJs correctly determined that PSU's evidence does not indicate a sufficient basis to move away from the Commission's precedent supporting the P&A methodology in similar circumstances as presented in this instant proceeding. Columbia R. Exc. at 15 (citing *Columbia Gas 2021* at 218); I&E R. Exc. at 15 (citing *PGW 2023* at 137 (citing *PGW* 2007 at 80); *Columbia Gas 2021* at 217); OCA R. Exc. at 17 (citing *Columbia Gas 2021* at 217-18).

4. Disposition

As both the P&A and the Customer-Demand methodologies rely, in part, on the peak day contributions, or demand, of customers as an allocator, the selection of the appropriate ACCOSS to be utilized for the purposes of this proceeding centers on whether the costs of Columbia's distribution mains should also be allocated based, in part, upon either: (1) the number of customers in each class; or (2) the average demand (annual consumption) of each class. As described, *supra*, only PSU objects to the use of the Company's P&A ACCOSS for the purposes of revenue allocation and rate design, while all other Parties which presented testimony on the issue of the appropriate ACCOSS agreed to use the P&A ACCOSS. *See* I&E M.B. at 60; OCA M.B. at 171;

[159] Mr. Crist claimed that for the 79 LDS/LGSS customers, Columbia was only required to extend its distribution mains by an average of 0.23 miles, compared to the 12 miles of distribution mains allocated to the LDS/LGSS customers under the P&A ACCOSS. PSU St. 1 at 18. In his testimony Mr. Crist identified the 0.23-mile average for the 79 LDS/LGSS customers as confidential. However, the OCA confirmed with the Company that because the 0.23-mile distance is an average for the 79 customers, it does not need to be treated as confidential. *See* OCA St. 4R at 9.

OSBA M.B. at 8. Specifically, PSU recommends that the Commission rely on the Company's Customer-Demand study because PSU's witness, Mr. 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. PSU St. 1 at 17.

Upon our review of the record in this proceeding and the Exceptions and Replies to Exceptions, we are not persuaded to reverse the ALJs' recommendation to adopt the Company's P&A ACCOSS and methodology in this proceeding. We have thoroughly reviewed the respective Parties' arguments in support of each of the studies before us. However, based on our prior determinations on our preferred ACCOS Study in natural gas utility rate proceedings, we believe that the P&A ACCOSS is best suited in this proceeding. In addressing PSU's Exception No. 1, we have reviewed the prior Commission Orders that have been cited to by the Parties in support of their views on Commission precedent.

In *Columbia Gas 2021*, the Commission stated:

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

Columbia Gas 2021 at 217 (citing *National Fuel Gas Distribution*). Similarly, in *PGW 2023*, we affirmed the Commission's decision in *Columbia Gas 2021*, stating that "Commission precedent, including the proceeding [in *PGW 2007*], and the recent proceeding in [*Columbia Gas 2021*], weigh[s] against the idea that mains costs include a customer component." *PGW 2023* at 137 (citing *PGW 2007* at 80) (additionally citing *Columbia Gas 2021* at 217). The fundamental function of a natural gas distribution

system is to provide throughput for customers to receive at their meters, which is why it is a reasonable, cost causative basis for allocating the costs of distribution mains, whereas the distribution system is not designed or constructed merely to connect to customers. *See Columbia Gas 2021* at 215 (adopting the arguments of the OCA's witness, Mr. Mierzwa, with respect to the deficiencies of the Customer-Demand methodology).

Regarding PSU's contention that the P&A method overstates the miles of mains attributed to the LDS/LGSS customers, we are persuaded by the arguments presented by the OCA's witness, Mr. Mierzwa, on pages 8-10 of the OCA's Statement No. 4R, which we adopt herein, by reference. There, Mr. Mierzwa described the faults of Mr. Crist's analysis:

> First, as just indicated, the miles of distribution mains serving LDS/LGSS customers is unknown, and Mr. Crist's estimate that each LDS/LGSS customer has been assigned 12 miles of distribution mains under the Peak & Average method is likely overstated. However, more importantly, the miles of distribution mains that Columbia was required to extend its facilities to serve an LDS/LGSS customer is not an appropriate basis to determine an allocation of distribution mains to LDS/LGSS customers. The gas supplies delivered to LDS/LGSS customers by Columbia are initially delivered to Columbia by interstate pipelines. Therefore, the miles of distribution mains required to serve an LDS/LGSS customer must take into account the mains that are upstream of the point from which Columbia extended its distribution mains to serve the LDS/LGSS customer. That is, it must also consider the distribution mains required to deliver the LDS/LGSS customer's gas supplies from the interstate pipeline serving the LDS/LGSS customer to the point at which Columbia extended its distribution mains to serve the LDS/LGSS customer. Mr. Crist fails to consider the upstream distribution mains required to serve an LDS/LGSS customer.

OCA St. 4R at 9-10.

In light of the above, we remain of the opinion that although mains serve customers, it is the throughput that determines the type of main investment because it is the load that determines the main investment, not the number of customers served. As the Commission stated in *Columbia Gas 2021*, 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. *Columbia Gas 2021* at 217.

Furthermore, 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. It is not reasonable to allocate distribution mains investment based solely on design peak day demands as in Columbia's Customer-Demand ACCOSS. The basic reason Columbia invests in its distribution system is to meet the annual demands for gas by customers. Additionally, a portion of the total cost of distribution service is related to installing a system with enough throughput capacity to meet design peak demands in excess of annual demands.

For all these reasons, 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. Accordingly, we shall deny PSU's Exception No. 1.

B. Revenue Allocation

1. Positions of the Parties

Columbia submitted that under *Lloyd*, *supra*, cost of service is the "polestar" of utility rates, and 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. Columbia M.B. at 133. Therefore, regarding revenue allocation, Columbia submitted that it prioritized cost of service principles, while considering the rate design principles of efficiency, simplicity, continuity, fairness, and earnings stability. Columbia M.B. at 133-34. Specifically, Columbia based the reasonableness of its proposed revenue allocation on the progress made by each rate class toward the system average rate of return, with no class receiving an increase exceeding 1.5 times the system average increase, meeting the goals of moving each class closer toward their respective costs of service, while mitigating extreme impacts. *See* Columbia St. 6 at 16-19; *see also* Columbia Exh. 103, Sch. 8 at 1, lines 20-37.

As discussed above, Columbia selected its P&A ACCOSS to guide its revenue allocation and rate design process. Columbia's witness, Mr. Johnson, explained how this ACCOSS was utilized in apportioning the requested increase among the classes with the intention of moving each rate class toward parity with the system average rate of return. The results of the Company's P&A ACCOSS, as shown below in Table 22, indicated that currently, five rate classes (RS/RDS, SGS/DS-1, SGS/DS-2, SDS/LGSS, and MLS/MLDS) are paying more than the cost of providing service to those customers within the class (as reflected by an index above 1.0), while two rate classes (LDS/LGSS and FLEX) are paying less than the full cost of providing service to customers under those rate schedules (as reflected by an index that is less than 1.0). Table 22 also illustrates the Company's efforts to correct some of these discrepancies through its proposed revenue allocation at its full revenue requirement request.[160]

[160] Any increase to FLEX, above what would be collected through the increased customer charges to the SGS/DS-2, SDS/LGSS, and LDS/LGSS customer classes, was also shifted to all other rate classes. The flexible rate provision of Columbia's tariff provides that the customer charge is not eligible for adjustment. *See* Tariff Gas at Sixth Revised Sheet No. 68, effective December 20, 2014.

Table 22: Columbia's Proposed Revenue Distribution

Class	Present Rates	Proposed Rates	Increase	Percent Increase	Relative Rate of Return (P&A ACCOSS) Present Rates	Relative Rate of Return (P&A ACCOSS) Proposed Rates
RSS/RDS	$472,225,754	$546,101,990	$73,876,236	15.64%	1.19	1.18
SGS/DS-1	$58,132,981	$68,791,241	$10,658,260	18.33%	1.11	1.10
SGS/DS-2	$65,814,353	$77,886,598	$12,072,245	18.34%	1.12	1.10
SDS/LGSS	$43,113,653	$50,669,037	$7,555,384	17.52%	1.14	1.11
LDS/LGSS	$29,678,996	$36,012,952	$6,333,956	21.34%	0.40	0.47
MLS/MLDS	$1,890,168	$1,890,168	$0	0.00%	38.05	28.83
FLEX	$3,120,443	$3,121,087	$644	0.02%	(0.53)	(0.40)
Total	$673,976,348	$784,473,073	$110,496,725	16.39%	1.00	1.00

See Columbia Exh. 111, Sch. 2 at 2, 3, 7.[161]

As the OCA pointed out, the primary points of contention regarding revenue allocation are: (1) whether and to what extent the LDS/LGSS class 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 M.B. at 183.

[161] We note that the present and proposed rates shown in Table 22 above exclude revenue associated with gas costs, but in addition to revenue generated from base rates, include miscellaneous revenue, as well as revenue generated from Rider USP, Rider EE, Rider CC (*i.e.*, Rider Customer Choice) and the Merchant Function Charge. Therefore, the Company's originally requested revenue increase of approximately $110,496,725 included $3,909,243 ($35,771,743 - $31,862,500) associated with the increase in revenue from Rider USP in order to reflect the revenue shortfall from CAP customers resulting from proposed rates.

Columbia summarized how its requested increase would be allocated to each customer class based on each Party's revenue allocation proposal, as set forth in the following table presented in the Company's Main Brief:

Table KLJ-1RJ

Customer Class	Columbia	I&E	OCA	OSBA	PSU
RS/RDS	66.86%	66.86%	59.26%	64.74%	66.86%
SGSS1/SCD1/SGDS 1	9.65%	9.65%	11.16%	8.90%	10.55%
SGSS2/SCD2/SGDS 2	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%

See Columbia M.B. at 143; *see also* Columbia Exh. 103, Sch. 8 at 4; I&E St. 3 at 38; OCA St. 4 at 11; OSBA St. 1 at 14; PSU Exh. 3-SR. As shown above, I&E agreed with the Company's revenue allocation proposal, while the OCA and the OSBA proposed increasing the LDS/LGSS class to 2.0 times the system average increase instead of the 1.5 times used by the Company. *See* OCA St. 6 at 20; OSBA St. 1 at 13-14. Although the proposals offered by the OCA and the OSBA were similar, they disagreed with how to allocate the difference in revenue among the customer classes currently subsidizing the LDS/LGSS customers. As described by Columbia, PSU's allocation was based upon its modifications to the Customer-Demand ACCOSS, and PSU proposed

higher increases to the SGS/DS-1, SGS/DS-2 and SDS/LGSS classes in order to reduce the allocation to the LDS/LGSS customer class.[162, 163]

The OCA's witness, Mr. Mierzwa, and the OSBA's witness, Mr. Mark D. Ewen, proposed the same revenue increase for the LDS/LGSS, MLS/MLDS, and FLEX customer classes, but different increases for the RSS/RDS, SGS/DS-1, SGS/DS-2, and SDS/LGSS customer classes. In rebuttal testimony, Mr. Ewen included the following table, which compares the OCA's and the OSBA's revenue allocation proposals at the Company's full revenue request:

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[162] PSU asserted 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 [ACCOSS] ….

PSU St. 1-R at 17. If, however, the Commission permits sole reliance on the P&A ACCOSS, PSU submitted, then principles of gradualism dictate that the increase to the LDS/LGSS class be capped at 1.5 times the average system increase. *Id*.

[163] Although, under present rates FLEX rate customers, in addition to LDS/LGSS customers, are currently being subsidized by the other customer classes, no Party proposed increasing the allocation of revenue increase to FLEX customers because FLEX rate customers receive service at contract rates, and therefore, any revenue allocated to the FLEX customer class, except through customer charge increases, cannot be reasonably recovered by the Company. *See* Columbia St. 6 at 20.

Table IEc-1R Summary of Revenue Increase Allocation Proposals						
	Columbia		OSBA		OCA	
	($mm)	%	($mm)	%	($mm)	%
Residential	$73.88	15.6%	$71.53	15.1%	$65.48	13.9%
SGS1	$10.66	18.3%	$9.83	16.9%	$12.33	21.2%
SGS2	$12.07	18.3%	$11.44	17.4%	$14.09	21.4%
Med Gen'l (SDS/LGSS)	$7.56	17.5%	$7.96	18.5%	$8.86	20.6%
Lg Gen'l (LDS/LGSS)	$6.33	21.3%	$9.73	32.8%	$9.73	32.8%
MDS	$-	0.0%	$-	0.0%	$-	0.0%
Flex	$0	0.0%	$-	0.0%	$-	0.0%
Total	$110.50	16.4%	$110.50	16.4%	$110.50	16.4%
Note: Source: IEc WP1-R						

See OSBA St. 1-R at 3.

As the Company's witness, Mr. Johnson observed, 1.5 times the system average increase "represents the upper bound for rate gradualism used by the Commission in [*Columbia Gas 2021*]…." Columbia St. 6-R at 10. The OCA argued in its Main Brief that, while reliance on the outcome of *Columbia Gas 2021* is misplaced, the Commission should nevertheless rely on dicta concerning gradualism generally discussed in *Columbia Gas 2021* to justify a 2.0 times the system average increase to the SDS/LGSS and LDS/LGSS classes. *See* OCA M.B. at 186-87.

To the extent the increase granted by the Commission is less than that proposed by Columbia, the Parties' scale back proposals were as follows:

- Columbia proposed to use its revenue allocation and rate design to scale back rates proportionally. Columbia St. 6-R at 12.

- I&E proposed that all customer charges and usage rates that have been proposed an increase be scaled back proportionally based on the ACCOSS that is ultimately approved by the Commission. I&E St. 3 at 47, I&E St. 3-SR at 40-41.

- The OCA proposed that a proportional scale back should be used to implement the increase for each rate class according to the proposal of its

witness, Mr. Mierzwa, with the exception of rate schedules MLDS and FLEX. OCA St. 4 at 12.

- The OSBA proposed that any revenue allocation adopted by the Commission should be proportionally scaled back to allocate the final revenue increases to the customer classes, consistent with prior practice. OSBA M.B. at 11.

2. Recommended Decision

Although, as indicated, *supra*, the ALJs recommended the adoption of the Company's P&A ACCOSS, the ALJs did not clearly recommend the adoption of any Party's revenue allocation proposal. Despite finding that "[t]he residential customer class currently pays the highest proportion of subsidies provided to other customer classes relative to its revenues,"[164] the ALJs did not reach a determination regarding how the chosen P&A ACCOSS should be implemented to allocate revenue. Rather, the ALJs recommended:

> 19. That [Columbia'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] shall continue to show a separate customer class for flex rate customers.

R.D. at 682, Ordering Paragraph No. 19.

However, in their Recommended Decision "the ALJs agree[d] 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." R.D. at 402.

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[164] R.D. at 41, FOF No. 98 (citing OCA St. 4 at 11).

3. Exceptions and Replies

a. Columbia Exception No. 10; PSU Exception No. 2; and Replies

In their respective Exception Nos. 10 and 2, Columbia and PSU consider multiple alleged flaws in the ALJs' analysis, most notably the absence of a specific recommendation regarding how to implement the Company's P&A ACCOSS to allocate the rate increase across Columbia's customer classes. *See* Columbia Exc. at 17; PSU Exc. at 11.

Accordingly, Columbia and PSU request that, if the Commission authorizes a rate increase and the Company's P&A ACCOSS is adopted, then the rate increase should be allocated consistent with the Company's proposal. Columbia Exc. at 17-18; PSU Exc. at 11-12. PSU adds that "should the Commission choose the Peak and Average [ACCOSS], [PSU] submits that the Company's revenue allocation, scaled back proportionally, should be utilized to develop rates." PSU Exc. at 11.

In its Replies to Exceptions, the OCA maintains that its proposed revenue allocation should be adopted. OCA R. Exc. at 18.

b. OCA Exception No. 9 and Replies

In its Exception No. 9, similar to Columbia and PSU, the OCA observes that the ALJs did not reach a determination regarding how the recommended P&A ACCOSS should be implemented to allocate revenue. The OCA explains that the ALJs' recommendation lacked guidance on whether the appropriate gradualism ceiling for the LDS/LGSS customer class is 1.5 times (as proposed by Columbia and supported by I&E) or 2.0 times the system average increase (as proposed by the OCA and the OSBA) and, if the gradualism ceiling is increased to 2.0, how the difference in revenue should be

allocated among the remaining classes. Therefore, the OCA maintains its position, seeking to move all customer classes toward an equalized relative rate of return and to impose a larger-than-average increase (up to 2.0 times the system average) on LDS/LGSS customers, which, according to the OCA, is an equitable and appropriate allocation given the significant current subsidy to the LDS/LGSS class. OCA Exc. at 35-36. Accordingly, the OCA objects to the allocation of any revenue increase in accordance with the Company's revenue allocation, without modification. OCA Exc. at 34-35.

In Replies, Columbia and PSU attempt to rebut the arguments contained in the OCA's Exception No. 9 in support of the OCA's revenue allocation proposal, which employs a system average increase of 2.0 times the system average increase for the LDS/LGSS rate class in lieu of the 1.5 times the system average increase proposed by the Company. Columbia R. Exc. at 15-16; PSU R. Exc. at 2-7.

Columbia argues that the Company's proposal to limit increases to any particular customer class to 1.5 times the system average increase is consistent with the Commission's decision in *Columbia Gas 2021* and notes that its revenue allocation proposal is supported by I&E and is also supported by PSU, if the P&A ACCOSS is adopted. Columbia R. Exc. at 15-16 (citing Columbia M.B. at 143; PSU Exc. at 12).[165]

PSU contends that reliance on the Company's P&A ACCOSS is the driver behind the OCA's proposed revenue allocation to the LDS/LGSS class because, according to the P&A ACCOSS, Columbia's larger customers are far below their share of

[165] In its Replies to Exceptions, I&E simply offers that these issues are discussed at length in the Recommended Decision. I&E R. Exc. at 14 (citing R.D. at 351-402). I&E further notes its understanding that "the ALJs made recommendations and preserved certain final decisions for the Commission. Beyond that, I&E offers no reply to OCA Exception No. 9." I&E R. Exc. at 14.

revenue recovery responsibility. Thus, PSU asserts that the OCA's proposal to increase the amount of the revenue increase allocated to the LDS/LGSS class, increasing the limit from 1.5 to 2.0 times the system average increase, will far exceed recovery of the actual cost to serve the LDS/LGSS class from customers in that class and would result in an unfair shifting of costs to the LDS/LGSS class, when viewed in the context of PSU's preferred Customer-Demand ACCOSS. According to PSU, under the Company's Customer-Demand ACCOSS, the LDS/LGSS class already shows strong relative rates of return, undermining the OCA's subsidy claim. PSU R. Exc. at 4-5.

Regarding the OCA's reference to *PECO 2021*, where an increase of 2.5 times the system average increase was approved, PSU explains that that proceeding was exceptional because PECO's large-volume class had been frozen for over a decade, creating a severe cost imbalance, which represented conditions that are not present in this proceeding. PSU R. Exc. at 6 (citing OCA M.B. at 185). PSU adds that no further acceleration is warranted, since Columbia's LDS/LGSS class already received above-average increases in 2020, 2021, 2022, and 2024, while the residential class received below-average increases. PSU R. Exc. at 6.

As indicated previously, although the proposals offered by the OCA and the OSBA were similar, they disagreed with how to allocate the difference in revenue among the customer classes currently subsidizing the LDS/LGSS customers. Therefore, in its Replies, the OSBA urges the Commission to deny the OCA's Exception No. 9, contending that the OCA's method of equalizing relative rates of return is not an appropriate goal in a base rate proceeding. Rather, the OSBA argues that the correct measure of movement toward cost of service is the percentage increase, for each customer class, compared to the system average percentage increase. According to the OSBA, the OCA's proposed revenue allocation would raise rates for small C&I classes (SGS/DS-1, SGS/DS-2, and SDS/LGSS) to about 1.29 to 1.30 times the system average increase, even though these classes already over-recover their cost of service under

Columbia's P&A ACCOSS. The OSBA asserts that such an outcome would move small business classes further from their cost of service, violating Section 1301 of the Code, 66 Pa.C.S. § 1301, and *Lloyd*, which prohibits subsidies and mandates cost-based rates. OSBA R. Exc. at 2.

4. Disposition

Once an appropriate ACCOSS has been adopted, the rate design process may begin, which involves two primary functions. The first step is the determination of inter-class rates, which involves the assignment of the revenue requirement between the various customer classes. The second step in the rate design process is the allocation of any class rate increase (or decrease) among the various intra-class rate elements. In this step, we must examine the manner in which the class revenue requirement will be collected from customers.

The ALJs' only recommended guidance regarding the appropriate revenue allocation to be adopted in this proceeding was, as follows:

> Because [Columbia's] proposed revenue allocation is based on the results of its [ACCOSS], 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] for providing service to the various customer classes.

R.D. at 402. As noted by the Company, the ALJs' suggestion that the Company's revenue allocation proposal is based on a proposed customer charge with mains costs reflects a misunderstanding of revenue allocation and rate design. Columbia Exc. at 17. The customer cost analysis with mains costs relates to rate design, and not revenue allocation. The Company's revenue allocation proposal is unrelated to its customer cost

analyses. Accordingly, we shall grant Columbia's Exception No. 10, the OCA's Exception No. 9, and PSU's Exception No. 2, to the extent that we find that the ALJs did not reach a determination regarding how the chosen P&A ACCOSS should be implemented to allocate revenue.

Before us are essentially four divergent positions regarding the appropriate distribution of the Company's requested revenue increase among its customer classes, with the actual numbers to be based on the proportionate adoption of the actual revenue requirement approved. The methods that were employed by each Party (Columbia, the OCA, the OSBA, and PSU) in consideration of their respective proposals, are similar, in that they each utilized cost guidelines in evaluating class revenue levels. However, as discussed, *supra*, we find the argument for using Columbia's P&A ACCOSS, as supported by I&E, the OCA, and the OSBA, in this proceeding to be more compelling.[166] Therefore, based upon our prior determination and discussion, *supra*, with respect to the rejection of PSU's Customer-Demand ACCOSS, in favor of Columbia's P&A ACCOSS, we find that the OCA's proposed revenue allocation should be approved. As discussed in the previous section, if all customers were the same size and had identical usage characteristics, cost allocation would be simple, even unnecessary. However, a utility's customer base is not so simple. Customers, or customer groups, tend to vary greatly in the amount of service required throughout the year such that there are small usage and large usage customers. Therefore, differences in usage should be considered. Because different groups of customers also utilize the system at varying degrees during the year, consideration should also be given to the demands placed on the system during peak usage periods.

[166] In its Exceptions, PSU notes its acceptance of Columbia's revenue allocation proposal, should the Company's P&A ACCOSS be adopted. *See* PSU Exc. at 12.

With regard to rate class revenue levels, the rate of return results show that certain rate classes are currently being charged rates that recover less than their indicated costs of service (LDS/LGSS and FLEX). As a result, rates for other rate classes provide for recovery of more than the indicated costs of serving these other rate classes. By adjusting rates in accordance with the Company's P&A ACCOSS results, Columbia, the OCA, and the OSBA attempted to bring each rate class's revenue level closer in line with the indicated costs of service, resulting in movement of rate class rates of return toward the system average rate of return and resulting in rates that are more in line with the cost of providing service. However, the results of an ACCOSS are not always relevant to all types of service, as is the case in the instant proceeding. In particular, this situation applies to Columbia's FLEX rate class customers, where rates are based on their competitive characteristics.

The main difference in the proposed revenue allocations of each Party is how they interpret gradualism. The OCA and the OSBA recommended an increase to the LDS/LGSS class of 2.0 times the system average increase, while the Company and I&E recommended an increase of less than 1.5 times the system average. PSU proposed that a much lower percentage be applied to the LDS/LGSS customer class, but as previously noted, it accepted Columbia's revenue allocation proposal, conditioned upon the adoption of the Company's P&A ACCOSS. *See* PSU Exc. at 12.

Table 23 compares the Company's cost of service utilizing the P&A method and its revenues under proposed rates, as filed.

Table 23: Comparison of the Cost to Serve to Columbia's Proposed Revenue Allocation (using the Company's Originally Filed Revenue Increase Request)

Class	Cost of Service (P&A ACCOSS) ($MM)	Proposed Rate Revenues ($MM)	Difference ($MM)
RSS/RDS	$511.8	$546.1	$34.3
SGS/DS-1	$65.8	$68.8	$3.0
SGS/DS-2	$74.4	$77.9	$3.5
SDS/LGSS	$48.2	$50.7	$2.4
LDS/LGSS	$49.8	$36.0	($13.8)
MLS/MLDS	$0.6	$1.9	$1.3
FLEX	$33.9	$3.1	($30.8)
Total	$784.5	$784.5	$0.0

See Columbia Exh. 111, Sch. 2 at 2, 3, 7.[167] To provide revenues equal to the cost of service indicated by the Company's P&A ACCOSS at proposed rates, LDS/LGSS customer revenue would need to be increased from the current level of $29.7 million to $49.8 million, or by approximately $20.1 million. Likewise, FLEX customer revenue would need to be increased by approximately $30.8 million in order to provide revenues equal to its cost to serve. [$33.9 million - $3.1 million= $30.8 million]. Therefore, at the Company's proposed rates, other customers would be providing a subsidy of approximately $44.6 million to LDS/LGSS and FLEX rate customers, resulting in an inter-class cross-subsidization borne primarily by residential customers. [$13.8 million + $30.8 million = $44.6 million].

[167] We note that the proposed rates shown in Table 23 above exclude $245 million of revenue associated with gas costs. [$1,029.5 million - $245 million = $784.5 million].

As shown, Columbia proposed an increase for the residential class in proportion to their cost-based revenue requirement at proposed revenue levels, but also allocated approximately an additional $34.3 million increase to the residential class (RSS/RDS) in order to lower the overall returns for the groups that are over-contributing (*i.e.*, MLS/MLDS), and as a result of the limited increases proposed for the LDS/LGSS and FLEX rate customers. In effect, the residential class would be recovering approximately 77% of the LDS/LGSS and FLEX revenue shortfall. [($34.3 ÷ ($34.3 + $3.0 + $3.5 + $2.4 + $1.3) = 77%] (numbers are in $ millions).

Although the Company and PSU contend otherwise, we find that, given that the LDS/LGSS rate class would be providing a return which is significantly lower than the indicated cost of service under Columbia's proposed revenue allocation of a 1.5 times system average increase, the 2.0 times system average increase, as proposed by the OCA and the OSBA, comports with the principles of gradualism and is appropriate for the LDS/LGSS rate class in order to develop an overall revenue allocation that is more reasonable in this proceeding. Although the appropriate ceiling on a rate increase for a particular customer class should be determined on a case-by-case basis, based on the weight of evidence presented, the OCA's witness, Mr. Mierzwa, explained that "typically an increase of 1.5 to 2.0 times the system average increase is considered consistent with the concept of gradualism." OCA St. 4 at 11. We note that even with the 32.8% increase that the LDS/LGSS rate class customers will experience under the OCA's proposal, the revenue recognition from that class is still shown to be below its cost to serve and will therefore continue to be substantially subsidized by other rate classes.

Specifically, we find the OCA's revenue allocation proposal to be equitable and reasonable. As illustrated in the following table, Table 24, under the OCA's revenue allocation proposal, the relative rates of return for the RSS/RDS, SGS/DS-1, SGS/DS-2, and SDS/LGSS customer classes would essentially be equalized, thereby providing for an equitable sharing of the subsidy paid for by each of these four classes.

Table 24: Relative Rates of Return under the OCA's Proposal

Relative Rates of Return Under OCA's Proposal (P&A ACCOSS)		
Class	**Under Present Rates**	**Under Proposed Rates**
RSS/RDS	1.19	1.15
SGS/DS-1	1.11	1.15
SGS/DS-2	1.12	1.14
SDS/LGSS	1.14	1.15
LDS/LGSS	0.40	0.57
MLS/MLDS	38.05	28.83
FLEX	(0.53)	(0.40)
Total	**1.00**	**1.00**

See OCA St. 4 at 11. Although, under the OCA's proposal, there is a negligible amount of movement away from the cost to serve for rate classes SGS/DS-1, SGS/DS-2, and SDS/LGSS, there is no basis for continuing to require the RSS/RDS class to pay for a greater share of the subsidy than other rate classes, as the OSBA's proposal, providing for parallel progress towards cost-based rates for each of the four classes (RSS/RDS, SGS/DS-1, SGS/DS-2, and SDS/LGSS), would maintain. As illustrated by Table 25, below, under the OCA's revenue allocation proposal, the residential class would still be recovering approximately 63% of the LDS/LGSS and FLEX revenue shortfall, [$25.9 ÷ ($25.9 + $4.7 + $5.5 + $3.7 + $1.3) = 63%], as opposed to 77% under the Company's proposal (*i.e.*, [$34.3 ÷ ($34.3 + $3.0 + $3.5 + $2.4 + $1.3) = 77%]) and 78% under the OSBA's proposal ([$32.0 ÷ ($32.0 + $2.2 + $2.9 + $2.8 + $1.3) = 78%]).[168]

[168] All numbers in $ millions.

Table 25: Comparison of Columbia's Cost of Service to the OCA's and the OSBA's Revenue Allocation Proposals

		Columbia		OCA		OSBA	
Class	Cost of Service (P&A ACCOSS)	Proposed Rate Revenues	Difference	Proposed Rate Allocation	Difference	Proposed Rate Allocation	Difference
	($MM)	($MM)	($MM)	($MM)	($MM)	($MM)	($MM)
RSS/RDS	$511.8	$546.1	$34.3	$537.7	$25.9	$543.8	$32.0
SGS/DS-1	$65.8	$68.8	$3.0	$70.5	$4.7	$68.0	$2.2
SGS/DS-2	$74.4	$77.9	$3.5	$79.9	$5.5	$77.3	$2.9
SDS/LGSS	$48.2	$50.7	$2.4	$52.0	$3.7	$51.1	$2.8
LDS/LGSS	$49.8	$36.0	($13.8)	$39.4	($10.4)	$39.4	($10.4)
MLS/MLDS	$0.6	$1.9	$1.3	$1.9	$1.3	$1.9	$1.3
FLEX	$33.9	$3.1	($30.8)	$3.1	($30.8)	$3.1	($30.8)
Total	$784.5	$784.5	$0.0	$784.5	$0.0	$784.5	$0.0

See Columbia Exh. 111, Sch. 2 at 2, 3, 7; OCA St. 4 at 11; OSBA St. 1 at 14.

Therefore, we do not consider the OCA's proposal to be unreasonable. Accordingly, we shall deny, in part, Columbia's Exception No. 10 and PSU's Exception No. 2.

Furthermore, since we shall not grant the entirety of Columbia's requested revenue increase, an important consideration is the determination of how the proposed revenue allocation will be affected by the scale back in rates. We agree with the ALJs' recommendation and find it necessary for the Company to proportionally scale back the customer charge and usage rate increases to the various customer classes, limited to those classes receiving an increase, based on Columbia's P&A ACCOSS and the OCA's proposed revenue allocation, when filing its compliance tariff(s) in this proceeding.

C. Rate Design and Customer Charges

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 customer 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.

As discussed by Columbia's witness, Mr. John D. Taylor, the Company has made several proposals in this proceeding which, according to Columbia, would facilitate a more cost-based rate design for the Company by: (1) increasing its fixed cost recovery through an increase to its fixed customer charges; (2) approving the Company's current pilot WNA mechanism as a permanent program; and (3) adopting the Company's proposed RNA mechanism for non-CAP residential and C&I customers.[169] *See, generally*, Columbia St. 17.

The crux of the appropriate customer charge is that it relies upon having an appropriate customer cost analysis. A customer cost analysis is a part of an ACCOSS that is used to determine the appropriate fixed customer charges for the various classes. It is necessary to perform a customer cost analysis because a fixed customer charge represents the revenue that the Company is guaranteed to receive each month, regardless of the level of usage. In this proceeding, the Company prepared and presented two customer cost analyses, one that allocates a portion of the cost of mains to customers (Columbia Exh. 111, Sch. 2 at 17), and one that excludes the cost of mains (Columbia Exh. 111, Sch. 2 at 26). This was done to acknowledge the existence of disagreements concerning the inclusion of any mains costs as a customer component. Columbia St. 6 at 14.

[169] Columbia's proposed WNA and RNA are discussed in Section XII, *infra.*

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 103, Schedule 8, pages 5-9.

1. Residential Customer Charge

a. Positions of the Parties

In this proceeding, Columbia is proposing to increase the residential customer charge from $17.25 per month to $31.97 per month, representing an increase of $14.72, or 85%; and to recover the remaining revenue allocated to the residential customer class through the volumetric (distribution) charge. Columbia St. 6 at 21. The Company indicated that it based the reasonableness of this increase on the results of its two customer cost analyses. According to Columbia, its customer cost analysis, excluding a mains component, demonstrated that residential customers have a monthly customer cost of $29.43, and its customer cost analysis, including a mains component, demonstrated that residential customers have a monthly customer cost of $77.16.[170] Columbia argued that, although its proposed residential customer charge is well below the full residential customer fixed costs of service, including mains, and only slightly above the monthly customer-based cost, excluding mains, the proposed increase represents a meaningful movement towards appropriate full fixed cost recovery. Columbia M.B. at 145.

[170] Although the Company disagreed with the opposing Parties' arguments that uncollectible expenses (Account 904) are not direct customer costs and, therefore, should not be included in the customer cost analyses, Columbia presented revised customer cost analyses, addressing this concern. *See* I&E St. 3 at 46; OCA St. 4 at 16; CAUSE-PA St. 2-SR at 10. The two revised customer cost analyses (excluding uncollectible expenses) produce a residential customer cost range of $27.69 to $74.23. *See* Columbia St. 6-RJ at 4-5; Columbia Exh. KLJ-2RJ.

Columbia argued that, although the Company disagreed with the opposing Parties that a customer cost analysis should not include a mains component or uncollectible expenses, it contended that, at a minimum, the Commission should adopt a monthly residential customer charge of $27.69, which is supported by the Company's revised customer cost analysis that excludes mains and uncollectible expenses. *See* Columbia St. 6-RJ at 5; Columbia Exh. KLJ-2RJ.

Columbia also contended that despite the fact that the distribution system costs are fixed, the vast majority of costs are recovered through volumetric rates, which, according to Columbia, creates a mismatch that prevents the Company from recovering its fixed costs. Columbia M.B. at 146. Therefore, Columbia argued that its proposed increase to the monthly residential customer charge represents a meaningful movement toward appropriate full fixed cost recovery and reduces the volatility that results from the mismatch that occurs when the vast majority of fixed costs are recovered through volumetric rates. *Id*. at 145-47.

I&E, the OCA, and CAUSE-PA raised arguments in opposition to Columbia's proposal to increase its monthly residential customer charge to $31.97, contending, to the contrary, that Columbia's monthly residential customer charge of $17.25 should be maintained because the Company's proposed increase is inconsistent with cost causation principles, violates the principle of gradualism, disincentivizes energy efficiency, has a disproportionate impact on low income customers,[171] and is inconsistent with the residential customer charges of other NGDCs in Pennsylvania. *See* I&E M.B.

[171] The OCA noted that, although Columbia relies on the existence of its CAP to alleviate concerns regarding the impact of a customer charge increase on low-income customers, only 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. OCA M.B. at 200 (citing OCA St. 5 at 79).

at 62-63; I&E St. 3 at 43; OCA M.B. at 189-204; OCA St. 4 at 16; CAUSE-PA M.B. at 40-47; CAUSE-PA St. 2 at 41-42.

Contrary to the assertions of the OCA and CAUSE-PA, Columbia argued that a higher customer charge will provide low income customers benefits by reducing their total annual bill for those with higher-than-average usage and spreading higher winter costs to summer months when energy costs are lower. Columbia M.B. at 148. According to Columbia, the OCA's and CAUSE-PA's assertions that customers will not be able to effectively lower their bills through conservation is not accurate. *Id*. at 150. Columbia explained that at proposed rates, the residential customer charge of $31.97 represents approximately 20% of the total monthly bill of a typical residential customer. According to Columbia, even with a $31.97 per month customer charge, approximately 80% of a customer's total bill will continue to be made up of volumetric charges, including the recovery of commodity costs. Columbia St. 17-R at 28.

b. Recommended Decision

In their Recommended Decision, the ALJs agreed with I&E, the OCA, and CAUSE-PA, and recommended that the residential customer charge increase proposed by the Company be rejected, and that the current monthly residential customer charge of $17.25 be maintained. R.D. at 397-400, 682. The ALJs reasoned that mains and uncollectable expense should be excluded from any customer cost analysis, and that Columbia's proposed 85% increase to the monthly residential customer charge is not only inconsistent with cost-causation principles, but would be contrary to the Commission's goal of fostering energy conservation, and would put customers at risk for rate shock, as

such a significant increase would violate the principle of gradualism. *Id*. at 397-99. Moreover, the ALJs concluded:

> [t]he Company has presented no evidence to distinguish its proposal in this proceeding from [*Columbia Gas 2021*], when a less extreme customer charge increase was rejected, in part, because of the impact of the increase on energy efficiency incentives. As a result, the Company's proposal to increase its residential customer charge should be rejected.

R.D. at 399-400.

c. Columbia Exception No. 11 and Replies

In its Exception No. 11, Columbia submits that in recommending that the Company's current monthly residential customer charge of $17.25 be maintained, the ALJs failed to properly recommend the adoption of a customer charge that is consistent with cost of service evidence. Columbia Exc. at 18-22. According to Columbia, the ALJs' reliance on gradualism is inconsistent with the Commission precedent set in *UGI Electric 2018*, where the Commission held that gradualism and rate shock concerns cannot override cost of service principles. *Id*. at 19 (citing *UGI Electric 2018* at 173-74).

Columbia emphasizes its position that, as the only Party to submit a customer cost analysis in this proceeding, even its analysis excluding mains and uncollectible expenses supports a residential customer charge of $27.69. Columbia Exc. at 19-20. The Company argues that the ALJs ignored benefits to low income customers created by a higher customer charge, maintaining its position that a higher customer charge paired with lower usage rates reduces total annual bills for many low income customers, who typically have higher-than-average usage. Moreover, Columbia contends that the ALJs relied on overstated conservation concerns, submitting that higher customer charges do not meaningfully reduce conservation incentives since customers still save

money by using less gas, and noting the ineffectiveness of variable charges for low income customers that cannot afford to make conservation investments. *Id*. at 20-21.

Lastly, regarding the ALJs' reference to *Columbia Gas 2021* (where no increase to the residential customer charge was approved), Columbia argues that the Commission's decision in *Columbia Gas 2021* should not be used as a basis for disallowing an increase to the customer charge in this proceeding, since that decision was issued during the COVID-19 pandemic. Columbia Exc. at 21.

In their Replies to Exceptions, I&E, the OCA, and CAUSE-PA each maintain their arguments in opposition to Columbia's proposal to increase its monthly residential customer charge to $31.97, countering that the Company's monthly residential customer charge of $17.25 must be maintained. I&E R. Exc. at 7-9; OCA R. Exc. at 18-20; CAUSE-PA R. Exc. at 5-7. I&E and CAUSE-PA each argue that because Columbia's current $17.25 residential customer charge is already the highest among Pennsylvania NGDCs, such a steep increase would violate the principles of gradualism and risk rate shock. I&E R. Exc. at 8; CAUSE-PA R. Exc. at 7. The OCA submits that contrary to Columbia's contention, gradualism and rate shock must be considered for individual components of a customer's bill, particularly the customer charge component. In this regard, the OCA reasons that because every customer pays a customer charge, Columbia's large, requested increase will disproportionately negatively impact low usage customers, noting the following finding of the ALJs:

> 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.

OCA R. Exc. at 19 (citing R.D. at 399). Moreover, the OCA argues that Columbia's claim of "rate stability" is meaningless if bills become unaffordable, echoing the ALJs'

and CAUSE-PA's view that "a bill that is stable but unaffordable is meaningless for low-income customers." OCA R. Exc. at 19 (citing R.D. at 400 (citing CAUSE-PA St. 2 at 41)).

The OCA and CAUSE-PA both take issue with the Company's contention that low income customers use more than the average residential customer and that these customers will pay less under Columbia's proposed customer charge. OCA R. Exc. at 19; CAUSE-PA R. Exc. at 6. According to CAUSE-PA, low income customers rely on the ability to reduce their bills through efficiency and conservation, including participating in Columbia's Low Income Usage Reduction Program (LIURP). CAUSE-PA submits that "every dollar that is locked in to the customer charge undermines the ability of consumers to mitigate the rate increase through conservation, disproportionately impacting low income households and undercut[ting] the effectiveness of LIURP." CAUSE-PA R. Exc. at 6. Additionally, like the OCA and CAUSE-PA, I&E supports the ALJs' finding that the Company's proposal would discourage energy conservation and reduce customer control over bills. I&E R. Exc. at 8.

d. Disposition

A fixed customer charge represents the revenue that the Company is guaranteed to receive each month, regardless of the level of usage. As indicated previously, the latter of the two customer cost analyses, excluding mains, provided by the Company, relied on the allocation of costs, which also excluded uncollectible expenses, and is used to support Columbia's contention that, at a minimum, the monthly residential customer charge should be increased from $17.25 to $27.69. *See* Columbia St. 6-RJ at 5.

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. As previously noted, the primary purpose of ACCOSSs and corresponding rate allocation and design is to move the rates assigned to the various customer classes toward their respective costs of service. Rate design should reflect the cost of service to each rate class and should eliminate cross-subsidization. *See Lloyd*, *supra.* While we understand the reasons behind the Company's request for greater revenue recognition from fixed monthly charges, in reviewing changes in rate design, it is important that we balance the interests of utilities (*i.e.*, revenue stability) and consumers (*i.e.*, affordability and conservation concerns).

We find compelling the Parties' arguments that the Company's residential customer charge proposal is poised to produce significant price increases for low usage customers, which could be negatively exhibited in two ways. First, it will serve to penalize those customers who have invested in energy efficiency and minimized their consumption. Second, for low income customers who have reduced their usage to fit a budget, the bill increase, associated with the shifting of costs to the customer charge, represents another obstacle to financial stability. The Company has not adequately rebutted the notion that the ability of consumers (the most vulnerable of which are low income customers not enrolled in CAP) to save money on their distribution bills through energy efficiency investment or conservation is reliant on a bill structure that bases the recovery of costs on volumetric throughput.

As noted in Section IV.B, *supra*, there is not a prescribed "ratemaking formula" that the Commission must adhere to when determining just and reasonable rates. Rather, 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." *Popowsky 1996*.

Notwithstanding the above, we acknowledge that Columbia's customer cost analysis demonstrated that residential customers have a monthly customer cost of

$27.69.[172] *See* Columbia Exh. KLJ-2RJ. However, while the revenue to be recovered from each rate class is a separate determination, the increase proposed for the fixed residential customer charge should likewise take into consideration the principles of gradualism, in addition to cost of service. Therefore, in the interest of gradualism, we find that an increase to the monthly residential customer charge from $17.25 to $23.00, representing an increase of $5.75, or 33%, is reasonable. In reaching this determination, we have afforded appropriate primary consideration to cost causation principles per *Lloyd*, in tandem with secondary consideration for the value of service, gradualism, and affordability.

Under the circumstances in this proceeding, we find this approach to be a reasonable compromise between the conflicting objectives of moving towards cost-based rates, while reflecting gradualism and preserving adequate opportunity for customer savings due to conservation efforts.

Regarding Columbia's reference to the findings of the Commission in *UGI Electric 2018*, intending to: (1) indicate the Commission's previous rejection of such limitations on cost recovery through the fixed customer charge; and (2) support the Company's assertion that anything less than moving the residential customer charge to full cost of service in this proceeding would ignore controlling precedent by attempting to advance gradualism considerations ahead of the cost to serve the residential class, we find that Columbia's reliance on *UGI Electric 2018* is inapposite. Regarding the appropriate increase to residential customer charges in *UGI Electric 2018*, the Commission based its decision, in part, on its finding that *Lloyd* does not give the Commission unbounded

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[172] In the Company's analysis that excludes distribution mains, Columbia has included uncollectible expenses (Account 904) of $8,725,961 in its calculation, which, as contended by the OCA, is not a direct customer cost. Eliminating uncollectible expenses, in addition to the mains component, as Columbia has done in its revised customer cost analysis, supports a monthly residential customer charge of $27.69. *See* Columbia St. 6-RJ at 5; Columbia Exh. KLJ-2RJ.

discretion to perpetuate disparities between rates and cost of service based on gradualism, and not that consideration of gradualism in the context of designing customer charges is inappropriate. *See UGI Electric 2018* at 173-74. While cost of service should guide the Commission when setting rates, this does not mean that other ratemaking principles, such as gradualism, should be abandoned in their entirety.[173]

In this instance, by increasing the residential customer charge to $23.00 per month, there is substantial movement toward cost-based rates, while making an effort to comport with the principles of gradualism. As noted, *supra*, although there are no definitive rules for determining what kind of rate increase would violate the principle of gradualism, limiting the maximum average rate increase for any particular class to 1.5 to 2.0 times the system average increase is one common metric. Therefore, in this regard, increasing the monthly residential customer charge to $23.00 represents an increase of approximately 33% to the current rate (and approximately 2.0 times the system average, based upon the Company receiving the full originally proposed revenue increase of approximately $110.497 million), as opposed to either of Columbia's requested proposals that would have increased the residential customer charge by 85.3% under its proposal to increase the monthly residential customer charge from $17.25 to $31.97, [$14.72 ÷ $17.25 = 85.3%]; or 60.5% under its proposal to increase the monthly residential customer charge to $27.69. [$10.44 ÷ $17.25 = 60.5%].

According to Columbia, based upon a typical residential customer's monthly usage of 70 therms, a residential customer will experience a monthly bill impact

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[173] The circumstances in *UGI Electric 2018* can be further distinguished in that the record in that proceeding indicated that the residential class had been significantly subsidized by other customer classes, relative to its cost of service. *UGI Electric 2018* at 173. In contrast, in this instant proceeding, Columbia's residential class has been subsidizing other classes and will continue to provide a subsidy of approximately $34.3 million under the OCA's revenue allocation proposal (at Columbia's total originally proposed overall increase).

of an increase of $15.77 from $138.52 to $154.29, at the Company's full requested revenue requirement. Columbia M.B. at 13. Based on a monthly bill of $138.52, the current customer charge comprises approximately 12.6% of a current residential customer's bill. [$17.25 ÷ $138.52 = 12.6%]. In comparison, based on the projected monthly bill of $154.29, the Company's proposed customer charge of $31.97 would comprise approximately 20.7% of a residential customer's bill. [$31.97 ÷ $154.29 = 20.7%]. Moreover, of the projected $15.77 increase to a residential customer's monthly bill, $14.72 of the increase would be recovered through the customer charge, and just $1.05 would be recovered through the volumetric charge. [$14.72 +$1.05 = $15.77].

In contrast, as illustrated in Table 26, below, increasing the monthly residential customer charge to $23.00 would produce a monthly bill of approximately $154.57 at the Company's fully requested, originally proposed, revenue requirement, wherein the customer charge would comprise 14.9% of the total bill. [$23 ÷ $154.57 = 14.9%]. Further, of the estimated increase of $16.05 to a residential customer's monthly bill, [$154.57 - $138.52 = $16.05], $5.75 of the increase, [$23.00 - $17.25 = $5.75], would be recovered through the customer charge, and $10.30 of the increase, [$16.05 - $5.75 =$10.30], would be recovered through volumetric rates. This slight revision to the revenue recognition from the residential class will not materially affect the marginal impact of consumption.

Table 26: Bill Comparison of a Typical Residential Customer Using 70 Therms of Gas Per Month

	Present Rates		Approved Customer Charge Based Upon the Full Revenue Increase Request	
	Base Rate	**Revenue**	**Base Rate**	**Revenue**
Customer Charge	$17.25	$17.25	$23.00	$23.00
Commodity Charge:	**($/Dth)**		**($/Dth)**	
All Gas Consumed	$10.4450	$73.12	$11.7903	$82.53
Rider USP	$1.0286	$7.20	$1.1548	$8.08
Rider CC	$0.0010	$0.01	$0.0010	$0.01
Rider EE	$0.0399	$0.28	$0.0399	$0.28
Gas Procurement Charge	$0.0113	$0.08	$0.0113	$0.08
Gas Cost	$5.7607	$40.32	$5.7607	$40.32
Merchant Function Charge	$0.0373	$0.26	$0.0373	$0.26
Average Residential Monthly Bill		**$138.52**		**$154.57**

See Columbia Exh. 103, Sch. 1 at 13 and Sch. 7 at 7.

An increase to the monthly residential customer charge of $5.75, or from $17.25 to $23.00, makes necessary movement (approximately halfway) towards a cost-based rate, and therefore, we consider it a reasonable compromise in the consideration of gradualism in customer bill impacts. Further, by this Opinion and Order, we are ultimately approving a lower revenue increase than that sought by the Company. Accordingly, Columbia's actual customer charge that results from the revenue increase of $55,627,800 that we shall approve in this Opinion and Order will be reduced as a result of the scale back that will be applied. Accordingly, we shall grant Columbia's Exception No. 11, in part, and deny it, in part.

2. Small C&I Customer Charges

a. Positions of the Parties

Columbia proposed to increase the customer charge for the SGS/DS-1 rate class from $33.00 per month to $39.00 per month. The Company submitted that, although its customer cost analyses produce a range of customer costs for this class ranging from $33.13 (excluding mains) to $87.76 (including mains), its proposal to increase the monthly SGS/DS-1 customer charge to $39.00 represents an increase proportional to the overall base rate increase for this customer class (based upon the Company receiving the full originally requested revenue increase of $110.5 million). Columbia M.B. at 151-52; Columbia Exh. 111, Sch. 2 at 17, 26.

Likewise, Columbia proposed to increase the customer charge for the SGS/DS-2 rate class from $63.00 per month to $75.00 per month. The Company submitted that, although its customer cost analyses produce a range of customer costs for this class ranging from $66.12 (excluding mains) to $204.92 (including mains), the Company's proposal to increase the monthly SGS/DS-2 customer charge to $75.00 represents an increase proportional to the overall base rate increase for this customer class (based upon the Company receiving the full originally requested revenue increase of $110.5 million). Columbia M.B. at 152; Columbia Exh 111, Sch. 2 at 17-26.[174]

According to the calculations presented by Columbia, the OSBA explained that the monthly customer charges for the SGS/DS-1 and SGS/DS-2 rate classes should

[174] Within each size category (SGS/DS-1 and SGS/DS-2), SGSS and SCD customers pay the same commodity charge, while SGDS customers pay a slightly lower commodity charge reflecting the fact that the Company does not incur gas storage working capital costs for regular transportation customers. Columbia St. 6 at 23.

be set at $33.13 and $66.12, respectively, based upon the Company receiving the full originally requested revenue increase of approximately $110.497 million. OSBA St. 1 at 16. Alternatively, the OSBA contended that, if the Commission awards Columbia a revenue increase that is less than $110.497 million, the SGS/DS-1 customer charge should remain at $33.00, and the SGS/DS-2 customer charge be proportionally scaled back from $66.12. OSBA M.B. at 4.

In their Recommended Decision, the ALJs recommended approval of the proposed customer charges for SGS/DS-1 and SGS/DS-2 customers, finding they are consistent with the applicable customer cost analysis. R.D. at 682. No Party filed Exceptions on this issue. Finding the ALJs' recommendation to be reasonable, we adopt it without further comment.

3. Large C&I Customer Charges

Columbia proposed to increase the SDS/LGSS customer charge for customers whose annual usage is between 64,400 therms and 110,000 therms from $304.32 per month to $358.00 per month. For SDS/LGSS customers whose usage is between 110,000 therms and 540,000 therms, Columbia proposed to increase the monthly customer charge from $1,308.38 to $1,623.00. Columbia M.B. at 153.

The Company presented the following table in its Main Brief to illustrate its proposed customer charge increases for its LDS/LGSS rate class:

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 M.B. at 154.

The ALJs observed that no Party disagreed with the Company's proposed customer charges for the Large C&I classes. R.D. at 362. In their Recommended Decision, the ALJs recommended approval of the proposed customer charges for SDS/LGSS customers, finding they are consistent with the applicable customer cost analysis. R.D. at 682. While the ALJs did not explicitly recommend adoption of the Company's proposed customer charges for the LDS/LGSS rate class, they also did not recommend any commensurate adjustments thereto. However, as indicated *supra*, the ALJs did recommend that all proposed increases to customer charges and usage rates be scaled back proportionally based on the P&A ACCOSS. R.D. at 401, 682. No Party filed Exceptions on this issue. Finding the ALJs' recommendation to be reasonable, we adopt it without further comment.

4. GPC Rider

Columbia also proposed a GPC of $0.00113 per therm. Columbia Exhibit KLJ-6 shows the calculation of the proposed GPC. The ALJs observed that no Party disagreed with the Company's proposed GPC. R.D. at 362. While the ALJs did not

explicitly recommend adoption of the Company's proposed GPC, they also did not recommend any commensurate adjustments thereto. Furthermore, no Party filed Exceptions on this issue. Finding the ALJs' implicit recommendation to be reasonable, we adopt it without further comment. Accordingly, we shall approve Columbia's proposed GPC of $0.00113 per therm.

XII. Alternative Ratemaking

A. WNA

In this proceeding, Columbia sought to make its WNA Pilot program permanent. Columbia characterized its WNA, as follows: "The WNA is a method of adjusting the delivery portion of a customer's bill to reflect 'normal' weather conditions rather than actual weather. It helps mitigate the impact of unusually cold or warm weather on customer bills during the heating season, which runs from November through May." Columbia St. 17 at 28.

The Company's WNA Pilot program has been in place for over ten years. Columbia M.B. at 155. Pursuant to the settlement agreement in *Columbia Gas 2024* resolving the Company's 2024 rate increase request, the Company's WNA Pilot will expire unless it is allowed to continue in an order entered in this proceeding, as the first base rate case filed by the Company after the entry of the Opinion and Order in *Columbia Gas 2024.* R.D. at 421 (citing *Columbia Gas 2024*, Joint Petition for Settlement filed August 28, 2024 at ¶ 35). The WNA rider applies to Columbia's residential customers receiving service under the RSS/RDS and CAP rate schedules.[175] Columbia Exh. 14, Sch. 2, Attachment B at 25. The WNA adjusts residential bills in the

[175] *See* Tariff Gas at One Hundred First Revised Page No. 3, effective December 29, 2021; Seventy-eighth Revised Page No. 4, effective December 14, 2024, respectively.

heating months of November through May, to reflect the impact of actual weather on the weather-normalized heating degree days (NHDD). Columbia's WNA has a 3% deadband, such that the WNA adjustment will apply only if the Actual Heating Degree Days (AHDD) for the billing cycle are lower than 97% or higher than 103% of the NHDD for the billing cycle.[176] Columbia Exh. 14, Sch. 2, Attachment B at 25. The AHDD are the actual experienced heating degree days based on data from the National Oceanic and Atmospheric Administration (NOAA). The NHDD calculation is updated annually by September 1st using the same methodology established in the Company's most recent rate case (*i.e.*, *Columbia Gas 2024*). The NHDD for any given day is based upon the 20-year average for the given day. *Id.*

1. Positions of the Parties

Columbia provided that the purpose of its WNA is to "levelize revenues for both customers and the Company to better reflect the level of revenues that are authorized for recovery…" Columbia M.B. at 155. Columbia explained that the WNA adjusts residential customers' monthly commodity charges based on the actual temperatures experienced during the month, thereby protecting customers and the Company from usage variations due to weather. *Id*. at 155-56. Columbia argued that its WNA is in the public interest, and the Commission should make the existing WNA a permanent program rather than a pilot program. *Id*. at 156, 157. Columbia claimed that its WNA is necessary to recover its revenues as set in its base rate proceedings. According to Columbia, without the WNA, the Company would have lost $74 million since the start of

[176] The deadband was 5% until January 31, 2019. *See Id.* at Fourteenth Revised Page No. 162, effective December 14, 2024. The deadband was reduced to 3% and the month of October excluded from the WNA as a result of a partial settlement in Columbia's 2018 rate proceeding. *See Pa. PUC et al. v. Columbia Gas of Pa*, Docket No. R-2018-2647577 (Opinion and Order entered December 6, 2018) (*Columbia Gas 2018*).

the WNA due to warmer than normal weather. Columbia averred that "[w]inter weather has been abnormally getting warmer, and the Company should not be required to bear the abnormal risk of warming weather." *Id*. at 157-58.

I&E noted that Columbia has received over $74 million in revenue from Columbia ratepayers through the application of the WNA. I&E M.B. at 66. I&E provided that Columbia's WNA does not properly align revenues with cost causation principles as to both fixed and variable costs. I&E St. 3-SR at 11. I&E submitted that Columbia's WNA shifts costs from customers who can afford to make efficiency improvements to those customers who cannot. I&E M.B. at 67 (citing I&E St. 3-SR at 12-13). I&E also argued that the WNA, in general, and its billing process, are too complex and confusing for customers. I&E M.B. at 67 (citing I&E St. 3-SR at 16-17). I&E recommended that Columbia's WNA Pilot program be discontinued. I&E M.B. at 67 (citing I&E St. 3 at 8). Conversely, I&E contended that if the WNA is made permanent, then a 5% deadband should be implemented because the 3% deadband has not been an effective customer protection. I&E M.B. at 67 (citing I&E St. 3-SR at 14-16). In addition, I&E recommended that the "shoulder" month of May should be removed from the WNA calculation, and the time period used to calculate the normal HDDs should be shortened to ten years if the Commission approves the WNA on a permanent basis. I&E M.B. at 67-68 (citing I&E St. 3 at 18; I&E St. 3-SR at 16-17).

The OCA characterized the WNA Pilot as a failure. OCA M.B. at 242. In this regard, the OCA argued that: (1) the WNA Pilot fails to satisfy the Commission's

policy factors[177] regarding alternative ratemaking mechanisms; (2) Columbia's customers who testified at the public hearing do not support the WNA; (3) Columbia's use of the FPFTY, ability to utilize the DSIC, and the Company's frequent rate case filing each demonstrate that Columbia does not need the WNA; (4) the WNA does not follow cost causation principles; (5) the WNA discourages conservation and energy efficiency measures by customers; (6) the WNA disproportionately harms low income customers; and (7) Columbia has failed to meet its burden of proving that its proposal to make the WNA permanent will result in a just and reasonable rate. OCA M.B. at 205-42 (citing 52 Pa. Code § 69.3302(a); OCA Exh. MWD-1 at 3-4 (evaluating the WNA under the Commission's fourteen policy factors in the *2019 Statement of Policy*); 66 Pa.C.S. 1330; Tr. at 181, 188, 233, 218-19; 52 Pa. Code § 69.3301; OCA St. 4 at 15; OCA St. 5 at 92; OCA St. 1 at 53-54; additional citations omitted). The OCA concluded that 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." OCA M.B. at 242.

CAUSE-PA maintained that Columbia's WNA raises "deep concerns about fairness and equity." CAUSE-PA M.B. at 78 (citing CAUSE-PA St. 2 at 63). Similar to the OCA, CAUSE-PA provided that the proposed permanent WNA should be rejected because it will, *inter alia*: (1) undermine cost of service principles; (2) reduce incentives to conserve energy; (3) obscure price signals; (4) make customer bills

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[177] As discussed below, Section 69.3301 of our Regulations sets forth a policy statement that "invite[s] the proposal, within a utility's base rate proceeding, of fixed utility distribution ratemaking mechanisms and rate designs that further . . . the objectives of 66 Pa.C.S. § 1330 (relating to alternative ratemaking for utilities)." 52 Pa. Code § 69.3301. Section 69.3302 of our Regulations sets forth fourteen policy factors for the Commission to consider "[i]n determining just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose and scope of this statement of policy and the objectives of 66 Pa.C.S. § 1330." *Id.* at § 69.3302. *See Fixed Utility Distribution Rates Policy Statement*, Docket No. M-2015-2518883 (Order entered July 18, 2019) (*2019 Statement of Policy*).

unpredictable and difficult to understand; (5) have a disproportionate impact on low income customers; and (6) lack any consumer protections. CAUSE-PA M.B. at 78.

2. Recommended Decision

The ALJs noted that 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. R.D. at 490 (citing Columbia St. 3 at 16). The ALJs explained that 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. R.D. at 490.

The ALJs further explained that the Commission may authorize the implementation of alternative ratemaking mechanisms like the WNA, but the utility must provide substantial evidence that the mechanism would result in just and reasonable rates. The ALJs concluded that the Company has failed to meet this burden. R.D. at 491 (citing 66 Pa.C.S. §§ 315(a), 1330).

According to the ALJs, the parties thoroughly addressed the WNA in accordance with the Commission's *2019 Statement of Policy*,[178] where the Commission identified fourteen factors to consider when evaluating an alternative rate mechanism. R.D. at 492 (citing I&E St. 3 at 10 (citing *2019 Statement of Policy*)). The ALJs noted the position of I&E that Columbia's WNA does not properly align revenues with cost causation principles as to both fixed and variable costs. R.D. at 492 (citing I&E St. 3 at 12). Additionally, the ALJs stated, the WNA shifts costs from customers who can afford to make energy efficiency improvements to those who cannot, when the customer

[178] As previously noted, the *2019 Statement of Policy* is set forth in our Regulations at 52 Pa. Code §§ 69.3301-69.3302.

who implemented energy efficiency improvement measures then pays less of the WNA share. R.D. at 492 (citing I&E St. 3-SR at 12-13).

Similarly, the ALJs found that while some describe the 3% deadband as a customer protection, the deadband did not afford any substantial protection to consumers. R.D. at 493 (citing I&E St. 3-SR at 14-16). Further, the ALJs concluded that the record evidence clearly established that the WNA billing process is too complex and confusing to customers. R.D. at 493 (citing I&E St. 3-SR at 16-17). Upon consideration of the analysis by the Parties, especially with regard to the *2019 Statement of Policy* and the reasoning applied in the Commission's recent decision in *Pa. PUC v. PECO Energy Company – Gas*, Docket No. R-2024-3046932 (Opinion and Order entered December 12, 2024) (*PECO Gas 2024*), relative to the WNA, the ALJs recommended that the WNA Pilot program be permitted to expire, and that no permanent WNA be put in place. R.D. at 493 (citing I&E St. 3 at 18; *PECO Gas 2024* at 94-101).

The ALJs also acknowledged the positions of the OCA and CAUSE-PA that the WNA has systematically overcharged customers without providing commensurate benefits, collecting $74 million in additional revenues for Columbia in the five most recent heating seasons.[179] R.D. at 493 (citing OCA St. 1 at 55; OCA Exh. MWD-11; CAUSE-PA St. 2-SR at 14). The OCA averred that during the five most recent heating seasons, Columbia did not issue a refund to customers despite claiming that the WNA is a symmetrical mechanism. The ALJs agreed with the OCA's conclusion that the WNA has functioned as a one-sided charge, imposing consistent financial burdens on ratepayers while failing to deliver bill stability or balance. R.D. at 493 (citing OCA St. 1 at 55). Further, the ALJs noted the OCA's explanation that despite the issues with the WNA, the Company has made no proposal in the instant case to work towards developing a more effective WNA mechanism. Rather, the ALJs stated, the Company

[179] As noted above, I&E expressed a similar argument.

merely seeks to continue the WNA Pilot indefinitely, without correcting or addressing the issues raised by the opposing parties that result in one-sided adjustments. R.D. at 493-94 (citing OCA St. 1 at 42).

Upon consideration of the *2019 Policy Statement* and the statutory basis for the statement, the ALJs agreed with CAUSE-PA and found that the Company's proposal should be rejected because it: (1) undermines cost of service principles, (2) diminishes consumer incentives to reduce energy usage, (3) obscures price signals and makes customer bills more unpredictable, (4) has a disproportionate impact on low income customers, (5) is difficult for consumers to understand, and (6) lacks any meaningful consumer protections. R.D. at 494 (citing 66 Pa.C.S. § 1330(a)(2); 52 Pa. Code §§ 69.3301-69.3302).

The ALJs considered several potential modifications advocated by I&E and CAUSE-PA in the event that the Commission decides to allow the WNA Pilot to continue. The ALJs noted that I&E proposed three potential changes to the WNA: (1) the shoulder month of May should be removed from the WNA; (2) the time period to determine normal HDDs should be shortened to ten years; and (3) the deadband should be increased to 5%. The ALJs further noted I&E's explanation that May is typically when customers in Pennsylvania expect to see their heating bills decrease. R.D. at 494 (citing I&E St. 3 at 18; I&E St. 3-SR at 19). The ALJs agreed with I&E's proposal to remove the month of May from the WNA calculation and further agreed with CAUSE-PA's recommendation, *infra*, to confine the WNA to the period between December and March. R.D. at 494-95.

Regarding the twenty-year weather cycle currently used to calculate HDDs, the ALJs reasoned that a ten-year weather cycle better reflects the Company-acknowledged warming trend. R.D. at 495 (citing I&E St. 3 at 19; I&E St. 3-SR at 20; I&E M.B. at 68). The ALJs agreed that a 5% deadband places more of

the onus of calculating weather fluctuations on the Company as a normal course of business, rather than on customers. R.D. at 495.

CAUSE-PA recommended, and the ALJs agreed, that if the Commission allows the WNA to continue, then the WNA Pilot should remain a Pilot and be limited in duration. As noted, *supra*, CAUSE-PA also recommended that the WNA duration align with the winter moratorium on shutoffs and should be confined to the period between December and March. CAUSE-PA reasoned that Columbia should not be allowed to assess weather-related charges in the additional months of November, April, and May. R.D. at 496-97 (citing CAUSE-PA St. 2 at 63). The ALJs agreed with this recommendation. Finally, CAUSE-PA proposed, and the ALJs agreed, that the WNA should not apply to CAP customers. According to the ALJs, for CAP customers whose bills are based on a percentage of budget bill, the WNA unreasonably increases these customers' CAP bills. Thereby, the WNA on CAP bills unnecessarily increases the costs of the CAP program paid for by other residential customers. R.D. at 496 (citing CAUSE-PA St. 2 at 63).

Accordingly, the ALJs recommended that the Commission allow Columbia's WNA program to expire, and that no permanent WNA be put in place. R.D. at 493. Alternatively, the ALJs recommended that if the Commission concludes that the WNA should continue, then the recommended modifications proposed by I&E and CAUSE-PA[180] should be implemented, as detailed, *supra*. *Id.* at 497.

[180] CAUSE-PA also recommended that Columbia should be required to propose in its next rate case changes to the WNA formula including: (1) normal heating degree days should be calculated on a rolling 10-year average; and (2) the WNA should be proposed on a per class basis and reconciled annually, and surcharged over the full 12 months of the subsequent year. The ALJs did not recommend the adoption of these additional proposals in the alternative disposition. R.D. at 497 (citing CAUSE-PA St. 2 at 65).

3. Columbia Exception No. 12 and Replies

In its Exception No. 12, Columbia remains of the opinion that the WNA Pilot program should be made permanent. Columbia submits that the WNA "provides a reasonable opportunity to recover its Commission-authorized revenue requirement." Columbia contends that the "extreme and abnormal warming trends are outside of the Company's control, which prevent the company from recovering its authorized revenue requirement due to the mismatch between fixed cost incurrence and volumetric cost recovery." Columbia Exc. at 22.

Columbia opines that the ALJs erred in accepting misconceptions regarding the WNA. In this regard, Columbia avers that the $74 million collected from customers over the last five years was part of the Commission-approved revenue requirement and was not additional or excess revenue for the Company. According to Columbia, the $74 million "did not allow the Company to fully recover its authorized revenues because of the deadband." Columbia Exc. at 22-23. Columbia notes that in the first six years of the WNA Pilot, the Company provided refunds to customers in four of those six years, and the lack of refunds to customers over the past few years is due to "extremely abnormal weather conditions that are outside the Company's control." Columbia Exc. at 24.

Columbia argues that the 3% deadband is a customer protection and has helped customers, contrary to the ALJs' findings. Columbia Exc. at 23 (citing R.D. at 493). Columbia maintains that the 3% deadband prevented the Company from collecting the first 3% of revenues that were lost to warmer than normal weather. Columbia Exc. at 23.

Further, Columbia asserts that the ALJs were incorrect in their contention that the WNA does not follow cost causation. Columbia claims that the "abnormal

warming weather" prevents the Company from recovering its authorized revenues and that the WNA "better aligns distribution revenues with cost-causation principles by accounting for variation in usage due to weather." Columbia Exc. at 23 (citing Columbia St. 17 at 30).

Columbia provides that: (1) its WNA Pilot has been in effect for over ten years, (2) the Company "has not had the issues that [PGW] experienced,"[181] and (3) the WNA Pilot has had few complaints. For these same reasons, Columbia avers that the changes to its WNA Pilot that were proposed by I&E and CAUSE-PA are not necessary. Columbia asserts that its WNA is very similar to the WNA the Commission approved for Peoples, as both the Company's WNA program, and that of Peoples, employ a 3% deadband and serve similar service territories. Further, Columbia submits, it would be confusing to customers if changes were made to the existing WNA. However, the Company explains that it "would be willing to forego May in the WNA, which would be consistent with UGI's WNA that was achieved through a settlement." Columbia Exc. at 24-25.

In reply to Columbia's Exception No. 12, I&E submits that Columbia's WNA Pilot program should not be made permanent, based on multiple Commission issued policy questions. I&E maintains that the WNA Pilot does not align revenues with cost causation principles, inappropriately shifts costs to lower income customers, and is generally too complex and confusing to customers. I&E avers that the ALJs properly considered the evidence in forming their recommendation to end the WNA Pilot or, alternatively, to implement the changes as proposed by I&E and CAUSE-PA. I&E R. Exc. at 9-10.

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[181] Columbia notes that PGW "had to refund approximately $12 million of WNA charges due to high bills in May 2022." Columbia Exc. at 24 (citing *Petition of Philadelphia Gas Works for Emergency Order*, Docket No. P-2022-3033477 (Emergency Order dated July 1, 2022) (*PGW 2022 Emergency Order*)).

In its reply to Columbia Exception No. 12, the OCA agrees with the ALJs that it is not in the public interest "for Columbia to reconcile the day-to-day temperature variations that are part and parcel with normal business" through a WNA. OCA R. Exc. at 20-21 (citing R.D. at 491). The OCA restates its argument that the WNA Pilot collected over $74 million in rates and did not operate symmetrically. OCA R. Exc. at 21 (citing OCA M.B. at 205-42; OCA R.B. at 119-33; Columbia Exh. JDT-1R (demonstrating that charges occurred more frequently than credits under the WNA Pilot, and charges were of more significant size than credits)). The OCA provides that the ALJs' conclusion is supported by the record evidence and applicable legal standards. OCA R. Exc. at 21 (citing Columbia Exc. at 22-23).

The OCA finds Columbia's contention, that the WNA recovers only authorized revenues, to be misleading because it is based on Columbia's premise of an *entitlement to recovery* that does not exist under law, rather than *the opportunity to recover* its authorized revenue. OCA R. Exc. at 21 (citing OCA R.B. at 124-28; additional citations omitted). The OCA explains that "[a]ny revenue collected by the WNA is in excess of the revenue collected by the base rates established using the Company's billing determinants and which are calculated to produce the authorized revenue requirement." OCA R. Exc. at 21 (citing R.D. at 114 ("the billing determinants used by Columbia, which were not challenged by any party in this proceeding, establish that current customer and volumetric charge structure are sufficient to meet the Company's revenue requirement.")). The OCA further explains that the Company did not except to the ALJs' conclusion that the billing determinants established in this proceeding are sufficient to earn the authorized revenue requirement. OCA R. Exc. at 21, n. 97.

The OCA opines that the ALJs were correct in their conclusion that the deadband "did not afford any substantial protection to consumers at all," because

Columbia collected $74 million with the deadband in place. OCA R. Exc. at 21 (citing R.D. at 493; OCA Exh. MWD-11).

Further, the OCA agrees with the ALJs' finding that the WNA Pilot does not conform to cost of service principles. OCA R. Exc. at 22 (citing OCA M.B. at 226-29). Similarly, the OCA contends that Columbia's WNA is not similar to other WNAs currently in effect in Pennsylvania. The OCA continues that even if the Company's WNA was similar to that of other NGDCs in Pennsylvania, the similarities would not constitute evidence of just and reasonable rates. OCA R. Exc. at 22 (citing Columbia Exc. at 24-25; OCA R.B. at 120-23; *PECO Gas 2024* at 94-101). The OCA insists that the WNA would not result in just and reasonable rates, but rather, would operate as a one-sided surcharge without benefit to Columbia's customers. OCA R. Exc. at 22.

In its Replies to Exceptions, CAUSE-PA provides that the WNA Pilot has operated in a one-sided manner in favor of the Company. CAUSE-PA R. Exc. at 8 (citing R.D. at 493). Similar to the OCA, CAUSE-PA explains that the WNA Pilot has resulted in over $74 million in net additional charges to customers for service they did not use. CAUSE-PA R. Exc. at 8 (citing CAUSE-PA M.B. at 50). CAUSE-PA explains further that over the last six years, net WNA charges to customers were sixteen times larger than the net benefits of the WNA in its first six years of operation. CAUSE-PA R. Exc. at 8 (citing CAUSE-PA M.B. at 53-54).

CAUSE-PA also maintains that "[a]ll rate setting is based on projections and Columbia is not entitled to assurance during ratemaking that it will be able to recover net revenues, but merely a reasonable opportunity." CAUSE-PA reasons that weather-related usage reduction is a traditional business risk of providing gas distribution service. CAUSE-PA R. Exc. at 8-9 (citing R.D. at 493; CAUSE-PA M.B. at 58). CAUSE-PA continues that "[i]f Columbia's projections are wrong, it has all the tools that

it needs to course correct – including filing a rate case, which Columbia does almost annually." CAUSE-PA R. Exc. at 8-9 (citing CAUSE-PA M.B. at 59).

Additionally, CAUSE-PA avers that the WNA lacks effective consumer protections, noting that the 3% deadband has not provided meaningful protection. CAUSE-PA explains that "[t]here is no cap on the charge assessed on an individual customer and no backstop to prevent excessive individual charges." CAUSE-PA R. Exc. at 9 (citing CAUSE-PA M.B. at 74). Further, CAUSE-PA reinforces its position that the WNA does not exempt any low income customers, thereby exacerbating energy insecurity and driving up the cost of CAP for other residential customers. CAUSE-PA R. Exc. at 9 (citing CAUSE-PA M.B. at 74-75).

CAUSE-PA provides that the warming trends that are now present are not "abnormal" and that the ALJs correctly explained that changing weather is a normal business risk of providing gas service. CAUSE-PA R. Exc. at 10 (citing R.D. at 490-91). CAUSE-PA contends that by shifting the risk of warming weather to consumers, the WNA shields Columbia from traditional business risk and erodes incentives for efficient management performance. CAUSE-PA R. Exc. at 10 (citing CAUSE-PA M.B. at 54). CAUSE-PA further submits that it is clear that Columbia's projections of "normal" weather over the last six years have not matched actual weather, such that the WNA is not a symmetrical mechanism. CAUSE-PA R. Exc. at 10 (citing CAUSE-PA M.B. at 54). CAUSE-PA concludes that the Commission should discontinue the "complex, one-sided pilot WNA, as it produces patently unjust and unreasonable rates." CAUSE-PA R. Exc. at 10 (citing CAUSE-PA M.B. at 70-71; CAUSE-PA R.B. at 21-31).

4. Disposition

Upon review, we shall grant Columbia's Exception No. 12, in part, and deny it, in part, consistent with the following discussion.

In a rate case, the Commission approves a revenue number which produces customer rates that afford the utility the opportunity to earn the approved revenue amount. For a natural gas utility, a large portion of its revenue is based on home heating, but the cost of delivering gas is not weather-dependent. Weather that is colder or warmer than expected results in revenue that is higher or lower than that approved by the Commission. A WNA may be used to align revenue collected to that approved by the Commission. If temperatures are warmer than expected, the utility will add a surcharge to give it the opportunity to collect revenues up to the amount approved by the Commission. Conversely, if weather is colder than expected, customers receive a credit on their bills to limit the utility from collecting revenue above the Commission-approved amount.

In this case, I&E recommended that the WNA be discontinued but stated that in the alternative, if the WNA is made permanent, the following customer protections should be put in place: (1) a 5% deadband should be used to protect customers; (2) the "shoulder" month of May should be removed from the WNA calculation; and (3) the time period used to calculate the NHDDs should be shortened to ten years. I&E M.B. at 67-68.

As noted above, the ALJs recommended that the Commission allow Columbia's WNA program to expire, and that no permanent WNA be put in place. Alternatively, the ALJs recommended that if the Commission concludes that the WNA should continue, then the recommended modifications proposed by I&E should be adopted. R.D. at 494-95.[182]

[182] Additionally, the ALJs agreed with the alternate recommendation of CAUSE-PA to confine the WNA to the period between December through March. R.D. at 494-95.

In its Exception No. 12, Columbia insists that the WNA Pilot program should be made permanent. Columbia submits that the WNA "provides a reasonable opportunity to recover its Commission-authorized revenue requirement." Columbia contends that the "extreme and abnormal warming trends are outside of the Company's control, which prevent the company from recovering its authorized revenue requirement due to the mismatch between fixed cost incurrence and volumetric cost recovery." Columbia Exc. at 12.

We agree with Columbia's Exception on this issue to the extent that the Company may continue its pilot WNA to allow it a reasonable opportunity to earn up to its Commission-authorized revenue requirement. Based on the evidence presented, Columbia's WNA, which has been in place for ten years, has not enabled the Company to recover revenue outside of the Commission-authorized revenue requirement and has received very few complaints. Columbia M.B. at 161-62; Columbia R.B. at 82-84.

Although we agree that the WNA should be approved, in the form of permitting the Company to continue its WNA pilot, we also support the additional customer protections proposed by I&E. Here, we agree with the rationale of I&E that if the goal of the WNA is to improve stability and customer bills and Company revenues, a 5% deadband adequately captures what could be considered normal weather fluctuations in Pennsylvania. It also places more of the burden for calculating and forecasting weather variations back onto the Company as a normal part of doing business. I&E M.B. at 69.

Additionally, we find I&E's argument pertaining to the elimination of the shoulder month of May from the WNA calculation to be persuasive. We agree that 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. The

retention of May in Columbia's WNA calculation could result in customers seeing WNA bill increases as late as June. *See* I&E M.B. at 68.

Moreover, we determine I&E's proposed adjustments to the time period for determining NHDDs to be reasonable. Using a twenty-year cycle rather than a ten-year cycle appears to result 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. *See* I&E M.B. at 68.

Furthermore, we determine that the WNA should be kept as a pilot to evaluate the impact of the customer protections. Implementation of the three customer protections listed above will balance the risk of changing weather patterns between the Company and customers. Accordingly, these three protections and the WNA remaining as a pilot will be required as a condition of approving the continuation of the WNA program.

Thus, we authorize Columbia to continue its WNA mechanism in the form of a pilot, as modified herein, until a final order is entered in the Company's next rate case filed after the entry of this Opinion and Order. For informational purposes, the Company shall continue to maintain and provide to I&E, the OCA, and the OSBA by October 1 of each year all reports and records supporting the operation of Columbia's WNA for the preceding year, including the Company's monthly computation of the WNA and all data underlying the Company's monthly WNA computation. All parties shall reserve their respective rights to propose or oppose a WNA in a future base rate proceeding.

B. RNA

Columbia proposed an RNA that will apply to residential, commercial, and industrial customers. Columbia St. 17 at 43. The proposed RNA will determine the difference between a Benchmark Base Revenue Per Customer (BRPC)[183] and the Actual Base Revenue per Customer (ARPC) and calculate the over or under-collection. In the case of the over-collection, this amount will be credited to customers through an RNA credit. A surcharge will be assessed in the event of an under-collection. The RNA rate would 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 was performed. Any over or under recovery from the prior RNA period would be rolled into the next RNA period. Columbia provided that the goal of the RNA is to collect the exact amount of revenues per customer allowed in base rates. Columbia St. 17 at 44.

1. Positions of the Parties

Columbia explained that the RNA is a decoupling mechanism that separates a utility's distribution revenues from its level of sales. Columbia averred that the RNA is necessary to ensure full revenue stabilization that the WNA cannot provide. According to Columbia, the RNA addresses non-weather-related revenue fluctuations, along with weather variations the WNA does not capture,[184] and ensures that Columbia collects its approved revenue requirement, while ensuring that customers do not pay more than their cost to serve. Columbia St. 17 at 46.

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[183] The BRPC consists of the Commission authorized revenues for the FPFTY divided by the number of customers (equivalent number of bills) determined in the instant rate case for various residential, commercial, and industrial rate schedules. Columbia St. 17 at 43-44, n. 13.

[184] Examples of weather-related revenue fluctuations not captured by the WNA include shoulder month heating loads sensitive to weather and the non-application of the WNA due to the deadband. Columbia St. 17 at 46.

I&E opposed the RNA, noting that the Company has repeatedly proposed an RNA in several previous base rate cases. I&E provided that Columbia has not met its burden of proof that its current system of rates and charges are inadequate. I&E explained that Columbia's fixed monthly customer charges, purchased gas adjustment mechanism, and potentially a DSIC provide Columbia with the revenue stability it needs. I&E M.B. at 70 (citing I&E St. 3 at 28). I&E contended that the Company has not presented credible evidence that the RNA will result in fewer base rate cases. I&E also asserted that the RNA will have a negative effect on voluntary conservation by ratepayers. I&E M.B. at 70.

The OCA took the position that the proposed RNA is not necessary for Columbia. The OCA argued that Columbia has sufficient access to alternative ratemaking tools to eliminate regulatory lag and have recovery ranging from prospective to contemporaneous for its investments in plant. OCA M.B. at 244 (citing 66 Pa.C.S. §§ 315(e), 1353). According to the OCA, this is especially true considering Columbia's near-annual rate increase requests. The OCA asserted that it is unclear how the RNA would enhance the Company's ability to provide adequate, safe, and reliable service. OCA Exh. MWD-1 at 1-2. The OCA submitted that the Company presented no argument that its quality of service would improve as a result of the RNA. Instead, the OCA noted the Company's assertion that it would be exposed to less throughput-related revenue risk. OCA M.B. at 244 (citing Columbia Exh. JDT-2R at 4). The OCA argued that the RNA will charge customers for a distribution service they did not use and operates only to the benefit of Columbia. OCA M.B. at 244.

The OSBA opposed an RNA for Columbia, averring that an RNA would reduce risk for Columbia without Columbia offering a concomitant reduction in its ROE. The OSBA argued that the Company will shift risk associated with gas consumption variability on residential and small business customers in the form of rate adjustments to "normalize" revenue. OSBA M.B. at 13 (citing OSBA St. 1 at 18). The OSBA reasoned

that the Company has financial options to eliminate the need for an RNA, including the FPFTY and DSIC. The OSBA provided that Columbia's parent company, NiSource, has a market capitalization of $20.22 billion. OSBA M.B. at 14.

CAUSE-PA asserted that while Columbia's WNA shifts the financial risk of lower usage due to warming weather onto its customers, Columbia's proposed RNA shifts all of the traditional business risk of reduction for *any* reason onto customers. CAUSE-PA M.B. at 82. CAUSE-PA contended that while Columbia's customers will pay more as a result of an RNA, Columbia has not identified any benefits to its customers if an RNA is implemented. CAUSE-PA reasoned that if the RNA is approved, it would erode Columbia's accountability to its customers, as it would "allow Columbia to lock in guaranteed revenue on a one-year lag basis." CAUSE-PA M.B. at 82-83. According to CAUSE-PA, this would lessen the burden of operating efficiently, improving collections, implementing critical assistance programs, or otherwise reducing expenses. CAUSE-PA M.B. at 83 (citing CAUSE-PA St. 2 at 67). As such, CAUSE-PA reasoned, the RNA would transform the long-standing standard of a "reasonable opportunity" to earn a fair rate of return into a *guaranteed* collection of revenue. In CAUSE-PA's view, if the RNA is implemented, the Commission's ability to oversee application of the RNA would be relegated to reviewing the RNA true-up, without any consideration as to the impact to customers. CAUSE-PA M.B. at 83.

2. Recommended Decision

The ALJs provided that Columbia proposed an RNA for its non-CAP residential, commercial, and industrial customers. R.D. at 497 (citing I&E St. 3 at 21; Columbia St. 17 at 43). The ALJs noted that Columbia described its RNA as a decoupling mechanism that separates a utility's distribution revenue from its level of sales, thereby "breaking the link" so that a utility may recover an established amount of revenues, even as sales vary. R.D. at 497-98 (citing Columbia St. 17 at 46).

The ALJs agreed with I&E's conclusion that given its current system of rates and charges, which include fixed monthly customer charges, a purchased gas adjustment mechanism, and potentially a DSIC, Columbia does not need the RNA to provide revenue stability. The ALJs further agreed with I&E that Columbia has not met its burden of proving that these revenue sources are inadequate. R.D. at 498 (citing I&E St. 3 at 28). Additionally, I&E averred, and the ALJs agreed, that Columbia has not presented credible evidence that the RNA will result in fewer base rate cases, thus removing any benefit from the residential customers.[185] R.D. at 498 (citing I&E St. 3 at 28; Columbia St. 17 at 51).

The OCA argued, and the ALJs agreed, that Columbia presented no credible evidence that was sufficient to distinguish its RNA proposed in this case from those specifically rejected by the Commission in *PAWC 2024* and *Columbia Gas 2021*, and the Commission should deny the requested RNA in this case for the same reasons set forth in those proceedings. R.D. at 498-99.

The ALJs agreed with the OCA's finding that the Company has not demonstrated that the proposed RNA would result in just and reasonable rates. The OCA averred that the proposed RNA: (1) does not satisfy the Commission's *2019 Policy Statement* regarding alternative ratemaking mechanisms; (2) does not benefit customers; (3) removes the Company's incentive to control costs between rate cases and guarantees earnings regardless of performance; (4) is contrary to the principle of cost causation; and (5) will require Columbia's customers to sacrifice potential bill savings from conservation and energy efficiency improvements to the benefit of the Company. R.D. at 499 (citing OCA Ex. MWD-1 at 1-2; 52 Pa. Code § 69.3302(a)).

[185] As previously noted, the proposed RNA would apply to residential, commercial, and industrial customers. Columbia St. 17 at 43-44.

The ALJs further agreed with CAUSE-PA's observation that the RNA would not provide any material benefit to customers and would likely compound energy insecurity for low income households. R.D. at 499 (citing CAUSE-PA St. 2 at 77-78). Additionally, the ALJs noted CAUSE-PA's statement that Columbia has not demonstrated that the RNA would be a better approach than traditional ratemaking and the scrutiny that rate cases would provide. R.D. at 500 (citing CAUSE-PA St. 2 at 78).

Accordingly, the ALJs recommended that the Commission deny Columbia's request to implement an RNA, finding 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 and avers that it will file base rate cases more frequently moving forward. The ALJs also pointed to Columbia's ability to utilize the FPFTY and the DSIC. According to the ALJs, the Company has not shown that the RNA will result in fewer base rate increases, thus removing any benefit from the residential customers. R.D. at 500 (citing I&E St. 3 at 11). Additionally, the ALJs concluded that the Company did not sufficiently and credibly present, explain, and support the proposed RNA, as required pursuant to the Commission's *2019 Statement of Policy*. R.D. at 500.

The ALJs reasoned that Columbia failed to prove that the RNA is necessary and reasonable or that the program will result in rates that are just, reasonable, and in the public interest. The ALJs further noted that the Company did not show that its current rates and system of revenue streams will fail to produce revenue stability. R.D. at 500.

Finally, the ALJs concluded that the RNA program is unfair to Columbia's customers. The ALJs noted that various customers testified at the public input hearings that they are struggling to pay their bills and to keep up with frequent increases in their utility bills. The ALJs found that the proposed RNA charges, and the method by which

they are calculated, are not easily understandable to many consumers and would make it difficult for consumers to determine how to reduce their overall bill. R.D. at 501.

3. Disposition

No Party filed Exceptions to the ALJs' Recommended Decision on this issue. We find that the ALJs' recommendation is reasonable and is supported by substantial evidence in the record. Accordingly, we shall adopt the ALJs' recommendation to deny Columbia's RNA proposal, without further comment.

XIII. Customer Service and Quality of Service

A. Call Center Performance

1. Positions of the Parties

Columbia argued that the OCA, through its witness, Ms. Barbara Alexander, failed to provide sufficient support for its position, *infra*, that, as a prerequisite for any rate increase, the Company be required to maintain its 2024 call center performance levels throughout the FPFTY. Columbia M.B. at 179-80. In response, Columbia asserted that its "2024 call center performance demonstrated marked improvements…with the Company answering 83% of calls within 30 seconds and achieving a 2.25% call abandonment rate." *Id*. at 180.

Columbia's witness, Ms. Nicole Paloney, expounded upon the steps taken by the Company to improve call center performance, including the creation of a team to identify ways to improve performance, with the team implementing the following measures: "(1) a new mentorship program for new [customer service representatives (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." Columbia M.B. at 180-81.

For these reasons, and absent any evidence suggesting the Company is at risk of declining call center performance, the Company asked the Commission to reject the OCA's recommended call center performance standards. Columbia M.B. at 181.

The OCA recommended that Columbia be required "to maintain its 2024 [call center] performance at a minimum during the rate effective year…" OCA M.B. at 165. The OCA argued that Columbia failed to meet its own internal objective of answering 80% of calls within 30 seconds. *Id*. (citing OCA St. 6 at 11). Indeed, the OCA asserted that between 2021 and 2023, the Company's percentage of calls answered within 30 seconds was the lowest of all Pennsylvania NGDCs, with percentages of 74%, 74%, and 73%, respectively. OCA M.B. at 165. (citing OCA St. 6 at 11-12).

Additionally, the OCA noted that Columbia's average call abandonment rate in the same 2021-2023 period was 7%, 7%, and 6%, respectively. OCA M.B. at 165-66 (citing OCA St. 6 at 11-12).

The OCA suggested that Columbia's actions to improve call center performance are a recognition of the Company's poor performance and are actions "that any utility should undertake and is not a basis for rewarding shareholders with a higher profit…" for meeting the standards set by other utilities. OCA M.B. at 168 (citing OCA St. 6 at 7). For these reasons, the OCA recommended that the Commission require Columbia to maintain its 2024 call center performance as part of any rate increase approved in this matter. OCA M.B. at 168.

2. Recommended Decision

The ALJs recommended that the Commission reject the OCA's proposal that Columbia be required to maintain its 2024 call center performance as part of this proceeding. In doing so, the ALJs found that "the record already reflects that Columbia [has implemented] internal performance standards related to its call center and it has taken several steps to improve its call center performance since 2023…" resulting in call center performance meeting the Company's internal standards. Based on this, the ALJs found "no need" to recommend that the Commission impose a requirement upon Columbia to maintain the 2024 call center performance, as requested by the OCA. R.D. at 505.

3. OCA Exception No. 7 and Replies

In its Exception No. 7, the OCA argues that "[t]he 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." In support, the OCA "believes that maintaining existing performance is a reasonable recommendation…[,]" particularly in light of Columbia's historical call center performance. OCA Exc. at 30.

In its Replies to Exceptions, the Company asks the Commission to deny the OCA's Exception No. 7 and adopt the ALJs' recommendation to reject the OCA's proposal that any rate increase granted in this matter include a requirement that the Company maintain its 2024 call center performance numbers. Columbia R. Exc. at 17-18.

The Company submits that the ALJs were correct in reasoning that "the record already reflects that Columbia . . . 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." Columbia R. Exc. at 18 (citing R.D. at 505).

4. Disposition

We concur with the recommendation of the ALJs on this issue. Like the ALJs, we find no reason to adopt the OCA's proposal that would have the Commission require Columbia to maintain its 2024 call center performance as part of this proceeding.

In support, we are swayed by the testimony provided by Columbia's witness, Ms. Paloney, describing the measures undertaken by the Company since 2023 to improve its call center performance. In its Main Brief, Columbia highlighted Ms. Paloney's testimony, as follows:

> Further, Columbia witness Paloney described the measures the Company has taken since 2023 to achieve these improvements in call center performance. 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. 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.

Columbia M.B. at 180-81 (citing Columbia St. 9-R at 17-18). Indeed, the record evidence reflects that the measures taken by the Company appear to be working, as Columbia reported that it was meeting its internal target of 80% for answering calls

within 30 seconds and its target of 2.5% or fewer for call abandonment as of June 2025 and the first quarter of 2025, respectively. *Id*. at 180 (citing Columbia St. 9-R at 18-19).

Therefore, we shall deny the OCA's Exception No. 7. In doing so, we adopt the ALJs' finding that the OCA's proposal that Columbia be required to maintain 2024 call center performance as part of this proceeding is unnecessary and shall be rejected.

B. Customer Complaint Root Cause Analysis

1. Positions of the Parties

The Company asked the Commission to reject the OCA's recommendation, discussed below, that Columbia develop and implement a root cause analysis of customer disputes, including formal and informal complaints. Columbia M.B. at 181. Through its witness, Ms. Paloney, the Company disputed the necessity of the OCA's recommendation, noting that the Company "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." *Id*. at 181-82 (citing Columbia St. 9-R at 24). Additionally, the Company asserted that "these collaborative discussions often lead to targeted refresher training or individualized coaching to reinforce proper procedures and improve customer interactions." Columbia M.B. at 182 (citing Columbia St. 9-R at 24).

Columbia insisted that its current approach "is a more efficient and effective method for improving customer experience…" than the root cause analysis proposed by the OCA. Columbia M.B. at 182 (citing Columbia St. 9-R at 24). More specifically, the Company noted that its justified complaint rate and verified infraction rate were the lowest of all Pennsylvania NGDCs in 2023, with the OCA's citation to

a 0.03% increase in justified payment arrangement cases failing to demonstrate a need for implementation of a root cause analysis. Columbia M.B. at 182 (citing OCA St. 6 at 14-15).

The OCA recommended that the Company be required to develop and implement a root cause analysis of customer disputes in consultation with stakeholders, within six months of the adoption of a final order in this proceeding. OCA M.B. at 274-75 (citing OCA St. 6 at 17). According to the OCA, the Company's "lack of proper analysis and response to customer complaints and lack of proactive oversight…" was a "significant defect" in the Company's customer service program. OCA M.B. at 276 (citing OCA St. 6 at 16).

In response to Columbia's assertion that the Company's current approach was sufficient, the OCA presented the testimony of its witness, Ms. Alexander, who argued that the following were deficiencies of the Company's approach:

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

OCA M.B. at 277 (citing OCA St. 6SR at 9).

The OCA further cautioned that focusing only on individual complaints may prevent the Company from realizing that a single complaint reflects a more serious problem or concern. OCA M.B. at 276 (citing OCA St. 6 at 16). Using the example of

customer complaints to the Commission's Bureau of Consumer Services (BCS) regarding a denial of service letter from the Company, the OCA posited:

> …had Columbia taken a root cause analysis approach to the pattern of improper denial of service communications that appeared in their internal disputes prior to the customer appealing those results to the BCS, the Company could have identified the need for internal reforms prior to waiting to be notified by the BCS and triggering Columbia's response.

OCA M.B. at 277 (citing OCA St. 6 at 10).

2. Recommended Decision

The ALJs agreed with the OCA that Columbia should be required to, in consultation with stakeholders, develop and implement a root cause analysis of customer disputes within six months of the entry of a final Commission Order in this matter. R.D. at 508.

In support of this holding, the ALJs stated the following:

> 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.

R.D. at 508. Based upon this finding, the ALJs recommended that the Commission adopt the OCA's proposal that the Company be required to develop and implement a root cause analysis of customer disputes. *Id*.

3. Disposition

None of the Parties to this proceeding filed Exceptions on this issue. We agree with the ALJs' recommendation and find merit in the ALJs' reasoning that a "more rigorous" root cause analysis of customer disputes would allow the Company to identify and resolve customer service issues and defects in training materials more promptly. R.D. at 508.

Therefore, we shall adopt the ALJs' recommendation on this issue and, by extension, the OCA's proposal. Accordingly, Columbia shall be required, within six months of the entry of a final Commission Order in this matter, to develop a root cause analysis of customer disputes. Design and implementation of the root cause analysis shall be made in consultation with stakeholders.[186] The root cause analysis should include customer disputes, and informal and formal complaints. Particular focus should be given to the findings of BCS, identified as "verified" or "infractions."

We note that the Company shall not be required to submit any documents or findings from its development of a root cause analysis outside of the normal Commission and BCS processes. Columbia shall continue to cooperate with the Commission's Bureau of Audits (Audits) and BCS to ensure adequate service to its customers. *See PGW 2023* at 198-99.

[186] In their recommendations, the ALJs generally directed that the Company consult with "stakeholders" as to the root cause analysis of customer disputes and to review scripts for automated chat box or "apps," addressed in Section XIII.C, *infra*. Likewise, here, we decline to identify or direct the Company to consult with any specific party or entity as to these consultations but encourage Columbia to consult with the interested Parties to this proceeding to identify all appropriate stakeholders as to these issues.

C. Use of Automated Scripts and Bots

1. Positions of the Parties

Columbia, in its rebuttal testimony, "agreed to conduct a thorough review of its workflow and scripting regarding consumer protections for these areas and to report its findings to its Universal Service Advisory Council (USAC) within 6 months of the entry of a final Commission Order in this proceeding. Columbia M.B. at 183 (citing Columbia St. No. 9-R at 27). Columbia explained that the OCA's recommendation, to which the Company agreed, directs the Company to "review its scripts for automated chat programs and [Interactive Voice Response (IVR)] scripting…" *Id*. (citing OCA St. 6 at 22).

The OCA recommended that 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." OCA M.B. at 286. The OCA also requested that the Commission order the results of any analysis to be reported to stakeholders within six months after the entry of the final order in this proceeding. *Id*. (citing OCA St. 6 at 22; OCA St. 6SR at 15).

2. Recommended Decision

The ALJs agreed with Columbia and the OCA that a review of the Company's scripts for automated chat box or "app" communications with consumers benefits both the Company and consumers. R.D. at 510.

Therefore, the ALJs recommended that Columbia be required to review its scripts for automated chat box and "app" to ensure all customer rights associated with the transactions are provided to customers. The ALJs further recommended that

Columbia be required to report the results of its review to stakeholders within six months after the entry of a final order in this matter. R.D. at 511.

3. Disposition

None of the Parties to this matter filed Exceptions on this issue. We find the ALJs' recommendation to be supported by substantial evidence in the record. Namely, we agree with the statements of Columbia and the OCA, as reflected in the Recommended Decision, that a review of the Company's scripts will provide benefits to both the Company and its customers. R.D. at 510.

Therefore, we shall adopt the ALJs' recommendation that Columbia be required to review scripts for any automated chat box or "app" to ensure customer rights associated with these interactions and transactions are provided to customers. R.D. at 511. Columbia shall additionally be required to report the results of this review to stakeholders within six months after the entry of a final order in this proceeding.

D. Billing and Payment Policies

1. Positions of the Parties

Columbia submitted that the Commission should reject the proposal of the OCA, *infra*, that the Company be required to report and evaluate on the effectiveness of its payment arrangements and to identify areas that could be changed to increase the overall success of payment arrangements. Columbia M.B. at 184 (citing OCA St. 6R at 17). In support, the Company argued that the OCA failed to allege "that the Company is not adhering to the applicable provisions of the Public Utility Code, the Commission's orders or regulations, or the Company's Commission-approved tariff related to payment agreements." Columbia M.B. at 184.

Additionally, the Company alleged that the OCA's "only support for this recommendation is the [0.03%] increase in justified payment agreements between 2021 and 2023…" and that such a minor increase "does not demonstrate any trend or uptick in justified payment agreements and certainly does not necessitate the comprehensive analysis and report…" requested by the OCA. Columbia M.B. at 184 (citing OCA St. 6SR at 17).

The OCA recommended that Columbia "be required to evaluate and report on its payment plans, their policies, and identify potential reforms and changes that are likely to ensure a greater success with payment plans." OCA M.B. at 278 (citing OCA St. 6 at 17). The OCA believed such action could lessen the costs of collection, reduce the number of service terminations, and result in a lower uncollectible expense. *Id*. The OCA took the position that approval of Columbia's proposed uncollectible expense, discussed in Section VIII.R, *supra*, would be unreasonable "when the Company does not undertake any reasonable steps to evaluate the success or failure of its payment arrangements." *Id*. at 278-79 (citing OCA St. 6 at 18).

The OCA, through its witness, Ms. Alexander, suggested that the recommended evaluation should be conducted, even though Columbia's payment arrangements adhere to Commission Regulations, and testified, in relevant part, as follows:

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

> increased based on the [Utility Consumer Report and Evaluation (UCARE)] data.

OCA M.B. at 280 (citing OCA St. 6 at 17). The OCA proffered testimony showing that 4.3% of PARs to BCS regarding Columbia's payment arrangements were "justified" and that Columbia's justified PAR rate increased from 0.03% in 2021 to 0.06% in 2023. OCA M.B. at 279 (citing OCA St. 6 at 14-15).

2. Recommended Decision

The ALJs agreed with the OCA and recommended 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 greater success with payment plans." The ALJs recommended that Columbia be required to begin the process of this evaluation within six months of the entry of the final order in this matter. R.D. at 513.

The ALJs opined that "[w]hile Columbia's current billing and payment policy does not violate the Code, Commission regulation or a Commission order…" the ALJs could not ignore "even a small uptick in justified payment arrangement requests…" as they may portend future problems. The ALJs further noted that Columbia does not currently evaluate the efficacy of its payment arrangements, leaving "little chance of improvement in this area." R.D. at 513.

3. Columbia Exception No. 16 and Replies

In its Exception No. 16, Columbia asserts that the ALJs erred in recommending that the Company be required to undertake a comprehensive analysis of payment arrangement policies. Columbia Exc. at 29. Columbia is of the opinion that

"[t]he RD recommends a solution in search of a problem…." In Columbia's view, the OCA's proposal is not supported by the record and should be rejected. *Id*. at 30-31.

Columbia also argues that "it is undisputed that the Company's existing payment agreement policies are fully compliant with the applicable provisions of the Public Utility Code, the Commission's orders and regulations, and the Company's Commission-approved tariff." Columbia Exc. at 30 (citing Columbia M.B. at 184). The Company submits that its current payment arrangement policies employ the Commission's guidelines to ensure consistency, fairness, and transparency. Columbia Exc. at 30 (citing Columbia St. 9-R at 25).

Finally, the Company takes the position that the OCA's recommendation is too vague "as it contains very little detail on the scope of the evaluation and review required, *i.e.*, whether the Company must analyze the results of every payment agreement issued, the time frame for the agreements reviewed, or what reforms would be satisfactory." Columbia Exc. at 30.

In its response to Columbia's Exception No. 16, the OCA argues that the Company misconstrues the reason for the OCA's proposal. Namely, the OCA contends that "the point of the recommended examination is [] whether the payment arrangements and training materials are resulting in success, meaning customers on payment arrangements are able to consistently and timely pay their bills and keep their service connected." OCA R. Exc. at 14 (citing OCA R.B. at 149). For this reason, the OCA insists that its proposal is reasonable, in the public interest, and should be adopted by the Commission. OCA R. Exc. at 15.

4. Disposition

We shall grant, in part, and deny, in part, Columbia's Exception No. 16. Upon review of the record and the Exceptions and Replies, we conclude that the manner in which Columbia manages its payment plans has a direct correlation with customers' abilities to afford and maintain their natural gas service and, as a result, with uncollectible expenses. The Commission's most recent Universal Service Programs and Collections Performance Report shows that based on the total amount of Columbia customers that received payment arrangements in 2023, 59.4% of those customers were confirmed low income (CLI) customers. *See* Pennsylvania Public Utility Commission Universal Service Programs and Collections Performance 2023 Report (Published September 2024) at 12.[187] The record in this case shows that only 23% of Columbia's estimated low income customers and 30% of its confirmed low income customers were enrolled in CAP. CAUSE-PA St. 1 at 11, 24. Under the circumstances, we find that it is appropriate for Columbia's payment plans and policies to be evaluated within Columbia's USAC to help ensure success with payment plans as well as to evaluate whether payment plans are the most advantageous avenue for assisting low income customers.

Accordingly, we shall grant, in part, and deny, in part, Columbia's Exception No. 16 and shall direct Columbia to submit these issues to its USAC, within three months of the entry of this Opinion and Order. We stress that Columbia should also be fully prepared to address these payment plan issues in its next Universal Service and Energy Conservation Plan (USECP).

[187] We note that this data does not include CAP payment plans.

E. Field Termination and Training Materials

1. Positions of the Parties

Columbia asserted that the Commission should reject the OCA's proposal, discussed below, that the Company should be required to revise its training materials and provide additional employee training to "ensure compliance with all applicable consumer protections and rights for residential customers facing service termination." Columbia M.B. at 185. Columbia averred that its current policies and training materials are "fully compliant" with all regulatory requirements such that any additional revision is unnecessary. Columbia M.B. at 185 (citing Columbia St. 9-R at 26).

Columbia also submitted that the OCA's recommendation "overlooks the fact that the Company has multiple contacts with customers leading up to the moment of termination that inform customers of their rights, including the 10-day termination notice and 3-day personal contact attempts." Columbia M.B. at 185 (citing Columbia St. 9-R at 26). The Company further pointed to the written notice the Company leaves at the customers' premises in such situations, which informs customers of their rights. Columbia M.B. at 185.

Finally, Columbia insisted, "the Company's training materials properly address the conditions that would require its employees to withdraw termination under the Commission's regulations and further training for employees carrying out terminations is not necessary." Accordingly, Columbia averred that the Commission should reject the OCA's proposal. Columbia M.B. at 186.

After reviewing Columbia's written instructions and training materials for field representatives conducting termination, the OCA expressed concerns that consumer protections are not identified or implemented in Columbia's training materials.

OCA M.B. at 280 (citing OCA St. 6 *Confidential* at 18-19).[188] The OCA alleged that evaluation of these materials and policies is a "crucial component of determining the reasonableness of bad debt." OCA M.B. at 280-82 (citing OCA St. 6 at 18).

Based on these concerns, the OCA recommended "that the Company appropriately educate and train its field personnel on all potential rights that may be encountered and how to respond." OCA M.B. at 281. The OCA's recommendation also included:

> [T]hat the Company revise its training materials to comply with all the applicable consumer protections and rights for residential customers facing termination of service. [The OCA's witness, Ms. Alexander] recommended that the training materials should be improved to reflect the full range of customer rights associated with termination of service.

Id. at 282.

2. Recommended Decision

The ALJs agreed with the Company's position that Columbia's field termination training materials already include the necessary requirements from the Commission's Regulations. Therefore, the ALJs recommended that the OCA's proposal be rejected. R.D. at 516.

The ALJs found that the Company has multiple contacts with customers prior to termination, with these contacts providing information on the customer's rights. The ALJs also opined that requiring the Company's employees to further discuss

[188] We note that although the OCA cited to its confidential testimony in making this argument, the information presented in this Opinion and Order has not been marked by any party as "confidential."

customer rights at the time of termination "places an undue burden on the employees and exposes both the employee and customer to unneeded safety risks…." R.D. at 516.

For these reasons, the ALJs found that "the customers are sufficiently advised of their rights prior to termination and that they always have the option to reach out to the Company's call center. R.D. at 516.

3. OCA Exception No. 8 and Replies

In its Exception No. 8, the OCA argues that "[t]he ALJs' recommendation is contrary to the express language of the Public Utility Code for exceptions to discontinuance of service." OCA Exc. at 32. The OCA also insists that "the purpose of the field service representative contact is to terminate essential natural gas utility service for every member of the household…" and the Company's current training materials fail to describe and recognize the rights customers have to avoid termination. *Id*. at 33.

Therefore, the OCA remains of the opinion that its proposal that field service representatives be trained to comply with and understand consumer rights is reasonable and in the public interest and should be adopted by the Commission. OCA Exc. at 33.

In its Reply Exceptions, the Company contends that the OCA's claim is unsupported by the record or the Code, and that the ALJs correctly determined the Company's field termination training materials to be sufficient. Columbia R. Exc. at 18-19 (citing R.D. at 516). The Company provides four reasons supporting the denial of the OCA's Exception No. 8. Columbia R. Exc. at 19-21.

First, the Company avers that it "fully demonstrated" that its current termination materials meet and comply with Commission Regulations, specifically

Section 56.94(1). Columbia R. Exc. at 19 (citing 52 Pa. Code §56.94(1)). Second, the Company agrees with the ALJs' finding "that the point of field contact is not the appropriate time to reiterate all consumer protections and rights…" given the unneeded safety risks and the undue burden placed on employees of the Company. Columbia R. Exc. at 19-20. Third, Columbia posits that the OCA's reliance on Section 1503(b) of the Code, 66 Pa.C.S. § 1503(b), is "misplaced" and the Company's field termination training materials and procedures include the four conditions that require terminations to stop in the field. Columbia R. Exc. at 20 (citing 52 Pa. Code §56.94(1)).

Finally, the Company asserts that the OCA "disregarded" the Company's arguments outlining the personal contacts leading up to the point of termination and now attempts "to move the goal post" and widen the scope of its recommendation beyond the rights that may be asserted by a customer or responsible adult at the door of the service address immediately prior to termination. Columbia R. Exc. at 20 (citing Columbia St. 9-R at 26). According to Columbia, the OCA improperly attempts to broaden its proposal at the Exceptions stage, and that insomuch as the proposal is broadened, it should be rejected outright. Columbia R. Exc. at 20-21.

4. Disposition

We agree with Columbia and the ALJs that the Company's current field training materials and practices include the necessary components from the Commission's Regulations and sufficiently advise customers of their rights prior to termination. We shall, therefore, deny the OCA's Exception No. 8 and adopt the reasoning of the ALJs, as well as their recommendation that the OCA's proposal be rejected.

As the Company notes, its current procedures meet the requirements of 52 Pa. Code §56.94(1) in advising field technicians of the conditions under which

termination cannot occur. Columbia M.B. at 186. Additionally, the Company highlighted that termination work orders are not generated for any accounts that are in dispute, which explains why training materials may not address cases where a dispute or complaint is pending. *Id*. (citing Columbia St. 9-R at 26).

Further, the Company outlined the myriad of contacts with customers that occur prior to termination, including the 10-day termination notice and 3-day personal contact attempts. Columbia M.B. at 185 (citing OCA St. 9-R at 26). Further, the Company leaves a written notice at the customer's location after termination, informing customers of their rights. Columbia M.B. at 185.

Therefore, we shall deny the OCA's Exception No. 8. In doing so, we shall adopt the ALJs' recommendation to reject the OCA's proposal that Columbia be required to revise its training materials and provide additional training to field technicians to ensure compliance with consumer protections and rights for residential customers facing termination.

XIV. Universal Service Programs

A. Speech Analytics Pilot

1. Positions of the Parties

Columbia contended that its Speech Analytics Program (SAP) should be approved, as filed. Columbia explained that its SAP Program is a two-year pilot program[189] that the Company agreed to propose as a result of the settlement reached in

[189] As outlined below, we shall refer to the SAP as the SAP Program, the SAP Pilot, or the SAP Pilot Program, interchangeably.

Columbia Gas 2024.[190] According to Columbia, the SAP Program will use Speech Analytics Technology (SAT) to review customer calls to identify customers that may be eligible for Columbia's CAP, and who were not referred to CAP during a customer service call. Columbia stated two primary goals of the SAP Program: (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 that information to adjust processes to make appropriate referrals to CAP as soon as possible. Columbia M.B. at 187.

Columbia described that the SAP Program, if approved, would operate under a two-phase process, as follows: (1) Phase I, where the Company will use SAT to screen recordings of calls related to payment arrangements; and (2) Phase II, where 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. Columbia M.B. at 187-88. Columbia stated that by using SAT, it 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 who may be eligible based on the customer's conversation. Columbia explained that the estimated annual budget for the SAP Pilot is $300,000, which includes the prorated portion of the annual licensing fee for SAT, programming the SAT, analyzing results, and related training. Columbia added that it proposes to recover the costs related to the SAP Pilot through its Rider USP. *Id.* at 188.

I&E opposed the Company's annual budgeted expense claim of $300,000 for the SAP Program for the following six reasons: (1) the SAP Program is not mandated

[190] Specifically, Columbia agreed to "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." Columbia M.B. at 187, n.606 (citing *Columbia Gas 2024* at 21).

by statute or regulation; (2) the Company failed to support its claimed expense of $300,000; (3) approval of the SAP Program provides the Company with a guaranteed expense recovery without any established measurement of success or real term benefit to ratepayers; (4) the Company currently utilizes software applications for speech analytics, which eliminates the need for the SAP Program; (5) there are no proven benchmarks or other utilities' SAT experience or performance metrics that can support the SAP Program and its expense; and (6) the Company should propose the SAP Program in Columbia's USECP proceeding. I&E M.B. 71-73.

The OCA supported the SAP Pilot and agreed that the costs of the SAP Pilot should be recoverable through the Company's Rider USP. OCA R.B. at 159; OCA St. 5 at 74. The OCA recommended that the Company's SAP Pilot be extended by one additional year. OCA M.B. at 311.

CAUSE-PA opposed Columbia's SAP Program, as filed, pointing to its insufficiencies to address chronic under-enrollment of low income customers in CAP. CAUSE-PA argued that the SAP Program adds cost and increases risks of bias and data disclosure without a clear or definite benefit to ratepayers. According to CAUSE-PA, artificial intelligence (AI) tools have the potential to infuse bias into the data modeling. CAUSE-PA M.B. at 113. Although Columbia had committed in testimony not to include demographic data, CAUSE-PA averred that the language and phrases in the model could still favor certain groups or populations over others. As such, CAUSE-PA recommended that the Company, in consultation with its USAC, identify a consultant trained in identifying potential bias in AI data modeling. *Id.* at 113-14.

Additionally, CAUSE-PA discussed its concern over data protection, given that there are no statutes or regulations governing non-disclosure. As a result, CAUSE-PA recommended that Columbia memorialize its commitments made in testimony to not share raw data with third parties, to scrub any shared data, and to limit

high level data focusing on lessons learned and changes in policy or procedure. CAUSE-PA M.B. at 115.

Ultimately, CAUSE-PA urged the Commission to impose CAUSE-PA's recommended safeguards to the SAP Program. CAUSE-PA M.B. at 115.

2. Recommended Decision

In the Recommended Decision, the ALJs recommended the approval of the Company's SAP Program, on the condition that the Company memorializes its commitment on data sharing, as recommended by CAUSE-PA. R.D. at 523-24. According to the ALJs, Columbia's development plan for the SAP Program is sufficient for a pilot. The ALJs reasoned that the SAP Program would allow Columbia to gather needed data to determine its level of success and whether it should be expanded. *Id.* at 524.

3. Disposition

No Parties filed Exceptions to the ALJs' recommendation on this issue. Given that the ALJs have recommended that the Company memorialize its commitment to not share raw data with third parties, to scrub any shared data, and to limit high level data focusing on lessons learned, we find that the recommendation adds a layer of protection to Columbia's customers and is an appropriate addition to Columbia's SAP Pilot Program. Finding the ALJs' recommendation to be reasonable, appropriate, and in accordance with the record evidence, it is adopted.

B. CAP Arrearage Pilot Program

1. Positions of the Parties

Columbia proposed a two-year CAP Arrearage Pilot Program (CAP Pilot), with a budget of $100,000, to help customers who were removed from CAP for non-payment return to the program. Columbia M.B. at 192. Specifically, Columbia estimated that the CAP Pilot will aid at least 153 customers, and the Company has budgeted for up to 270 customers based on average arrears. *Id*. (citing Columbia St. 16 at 3, 5). Under the CAP Pilot, the Company stated that it will issue grants up to $650 for the payment of CAP arrears to facilitate re-entry into CAP. Columbia M.B. at 192-93. Once the grant is posted, the customer will be re-enrolled in CAP. *Id*. at 193 (citing Columbia St. 16 at 3). To be eligible for the CAP Pilot, the Company contended that customers must meet all existing CAP requirements as specified in the Company's USECP and must have outstanding CAP arrears. Columbia M.B. at 193. The Company stated that customers will be limited to one grant through the CAP Pilot. *Id*. (citing Columbia St. 16 at 4). According to Columbia, Company CSRs will make the initial referrals to the CAP Pilot, and if additional funds remain after three months of the CAP Pilot's initiation, the Company will reach out to the potentially eligible customers in writing. Columbia M.B. at 193 (citing Columbia St. 16 at 5-6).

Columbia noted that no Party opposed its CAP Pilot, and that CAUSE-PA proposed the only modification, recommending that the CAP Pilot be extended to three years with a budget of $244,200, and with targeted outreach to all potentially eligible customers. Columbia M.B. at 194 (citing CAUSE-PA St. 1 at 35, 37). In response, Columbia opposed CAUSE-PA's proposed modification, *infra,* and contended that the Company's proposed budget and timeline will provide enough data to analyze results and determine the success of the CAP Pilot. Columbia M.B. at 194 (citing Columbia St. 16-R at 6). Columbia further asserted that its proposed outreach is a prudent way for

the Company to gauge customer reception of the CAP Pilot and ensure it is launched smoothly. Columbia M.B. at 194 (citing Columbia St. 16 at 6). According to Columbia, its proposed budget will allow the Company to process 270 qualified applicants, which the Company anticipated is within its internal team's capacity to manage, while providing a good sample size to evaluate the impact of the CAP Pilot. Columbia M.B. at 194-95 (citing Columbia St. 16 at 5). The Company argued 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.[191] Columbia M.B. at 195 (citing Columbia St. 16-R at 7).

The OCA recommended that Columbia's CAP Pilot be approved. OCA M.B. at 317.

CAUSE-PA stated that it is "strongly supportive" of Columbia's CAP Pilot, but contended that the budget and timeframe proposed by the Company are insufficient to address the identified need or to adequately assess the Pilot. CAUSE-PA noted that Columbia's proposal to assist between 153 and 270 customers over the two-year CAP Pilot would only assist 4% to 7% of the estimated 3,960 eligible customers in Columbia's service territory that have arrears of $650 or less. CAUSE-PA M.B. at 116 (citing CAUSE-PA St. 1 at 34). As such, CAUSE-PA recommended extending the CAP Pilot until the Company's next USECP is approved and increasing the budget to $244,200 per year to serve at least half of the identified eligible population. CAUSE-PA M.B. at 116-17 (citing CAUSE-PA St. 1 at 35).

[191] *See Columbia Gas of Pennsylvania, Inc. Universal Service & Energy Conservation Plan for 2024-2028*, Docket No. M-2023-3039487 (Final Order entered April 4, 2024) (*Columbia 2024-2028 USECP*).

2. Recommended Decision

Noting the absence of any stated opposition to Columbia's CAP Pilot proposal, the ALJs agreed with the Company's proposal, as stated. The ALJs further noted that the Company's two-year Pilot will benefit between 153 and 270 eligible customers who were removed from CAP due to arrears, through the issuance of grants up to $650 and that upon posting of the grant, the customer will be re-enrolled in CAP. While the ALJs recognized CAUSE-PA's desire to help more eligible customers by proposing an increase in the budget and timeframe for the CAP Pilot, the ALJs found that Columbia's proposal will assist some customers and provide the necessary data to evaluate the program. Therefore, the ALJs recommended that the Commission grant the Company's CAP Pilot proposal with a budget of $100,000. R.D. at 528.

3. Columbia Exception No. 20 and Replies

In its Exception No. 20, Columbia argues that Ordering Paragraph Nos. 34, 35, and 41 of the Recommended Decision expand the budget, time frame, and marketing requirements for the Company's unopposed CAP Pilot, essentially recommending the adoption of CAUSE-PA's alternate proposal on this issue. Columbia Exc. at 39 (citing R.D. at 684-85). According to Columbia, as outlined in their analysis on this issue, the ALJs agreed with the Company that the proposed scope and budget of the CAP Pilot are reasonable and recommended the adoption of the Company's proposal, as filed. Columbia Exc. at 39 (citing R.D. at 527-28). As such, the Company contends that the CAP Pilot should be approved, as filed, consistent with the analysis in the body of the Recommended Decision, and that the above Ordering Paragraphs should be modified to reflect the approval of the CAP Pilot's budget and scope, as filed. Columbia Exc. at 39.

In reply, the OCA generally states that Ordering Paragraph Nos. 11, 34-38, and 41 of the Recommended Decision should not be modified.[192] OCA R. Exc. at 24.

In its Replies to Exceptions, CAUSE-PA notes that Ordering Paragraph Nos. 34, 35, and 41 of the Recommended Decision contemplate the adoption of CAUSE-PA's proposed modifications to Columbia's CAP Pilot and that such Ordering Paragraphs do not directly mirror the language referencing the CAP Pilot earlier in the Recommended Decision. CAUSE-PA R. Exc. at 23-24. Nevertheless, CAUSE-PA argues that the record establishes the need for these proposed modifications. CAUSE-PA R. Exc. at 23-24 (citing CAUSE-PA M.B. at 115-18). Therefore, CAUSE-PA requests that the Commission affirm the recommended directives set forth in Ordering Paragraph Nos. 34, 35, and 41 of the Recommended Decision. *Id.* at 24.

4. Disposition

On review of the Company's Exception No. 20, as it relates to the Company's recommended Ordering Paragraph Nos. 34, 35, and 41, we find it to be meritorious. The ALJs, in their analysis, explicitly agreed with Columbia's CAP Pilot Proposal, "as stated," noting its two-year duration and recommending that "the Commission grant the Company's CAP Pilot proposal with a budget of $100,000." R.D. at 528. As a result, the directives contained in Ordering Paragraph Nos. 34, 35, and 41, regarding the expansion of the budget, timeline, and the marketing requirements for the CAP Pilot appear to be oversights.

Notwithstanding these oversights, we agree with the recommendation appearing in the ALJs' analysis with respect to Columbia's CAP Pilot. We do not

[192] As discussed elsewhere in this Opinion and Order, in addition to objecting to Ordering Paragraph Nos. 34, 35, and 41 of the Recommended Decision, Columbia also takes issue with Ordering Paragraph Nos. 11 and 36. *See* Columbia Exc. at 39-40.

believe that the budget or the duration for the CAP Pilot should be increased, until the effectiveness of the program can be evaluated. We note that Columbia will evaluate the CAP Pilot by tracking the customers that received the CAP grants and assessing whether the payment rates and the duration of the participation in CAP compares to customers that re-entered CAP without the grant. We further note that the Company's determination of the success of the CAP Pilot will be shown through higher participation in CAP, improved participation rates, increased reverification rates, and continued participation in CAP. *See* Columbia St. 16 at 6. In addition, at the Company's most recent USECP docket, Columbia committed to reviewing the CAP Pilot data points to be collected with its USAC and to filing annual results. *See Columbia 2024-2028 USECP.* The Company also stated that Pilot data collected in 2026 and 2027 will be analyzed and included in the required 2029 final evaluation report. *See* Columbia St. 16-R at 7. Lastly, we agree that Columbia's proposed outreach for its CAP Pilot is a practical way for the Company to assess customer reception of the program.

Therefore, the appropriate corrections will be reflected in the relevant Ordering Paragraphs of the instant Opinion and Order, and Columbia's Exception No. 20, as it relates to Ordering Paragraph Nos. 34, 35, and 41, is granted.

C. Recovery of EAT Through Rider USP

1. Positions of the Parties

As discussed in Section VIII.N of this Opinion and Order, *supra*, Columbia proposed to recover EAT costs associated with the administration of Universal Services programs like the Customer Assistance, Referral and Evaluation Services Program (CARES) and CAP through its Rider USP. Columbia M.B. at 195. According to the Company, the EAT is responsible for the administration of all energy assistance activities including the administration of CAP, LIHEAP, CRISIS, the Homeowner Assistance

Fund, the Emergency Rental Assistance Program, Hardship Funds, and the Security Deposit Assistance Fund. Columbia explained that all CAP external administration costs and all costs associated with the LIURP program are already recovered through the Company's Rider USP. *Id.* at 196.

Columbia contended that its proposal to recover costs through its Rider USP is due to additional workload which requires additional staffing and recovery through its Rider USP and will permit the Company to staff for fluctuating demands. Columbia M.B. at 196. The Company submitted that costs related to the outreach and delivery of LIHEAP, CAP, and other energy assistance programs are more appropriately recovered through its Rider USP, and not base rates. *Id.* at 196-97.

As previously discussed, I&E recommended that the Commission reject the Company's proposal to recover EAT costs through its Rider USP for two reasons. First, I&E argued that moving EAT cost recovery from base rates to Rider USP provides Columbia a guaranteed recovery of EAT labor costs and eliminates the Commission's authority to review the reasonableness and prudency of those costs. Second, I&E contended that fluctuation in staffing needs is a routine event in business operations and is required to be managed appropriately. According to I&E, if the Commission were to adopt the Company's proposal, Columbia would have the ability to add or remove employees without scrutiny. I&E M.B. at 30.

The OCA restated its position that the Company should not be permitted to shift EAT costs from base rates to the Rider USP. The OCA claimed that collection through the Rider USP is narrowly defined and the proposed expansion to include call center EAT costs expands the scope. OCA M.B. at 317. According to the OCA, the "Rider USP is not a mechanism for [Columbia] to use to recover costs imposed by federal and state agencies." OCA M.B. at 318 (citing OCA St. 5 at 114). The OCA further submitted that it is clear that Columbia's intention is to expand the categories of

costs to be recovered through its Rider USP, including costs imposed by the federal LIHEAP program. OCA M.B. at 319.

The OCA explained in testimony that the inclusion of administrative costs in the Rider USP is only appropriate when costs fluctuate and pose a risk that they may not be fully recovered. The OCA further asserted that the Company's tariff specifically limits the categories allowable for recovery of Rider USP costs. The OCA stated that costs are not automatically deemed to be "universal service" costs simply because they are directed toward low income customers. OCA M.B. at 320.

CAUSE-PA argued that Columbia should only be allowed to recover EAT costs through its Rider USP to the extent that the costs are attributable to staff that work exclusively on its USP. CAUSE-PA M.B. at 160. According to CAUSE-PA, if Columbia were to assign salaries to Rider USP that are not exclusively attributable to the administration of USPs, the Company runs the risk of artificially inflating its Rider USP costs, which can hinder Columbia's ability to fund necessary programs in the long term. *Id.* at 161.

Additionally, CAUSE-PA argued that Columbia's proposed tariff language for its Rider USP is overly broad and can cause confusion regarding what costs are actually recovered through the rider. CAUSE-PA M.B. at 161. Specifically, CAUSE-PA stated that Columbia is proposing to add the following sentence to the first paragraph under the calculation of the rate, "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.* (citing Supplement No. 392 to Tariff Gas at Proposed Twenty-eighth Revised Page No. 146). CAUSE-PA contended that the added language interferes with the Commission's ability to ensure that costs are appropriately allocated between what should be collected in base rates versus what should be collected through the rider. CAUSE-PA M.B. at 162.

2. Recommended Decision

The ALJs recommended the rejection of Columbia's proposal. The ALJs stated that because there is no statewide rule requiring or forbidding inclusion of EAT labor costs in the Rider USP, it is a case-specific determination made in the rate case/USECP record. R.D. at 534.

The ALJs determined that by moving EAT cost recovery from base rates to the Rider USP, Columbia is provided a guaranteed recovery of EAT labor costs and the Commission's authority to review the reasonableness and prudency of EAT labor costs is eliminated. R.D. at 534. Specifically, the ALJs did not find Columbia's claim persuasive, that by allowing EAT cost recovery through the Rider USP, the Company will be permitted to appropriately staff for fluctuating demands for additional staffing. R.D. at 534-35. The ALJs explained that fluctuation in staffing needs is a routine event in business operations and is required to be managed appropriately as the staffing needs change. Furthermore, the ALJs reasoned that by keeping all staffing costs under O&M expenses, it ensures no duplicate recovery of related costs in base rate proceedings. *Id.* at 535.

3. Columbia Exception No. 7 and Replies

As discussed in Section VIII.N, *supra*, in its Exception No. 7, Columbia explains that it does not object to the ALJs' recommendation that the Commission direct the Company to continue to recover its EAT costs through its base rates. However, Columbia submits that the ALJs erred in making their corresponding recommendation that the Commission disallow the recovery of $220,000 in EAT costs through the Company's base rates. Columbia Exc. at 15. The OCA, in its reply to the Company's Exception No. 7, stated that while it opposes recovery of the EAT costs through the

Rider USP, it does not oppose recovery of the $220,000 expense if the costs remain in base rates. OCA R. Exc. at 22-23.

4. Disposition

As discussed in detail in Section VIII.N, we have adopted the ALJs' recommendation, to which no Party has objected, that the Company be directed to continue to recover its EAT costs through its base rates. However, we have granted Columbia's Exception No. 7 to allow the Company to recover $220,000 in EAT costs in base rates.

D. Proposal to Automatically Enroll LIHEAP Grant Recipients Into CAP

1. Positions of the Parties

In its Main Brief, Columbia argued against CAUSE-PA's recommendation, *infra*, that the Company "automatically enroll into CAP all customers that receive a LIHEAP grant and agree to share their information via the [Department of Human Services (DHS)] data sharing agreement." Columbia M.B. at 199 (citing CAUSE-PA St. 1 at 25). Columbia disagreed with CAUSE-PA's recommendation for three reasons. First, Columbia contended that auto-enrollment would only be possible for a portion of the customers identified by CAUSE-PA, and CAUSE-PA's proposal would require the Company to manually review and follow up on the accounts not eligible for CAP. Next, Columbia averred that customers who are automatically enrolled in CAP would not have the opportunity to review and agree to the responsibilities associated with CAP participation. Columbia M.B. at 200. Lastly, Columbia asserted that customers should be given the option to determine whether CAP participation aligns with the financial needs of their households. *Id.* at 201. Columbia explained that customers seeking relief

through grants may not want to fully commit to CAP enrollment requirements and the Company is not in the position to make that choice for them. *Id.* at 202.

In support of its position, Columbia cited to the Commission's Order in the *Peoples' USECP Proceeding*,[193] where the Commission rejected Peoples' Petition seeking to automatically enroll customers into CAP using the shared DHS data. Columbia M.B. at 202-03. As such, Columbia requested that the Commission reject CAUSE-PA's proposal to automatically enroll LIHEAP grant recipients into CAP. *Id.* at 203.

CAUSE-PA contended that to address the deficiency in LIHEAP enrollments, Columbia should seek to further leverage data obtained through the DHS LIHEAP Data Sharing Program to automatically enroll recipients into CAP. CAUSE-PA explained that in anticipation of the DHS LIHEAP Data Sharing Program, the Commission issued an order encouraging utilities to participate in the program. CAUSE-PA M.B. at 103. According to CAUSE-PA, for the utility to receive data about a LIHEAP recipient, that utility's customer must affirmatively consent to participate in the data sharing program. *Id.* at 104.

CAUSE-PA recognized that Columbia had developed a process to simplify the enrollment and recertification processes for CAP through the use of LIHEAP data but argued that these processes still fall short. CAUSE-PA M.B. at 104. CAUSE-PA asserted that adoption of an automated enrollment process through utilization of shared LIHEAP data would help to reduce administrative burdens and costs for both the Company and the customer and would help to improve CAP enrollment rates and better mitigate the negative impact of Columbia's proposed rate increase on low income families. *Id.* at 104-05.

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[193] *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 April 24, 2025) (*Peoples' USECP Proceeding*).

CAUSE-PA took the position that in order to reduce disproportionately high collections and termination rates for low income families, Columbia should develop a detailed proposal and amend its USECP to implement an auto-enrollment process within 120 days of the entry of the Commission's final order in this proceeding. CAUSE-PA M.B. at 105. CAUSE-PA explained that Columbia is statutorily obligated to ensure that CAP is adequately funded and accessible to those in need, and argued that Columbia, whose rates are the highest among Pennsylvania NGDC's on an average basis, should take steps to improve the enrollment of eligible customers into CAP. *Id.* at 108.

2. Recommended Decision

The ALJs recommended that CAUSE-PA's proposal be denied. R.D. at 543. The ALJs agreed with Columbia that auto-enrollment would only be possible for a portion of the customers identified by CAUSE-PA because some customers would be ineligible. In this regard, the ALJs highlighted those customers that had been enrolled in CAP previously with an existing CAP balance, those that failed to cooperate with weatherization, and those recipients whose LIHEAP grant caused a credit on their account. *Id*. at 542 (citing Columbia St. 16-R at 2). The ALJs determined that those instances would require the Company to manually review and follow up on the accounts not eligible for CAP, which could lead to a significant increase in time and resources. R.D. at 542.

Further, the ALJs concluded that each customer should be afforded the opportunity to review and agree to the responsibilities associated with CAP participation and that it should not be the Company's responsibility to decide for its customers whether

CAP is financially beneficial for their households. R.D. at 542-43.[194] According to the ALJs, the option to opt out of auto-enrollment is not sufficient. Based on the foregoing, the ALJs recommended the rejection of CAUSE-PA's proposal to auto-enroll LIHEAP grant recipients into CAP and to share their information via the DHS data sharing agreement. *Id.* at 543.

3. Disposition

No Party to this proceeding filed Exceptions on this issue. We find the ALJs' recommendation to be reasonable and agree with the ALJs that each customer should be afforded the opportunity to learn and understand the responsibilities surrounding CAP prior to choosing to participate in the program. Furthermore, it is the right of each customer, and not the responsibility of the Company, to make decisions for themselves as to whether enrollment into CAP would best suit their households.

Therefore, we shall adopt the ALJs' recommendation to deny CAUSE-PA's proposal to automatically enroll LIHEAP grant recipients into CAP.

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[194] We note that in the Recommended Decision, the ALJs stated that "[w]e agree with the Company that it should decide for its customers whether CAP is financially beneficial for their households and we do not believe the option to opt-out of auto-enrollment is sufficient." R.D. at 542-43. However, given the context of the recommendation on this issue and that the ALJs stated that they agreed with the position of the Company, it is clear that the ALJs inadvertently admitted the word "not," such that they agreed with Columbia that "it should **not** decide for its customers whether the CAP is financially beneficial for their households . . ."

E. Additional CAP Screening

1. Positions of the Parties

Columbia argued that the proposals of the OCA and CAUSE-PA regarding CAP screening, discussed below, would require the Company to screen all applicants for their income level at the time they establish or transfer service to determine whether they qualify as low income customers or may be eligible for assistance. Columbia M.B. at 203 (citing CAUSE-PA St. 1 at 30-31; OCA St. 5 at 68). According to Columbia, most customers contacting the Company to establish or transfer service are not identified as low income, and approximately 82% of the Company's customer base does not meet low income criteria. Columbia M.B. at 203 (citing Columbia St. 16-SR at 4). Columbia further opposed the OCA's and CAUSE-PA's proposals on the grounds that such requirements would be intrusive and increase the average call-handle time, which would impact the current call center performance metrics and require the Company to hire at least three full-time employees. Columbia M.B. at 203-04 (citing Columbia St. 16-R at 4).

In response to the proposal of CAUSE-PA, *infra*, that Columbia begin to review CAP accounts monthly to ensure customers are receiving the lowest payment option, Columbia contended that the Company's CAP account review process is automated and that CAP accounts are already reviewed monthly to determine the lowest monthly payment option. Columbia M.B. at 204 (citing CAUSE-PA St. 1 at 38; Columbia St. 16-R at 7-8).

The OCA recommended that Columbia initiate a screening process at the time a household first applies for service from Columbia to determine whether the applicant: (1) should be classified as a CLI customer; and (2) should be referred to the CAP application process. OCA M.B. at 305 (citing OCA St. 5 at 65). The OCA further

proposed that the Company develop a script for screening new customers for low income status, in consultation with the Company's USAC. OCA M.B. at 305. The OCA noted that the OCA's witness, Mr. Roger Colton, explained that the basis for such a proposal is that the Company's outreach for its Universal Service programs is "reactive." *Id*. (citing OCA St. 5 at 65-66). According to the OCA, the problem with this approach is that providing outreach at a time of crisis could cause the customer to be less inclined to take action that may provide future, speculative benefits and more inclined to make a decision that is limited to resolving the instant crisis, such as the disconnection of service. OCA M.B. at 305 (citing OCA St. 5 at 66).

The OCA further asserted that the Company has not employed sufficient procedures to determine whether a low income customer is being properly assessed a cash security deposit when that customer applies for service. OCA M.B. at 306-07 (citing OCA St. 5 at 68). The OCA argued that its recommended screening process presents an opportunity for Columbia to leverage its proposed SAP Program to determine if the new applicants for service qualify for the Company's low income program. According to the OCA, if Columbia has adequately reliable information to form a reasonable belief that an applicant is not creditworthy for purposes of imposing a cash security deposit, then the Company should also have or be able to acquire sufficient information to form a reasonable belief that the applicant is a low income customer or is likely to be qualified for CAP. OCA M.B. at 307 (citing OCA St. 5 at 68-69). In addition, the OCA contended that in accordance with Section 56.32(e) of the Commission's Regulations, the Company should already be taking the steps to determine a customer's financial eligibility for a security deposit, and that the OCA's recommendation is simply for the Company to use the provided information to determine CAP eligibility. OCA M.B. at 308 (citing 52 Pa. Code § 56.32(e)).

CAUSE-PA contended that to help address Columbia's low CAP enrollment levels, the Company should be required to implement routine screening of its

applicants and customers to determine their eligibility for CAP and other universal service programs. CAUSE-PA M.B. at 109 (citing CAUSE-PA St. 1-SR at 26). According to CAUSE-PA, Columbia currently only refers customers to universal service programs when they are seeking payment arrangements. However, CAUSE-PA submitted, customers should be provided with assistance before payment difficulties arise. CAUSE-PA M.B. at 109 (citing CAUSE-PA St. 1 at 30). CAUSE-PA asserted that improved screening and referrals will help to ensure that households are receiving the most advantageous available rate, which is a statutory obligation of the Company under Section 1303 of the Code, 66 Pa.C.S. § 1303. CAUSE-PA M.B. at 109 (citing CAUSE-PA St. 1 at 30; 66 Pa.C.S. § 1303).

Therefore, CAUSE-PA recommended that 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.

CAUSE-PA M.B. at 110 (citing CAUSE-PA St. 2 at 30-31). CAUSE-PA proposed that Columbia should be required to develop and implement screening and referral recommendations within 90 days of the entry of a final Commission Order in this proceeding. CAUSE-PA M.B. at 110 (citing CAUSE-PA St. 2 at 31).

In response to Columbia's argument that additional screening is unnecessary because most of the Company's customers do not meet the low income

criteria, CAUSE-PA asserted that the point of screening is to identify a smaller, hard-to-reach, group within a much larger group. CAUSE-PA M.B. at 111. CAUSE-PA also disagreed with the Company that screening will add to call center time or require additional staff. *Id*. (citing Columbia St. 16-R at 4-5). According to CAUSE-PA, Columbia will save money on CAP outreach despite some upfront costs involved in employing increased call screening to revise call scripts and train call center staff. CAUSE-PA M.B. at 112 (citing CAUSE-PA St. 1-SR at 29).

In addition, CAUSE-PA argued that Columbia should routinely evaluate and adjust CAP rates monthly to ensure that the Company's CAP participants are charged the most advantageous rate. CAUSE-PA M.B. at 118-19 (citing CAUSE-PA St. 1 at 38; 66 Pa.C.S. § 1303). In response to Columbia's argument that CAP accounts are already reviewed monthly to determine the lowest monthly payment option, CAUSE-PA asserted that the Company's USECP still currently reflects that the Company only evaluates CAP accounts quarterly. CAUSE-PA M.B. at 119 (citing CAUSE-PA St. 1 at 23, 35). As such, CAUSE-PA contended that if Columbia does in fact conduct a monthly review of CAP accounts, then the Company should be required to amend its USECP to reflect such practice. CAUSE-PA M.B. at 119.

2. Recommended Decision

The ALJs disagreed with Columbia's argument that the proposals of the OCA and CAUSE-PA for implementing routine screening of applications and customers to determine CAP eligibility would be intrusive, would lead to higher call-handle times, or that it would require the hiring of additional employees. R.D. at 549. Instead, the ALJs agreed with the proposals of the OCA and CAUSE-PA, finding that improved screening and referrals could help ensure households are receiving the most advantageous available rate, which is a statutory requirement. *Id*. (citing CAUSE-PA St. 1-SR at 26). In addition, the ALJs pointed to the testimony of CAUSE-PA's witness, Mr. Harry

Geller, that routine screening serves as an important collection and cost containment tool that helps to lessen the accrual of unmanageable debts, reduce uncollectible expenses and other collection costs, and reduce the cost of the CAP arrearage management program. R.D. at 549 (citing CAUSE-PA St. 1-SR at 26). Therefore, the ALJs recommended that Columbia be required to do the following:

> (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.

R.D. at 550 (citing CAUSE-PA St. 2 at 30-31). The ALJs noted that customers identified as income eligible through these processes should be referred to CAP and other universal service programs, as well as LIHEAP. The ALJs further noted that customers should have the ability 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 such information. In addition, the ALJs recommended that the Company be required to develop and implement screening and referral recommendations within ninety days of the entry of the final Commission Order in this proceeding. R.D. at 550 (citing CAUSE-PA St. 2 at 31).

Lastly, in Ordering Paragraph No. 36 of the Recommended Decision, the ALJs recommended that Columbia be directed to "reevaluate CAP bills monthly to ensure customers receive the most affordable rate and…amend its USECP to reflect this monthly review." R.D. at 685.

3. Exceptions and Replies

a. Columbia Exception No. 15 and Replies

In its Exception No. 15, Columbia argues that the ALJs erred in recommending the adoption of the proposals set forth by the OCA and CAUSE-PA to increase income screening requirements for all non-emergency calls. Columbia Exc. at 28. According to Columbia, the ALJs' recommendation would require the Company to screen all customers for their income levels who: (1) call to establish service; (2) call to transfer service; (3) call for a non-emergency reason; and (4) use the Company's online account portal. *Id*. (citing R.D. at 550). In addition, Columbia asserts that this recommendation does not contain any time limit for the screening, as it appears to require the Company to screen all customers for their income levels during every non-emergency contact regardless of the last time the customer provided such information or had previously opted out of providing such information. The Company further contends that such a requirement could be perceived as intrusive and lead to a negative customer service experience, while also increasing the average call-handle time, which could impact the Company's current call center performance metrics. The Company further posits that in light of this increased average call-handle time, the Company would be required to hire three additional employees. Columbia Exc. at 29.

In reply, the OCA contends that the ALJs' recommended adoption of the OCA's proposal to improve the Company's identification of low income customers should be affirmed. OCA R. Exc. at 23 (citing R.D. at 549-50; Columbia Exc. at 28-29; OCA M.B. at 305-15; OCA R.B. at 159-61). The OCA asserts that the ALJs correctly found that "[i]mproved screening and referrals could help ensure households are receiving the most advantageous available rate and is a statutory requirement." OCA R. Exc. at 23 (citing R.D. at 549-50). The OCA argues that while it supports Columbia's review of workflow and scripting, such action is insufficient to evaluate

whether a customer is eligible for assistance or for an exemption from providing a security deposit. OCA R. Exc. at 24. The OCA insists that its proposals should be actions that Columbia is already taking under existing requirements of the Commission's Regulations. *Id*. (citing OCA M.B. at 305; OCA R.B. at 160).

In its Replies to Exceptions, CAUSE-PA contends that the ALJs correctly recommended that the Commission require Columbia to implement routine screening to help improve its low CAP enrollment rate. CAUSE-PA R. Exc. at 15. According to CAUSE-PA, Columbia's CAP is severely undersubscribed, reaching only 23% of estimated eligible customers. *Id*. (citing CAUSE-PA M.B. at 101-03). CAUSE-PA argues that the ALJs agreed with the positions of CAUSE-PA and the OCA that improved identification and referral of eligible households to available assistance is necessary for Columbia to meet its statutory and universal service obligations. CAUSE-PA R. Exc. at 15-16 (citing CAUSE-PA M.B. at 109-12; OCA M.B. at 305-09; 66 Pa.C.S. §§ 2202, 2203, 1303; R.D. at 547). In response to Columbia's argument that the ALJs' recommendation would require the Company to screen all customers for their income for virtually every customer interaction, CAUSE-PA asserts that it never suggested that the Company verify the income of every caller, but rather, that Columbia briefly inquire as to whether the household has trouble affording its bill and then make the appropriate referrals for further screening. CAUSE-PA R. Exc. at 16 (citing Columbia Exc. at 28-29; CAUSE-PA M.B. at 111-12). Lastly, CAUSE-PA contends that routine screening serves as an important collection and cost containment tool that helps prevent the accrual of unmanageable debts and associated collections costs, which will decrease the cost of CAP. CAUSE-PA R. Exc. at 16 (citing CAUSE-PA M.B. at 110). CAUSE-PA points to the rebuttal testimony of Columbia's witness, Ms. Davis, that "arrears amassed prior to entry into CAP are paid by all non-CAP residential customers." CAUSE-PA R. Exc. at 16 (citing CAUSE-PA M.B. 111; Columbia St. 16-R at 20). As such, CAUSE-PA argues that by accelerating CAP enrollment, "less arrears will be

amassed that need [to be] forgiven." CAUSE-PA R. Exc. at 16 (citing CAUSE-PA M.B. 111).

b. Columbia Exception No. 20 and Replies

In its Exception No. 20, Columbia argues that Ordering Paragraph No. 11 of the Recommended Decision represents a duplicative requirement that the ALJs did not recommend be adopted in the body of the Recommended Decision in the course of their analysis regarding additional screening requirements. Therefore, the Company argues that the requirement contemplated in Ordering Paragraph No. 11 should be rejected. Columbia Exc. at 39 (citing R.D. at 681).

In addition, Columbia takes issue with Ordering Paragraph No. 36 of the Recommended Decision, wherein the ALJs recommended that the Commission direct the Company to "reevaluate CAP bills monthly to ensure customers receive the most affordable rate and…amend its USECP to reflect this monthly review." Columbia Exc. at 40 (citing R.D. at 685). According to Columbia, the Recommended Decision does not contain any analysis addressing this proposal from CAUSE-PA and is simply included in the Ordering Paragraphs without any explanation. Therefore, Columbia contends that Ordering Paragraph No. 36 should be rejected. Columbia Exc. at 40.

In reply, the OCA generally argues that Ordering Paragraph Nos. 11, 34-38, and 41 of the Recommended Decision should not be modified. OCA R. Exc. at 24. Specifically, the OCA references its reply to Columbia's Exception No. 15 and contends that the OCA's proposed screening of low income customers is consistent with its recommendation in this case. *Id*. (citing OCA M.B. at 305; OCA R.B. at 160). According to the OCA, the ALJs' recommendation to adopt the low income screening is clear, supported by the record, and should be approved. OCA R. Exc. at 24 (citing R.D. at 549-50).

In its reply to Columbia's Exception No. 20, CAUSE-PA contends that Ordering Paragraph No. 11 reflects one element of the improved screening process proposed by the OCA and CAUSE-PA, and which the ALJs recommended be adopted. CAUSE-PA R. Exc. at 23 (citing R.D. at 681; CAUSE-PA M.B. at 109-12; OCA M.B. at 305-09). In response to Columbia's argument that Ordering Paragraph No. 11 is duplicative, CAUSE-PA asserts that "the requirement that these customers be flagged as confirmed low income does not appear in the other [ordering paragraph] regarding the improved CAP screening process." CAUSE-PA R. Exc. at 23 (citing R.D. at 683-84; OP No. 30).

Regarding Ordering Paragraph No. 36, CAUSE-PA argues that this ordering paragraph pertains to its proposal that Columbia update its USECP "to reflect the Company's commitment to reevaluate CAP bills monthly to ensure customers receive the most affordable rate." CAUSE-PA R. Exc. at 24 (citing CAUSE-PA M.B. at 118-19). According to CAUSE-PA, such modification is necessary to ensure that Columbia's USECP correctly reflects Columbia's practice. CAUSE-PA R. Exc. at 24 (citing CAUSE-PA R.B. at 44-45).

4. Disposition

As of December 2024, only 20,988 Columbia customers were enrolled in CAP, accounting for only 23% of the Company's estimated low income customers and 30% of its CLI customers. CAUSE-PA M.B. at 102, n.488 (citing CAUSE-PA St. 1 at 11, 24). Such statistics highlight that additional CAP screening is appropriate. Therefore, we emphasize the need for Columbia to improve CAP participation, especially when considering Columbia's proposed revenue increase in this proceeding.

Accordingly, we agree with a number of the recommendations proposed by the OCA and CAUSE-PA for additional CAP screening. As such, we will require Columbia to develop and implement a process to screen:

(1) New and moving customers for income level at the time their service is established to determine whether the customer should be:

a. classified as a confirmed low income customer;[195] and

b. referred to the CAP application process and any other universal service programs; and

(2) Existing customers for income level on any non-emergency calls,[196] if that customer has not been screened within the past six months and has not previously opted out of providing such information, to determine whether the customer should be:

a. classified as a confirmed low income customer;[197] and

b. referred to the CAP application process and any other universal service programs.

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[195] *We note that "confirmed low-income residential account"* is defined in our Regulations as follows:

> accounts where the NGDC has obtained information that would reasonably place the customer in a low-income designation. This information may include receipt of LIHEAP funds (Low-Income Home Energy Assistance Program), self-certification by the customer, income source or information obtained in § 56.97(b) (relating to procedures upon rate-payer or occupant contact prior to termination).

52 Pa. Code § 62.2.

[196] We note that this could be done by making a brief inquiry as to whether the customer has trouble affording their bill.

[197] *See* definition of "confirmed low-income" residential account, *supra*.

We shall direct Columbia to implement the above recommendations within six months of the adoption of the entry of a final order in this proceeding.

Accordingly, Columbia's Exception No. 15 is denied and the Recommended Decision will be modified, consistent with this discussion.

Next, because we have directed the Company to develop and implement the screening process discussed, *supra*, and have modified the Recommended Decision, the Company's argument contained in its Exception No. 20 regarding the duplicity of Ordering Paragraph No. 11 of the Recommended Decision is moot.

Lastly, we note Columbia's argument, in the Company's Exception No. 20, that Ordering Paragraph No. 36 of the Recommended Decision, which contemplates that the Company be directed to "reevaluate CAP bills monthly to ensure customers receive the most affordable rate and…amend its USECP to reflect this monthly review," is not addressed in the ALJs' analysis. *See* Columbia Exc. at 40 (citing R.D. at 685). While such directive may not have been directly addressed in the analysis of the Recommended Decision, we believe it to be appropriate.

By way of background, Columbia argued, in its briefs and testimony, that the Company *already* reviews CAP accounts monthly to determine the lowest monthly payment option for each account when responding to CAUSE-PA's recommendation that the Company be required to conduct a monthly review of CAP accounts to ensure customers receive the most affordable rate and amend its USECP to reflect such practice. We agree with CAUSE-PA that a review of Columbia's current USECP reflects that the Company conducts a quarterly evaluation of CAP accounts, not a monthly evaluation. *See Columbia 2024-2028 USECP*. Because Columbia asserts that it already conducts monthly reviews, it should follow that this monthly review process be accurately

reflected in the Company's USECP. In addition to its logicality, we do not find such a directive to be burdensome to the Company.

As such, Columbia's Exception No. 20, as it relates to Ordering Paragraph No. 36, is denied.[198]

F. LIURP Funding

1. Positions of the Parties

Columbia opposed the proposals of CAUSE-PA and the Task Force, outlined below, to increase the Company's LIURP funding. In its Main Brief, Columbia stated that its annual funding for the Company's LIURP is set at $5,425,000 for the years 2026 and 2027. Columbia M.B. at 204. In response to CAUSE-PA and The Task Force's recommendations to increase LIURP funding, Columbia maintained that its current LIURP spending is sufficient. Columbia M.B. at 204-205. More specifically, Columbia submitted that while Commission Regulations at 52 Pa. Code § 58.4 prescribe that a utility's LIURP budget be at least 0.2% of the utility's jurisdictional revenues, Columbia's current LIURP budget is slightly less than 1% of the Company's jurisdictional revenues, or five times higher than the Commission's minimum standard. Moreover, the Company argued that because its weatherization providers are currently behind in their production for 2025, increasing the LIURP budget would further stretch the resources of the weatherization providers and lead to unspent funds. *Id*. at 205.

[198] We note that Ordering Paragraph No. 42 is duplicative of Ordering Paragraph No. 36. Finding Ordering Paragraph No. 42 to be unnecessary, we shall decline to adopt it.

I&E recommended that no increase in the budgeted LIURP amount be approved in the instant proceeding. I&E argued that it is inappropriate to consider an increase in the LIURP budget in this base rate proceeding because it is more appropriate to be addressed in the Company's USECP proceedings. I&E M.B. at 74. As support for its position, I&E cited to *Aqua 2022* and *Columbia Gas 2021*, where the Commission discussed the need to consider the CAP and other universal service programs of those companies within a USECP proceeding. *Id.* at 75-76.

CAUSE-PA asserted that the Commission should require Columbia to increase its budget for LIURP by a percentage equal to any approved increase in residential rates. CAUSE-PA M.B. at 119. CAUSE-PA explained that LIURP is a critical universal service program designed to work in tandem with CAP to help reduce high usage attributable to home energy inefficiencies that low income households cannot afford to address on their own. CAUSE-PA asserted that there is a significant unmet need for LIURP services among Columbia's low income customers, which will grow more pronounced if rates are increased in this proceeding. *Id.* at 120.

In response to the arguments that LIURP funding issues are not appropriate for consideration in a rate case, CAUSE-PA cited to the Commission's Final Form LIURP Rulemaking Order, where the Commission acknowledged that LIURP issues are considered within a rate case to determine the justness and reasonableness of costs. CAUSE-PA M.B. at 122-23 (citing *Initiative to Review and Revise the Existing Low-Income Usage Reduction Program Regulations at 52 Pa. Code §§ 58.1—58.18*, Docket No. L-2016-2557886 (Final Form Rulemaking Order entered March 13, 2025)) at 123 (*LIURP Final Order*). CAUSE-PA contended that the LIURP budget established through the *Columbia 2024-2028 USECP* proceeding did not account for the substantial increase in rates proposed by Columbia in this base rate proceeding. CAUSE-PA M.B. at 123.

The Task Force proposed that LIURP funding in this proceeding be increased, commensurate with the rate increase percentage that results to the residential class, to ensure LIURP is appropriately funded and available. Task Force M.B. at 3. In its Main Brief, the Task Force argued that despite its requested increase in rates, Columbia did not propose any increase in assistance to aid low income customers with any potential rate increase granted in this proceeding. The Task Force explained that if the rate increase, as proposed, is granted, a residential customer would see a rate increase of 11.38%. The Task Force argued that the need for LIURP is exacerbated by the fact that if a rate increase is granted in this case, it would be Columbia's fourth rate increase since the beginning of 2021. *Id.* at 2. In response to the Company's argument that a base rate case is an inappropriate proceeding to address LIURP funding, the Task Force contended that a USECP proceeding spans five years and in that span of time, the Company can potentially receive multiple rate increases without universal funding being addressed. *Id.* at 3.

2. Recommended Decision

In the Recommended Decision, the ALJs acknowledged that the Commission's final LIURP regulations 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. R.D. at 559 (citing *LIURP Final Order*). The ALJs also noted that Columbia's current LIURP budget is slightly less than 1% of the Company's jurisdictional revenues, or five times higher than the Commission's minimum standard. The ALJs determined that, based upon precedence, a LIURP budget can be increased within a rate case, but that an increase to rates does not result in an equal increase to LIURP. While the ALJs disagreed with I&E and the Company and found that the Company's LIURP budget can be addressed in the instant rate proceeding, the ALJs also agreed with the Company that an increase to LIURP funding had not been justified in this case. R.D. at 559. Therefore, the ALJs recommended that the Commission deny

the recommendations of CAUSE-PA and the Task Force to increase Columbia's LIURP funding. *Id.* at 560.

3. Disposition

Given that no Exceptions have been filed to this determination, we shall adopt the ALJs' recommendation to reject the proposals of CAUSE-PA and the Task Force to increase LIURP funding. We find that the ALJs' recommendation is supported by substantial record evidence and agree with the ALJs that the proposals of CAUSE-PA and the Task Force have not been justified in this proceeding. Here, the Company's current LIURP budget is five times higher than the Commission's minimum standard, as set forth in 52 Pa. Code § 58.4. Furthermore, LIURP is funded by Columbia's residential ratepayers, and Columbia submitted testimony illustrating that Columbia's customers are paying $14 annually for the program, as compared to the $9 average for other Pennsylvania gas customers. *See* Columbia St. 16-R at 8. We note that Columbia's residential customers are paying more than the average toward LIURP funding and Columbia has submitted that the Company was not confident it would be able to provide the necessary resources to support a LIURP budget increase at this time. *See* Columbia St. 16-R at 10. Therefore, we shall adopt the ALJs' recommendation to deny the proposals of CAUSE-PA and the Task Force to increase LIURP funding.

G. Health & Safety Pilot Funding

1. Positions of the Parties

Columbia developed a Health and Safety Pilot for CAP customers, with the goal of identifying and addressing barriers to weatherization through reduced weatherization deferrals. Columbia M.B. at 126. Columbia argued that the Commission should reject CAUSE-PA's recommendation, *infra*, to separate funds from the

Company's Health and Safety Pilot from LIURP funds and to rollover unspent funds. In response to CAUSE-PA's recommendation, Columbia contended that the Company's current annual budget for the Health and Safety Pilot is $600,000, and that any unused funds are redirected to support other weatherization measures and heating system repairs. Columbia explained that LIURP funds are already subject to a rollover. Additionally, Columbia contended that, to date, no property has been denied Health and Safety funding due to lack of available funding. *Id*. at 206.

CAUSE-PA took the position that Columbia should be required to establish an independent budget for the Health and Safety Pilot and rollover unspent funds. CAUSE-PA M.B. at 125. CAUSE-PA explained that Columbia, in an effort to decrease the number of LIURP deferrals due to health and safety concerns, launched its LIURP Health and Safety Pilot in 2020 with a budget of $200,000, which was then increased in 2022 to $400,000 as part of the settlement in *Pa. PUC*, *et al. v Columbia Gas of Pennsylvania, Inc*., Docket No. R-2021-3024296, (Opinion and Order entered December 16, 2021) (*Columbia Gas December 2021*). *Id.* at 125-26. CAUSE-PA stated that the Commission then approved the continuation of the Pilot in the context of the *Columbia 2024-2028 USECP* and retained the annual budget at $400,000. *Id.* at 126.

CAUSE-PA contended that despite the success of the Pilot, implementation has been slow, and very few deferred households have been served by the program. CAUSE-PA stated that since 2022, Columbia has underspent its available Health and Safety Pilot budget by $802,243.66, or 67%. CAUSE-PA M.B. at 127. According to CAUSE-PA, the budget for the Health and Safety Pilot is currently embedded in the LIURP budget and funds do not roll over year to year. CAUSE-PA asserted that in order to help those with the highest usage and greatest need, the Commission should require Columbia to maintain an independent budget for its 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. Additionally, CAUSE-PA requested

that if there are any unspent funds in excess of 10% of the available budget in a given year, the Company should be required to explain the reason for the underspending and identify steps it will take to improve spending in the following program year. *Id.* at 128.

2. Recommended Decision

The ALJs agreed with the Company and recommended that CAUSE-PA's proposal be denied. To support their position, the ALJs looked to the Commission's *LIURP Final Order*, where the Commission directed that utilities must carry any unspent LIURP funds into the next program year and set separate allowance limits for health and safety measures in the utility's USECP. The ALJs explained that the Commission also recently approved the *Columbia 2024-2028 USECP* with a Health and Safety Pilot capped at $400,000 per year. The ALJs stated that the Commission's 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. Furthermore, the ALJs stated that the rules do not require a standalone health and safety budget beyond this structure. R.D. at 565.

3. Disposition

None of the Parties to this proceeding filed Exceptions on this issue. Finding the ALJs' recommendation to be supported by substantial evidence in the record, we agree with the ALJs' recommendation to deny CAUSE-PA's proposal to require Columbia to establish an independent budget for the Health and Safety Pilot and rollover unspent funds. We note that our *LIURP Final Order* established that any unspent LIURP funds must be rolled over for future use. *LIURP Final Order* at 129. Additionally, we agree with Columbia that if the allotment set for the Health and Safety Pilot is not met, any unspent funds should have the flexibility to be used on weatherization if there is no immediate need for health and safety funding. Therefore, we shall adopt the ALJs'

recommendation to deny CAUSE-PA's proposal to require Columbia to establish an independent budget for the Health and Safety Pilot program and to rollover any unspent funds.

H. Hardship Fund

1. Positions of the Parties

Columbia explained that its Hardship Fund is a Company-sponsored fund that provides financial assistance through grants to low income, payment-troubled residential customers. Columbia M.B. at 206. Columbia asserted that it currently has more than $1,000,000 in Hardship Funds, and that although the number of customers entering CAP has increased over the prior six years, no customers have been denied Hardship Fund assistance due to a lack of funds in recent years. Additionally, Columbia stated that if the Commission were to direct a shareholder contribution to the Hardship Fund, the Company would have the right to seek recovery of those funds. Columbia M.B. at 207. Therefore, Columbia requested that the Commission reject the proposal of the Task Force, *infra*, to increase the Company's 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. *Id.* at 206-07.

I&E argued that no increase to the Company's contribution to its Hardship Fund should be approved in this proceeding. However, I&E contended, if an increase is approved in this proceeding, any increase to the Hardship Fund should be funded by shareholders, and not by mandatory ratepayer funding. I&E M.B. at 77.

Although not addressed in its Brief, the Task Force proposed, in its testimony, that Columbia's contribution to its Hardship Fund be increased,

commensurate with the percentage increase in residential rates that result from this proceeding. Additionally, the Task Force requested that the Hardship Funds be distributed in accordance with the percentage of low income customers in the counties served by Columbia. Task Force St. 1 at 7.

2. Recommended Decision

In the Recommended Decision, the ALJs recommended that the proposal of the Task Force to increase the contribution to the Hardship Fund be denied. R.D. at 569-70. The ALJs explained that while the Commission has not adopted a rule that utility Hardship Fund contributions automatically increase with a base rate change, funding levels and policies are addressed on a case-by-case basis in rate cases and USECP proceedings. Here, the ALJs determined that there was no basis to require the Company to increase its contribution to the Hardship Fund. *Id.* at 569.

3. Disposition

As no Exceptions have been filed to this determination, we agree with the ALJs' recommendation to deny the proposal of the Task Force. We find that the ALJs' recommendation is supported by substantial evidence. Columbia testified that, in recent years, no customers have been denied Hardship Fund assistance due to lack of funds. Columbia St. 16-R at 22. Given that customers have not been turned away by Columbia due to a lack of Hardship Funds, we find that an increase in Hardship Fund contributions is not justified in this proceeding. Accordingly, the ALJs' recommendation to deny the proposal of the Task Force to increase Columbia's Hardship Fund, commensurate with the increase to residential customers' rates granted in this proceeding, is adopted.

I. Call Scripting For Security Deposits

1. Positions of the Parties

In its Main Brief, Columbia explained that the OCA recommended that Columbia perform a thorough review of the Company's policy to waive security deposits to low income customers in its self-service workflow and scripting to ensure that the availability of low income exemption is communicated to customers. In response to the OCA's recommendation, Columbia committed to conducting a thorough review of its workflow and scripting and to implement changes to ensure customers are aware of the low income exemption for security deposits. Columbia opined that no additional review of the Company's call scripting related to security deposits is necessary. Columbia M.B. at 208.

As discussed, *supra*, the OCA identified that one of the Company's scripts did not provide the customer the right to avoid a security deposit if the customer was qualified as low income. Instead, the OCA stated, the script seemed to rely on the customer to dispute or refuse the proposed deposit without any affirmative notice of this right. The OCA argued that Columbia should 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 and that the results of the analysis should be reported to stakeholders within six months after the final order of this proceeding. OCA M.B. at 273. The OCA contended that since Columbia properly recognized the concern, the Company should initiate the review immediately and not wait for the entry of a final order in this proceeding. *Id.* at 274.

CAUSE-PA argued that Columbia's scripts, used by CSRs when referring customers to apply for USPs, contain inconsistent information, and specifically, the identification documentation requirements for Columbia's Hardship Fund. CAUSE-PA

recommended that Columbia initiate a collaborative with the parties to this proceeding to review the relevant call scripting within ninety days of the entry of a final order in this proceeding. CAUSE-PA M.B. at 130. CAUSE-PA explained the importance of call script accuracy regarding rules of low income programs. CAUSE-PA averred that call scripts are living documents that are frequently revised, and that many revisions are the result of Commission Orders and settlement agreements in rate cases or other proceedings. CAUSE-PA stressed its position that the parties to those agreements should have an opportunity to review Columbia's call scripting to ensure accuracy. *Id.* at 131.

2. Recommended Decision

In the Recommended Decision, the ALJs agreed with the OCA and Columbia and recommended that Columbia review its call scripts for any automated chat box or "app" to ensure that all the customer rights associated with these transactions are provided for customers. Further, the ALJs recommended that Columbia be required to report results to its stakeholders within six months after the entry of a final order in this proceeding. The ALJs reasoned that the Company's in-house review with reporting is sufficient and did not recommend requiring collaboration from all parties. R.D. at 573.

3. Disposition

As previously discussed in Section XIII.C. of this Opinion and Order, *supra*, we have adopted the ALJs' recommendation to require Columbia to review its scripts for any automated chat box or "app" to ensure that all customer rights associated with these transactions are provided for customers, and that the results of such review be reported to stakeholders within six months of the adoption of the entry of a final order in this proceeding. Here, the ALJs made a similar recommendation pertaining to call scripting for security deposits directing the same stakeholder process. No Party filed Exceptions to this determination. We find the ALJs' recommendation to be reasonable

and supported by substantial evidence in the record. Accordingly, we direct that the review pertaining to call scripting for security deposits be included within the stakeholder review process directed under our disposition of Section XIII.C, *supra.*

XV. Energy Efficiency Program

A. Positions of the Parties

As discussed, *supra*, the Company proposed a Phase II EE Plan. Columbia St. 13 at 8; Columbia Exh. JAN-2. According to Columbia, the voluntary Phase II EE Plan is based on the successful implementation of the Company's Energy Efficiency Pilot Program (EE Pilot), and the updates in the proposed EE Plan are based on energy efficiency efforts similar to the existing plans of other NGDCs in Pennsylvania.[199] The Company stated that the EE Plan is designed to help residential and small commercial customers reduce their energy consumption, improve efficiency, and conserve resources. Columbia submitted that the EE 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. Columbia St. 13 at 8.

The Company proposed to continue its two existing energy efficiency programs from the EE Pilot – the Residential Prescriptive Program (RPP), which provides incentives for high-efficiency natural gas fired equipment, and the Online Audit Kit (OAK) Program, which provides customers with a customized online audit that allows them to receive a space heating and water heating kit at no cost. Additionally, the Company asserted that the EE Plan would expand the RPP Program by adding three new

[199] The Company asserted that its EE Pilot was originally approved as part of its rate case in *Columbia Gas 2022*, with a budget of $4 million for the years 2023 to 2025 and was updated as part of its rate case in *Columbia Gas 2024* to shift funding between programs. Columbia St. 13 at 3.

rebate offerings to provide customers with more natural gas saving opportunities. These additional rebate offerings in the RPP Program would include boiler reset controls, efficient fireplace inserts, and single packaged vertical units. The Company also proposed adding a Small Commercial (SC) Program to provide natural gas saving opportunities through equipment rebates to small commercial customers. According to Columbia, the SC Program would provide 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. Columbia St. 13 at 8.

Columbia asserted that the EE Plan is projected to return a present value of total resource cost (TRC) net benefits of $17.1 million, in 2025 dollars, with a TRC benefit-cost ratio (BCR) of 2.49. Columbia St. 13 at 9. Additionally, the Company contended that the RPP, OAK, and SC Programs are each cost-effective on their own and are projected to save 160,000 incremental annual Dths of natural gas and 2.7 million Dths over the lifetime of the measures installed. Columbia St. at 12, 16. Columbia also submitted that the EE Plan is projected to save 7,629 mega-watt hours (MWh) of electricity and 508 million gallons of water over the lifetime of the measures installed. Moreover, the Company averred that the program activities are expected to produce an emission reduction of over 164,575 short tons of carbon-dioxide (CO_2), or the equivalent of removing over 6,286 cars from the road permanently. The Company further projected that the EE Plan will generate between 81 and 162 additional new jobs over the lifetime of the efficiency measures installed. *Id*. at 12-13.

I&E argued that the Company's proposal for its Phase II EE Plan should be disallowed in this base rate proceeding. In support, I&E contended that the EE Plan costs are not shown to be necessary for the provision of safe and reliable service, and that the

advertising and administrative costs associated with the proposed renewed and expanded plan are excessive compared to the total budget. I&E St. 2 at 95-98.[200]

I&E based its recommendation to disallow the EE Plan on four arguments. First, I&E asserted that there is no mandate under Act 129 of 2008 (Act 129) for NGDCs to develop an EE Plan, and therefore, NGDCs are not subject to civil penalties for failure to meet stated goals. Second, I&E submitted that EE Plans are not essential to the provision of safe and reliable natural gas service. Third, I&E contended that residential home appliances and equipment using natural gas as a source of power are generally more efficient over time, such that the implementation of an EE Plan by an NGDC is unnecessary. I&E added that the EE Plan may not encourage customers' participation in conservation measures by replacing currently working equipment with new equipment due to the upfront higher cost of the newer or latest equipment. Fourth, I&E stated that the Company's proposed portfolio-wide administration costs for the EE Plan, including marketing, inspection, and evaluation, represents 45.41% of the Company's total program investment.
[(($2,717,625 + $449,875 + $243,000 + $170,000) ÷ $7,884,579) = 45.41%]. According to I&E, a program demonstrating this level of a customer cost to customer value ratio should not be approved. I&E St. 2 at 92-93.

In further support of the disallowance of the EE Plan, I&E argued that non-participating customers, approximately 98% of the Company's total customer count, will fund the EE Plan spending to provide the purported benefits to the estimated 2% of

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[200] As noted in Sections VI.A and VIII.V of this Opinion and Order, *supra,* Columbia included a claim of $1,235,965 in revenues, and a corresponding claim of $1,235,965 in O&M expenses, associated with Columbia's Rider EE for the Company's EE program reconciling mechanism. Columbia Exh. JV-1R at 2, 6. I&E contended that because it recommended the disallowance of the proposed EE Plan, it also recommended that the Company's Rider EE revenue claim of $1,235,965 and the related expense claim of $1,235,965 be disallowed. I&E St. 2 at 91-92.

the customers who will participate in the EE Plan. Alternatively, I&E submitted that if the Commission considers the EE Plan to be appropriate and reasonable for approval in this proceeding, pending the outcome of performance results of the EE Pilot (Phase I) ending in December 2025, then in the interest of customer protection, the Commission should put a maximum annual cap on the plan's total administration cost (exclusive of the incentives cost) at 20% of the annual total EE Plan cost, with any excess administration costs to be refunded to customers through Rider EE. I&E St. 2 at 98.

The OCA's witness, Ms. Stacy L. Sherwood, testified that the Company had met the basic elements for the requirements of a voluntary Energy Efficiency and Conservation (EE&C) Plan,[201] pursuant to the Commission's Secretarial Letter dated December 23, 2009 at Docket No. M-2009-2142851 (*December 23, 2009 Secretarial Letter*). Overall, Ms. Sherwood stated that she believed that the program was reasonable, beneficial, and cost-effective for consumers. After comparing the EE Plan to Columbia's historical EE&C achievements, Ms. Sherwood considered the forecasted level of costs and savings to be reasonable. Nonetheless, Ms. Sherwood recommended various improvements to the EE Plan. OCA St. 7 at 4-6.

The OCA acknowledged that the Company agreed to some of the OCA's recommendations to the EE Plan, including the use of more recent available market data to support the development of future filings and other filing requirements. OCA St. 7SR at 3. Nonetheless, in Surrebuttal Testimony, Ms. Sherwood recommended that the Commission direct Columbia to adopt, in full, the following additions to the EE Plan:

- The RPP Program should only offer WiFi programmable thermostats that are compatible with the WiFi programmable thermostat demand response programs of electric distribution companies (EDCs) if they are offered.

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201 We shall use the terms EE Plan and EE&C Plan interchangeably.

- To encourage participation of qualified low income customers in the RPP Program, the Company should cover up to 80 or 90% of weatherization costs.

- The Company should offer a bonus incentive for comprehensive projects completed through the RPP Program for customers who 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 (EM&V) reports completed on the programs for transparency.

- Columbia should retain an independent third party evaluation contractor to perform its evaluations.

- When appropriate, the Company should coordinate with the EDC programs.

OCA St. 7SR at 2-6.

The OSBA supported the Phase II EE Plan and made three additional recommendations, which it believed would improve the program. First, the OSBA recommended budget transparency so that the Parties to this proceeding are notified if Columbia plans to shift its budget among programs. Second, the OSBA argued that Columbia's proposed marketing plan lacks details. To remedy this, the OSBA submitted that the Commission should direct the Company to address the following questions: (1) what metrics Columbia will use to understand if the marketing is working; (2) how and when Columbia will collect these metrics; (3) how and when Columbia will report these metrics; and (4) how Columbia will proceed if the SC Program is not meeting uptake targets. Third, the OSBA recommended that the Company report program participation, by rate class, in its annual reports and program updates. OSBA St. 1 at 21.

Additionally, the OSBA asserted that the evaluation budget for the EE Plan increased by only $20,000, or 13.3%, in comparison to the EE Pilot allocation. The OSBA recommended an increase to the evaluation budget in proportion to the increase in the budget for the SC Program. OSBA St. 1 at 22.

CAUSE-PA argued that the Phase II EE Plan should be rejected because the proposal lacks any dedicated programming for the Company's low income customers. According to CAUSE-PA, it would be unjust and unreasonable to use low income ratepayer funds to pay for the EE Plan without a proportionate level of energy efficiency programming directed at low income customers and specifically designed to produce meaningful energy and bill savings. CAUSE-PA St. 1 at 51-52.

CAUSE-PA asserted that if Columbia seeks to resubmit its EE Plan proposal, the Commission should require that the request be made via a standalone petition that includes dedicated, proportional low income programming. Alternatively, CAUSE-PA submitted that, if the Commission were to approve the EE Plan in this proceeding, Columbia should be required to either exempt all CLI customers from Columbia's Rider EE, or proportionately expand funding for the Company's Audits and Rebates (A&R) Program and Emergency Repair (ER) Program. CAUSE-PA St. 1 at 52.[202]

[202] The A&R Program is available to low income customers (*i.e.*, customers with incomes at or below 250% of the Federal Poverty Level (FPL)) who are otherwise ineligible for the Company's LIURP, and provides an energy audit, and up to $3,600 in instant rebates for furnace replacement, air sealing, and insulation in any combination. CAUSE-PA St. 1 at 52. The ER Program provides emergency repairs or replacement of faulty heating equipment, hot water tanks and/or gas lines for eligible property owners at or below 150% of the FPL who are without heat due to a gas line leak, water tank issue, or inoperable heating system. *Id*. at 55.

In support of its alternative argument, CAUSE-PA stated that Columbia had previously agreed to increase funding for its A&R Program and ER Program to help address the lack of dedicated and proportional low income programming in the EE Pilot as part of the settlement in *Columbia Gas 2022*. CAUSE-PA contended that Columbia has underspent its A&R Program and ER Program budgets, which undermines the intent of the prior settlement arrangement to remedy the lack of low income programs under the EE Pilot. CAUSE-PA St. 1 at 52-53, 55-56.

Thus, CAUSE-PA submitted that – if the Commission approves the Phase II EE Plan and does not exempt low income customers from the Rider EE – Columbia should be required to increase its 2022 settlement obligations related to the additional funding for the A&R Program and the ER Program by amounts proportionate to any increase to Columbia's EE Plan budget. Specifically, CAUSE-PA sought an increase in A&R Program budget funding of $234,750 per year. For the ER Program budget, CAUSE-PA requested an increase of $292,500 per year. Additionally, CAUSE-PA proffered that Columbia should be required to rollover its unspent A&R Program and ER Program budget funds to the budgets for the following year. CAUSE-PA St. 1 at 54-56.

B. Recommended Decision

In their Recommended Decision, the ALJs concluded that the Commission should reject the Company's voluntary Phase II EE Plan in its entirety. Regarding the arguments of CAUSE-PA, the ALJs recognized that Columbia did not include any dedicated low income programming as part of its EE Plan. R.D. at 609 (citing CAUSE-PA St. 1 at 49). Moreover, the ALJs acknowledged that although Columbia's A&R Program and ER Program budgets were each expanded in the settlement in *Columbia Gas 2022* to address Columbia's lack of low income programming within its

EE Pilot, Columbia has not proposed to expand these programs in this proceeding. R.D. at 609.

Additionally, the ALJs reasoned that Columbia has not spent the allocated budgets for its A&R and ER Programs, which runs contrary to the purpose of the prior settlement provisions that were to address Columbia's lack of dedicated low income programming within its EE Pilot. The ALJs determined that although some low income customers participated in the Company's EE Pilot, they did not participate on a proportionate scale. R.D. at 609 (citing CAUSE-PA St. 1 at 47, 53).

Alternatively, the ALJs recommended that, if the Commission chooses to approve the EE Plan, Columbia should be required to proportionately increase its budgets for the A&R and ER Programs in accordance with the settlement in *Columbia Gas 2022*. R.D. at 610.

Additionally, in Ordering Paragraph No. 27 of the Recommended Decision, the ALJs recommended that if the EE Plan 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 [EE Plan] cost with any excess administration costs to be refunded to customers through the [Rider EE]." R.D. at 683.

C. Columbia Exception No. 19 and Replies

In its Exception No. 19, Columbia argues that the ALJs erroneously recommended that the Commission reject the Company's Phase II EE Plan. Columbia asserts that the ALJs failed to credit the extensive record evidence demonstrating the cost-effectiveness and projected benefits of the EE Plan. According to Columbia, the ALJs predominantly relied on the arguments of CAUSE-PA pertaining to its advocacy for expanded offerings for low income customers within the proposed EE Plan. The

Company contends that the EE Plan should be approved, as filed, and submits five arguments in support. Columbia Exc. at 34-35.

First, Columbia argues that the ALJs acknowledged the extensive benefits of both the EE Pilot and the Phase II EE Plan in the Findings of Fact but did not analyze or recognize these benefits in the disposition section of the Recommended Decision. Columbia Exc. at 35 (citing R.D. at 76-82, FOF Nos. 301-34). The Company proffers that the projected benefits are undisputed in the record and that the ALJs erred in not considering them in their recommendation. Columbia Exc. at 35.

Second, Columbia contends that the ALJs erred in recommending the disallowance of the EE Plan on the basis that it does not contain dedicated low income programming. According to Columbia, the ALJs failed to cite any Commission Regulation, Order, or policy statement in support of the proposition that the Company's voluntary natural gas EE Plan should be conditioned on the inclusion of low income programming. Columbia argues that, nonetheless, it has demonstrated that its low income customers have benefitted from its EE Pilot. In support, the Company asserts that 550 customers were referred to Columbia's various dedicated low income programs when they indicated income levels at or below 250% of the Federal Poverty Income Guidelines (FPIG) and 180 CLI customers participated in the RPP Program. Columbia Exc. at 36 (citing Columbia St. 13-RJ at 4). Additionally, Columbia highlights the existing A&R Program and the ER Program, describing these as robust low income EE programs. Columbia Exc. at 36.

Third, Columbia argues that the ALJs incorrectly concluded that the Company has not spent its allocated budget for the A&R Program and the ER Program, in conflict with prior settlement provisions pertaining to dedicated low income programming within the EE Pilot. Contrary to the findings in the Recommended Decision, Columbia proffers that its total spending for the budgets of the A&R Program

and the ER Program are well within normal spending limits leaving only 9% of funds unspent and does not contravene the terms of the settlement in *Columbia Gas 2022*. Columbia also notes that the A&R Program and ER Program budgets do not roll over from year to year; rather, the Company explains, any unspent funds are credited during the annual Rider USP reconciliation each February and reduce the total Rider USP collected in the following year. Additionally, the Company submits that since the inception of the A&R Program in 2009, no household has been denied assistance due to a lack of funding. Columbia Exc. at 37-38.

Fourth, Columbia addresses the alternative recommendation of the ALJs that any approval of the EE Plan should be conditioned on increasing the budgets of the A&R Program and the ER Program, proportionate to the overall increase of the EE Plan budget. Regarding this alternative, Columbia argues that the ALJs failed to consider that a large portion of the budget increase between the EE Pilot and the Phase II EE Plan comes from the introduction of the SC Program, targeted at small commercial customers. The Company submits that, if the Commission adopts this recommendation, any proportional calculation should be based on the increased costs attributable to the residential EE&C programs, which is a 54% increase, rather than the 97% increase recommended by CAUSE-PA. Columbia Exc. at 38.

Fifth, the Company argues that the ALJs erred in ordering that if the EE Plan is approved, then there should be a maximum annual cap on the total administrative, non-incentive costs at 20% of the annual total costs of the EE Plan, with any excess costs refunded to customers through the Rider EE. Columbia Exc. at 38 (citing R.D. at 683; OP No. 27). According to Columbia, the Recommended Decision contains no analysis or discussion supporting this conclusion. Moreover, the Company contends that limiting non-incentive costs would have a detrimental effect on the effectiveness of the EE Plan and is not mandated by the Code, Commission Regulations, or Orders. Columbia Exc. at 39.

In its Replies to Exceptions, I&E asserts that it is not offering a reply to Columbia Exception No. 19, stating generally that the ALJs' recommendation relied on the record evidence presented by Columbia, the OCA, and CAUSE-PA. I&E R. Exc. at 12.

In its reply to Columbia Exception No. 19, the OCA indicates that it supported the Company's EE Plan, with proposed modifications. The OCA recommends that, if the Commission authorizes the EE Plan, the OCA's proposed changes regarding the use of market data, the adjustments to the RPP Program, and the requirement for an independent evaluation, *supra*, be adopted. OCA R. Exc. at 25 (citing OCA R.B. at 167-71).

CAUSE-PA argues that Columbia Exception No. 19 should be denied because the ALJs correctly recommended that the Commission reject the EE Plan due to a lack of dedicated and proportionate low income programming. CAUSE-PA submits that such low income programming is a basic requirement for all ratepayer funded Act 129 EE&C plans. Additionally, CAUSE-PA contends that the Company failed to expand contributions to its separate A&R and ER Programs to ensure equitable and proportionate services for low income households consistent with prior settlement obligations. According to CAUSE-PA, it is fundamentally unjust and unreasonable to require low income households to pay for programs without providing specific, proportionate low income measures. CAUSE-PA R. Exc. at 19.

CAUSE-PA asserts that Act 129 requires EDCs to offer dedicated, proportional low income programming in addition to that offered under their respective

LIURPs.[203] According to CAUSE-PA, all Pennsylvania EDCs offer dedicated low income programming, in line with the Commission's current Act 129 requirements.[204] CAUSE-PA adds that the natural gas EE&C plans offered by two NGDCs in Pennsylvania provide specific low income measures as part of their plans. CAUSE-PA R. Exc. at 20-21 (citing CAUSE-PA St. 1 at 50).

CAUSE-PA objects to Columbia's argument in support of its EE Plan, contending that Columbia relies on Act 129 standards, but proffers that the Company is not required to offer low income programs because it is not subject to the requirements of the Act 129 statute. Additionally, CAUSE-PA criticizes the Company's reliance on the *December 23, 2009 Secretarial Letter,* which is directed at small EDCs with fewer than 100,000 customers who were exempted from the requirements to file an Act 129 EE&C plan due to cost concerns. CAUSE-PA argues that, in contrast, Columbia has more than four times the number of customers, when compared with a small EDC, and nearly 100,000 estimated low income customers, approximately 70,000 of whom are not enrolled in CAP and pay EE&C costs through rates. CAUSE-PA R. Exc. at 21.

Regarding the Company's argument that the EE Pilot benefitted low income customers, CAUSE-PA submits that Columbia's statistics do not reflect proportionate participation. For example, CAUSE-PA contends that the 180 CLI customers who participated in the RPP Program represented approximately 5% of the

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[203] In support, CAUSE-PA cites to a portion of Section 2806.1(b)(1)(i)(G) of the Code, as follows: "The plan shall include specific energy measures for households at or below 150% of the Federal poverty guidelines. The number of measures shall be proportionate to those households' share of the total energy usage in the service territory." CAUSE-PA R. Exc. at 20 (citing 66 Pa.C.S. § 2806.1(b)(1)(i)(G)).

[204] CAUSE-PA references the Commission's Implementation Order for Phase IV of Act 129. CAUSE-PA St. 1 at 49 (citing *Implementation of Act 129 of 2008 – Phase IV Energy Efficiency and Conservation Plan Template*, Docket No. M-2020-3015228 (Final Implementation Order entered June 18, 2020) (*Phase IV Implementation Order*)).

3,888 RPP Program participants in the EE Pilot, even though CLI customers represent 17% of Columbia's residential customers. Also, CAUSE-PA argues that there is no evidence that the 550 customers who were referred to Columbia's various dedicated low income programs were able to participate in those programs. CAUSE-PA R. Exc. at 21-22.

Further, CAUSE-PA objects to the Company's alleged failure to spend approximately $500,000 of the budget funds for the A&R and ER Programs, which were intended to address Columbia's lack of low income programming within the EE Pilot. CAUSE-PA argues that Columbia could not substantiate its claim that its underspending of the budget funds was "within normal spending limits." CAUSE-PA R. Exc. at 22 (citing Columbia Exc. at 37-38). According to CAUSE-PA, the unspent funds could have been used to provide energy efficiency services to 130 additional low income households and emergency furnace assistance to at least 9 additional households. CAUSE-PA R. Exc. at 22.

CAUSE-PA concludes that the ALJs correctly found that the program underspending undercuts prior settlement provisions meant to address Columbia's lack of dedicated low income EE&C programming and appropriately ordered the Company to begin carrying over unspent funds to the following program year. Further, CAUSE-PA notes that the ALJs recommended the rejection of the EE Plan, without prejudice, which thereby affords Columbia the opportunity to reintroduce its EE Plan with dedicated, proportionate low income programming in compliance with the Commission's standards and best practices. CAUSE-PA R. Exc. at 22-23.

D. Disposition

Upon review, we shall grant Columbia's Exception No. 19.

We begin by finding that the record evidence fully demonstrates the cost-effectiveness and projected benefits of the Company's Phase II EE Plan. In the Recommended Decision, the ALJs set forth thirty-four Findings of Fact citing the record evidence in support of the benefits of the EE Plan. R.D. at 76-82; FOF Nos. 301-34. Additionally, the ALJs cited evidence pertaining to the operation of related programs beneficial to low income customers – such as the A&R Program and the ER Program – as well as the Company's adoption of various recommendations proposed by the OCA. R.D. at 82-85; FOF Nos. 335-42, 345-48, 351. These findings support our determination that the EE Plan, as proposed, should be approved, without modification.

Specifically, the Company presented unrebutted testimony about the benefits of the Phase II EE Plan, as follows:

- The EE Plan will be implemented across three years starting in January of 2026 with programs designed to help the Company's residential and small commercial customers reduce their energy consumption, improve efficiency, and conserve resources. Overall, the EE Plan is projected to provide lifetime savings of 2.7 million Dths of natural gas at an implementation cost of $7.9 million over three years. Columbia St. 13 at 8.

- Columbia's EE Plan is voluntary and was developed using the guiding principles of the Commission's *Phase IV Implementation Order* including the TRC test to determine its cost-effectiveness. The Company's EE Plan budget is well under the 2% cap that Act 129 imposes on electric efficiency programs in Pennsylvania. Columbia St. 13 at 15; Columbia Exh. JAN-2 at 4-5, 9-10.

- The EE 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 of 2.49. Columbia St. 13 at 9.

- In addition to the projected savings in natural gas usage, the OAK, RPP, and SC Programs are expected to save 7,629 MWh of electricity and 508 million gallons of water over the lifetime of the measures installed. Additionally, the programs are projected to reduce emissions by over 164,575 short tons of CO_2, or the equivalent of removing over 6,286 cars from the road permanently. Columbia St. 13 at 12.

- Moreover, the EE Plan is projected to generate between 81 and 162 net additional new jobs over the lifetime of the efficiency measures installed. Columbia St. 13 at 13; Columbia Exh. JAN-2, Section 1.4.4.

In summary, the Company presented substantial evidence in the record to support a determination that the Phase II EE Plan will produce significant energy and resource savings, economic benefits for customers, and emission reductions of greenhouse gases.[205] Accordingly, we disagree with the ALJs' recommendation to reject Columbia's EE Plan.

Regarding the ALJs' alternative recommendation, we shall decline to direct the Company to proportionately increase the budgets of the A&R and ER Programs. Here, we recognize that Columbia's Phase II EE Plan is voluntary and that there are no statutory or regulatory requirements for an NGDC to fund specific energy measures for households at or below 150% of the Federal poverty guidelines. *See contra* 66 Pa.C.S. § 2806.1(b)(1)(i)(G) (pertaining to duties of EDCs). In the absence of such mandates or of any legislative intent to require voluntary EE&C plans to comply with Section 2806.1(b)(1)(i)(G) of the Code, we shall decline to do so.

CAUSE-PA argues that other NGDCs have submitted voluntary plans that included provisions for dedicated low income programming to all customers at or below 150% of the FPIG.[206] However, those voluntary plans were established through settlements, not litigated cases, and are not precedential to our determination herein,

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[205] For a breakdown of the projected benefits within each program category, see FOF Nos. 323-34. R.D. at 80-82.

[206] *See e.g.*, *Petition for UGI Utilities, Inc. – Gas Division for Approval of its Phase II Energy Efficiency and Conservation Plan*, Docket No. M-2024-3048418 (Final Order entered July 24, 2025) (*UGI EE&C Order*); and *Philadelphia Gas Works Universal Service and Energy Conservation Plan for 2014-2016, 52 Pa. Code § 62.4 – Request for Waivers*, Docket No. P-2014-2459362 (Final Order entered April 25, 2024) (*PGW EE&C Order*).

which requires consideration of Columbia's EE Plan within this specific proceeding. *See PECO Gas 2024* at 100.

Additionally, we recognize that the Company's voluntary EE Plan, when leveraged with its alternative EE&C program opportunities, already appears to provide low income customers with a range of equitable opportunities for efficiency and conservation incentives. For example, Columbia testified that the dedicated low income programs approved in the *UGI EE&C Order* and the *PGW EE&C Order* are not as robust as Columbia's A&R Program. Columbia St. 13-R at 15. In this regard, the Company established that the A&R Program is a dedicated program for customers who earn up to 250% of the FPIG but 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. The A&R Program can be stacked with the proposed EE Plan, thereby providing eligible customers up to $4,800 of no-cost insulation and air sealing measures. Columbia St. 13-R at 14-15.

Moreover, the Company has established that its low income customers have benefitted from the existing EE Pilot, with 180 CLI customers participating in the RPP Program and receiving various measures such as boilers, furnaces, smart thermostats, and tankless water heaters. Columbia St. 13-RJ at 4. Columbia also demonstrated that all customers who pay into the EE Rider, including low income customers who are not enrolled in CAP, are able to participate in the EE Pilot and the proposed Phase II EE Plan. Furthermore, the Company confirmed that 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. Columbia St. 13-R at 14.

In declining to direct budget increases to the Company's A&R and ER Programs, we note that Columbia's ratepayers are already paying substantially more than

other gas utility ratepayers for energy efficiency programs for low income customers. For example, as previously discussed in Section XIV.F, *supra*, the Company's ratepayers already pay $14 annually for LIURP. Moreover, these same ratepayers pay an additional $5 annually for the A&R and ER Programs. Columbia St. 16-R at 8, 14.[207] Furthermore, we acknowledge the Company's testimony that since the inception of the A&R Program in 2009, no household has been denied assistance due to a lack of funding. *Id*. at 13. Thus, we find that Columbia's customers should not be expected to bear an even greater financial burden than other gas utility customers – via a Commission-ordered increase to the A&R and ER Programs – particularly when the existing energy and efficiency programs are apparently operating as intended under existing budget allocations.

Our rationale for declining to direct the increase in energy efficiency programs also supports a determination that the Company should not be ordered to roll over unused budget funds in the A&R and ER Programs. At present, any unspent funds are credited during the annual Rider USP reconciliation each February and reduce the total Rider USP collected in the following year. Columbia St. 16-R at 13. Requiring unspent A&R and ER Program funds to roll over each year risks creating a growing surplus of funds collected from ratepayers. Because Columbia ratepayers already pay substantially more than other gas utility ratepayers for such EE programs, we find that it is equitable to continue to return any unused funds to Columbia's customers as part of the annual Rider USP reconciliation, rather than to potentially increase a surplus of unused budget funds.

Additionally, we shall address the ALJs' proposed ordering paragraph imposing a 20% annual cap on the EE Plan's total administrative costs, exclusive of the

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[207] In contrast, as noted in Section XIV.F, *supra*, the *average* LIURP spending per residential customer among *all* Pennsylvania gas customers is $9 annually. Columbia St. 16-R at 8 (citing 2023 Universal Service Program and Collections Performance Reports).

incentives cost, with any excess administration costs to be refunded to customers through the Rider EE. R.D. at 683; OP No. 27. As discussed above, Columbia's EE Plan is already cost-effective as proposed, with a TRC benefit-cost ratio of 2.49. Columbia St. 13 at 9.

Upon review, we agree with the Company that limiting expenses in administration, marketing, inspections, and evaluations would likely have adverse effects and potentially hinder the ability of customers to save natural gas and realize the benefits of the EE Plan. *See* Columbia St. 13-R at 8. Limiting the budget would run the risk of making the EE Plan less cost-effective and result in a poor customer cost to value ratio. *Id*. Accordingly, we shall decline to adopt the ALJs' proposed Ordering Paragraph No. 27 imposing a 20% annual cap on administrative expenses.

As a final matter, we note that the Company adopted some, but not all, of the OCA's recommendations to the EE 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 EM&V reports completed on the EE Plan at this docket; and (3) coordinate with EDC programs when appropriate. The ALJs acknowledged the Company's adopted modifications in the Recommended Decision. *See* R.D. at 82; FOF No. 337. However, the ALJs declined to recommend that the Commission adopt the OCA's additional requested modifications to the EE Plan, which the Company opposed. Further, as noted above, the OCA did not file Exceptions to the ALJs' recommendation on this issue. We find no error in the ALJs' recommended course of action and shall decline to address the OCA's other requested modifications. Accordingly, we shall adopt the ALJs' findings as to the modifications agreed upon by the Company.

Based on the foregoing, we shall grant Columbia's Exception No. 19, reverse the Recommended Decision on this issue, and approve Columbia's Phase II EE Plan, as filed.[208]

XVI. Competitive Supply Issues

A. Positions of the Parties

Columbia opposed the recommendation of the OCA and CAUSE-PA, *infra*, to require Columbia to send targeted communications to customers who are enrolled with a Natural Gas Supplier (NGS) and paying supplier rates that are higher than the Company's price to compare (PTC). Rather, Columbia contended that its outreach and messaging to shopping customers is fully compliant with all regulatory requirements, and that its customers are provided the information necessary to evaluate NGS offers and compare shopping costs. Columbia M.B. at 224-25; Columbia St. 1-R at 21.

In addition, Columbia argued that the messaging recommended by the OCA and CAUSE-PA conflicts with the intent of the Natural Gas Choice and Competition Act, 66 Pa.C.S. § 2201, *et seq*. (Choice Act) because it expressly requires that customers have the opportunity to choose a variety of products and services, including supply and pricing options, from NGSs, and it does not require lower natural gas rates or costs. Columbia took the position that the proposed messaging should be rejected because it could discourage customers from shopping for an NGS, which directly conflicts with the purpose of the Choice Act. Furthermore, Columbia averred that CAUSE-PA's recommended messaging is unnecessarily discriminating to low income customers who are paying supply rates higher than the PTC, and that, to the extent low

[208] Consistent with our disposition herein, we shall also grant Columbia's Exception No. 20, in part, which requests the rejection of Ordering Paragraph Nos. 37 and 38 pertaining to the rollover of unspent budgets for the A&R and ER Programs.

income customers are paying excessive shopping rates, it is because those rates are a result of NGS pricing, and are not due to Columbia's PTC or the information the Company supplies to its customers. Columbia M.B. at 225-26; Columbia St. 1-R at 21; Columbia St. 1-RJ at 9.

Finally, Columbia argued that imposing additional communication requirements regarding competitive supply rates in this proceeding would be improper because supplier interests are not adequately represented in this proceeding. Columbia M.B. at 226-27.

The OCA recommended that Columbia be required to send additional educational messaging to customers who are enrolled with an NGS and are paying rates that are higher than the PTC that explains how to compare NGS charges to the PTC and urging them to compare rates on a monthly basis. OCA St. 6 at 21. The OCA's witness, Ms. Alexander, identified that certain customers are paying more for NGS service, as compared to the PTC, which negatively impacts customer bills. The OCA argued that while Columbia promotes customer choice, the Company does not take responsibility when customers pay higher bills for NGS service. The OCA stated that the Commission has issued Orders recognizing the adverse impact of customer choice shopping on low income customers, and that these customers may pay higher prices for utility service when served by retail suppliers. Therefore, the OCA recommended that, due to the risk for the potential termination of service for the inability to pay higher prices, Columbia should target educational messages to choice customers to urge them to compare NGS charges to the PTC on a monthly basis. OCA St. 6 at 20-21; OCA St. 6SR at 15.

Similarly, CAUSE-PA recommended that Columbia be required to develop a targeted letter for low income shopping customers who are being charged rates higher than the PTC, to be sent at least once every six months and include clear instructions for applying for CAP. CAUSE-PA St. 1 at 60. CAUSE-PA averred that Columbia's

residential and low income shopping customers are consistently charged rates that exceed the PTC, which in turn increases collections and USP costs, termination rates, and distribution rates paid by all residential customers. In order to guard against these consequences, CAUSE-PA recommended that the Commission should require Columbia to improve its general residential shopping education by providing targeted education to low income shopping customers about the availability and benefits of CAP. CAUSE-PA St. 1 at 58-60.

Furthermore, CAUSE-PA submitted that Columbia has exhibited an indifference to the excessive charges in the competitive market, which runs contrary to its obligation to prudently manage collections and minimize costs borne by other ratepayers. CAUSE-PA further contended that Columbia's position contradicts the Company's statutory and regulatory obligations regarding education and universal service under the Choice Act, which requires Columbia to educate customers about the competitive market and to provide information to assist customers in making choices regarding natural gas service. CAUSE-PA asserted that the main goal of the Choice Act is to promote competition through the deregulation of the natural gas supply industry in order to reduce energy costs for consumers, and that the Commission has the authority to limit competition in order to provide for access, affordability, and cost-effectiveness. Columbia M.B. at 150-52.

Moreover, CAUSE-PA averred that Columbia's discussion of the PTC and information about shopping on its customers' bills and the Company's webpage is insufficient to help customers compare NGS offers or to assess their eligibility for a lower rate through CAP. Further, CAUSE-PA stated that Columbia's opposition to additional education about shopping and the availability of CAP for low income customers is without merit. Columbia M.B. at 152-54.

B. Recommended Decision

The ALJs explained that the Choice Act requires that the Commission ensure that universal service and energy conservation programs are available in each NGDC's service territory to assist low income customers in affording natural gas service. The ALJs further noted that the Choice Act recognizes that the ability of low income customers to both afford and maintain gas service is of paramount concern. The ALJs found that the evidence suggests at least 25% of Columbia's low income shopping customers are unable to afford to maintain service to their home, resulting in involuntary termination at rates which surpass low income default service customers. R.D. at 622-23 (citing 66 Pa.C.S. §§ 2202, 2203 (7)-(8)).

The ALJs noted that the OCA and CAUSE-PA both identified an issue and proposed a solution to address a concern that affects many Columbia customers. In proposing that Columbia should send targeted communications to customers who are enrolled with an NGS and are paying supplier rates that are higher than the Company's PTC, the ALJs concluded that the OCA and CAUSE-PA each provided proposals to address and potentially resolve these issues for the benefit of Columbia's customers. Furthermore, the ALJs found that Columbia's response, *i.e.*, that its customers are already provided with the information necessary to evaluate NGS offerings, fails to address the substance of the issue or propose a solution to alleviate a concern that may have a real detrimental impact on its customers. The ALJs stated that 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. Moreover, the ALJs found that there was no credible evidence presented that the issue raised by the OCA and CAUSE-PA does 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 provision of the Code or any Commission Regulation. Also, the ALJs concluded that Columbia's argument, that

targeting 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. R.D. at 626.

According to the ALJs, a base rate case is the proper venue for addressing the customer service issues raised in this proceeding. In addition, the ALJs concluded that there is no requirement for a specific law, order, or policy to be in effect that specifically requires the relief requested by the OCA and CAUSE-PA in order for such relief to be implemented by the Company. Furthermore, the ALJs stressed that Section 1501 of the Code, 66 Pa.C.S. § 1501, requires Columbia to provide safe, adequate, and reasonably continuous service. R.D. at 626 (citation omitted).

Therefore, the ALJs recommended that the proposals of the OCA and CAUSE-PA be implemented by Columbia. R.D. at 626. Specifically, the ALJs recommended that the Commission direct Columbia to develop a targeted letter for low income shopping customers that are enrolled with a supplier at a rate which exceeds the applicable PTC. The ALJs recommended that this letter inform these customers of the availability of CAP and other universal service programs, including the benefits of each program and how to enroll. Further, the ALJs recommended that the Commission direct Columbia to send this letter at least once every six months. *Id*. at 685.

C. Columbia Exception No. 14 and Replies

In its Exception No. 14, Columbia argues that the ALJs' recommendation on this issue should be rejected because it would inappropriately require Columbia to send targeted messaging to shopping customers that could discourage them from shopping for natural gas supply, which is contrary to the intent of the Choice Act. Columbia contends that the purpose of the Choice Act is to encourage competition for natural gas supply, and that there is no language in the Choice Act that requires lower

rates or costs for natural gas supplied by NGSs, or that places the responsibility on NGDCs if customers are paying high NGS rates. Columbia further avers that it would be improper to impose additional communication requirements regarding competitive supply rates in a proceeding where supplier interests are not adequately represented. Columbia submits that the rates of NGSs are outside of the Company's control, and that it would be inappropriate and inconsistent with the Choice Act for Columbia, as the provider of last resort in its service territory, to discourage customer choice. Columbia Exc. at 26-27.

Furthermore, Columbia submits that the Recommended Decision is unclear as to how Columbia should implement the ALJs' recommendation to send additional targeted messaging to shopping customers. Columbia points out that while the ALJs, through their analysis, recommended that both the OCA's and CAUSE-PA's proposals be implemented, Ordering Paragraph No. 39 of the Recommended Decision only contemplates the adoption of CAUSE-PA's proposal. Columbia avers that the OCA's proposal is different than CAUSE-PA's proposal because it would require that messaging be sent to all shopping customers. As such, Columbia contends that this inconsistency creates ambiguity for compliance purposes because it is unclear which customers should be sent communications, what content should be included in the messages, and how often the communications should be sent. If the ALJs' recommendation on this issue is adopted, Columbia requests clarity on these points. Columbia Exc. at 27-28.

Columbia further argues that CAUSE-PA's proposal to specifically target low income customers is discriminatory to those customers as they should not be singled out and discouraged from shopping for an NGS. Columbia insists that it has no desire to interfere with its low income customers' shopping choices, and that any NGS rates being paid by low income customers that are higher than the PTC are the result of NGS pricing, rather than Columbia's PTC or the information provided by the Company. Columbia notes that shopping customers choose to do so for many reasons, even if the NGS rates they pay may be higher than the PTC. Columbia Exc. at 28.

In reply to Columbia's Exception No. 14, the OCA asserts that there is no error in the ALJs' recommendation to require messaging to shopping customers without supplier notice. The OCA argues that the ALJs did not err in their recommendation or create inconsistency, as Columbia alleges. Rather, the OCA contends that its proposals were clear and supported by its testimony. Furthermore, the OCA submits that the ALJs' recommendation that the Commission adopt the OCA's proposals is consistent with applicable law and supported by substantial evidence and does not create any ambiguity. Finally, the OCA states that it supports the recommended requirement in Ordering Paragraph No. 39 for Columbia to send the letter, discussed above, once every six months to low income shopping customers. OCA R. Exc. at 11-13.

CAUSE-PA, in reply to Columbia Exception No. 14, also takes the position that the ALJs' recommended requirement that Columbia provide additional messaging to educate low income customers about shopping is correct. In support, CAUSE-PA asserts that the data in this proceeding demonstrates that residential shopping customers are charged substantially higher rates, and that low income shopping customers experience higher rates of involuntary termination, increasing bills, energy insecurity, and higher collections and universal service costs. In addition, CAUSE-PA disagrees with Columbia's position that the intent of the Choice Act is not to lower costs. Rather, CAUSE-PA contends that the main goal of the Choice Act is to promote competition, resulting in reduced costs for consumers. CAUSE-PA submits that the Choice Act: (1) provides the Commission with the authority to effectively limit competition in the interests of affordability and cost-effectiveness, (2) acknowledges that the ability of low income customers to afford and maintain gas service is of paramount concern, and (3) imposes an obligation on Columbia to operate programs to address these key imperatives, which includes educating consumers about the competitive market. CAUSE-PA R. Exc. at 12-14.

In addition, CAUSE-PA avers that Columbia's consumer education is inadequate to support consumer choice and to assist low income shopping customers in maintaining service. CAUSE-PA states that it is unacceptable, and contrary to the Choice Act, that one out of four of Columbia's low income shopping customers are unable to afford to maintain service to their home; and that something needs to be done to reverse this outcome. CAUSE-PA also opines that Columbia's argument, that the lack of NGS participation in this proceeding should prevent the Commission from ordering Columbia to educate its low income shopping customers, is absurd. In CAUSE-PA's view, whether a party chooses to intervene in this case is irrelevant with respect to determining whether Columbia is meeting its statutory obligations to educate consumers about the competitive market and to ensure low income customers can afford and maintain gas service. CAUSE-PA further argues that Columbia's lack of desire to interfere with the shopping choices of its low income customers demonstrates the Company's general disregard for ensuring that its low income customers have adequate information to make informed decisions about their supply so they can remain connected to service. CAUSE-PA R. Exc. at 14-15.

For these reasons, CAUSE-PA submits that "Columbia must improve education of its residential and low income shopping customers." CAUSE-PA R. Exc. at 15.

D. Disposition

Upon review, we shall decline to adopt the recommendation of the ALJs on this issue. At this present time, we shall decline to order Columbia to send targeted communications to customers who are enrolled with an NGS and who are paying supplier rates that are higher than the Company's PTC. Although we are generally supportive of beneficial consumer education that customers can use to make informed shopping choices, we find that it is not appropriate to impose the additional requirements proposed

by the OCA and CAUSE-PA on Columbia, as an NGDC, based upon the circumstances in this proceeding.

We agree with the ALJs that the record evidence suggests that some Columbia shopping customers, including low income shopping customers, may be paying rates that are higher than the Company's PTC. However, the record evidence does not support a conclusion that Columbia's current education and outreach to its shopping customers is not compliant with the Code, the Choice Act, the Company's tariffs, or any Commission Regulation or Order. In our view, neither the OCA nor CAUSE-PA proved that Columbia is not fully compliant with its statutory and regulatory outreach and educational responsibilities regarding this matter. Furthermore, we do not find that Columbia's obligation to provide safe, adequate, and reasonable service under Section 1501 of the Code, 66 Pa.C.S. § 1501, supports any requirement to provide the additional consumer education proposed by the OCA and CAUSE-PA at this time.

We are sympathetic to the issue raised by the OCA and CAUSE-PA regarding certain shopping customers, including low income customers, paying more for NGS service than the PTC. In fact, similar concerns have been raised in other proceedings before the Commission.[209] While we agree with the ALJs' conclusion that a base rate case is the proper venue to consider customer service issues raised in such a proceeding, we do not believe that the question – of whether there are additional

[209] *See Peoples 2024* (The Commission adopted the recommendation of ALJ Mary D. Long to deny additional education requirements for shopping customers); *Petition of PECO Energy Company for Approval of Its Default Service Program for the Period From June 1, 2025, Through May 31, 2029*, Docket No. P-2024-3046008 (Opinion and Order entered November 7, 2024) (The Commission approved a proposal to include chart on bill comparing [electric generation supplier (EGS)] pricing and the PTC); *Pa. PUC v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2024-3052716 (Final Order entered September 11, 2025) (*UGI Gas 2025*) (The Commission approved settlement including provision to move the PTC from the back of the bill to the front).

communications that Columbia should be providing to shopping customers – is best handled at this time in this case. To the contrary, we agree with Columbia that addressing these issues and imposing additional communication requirements regarding competitive supply rates in a specific NGDC's base rate case, without the input of other important stakeholders, including individual NGSs or representatives of the NGS community, is not appropriate. Rather, we are of the opinion that a better approach to address the issue of whether changes or additions to the consumer education activities of NGDCs are necessary, if a party wants to pursue it, would be through a separate proceeding. Under such an approach the issue could be considered on an industry-wide basis, as opposed to one specific company in a base rate case, providing an opportunity for all interested stakeholders to participate, and allowing a comprehensive review of all relevant issues associated with such a petition.[210] To that end, we will also refrain, in this Opinion and Order, from addressing the merits of the arguments offered by the Parties regarding the underlying intent of the Choice Act; if any improvement to Columbia's current shopping education and any associated costs are necessary; whether such messaging could discourage customer choice; and whether additional education to low income customers would be discriminatory.

Accordingly, we shall grant Columbia's Exception No. 14 and modify the ALJ's Recommended Decision by not requiring Columbia to conduct the additional messaging to shopping customers proposed by the OCA and CAUSE-PA, at this time.

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[210] An example of a competitive natural gas issue being considered on an industry-wide basis is the Commission's prior review and consideration of enhancements to NGS information contained on NGDCs' bills. *See Investigation of Pennsylvania's Retail Natural Gas Market: Joint Natural Gas Distribution Company – Natural Gas Supplier Bill*, Docket No. M-2015-2474802 (Final Order entered August 20, 2015).

XVII. Additional Tariff Issues

A. Rate EDDS

In this section, we examine Columbia's proposal to implement tariff Rate EDDS to allow the Company to serve large load customers such as data centers.

1. Positions of the Parties

Columbia proposed to implement a new tariff rate, (Rate EDDS), to serve large load customers such as data centers. Columbia explained that Rate EDDS would treat large load customers as non-jurisdictional, and the Company would enter into individual, specialized contracts with these unique users that reflect their specific costs and service requirements. According to Columbia, the Company does not have a rate schedule that could accommodate data centers, and the Company has received an inquiry from a potential customer that may qualify for Rate EDDS. Columbia argued that approving Rate EDDS would better position the Company to serve data centers and promote economic growth while also protecting its jurisdictional customers from bearing the risks associated with the Company's service of unique, large users. Columbia further explained that in subsequent rate cases, the costs for serving Rate EDDS customers would be separated out in a cost of service study (COSS). Columbia M.B. at 227-28.

Columbia also asserted that Rate EDDS would protect jurisdictional customers from bearing the risk of investment costs associated with Rate EDDS customers and from the risk of Rate EDDS customers leaving the system. Columbia M.B. at 227-28. Finally, Columbia opined that causing the Company to lose the opportunity to serve a large customer simply because opposing parties argue that the Rate EDDS proposal is premature would be unreasonable, and that the parties' additional points of opposition are short-sighted and should be rejected. Columbia R.B. at 153-54.

In summary, Columbia opined that Rate EDDS is in the public interest and that it should be approved. Columbia M.B. at 227-28; Columbia R.B. at 154.

I&E, the OCA, and CAUSE-PA each opposed Rate EDDS and argued that this tariff rate should not be approved. I&E M.B. at 83-85; OCA M.B. at 336-37; CAUSE-PA M.B. at 154-56. I&E opposed Rate EDDS based on its concerns about the non-jurisdictional nature of Rate EDDS and its impact on the Commission's ability to address: (1) which classes of customers would pay for future improvements, (2) how stranded costs would be handled, and (3) how individual contracts associated with Rate EDDS could result in subsidization by jurisdictional customers. I&E M.B. at 83-85; I&E St. 2 at 98; I&E St. 2-SR at 60; I&E R.B. at 56-57. In the alternative, if Rate EDDS were to be approved, I&E urged the Commission to address its stated concerns. I&E M.B. at 85; I&E R.B. at 56-57.

Next, the OCA and CAUSE-PA opposed Rate EDDS on the grounds that approval would be premature, given the preliminary nature of Columbia's discussions with a prospective customer. OCA M.B. at 336-37 (citing Columbia St. 9-R at 35); OCA R.B. at 174; CAUSE-PA M.B. at 155-56. The OCA requested that the Commission delay approval of Rate EDDS until information is available on the usage characteristics of the customers and how those characteristics are considered in the COSSs. OCA M.B. at 337; OCA R.B. at 174. In the alternative, if the Commission approves Rate EDDS, then the OCA requested that the Commission clarify the information that Columbia must provide with its next rate filing to ensure that captive ratepayers do not bear the costs of serving Rate EDDS customers. OCA M.B. at 337. CAUSE-PA also pointed to the Commission's active proceeding to develop statewide policy guidelines and/or a model tariff for large load customers, and it argued that overall Commission guidance about large load connections should be issued in that proceeding before any large load tariffs are implemented. CAUSE-PA M.B. at 155-56 (citing *En Banc Hearing Concerning Interconnection and Tariffs for Large Load Customers*, Docket No. M-2025-3054271

(Hearing held April 24, 2025) (*En Banc Hearing Regarding Large Load Customers*)); CAUSE-PA R.B. at 65-66.

2. Recommended Decision

The ALJs recommended that Columbia's proposed tariff Rate EDDS be rejected. The ALJs concluded that Columbia's proposed Rate EDDS was premature, given the Commission's active, ongoing proceeding to develop statewide policy guidelines and/or model tariff for large load customers. R.D. at 647 (citing *En Banc Hearing Regarding Large Load Customers*). According to the ALJs, based on the scale of investment and the risk of cost shifting between jurisdictional and non-jurisdictional customers, Columbia and its customers would be best served by waiting for the Commission's guidance before implementing Rate EDDS. Additionally, the ALJs considered that Columbia did not have any requests for service that would qualify for Rate EDDS at the time that it was proposed, and that Columbia has received only one inquiry from a potential customer since the rate was proposed. R.D. at 247.

3. Columbia Exception No. 13 and Replies

In its Exception No. 13, Columbia argues that the ALJs' recommendation to deny Rate EDDS should be reversed. According to Columbia, while the ALJs determined that Rate EDDS was premature given the pendency of the Commission's *En Banc Hearing Regarding Large Load Customers* to develop policy guidelines for large load customers, the pendency of the proceeding is not determinative. Instead, Columbia claims, the *En Banc Hearing Regarding Large Load Customers* focused on electric interconnection issues, which present different issues than those implicated in the context of natural gas systems. Additionally, Columbia contends that it should not be forced to delay Rate EDDS due to regulatory delay, at the risk of losing the opportunity

to serve a large load customer and at the risk of losing economic benefits for Pennsylvania. Columbia Exc. at 26.

In its Replies to Exceptions, I&E argues that Columbia, in its Exception No. 13, ignores the concerns raised by I&E, the OCA, and CAUSE-PA. According to I&E, the ALJs properly recognized the opposing parties' concerns, including I&E's arguments regarding jurisdictional issues, improper customer class subsidization, and stranded cost issues related to transmission between jurisdictional and non-jurisdictional customers. I&E R. Exc. at 10 (citing R.D. at 494-97; I&E M.B. at 83-84; I&E St. 3 at 30-35; I&E St. 3-SR at 31-33). I&E asserts that the ALJs reached the proper outcome in their recommendation for the Commission to reject Rate EDDS. I&E R. Exc. at 10-11.

In its Replies, the OCA opines that the ALJs' recommendation to reject Columbia's proposal to implement Rate EDDS was consistent with the evidence presented. The OCA also avers that Columbia, in its Exception No. 13, failed to present a new or persuasive basis as to why the Company should be permitted to adopt a large load tariff in this case. Finally, the OCA opines that it is appropriate to wait to approve a large load tariff for Columbia until after the Company and the Commission have better information regarding matters such as the usage and risk characteristics of a large load customer. OCA R. Exc. at 20.

In its Replies, CAUSE-PA, likewise, submits that the Commission should adopt the ALJs' recommendation on this issue. Citing Columbia's argument that it should not have to wait for the outcome of the *En Banc Hearing Regarding Large Load Customers*, which focuses on electric interconnection, before the Commission approves Rate EDDS, CAUSE-PA avers that the Company's position is speculative, considering that the Company has only had a single inquiry from a potential customer. Additionally, CAUSE-PA contends that the *En Banc Hearing Regarding Large Load Customers* will

provide guidance for all jurisdictional utilities seeking to implement large load rates or tariffs, including fair rules and procedures that provide transparency to new customers, protection from cost shifting for existing customers, and certainty for utilities. CAUSE-PA R. Exc. at 12 (citing CAUSE-PA R.B. at 66). For these reasons, CAUSE-PA agrees with the ALJs' determination that based on the scale of the investment and the risk of cost shifting between jurisdictional and non-jurisdictional customers, Columbia's existing customer will be better served by the Company waiting for the Commission's guidance before implementing Rate EDDS. CAUSE-PA R. Exc. at 12 (citing R.D. at 647; CAUSE-PA R.B. at 66).

4. Disposition

We will deny Columbia's Exception No. 13. Although our rationale, *infra*, differs from that of the ALJs, we agree with the ALJs' ultimate conclusion that Rate EDDS should be rejected. While we agree with the ALJs that having an identified large use customer and having the Commission's guidance from the *En Banc Hearing Regarding Large Load Customers* may be prudent for Columbia,[211] our disposition of this issue does not hinge upon a determination that Rate EDDS is premature or that Columbia must await the conclusion of the pending proceeding. *See* R.D. at 647. Instead, our determination to reject Rate EDDS is based upon the threshold fact that Columbia seeks approval to treat Rate EDDS customers as non-jurisdictional customers.

As we will explain below, Columbia's paradoxical request for the Commission to approve a tariff rate for non-jurisdictional customers is at odds with

[211] CAUSE-PA is correct that the Commission's guidance from the *En Banc Hearing Regarding Large Load Customers* is not limited to the electric industry, and that it will provide guidance for all jurisdictional utilities seeking to implement large load rates or tariffs. *See* CAUSE-PA St. 2 at 78. To that end, we encourage Columbia to review the comments, reply comments, and any future guidance by the Commission in the ongoing proceeding at Docket No. M-2025-3054271.

applicable law and contrary to the public interest. Moreover, we also agree with I&E that Columbia's proposal to make the Rate EDDS class non-jurisdictional would hinder the Commission's ability to ensure that improper subsidization and other risk is not inequitably borne by jurisdictional customers, without recourse. *See* I&E M.B. at 84-85 (citing I&E St. 3-SR at 32-33).

Importantly, because our determination to deny Columbia's proposed Rate EDDS is limited to the non-jurisdictional nature of Columbia's proposal, it should not be construed to undermine the Commission's recognition that requests for service for large load customers are imminent and that utilities need to be prepared to serve these types of customers. *See* Columbia St. 9-R at 37. We commend Columbia for taking a proactive stance in recognizing the need to accommodate large users and to facilitate economic growth in the Commonwealth, and our decision in this matter should not be construed to the contrary.

To be sure, a key component of our decision to initiate the *En Banc Hearing Regarding Large Load Customers* was the determination that new large load customers, including hyperscale data centers, "represent a tremendous opportunity for the state in terms of jobs, economic growth, technological advancement, and rate stability, in addition to bolstering our national security." *En Banc Hearing Regarding Large Load Customers*, Motion of Chairman Stephen M. DeFrank dated March 27, 2025, at 1. At the same time, we also acknowledged the need "to establish just and reasonable tariffs that provide open and non-discriminatory access to our public utility systems while protecting existing customers from undue burdens and costs." *Id*. By proposing to treat Rate EDDS customers as non-jurisdictional customers subject to contract terms outside of our jurisdiction, Columbia's proposal in this proceeding would appear to deprive us of our ability to protect existing customers and fulfill our statutorily-prescribed obligations.

The Commission's authority to regulate public utility rates is well-established in the Code and through guiding precedent.[212] The Commission's powers are statutory and they may arise from either "express words contained in the enabling statutes" or by way of a "strong and necessary implication from those words." *PECO Energy Co. v. Pa. PUC*, 791 A.2d 1155, 1159–60 (Pa. 2002) (citing *Feingold v. Bell of Pennsylvania*, 383 A.2d 791 (Pa. 1977)).

As part of the expressly enumerated powers conveyed by the Pennsylvania General Assembly in Section 501 of the Code, the Commission has "general administrative power and authority to supervise and regulate all public utilities doing business within this Commonwealth." 66 Pa.C.S. § 501. Through Section 501 of the Code, the General Assembly intended to grant the Commission "full powers in regulating services and rates of public utilities." *Popowsky II 1996*; *see also West Penn Power*.

Through rate regulation, the Commission is required to ensure that "[e]very 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." 66 Pa.C.S. § 1301. Finally, and of particular import to this case, public utilities may not contract around the Commission's ratemaking authority, as they "cannot, by entering into unsupervised contracts with third parties, deprive the Commission of its power to rule on the reasonableness of a utility's rates." *Duquesne Light Co. v. Pa. PUC*, 507 A.2d 1274, 1279 (Pa. Cmwlth. 1986);

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[212] Our analysis should not be construed as determining that Columbia's proposal to implement Rate EDDS on a non-jurisdictional basis conflicts with only the provisions of the Code referenced herein. On the contrary, Columbia's proposal would appear to deprive the Commission of jurisdiction over an entire class of public utility customers without action of the General Assembly and would likely conflict with the Commission's broad regulatory authority in many other respects; however, our analysis here is confined to the very limited Rate EDDS information available within the record of this case.

National Fuel Gas Distribution Corp. v. Pa. PUC, 464 A.2d 546, 557-58 (Pa. Cmwlth. 1983).

The General Assembly also granted the Commission, *inter alia*, the power to review, reform, and revise public utility contracts that concern the public interest and the well-being of the Commonwealth. Specifically, the Commission is empowered to vary, reform, and revise contracts between any public utility and any person, corporation, or municipal corporation "which embrace or concern a public right, benefit, privilege, duty, or franchise, or the grant thereof, or are otherwise affected or concerned with the public interest and the general well-being of this Commonwealth." 66 Pa.C.S. § 508.

Against the backdrop of our regulatory authority and obligations, we now turn to Columbia's Rate EDDS proposal. Columbia expressly proposes to treat Rate EDDS customers as non-jurisdictional customers and to enter into individual contracts with customers taking Rate EDDS service. *See* Columbia St. 9 at 41. The Company intends to bill Rate EDDS customers at a rate that "would reflect the cost to meet their individual needs while separating those costs from the revenue requirement to be allocated to all other customers." *Id*. However, Columbia fails to indicate what criteria would be used to establish a billing rate to meet each Rate EDDS customer's needs. While Columbia indicates that "[a]t the inception of the contract, *all costs of service* will be taken into consideration to determine the amount to be charged to the EDDS customer *over the life of the contract*," we note that no identification of costs, nor of any minimum contract terms, have been set forth. *See Id*. at 44 (emphasis added).

Our review of Columbia's proposed Rate EDDS demonstrates that the customer's rate for transportation service would be established "by the Company and the Customer in the Service Agreement" and that the contract term would also be set forth in the Service Agreement. *See* Columbia Exh. 14, Sch. 2, Attachment B. Significantly, the record also fails to specify whether or how the Company contemplates a role for the

Commission in evaluating and approving contracts, which is at odds with the Commission's authority to vary, reform, and revise contracts under Section 508 of the Code, 66 Pa.C.S. § 508.

Significantly, Columbia provides no legal authority or support for its proposal to serve an entire class of public utility customers outside of the Commission's jurisdiction.[213] Beyond merely stating Columbia's intentions, the record in this case does not explain why Rate EDDS customers should be non-jurisdictional. Columbia also fails to offer any insight into how the Company interprets the non-jurisdictional designation to limit the Commission's access to information regarding Rate EDDS contract terms and their impact on jurisdictional customers. As we explained, *supra*, Columbia is not empowered to contract around the Commission's ratemaking authority. Approving Rate EDDS appears to require the Commission to agree to abdicate, *inter alia*, its jurisdiction over the contract terms and rates of Rate EDDS customers. We can make no such agreement, as it would be wholly at odds with our express authority to regulate public utility rates and to revise and reform public utility contracts as necessary to serve the public interest under, and the general well-being of, this Commonwealth. 66 Pa.C.S. §§ 501, 508, 1301.

We also recognize I&E's concerns related to the non-jurisdictional nature of Rate EDDS and its impact on the Commission's ability to address which classes of customers would pay for future improvements and how stranded costs would be handled.

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[213] Columbia's failure to cite to any authority for that which would permit the Company to establish Rate EDDS customers as non-jurisdictional customers implicates issues that extend beyond those that can be addressed here. As an example, we note that at the time of this Opinion and Order, legislation has been introduced in the General Assembly that, *inter alia*, proposed to provide for the Commission's review and regulation of contracts executed between public utilities and "commercial data centers" (defined to include peak demand of 25 megawatts or greater). *See* Pa. H.B. No. 1834, Regular Session of 2025.

I&E also cautioned that individual contracts associated with Rate EDDS could result in subsidization by jurisdictional customers. I&E M.B. at 83-85; I&E St. 2 at 98; I&E St. 2-SR at 60; I&E R.B. at 56-57. Additionally, I&E stressed that jurisdictional customers should not pay for the COSS for EDDS customers or other EDDS costs. *See* I&E St. 3 at 32. Further, I&E disagreed with Columbia's proposal to make the EDDS rate class non-jurisdictional, and thereby outside of the Commission's regulatory oversight. I&E St. 3 at 33-34. We agree and find that I&E's concerns exemplify some of the outcomes that approving Rate EDDS could inject into Columbia's rates to the detriment of the public interest. While we recognize Columbia's assurances that the Company will treat costs associated with EDDS customers separately from all other customers and shield customers from the risk of EDDS customers leaving the system, those assurances do not relieve the Commission of its statutory obligations. *See* Columbia St. 9 at 45.

Accordingly, for all the aforementioned reasons, we will deny Columbia's Exception No. 13 and adopt the ALJs' recommendation to reject Columbia's proposed tariff Rate EDDS.

B. Eligible Customer List (ECL) Tariff Provisions

1. Positions of the Parties

Columbia contested the OCA and CAUSE-PA's recommendation, *infra*, that the Company be required to amend Section 4.5.4 of its Tariff Gas to remove the words "third-party" as they currently exist in the following tariff excerpt:

> Tariff Rule 4.5.4
>
> 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. . . .[214]

Columbia M.B. at 231-34 (citing Columbia Exh. 14, Sch. 2, Attachment A at 261 (Tariff Gas at First Revised Page 227a, Effective December 20, 2014)) (emphasis added); Columbia R.B. at 154-57.

Columbia explained that the words "third party" in the above-referenced tariff provision are not new additions, as, while the Company is proposing changes to Section 4.5.4 of its Tariff Gas as part of this case, those changes are being made for purposes of complying with the Commission Order issued on March 13, 2025, whereby the Commission directed changes for the release of customer information regarding the ECL. Columbia M.B. at 232-33 (citing *Guidelines for Eligible Customer Lists*, Docket No. M-2010-2183412 (Order entered March 13, 2025) (*2025 ECL Order*)). In order to comply with the *2025 ECL Order*, Columbia indicated that the Company submitted a revised Tariff Page 227a in its rebuttal testimony to reflect the changes ordered by the Commission in the *2025 ECL Order*. Columbia M.B. at 233; Columbia St. 12-R, Exhs. RD-1R and RD-2R. Columbia averred that its proposed revisions to Tariff

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[214] Columbia proposes to change the language of this provision in order to provide for email notification to customers 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 **or email** of its intent to release such information. The Company will notify customers of the option to limit or restrict their private information…

See Columbia St. 12-R, Exhs. RD-1R and RD-2R (Supplement No. 392 to Tariff Gas at Proposed Second Revised Page 227a) (emphasis added).

Page 227a did not impact its use of the contested phrase "third party." Columbia M.B. at 231.

Moreover, Columbia maintained that Tariff Rule 4.5.4's reference to third parties is consistent with Section 62.78(a) of the Commission's Regulations, which the Company referenced, in part, as follows:

> 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.

Columbia M.B. at 233 (citing 52 Pa. Code § 62.78(a)); Columbia R.B. at 155-56.

After noting that the Commission's Regulations served as the origin of the Company's use of the term "third party" in Tariff Section 4.5.4, Columbia argued that the OCA and CAUSE-PA's proposed deletion of the term "third party" would fail to meet the requirement of the Commission's Regulations. Columbia M.B. at 234; Columbia R.B. at 157. Additionally, Columbia contested the relevance of a pending Affiliated Interest Agreement filing by the Company to facilitate on-bill billing of a non-regulated service offering by a third party, which the OCA and CAUSE-PA each relied upon in their arguments. Columbia M.B. at 233-34 (citing Tr. at 409-12). Columbia also contested CAUSE-PA's assertion that the scope of the ECL is only to provide information to licensed suppliers, and the Company argues that CAUSE-PA makes this assertion despite the "clear provisions of the Commission's regulations that allow information to be provided to third parties." Columbia R.B. at 155.

Furthermore, Columbia asserted that the Commission's guidelines clearly contemplated that third parties other than NGSs might have access to the information

supplied in ECLs. *Id*. at 155-56 (citing *Interim Guidelines For Natural Gas Distribution Company Eligible Customer Lists*, Docket No. M-2012-2324075 (Final Order entered September 23, 2013) at 9 (*ECL Guideline Order*)). Columbia also claimed that support for its position existed in the Commission's Regulations authorizing bills to include non-basic charges, and in the Code's authorization for natural gas distribution companies to provide billing services "on behalf of a natural gas supplier or other entity." Columbia M.B. at 234 (citing 52 Pa. Code § 56.13; 66 Pa.C.S. § 2205(c)).

Accordingly, Columbia maintained that despite the OCA and CAUSE-PA's arguments to the contrary, the Company may release private customer information to other third parties, so long as certain criteria are met. Columbia maintained that the operative criteria is the subject of a separate proceeding at Docket Nos. R-2018-2647577 and G-2025-3056022, which is completely irrelevant to the ECL.[215] Columbia R.B. at 157. Columbia disclaimed any conspiracy to permit other non-NGS-related third parties' access to the ECL for Columbia's monetary gain, as alleged by CAUSE-PA and the OCA. In conclusion, Columbia asserted that its proposed tariff provisions should be approved as presented, and that the recommended changes of the OCA and CAUSE-PA should be rejected. Columbia M.B. at 234; Columbia R.B. at 157.

The OCA expressed concern with the scope of the privacy information included in Columbia's existing tariff, and the OCA opined that the existing provision in Columbia's Tariff Gas referring to "third parties" is beyond the scope of the *2025 ECL Order*. OCA M.B. at 339; OCA R.B. at 176 (citing OCA St. 6 at 17).

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[215] *See Columbia Gas of Pennsylvania, Inc.'s Notice of Compliance*, R-2018-2647577 (*June 30, 2025 Letter*); *Pa. PUC v. Columbia Gas of Pa. Inc.*, Docket No. G-2025-3056022 (*Affiliated Interest Proceeding*). We note that the *Affiliated Interest Proceeding* is still pending before the Commission at the time of the entry of this Opinion and Order.

Next, the OCA stressed that the Commission's *2025 ECL Order* reminded stakeholders about privacy concerns related to third parties, as follows:

> 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.

OCA M.B. at 340; OCA R.B. at 177 (citing *2025 ECL Order* at 15) (emphasis in original).

According to the OCA, Columbia's existing tariff language is in conflict with the customer privacy concerns identified in the *2025 ECL Order* and an expansion of the scope to unknown third parties that would be able to receive the ECL information. The OCA asserted that the ECL was developed to facilitate the customer choice program, and not for the purpose of providing customer information to unknown third parties. OCA M.B. at 340-41.

Finally, the OCA pointed to Columbia's recent filings at Docket Nos. R-2018-2647577 and G-2025-3056022 and argued that the Company's tariff provision change should be viewed in conjunction with these recent filings. *See* OCA M.B. at 341 (citing *June 30, 2025 Letter*; *Affiliated Interest Proceeding*).[216] The OCA explained that the ALJs took judicial notice of the proceedings regarding the *June 30, 2025 Letter* and the *Affiliated Interest Proceeding*. OCA M.B. at 341 (citing Tr. at 413). Additionally, the OCA alleged that the *Affiliated Interest Proceeding* demonstrates that Columbia is seeking Commission approval of an affiliated interest agreement with NiSource Dev. Co., whereby Columbia will provide, and be compensated for, certain billing services related to Pivotal.[217] OCA M.B. at 341 (citing *June 30, 2025 Letter*). The OCA filed a Protest at Docket No. G-2025-3056022 identifying concerns with the affiliated interest proposal, and it contended that the Commission should not allow information from the ECL to be disclosed to unknown third parties. OCA M.B. at 341-42; OCA R.B. at 178-79.

CAUSE-PA urged the Commission to require Columbia to amend Section 4.5.4 of its Tariff Gas to strike references to third parties and to limit ECL access to licensed suppliers in the Company's service territory. CAUSE-PA M.B. at 158; CAUSE-PA St. 1-SR at 34; CAUSE-PA R.B. at 66-67. CAUSE-PA opposed, what it characterized as Columbia's broad, overly permissive tariff language, which, CAUSE-PA submitted, allows Columbia to provide ECL data and information to *any* third party, without restraint. CAUSE-PA M.B. at 157; CAUSE-PA R.B. at 66-67. CAUSE-PA cited the *2025 ECL Order's* consistent references to ECL disclosure to suppliers—and not third parties— as supporting that the purpose and scope of the ECL is to provide information about eligible customers to *licensed suppliers* for the purposes of supporting

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[216] As previously noted, the Affiliated Interest Proceeding is currently pending before the Commission.

[217] Pivotal is a non-affiliated third party. OCA M.B. at 341 (citing June 30 2025 Letter).

competition. CAUSE-PA M.B. at 157 (citing *2025 ECL Order*). Citing the testimony of Columbia's witness, Mr. Mark Kempic, CAUSE-PA indicates that Columbia interprets the ECL provisions of its tariff to permit the Company to share sensitive ECL data with any third party, and not just with licensed NGSs. CAUSE-PA M.B. at 157-58 (citing Tr. at 406).

Like the OCA, CAUSE-PA raised issues regarding Columbia's pending *Affiliated Interest Proceeding*. CAUSE-PA M.B. at 158-59; CAUSE-PA R.B. at 67-68. CAUSE-PA echoed many of the concerns identified by the OCA, but also expanded these concerns to include that: (1) Columbia's June 30, 2025 filing 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; (2) Columbia's updated position contemplates the possibility of the Company providing updated customer lists if a third-party on-bill biller is willing to pay an additional recurring fee; and (3) Columbia's filing references data privacy and security but it fails to disclose details about the restrictions on use or sharing that it intends to apply. CAUSE-PA M.B. at 158-59 (citing *June 30, 2025 Letter*).

Additionally, CAUSE-PA argued that Columbia's expansive ECL tariff rules will detrimentally impact low income families, as it may expose them to targeted marketing for products unrelated to gas service. CAUSE-PA noted that by way of affirming the inclusion of a "CAP flag," the Commission's *2025 ECL Order* recognized the importance of allowing suppliers to identify low income customers for the purpose of complying with restrictions on CAP shopping. Thus, CAUSE-PA argued, this kind of personal information is extremely sensitive, and disclosure to third parties that are not subject to the Commission's supplier regulations could harm low income families and potentially subject them to unwanted and unscrupulous marketing practices that may ensnare them in costs they cannot afford to bear. Therefore, CAUSE-PA urged the

Commission to require Columbia to revise Section 4.5.4 of its Tariff Gas, regarding its ECL, to eliminate references to third parties and narrow the scope of ECL disclosure to include only licensed NGSs. CAUSE-PA M.B. at 159-60; CAUSE-PA R.B. at 67-68.

2. Recommended Decision

The ALJs recommended that the Commission adopt the restrictions to Columbia's tariff, as set forth by the OCA and CAUSE-PA. R.D. at 647-48. The ALJs agreed with the OCA and CAUSE-PA that the purpose and scope of the ECL is to provide information about eligible customers to licensed suppliers for the purpose of competition. *Id*. Additionally, the ALJs determined that the guidelines for ECLs only permit NGDCs to disclose private customer data and information included on the ECL to licensed NGSs. *Id*. at 648 (citing *2025 ECL Order*). Noting that Columbia's current tariff leaves potential for the Company to share customer information beyond licensed NGSs serving the Company's service territory, the ALJs recommended that the Commission strike references to third parties and limit ECL access to licensed suppliers in Columbia's service territory. R.D. at 648.

3. Columbia Exception No. 17 and Replies

In its Exception No. 17, Columbia argues that the ALJs erred in recommending that the Commission restrict the Company's authorized disclosure of the ECL to licensed suppliers. Columbia Exc. at 31 (citing R.D. at 647-48; R.D. at 95, FOF Nos. 407-09; Recommended OP No. 40). According to Columbia, requiring the Company to "strike reference to third parties and limit ECL access to licensed suppliers in Columbia's service territory" is contrary to the Commission's Regulations and to the *2025 ECL Order*. Columbia submits that the ALJs recommended the adoption of the OCA and CAUSE-PA's arguments based on these parties inaccurate claims that the *2025 ECL Order* prohibits the Company from sharing ECL information with any

non-NGS party. Columbia Exc. at 31-32. Instead, Columbia asserts, the "third party" tariff language at issue is already included in the Company's existing tariff, and it is consistent with Section 62.78 of the Commission's Regulations. *Id*. at 32 (citing 52 Pa. Code § 62.78(a)).

Furthermore, Columbia contends that in the context of determining the appropriate information that should be included in the ECL, the Commission referenced "*NGSs, other marketers and agents*," and therefore clearly contemplated that third parties other than NGSs might have access to the information supplied therein. Columbia Exc. at 32 (citing *ECL Guideline Order* at 9 (emphasis in original)). Accordingly, Columbia maintains that as the Commission's Regulations permit NGDCs to "release private customer information to a third party when certain criteria have been met, NGDCs could retain a third party to access the ECL on its behalf to obtain the information for purposes of marketing or tailoring offers to customers. Columbia Exc. at 32. In conclusion, Columbia requests that the Commission reject the ALJs' findings regarding the ECL and approve the Company's proposed ECL tariff changes without modification. *Id*. at 33.

In its Replies to Exceptions, the OCA maintains that amending Section 4.5.4 of Columbia's Tariff Gas, as prescribed by the ALJs, is consistent with the Commission's guidance to reflect that the Company may only disclose the information included on the ECL list to NGSs. OCA R. Exc. at 15 (citing R.D. at 647-48). The OCA further asserts that the ALJs made no error of law or fact in their determination to recommend that the Commission limit Columbia's provision of the ECL information to NGSs, as the ECL was developed to facilitate the customer choice program, and not for the provision of customer information to unknown third parties. Accordingly, the OCA avers that the Commission should adopt the ALJs' recommendation and require Columbia to amend its tariff. OCA R. Exc. at 15-16.

In its Replies, CAUSE-PA disputes Columbia's claim that the "third party" language in Section 4.5.4 of the Company's tariff is consistent with Section 62.78 of the Commission's Regulations, 52 Pa. Code § 62.78. CAUSE-PA R. Exc. at 17 (citing Columbia Exc. at 31-32). According to CAUSE-PA, Columbia's argument ignores the plain definition of "customer information" defined in Section 62.72 as follows: "[w]ritten, oral or electronic communications used by natural gas providers to communicate to consumers prices and terms of service." CAUSE-PA R. Exc. at 19 (citing 52 Pa. Code § 62.72). Moreover, CAUSE-PA contends, Columbia ignores the explicit purpose of the applicable regulations, defined in Section 62.71, as follows: "to require that all natural gas providers enable customers to make informed choices regarding the purchase of all natural gas services offered by providing adequate and accurate customer information." CAUSE-PA R. Exc. at 17 (citing 52 Pa. Code § 62.71).

Furthermore, CAUSE-PA avers that contrary to Columbia's position, neither the Choice Act, nor the Commission's Regulations, contemplate sharing private customer information from the ECL with third parties for purposes other than supporting customer choice for natural gas services. CAUSE-PA R. Exc. at 17-18. CAUSE-PA also claims that Columbia's reliance upon the *2025 ECL Order's* inclusion of a provision that cautions "'NGSs, [and] other marketers and agents' about federal do not call laws" fails to substantiate Columbia's claim that the Commission "clearly contemplated" that third parties other than NGSs might have access to information supplied in the ECL. CAUSE-PA R. Exc. at 18 (citing Columbia Exc. at 32). On the contrary, CAUSE-PA asserts, when read in context with the broader *2025 ECL Order*, Columbia's cited passage references the marketers and the agents contracted by licensed NGSs to market their products, and it did not give "carte blanche' to NGDCs to share private customer information with any third party. CAUSE-PA R. Exc. at 18.

Finally, CAUSE-PA cites to the testimony of Columbia's witness, Mr. Kempic, and points to Mr. Kempic's admission that Columbia interprets the ECL

provisions of its tariff to permit the Company to share ECL data with *any* third party. *Id*. (citing Tr. at 406). According to CAUSE-PA, Columbia's broad interpretation is troublesome in light of the Company's June 30, 2025 filing notifying the Commission of its intent to allow third parties to bill for non-utility services on Columbia's bill, and indicating that for an additional fee, the Company will provide third parties with access to private customer information. CAUSE-PA R. Exc. at 18 (citing Tr. at 406, 412). In light of the pending filings, and the fact that the ECL was recently expanded to identify customers' low income status, which heightens the risk of economic harm to those customers, CAUSE-PA avers that Columbia's Exception No. 17 should be denied and the Company should be ordered to limit its disclosure of its ECL to licensed NGSs. CAUSE-PA R. Exc. at 18 (citing CAUSE-PA M.B. at 146-59; CAUSE-PA R.B. at 62-65).

4. Disposition

We will deny Columbia's Exception No. 17 and adopt the ALJs' recommendation. We reject Columbia's contention that limiting ECL access to licensed suppliers is contrary to the *2025 ECL Order* and to the Commission's Regulations, as we come to the opposite conclusion. *See* Columbia Exc. at 32-33 (citing R.D. at 648). Additionally, we find that Columbia's arguments are at odds with both the Commission's established guidance for the ECL, and with the stated purpose and context of the Commission's Regulations regarding the privacy of consumer information pertaining to customer choice in natural gas supply.

Columbia fails to persuade us that the *2025 ECL Order* supports the Company's position that the information contained in the ECL is intended to be produced to non-NGS third parties. Instead, we agree with the OCA that Columbia's existing tariff reference to "third parties" is beyond the scope of the 2025 *ECL Order*. *See* OCA M.B. at 339. As noted by CAUSE-PA, the *2025 ECL Order's* consistent references to ECL

disclosure to suppliers—and not third parties— supports that the purpose and scope of the ECL is to provide information about eligible customers to *licensed suppliers* for the purposes of supporting competition. *See* CAUSE-PA M.B. at 157 (citing *2025 ECL Order*). It is also important to recognize that the first revision directed in our *2025 ECL Order* pertained to NGDCs soliciting their eligible customer base about their options regarding the disclosure of their customer information to *suppliers*. *2025 ECL Order* at 19 (emphasis added). Therefore, we find that Columbia's position is inconsistent with the *2025 ECL Order*.

Furthermore, the Commission's guidelines for ECLs maintained by NGDCs were established in the context of providing *NGDCs and NGSs* with "greater uniformity in the customer account information" and "to assist in the development of the competitive retail market." *ECL Guideline Order* at 1. The ECL's limited purpose of facilitating customers' ability to shop for alternative NGSs is evidenced by several of the parameters established in the *ECL Guideline Order*. As an example, C&I customers were exempted from ECL procedures specifically because C&I customers "had a long-standing history of shopping for natural gas suppliers" and were "already likely fully informed of their supplier options." *ECL Guideline Order* at 6-7. Moreover, in determining the data points to be included on the ECL, the Commission determined, *inter alia*, that "the ECL should only contain private information that is necessary *for a NGS* to make an initial offer to a customer, not any and all private customer information." *Id*. at 9 (emphasis added). Moreover, in order to facilitate customers' informed decision about whether to opt out of having their information included in the ECL, NGDCs were directed to provide customers with information about, *inter alia*, "how this information is to be used *by NGSs*." *Id*. at 13 (emphasis added). The aforementioned parameters simply do not contemplate non-NGS parties receiving ECL information.

In its Exception No. 17, Columbia argues that the *ECL Guidance Order* permits *third parties* to access the ECL to obtain information for purposes of marketing

or creating tailored offers to customers. *See* Columbia Exc. at 32. In support of its position, and to the exclusion of all other content limiting ECL disclosure to NGSs, Columbia points to a single footnote contained in the *ECL Guidance Order*, as replicated below:

> We already determined that customer telephone numbers are not part of the ECL for the natural gas industry. Nonetheless, we again caution *NGSs, other marketers and agents* that they remain subject to the provisions of the state and federal "do not call" laws as well as our consumer protection regulations at 52 Pa. Code § 56, *et seq*. (Standards and billing practices for residential utility service).

Columbia Exc. at 32 (citing *ECL Guidance Order* at 9, n.8 (emphasis in original)).

We disagree with Columbia's claim that the cited footnote demonstrates that the Commission intended to permit third party access to the ECL. On the contrary, a holistic reading of the *ECL Guidance Order*, as well as its expressed purpose of providing greater uniformity in the customer account information provided by NGDCs and NGSs to assist in the development of the competitive retail market, supports our determination that customer information may only be shared with licensed NGSs.

We also disagree with Columbia that the Commission's Regulation at 52 Pa. Code § 62.78, *Privacy of customer information*, operates as a basis for the Company to provide the ECL to non-NGS third parties. While 52 Pa. Code § 62.78(a) prohibits NGDCs or NGSs from releasing private customer information to a *third party* unless, *inter alia*, customers receive advance notice of the intended release and are given an opportunity to restrict it, Columbia's sole focus on the term "third party" ignores the context and purpose of the Regulation. 52 Pa. Code § 62.78(a). For context, 52 Pa. Code § 62.78(a) is part of a suite of regulations promulgated under Subchapter C, *Customer Information Disclosure* of Chapter 62 of the Commission's Regulations,

Natural Gas Supply Customer Choice. 52 Pa. Code §§ 62.71-62.81. Furthermore, we agree with CAUSE-PA that Columbia's argument ignores Section 62.72's definition of "customer information." *See* CAUSE-PA R. Exc. at 19 (citing 52 Pa. Code § 62.72). Accordingly, we conclude that in promulgating 52 Pa. Code § 62.78(a), the Commission intended to address the privacy of customer information within the context of the retail natural gas market.

Moreover, as CAUSE-PA acknowledged, the purpose of Subchapter C, in pertinent part, is "to require that all natural gas providers enable customers to make informed choices regarding the purchase of all natural gas services offered by providing adequate and accurate customer information." 52 Pa. Code § 62.71. *See* CAUSE-PA R. Exc. at 17. Adopting Columbia's position would require the Commission to permit the Company to act outside the purpose of Subchapter C of 52 Pa. Code Chapter 62 by disclosing private customer information to third party entities outside the realm of natural gas service, and to do so without any evidence that customers have been informed and given an opportunity to object to such disclosure. We will not do so, and we agree with CAUSE-PA that permitting Columbia to provide the ECL information to third parties may expose customers to targeted marketing for products unrelated to gas service and may subject them to unwanted and unscrupulous marketing practices. *See* CAUSE-PA M.B. at 159-60; CAUSE-PA R.B. at 67-68.

For the reasons set forth above, we shall deny Columbia's Exception No. 17, adopt the ALJ's recommendation, and direct Columbia to amend Section 4.5.4 of its Tariff Gas to restrict the Company's disclosure of information contained in the ECL to licensed NGSs.

XVIII. Miscellaneous Issues

A. Proposed Reporting Requirements

As discussed in Section V.A of this Opinion and Order, *supra*, we shall adopt the ALJs' unopposed recommendation that Columbia be directed to provide updates to its Exhibit No. 108, Schedule 1 by April 1, 2026, and April 1, 2027.

B. Competitive Alternatives Analysis Every Two Years

1. Positions of the Parties

The OSBA submitted that Columbia should be required to conduct a competitive alternatives analysis for each FLEX rate customer in the Company's service territory every two years. The OSBA reasoned that because the costs allocated to FLEX rate customers are approximately $35 million higher than current negotiated rate revenues, the resulting revenue shortfall must be recovered from the Company's other rate classes. OSBA St. 1 at 10-11.

Columbia advised that the OSBA, in its Main Brief, did not present arguments regarding the proposal of the OSBA's witness, Mr. Ewen, on the timing for a competitive alternative analysis pertaining to FLEX rate customers. As such, the Company asserted that the OSBA should be considered to have waived this issue. Columbia R.B. at 158 (citing OSBA M.B. at 15).

Concerning the merits of the OSBA's proposal, Columbia submitted, *inter alia*, that FLEX rate agreements are individually-negotiated contracts that are based on the unique circumstances of individual customers, and the economic analysis of whether the customer could bypass Columbia's system is based upon known market conditions.

Columbia explained that recent FLEX rate agreements are generally for a term of around five years. As such, Columbia continued, undertaking an analysis for FLEX rate customers every two years is unnecessary, costly and, potentially, counterproductive to maximizing the revenues that can be obtained from competitive customers. According to Columbia, the results of any analysis performed at this time would not impact Columbia's ability to change the terms of any previously negotiated contract. In addition, Columbia pointed out that it is not likely that a FLEX rate customer would be willing to spend the resources necessary to update the information. Thus, Columbia submitted, the OSBA's proposal should not be adopted. Columbia M.B. at 237-39.

2. Recommended Decision

The ALJs found that "[b]ecause [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." *See* R.D. at 41, FOF No. 97 (note omitted). The ALJs noted that no party presented sufficient reasons for the Commission to require Columbia to undertake a competitive analysis for each FLEX customer every two years. Therefore, they recommended that the Commission reject this proposal. *Id*. at 654.

3. Disposition

No Party filed Exceptions to the ALJs' recommendation on this issue. Finding the ALJs' recommendation to be reasonable and supported by substantial evidence in the record, we shall adopt the recommendation without further comment.

C. Long Term Business Planning

1. Positions of the Parties

In conjunction with its support for a reduction in Columbia's requested ROE, as argued by I&E and the OCA in Section X.D, *supra*, the OSBA additionally proposed 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. As previously noted, the OSBA opined that such expenditures[218] can be subjected to *ex post* prudence reviews should they become stranded. OSBA St. 1 at 7-8.

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[218] The OSBA raised a suggestion as to the overall prudence of Columbia's expenditures. The OSBA disagreed with Columbia that accelerating pipeline replacements on the basis of current commodity prices represented a reasonable business strategy. *See* OSBA St. 1 at 6, noting, *inter alia*, that based on what is currently proposed in Columbia's Age and Condition Program over the next three years, Columbia has budgeted for more than $900 million in expenditures for mains, services, and measurement and regulation stations alone. *Id.* at 7. Between 2008 and 2023, the cost to replace a foot of pipe increased from $81.25 to $289.00, more than tripling of the cost. Between 2023 and 2024, the Company's cost to replace a foot of pipe grew from $289.00 to $335.00, representing an increase of approximately16% in a year. *Id*. These determinations have been made in light of the OSBA's observations:

> . . . that there are growing societal and political concerns regarding the burning of fossil fuels, and there is concomitant increasing pressure for electrification, not only in transportation but in home heating. For nearly two decades, the Company's declining distribution cost competitiveness has been rescued by the hydraulic fracturing boom and the resulting decline in natural gas commodity prices. At a minimum, commodity price volatility is likely to increase. If Columbia's distribution rates continue to grow at the historical rate, heating alternatives like heat pumps and mini-splits will become more economically attractive to customers. In addition, the potential remains for increased regulation of

As noted in Section IV.B, *supra*, in light of its overall position, OSBA suggested 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. OSBA M.B. at 6-7.[219]

The Company argued that the OSBA has not offered a basis, other than generalized assumptions, which Columbia highlighted as faulty, so as to require the Company, alone, among all gas energy utilities in Pennsylvania, to demonstrate that it has a long-term viable business. Columbia specifically pointed to the OSBA's assumption regarding the commodity price of natural gas, as compared to other alternative fuel sources, primarily for residential end-users. According to Columbia, the OSBA's assumption is faulty, as it is not accurate to suggest that gas utility service is becoming more expensive than other energy sources. Columbia responded that even older, less efficient gas furnaces are less expensive to operate than other heating alternatives. *See* Columbia M.B. at 239-40.

Additionally, Columbia referenced, and heavily quoted, the Commission's discussion in the PGW base rate proceeding in *PGW 2020*. Columbia highlighted that in

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> CO2 emissions for both gas consumers and gas producers, both of which could further increase the cost of gas.

Id.

[219] As discussed in Section IV.B of this Opinion and Order, the OSBA provided a table listing the base rate filings that Columbia has made since 2008 as part of its overall position concerning the Company's requested rate increase. *See* OSBA M.B. at 5. The OSBA, through its sponsored witness, Mr. Ewen, observed that, since 2008, Columbia has submitted thirteen base rate filings. Prior to 2008, Columbia had not filed a base rates case since 1995. The OSBA noted that this flow of rate cases has been primarily driven by Columbia's mains and services replacement program undertaken over the past seventeen years. A summary of the base rates filings, amounts, and settlement rate increases was shown in OSBA St. 1 at 4; Table IEc-1. *See also* Table 2, *supra.*

the disposition of a partially settled case in *PGW 2020*, the Commission rejected an, allegedly, similar proposal advocated by the Environmental Stakeholders, intervenors in that proceeding, seeking to obligate PGW to commit to climate change reporting. Columbia heavily relied upon the Commission's disposition in *PGW 2020*.[220] The Company replied that the OSBA's proposal should be rejected. Columbia M.B. at 241-43.

2. Recommended Decision

The ALJs agreed with Columbia, that no sufficient reasons were presented by any Party to require Columbia to demonstrate that it has a long-term, viable business. Therefore, the ALJs recommended that the OSBA's proposal be rejected. R.D. at 658.

3. Disposition

No Parties filed Exceptions to the ALJs' recommendation on this issue. We find that the ALJs' recommendation is reasonable and supported by substantial

[220] In *PGW 2020*, the Environmental Stakeholders intervenors, *inter alia*, made proposals for the utility (*i.e.*, PGW) to study and plan for climate change and, inchoate, climate regulation. The Commission's reasoning in rejecting such proposals was grounded in the observations that the proposals were based on generalized assertions and assumptions which were not supported by evidence directed to a specific expense or a specific adjustment to revenue projections for the utility. *See PGW 2020* at 92: "If environmental information does not serve to support a specific adjustment or proposal in a rate case, however, the information is not relevant to the rate case, and the Commission should not consider it in rendering a rate decision." We find the testimony of the OSBA's witness, Mr. Ewen, in the instant case to be distinguishable in this regard, as Mr. Ewen has expressly referenced historical rate filing trends by Columbia and current and future facility replacement costs. The observation that such a proposal would, however, unfairly, single out Columbia and impose an indefinite and undefined filing element for base rates filings in the absence of statutory, regulatory or other legal order or requirement is the more persuasive argument based on the record of this proceeding. *See Id.* at 94.

evidence in the record. Therefore, we shall adopt the ALJs' recommendation to reject the OSBA's proposal, without further comment.

D. Methane Detection Pilot

1. Positions of the Parties

As a primary position, I&E, through its witness, Mr. Alexander Pankiw, recommended that the Company implement a pilot program utilizing Smart Remote Methane Detectors (SRMDs), in a region where Columbia has risky pipe, for the installation of 500 to 1,000 SRMDs to allow the Company to study the effectiveness of the SRMDs and monitor the related expenses. Mr. 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. *See* I&E St. 4 at 2-9.

Mr. Pankiw also testified that implementation of a methane detector installation program would provide Columbia's customers with a safety tool that would provide early warning alarms signaling a gas leak and a potentially hazardous situation. According to Mr. Pankiw, implementing an early warning audible alarm will afford additional time to safely evacuate and notify the emergency response officials. I&E St. 4 at 3-4. In the alternative, I&E recommended that Columbia implement an internal study to determine whether a pilot program is feasible and how Columbia would implement a pilot program. I&E M.B. at 86.

The Company responded that it cannot commit to implementation of the pilot program outlined by I&E's witness, Mr. Pankiw. However, the Company explained that it was willing to evaluate the technologies associated with the integration of Advanced Metering Infrastructure (AMI) and SRMDs for potential future deployment.

Columbia explained that implementation of a pilot, as described by I&E, would require a comprehensive assessment of the Company's existing information technology (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. Columbia St. 7-R at 6-7.

The Company represented that it has investigated the use of SRMDs and found that the functionality for its deployment is not currently available. However, the Company further stated that it 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 stated 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. Columbia St. 7-RJ at 2.

Based on the foregoing, the Company replied that because the proposed Methane Detector Pilot still requires significant investigation regarding IT infrastructure, Columbia is not currently prepared to implement the proposed pilot program. However, the Company committed in rebuttal testimony to conducting a thorough investigation into the technical and operational requirements necessary to support such integration and to providing the results of this assessment in its next base rate case filing. It was the Company's position 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. Columbia M.B. at 244.

2. Recommended Decision

The ALJs agreed with I&E's alternative position on this issue. As such, the ALJs recommended that Columbia be required to implement an internal study to determine whether a methane detection pilot program would be feasible and how Columbia would implement such a pilot program. The ALJs recommended that Columbia conduct this study in consultation with stakeholders within six months of the entry of the final Commission Order in this proceeding. R.D. at 662. The ALJs noted that the Commission previously approved a two-year pilot, methane detector (MD) program, similar to that proposed by I&E, as part of a settlement. *Id*. (citing *UGI Gas 2025*). Thus, the ALJs concluded that a determination of the viability of such a pilot would be in the public interest. R.D. at 662.

Notwithstanding the ALJs' finding that an MD pilot program for Columbia would be in the public interest, they also left open the two-phased approach to determine its feasibility for Columbia implementation as an initial step before proceeding to a pilot stage. However, in the associated, recommended Ordering Paragraph No. 29, the ALJs recommended as follows:

> 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*.

R.D. at 683 (emphasis added).

3. Columbia Exception No. 18 and Replies

In its Exception No. 18, Columbia addresses the ALJs' recommendation that Columbia be required to, both: (1) implement an internal study, and (2) develop a methane detection pilot (in consultation with stakeholders) within six months. *See* Columbia Exc. at 33-34.

Columbia asserts that the ALJs erred in recommending the adoption of both I&E's original methane detection pilot proposal and I&E's alternative recommendation to study the feasibility of a pilot program. The Company explains that I&E proposed that Columbia undertake a methane detection pilot, or *alternatively*, that Columbia implement an internal study to determine whether a pilot program is feasible and how the Company would implement such a pilot program. Columbia Exc. at 33 (citing I&E M.B. at 85-86).

The Company restates that it investigated the use of SRMD devices and found that the functionality for their deployment is not currently available. However, Columbia reinforces that in its rebuttal testimony, the Company committed to investigating the technical and operational requirements necessary to support the integration of SRMDs with its AMI deployment and to provide the results of this assessment in its next base rate case filing. As such, Columbia submits that the Company's Rebuttal position aligned with I&E's alternative recommendation. Columbia Exc. at 33.

Next, Columbia asserts that the ALJs, in discussion of this issue, appeared to agree with both I&E and Columbia by recommending the adoption of I&E's alternative recommendation. However, the Company notes, the ALJs ultimately recommended that Columbia both study the feasibility of a methane pilot program *and* "develop a pilot program in consultation with stakeholders within six months of the adoption of the final order in this proceeding." Columbia Exc. at 33 (citing R.D. at 662).

Based on the foregoing, Columbia asserts that the Commission should reject the ALJs' recommendation for Columbia to develop an MD pilot program at the same time as it conducts a feasibility study for such a program. Columbia insists that these dual recommendations are contradictory and do not follow from the analysis of the issue. Instead, the Company requests that the Commission adopt I&E's alternative proposal, that Columbia conduct a feasibility study and present the findings in the Company's next base rate case. Columbia Exc. at 33-34.

In its Replies to Exceptions, I&E asserts that the benefits of an MD pilot program would be significant and that the primary proposal it set forth to develop and implement the pilot program should be approved or, alternatively, that Columbia be required to complete and present to the Commission a feasibility study on a timeframe the Commission feels is reasonable. I&E R. Exc. at 11-12.

4. Disposition

On consideration of the positions of the parties, we shall grant Columbia's Exception No. 18, consistent with the discussion herein. We find I&E and the Company to be substantially in agreement that a methane detection program is in the public interest. However, the record, as established at this time, does not support a directive for the implementation of a pilot by Columbia without further investigation of the technical and operational requirements necessary to support and integrate such a program with, *inter alia*, Columbia's AMI deployment.

We clarify that the Company shall be directed to, preliminarily, conduct an internal feasibility study for the purpose of evaluating the viability of a methane detection pilot program. Specifically, we shall direct that the completed internal study be served upon the stakeholder parties for comments within ninety days of the entry of this Opinion

and Order.[221] The parameters of a proposed methane detection pilot shall, thereafter, be a substantive issue to be addressed in the next Columbia base rate proceeding, or other proceeding, as deemed appropriate by the Company. Accordingly, we shall modify Ordering Paragraph No. 29 of the Recommended Decision, set forth on page 683 thereto, to read, as follows:

> That, within ninety (90) days of the entry of this Opinion and Order, Columbia Gas of Pennsylvania, Inc. shall initiate and complete an internal study to determine whether a pilot program utilizing Smart Remote Methane Detectors (SRMD) is feasible and how Columbia Gas of Pennsylvania, Inc. would implement a methane detector pilot program. Further, that the internal study shall be served upon the stakeholder parties for comments within ninety (90) days of this Opinion and Order. The parameters of a proposed methane detection pilot shall, thereafter, be a substantive issue to be addressed in the next Columbia Gas of Pennsylvania, Inc. base rate proceeding or other proceeding as deemed appropriate by Columbia Gas of Pennsylvania, Inc.

XIX. Conclusion

Based on our review of the record in this proceeding, we shall: (1) grant, in part, and deny, in part, the Exceptions filed by Columbia, the OCA, and PSU; and (2) approve an annual revenue increase of $55,627,800 to the Company's total revenues at present rates of $919,007,833, or 6.05%; **THEREFORE,**

[221] Similar to our discussion of stakeholder consultations in Sections XIII.C and XIII.D of this Opinion and Order, *supra*, we decline here to identify the specific stakeholder parties who shall be served with the internal study. However, we encourage Columbia to consult with the interested Parties to this proceeding to identify all appropriate stakeholders as to this issue.

IT IS ORDERED:

1. That the Exceptions filed by Columbia Gas of Pennsylvania, Inc. on October 14, 2025, to the Recommended Decision of Administrative Law Judges Jeffrey A. Watson and Chad L. Allensworth, issued on October 3, 2025, at the above-captioned docket, are granted, in part, and denied, in part, consistent with this Opinion and Order.

2. That the Exceptions filed by the Office of Consumer Advocate on October 14, 2025, to the Recommended Decision of Administrative Law Judges Jeffrey A. Watson and Chad L. Allensworth, issued on October 3, 2025, at the above-captioned docket, are granted, in part, and denied, in part, consistent with this Opinion and Order.

3. That the Exceptions filed by The Pennsylvania State University on October 14, 2025, to the Recommended Decision of Administrative Law Judges Jeffrey A. Watson and Chad L. Allensworth, issued on October 3, 2025, at the above-captioned docket, are granted, in part, and denied, in part, consistent with this Opinion and Order.

4. That the Recommended Decision of Administrative Law Judges Jeffrey A. Watson and Chad L. Allensworth, issued on October 3, 2025, at the above-captioned docket, is adopted, as modified, consistent with this Opinion and Order.

5. That the corrections and modifications directed by this Opinion and Order, reflected in the Columbia Gas of Pennsylvania, Inc. Docket No. R-2025-3053499: Commission Tables Calculating Allowed Revenue Increase, attached hereto, are adopted as being in the public interest.

6. That Columbia Gas of Pennsylvania, Inc. shall not place into effect the rates contained in Supplement No. 392 to Tariff Gas Pa. P.U.C. No. 9, or in Supplement No. 399 to Tariff Gas Pa. P.U.C. No. 9, the same having been found to be unjust, unreasonable, and therefore, unlawful.

7. That Columbia Gas of Pennsylvania, Inc. is authorized to file tariffs, tariff supplements and/or tariff revisions, on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, *et seq.*, and 53.101, designed to produce annual operating revenues of approximately $974,635,633, representing an annual revenue increase of approximately $55,627,800, to become effective for service rendered on and after January 1, 2026.

8. That Columbia Gas of Pennsylvania, Inc. shall file detailed calculations with its tariff filings, which shall demonstrate to the Commission's satisfaction that the filed tariff adjustments comply with the provisions of this final Opinion and Order.

9. That Columbia Gas of Pennsylvania, Inc. shall file with the Commission's Secretary's Bureau at these dockets and provide the Commission's Bureaus of Technical Utility Services and Investigation and Enforcement with updates to Columbia Exhibit No. 108, Schedule 1 by no later than April 1, 2026, and April 1, 2027, reflecting actual capital expenditures, plant additions, and retirements, by month, for the twelve months ending November 30, 2025 and through December 31, 2026, respectively.

10. That Columbia Gas of Pennsylvania, Inc. shall allocate the authorized increase in natural gas distribution operating revenues to each service, rate schedule, and customer class, and rate schedule within each rate customer class, in the manner prescribed in this Opinion and Order.

11. That Columbia Gas of Pennsylvania, Inc. shall perform a lead/lag study in its first base rate case filed after January 1, 2026, consistent with this Opinion and Order.

12. That, within six (6) months of the entry of this Opinion and Order, Columbia Gas of Pennsylvania, Inc. shall develop, in consultation with stakeholders, a root cause analysis of customer disputes, consistent with this Opinion and Order. Columbia Gas of Pennsylvania, Inc. shall not be required to submit documents or findings of this root cause analysis outside of processes associated with the Commission's Bureau of Consumer Services and the Bureau of Audits.

13. That Columbia Gas of Pennsylvania, Inc. shall review scripts for automated chat box or "apps" to ensure customer rights associated with transactions are provided, consistent with this Opinion and Order. Columbia Gas of Pennsylvania, Inc. shall report the results of this review to stakeholders within six (6) months of the entry of this Opinion and Order.

14. That, within three (3) months of the entry of this Opinion and Order, Columbia Gas of Pennsylvania, Inc. shall cause its Universal Service Advisory Committee to evaluate Columbia Gas of Pennsylvania, Inc.'s payment plans and policies to help ensure success with payment plans, as well as to evaluate whether such payment plans are the most advantageous avenue for assisting low income customers, consistent with this Opinion and Order. Columbia Gas of Pennsylvania, Inc. shall further be directed to be fully prepared to address these payment plan issues in its next Universal Service and Energy Conservation Plan.

15. That Columbia Gas of Pennsylvania, Inc.'s Customer Assistance Program – Arrears Pilot Program is approved to run for two (2) years with an annual budget of $100,000, consistent with this Opinion and Order.

16. That the Customer Service Representatives of Columbia Gas of Pennsylvania, Inc. shall make initial referrals to the Customer Assistance Program – Arrears Pilot Program. If additional funds remain after three (3) months of the initiation of the Arrears Pilot Program, Columbia Gas of Pennsylvania, Inc. shall provide outreach to the potentially eligible customers in writing.

17. That, within six (6) months of the entry of this Opinion and Order, Columbia Gas of Pennsylvania, Inc. shall develop and implement a process to screen:

(a) New and moving customers for income level at the time their service is established to determine whether the customer should be:

(i) classified as a confirmed low income customer; and

(ii) referred to the Customer Assistance Program application process and any other universal service programs; and

(b) Existing customers for income level on any non-emergency calls, if that customer has not been screened within the past six (6) months and has not previously opted out of providing such information, to determine whether the customer should be:

(i) classified as a confirmed low income customer; and

(ii) referred to the Customer Assistance Program application process and any other universal service programs, all consistent with this Opinion and Order.

18. That Columbia Gas of Pennsylvania, Inc.'s Three-Year Energy Efficiency Plan – Phase II, January 1, 2026 – December 31, 2028, is approved subject to the following modifications:

(a) Columbia Gas of Pennsylvania, Inc. shall use the most recent available market information to support the development of its portfolio in future filings;

(b) Columbia Gas of Pennsylvania, Inc. shall file all Evaluation, Measurement, and Verification reports completed on the Phase II Plan at this docket; and

(c) Columbia Gas of Pennsylvania, Inc. shall coordinate with electric distribution company programs when appropriate; all consistent with this Opinion and Order.

19. That Columbia Gas of Pennsylvania, Inc.'s Speech Analytics Program is approved as a two-year pilot program subject to the following modifications:

(a) Columbia Gas of Pennsylvania, Inc. shall ensure that the information collected by the Speech Analytics Program is kept within Columbia Gas of Pennsylvania, Inc.'s closed system, and not used to train external or third party artificial intelligence systems;

(b) Columbia Gas of Pennsylvania, Inc. shall not share or otherwise disclose the information collected by the Speech Analytics Program to any third parties other than contractors directly involved in the development of its programming; and

(c) Columbia Gas of Pennsylvania, Inc. shall take steps to ensure that any third party contractors are required to keep Columbia Gas of

Pennsylvania, Inc.'s customer information confidential, and shall prohibit disclosure to any other parties for any reason.

20. That Columbia Gas of Pennsylvania, Inc. shall conduct a monthly review of Customer Assistance Program accounts to ensure customers receive the most affordable rate and shall amend its Universal Service & Energy Conservation Plan for 2024-2028, at Docket No. M-2023-3039487, to reflect this monthly review.

21. That the request of Columbia Gas of Pennsylvania, Inc. to implement, extend, or continue a Weather Normalization Adjustment is granted, subject to the following requirements, consistent with this Opinion and Order:

(a) Columbia Gas of Pennsylvania, Inc. is authorized to continue the Weather Normalization Adjustment mechanism as a pilot program until a final order is entered in the Company's first base rate case filed after the entry of this Opinion and Order;

(b) Columbia Gas of Pennsylvania, Inc. shall apply a 5% deadband, such that the Weather Normalization Adjustment will apply only if the Actual Heating Degree Days for the billing cycle are lower than 95% or higher than 105% of the weather-normalized heating degree days for the billing cycle;

(c) Columbia Gas of Pennsylvania, Inc. shall apply the Weather Normalization Adjustment to adjust residential bills in the heating months of November through April, to reflect the impact of actual weather on the weather-normalized heating degree days;

(d) Columbia Gas of Pennsylvania, Inc. shall utilize the weather-normalized heating degree days for any given day based upon the 10-year average for the given day;

(e) For informational purposes, Columbia Gas of Pennsylvania, Inc. shall continue to maintain and provide to the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate and the Office of Small Business Advocate by October 1 of each year all reports and records supporting the operation of its Weather Normalization Adjustment for the preceding year, including the monthly computation of the Weather Normalization Adjustment and all data underlying the monthly computation. All parties reserve their respective rights to propose or oppose a Weather Normalization Adjustment in a future base rate proceeding.

22. That the request of Columbia Gas of Pennsylvania, Inc. to implement a Revenue Normalization Adjustment is denied.

23. That Columbia Gas of Pennsylvania, Inc. shall revise its Section 4.5.4 of its Tariff Gas – Pa. P.U.C. No. 9 to strike reference to third parties and restrict release of the Eligible Customer List to Natural Gas Suppliers that are licensed by this Commission to operate within Columbia's service territory, consistent with this Opinion and Order.

24. That the request of Columbia Gas of Pennsylvania, Inc. to implement its proposed tariff Rate Economic Development Distribution Service is denied, consistent with this Opinion and Order.

25. That, within ninety (90) days of the entry of this Opinion and Order, Columbia Gas of Pennsylvania, Inc. shall initiate and complete an internal study to determine whether a pilot program utilizing Smart Remote Methane Detectors is feasible and how Columbia Gas of Pennsylvania, Inc. would implement a methane detector pilot program. Further, that the internal study shall be served upon the stakeholder parties for comments within ninety (90) days of entry of this Opinion and Order. The parameters of a proposed methane detection pilot shall, thereafter, be a substantive issue to be addressed in the next Columbia Gas of Pennsylvania, Inc. base rate proceeding, or other proceeding as deemed appropriate by Columbia Gas of Pennsylvania, Inc.

26. That Columbia Gas of Pennsylvania, Inc. shall comply with all directives and conclusions contained in this Opinion and Order that are not the subject of individual Ordering Paragraphs herein, as if they were the subject of an individual ordering paragraph.

27. That the Formal Complaint filed by the Office of Consumer Advocate at Docket No. C-2025-3054484 be dismissed and marked closed.

28. That the Formal Complaint filed by the Office of Small Business Advocate at Docket No. C-2025-3054550 be dismissed and marked closed.

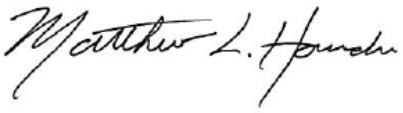
29. That the Formal Complaint filed by The Pennsylvania State University at Docket No. C-2025-3054780 be dismissed and marked closed.

30. That the above-captioned respective Formal Complaints of Terri Walker, filed at Docket No. C-2025-3044662; Linda Slick, filed at Docket No. C-2025-3054552; Linda Allison, filed at Docket No. C-2025-3054434; Alexandra Garlitz, filed at Docket No. C-2025-3055233, and Daniel and Stacy Chronister, filed at Docket No. C-2025-3056194 be dismissed and marked closed.

31. That, upon acceptance and approval by the Commission of the tariff supplements and supporting detailed calculations filed by Columbia Gas of Pennsylvania, Inc., consistent with the direction set forth in Ordering Paragraph Nos. 7 and 8 above, the investigation at Docket No. R-2025-3053499 be marked closed.

32. That a copy of this Opinion and Order be served on the Bureau of Consumer Services, Division of Policy; the Bureau of Audits, Management Audits Division; the Bureau of Investigation and Enforcement, Pipeline Safety Division; and the Bureau of Technical Utility Services, Finance/Tariffs Division for monitoring and compliance.

BY THE COMMISSION,



Matthew L. Homsher
Secretary

(SEAL)

ORDER ADOPTED: December 4, 2025

ORDER ENTERED: December 9, 2025

XX. List of Abbreviations

A&G	Administrative and General
A&R	Audits and Rebates
ACCOS	Allocated Class Cost of Service
ACCOSS	Allocated Class Cost of Service Study
ADIT	Accumulated Deferred Income Taxes
AGA	American Gas Association
AHDD	Actual Heating Degree Days
AI	Artificial Intelligence
ALG	Average Life Group
ALJs	Administrative Law Judges
AMI	Advanced Metering Infrastructure
AMT	Actual Monthly Therms
ARPC	Actual Base Revenue per Customer
ASL	Average Service Life
Audits	Bureau of Audits
BCR	Benefit-Cost Ratio
BCS	Bureau of Consumer Services
BLMT	Base Load Monthly Therms
BRPC	Benchmark Base Revenue Per Customer
C&I	Commercial and Industrial
CAPM	Capital Asset Pricing Model
CARES	Customer Assistance, Referral and Evaluation Services Program
CAUSE-PA	Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania
ccf	Hundred Cubic Feet
CCJ	Center for Coalfield Justice
CLI	Confirmed Low Income
CO_2	Carbon-Dioxide
Code	Pennsylvania Public Utility Code
COL	Conclusion of Law
COSS	Cost of Service Study
CSR	Customer Service Representative
CTA	Consolidated Tax Adjustment
D	Depreciation Expense
DCF	Discounted Cash Flow

DEI	Diversity Equity and Inclusion
DHS	Department of Human Services
DS	Distribution Service
DSIC	Distribution System Improvement Charge
Dth	Dekatherm
E	Operating Expense
EAP	Energy Association of Pennsylvania
EAT	Energy Assistance Team
ECAPM	Empirical Capital Asset Pricing Model
ECL	Eligible Customer List
EDC	Electric Distribution Company
EDDS	Economic Development Distribution Service
EE	Energy Efficiency
EE&C	Energy Efficiency and Conservation
EGS	Electric Generation Supplier
ELG	Equal Life Group
EM&V	Evaluation, Measurement, and Verification
ER	Emergency Repair
ERP	Equity Risk Premium
FICA	Federal Insurance Contributions Act of 1935
FLEX	Flexible Rate Provisions and Negotiated Contract Service
FOF	Finding of Fact
FPFTY	Fully Projected Future Test Year
FPIG	Federal Poverty Income Guidelines
FPL	Federal Poverty Level
FTY	Future Test Year
FUICO	Fuel used in Company Operations
GDP	Gross Domestic Product
GPC	Gas Procurement Charge
GTI	Gas Technology Institute
HDD	Heating Degree Days
HTY	Historical Test Year
I&E	Bureau of Investigation and Enforcement
IT	Information Technology
IVR	Interactive Voice Response
LDS	Large Distribution Service
LGSS	Large General Sales Service
LIHEAP	Low Income Home Energy Assistance Program

LIURP	Low Income Usage Reduction Program
LoRaWAN	Long-Range Wide Area Network
LTI	Long-term Incentive
LTIIP	Long-Term Infrastructure Improvement Plan
M&S	Materials and Supplies
MD	Methane Detector
MLDS	Main Line Distribution Service
MLS	Main Line Sales Service
MWh	Mega-Watt Hours
NCSC	NiSource Corporate Services Company
NGDC	Natural Gas Distribution Company
NGS	Natural Gas Supplier
NHDD	Normalized Heating Degree Days
NOAA	National Oceanic and Atmospheric Administration
O&M	Operations and Maintenance
OAK	Online Audit Kit
OALJ	Office of Administrative Law Judge
OCA	Office of Consumer Advocate
OEB	Other Employee Benefits
OSBA	Office of Small Business Advocate
P&A	Peak and Average
PAR	Payment Arrangement Request
PECO Gas	PECO Energy Company-Gas Division
PGW	Philadelphia Gas Works
PIP	Percentage of Household Income Program
POB	Percent of Budget
PSU	The Pennsylvania State University
PTC	Price to Compare
R.D.	Recommended Decision
RB	Rate Base
RDS	Residential Distribution Service
Rider CC	Rider Customer Choice
Rider USP	Rider Universal Service Plan
RNA	Revenue Normalization Adjustment
ROE	Return on Equity
ROR	Rate of Return
RP	Risk Premium
RPP	Residential Prescriptive Program

RR	Revenue Requirement
RSS	Residential Sales Service
S&P	Standard & Poor's
SAP	Speech Analytics Program
SAT	Speech Analytics Technology
SC	Small Commercial
SCD	Small Commercial Distribution
SDS	Small Distribution Service
SERP	Supplemental Executive Retirement Plan
SGDS	Small General Distribution Service
SGSS	Small General Sales Service
SRMD	Smart Remote Methane Detectors
STI	Short-term Incentive
T	Tax Expense
TRC	Total Resource Cost
UCARE	Utility Consumer Report and Evaluation
USAC	Universal Service Advisory Council
USECP	Universal Service and Energy Conservation Plan
USP	Universal Service Programs
WACC	Weighted Average Cost of Capital
WANT	Weather Normalized Adjustment Therms
WBNT	Weather Normalized Billing Therms
WNA	Weather Normalization Adjustment

Pennsylvania Public Utility Commission

v.

Columbia Gas of Pennsylvania, Inc.
Docket No. R-2025-3053499

Commission Tables Calculating Allowed Revenue Increase

Table I	**Income Summary**
Table IA	**Rate of Return**
Table IB	**Revenue Factor**
Table II	**Adjustments**
Table III	**Interest Synchronization**
Table IV	**Cash Working Capital: Interest and Dividends**
Table V	**Cash Working Capital: Taxes**
Table VI	**Cash Working Capital: O&M Expense**

Commission Final Allowance
TABLE I
Columbia Gas of Pennsylvania, Inc.
INCOME SUMMARY
R-2025-3053499

		Pro Forma Present Rates[a]	Company Adjustments	Pro Forma Present Rates	Commission Adjustments	Commission Pro Forma Present Rates	Commission Revenue Increase	Total Allowable Revenues
		$	$	$	$	$	$	$
		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)
1.	Operating Revenue	919,007,833	0	919,007,833	0	919,007,833	55,627,800	974,635,633
2.	Expenses:							
3.	O & M Expense	467,930,273	0	467,930,273	(13,773,108)	454,157,165	748,820	454,905,985
4.	Depreciation	154,650,832	0	154,650,832	(236,476)	154,414,356	0	154,414,356
5.	Taxes, Other	4,493,642	0	4,493,642	(133,719)	4,359,923	0	4,359,923
6.	Income Taxes:							
7.	State	4,580,110	0	4,580,110	1,085,916	5,666,026	4,110,436	9,776,462
8.	Federal	38,693,547	0	38,693,547	2,816,578	41,510,125	10,661,394	52,171,519
9.	Total Expenses	670,348,404	0	670,348,404	(10,240,809)	660,107,595	15,520,650	675,628,245
10.	Net Income Available for Return	248,659,429	0	248,659,429	10,240,809	258,900,238	40,107,150	299,007,388
11.	Rate Base	3,839,638,127	0	3,839,638,127	(13,673,655)	3,825,964,472		3,825,964,472
12.	Rate of Return	6.48%				6.77%		7.82%

[a]Columbia M.B. at Appendix D, Table I

Revenue Change (%):	6.05%
Final Revenue Increase requested by Company	110,444,676
% of requested Increase granted in this Opinion and Order	50.37%

Commission Final Allowance
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			2.3752%		
2.	Long-term Debt	43.28%	5.22%	2.2592%		2.26%
3.	Short-term Debt	2.32%	5.00%	0.1160%		0.12%
4.	Preferred Stock	0.00%	0.00%	0.0000%	0.730829	0.00%
5.	Common Equity	54.40%	10.00%	5.4400%	0.730829	7.44%
6.		100.00%		7.82%		9.8152%
7.	Pre-Tax Interest Coverage	4.34				
8.	After-Tax Interest Coverage	3.46				
9.	Tax Rate Complement (1-(21%+(7.99% X (1-21%))	73.08290%				

Commission Final Allowance
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

(*)Columbia M.B.at Appendix D, Table I(B)

Commission Final Adjustments
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) $
	RATE BASE:							
	Cash Working Capital:[1]							
1.	Int. & Div. (Table IV)	0						
2.	Taxes (Table V)	0						
3.	O & M (Table VI)	0						
4.	Gas Plant in Service[2]	(14,507,711)						
5.	Materials and Supplies Expense (working capital)[2]	(56,977)						
6.	Prepayments (working capital)[2]	(262,481)						
7.	Depreciation Reserve[3]	236,976						
8.	ADIT[4]	922,484						
9.	Customer Advances for Construction[5]	(5,946)						
	REVENUES:							
10.	Rider EE Revenues[6]		0				0	0
	O&M AND A&G EXPENSES:							
11.	Cash-based Incentive compensation[7]			(1,798,165)			134,683	349,331
12.	STI compensation[9]			0			0	0
13.	LTI stock awards[7]			(528,112)			39,556	102,597
14.	NCSC LTI and stock awards[10]			0			0	0
15.	NCSC Shared Services[8]			(7,669,077)			574,414	1,489,879
16.	Rate Case Expense[11]			(182,207)			13,647	35,398
17.	Outside Services[12][13]			(1,436,907)			107,624	279,149
18.	Employee Expenses[12][14]			(34,245)			2,565	6,653
19.	Corporate Insurance[2]			(131,774)			9,870	25,600
20.	Injury and Damages[2]			(51,257)			3,839	9,958
21.	Company Memberships[12][15]			(137,837)			10,324	26,778
22.	Materials and Supplies[16]			(558,615)			41,840	108,523
23.	SERP[17]			0			0	0
24.	Workplace Connections/DEI[18]			(130,450)			9,771	25,343
25.	Recovery of EAT/Rider USP[19]			0			0	0
26.	Blackhawk Regulatory Asset[20]			(1,084,149)			81,203	210,619
27.	Utilities – Fuel Used in Company Operations[12]			28,758			(2,154)	(5,587)
28.	Advertising[12]			11,366			(851)	(2,208)
29.	Other Rents and Leases[21]			(70,437)			5,276	13,684
30.	Interest on Customer Deposits[22]			0			0	0
31.	EE Plan Rider Expense[23]			0			0	0
	DEPRECIATION EXPENSE:							
32.	Depreciation Expense[24]				(236,476)		17,712	45,940
	TAXES:							
33.	Payroll Tax[25]					(129,889)	9,729	25,234
34.	Property Tax[26]					(3,830)	287	744
35.	Interest Synchronization (Table III)						26,581	68,943
36.	TOTALS	(13,673,655)	0	(13,773,108)	(236,476)	(133,719)	1,085,916	2,816,578

Table II Notes and Sources:

(1) Columbia did not make a claim for cash working capital in this proceeding . *See* Columbia M.B. at 21.

(2) Grant OCA Exc. No. 2 to remove the inflation adjustment that was applied by Columbia. *See* Sections V.A, V.D., and VIII.D.

(3) Adjustment to Depreciation Reserve consistent with granting OCA Exc. No. 2 to remove inflation adjustment on Gas Plant in Service Because net plant in service is determined by subtracting the depreciation reserve, which is the accumulation of all prior annual depreciation expense, from plant in service, the reduction of $236,476 to Columbia's claimed depreciation reserve balance results in a $236,476 addition to net plant in service. *See* Section V.B.

(4) Adjustment to ADIT balance reflects granting of the OCA's Exc. No. 2 and reducing the Company's claimed plant in service balance by $14,507,711 to remove the Company's inflation adjustments, as well as the corresponding $236,475 reduction to the Company's claimed depreciation reserve, but rejecting the OCA's proposal to change the Company's depreciation method from the ELG procedure to the ASL procedure. *See* Section V.E.

(5) Company included a claim of $2,973 in cash deposits for customer advances for construction as an addition to rate base. See Columbia Exh. JV-2R at 12. However, these ratepayer supplied funds should be deducted from the depreciated plant in service in the determination of net measure of value, just as other ratepayer supplied funds, such as customer deposits, are deducted from rate base. Because the Company's claim for customer advances for construction was reflected as an addition to rate base of $2,973, as opposed to a deduction, our adjustment to the correct this inadvertent addition results in a downward adjustment of $5,946 to the Company's rate base. [$2,793 x 2 = $5,946]. *See* Section V.C.

(6) Because we shall grant Columbia's Exception No. 19 and and approve Columbia's proposed Phase II EE Plan, no adjustment to remove revenues at present rates associated with the Company's Rider EE is necessary. See Section VI.B.

(7) Adopt the proposed downward adjustment of the OCA to the Company's claim. *See* Section VIII.C.

(8) Adopt the proposed downward adjustment of the OCA to the Company's claim. The OCA's proposed total downward adjustment of $7,669,077 to NCSC incentive compensation expense is based on the summation of the OCA's recommended adjustments of $3,520,746 to STI compensation expense, $4,012,229 to NCSC LTI compensation and stock awards expense, and $136,102 to SERP expense. [$3,520,746 + $4,012,229 + $136,102 = $7,669,077]. *See* Section VIII.C.

(9) Grant Columbia's Exception No. 5 to remove the dupliciative downward adjustment of $3,520,746 to STI compensation expense that is already included in the downward adjustment of $7,669,077 to NCSC Shared Services expense. *See* Section VIII.C

(10) Grant Columbia's Exception No. 5 to remove the dupliciative downward adjustment of $4,012,229 to NCSC LTI and Stock Awards expense that is also included in the downward adjustment of $7,669,077 to NCSC Shared Services expense. *See* Section VIII.C.

(11) Adopt the OCA's proposed downward adjustment to the Company's claim. *See* Section VIII.E.

(12) Grant OCA Exc. No. 2 to remove the deflation adjustment that was applied by the Company. *See* Section VIII.D.

(13) Grant OCA Exc. No 3 and adopt the proposed downward adjustment of the OCA to the Company's claim. The total downward adjustment shown here is the OCA's proposed and adopted downward adjustment of $1,444,261 to the Company's claim for Outside Services, which is netted against an upward adjustment of $7,354 to remove the deflation adjustment that was applied by Columbia. [-$1,444,267 + $7,354= -$1,436,907]. *See* Section VIII.F.

(14) Adopt the OCA's proposed downward adjustment of $45,607 to the Company's claim. The total downward adjustment shown here is the OCA's proposed and adopted downward adjustment of $45,607 to the Company's claim for Employee Expenses, which is netted against an upward adjustment of $11,632 to remove the deflation adjustment that was applied by Columbia. [-$45,607 + $11,362= -$34,245]. *See* Section VIII.G.

(15) Grant Columbia Exc No. 6, in part, to allow the Company's claim for EAP membership fees, but deny the Company's claim for chamber of commerce membership fees . The total downward adjustment shown here is the OCA's proposed downward adjustment of $260,661 to the Company's claimed expense for Company Memberships, which is netted against the OCA's proposed and adopted upward adjustment of $6,788 to remove the deflation adjustment that was applied by Columbia, and an additional upward adjustment of $116,036 related to the Company's claim for EAP membership fees, which we shall permit the Company to recover. [-$260,661 + $6,788 + $116,036= -$137,837]. *See* Section VIII.J.

(16) Grant OCA Exc. No. 4 and adopt the OCA's proposed downward adjustment to the Company's claim. *See* Section VIII.K

(17) Grant Columbia's Exception No. 5 to remove the dupliciative downward adjustment of $136,102 to SERP expense that is already included in the downward adjustment of $7,669,077 to NCSC Shared Services expense. *See* Section VIII.C

(18) Adopt the OCA's proposed downward adjustment to the Company's claim. *See* Section VIII.M.

(19) Because we shall grant Columbia's Exception No. 7, no adjustment to the Company's expense claim for the recovery of administrative costs associated with EAT/Rider USP is needed. *See* Section VIII.N.

(20) Adopt I&E's proposed downward adjustment to the Company's claim. *See* Section VIII.O.

(21) Adopt I&E's proposed downward adjustment to the Company's claim. *See* Section VIII.S.

(22) Grant Columbia Exception No. 8. Although no downward adjustment to this expense appeared in Appendix A, Table II of the R.D., the ALJs recommended a downward adjustment of $46,638 to Columbia's claim based upon the position of I&E. However, in its Rebuttal Testimony, Columbia already accepted the I&E's position and included I&E's adjustment in its final claimed expense of $326,469 for interest on customer deposits. Therefore, no downward adjustment to this expense is necessary. *See* Columbia Exh. JV-1R at 6; Section VIII.T.

(23) Because we shall grant Columbia's Exception No. 19 and and approve Columbia's proposed Phase II EE Plan, no adjustment to O&M expenses associated with the Company's Rider EE is necessary. *See* Section VIII.V.

(24) Adjustment to Depreciation Expense consistent with granting OCA Exc. No. 2 to remove Columbia's inflation adjustment on Gas Plant in Service. *See* Section VII.

(25) Adjustment to Payroll Tax commensurate with the downward adjustment of $1,798,165 to the Company's claim for Cash-based incentive compensation expense, discussed in Section VIII.C. Adjustment is made using the Company's payroll tax rate of 7.2234% outlined in Columbia Exh. 106, Sch 2 at 3. [-$1,798,165 x 7.2234% = -$129,889]. *See* Section IX.B.

(26) Grant OCA Exc. No. 5, in part. Commensurate adjustment to property tax expense is made consistent with granting OCA Exc. No. 2 to remove Columbia's inflation adjustment to Gas Plant in Service. *See* Section IX.B.

Commission Final Allowance
TABLE III
Columbia Gas of Pennsylvania, Inc.
INTEREST SYNCHRONIZATION
R-2025-3053499

		Amount $
1.	Company Rate Base Claim [1]	3,839,638,127
2.	Commission Rate Base Adjustments (From Table II)	(13,673,655)
3.	Commission Rate Base (Line 1 - Line 2)	3,825,964,472
4.	Weighted Cost of Debt (From Table IA)	2.37521600%
5.	Commission Interest Expense (Line 3 x Line 4)	90,874,920
6.	Company Claim [1]	91,229,802
7.	Total Commission Adjustment (Line 6 - Line 5)	354,882
8.	Company Adjustment [1]	0
9.	Net Commission Interest Adjustment (Line 7 - Line 8)	354,882
10.	State Income Tax Rate (Table IB)	7.49%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	26,581
12.	Net ALJ Interest Adjustment (Line 9)	354,882
13.	State Income Tax Adjustment (Line 11)	26,581
14.	Net Commission Adjustment for F.I.T. (Line 9 - Line 11)	328,301
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 12 x Line 13) (Flow to Table II)	68,943

[1] Columbia M.B. at Appendix D, Table I

Commission Final Allowance
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.	Commission Rate Base Adjustments	($13,673,655)	($13,673,655)		Commission Rate Base Adjustments	($13,673,655)
3.	Commission Rate Base	$3,825,964,472	$3,825,964,472		Commission Rate Base	$3,825,964,472
4.	Weighted Cost of Debt	2.25921600%	0.12%		Weighted Cost Pref. Stock	0.00%
5.	Commission Annual Interest Exp.	$86,436,802	$4,438,119		Commission Preferred Dividends	$0
6.	Average Revenue Lag Days [1]	0.00	0.0		Average Revenue Lag Days [1]	0.0
7.	Average Expense Lag Days [1]	0.00	0.0		Average Expense Lag Days [1]	0.0
8.	Net Lag Days	0.0	0.0		Net Lag Days	0.0
9.	Working Capital Adjustment					
10.	Commission Daily Interest Exp.	$236,813	$12,159		Commission Daily Dividends	$0
11.	Net Lag Days	0.0	0.0		Net Lag Days	0.0
12.	Commission Working Capital	$0	$0			$0
13.	Company Claim [1]	$0	$0		Company Claim [1]	$0
14.	Commission Adjustment	$0	$0			$0
15.	Total Interest & Dividend Adjustment	$0				

[1]Columbia M.B. at Appendix D, Table IV

Commission Final Allowance
TABLE V
Columbia Gas of Pennsylvania, Inc.
CASH WORKING CAPITAL -TAXES
R-2025-3053499

	Description (1)	Company Proforma Tax Expense Present Rates (2)	Commission Adjustments (3)	Commission Pro forma Tax Expense Present Rates (4)	Commission Allowance (5)	Commission Adjusted Taxes at Present Rates (6)	Daily Expense (7)	Net Lead/ Lag Days (8)	Accrued Tax Adjustment (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	$0.00	0.00	$0
5.		$0		$0		$0	$0.00	0.00	$0
6.		$0		$0		$0	$0.00	0.00	$0
7.		$0		$0		$0	$0.00	0.00	$0
8.		$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	$1,085,916	$1,085,916	$4,110,436	$5,196,352	$14,236.58	0.00	$0
11.	Federal Income Tax	$0	$2,816,578	$2,816,578	$10,661,394	$13,477,972	$36,925.95	0.00	$0
12.		$0	$3,902,494	$3,902,494	$14,771,830	$18,674,324			$0

13.	Commission Allowance	0
14.	Company Claim [1]	0
15.	Commission Adjustment	0

[1] Columbia M.B. at 21

Commission Final Allowance
TABLE VI
Columbia Gas of Pennsylvania, Inc.
CASH WORKING CAPITAL -- O & M EXPENSE
R-2025-3053499

	Description (1)	Company Pro forma F.T.Y. Expense (2)	Commission (3)	Commission Pro forma Expenses (4)	Lag Days (5)	Lag Dollars (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		$0	$0	$0	0.00	$0

17.	Commission Average Revenue Lag	0.0	
18.	Less: Commission Avg. Expense Lag	0.0	
19.	Net Difference	0.0	Days
20.	Commission Pro forma		
21.	O & M Expense per Day	$0	
22.	Commission CWC for O & M	$0	
23.	Less: Company Claim[1]	$0	
24.	Commission Adjustment	$0	

[1] Columbia M.B. at 21