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VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Columbia Gas of Pennsylvania, Inc.
Alternative Ratemaking Methodologies
Docket No. M-2015-2518883

Dear Secretary Chiavetta:

Pursuant to the Tentative Order Adopted March 2, 2017 by the Commission, enclosed please find the Reply Comments of Columbia Gas of Pennsylvania, Inc. regarding the above captioned matter.

Should you have any questions, please do not hesitate to contact the undersigned at (724) 416-6347.

Very truly yours,

M B Moore

Meagan B. Moore

/kak
Enclosure
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Alternative Ratemaking Methodologies	:	Docket No. M-2015-2518883

REPLY COMMENTS OF COLUMBIA GAS OF PENNSYLVANIA, INC.

I. INTRODUCTION

On March 16, 2016, the Pennsylvania Public Utility Commission ("Commission") held an *en banc* hearing at the above-captioned docket to seek information from interested stakeholders on the efficacy and appropriateness of alternatives to traditional ratemaking principles for public utilities. Interested parties, including Columbia Gas of Pennsylvania, Inc. ("Columbia," "the Company," or "CPA"), testified before the Commission, and provided their views on whether alternative ratemaking methodologies encourage utilities to implement energy efficiency and conservation programs, are just and reasonable and in the public interest, and are cost-effective. In addition to the testimony, the Commission requested that interested stakeholders file written comments on or before March 16, 2016, relative to alternative ratemaking methodologies. The Commission received numerous comments, from a variety of stakeholders, including utilities, environmental interests, low-income customer groups, residential customer representative, and small and large commercial and industrial customers.

On March 2, 2017, the Commission issued a Tentative Order continuing its investigation by seeking additional comments on potential processes to advance alternative rate methodologies that address issues each utility industry faces. ("*March 2nd Tentative Order*"). Columbia appreciates the opportunity to provide input on this important issue, and commends the Commission for soliciting additional comments on this important topic.

The *March 2nd Tentative Order* identified a number of questions specifically addressed to natural gas distribution companies ("NGDC"). On May 31, 2017, Columbia along with various other parties submitted comments. Columbia incorporates its initial set of comments filed to the Commission's *March 2nd Tentative Order* ("Tentative Order") and also directs the Commission to the reply comments filed by the Energy Association of Pennsylvania ("EAP") to supplement some of the issues as set forth in Columbia's reply comments. As provided for in the Tentative Order, Columbia submits the following reply comments for the Commission's consideration.

II. COMMENTS

A. No Single Rate Design is Applicable for All Circumstances

It is Columbia's position that each Pennsylvania NGDCs' rate design options should be individually analyzed, as no single rate design is applicable for all circumstances. Columbia has considered using a Levelized Distribution Charge ("LDC"), a Revenue Normalization Adjustment ("RNA") and a Weather Normalization Adjustment ("WNA"). Columbia's comments filed on May 31, 2017 described the specific details related to each of the mentioned rate design options.

B. The Public Utility Code Provides the Commission with Broad Ratemaking Authority

Columbia recognizes that many of the proposed decoupling mechanisms seemingly represent a departure from the customer charge / usage charge rate structure that Pennsylvania gas utilities traditionally have used for residential rate design. However, the Company respectfully submits that the Public Utility Code provides the

Commission with the authority to set rates, albeit "traditional" or "alternative". Indeed, adherence to "tradition" is outweighed by a number of sound reasons favoring a new approach for rate design. Columbia provided a summary of those reasons on pages seven (7) through seventeen (17) of its initial comments to the Tentative Order submitted on May 31, 2017.

The chief reason favoring the Commission's adoption of a decoupling mechanism (such as the LDC), is that it most accurately reflects how costs are incurred. Simply stated, Columbia's distribution costs to serve residential customers do not vary with customer usage. A rate design should follow costs. Accordingly, Columbia should recover the same level of distribution costs from all residential customers regardless of their levels of consumption. Usage-based recovery of fixed costs improperly causes lower use customers to be subsidized by the higher than average use customers.

For the reasons stated in Columbia's initial comments, as well as the chief reason listed above, the Commission should continue its approach of being forward-thinking in the area of residential rate design. The Commission clearly has authority to establish a rate design that matches cost recovery to cost incurrence. Such action would reaffirm the Commission's position as a leader in utility regulation, as has been demonstrated by its actions in establishing a DSIC, WNA, and in promoting Customer Choice. The Commission should follow these progressive efforts by providing individual gas utilities the opportunity to implement a decoupling mechanism of their choice.

C. Legality of Alternative Ratemaking

There is no statutory prohibition against decoupling for NGDCs. Indeed, the Commission has already approved the use of various decoupling mechanisms for utilities in Pennsylvania. Currently, Columbia bills its residential customers using a WNA. The

WNA was approved by the Commission in the Company's 2012 rate case (R-2012-2321748) as a three-year pilot program. The three-year pilot program expired as of May 23, 2016, but the rate design remains in effect until the Company's next base rate proceeding. Accordingly, the Commission can and should exercise its authority to establish a rate design that matches cost recovery to cost incurrence. The Commission should exercise that authority to allow utilities to adopt a new design of residential rates, particularly where, a decoupling mechanism will encourage utility/customer partnership to improve energy efficiency and provide important signals to capital markets to encourage investment in Pennsylvania's infrastructure.

D. Conservation Programs

Columbia supports energy conservation, and promotes means by which our customers may successfully reduce their use of natural gas. Customers that employ conservation measures are rewarded with reduced utility bills, as they reduce the amount of natural gas used to heat their homes. However, energy conservation does not reduce the costs associated with the continued operation and maintenance of the facilities required to deliver gas. Therefore, it is imperative that utilities recover the cost the utility incurs to provide distribution service to customers. Simply put, the fixed costs to serve natural gas do not change as a result of energy conservation.

As addressed by Columbia in its earlier comments, and the comments of other utilities and energy conservation groups, the best tool to avoid the unintended under recovery caused by a volumetric rate design for gas distribution service as a result of energy efficiency is a decoupling mechanism. Decoupling mechanisms breaks the link between throughput and recovery of fixed costs approved by the Commission.

E. Return on Equity ("ROE")

Many consumer advocates maintain that a utility's ROE should be reduced in the event that a decoupling mechanism is approved. In support of this contention, consumer advocates state their belief that decoupling mechanisms reduce the variability of revenues between base rate cases, thus reducing the utility's business risk profile. However, to the extent the proxy group companies used to derive the cost of equity already impound such decoupling mechanisms, the resulting cost of equity estimates would already reflect such a reduction of risk.

The Company maintains that the absence of decoupling mechanisms would have the opposite effect. To the extent that a utility does not benefit from these mechanisms, the utility's revenues will be more volatile and/or will be collected in a less timely fashion. Therefore, a utility without these mechanisms would generally possess a higher business risk profile as compared to utilities which benefit from such mechanisms. Moreover, the investment community views these mechanisms as positive factors from a credit perspective, as they enable utilities to reduce much of the variability in revenues from changes due to both weather and non-weather related factors.

F. Decoupling Shifts Cost Recovery/Cost Responsibility

Consumer Advocates conclude revenue decoupling will shift revenue/costs responsibility among customers in a given rate class. This is true. If designed properly, the mechanism will cause customers to pay their fair share of the cost of service and reduce intra-class subsidies.

Consumer Advocates further contend any form of alternative ratemaking lowers the risk a utility faces in providing utility services by guaranteeing at least a portion of revenue recovery and conclude guaranteed recovery is contrary to the accepted ratemaking principle that utilities are entitled to the opportunity to earn a fair rate of return. The Company disagrees. It is a common misconception by consumer advocates that alternative ratemaking provides a utility guaranteed cost recovery and therefore guarantees a fair rate of return. In reality, alternative ratemaking only provides a utility with an opportunity to recover the fixed costs approved by the Commission in the last rate case, in spite of rate design. Alternative ratemaking does not allow for recovery of lost revenue from attrition. Alternative ratemaking does not allow for recovery of legitimate increased costs incurred by the utility between rate cases. Therefore, alternative ratemaking does not guarantee the utility a fair rate of return.

G. Low Income and Income Challenged Customers

As stated in Columbia's initial comments filed on May 31, 2017, if the decoupling mechanism is an RNA, 2/3 of Columbia's CAP customers would not be impacted by any rate design because their payments are based on the customer's income. The other 1/3 of CAP customers with bills based on a percentage of their budget would be impacted at 50% of the total rate change at the point their budget is adjusted. Because Low Income Non-CAP customers and Income Challenged Customers have a greater than average usage per customer, these customer groups would be impacted by $1.02 to $1.57 greater than the average residential (non-low income, non-CAP, Non-Income Challenged) customer.

If the decoupling mechanism is a straight fixed variable ("SFV") rate design, Low Income Non-CAP customers and Income Challenged Customers would benefit more than the average residential (non-low income, non-CAP, Non-Income Challenged) customer because of their greater than average usage per customer.

Consumer Advocates have asserted that a low income customer that is not on the CAP program and that lives in a small one bedroom apartment has a lower than average usage per customer and therefore would pay more under a SFV rate design than an average, non-low income residential customer would pay. While such customers may exist on Columbia's system, on average, Columbia's low income customers have a higher than average usage per customer. Therefore, the majority of Columbia's low income customers would benefit from SFV.

III. CONCLUSION

Columbia Gas of Pennsylvania, Inc. appreciates the opportunity to provide these reply comments. For the reasons set forth above, Columbia Gas of Pennsylvania, Inc. respectfully requests that the Commission enter a Final Order incorporating the Company's comments.

Respectfully submitted,

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