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June 13, 2024

VIA ELECTRONIC FILING

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

Re: PA PUC, et al. v. Peoples Natural Gas Company LLC
Docket Nos. R-2023-3044549, et al.

Dear Secretary Chiavetta:

Attached for filing please find the Reply Brief submitted on behalf of Peoples Natural Gas Company LLC ("Peoples") in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Anthony D. Kanagy

ADK/kls
Attachment

cc: The Honorable Mary D. Long *(via email; w/attachment)*
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Date: June 13, 2024

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
Office of Consumer Advocate	:	
Office of Small Business Advocate	:	Docket No. R-2023-3044549
Peoples Industrial Intervenors	:	C-2024-3045268
	:	C-2024-3045385
v.	:	C-2024-3045960
	:	
Peoples Natural Gas Company LLC	:	

REPLY BRIEF OF PEOPLES NATURAL GAS COMPANY LLC

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I. INTRODUCTION

A. DESCRIPTION OF THE COMPANY

A description of the Company has been provided in its Main Brief. As noted therein, Peoples Natural Gas Company, LLC ("Peoples" or "Company") currently has two operating divisions—Peoples Natural Gas Division ("PNGD") and Peoples Gas Division ("PGD"). Peoples is proposing to combine the two divisions in this proceeding.

B. STATEMENT OF THE CASE

Please refer to the Company's Main Brief. In this Reply Brief, Peoples is responding to the Main Brief of the Office of Consumer Advocate ("OCA"). To the extent that the Company does not address each specific statement or argument of the OCA does not indicate the Company's consent or agreement to such statement or argument. As noted in this proceeding, the Company has entered into a Non-Unanimous Settlement ("Settlement") with the Pennsylvania Public Utility Commission's ("Commission") Bureau of Investigation and Enforcement ("I&E") the Office of Small Business Advocate ("OSBA") Peoples Industrial Intervenors ("PII") and Pennsylvania Independent Oil & Gas Association ("PIOGA") (collectively "Settlement Parties"). In addition, Coalition for Affordable Utility Service in Pennsylvania ("CAUSE PA") and Pennsylvania Weatherization Providers Task Force ("PWPT") have indicated that they do not oppose the Settlement. The Company respectfully requests that Administrative Law Judge Mary Long (the "ALJ") and the Commission approve the Settlement without modification.

C. PROCEDURAL HISTORY

Please refer to the Company's Main Brief.

A. LEGAL STANDARDS

The Company's position regarding the legal standards in this proceeding is set forth in its Main Brief.

II. SUMMARY OF ARGUMENT

A. OVERALL POSITION

Throughout its Brief, OCA focuses on the as-filed increase of $156 million. The $156 million is no longer at issue in this case. The Settlement Parties to the Non-Unanimous Settlement have agreed to a $93 million increase. Settlement Paragraph 42. OCA's focus on the as-filed ROE of 11.75% also fails to consider the decreased revenue that has been agreed to under the Settlement. The $93 million increase agreed to under the Settlement is approximately $5 million above I&E's litigation position ($87.9 million). Although the ROE under the Settlement is a "black box" number, it certainly is not 11.75%.

Peoples has supported its claims in its testimony and exhibits, its Main Brief and in this Reply Brief. OCA's adjustments are unreasonable and extreme and, in many circumstances, contrary to Commission precedent. Examples include OCA's unprecedented model to determine an ROE of 8.02%, which is over 200 basis points lower than the current gas DSIC ROE of 10.15%, use of a hypothetical capital structure when the Company's actual capital structure is within the range of the proxy group, attempts to deny the use of FTY and FPFTY adjustments and opposition to reasonable incentive compensation, including incentive compensation related to Diversity, Equity and Inclusion ("DEI") goals.

B. RATE BASE AND EXPENSES

OCA opposes the Company's use of actual historic average increases to determine FTY and FPFTY adjustments based on its argument that they cannot be known with certainty. OCA MB at 17. This is not the standard—the Company provided actual historic data to determine estimates of future expenses. This is a reasonable ratemaking practice. OCA attempts to limit the use of the FTY and FPFTY adjustments by effectively requiring that any increase be supported by contract. This is an unreasonable standard that should not be accepted.

C. RATE OF RETURN

Unlike OCA's ROE model, the Company's models are based on how the Commission and the industry determine the cost of equity. OCA's model has never been accepted by the Commission and results in an ROE of 8.02% which is over 200 basis points lower than the DSIC ROE authorized by the Commission for Natural Gas Distribution Companies ("NGDCs"). The flaws with OCA's ROE methodology are discussed in Section VIII below. OCA also completely ignores Commission precedent by proposing a hypothetical capital structure when the Company's actual capital structure is not abnormal and is within the range employed by the proxy group. OCA's extreme positions with regard to ROE and capital structure should not be accepted.

D. REVENUE ALLOCATION AND RATE DESIGN

The revenue allocation under the Settlement is a reasonable compromise of all parties' positions in the proceeding, including OCA's position. Performing a cost-of-service study is more of an art than a science and reasonable parties often disagree. The compromise under the Settlement considers the results of the parties costs of service studies, the impacts on all classes and the impacts associated with combining rates for the two divisions.

The Settlement further reflects a compromise of the Company's and OCA's positions with respect to the residential customer charge. The revenue allocation and rate design proposed under the Settlement should be accepted.

E. THE WNA SHOULD BE APPROVED

OCA argues that the Company is seeking to guarantee its revenue with the WNA and that this is not permissible. The fundamental flaw with OCA's argument is that it is contrary to statute. The Public Utility Code expressly authorizes revenue decoupling mechanisms such as the WNA.

OCA argues that weather is an inherent risk for NGDCs but ignores that weather related risks have become more severe due to climate change. OCA also fails to recognize that, without a WNA, Peoples is at greater risk than its peers who have a WNA.

The WNA is a two-way mechanism that provides credits to customers when weather is colder than normal and credits to the Company when weather is warmer than normal. In addition, under the Settlement, the Company has agreed to several modifications to protect customers, including adopting a 3% deadband, making the WNA a separate charge on the bill and capping WNA adjustments in May. The Company will also educate customers about the WNA and will be available to help them understand the charge. OCA's opposition to the WNA is unreasonable and should be denied.

F. LOW INCOME CUSTOMER ASSISTANCE

OCA argues that the Company should be required to make several changes to its policies and procedures related to alleged low-income customer issues. Specifically, the OCA recommends that: (1) Peoples perform a root cause analysis to address the cause of "disproportionate" termination numbers for Black householders; (2) that Peoples "conform" its confirmation of low-income status to meet the Commission's regulations; (3) Peoples make additional contacts such that low-income customers have the opportunity to apply for its Customer Assistance Program ("CAP"); (4) Peoples consider payment arrangement affordability prior to offering a payment arrangement; and (5) that Peoples enhance its existing speech analytic system to better detect low income customers. All of the OCA's recommendations with respect to low-income issues are meritless and are addressed in further length in Section XI(A)-(F), *supra*. Further, Peoples, along with CAUSE-PA and PWPTF, have successfully resolved other low-income concerns through the Low-Income Stipulation filed concurrently with the Company's Main Brief.

Specifically, the OCA's recommendation for the Company to perform a "root cause analysis" of terminations to Black households is unnecessary, as it is undisputed that the terminations process Peoples employs is color blind and automated. As to the recommendation for Peoples to bring its confirmation of low-income customers, Peoples has already done so. Regarding the OCA's recommended additional contacts, Peoples has a fulsome process in which it already provides personal contact to its customers subject to termination and a referral process in which potentially eligible customers are made aware of the Company's CAP. Further, the OCA's recommendation for the Company to consider payment arrangement affordability is already done, and Peoples has agreed to provide additional CAP notices to its customers as part of its cold-weather survey packet. Lastly, the OCA's proposed expansion of Peoples' existing speech analytics platform to target low-income customers is meritless; the Company has explained the cost and time concerns related to this recommendation, and the OCA has been unable to proffer substantive evidence as to why these concerns are meritless, or how enhancing the existing software would affirmatively promote CAP enrollment when Peoples already has a suite of avenues to identify and refer potentially eligible customers to its CAP.

G. CUSTOMER SERVICE QUALITY

In its Main Brief, the OCA argues that Peoples should improve its customer service and quality of service. The Company is constantly looking for ways to improve its service to customers and throughout this proceeding has shown that it is willing to work with other parties to implement improvements to customer service. As evidence of the Company's willingness to make improvements, the Company points to the Low Income Stipulation it reached with CAUSE-PA and PWPTF, and the Joint Stipulation for Settlement reached with I&E, OSBA, PIOGA and PII.

Specifically, OCA makes arguments that the Company needs to expand its call center hours and that its complaint review process is inadequate. OCA provided no persuasive evidence that

the Company's call center hours should be changed. As discussed below, the Company is available via e-mail at any time and in the event of an emergency, is available 24/7. Regarding its complaint review process, OCA suggests that the Company undertake a root cause analysis. Despite the Company demonstrating that it does indeed conduct a root cause analysis, OCA persists in stating that the review process is flawed. OCA's arguments are unfounded.

. OCA also brings up customer service issues related to non-basic billing and supplier charges which the Company addresses in more detail in Section XII of this Reply Brief. The Company demonstrates that OCA's arguments are speculative and without merit as OCA fails to provide support for its recommendations.

H. DISCOUNT RATES

OCA argues that the Company's proposal to allow electricity to be used as a competitive alternative to natural gas is harmful to captive customers. OCA's argument is misleading as the competitive customers on the Company's system actually provide a benefit to the Company's non-competitive, captive customers. The Company's incremental cost to serve discounted customers is less than the revenue it receives from the customers, even at the discounted rates. It follows then that everyone benefits from the presence of discounted customers on the system as their revenue contributes to the Company's overall fixed costs. The Company's non-discounted customers pay less simply due to competitive customers being on the system. The Company's proposal does not harm captive customers.

III. OVERALL POSITION ON RATE CASE

A. THE REVENUE INCREASE PROPOSED UNDER THE NON-UNANIMOUS SETTLEMENT IS JUST AND REASONABLE AND WILL ALLOW THE COMPANY THE OPPORTUNITY TO EARN A FAIR RETURN.

In its Main Brief, OCA focuses on the as-filed increase of $156 million in arguing its case. The as-filed increase of $156 million is no longer applicable under the Non-Unanimous Settlement; Peoples has agreed to a revenue increase of $93 million, not $156 million.

OCA itself unknowingly highlights the unreasonableness of its position in this section of its Brief. OCA acknowledges that Peoples plans to invest over $1 billion in infrastructure through its LTIIP by the end of the FPFTY—yet would only grant a $13 million increase to support the $1 billion investment. This is unreasonable on its face.

OCA argues that the Company has included inflation adjustments related to capital expenditures that are not known and measurable. This argument should be dismissed as the Company has demonstrated the probability of increased costs and indicated that if its capital budget is not spent for one project, it will be spent for another within the FPFTY. The checks on implementing the DSIC and reporting requirements also provide assurance that the Company will meet its capital budget.

OCA also disputes the Company's expenses which are addressed in more detail below. Of note, OCA argues that customers should not pay for the Company's lobbying efforts. OCA MB at 18. To be clear, the Company has not included any lobbying costs in this case, and OCA's reference to lobbying costs is not correct.

Peoples has proposed reasonable adjustments to its expenses in this case, many of which are based on actual historic increases. OCA's attempts to limit the use of the FTY and FPFTY

authorized by Act 11 in this case by arguing that expense adjustments must be known with certainty should be denied.

B. OCA'S ARGUMENT ABOUT RISK OF FINANCIAL COLLAPSE IS MISGUIDED

OCA appears to take the position that the Company should not be granted a reasonable rate increase unless it is at risk of financial collapse. OCA MB at 18. This suggestion is not supported by law. OCA further states that "Peoples has sounded alarm bells time and time again that, if its cost of capital request or WNA request is not granted, that it will sink into financial ruin." OCA MB at 18. This statement is not accurate and should not be accepted. Peoples has not stated that it will fall into "financial ruin." Peoples simply seeks a reasonable opportunity to earn the return and recover the revenues that are authorized in this proceeding.

OCA takes issue with the Company's as-filed ROE of 11.75%. The Company supported the 11.75% through multiple cost of equity models that have been accepted by the Commission, unlike the model relied upon by OCA to support its 8.02% ROE. The OCA also fails to recognize that even though the Settlement increase of $93 million does not specify an ROE, it clearly is not 11.75%. It is reasonably within the range between the DCF ROE proposed by I&E of 9.96% and the CAPM return of 10.91% calculated by I&E, depending upon what expense adjustments are considered.

OCA disputes the Company's claim for a WNA in this section. OCA suggests that the Company cannot rely on other NGDCs' WNAs to determine the Company's WNA is just and reasonable. OCA MB at 19. Peoples is not simply relying on other NGDCs' WNAs to support its proposal—Peoples is relying on the fact that the alternative ratemaking statute expressly allows a WNA as a form of a revenue decoupling mechanism and current weather circumstances justify the WNA both for Peoples and for other NGDCs. Therefore, a WNA meets the just and reasonable

requirement of the Public Utility Code. OCA's arguments that the WNA is not just and reasonable are clearly contrary to statute. 66 Pa. C.S. § 1330.

OCA also argues that the Company has not demonstrated that it will be subject to risk if the WNA is not adopted. OCA MB at 20. This is incorrect as OCA has admitted that there is risk of revenue loss due to weather. The Company lost $42 million in the winter of 2023-2024 alone due to weather. In addition, many of the NGDCs in Pennsylvania and in the Company's barometer group are reducing this risk with approved WNA mechanisms. The Company's WNA should be approved to allow the Company to have a similar risk profile as its peers in Pennsylvania and as compared to the barometer group.

C. PEOPLES' REQUEST FOR A RATE INCREASE IS NOT APATHETIC.

Peoples request for a rate increase to support its $1 billion in investments is in no way apathetic to customers. Peoples must invest in updating and replacing its infrastructure in order to continue to provide safe and reliable service to customers. In addition, Peoples has been receptive to parties' requests to address low-income customer issues, as evidenced by its agreement to the Low-Income Stipulation. Another example is set forth in the Non-Unanimous Settlement which recognized that the revenue requirement included a reduction to current state and federal income tax of approximately $113.5 million based on how the Company handled the repairs deductions. Settlement, Paragraph 52. Providing customers with a $113.5 million tax benefit is not apathetic.

OCA argues that Peoples failed to provide separate notices to customers of the rate filing and left it to customers to figure out the effect of the filing. OCA MB at 20-21. Peoples followed the Commission's notice requirements and provided the required notice to all customers. The Commission's notice requirements provide for a general notice for the average customer because it is not possible to notice the effects of the filing on every individual customer. It is always up to

the customer to determine the specific effect of the rate increase to them. Customers can always call the Company to have their questions answered.

OCA criticizes the WNA protections that the Company had adopted to benefit customers, including the 3% deadband. OCA MB at 21. OCA should not be critical of the Company for agreeing to additional WNA protections as part of the Settlement. The Company has also adopted protections to mitigate potential high bills in May that have occurred for PGW. The WNA protections agreed to under the Settlement are in the public interest and should be adopted.

OCA also criticizes the revenue allocation arguing that it unduly benefits large customers. As noted herein, the revenue allocation under the Settlement is a compromise of all parties' positions and it even considers OCA's position, as the Company seeks to reach a fair and equitable allocation for all of its customers. It also considers the impacts of combining rates for the Company's two divisions. The Settlement revenue allocation is reasonable and in the public interest.

OCA's proposal to allow a $13 million increase to support $1 billion in investment is patently unreasonable. The revenue increase under the Settlement of $93 million is a reasonable compromise of parties positions in this case, will allow the Company an opportunity to earn a fair return and should be adopted.

IV. RATE BASE

A. PLANT ADDITIONS

In its Main Brief, OCA attempts to support its contention that the cost of the Company's projected plant additions is overstated and should be reduced by $ 27.8 million. OCA refers to Peoples use of what OCA refers to as "inflation factors" to calculate the cost of the projected additions. OCA MB, pp. 23-24. In fact, Peoples' rebuttal demonstrates that the expected increases in costs of plant additions are not based on general inflation projections but are estimates of annual

increases in cost for similar projects based on recent experience and known contractor price increases. Peoples St. No.5-R, pp. 7-8. Any projection is based on estimates of future costs. OCA's rejection of these costs effectively assumes that there will be no increases in material prices and in contractor rates in the FTY and FPFTY. This is simply contrary to the evidence in the case and the principles of the FTY and FPFTY.

OCA also argues that the higher projected costs must be rejected because there is not a reasonable certainty that the claimed plant additions will be in service in the FPFTY. However, OCA has not identified any evidence to support a contention that some of Peoples projects will not be completed by the end of the FPFTY. Therefore, OCA's citation to *Pa. PUC v. UGI Utilities, Inc-Electric Division*, R-2017-2640058 (October 5, 2018) ("*UGI Electric*") does not support OCA's proposed adjustment[1]. Furthermore, Peoples has explained that its plant additions are equal to or greater than the projections in its Long-Term Infrastructure Improvement Plan ("LTIIP") approved by the Commission. Peoples St. No. 5-RJ, p.2

Peoples noted that in the unlikely event that its cost projections are too high, then it will take on other projects to spend the amount allowed in the FPFTY. Peoples also has demonstrated that it can spend its budgeted capital investments. Peoples St. No 5-RJ, p. 2. OCA's contention that such projects would be beyond the FPFTY is unsupported by any evidence and contrary to the Company's proven ability to meet its construction budget.

B. ROBINSON TOWNSHIP FACILITIES

OCA argues in its Main Brief that Peoples rate base also should be reduced by $ 1,462,407, in relation to an at-risk bare steel pipe replacement in Robinson Township. OCA states that: "As

[1] In *UGI Electric*, the Commission rejected the inclusion in rate base the projected costs an Electrical Operations facility because it was still in the preliminary planning stages and there was insufficient evidence that the facility would be in service in the FPFTY. *UGI Electric*, p.31.

a result of the over-pressurization, over 400 privately-owned appliances, as well as 4,552 feet of steel pipe and 133 service lines had to be replaced." OCA MB, p. 26. This statement is not correct. The at-risk bare steel pipe was not damaged by the over pressurization and stayed in service after the incident. The at-risk bare steel pipe replacement was accelerated in the queue of at-risk pipe replacements at the direction of the PUC Gas Safety Division. Peoples St. No. 5-R, p. 9. In the PUC's Order of May 9, 2024, at M-2023-3024990 ("Settlement Order"), approving a settlement of I&E's investigation of the over-pressurization, the Commission stated as follows:

> "Based on the information provided by the Parties, this appears to have been an isolated incident. The overpressure event impacted 204 service lines in a distribution system that serves 221 properties, and restoration of service began the day of the incident and was completed the next day. I&E Statement in Support at 15. As part of its response, Peoples also made infrastructure repairs and improvements, including replacement of 4,522 feet steel pipe and 133 service lines. ID. at 16." Settlement Order, p. 17.

OCA attempts to punish Peoples by denying it recovery of costs of improving its system to serve these customers. It is clear that the Company responded quickly and appropriately. Further review of the Settlement Order demonstrates the significant steps that the Company has agreed to undertake to avoid this type of problem in the future. Peoples worked with I&E to restore service expeditiously and replace damaged customer property at its expense. Peoples accelerated the replacement of at-risk bare steel pipe in the system that was not damaged in the incident at I&E's request. It also is noted that I&E has not proposed that the cost of the accelerated pipe replacement be removed from rate base in this proceeding.

Contrary to OCA's assertions, the improved facilities were not damaged in the incident, would have been replaced as at-risk bare steel pipe in the future and the new pipelines are already

completed and providing safe and reliable service to customers. OCA's adjustment should be rejected[2].

V. REVENUES

OCA did not contest the Company's present rate revenues in its Main Brief.

VI. EXPENSES

A. UPDATES TO ORIGINAL FILING

The Company addressed OCA's one-sided approach to making updates in the Company's Main Brief, pages 16-18. OCA proposes to only accept adjustments if they reduce the Company's claim. The Company proposed specific updates that both increased and decreased its claim. Both should be accepted.

OCA argues the Peoples did not provide adequate evidence regarding why it did not utilize updated calculations when it made its filing or how it arrived at its updated calculations. OCA MB, P. 33. OCA's statement is not correct—the Company explained the corrections in discovery responses that were provided to parties. Peoples St. No. 2-R, p. 5.

The two expenses that increased were labor and PBOP. Peoples St. No. 2-R, p. 5. As to labor, the Company explained that the initial claim was based on average salary per employee and the updated claim was based upon salaries for each position. OCA St. No. 2-SR, p. 11, lines 20-23, Exhibit No. APW-R-3. This is a clear explanation. If OCA wanted to obtain further information, they should have asked for it in discovery.

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[2] The Settlement Order requires that a $250,000 civil penalty be paid by Peoples. Denying Peoples a return on and recovery of its $1.6 million investment in new plant would increase that penalty dramatically and is inconsistent with the evaluation of the settlement by the Commission.

As to the PBOP adjustment, Mr. Wachter noted that the initial estimate had been updated. Exhibit No. APW-R-1, p. 4. OCA's proposed adjustment to PBOP expense should not be accepted. As noted in the Company's Main Brief, the Company deposits its OPEB ratemaking allowance into a trust and tracks the difference between the regulatory allowance and actual expenses. The difference is then credited to or collected from customers in future proceedings. Peoples MB at 29-30. The Company has no incentive to over-estimate costs in this case. However, as also noted in the Company's Main Brief, if the Company's claim is adjusted, the amount to be tracked for future adjustments must also be adjusted to be consistent.

The Company also made a significant update that decreased the Company's present rate revenue by approximately $2.36 million. *See* Present Revenue Stipulation. This further demonstrates the unreasonableness of OCA's refusal to consider legitimate updates that increase the Company's as-filed claim. The totality of the Company's updates decreases the Company's as-filed claim by $1,364,829. See Present Revenue Stipulation decrease of $2,361,174 and include rebuttal increase of $964,345. Peoples St. No. 2-R, p. 6.

B. GAS SUPPLY EXPENSE

OCA did not address this section in its Main Brief. As noted in the Company's Main Brief, this issue has been resolved in this proceeding. Peoples MB at 18.

C. FIVE-YEAR AVERAGE INCREASES

Peoples addressed issues regarding applying five-year average historical increases to certain expenses in Section IV(E) of its Main Brief. OCA continues to classify these adjustments as "inflation adjustments," fails to distinguish these adjustments from adjustments using a general inflation factor and in effect wants to deny the Company the right to rely on a FPFTY by limiting reasonable adjustments to the HTY amounts.

OCA argues that costs do not change proportionately or evenly across the board and that Peoples cannot predict how costs will fluctuate with any certainty. OCA MB at 33. There are several flaws with OCA's argument. First, the Company did not apply the same five-year average increase to all expenses across the board. The Company relied upon the five-year average increase for each specific expense category. Peoples St. No. 2-R, p. 10 lines 12-15. It is standard ratemaking practice to rely on changes to historical expenses to estimate future expenses.

OCA also argues that it is not certain that these expense categories will increase by the same percentage as they did historically. Effectively OCA argues that any expense adjustments must be absolutely known and certain before they can be accepted. OCA's standard is unreasonable. The Company did not rely on a one-year increase in expenses in order to determine the increase for the FTY and FPFTY. Rather, the Company relied on a five-year average increase to smooth out any irregularities. Using historical actual expense increases as a basis for determining future expense increases is reasonable. Notably, I&E did not contest this methodology.

The Company's use of average historical increases to estimate future increases meets the statutory standard under Section 315€ of the Public Utility Code because it is appropriate data evidencing the accuracy of the estimates. 66 Pa. C.S. § 315(e). Also notable is that the statute allows for "estimates" for the FTY and FPFTY—it does not require that adjustments be known with certainty, which effectively would require that all increases in expenses be contractual.

D. INFLATION ADJUSTMENTS

As explained in the Company's Main Brief, it applied a general inflation adjustment, the Consumer Price Index, to two limited categories of expenses. Peoples MB at 20-21. OCA argues that blanket inflation adjustments should not be accepted. OCA MB at 35.

The Company did not apply a blanket inflation adjustment to all of its expense categories. As noted in Section C above, the Company made targeted adjustments to several expense categories based upon each category's specific five-year average increase. This is not a blanket inflation adjustment.

Likewise, the Company only applied the CPI to two specific expense categories and did not blanket all categories. The Commission has allowed utilities to apply general inflation adjustments when applied to specific expense categories. *Pa. PUC v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929, Order entered June 22, 2021.

E. CORPORATE INSURANCE

In order to determine its claim for corporate insurance, the Company relied upon its third-party brokers to determine the increase from actual HTY costs. Peoples MB at 21. OCA argues that the Company's increase should be denied because it is "presumptive, not rooted in substantial industry forecasts for increases in insurance premiums, and prone to drastic change in the near future." OCA MB at 38.

OCA's adjustment should not be accepted. The Company demonstrated that it has experienced substantial increases in insurance costs over the past two years and that the market continues to be volatile. Peoples St. No. 2-R, pp. 26-27. The Company provided reasonable estimates of increases based upon its actual historic increase in costs and based on feedback from its insurance brokers.

OCA does not propose an alternative, but rather proposes a zero percent increase in insurance costs, which is clearly unreasonable given the recent and continuing escalation in insurance costs. OCA's unreasonable position should not be accepted.

F. LABOR/VACANCY EXPENSE

The Company addressed OCA's inaccuracies regarding its labor vacancy percentage in its Main Brief. OCA continues to ignore its clear error by double-counting 8 vacant positions. If OCA were to make this correction, its adjustment would be $1,495,494 instead of $1,742,699. OCA did not dispute the fact that it made an error in testimony. Peoples MB at 22-23. However, in its Main Brief, OCA does not acknowledge its error and does not correct it.

As also noted in the Company's Main Brief, the Company hired 52 additional employees since the rate case was filed and OCA has not reflected the 52 additional employees into its adjustment. Peoples MB at 22.

OCA's labor adjustment, and all related adjustments, should be denied.

G. INCENTIVE COMPENSATION

At the beginning of its Main Brief section regarding incentive compensation, OCA cites several Commission cases regarding incentive compensation, noting that the Commission has allowed recovery of incentive compensation plan costs, including costs related to financial metrics, when the plan is reasonable, prudently incurred, not excessive, and there is a benefit to ratepayers. OCA MB at 39 citing *Pa. PUC v. PPL Elec. Util. Corp.*, R-2012-2290597 (Order entered Dec. 28, 2012).

OCA then goes on to fully ignore Commission precedent by proposing to disallow costs related to financial metrics in the Company's incentive compensation plans. OCA argues that the financial metrics do not provide a direct ratepayer benefit and, therefore, should be denied. OCA MB at 41.

OCA tries to parse out the specific financial metric parts of the Company's incentive compensation plan, while ignoring that other components of the incentive compensation plan include safety and customer satisfaction metrics. OCA St. No. 2, p. 27, lines 21-24; Peoples MB

at 23. OCA also ignores the fact that financial metrics encourage employees to be efficient, which provides a direct benefit to customers by saving them money. Peoples St. No. 2-R, p. 20.

Despite all of the cases cited by OCA in this section, OCA omits any reference to the Commission's decision in *Pa. PUC v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058 (Order entered Oct. 25, 2018) ("*UGI Electric*"), where the Commission clearly looked at incentive programs as a whole and rejected attempts to parse out financial metrics, where UGI Electric's overall incentive compensation was reasonable. OCA has not challenged the Company's overall compensation levels, and its attempts to parse out financial metrics from a reasonable incentive compensation plan should not be accepted.

OCA also proposes to deny the Company's incentive compensation plans related to DEI. OCA MB at 42. OCA again argues that the Company's DEI program incentive compensation costs should be denied because they do not benefit ratepayers. The Company addressed these arguments on pages 26-27 of its Mai Brief. Given that the OCA's position is so contrary to the Commission's goals, the Company is not repeating its arguments herein.

H. EMPLOYEE EXPENSES

OCA proposes adjustments to the Company employee expense based on the OCA's reduction to labor expenses and also to the Company's Employee Service and Safety Awards and Employee Events. OCA MB at 43.

As explained above, the Company disagrees with OCA's adjustment to labor expense, but agrees that employee expenses related to labor should be based upon the labor compliment as determined by the Commission.

OCA also argues that the Company's Employee Service and Safety Awards and Employee Event costs should be denied because the Company did not demonstrate that these awards benefit ratepayers. OCA MB at 43. The Company demonstrated in its Main Brief and in testimony that

these awards and programs benefit customers and that the Commission has allowed these types of expenses in other cases. Peoples MB at 27-28. OCA's adjustments should not be accepted.

I. MATERIALS AND SUPPLIES

OCA proposed to disallow the Company's five-year average increase for materials and supplies. OCA MB at 43. The adjustment is addressed in Section VI(C) above.

OCA also proposed to disallow $49,932 related to a specific increase in average cost per fault, higher number of faults expected and higher cost of anodes. OCA MB at 43; Peoples MB at 28. OCA argues that the Company did not provide evidence of the accuracy of this adjustment and, therefore, that it should be denied. As explained by Mr. Wachter, this increase was specific to a planned increase in the Damage Prevention and Leak Survey Department. Peoples St. No. 2-R, p. 43. This was a budgeted increase specifically adjusted by the Company for known increases in costs related to safety. OCA's adjustment should not be accepted.

J. PENSION EXPENSE

The OCA proposed an adjustment to the Company's pension expense based on using a five-year average of contributions rather than the Company's two-year average. OCA MB at 44. The Company addressed this issue on page 29 of its Main Brief.

As noted therein, OCA's five-year average should not be accepted because it reflects contributions for two-different owners with different policies regarding pension contributions. Since being acquired by Essential, the Company's pension contributions have substantially increased, and the two-year average is reflective of normal ongoing contributions. Peoples MB at 29.

K. PBOP EXPENSE

The Company responded to OCA's adjustment to PBOP expense in its Main Brief. As noted therein, the Company's claim is based on the expected time between rate cases. If the

Company's claim is adjusted, the amounts to be tracked for future adjustments under the regulatory deferral mechanism should also be adjusted.

L. RATE CASE EXPENSE

OCA argues that the Company's proposal to normalize rate case expense over a two-year period is directly at odds with precedent. OCA MB at 46. However, OCA has failed to consider recent precedents. In *UGI Electric*, the Commission allowed UGI to normalize rate case expenses based on the expected period between rate cases when UGI demonstrated that its LTIIP would require more frequent rate filings. *UGI Electric* at 59-60. That is exactly what the Company did in this case. *See* Peoples MB at 30-33.

The Company's rate case expense is based on future expectations, which have been supported by evidence. The Company's claim is consistent with the Commission's decisions in *UGI Electric* and *Citizens Electric* and should be accepted. *See UGI Electric* at 59-60; *PA PUC v. Citizens' Electric Company of Lewisburg, PA*, Docket No. R-2019-3008212, Order entered April 27, 2020 ("*Citizens' Electric*") at 80.

M. TRAVEL, MEALS AND ENTERTAINMENT EXPENSE

Peoples addresses OCA's proposed adjustments to Travel, Meals and Entertainment Expenses on pages 33-34 of its Main Brief.

OCA proposes to disallow travel expenses for business-related purposes of $184,117. These costs are valid business expenses. Likewise, the Employee Events expense of $219,298 and other expenses of $101,988 relate to costs for employee events and meals, which are also valid business expenses and are addressed on pages 33-34 of the Company's Main Brief.

The Sports Sponsored related expense of $323,690 relate to Company functions at sporting events which also are recoverable costs as they provide employee camaraderie and relate to the

Company's advertising program which was discussed in Section N of the Company's Main Brief at pages 34-38.

N. ADVERTISING EXPENSE

OCA did not address the Company's advertising costs in this section of its Main Brief.

O. COMPANY MEMBERSHIPS

OCA proposes to disallow the Company's membership costs because, according to OCA, they do not directly benefit customers. OCA MB at 49-50. OCA also cites Section 1316.1 of the Code which does not allow for recovery of costs of "membership fees, dues or charges to fraternal, social or sports clubs or organizations." 66 Pa. Code § 1316.1. None of the membership fees included in the Company's filing relate to fraternal, social or sports clubs or organizations, and OCA's reference to Section 1316.1 is irrelevant.

These costs are also not for civic causes or lobbying—the memberships include the Energy Association of Pennsylvania, and other entities that provide for tracking regulation and fostering economic development and diversity. OCA's attempts to liken these organizations to civic causes and lobbying should not be accepted.

Peoples addressed the reasons why its membership fees are reasonable and help it in providing efficient service to customers on pages 38-39 of its Main Brief.

P. OUTSIDE SERVICES

The OCA did not address this section in its Main Brief.

Q. OTHER O&M EXPENSE

The OCA's adjustments to Other O&M Expense relate to proposed disallowance of the five-year average increase and another adjustment to disallow incentive compensation expense. These adjustments are addressed in Sections VI(C) and VI(G) in this Reply Brief and the Company's Main Brief.

R. PAYMENT PROCESSING

OCA does not dispute the Company's proposal to include payment processing costs for PGD in base rates, as it currently does for PNG customers. However, OCA proposes to reduce the Company's increase to cover these costs by 50%. OCA MB at 51.

OCA's adjustment is completely arbitrary and should be denied. The Company's expense claim was based upon its historic experience and is proper. Mr. Wachter provided detailed calculations in his rebuttal testimony. Peoples St. No. 2-R, pp. 53-55. OCA's arbitrary adjustment to the Company's claim should not be accepted.

S. UNCOLLECTIBLE ACCOUNTS EXPENSE

As noted in the Company's Main Brief, the final level of uncollectible accounts expense in the proceeding should be based upon the rate increase approved by the Commission.

T. DEPRECIATION EXPENSE

The Company addressed OCA's arguments regarding depreciations issues on page 15 of its Main Brief. OCA's depreciation adjustments should be denied along with its adjustments to plant in service. OCA also did not accurately reflect its depreciation calculation, and it is not the Company's responsibility to correct OCA's miscalculation.

U. CONCLUSION REGARDING EXPENSE ADJUSTMENTS

As noted above, OCA has taken extreme positions regarding its expense adjustments in this case to attempt to limit the Company's expenses to HTY levels whenever possible. The OCA has also ignored recent Commission precedent for many expenses such as incentive compensation and rate case expense. OCA's extreme adjustments and attempts to deny the Company the use of FTY and FPFTY adjustments should be denied.

VII. TAXES

A. INCOME TAXES

The OCA does not dispute how the Company calculated taxes in this proceeding but requests an additional reduction to taxes of approximately $30 million that is related to OCA's other adjustments in this proceeding. As noted herein, OCA's adjustments are excessive and unreasonable and should not be adopted.

The Company's position regarding other income tax related issues is set forth in the Settlement and in the Company's Main Brief. No party, including OCA, challenged the income tax provisions set forth by the Company in the proceeding.

B. TAXES OTHER THAN INCOME TAXES

The Company addressed OCA's adjustments to taxes other than income taxes on page 43 of its Main Brief.

VIII. RATE OF RETURN

A. INTRODUCTION

As explained in the Company's Main Brief, OCA proposes significant deviations in how the Commission determines the rate of return, including the appropriate capital structure and cost of equity to be used in developing the composite rate of return. OCA's proposals are not based on a demonstration that the cost of capital has recently declined. Instead, OCA witness Rothschild contends that the Commission has been consistently overstating the cost of capital in its orders. In the following subsections Peoples will further respond to OCA's erroneous assertions.

B. CAPITAL STRUCTURE

The Company has explained the reasonableness of its actual capital structure in its testimony, its compliance with the standards enunciated by the Commission multiple times and provided examples of the Commission's acceptance of the actual ratios in the same range as are

indicated in this case Peoples MB, pp. 44-46. It should be noted that OCA seeks to up-end the Commission's consistent practices on determining rate of return under the guise of lowering rates to customers. OCA's proposal in this case includes the imposition of a hypothetical capital structure where doing so normally would be rejected under these facts.

The Commission has determined that a utility's actual capital structure is to be used, absent circumstances where the actual capital structure is atypical for the type of utility service being offered. *See Pa. PUC v. City of Lancaster – Water,* Docket Nos. R-00984567, et al., 1999 Pa. PUC LEXIS 39, at *17 (Order dated Sept. 22, 1999); *Pa. PUC v. City of Bethlehem,* 84 Pa. P.U.C. 275, 304 (1995); *Carnegie National Gas Co. v. Pa. PUC,* 433 A.2d 938, 940 (Pa. Cmwlth. 1981). In determining whether the claimed capital structure is atypical, the Commission has looked to see whether the capital structure used by the utility is outside the range of that employed by the barometer group of companies considered in the rate of return analysis. If a utility's capital structure is within a reasonable range of similar risk barometer group companies, the utility's capital structure should be used and not a hypothetical capital structure. For example, in *ALLTEL* the Commission stated as follows:

> The ALJ recommended use of the Company's stand-alone capital structure since it met the following characteristics of an appropriate capital structure: (1) It was within a reasonable range of similar risk barometer group companies. (2) It reflected the Company's actual capital structure and projected near term capital structure. (3) It is consistent with the Company's apparent capital structure goal. (R.D., p. 28).
>
> We concur with the recommendation of the ALJ, particularly for the reason that the Company's actual capital structure falls within a range employed by similar risk barometer group companies, described by Mr. Shiavo as commensurate with capital ratios employed by other independent telephone operating companies.

Pa. PUC v. ALLTEL Pa., Inc., Docket No. R-942710 et al., 59 Pa. PUC 447, 491, 1985 Pa. PUC LEXIS 53, *106-107 (Order entered May 24, 1985) ("*ALLTEL*").

This analysis was reaffirmed by the Commission in *PPL Electric 2012*. In that case, PPL Electric proposed to use its actual capital structure. Both I&E and OCA proposed to use a hypothetical capital structure. I&E argued in favor of a hypothetical capital structure based upon a calculated industry average. OCA proposed a hypothetical capital structure that was based on an average of PPL Electric's capital structure for a recent five-year period. OCA further supported its proposal by reference to the average common equity ratio of the barometer group sponsored by the Company. *PPL Electric 2012*, at pp. 63-65. The Commission rejected I&E's and OCA's contentions and adopted the Company's proposed capital structure, concluding:

> 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. *See, Pa. PUC v. City of Lancaster – Water*, 1999 Pa. PUC Lexis 37 at *17; *Carnegie Natural Gas Co. v. Pa. PUC*, 433 A.2d 938, 940 (Pa. Cmwlth. 1981). With regard to these factors, we are persuaded by the arguments of PPL that its actual capital structure is not atypical, is within a range of reasonableness, and, pursuant to precedent, provides no basis to employ a hypothetical capital structure. Also, we are further swayed by PPL's assertion that it requires an equity ratio near the high end of the historic range employed by the barometer group companies to support its expanded infrastructure replacement program and its credit rating.

PPL Electric 2012, at p. 68.

The Commission recently confirmed its holding in *PPL Electric 2012* in its decision regarding Columbia Gas of Pennsylvania, Inc.'s 2020 base rate case. *See Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2020-3018835, et al. (Order entered Feb. 19, 2021) ("*Columbia 2020*"). In that case, OCA also proposed that the Commission adopt a hypothetical

capital structure of 50% debt and 50% common equity. The Commission rejected OCA's proposal, and stated as follows:

> At the outset, we note that the 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 Columbia attracts capital. For example, Columbia's proposed long-term debt cost rate of 4.73%, *infra*, fully reflects the capitalization determined by the Company to be appropriate. As Columbia noted, the Commission has determined in previous base rate cases that the legal standard in Pennsylvania for deciding whether to use a party's proposed hypothetical capital structure in setting rates is that if a utility's actual capital structure is within the range of a similarly situated barometer group of companies, rates are set based on the utility's actual capital structure.
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> ***
>
> Based on the forgoing, we find that Columbia's proposed actual capital structure is not atypical and is within a range of reasonableness. Therefore, we find no reason to deviate from the established Commission precedent, supra, or to impose the OCA's hypothetical capital structure on the Company. Accordingly, we shall grant Columbia's Exception No. 16, reverse the ALJ's alternative recommendation on this issue, and utilize Columbia's proposed capital structure of 54.19% common equity, 42.22% long-term debt, and 3.59% short-term debt.

Columbia 2020, at pp. 116, 118.

Similarly, the OCA's proposal to adopt a hypothetical capital structure was rejected in Aqua Pennsylvania, Inc.'s ("Aqua") 2022 base rate case, as Aqua's actual capital structure was "within the ranges of the proxy group and [] not clearly unreasonable." *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-2021-3027385, *et al*. (Recommended Decision issued Feb. 18, 2022) *adopted as modified* (Order entered May 16, 2022) ("Aqua 2022").

By definition and precedent, a capital structure is normal if it falls within the range employed by the proxy or barometer group and that is the case in this proceeding. While Peoples equity ratio is at the higher end the barometer group range, Peoples has greater risk than the

barometer group companies because it is exposed to significant bypass of its facilities from unregulated pipelines providing local gas and customer connections to numerous interstate pipelines. Peoples St. No 13, p. 8. These greater risks justify an equity ratio at the higher level of the range. OCA has provided no basis to justify a hypothetical capital structure.

As explained in the subsection VIII. D addressing cost of equity, OCA proposes dramatic changes in the manner and methods used by the Commission in determining rate of return. These changes, if accepted, would upset the balance that the Commission has structured to both permit utilities to obtain capital at reasonable costs and to set reasonable rates to customers during a period of significant replacement of utility infrastructure.

OCA also claims that the Company's equity ratio is too high because its parent Essential Utilities' ("Essential") equity ratio is lower. OCA also notes that Essential has non-regulated businesses and speculates about the reasons for Essential's capital structure. OCA MB, p. 58. The Commission's policy and practice is to focus on the capital structure ratios of the barometer group companies in order to avoid speculating about the activities of parents that are engaged in non-regulated businesses. That practice should be continued. OCA also references a Moody's report that notes Essential's issuance of $1 billion of debt to finance, in part, its acquisition of Peoples, which debt was pushed down to Peoples' parent PNG Companies LLC. OCA MB, p 58. This report incorrectly indicates that some of that debt was pushed down to Peoples. This error can be confirmed by reviewing the record in this proceeding.[3] No portion of that debt or the funds raised from that debt were pushed down to Peoples or included in its capital structure and cannot be under

[3] Exhibit No. 16, Schedule No. 6 in Volume 7 provides the debt as of August 31, 2023. The $1 billion of debt referenced by Moody's represents the sum of the $227,947,765, $273,537,318, $35,000,000, $20,000,000, $191,084,000 and $252,430,917 issuances in 2020 within the PNG Companies section of this schedule. None of those issuances appear on the Peoples Natural Gas Company section of this Exhibit.

the terms of the Commission's approval of the Peoples acquisition. *See Joint Application of Aqua America Inc., Aqua Pennsylvania Inc., Aqua Pennsylvania Wastewater Inc., and Peoples Natural Gas Company LLC for All of the Authority and Necessary Certificates of Public Convenience to Approve a Change in Control of Peoples Natural Gas Company LLC by Way of the Purchase of All of LDC Funding LLC's Membership Interests by Aqua America Inc.*, Docket Nos. A-2018-3006061, *et al*. (Opinion and Order entered Jan. 24, 2020). The capital structure of Peoples funds its investment in utility rate base and nothing else.

C. DEBT COST RATE

There is no dispute as to Peoples proposed cost of debt. However, it is to be noted that adoption of OCA's hypothetical capital structure would require the Commission to estimate the increased cost of debt at the higher hypothetical debt ratio, as well as the higher cost of equity at a lower hypothetical equity ratio than the actual equity level that will be employed by the Company during the FPFTY. Peoples St. No. 13-R, p. 12; Peoples St. No. 13-RJ, p. 9. However, such adjustments are not necessary because the Company's actual debt and equity ratios clearly fall within the range employed by the barometer group and are consistent with the Commission's policy and practice to accept as normal the indicated ratios under those circumstances.

D. RETURN ON COMMON EQUITY

1. Barometer Group

Peoples has explained that Mr. Moul used the same barometer group as used by the Commission in its earnings report calculations of ROE and that each company in this group has at least 67% of its assets in utility service. Peoples MB, p.46. OCA witness Rothschild arbitrarily excludes three of these companies because they do not have 80% of assets in utility service and reduces the Barometer group to only five companies. OCA MB, pp. 58, 62. These deletions do not align with prior Commission standards and practice, unnecessarily reduce the scope of relevant

information and distort the determination of the ROE. These deletions should be rejected. Peoples St. No. 13-R, p.14.

a. OCA Witness Rothschild's Applications of the DCF and CAPM Are Flawed

In this proceeding, OCA proposes to radically change the Commission's long-standing approach to determining the return on equity that utilities should be provided the opportunity to earn. For many years, the Commission has applied the DCF method by determining a dividend yield adjusted for growth in the dividend for the following year and adding a growth rate based primarily on analysts' projections to determine the DCF cost rate. In addition, the Commission has also considered the results of the CAPM method. *PPL Electric Utilities* at R-2012-2290597 (Order entered December 5, 2012); *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835 (Order entered February 29, 2021); *Pa. PUC, et al. v. UGI Utilities, Inc. - Electric Division*, Docket Nos. R-2017-2640058 (Order entered 2018), *Pa. PUC et al. v. Aqua Pennsylvania* at R-2021-3027385 (Order entered May 16, 2022), *Pa. PUC et al. v. Columbia Water Company*, R-2023-3040258 (Order entered Jan, 18 2024).

The Commission has also applied the DCF in above referenced manner and reviewed the results of the CAPM method in setting the earned maximum ROE for charging the Distribution System Improvement Charge ("DSIC"), currently 10.15% for gas distribution companies. (Quarterly Earnings Report of January 18, 2024, at M- 2023-3044811); Peoples St. No. 13-RJ, p. 3.

Consistency in the method for determining allowed or opportunity ROEs in rate cases, as well as consistency in setting the maximum earnings rate for charging the DSIC, is highly important to capital markets. While allowed ROEs may change based upon economic conditions,

interest rates, and inflation, consistency in the method for determining the ROE is important in permitting utilities to raise capital on reasonable terms in all market and economic circumstances.

OCA witness Rothschild proposes in this proceeding to change the Commission's approach to determining the allowed ROE in several ways that would result in an opportunity to earn only 8.06%, which is more than 200 basis points below the current cap on earned ROE of 10.15% for natural gas distribution companies to charge the DSIC. This comparison indicates that witness Rothschild and OCA propose to dramatically change the Commission's efforts to balance the needs of utilities to access capital on reasonable terms in all economic circumstances with the effects of increases in rates to customers. This proposed shift is particularly important to Peoples, given that Peoples plans, and is on track, to expend nearly $1 billion to replace at-risk pipelines and other aged plant in the FTY and FPFTY in this proceeding and will have added nearly $2 billion in plant from the end of the FPFTY in its last rate case through the FPFTY in this case. Peoples St. No. 2, p. 25; Peoples St. No. 5, p. 2.

Mr. Rothschild does not contend that the cost of equity has declined substantially from recent cases. That would be irrational given the rise in interest rates and inflation. Instead, he contends that the Commission and other regulatory commissions have simply incorrectly determined the cost of equity in their prior decisions. His alleged evidence for this conclusion is that utility stocks sell at prices above book value. OCA St. No. 3SR, p. 20, lines 2-8.

To achieve his very low ROE result of 8.06%, Mr. Rothschild makes the following erroneous adjustments to the DCF model that the Commission has used:

- Mr. Rothchild calculates reinvestment (equivalent to book value) growth rates based upon projected future earned return rates in lieu of using analysts' projections in earnings in establishing his preliminary DCF growth rate; and
- Mr. Rothschild then reduces his preliminary growth rates because utility stocks sell at market prices above book value.

The above inputs and assumptions to the DCF model have never been used by the Commission and have been rejected by the Commission. For example, the Commission has never used reinvestment or book value calculated growth rates and has rejected the concept that growth rates and allowed ROEs should be reduced because utility stock prices exceed book values. *Pa. PUC v. York Water Company*, 1986 Pa. PUC LEXIS 22, 103 n. 24, Docket No. R-850268, 79 PUR 4th 332 (Nov. 25, 1986); *PA. PUC v. Philadelphia Suburban Water Co.*, Docket Nos. R-911892, *et al.*, 1991 PA. PUC LEXIS 206 ** 135-136 (Oct.18 1991). In addition, there is no evidence that investors use these inputs in the DCF model. There are good reasons for rejecting the approach advocated by Mr. Rothschild. First, retention growth is a proxy for book value per share growth, which is an incorrect choice because stocks prices do not grow at the book value growth rate. That is because stocks do not trade at a constant multiple of book value. Second, Professor Myron Gordon established that analysts' forecasts of earnings growth are the best measure of growth in the DCF model.

Mr. Rothchild also revises the standard CAPM calculation that has been used by the Commission in following erroneous ways:

- Mr. Rothschild uses a risk free- rate based on three (3) month Treasuries and thirty (30) year Treasuries and relies on current spot and 3-month average rates without consideration of projected yields (OCA St. 3-R., p. 7) (Peoples St. 13-R, p.45);
- Mr. Rothschild does not use published betas that are available to investors but develops his own Betas that no investor could use (Peoples St. No. 13-R, pp. 40-42); and
- Mr. Rothschild uses an "option-implied growth rate" for the S&P 500 to derive his own projected market return of 8.3% (OCA St. No. 3, p. 74), which is not published and

well below publicly available projected market returns used by I&E witness. Spadaccio (12.05%). (I&E St. No. 2, p. 31).

Mr. Rothschild's proposed changes in the Commission's standard application of the DCF and CAPM models are unsupported by evidence that investors buying and selling utility stocks use these approaches. To the contrary, the multiple firms that provide analysts' projections of earnings growth rates for utilities demonstrate that investors are using these growth rates to determine the cost of equity as used in the Commission's DCF application. The "father" of the DCF model, Professor Myron Gordon, has substantiated the use of analysts' projections of earnings to establish the growth rate in the DCF model. Peoples St. No. 13-R, p. 25.

There is also no demonstration that Mr. Rothschild's approaches have been accepted by any other Commission in normal circumstances.[4] The broad departures that OCA and Mr. Rothschild propose to the Commission's balanced and the well accepted practices in determining the opportunity rate for equity costs have not been justified and should be rejected.[5]

As explained in the Company's Main Brief, a reasonable application of the standard DCF model performed by Peoples witness Moul indicates an equity opportunity cost rate of 10.47%. Peoples MB, p. 47. However, the Commission, as explained above, has recently also given weight to the CAPM method results, which is justified by higher interest rates and inflation. Peoples MB, pp. 44, 48. Peoples witness Moul's standard CAPM (excluding a size adjustment) yields a cost rate of 10.95%. Peoples St. 13, p. 47. Considering I&E Witness Spadaccio's CAPM cost rate of

[4] Mr. Rothchild could point to only one case in which his ROE approach was used to establish an ROE in a final rate case decision. OCA St. No. 3, p.12. In an order entered on April 9, 2020, the South Carolina Public Service Commission, in the midst of the pandemic, concluded that capital costs were declining and adopted a 7.45% ROE in a case for a small water company that was proposing 35% to 53% total bill rate increases. Docket No. 2019-290-WS, Order No. 2020-306 (April 9, 2020).

[5] Mr. Rothschild contends that some investment banks use his methods to produce estimates of future earned returns. Earned returns do not indicate the market's expected allowed returns. Mr. Rothschild is using speculative options to estimate future market return.

10.91%; and the Commission's Quarterly Earnings Report dated January 18, 2024, at Docket No. M-2023-3044811, a CAPM cost rate of 10.87% provides a reasonable cost of equity range of 10.47% to 10.95%. Adoption of this equity cost rate range is supported by the record evidence and consistent with the Commission's application of the cost of equity models.

In contrast, OCA witness Rothschild proposes CAPM cost rates in the range of 7.50% to 8.22%. OCA St. No. 3, p. 11. The principal flaw in his analysis is a grossly insufficient market premium. Mr. Rothschild rejects published estimates of future market returns used by Mr. Moul and Mr. Spadaccio to determine market premiums in the CAPM. Mr. Rothschild calculates his own "option implied growth rate" to estimate the market growth for the S&P 500. OCA describes this in its Main Brief as a methodology to "calculate option-implied volatility and skewness. The volatility and skewness calculated in this way describe a probability function representing the possible trajectories for the S&P 500 implied by the options market". OCA, MB, p. 74. These estimates are novel, are solely Mr. Rothschild's and are not reviewed by any other entity or investors that sell and purchase utility stocks. Therefore, they cannot be considered a market indication of the cost of equity. Similarly, Mr. Rothschild calculates his own Betas for use in the CAPM, which are not confirmed or used by any other entity or investor. Peoples St. No. 13-R, p. 42. Mr. Rothschild's belief that his evaluation of the markets is better than that of actual market participants is not a basis for determining the market-based cost of capital.

Mr. Rothschild's CAPM DCF results also provide an insufficient premium over the current cost of debt. With the current yields on A-rated utility bonds at or above 5%, Mr. Rothschild's CAPM (7.5% to 8.18% %) and DCF 8.06% to 8.09% provide an insufficient premium to cover the risks faced by equity investors. Peoples St. Non-13-R, p. 41.

The flaws of Mr. Rothschild's application of the DCF method are based primarily in his use of retention growth and his view that common equity shares of utility stock sell at prices above book value because they are earning more than the cost of capital. The Company has explained that the use of retention growth and Mr. Rothschild's attempt to lower allowed ROEs in order to bring utility stock prices down to book value have been rejected by the Commission. Peoples MB, p. 48. An illustration of the errors of Mr. Rothschild's contorted method was explained by Mr. Moul. Mr. Rothschild estimates that the Barometer group will actually earn a return on equity of 9% but his DCF calculation produces an ROE of only 8.06% and 8.09%. Peoples St. No. 13-R, pp. 26-27 and OCA St. 3, p.11. It is unlikely that an ROE allowance of 8.06% will produce a 9% earned return because of rising costs. In contrast, Mr. Moul explained that the market actually expects DCF returns in the range from 9.91% to 10.24%. Peoples St. No. 13-R, p. 27. Because allowed ROEs in rate cases are only an opportunity to earn the allowed amount, it is rational for the allowed ROE to be higher than the expected ROE. Mr. Rothschild has it backwards, largely because he proposes to reduce utility share prices.

OCA also attacks the use of analyst's projections of growth rates in the DCF analysis by Peoples witness Moul and I&E witness Spadaccio, and the Commission's own use of analysts' projections in rate cases and in Quarterly Earnings Reports. OCA cites a study published in 2010 and claims that it shows analysts' projections are often overstated. OCA MB, p. 67. Mr. Moul noted a Wall Street journal study published in 2010 which showed that 64% of the companies had achieved higher growth rates than the analysts' forecasts predicted. More importantly than the actual results, investors rely on the analysts' projections of earnings to determine the price they will pay for stocks, thereby setting the dividend yield used in the DCF. The combination of the expected growth rate that the investors use to effectively set a dividend yield establishes the market

determined cost of equity. Therefore, the OCA cited study does not provide a basis to reject the use of analysts' projections to establish the DCF growth rate in the DCF model. To the contrary, investors rely on analysts projected growth rates to set stock prices. Peoples St. 13-RJ, p. 11.

Finally, OCA has cited its calculation of the $136 Million revenue difference in its position on ROE and the Company's filed claim for ROE. OCA MB p. 13. The problem with OCA's calculation is, in large part, that OCA's calculation is the result of its extremely low and unreasonable position that the ROE should be set at 8.02%, more than 200 basis points below the Commission's the DSIC ROE for natural gas distribution companies. The Commission has set the opportunity ROE in setting base rates for future application above the DSIC ROE multiple times. Peoples St. No.13-RJ, pp. 3-4. OCA's proposal to set the ROE more than 200 basis point below the DSIC ROE accounts for approximately $60 million of its differential. Further, the Non-Unanimous Settlement decreases the proposed revenue increase from $156 million to $93 million and this reduction in revenue reflects a substantial reduction in the proposed ROE. Increased recovery of equity return is a necessary part of the increased costs created by Peoples replacement of at-risk pipelines and other aging infrastructure.

2. Management Performance

OCA opposes the Company's request that its management performance be recognized by the Commission's selecting an ROE at the higher end of the cost of equity range and suggests 25 basis points be considered. In its Main Brief, OCA opposes such an adjustment contending that it would inject an unequitable cost burden on customers. OCA MB, p. 80. As explained in Peoples Main Brief, Section 523 of the Public Utility Code indicates that the "Commission should consider…the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title". The Commission has a duty to make this evaluation and balance any adjustment charged to customers with the evidence of service by the utility.

OCA also chastises Mr. Moul for quantifying the potential adjustment by noting that he does so in most of his cases. OCA MB, p. 80. It is the companies' that present their management performance, and they are effectively required to address their performance by Section 523 a. and may propose such an adjustment. Contrary to OCA's assertions, it is not Mr. Moul's responsibility to judge the validity of such a request.

When OCA gets to the matter of Peoples actual performance their contentions that the Company's service is inadequate are flawed. OCA contends that the notice to customers of increases in rates in this proceeding caused confusion for customers because it provided the proposed increases in rates to customers separately for PNG and PG division customers in the same notice. To be clear, review of the notice shows the increase to each class of customers separately for each division. *See* OCA Exhibit No. BA-6. There is no basis for confusion about the increases and no basis to contend that the notice does not comply with Commission regulations. Nonetheless, OCA contends that the Company should have sent separate notices by division because customers might not know which division served them. There are two problems with this contention. First, there is no evidence that a significant number of customers were confused. Second, the Company provided the notices to the divisions together so that the customers of each division were clearly advised that the Company proposed different increases for the classes of customers by division in order to unify the rates. Peoples St. No. 3-R, p. 36. To do otherwise, would have denied customers notice of the effects of the proposal to merge rates for each class of customer by division. This approach was necessary to fully advise customers. It is not poor service.

OCA also offers concerns about the alleged lack of customer service hours for customers to talk to a live representative. Peoples service representatives are available from 7 a.m. to 5 p.m. every weekday. Customers can contact the Company anytime on its website. Peoples also has

emergency numbers. There is no evidence that supports that such hours should be expanded, at a greater cost to customers.

OCA also contends that efficient and aggressive replacement of at-risk pipelines and ageing infrastructure should not be considered as positive management because the Company earns a return on investments. Efficiency is important in lowering ultimate costs and is specifically referenced in section 523 a. Peoples witness Becker demonstrated that Peoples is replacing pipelines at lower average cost per mile that other Pennsylvania NGDCs. Peoples St. No. 5-R, p. 4. In addition, Peoples' expediency in this area of service is reducing leaks and improving safety. Peoples St. No.1, p.19

OCA also argues that pension funding for employees has increased since Essential's acquisition of Peoples. OCA has not challenged the reasons for this increase, though it proposes to reduce it as abnormal, as addressed earlier in this brief. Peoples notes that the increased funding for Pensions started following the acquisition of the Company by Essential on March 16, 2020, and after Peoples last base rate increase, which did not include the higher pension costs. Peoples and its parent Essential have borne those increased costs for the benefit of employees and will do so until rates in this proceeding become effective.

OCA also raises concerns about some of the Company's practices and programs for low-income and payment troubled customers as reasons to reject a positive management performance adjustment. These contentions are addressed infra with the response to such issues to avoid duplication.

OCA seeks to write Section 523 out of the Public Utility Code. These efforts must be rejected.

IX. REVENUE ALLOCATION AND RATE DESIGN

A. INTRODUCTION

As explained in the Company's Main Brief, it provided two cost of service studies ("COSS") in this proceeding – a Peak & Average ("P&A") model and a Minimum System/Design Day COSS. The Company as filed revenue allocation was an average of these two models. Peoples St. No. 15, p. 39 lines 9-12. OCA presented a P&A methodology. OSBA supported a modified customer demand study. PII supported the Company's methodology with a different revenue allocation. *See* Company MB at 54.

The Commission has not mandated the use of a P&A methodology but has preferred it in certain cases. The Company disagrees with the P&A methodology because the gas distribution system is not designed to meet average demand but included a P&A model along with its Minimum System/Design Day model. However, the Company provided a P&A model and averaged it with its Minimum System model to determine its as-filed proposed revenue allocation.

B. COST OF SERVICE

OCA states in its Main Brief that the P&A methodology should be given greater weight than the other parties COSS because it has been preferred by the Commission. OCA MB at 89. As explained in the Company's Main Brief, the proposed revenue allocation under the Settlement gives considerable weight to the P&A methodology. Approximately 58% of the Settlement revenue allocation is based on the P&A methodology.

PARTY		**P&A WEIGHT**
OCA	100% P&A	33%
Company	50% CD / 50% P&A	17%
OSBA	50% OSBA / 25% CD / 25% P&A	8%
TOTAL		**58%**

See Peoples MB at 58; Settlement Paragraph 62.

The Settlement revenue allocation reflects a reasonable compromise of all parties' positions in this case, including OCA's position. It carefully considers the impacts of merging rates for the two divisions and should be approved.

1. The Minimum System Study Assigns Costs Based on the Way That the Distribution System is Designed.

OCA argues that the Company's minimum system/demand COSS should be given little weight in this proceeding due to the Commission's preference for the PPA methodology. OCA MB at 91-93.

The Company disagrees with OCA's arguments for the reasons explained in its Main Brief at pages 54-57. In sum, the gas distribution system is designed to hook up customers and to meet peak demand. It is not designed to meet average demand—that is a byproduct of the design, not how it is sized.

In addition, the Company did not rely exclusively on the minimum system COSS but averaged it with the P&A methodology. As also noted above, the Settlement revenue allocation provides significant weight to the P&A methodology.

2. Peoples Agreed To Assign Major Account Executive Costs to the Larger Classes.

OCA argues that the Company should agree to assign the costs for six major account executives to the larger classes. OCA MB at 93. As also explained by OCA, the Company agreed to this. OCA MB at 94. These costs were included in the Company's revenue allocation position that was included in the average for settlement purposes. See Peoples St. No. 15-R, p. 32 Table 6.

C. REVENUE ALLOCATION

OCA has provided its proposed revenue allocation at the Company's originally filed rate increase. It does not reflect the settlement revenue increase of $93 million. OCA MB at 94-98.

OCA bases its revenue allocation entirely on the P&A methodology. OCA's proposed cost of service is unreasonable and should not be accepted. As an initial matter, it would assign a 38% increase to MLS customers. The primary problem with this, in addition to rate shock, is that the rate MLS customers are all negotiated customers except for one customer. Therefore, the increase would shift to the LGS customers. In addition, it is unknown what impact this would have on customers in each division. The OCA also proposes significant increases to the SGS and MGS classes of 53% and 60%, respectively. The OCA's proposal is too extreme compared to the 29% increase that would be allocated to residential customers. OCA MB at 96.

OCA's alternative proposal is no better. It reduces the SGS and MGS increases to approximately 52% and essentially transfers those dollars to the LGS class. Again, the MLS allocation would also be shifted to LGS because the MLS customers are on negotiated rates.

The OCA's position is too extreme and does not reflect a compromise of the parties' positions. It should not be adopted as it will cause extreme rate impacts for larger customers.

Attached as Appendix A is a Table with references showing how the parties positions were averaged, and then adjusted as stated in Paragraph 62 of the Settlement, for the Settlement revenue allocation. The revenue allocation under the Settlement is a reasonable compromise of parties positions, and it should be accepted.

D. RATE DESIGN

OCA's argument regarding rate design revolves around the residential customer charge. OCA argues that its residential customer charge study supported a customer charge of $9.00. OCA

MB at 99. However, OCA proposed to retain the current PNGD customer charge of $14.50. OCA MB at 101.

OCA's customer cost study should not be accepted because it does not follow the Commission's current methodology for calculation of customer charges. I&E witness Cline stated as follows:

> **Q. DO YOU AGREE WITH MR. JOHNSON'S ARGUMENT THAT A CUSTOMER COST ANALYSIS SHOULD INCLUDE ONLY COSTS THAT CHANGE WITH THE ADDITION OR SUBTRACTION OF A SINGLE CUSTOMER?**
>
> A. No. While I&E has supported this methodology in past cases, the Commission specifically rejected this methodology in the disposition of the fully litigated UGI Utilities, Inc. – Electric Division's base rate (Docket No. R-2017-2640058, p. 174 (Order entered October 25, 2018). Because the direct customer cost analysis methodology was rejected by the Commission, I determined that the costs included in the Company's Peak and Average customer cost analysis were consistent with what was approved by the Commission in the 2017 UGI Electric base rate case.

I&E St. No. 3-SR, p. 26, lines 1-12.

I&E's residential customer charge analysis was relatively consistent with the Company's analysis – I&E $20 and the Company $21.50. Peoples St. No. 15-R, p. 38. OCA's extremely low customer cost analysis should not be accepted.

The Settlement, however, reflects a compromise residential customer charge of $16.80 per month, which reflects the rounded result of the mid-point between the Company's scaled back customer class of $19.05 and OCA's proposal $14.50. Settlement Paragraph 64. This results in a 15.9% increase in the customer charge for PNGD customers and a 6.7% increase in the customer charge for PGD customers (PGD residential delivery charges decrease by 21% under the Settlement.) *See* I&E Statement in Support of the Settlement, Appendix A.

OCA argues that the Company's as-filed customer charge should not be accepted because it undermines graduation, conservation and affordability. OCA MB at 102. Peoples disagrees with OCA's arguments regarding this issue as the customer charge is supported by both the Company's and I&E's cost study and that the customer charge is only a small component of the overall bill. Nonetheless, the customer charge in the Non-Unanimous Settlement reasonably addresses OCA's concerns.

OCA's arguments about customer charge gradualism should not be accepted. As even noted by the OCA, the Commission relied upon a "total bill impact" standard to determine the impacts of gradualism. OCA MB at 102. OCA then attempts to illustrate the impact of the customer charge on a customer with 3.2 Mcf of monthly usage. This is approximately ½ of the usage of an average customer. (3.2 Mcf x 12 = 38.4 Mcf; average annual usage is 80 Mcf.) OCA MB, pp. 102-103. OCA's analysis of the effects of the customer charge on customers' bills should not be considered.

Moreover, as explained by Ms. Scanlon, most of the Company's costs to provide service are fixed and do not vary with usage. Peoples St. No. 3-R, p. 24, lines 8-17. A lower customer charge is inconsistent with costs of service principles.

OCA further argues that a higher customer charge reduces incentives for energy conservation. OCA MB at 103. OCA has presented no studies to show that the difference in customer charges proposed by the Company and the customer charge proposed by the OCA will discourage conservation. This is a hypothetical argument with no substance, and it should not be accepted.

E. BILL IMPACTS

The bill impacts under the Settlement revenue allocation and rate design are set forth below.

Peoples Natural Gas Division			As-Filed		Settlement						
Rate Schedule	Average Annual Usage (Mcf)	Existing Tariff Rates 1/	Rate Change 2/	Percent Change	Rate Change 1/	Percent Change	Annual Bill Existing 1/	Annual Bill As-Filed 2/	Percent Change	Annual Bill Settlement 1/	Percent Change
RS	80	$8.7999	$1.3685	15.6%	$1.1059	12.6%	$ 874.84	$ 1,063.22	21.5%	$ 982.23	12.3%
SGS	250	$7.4214	$1.6545	22.3%	$1.0903	14.7%	$ 2,090.98	$ 2,552.60	22.1%	$ 2,375.56	13.6%
MGS	1,750	$7.1500	$0.9600	13.4%	$0.8273	11.6%	$ 13,513.79	$ 15,382.74	13.8%	$ 15,102.60	11.8%
LGS	75,000	$6.8386	($0.3570)	-5.2%	($0.2067)	-3.0%	$521,732.91	$496,916.00	-4.8%	$514,362.68	-1.4%

1/ Appendix C - Jt. Petition for Settlement
2/ Exhibit No. 11, Schedule No. 8

Peoples Gas Division			As-Filed		Settlement						
Rate Schedule	Average Annual Usage (Mcf)	Existing Tariff Rates 1/	Rate Change 2/	Percent Change	Rate Change 1/	Percent Change	Annual Bill Existing 1/	Annual Bill As-Filed 2/	Percent Change	Annual Bill Settlement 1/	Percent Change
RS	80	$10.3866	($0.0979)	-0.9%	($0.3604)	-3.5%	$ 1,004.34	$ 1,080.60	7.6%	$ 999.56	-0.5%
SGS	250	$8.7318	$0.4154	4.8%	($0.1488)	-1.7%	$ 2,568.34	$ 2,577.50	0.4%	$ 2,400.47	-6.5%
MGS	1,750	$8.5113	($0.3252)	-3.8%	($0.4579)	-5.4%	$ 15,720.54	$ 15,565.62	-1.0%	$ 15,285.42	-2.8%
LGS < 100,000 Mcf/yr	75,000	$7.4923	($0.9178)	-12.3%	($0.7674)	-10.2%	$578,442.29	$530,486.00	-8.3%	$521,547.39	-9.8%

1/ Appendix C - Jt. Petition for Settlement
2/ Exhibit No. 11, Schedule No. 8

The rates in the table above are from Appendix C to the Settlement and Exhibit 11 from the Company's filing. As demonstrated above, former PNGD residential customers receive an increase while former PGD customers receive a slight decrease due to the combination of rates. Residential customers also receive a lower percentage increase than small commercial customers taking service under Rate SGS.

F. SUMMARY

The proposed revenue allocation and rate design under the Non-Unanimous Settlement reflects a compromise of all parties' positions including OCA's position. It carefully balances rate impacts to the classes and to each division. Peoples respectfully requests that the proposed revenue allocation and rage design under the Settlement be adopted.

X. WNA

OCA's opposition to the WNA is unreasonable and its Main Brief is rife with errors of law and inaccurate statements. In this Reply Brief, the Company will respond to each error of law and

inaccurate statement in sections that correspond to the sections set forth in OCA's Main Brief. As an initial matter, nothing that OCA argues in its Main Brief is novel or does not apply to other WNAs that have been approved by the Commission in Pennsylvania.

OCA admits that temperatures are continuing to get warmer over time. OCA also recognizes that the Company has experienced substantial revenue loss in recent years, $42 million in the winter of 2023-2024, and yet argues that the WNA is not a just and reasonable rate mechanism. *See* OCA St. No. 4, p. 40, line 19; OCA MB at 110. This revenue loss is as compared to normal weather as set in the Company's last base rate proceeding. The Company is currently not able to recover these revenues that have been lost due to weather and will not be able to recover revenue that is lost due to weather in future years without a WNA.

The WNA is an alternative ratemaking mechanism that is authorized by statute and has been authorized by the Commission for most of the other NGDCs in Pennsylvania. WNA mechanisms have also been authorized for other NGDCs in the barometer group. Peoples St. No. 13, p. 9.

Given the significant warming trend that has occurred and continues to occur, the WNA is a necessary regulatory mechanism to allow the Company to simply recover the weather normalized revenues that are set in a base rate proceeding. The WNA is also more limited than other regulatory mechanisms which would provide the Company with additional revenue certainty, such as full revenue decoupling. Accordingly, the WNA does not remove all risk of reduced revenues.

Under the Settlement, the Company has agreed to numerous WNA protections for customers to address parties' concerns in this proceeding. These protections include:

- The Company will present the WNA charge or credit as a separate line item on customer bills.
- The WNA will include a 3% deadband.

- The WNA calculation will be performed on a bills rendered basis.

- The WNA adjustment for bills rendered in May will not exceed 100 percent of the billed distribution amount (delivery charge amount plus customer charge amount) for that same period.

- The Company will file a report annually with the Commission on or before September 1st for the 12-month period ending June of the same year. The filing will contain the following information on the WNA mechanism: a) monthly WNA billed revenue; b) monthly actual and normal HDD data; and c) number of customers and bill impacts by class (total amount of WNA adjustment as compared to total distribution amount) in billing periods where the NHDD/AHDD ratio exceeded 1.50.

Settlement, Paragraphs 70-74.

These protections have addressed both I&E's and OSBA's concerns about the WNA and should address OCA's concerns.

Given recent and historical warming trends, the WNA is a limited regulatory mechanism that is necessary for the Company to have a reasonable opportunity to earn the return that is set in this base rate proceeding.

A. DESCRIPTION OF THE WNA

The Company agrees with OCA that the WNA is an alternative ratemaking mechanism but strongly disagrees that it is not a "just and reasonable" rate. The WNA is a limited form of revenue decoupling. (Tr. 391-392) Under OCA's logic, a revenue decoupling mechanism is not a "just and reasonable" rate, which is clearly incorrect because revenue decoupling mechanisms are expressly authorized by statute. 66 Pa. C.S. § 1330. In addition, the Commission has authorized WNA mechanisms for UGI Utilities, Inc., ("UGI"), National Fuel Gas Distribution Corporation ("NFG"), Columbia Gas of Pennsylvania, Inc. ("Columbia") and Philadelphia Gas Works ("PGW"). Notably, PGW's WNA was recently modified in a litigated proceeding in which OCA argued that PGW's WNA should be suspended. *See Pa. PUC v. Philadelphia Gas Works (Tariff*

Supplement No. 152), Docket Nos. R-2022-3034229, *et al*. (Opinion and Order entered Sept. 21, 2023). The Commission denied OCA's argument to suspend PGW's WNA.

The WNA is a "just and reasonable" rate, as it is expressly authorized by statute and is necessary to mitigate weather-related revenue loss for the Company.

B. PEOPLES PROPOSED WNA IS A COST-OF-SERVICE BASED RATE

OCA argues that alternative ratemaking mechanisms should be rooted in the cost of service and goes on to suggest that the WNA is not a cost-of-service based rate. OCA MB at 110-111.

OCA's argument has multiple flaws. First, the WNA is a cost-of-service based rate because it is designed to allow the Company to recover the cost-of-service revenues that are set in this base rate proceeding, adjusting for both under and over recovery caused by weather. OCA admitted this at the hearing. Tr. 396, lines 11-14.

In its Main Brief, the OCA argues that the WNA attempts to increase revenues from a decreased cost of service. OCA MB at 111. This statement should be dismissed. OCA has presented no evidence whatsoever in this case that the Company's cost of service decreases when customers have less usage due to warmer-than-normal weather. In addition to being unsupported by evidence, the statement is incorrect. Peoples witness Scanlon explained that the Company "costs for providing service are primarily fixed and although they are recovered through volumetric changes, they do not vary with usage." Peoples St. No. 3, pp. 19-20. The Company will not over-recover its cost of service with the WNA; it is simply designed to get the Company back to the weather-normalized cost of service as set in this rate case. The Company further notes that by agreeing to the 3% deadband, it will not even recover its full cost of service under the WNA if weather is warmer than normal.

OCA also argues that the WNA makes it more difficult for a customer to estimate their bills because the WNA does not respond to changes in weather as a customer experiences those

changes. OCA MB at 111. This statement is incorrect – the WNA charge or credit applies in the same billing cycle as the customer experiences the weather changes. Peoples St. No. 3-R, p. 7, lines 7-9.

In the "cost of service' section of its Brief, OCA focuses on bill volatility and argues that if the Company seeks to reduce bill volatility, it should enroll customers in budget billing. OCA MB at 111-112. OCA continues to ignore the fact that while reduced bill volatility is a benefit of the WNA, it is not the purpose. The purpose is to allow the Company to recover its revenues that are lost due to ever-increasing warmer-than-normal weather. Without the WNA, the odds are stacked against the Company for even being able to recover its revenue as set in the base rate proceeding. *See* Peoples MB, pp. 60-61.

OCA focuses on customer need but completely ignores the need for the Company to have a reasonable opportunity to recover its authorized revenues. The WNA is a limited form of revenue decoupling that provides the Company with the opportunity to recover its weather-normalized cost of service revenues as set in this proceeding.

C. THE OCA HAS PRESENTED NO EVIDENCE THAT THE WNA WILL DISCOURAGE CUSTOMER CONSERVATION.

OCA argues that the WNA will discourage customer conservation because customers will be less able to control their ultimate bill. OCA MB at 112. Notably, the OCA has not provided any actual evidence that the WNA will discourage customer conservation. All of its arguments are hypothetical and not persuasive.

First, the WNA only applies to the weather-related portion of distribution charges. Variable distribution charges alone are generally about 50% of the bill. The customers will still see full savings for reduced usage related to commodity costs.[6]

Second, OCA argues that customers are entitled to see a dollar for dollar decrease in their bill when their usage decreases. OCA MB at 114. This statement simply is not true as to distribution charges – there are many different rate designs that are not volumetric. Also, the Company's costs to provide service do not decrease when customers use less gas due to warmer weather.

Third, the WNA is less impactful on customer bills than if the Company would propose to implement full revenue decoupling. As explained above, the WNA is a limited form of revenue decoupling and serves the intent of mitigating revenue-related weather impacts for both the Company and customers.

D. THE OCA'S OBJECTIONS TO THE WNA SHOULD BE DENIED.

Initially, OCA argues that the Company did not provide adequate notice of the WNA. OCA MB at 114. This argument is not correct. The Company separately noticed the WNA as an alternative ratemaking mechanism in its bill insert to customers in compliance with the ratemaking statute and the Commission's regulations. 66 Pa. C.S. § 1330(c), 52 Pa. Code § 53.45. The statute requires that utilities filing for approval of an alternative ratemaking mechanism notify customers of the filing of the application. 66 Pa. C.S. § 1330(c)(1). Peoples did this in its bill insert. All of the other statutory notices requirements apply after the Commission approves the WNA.

[6] OCA's calculations 84% of a customer's usage is affected by the WNA is incorrect. OCA MB at 113. The WNA only affects the distribution component of the bill, and the entire variable distribution charge is approximately 50% of the total bill. *See* People Exh. 14, at 3. The OCA included the GCA credit of $3.7904 per Mcf in its calculation which is not typical and expired on December 31, 2024.

OCA provides a list of items that the Company did not include in its notice. OCA MB at 114. None of these items are required by the statute or regulations and for good reason, the notice would be extremely long and cumbersome for customers to read. In addition, no notice could ever explain the specific impacts for all individual customers. That is why the Commission's regulations provide for a general notice and for customers to follow up with questions.

OCA also argues that the Company did not provide specific notice of how their bills would be impacted by the WNA. As noted above, customers are able to contact the Company to obtain this information. In addition, it is noted that the average bill impacts provided in the notice are based on normal weather. Because the WNA is designed to take revenues back to normal weather, customers' bills under the WNA will not be higher than what was noticed. Peoples St. No. 3, p. 15, Lines 18-19; Peoples St. No. 3-R, p. 37. In other words, the WNA will not collect more revenues than the weather normalized revenues that are noticed to customers.

OCA also argues that under Peoples proposal, a customer will not be able to calculate their bills using the information on the bill. OCA MB at 115-116. OCA argues that customers will not be able to compare their actual usage to billed usage and will not know the differential. Peoples has addressed this issue by agreeing to include the WNA as a separate line-item on the bill. This is the same methodology used by other NGDCs in Pennsylvania. *See* Exhibit No. CAS-1-RJ.

OCA then argues that it is not sufficient to include the WNA calculations in the tariff. OCA MB at 115. All rates and calculations are set forth in the tariffs. For example, a Company's DSIC rate has many components and they are not set forth on the bill—they are included in the tariff. *See* e.g., Settlement Appendix A, Tariff pages 81-83. Including all the specific components that make up a rate on the bill would not be feasible or practical.

Peoples has further agreed to make customers aware of the WNA and to educate them about the WNA. Peoples St. No. 3-RJ, p. 3. Peoples proposed WNA is not substantially different than the WNAs that have been approved for most of the other NGDCs in Pennsylvania, and Peoples customers will be able to understand the WNA.

E. THE WNA DOES NOT DISPROPORTIONATELY IMPACT LOW-INCOME CUSTOMERS

The WNA applies to all residential and small commercial customers alike. *See* Settlement Appendix A, Tariff page 79. It is not discriminatory based on income level or any other factor.

OCA argues that the WNA is flawed because it applies to CAP customers, and non-CAP customers who are subject to the WNA will also have to pay the WNA charges of CAP customers. OCA MR at 116. OCA's argument is flawed because this is no different than other charges that are reduced for CAP customers. They are paid by non-CAP customers. In addition, WNA credits will flow through the CAP rider.

In addition, there will be no double-recovery of WNA charges. If there is a warmer than normal month, the WNA charge will apply to all customers in order for the Company to be able to recover its normalized revenues, less 3%. To the extent that CAP customers do not actually pay for the WNA charge, the charges will flow through the universal services charge like all other charges avoided by CAP customers. The Company will not double-recover its revenues.

OCA argues that customers could see significant increases in their monthly bills due to the WNA. OCA MB at 117. The WNA is designed to simply levelize revenues back to a weather normalized level.

OCA also argues that the WNA will be more significant for low-income customers because they are less likely to utilize energy efficiency measures. OCA MB at 117. OCA makes generalized statements that low-income customers use more gas to heat the same space as higher-

income customers. Even if true, this is not a reason to disapprove the WNA. This argument applies to all usage, not just the WNA. In addition, in months that are colder than normal, low-income customers will see a decrease in their bills due to the WNA credit, and the credit will be larger than other customers, under OCA's argument. Low-income customers will benefit from the WNA in colder than normal months.

OCA also argues that low-income customers struggle to pay their bills on a monthly basis, and the Company only considered the impacts on an annual basis. OCA MB at 117. As noted above, the WNA will reduce bills in colder than normal months which will help customers. The Company also has several low-income customer assistance programs to assist customers with their bills and also provides budget billing to customers upon request.

F. THE WNA WILL NOT RESULT IN NET OVERCOLLECTIONS

In this section, OCA cites to the Company's study of over 26 million bills over a seven-year period which found that 0.07% of those bills would have resulted in a distribution charge that was over 100% of the distribution charge without the WNA. OCA MB at 118. The OCA argued that the average increase for that small number of instances was $82.27. OCA MB at 118.

The Company has addressed the issue under the Settlement. The Company explained in testimony that most of these instances occurred in May 2018. Peoples St. No. 15-R, pp. 20-21. The Settlement Parties agreed to cap bills rendered in May at no more than 100% of the billed distribution amount. Settlement, Paragraph 73. As explained by Mr. Zarumba, the anomaly that occurred in May occurred when HDD are lower than normal. Peoples St. No. 15-R, p. 20. When HDD was lower than normal, customers delivery charges should also be low, especially in the month of May. Therefore, capping the WNA charge at 100% in May is a reasonable way to avoid disparate impacts that may occur and have occurred for PGW.

G. PEOPLES HAS MET ITS BURDEN OF PROOF.

Peoples has clearly met its burden of proof in this proceeding to demonstrate that the WNA is a just and reasonable rate that is authorized by statute. Peoples is not simply relying on the other NGDCs approved WNA to meet its burden of proof.

First, the WNA is by default a just and reasonable rate because it is a limited form of revenue decoupling that is expressly authorized by statute. 66 Pa. C.S. § 1330. OCA's argument that the WNA is not a just and reasonable rate is contrary to statute.

Second, the Company has demonstrated that the WNA will levelize weather-related revenues back to the level that is set in this case. When weather is more than 3% colder than normal, customers will receive a credit on their bills. When weather is more than 3% warmer than normal, they will see a charge to get them closer to normal. OCA's primary argument against the WNA is that OCA believes that customers will be harmed because global weather continues to result in reduced usage. OCA MB, at 108. This does not negate the need for the WNA; it further supports the need because without the WNA, the odds are unfairly against the Company being able to recover its weather normalized revenues.

In order to address parties' concerns, the Company has agreed to several modifications to its WNA, including adopting a 3% deadband, including the WNA as a separate line-item on the bill and capping bills in May when PGW has experienced anomalies. These conditions offer customer protections and further support the reasonableness of the WNA.

OCA argues that the other WNAs were adopted in settlements and do not justify Peoples' WNA. Peoples has justified the WNA based on the facts presented in this proceeding. Further, OCA cannot deny that the WNA is authorized as a just and reasonable rate under the statute. Moreover, PGW's latest version of the WNA was not approved in a settlement but was approved in a litigated proceeding over OCA's objection. *See Pa. PUC v. Philadelphia Gas Works (Tariff*

Supplement No. 152), Docket Nos. R-2022-3034229, *et al*. (Opinion and Order entered Sept. 21, 2023).

OCA argues that the WNA has not been shown to substantially improve the financial viability of NGDCs. OCA MB at 122. Contrary to OCA's argument, the Company demonstrated that its revenue loss related to weather for 2023-2024 was $42 million. OCA St No. 4, p. 40, line 19. This represents nearly ½ of the settlement revenue income in this case and significantly impacts the Company's financial condition – revenue lost that the Company cannot recover. Moreover, the Company has demonstrated that investors expect NGDCs to have WNA mechanisms and the Company is at substantially more risk than its peers without a WNA. Peoples St. No. 13, p. 9.

H. THE WNA SHARES WEATHER-RELATED RISK BETWEEN THE COMPANY AND CUSTOMERS

OCA suggests that the WNA will provide customers with little benefit and will simply guarantee the Company a profit in the face of warming weather. OCA MB at 122-123. OCA's argument should not be accepted.

As explained herein, the WNA is not a one-sided rate mechanism—it operates both ways to credit customers when weather is more than 3% colder than normal and to charge customers when weather is more than 3% warmer than usual. OCA takes the position that the WNA will harm customers because, due to global warming, weather continues to get warmer. If OCA's argument is correct, the WNA is necessary in order to give the Company any reasonable opportunity to earn its return. OCA argues that utilities are only given an opportunity to earn their return. OCA MB at 123. However, without the WNA, the Company will not have a realistic opportunity.

OCA argues that not guaranteeing revenue recovery benefits customers because it incents public utilities to strive for maximum cost and operational efficiency.[7] OCA MB at 123. OCA ignores the fact that its own witnesses testified that utilities cannot control weather-related revenue loss and that the operational efficiencies referred to are independent of weather-related revenue loss. Tr. 390.

OCA argues that the Company does not need a WNA because it can simply set the normal HDD at any level that it wants to mitigate weather losses. OCA MB at 123. This argument is absurd on its face as the regulatory parties and the Commission would certainly not allow such an approach.

OCA argues that Peoples already has other ratemaking mechanisms which reduce regulatory risk. OCA MB at 124. None of the mechanisms account for weather-related revenue loss, which can be quite significant. In addition, without the WNA, Peoples is at substantially more risk than other NGDCs in Pennsylvania and the barometer group used as a basis to set the Company's allowed return on equity.

OCA argues that the Company has and demonstrated that it needs the WNA to maintain an overall level of just and reasonable rates. OCA MB at 124. To the contrary, Peoples has demonstrated that the WNA is necessary for it to have a reasonable opportunity to recover the rates that are set in the proceeding.

OCA argues that if the Company needs additional rate relief due to weather related revenue loss, it can simply file another rate case. OCA MB at 124-125. Filing another rate case will not allow the Company to recover revenue that has been lost in the past due to weather.

[7] OCA mentions regulatory lag in its Brief despite agreeing in the case that the WNA is unrelated to regulatory lag. Tr. 395. If the WNA is not approved, it will result in regulatory revenue loss, not regulatory lag.

OCA's arguments against the WNA are filled with inaccuracies and unsupported by statute or regulation. The WNA is a just and reasonable rate, authorized by statute and necessary for the Company to be able to mitigate weather-related revenue loss.

XI. LOW-INCOME CUSTOMER ISSUES

As a general matter, and as more fully explained in the Company's Main Brief, Peoples submits that this base rate proceeding is the inappropriate vehicle to address and litigate issues related to universal service and low-income customer issues. There is a formal process by which Peoples files – and parties review – its Universal Service and Energy Conservation Plan ("USECP"). Thus, to the extent that the OCA argues that "Peoples must make several adjustments to its treatment of low-income customers…"[8] those issues are "better reviewed in a universal service stakeholder process."[9] This proceeding is outside the bounds of that process. However, to the extent that the Commission deems this base rate proceeding as the appropriate vehicle to address low-income customer and USECP related issues, the OCA's arguments related to the same should be rejected as explained below and more fully in the Company's Main Brief.

A. THE OCA'S RECOMMENDATION FOR PEOPLES TO PERFORM A ROOT CAUSE ANALYSIS ON ALLEGEDLY DISPROPORTIONATE DISCONNECTIONS OF BLACK HOUSEHOLDS SHOULD BE REJECTED.

As explained in its testimony and Main Brief, Peoples submits that OCA witness Mr. Colton's recommendation that Peoples perform a root cause analysis "to determine why there are a disproportionate number of terminations for nonpayment in the portions of the Company's service territory with the highest proportions of Black householders" is unnecessary and should be

[8] *See* OCA MB, p. 126.
[9] *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-2021-3027385, *et al.* (Order entered May 16, 2022), at 331 ("*Aqua 2022*").

rejected.[10] While the OCA continues to argue that there is no "specific data which would explain"[11] the allegedly disproportionate number of disconnections for the 40 zip codes in Peoples' service territory that contain the greatest proportion of Black householders, Peoples has fully explained that:

> Collections activities, including termination, are strictly arrears based. Mr. Colton noted he did not see any intention that the Company initiates termination of service in a discriminatory manner and Mr. Colton is indeed correct. The Company does not disconnect service based on demographics and does not discriminate.[12]

As to Mr. Colton's specific concerns, Peoples has explained that its termination process is "color-blind."[13] The OCA does not dispute this fact in its testimony, nor in its Main Brief. The reason for this is simple – it cannot. Peoples' collections process is completely automated and identifies accounts with "arrears that have reached a threshold for potential disconnection of service. Any account that exceeds the threshold would first receive a notice of disconnection that provides not only the amount of arrears, but also offers information to the customer about contacting the Company to discuss payment arrangements, provide a medical certificate and to contact the Pennsylvania Public Utility Commission."[14] This process does not consider demographical information about the race of a particular customer(s), or the zip code in which particular customer resides. Rather, it is purely based off of the amount of arrearages in determining which customers are subject to service termination. Further study on the same is unnecessary, and the OCA cannot point to any indicia of intentional discrimination on the part of Peoples, because there is none. Therefore, the OCA's recommendation on this point should be rejected.

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[10] *See* OCA MB, p. 128.
[11] *Id.*
[12] Peoples St. No. 16-R, p. 9; Peoples MB, p. 79.
[13] Peoples St. No. 16-RJ, p. 3; Peoples MB, pp. 79-80
[14] Peoples St. No. 16-RJ, p. 3.

B. COUNTING OF LOW-INCOME CUSTOMERS.

Peoples submits that this issue, as identified by OCA witness Colton, is fully addressed by the Company's stipulation as between PWPTF and CAUSE-PA from a practical perspective. Moreover, as explained in the Company's Main Brief and in testimony, the Company agreed that the Company would "modify [its] reporting for confirmed low income for 2024 activity to include self-attestation data in the Universal Service Report."[15] The Company further agreed to provide a revised report to its 2023 Universal Service Report ("USR") to the Commission's Bureau of Consumer Services ("BCS"). Thus, to the extent that the OCA continues to argue that Peoples' methodology of confirming low-income customers within its service territory is incorrect, such position is meritless and has been wholly addressed by Peoples throughout this proceeding, as memorialized in the aforementioned Stipulation between Peoples, CAUSE-PA, and PWPTF, and as more fully addressed in the Company's Main Brief.[16]

C. PERSONAL CONTACT PRIOR TO DISCONNECTION.

In its Main Brief, the OCA continues to recommend that the Commission require Peoples to make additional personal contact with customers subject to service termination procedures in order to inform said customers that they could be eligible for the Company's Customer Assistance Program ("CAP").[17] As more fully explained in the Company's Main Brief, this recommendation is unnecessary and redundant.[18] In Rebuttal Testimony, Company witness Ms. Black explained that Peoples already pursues personal contact with its customers that are subject to termination, as well as provides stand-alone CAP notices – as the OCA recommends – to those same customers.[19] Peoples can and does encourage enrollment in its CAP for customers facing service termination.

[15] Peoples St. No. 9-R, p. 6; Peoples MB, p. 80.
[16] Peoples MB,
[17] OCA MB, pp. 131-132.
[18] Peoples MB, pp. 69-76.
[19] Peoples St. No. 9-R, p. 11; Peoples MB, p. 82.

However, Peoples cannot force its potentially CAP eligible customers to enroll in CAP as a result of that encouragement.

Ms. Black explained that:

> All of us operating in the utility space, from utility employees to regulators to low income advocates and social service agencies understand that while CAP and LIHEAP are incredible resources for household stabilization and affordability, far too many eligible customers do not participate. There are many reasons why eligible households do not take advantage of resources that would be beneficial, and this challenge is not limited to utility assistance programs broadly, or Peoples in particular. It is my belief that the Commission initiated the CEOP requirement in order to take steps to address this long-standing problem across all utility CAPs.[20]

Furthermore, as noted in the Company's Main Brief, Ms. Black explained that "at any point in the collections process the customer shows interest in applying for CAP and begins the application, a hold is placed on termination to allow time for the customer to complete the enrollment process."[21] The OCA's continued recommendations on this point ignore the Company's clear procedure with respect to CAP referrals and personal contact prior to termination and should be rejected, as more fully explained in Peoples' Main Brief.

The OCA also argues that Peoples' proposed 25-basis point adder to its claimed cost of equity on the basis of exceptional management performance should be rejected for several reasons, among them being Peoples' procedures with respect to personal contact prior to termination of service.[22] The OCA's position on Peoples' procedures with respect to personal contact prior to termination are meritless and are not grounds for the denial of Peoples' proffered management performance adder in this proceeding. As explained above and in Section XII(E) of the Company's Main Brief, the Company has fully explained its compliance with the Commission's regulations

[20] Peoples St. No. 9-R, pp. 10-11
[21] Peoples St. No. 9-R, p. 11.
[22] OCA MB, pp. 84.

governing personal contact prior to the termination of a customer's service.[23] Even so, the Company accepted the OCA's recommendation to add explicit language to its training materials to specifically note the requirement to attempt personal contact immediately prior to actual termination of service.[24] The OCA has failed to demonstrate how Peoples is not in compliance with the Commission's regulations in this respect, and Peoples has made commitments to update its training materials to conform to the OCA's recommendations. As such, this is not a proper basis to deny the Company's proposed 25-basis point management performance adder.

D. THE OCA'S RECOMMENDATION REGARDING PEOPLES REFERRING CUSTOMERS TO CAP AT THE TIME OF REQUESTING A SECURITY DEPOSIT SHOULD BE REJECTED.

In its Main Brief and throughout its testimony, the OCA argues that Peoples should provide information regarding CAP – and that customers who are income-eligible for CAP are exempt from cash security deposits – at the time that a security deposit is requested by the Company.[25] Peoples submits that this recommendation should be rejected, for the reasons more fully explained in its Main Brief.[26] More specifically, Peoples does not "charge a deposit when [a] customer reports low income and customers are educated about CAP upon reporting low-income."[27] Requiring the provision of another written CAP notice to those same customers would be unnecessary and redundant. Peoples cannot force its customers to enroll in CAP, nor can Peoples force its customers to be responsive to existing or expanded outreach related to the same. As such, Peoples submits that this recommendation is redundant and should be denied.

[23] Peoples St. no. 4R, p. 12.
[24] Peoples MB, p. 94.
[25] OCA MB, pp. 132-133.
[26] *See* Peoples MB, pp. 83-85.
[27] Peoples St. No. 16-R, p. 5.

E. THE OCA'S RECOMMENDATION FOR PEOPLES TO CONSIDER PAYMENT ARRANGEMENT AFFORDABILITY PRIOR TO OFFERING A PAYMENT ARRANGEMENT IS MERITLESS.

Through its Main Brief, the OCA continues to argue that the Company be required to provide a stand-alone written Plain language notice to customers prior to entering the customer into a Deferred Payment Agreement ("DPA") with the customer. The Company addressed this in its Main Brief and will not do so again in full here.[28] That being said, in response to this recommendation by OCA witness Colton,[29] Peoples' witness Rita Black fully explained the Company's processes and procedures related to the same, noting that:

> All customers presenting with income at or below 150% FPL are offered CAP when payment arrangements are discussed. Peoples' call center staff are well versed in the benefits of CAP and encourage customers to enroll in CAP rather than establishing a deferred payment plan. For some customers facing arrearages, the prospect of making a verbal payment arrangement in a few moments to stop termination is seen as easier than applying for CAP as CAP requires proof of income. I do not share Mr. Colton's opinion that another notice, mailed to the customer following the creation of their deferred payment arrangement, will increase motivation to apply for CAP. I do, however, see value in incorporating a plain language CAP notice into the cold weather survey packet and will include this topic in the April USAG in order to ensure that any changes necessary to the cold weather survey packet, prior to the 2024 fall heating season, can be completed in a timely manner.[30]

Thus, the record is clear: Peoples offers its customers information related to the Company's CAP when DPAs are discussed with the customer. The OCA's recommendation on this point is wholly redundant and should be rejected. Moreover, as explained by Ms. Black and through the Company's Main Brief, the Company is agreeable to providing a CAP notice to customers in its cold weather survey packet, as recommended by the OCA.

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[28] *See* Peoples MB, pp. 83-85.
[29] *See* OCA St. no. 6, p. 31.
[30] Peoples St. No. 9-R, p. 12.

F. THE OCA'S RECOMMENDATIONS RELATED TO THE EXPANDED USE OF SPEECH ANALYTICS IS MERITLESS AND SHOULD BE REJECTED.

Peoples fully responded to the OCA's recommendations regarding the expanded use of speech analytics in its Main Brief and will not delineate the same here in full.[31] That being said, the OCA argues that "Peoples could likely, with little difficulty, modify Verint to signal when a customer call uses terms which indicate the customer may be payment troubled, such as during a personal contact with a customer for termination for non-payment, establishing a payment arrangement, or similar types of customer contacts."[32] In contrast, Peoples rebutted this recommendation in its testimony in this proceeding. Indeed, Ms. Black explained that adapting its Verint system as recommended by the OCA "would take considerable dedicated time, effort and expense to begin using the software for this purpose."[33]

In making this recommendation, the OCA attempts to sidestep its burden of proof with respect to a Verint issue not included in Peoples' general rate case filing.[34] Indeed, a party that raises an issue that is not included in a public utility's general rate case filing bears the burden of proof.[35] While the OCA contends that Peoples concerns with respect to "dedicated time, effort and expense" to begin using the Verint software as recommended by the OCA are "not supported by any data," the OCA's recommendations should be considered the same. Indeed, OCA witness Colton did not present any cost or time estimates with respect to adapting the use of Verint to square with his recommendations. The OCA bears the burden of proof with respect to this

[31] *See* Peoples MB, pp. 85-87.
[32] OCA MB, p. 135.
[33] Peoples St. No. 16-RJ, p. 4.
[34] *See* Peoples MB, p. 7.
[35] *See Pa. PUC v. Metropolitan Edison Company, et al*., Docket Nos. R-00061366, et al., 2007 Pa. PUC LEXIS 5 (Order entered Jan.11, 2007)

recommendation and has failed to carry that burden. Thus, and as more fully explained in the Company's Main Brief, the OCA's recommendations on this point should be rejected.

XII. CUSTOMER/QUALITY OF SERVICE ISSUES

A. NON-BASIC SERVICES

In its Main Brief, OCA continues to argue that the Commission should undertake an investigation into Peoples' non-basic billing practices. However, the OCA provides no concrete evidence as to why the Commission should undertake this investigation. Peoples has responded to many of the OCA's unsubstantiated claims in its Main Brief pages 89-90, but will now respond to OCA's adequacy and reasonable service claims as they relate to Peoples' non-basic billing practices. The Company's response will demonstrate that OCA's arguments are unsupported and should be rejected. OCA argues that the Company's practices are not "consumer-friendly" or "adequate or reasonable" under the Public Utility Code. OCA MB, p. 139. To support its argument, OCA states that "customer confusion is likely to arise…" ,"the likelihood of confusion is increased" and "may be misleading" but provides no actual example(s) of customer confusion. *Id.* In fact, none of OCA's arguments include examples of any customer service issues with respect to Peoples' non-basic billing practices and as a result, OCA's arguments are speculative and should be rejected.

OCA argues that Peoples should not include non-basic services in any payment arrangements with customers. OCA MB, p. 139. Again, OCA has offered no evidence to support that the Company is violating any Commission regulation or policy concerning customer payment arrangements. In contradiction to this argument, in their Main Brief at page 138, OCA even admits that "evidence has not come to light which indicates that Peoples terminates customers for non-payment of these non-basic charges." OCA's unsubstantiated claim should be rejected.

Lastly, OCA infers that because the Company's claimed revenues from third parties were "extremely low" that perhaps there is an issue with ratepayers subsidizing activities of unregulated third-parties. OCA MB, p. 139-140. This is simply untrue and unfounded. At no point did OCA offer any evidence or support for their claim that ratepayers are subsidizing any of the non-basic billing services provided by the Company. Instead, the Company was able to show that during the Company's most recent management audit, there were no findings related to non-basic chargers. Peoples St. 2-R, p. 58. OCA ignored this relevant fact and provided no persuasive evidence of inadequate or unreasonable service issues with respect to Peoples non-basic billing practices. As such, OCA's arguments should be rejected.

B. OPERATIONAL ISSUES / QUALITY OF SERVICE CONCERNS

1. CALL CENTER HOURS

In its Main Brief, the OCA recommends that the Company conduct an evaluation on whether it should expand its call center hours. OCA M.B. p. 140. Peoples has already responded to the OCA's recommendation in its Main Brief at page 94. The OCA's Main Brief still puts forth no evidence that the Company provides inadequate service due to its call center hours and therefore OCA's recommendation should be denied.

In its Main Brief, OCA states that "the adequacy of Peoples' service is limited by the ability of its customers to reach the Company outside of business hours." OCA M.B. pp. 140-141. This is simply unfounded and not true. The Company acknowledges that one customer out if its entire customer base of more than 700,000 noted that it would be easier if the Company call center was open until seven o'clock at night. (Public Input Hearing Tr. p. 226). As the Company noted in its surrebuttal testimony and reiterated in its Main Brief, the Company had and has had many points of contact with that particular customer over the past several months. Peoples M.B. p. 94. This shows that the customer was able to obtain assistance from the Company to address his concerns.

Therefore, there is no evidence that the Company is failing to meet its obligations to provide adequate service. OCA's recommendation is unnecessary.

2. COMPLAINT ANALYSIS

In its Main Brief, OCA contends that Peoples does not adequately investigate its non-compliance with Commission regulations when handling consumer complaints. OCA M.B. p. 141. OCA goes on to state that the Company does not conduct proper root cause analyses. OCA MB p. 142. The Company's Main Brief at pages 94-95 which cites proffered testimony on this matter, explains that the Company has a well-established root cause analysis with respect to analyzing complaints. Peoples MB p. 94.

With respect to this subject matter, OCA's Main Brief recommends that the Company conduct regular root cause analyses at intervals established by internal benchmarks, such as every three months or every five infractions, and commit to reducing infraction numbers to at or below 2022 levels. OCA MB p. 143. The Company has already provided evidence that it conducts regular root cause analyses and stated that that "it is the expectation for every member of the Compliance team that they determine the root cause of the customer's complaint as part of their process in responding to BCS." Peoples St. 9-R, p. 25. Therefore, since the Company is already performing this analysis and doing so at not just every five infractions, but with every single complaint that comes in, this recommendation is unnecessary.

3. TERMINATION PROCEDURES

In its Main Brief, Peoples reiterates its position that it is following Commission regulations governing personal contact with respect to termination of service. Peoples MB p. 95. However, the Company acknowledges that it can improve its communication process with respect to termination of service. *Id*. In its Main Brief, the Company accepted the OCA's recommendation to add explicit language to its training materials to specifically note the requirement to attempt

personal contact immediately prior to actual termination of service. *Id.* The Company agrees to add express language to its training documentation concerning personal contact attempts within 90 days of a final Commission Order in this proceeding. *Id.*

4. LANDLORD TENANT PREMISES

OCA's Main Brief recommends certain changes to the Company's policies and disclosures regarding tenants' rights. OCA M.B. p. 145. As the Company's Main Brief illustrates, Peoples is aligned with OCA on most of its recommendations. Peoples MB pp 95-96. The only OCA recommendation to which the Company cannot agree pertains to protection from abuse orders ("PFAs"). As the Company sets forth in its Main Brief, the OCA's recommendation that the Company should accept PFAs from tenants should be denied. Peoples M.B. p. 96.

OCA's recommendation regarding PFAs is unnecessary in the context of providing tenant protections from their landlord, since a tenant is not obligated to pay a utility bill in the name of their landlord. *Id.* PFAs protect the victim of domestic abuse from bills accrued by their abuser and provide other protections, such as an additional notice prior to termination. Peoples, St. 16-R, p. 8. In the context of tenant rights, it does not make sense for the Company to accept a PFA from a tenant because the protection would go to the landlord, not the tenant. Peoples St. 16-R, p. 12. For the reasons outlined above, the OCA's recommendation with respect to PFAs and tenants, should be denied.

5. SUPPLIER CHARGES IN EXCESS OF DEFAULT SERVICE

In its Main Brief, OCA recommends that the Company should expand its education efforts to better inform consumers about supplier charges. As the Company articulated in its Main Brief, the Company does educate customers with respect to their shopping options and prices and already explicitly states the price to compare on customer bills. Peoples MB pp. 96-97.

OCA's recommendation on this matter suggests that it is the Company's burden to make sure that customers are aware that if they shop they there is "the potential for increased bills". OCA MB p 146. OCA offers no evidence to suggest that the Company has any control over any particular customer's ability to shop. Further, OCA fails to recognize that the Company is not a natural gas supplier ("NGS") and is not a party to any particular customer's contract with an NGS. Rather, the record shows that the Company is in full compliance with its obligations to provide current prices to compare to its customers and has provided evidence in this case to show that it already provides customers with the price to compare on their bills. Peoples MB p. 97. Therefore, because the Company already meets its obligations with respect to shopping customer education and pricing information, the OCA's recommendations are unnecessary.

XIII. ALLEGHENY VALLEY CONNECTOR (AVC)

The OCA did not address this Section in its Main Brief.

XIV. DISCOUNT RATES

A. ELECTRICITY AS A COMPETITIVE OPTION

OCA's Main Brief asserts that the Company should not be allowed to include electricity as a competitive alternative as the Company's proposal is "unjustified and unwarranted". OCA M.B. pp. 147-15). For the following reasons, OCA's arguments are not persuasive, and the Company's proposal should be accepted.

First, the Company notes that OCA did not contest any of the other revisions to the Company's Tariff Section 20[36], entitled SERVICE AGREEMENT & FLEXIBLE RATES *See* Peoples Ex. 14, Appendix D, Tariff Page 38, Section 20; *See* Company St. 7, p. 8. Therefore, the

[36] The Company requested language which would allow the Company to offer competitive flex rates to existing customers who wish to utilize new natural gas technologies such as fuel cells, gas heat pumps and cooling and CHP projects. No party contested this addition to the Company's tariff proposal. See Ex. 14, Appendix D, Tariff Page 33, Section 20; See also, Company Direct Ravenstahl, St. 7, page 8.

Company respectfully requests that the Commission approve the Company's proposed revisions to Tariff Section 20 as a whole; but in the alternative, if the Commission does not agree to expand electricity as a competitive alternative to natural gas (to situations other than when the electric distribution company offers a flexed rate), the Company requests that the Commission simply retain the existing language in the Company's currently effective tariff that states the following: "Electricity delivered by an electric distribution company shall not constitute a competitive alternative for purposes of natural gas flex rate eligibility or amount, unless the electric distribution company offers an electric flexed distribution rate to the customer." Peoples Ex. 14, Appendix A, Tariff Page 38, Section 20. The remaining proposed tariff language in this section should remain as proposed.

Second, OCA's policy arguments against allowing electricity to be deemed a competitive alternative assert that the Company's proposal could result in unreasonable cross-subsidization, price wars, inequitable impact and discrimination. In its Main Brief, the Company addressed OCA's arguments concerning inequity and discrimination Peoples MB, pp. 97-99 and therefore the Company will not repeat those arguments herein. The Company will respond to OCA's arguments concerning cross-subsidization and price wars, as follows.

OCA's Main Brief erroneously claims the Company's proposal would shift the cost burden to captive customers who cannot receive a competitive rate, and result in harm to those captive customers as they would be unreasonably subsidizing costs to commercial and industrial customers. OCA M.B. pp. 149-150. This is simply not true. As the Company explained in its direct testimony, the Company has a legal duty to maintain just and reasonable rates. Peoples St. 7, p. 3. Actually, for the competitive customers on the Company's system, the incremental cost to serve these customers is less than the discounted revenue received from those contracts, so

everyone benefits from having these customers on the Company's system. Peoples St. 7, p. 3. Moreover, the Company continually seeks to maximize the revenues it receives from its discounted customers – and discounted customers, while they may not pay full tariffed rates, generate millions of dollars in annual revenue for the Company, thereby contributing to the Company's overall fixed costs. Peoples St. 7, p. 3. The Company notes that if competitive customers left the Company's system, the Company's non-discounted customer rates would increase to offset the lost revenue. Peoples St. 7, p. 3. Said another way, the 17 discounted customers on the Company's system offset the Company's fixed costs so that non-discounted customers actually pay less. Peoples St. 7, p. 3. For these reasons, the OCA's argument about cross-subsidization is unfounded and should be rejected. Further, OCA did not put forth any evidence of these concerns occurred when the Company had such authority for many years prior to this change made it the last base rate case proceeding.

Lastly, on the subject of price wars or price competition, OCA cites the Commission's Gas-on-Gas Competition Investigation and notes that the Company's proposal is meant to "undercut the electric utility's full cost tariff." OCA M.B. pp. 150-151. The OCA's price competition arguments are without merit and should be rejected. As the Company explained in testimony, there are many justifications for expanding the use of electricity as a competitive alternative to gas, none of which is to undercut the electric utility or incite a price war. Peoples St. 7, p. 5; Peoples St. 7-R, pp. 8-9; Peoples St. 7-RJ, pp. 2-4. In fact it is worth mentioning that prior to offering a discounted rate to ANY customer, the Company engages in an extensive analysis which includes verification of the competitive alternative and a fixed cost analysis. Peoples St. 7, p. 2. The competitive rate is directly and exclusively tied to the cost of the customer's alternative service Peoples St. 7, p. 3. Moreover, as mentioned above, for every one of the Company's currently

discounted customers, the cost to serve these customers is less than the revenue brought in from the discounted rates. Peoples St. 7, p. 3. Should the Company's proposal be accepted, it will continue to use the analysis and justification that the Company agreed to perform in its prior rate case at Docket No. R-2018-3006818. Peoples St. 7, p. 4. And rather than creating the price competition that OCA suggests, the Company's proposal is actually meant to provide access to energy choice or to make available equal and non-discriminatory access to natural gas for new or existing customers looking to expand or replace equipment. Peoples St. 7-RJ, p. 3-4. Lastly, the Company maintains that in order to eliminate any potential for a price war, it would be amenable to limiting its use of electricity as a competitive alternative as being for only new applicants or for existing customers with new load. Peoples St. 7-RJ, p. 4. For these reasons, the Company's proposal should be adopted, or modified as for applicability to only new load.

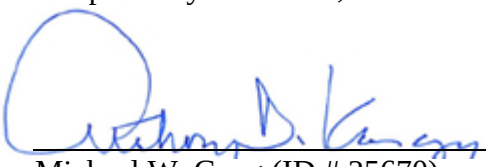
XV. MISCELLANEOUS/OTHER ISSUES

The OCA did not address this Section in its Brief.

XVI. CONCLUSION

The Non-Unanimous Settlement and Stipulations are the result of a detailed examination of Peoples' and the other parties' proposals, multiple rounds of discovery, direct, rebuttal, surrebuttal, and rejoinder testimony on a wide variety of issues, and compromise by the Settlement Parties to the Non-Unanimous Settlement, as well as the signatories to the Stipulations. Peoples believes that fair and reasonable compromises have been achieved on the issues agreed to in the Non-Unanimous Settlement and Stipulations. Peoples further submits that the ALJ and Commission reject the OCA's positions on the various litigated issues, as delineated in detail in this Reply Brief. Peoples fully supports the Non-Unanimous Settlement and Stipulations and respectfully requests that the ALJ and the Commission review and approve the Non-Unanimous Settlement and Stipulations in their entirety without modification.

Respectfully submitted,



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Date: June 13, 2024

APPENDIX A

Summary of Revenue Allocation

	Current Revenues	OCA/I&E	OSBA	Peoples	Average Increase @ Proposed Rev. Req	Scaleback %	Scaleback Revenue Allocation	Present Rate Revenue Adjustment Net of Increase Rounding	Gathering and Other Rev Adjustment	Reduce PNG Division SGS From 1.74 to 1.59 Syst. Avg., Increase PNG Division MGS From 1.47 to 1.58 Syst Avg.	Final Revenue Allocation	Proposed Revenues
					5 = Average of 2, 3							
	1	2	3	4	& 4	6 = See below	7=5 x 6	8	9	10	11 = 7 + 8 + 9 +10	12=1+10
Residential	$347,866,631	$102,394,761	$133,933,757	$134,524,670	$123,617,729	-35.13%	$80,195,804				$80,195,804	$428,062,434
SGS	$43,991,391	$23,302,329	$18,966,613	$19,710,778	$20,659,907	-35.13%	$13,402,914			($1,395,643)	$12,007,271	$55,998,662
MGS	$57,024,004	$34,394,676	$14,690,768	$17,579,272	$22,221,572	-35.13%	$14,416,029			$1,395,643	$15,811,673	$72,835,677
LGS & Mainline*	$51,324,016	$3,968,267	$310,588	$1,922,909	$2,067,255	-35.13%	$1,341,112		$276,240		$1,617,352	$52,941,367
LGS ML	$6,996,935	$9,677,596	$5,837,925	$0	$5,171,840	-35.13%	$3,355,181	($2,000,000)	$691,095		$2,046,276	$9,043,211
Total	$507,202,976	$173,737,629	$173,739,651	$173,737,629	$173,738,303		$112,711,040		$967,335	$0	$111,678,375	$618,881,351
							See Below					
Gathering Revenue	$ 6,995,675										$ 1,776,082	$8,771,757
Other Revenue	$ 7,203,951										$ 565,000	$7,768,951
Rounding	$ 1										$ 369	$370
Change in Riders (DSIC, STAS, etc.)	$ (3,514,545)										$ (21,019,826)	($24,534,371)
Net Rate Increase	$ 517,888,058						$ 112,711,040		$ 967,335	$ -	$93,000,000	$610,888,058

Scaleback		($0)
Base Rate Revenue Increase - As Filed	$173,737,629	
Adjusted Base Rate Revenue Requirement	$112,710,603	
% Change to Revenue Requirement	-35.13%	

*Present rate revenue includes a $2.3M increase pursuant to the Present Rate Revenue Stipulation.

Sources of Base Rate values in Columns

Col 1:
Col 2: Exhibit CJ-2 in Johnson's direct testimony. Page 27-28 of Cline (I&E) surrebuttal recomends using OCA allocation. It appears that OCA accepted the minor adjustments/refinements in Peoples rebuttal testimony but did not incorporate them into updated revenue allocation values in rebuttal. However, it should be noted that these adjustments were relatively small.
Col 3: IEC WPS2 Rev Alloc Rate Design Surrrebutal, "RevAlloc Comp" tab, row 30, OSBA St. No. 1S, p. 11 (excluding surcharges.
Col 4: RNZ-R-4_Rebuttal Base Rate Design (electonic excel file). See cells G17:G21 less cells C19:C21 in the "Rebuttal Rev Change Summary" tab. The MinSys/Design Day and Demand/Peak&Avg values shown in that tab are from the COS Models in RNZ-R-2. See row 30 in the "COS Summary" tab in RNZ-R-2A (Min System COS model) excel file and RNZ-R-2B(Peak & Avg COS model); Peoples St. No. 15-R, p. 35.