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July 30, 2024

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, Filing Room
Harrisburg, PA 17120

RE: Pa. PUC v. Peoples Natural Gas Company LLC. Docket No. R-2023-3044549

Dear Secretary Chiavetta:

Attached please find for filing with the Pennsylvania Public Utility Commission the Reply Exceptions of Peoples Industrial Intervenors ("PII") in the above-referenced proceeding.

As evidenced by the attached Certificate of Service, all parties to the proceeding are being duly served with a copy of this document.

Sincerely,

A handwritten signature in black ink, appearing to read 'Adeolu A. Bakare', written over a white background.

Adeolu A. Bakare
MCNEES WALLACE & NURICK LLC

c: Administrative Law Judge Mary D. Long
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

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Dated this 30th day of July, 2024, at Harrisburg, Pennsylvania

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	Docket Nos.	R-2023-3044549
Bureau of Investigation and Enforcement	:		C-2024-3045268
Office of Small Business Advocate	:		C-2024-3045385
Pennsylvania Independent Oil and Gas	:		C-2024-3045960
Association	:		C-2024-3046069
	:		C-2024-3046469
v.	:		C-2024-3046877
	:		C-2024-3046888
Peoples Natural Gas Company LLC	:		C-2024-3046915

**REPLY EXCEPTIONS OF THE
PEOPLES INDUSTRIAL INTERVENORS**

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Dated: July 30, 2024

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I. INTRODUCTION

On December 29, 2023, the Peoples Natural Gas Company LLC ("Peoples" or "Company"), filed with the Pennsylvania Public Utility Commission ("PUC" or "Commission") Retail Tariff Gas – PA PUC No. 48 and Supplier Tariff Gas – PA PUC No. S-4 proposing an annual increase in distribution rates of approximately \$156.0 million. In addition, Peoples proposed to unify the distribution rates of its two divisions and consolidate each division's tariffs on file with the Commission.

On February 1, 2024, the Peoples Industrial Intervenors ("PII") filed a Complaint in this proceeding. Peoples, the Bureau of Investigation and Enforcement ("I&E"), the Office of Small Business Advocate ("OSBA"), PII, and the Pennsylvania Independent Oil and Gas Association ("PIOGA") (collectively, "Settlement Parties") filed a Joint Petition for Approval of Non-Unanimous Settlement ("Non-Unanimous Settlement" or "Settlement") on May 30, 2024.¹ At that time, PII also received Main Briefs filed by Peoples, the Office of Consumer Advocate ("OCA"), and Coalition for Affordable Utility Services in Pennsylvania ("CAUSE-PA"). On June 13, 2024, PII filed a Reply Brief addressing limited arguments in the OCA's Main Brief, namely (1) opposing OCA's Class Cost-of-Service Study ("CCOSS") and revenue allocation proposals; and (2) supporting the Non-Unanimous Settlement CCOSS and revenue allocation.

On July 15, 2024, the presiding Administrative Law Judges ("ALJs") issued a Recommended Decision ("R.D.") in this proceeding finding the Non-Unanimous Settlement to be consistent with the public interest and recommending that the Commission approve it without

¹ The Pennsylvania Weatherization Providers Task Force and CAUSE-PA were not signatories to the Non-Unanimous Settlement but indicated that they do not oppose the Non-Unanimous Settlement. OCA opposed the Non-Unanimous Settlement.

modification. The OCA filed Exceptions ("OCA Exceptions") on July 25, 2024. PII hereby files these Replies to OCA's Exception No. 9.²

II. REPLIES TO EXCEPTIONS

1. **Reply to OCA Exception No. 9: The Commission Must Deny OCA's Exception No. 9 and Adopt the ALJ's Recommendation to Approve the Class Cost of Service Study and Revenue Allocation Set Forth in the Non-Unanimous Settlement.**

In its Exceptions, OCA recommends that the Commission approve a Peak and Average CCOSS methodology for determining the cost of distribution mains. In support of this argument, OCA claims the Peak and Average methodology most objectively considers the costs associated with building out design day infrastructure and everyday cost of service, while the CCOSS and revenue allocation proposed in the Non-Unanimous Settlement relies on subjective, hypothetical methodologies. OCA Exceptions at 18. OCA's Exception No. 9 both ignores the Commission's discretion to determine the appropriate CCOSS and revenue allocation for this proceeding and overlooks the substantial record evidence supporting the CCOSS and revenue allocation proposed in the Non-Unanimous Settlement. As a result, OCA's Exception No. 9 should be denied, and the PUC should adopt the ALJs' recommendation to approve the Non-Unanimous Settlement's proposed CCOSS and revenue allocation.

The OCA's argument, that the R.D. fails to consider harms to residential customers, derives from a mistaken understanding that there exists a single correct and objective method for allocating the costs of natural gas distribution mains and that the Commission lacks discretion to approve other methods. The CCOSS and revenue allocation proposed in the Non-Unanimous Settlement incorporate a per-customer component into the allocation of the cost of mains, whereby total

² PII declining to file Replies to each of OCA's Exceptions should not be construed as support for any of the OCA's other Exceptions. PII continues to support the Non-Unanimous Settlement in its entirety.

revenues are allocated across customer classes based on the midpoint between Peoples' and OSBA's Demand/Customer CCOSS results and the OCA's and I&E's Peak and Average CCOSS results. R.D. at 35. OCA excepts to the R.D.'s approval of the Non-Unanimous Settlement CCOSS and the resulting revenue allocation on grounds that any CCOSS incorporating a per-customer component is categorically unreasonable because the Commission has indicated a preference for the Peak and Average method in prior rate cases. OCA essentially argues that the Commission's support for the Peak and Average CCOSS methodology in prior cases removes the PUC's discretion to approve any CCOSS method besides the Peak and Average methodology in this case. This argument was refuted by the R.D.'s finding that "the application of science and policy to the allocation of a revenue increase is within the Commission's discretion."³ *Id.* at 33. The R.D. further dismisses OCA's reasoning, stating there is no single "correct" cost allocation method. *Id.* OCA's additional attempt to discredit the cost allocation methods developed by other parties and incorporated into the Settlement as "subjective, hypothetical methods," ignores the R.D.'s broader finding that all CCOSS methods "represent subjective determinations to allocate joint and common costs." *Id.* at 40. The R.D. thoroughly refutes OCA's arguments for limiting the range of reasonable CCOSS results to those based solely on the Peak and Average method. Accordingly, the Commission should reject OCA's position in this case as unreasonable and contrary to the public interest.

The Commission must also reject OCA's claim that the Non-Unanimous Settlement offers no substantial evidence supporting the compromise revenue allocation. The R.D. clearly recites

³ In a recent Order addressing another non-unanimous rate case settlement, the Commission explicitly stated that its finding in favor of a P&A CCOSS in a prior litigated rate case does not mean that a subsequent settled rate case must also include a P&A CCOSS. *Columbia Gas et al.*, Docket No. R-2022-3031211, et al (Order entered December 8, 2022) at 106-107. Rather, the Commission confirmed that the determination of an appropriate CCOSS shall be made on a case-by-case basis upon consideration of the specific facts and circumstances at issue. *Id.*

the Commission's longstanding policy of encouraging settlement resolutions. R.D. at 10-11. The R.D. also recounts that the parties to a non-unanimous settlement must demonstrate that the proposed settlement is supported by substantial evidence. *Id.* at 11. The Settlement Parties in this case compiled a record of substantial evidence in this proceeding supporting the CCOSS and the revenue allocation reflected in the Settlement. The record reflects academic literature and expert witness testimony supporting the application of various CCOSS models. PII Statement No. 1-R at 17. Additionally, PII demonstrated the CCOSS and revenue allocation set forth in the Settlement is more reasonable than OCA's recommendation to eschew gradualism by proposing that the Large General Service customers absorb both the increase allocated to that class and the entirety of the rate increase allocated to Main Line Service customers. PII Reply Brief at 5. The Settlement Parties' use of CCOSS models supported by academic literature and expert witnesses, the policy and efficiency benefits associated with a settlement resolution, as well as the unreasonable results of OCA's proposed CCOSS and revenue allocation all constitute substantial evidence supporting Commission approval of the Non-Unanimous Settlement's CCOSS and revenue allocation method.

For the reasons set forth herein and further detailed in PII's Reply Brief, OCA's Exception No. 9 must be denied.

III. CONCLUSION

WHEREFORE, the Peoples Industrial Intervenors respectfully requests that the Pennsylvania Public Utility Commission adopt the ALJs' Recommended Decision and approve the Non-Unanimous Settlement without modification.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

By 

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