COMMONWEALTH OF PENNSYLVANIA

DARRYL A. LAWRENCE
Consumer Advocate

OFFICE OF CONSUMER ADVOCATE
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
(800) 684-6560

@pa_oca
/pennoca
FAX (717) 783-7152
consumer@paoca.org
www.oca.pa.gov

June 22, 2026

Via Electronic Filing
Matthew L. Homsher, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v. National Fuel Gas Distribution Corporation
Docket No. R-2025-3059428

Dear Secretary Homsher:

Attached for electronic filing please find the Office of Consumer Advocate's Main Brief in this matter.

Copies have been served on the parties as indicated on the enclosed Certificate of Service.

Respectfully submitted,

/s/ Joel H. Cheskis
Joel H. Cheskis Esq.
Senior Assistant Consumer Advocate
PA Attorney I.D. # 81617
JCheskis@paoca.org

Enclosures
cc: The Honorable Katrina L. Dunderdale (email only)
Certificate of Service

CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2025-3059428
	:	
National Fuel Gas Distribution Company	:	

I hereby certify that I have this day filed electronically on the Commission's electronic filing system and served a true copy of the following document, the Office of Consumer Advocate's Main Brief, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below.

Dated this 22nd day of June 2026.

SERVICE BY EMAIL ONLY

Scott B. Granger, Esq.
Commonwealth Keystone Building
PA PUC Bureau of Investigation and Enforcement
400 North Street, 2nd Floor West
P.O. Box 3265
Harrisburg, PA 17105-3265
sgranger@pa.gov
Counsel for I&E

Elizabeth R. Marx, Esq.
John Sweet, Esq.
Ria Pereira, Esq.
Lauren Berman, Esq.
PA Utility Law Project
118 Locust Street
Harrisburg, PA 17101
jsweet@pautilitylawproject.org
lphillips@pautilitylawproject.org
rpereira@pautilitylawproject.org
emarx@pautilitylawproject.org
lberman@pautilitylawproject.org
Counsel for PULP

NazAarah Sabree
Rebecca Lyttle, Esq.
Office of Small Business Advocate
555 Walnut Street
Forum Place, 1st Floor
Harrisburg, PA 17101
ra-sba@pa.gov
relyttle@pa.gov
Counsel for OSBA

Kim Hafner, Director
Pennsylvania Public Utility Commission
Office of Special Assistants
Commonwealth Keystone Building
400 North Street, 3rd Floor East
Harrisburg, PA 17105-3265
ra-OSA@pa.gov
Counsel for OSA

Joseph L. Vullo, Esq.
Burke Vullo Reilly Roberts
1460 Wyoming Ave
Forty Fort, PA 18704
jlvullo@bvrrlaw.com
Counsel for PA Task Force

Anthony D. Kanagy, Esq.
Megan E. Rulli, Esq.
Michael W. Gang, Esq.
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
akanagy@postschell.com
mrulli@postschell.com
mgang@postschell.com
Counsel for NFG

<u>/s/ Joel H. Cheskis</u>
Joel H. Cheskis Esq.
Senior Assistant Consumer Advocate
PA Attorney I.D. # 81617
JCheskis@paoca.org

Harrison W. Breitman, Esq.
Senior Consumer Advocate

Ryan M. Morden, Esq.
Olivia M. Spergel, Esq.
Janna E. Williams, Esq.
Crystal M. Zook, Esq.
Assistant Consumer Advocate
OCANFGBRC26@paoca.org

Counsel for:
Darryl A. Lawrence
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: 717-783-5048
Fax: 717-783-7152

Dated: June 22, 2026

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2025-3059428, et al.
	:	
National Fuel Gas Distribution Company	:	

MAIN BRIEF
OF THE
OFFICE OF CONSUMER ADVOCATE

Joel Cheskis, Esq.
Senior Assistant Consumer Advocate
PA Attorney I.D. # 81617
Email: jcheskis@paoca.org

Harrison W. Breitman, Esq.
Senior Assistant Consumer Advocate
PA Attorney I.D. # 320580
Email: HBreitman@paoca.org

Ryan Morden, Esq.
Assistant Consumer Advocate
PA Attorney I.D. # 335679
Email: RMorden@paoca.org

Crystal M. Zook, Esq.
Assistant Consumer Advocate
PA Bar ID # 334159
CZook@paoca.org

Oliva M. Spergel, Esq.
Assistant Consumer Advocate
PA Attorney I.D. # 337929
Email: OSpergel@paoca.org

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: 717-783-5048
Fax: 717-783-7152

Date: June 22, 2026

Janna E. Williams, Esq.
Assistant Consumer Advocate
PA Attorney I.D. # 319584
Email: JWilliams@paoca.org

Counsel for:
Darryl A. Lawrence
Consumer Advocate

TABLE OF CONTENTS

I. INTRODUCTION 1

A. Procedural History 1

B. Legal Standards 1

II. SUMMARY OF ARGUMENT 3

III. OVERALL POSITION ON RATE INCREASE 7

IV. RATE BASE 9

A. Utility Plant 9

B. Accumulated Depreciation 9

C. Net Plant in Service 9

D. Gas Inventory 9

E. Accumulated Deferred Income Taxes 9

F. Customer Deposits 9

G. Materials & Supplies 10

H. Cash Working Capital 10

I. Contributions in Aid of Construction (CIAC) 12

V. OPERATING SALES AND REVENUES 13

A. Customer Sales and Revenues 13

B. Gas Supply Revenue 13

C. Other Revenues 13

1. Forfeited Discounts 13

2. Rent From Gas Property 14

D. Revenue Increase 15

VI. OPERATING EXPENSES 15

A. Company's Claimed O&M Expense 16

B. Rate Case Expense 16

C. Incentive Compensation Expense 16

D. Payroll Expense and Related 18

E. Membership Expense 18

F. Customer Payment Transaction Costs 19

G. Depreciation Expense 19

1. Introduction 19

2. Continued use of the ELG procedure is unfair to NFG's ratepayers and will become more unfair in the FPFTY. 22

3. Adopting the ALG procedure provides NFG customers, present and future, equitable depreciation rates. 26

4. The certainty ascribed to the ELG methodology is a mirage. 31

5. The OCA's position overcomes concerns raised by the Commission in Columbia's 2025 BRC 34

6. A supermajority of states requires the ALG procedure. 38

7. Conclusion 40

H. Other Expense Adjustments 40

1. Insurance Settlement Proceeds 40

2. Office Employee Expenses 42

3. Other Expense – Line Hit Collections 44

4. Uncollectible Expense 45

5. Postage Expense 46

6. Interest Synchronization 47

VII. TAXES 47

A. Income Taxes 47

B. Taxes Other Than Income Taxes 48

C. Tax and Amortization Issues 48

VIII. RATE OF RETURN 48

A. Introduction 48

B. Capital Structure 50

C. Debt Cost Rate 53

D. Return on Common Equity 53

1. The OCA's Recommended ROE Using the Constant-Growth DCF Analysis Is Supported by Substantial Evidence and Results in Just and Reasonable Rates. 53

2. The Commission Should Accept Ms. Reno's Alternative ROE of 9.06% if the Commission Accepts NFG's Capital Structure. 60

E. Management Performance 61

F. Conclusion as to Rate of Return 61

IX. RATE DESIGN, REVENUE ALLOCATION, AND CLASS COST OF SERVICE 62

A. Allocated Cost of Service Study 62

B. Revenue Allocation 69

C. Rate Design 70

1. Summary of Proposed Rate Design 70

2. Residential Rate Design 77

3. Non-Residential Rate Design 78

D. Scaleback 79

E. Other Post Employee Benefits 79

F. Summary and Alternative 80

X. WEATHER NORMALIZATION ADJUSTMENT (WNA) 82

A. The WNA symmetrical design produces inequitable results. 83

B. The Commission's policy factors indicate that NFG's proposed WNA would not result in just and reasonable rates. 90

C. Alternatively, if the Commission does not deny NFG's WNA, NFG's proposed WNA should be continued as a three-year pilot, be subject to a 5% deadband, should not apply during October and May, and should utilize a total of four weather stations to determine its AHDDs. 95

XI. ENERGY EFFICIENY PILOT 101

XII. UNIVERSAL SERVICE 105

A. Customer Assistance Program 105

B. Low Income Usage Reduction Program 105

C. Neighbor for Neighbor Hardship Fund 105
XIII. CUSTOMER/QUALITY OF SERVICE ISSUES 105
A. Summary 105
B. Payment Arrangement Data 106
C. NFG's payment fees should be eliminated. 106
XIV. MISCELLANEOUS/OTHER ISSUES 107
A. LTIIP and LPP Replacement Issues 107
B. Restoration Costs 107
C. Tariff Rule 8 107
D. Methane Detector Program 108
XV. CONCLUSION 108

Appendix A – OCA Tables
Appendix B – OCA Proposed Findings of Facts
Appendix C – OCA Proposed Conclusions of Law
Appendix D – OCA Proposed Ordering Paragraphs

TABLE OF AUTHORITIES

Page(s)

Cases

Bell Atl. – Pa., Inc. v. Pa. PUC,
672 A.2d 352 (Pa. Cmwlth. 1995) 83

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

Bluefield Water Works & Improvement Co. v. Public Service Commission,
262 U.S. 679 (1923) 4, 53, 54, 61

Burleson v. Pa. PUC,
461 A.2d 1234 (Pa. 1983) 2

City of Lancaster Sewer Fund v. Pa. PUC,
793 A.2d 978 (Pa. Cmwlth. 2002) 15

Edi*son Light & Power Co. v. Driscoll*,
25 F.Supp. 192 (D. Pa. 1938), *rev'd on other grounds*, 307 U.S. 104, 59 S. Ct. 715, 83 L. Ed. 1134 (1939) 20

Federal Power Commission v. Hope Natural Gas Co.,
320 U.S. 591 (1944) .... *passim*

Hoover v. Pa. R.R.,
27 A. 282 (Pa. 1893) 70

Lansberry v. Pa. PUC,
578 A.2d 600 (Pa. Cmwlth. 1990) 2, 7

Lindheimer v. Illinois Bell Tel. Co.,
292 U.S. 151 (1934) 35

Lloyd v. Pa. PUC,
904 A. 2d 1010 (Pa. Cmwlth. 2006) 69

Lower Frederick Twp. Water Co. v. Pa. PUC,
409 A.2d 505 (Pa. Cmwlth. 1980) 2

McCloskey v. Pa. PUC,
225 A.3d 192 (Pa. Cmwlth. 2020) 87

Pennsylvania Gas & Water Co. v. Pa. PUC,
341 A.2d 239 (Pa. Cmwlth. 1975) 89

Pennsylvania Power & Light Co. v. Pennsylvania Public Utility Com.,
311 A.2d 151 (Pa. Commw. 1973) 20

Phila. Elec. Co. v. Pa. P.U.C.,
502 A.2d 722, 727-28, 93 Pa. Commw. 410, 422 (1985) 101

Phila. Elec. Co. v. Pa. PUC,
470 A.2d 654 (Pa. Cmwlth. 1984) 70

Popowsky v. Pa. P.U.C.,
869 A.2d 1144 (Pa. Cmwlth. 2005), *appeal denied*, 895 A.2d 552 (Pa. 2006) 101

Popowsky v. Pa. PUC,
13 A.3d 583 (Pa. Cmwlth 2011) 102

Popowsky v. Pa. PUC,
674 A.2d 1149 (Pa. Cmwlth. 1996) 15

Riverton Consol. Water Co. v. Pa. PUC,
140 A.2d 114 (Pa. Super. 1958) 52

Surrick v. Killion,
449 F.3d 520 38

Univ. of Pa. v. Pa. PUC,
485 A.2d 1217 (Pa. Cmwlth. 1984) 3

Administrative Decisions

Energy Efficiency & Conservation Program,
2025 Pa. PUC LEXIS 69, Order, Feb. 20, 2025 102

Re Limerick Nuclear Generating Station,
1982 Pa. PUC LEXIS 102 27

Re Minnegasco, Inc.,
143 PUR4th 419 (May 3, 1993) 26, 27

Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.,
Docket Nos. R-2025-3053499 .... *passim*

Pa. PUC v. Aqua Pennsylvania Wastewater, Inc.,
2022 Pa. PUC LEXIS 161 (Order, May 12, 2022) 102, 103, 104

Pa. PUC v. Columbia Gas of Pa., Inc.,
2026 PA. PUC LEXIS 60 (Order Denying Reconsideration Feb. 19, 2026) 91

Pa. PUC v. Duquesne Light Co.,
1987 Pa. PUC LEXIS 342 16

Pa. PUC v. Equitable Gas Co.,
1983 Pa. PUC LEXIS 33 (Order July 8, 1983)....................3, 104

Pa PUC v. National Fuel Gas Dist. Corp.,
Docket No. R-2025-3059428, Statement of Vice Chair Kimberly Barrow (Feb. 19, 2026)....................8, 9

Pa. PUC v. National Fuel Gas Distribution Corporation,
Docket No. R-2022-3035730, Order (June 14, 2023)....................25, 90

Pa. PUC v. PPL Elec. Util. Corp.,
237 PUR4th 419 (2004)....................3

Pa. PUC v. PPL Elec. Util. Corp.,
Docket No. R-2012-2290597, Order at 18, 20-21 (Apr. 3, 2014)....................102

Pa. PUC v. PPL Elec. Util. Corp.,
R-2012-2290597, Order (Dec. 28, 2012)....................16

Pa. PUC v. Pa. American Water Co.,
2004 Pa. PUC LEXIS 29 (Order Jan. 29, 2004)....................2, 7

Pa. PUC v. Pa. American Water Co.,
Docket Nos. R-2023-3043189....................83

Pa. PUC v. PAWC,
2021 PA. PUC LEXIS 55 (Feb. 25, 2021)....................16

Pa. PUC v. PECO Energy Co. – Gas Div.,
2021 Pa. PUC LEXIS 241 (Order June 22, 2021)....................64, 76

Pa. PUC v. PECO Energy Co. – Gas Division,
2024 PA. PUC LEXIS 355 (Order Dec. 12, 2024).................... *passim*

Witengier v. Phila. Gas Works,
Docket No. F-2025-3056500, Statement of Chairman DeFrank (issued June 4, 2026)....................94

Statutes

2 Pa. C.S. § 704....................83

66 Pa. C.S. 1353(a)....................25

66 Pa. C.S. § 315.................... *passim*

66 Pa. C.S. §1301....................40, 83

66 Pa. C.S. § 1307....................101, 102, 104

66 Pa. C.S. § 1330 .... 83, 85, 90

66 Pa. C.S. § 1357(c) 87

Regulations

52 Pa. Code § 56.15(12) 94

52 Pa. Code § 69.3301 83

52 Pa. Code § 69.3302 .... *passim*

52 Pa. Code § 73.9(c) 36, 37

Other Authorities

James C. Bonbright, et al. *Principles of Public Utility Rates* 65

I. INTRODUCTION

A. Procedural History

On January 28, 2026, National Fuel Gas Distribution Company (NFG or Company) filed its direct case requesting increase in rates to produce an additional overall revenue of $19.68 million per year, a 7.41% increase in overall distribution revenue requirement. Under NFG's proposal, the total bill for a residential customer using 80 cubic feet of gas per month would increase by $4.95 from $83.49 to $88.44, or by approximately 5.9%. On February 4, 2026, the Office of Consumer Advocate (OCA) filed a Formal Complaint and Public Statement challenging the lawfulness of the proposed rate increase. Multiple formal complaints and informal complaints were filed in response to NFG's filing and four Public Input Hearings were held.

On June 2, 2026, Administrative Law Judge Katrina Dunderdale (the ALJ) presided over evidentiary hearings and admitted the OCA's written direct, rebuttal, and surrebuttal testimonies, and accompanying exhibits, into the record.

B. Legal Standards

NFG bears the burden of proof to establish the justness and reasonableness of every element of its requested rate increase:

> Reasonableness of rates – In any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceedings upon the complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.[1]

[1] 66 Pa. C.S. § 315(a).

The evidence necessary to meet that burden must be substantial, legally credible, and cannot be mere "suspicion" or "scintilla" of evidence.[2]

The party with the burden of proof has a formidable task to show that the Commission may lawfully adopt its position.[3] Even where a party has established a *prima facie* case, the party with the burden must establish that "the elements of that cause of action are proven with substantial evidence which enables the party asserting the cause of action to prevail, precluding all reasonable inferences to the contrary."[4] Furthermore, it is well-established that the "degree of proof before administrative tribunals…is satisfied by establishing a preponderance of the evidence."[5]

The utility's burden of proof does not shift to parties challenging the rate increase:

> It is well-established that in general rate increase proceedings, the burden of proof does not shift to parties challenging a requested rate increase. Rather, the utility's burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one and that burden remains with the public utility throughout the course of the rate proceeding. It has been held that there is no similar burden placed on other parties to justify a proposed adjustment to the utility's filing.[6]

In *Berner*, the Pennsylvania Supreme Court stated:

> [T]he appellants did not have the burden of proving that the plant additions were improper, unnecessary or too costly; on the contrary, that burden is, by statute, on the utility to demonstrate the reasonable necessity and cost of the installations and that is the burden which the utility patently failed to carry.[7]

---

[2] *Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980); *Lansberry v. Pa. PUC*, 578 A.2d 600, 602 (Pa. Cmwlth. 1990) (*Lansberry*).
[3] *Burleson v. Pa. PUC*, 461 A.2d 1234, 1236 (Pa. 1983) (*Burleson*).
[4] *Id*.
[5] *Lansberry* at 602.
[6] *Pa. PUC v. Pa. American Water Co*., 2004 Pa. PUC LEXIS 29 at *16-18 (Order Jan. 29, 2004) *citing Berner v. Pa. PUC*, 116 A.2d 738 (Pa. 1955) (*Berner*).
[7] *Id*. at 744.

The Commission recognizes in its rate determinations that the burden of proof will not shift to a complainant or intervener that is challenging the requested rate increase.[8]

II. SUMMARY OF ARGUMENT

A. Revenue Requirement

The OCA has presented two revenue requirement numbers in this proceeding: one based upon the OCA position on the recommended rate of return (ROR) and another based on an alternative ROR. The OCA has demonstrated that using the OCA's recommended ROR, NFG's annual revenues should be increased by $4.305 million annually, a decrease of $14.170 million from the Company's revised increase request of $18.745 million. Using the OCA's alternative ROR, the Company's annual revenues should be increased by $4.205 million annually. This represents a decrease of $14.270 million from the Company's revised increase of $18.475 million. This is the amount by which revenues exceed those required to generate an overall ROR on rate base of 7.54% after accounting for the OCA's adjustments to the Company's claimed rate base and operating income.

B. Rate of Return

The Commission should approve the OCA's recommended return on equity (ROE) of 9.74% and capital structure of 50% common equity and 50% debt resulting in an overall ROR of 7.66% and reject NFG's proposed ROE of 11% and capital structure of 56.4% common equity and 43.6% debt because the OCA's recommendation evaluates a multitude of factors in setting its ROE and capital structure which results in just and reasonable rates

---

[8] *See e.g.*, *Pa. PUC v. Equitable Gas Co*., 57 Pa. PUC 423, 471 (1983); *Univ. of Pa. v. Pa. PUC*, 485 A.2d 1217 (Pa. Cmwlth. 1984); *Pa. PUC v. PPL Elec. Util. Corp*., 237 PUR4th 419, 426 (2004).

whilst enabling NFG to earn a sufficient and reasonable return in accordance with the *Hope* and *Bluefield* standards. In contrast, NFG's inflated ROE recommendation is predominately based on projected earnings growth rates which is often subject to optimism bias and unjustifiably includes a size risk adder despite NFG facing less risk due to its status as a monopoly and being a subsidiary of a much larger company. If the Commission approves NFG's proposed capital structure, the Commission should instead approve the OCA's alternative ROE recommendation of 9.06% with a resulting ROR of 7.54%.

C. Depreciation

NFG's proposal to utilize the Equal Life Group (ELG) procedure for calculating its depreciation expense would cause NFG customers to pay more than necessary for utility service, and therefore NFG's proposal should be rejected. The OCA demonstrates that the Average Life Group (ALG) procedure protects customers by equitably spreading the annual depreciation expense on rate base investment over the generations of customers that receive service from the investments. NFG is in a high investment period, meaning new plant-in-service will be added to the Company's revenue requirement for the next decade. This high investment period means utility customers are being asked to pay for the plant upgrades through increased rates, which includes depreciation expense. If NFG's ELG proposal is accepted, its customers will unnecessarily pay more for utility service because the ELG procedure frontloads depreciation expenses early in the life of the new assets. The ALG procedure provides NFG's customers with significant relief while simultaneously ensuring that the Company can recover its costs for new plant-in-service installed during the next decade.

D. Cost of Service, Revenue Allocation and Rate Design

NFG's proposed allocated class cost of service study (ACOSS) utilizes an empirically flawed zero-intercept study (ZIS) approach to determine the allocation of distribution main costs. In doing so, NFG has proposed to allocate 100 percent of costs associated with demand related distribution main investments based on peak day demands. NFG's reliance on the ZIS and use of peak demand cost allocation methodology should be granted little weight by the Commission as using the ZIS and peak day demand result in an improper assignment of costs to NFG customer classes. The OCA has proposed the use of a Peak and Average (P&A) method and incorporating weights based on the Company's test year load factor. OCA witness Mr. Michael Deupree's proposed alternative to NFG's ACOSS will base weights on a ratio of peak day system requirements to average daily system requirements, using data specific to NFG for allocation of distribution mains costs.

Furthermore, NFG's proposal to increase its fixed customer charge by $5 from $14 to $19 or by 35.7% is equally unsustainable and not supported by evidence. This large increase in customer charge is further inconsistent with principles of cost causation, maintaining rate consistency, promoting conservation, encouraging affordability, and maintaining equity for low-income customers. Residential customers are already seeing the largest increase in rates under the Company's proposal and would be forced to bear the recovery of additional charges through this increase.

E. Alternative Ratemaking

The Commission should deny NFG's request to turn its Weather Normalization Adjustment (WNA) Pilot into a permanent mechanism because substantial evidence does not support a determination that the WNA is equitable for NFG's customers or that it satisfies the Commission's policy factors regarding alternative ratemaking mechanisms. If the Commission determines to approve NFG's proposed WNA, the Commission should condition approval on the following modifications: 1) allow it to continue as a pilot for an additional three years instead of allowing it to become permanent; 2) increase the deadband from three percent to five percent; 3) eliminate the months of October and May from NFG's proposed WNA's effective period; and 4) require NFG to add three additional weather stations in calculating its Heating Degree Days (HDDs).

The Commission should deny NFG's proposed rider to recover costs for its Energy Efficiency Pilot Program because NFG's proposal represents single-issue ratemaking and does not satisfy the Commission's criteria for reconcilable riders as the costs are not extraordinary, substantial, unexpected or non-recurring.

F. Customer/Quality of Service

NFG currently charges a fee of up to $2.95 to customers who make payments with credit cards, debit cards, Apple Pay, Google Pay, PayPal and Venmo, as well as use of their Interactive Voice Response (IVR) payment system. Eliminating these fees would support broader access to payment methods and reduce barriers for customers wanting to keep their accounts current. In addition, NFG does not maintain or analyze data regarding the effectiveness of its payment plans in preventing service termination. Such data is material to assess and structure payment plans in a manner that minimizes the risk of service termination. NFG should establish a formal tracking process for all payment plans to assess the percentage of customers who enroll in a plan and subsequently avoid termination.

III. OVERALL POSITION ON RATE INCREASE

NFG must meet its burden of proof in demonstrating that its proposed increase in rates will produce rates that are just and reasonable, equitable among consumer groups, or in the public interest.[9] As a result, NFG's requested rate increase should be denied in its entirety because it has failed to meet this burden of proof.

NFG's rate increase request fails to consider the current economic climate and the daily struggles that many NFG customers face, to which increased utility costs contribute. As discussed throughout this brief, and supported by the OCA's expert witnesses, with high inflation, high tariffs and multiple wars, now is not the time for another rate increase for customers. As Governor Josh Shapiro recently said, Pennsylvanians are already being squeezed by rising costs and everything must be done to cut costs and protect consumers.[10]

More specifically, NFG failed to satisfy its burden that a $18.475 million, or 7.4% total revenue, increase will produce rates that are just and reasonable.[11] In the event the Commission does not deny NFG's rate increase in its entirety, the OCA presented substantial evidence using the OCA's recommended ROR that the Commission should authorize an increase of $4.305 million annually for the FPFTY ending October 31, 2027, or $14.17 million less than NFG's request.[12] In the alternative, using the Company's desired ROR yields an increase of $4.205 million annually for the fully projected future

---

[9] 66 Pa. C.S. § 315(e); *Pa. PUC v. Pa. American Water Co*., 2004 Pa. PUC LEXIS 29, *16-18 (Order Jan. 29, 2004); *Lansberry*.
[10] OCA Exh. MWD-10.
[11] NFG's original filing requested a revenue increase of $19.68 million. Company witness Koch stated in his rebuttal testimony that the company is now seeking $18.475 million.
[12] OCA St. 2SR; *see also*, OCA Exh. LKM-1A-SR.

test year (FPFTY) ending October 31, 2027, or a decrease of $14.27 million from NFG's request.[13]

Given the importance of ROE in determining rates, OCA witness Morgan provided two sets of exhibits to show the ROE impact of OCA witness Reno's ROE recommendations. Ms. Reno's first recommends an overall ROR of 7.66% based on a capital structure of 50.00% equity and 50.00% long-term debt, a 5.58% cost of long-term debt and a 9.74% ROE.[14] Ms. Reno's second recommendation is an alternative ROE of 9.06% if the Commission accepts NFGs proposed 56.40% equity and 43.60 debt capital structure.[15] As such, Mr. Morgan's first set of schedules, LKM-1A-SR to LKM-19A-SR, present the OCA's position on revenue requirement using the OCA's recommended ROR and Mr. Morgan's second set of schedules, LKM-1B-SR to LKM-19B-SR, present the OCA's position on revenue requirement using the OCA's recommended ROR.

This dual analysis is particularly important given the Statement of Vice Chair Kimberly Barrow at the time this matter was initially suspended for investigation.[16] In her statement, the Vice Chair "urge[d] the parties to take a critical look at the Company's requested ROR and ROE as well as the capital structure (common equity ratio and debt capital) to ensure reasonableness."[17] The Vice Chair noted that "deviations in each of these items translate into millions of dollars charged to customers of all rate classes" and that a

---

[13] *Id.*
[14] OCA St. 3-SR at 3.
[15] *Id.*
[16] *Pa PUC v. National Fuel Gas Dist. Corp.*, Docket No. R-2025-3059428, Statement of Vice Chair Kimberly Barrow (Feb. 19, 2026).
[17] *Id.*

"careful and detailed review of NFG's claimed capital structure and ROE is warranted."[18] The OCA's case, through the testimony of Mr. Morgan and Ms. Reno, provides just that "careful and detailed review."

IV. RATE BASE

A. Utility Plant

The OCA did not address this issue in its testimony.

B. Accumulated Depreciation

The OCA did not address this issue in its testimony.

C. Net Plant in Service

The OCA did not address this issue in its testimony.

D. Gas Inventory

The OCA did not address this issue in its testimony.

E. Accumulated Deferred Income Taxes

The OCA did not address this issue in its testimony.

F. Customer Deposits

As noted by OCA witness Morgan, NFG has certain Customer Advances for Construction on its books which it has not reflected as a reduction to rate base.[19] These are advances by customers for construction which are to be refunded either wholly or in part by the utility at a later date. The Company has use of the customer advances for the construction project to offset its costs while these funds are held by the Company.[20] For

[18] *Id.*
[19] OCA St. 2 at 11.
[20] *Id.*

ratemaking purposes, the value of the investments not incurred by the utility, because they are funded by customer advances, represent cost free capital to the utility and the utility is not entitled to receive a return on the avoided cost of the investment.[21] In this case, Mr. Morgan recommends an adjustment to reduce rate base by $54,000 which represents the value of the 13-month average balance in the Customer Advances account.[22]

G. Materials & Supplies

The OCA did not address this issue in its testimony.

H. Cash Working Capital

For utility ratemaking purposes, the working capital allowance is composed of two categories of funds that are captured in rate base dedicated to acquiring certain goods and services and day-to-day operations.[23] The two categories are the Allowance for Cash Working Capital and Prepayments (e.g., Materials & Supplies Inventory, Prepaid Insurance, Prepaid, etc.). Furthermore, for most utilities, the Allowance for Cash Working Capital is calculated based on a lead/lag study – an in-depth analysis that measures the difference between the lapse of time when a company receives revenue for the provision of service and the lapse of time when a company pays for the costs of providing that service.[24]

OCA witness Morgan recommended an adjustment to NFG's cash working capital claim, in part, to adjust the lead/lag study to reflect adjustments related to operating

---

[21] *Id*.
[22] *Id.*, *see*, OCA Exh. LKM-5A-SR; *see also*, OCA St. 2SR at 9 (regarding use of the historic test year for customer advances).
[23] *Id.* at 8.
[24] *Id.*

expenses he recommends, as well as the interest expense adjustment related to his adjustments to rate base and the OCA's recommended capital structure.[25] Mr. Morgan also recommended an adjustment to NFG's cash working capital claim because there are a number of amortizations and accrued expenses that are reflected in the operating expenses that do not require the use of cash and should be removed from the lead/lag study.[26] The combined effect of these adjustments result in a decrease in rate base of $1,184,000.[27]

Furthermore, Mr. Morgan recommended that NFG's claim for prepaid expenses also be adjusted. Prepaid expenses represent the payment of expenses prior to the period in which the goods or service are used and means the Company loses the ability to use the cash for other purposes.[28] As Mr. Morgan explained:

> The Company is entitled to the time value of the funds during the period before the goods or services have been used but the expenses that are recognized during the accounting period cannot also be included in the lead/lag study where an allowance for cash working capital is provided while simultaneously including the related prepaid expense in rate base.[29]

To prevent this double counting of cash working capital related to prepaid expenses, Mr. Morgan recommended an adjustment to remove prepaid expenses from rate base causing a decrease in rate base of $1,080,000 which was claimed by NFG.[30]

NFG witness Duszenko, however, disagreed with Mr. Morgans adjustment to remove prepayments from rate base because NFG has done so in the past.[31] Mr. Morgan

---

[25] *Id.* at 9.
[26] *Id.*
[27] *Id.*; OCA Exh. LKM-4A-SR.
[28] *Id.* at 10.
[29] *Id.*
[30] *Id.*
[31] NFG St. 6-R at 3.

accepted the approach used by NFG in its rebuttal filing which includes prepayments in rate base but removes prepaid expenses from the lead/lag study.[32] However, Mr. Morgan disagreed with the quantification of the prepaid expenses removed from the lead/lag study because NFG did not capture all of the expenses.[33] NFG did not address Mr. Morgan's adjustment to remove non-cash expenses from the lead/lag study which Mr. Morgan continues to support.[34] Finally, Mr. Morgan continues to recommend his O&M adjustments despite NFG's opposition. Overall, the adjustment to cash working capital reduces rate base by $1,195,000.[35]

I. Contributions in Aid of Construction (CIAC)

As noted by Mr. Morgan, NFG has certain claims for CIAC on its books which it has not reflected as a reduction to rate base.[36] CIAC is a transaction in which a utility receives upfront payment for new or expanded service, such as a line extension under certain circumstances, or plant in service or other goods and services given to a utility for nothing in return.[37] For ratemaking purposes, the value of the investments not incurred by the utility represents cost free capital to the utility which the utility is not entitled to receive a return on the avoided cost of the investment and is deducted from rate base.[38] In this case, Mr. Morgan recommends an adjustment to reduce rate base by $45,000 which represents the value of the CIAC account.[39]

---

[32] OCA St. 2SR at 8.
[33] *Id.*
[34] *Id.*
[35] *Id.*, *citing*, OCA Exh. LKM-4A-SR.
[36] OCA St. 2 at 11.
[37] *Id.*
[38] *Id.*
[39] *Id.*; OCA Exh. LKM-5A-SR.

Although NFG agreed with Mr. Morgan that it is appropriate to include CIAC and Customer Advances in rate base, NFG proposed to include the historic test year (HTY) balances.[40] Mr. Morgan, however, disagreed with using the HTY balance because the data is stale in comparison to the FPFTY on which rates are being established and recommended that the most recent 13-month average be used.[41] Mr. Morgan added: "It is important to keep in mind that CIAC and Customer Advances are only collected when plant is placed in service to serve customers. Therefore, including the most recent 13-month balance CIAC and Customer Advances is appropriate because it matches plant that are already included in Plant in Service."[42] Mr. Morgan therefore modified his adjustment to decrease base rates by $20,000 to reflect the 13-month average CIAC balance.[43]

V. OPERATING SALES AND REVENUES

A. Customer Sales and Revenues

The OCA did not address this issue in its testimony.

B. Gas Supply Revenue

The OCA did not address this issue in its testimony.

C. Other Revenues

1. Forfeited Discounts

NFG's claim for Other Revenues should be increased by $21,000 in consideration of the adjusted Forfeited Discounts claim as noted by Mr. Morgan.[44] Forfeited discounts

---

[40] NFG St. 6-R at 2.
[41] OCA St. 2SR at 9.
[42] *Id*.
[43] *Id.*; *see also*, OCA Exh. LKM-5A-SR.
[44] OCA St. 2 at 12, *see*, OCA Exh. LKM-6A-SR.

are additional charges, such as late fees, imposed on customers because of the failure of customers to pay their utility bills on or before a specified date.[45] Because the rate increase to be decided in this proceeding will result in higher bills, the forfeited discount will increase as well since it is based on a percentage of the utility service bill, thereby necessitating a $21,000 adjustment.[46]

NFG disagrees with Mr. Morgan's adjustments. First, NFG witness Mann disagrees with the magnitude of the adjustment.[47] This disagreement is misplaced because Mr. Mann misunderstands that the reason for the adjustment is to recognize that as service revenues increase, there will be a corresponding increase in forfeited discounts because forfeited discounts are assessed based upon the outstanding customer bill.[48] Additionally, NFG's disagreement does not recognize the relationship between service revenues and forfeited discounts. Second, Mr. Mann disagrees with the use of a three-year average for the forfeited discount factor because the Fiscal Year 2024 late payment charges were abnormally high.[49] Yet, this is the precise reason for using a three-year average – the average recognizes the year-to-year fluctuations.[50]

2. Rent From Gas Property

NFG's revenue claim should be increased by $12,000 in consideration of the Rent From Gas Property.[51] NFG indicated that Rent From Gas Property was flat for the FTY

[45] *Id.*.
[46] *Id.*
[47] NFG St. 14-R at 2-3.
[48] OCA St. 2SR at 4-5.
[49] NFG St. 14-R at 3.
[50] OCA St. 2SR at 5. Mr. Mann also disagreed with Mr. Morgan's exclusion of transportation revenue when calculating the forfeited discount factor. This exclusion was inadvertent and Mr. Morgan revised his calculation as such.
[51] OCA St. 2 at 12; OCA Exh. LKM-7A-SR.

and FPFTY. However, in the three most recent years, the Company has experienced a 6% average annual growth which Mr. Morgan testified should be reflected in the FPFTY projection of the revenues in this account for the FPFTY.[52]

In response, NFG argued that there are no known or measurable changes to support an additional increase in Rent From Gas Property.[53] Yet, OCA witness Morgan presented NFG's own data that shows a clear pattern and trend of annual increase in Rent From Gas Property that was received in response to discovery in this case and supports Mr. Morgan's adjustment.[54] Hence, NFG has not provided any persuasive data that refutes Mr. Morgan's adjustment.

D. Revenue Increase

The OCA did not address this issue in its testimony.

VI. OPERATING EXPENSES

The Company must affirmatively demonstrate by a preponderance of evidence that its expenses are reasonably necessary to provide services and are prudently incurred.[55] NFG has not affirmatively demonstrated by a preponderance of the evidence that the expenses the OCA has challenged in this case are reasonably necessary to provide services, or that they are prudently incurred. The Commission should exclude NFG's claimed expenses that are challenged by the OCA because those expenses are unreasonable and without merit.

---

[52] *Id.*, *citing*, NFG Response to Section 53.53 III-H.5.
[53] NFG St. 14-R at 3-4.
[54] OCA St. 2SR at 6, *citing*, NFG Answer to OCA interrogatory 10-21; *see also*, OCA Exh. LKM-7A-SR.
[55] *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002); *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154 (Pa. Cmwlth. 1996).

A. Company's Claimed O&M Expense

The OCA did not address this issue in its testimony.

B. Rate Case Expense

The OCA did not address this issue in its testimony.

C. Incentive Compensation Expense

NFG's claim for incentive compensation expense should be adjusted to reduce operations and maintenance (O&M) expenses by $1.43 million.[56]

Portions of incentive compensation tied to shareholder earnings goals have been disallowed where metrics lacked a sufficient nexus to ratepayer benefits and instead primarily advanced shareholder interests.[57] Only where an incentive compensation plan is reasonable, prudently incurred, not excessive, and there is a benefit to ratepayers, a Company may recover the expense of that program.[58] The Commission allowed incentive compensation expense because it was consistent with the Commission's "prior decisions approving incentive compensation programs that are focused on improving operational effectiveness."[59] The Commission has approved incentive compensation plans where employees eligible for the compensation "have direct responsibilities for customer service and regulatory compliance or are otherwise responsible for ensuring safe and reliable service to customers."[60]

---

[56] OCA St. 2 at 14; OCA Exh. LKM-8A-SR.
[57] *Pa. PUC v. Columbia Gas of PA, Inc.*, R-2025-3053499 Order at 204-05 (Oct. 3, 2025).
[58] *Pa. PUC v. PPL Elec. Util. Corp.*, R-2012-2290597, Order (Dec. 28, 2012).
[59] *Id.* at 26 (Dec. 28, 2012) *citing Pa. PUC v. Aqua Pa., Inc.*, 2008 Pa. PUC LEXIS 50, *24; *Pa. PUC v. Duquesne Light Co.*, 1987 Pa. PUC LEXIS 342 at *99-100.
[60] *Pa. PUC v. PAWC*, 2021 PA. PUC LEXIS 55 at *59 (Feb. 25, 2021).

Mr. Morgan recommends an adjustment to remove the 2010 Equity Compensation Plan expense from the cost of service based upon the stated purpose of the plan to "advance the interests of the Company and its stockholders."[61] As Mr. Morgan testified:

> As an investor owned utility, the interests of the Company and its stockholders primarily depend on the Company remaining a going concern. As such, operating the Company is based upon a profit motive. Hence, one of the primary interests of the Company and its shareholders is to achieve earnings high enough to attract investors, achieve financing on good terms and improve shareholder value.[62]

Mr. Morgan noted that these goals are primarily targeted toward increasing shareholder value and not necessarily consistent with the interests of NFG's ratepayers.[63] Therefore, these costs are not properly recoverable from ratepayers for several reasons, including: 1) that the measures that achieve additional cost savings, increase revenue or otherwise improve financial results should generate the necessary income to cover the incentive plan payments, and 2) the payments are not tied to ratepayer benefits such as improved quality of service.[64]

NFG witness Weidner, however, stated that Mr. Morgan claims that stock-based compensation is "solely for the benefit of shareholders."[65] However, Mr. Morgan did not make such a claim in his testimony but, rather, stated that shareholders are the primary beneficiaries of the plan.[66] Mr. Morgan also rejected Mr. Weidner's contention that a portion of the restricted stock awards are based on recipients continued service to the

[61] OCA St. 2 at 13.
[62] *Id.*
[63] *Id.*
[64] OCA St. 2 at 14.
[65] NFG St. 5-R at 9.
[66] OCA St. 2SR at 10.

company over time by noting that NFG has indicated that a competitive total rewards package is needed to retain current workforce.[67] Mr. Morgan does not challenge the total employee rewards packages but who should bear the cost of those packages.[68] Mr. Morgan added that it is important to determine whether the plan is primarily established in the interest of shareholders or ratepayers because those two interests do not always align or are otherwise compatible.[69]

D. Payroll Expense and Related

The OCA did not address this issue in its testimony.

E. Membership Expense

NFG's claim for $17,000 related to dues for membership in economic development organizations should be removed from the cost of service.[70] NFG included annual dues membership for the Erie Downtown Development Corporation, Penn-Northwest Development Corp. and the Clarion County Economic Development.[71] Mr. Morgan reviewed the websites for each of these organizations and determined that "clearly, none of these organizations are focused on employee development or related to the utility operations."[72] Mr. Morgan added: "Membership in these entities has very little to do with providing service to current ratepayers and is more closely aligned with corporate image

[67] OCA St. 2SR at 11, *citing*, NFG St. 5-R at 9.
[68] *Id.*
[69] *Id.* (noting, for example, that a delay in expenditures may improve earnings and share value while degrading customer service).
[70] OCA St. 2 at 20-21, *citing*, OCA Exh. LKM-15A-SR.
[71] *Id.* at 20.
[72] *Id.*

building. Moreover, economic development is not a function of a public utility, so it is not appropriate to recover these costs from ratepayers."[73]

NFG witness Formato, however, argued that economic growth helps to retain and attract commercial and industrial use of natural gas and that participation in these organizations ensures energy infrastructure, safety and reliability considerations are incorporated into local growth planning.[74] Mr. Morgan argued that local governments can perform these functions without NFG's membership in these organizations, in part, because part of the functions of a utility's marketing department is to stay abreast of local development initiatives in order to capture new customers.[75] NFG's economic development fees are more related to charitable contributions and less related to economic development and the inclusion of these costs in the cost of service should be rejected.[76]

F. Customer Payment Transaction Costs

NFG's operating expenses should be adjusted by $930,000 to reflect customer bill payment transaction fees that are absorbed by NFG for those customers who pay their bills by credit card, debit card, Venmo and PayPal.[77]

G. Depreciation Expense

1. Introduction

Record evidence demonstrates that by adopting the Average Life Group (ALG) procedure over the Equal Life Group (ELG) procedure to determine its depreciation

---

[73] *Id.* at 21.
[74] NFG St 3-R at 8.
[75] OCA St. 2SR at 21-22.
[76] *Id.* at 22.
[77] OCA St. 2 at 21, *citing*, OCA Exh. LKM 16A; *see also*, OCA St 5 at 16.

expense, the Company would not only recover its original investment cost in depreciable plant (as it is entitled to by law), but it would also afford NFG's rate payers significant rate relief.[78] More pressing now than ever, the public is entitled to demand that no more be exacted from it than the reasonable worth of the services rendered.[79] However, if permitted to continue utilizing the NFG procedure, the Commission will by definition be permitting NFG to charge customer rates in its FPFTY excessive amounts beyond what is required to operate its system in accordance with the Public Utility Code and earn a fair return on investment. The proposed continued use of the ELG procedure is atypical nationwide among other jurisdictions, atypical for what NFG witness Spanos usually recommends in rate cases in other jurisdictions, and atypical for NFG itself whereas its other affiliates utilize the ALG procedure for depreciation.

In conjunction with the direct relief to consumers in this proceeding, the ALG procedure is a reasonable procedure used by a supermajority of states, including Pennsylvania, and should be adopted moving forward. The OCA emphasizes that no state law, federal law, or prior Commission Order prohibits the Commission's adoption of the ALG procedure for NFG. The unique circumstances of this proceeding establish that adopting the use of the ALG procedure will permit NFG to recover reasonable amounts charged to operating expenses for depreciation so that it is fully recovered, and the integrity of its investments maintained while ensuring that consumers pay no more than necessary.

---

[78] *Pennsylvania Power & Light Co. v. Pennsylvania Public Utility Com.*, 311 A.2d 151, 157 (Pa. Commw. 1973).
[79] Edi*son Light & Power Co. v. Driscoll*, 25 F.Supp. 192 (D. Pa. 1938), *rev'd on other grounds*, 307 U.S. 104, 59 S. Ct. 715, 83 L. Ed. 1134 (1939).

Through adoption of the ALG procedure, the excess amounts charged in rates for depreciation expense will be removed.

OCA witness Andrews reached the following conclusions after reviewing NFG's proposal to continue using the ELG procedure:

> 1. National Fuel has filed a depreciation study based on plant balances for its Fully Projected Future Test Year ("FPFTY") as of October 31, 2027, using the ELG procedure. These depreciation rates would result in excessive and burdensome depreciation expense for National Fuel's customers.
>
> 2. National Fuel's total proposed 2027 depreciation expense of $23.4 million represents 8% of its proposed total $285.2 million revenue requirement.
>
> 3. National Fuel is in an accelerated investment period that will substantially drive an increase to rate base and revenue requirement.
>
> 4. The use of the ALG procedure can be used to mitigate the rate increases associated with National Fuel's accelerated investment to upgrade its infrastructure. The ALG equitably spreads the annual depreciation expense on rate base investment over the generations of customers that receive service from the investments. Conversely, the ELG method assigns more depreciation expense to customers that take service early in the asset's service life and reduces the expense to customers toward the end of the asset's service life.
>
> 5. The PUC should order National Fuel to use depreciation rates that are based on the ALG procedure.
>
> 6. The proposed test year depreciation expense would be reduced by $4.67 million if the ALG depreciation rates are utilized.
>
> 7. The PUC should approve the depreciation rates that are presented in Exhibit BCA-2.[80]

[80] OCA St. 4 at 3.

A full discussion of Mr. Andrews' conclusions and how he reached them regarding NFG's depreciation calculations are provided in OCA Statements 4 and 4SR.[81] This portion of the OCA's Main Brief will highlight the decisive evidence that demonstrates the OCA's approach is in the best interest of ratepayers. In support, the OCA provides additional information below.

2. Continued use of the ELG procedure is unfair to NFG's ratepayers and will become more unfair in the FPFTY.

NFG's customers will experience a substantial increase in their rates due to the Company's depreciation expense according to its as-filed rate request. Without changing its approach, NFG customers will shoulder higher depreciation expenses because the Company is in a high investment period. With more plant coming online during the next several years, ratepayers will be shouldering the cost for this period of high investment and accrue significantly higher charges up front under the ELG procedure. NFG witness Hillery testified:

> The investment in net plant in-service for the FPFTY ended October 31, 2027, is projected to be $637 million. When the Company last requested a rate increase for the FPFTY ended July 31, 2024, the Company's investment in net plant was approximately $496 million. The $141 million increase in net plant has largely been the result of continued investments necessary to enhance and maintain the safety and reliability of the Company's distribution system, which include the replacement of aging gas plant infrastructure.[7]

Ms. Hillery also mentioned that the Company has "eliminated over 371 miles of leak-prone bare steel and wrought iron pipeline and 7,337 base steel services" since 2016, and at the current rate of replacement of 57 miles per year, the Company

[81] OCA Sts. 4; 4SR.

anticipates retirement of all leak-prone pipe by 2039.[82] OCA witness Andrews testified: "This indicates continued increased spending is likely to occur for at least the next 10 years."[83] Mr. Andrews illustrated how depreciable plant-in-service and the Company's calculated depreciation expense has jumped considerably and will continue to do so through the FPFTY:

TABLE 2

National Fuel Annual Plant in Service and Depreciation Expense
($ Millions)

	Currently Approved		Proposed Parameters			2023 to 2027	Percent
Description	**2023**	**2024**	**2025**	**2026**	**2027**	**Increase**	**Increase**
Total Depreciable Plant in Service	$ 733.78	$ 780.13	$ 823.36	$ 883.40	$ 955.94	$ 222.15	30.27%
Total Depreciation Expense	$ 18.88	$ 20.71	$ 20.59	$ 20.89	$ 23.43	$ 4.55	24.08%

Sources: Filing Requirement III-K.6 and Exhibit C

[84]

As illustrated by Mr. Andrews' table, NFG's depreciation expense increased more than 24% over a 5-year period, largely coinciding with a 30% increase to plant-in-service. Mr. Andrews examined NFG's plant-in-service portfolio and testified that the "oldest assets still in service are from 1883. The Company has been providing gas service in Pennsylvania since 1902, approximately 124 years. Contrast this to the average age of the Company's gas plant, which is just 19 years old."[85] Mr. Andrews explained that this means that a 124-

[82] *Id.*
[83] OCA St. 4 at 13-14. NFG St. 1 at 14. OCA witness Andrews acknowledged the Company's DSIC mechanism: "Although National Fuel implemented the Distribution System Improvement Charge ("DSIC") in January 2025, the DSIC is currently capped at 5% of distribution revenues, and the Company anticipates this cap will be met by the end of March 2026." OCA St. 4 at 14.
[84] *Id.* at 14.
[85] *Id.*

year-old company with assets with an average age of 19 years further confirms that National Fuel has been in a higher-than-average investment cycle.[86]

OCA witness Andrews testified that this period of high investment is coming at a time when more and more demands are being placed on the back of ratepayers as follows:

> A changed landscape exists among utility rates. The affordability of utility rates is of significant concern of regulators, credit agencies, and especially customers themselves. A recent poll by the Commonwealth Foundation found that rising energy costs are a top voter concern, claiming that "Eight in 10 voters say their household energy bills have increased over the past two years, and more than two-thirds (70%) say they're concerned about affording their family's energy needs. Rising energy costs (63%) top the list as the most prominent environmental issue in Pennsylvania." The high inflationary environment that has existed over the past few years is taking its toll on Pennsylvanians. The switch to ALG depreciation rates will help alleviate the gas bill burden for National Fuel's customers.[87]

OCA witness Andrews testified that the Company's rates are overstated and unnecessarily burdensome for NFG's customers due to excessive depreciation expense and subsequent inflated revenue requirement.[88] Mr. Andrews testified as follows:

> [i]n particular, National Fuel's reliance on the ELG procedure results in depreciation rates that are front-loaded and forces unnecessary depreciation expense on current customers. This compounds the cost of the infrastructure asset in the early years of the asset's service life by increasing both the return on the asset (because undepreciated net plant cost is highest in the early year) and the annual recovery of the asset or depreciation expense.[89]

Periods of high investment amplify the discrepancy between the ALG and ELG procedures and result in excessive costs under the ELG procedure.[90] However, NFG

---

[86] *Id.*
[87] OCA St. 4 at 15 (internal citations omitted).
[88] *Id.*
[89] *Id.* 15-16.
[90] *Id.*

witness Spanos testified that "National Fuel is operating within the same 'landscape' that has existed for many rate cases. The ELG procedure has been proposed and approved in each of those rate cases."[91] This statement is not correct as evidenced by OCA witness Andrews' analysis that NFG is in a period of high investment.[92] In fact, Company witness Spanos agreed with Mr. Andrews that NFG is in a high investment period.[93] Furthermore, NFG only filed rate increases in 2025, 2022, and 2006.[94]

It is also not correct to state that the landscape is the same for each of NFG's prior rate cases. For example, in 2006, the DSIC had not been proposed by the General Assembly and the 2022 proceeding settled.[95]

NFG's proposed rate increase due to NFG's substantial increase to its rate base can be mitigated, without unreasonable adverse impact on the utility, by the Company depreciating its assets using rates determined using the ALG procedure, according to OCA witness Andrews.[96] Mr. Andrews testified: "The ALG procedure will properly allow National Fuel to recover the full cost of investments over the life of the assets; however, it will be at a more affordable rate and, therefore, reduces the expense in the interest of consumers and allows for more just and reasonable rates."[97]

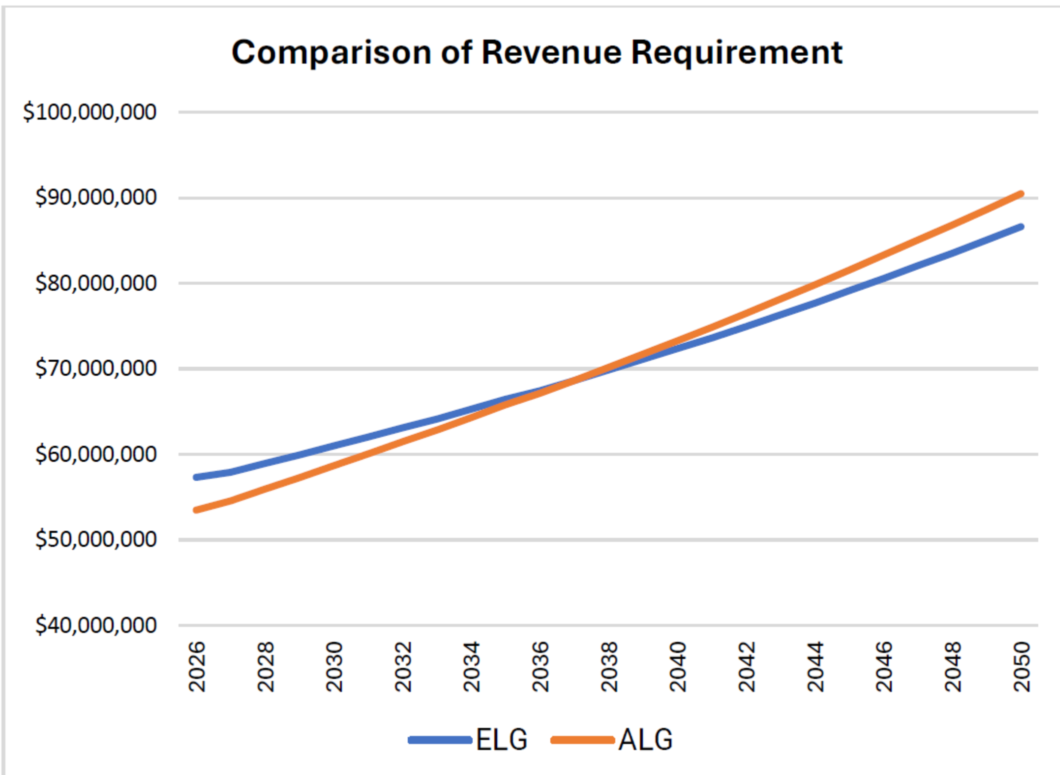
---

[91] NFG St. 8R at 24. Mr. Spanos' statement from his Rebuttal testimony was in response to Mr. Andrews presenting a case from the Indiana Utility Regulatory Commission. There will be additional discussion on jurisdictions moving from ELG to ALG further below.
[92] OCA St. 4 at 14.
[93] *Id*. at 25.
[94] OCA St. 4SR at 15-16.
[95] *Pa. PUC v. National Fuel Gas Distribution Corporation*, Docket No. R-2022-3035730, Order (June 14, 2023); 66 Pa. C.S. 1353(a).
[96] OCA St. 4 at 26.
[97] *Id*.

3. Adopting the ALG procedure provides NFG customers, present and future, equitable depreciation rates.

According to NFG witness Spanos, NFG's customers will experience lower rates in the FPFTY and for approximately the next decade by utilizing the ALG procedure.[98] Mr. Spanos illustrated this in his rebuttal testimony by providing the following chart:

Figure 3. Comparison of Revenue Requirement



[99]

The graph above gets to what OCA witness Andrews called "the underlying principle for determining depreciation rates," which is intergenerational equity.[100] As stated in *Re Minnegasco, Inc.*, "[a]s a general rule, it is inequitable and economical [sic] unsound

[98] OCA St. 4SR at 13.
[99] NFG St. 8R at 17.
[100] OCA St. 4 at 24.

to ask one 'generation' of captive ratepayers to bear the cost of providing service to another.*"*[101] Mr. Andrews testified that the Company's own analysis in the graph above shows that the ALG procedure results in lower revenue requirements for NFG's customers for approximately the next 11 years.[102] In his rebuttal testimony, Mr. Spanos characterized 11 years as a "*short*-term benefit" for current customers.[103] OCA witness Andrews testified as to the benefit of adopting the ALG procedure as follows: "11 years of lower utility bills is a substantial benefit to customers who are experiencing rate increases and facing affordability concerns today."[104] Though 11 years is a remote time in the future, it is important to address the crossover point in approximately the year of 2037, when the revenue requirement is projected to increase.[105] The crossover point gets to the crux of ALG vs. ELG. The Commission summarized this dynamic as follows:

> Depreciation impacts customer rates in two ways. First, depreciation expense is a direct component of the revenue requirement; however, accumulated depreciation is also a reduction to rate base. Second, a higher level of accumulated depreciation results in a lower rate base, lower return on rate base, and therefore, lower customer rates when compared to a lower level of accumulated depreciation.[106]

---

[101] *Re Minnegasco, Inc.*, 143 PUR4th 419, 426 (May 3, 1993); *Re Limerick Nuclear Generating Station*, 1982 Pa. PUC LEXIS 102, *65.
[102] OCA St. 4SR at 13-14.
[103] NFG St. 8 at 16 (emphasis in original).
[104] OCA St. 4SR at 14.
[105] NFG St. 8R at 17. The Commission considered the merits ALG vs. ELG in Columbia Gas' most recent rate and found OCA's advocacy for adoption of ALG to be incomplete because it did not adequately address the latter projections: "By ignoring the impact of depreciation expense on rate base, the OCA fails to acknowledge that any benefit to current customers from Mr. Garrett's proposal to use ASL depreciation rates only results from the change from the ELG to ASL procedure, not from the overall use of the ASL procedure itself." In this section and further below, the OCA will address concerns raised by the Commission regarding adoption of the ALG procedure and explain why this proceeding under these set of facts and the Public Utility Code merit adoption of the ALG method in this proceeding.
[106] *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.,* Docket Nos. R-2025-3053499 *et al.*, Order at 108 (Dec. 4, 2025).

This summary aligns with what OCA witness Andrews testified: "Both procedures ensure full cost recovery for the utility; the only question is how the timing of that cost recovery is allocated among generations of customers." Mr. Andrews pointed out that the benefit for NFG ratepayers by utilizing the ALG procedure is firmly established at this present moment whereas the benefit to NFG ratepayers utilizing the ELG procedure is based on long-term projections:

> [T]hese long-range projections are based on speculative assumptions about plant activity, retirements, and rate of return extending 25 years into the future. The assumptions embedded in this forecast drive the result, and there is no way to verify whether those assumptions will prove accurate over a quarter-century time horizon. **In contrast, the near-term benefit of the ALG procedure is real and measurable**.[107]

As illustrated by NFG's Figure 3, the known and measurable impact of the ALG procedure means there is a tangible benefit to its current ratepayers whereas the ELG procedure unfairly produces higher rates for current customers based off of a projected future scenario. OCA witness Andrews affirmed that intergenerational equity is an underlying principle for determining depreciation rates and testified as follows:

> Given that traditional ratemaking sets rates on a forward-looking basis based on test year expense and remain in effect until a future rate case, the use of a depreciation system that utilizes the ELG procedure in the test year is at odds with this principle. As my example has clearly demonstrated, the ELG procedure is an accelerated form of depreciation, which causes current customers to pay greater depreciation expense than future customers for the same level of utility service.[108]

NFG witness Spanos testified that the ELG procedure is the better methodology to future inequities because it better matches an asset's cost to the period of time over which

[107] OCA St. 4SR at 14 (emphasis added).
[108] OCA St. 4 at 24.

it is providing service.[109] Mr. Andrews noted whichever grouping procedure is utilized, the utility will recover the full cost of its prudent investments to provide utility service over the life of the assets.[110] Mr. Spanos also claimed that the ALG procedure produces intergenerational inequity because customers pay for assets from which they receive no service.[111] Mr. Andrews explained that Mr. Spanos identified two concepts of intergenerational equity: the inequity of customers paying for retired assets, and the inequity of uneven distribution of depreciation charges over the life of an asset.[112] According to Mr. Andrews, Mr. Spanos claimed that the first form is more detrimental than the second.[113] Mr. Andrews responded with the following:

> First, the concern about customers paying for retired assets under ALG is addressed by the Remaining Life Technique, which both Mr. Spanos and I use. The Remaining Life Technique is self-correcting: any over-accumulations or under-accumulations due to the use of the average life are automatically spread over the remaining life of the account in subsequent depreciation studies. This means that the theoretical concern about stranded cost recovery under ALG is mitigated through the regular updating of depreciation rates, which as I noted above occurs on a regular basis for National Fuel.
>
> Second, Mr. Spanos's own testimony acknowledges that "in real-world operations, circumstances can change such that assets are retired earlier than expected." This acknowledgment applies equally to the ELG procedure: if assets are retired at times different than the survivor curve predicts (which Mr. Spanos concedes will happen), then the ELG procedure's allocation of cost among equal life groups will also be incorrect, and the claimed intergenerational equity advantage of ELG does not materialize in practice.

---

[109] NFG St. 8R at 20-21. The perceived accuracy of the ELG procedure will be discussed in the next section.
[110] *Id.*
[111] NFG St. 8R at 18.
[112] OCA St. 4 SR at 16.
[113] *Id.*

> Third, Mr. Spanos's focus on the first form of intergenerational equity (paying for retired assets) overlooks the fact that the ELG procedure creates the second form of intergenerational equity (front-loading depreciation expense). As I stated in my direct testimony, the ELG method assigns more depreciation expense to customers that take service early in the asset's service life and reduces the expense to customers toward the end of the asset's service life.[21] Mr. Spanos does not dispute this characterization. In the current environment, where National Fuel is in a higher-than-average investment cycle and the majority of its assets are relatively young (average age of 19.9 years for a company with a 70-year average service life for its largest accounts), the front-loading effect of ELG is particularly pronounced.[114]

Furthermore, the strength of the dollar favors present customers, as Mr. Andrews explained: "Mr. Spanos's revenue requirement comparison treats a dollar of savings in 2026 as equivalent to a dollar of cost in 2050, but this fails to account for the time value of money."[115] Mr. Andrews stated that due to inflation, the purchasing power of a dollar erodes over time.[116] For example, at a 3% inflation rate, which is consistent with recent experience, the purchasing power of a dollar declines as follows:

- By 2030 (4 years from now), a dollar will have the purchasing power of approximately $0.89 in today's dollars.
- By 2035 (9 years from now), approximately $0.77.
- By 2037 (11 years from now, the approximate crossover point in Mr. Spanos's analysis), approximately $0.72.
- By 2045 (19 years from now), approximately $0.57.
- By 2050 (24 years from now, the end of Mr. Spanos's projection), approximately $0.49.[117]

[114] *Id.* at 16-17.
[115] *Id.* at 14.
[116] *Id.*
[117] *Id.*

Using ALG procedure produces lower revenue requirements during the period when customers' dollars have the greatest purchasing power, and the higher revenue requirements that Mr. Spanos projects under ALG in later years are in dollars that are worth substantially less.[118] According to Mr. Andrews: "By the end of Mr. Spanos's projection period, a dollar of savings would be worth less than half of what it is worth today."[119] Mr. Andrews went on to state that customers today are always more valuable than savings in the future, because the purchasing power of those future savings is diminished by inflation.[120] Mr. Spanos's analysis does not account for this fundamental economic reality, according to Mr. Andrews.[121]

This demonstrates that it is unfair to withhold direct relief to customers *now* when there is a procedure to properly account for depreciation expenses that would allow them to pay lower utility rates and strengthen intergenerational equity for consumers, which ultimately demonstrates that the Commission should reject NFG's proposal to continue utilizing the ELG procedure.

4. The certainty ascribed to the ELG methodology is a mirage.

NFG witness Spanos cited academic literature that describes the ELG procedure as "the only mathematically correct procedure," and asserts the utilizing the ELG procedure is generally considered to better match the consumption of capital with service provided" as opposed to the ALG measure.[122] OCA witness Andrews testified that ELG may be more

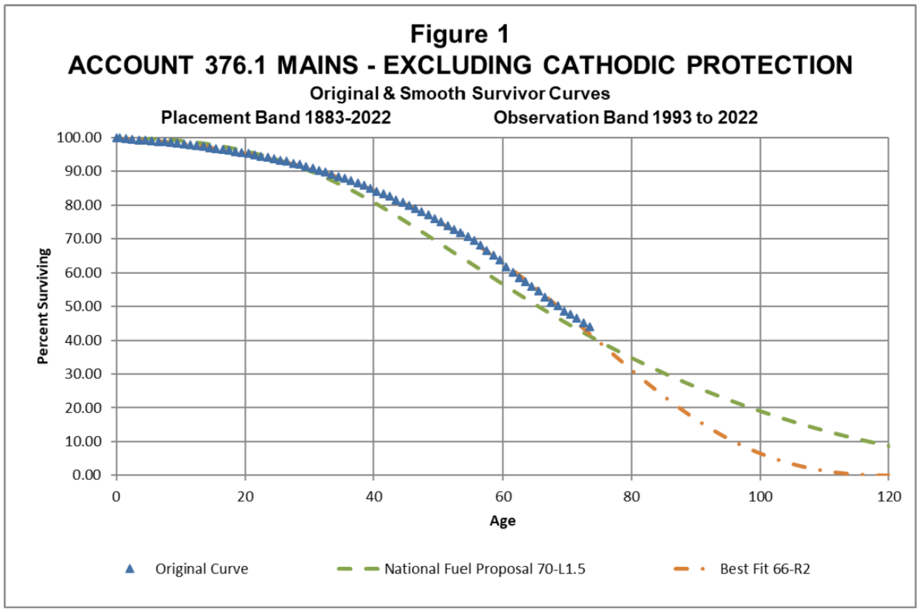
[118] *Id.* at 15.
[119] *Id.*
[120] *Id.*
[121] *Id.*
[122] OCA St. 4 at 29 (internal citations omitted).

precise mathematically, that precision does not exist in reality and that it is extremely sensitive to the survivor curve that is used to determine the depreciation rates and further explained that, "[t]he depreciation expense is also only accurate if and only if the utility property retires in exactly the manner dictated by the survivor curves used to calculate the ELG rates."[123] Mr. Andrews provided the following example:

> Account 376.1, the distribution mains account includes distribution mains of various materials (steel, plastic, etc.) and various sizes (1/2", ¾", 1", etc.). Each individual asset will retire in a different manner and at a different age. The ELG procedure assumes that every asset will retire in a manner exactly like the survivor curve. The ALG procedure assumes, that on average, the group of assets will retire in a manner consistent with the survivor curve. The ALG procedure is more appropriate because the precision of the ELG procedure does not match reality.[124]

Account 376.1 referenced by Mr. Andrews represents approximately $426.7 million, or 45%, of NFG's $955.9 million gas plant-in-service, and it represents 32% of NFG's proposed 2027 gas plant depreciation expense.[125] NFG proposed the 70-L1.5 survivor curve for this account.[126] In surrebuttal testimony, Mr. Andrews presented Figure 1, which shows NFG's original retirement data for Account 376.1 compared with the Company's proposed 70-L1.5 survivor curve:

[123] *Id.*
[124] *Id.*
[125] OCA St. 4SR at 5-6.
[126] *Id.*



[127]

While NFG witness Spanos claimed that the ELG procedure is more accurate, that is true only if property retires exactly as dictated by the survivor curve.[128] Mr. Andrews' Figure 1 graph demonstrates that the 70-L1.5 survivor curve that NFG proposes for Account 376.1 does not closely match the Company's actual retirement experience, particularly in the middle section of the curve, which according to Mr. Andrews, "demonstrates that this precision does not exist for National Fuel's largest account, which means the ELG procedure's allocation of cost among equal life groups will not match reality for nearly half of National Fuel's gas plant-in-service."[129]

Where the ELG procedure may lack true precision, the ALG procedure corrects for fluctuations as explained by Mr. Andrews, testifying that:

> [A]ll assets in an account are assumed to have an average life equal to that of the proposed survivor curve. While some property will be retired before the average service life, and some will be retired after the average service

[127] *Id.* at 6.
[128] *Id.*
[129] *Id.*

> life, on average, the property will exhibit life characteristics according to the survivor curve. For each vintage of property within an account, the remaining life is determined based on the age of the property and the survivor curve selected for the account. The unrecovered cost for each vintage is spread over the remaining life of that vintage, yielding an annual accrual for each vintage. The vintage annual accruals are summed for the entire account, and the total of annual accruals is divided by the account balance to determine the depreciation rate.[130]

Mr. Andrews' explanation shows that the expected degradation of plant-in-service deviates from original performance projections, almost *arguendo* as a law of nature.[131] As Mr. Andrews explained above, the ALG procedure is suited to adapt to the fluctuating realities of plant degradation that do not align with original estimates, where ELG cannot due to its rigidity.[132] Thus the perceived accuracy of the NFG procedure is not necessarily borne out in real life.[133] However, reliance on that perceived accuracy is costing ratepayers higher rates due to current customers paying excessive depreciation costs. In the interest of the Company's customers and the Company's ability to recoup plant-in-service costs, NFG's proposal to continue using the ELG procedure for calculating deprecation should be rejected and the ALG procedure adopted.

5. The OCA's position overcomes concerns raised by the Commission in Columbia's 2025 BRC.

In Columbia Gas' most recent base rate case, the Commission affirmed several key tenants when it comes to evaluating competing deprecation proposals.[134] First: "The Commonwealth Court has stated that the Commission is not bound by any particular

[130] OCA St. 4 at 18-19.
[131] *Id.*
[132] *Id.*
[133] *Id.*
[134] *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2025-3053499, *et al.*, Recommended Decision (Oct. 3, 2025) (*Columbia R.D.*).

methodology or procedure in determining annual depreciation expense."[135] Second: "Merely because a utility used a depreciation procedure in the past is neither a justification nor a limitation for determining what constitutes just and reasonable rates in this proceeding."[136] Third: "The Superior Court stated it is recognized that accrued depreciation is essentially a judgment figure, based on all the evidence, and the weight to be given any particular estimate is for the commission. The commission is not bound to accept any particular procedure of estimating accrued depreciation."[137]

In addition, the Supreme Court of the United States has held that the public utility company "is entitled to recover depreciation expense to ensure the utility is whole and the integrity of its investment maintained, the utility bears the burden of demonstrating that its claimed amounts to recover in expenses are not excessive.[138] Additionally, the public utility company "has the burden of making a convincing showing that the amounts it has charged to operating expenses for depreciation have not been excessive. That burden is not sustained by proof that its general accounting system has been correct. The calculations are mathematical, but the predictions underlying them are essentially matters of opinion."[139]

In the *Columbia Order*, the Commission also provides guidance for how a party can meet the rebuttal presumption in which a Company's depreciation methodology is

[135] *Id.* at 665.
[136] *Id.*
[137] *Id.*
[138] 66 Pa. C.S. § 315(a); *see Lindheimer v. Illinois Bell Tel. Co.*, 292 U.S. 151, 169 (1934) (*Lindheimer*); *Federal Power Commission v. Hope Natural Gas Co*., 320 U.S. 591, 606 (1944).
[139] *Lindheimer,* at 169.

considered reasonable for accounting purposes.[140] This standard is found in the Commission's regulations:

> In subsequent ratemaking proceedings, the most recent annual depreciation report or service life study approved or deemed approved for accounting purposes only under this chapter, constitutes a rebuttable presumption as to the reasonableness of the accrued depreciation claimed for ratemaking purposes, and the burden of proving the unreasonableness of the accrued depreciation shall be on the challenging party. [141]

The Commission discussed a flaw in the OCA's evidence when it considered ALG vs. ELG in the Columbia proceeding, which hindered the OCA's ability to overcome the Commission's "rebuttable presumption" as stated above. According to the Commission: "Mr. Garrett applied the ASL depreciation procedure but continued to use book reserve balances developed under the ELG procedure. As Mr. Spanos explained, in Pennsylvania, the standard procedure is to: (1) calculate depreciation for the HTY; (2) bring forward the reserve to the FTY; and then (3) bring that forward again to the FPFTY."[142] That critique does not apply in this proceeding. In direct testimony, OCA witness Andrews presented a reserve bringforward of accumulated depreciation from Sept. 30, 2025, to Oct. 31, 2027, based on the ALG methodology.[143] According to Mr. Andrews: "My recommended annual depreciation expense and accumulated depreciation are calculated on a reasonably consistent basis, which is required under Pennsylvania law."[144] Notably, NFG witness

---

[140] *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2025-3053499, *et al.,* Order at 106-111 (Dec. 4, 2025) (*Columbia Order*); 52 Pa. Code § 73.9(c).
[141] 52 Pa. Code § 73.9(c).
[142] *Columbia Order* at 110.
[143] OCA St. 4SR at 11.
[144] *Id*.

Spanos did not challenge Mr. Andrews' reserve bringforward or identify any methodological inconsistency with his analysis, thus confirming that this is a material difference between the evidence presented by the OCA in Columbia and this current proceeding.

Additionally, in the *Columbia Order*, the Commission stated that it has, "on numerous occasions, has accepted the use of the ELG procedure, and has done so, specifically in regard to Columbia, for over forty years."[145] This current proceeding is distinguishable, because NFG's two most recent rate cases are from 2022 and 2006, both of which settled. This means the Commission has not reviewed the Company's depreciation expense under contested conditions in over two decades.

Though the Commission may have accepted NFG's use of ELG in the past, the law as stated at the start of this subsection is clear: whether a Company has used a depreciation procedure in the past, that is not dispositive as to whether the Company automatically granted approval to continue using the same procedure. Company witness Spanos incorrectly stated this standard in rebuttal testimony: "None of Mr. Andrews' arguments support overturning longstanding precedent despite having the burden of doing so under 52 Pa. Code §73.9(c)."[146]

The Third Circuit defines precedent as "a specific legal consequence arising from a detailed set of facts in an adjudged case or judicial decision, which is then considered as furnishing the rule for the determination of a subsequent case involving identical or similar

---

[145] *Columbia Order* at 110.
[146] NFG St. 8R at 11.

material facts and arising in the same court or a lower court in the judicial hierarchy."[147] Applying this definition to the instant case, the Commission has not furnished a rule as to which depreciation methodology is required to utilize when it files for rate increases, meaning adoption of ALG in this proceeding is not "overturning" any prior decision.

6. A supermajority of states requires the ALG procedure.

The Commission previously stated that the use of ALG in other jurisdictions is not relevant, stating that other jurisdictions use other depreciation parameters.[148] The OCA acknowledges that decisions in other jurisdictions are not legally binding before the Commission. However, the OCA presents recent decisions from other jurisdictions for their persuasive value for three following reasons: 1) ALG is the deprecation procedure used by more than a supermajority of utility jurisdictions; 2) the trend across the nation is to shed ELG in favor of ALG; and, 3) in some cases, the facts are similar to this current proceeding.

For example, the Indiana Utility Regulatory Commission (IURC) recognized that Duke Energy of Indiana, LLC., was similarly in a high investment period and similarly proposed the use of ELG.[149] When the IURC was presented with arguments regarding ALG and ELG, it recognized that a high investment period harms ratepayers in the immediate term: "The use of ELG in a higher than average investment cycle has the effect of unnecessarily increasing the near-term depreciation expense as compared to the use of

---

[147] *Surrick v. Killion*, 449 F.3d 520, 522.
[148] *Columbia Order* at 110.
[149] OCA St. 4 at 32-33.

ALG."[150] The Kentucky Public Service Commission (Kentucky PSC) shared the same rationale in 2017 when it weighed ELG and ALG:

> [T]his Commission has found that the ELG procedure does not accurately match revenues and expenses, is front-loaded, and Duke Kentucky is the only Kentucky based utility that utilizes the ELG procedure for computing depreciation rates.
>
> Regulatory accounting requires the proper matching of revenues and expense in order to produce fair, just and reasonable rates.[151]

The Arkansas Public Service Commission (Arkansas PSC) also recognized that when a utility is increasing its plant-in-service, like NFG is here, the use of "ELG will continue to result in higher depreciation rates and expense as long as a utility's plant continues to grow."[152] Company witness Spanos attempted to downplay the Kentucky and Indiana cases by claiming that because those cases involved electric utility companies, the comparison is inapplicable.[153] That argument should be given little weight considering no expert witness has presented testimony claiming one type of depreciation procedure is only applicable to certain types of utilities and not applicable to others. In fact, five pages earlier in Mr. Spanos' rebuttal testimony, he affirmed that "Both procedures are designed to recover the total service value of an asset over the asset's service life."[154] When he made that statement, he did not qualify it by saying one procedure is only applicable to certain utility types. Additionally, he produced no evidence to refute the trend that more jurisdictions are adopting the ALG procedure.

---

[150] *Id.*
[151] *Id.* at 31.
[152] *Id.* at 33.
[153] NFG St. 8R at 24.
[154] *Id.* at 19.

The scenarios from the three other jurisdictions are similar, but the current NFG case stands apart because NFG customers are struggling with growing and sustained unaffordability as discussed in subsection (A)(2) above. While not directly applicable authority and does not bear direct legal impact on the Commission, these cases help illustrate why the Commission should adopt the ALG procedure in this proceeding.

7. Conclusion

NFG's continued use of the ELG procedure imposes an additional unjustified and unreasonable $4.67 million revenue requirement burden on ratepayers who already are facing difficulties. To meet the just and reasonable standard set forth in Section 1301, the Commission should reject NFG's proposal to continue using the ELG procedure to calculate deprecation and adopt the methodology described by OCA witness Andrews, which utilizes the ALG procedure. Without adoption of ALG, NFG customers will be paying higher rates than required to safely operate the gas distribution system (and provide investors a reasonable return) for the next decade and slightly beyond.

H. Other Expense Adjustments

1. Insurance Settlement Proceeds

NFG's operating expense claim should be reduced by $312,000 to reflect a 3-year flowback of environmental proceeds from an insurance settlement received by the Company.[155] According to NFG, it has $936,314 in a regulatory liability account on its books that have been deferred as a regulatory liability since the ratepayers paid for the

[155] OCA St. 2 at 14-15, *see*, OCA Exh. LKM-9A-SR.

premiums in the original policy.[156] OCA witness Morgan recommends that the amount in the liability account (which NFG admits are ratepayer funds)[157] should be returned to customers since the insurance costs were paid by customers and the amount in the account are ratepayers' funds that they are entitled to have returned to them.[158] As Mr. Morgan testified, "the statement by the Company that the funds in this account are used to pay claims as they arise is vague as far as how long the Company may end up holding these funds" and "this means that the Company retains use of their funds on a cost-free basis."[159] If these funds are not returned to ratepayers through lower rates, ratepayers will end up paying higher rates while the Company retains use of the funds on a cost-free basis.[160]

In response, NFG witness Formato criticized Mr. Morgan by stating that the adjustment has two fundamental "flaws": 1) he claims the balance in this account is being reduced as the Company processes environmental expenses, and 2) he states that if the insurance regulatory liability is flowed-back to ratepayers, a normalizing adjustment would be needed to reestablish that environmental expense that ratepayers were shielded from.[161]

Mr. Morgan's recommendations are not "flaws," but rather different terms than what NFG is proposing to flow back as ratepayer funds.[162] As Mr. Morgan testified:

> First off, the insurance settlement funds are ratepayers' funds to which they are entitled. If the Company continues to hold these funds, the Company has use of nearly $798,079 cost-free, and ratepayers lose the time value of these

[156] OCA St. 2 at 15.
[157] Section 53.51 et seq of the Commission's Regulations, III-F.8, Page 2, Footnote 4.
[158] OCA St. 2 at 15.
[159] *Id.*
[160] *Id.*
[161] NFG St 3-R at 11.
[162] OCA St. 2SR at 16-17.

> funds because the Company is not currently accruing any carrying charges. This is unfair to ratepayers.[163]

Flowing back the insurance settlement proceeds would amount to rates that are $266,000 lower than proposed by NFG.[164] Furthermore, if the Commission does not accept Mr. Morgan's adjustment to flow back the insurance settlement funds to customers, as a matter of fairness and equity, NFG must be required to accrue carrying charges because the Company has free use of these funds until they are exhausted.[165] Mr. Morgan has not recommended that the carrying charges be included in his adjustment to flow back the insurance settlement funds, this recommendation is a moderate and reasonable approach.[166]

2. Office Employee Expenses

NFG's operating expenses should be reduced by $64,000 to reflect an adjustment to Office Employee Expenses.[167] NFG has proposed an adjustment to increase Office Employee Expenses using a compound growth rate of 3.67% based on the FY 2023 to FY 2025 period. The increase in this expense item should be removed because NFG's approach is inconsistent with the zero-based budgeting approach that NFG witness Formato claims NFG uses for its operating budget.[168] Applying a compound growth rate to historical costs is not consistent with zero-based budgeting and does not produce results that are representative of the cost that would be incurred in the FPFTY because there is no

---

[163] *Id.* at 17.
[164] *Id., citing*, OCA Exh. LKM-9A-SR.
[165] *Id.* at 18.
[166] *Id.*
[167] OCA St. 2 at 16, *see*, OCA Exh. LKM-10A-SR.
[168] *Id.*

correlation of planned activities for the budget year and the underlying costs used to develop the budget.[169]

NFG witness Formato disagreed with Mr. Morgan's adjustment, stating that the Office Employees Expense line item is made up of software, office equipment and employee training and travel expenses, which he claimed are subject to inflationary price increases.[170] Mr. Morgan noted, however, that Mr. Formatto's explanation is inaccurate because the software, office equipment and employee training and travel expenses identified by Mr. Formato were not the same costs that were identified and escalated by a compound annual growth rate (CAGR).[171]

Mr. Morgan disagrees with the use of an inflation escalation for projecting the FPFTY expenses because a CAGR is not an inflation escalation rate and if NFG's intention was to capture inflation, the annual inflation rate should be used.[172] Nevertheless, Mr. Morgan disagrees with the use of inflation escalation solely as the basis of determining the FPFTY level of expenses because inflationary adjustments are not known and measurable but are blanket cost increases.[173] Instead, he argued that costs should be based upon evidence or documentation that can be identified, supported and calculated with a degree of certainty, which the inflation escalation does not do.[174]

---

[169] *Id.* at 16.
[170] NFG St. 3-R at 5.
[171] OCA St. 2SR at 14.
[172] *Id.*
[173] *Id.* at 14-15.
[174] *Id.* at 15.

3. Other Expense – Line Hit Collections

NFG's claim for operating expenses should be reduced by $156,000 to reflect adjustments to the claim for Other Expense -Line Hit Collections.[175] Line hit collections represent the amount recovered in reimbursements for damage to NFG's gas lines. NFG normalized line hit collections because the amount recovered during FY 2025 was unusually high in comparison to the two prior years.[176] Mr. Morgan explained that the Other Expense account is an account that contains two interrelated components – one is an expense and the other is a reimbursement of expenses (expense offsets).[177] Mr. Morgan noted that both components of the net cost to repair damaged lines should be normalized to fairly normalize the cost of repairs instead of only one component.[178] If the cost of the offsetting component (the reimbursements) is being normalized, then it is also appropriate to normalize the expenses incurred. NFG's claim should, therefore, be adjusted as Mr. Morgan recommended.

NFG witness Formato misunderstands Mr. Morgan's adjustment.[179] Mr. Morgan reiterated that the intent of the adjustment is not to move away from a 3-year normalization concept and that Mr. Morgan did not assume that a period that experienced high line hit collections would also have higher repair expenses in the same year to act as a natural offset.[180] Rather, the intent of the "adjustment is to recognize that the Company is

---

[175] OCA St. 2 at 16-17, *see*, OCA Exh. LKM-11A-SR.
[176] *Id.* at 16.
[177] OCA St. 2SR at 3.
[178] OCA St. 2 at 17.
[179] NFG St 3-R at 7.
[180] OCA St 2SR at 19-20.

attempting to normalize an expense account that contains two interrelated components."[181] In contrast, NFG's approach is one-sided.

Furthermore, Mr. Formato's argument that the line hit collections have a significant lag such that recovery from third parties routinely cross over fiscal years from the events themselves in fact supports Mr. Morgan's adjustment because that lag increases the probability that expenses recorded in the account could be higher than normal.[182] Likewise, Mr. Formato's argument that the primary cost being recovered is labor warrants denying the adjustment ignores the costs associated with materials, overheads, contractors, permits, etc.[183] Mr. Morgan's adjustment should be accepted.

4. Uncollectible Expense

NFG's claim for uncollectible expenses should be reduced by $73,000 to reflect removal of a 0.02% management adjustment by the Company that is not appropriate.[184] Mr. Morgan noted that NFG calculated an uncollectible factor of 1.53% based on the three-year uncollectible ratio that was calculated from the historical data, and then added a 0.02% management adjustment to derive a total uncollectible factor of 1.55%.[185] NFG stated that a management adjustment was made to account for the dynamic that the uncollectible expense would likely rise because of higher customer bills stemming from NFG's proposed rate increase.[186] Mr. Morgan disagreed with this approach because the revenue gross up factor includes a component for uncollectible expenses and, as a result, the calculated

---

[181] *Id.* at 20.
[182] *Id.*
[183] *Id.*
[184] OCA St. 2 at 18, *see*, OCA Exh. LKM-13A-SR.
[185] *Id.*
[186] *Id.*, *citing*, NFG Response to OCA 14-12.

revenue increase is grossed up to reflect the value of higher uncollectible accounts resulting from the rate increase.[187]

NFG did not address this adjustment in its rebuttal testimony.

5. Postage Expense

NFG's claim for postage expense should be decreased by $175,000 to remove the compound annual growth rate applied by the Company.[188] As Mr. Morgan testified, NFG's adjustment that represents future increases in first class postage is backward looking during a period when the US Postage Service implemented frequent rate increases that are likely not to be repeated based on statements by the US Postage Service.[189] Among other things, the US Postage Service announced that price changes for 2026 would not be for first class postage; hence, NFG's 9% projected postal price increase is speculative and not known or certain at this time.[190] Mr. Morgan calculated postage expense to reflect the 4.8% scheduled postage rate increase.[191]

NFG argued in response that neither the OCA nor the company can predict future postage rates and that "the OCA's adjustment stops short and does not include likely increases in January and July of 2027."[192] Mr. Morgan, however, disagreed with this approach because it depends on speculation of a future postage rate increase which is

---

[187] *Id.* at 18.
[188] *Id.* at 19, *citing*, OCA Exh. LKM-14A-SR.
[189] *Id.* at 19 (citation removed).
[190] *Id.*
[191] *Id.*
[192] NFG St. 3-R at 6.

unknown or uncertain, and that it would also be inappropriate to use historical price increases to forecast future postal increases.[193]

6. Interest Synchronization

To determine the tax deductible interest expense for ratemaking, Mr. Morgan multiplied the OCA's recommended rate base by the weighted cost of debt included in the capital structure recommended by OCA witness Reno to synchronize the interest expense deduction for tax purposes with the interest component of the return on rate base to be recovered from ratepayers.[194] As a result, the interest expense deduction should be increased by $2,153,000 to a total of $16,042,000 and the state and federal income taxes should be decreased by $150,000 and $421,000, respectively.[195]

VII. TAXES

A. Income Taxes

In his testimony, Mr. Morgan noted that Pennsylvania recently passed legislation that instituted a multi-year phasedown of the corporate income tax rates from 9.99% in 2023 to 4.99% in 2031.[196] Mr. Morgan stated that NFG used the 2026 tax rate of 7.49% in determining the revenue requirement but, for the majority of the FPFTY, the tax rate will be at the 2027 rate of 6.99%.[197] Therefore, Mr. Morgan used the 2027 tax of 6.99% in his determination in the recommended change in revenues, noting that NFG is allowed to recover or refund any difference in tax expense related to change in tax rates so the

---

[193] OCA St. 2SR at 15-16.
[194] OCA St. 2 at 23, *citing*, OCA Exh. LKM-18A-SR.
[195] *Id.*
[196] *Id.* at 22.
[197] *Id.*

Company does not run the risk of under recovering its state income tax expense for the FPFTY.[198]

In response, NFG witness Forcucci explained that because of NFG's fiscal year, the company will not be subject to the 2027 tax rate of 6.99% until December 1, 2027.[199] Therefore, Mr. Morgan revised his tax calculation and the revenue gross-up factor to reflect the 7.49% instead of the 6.99%.[200]

B. Taxes Other Than Income Taxes

The OCA did not address this issue in its testimony.

C. Tax and Amortization Issues

The OCA did not address this issue in its testimony.

VIII. RATE OF RETURN

A. Introduction

NFG originally requested an 11.25% ROE, which included a 25-basis point management efficiency adjustment that was later rescinded.[201] However, NFG's subsequent proposal of an 11% ROE is clearly excessive and no other public utility in Pennsylvania has been awarded an ROE as high as 11%. NFG's claim that it is requesting an 11% ROE in furtherance of affordability is unreasonable.[202]

Moreover, NFG proposed a capital structure of 56.4% common equity and 43.6% debt for its operations, which is significantly weighted towards equity, leading to NFG's

[198] OCA St. 2 at 23.
[199] NFG St. 12-R at 2-3.
[200] OCA St. 2SR at 22.
[201] OCA St. 3 SR at 15.
[202] *Id.* at 2.

ratepayers paying even higher rates.[203] As demonstrated by OCA witness Maureen Reno and discussed in this brief, NFG's proposed return on equity and capital structure should be rejected as they are not supported by substantial evidence and would result in unjust and unreasonable rates. OCA witness Maureen Reno recommends the following:

- An overall ROR of 7.66%;
- An ROE of 9.74%;
- An imputed capital structure of 50% common equity and 50% debt for ratemaking purposes.[204]

If the Commission decides to approve NFG's proposed capital structure, the OCA recommends an alternative ROE of 9.06% with a resulting ROR of 7.54%.[205]

Ms. Reno's recommendations make proper use of accepted financial theory and realistically reflect the current capital cost environment. OCA witness Reno's proposed adjustments to the Company's ROE and capital structure result in an overall 7.66% weighted ROR.[206] Adopting OCA witness Reno's recommended adjustments to ROE and capital structure would result in a revenue requirement reduction of $3.094 million.[207] Alternatively, if the Commission uses NFG's capital structure, Ms. Reno's alternative ROE would result in a revenue requirement reduction of $3.022 million.[208] In recognition of the facts and analysis presented below, NFG's requests should be rejected, and the OCA's cost of capital recommendations should be adopted.

[203] OCA St. 3 at 22.
[204] *Id.* at 6.
[205] OCA St. 3SR at 3, 25.
[206] OCA St. 3 at 6.
[207] OCA Ex. LKM-1A-SR.
[208] OCA Ex. LKM-1B-SR.

B. Capital Structure

NFG proposed a capital structure consisting of 56.4% common equity and 43.6% long-term debt.[209] OCA witness Maureen Reno demonstrated that this equity-heavy capital structure is unreasonable, inconsistent with industry trends, and would unnecessarily increase customer costs.[210] Accordingly, the Commission should reject NFG's proposal and adopt Ms. Reno's recommended hypothetical capital structure of 50.0% common equity and 50.0% long-term debt for ratemaking purposes.[211]

The purpose of establishing a ratemaking capital structure is not merely to replicate a utility's actual capitalization for ratemaking purposes, but rather to ensure that rates are just and reasonable.[212] Equity is more expensive than debt because shareholders require higher returns than creditors and because dividends are not tax deductible.[213] Consequently, excessive equity financing increases the overall cost of capital borne by ratepayers.[214] As OCA witness Reno explained, authorizing an equity-rich capital structure requires customers to pay both a higher return and a higher associated tax burden.[215]

NFG's proposed equity ratio substantially exceeds industry benchmarks.[216] As Ms. Reno explained:

> NFG's proposed 56.40% equity ratio exceeds recent average authorized equity ratios for regulated gas utilities, including 52.45% in 2023, 52.52% in 2024, and 51.63% in 2025. It also exceeds the proxy group expected average of 48.00% and median of 45.00% for 2026. Because equity is the more

[209] OCA St. 3 at 22.
[210] *Id.* at 23-26.
[211] *Id.* at 6.
[212] OCA St. 3SR at 5.
[213] *Id.*
[214] *Id.*
[215] *Id.*
[216] *Id.* at 5-6.

> expensive form of capital, using a higher equity ratio increases the total rate of return customers must pay.[217]

The reasonableness of Ms. Reno's recommendation is further demonstrated by regulatory precedent.[218] OCA witness Reno identified more than forty state commission-approved decisions and settlements utilizing a 50.0% common equity ratio, including natural gas utility proceedings involving Southwest Gas, Northern Illinois Gas, Northwest Natural, and Puget Sound Energy.[219] These decisions reflect the same ratemaking principle applicable here: utilities should be provided sufficient equity to maintain financial integrity and attract capital, but customers should not be required to fund unnecessarily expensive equity capital.[220]

Ms. Reno also identified concerns arising from NFG's financing relationship with its parent company, National Fuel Gas Company (NFGC).[221] NFG is not publicly traded and obtains financing through NFGC.[222] Ms. Reno explained that parent-company financing arrangements raise concerns regarding double leverage because debt issued at the parent level may ultimately be reflected as equity in the regulated subsidiary, thereby increasing customer costs.[223] While Company witnesses Welch and Nowak disputed whether double leverage is present, they did not rebut the broader concern that NFG's

---

[217] *Id.*
[218] *Id.* at 6.
[219] *Id.*; OCA Ex. MLR-1-SR: Schedule MLR-1-SR.
[220] OCA St. 3SR. at 6.
[221] *Id.* at 12-14; OCA St. 3 at 24-25.
[222] *Id.* at 13.
[223] OCA St. 3 at 25.

financing relationship with its parent remains relevant when evaluating whether customers should be required to support an excessive equity ratio.[224]

Further, precedent recognizes that the capital structure for companies that are wholly-owned subsidiaries, like NFG, is not limited to an actual capital structure, and the Commission may make adjustments where circumstances may be unfair to customers. The capital structure of utilities that are wholly-owned subsidiaries may not be one which it would maintain if it were obliged to obtain its debt and equity financing on the open market rather than from a parent company:

> In such instances the actual capital structure may be weighted too heavily on the debt side or the equity side…The use of the actual capital structure in such peculiar circumstances might be unfair to either the utility or its customers, depending upon whether debt or equity is disproportionately high. Under such circumstances the commission must make adjustments based upon substantial evidence in order to reach a fair result.[225]

When conducting her analysis, Ms. Reno did not ignore NFG's actual capital structure. Rather, she considered the Company's historical capitalization, its proposed future capitalization, recent industry-authorized equity ratios, expected proxy group capital structures, and the resulting impact on customers.[226] After considering all relevant factors, she concluded that NFG's proposed equity ratio is unreasonable because it exceeds industry norms and imposes unnecessary costs on customers.[227] For these reasons, the Commission should reject NFG's proposed capital structure and adopt Ms. Reno's recommended 50.0% equity and 50.0% debt capital structure.

---

[224] OCA St. 3 SR at 12-13.
[225] *Riverton Consol. Water Co. v. Pa. PUC*, 140 A.2d 114 at 121 (Pa. Super. 1958).
[226] OCA St. 3 at 23-25.
[227] *Id.*

C. Debt Cost Rate

OCA witness Reno testified that expected market rates for Moody's Aaa-rated and Baa-rated corporate bonds remain consistent with NFG's embedded debt cost and support the reasonableness of the Company's proposed debt component.[228] Accordingly, the OCA does not oppose NFG's proposed 5.58% cost of long-term debt.

D. Return on Common Equity

1. The OCA's Recommended ROE Using the Constant-Growth DCF Analysis Is Supported by Substantial Evidence and Results in Just and Reasonable Rates.

The Commission should reject NFG's requested 11.00% ROE and adopt OCA witness Reno's recommended 9.74% ROE.[229] If the Commission approves NFG's proposed capital structure, it should instead adopt Ms. Reno's alternative 9.06% ROE.[230]

Ms. Reno's recommendation is grounded in the standards established by *Bluefield* and *Hope*.[231] Under those decisions, a utility is entitled to earn a return comparable to investments of similar risk and sufficient to maintain financial integrity and attract capital on reasonable terms.[232] Ms. Reno's DCF analysis, which examines projected earnings growth, dividend growth, book-value growth, and sustainable growth measures, together, provides a balanced measure of expected growth that more accurately reflects how investors actually assess utility stocks.[233] In contrast, NFG's proposed 11.00% ROE fails

---

[228] OCA St. 3 at 26.
[229] OCA St. 3SR at 33.
[230] *Id.* at 35.
[231] *Bluefield Water Works & Improvement Co. v. Public Service Commission*, 262 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).
[232] *Id.*
[233] OCA St. 3 at 44-45; OCA St. 3SR at 16.

the *Bluefield* and *Hope* standards because it substantially exceeds the returns currently required by investors for comparable natural gas utilities by applying a growth rate that almost exclusively relies on earnings-growth projections and disregards other indicators investors often use to evaluate future returns.[234]

Ms. Reno utilized a Discounted Cash Flow (DCF) analysis[235] as the primary basis for her ROE recommendation and used the Hamada version of Capital Asset Pricing Model (CAPM)[236] as a check on reasonableness.[237] Ms. Reno used the Hamada version of the CAPM for her reasonableness check because the DCF does not directly incorporate the impact of the capital structure on ROE.[238]

Her DCF analysis produced a range of 8.88% to 10.61%, with a midpoint of 9.74%.[239] Ms. Reno recommended the midpoint because it appropriately reflects NFG's risk profile and investors' current expectations regarding utility equity investments without introducing subjective bias into her overall recommendation by choosing another point in her range.[240]

Ms. Reno's CAPM analysis produced a range of 7.43% to 10.55%, with a midpoint of 8.99%.[241] The CAPM midpoint is seventy-five basis points below the DCF midpoint and therefore confirms the reasonableness of the recommended 9.74% ROE.[242]

---

[234] OCA St. 3 at 3-6, 45-46; OCA St. 3SR at 18.
[235] See OCA St. 3 at 41-50 for Ms. Reno's full Constant-Growth and Sustainable-Growth Discounted Cash Flow analyses.
[236] See Id. at 50-57 for Ms. Reno's full Capital Asset Pricing Model analysis.
[237] *Id.* at 41.
[238] *Id.* at 25; *see* OCA St. 3 at 63-65 for Ms. Reno's full Hamada analysis.
[239] *Id.* at 49.
[240] *Id.* at 6.
[241] *Id.* at 7, 50.
[242] *Id.* at 7.

TABLE 3.[243] RENO DCF RESULTS (AVERAGE RESULTS)			
Estimated Return on Equity	**ROE**		
DCF Methodology	30-Day Stock Price	90-Day Stock Price	Midpoint
Constant-Growth DCF (EPS Growth)	10.48%	10.61%	
Constant-Growth DCF (DPS, EPS and BVPS)	8.88	9.03	
Sustainable-Growth DCF	9.87	10.03	
DCF Range (Min. & Max.)[1]	**8.88%**	**10.61%**	**9.74%**

[1] ROE range (minimum and maximum values) for the 30-day and 90-day DCF results.

The DCF model is a widely accepted method for estimating the return investors require on utility common equity.[244] OCA witness Reno used the Constant-Growth DCF model to form the basis of her 9.74% ROE recommendation.[245] Under the constant-growth DCF model, an investor's expected return is equal to the expected dividend yield plus the expected long-term growth rate in dividends.[246] The model is based on the principle that the value of a stock reflects the present value of future dividends and that investors require compensation both for current income and future growth.[247]

Although both Ms. Reno and Mr. Nowak employed a constant-growth DCF model, they differed significantly in their estimation of the growth component.[248] That difference is critical because growth expectations are a primary driver of DCF results.[249] Higher

[243] *Id.* at 49.
[244] *Id.* at 68.
[245] *Id.* at 41.
[246] OCA St. 3SR at 17.
[247] *Id.*
[248] OCA St. 3 at 44-46.
[249] *Id.* at 45-46.

assumed growth rates produce higher estimated returns on equity, while lower and more realistic growth rates produce lower ROE estimates.[250]

Ms. Reno developed her growth estimates using multiple indicators of long-term utility growth.[251] She first calculated expected earnings growth using the average of analyst forecasts from three independent and widely recognized sources—Value Line, S&P Market Intelligence, and Zacks—which resulted in an average expected earnings growth rate of 7.92%, with median DCF results of 10.48% and 10.61%.[252] Recognizing that investors are not solely concerned with earnings growth, but also consider dividend and book value growth, Ms. Reno adjusted her DCF results by averaging Value Line's dividends per share and book value per share estimates with the previously estimated growth rate result, weighted equally, which produces the growth rate used by OCA witness Reno of 5.45% with median DCF results of 8.88% and 9.03%.[253] By considering several indicators, Ms. Reno's methodology reduces the risk that any single forecast will distort the resulting ROE estimate.[254] Her approach reflects the reality that investors evaluate a company's growth prospects using numerous financial metrics rather than relying exclusively on analysts' earnings projections.[255]

As part of this analysis, Ms. Reno also employed a sustainable growth approach.[256] the sustainable growth approach measures the rate at which a company can grow over time

---

[250] *Id.* at 49-50.
[251] *Id.* at 44-45.
[252] *Id.* at 44.
[253] *Id.* at 44-45.
[254] *Id.*
[255] *Id.*
[256] *Id.* at 46-49.

through internally generated earnings while maintaining its existing capital structure and dividend payout practices.[257] Rather than relying solely on external analyst forecasts, the sustainable growth model derives growth from fundamental financial characteristics such as earnings retention, dividend payout ratios, and expected returns on equity.[258] Because it is grounded in the company's underlying financial fundamentals, the sustainable growth approach provides an important check on potentially optimistic analyst earnings projections and helps ensure that growth assumptions remain economically realistic.[259]

In contrast, NFG witness Nowak relied predominantly on projected earnings growth rates in developing his DCF results.[260] OCA witness Reno explained that analyst earnings forecasts frequently exceed actual long-term growth and can be subject to optimism bias.[261] As a result, a DCF model that relies primarily on projected earnings growth tends to produce inflated ROE estimates.[262]

Ms. Reno further demonstrated that her methodology is more consistent with actual utility growth experience. By incorporating dividend growth, book-value growth, and sustainable growth measures in addition to earnings forecasts, her analysis produces a balanced estimate of investor expectations and avoids overstating the growth prospects of the proxy companies.[263] The Commission should therefore accord greater weight to Ms. Reno's DCF analysis. Ms. Reno’s growth assumptions are supported by multiple objective

---

[257] *Id.*
[258] *Id.*
[259] *Id.*
[260] *Id.* at 53.
[261] *Id.* at 5; OCA St. 3SR at 18.
[262] *Id.*
[263] OCA St. 3 at 44-45.

indicators and provide a more reliable measure of investors' long-term expectations than the forecasted earnings-growth-focused approach employed by Mr. Nowak.[264] Because the difference between the parties' ROE recommendations is driven largely by their treatment of growth, the Commission should adopt Ms. Reno's DCF analysis as the more reasonable and better-supported estimate of NFG's cost of equity.

Mr. Nowak further subjectively inflated his ROE recommendation by incorporating a size-risk adder, which increased his proposed ROE based on the premise that NFG's relatively small size warrants additional investor compensation in addition to what Mr. Nowak was able to obtain through his mathematical formulae, which already included unreasonably high growth rates.[265] Ms. Reno rejected this adjustment because NFG is not a standalone company but rather a wholly owned subsidiary of NFGC, a substantially larger parent company with diversified operations and access to capital markets.[266] Additionally, NFG holds significantly less risk than other smaller companies as a regulated monopoly.[267] As a result, the Company failed to demonstrate that NFG's ROE should be subjectively inflated due to the Company's size.

OCA witness Reno also rejected Mr. Nowak's subjective assertions regarding capital expenditure risk,[268] customer concentration risk,[269] and regulatory risk.[270] The Company failed to establish that any of these alleged risks justify an ROE materially above

---

[264] *Id.* at 44-46.
[265] *Id.* at 57-58.
[266] *Id.* at 59.
[267] *Id.* at 58-59.
[268] *Id.* at 32.
[269] *Id.* at 33.
[270] *Id.* at 34-35.

prevailing industry levels. NFG also contends that a higher ROE is warranted because of rising interest rates.[271] However, as Company witness Nowak acknowledged under cross examination during the evidentiary hearing, increasing interest rates for mortgages affects affordability for all market participants, including NFG's customers.[272] The financial pressures associated with higher interest rates are therefore not unique to NFG and do not provide a basis for authorizing an ROE substantially above current industry norms. Accordingly, the Company has failed to demonstrate that prevailing interest-rate conditions justify its requested 11.00% ROE or that its requested ROE results in just and reasonable rates.

OCA witness Reno's recommendation is fully consistent with recent regulatory outcomes. According to S&P Global Market Intelligence, the average authorized ROE for natural gas utilities nationally in 2025 was 9.70%.[273] Ms. Reno's recommended 9.74% ROE is four basis points above that average.[274] By contrast, NFG's proposed 11.00% ROE significantly exceeds the industry average and would represent an outlier among authorized utility returns both in Pennsylvania and nationally.[275] The Commission should adopt Ms. Reno's recommended 9.74% ROE as it is supported by substantial evidence and would result in just and reasonable rates.

---

[271] Tr. 165, 167-68.
[272] *Id.* at 176.
[273] OCA St. 3 at 69.
[274] *Id.*
[275] *Id.*

2. The Commission Should Accept Ms. Reno's Alternative ROE of 9.06% if the Commission Accepts NFG's Capital Structure.

If the Commission approves NFG's proposed capital structure, it should not also approve the OCA's primary ROE recommendation, but instead, approve OCA witness Maureen Reno's alternative recommendation of 9.06%.[276]

Ms. Reno demonstrated through the Hamada adjustment framework[277] that a utility operating with a lower-debt, higher-equity capital structure faces less financial risk.[278] The Hamada adjustment framework isolates a firm's underlying business risk from the effects of financing decisions to reflect differences in capital structure, thereby allowing analysts to estimate how changes in debt and equity levels affect the required ROE under the CAPM.[279] Because NFG's proposed capital structure contains significantly more equity than the proxy group, its equity investors bear less leverage risk.[280] As a result, the appropriate ROE is lower.

Using the proxy group average capital structure in the Hamada analysis, Ms. Reno calculated an alternative ROE of 9.06%.[281] She testified that if the Commission adopts NFG's proposed 56.4% equity ratio, it should simultaneously adopt the lower 9.06% ROE, resulting in an overall ROR of 7.54%.[282]

---

[276] OCA St. 3SR at 25.
[277] *See* OCA St. 3 at 63-65 for Ms. Reno's full Hamada analysis.
[278] OCA St. 3SR at 25-26.
[279] OCA St. 3 at 63-64.
[280] OCA St. 3SR at 24.
[281] *Id.* at 24-25.
[282] *Id.* at 25.

E. Management Performance

NFG initially sought a 25-basis-point management efficiency adder that increased its requested ROE from 11.00% to 11.25%.[283] During the course of this proceeding, however, the Company withdrew that request.[284] The withdrawal confirms Ms. Reno's conclusion that no management-performance premium is warranted in this case and reinforces the OCA's affordability concerns. Moreover, as discussed above, an 11% ROE is unreasonably high and NFG's averments that it prioritizes affordability now that it proposes an 11% ROE is unreasonable.

F. Conclusion as to Rate of Return

The record demonstrates that NFG's proposed 56.4% equity ratio and 11.00% ROE are excessive and would impose unnecessary costs on customers.[285] Ms. Reno's recommendations are consistent with established financial principles, recent utility regulatory precedent, and the standards established by *Hope* and *Bluefield*. The Commission should therefore:

- Adopt a capital structure consisting of 50.0% common equity and 50.0% long-term debt;
- Accept NFG's proposed 5.58% cost of long-term debt;
- Adopt Ms. Reno's recommended 9.74% ROE; and
- Approve an overall ROR of 7.66%.[286]

---

[283] OCA St. 3 at 59.
[284] OCA St. 3SR at 15; NFG St. 10 at 21-22.
[285] *Id.* at 33-34.
[286] *Id.* at 3.

Alternatively, if the Commission approves NFG's proposed capital structure, it should adopt Ms. Reno's alternative 9.06% ROE and resulting 7.54% overall ROR.[287] Under either approach, the Commission should reject NFG's excessive ROE proposal and ensure that rates remain just, reasonable, and affordable for Pennsylvania consumers.

IX. RATE DESIGN, REVENUE ALLOCATION, AND CLASS COST OF SERVICE

A. Allocated Cost of Service Study

The OCA disagrees with NFG's proposed allocated class cost of service study (ACOSS) for two reasons. First, as described more fully in testimony from OCA witness Michael Deupree, the allocation of distribution main costs is based on an empirically flawed zero-intercept study (ZIS) approach. Second, because NFG proposes to allocate 100 percent of costs associated with demand related distribution main investments based on peak day demands.[288] NFG's ACOSS overstates the influence of peak demand on the distribution mains costs incurred.

As the Commission previously determined:

> distribution mains exist and are related to both annual demands and peak demands. Both annual and peak demands must be recognized in the allocation of distribution mains cost if the allocation is to be in accord with the principle of cost-causality. It is not reasonable to allocate distribution mains investment based solely on design peak day demands…[289]

[287] *Id.* at 25.
[288] OCA St. 1 at 58.
[289] *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2025 PA. PUC LEXIS 395, *162-63 (Order Dec. 9, 2025) (*Columbia 2025*).

The utility is not entitled a rebuttable presumption as a matter of law as to the correctness of its chosen ACOSS methodology but, instead, bears the burden of proof, as in all other aspects of its rate increase request.[290]

NFG's reliance on the ZIS and use of peak demand cost allocation methodology should be granted little weight from the Commission. Instead, greater weight should be assigned to the alternative proposed by the OCA. NFG's reliance on its deficient ACOSS for purposes of its revenue allocation results in its allocation proposal improperly assigning costs to customer classes. By contrast, the OCA's revenue allocation proposal recognizes the separate functions of serving both annual and peak demands in allocating revenue among the customer classes.

NFG argues that distribution mains are installed both to meet peak demand requirements and to connect customers to the system.[291] NFG further argued that the customer-related portion is allocated to customer classes based on the number of customers served, while the demand-related portion is allocated based on each class's contribution to peak day demand under system design conditions.[292] Using its ZIS, the Company determined the customer-related portion of distribution main investment to be 61 percent, while 39 percent is treated as demand-related.[293] According to OCA witness Deupree:

> An allocated cost of service study ("ACOSS") is a modeling approach that reconciles utility costs and revenues across different customer classes. The goal of an ACOSS is to evaluate the cost of providing service and revenue responsibility for each individual customer class. ACOSS results are used to

[290] 66 Pa. C.S. § 315(a).
[291] NFG St. 19 at 13.
[292] *Id.* at 12.
[293] OCA St. 1 at 51-52; NFG St. 19 at 12.

estimate class-specific rates of return and can serve as a guidepost for class revenue responsibilities and ultimately rates.[294]

The selection of an appropriate ACOSS methodology, which is directly related to both the Commission's ratemaking policies and the design and buildout of NFG's distribution system, is the first step in designing rates in this proceeding.[295]

OCA witness Deupree testified that a ZIS is flawed because it deals with hypotheticals that do not and cannot exist in the real world as follows: "Specifically, one should recognize that a zero-diameter distribution main is completely a hypothetical construct that does not, and indeed could not, exist in the real world. This makes the results of MSS and ZIS analyses difficult, if not impossible, to verify." [296]

OCA witness Deupree relies on Dr. James Bonbright in his criticism of the ZIS methodology. Dr. Bonbright found "a lack of empirical support in academic literature for a causal relationship between distribution system costs and the number of customers."[297] OCA witness Deupree testified: "The true driving factors of utility distribution system costs are much more complicated and depend on a host of other factors, such as the size of a service territory and the population density within it."[298]

The overall area of the system along with the total customers served are important factors in ZIS studies, as the cost to construct the distribution system can vary immensely

[294] *Id.* at 43.
[295] *Pa. PUC v. PECO Energy Co. – Gas Div.*, 2021 Pa. PUC LEXIS 241, * 117-18, 120 (Order June 22, 2021) (*PECO Gas 2021*).
[296] OCA St. 1 at 54.
[297] *Id.* at 55.
[298] *Id.*

from an urban area serving more customers to rural area serving fewer.[299] As OCA witness Deupree testified, the ultimate conclusion of a ZIS classification of cost as "customer-related, as the Company has done in the current proceeding, is 'clearly indefensible' due to the lack of a relationship between changes in the number of customers on a utility system and its distribution costs."[300]

NFG argues that it should allocate its cost of service more heavily towards its customers, 61 percent versus 39 percent, based on the principles discussed above. OCA witness Deupree conducted an independent analysis of the correlation between increases in NFG's distribution main investments and the increase in number of customers.[301] In doing so, he found as follows:

> [A]annual net additions in the Company's distribution mains are not correlated with annual changes in the Company's customer counts, nor is the annual growth rate of the Company's booked distribution mains investment correlated with the annual growth rate of the Company's customers. Indeed, I find that, if anything, there is a negative relationship between changes in the Company's customer counts and distribution mains investments as the Company made significant investments in its distribution mains system during years when it had slower than average growth.[302]

Allowing NFG to rely on the ZIS to allocate customer costs does not reflect the actual cost allocation, nor does it promote the setting of just and reasonable rates for the NFG customers.[303]

---

[299] James C. Bonbright, et al. *Principles of Public Utility Rates*, 1988 Edition. Arlington, VA: Public Utilities Reports, Inc., p. 491.
[300] OCA St. 1 at 56.
[301] *Id*. at 57.
[302] *Id*. (emphasis in original).
[303] *Id*. at 5, 26.

In addition to relying on the ZIS model as discussed above, NFG proposes to allocate 100 percent of costs associated with demand-related distribution mains investments based on the relative customer class contribution to system peak day demands.[304] Using this methodology is not only a departure from past NFG practice, but also NFG witness Taylor does not promote the use of the same cost allocation for other Pennsylvania natural gas companies.[305]

By contrast, OCA witness Deupree suggests the use of the Peak and Average (P&A) method incorporating weights based on the Company's test year system load factor.[306] OCA witness Deupree's recommended method would base weights on a ratio of peak day system requirements to average daily system requirements.[307] While a P&A method often uses a pure 50%/50% weighting for the energy and demand components, the OCA's proposal uses data that is specific to NFG for an allocation of mains costs. The following table compares the results of NFG's and the OCA's respective recommended ACOSS results:

Comparison of OCA and NFG ACOSS Results, as Measured in Rate of Return (ROR) and Relative Rate of Return (RROR)*				
Rate	OCA P&A ACOSS ROR	OCA P&A ACOSS RROR	NFG PROPOSED ACOSS ROR	NFG PROPSEDACOSS RROR
Residential Service	6.43%	1.02	3.17%	0.50

[304] *Id*. at 58.
[305] *Id*. 1 at 58, 60.
[306] *Id*. at 62.
[307] *Id*.

Commercial Extra Small	10.17%	1.61	7.77%	1.23
Commercial Small	3.65%	0.58	8.74%	1.39
Commercial Large	6.78 %	1.08	22.50%	3.57
Industrial Small	14.12%	2.24	22.24%	3.53
Industrial Intermediate	6.87%	1.09	25.48%	4.04
Industrial Large	7.75%	1.23	34.99%	5.55
Industrial Extra Large	0.81%	0.13	25.82%	4.10
Total	6.30%	1.00	6.30%	1.00
*An RROR of 1.00 indicates that a class is earning its indicated cost of service, whereas an RROR of greater than 1.00 indicates that a class is over-earning and an RROR of less than 1.00 indicates that a class is under-earning.				

The use of the ZIS model and 100 percent allocation of demand related distribution mains investment based on relative customer class contribution to peak demand is a clear deficiency in NFG's proposal because it does not reflect cost causation principles nor does it provide a more reasonable basis for allocating costs among customer classes. I&E also disagreed with the Company's methodology stating that the Company's proposal was inconsistent with long-standing Commission precedent most recently reaffirmed in the

Commission's Order involving Columbia Gas of Pennsylvania, Inc.[308] I&E further indicated that although distribution mains serve customers, it is throughput that determines the type of distribution main investment, and that, therefore, it is not reasonable to allocate costs associated with distribution mains investments on either a customer-demand basis or a 100 percent demand basis.[309] Because these are two distinct functions of a distribution system, the P&A method is superior in how it recognizes the difference between the annual and peak demand functions of a distribution system and is better suited to address load diversity on a system as measured by the comparison of high and low load factor customers.

OCA witness Deupree found "the premise that changes in the Company's customer count are a significant driver of distribution mains investment is outdated and unsupported by empirical evidence."[310] I&E also disagreed with the Company's cost allocation, finding the Company's proposal to not adhere to long standing Commission precedent.[311] I&E specifically referenced Commission findings from the Columbia Gas case that "although distribution mains serve customers, it is throughput that determines the type of distribution main investment, and that, therefore, it is not reasonable to allocate costs associated with distribution mains investments on either a customer-demand basis or a 100 percent demand basis."[312]

The Commission should select an ACOSS methodology that is not based on hypotheticals, and instead select an ACOSS methodology which adheres to Commission

---

308 OCA St. 1R at 7; I&E St 3 at 9.
309 *Id., Pa. PUC v. Columbia Gas of Pennsylvania, Inc., Docket No. R-2025-3053499, Opinion and Order at 255.*
310 OCA. St. 1R at 8-9.
311 I&E St. 3 at 9.
312 *Id.*

precedent and is based on principles of cost causation. The Commission should give greater weight to the recommendation of Mr. Deupree who "recommend that the Commission approve an alternative classification of distribution mains that incorporates P&A cost allocation method using weights based on the Company's test year system load factor."[313]

B. Revenue Allocation

NFG's proposed revenue allocation is based on its faulty ZIS ACOSS, which the OCA recommends that the Commission reject in favor of the P&A allocation method using weights based on the Company's test year system load factor. The OCA recommends that its proposed revenue allocation be adopted because it is based on the P&A methodology for assignment of the costs of distribution mains, in addition to the gradualism constraints OCA witness Deupree recommends be applied in this proceeding.

The Commission considers the results of cost of service studies to address ratemaking concerns such as unreasonable inter- and intra-class subsidization through revenue allocation.[314] Class specific revenue responsibilities are established by allocating the system wide revenue deficiency to classes that are under earning relative to their ROR.[315] This process also includes policy considerations such as those noted by OCA witness Deupree. Mr. Deupree testified that:

> Allocating the overall system-wide revenue deficiency entirely on a full cost of service basis can result in a very significant and adverse rate impact for certain under-earning classes. To avoid such a result, regulators often temper the revenue responsibilities assigned to various customer classes in order to meet a set of broad ratemaking policy goals.[316]

---

[313] OCA St. 1 at 5; OCA St. 1R at 11.
[314] *Lloyd v. Pa. PUC*, 904 A. 2d 1010, 1020 (Pa. Cmwlth. 2006).
[315] OCA St. 1 at 63.
[316] *Id*. at 64.

The Commission must also consider non-cost factors when determining the appropriate cost of service for each class.[317] Non-cost considerations include rate gradualism, continuity, affordability, and understandability, among others.[318]

Furthermore, NFG's proposed increase to the residential customer charge by $5.00, from $14.00 to $19.00 or 35.7%, is inconsistent with other residential customer charges for natural gas distribution companies in Pennsylvania. As discussed more fully below, the OCA recommends that the proposed customer charge increase should be rejected.

C. Rate Design

1. Summary of Proposed Rate Design

According to OCA witness Deupree, NFG states that it attempts to balance various criteria that relate to the design of utility rates when it determined its revenue allocation in this matter.[319] There are three factors used by NFG in establishing its rate design proposal: (1) cost of service, (2) class contributions to present revenues, and (3) customer impacts.[320] The Company is proposing to limit the maximum increase for any customer class to a cost-parity ratio of 1.0 to 1.10 times the proposed system average increase.[321] A cost parity ratio standardizes various class revenue to cost ratios against the overall quality system revenue to cost ratio.[322] This means NFG customer classes with a cost parity ratio greater than 1.0 but less than 1.5 at current rates, will receive an increase equal to 90 percent.[323] Classes

---

[317] *Phila. Elec. Co. v. Pa. PUC*, 470 A.2d 654, 658 (Pa. Cmwlth. 1984); *Hoover v. Pa. R.R.*, 27 A. 282, 283 (Pa. 1893) (it is appropriate to consider the conditions and circumstances of service when designing rates).
[318] OCA St. 1 at 56.
[319] *Id,* at 65.
[320] *Id*. at 65; NFG St. 19 at 20, 21.
[321] *Id.*
[322] *Id.* at 66.
[323] *Id*.

with cost parity ratios greater than 1.5 at current rates will receive an increase equal to 67 percent to recover the remaining requested increase.[324]

In general, the Company is proposing a 14.38 percent system wide average basis.[325] Residential customers would receive a basis equal to 1.10 times this average or 15.82 percent.[326] OCA witness Deupree noted the increase for residential customers is much higher than the large commercial and public authority customers who are receiving a 9.65 percent increase in rates.[327] Mr. Deupree expressed his disagreement with the Company's proposed apportionment of rates by testifying:

> The Company's proposed revenue allocations suffer from two major deficiencies. First, the Company's proposal is based on the results of a faulty ACOSS that overstates the current rate of return the Company derives from its large commercial and industrial service customers while understating the rate of return the Company derives from its residential service customers. Second, the Company's proposed revenue apportionment process results in rate increases that are inconsistent with rate gradualism. Specifically, rate gradualism refers to the general understanding that sound rate design should prevent significant rate increases for any customer group that may cause rate shock.[328]

An analysis of NFG's and the OCA's revenue allocation recommendations is contained in the following table:

[324] OCA St. 1 at 65; NFG St. 19 at 20-21.
[325] *Id.* at 67.
[326] *Id.*
[327] *Id.*
[328] *Id.* at 67-68.

Comparison of OCA and NFG Revenue Allocation Proposals, as Measured in Percentage Increase and Relative Increase at NFG Proposed Revenue Requirement[329]				
Rate	OCA Proposed Increase	OCA Proposed Relative Increase	NFG Proposed Increase	NFG Proposed Relative Increase
Residential	14.34%	1.00	15.82%	1.10
Commercial Extra Small	12.22%	0.85	12.94%	0.90
Commercial Small	16.54%	1.15	12.94%	0.90
Commercial Large	14.34%	1.00	9.65%	0.67
Industrial Small	12.22%	0.85	9.65%	0.67
Industrial Intermediate	14.43%	1.00	9.65%	0.67
Industrial Large	14.34%	1.00	9.65%	0.67
Industrial Extra Large	16.54%	1.15	9.65%	0.67
Total	12.18%	1.00	14.38%	1.00

Based upon his review, OCA witness Deupree recommended "the Commission adopt a more reasonable revenue apportionment method based on my alternative ACOSS results

[329] OCA Exh. MWD-7, MWD-8.

that also limits the rate increase compared to the Company's proposed revenue allocation method."[330] Mr. Deupree further stated his cost parity ratios as follows:

> [T]hat classes with current relative cost parity ratios below 0.95 receive a rate increase equal to 1.15 times the system average increase. Second, I recommend that classes with current relative cost parity ratios greater than 1.05 receive a rate increase equal to 0.85 times the system average increase. Finally, I recommend that the remaining rate increase be equally allocated to the remaining rate classes with current relative cost parity ratios of between 0.95 and 1.05.[331]

Both the OCA and I&E contend that NFG's basis of its revenue allocation on a flawed ACOSS leads to the revenue allocation being flawed, and therefore, should be rejected by the Commission.[332] Further, as proposed, NFG's revenue allocation is inconsistent with rate gradualism.[333]

The OCA's proposed revenue allocation better addresses the needs of the entire customer base. As seen in the chart above, the OCA's recommendation produces a more even cost parity ratio among all NFG customer classes. Further, the OCA's recommendation spreads any proposed rate increases across the entire customer base rather than relying on residential customers to bear the brunt of increase during times of economic instability.

As currently proposed, NFG's revenue allocation significantly increases residential customer rates as compared to other NFG customer classes. OCA witness Deupree presented testimony on current macroeconomic trends facing customers.[334] NFG has

[330] OCA St. 1 at 68.
[331] *Id.*
[332] OCA St. 1R at 10; I&E St. 3 at 11-12.
[333] *Id.*
[334] *See generally*, OCA St. 1 at 7-19.

proposed a $18.475 million increase in rates to its customers through these proceedings, taking into account the Company filed a base rate case in 2022, customers would see a total increase of more than 36.4 percent in three years or yearly increase in rates equal to 12.1 percent.[335] Given the larger affordability concerns facing NFG's customers today, this increase in rates is unsustainable. Consumers today are faced with increased expenses for food, housing, transportation, and other necessities, which are especially acute for low-income consumers.[336]

Mr. Deupree notes that there is observed evidence of these macroeconomic trends in prices and refers to the Consumer Price Index (CPI) and U.S. Bureau of Labor Statistics in his analysis.[337] Of note, while the annual CPI has fallen since the 2020 pandemic, it still remained high at 3.3 percent, well above the Federal Reserve's target of 2.0 percent at the time of Mr. Deupree's direct testimony.[338] Since January 2021, consumer prices have increased 24.3 percent overall, coupled with rapidly rising utility prices, consumers are left with burdens of unaffordability.[339] Pennsylvania consumers feel the burden of these price increases from all aspects of the energy market, as discussed in the testimony of OCA witness Deupree:

> Wholesale electricity prices in the PJM western hub, for example, increased 48.8 percent on average from 2024 to 2025. Likewise, Pennsylvania citygate natural gas prices increased 2.8 percent from December 2024 to December

---

[335] OCA St. 1 at 8.
[336] *Id*.
[337] *Id.* at 10.
[338] *Id*.
[339] *Id*. at 11.

> 2025 on the back of a nearly 41.9 percent increase in wholesale natural gas prices during the same period.[340]

Market functions are not the only contributing factor to the pinch felt by consumers. The recent conflict in the Persian Gulf has also contributed to a rise in crude oil prices.[341] Both international and domestic prices for crude oil have risen in recent months, and at the time of Mr. Deupree's direct testimony were trading in excess of $100 per barrel, well above historic ranges of $60-$80.[342] According to Mr. Deupree's testimony: "The observed increase in crude oil prices shows how price shocks caused by the conflict in the Persian Gulf will likely filter through the larger macroeconomy."[343] Restrictions on the flow of oil from this region force consumers to turn to alternative supplies from the U.S. as stored supplies lessen, this in turn increases the wholesale natural gas prices in the United States.[344]

Given the struggles faced by consumers, the Commission should reject the proposed rate increase proposed by NFG which would place the lion's share of price increases on residential consumers already being hit with increasing unaffordability in every facet of their lives.

The Commission should also reject NFG's proposed residential customer charge increase, which is not supported by substantial evidence and is inconsistent with principles of cost causation, maintaining rate consistency, promoting conservation, encouraging

---

[340] *Id*. at 13-14.
[341] *Id*. at 14.
[342] *Id*. at 15.
[343] *Id*.
[344] *Id*. at 15-16.

affordability, and maintaining equity for low-income customers.[345] Rather, NFG's proposal to increase the residential customer charge by $5.00, or 35.7 percent, from $14.00 to $19.00 recovers the majority of customer related costs through monthly customer charges.[346] Further, this will negatively impact the public policy goals touted by NFG's energy efficiency rider, which is proposed to save consumers money and encourage them to purchase more energy efficient appliances by recouping that money in a consistent monthly charge, and would burden low-use customers with greater than average increased charges.[347]

Rate design should send appropriate price signals to customers to influence usage decisions in addition to applying principles of cost causation, gradualism, and overall fairness.[348] Because fixed monthly customer charges represent a portion of customers' bills which cannot be avoided regardless of usage, particular care must be taken when setting them.

In this matter in particular, the residential rate class is proposed to see the largest increase in overall rates. Large rate increase coupled with the increased unaffordability faced by the vast majority of consumers, is only further exacerbated by a fixed monthly charge increase of 35.7 percent. The Commission should reject NFG's proposed increase in monthly customer charge.

[345] 66 Pa. C.S. § 315(a).
[346] OCA St. 1 at 78.
[347] *Id.*
[348] *PECO Gas 2021* at *151.

2. Residential Rate Design

NFG proposed to allocate its cost of service more heavily towards its residential customers 61 percent of the cost of distribution mains investment assigned to the residential classes. The Company is proposing a 14.38 percent system wide average increase, with a 15.82 percent increase for residential customers, or 1.10 times the system average increase.[349] As discussed above, this is drastically more than the 9.65 percent increase that would be imposed on non-residential NFG consumers. Given the state of the current economic climate, the Company's proposed rate design for residential consumers should be rejected by the Commission in favor of the alternative proposed by the OCA.

If the Commission determines that an increase in rates is warranted in this matter, it should approve the residential rate design proposed by the OCA. As shown in the table above comparing the rate design proposed by NFG with the alternative proposed by OCA witness Deupree, an increase in rates can be accomplished without placing the burden of the increase squarely on the residential ratepayers.[350] Any increase in residential rates is not warranted at this time. Ratepayers are currently faced with significant challenges with regard to affordability of general necessities like food, medication, and transportation costs. Adding to that crisis by increasing residential natural gas rates as proposed in NFG's residential rate design, will only serve to worsen the already precarious situation faced by so many consumers.

---

[349] OCA St 1. at 67.
[350] *See* OCA Exh. MWD 8.

3. Non-Residential Rate Design

As noted above, OCA witness Deupree found the increase for residential customers is much higher than that proposed by NFG for non-residential rate classes who are receiving a 9.65 percent increase in rates.[351] NFG argues that it should allocate its cost of service less heavily towards it non-residential classes, with only 39 percent of distribution mains investments paid by this class. The OCA argues that if the Commission determines that a rate increase is necessary in this matter, it should be done more evenly as proposed by OCA witness Deupree.[352]

OCA witness Deupree's alternative rate design more evenly allocates the rate increase across all classes so that the burden of higher rates is not felt significantly by one class of NFG customers. The current NFG proposed rate design provides for an across the board increase in non-residential service of 9.65 percent, with relative proposed rate increases at 0.67 times.[353] In contrast, OCA's proposal would contain relative proposed rate increases for non-residential classes between 0.85 to 1.15 and would involve rate increases between 12.22 percent and 16.54 percent.[354] While the OCA contends that this is not the time for any rate increase for NFG, if the Commission grants an increase in rates, it should be accomplished through a more even distribution of increased rates rather than burdening the already-burdened residential class alone.

---

[351] *Id.*
[352]*See generally*, OCA St. 1 at 69-79.
[353] *See* Exh. MWD-7.
[354] *Id.*

D. Scaleback

The OCA recommends that NFG's revenue allocation and customer charge proposals be scaled back proportionally if the Commission grants NFG rate relief, but grants an amount that is less than the amount requested by NFG. While NFG witness Taylor argues that no scale back should apply to its proposed customer charge,[355] Mr. Taylor's testimony does not recognize that the cost of service for the residential customer class will decrease at a lower authorized revenue requirement than the per-unit cost calculation Mr. Taylor included in his cost of service study. Rather, the Commission has consistently included customer charges as part of the scale back of authorizing a revenue requirement at a level less than that requested by the utility.[356]

E. Other Post Employee Benefits

In 2021, NFG petitioned the Commission to establish its current Rider I, or Other-Post Employment Benefits (OPEB) Surcredit.[357] The Company proposed, and the Commission approved, a refund of $54 million in funds through 2026.[358] The funds were passed back to consumers through a one-time bill credit to low income consumers, and volumetric surcredit over five years, which will end on September 30, 2026.[359] In the current proceedings, NFG proposed to refund $7.2 million during the FPFTY.[360] This

355 NFG St. 19-R at 24-25.
356 *See*, *e.g.*, *Columbia 2025* at *174 ("by this Opinion and Order, we are ultimately approving a lower revenue increase than that sought by the Company. Accordingly, Columbia's actual customer charge that results from the revenue increase of $ 55,627,800 that we shall approve in this Opinion and Order will be reduced as a result of the scale back that will be applied.").
357 NFG St. 14 at 7 and 13.
358 NFG St. 14 at 13.
359 *Id*.
360 *Id*. at 14.

includes a one-time bill credit of $30 to verified low-income consumers and the remainder being credited through the existing Rider I.[361]

The OCA does not oppose the Company's proposed continuance of the Rider I. However, the use of these funds to provide a one-time credit of $30 for low-income consumers and continue surcredits, does little to balance out the increases that are proposed by the Company in this matter. As argued above, consumers are faced with increasing unaffordability on all fronts.[362] Residential consumers especially, are faced with a 15.82 percent increase in rates if the NFG proposal is approved by the Commission.[363] The Company has the ability to provide these bill credits and surcredits to consumers, however, NFG's customers are struggling in the face of current macroeconomic trends. As NFG already has excess funds, the Commission should reject the proposed rate increase by the Company in totality in order to provide consumers with the necessary relief from increased rates.

F. Summary and Alternative

The OCA contends that the Commission should reject NFG's proposed ACOSS as it is based on the empirically flawed ZIS model and further because NFG proposes to allocate 100 percent of costs associated with demand related distribution main investments based on peak day demands. As shown through the testimony of OCA witness Deupree, the ZIS provides little to no value in setting just and reasonable rates.[364] If the Commission

---

[361] *Id.*
[362] *See generally*, OCA St. 1 at 7-19.
[363] OCA St 1. at 67.
[364] *Id.* at 81.

determines that a rate increase is justified in this matter, it should accept the alternative ACOSS presented by OCA's witness Deupree adopting the following recommendation:

> The Commission approve an alternative classification of distribution mains that incorporates a P&A cost allocation method using weights based on the Company's test year system load factor. These recommendations better reflect cost causation principles and provide a more reasonable basis for allocating costs among customer classes.[365]

Further, basing the revenue allocation and rate design on the empirically flawed ZIS has led to residential rates seeing a much larger increase in rates than any other class, all while facing increased unaffordability of general living costs. The OCA contends that no increase in revenue is warranted. However, should the Commission determine that an increase is necessary, the OCA contends the Commission should adopt its alternative revenue apportionment as OCA witness Deupree sets forth below:

> I recommend the Commission adopt a more reasonable revenue apportionment method based on my alternative ACOSS results that also limits the rate increase compared to the Company's proposed revenue allocation method. First, I recommend that classes with current relative cost parity ratios below 0.95 receive a rate increase equal to 1.15 times the system average increase. Second, I recommend that classes with current relative cost parity ratios greater than 1.05 receive a rate increase equal to 0.85 times the system average increase. Finally, I recommend that the remaining rate increase be equally allocated to remaining rate classes with current relative cost parity ratios of between 0.95 and 1.05.[366]

OCA witness Deupree found that NFG's recommendation that the monthly customer charge be increased from $14 to $19 should be rejected as the residential classes are currently recovering the majority of customer-related costs through monthly customer charges, and an increase in this charge would negatively impact the public policy goals of

---

[365] *Id.*
[366] OCA St. 1 at 82.

the energy efficiency rider.[367] Consumers would be faced with a 15.82 percent revenue increase if the Company's proposal is accepted, then also a 35.7 percent increase in monthly charges. OCA witness Deupree recommended in the alternative that:

> I recommend that the Commission limit its increase in the Company's monthly customer charges to the percentage rate increase class revenue requirement. In the context of my proposed revenue apportionment this would be a 14.34 percent increase for residential customers at the Company's proposed overall requested rate increase. This would correspond to a roughly $2.00 increase in the monthly customer charge, or an increase from the current $14.00 per month to $16.00 per month. I further recommend that any increase in customer charges be subject to scalebacks to reflect changes in allocated class revenue increases pursuant to Commission Orders.[368]

The OCA contends that no increase in rates is warranted at this time, however, if the Commission determines that an increase is warranted, the recommendations of OCA witness Deupree should be adopted.

X. WEATHER NORMALIZATION ADJUSTMENT (WNA)

NFG's request to turn its WNA Pilot into a permanent mechanism should be denied because substantial evidence does not support a determination that the WNA is equitable for NFG's customers or that it satisfies the Commission's policy factors regarding alternative ratemaking mechanisms.[369] If the Commission determines to approve NFG's proposed WNA, the Commission should condition approval on the following modifications: 1) allow it to continue as a pilot for an additional three years instead of allowing it to become permanent; 2) increase the deadband from three percent to five percent; 3) eliminate the months of October and May from NFG's proposed WNA's

[367] *Id.*
[368] OCA St. 1 at 83.
[369] 52 Pa. Code § 69.3302(a); OCA Exh. MWD-1 at 1-2.

effective period;[370] and 4) require NFG to add three additional weather stations in calculating its Average Heating Degree Days (AHDDs).[371]

While the Commission *may* authorize the implementation of alternative ratemaking mechanisms,[372] such as decoupling mechanisms like the proposed WNA, NFG must provide substantial evidence[373] that its specific mechanism[374] would result in just and reasonable rates.[375] The Commission is *not mandated* to implement a proposed alternative ratemaking mechanism, *even if* the proposed mechanism is based on a pilot which was previously approved pursuant to a settlement agreement.[376] NFG must still support its proposal to satisfy the required burden of proof.[377] NFG must further demonstrate that its WNA proposal results in just and reasonable rates and is distinguishable from decoupling mechanisms which the Commission found did not meet its policy objectives.[378] NFG has failed to do so here.

A. The WNA symmetrical design produces inequitable results.

OCA witness Deupree described NFG's proposed WNA as follows:

---

370 OCA St. 1 at 35.
371 OCA St. 1SR at 11.
372 66 Pa. C.S. § 1330.
373 66 Pa. C.S. § 315(a).
374 The OCA emphasizes here that the Commission's determination in this proceeding to approve NFG's request to implement a permanent mechanism must be supported by the record in this case and not based on the approval of prior WNA mechanisms, including NFG's existing WNA pilot. *Bell Atl. – Pa., Inc. v. Pa. PUC*, 672 A.2d 352, 354 (Pa. Cmwlth. 1995) (administrative agencies are not bound by the rule of *stare decisis*, but are, instead, tasked with rendering consistent opinions that affirm, overrule, or distinguish prior opinions).
375 66 Pa. C.S. §1301.
376 Sffection 1330 does not waive the Public Utility Code's burden of proof requirements, or the Administrative Agency Law's requirement that decisions of Commonwealth agencies–including the Commission–be supported by substantial evidence. *See* 2 Pa. C.S. § 704 (providing that the decisions of Commonwealth agencies be supported by substantial evidence to survive review of an appellate court).
377 66 Pa. C.S. § 315(a).
378 66 Pa. C.S. § 1301; 52 Pa. Code §§ 69.3301-69.3302; *Bell Atl. – Pa.*, 672 A.2d at 354; *see Pa. PUC v. Pa.-American Water Co.*, Docket Nos. R-2023-3043189 *et al*, Order at 307-28 (July 22, 2024) (*PAWC 2023*); *Pa. PUC v. PECO Energy Co. – Gas Division*, 2024 PA. PUC LEXIS 355, *81-86 (Order Dec. 12, 2024) (*PECO Gas 2024*).

> NFG's WNA is a pilot ratemaking mechanism that adjusts customer bills during the heating season (October through May) based on deviations from what the Company defines as "normal" weather. Specifically, the mechanism applies a formula using the ratio of normal heating degree days ("NHDDs") to average heating degree days ("AHDDs") and applies that ratio to each customer's heating-related usage to generate either a credit or a surcharge on the customer's bill. A three-percent deadband is used to prevent minor weather variations from triggering bill changes. The WNA is limited to weather-related usage changes and applies to Residential and Commercial/Public Authority customers. [379]

In the 2024-2025 heating season, NFG collected approximately $2.2 million in net WNA revenues from customers.[380] While NFG has provided estimated net WNA credits of $1.17 million as of April 2026 for the 2025-2026 heating season,[381] those net credits could disappear when the final WNA amounts are calculated for the month of April and May.[382] And, even counting the net credits as of April 2026, the WNA pilot has cost customers an estimated $7.9 million since the beginning of the pilot in October 2023.[383] This high cost to customers is a result of NFG's WNA pilot only producing credits in six out of the 23 months the pilot has been operating.[384]

OCA witness Deupree testified that "[t]he WNA, as designed and applied by the Company, operates as a one-way ratchet: it imposes surcharges but has failed to provide meaningful refunds. This violates basic ratemaking principles of fairness and reciprocity

[379] OCA St. 1 at 29-30 (internal citations omitted). NFG proposed two changes in this filing: make its current pilot WNA mechanism, scheduled to expire in October 2028, a permanent program and utilize a 10-year instead of 15-year normal to calculating its NHDDs. NFG St. 19 at 23, 25.
[380] *Id.* at 32-33
[381] NFG St. 1R at 11-R at 38; OCA St. 1R at 4.
[382] OCA St. 1R at 4-5.
[383] *Id.* at 5.
[384] *See* NFG St. 1R at 9 Table 1.

between ratepayers and shareholders."[385] This lack of meaningful refunds becomes clear when examining NFG's data from the current WNA pilot, as shown below:

Table 1: Heating Season by year							
		2023-2024		2024-2025		2025-2026	
OCT	$	112,758	$	347,315	$	291,162	
NOV		179,872		1,051,095		(298,215)	
DEC		314,620		109,846		(1,198,284)	
JAN		1,010,020		(240,353)		(464,332)	
FEB		1,237,993		(310,213)		(2,015,891)	
MAR		2,361,861		580,910		1,129,912	
APR		702,191		608,196		1,381,702	*
MAY		1,078,972		48,505		Not Available	
Adjustments		(78,094)		(8,520)			
Total by Season	$	6,920,194	$	2,186,781	$	(1,173,946)	

*Estimated

386

In response, NFG witness Taylor argues that if the WNA mechanism operated in this way, then "customers would not receive credits in periods when actual weather is colder than normal in a manner that produces downward WNA adjustments" and that the WNA "operates as intended."[387] However, revenue decoupling mechanisms, like NFG's proposed WNA,[388] have traditionally resulted in more charges than credits, and more charges of significant size than credits of significant size.[389] OCA witness Deupree further testified that "[a]s the company is able to shift risk away from itself through rate filings and shift future weather related risk to customers through a WNA … NFG's ratepayers are

[385] OCA St. 1 at 33-34.
[386] NFG St. 1R at 9, Table 1.
[387] NFG St. 19R at 30.
[388] 66 Pa. C.S. § 1330(f)(1) ("A rate mechanism that reconciles authorized distribution rates or revenues for differences between the projected sales used to set rates and actual sales, which may include, but not be limited to, adjustments resulting from fluctuations in the number of customers served and other adjustments deemed appropriate by the commission.")
[389] OCA St. 1SR at 6.

made responsible for NFG's risk through additional surcharges and are only credited when NFG's weather-related risk does not materialize, which has not been the case generally in this pilot program."[390] The fact that the WNA mechanism may operate as "intended"[391] does not eliminate the inequitable results, results which can be seen in the NFG data on the current WNA pilot above. Specifically, NFG's WNA pilot has provided credits of over $1 million to customers only twice, while creating charges of over $1 million a total of seven times.[392]

Even considering the recent credit-producing performance of NFG's WNA Pilot, NFG's proposed WNA is likely to produce inequitable results because its underlying assumptions are flawed and out-of-touch with actual customer behavior. First, NFG's proposed transition from a 15-year to 10-year weather normal period to calculate the normal heating degree days to use when determining the WNA, may mitigate some of the volatility,[393] but will not affect the likely inequity of the outcomes produced nor eliminate the concerns with the mechanism as designed.

Second, NFG's WNA pilot still functions to charge customers for distribution service they did not receive. As established by the WNA calculation itself, the WNA is designed to adjust customers' usage based on the weather to charge customers for more gas than they actually received if the weather is warmer than normal.[394] NFG's argument

---

[390] OCA St. 1 at 38-39.
[391] NFG St. 19R at 30.
[392] *See* NFG St. 1R at 9 Table 1.
[393] *Id.* at 31.
[394] *See* NFG St. 19 at 24-27 (explaining how the WNA is designed); NFG St. 19R at 28 (same); NFG St. 1 at 7.

to the contrary[395] is not supported by the WNA calculation itself. While the WNA is based on a customer's "actual metered usage,"[396] the WNA's "recovery of authorized distribution revenues" occurs by decoupling a customer's metered usage from the metered usage NFG forecasted, as represented by the WNA's calculation of weather-adjusted usage.[397] However, as the Commission stated in *PECO Gas 2024*, a utility "is not guaranteed a return on service that is not used."[398]

Third, NFG's WNA pilot is fundamentally unfair by design because it shifts a traditional risk of natural gas distribution service from NFG to its customers by "guaranteeing recovery of authorized revenues regardless of actual customer consumption."[399] NFG is already guaranteed adequate access to revenues between rate cases through its use of a fully projected future test year[400] and a distribution system improvement charge.[401] NFG's argument that its WNA pilot does not affect regulatory lag because it "adjusts a weather-sensitive billing determinant,"[402] is inconsistent with the

---

[395] NFG St. 19R 34.
[396] *Id.* at 36.
[397] NFG St. 19 at 26; NFG St. 19R at 28.
[398] *PECO Gas 2024* at *81.
[399] OCA St. 1 at 27 ("As a result, the risk of revenue underperformance due to declining sales, conservation, economic conditions, or unseasonably warm weather is shifted entirely onto ratepayers. Importantly, the Company has not proposed any corresponding ratepayer protections such as earnings tests, revenue caps, or performance incentives. This asymmetric risk allocation leaves ratepayers exposed to upward rate adjustments without any assurance of offsetting benefits or improved utility performance.") *id.* at 27; *see also* OCA St. 1R at 7.
[400] 66 Pa. C.S. § 315(e); *McCloskey v. Pa. PUC*, 225 A.3d 192, 208 (Pa. Cmwlth. 2020) (providing that a fully projected future test year uses an end of test year methodology).
[401] 66 Pa. C.S. § 1357(c) ("Utilities may file tariffs establishing a sliding scale of rates or other method for the automatic adjustment of the rates of the utility to provide for recovery of the depreciation and pretax return fixed costs of eligible property, as approved by the commission, that are completed and placed in service between base rate proceedings.")
[402] NFG St. 19R at 32.

decoupling nature of the mechanism, which operates to guarantee a certain level of revenue and revenue consistency, risks associated with regulatory lag.[403]

Finally, the purported benefit to customers that they may see bill credits at some point in the future during colder-than-normal weather in exchange for paying increased rates now, is illusory. As shown by NFG's data, it took three heating seasons from when the WNA first took effect for customers to see a heating season with net credits.[404]

The additional rates taken from customers could have been used for energy efficiency investments so that when a colder winter came, they would be better insulated from spikes in their bills. Fundamentally, the WNA – to the extent that it operates symmetrically – deprives customers of the ability to choose to use their bill savings during warmer than normal winters in ways that make the most sense for their household, an ability which is especially critical during periods where customers face increasing affordability pressures.[405] To residential and small commercial customers, the dollars they pay in a WNA charge this winter means much more than it does to NFG, as they do not have access to the same level of revenue, regulatory protections, or capital markets.

NFG asks the Commission to review the symmetry of a design over the fairness of its results. The Commission should reject the argument that the WNA is necessary for NFG to have a reasonable opportunity to recover its revenue requirement. Although NFG's evidence shows that it has not recovered revenue above its authorized revenue requirement

---

[403] *See* OCA St. 1 at 27 ("The Company's proposals are designed to insulate the Company from fluctuations in usage and weather-related variability. By guaranteeing recovery of authorized revenues regardless of actual customer consumption, these mechanisms significantly reduce the Company's exposure to traditional business risks.").
[404] NFG St. 1R at 8, Table 1.
[405] OCA St. 1 at 7-19, 38 (describing the affordability pressures affecting NFG's customers).

with the WNA,[406] it also establishes that even without the WNA, NFG would still have been close to recovering its revenue requirement.[407] Utilities are not guaranteed full recovery; a reasonable opportunity is all that is required.[408] If NFG believes it does not have a reasonable opportunity to recover its revenue through its established rates, the appropriate means to address any discrepancy would be through modifying NFG's billing determinants, as NFG has proposed here.[409]

Moreover, NFG's revenue requirement data shows that NFG can more easily bear the impact of any weather-related volatility stemming from warmer- and colder-than-normal heating seasons than its customers. Specifically regarding the impact of NFG's WNA pilot, OCA witness Deupree testified that "[g]iven the macroeconomic risks that are already shifted to customers beyond direct utility rates through increased prices due to tariffs, increased oil prices due to wars in the middle east, and rising utility rates, NFG's WNA goes directly against affordability concerns for ratepayers."[410] Meanwhile, "it does not appear that the Company has been experiencing significant financial concerns due to the recent macroeconomic concerns," particularly due to the financial standing of its parent entity,[411] a fact the Commission can look to when considering whether NFG's WNA pilot would result in just and reasonable rates.[412]NFG's pilot WNA results in unjust and unreasonable rates. NFG's WNA Pilot extracted over $7.9 million in revenue beyond the

---

[406] NFG St. 19R at 31, Figure 1.
[407] *Id.*
[408] *Pennsylvania Gas & Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975) (internal citations omitted).
[409] NFG Exh. CEH-1.
[410] OCA St. 1 at 38.
[411] *Id.* at 18-19.
[412] *Id* at 33-34 (noting the basic ratemaking principles of fairness and reciprocity between ratepayers and shareholders); OCA St. 1R at 2.

rates established in NFG's most recent increase request.[413] The infrequency of rate credits is sufficient to undermine their purported benefit.[414] The Commission should not approve a permanent, inequitable shift of weather-related risk traditionally borne by NFG to its customers, where NFG is better able to bear weather-related risk in intervening years between warmer- and colder-than-normal heating seasons. The OCA respectfully requests that NFG's proposed WNA be denied.

B. The Commission's policy factors indicate that NFG's proposed WNA would not result in just and reasonable rates.

The Commission developed 14 factors that it considers in determining "just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose" of the Commission's policy and the policy laid out in Section 1330.[415] Section 1330 specifically states:

> "[i]t is the policy of the Commonwealth that utility ratemaking should encourage and sustain investment through appropriate cost-recovery mechanisms to enhance the safety, security, reliability or availability of utility infrastructure and be consistent with the efficient consumption of utility service."[416]

---

[413] OCA St. 1R at 5; *Pa. PUC v. National Fuel Gas Dist. Corp.*, Docket No. R-2022-3035730 (June 15, 2023), Order at 2 (*NFG 2022*). The 2022 Joint Settlement granted NFG an increase of $23 million in annual revenue requirement. *Id.* NFG's WNA pilot netted $6.9 million, or 30 percent of that increase in its first year. *See* NFG St. 1R at 9, Table 1. NFG's WNA pilot netted $2.2 million or nine percent of that increase in its second year. *See id.* The $7.9 million of revenue extracted by NFG's WNA pilot in its first three years represents 11 percent of NFG's granted increase ($69 million) over those same years. *See NFG 2022* at 2.

[414] *See* NFG St. 1R at 9, Table 1.

[415] 52 Pa. Code § 69.3302(a); *see* OCA Exh. MWD-1 at 1-2 (evaluating the WNA proposed under the Commission's 14 policy factors). This policy statement was enacted following the passage of Section 1330 of the Code, which permits the Commission to use alternative rate mechanisms to further policy objectives, including energy efficiency. 66 Pa. C.S. § 1330.

[416] 66 Pa. C.S. § 1330(a)(2).

While no one factor is dispositive, the totality of all factors weigh against the authorization and implementation of NFG's proposed WNA.[417]

For brevity, the OCA provides a limited discussion of the relevant policy factors to this proceeding and incorporates by reference the statements of OCA witness Deupree regarding how the proposed WNA fails to satisfy the Commission's policy factors.[418] Specifically, the OCA will address cost causation (#1), conservation and energy efficiency (#5 and #6), rate stability (#8), customer understandability (#13), and reliability (#14). The Commission's policy factors regarding the impact on regulatory lag (#10) was addressed *supra*, and appropriate consumer protections (#12) are addressed *infra*.

First, NFG's proposed WNA is not cost based because it charges customers for the distribution of natural gas that they do not consume, as described *supra*, based on how the WNA is calculated. The Commission agreed with the OCA, the ALJs, and a public input hearing witness on this issue in *PECO Gas 2024* as part of the reason that the WNA proposed in that proceeding was denied.[419] Because the proposed WNA is designed to charge customers for the distribution of gas which is not consumed, the first of the Commission's policy factors weighs against approval.[420]

Second, NFG's proposed WNA will interfere with the price signals embedded in NFG's volumetric distribution rate which should incentivize conservation and energy

[417] *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2026 PA. PUC LEXIS 60, *75-80 (Order Denying Reconsideration Feb. 19, 2026) (wherein the Commission declined to consider its policy factors regarding alternative ratemaking mechanisms).
[418] OCA Exh. MWD-1 at 1-2.
[419] *PECO Gas 2024* at *81 ("We find that the proposed WNA is not cost-based and shifts costs to customers.").
[420] 52 Pa. Code § 69.3302(a)(1).

efficiency investment.[421] While, as NFG argues, the design of its WNA pilot may not "preclude" a customer from "conservation or efficiency efforts,"[422] OCA witness Deupree testified that NFG's WNA pilot design "makes it more difficult to provide customers with predictable and understandable price signals related to usage."[423] For example, a customer contemplating an energy efficiency investment during a colder-than-normal winter would see bills which may be too low to signal the investment is warranted and, during a subsequent warmer-than-normal heating season, would see bills which may be too high to permit them the opportunity to make that investment.[424] As the Commission stated in *PECO Gas 2024*:

> The WNA affects the distribution charge on a customer's bill, while only commodity charges will be based on actual usage, thus muting the effect of consumers' efforts to conserve energy on their bill. Similarly, it will be difficult for consumers to gauge the return on investment for energy efficiency investments when their efforts to conserve energy are not clearly beneficial in reducing their costs.[425]

Customers are thus deprived of both ability and understanding to make the best decisions regarding when to invest in energy efficiency for their household. Therefore, the Commission's fifth and sixth policy factors weigh against approval of the proposed WNA.[426]

Third, the proposed WNA harms –not helps– NFG's customers' rate stability.[427] Customers may not have the same days in their billing cycle, same usage as adjusted for

[421] OCA Exh. MWD-1 at 1.
[422] NFG St. 19R at 37.
[423] OCA St. 1 at 38.
[424] OCA Exh. MWD-1 at 1.
[425] *PECO Gas 2024* at *81 (internal citations omitted).
[426] 52 Pa. Code §§ 69.3302(a)(5)(6).
[427] OCA Exh. MWD-1 at 1.

the weather, or base volumetric rate year-to-year, meaning that the proposed WNA would obscure, instead of clarify, customers' "normal" bill. Instead, a "normal" bill is better provided through budget billing, which is an optional program under which a customer has their total annual bill averaged out over 12 equal payments per month, subject to reconciliation at the end of the applicable period, providing bill certainty during the year, as opposed to year-to-year which may be more difficult to track.[428]

In *PECO Gas 2024*, the Commission found "that the budget billing program more effectively evens out bills for customers than the proposed WNA, and still allows customers to easily understand and predict their bills."[429] NFG's claim that the budget billing program does not address weather-driven deviations from normal consumption, like the proposed WNA, is inapposite.[430] A customer affirmatively chooses to enroll in budget billing to prevent bill volatility and enable better budgeting; the proposed WNA deprives customers of the ability to elect to enroll, muting the purported benefits of the decoupling mechanism, and failing to provide actual bill stability in a way which is recognizable to NFG's customers.[431] As a result, the Commission's eighth policy factor weighs against approval of the proposed WNA.[432]

Fourth, the proposed WNA remains difficult to understand for customers. The proposed WNA is a complex, multivariate calculation that is not easily understood by

---

[428] OCA St. 1 at 30.
[429] *PECO Gas 2024* at *81.
[430] NFG St. 19-R at 36.
[431] *See* OCA St. 1 at 38.
[432] 52 Pa. Code §§ 69.3302(a)(8).

consumers.[433] This is especially true, considering that customers do not have access to all of the information necessary to verify the accuracy of their WNA charges on their bills. Because, in part, "a customer cannot easily look at the multi-variable formula used to calculate the WNA and determine how their bill would be affected by their usage" and a "customer will not have access to all of the data used to complete the bill calculation" the Commission has previously found a proposed WNA to be unjust and unreasonable.[434]

As Chairman DeFrank recently stated in regard to Philadelphia Gas Works' reconnection fee, "customers must perform a calculation based upon their interpretation of two distant tariff provisions in an attempt to determine the reconnection fee. I find this to be convoluted."[435] Though the proposed WNA is just one tariff provision, it is not that different from PGW's reconnection fee in that, to determine the applicable charge, the customer must independently attempt to source the applicable data and calculate their potential charge.[436] Thus, the proposed WNA is also convoluted, and the Commission's 13th policy factors weighs against approval of the proposed WNA.

Finally, NFG submitted no testimony to support the conclusion that the proposed WNA will assist NFG in meeting its reliability targets. If customers are subject to decoupling, they should see commensurate benefit from the shifted risks associated with varying weather; instead, NFG's reliability performance is, according to its witness,

---

[433] *See* NFG St. 19-R at 24.
[434] *PECO Gas 2024* at *83.
[435] *Witengier v. Phila. Gas Works*, Docket No. F-2025-3056500, Statement of Chairman DeFrank at 2 (issued June 4, 2026).
[436] 52 Pa. Code § 56.15(12) ("A bill rendered by a public utility for metered residential public utility service must state clearly the following information: A statement that a rate schedule, *an explanation of how to verify the accuracy of a bill* and an explanation, in plain language of the various charges, if applicable, is available for inspection in the local business office of the public utility and on the public utility's web site.") (emphasis added).

exactly the same as it would have been had the first WNA pilot not been in place, and will not improve if the proposed WNA is approved.[437] Importantly, NFG is adequately compensated for its reliability-related investment between rate cases through its distribution system improvement charge, meaning that the proposed WNA will have no marginal safety- or reliability-related benefits for NFG or its customers, and NFG will not be worse off if the proposed WNA is denied.[438]

For these reasons, the weight of the Commission's policy factors indicate that the proposed WNA will not result in just and reasonable rates. NFG's modifications to the proposed WNA, as compared to its first WNA pilot, do not alleviate these concerns. Therefore, the OCA respectfully requests that NFG's proposed WNA be denied.

C. Alternatively, if the Commission does not deny NFG's WNA, NFG's proposed WNA should be continued as a three-year pilot, be subject to a 5% deadband, should not apply during October and May, and should utilize a total of four weather stations to determine its AHDDs.

While the OCA's primary position is that NFG's proposed WNA should be denied,[439] if the Commission determines, contrary to the weight of evidence presented, that NFG's proposed WNA should be approved, the OCA recommends it be approved only if

---

[437] NFG Exh. JDT-3 at 5-6.

[438] OCA St. 1 at 38 ("The WNA is also not required to address regulatory lag concerns of the Company given the Company's use of a FPFTY and DSIC.").

[439] *Id.* ("I recommend that the Commission affirmatively discontinue the current WNA mechanism. The mechanism has failed to produce balanced outcomes for ratepayers, functioning as an asymmetric surcharge on customers' bills for the three full years the mechanism has been in operation, even though the mechanism was designed to symmetrically provide both surcharges and credits to customers. The WNA is also not required to address regulatory lag concerns of the Company given the Company's use of a FPFTY and DSIC. NFG's WNA impacts affordability as it makes it more difficult to provide customers with predictable and understandable price signals related to usage and could impede customer conservation efforts. It also shifts weather-related risks away from NFG and onto its customers. Given the macroeconomic risks that are already shifted to customers beyond direct utility rates through increased prices due to tariffs, increased oil prices due to wars in the middle east, and rising utility rates, NFG's WNA goes directly against affordability concerns for ratepayers.").

subject to certain modifications. Specifically, OCA witness Deupree found that the Commission's modifications to the WNA proposed in *Columbia 2025* should be applied to NFG's proposed WNA: an increase in the deadband from three percent to five percent and removing the months of October and May from the proposed WNA's applicable period.[440] OCA witness Deupree further recommended the Commission not allow the WNA as a permanent mechanism but instead as a continued three year pilot,[441] and require NFG to utilize three additional weather stations in calculating its AHDDs to be more representative of the weather in NFG's service territory.[442]

In *Columbia 2025*, the Commission stated: "if the goal of the WNA is to improve stability and customer bills and Company revenues, a 5% deadband adequately captures what could be considered normal weather fluctuations in Pennsylvania."[443] The Commission's analysis herein is not premised on data specific to Columbia, unlike the Commission's determination to grant Columbia's request to continue its WNA.[444] Importantly, the Commission in *Columbia 2025* adjusted not only the deadband but also removed the month of May from the period WNA's applicable period and transitioned from a 20- to a 10-year weather normal.[445]

---

[440] OCA St. 1 at 34, 37.
[441] *Id.*
[442] *Id.* at 39; OCA St. 1R at 11.
[443] *Columbia 2025* at *186 "It also places more of the burden for calculating and forecasting weather variations back onto the Company as a normal part of doing business." *Id.*
[444] *Compare Columbia 2025* at *186 ("5% deadband adequately captures what could be considered normal weather fluctuations in Pennsylvania") *with Columbia 2025* at *186 ("Based on the evidence presented, Columbia's WNA, which has been in place for ten years, has not enabled the Company to recover revenue outside of the Commission-authorized revenue requirement and has received very few complaints.").
[445] *Columbia 2025* at *186-88.

In light of the Commission's recent decision to make several significant structural changes to the WNA at the same time, NFG's argument that the transition from a 15- to 10-year normal alone – despite being less significant than the change in *Columbia 2025* from a 20- to a 10-year normal – is sufficient for this proceeding falls flat.[446] Based on the record presented in this proceeding, "increasing the WNA deadband to five percent would provide for additional protection to ratepayers from minor deviations from normal weather."[447] Further, NFG's reliance on similar WNAs in Pennsylvania to indicate that the proposed WNA is understandable to customers[448] is undermined if NFG customers are not given the same customer protections as other gas utilities' customers.

NFG should also be required to remove October and May from the proposed WNA's effective period. Removing these months would make NFG's proposed WNA more similar to that approved in *Columbia 2025*, which is effective between November and April.[449] Furthermore, according to data collected from the Erie, Pennsylvania weather stations, which NFG currently uses to create its weather forecast and calculate its AHDDs, over the past 15 years, October and May have had higher variation in the number of HDDs than the traditional heating months in Pennsylvania, indicating a higher likelihood that the WNA will shift weather-related risk onto ratepayers than other months.[450] October and May also represent a smaller portion of the heating degree days in and near NFG's service territory,

[446] NFG St. 11-RJ at 13.
[447] OCA St. 1SR at 7.
[448] NFG Exh. JDT-3 at 4.
[449] *Columbia 2025* at *185, 186-87.
[450] OCA St. 1 at 36. NFG witness Taylor's averment that OCA witness Deupree's recommendation to remove October and May from the proposed WNA's effective period is based on "a uniform, statewide view" is thus incorrect. NFG St. 19 at 39.

meaning that removal of those months from the proposed WNA is unlikely to have significant impact to NFG while mitigating the potential harms of the proposed WNA for NFG's customers.[451]

NFG argues that removing the months of October and May "would reduce customer protections in months when customers in northwest Pennsylvania can still face weather-driven volatility" and that it "could unnecessarily narrow the WNA's effectiveness for the customers it is intended to protect."[452] NFG's assertion is not supported by NFG's own data which shows that the months of October and May have only produced net surcharges for NFG.[453] While most of the net surcharges have been on the smaller side, in May 2024, NFG's WNA produced a surcharge of over $1 million,[454] showing that inclusion of these months in the WNA's effective period is more likely to produce harm to customers than to add to "customer protections."

While NFG claims that whether variations in weather during October and May can impact residential heating usage is "[t]he relevant question,"[455] the only question the Commission must answer is whether including these months in the proposed WNA results in just and reasonable rates. It does not, as there is an inequitable shift in weather-related risk from NFG to its customers during October and May due to the high level of variability in HDDs in those months for a minor amount of benefit to NFG because October and May contribute a relatively small portion of heating degree days in NFG's service territory.

---

[451] OCA St. 1SR at 7-8.
[452] NFG St. 19R at 39.
[453] *See supra* Section X.A, Table.
[454] *Id.*
[455] NFG St. 19-RJ at 13.

Moreover, any argument from NFG that the Commission's decision in *Columbia 2025* is not relevant to consideration of modifications to the proposed WNA's deadband size and effective months is inconsistent with NFG's testimony regarding approval of the proposed WNA.[456] Specifically, NFG witness Taylor references the Commission's approval of a WNA pilot extension in *Columbia 2025* to support the proposition that "the Commission support[s] the WNA" because it "explicitly approved the continuation of Columbia's WNA mechanism 'to allow it a reasonable opportunity to earn up to its Commission-authorized requirement.'"[457] By contrast, NFG witness Taylor disagreed with OCA witness Deupree's recommendations because "they rely heavily on the Commission's decision in the Columbia Gas proceeding"[458] without recognizing that OCA witness Deupree also supported his recommended modifications with NFG-specific information which indicate that the recommended modifications are just, reasonable, and equitable, if the proposed WNA is allowed to continue.[459] Without modifications, NFG's proposed WNA is more similar to the WNA proposal in *PECO Gas 2024*.[460]

OCA witness Deupree also examined NFG's use of Erie, PA weather as an appropriate proxy of weather conditions for its entire service territory and found NFG's

---

[456] *See* NFG St. 19RJ at 12.
[457] NFG St. 19 at 39.
[458] NFG St. 19RJ at 12.
[459] *See*, *e.g.*, OCA St. 1 at 36 (providing historic weather variability in NFG's service territory to support the removal of October and May from the proposed WNA's effective period).
[460] *See PECO Gas 2024* at *81 ("We agree with the ALJs that PECO is not guaranteed a return on service that is not used. In addition, we note that PECO has proposed a revenue cap from the application of the WNA only for the month of May. As the OCA observed, there is no 'ceiling' for the revenue that PECO can collect through the WNA. PECO claims that the WNA will allow it to collect its Commission-approved rates. However, we agree with the OCA that this is not entirely accurate. PECO has not proposed a reconciliation mechanism for the WNA if the Company collects more in rates than it would have in the event of 'normal' weather.") (citations omitted).

arguments lacking in persuasiveness.[461] Specifically, OCA witness Deupree notes that NFG recognizes "the distinctive weather patterns of Lake Erie compared to the rest of Pennsylvania" but normalizes its heating requirements for 40% of its residential customer base represented by different weather conditions based on weather conditions in Lake Erie.[462] An analysis of "Erie and three other weather stations located in or near the Company's service territory: Dubois, Pittsburgh, and Bradford" showed that Erie "experiences distinctive weather conditions" as compared to other portions of the service territory.[463] Therefore, OCA witness Deupree recommended NFG begin utilizing three additional weather stations to normalize its weather in addition to Erie: Dubois, Pittsburgh, and Bradford, Pennsylvania.[464]

In sum, while the OCA submits that denial of NFG's proposed WNA is the most just, reasonable, and equitable outcome in this proceeding, if the Commission decides to grant NFG's request, NFG's proposed WNA should be continued only as a three-year pilot and not made permanent. Further, NFG's proposed WNA's deadband should be expanded from three percent to five percent, and its WNA should no longer apply to bills rendered in October and May to provide necessary consumer protections as part of the proposed WNA's core functions, consistent with the Commission's decision in *Columbia 2025*.[465] Finally, to better reflect the actual weather experienced by its ratepayers, the Commission should require NFG to begin utilizing three additional weather stations to calculate HDDs

---

461 OCA St. 1SR at 8-12.
462 *Id.* at 9.
463 *Id.*
464 *Id.* at 11.
465 *See Columbia 2025* at *186-88.

for the WNA calculations. Therefore, the OCA respectfully requests that the Commission grant its requested alternative relief.

XI. ENERGY EFFICIENY PILOT

NFG's proposed reconcilable rider to recover costs for its Energy Efficiency (EE) Pilot Program Rider should be denied because NFG failed to provide substantial evidence demonstrating that direct recovery of approximately $700,000 in projected annual EE Program costs over the five-year pilot period would result in just and reasonable rates.[466] The OCA did not oppose NFG's proposed EE pilot program.[467] However, the OCA recommends denying NFG's proposed EE Rider[468] because NFG's proposal represents single-issue ratemaking and the costs at issue do not meet the criteria for reconcilable riders pursuant to Section 1307 because they are not extraordinary, substantial, unexpected or non-recurring.[469] NFG thus failed to demonstrate that approval of the rider would result in just and reasonable rates.

The Pennsylvania Commonwealth Court has declared that "single issue rate making is prohibited if it impacts on a matter considered in a base rate case."[470] "The 'cursory' review undertaken for a surcharge is not a substitute for the review undertaken in a base

[466] 66 Pa. C.S. §§ 315(a), 1301.
[467] NFG "proposes implementing a comprehensive Energy Efficiency ("EE") Program over a five-year period beginning in October 2026. The program will provide rebate incentives for residential customers seeking to install high-efficiency natural gas space and water hearing appliances, as well as ENERGY STAR® certified natural gas clothes dryers." OCA St. 1 at 39.
[468] NFG St. 18 at 6.
[469] OCA St. 1 at 40, 4; OCA St. 1R at 20.
[470] *Popowsky v. Pa. P.U.C.*, 869 A.2d 1144, 1151 (Pa. Cmwlth. 2005) (*CSIC*), *appeal denied*, 895 A.2d 552 (Pa. 2006) (citing *Phila. Elec. Co. v. Pa. P.U.C.*, 502 A.2d 722, 727-28, 93 Pa. Commw. 410, 422 (1985) (*PECO 1985*) and overturning Commission's grant of a wastewater utility's request to implement a Collection System Improvement Charge).

rate case to determine whether a rate is just and reasonable."[471] NFG has not shown that recovery of the costs for the EE Pilot program are unable to be considered as part of operating expenses in its base rate, particularly because it seeks to establish its EE Rider within the context of a base rate case. Additionally, NFG seeks to have the costs be ongoing for the five years of the EE Pilot, during which time it projects the program will have an annual cost of $700,000, showing that these costs are expected to be "normal, ongoing costs."[472]

Section 1307[473] allows a utility to adjust its rates through additional surcharges where: (1) "expressly authorized, or (2) where an expense is easily identifiable and beyond the utility's control."[474] This is because "[g]enerally, where an expense is within a utility's control, that expense can be recovered through a base rate filing."[475] "[A] non-statutory Section 1307 surcharge must address a significant expense. That is, the requested recovery must represent an expense capable of substantially degrading a utility's reasonable return on rate base."[476] Where the Commission has approved an expense surcharge under Section 1307, it has additionally required a showing that costs are extraordinary, substantial,

[471] *CSIC* at 1157.
[472] *See Pa. PUC v. Aqua Pennsylvania Wastewater, Inc.*, 2022 Pa. PUC LEXIS 161 at *155 (Order, May 12, 2022) (*Aqua 2022*).
[473] NFG states that the proposed EE program "does not interact with revenue sources such as 66 Pa. C.S. § 1307." NFG St. 18 at 17. However, NFG also states that it "believes the Company's proposed approach [] aligns with the cost recovery framework established under Act 129 for electric utilities." *Id.* at 10. Electric Utilities under Act 129 are directed to "include a proposed cost recovery tariff mechanism, in accordance with Section 1307." *Energy Efficiency & Conservation Program*, 2025 Pa. PUC LEXIS 69 at *103 (Order, Feb. 20, 2025). Thus, Commission decisions about Section 1307 surcharges are relevant.
[474] *Popowsky v. Pa. PUC*, 13 A.3d 583, 591 (Pa. Cmwlth 2011).
[475] *Id.*
[476] *Pa. PUC v. PPL Elec. Util. Corp.*, Docket No. R-2012-2290597, Order at 18, 20-21 (Apr. 3, 2014) ("Section1307 surcharges are not favored and utilities should not turn to Section 1307 as a cure for all revenue-related ills. The Commonwealth Court has been clear that "the PUC should not use it [Section 1307] to disassemble the traditional rate-making process." (citation omitted)).

unexpected or non-recurring.[477] For example, in *Aqua 2022*, the Commission found that the costs requested in the riders were not "unique, unexpected, or non-recurring," and that Aqua had not "experienced any extraordinary circumstances with regard to its purchased water and energy costs when compared to the other routine O&M costs it recovers through base rates."[478]

First, although NFG's projected costs of the EE Pilot program are easily identifiable, as shown by the projected numbers and budget provided in NFG's filing,[479] NFG's projected EE pilot program costs are not outside the control of NFG, given that NFG would directly administer the pilot and provided estimated participation levels and annual budgets.[480] Second, NFG's projected annual expenses of $700,000 for its EE Pilot Program equates to approximately 1.4 percent of NFG's estimated annual income, not rising to a level of substantial or significant expense such that it requires recovery through a reconcilable rider.[481] Third, the costs are not unexpected, given that NFG seeks to run its EE Pilot Program for five years and has projected out annual participation rates and costs for the Pilot Program.[482] Fourth, given that NFG plans to run its EE Pilot Program for five years, the costs will be recurring throughout the time any increase in revenue requirement granted in this base rate case is in effect.[483] Finally, NFG has not shown that its projected

---

[477] *See Aqua 2022* at *155.
[478] *Id.*
[479] NFG St. 18 at 6.
[480] OCA St. 1 at 41 (citations and footnotes omitted); NFG St. 18 at 7.
[481] *Id.* at 41-42.
[482] *See* NFG St. 18 at 6-7.
[483] *See id.* at 5.

expenses for the EE Pilot program are "extraordinary circumstances … when compared to the other routine O&M costs it recovers through base rates."[484]

OCA witness Deupree's testimony that NFG's proposed EE Rider fails to meet any of the National Regulatory Research Institute ("NRRI") recommended criteria for a cost-recovery mechanism[485] lends further support to the analysis above, as he notes that: (1) the costs are within the control of NFG; (2) are not projected to rise to a level of substantial or material costs justifying recovery through a rider; and (3) projected costs for the EE Pilot Program as presented are "relatively flat and not expected to be significantly volatile."[486]

NFG argues that while the NRRI evaluation criteria provide "one analytical perspective" the OCA has not demonstrated that the EE Pilot or its proposed recovery mechanism is unjust or unreasonable.[487] There is no presumption of reasonableness attached to a utility's proposals and it is not the burden of another party to disprove the reasonableness of NFG's proposal here.[488] Moreover, the Commission does not need to approve a cost-recovery mechanism simply because it has done so in other cases.[489] The OCA posits that, while not binding on the Commission,[490] when considered in conjunction with the Commission's standard on single-issue ratemaking and Section 1307 surcharges or reconcilable riders above, the NRRI criteria remain important considerations for the Commission in making its case-specific determination of whether the dedicated rider

[484] *See Aqua 2022* at *155.
[485] OCA St. 1 at 40; 43.
[486] *Id.* at 42.
[487] NFG St. 1 at 15.
[488] *Pa. PUC v. Equitable Gas Co.,* 1983 Pa. PUC LEXIS 33 at *53 (Order July 8, 1983).
[489] *See* NFG St. 18R at 14-15.
[490] OCA St. 1SR at 20:4-5.

would result in just and reasonable rates because of how the criteria interact with the Commission's criteria for evaluation. NFG failed to demonstrate that its EE Rider would result in just and reasonable rates primarily because it violates the Commission's prohibition on single-issue ratemaking and does not meet the Commission's own criteria for evaluating reconcilable riders. The OCA therefore recommends that the NFG's proposed EE Pilot Program Rider be denied.

XII. UNIVERSAL SERVICE

A. Customer Assistance Program

The OCA did not address this issue in its testimony.

B. Low Income Usage Reduction Program

The OCA did not address this issue in its testimony.

C. Neighbor for Neighbor Hardship Fund

The OCA did not address this issue in its testimony.

XIII. CUSTOMER/QUALITY OF SERVICE ISSUES

A. Summary

OCA witness Wise recommended as follows:

- NFGD currently charges a fee of up to $2.95 to customers who make payments with credit cards, debit cards, Apple Pay, Google Pay, PayPal and Venmo, as well as use of their Interactive Voice Response (IVR) payment system. Eliminating these fees would support broader access to payment methods and reduce barriers for customers wanting to keep their accounts current.

- NFGD does not maintain or analyze data regarding the effectiveness of its payment plans in preventing service termination. Such data is material to assess and structure payment plans in a manner that minimizes the risk of service termination. NFGD should establish a formal tracking process for all payment plans to assess the percentage of customers who enroll in a plan and subsequently avoid termination.[491]

B. Payment Arrangement Data

NFG does not collect data on whether a termination notice is avoided when a customer makes a payment or enters a payment plan.[492] As OCA witness Wise testified:

> This information is important for determining the effectiveness of any company response to customers who indicate that they are unable to pay their current bill. Without such data, it is difficult to evaluate whether existing customer assistance or payment arrangement options are successfully preventing service termination.[493]

As such, Ms. Wise recommended that NFG be required to conduct such an analysis as a condition of any rate increase ordered in this proceeding.[494] Ms. Wise further recommended that NFG should be directed to evaluate the extent to which payments or payment arrangements prevent terminations after a notice has been issued and report this information to the parties within six months to inform future policy or program adjustments.[495]

C. NFG's payment fees should be eliminated.

NFG charges customers an up to $2.95 fee for using online and telephonic payments.[496] Requiring a payment fee increases NFG customer bills for online payments.[497] However, electronic payment is encouraged by NFG and is a popular payment method.[498] These additional payment fees totaled $815,559 in 2024 and $930,384 in

[491] OCA St. 5 at 5-6.
[492] *Id.* at 13.
[493] *Id.*
[494] *Id.*
[495] *Id.* at 14.
[496] *Id.* at 15-16.
[497] *Id.* at 16.
[498] *Id.*

2025.[499] OCA witness Wise testified that "[t]hese fees particularly have a discriminatory impact on fixed and lower income customers who often need to make a last-minute payment to avoid termination of service. In 2025, 233,756 online payments were made totaling $692,014 supporting my concern about the adverse impact on vulnerable customers."[500]

OCA witness Wise recommended that NFG transition to a fee-free payment system allowing customers to use a broad range of payment options without incurring a fee.[501] Peer natural gas distribution companies such as UGI and Peoples Gas allow one-time credit or debit card payments online or by phone with no fee.[502] OCA witness Wise acknowledged that NFG may have contracts with third parties to process these payments.[503] However, Ms. Wise testified that it would be reasonable to require NFG to investigate lower cost payment processing options to ensure just and reasonable rates.[504]

XIV. MISCELLANEOUS/OTHER ISSUES

A. LTIIP and LPP Replacement Issues

The OCA did not address this issue in its testimony.

B. Restoration Costs

The OCA did not address this issue in its testimony.

C. Tariff Rule 8

The OCA did not address this issue in its testimony.

---

[499] *Id.*
[500] *Id.*
[501] *Id.*
[502] *Id.*
[503] *Id.* at 16-17.
[504] *Id.* at 17.

D. Methane Detector Program

The OCA did not address this issue in its testimony.

XV. CONCLUSION

NFG has not affirmatively demonstrated the reasonableness of every element of its claims for rate base, revenues and expenses, rate of return, revenue allocations, cost of service allocation, rate design and alternative ratemaking. Accordingly, it is within the discretion of the ALJ and the Commission to deny NFG's ratemaking claims and requests in this proceeding that are challenged by the OCA.

Respectfully submitted,

/s/ *Joel Cheskis*
Joel Cheskis, Esq.
Senior Assistant Consumer Advocate
PA Attorney I.D. # 81617
Email: jcheskis@paoca.org

Harrison W. Breitman, Esq.
Senior Assistant Consumer Advocate
PA Attorney I.D. # 320580
Email: HBreitman@paoca.org

Ryan Morden, Esq.
Assistant Consumer Advocate
PA Attorney I.D. # 335679
Email: RMorden@paoca.org

Crystal M. Zook, Esq.
Assistant Consumer Advocate
PA Bar ID # 334159
CZook@paoca.org

Oliva M. Spergel, Esq.
Assistant Consumer Advocate
PA Attorney I.D. # 337929
Email: OSpergel@paoca.org

Janna E. Williams, Esq.
Assistant Consumer Advocate
PA Attorney I.D. # 319584
Email: JWilliams@paoca.org

Counsel for:
Darryl A. Lawrence
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

Dated: June 22 2026

Appendix A

OCA TABLES

TABLE I

National Fuel Gas Distribution Corporation
Docket No. R-2025-3059428
Income Summary
($ in Thousands)

Line No.	Description	Pro Forma at Present Rates	Recommended Adjustments	Adjusted at Present Rates	Revenue Adjustment	Total Allowable Revenues
1	Total Revenues	$ 265,524	$ 12	$ 265,536	$ 4,305	$ 269,841
2						
3	Operating Expenses					
4	Operation & Maintenance Expenses	204,049	(1,250)	202,798	66	202,864
5	Depreciation & Amortization Expense	25,302	(4,670)	20,632	-	20,632
6	Taxes Other Than Income Taxes	2,489	-	2,489	-	2,489
7	Total Operating Expenses	231,839	(5,920)	225,919	66	225,985
8						
9	Operating Income Before Income Taxes	33,684	5,933	39,617	4,239	43,856
10						
11	Income Taxes:					
12	State	(330)	283	(47)	322	275
13	Federal	(2,010)	733	(1,277)	823	(454)
14	Total Income Taxes	(2,340)	1,016	(1,324)		(179)
15						
16	Net operating income Before Income Tax	$ 36,024	$ 4,917	$ 40,941	$ 4,239	$ 44,035
17						
18	Rate Base	$ 571,456		$ 574,917		$ 574,917
19						
20	Return On Rate Base	6.30%		7.12%		7.66%

TABLE I(A)

National Fuel Gas Distribution Corporation
Docket No. R-2025-3059428
Calculation of Rate of Return

Line No.	Description	Capitalization Ratio	Cost Rate	Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
1	Long-Term Debt	50.00%	5.58%	2.79%		
2	Short-Term Debt	0.00%	0.00%	0.00%		
3	Total Debt	50.00%		2.79%		2.79%
4						
5	Common Equity	50.00%	9.74%	4.87%	0.719647	6.77%
6						
7	Total	100.00%		7.66%		9.56%

TABLE I(B)

National Fuel Gas Distribution Corporation
Docket No. R-2025-3059428
Revenue Factor

Line No.	Description	Amount
1	Gross Revenue Factor	1.000000
2	Uncollectible Expense	(0.015300)
3	State Taxable Income	0.984700
4	State Income Tax @7.49%	(0.073754)
5	Federal Taxable Income	0.910946
6	Federal Income Tax @ 21%	(0.191299)
7	Net Operating Income Factor	0.719647
8	Revenue Conversion Factor	1.389570

TABLE II

National Fuel Gas Distribution Corporation
Docket No. R-2025-3059428
Summary of Adjustments
($ in Thousands)

Line No.	Recommended Adjustment	Rate Base Effect	Revenue Effect	Expense Effect	Depreciation Expense Effect	Effect Upon Taxes-Other	State Tax Effect	Federal Tax Effect
1	Adjustment to Cash Working Capital	$ (1,195)	$ -	$ -	$ -	$ -	$ -	$ -
2	Adjustment to Include CIAC	(20)	-	-	-	-	-	-
3	Adjustment to Include Customer Advances	7	-	-	-	-	-	-
4	Reflect Growth in Rent From Gas Property	-	12	-	-	-	1	2
5	Remove Stock-Based Compensation	-	-	(1,430)	-	-	107	278
6	Amortize Insurance Settlement Proceeds	-	-	(266)	-	-	20	52
7	Remove Office Employee Inflation Adjustment	-	-	(64)	-	-	5	12
8	Remove Other Expense -Line Hit Collections	-	-	(156)	-	-	12	30
9	Remove Charge Off Of Customer A/R	-	-	-	-	-	-	-
10	Normalize Uncollectible Expense	-	-	(73)	-	-	5	14
11	Reflect Postage Rate Increase	-	-	(175)	-	-	13	34
12	Remove Economic Development	-	-	(17)	-	-	1	3
13	Include Customer Payment Transaction Costs	-	-	930	-	-	(70)	(181)
14	Reflect OCA Recommended Depreciation Rates	4,670	-	-	(4,670)	-	350	907
15	Interest Synchronization Adjustment	-	-	-	-	-	(161)	(418)
16	Total OCA Adjustments	$ 3,462	$ 12	$ (1,250)	$ (4,670)	$ -	$ 283	$ 733

TABLE III

National Fuel Gas Distribution Corporation
Docket No. R-2025-3059428
Interest Synchronization
($ in Thousands)

Line No.	Description		Amount
1	Adjusted Rate Base	$	574,917
2	Weighted Cost of Debt		2.790%
3	Adjusted Interest Deduction	$	16,040
4	Interest Deduction Per Company		13,889
5	Adjustment to Synchronize Interest Expense	$	2,151
6	Effective State Income Tax Rate		7.49%
7	Adjustment to State Income Taxes	$	(161)
8	Federal Income Tax Base	$	1,990
9	Federal Income Tax Rate		21.00%
10	Adjustment to Federal Income Taxes	$	(418)

TABLE I (ALTERNATIVE)

National Fuel Gas Distribution Corporation
Docket No. R-2025-3059428
Income Summary
($ in Thousands)

Line No.	Description	Pro Forma at Present Rates	Recommended Adjustments	Adjusted at Present Rates	Revenue Adjustment	Total Allowable Revenues
1	Total Revenues	$ 265,524	$ 12	$ 265,536	$ 4,205	$ 269,741
2						
3	Operating Expenses					
4	Operation & Maintenance Expenses	204,049	(1,250)	202,798	64	202,863
5	Depreciation & Amortization Expense	25,302	(4,670)	20,632	-	20,632
6	Taxes Other Than Income Taxes	2,489	-	2,489	-	2,489
7	Total Operating Expenses	231,839	(5,920)	225,919	64	225,983
8						
9	Operating Income Before Income Taxes	33,684	5,933	39,617	4,141	43,758
10						
11	Income Taxes:					
12	State	(330)	436	106	315	421
13	Federal	(2,010)	1,131	(879)	803	(76)
14	Total Income Taxes	(2,340)	1,567	(773)	1,118	345
15						
16	Net operating income Before Income Tax	$ 36,024	$ 4,366	$ 40,390	$ 4,141	$ 43,412
17						
18	Rate Base	$ 571,456		$ 575,805		$ 575,805
19						
20	Return On Rate Base	6.30%		7.01%		7.54%

TABLE I(A) (ALTERNATIVE)

National Fuel Gas Distribution Corporation
Docket No. R-2025-3059428
Calculation of Rate of Return

Line No.	Description	Capitalization Ratio	Cost Rate	Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
1	Long-Term Debt	43.60%	5.58%	2.43%		
2	Short-Term Debt	0.00%	0.00%	0.00%		
3	Total Debt	43.60%		2.43%		2.43%
4						
5	Common Equity	56.40%	9.06%	5.11%	0.719647	7.10%
6						
7	Total	100.00%		7.54%		9.53%

TABLE I(B) (ALTERNATIVE)

National Fuel Gas Distribution Corporation
Docket No. R-2025-3059428
Revenue Factor

Line No.	Description	Amount
1	Gross Revenue Factor	1.000000
2	Uncollectible Expense	(0.015300)
3	State Taxable Income	0.984700
4	State Income Tax @7.49%	(0.073754)
5	Federal Taxable Income	0.910946
6	Federal Income Tax @ 21%	(0.191299)
7	Net Operating Income Factor	0.719647
8	Revenue Conversion Factor	1.389570

TABLE II (ALTERNATIVE)

National Fuel Gas Distribution Corporation
Docket No. R-2025-3059428
Summary of Adjustments
($ in Thousands)

Line No.	Recommended Adjustment	Rate Base Effect	Revenue Effect	Expense Effect	Depreciation Expense Effect	Effect Upon Taxes-Other	State Tax Effect	Federal Tax Effect
1	Adjustment to Cash Working Capital	$ (307)	$ -	$ -	$ -	$ -	$ -	$ -
2	Adjustment to Include CIAC	(20)	-	-	-	-	-	-
3	Adjustment to Include Customer Advances	7	-	-	-	-	-	-
4	Reflect Growth in Rent From Gas Property	-	12	-	-	-	1	2
5	Remove Stock-Based Compensation	-	-	(1,430)	-	-	107	278
6	Amortize Insurance Settlement Proceeds	-	-	(266)	-	-	20	52
7	Remove Office Employee Inflation Adjustment	-	-	(64)	-	-	5	12
8	Remove Other Expense -Line Hit Collections	-	-	(156)	-	-	12	30
9	Remove Charge Off Of Customer A/R	-	-	-	-	-	-	-
10	Normalize Uncollectible Expense	-	-	(73)	-	-	5	14
11	Reflect Postage Rate Increase	-	-	(175)	-	-	13	34
12	Remove Economic Development	-	-	(17)	-	-	1	3
13	Include Customer Payment Transaction Costs	-	-	930	-	-	(70)	(181)
14	Reflect OCA Recommended Depreciation Rates	4,670	-	-	(4,670)	-	350	907
15	Interest Synchronization Adjustment	-	-	-	-	-	(8)	(20)
16	Total OCA Adjustments	$ 4,350	$ 12	$ (1,250)	$ (4,670)	$ -	$ 436	$ 1,131

TABLE III (ALTERNATIVE)

National Fuel Gas Distribution Corporation
Docket No. R-2025-3059428
Interest Synchronization
($ in Thousands)

Line No.	Description		Amount
1	Adjusted Rate Base	$	575,805
2	Weighted Cost of Debt		2.430%
3	Adjusted Interest Deduction	$	13,992
4	Interest Deduction Per Company		13,889
5	Adjustment to Synchronize Interest Expense	$	103
6	Effective State Income Tax Rate		7.49%
7	Adjustment to State Income Taxes	$	(8)
8	Federal Income Tax Base	$	95
9	Federal Income Tax Rate		21.00%
10	Adjustment to Federal Income Taxes	$	(20)

Appendix B

OCA PROPOSED FINDINGS OF FACT

OCA Proposed Findings of Fact

OVERALL POSITION ON RATE INCREASE

1. Pennsylvanians are being squeezed by rising costs and everything must be done to cut costs and protect consumers. OCA Exh. MWD-10.

2. NFG failed to satisfy its burden that $18.475 million, or 7.4% total revenue, increase will produce rates that are just and reasonable.

3. In the event the Commission does not deny NFG's rate increase, the Commission should authorize an increase of $4.305 million annually for the FPFTY ending October 31, 2027, or $14.17 million less than NFG's request. OCA St. 2SR; *see also*, OCA Exh. LKM-1A-SR.

4. In the alternative, using the Company's desired ROR yields an increase of $4.205 million annually for the FPFTY ending October 31, 2027, or a decrease of $14.27 million from NFG's request. OCA St. 2SR; *see also*, OCA Exh. LKM-1A-SR.

RATE BASE

Cash working capital

5. NFG's claim for cash working capital should be adjusted, in part, to adjust the lead/lag study to reflect adjustments related to operating expenses OCA witness Morgan recommends, as well as the interest expense adjustment related to his adjustments to rate base and the OCA's recommended capital structure. OCA St. 2 at 9.

6. NFG's claim for cash working capital should be adjusted because there are a number of amortizations and accrued expenses that are reflected in the operating expenses that do not require the use of cash and should be removed from the lead/lag study. OCA St. 2 at 9.

7. NFG's claim for cash working capital should be decreased $1,184,000. OCA St. 2 at 9, *citing*, OCA Exh. LKM-4A.

8. To reflect prepaid expenses, NFG's claim related to prepaid expenses should be decreased in rate base of $1,080,000 which was claimed by NFG. OCA St. 2 at 10.

9. NFG did not address Mr. Morgan's adjustment to remove non-cash expenses from the lead/lag study which Mr. Morgan continues to support. OCA St. 2SR at 8.

10. To reflect adjustments to O&M, the adjustment to cash working capital reduces rate base by $1,195,000. OCA St. 2SR at 8, *citing*, OCA Exh. LKM-4A-SR.

Contributions in aid of Construction (CIAC)

11. NFG's rate base should be reduced by $45,000 which represents the value of the CIAC account. OCA St. 2 at 11, *see*, OCA Exh. LKM-5A.

12. CIAC and Customer Advances are only collected when plant is placed in service to serve customers and, therefore, including the most recent 13-month balance CIAC and Customer Advances is appropriate because it matches plant that are already included in Plant in Service. OCA St. 2SR at 9.

13. NFG's base rates should be decreased by $20,000 to reflect the 13-month average CIAC balance. OCA St. 2SR at 9; *see also*, OCA Exh. LKM-5A.

Customer Advances for Construction

14. NFG has certain Customer Advances for Construction on its books which it has not reflected as a reduction to rate base that are advances by customers for construction which are to be refunded either wholly or in part by the utility at a later date. The Company has use of the customer advances for the construction project to offset its costs while these funds are held by the Company. OCA St. 2 at 11.

15. For ratemaking purposes, the value of the investments not incurred by the utility, because they are funded by customer advances, represent cost free capital to the utility and the utility is not entitled to receive a return on the avoided cost of the investment. OCA St. 2 at 11.

16. NFG's rate base should be reduced by $54,000 which represents the value of the 13-month average balance in the Customer Advances account. OCA St. 2 at 11, *see*, OCA Exh. LKM-5A; *see also*, OCA St. 2SR at 9.

REVENUES

Forfeited Discounts

17. NFG's claim for Other Revenues should be increased by $21,000 in consideration of the adjusted Forfeited Discounts claim as noted by Mr. Morgan. OCA St. 2 at 12, *see*, OCA Exh. LKM-6A-SR.

Rent From Gas Property

18. NFG's revenue claim should be increased by $12,000 in consideration of the Rent From Gas Property because, in the three most recent years, the Company has experienced a 6% average annual growth which Mr. Morgan testified should be reflected in the FPFTY projection of the revenues in this account for the FPFTY. OCA St. 2 at 12, *citing*, NFG Response to Section 53.53 III-H.5.

EXPENSES

Incentive Compensation Expense

19. NFG's claim for incentive compensation expense should be adjusted to reduce operations and maintenance (O&M) expenses by $1.43 million. OCA St. 2 at 14, *see*, OCA Exh. LKM-8A.

20. As an investor owned utility, the interests of the Company and its stockholders primarily depend on the Company remaining a going concern. As such, operating the Company is based upon a profit motive. Hence, one of the primary interests of the Company and its shareholders is to achieve earnings high enough to attract investors, achieve financing on good terms and improve shareholder value. OCA St. 2 at 13.

21. NFGs goals are primarily targeted toward increasing shareholder value and not necessarily consistent with the interests of NFG's ratepayers and, therefore, these costs are not properly recoverable from ratepayers for several reasons. OCA St. 2 at 13.

22. The measures that achieve additional cost savings, increase revenue or otherwise improve financial results should generate the necessary income to cover the incentive plan payments and those payments are not tied to ratepayer benefits such as improved quality of service. OCA St. 2 at 14.

23. It is important to determine whether the incentive compensation plan is primarily established in the interest of shareholders or ratepayers because those two interests do not always align or are otherwise compatible. OCA St. 2SR at 11.

Insurance Settlement Proceeds

24. NFG's operating expense claim should be reduced by $312,000 to reflect a 3-year flowback of environmental proceeds from an insurance settlement received by the Company. OCA St. 2 at 14-15, *see*, OCA Exh. LKM 9A.

25. The statement by the Company that the funds in the insurance proceeds account are used to pay claims as they arise is vague as far as how long the Company may end up holding these funds and this means that the Company retains use of their funds on a cost-free basis. OCA St. 2 at 15.

26. If these funds are not returned to ratepayers through lower rates, ratepayers will end up paying higher rates while the Company retains use of the funds on a cost-free basis. OCA St. 2 at 15.

Office Employee Expenses

27. NFG's operating expenses should be reduced by $64,000 to reflect an adjustment to Office Employee Expenses. OCA St. 2 at 16, *see*, OCA Exh. LKM 10A.

28. NFG's approach to office employee expenses is inconsistent with the zero-based budgeting approach that NFG witness Formato claims NFG uses for its operating budget. OCA St. 2 at 16.

29. Applying a compound growth rate to historical costs is not consistent with zero-based budgeting and does not produce results that are representative of the cost that would be incurred in the FPFTY because there is no correlation of planned activities for the budget year and the underlying costs used to develop the budget. OCA St. 2 at 16.

Other Expense – Line Hit Collections

30. NFG's claim for operating expenses should be reduced by $156,000 to reflect adjustments to the claim for Other Expense -Line Hit Collections. OCA St. 2 at 16-17, *see*, OCA Exh. LKM 11A.

31. NFG normalized line hit collections because the amount recovered during FY 2025 was unusually high in comparison to the two prior years. OCA St. 2 at 16.

32. If the cost of the offsetting component (the reimbursements) is being normalized, then it is also appropriate to normalize the expenses incurred. NFG's claim should, therefore, be adjusted as Mr. Morgan recommended. OCA St. 2 at 17.

Uncollectible Expense

33. NFG's claim for uncollectible expenses should be reduced by $73,000 to reflect removal of a 0.02% management adjustment by the Company that is not appropriate. OCA St. 2 at 18, *see*, OCA Exh. LKM 13A.

34. NFG calculated an uncollectible factor of 1.53% based on the three-year uncollectible ratio that was calculated from the historical data, and then added a 0.02% management adjustment to derive a total uncollectible factor of 1.55%. OCA St. 2 at 18.

35. The revenue gross up factor includes a component for uncollectible expenses and, as a result, the calculated revenue increase is grossed up to reflect the value of higher uncollectible accounts resulting from the rate increase. OCA St. 2 at 18.

Postage Expense

36. NFG's claim for postage expense should be decreased by $175,000 to remove the compound annual growth rate applied by the Company. OCA St. 2 at 19, *citing*, OCA Exh. LKM 14A.

37. NFG's postage expense adjustment that represents future increases in first class postage is backward looking during a period when the US Postage Service implemented frequent rate increases that are likely not to be repeated based on statements by the US Postage Service. OCA St. 2 at 19 (citation removed).

38. The US Postage Service announced that price changes for 2026 would not be for first class postage; hence, NFG's 9% projected postal price increase is speculative and not known or certain at this time. OCA St. 2 at 19.

Economic Development Expense

39. NFG's claim for $17,000 related to dues for membership in economic development organizations should be removed from the cost of service. OCA St. 2 at 20-21, *citing*, OCA Exh. LKM 15A.

40. None of these organizations for which NFG seeks dues recovery are focused on employee development or related to the utility operations. OCA St. 2 at 20.

41. Membership in these entities has very little to do with providing service to current ratepayers and is more closely aligned with corporate image building. Moreover, economic development is not a function of a public utility, so it is not appropriate to recover these costs from ratepayers. OCA St. 2 at 21.

Customer Payment Transaction Fees

42. NFG's operating expenses should be adjusted by $930,000 to reflect customer bill payment transaction fees that are absorbed by NFG for those customers who pay their bills by credit card, debit card, Venmo and PayPal. OCA St. 2 at 21, *citing*, OCA Exh. LKM 16A; *see also*, OCA St 5 at 16.

Depreciation Expense

43. NFG's depreciation expense and accumulated depreciation balance should be adjusted by $4.67 million to reflect the changes recommended by OCA witness Andrews. OCA St. 2 at 22, *citing*, OCA Exh. LKM 17A; *see also*, OCA St. 4, *passim*.

Interest Synchronization

44. NFGs interest expense deduction should be increased by $2,153,000 to a total of $16,042,000 and the state and federal income taxes should be decreased by $150,000 and $421,000, respectively. OCA St. 2 at 23.

DEPRECIATION

45. NFG has filed a depreciation study based on plant balances for its Fully Projected Future Test Year ("FPFTY") as of October 31, 2027, using the ELG procedure. OCA St. 4 at 3; OCA St. 4 at 11.

46. These depreciation rates would result in excessive and burdensome depreciation expense for National Fuel's customers. OCA St. 4 at 3.

47. NFG's total proposed 2027 depreciation expense of $23.4 million represents 8% of its proposed total $285.2 million revenue requirement. OCA St. 4 at 3; OCA St. 4 at 12.

48. NFG is in an accelerated investment period that will substantially drive an increase to rate base and revenue requirement. OCA St. 4 at 3; NFG St. 1 at 21.

49. The use of the ALG method can be used to mitigate the rate increases associated with NFG's accelerated investment to upgrade its infrastructure. OCA St. 4 at 3; OCA St. 4 at 16.

50. The ALG method equitably spreads the annual depreciation expense on rate base investment over the generations of customers that receive service from the investments. OCA St. 4 at 3.

51. Conversely, the ELG method assigns more depreciation expense to customers that take service early in the asset's service life and reduces the expense to customers toward the end of the asset's service life. OCA St. 4 at 3; OCA St. 4 at 24.

52. The proposed test year depreciation expense would be reduced by $4.67 million if the ALG depreciation rates are utilized. OCA St. 4 at 3; OCA St. 4 at 35.

53. The investment in net plant in-service for the FPFTY ended October 31, 2027, is projected to be $637 million. NFG St. 1 at 14.

54. When NFG last requested a rate increase for the FPFTY ended July 31, 2024, the Company's investment in net plant was approximately $496 million. NFG St. 1 at 14.

55. The $141 million increase in net plant has largely been the result of continued investments necessary to enhance and maintain the safety and reliability of NFG's distribution system, which include the replacement of aging gas plant infrastructure. NFG St. 1 at 14.

56. NFG has eliminated over 371 miles of leak-prone bare steel and wrought iron pipeline and 7,337 base steel services since 2016. NFG St. 1 at 14.

57. At the current rate of replacement of 57 miles per year, NFG anticipates retirement of all leak-prone pipe by 2039. NFG St. 1 at 14.

58. NFG's increased spending is likely to occur for at least the next 10 years. OCA St. 4 at 13-14; NFG St. 1 at 14.

59. NFG's depreciation expense increased more than 24% over a 5-year period, largely coinciding with a 30% increase to plant-in-service. OCA St. 4 at 14.

60. NFG's oldest assets still in service are from 1883. OCA St. 4 at 14.

61. NFG has been providing gas service in Pennsylvania since 1902, approximately 124 years. OCA St. 4 at 14.

62. The average age of NFG's gas plant is 19 years old. OCA St. 4 at 14.

63. A 124-year-old company with assets with an average age of 19 years further confirms that NFG has been in a higher-than-average investment cycle. OCA St. 4 at 14.

64. A recent poll by the Commonwealth Foundation found that rising energy costs are a top voter concern, claiming that "Eight in 10 voters say their household energy bills have increased

over the past two years, and more than two-thirds (70%) say they're concerned about affording their family's energy needs. Rising energy costs (63%) top the list as the most prominent environmental issue in Pennsylvania." OCA St. 4 at 15.

65. NFG's reliance on the ELG procedure results in depreciation rates that are front-loaded and forces unnecessary depreciation expense on current customers. OCA St. 4 at 15.

66. Front-loaded depreciation expense using the ELG procedure compounds the cost of the infrastructure asset in the early years of the asset's service life by increasing both the return on the asset (because undepreciated net plant cost is highest in the early year) and the annual recovery of the asset or depreciation expense. OCA St 4 at 15-16.

67. NFG filed rate increases in 2025, 2022, and 2006. OCA St. 4SR at 15-16.

68. The underlying principle for determining depreciation rates is intergenerational equity. OCA St. 4 at 24.

69. Using the ALG procedure results in lower revenue requirements for NFG's customers for approximately the next 11 years. OCA St. 4SR at 13-14.

70. NFG characterized 11 years of lower rates using the ALG procedure as a *short*-term benefit for current customers. NFG St. 8 at 16.

71. OCA characterized 11 of lower rates using the ALG procedure as a substantial benefit to customers who are experiencing rate increases and facing affordability concerns today. OCA St. 4SR at 14.

72. The ALG and ELG procedures ensure full cost recovery for the utility; the only question is how the timing of that cost recovery is allocated among generations of customers. OCA St. 2SR at 2; 9.

73. NFG identified two concepts of intergenerational equity: the inequity of customers paying for retired assets, and the inequity of uneven distribution of depreciation charges over the life of an asset. OCA St. 4 SR at 16.

74. NFG's concern about customers paying for retired assets under ALG is addressed by the Remaining Life Technique, which both OCA and NFG witnesses utilize. OCA St. 4 SR at 16.

75. The Remaining Life Technique is self-correcting: any over-accumulations or under-accumulations due to the use of the average life are automatically spread over the remaining life of the account in subsequent depreciation studies. OCA St. 4 SR at 16.

76. In real-world operations, circumstances can change such that assets are retired earlier than expected. NFG St. 8R at 18; OCA St 4SR at 17.

77. If assets are retired at times different than the survivor curve predicts then the ELG procedure's allocation of cost among equal life groups will also be incorrect, and the claimed intergenerational equity advantage of ELG does not materialize in practice. OCA St. 4SR at 17.

78. The strength of the dollar favors present customers. OCA St 4SR at 14.

79. NFG's revenue requirement comparison treats a dollar of savings in 2026 as equivalent to a dollar of cost in 2050, but this fails to account for the time value of money. OCA St. 4SR at 14.

80. Due to inflation, the purchasing power of a dollar erodes over time. OCA St. 4SR at 14.

81. For example, at a 3% inflation rate, which is consistent with recent experience, the purchasing power of a dollar declines as follows:

- By 2030 (4 years from now), a dollar will have the purchasing power of approximately $0.89 in today's dollars.
- By 2035 (9 years from now), approximately $0.77.
- By 2037 (11 years from now, the approximate crossover point in Mr. Spanos's analysis), approximately $0.72.
- By 2045 (19 years from now), approximately $0.57.
- By 2050 (24 years from now, the end of Mr. Spanos's projection), approximately $0.49.

OCA St. 4SR at 14.

82. Using ALG procedure produces lower revenue requirements during the period when customers' dollars have the greatest purchasing power. OCA St. 4SR at 15.

83. The higher revenue requirements that NFG projects under ALG in later years are in dollars that are worth substantially less than a dollar today. OCA St. 4SR at 15.

84. The mathematical precision ascribed to the ELG procedure does not exist in reality and that it is extremely sensitive to the survivor curve that is used to determine the depreciation rates. OCA St. 4 at 29.

85. The mathematical precision ascribed to depreciation expense calculated using the ELG procedure is also only accurate if the utility property retires in exactly the manner dictated by the survivor curves used to calculate the ELG rates. OCA St. 4 at 29.

86. Account 376.1, the distribution mains account includes distribution mains of various materials (steel, plastic, etc.) and various sizes (1/2", ¾", 1", etc.). OCA St. 4 at 29.

87. Each individual asset in Account 376.1 will retire in a different manner and at a different age. OCA St. 4 at 29.

88. The ALG procedure assumes that, on average, the group of assets will retire in a manner consistent with the survivor curve. OCA St. 4 at 29.

89. The ALG procedure is more appropriate for an account such as 376.1 because the precision of the ELG procedure does not match reality. OCA St. 4 at 29.

90. Account 376.1 represents approximately $426.7 million, or 45%, of NFG's $955.9 million gas plant-in-service, and it represents 32% of NFG's proposed 2027 gas plant depreciation expense. OCA St. 4SR at 5-6.

91. NFG proposed the 70-L1.5 survivor curve for account 376.1. OCA St. 4SR at 6.

92. The 70-L1.5 survivor curve that NFG proposes for Account 376.1 does not closely match the Company's actual retirement experience. OCA St. 4SR at 6.

93. The ALG procedure means all assets in an account are assumed to have an average life equal to that of the proposed survivor curve. OCA St. 4 at 18.

94. In regard to the ALG procedure, some property will be retired before the average service life, and some will be retired after the average service life, on average, the property will exhibit life characteristics according to the survivor curve. OCA St. 4 at 18.

95. For each vintage of property within an account using the ALG procedure, the remaining life is determined based on the age of the property and the survivor curve selected for the account. OCA St. 4 at 18.

96. Under the ALG procedure, the unrecovered cost for each vintage is spread over the remaining life of that vintage, yielding an annual accrual for each vintage. OCA St. 4 at 19.

97. Under the ALG procedure, the vintage annual accruals are summed for the entire account, and the total of annual accruals is divided by the account balance to determine the depreciation rate. OCA St. 4 at 19.

RATE OF RETURN

Introduction

98. NFG originally recommended an 11.25% Return on Equity which included a 25-basis point management efficiency adjustment that was later rescinded. OCA St. 3SR at 15.

99. NFG subsequently proposed an ROE of 11%, a value that no other public utility in Pennsylvania has been awarded. OCA St. 3SR at 2.

100. NFG proposed a capital structure of 56.4% common equity and 43.6% debt for its operations, which is significantly weighed towards equity, leading to NFG's ratepayers paying higher rates. OCA St. 3 at 22.

101. OCA witness Reno recommended an ROE of 9.74% and imputed capital structure of 50% common equity and 50% debt for ratemaking purposes. OCA St. 3 at 6.

102. OCA witness Reno's proposed adjustments to the Company's ROE and capital structure result in an overall 7.66% weighted rate of return. OCA St. 3 at 3-4.

103. Adopting OCA witness Reno's recommended adjustments to ROE and capital structure would result in a revenue requirement reduction of $3.094 million. OCA Ex. LKM-1A-SR

104. If the Commission uses NFG's capital structure, Ms. Reno's alternative ROE of 9.06% with a rate of return of 7.54% would result in a revenue requirement reduction of $3.022 million. OCA Ex. LKM-1B-SR.

Capital Structure

105. Equity is more expensive than debt because shareholders require higher returns than creditors and because dividends are not tax deductible. OCA St. 3SR at 5.

106. Excessive equity financing increases the overall cost of capital borne by ratepayers. OCA St. 3SR at 5.

107. Authorizing an equity-rich capital structure requires customers to pay both a higher return and a higher associated tax burden. OCA St. 3SR at 5.

108. NFG's proposed 56.40% equity ratio exceeds recent average authorized equity ratios for regulated gas utilities, including 52.45% in 2023, 52.52% in 2024, and 51.63% in 2025. OCA St. 3SR at 5-6.

109. It also exceeds the proxy group expected average of 48.00% and median of 45.00% for 2026. OCA St. 3SR at 5-6.

110. Because equity is the more expensive form of capital, using a higher equity ratio increases the total rate of return customers must pay. OCA St. 3SR at 5-6.

111. More than forty state commission-approved decisions and settlements utilized a 50.0% common equity ratio, including natural gas utility proceedings involving Southwest Gas, Northern Illinois Gas, Northwest Natural, and Puget Sound Energy. OCA St. 3SR at 6; OCA Ex. MLR-1-SR: Schedule MLR-1-SR.

112. NFG is not publicly traded and obtains financing through its parent company, National Fuel Gas Company. OCA St. 3SR at 13.

113. Parent-company financing arrangements raise concerns regarding double leverage because debt issued at the parent level may ultimately be reflected as equity in the regulated subsidiary, thereby increasing customer costs. OCA St. 3 at 25.

Debt Cost Rate

114. NFG’s proposed 5.58% cost of long-term debt is consistent with expected market rates for Moody’s Aaa-rated and Baa-rated corporate bonds. OCA St. 3 at 26.

Return on Common Equity

115. NFG proposed an ROE of 11%, whereas the OCA recommended a 9.74% ROE and an alternate ROE recommendation of 9.06% if the Commission were to adopt NFG's capital structure recommendation. OCA St. 3SR at 33, 35.

116. OCA witness Reno examined projected earnings growth, dividend growth, book-value growth, and sustainable growth measures as part of her DCF analysis. OCA St. 3 at 44-45; OCA St. 3SR at 16.

117. NFG's proposed 11.00% ROE substantially exceeds returns currently required by investors for comparable natural gas utilities by applying a growth rate the almost exclusively relies on earnings-growth projections. OCA St. 3 at 3-6, 45-46; OCA St. 3SR at 18.

118. OCA witness Reno utilized a Discounted Cash Flow analysis as the primary basis for her ROE recommendation and used the Hamada version of Capital Asset Pricing Model as a check on reasonableness. OCA St. 3 at 41-57.

119. Ms. Reno used the Hamada version of the CAPM for her reasonableness check because the DCF does not directly incorporate the impact of the capital structure on ROE. OCA St. 3 at 25, 63-65.

120. Ms. Reno's DCF analysis produced a range of 8.88% to 10.61%, with a midpoint of 9.74%. OCA St. 3 at 49.

121. Ms. Reno's CAPM analysis produced a range of 7.43% to 10.55%, with a midpoint of 8.99%. OCA St. 3 at 7, 50.

122. The CAPM midpoint is seventy-five basis points below the DCF midpoint and therefore confirms the reasonableness of the recommended 9.74% ROE. OCA St. 3 at 7.

123. The DCF model is a widely accepted method for estimating the return investors require on utility common equity. OCA St. 3 at 68.

124. OCA witness Reno used the Constant-Growth DCF model to form the basis of her 9.74% ROE recommendation. OCA St. 3 at 41.

125. Under the constant-growth DCF model, an investor's expected return is equal to the expected dividend yield plus the expected long-term growth rate in dividends. OCA St. 3SR at 17.

126. The DCF model is based on the principle that the value of a stock reflects the present value of future dividends and that investors require compensation both for current income and future growth. OCA St. 3SR at 17.

127. Both OCA witness Reno and NFG witness Nowak employed a constant-growth DCF model, but they differed significantly in their estimation of the growth component. OCA St. 3 at 44-46.

128. Higher assumed growth rates produce higher estimated returns on equity, while lower and more realistic growth rates produce lower ROE estimates. OCA St. 3 at 49-50.

129. Ms. Reno developed her growth estimates using multiple indicators of long-term utility growth. OCA St. 3 at 44-45.

130. Ms. Reno first calculated expected earnings growth using the average of analyst forecasts from three independent and widely recognized sources—Value Line, S&P Market Intelligence, and Zacks—which resulted in an average expected earnings growth rate of 7.92%, with median DCF results of 10.48% and 10.61%. OCA St. 3 at 44.

131. Ms. Reno adjusted her DCF results by averaging Value Line's dividends per share and book value per share estimates with the previously estimated growth rate result, weighted

equally, which produces the growth rate used by OCA witness Reno of 5.45% with median DCF results of 8.88% and 9.03%. OCA St. 3 at 44-45.

132. Ms. Reno also employed a sustainable growth approach. OCA St. 3 at 46-49.

133. The sustainable growth approach measures the rate at which a company can grow over time through internally generated earnings while maintaining its existing capital structure and dividend payout practices. OCA St. 3 at 46-49.

134. Rather than relying solely on external analyst forecasts, the sustainable growth model derives growth from fundamental financial characteristics such as earnings retention, dividend payout ratios, and expected returns on equity. OCA St. 3 at 46-49.

135. Because it is grounded in the company's underlying financial fundamentals, the sustainable growth approach provides an important check on potentially optimistic analyst earnings projections and helps ensure that growth assumptions remain economically realistic. OCA St. 3 at 46-49.

136. Company witness Nowak relied predominantly on projected earnings growth rates in developing his DCF results. OCA St. 3 at 53.

137. A DCF model that relies primarily on projected earnings growth tends to produce inflated ROE estimates. OCA St. 3 at 5; OCA St. 3SR at 18.

138. NFG witness Nowak inflated his ROE recommendation by incorporating a size risk adder, which increased his proposed ROE based on the premise that NFG's relatively small size warrants additional investor compensation in addition to what Mr. Nowak was able to obtain through his mathematical formulae. OCA St. 3 at 57-58.

139. Ms. Reno rejected Mr. Nowak's adjustment because NFG is not a standalone company but rather a wholly owned subsidiary of NFGC, a substantially larger parent company with diversified operations and access to capital markets. OCA St. 3 at 59.

140. NFG holds significantly less risk than other smaller companies as a regulated monopoly. OCA St. 3 at 58-59.

141. NFG also contends that a higher ROE is warranted because of rising interest rates. Tr. 165, 167-68.

142. Increasing interest rates for mortgages affects affordability for all market participants, including NFG's customers. Tr. 176.

143. According to S&P Global Market Intelligence, the average authorized ROE for natural gas utilities nationally in 2025 was 9.70%. OCA St. 3 at 69.

144. Ms. Reno's recommended 9.74% ROE is four basis points above that average. OCA St. 3 at 69.

145. NFG's proposed 11.00% ROE significantly exceeds the industry average and would represent an outlier among authorized utility returns both in Pennsylvania and nationally. OCA St. 3 at 69.

146. Ms. Reno demonstrated through the Hamada adjustment framework that a utility operating with a lower-debt, higher-equity capital structure faces less financial risk. OCA St. 3 at 63-65; OCA St. 3SR at 25-26.

147. The Hamada adjustment framework isolates a firm's underlying business risk from the effects of financing decisions to reflect differences in capital structure, thereby allowing analysts to estimate how changes in debt and equity levels affect the required return on equity under the CAPM. OCA St. 3 at 63-64.

148. Because NFG's proposed capital structure contains significantly more equity than the proxy group, its equity investors bear less leverage risk. OCA St. 3 at 63-64.

149. Using the proxy group average capital structure in the Hamada analysis, Ms. Reno calculated an alternative ROE of 9.06%. OCA St. 3 at 24-25.

Management Performance

150. NFG initially sought a 25-basis-point management efficiency adder that increased its requested ROE from 11.00% to 11.25%. OCA St. 3 at 59.

151. During the course of this proceeding, the Company withdrew its request for a management efficiency adder. OCA St. 3SR at 15; NFG St. 10 at 21-22.

RATE DESIGN REVENUE ALLOCATION AND CLASS COST OF SERVICE

152. An allocated cost of service study (ACOSS) is modeling that reconciles utility costs and revenues across different customer classes. OCA St. 1 at 43.

153. The goal of an ACOSS is to evaluate the cost of providing service and revenue responsibility for each customer class. OCA St. 1 at 43.

154. ACOSS results are used to estimate class-specific rates of return and can serve as a guidepost for class revenue responsibilities and ultimately rates. OCA St. 1 at 43.

155. NFG's allocated cost of service study is based on the empirically flawed zero intercept study approach. OCA St. 1 at 58.

156. NFG proposes allocating 100 percent of costs associated with demand related distribution main investments based on peak day demands. OCA St. 1 at 58.

157. A zero-diameter distribution main is completely a hypothetical construct that does not, and indeed could not, exist in the real world. This makes the results of MSS and ZIS analyses difficult, if not impossible, to verify. OCA St. 1 at 54.

158. Dr. James Bonbright, in his seminal work on public utility rates published decades ago in the 1970s, raised a number of questions about the use of MSS and ZIS methodologies in classifying costs. OCA St. 1 at 55.

159. Dr. Bonbright found "a lack of empirical support in academic literature for a causal relationship between distribution system costs and the number of customers." OCA St. 1 at 55.

160. The true driving factors of utility distribution system costs are much more complicated and depend on a host of other factors, such as the size of a service territory and the population density within it. OCA St. 1 at 55.

161. The overall area of the system along with the total customers served are important factors in ZIS studies, as the cost to construct the distribution system can vary immensely from an urban area serving more customers to rural area serving fewer. James C. Bonbright, et al. *Principles of Public Utility Rates*, 1988 Edition. Arlington, VA: Public Utilities Reports, Inc., p. 491.

162. The ultimate conclusion of a ZIS classification of cost as "customer-related, as the Company has done in the current proceeding, is 'clearly indefensible' due to the lack of a relationship between changes in the number of customers on a utility system and its distribution costs. OCA St. 1 at 56.

163. NFG argues that it should allocate its cost of service more heavily towards its customers, 61 percent versus 39 percent based on the principles of its ZIS. OCA St. 1 at 52, NFG St. 19 at 12.

164. NFG proposes to allocate 100 percent of costs associated with demand-related distribution mains investments based on the relative customer class contribution to system peak day demands. OCA St. 1 at 58.

165. Using this methodology is not only a departure from past NFG practice, but also NFG witness Taylor does not promote the use of the same cost allocation for other Pennsylvania natural gas companies. OCA St. 1 at 58, 60.

166. OCA witness Deupree suggests the use of the Peak and Average (P&A) method incorporating weights based on the Company's test year system load factor. OCA St. 1 at 5, 62.

167. OCA witness Deupree's recommended method would base weights on a ratio of peak day system requirements to average daily system requirements. OCA St. 1 at 62.

168. Class specific revenue responsibilities are established by allocating the system wide revenue deficiency to classes that are under earning relative to their ROR. OCA St 1. at 63.

169. Allocating the overall system-wide revenue deficiency entirely on a full cost of service basis can result in a very significant and adverse rate impact for certain under-earning classes. To avoid such a result, regulators often temper the revenue responsibilities assigned to various customer classes in order to meet a set of broad ratemaking policy goals. OCA St 1. at 64.

170. Non-cost considerations include rate gradualism, continuity, affordability, and understandability, among others. OCA St. 1 at 56.

171. A cost parity ratio standardizes various class revenue to cost ratios against the overall quality system revenue to cost ratio. OCA St. 1 at 66.

172. NFG customer classes with a cost parity ratio greater than 1.0 but less than 1.5 at current rates, will receive an increase equal to 90 percent. OCA St. 1 at 66.

173. Classes with cost parity ratios greater than 1.5 at current rates will receive an increase equal to 67 percent to recover the remaining requested increase. OCA St. 1 at 65.

174. NFG is proposing a 14.38 percent system wide average basis. OCA St. 1 at 67.

175. Residential customers would receive a basis equal to 1.10 times this average or 15.82 percent. OCA St 1 at 67.

176. The increase for residential customers is much higher than the large commercial and public authority customers who are receiving a 9.65 percent increase in rates. OCA St 1 at 67.

177. NFG'sproposed revenue apportionment process results in rate increases that are inconsistent with rate gradualism. OCA St. 1 at 67-68.

178. Rate gradualism refers to the general understanding that sound rate design should prevent significant rate increases for any customer group that may cause rate shock. OCA St. 1 at 67-68.

179. NFG has proposed a $19.7 million increase in rates to its customers through these proceedings, taking into account the Company filed a base rate case in 2022, customers would see a total increase of more than 36.4 percent in three years or yearly increase in rates equal to 12.1 percent. OCA St. 1 at 8.

180. Consumers today are faced with increased expenses for food, housing, transportation, and other necessities, which are especially acute for low-income consumers. OCA St. 1 at 8.

181. While the annual CPI has fallen since the 2020 pandemic, it still remained high at 3.3 percent, well above the Federal Reserve's target of 2.0 percent at the time of Mr. Deupree's direct testimony. OCA St 1. at 10.

182. Since January 2021, consumer prices have increased 24.3 percent overall. OCA St. 1 at 11.

183. Wholesale electricity prices in the PJM western hub increased 48.8 percent on average from 2024 to 2025. Likewise, Pennsylvania citygate natural gas prices increased 2.8

percent from December 2024 to December 2025 on the back of a nearly 41.9 percent increase in wholesale natural gas prices during the same period. OCA St. 1 at 13-14.

184. The recent conflict in the Persian Gulf has also contributed to a rise in crude oil prices. OCA St. 1 at 14.

185. The observed increase in crude oil prices shows how price shocks caused by the conflict in the Persian Gulf will likely filter through the larger macroeconomy. OCA St. 1 at 15.

186. Restrictions on the flow of oil from the Persian Gulf force consumers to turn to alternative supplies from the U.S. as stored supplies lessen, this in turn increases the wholesale natural gas prices in the United States. OCA St. 1 at 15-16.

187. NFG's proposal to increase the residential customer charge by \$5.00, or 35.7 percent, from \$14.00 to \$19.00 recovers the majority of customer related costs through monthly customer charges. OCA St. 1 at 78.

WNA

188. Pursuant to the Settlement Agreement resolving NFG's 2022 rate increase request, which was approved by the Commission, the Company's current WNA Pilot will continue through the heating season of October 2028. *Pa. PUC v. National Fuel Gas Dist. Corp.*, Docket No. R-2022-3035730 (April 13, 2023), Joint Petition for Settlement at ¶¶ 41-43.

189. NFG's WNA Pilot is a ratemaking mechanism that adjusts customer bills during the winter heating season (October through May) based on deviations from what the Company defines as "normal" weather. OCA St. 1 at 29.

190. NFG's WNA Pilot mechanism applies a formula using the ratio of normal heating degree days (NHDDs) to average heating degree days (AHDDs) and applies that ratio to each

customer's heating-related usage to generate either a credit or a surcharge on the customer's bill. OCA St. 1 at 29.

191. NFG's WNA Pilot uses a three-percent deadband to prevent minor weather variations from triggering bill changes. OCA St. 1 at 29.

192. NFG's WNA Pilot is limited to weather-related usage changes and applies to Residential and Commercial/Public Authority customers. OCA St. 1 at 29.

193. NFG's current WNA Pilot has extracted approximately $7.9 million in additional revenues for NFG from customers subject to the WNA in its first three heating seasons. OCA St. 1R at 5.

194. NFG's current WNA Pilot has provided credits to customers in only six out of 23 months the WNA pilot has been in operation. *See* NFG St. 1R at 9, Table 1.

195. NFG's current WNA Pilot has so far failed to provide meaningful refunds to customers. OCA St. 1 at 33-34.

196. NFG's current WNA Pilot has resulted in more charges of significant size than credits of significant size. *See* OCA St. 1SR at 6; NFG St. 1R at 9, Table 1.

197. The proposed WNA mechanism is designed to adjust customers' usage based on the weather to charge customers for more gas than they actually received if the weather is warmer than normal. *See* NFG St. 19 at 24-27.

198. The proposed WNA mechanism shifts a traditional risk of natural gas distribution service from NFG to its customers by guaranteeing recovery of authorized revenues regardless of actual customer consumption. OCA St. 1 at 27.

199. The proposed WNA mechanism – to the extent that it operates symmetrically – deprives customers of the ability to choose to use their bill savings during warmer than normal

winters in ways that make the most sense for their household, an ability which is especially critical during periods where customers face increasing affordability pressures. OCA St. 1 at 7-19, 38.

200. Even without its current WNA pilot, NFG would still have been close to recovering its revenue requirement over the three years the WNA pilot has been in operation. NFG St. 19R at 31, Figure 1.

201. NFG can more easily bear the impact of any weather-related volatility stemming from warmer- and colder-than-normal heating seasons than its customers. *See* NFG St. 19R at 31, Figure 1; OCA St. 1 at 38.

202. NFG has not been experiencing significant financial concerns due to the recent macroeconomic concerns, particularly due to the financial standing of its parent entity. OCA St. 1 at 18-19.

203. NFG's proposed WNA mechanism is not cost-based because it charges customers for the distribution of natural gas that they do not consume. *See* NFG St. 19 at 24-27; OCA Exh. MWD-1 at 1.

204. NFG's proposed WNA mechanism creates the anomaly where customers see rate increases when they reduce consumption and rate decreases when they increase consumption. OCA Exh. MWD-1 at 1.

205. If the WNA is generating revenue, then it inherently does not reflect the level of demand associated with the customer's anticipated consumption levels, because the WNA only generates revenue if the demand is less than anticipated. OCA Exh. MWD-1 at 1.

206. The design of NFG's proposed WNA mechanism makes it more difficult to provide customers with predictable and understandable price signals related to usage. OCA St. 1 at 38.

207. NFG's proposed WNA mechanism does not affect the Company's disincentive to promote energy efficiency because it is solely tied to adjustment in customer usage attributed to changes in heating requirements and is not impacted by a reduction in customer use due to energy efficiency initiatives. OCA Exh. MWD-1 at 1.

208. NFG's proposed WNA mechanism reduces customers' incentive to conserve or invest in energy efficiency measures because customers whose energy efficiency initiatives take place during periods of warmer than normal weather will see increased WNA charges after reducing usage through implementing energy efficiency initiatives. OCA Exh. MWD-1 at 1.

209. NFG's proposed WNA mechanism may harm low-income customers as these customers have less ability to weatherize homes to reduce impact of weather fluctuations on consumption. OCA Exh. MWD-1 at 1.

210. NFG's proposed WNA mechanism does not provide rate stability because it adds another surcharge to customers' bills without any showing that the WNA would reduce the frequency of base rate case filings. OCA Exh. MWD-1 at 1.

211. The proposed WNA reduces customers' bill stability and NFG's budget bill program provides better bill stability than the proposed WNA. OCA St. 1 at 30.

212. NFG's proposed WNA mechanism, in practice, is not a revenue neutral mechanism. OCA Exh. MWD-1 at 1.

213. NFG's proposed WNA mechanism weakens the positive impacts regulatory lag has on promoting cost containment between rate cases. OCA Exh. MWD-1 at 1.

214. NFG's proposed WNA mechanism includes no check or cap on earnings, which means that there is no ceiling on how much revenue the proposed WNA can extract from NFG's residential customers. OCA Exh. MWD-1 at 1.

215. Customers have no means of anticipating future WNA charges as it is impossible for customers to forecast WNA charges in advance and likely difficult for customers to calculate even after the fact. OCA Exh. MWD-1 at 1.

216. NFG has provided no evidence that the revenue extracted through the WNA pilot supported improvements in its reliability- and safety-related investments. NFG Exh. JDT-3 at 5-6; OCA Exh. MWD-1 at 1; OCA St. 1 at 34.

217. NFG has proposed no revisions or improvements to its WNA Pilot in the proposed WNA other than making it permanent and shifting from utilizing a 15-year to 10-year normal and has not identified criteria or performance metrics by which the WNA Pilot would be evaluated. OCA St. 1 at 31.

ENERGY EFFICIENCY PILOT

218. NFG proposes implementing a comprehensive Energy Efficiency ("EE") Program over a five-year period beginning in October 2026. OCA St. 1 at 39.

219. The EE program will provide rebate incentives for residential customers seeking to install high-efficiency natural gas space and water hearing appliances, as well as ENERGY STAR® certified natural gas clothes dryers. OCA St. 1 at 39.

220. NFG proposes to recover the costs associated with the EE Pilot program through a dedicated EE Rider. NFG St. 18 at 6.

221. NFG projects that the total annual cost of the EE Pilot program will be approximately $700,000. NFG St. 18 at 6.

222. NFG's proposed EE Rider constitutes prohibited single-issue ratemaking. *Popowsky v. Pa. P.U.C.*, 869 A.2d 1144, 1151 (Pa. Cmwlth. 2005), *appeal denied*, 895 A.2d 552

(Pa. 2006); *Pa. PUC v. Aqua Pennsylvania Wastewater, Inc.*, 2022 Pa. PUC LEXIS 161 at *155 (Order, May 12, 2022).

223. NFG's projected costs for the EE Pilot program are easily identifiable but not outside the control of NFG. NFG St. 18 at 6; OCA St. 1 at 41.

224. NFG's projected costs for the EE Pilot program equate to approximately 1.4 percent of NFG's estimated annual income and do not rise to a substantial or significant expense. OCA St. 41-42.

225. NFG's projected costs for the EE Pilot program are not unexpected costs.

226. Given that NFG plans to run its EE Pilot Program for five years, the costs will be recurring throughout the time any increase in revenue requirement granted in this current base rate case is in effect. *See* NFG St. 18 at 6-7.

227. NFG has not shown that its projected expenses for the EE Pilot program are extraordinary circumstances when compared to the other routine O&M costs it recovers through base rates. *Pa. PUC v. Aqua Pennsylvania Wastewater, Inc.*, 2022 Pa. PUC LEXIS 161 at *155 (Order, May 12, 2022).

228. NFG's projected costs for the EE Pilot program as presented are relatively flat and not expected to be significantly volatile. OCA St. 1 at 42.

CUSTOMER/QUALITY OF SERVICE ISSUES

229. With regards to customer service representatives' knowledge and courtesy, NFG's performance is just slightly under the 2024 industry's average of 91%. OCA St. 5 at 8.

230. With regards to customer satisfaction surveys, in 2022 NFG's averaged 88.6%, in 2023, 88.4%, with 2024 showing a decline to 87.6%. OCA St. 5 at 10.

231. NFG has seen year-over-year increases in service outages over the last three years with 379 outages in 2022, 465 outages in 2023, and 478 outages in 2024. OCA St. 5 at 10.

233. In 2024, NFG's percentage of residential meters not read by the company or the customer within six months was the highest of its peers in 2022, 2023 and 2024. OCA St. 5 at 10.

234. All other gas utilities averaged very close to zero percentage of unread meters, while NFG's percentage averaged slightly above one percent. OCA St. 5 at 10.

235. NFG's meter reading performance in 2025 has remained relatively flat compared to prior year's performance. OCA St. 5 at 10.

236. The same trend and result is applicable to the number and percentage of residential meters not read in 12 months. OCA St. 5 at 10.

237. With regards to customer complaints informally appealed to the BCS and presented in the 2024 and 2025 UCARE filings, NFG's performance shows a significant increase in the volume of payment arrangement disputes, from 311 in 2024, to 262 in the first three quarters of 2025. OCA St. 5 at 11.

238. Based on the 262 complaints from the first three quarters of 2025, the average of 26 complaints per month projects a year-end total of approximately 340 complaints, continuing the upward trajectory. OCA St. 5 at 11.

239. NFG's performance is typical and not a reflection of any particularly exceptional level of performance. OCA St. 5 at 11.

240. NFG's 2024 customer satisfaction results for field representatives regarding overall satisfaction with the way the premises visit was handled has significantly decreased over the past three years, ranking well below other natural gas providers. OCA St. 5 at 12.

241. NFG's response time to residential customers' complaints is also above the industry average for 2021, 2022, and 2023. OCA St. 5 at 12.

242. NFG's call center performance is average relative to other NGDCs. OCA St. 5 at 7.

243. NFG customers experience issues getting into the queue to speak to a customer service representative. OCA St. 5 at 8.

244. NFG has a busy out rate of 4.9% in 2022, 5.1% in 2023, 1.8% in 2024 and a 1.2% busy out rate in 2025 compared to a 0% busy out rate of other gas distribution companies for each of the three years referenced. OCA St. 5 at 7.

245. While some indicators reflect performance slightly above its peers, others demonstrate results that are comparatively below peer performance. OCA St. 5 at 15.

246. NFG does not collect data on whether a termination notice is avoided when a customer makes a payment or enters a payment plan. OCA St. 5 at 13.

247. NFG charges customers an up to $2.95 fee for using online and telephonic payments. OCA St. 5 at 15-16.

248. Requiring a payment fee increases NFG customer bills for online payments. OCA St. 5 at 16.

249. Electronic payment is encouraged by NFG and is a popular payment method. OCA St. 5 at 16.

250. These additional payment fees totaled $815,559 in 2024 and $930,384 in 2025. OCA St. 5 at 16.

251. Peer NGDCs such as UGI and Peoples Gas allow one-time credit or debit card payments online or by phone with no fee. OCA St. 5 at 16.

Appendix C

OCA PROPOSED CONCLUSIONS OF LAW

OCA PROPOSED CONCLUSIONS OF LAW

INTRODUCTION

1. NFG bears the burden of proof to establish the justness and reasonableness of every element of its requested rate increase. 66 Pa. C.S. § 315(a).

2. In any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceedings upon the complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility. 66 Pa. C.S. § 315(a).

3. The evidence necessary to meet that burden must be substantial, legally credible, and cannot be mere "suspicion" or "scintilla" of evidence. *Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980); *Lansberry v. Pa. PUC*, 578 A.2d 600, 602 (Pa. Cmwlth. 1990).

4. The party with the burden of proof has a formidable task to show that the Commission may lawfully adopt its position. *Burleson v. Pa. PUC*, 461 A.2d 1234, 1236 (Pa. 1983).

5. Even where a party has established a *prima facie* case, the party with the burden must establish that the elements of that cause of action are proven with substantial evidence which enables the party asserting the cause of action to prevail, precluding all reasonable inferences to the contrary. *Burleson v. Pa. PUC*, 461 A.2d 1234, 1236 (Pa. 1983).

6. It is well-established that in general rate increase proceedings, the burden of proof does not shift to parties challenging a requested rate increase. *Pa. PUC v. Pa. American Water*

Co., 2004 Pa. PUC LEXIS 29 at *16-18 (Order Jan. 29, 2004) *citing Berner v. Pa. PUC*, 116 A.2d 738 (Pa. 1955).

OVERALL POSITION ON RATE INCREASE

7. The Company must meet the burden of proof in demonstrating that its proposed increase in rates will produce rates that are just and reasonable, equitable among consumer groups, or in the public interest. 66 Pa. C.S. § 315(e); *Pa. PUC v. Pa. American Water Co*., 2004 Pa. PUC LEXIS 29, *16-18 (Order Jan. 29, 2004); *Burleson v. Pa. PUC*, 461 A.2d 1234, 1236 (Pa. 1983); *Lansberry v. Pa. PUC*, 578 A.2d 600, 602 (Pa. Cmwlth. 1990).

8. The Company must affirmatively demonstrate with substantial evidence the reasonableness of its claims for its return on equity. 66 Pa. C.S. § 1301; *Bluefield Water Works and Improvement Co. v. Public Serv. Comm'n of W.Va.*, 262 U.S. 679 (1923); *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Permian Basin Area Rate Cases*, 390 U.S. 747, 794-95 (1968).

EXPENSES

9. The Company must affirmatively demonstrate by a preponderance of evidence that its expenses are reasonably necessary to provide services or prudently incurred. *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002); *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154 (Pa. Cmwlth. 1996).

10. In Columbia's 2025 rate case, the ALJs recommended disallowing the portion of incentive compensation tied to shareholder earnings goals, finding that such metrics lacked a

sufficient nexus to ratepayer benefits and instead primarily advanced shareholder interests. *Pa. PUC v. Columbia Gas of PA, Inc.*, R-2025-3053499 Order at 204-05 (Oct. 3, 2025).

11. Only where an incentive compensation plan is reasonable, prudently incurred, not excessive, and there is a benefit to ratepayers, a Company may recover the expense of that program. *Pa. PUC v. PPL Elec. Util. Corp.*, R-2012-2290597, Order (Dec. 28, 2012).

12. The Commission allowed incentive compensation expense because it was consistent with the Commission's "prior decisions approving incentive compensation programs that are focused on improving operational effectiveness." *Pa. PUC v. PPL Elec. Util. Corp.*, R-2012-2290597, Order at 26 (Dec. 28, 2012) *citing Pa. PUC v. Aqua Pa., Inc.*, 2008 Pa. PUC LEXIS 50, *24; *Pa. PUC v. Duquesne Light Co.*, 1987 Pa. PUC LEXIS 342 at *99-100.

13. The Commission has approved incentive compensation plans where employees eligible for the compensation "have direct responsibilities for customer service and regulatory compliance or are otherwise responsible for ensuring safe and reliable service to customers." *Pa. PUC v. PAWC*, 2021 PA. PUC LEXIS 55 at *59 (Feb. 25, 2021).

14. Having a financial metric component to the incentive compensation plan does not disqualify it from inclusion in the utility's revenue requirement, if the incentive plan establishes that eligibility for the incentive "is based on performance duties and metrics directly related to the provision of service." *Pa. PUC v. PAWC*, 2021 PA. PUC LEXIS 55 at *60 (Feb. 25, 2021).

15. What constitutes "used and useful property" is committed to the wide discretion of the Commission, and if the Commission reasonably finds that the property will not be used and useful in serving the public, it may make adjustments to exclude the value of the property from rate base and disallow the utility's return on that property. *Pa. Power & Light Co. v. Pa. PUC*, 516

A.2d 426, 430 (Pa. Cmwlth. 1985) (internal citations omitted); *see also UGI Corp. v. Pa. PUC*, 410 A.2d 923, 929 (Pa. Cmwlth. 1980).

16. The adjustments must be supported with a reasonable degree of specificity in findings and reasoning. *Phila. Suburban Water Co. v. Pa. PUC*, 394 A.2d 1063, 1066-67 (Pa. Cmwlth. 1978).

17. To determine whether property will be "used and useful" in the FPFTY, a utility must sufficiently demonstrate by the close of the record that the utility property is reasonably certain to be used and useful in the FPFTY. *Pa. PUC v UGI Utilities, Inc-Electric Division*, R-2017-2640058, Order at 27-31 (Oct. 25, 2018).

DEPRECIATION

18. The utility is entitled under the law to recover from its customers the original cost investment in its depreciable plant. *Pennsylvania Power & Light Co. v. Pennsylvania Public Utility Com.*, 311 A.2d 151, 157 (Pa. Commw. 1973).

19. The public is entitled to demand that no more be exacted from it than the reasonable worth of the services rendered. *Edison Light & Power Co. v. Driscoll*, 25 F.Supp. 192 (D. Pa. 1938), *rev'd on other grounds*, 307 U.S. 104, 59 S. Ct. 715, 83 L. Ed. 1134 (1939).

20. If permitted to continue utilizing the NFG procedure, the Commission will by definition be permitting NFG to charge customer rates in its FPFTY excessive amounts beyond what is required to operate its system in accordance with the Public Utility Code and earn a fair return on investment. 66 Pa. C.S. §§ 1301; *Edison Light & Power Co. v. Driscoll*, 25 F.Supp. 192 (D. Pa. 1938), *rev'd on other grounds*, 307 U.S. 104, 59 S. Ct. 715, 83 L. Ed. 1134 (1939); *Bluefield*

Water Works & Improvement Co. v. Public Service Commission, 262 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

21. The Distribution System Improvement Charge did not exist in 2006. 66 Pa. C.S. 1353(a).

22. As a general rule, it is inequitable and economically unsound to ask one 'generation' of captive ratepayers to bear the cost of providing service to another. *Re Minnegasco, Inc.*, 143 PUR4th 419, 426 (May 3, 1993); *Re Limerick Nuclear Generating Station*, 1982 Pa. PUC LEXIS 102, *65.

23. Depreciation impacts customer rates in two ways. First, depreciation expense is a direct component of the revenue requirement; however, accumulated depreciation is also a reduction to rate base. Second, a higher level of accumulated depreciation results in a lower rate base, lower return on rate base, and therefore, lower customer rates when compared to a lower level of accumulated depreciation. *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.,* Docket Nos. R-2025-3053499 *et al*., Order at 108 (Dec. 4, 2025).

24. The Commission is not bound by any particular methodology or procedure in determining annual depreciation expense. *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.,* Docket Nos. R-2025-3053499 *et al*., Recommended Decision at 665 (Oct. 3, 2025).

25. Merely because a utility used a depreciation procedure in the past is neither a justification nor a limitation for determining what constitutes just and reasonable rates in this proceeding. *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.,* Docket Nos. R-2025-3053499 *et al*., Recommended Decision at 666 (Oct. 3, 2025).

26. Accrued depreciation is essentially a judgment figure, based on all the evidence, and the weight to be given any particular estimate is for the commission. The commission is not

bound to accept any particular procedure of estimating accrued depreciation. *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.,* Docket Nos. R-2025-3053499 *et al*., Recommended Decision at 665 (Oct. 3, 2025).

27. The public utility company is entitled to recover depreciation expense to ensure the utility is whole and the integrity of its investment maintained, the utility bears the burden of demonstrating that its claimed amounts to recover in expenses are not excessive. 66 Pa. C.S. § 315(a); *see Lindheimer v. Illinois Bell Tel. Co.*, 292 U.S. 151, 169 (1934); *Federal Power Commission v. Hope Natural Gas Co*., 320 U.S. 591, 606 (1944).

28. The public utility company "has the burden of making a convincing showing that the amounts it has charged to operating expenses for depreciation have not been excessive. That burden is not sustained by proof that its general accounting system has been correct. The calculations are mathematical, but the predictions underlying them are essentially matters of opinion." *Lindheimer v. Illinois Bell Tel. Co.,* 292 U.S. 151, 169 (1934).

29. In subsequent ratemaking proceedings, the most recent annual depreciation report or service life study approved or deemed approved for accounting purposes only under this chapter, constitutes a rebuttable presumption as to the reasonableness of the accrued depreciation claimed for ratemaking purposes, and the burden of proving the unreasonableness of the accrued depreciation shall be on the challenging party. 52 Pa. Code § 73.9(c).

30. Precedent is defined as "a specific legal consequence arising from a detailed set of facts in an adjudged case or judicial decision, which is then considered as furnishing the rule for the determination of a subsequent case involving identical or similar material facts and arising in the same court or a lower court in the judicial hierarchy." *Surrick v. Killion*, 449 F.3d 520, 522.

31. In Duke Energy Indiana's 2020 base rate case, Duke proposed using the ELG procedure, which had been adopted by the Indiana commission in previous cases, and the Indiana Utility Regulatory Commission found that the ELG procedure resulted in unreasonable rates. *Petition of Duke Energy Indiana, LLC*., Cause No. 45253, Order at 90 (June 29, 2020).

32. In Duke Energy Indiana's 2020 base rate case, the Indiana Utility Regulatory Commission found that the use of ELG in a higher than average investment cycle has the effect of unnecessarily increasing the near term depreciation expense as compared to the use of ALG. *Petition of Duke Energy Indiana, LLC*., Cause No. 45253, Order at 90 (June 29, 2020).

33. The Kentucky Public Service Commission found that the ELG procedure frontloads depreciation expense in earlier years and decreases it in later years, resulting in a mismatch between revenues and expenses. *Application of Duke Energy Kentucky, Inc.*, Case No. 2017-00321, Order at 26-27 (Apr. 13, 2018).

34. The Arkansas Public Service Commission recognized that when a utility is increasing its plant-in-service use of "ELG will continue to result in higher depreciation rates and expense as long as a utility's plant continues to grow." OCA St. 4 at 33 citing *In the Matter of an Application for a General Change or Modification in Centerpoint Energy Arkla, A Division of Centerpoint Energy Resources Corp's Rates, Charges, and Tariffs*, Docket No 04-121-U, Order at 29 (Sept. 19, 2005).

RATE OF RETURN

Capital Structure

35. The purpose of establishing a ratemaking capital structure is not merely to replicate a utility's actual capitalization, but rather to ensure that rates are just and reasonable. *Riverton Consol. Water Co. v. Pa. PUC*, 140 A.2d 114 at 121 (Pa. Super. 1958); 66 Pa. C.S. § 1301.

36. The capital structure of utilities that are wholly-owned subsidiaries may not be one which it would maintain if it were obliged to obtain its debt and equity financing on the open market rather than from a parent company. *Riverton Consol. Water Co. v. Pa. PUC*, 140 A.2d 114 at 121 (Pa. Super. 1958); 66 Pa. C.S. § 1301.

37. In certain instances the actual capital structure may be weighted too heavily on the debt side or the equity side. *Riverton Consol. Water Co. v. Pa. PUC*, 140 A.2d 114 at 121 (Pa. Super. 1958); 66 Pa. C.S. § 1301.

38. The use of the actual capital structure in peculiar circumstances might be unfair to either the utility or its customers, depending upon whether debt or equity is disproportionately high. *Riverton Consol. Water Co. v. Pa. PUC*, 140 A.2d 114 at 121 (Pa. Super. 1958); 66 Pa. C.S. § 1301.

39. Under certain circumstances the commission must make adjustments based upon substantial evidence in order to reach a fair result. *Riverton Consol. Water Co. v. Pa. PUC*, 140 A.2d 114 at 121 (Pa. Super. 1958); 66 Pa. C.S. § 1301.

Return on Common Equity

40. A utility is entitled to earn a return comparable to investments of similar risk and sufficient to maintain financial integrity and attract capital on reasonable terms. *Bluefield Water Works & Improvement Co. v. Public Service Commission*, 262 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

RATE DESIGN, REVENUE ALLOCATION AND CLASS COST OF SERVICE

41. Distribution mains exist and are related to both annual demands and peak demands. Both annual and peak demands must be recognized in the allocation of distribution mains cost if the allocation is to be in accord with the principle of cost-causality. It is not reasonable to allocate distribution mains investment based solely on design peak day demands. *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2025 PA. PUC LEXIS 395, *162-63 (Order Dec. 9, 2025).

42. The utility is not entitled a rebuttable presumption as a matter of law as to the correctness of its chosen ACOSS methodology but, instead, bears the burden of proof, as in all other aspects of its rate increase request. 66 Pa. C.S. § 315(a).

43. The selection of an appropriate ACOSS methodology, which is directly related to both the Commission's ratemaking policies and the design and buildout of NFG's distribution system, is the first step in designing rates in this proceeding. *Pa. PUC v. PECO Energy Co. – Gas Div.*, 2021 Pa. PUC LEXIS 241, * 117-18, 120 (Order June 22, 2021).

44. The Company's proposal was inconsistent with long-standing Commission precedent most recently reaffirmed in the Commission's Order involving Columbia Gas of Pennsylvania, Inc. *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 at 254-255.

45. Although mains serve customers, it is the throughput that determines the type of main investment because it is the load that determines the main investment, not the number of customers served. *Pa. PUC v. Columbia Gas of Pennsylvania, Inc*., Docket No. R-2025-3053499, Opinion and Order at 255.

46. The Commission considers the results of cost of service studies to address ratemaking concerns such as unreasonable inter- and intra-class subsidization through revenue allocation. *Lloyd v. Pa. PUC*, 904 A. 2d 1010, 1020 (Pa. Cmwlth. 2006).

47. The Commission must also consider non-cost factors when determining the appropriate cost of service for each class. *Phila. Elec. Co. v. Pa. PUC*, 470 A.2d 654, 658 (Pa. Cmwlth. 1984); *Hoover v. Pa. R.R.*, 27 A. 282, 283 (Pa. 1893).

48. NFG's proposed residential customer charge increase is not supported by substantial evidence and is inconsistent with principles of cost causation, maintaining rate consistency, promoting conservation, encouraging affordability, and maintaining equity for low-income customers. 66 Pa. C.S. § 315(a).

49. Rate design should send appropriate price signals to customers to influence usage decisions in addition to applying principles of cost causation, gradualism, and overall fairness. *Pa. PUC v. PECO Energy Co. – Gas Div.*, 2021 Pa. PUC LEXIS 241, * 151 (Order June 22, 2021).

50. The Commission has consistently included customer charges as part of the scale back of authorizing a revenue requirement at a level less than that requested by the utility. *Pa. PUC v. Columbia Gas of PA, Inc.*, R-2025-3053499 Order at 174 (Oct. 3, 2025).

WNA

51. Under Section 1330 of the Public Utility Code, the General Assembly authorized the Commission to permit the implementation of alternative rate mechanisms notwithstanding other provisions of law. 66 Pa. C.S. § 1330.

52. In its declaration of policy, the General Assembly identified that the purpose of alternative rate mechanisms is to (1) create new opportunities for customers through innovations in utility operations and information technologies and (2) encourage and sustain investment through cost-recovery mechanisms enhancing safety and reliability of infrastructure "consistent with the efficient consumption of utility service." 66 Pa. C.S. § 1330(a).

53. Among the permitted forms of alternative rate mechanisms, the General Assembly identified decoupling mechanisms, performance-based rates, formula rates, and multiyear rate plans as the type of mechanisms for the Commission to consider. 66 Pa. C.S. § 1330(b).

54. Rates must still be just and reasonable under the proposed alternative rate mechanism. 66 Pa. C.S. § 1301.

55. The utility is still required to satisfy its burden of proof that the proposed alternative rate mechanism will result in just and reasonable rates. 66 Pa. C.S. § 315(a), 332(a).

56. The Commission's decision must be based on substantial evidence found in the record before it and not in the consideration of other rate mechanisms approved in Pennsylvania or neighboring jurisdictions. 2 Pa. C.S. § 704.

57. The adoption of a similar alternative rate mechanism by a utility pursuant to a settlement agreement should not be considered to be evidence or precedential for purposes of assessing the alternative rate mechanism placed before the Commission. *Bell Atl. – Pa., Inc. v. Pa. PUC*, 672 A.2d 352, 354 (Pa. Cmwlth. 1995).

58. The Commission has the authority and discretion to permit alternative ratemaking where it will produce just and reasonable and non-discriminatory rates. 66 Pa. C.S. §§ 1330, 1301, 1304.

59. The Commission has the authority and discretion to permit alternative ratemaking where it will enhance the safety, security, reliability, or availability of utility infrastructure and is consistent with efficient consumption of utility service. 66 Pa. C.S. § 1330(a)(2).

60. Administrative agencies are not bound by the rule of *stare decisis* and may render inconsistent opinions that may overrule or distinguish prior opinions. *Bell Atl. – Pa., Inc. v. Pa. PUC*, 672 A.2d 352, 354 (Pa. Cmwlth. Dec. 18, 1995).

61. Utilities are not entitled to assurance during ratemaking that they will be able to recover net revenues; instead, utilities are granted the opportunity to recover their authorized revenue increase, and the public interest weighs against guaranteeing particular levels of revenue. *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944); *Pa. Elec. Co. v. Pa. PUC*, 502 A.2d 130, 133-35 (Pa. 1985).

62. NFG has not met its burden of proving the WNA will enhance the safety, security, reliability, or availability of utility infrastructure and is consistent with efficient consumption of utility service. 66 Pa. C.S. § 1330(a)(2).

63. NFG did not meet its burden of proof that its proposed WNA mechanism satisfies the Commission's 14 policy factors regarding whether a proposed alternative rate mechanism would result in just and reasonable rates. 66 Pa. C.S. § 1330(a)(2).

64. Substantial record evidence demonstrates that NFG's proposed WNA mechanism is likely to create inequitable outcomes for its customers, particularly given current affordability concerns.

65. Substantial record evidence demonstrates that the proposed WNA will harm customers' incentives to conserve energy or invest in energy efficiency improvements.

66. NFG has not met its burden of proving that its proposed WNA will produce just and reasonable rates. 66 Pa. C.S. §§ 315(a); 1301.

Energy Efficiency

67. Single issue rate making is prohibited if it impacts on a matter considered in a base rate case. *Popowsky v. Pa. P.U.C.*, 869 A.2d 1144, 1151 (Pa. Cmwlth. 2005) *appeal denied*, 895 A.2d 552 (Pa. 2006).

68. The cursory review undertaken for a surcharge is not a substitute for the review undertaken in a base rate case to determine whether a rate is just and reasonable. *Popowsky v. Pa. P.U.C.*, 869 A.2d 1144, 1151 (Pa. Cmwlth. 2005) *appeal denied*, 895 A.2d 552 (Pa. 2006).

69. Section 1307 allows a utility to adjust its rates through additional surcharges where: (1) expressly authorized, or (2) where an expense is easily identifiable and beyond the utility's control. *Popowsky v. Pa. PUC*, 13 A.3d 583, 591 (Pa. Cmwlth 2011).

70. A non-statutory Section 1307 surcharge must address a significant expense. *Pa. PUC v. PPL Elec. Util. Corp.*, Docket No. R-2012-2290597, Order at 18, 20-21 (Apr. 3, 2014).

71. Where the Commission has approved an expense surcharge under Section 1307, it has additionally required a showing that costs are extraordinary, substantial, unexpected or non-recurring. *Pa. PUC v. Aqua Pennsylvania Wastewater, Inc.*, 2022 Pa. PUC LEXIS 161 at *155 (Order, May 12, 2022).

72. NFG did not meet its burden to show that approval of a dedicated rider to recover costs associated with its proposed Energy Efficiency Pilot Program would result in just and reasonable rates. 66 Pa. C.S. §§ 315(a); 1301.

Appendix D

OCA PROPOSED ORDERING PARAGRAPHS

OCA Proposed Ordering Paragraphs

It is hereby ORDERED THAT:

1. National Fuel Gas Distribution Corporation shall not place into effect the rates, rules, and regulations contained in Supplement No. 294 to National Fuel Gas Distribution Gas Tariff–PA P.U.C. No. 9, dated January 28, 2026 which have been found to be unjust, unreasonable and, therefore, unlawful.

2. The request of National Fuel Gas Distribution Corporation to receive an authorized Return on Equity of 11.00% is denied.

3. National Fuel Gas Distribution Corporation shall be authorized to earn a Return on Equity no greater than 9.74% using a capital structure of 50% common equity and 50% debt.

4. The request of National Fuel Gas Distribution Corporation to use the Equal Life Group procedure to calculate depreciation rates is denied.

5. National Fuel Gas Distribution Corporation shall adopt the Average Life Group procedure for calculating depreciation rates.

6. National Fuel Gas Distribution Corporation system-wide maximum day and maximum hour demand factors used in its water COSS are outdated and therefore rejected.

7. National Fuel Gas Distribution Corporation cost of service, revenue allocation, and rate design proposals must be modified to incorporate the Office of Consumer Advocate's COSS.

8. National Fuel Gas Distribution Corporation's fixed charges for Residential customers are properly maintained at current levels to recover National Fuel Gas Distribution Corporation's costs.

9. The request of National Fuel Distribution Corporation to implement a Weather Normalization Adjustment is denied.

10. The request of National Fuel Distribution Corporation to implement an Energy Efficiency Pilot Program Rider is denied.

11. The Office of Consumer Advocate's recommendations regarding National Fuel Gas Distribution Corporation's call center performance are adopted.

12. National Fuel Gas Distribution Corporation shall comply with all directives, conclusions and recommendations contained in this Commission's Opinion and Order that are not the subject of individual ordering paragraphs as fully as if they were the subject of specific ordering paragraphs.

13. The Complaints filed by the various parties to this proceeding at Docket R-2025-3059428 are granted in part and denied in part, to the extent consistent with this Commission's Opinion and Order.