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June 22, 2026

VIA ELECTRONIC FILING

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

Re: Pennsylvania Public Utility Commission, *et al.* v. National Fuel Gas Distribution Corporation
Docket Nos. R-2025-3059428, *et al.*

Dear Secretary Homsher:

Enclosed for filing is the Main Brief on behalf of National Fuel Gas Distribution Corporation in the above-referenced proceedings.

Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Megan E. Rulli

MER/sll
Attachment

cc: Honorable Katrina L. Dunderdale *(via email; w/attachment)*
Certificate of Service

CERTIFICATE OF SERVICE

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

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	R-2025-3059428
Office of Small Business Advocate	:	C-2026-3060292
Office of Consumer Advocate	:	C-2026-3060437
CAUSE-PA	:	C-2026-3060437
	:	
v.	:	
	:	
National Fuel Gas Distribution Corporation	:	

MAIN BRIEF OF NATIONAL FUEL GAS DISTRIBUTION CORPORATION

TO THE HONORABLE KATRINA L. DUNDERDALE:

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Dated: June 22, 2026

Counsel for National Fuel Gas Distribution Corporation

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I. INTRODUCTION

National Fuel Gas Distribution Company ("National Fuel" or the "Company") is a "public utility" and "natural gas distribution company" ("NGDC") as those terms are defined in the Public Utility Code, 66 Pa.C.S. §§ 102 and 2202. National Fuel provides natural gas sales, transportation, and/or supplier of last resort services to approximately 215,000 customers throughout its Pennsylvania service territory, which includes all or portions of 14 counties located in the northwestern part of the state.

In this proceeding, National Fuel requests Pennsylvania Public Utility Commission ("Commission") approval of a base rate increase, with an effective date of rates on or after October 29, 2026.

This is the Company's first rate increase request since October 2022. National Fuel's residential heating customers have the lowest average total bills and delivery charges of all the major NGDCs in the Commonwealth. This will continue to be the case even if the Company's requested increase is granted in full. As explained throughout this brief, National Fuel's decades of disciplined financial management has allowed it to consistently provide its customers with this low-cost natural gas service while also maintaining prudent investments to modernize and enhance the reliability of its distribution system.

The Company has adjusted its requested rate increase in this brief to reflect a 10.5% return on equity ("ROE"), which lowers the Company's total requested increase from $19.7 million to $16.2 million. The impact of any rate increase granted in this case will be offset in the first year by the Company's proposal to reinstate a tariff rider that would provide a refund of Other-Post Employment Benefits ("OPEB") funds of approximately $6.2 million to all customers and also provide a one-time bill credit of $30, totaling approximately $1.025 million, Customer Assistance Program ("CAP"), Level 1, and Level 2 residential customers.

For the reasons explained below and in its filing, National Fuel's proposed distribution rate increase is just and reasonable, appropriately demonstrates the Company's continuing sensitivity to affordability concerns in the state, and should be approved by the Commission. The Company's proposed Findings of Fact, Conclusions of Law, and Ordering Paragraphs are attached hereto as **Appendices A through C**, respectively. Attached as **Appendix D** are the Company's Rate Case Tables.

A. PROCEDURAL HISTORY

On January 28, 2026, National Fuel filed Supplement No. 294 to National Fuel Gas Distribution Corporation Gas Tariff – PA P.U.C. No. 9 ("Supplement No. 294") with the Commission. Supplement No. 294 was issued to be effective for service rendered on or after March 29, 2026. It proposed changes to National Fuel's base retail distribution rates designed to produce an increase in revenues of approximately $19.7 million, exclusive of its proposed Energy Efficiency pilot ("EE Pilot") program that would recover an additional $0.7 million from residential customers annually in a separate rider. The filing was made in compliance with the Commission's regulations and contains all supporting data and testimony required to be submitted in conjunction with a tariff change seeking a general rate increase.

On February 2, 2026, the Commission's Bureau of Investigation and Enforcement ("I&E") filed a Notice of Appearance.

On February 3, 2026, the Office of Small Business Advocate ("OSBA") filed a Notice of Appearance.

On February 4, 2026, the Office of Consumer Advocate ("OCA") filed a Notice of Appearance, Public Statement, and Formal Complaint, which was docketed at Docket No. C-2026-3060292.

On February 9, 2026, the Pennsylvania Weatherization Providers Task Force ("Task Force") filed a Petition to Intervene in this proceeding.

Also on February 9, 2026, the OSBA filed a Public Statement, Verification, and Formal Complaint, which was docketed at Docket No. C-2026-3060354.

On February 10, 2026, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA") filed a Notice of Appearance and a Formal Complaint, which was docketed at Docket No. C-2026-3060437.

On February 19, 2026, the Commission issued an Order initiating an investigation of Supplement No. 294 and suspending Supplement No. 294 by operation of law until October 29, 2026, unless otherwise directed by order of the Commission.

Also on February 19, 2026, the Commission issued a Prehearing Conference Notice, which scheduled a telephonic prehearing conference for February 26, 2026, at 9:00 AM before Administrative Law Judge Katrina L. Dunderdale (the "ALJ").

On February 26, 2026, the prehearing conference was held as scheduled.

On February 27, 2026, the ALJ issued a Prehearing Order, which memorialized the matters discussed by the parties during the prehearing conference on February 26, 2026, and which established the litigation schedule.

Public input hearings were held in Erie, Pennsylvania on March 31, 2026, and telephonically on April 2, 2026.

In accordance with the procedural schedule, other parties' direct testimony was served on April 16, 2026. Written rebuttal testimony was served on May 12, 2026. Written surrebuttal testimony was served on May 27, 2026. Written rejoinder testimony was served on June 1, 2026.

On June 2, 2026, hearings were held for the cross examination of certain witnesses for National Fuel, I&E, and OCA, and the admission of the testimony into the record.

On June 4. 2026, as directed by the ALJ, National Fuel submitted written objections to OCA Exhibits MWD-10 and MWD-11. On June 10, 2026, OCA submitted an answer to National Fuel's objections.

B. LEGAL STANDARDS

Under the Public Utility Code, a public utility's rates must be just and reasonable and cannot result in unreasonable rate discrimination.[1] A public utility seeking a general rate increase has the burden of proof to establish the justness and reasonableness of every element of the rate increase request.[2]

However, a public utility, in proving that its proposed rates are just and reasonable, does not have the burden to affirmatively defend claims made in its filing that no other party has questioned. As the Commonwealth Court has explained, while it is axiomatic

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[1] 66 Pa.C.S. §§ 315(a), 1301 and 1304.

[2] 66 Pa.C.S. § 315(a); *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-00038805, 236 PUR 4th 218, 2004 Pa. PUC LEXIS 39 (Order entered Aug. 5, 2004) ("*Aqua 2004 Order*").

that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.[3]

Tariff provisions previously approved by the Commission are deemed just and reasonable and, therefore, a party challenging a previously-approved tariff provision bears the burden to demonstrate that the Commission's prior approval is no longer justified.[4]

Further, a party that raises an issue that is not included in a public utility's general rate case filing bears the burden of proof. For example, in *Pa. PUC v. Metropolitan Edison Company, et al.*, Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5 (Order entered Jan. 11, 2007), a party offered proposals to have the companies incur expenses not included in their filings. The ALJ held that, as the proponent of a Commission order with respect to its proposals, the party bears the burden of proof as to proposals that are not included in the companies' filings. The Commission agreed and adopted the ALJ's conclusion that Section 315(a) of the Public Utility Code cannot reasonably be read to place the burden of proof on the utility with respect to an issue the utility did not include in its general rate case filing and which, frequently, the utility would oppose.[5]

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[3] *Allegheny Center Assocs. v. Pa. PUC*, 570 A.2d 149, 153 (Pa. Cmwlth. 1990).
[4] *See, e.g., Pa. PUC v. Philadelphia Gas Works*, Docket Nos. R-00061931, *et al.*, 2007 Pa. PUC LEXIS 45, at *165-68 (Order entered Sept. 28, 2007) (adopting the ALJ's discussion on burden of proof).
[5] *Pa. PUC v. Metropolitan Edison Company, et al.*, Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5 (Order entered Jan.11, 2007), at *111-12.

II. SUMMARY OF ARGUMENT

In this brief, the Company adjusts its requested rate increase to reflect a 10.5% ROE, which is an additional 50 basis point reduction from National Fuel's update made in rebuttal to remove from the Company's initially proposed 11.25% ROE its request for a 25 basis point management efficiency adjustment.[6] Combined, these adjustments have lowered the Company's total requested revenue from $19.7 million to $16.2 million. This is a decrease of $3.5 million, or 18%, of the initial proposal.[7] The Company is making this shift to demonstrate its continuing be responsiveness to the broader concerns around affordability across the economy and the energy sector in particular.

The impact of any rate increase granted in this case will also be offset in its first year by the Company's proposed reinstatement of an OPEB surcredit, which will refund OPEB funds totaling approximately $6.2 million to all customers during the first year new rates are in effect.[8] Through this surcredit, customers will effectively experience a phase in of the rate increase over two years. The OPEB proposal will also provide a one-time bill credit of $30, totaling approximately $1.025 million, to approximately 34,000 CAP, Level 1, and Level 2 customers, representing more than 15% of residential accounts.[9] National Fuel will distribute this credit during the December 2026 billing period in line with a recommendation from CAUSE-PA to increase the impact of the credit on customers

[6] National Fuel St. No. 1-R, p. 5.
[7] See Appendix D for the calculations in support of this adjustment.
[8] National Fuel St. No. 14, p. 14.
[9] National Fuel St. No. 14, p. 14.

by providing it during the winter heating season.[10] Since 2021, the Company has refunded $50 million in OPEB funds back to ratepayers, while reducing rates annually by $7.7 million.[11] The Company is able to return the remaining OPEB funds to customers now because it responsibly managed OPEB costs and made prudent investments over many decades.[12]

National Fuel's decades of disciplined financial management have resulted in low-cost utility service for its customers. National Fuel's residential heating customers have the lowest average total bills and the lowest average delivery charges of all the major NGDCs in the Commonwealth.[13] Even if the Company's updated rate increase is granted in full, National Fuel will continue to have the lowest average total bills and the lowest average delivery charges.[14] This outcome has not happened by accident. It is the result of National Fuel's long-term efforts to: (1) foster a culture of cost control and operational excellence that is reinforced by executive leadership and management; (2) deploy disciplined, risk-based capital and efficient investment in the distribution system; and (3) prudently manage finances to enhance financial stability and allow the Company to maintain strong credit and access to capital at a reasonable cost.[15]

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[10] National Fuel St. No. 14-R, p. 2.
[11] National Fuel St. No. 1-R, p. 14.
[12] National Fuel St. No. 1-R, p. 14. As a result of these efforts, the Company no longer requires ratepayer funding for these benefits, which has reduced revenue requirements, and has allowed the Company to return funds previously collected from ratepayers to mitigate rate increases and provide bill relief. *Id.*
[13] National Fuel St. No. 1, pp. 8-9.
[14] Even if Company's originally proposed rate increase was granted in full, the Company's rates would be the lowest in the state. National Fuel St. No. 1, pp. 11-12.
[15] National Fuel St. No. 1-R, p. 12.

National Fuel's track record speaks for itself. In addition to having the lowest average total bills and delivery rates, National Fuel also has the lowest rate base per customer out of the major Pennsylvania NGDCs.[16] This means the Company's customers directly benefit from the lower revenue requirement needed for the return on the capital the Company has prudently invested in rate base.[17] National Fuel also has a history of infrequent rate case filings, having only increased rates three times in the past 20 years and having not filed a rate case since 2022.[18] As a result, the Company's rates to customers have historically grown at, or slower, than the general rate of inflation. The Company's customers have benefited from this stability in their monthly energy costs.[19]

National Fuel's requested return on equity and capital structure are reasonable and designed to support its ability to continue operating as a low-cost provider while making the necessary investments in the system to enhance safety and reliability. The Company's proposals reflect market-based standards and Commission precedent and allow the Company to access capital at the lowest reasonable overall cost.[20]

Access to low cost capital is critical to the Company because one of the primary drivers of the need for rate relief is National Fuel's increasing investment in rate base.[21] The Company has increased its projected investment in net plant by $141 million since its

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[16] National Fuel St. No. 1-R, p. 13.
[17] National Fuel St. No. 1-R, p. 13.
[18] National Fuel St. No. 1-R, p. 13. Prior to 2022, the Company had not sought a rate increase since May 31, 2006. I&E St. No. 1, p. 7.
[19] National Fuel St. No. 1-R, pp. 13-14.
[20] National Fuel St. No. 1-R, p. 15.
[21] National Fuel St. No. 1, p. 13.

last rate case, a figure that reflects investments to enhance and maintain the safety and reliability of the Company's distribution system and replacing aging infrastructure.[22] The Company is also implementing an accelerated leak prone pipe ("LPP") replacement program that will allow it to replace all remaining LPP in its system by 2039.[23] The Company's ongoing LPP replacement efforts were praised by Commission Chairman Stephen M. DeFrank when the Commission approved the Company's Amended Long Term Infrastructure Improvement Plan ("LTIIP") on March 26, 2026, who stated that he found "NFG's performance in meeting pipeline replacement targets, despite increased costs, to be commendable and worthy of recognition."[24]

Another key driver of the Company's requested rate increase is operating cost inflation, with the biggest impact coming from the Company's net labor expense.[25] The competitive labor market has placed upward pressure on salaried and non-union employee wages.[26] Here, retention is a critical issue for the Company because it ensures stability within the workforce, secures the continued transfer of knowledge, and allows individuals to grow their expertise within the organization.[27] Attracting and retaining qualified employees remains critical to National Fuel's continued ability to provide safe, efficient

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[22] National Fuel St. No. 1, p. 14.
[23] National Fuel St. No. 9-R, pp. 2-3.
[24] National Fuel St. No. 1-R, p. 6; *see also Petition of National Fuel Gas Distribution Corporation for Approval of a Major Modification to its Existing Long Term Infrastructure Improvement Plan*, Docket No. P-2022-3034957 (Statement dated Mar. 26, 2026).
[25] National Fuel St. No. 1, pp. 15-16.
[26] National Fuel St. No. 1, pp. 15-16.
[27] National Fuel St. No. 4, p. 6.

and cost-effective service to ratepayers.[28] As explained in Section VI.C of this brief, the Company is seeking recovery of incentive compensation expense in this proceeding in large part due to its value in promoting employee retention. National Fuel must offer competitive wages and benefits to retain employees.[29]

The final key driver of the Company's rate case is due to the significant impact that warmer winters and extreme volatility in heating degree days ("HDDs") have had from year to year on the Company's throughput and revenues.[30] The Company is proposing two measures in this case to address this issue. First, the Company modified its volumetric forecasting approach to use a 10-year average of heating degree days data published by NOAA as observed at the Erie, Pennsylvania International Airport from 2015 to 2024.[31] Second, the Company is requesting Commission approval to make the Weather Normalization Adjustment ("WNA") permanent.[32] The WNA moderates the bill impacts of unusually warm or cold weather, provides customers with greater stability, and aligns billed revenues more closely with the Commission-approved revenue requirement.[33]

National Fuel has also proposed launching a targeted, rebate-based Energy Efficiency Pilot for residential customers that will promote the adoption of efficient natural gas appliances and produce measurable energy savings.[34]

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[28] National Fuel St. No. 4, p. 6.
[29] National Fuel St. No. 1, p. 16.
[30] National Fuel St. No. 1, p. 16.
[31] National Fuel St. No. 1, p. 17.
[32] National Fuel St. No. 1, p. 18.
[33] National Fuel St. No. 19, pp. 23-24.
[34] *See* National Fuel St. No. 18, p. 5.

III. OVERALL POSITION ON RATE CASE

National Fuel's updated request for rate relief totaling $16.2 million is based upon data for a fully projected future test year ("FPFTY") ending October 31, 2027. The key drivers of this increase—increased investment in rate base, increased operating costs, and the impact of warmer and more volatile weather trends on revenues—are discussed in Section II, *supra*, and throughout this brief. Several of the important issues in this case are as follows:

RATE OF RETURN. There are two primary issues as to rate of return. First, the Company's FPFTY amount of equity in the Company's capital structure is challenged by OCA even though the claimed equity ratio is within the range of equity ratios used by the barometer group which OCA. OCA's proposal is contrary to the multiple cases where the Commission has concluded that an equity ratio within the range of the barometer is not atypical and is both permissible and not a basis for a hypothetical capital structure. In addition, the Commission has found many times that a higher equity ratio is important to support higher infrastructure programs . The second rate of return issue is the rate of return on equity. All witnesses in this case use the standard DCF model, which the Commission has relied on for many years and the results thereof are in the range of 10.5% to 10.7%

DEPRECIATION EXPENSE. OCA proposes to require the Company to move from the equal life group method of determining depreciation to the average service cost method, which would reduce this expense by $4.7 million. The Commission denied this adjustment in Columbia Gas of Pennsylvania, Inc.'s ("Columbia") 2025 rate case and should do so again.

OTHER EXPENSES. OCA, I&E and OSBA propose to deny most of the Company's incentive compensation, despite the efficiency of the Company and the need to provide incentives to retain managers and employees.

CUSTOMER AFFORDABILITY AND ASSISTANCE. Several parties raise concerns surrounding customer affordability and the impact of the Company's proposed rate increase and also make recommendations regarding the Company's Universal Service programs. The Company is committed to the long-term affordability of its rates and has made several adjustments in this brief that reduce its total requested increase and incorporate proposals from the other parties related to energy assistance programs.

WEATHER. Multiple parties seek to either terminate or modify the WNA despite the substantial surcredits that were provided to reduce residential bills in the 2025-2026.

For reasons explained below, National Fuel's requested revenue increase, its proposed revenue allocation and rate design, its proposal to make the WNA permanent, and its proposed EE Pilot should be adopted.

IV. RATE BASE

The Company's updated claim for rate base reflects the projected balance at the end of the FPFTY of $571.4 million and includes plant in service, depreciation reserve, cash working capital, gas storage inventory, deferred income taxes, materials and supplies inventory, customer deposits, and customer advances.[35]

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[35] National Fuel Exhibit A (Rebuttal Update), Sch. C-1.

A. UTILITY PLANT

The Company's claim for utility plant in service is $957.2 million for the FPFTY.[36] FTY and FPFTY plant additions are derived from the Company's five-year capital forecast.[37] Plant additions and retirements are provided in Exhibit A (Rebuttal Update), Schedule C-2, and details regarding the claim are provided in National Fuel St. No. 6, pages 4-6. The Company's utility plant has increased since its prior rate case proceeding in 2022 due primarily to investments in system modernization and leak prone pipe replacement as authorized by the Commission through the Company's Amended LTIIP.[38] No party recommended adjustments to the Company's utility plant claim and, therefore, it should be approved without modification.

B. ACCUMULATED DEPRECIATION

The Company's depreciation reserve[39] as of the end of the FPFTY was calculated by Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming") and was projected generally using the straight-line remaining life method, with the Equal Life Group ("ELG") procedure.[40] The Company's book depreciation reserve is $320.6 million.[41] Importantly, the Company's current claim for accrued depreciation in this

[36] *See* National Fuel Exhibit A (Rebuttal Update), Sch. C-2.
[37] National Fuel St. No. 3, p. 4.
[38] *See* National Fuel St. No. 9, pp. 3-5.
[39] The depreciation reserve is the book reserve brought forward from the book reserve approved by the Commission in National Fuel's last base rate proceeding. National Fuel St. No. 8, p. 5.
[40] National Fuel St. No. 8, pp. 4-5; National Fuel Exh. C, pp. IV-1-8.
[41] National Fuel Exhibit A (Rebuttal Update), Sch. A-1.

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proceeding is made on the same basis as it has been for over thirty years.[42]

The only proposed adjustments to National Fuel's accrued depreciation reserve are with respect to the OCA's proposed $4.67 million of depreciation expense resulting from the OCA's proposal to change the Company's depreciation method from the ELG procedure to the Average Service Life ("ASL") procedure.[43] OCA's proposed adjustment to National Fuel's plant additions is improper, as explained in Section VI.G of this brief and, therefore, the related adjustment to the Company's depreciation reserve should be rejected.

C. NET PLANT IN SERVICE

Net plant in service is determined by subtracting the depreciation reserve from utility plant. Accepting the Company's undisputed claim for utility plant and its accumulated depreciation based on the Company's ELG method, National Fuel's net plant in service is $636.7 million.[44]

D. GAS INVENTORY

National Fuel's claim for gas inventory is $5.7 million.[45] No parties challenged the Company's claim for an addition to rate base for gas inventory and, therefore, it should be approved without modification.

E. ACCUMULATED DEFERRED INCOME TAXES

Accumulated deferred income taxes ("ADIT") generally are a reduction to rate base.

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[42] National Fuel St. No. 8, p. 4.
[43] OCA St. No. 2, p. 22.
[44] National Fuel Exhibit A (Rebuttal Update), Sch. C-1, line 3.
[45] National Fuel St. No. 6, p. 11; National Fuel Exhibit A (Rebuttal Update), Sch. A-1.

The total ADIT set forth in the Company's rate base calculation is $73.9 million.[46] No parties challenged the Company's claim for a reduction to rate base for ADIT and, therefore, it should be approved without modification.

F. CUSTOMER DEPOSITS

National Fuel's claim for customer deposits is used to offset the need to provide further capital. The actual balances for customer deposits were recorded and provided on Schedule C-7. In the FTY and the FPFTY, the Company used the last known historical values for the respective months. The Company's claim for customer deposits for the FPFTY is $5.2 million.[47] No parties challenged the Company's claim for a reduction to rate base for customer deposits and, therefore, the Company's claim should be approved without modification.

In rebuttal, the Company updated its rate base calculation to reflect customer advances and contributions in aid of construction ("CIAC") as deductions from rate base totaling $86,000.[48] This deduction includes $25,000 in CIAC and $61,000 in customer advances for construction.[49] These deductions were appropriately calculated using the 13-month average balance for these accounts ending September 30, 2025, consistent with the Company's method used to develop its other FPFTY amounts.[50] The Commission should reject OCA's proposed deductions for these accounts, which are based on a 13-month

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[46] National Fuel St. No. 6, p. 12; National Fuel Exhibit A (Rebuttal Update), Sch. C-6.
[47] National Fuel Exhibit A (Rebuttal Update), Sch. C-7, line17.
[48] National Fuel Exhibit A (Rebuttal Update, Sch. C-8.
[49] National Fuel St. No. 6-R, p. 2.
[50] National Fuel St. No. 6-R, p. 2.

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average ending February 2026, because OCA's methodology is inconsistent with that used to develop the Company's other FPFTY amounts.[51] For these reasons, the Commission should accept the Company's deductions for CIAC and customer advances.

G. MATERIALS & SUPPLIES

National Fuel's claim for materials and supplies is $1.6 million.[52] No parties challenged the Company's claim and, therefore, it should be approved without modification.

H. CASH WORKING CAPITAL

As updated in rebuttal, the Company's claim for cash working capital ("CWC") is $6.7 million.[53] The Commission should accept the Company's CWC claim with one adjustment to the lead-lag study. Here, the Company accepts the OCA's position that non-cash expenses should be removed from the lead-lag study when determining the final CWC allowance approved in this proceeding, in line with Commission precedent.[54] As explained below, all other adjustments to the proposed CWC claim should be rejected.

I&E and OCA recommend adjustments to the CWC based on their respective recommended adjustments to O&M expenses and recommended capital structures.[55]

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[51] *See* OCA St. No. 2, pp. 10-11.
[52] National Fuel St. No. 6, p. 11; National Fuel Exhibit A (Rebuttal Update), Sch. A-1. CWC is the capital requirement calculated between (1) the lag in the receipt of revenue for rendering service and (2) the lag in the payment of cash expenses incurred to provide such service to National Fuel's customers. National Fuel St. No. 6, pp. 6-7.
[53] National Fuel Exhibit A (Rebuttal Update), Sch. C-4, line 14.
[54] *See* OCA St. 2SR, p. 8; LKM-4A-SR, p. 4, lines 2-4. For National Fuel, this means removing incentive compensation expenses from the lead-lag study; rate case expense and insurance are cash expenses for the Company.
[55] *See* I&E St. No. 1, pp. 23-24; OCA St. No. 2, p. 9; National Fuel St. No. 6-R, p. 4.

These adjustments should be rejected for the same reasons that the Company explains various of I&E's and OCA's proposed adjustments to expenses and capital structure should be rejected, as discussed in Sections VI and VII, *infra*.

In addition, OCA's CWC adjustments are flawed because they fail to properly incorporate prepaid expenses.[56] The Company's CWC claim includes prepaid expenses as a component of working capital because they represent cash outlays made in advance of the period in which the related costs are recognized in expense, consistent with the methodology previously accepted by the Commission.[57] In rebuttal, the Company updated its lead-lag study to remove $2,732,664 in prepaid O&M expenses from "Other Expenses" so that prepaid expenses are reflected only once in in working capital.[58] This adjustment addressed OCA's concerns that the Company had double counted prepaid expenses.[59]

In surrebuttal, OCA accepted the Company's inclusion of prepaid expenses as a component of working capital and made updates to its proposed CWC adjustments.[60] However, these updates contain two errors. First, Mr. Morgan increases the amount of prepaid expenses removed from the lead-lag study to $9,455,000,[61] which is the sum of the *entire* FPFTY O&M expenses for insurance, PUC assessments, AGA dues, and IT

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[56] OCA St. No. 2, pp. 9-10; OCA St. No. 2-SR, pp. 7-8.
[57] National Fuel St. No. 6-R, p. 3.
[58] National Fuel St. No. 6-R, p. 4; Exhibit A (Rebuttal Update), Sch. C-4, p. 2. This update does not remove prepaid expenses from CWC altogether, only from the lead-lag study.
[59] National Fuel St. No. 6-R, p. 4.
[60] OCA St. No. 2SR, p. 8 ("I will accept the approach used by NFG, in its rebuttal filing, which includes prepayments in rate base, but removes prepaid expenses from the lead/lag study.").
[61] OCA St. 2SR, p. 8.

services.[62] As explained by National Fuel witness Duszenko, only the prepaid amounts of these O&M expenses should be removed from the lead-lag study ($2,732,664).[63] Second, Mr. Morgan's recommended downward CWC adjustment of $1,195,000 is inconsistent with his testimony stating that he "will accept the approach used by NFG, in its rebuttal filing, which includes prepayments in rate base, but removes prepaid expenses from the lead/lag study."[64] As evident on pages 1 and 4 of OCA Exhibit LKM-4A-SR, OCA's recommended CWC adjustment does not include prepaid expenses in the final calculation and does not remove them from the lead-lag study.[65] If prepaid expenses were included, which total $1,080,000, OCA's CWC adjustment to rate base would be considerably less than $1,195,000.[66] For example, OCA Exhibit LKM-4B-SR does incorporate prepaid expenses consistent with Mr. Morgan's testimony and so recommends an alternative downward adjustment to the CWC claim of $300,000.[67] As such, OCA's proposed CWC

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[62] *See* National Fuel Exhibit ATF-1 (showing the full expense amounts for the FPFTY that are used in Mr. Deupree's calculation of prepaid expenses).

[63] *See* National Fuel St. No. 6-R, p. 4 (explaining that the Company's rebuttal update to the prepaid expenses reflected in the cash working capital removes the prepaid expenses from the "Other Expenses" category so that the O&M expenses and payment days align methodologies); *compare* National Fuel Exhibit ATF-1, Sch. 1 with OCA Exhibit LKM-4B-SR, p. 4 (showing that OCA witness Deupree's adjustments to prepaid expenses are equal to the total O&M expenses for the FPFTY amount for the categories "Other Insurance," "Regulatory Assessment," and "Information Services"); and *compare* I&E Exhibit 1, Sch. 4, p. 3 with OCA Exhibit LKM-4B-SR, pp.3-4 (showing that OCA witness Deupree's adjustment to prepaid expenses for AGA Dues is simply the Company's claim for all AGA dues in the fully projected test year).

[64] OCA St. No. 2SR, p. 8.

[65] OCA Exhibit LKM-4A-SR, pp. 1 and 4.

[66] National Fuel Exhibit A (Rebuttal Update), Sch. C-4, p. 5.

[67] *Compare* OCA Exhibit LKM-4A-SR, p. 1, line 4 *to* OCA Exhibit LKM-4B-SR, p. 1, line 4.

adjustments are flawed because they fail to properly incorporate prepaid expenses.

V. OPERATING SALES AND REVENUES

National Fuel's claim for operating sales and revenues in the FPFTY at present rates is $265.5 million.[68] Details regarding the forecasts used to develop this projection are provided in the testimony of National Fuel witnesses Mann and Hilliard.[69]

A. CUSTOMER SALES AND REVENUES

The Company's claim for base customer charge revenue in the FPFTY at present rates, inclusive of DSIC revenues, is $139.7 million.[70] No party has opposed the Company's claim, and it should be accepted.

B. GAS SUPPLY REVENUE

The Company's claim for gas supply and cost adjustment revenue in the FPFTY at present rates is $124.6 million.[71] No party has opposed the Company's claim, and it should be accepted.

C. OTHER REVENUES

National Fuel's claim for Other Revenues of $1.3 million ,[72] includes late payment charges (or "forfeited discounts"), rent from gas property, and other gas revenues.[73] OCA

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[68] National Fuel Exhibit A (Rebuttal Update), Sch. D-1, line 5.
[69] *See* National Fuel St. No. 13, pp. 3-10; National Fuel St. No. 14, pp. 5-13.
[70] National Fuel Exhibit A (Rebuttal Update), Sch. D-1, line 1.
[71] National Fuel Exhibit A (Rebuttal Update), Sch. D-1, line 1.
[72] National Fuel Exhibit A (Rebuttal Update), Sch. D-1, line 3.
[73] LPCs are included in FERC account 487 (forfeited discounts) and account for most of the forecasted Other Operating Revenues. Rent from gas property includes rents received for the use by others of land, buildings, and other property devoted to gas operations by the utility. Other gas revenues include any revenues derived from gas operations not includible

recommends adjustments to the Company's claims for Rent from Gas Property and Forfeited Discounts.

1. Rent from Gas Property

The Commission should reject OCA's proposed $12,000 adjustment to Rent From Gas Property, which is based on an annual growth pattern of 6.03%.[74] The Company's claim for revenues from Rent From Gas Property is $100,000.[75] The Company's projection aligns with the most recent intercompany rent amounts of $8,258 per month, or $99,096 per year, and so should be accepted.[76]

2. Forfeited Discounts

The Company's claim for Forfeited Discounts is $1.1 million,[77] which reflects the late payment charges the Company anticipates collecting during the FPFTY at present rates.[78] OCA recommends an adjustment to Forfeited Discounts to account for the increased late payment charges associated with a rate increase.[79] OCA's adjustment would be calculated by applying a forfeited discount ratio of 0.503%, based on a three-year average, to the rate increase granted.[80] If the Commission determines that an additional adjustment to Forfeited Discounts is appropriate, the Company recommends that: (1) the

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in any other revenue accounts – primarily capacity release revenues and marketer billing charges. National Fuel St. No. 14, p. 9.

[74] OCA St. No. 2, p. 12; OCA St. No. 2SR, pp. 5-6.

[75] National Fuel Exhibit A (Rebuttal Update), Sch. B-3, line 8.

[76] National Fuel St. No. 6, p. 11; National Fuel Exhibit A (Rebuttal Update), Sch. A-1.

[77] National Fuel Exhibit A (Rebuttal Update), Sch. B-3, line 6.

[78] National Fuel St. No. 14, p. 9.

[79] OCA St. No. 2SR, pp. 4-5.

[80] *See* OCA Exhibit LKM-1A-SR, page 1; OCA Exhibit LKM-6A-SR, line 15.

forfeited discount ratio be based on a more accurate trailing 12-month weighted average; and (2) the adjustment reflect the final revenue increase approved by the Commission in this proceeding.[81]

D. REVENUE INCREASE

The Commission should adopt the Company's $281.7 million claim for FPFTY revenues.[82] The Company's updated requested revenue increase is $16.2 million.[83]

VI. <u>OPERATING EXPENSES</u>

A. COMPANY'S CLAIMED O&M EXPENSES

National Fuel's pro forma expense claim reflects projected expenses for the FPFTY. The basis for National Fuel's forecasted O&M expense are fully described in the testimony of National Fuel witnesses Formato (O&M), Hawthorn (labor), Weidner (employee benefits), and Spanos (depreciation).[84] Certain expenses have been challenged by I&E, OCA, and OSBA.

B. RATE CASE EXPENSE

National Fuel's claim for rate case expense is $1.03 million normalized over a three-year period.[85] I&E argues that rate case expense should be normalized over a five-year period, based on the filing interval of National Fuel's last three base rate cases.[86] I&E's proposal should be rejected.

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[81] National Fuel St. No. 14-SR, p. 3.
[82] National Fuel Exhibit A (Rebuttal Update), Sch. D-1, line 5.
[83] *See* Appendix D.
[84] *See* National Fuel St. Nos. 3, 4, 5, and 8.
[85] National Fuel St. No. 3, p. 16; National Fuel Exhibit A (Rebuttal Update), Sch. D-6.
[86] I&E St. No. 1, pp. 6-8.

National Fuel has used a three-year normalization period because the Company anticipates the need to file rate cases more frequently than it has in the past due to continued inflationary pressures on labor and other operating expenses, coupled with accelerated infrastructure replacement and system modernization capital investments.[87] The Company's historic and forecasted spending in its current Amended LTIIP illustrates the higher capital expenses that have been realized in recent years as well as the Company's plan to continue to spending at accelerated levels.[88]

Critically, two of the four data points utilized by I&E in the calculation of I&E's five-year normalization proposal are from over 20 years ago and so are not indicative of the current business landscape.[89] The 16-year gap between the 2006 and 2022 filings should not carry as much weight as the roughly three years between the October 2022 filing and the Company's January 2026 filing. This recent three-year gap is much more indicative of the Company's current operating model and the Company's increased investment plan and should be the basis for calculating rate case expense.[90]

While the Commission often looks to the history of rate filings to determine normalization of rate case expense, there are exceptions. In *PPL Electric 2012*, PPL Electric sought a two-year normalization of rate case expense, while I&E and OCA proposed a three-year period, based on recent rate case experience.[91] The ALJ accepted

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[87] National Fuel St. No. 3-R, pp. 9-10.
[88] National Fuel St. No. 3-R, pp. 9-10.
[89] National Fuel St. No. 3-R, p. 9.
[90] National Fuel St. No. 3-R, p. 10.
[91] *Pa. PUC v. PPL Electric Utilities Corp., Docket No. R-2012-2290597, at p. 26 (Order entered Dec. 28, 2012) ("PPL Electric 2012")*, pp. 44-45.

the I&E and OCA adjustment, but the Commission reversed.[92] The Commission acknowledged PPL Electric's three-year filing history but also noted its major capital improvement program to address aging infrastructure.[93] For these reasons, the PUC approved PPL Electric's two-year normalization of rate case expense. The same logic applies here. History can provide guidance on anticipated future conditions, but it should not be the sole basis for determining revenue requirement, as this would defeat the purpose of using a FPFTY in setting rates. Therefore, National Fuel's three-year normalization period for rate case expense should be approved.

C. INCENTIVE COMPENSATION EXPENSE

The varying adjustments proposed by I&E, OCA, and OSBA to the Company's incentive compensation plans are ultimately rooted in the same incorrect assumption that financial goals do not benefit ratepayers.[94] These conclusory adjustments should be rejected for two reasons. First, National Fuel has demonstrated that its incentive compensation programs as a whole, including financial goals contained therein, provide material benefits to ratepayers. Second, National Fuel's restricted stock-based incentives are not tied to any financial goals, they are focused on employee retention, which also benefits ratepayers.

The Commission has reviewed and approved incentive compensation programs in

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[92] *Id.*, pp. 45-46, 47-48.
[93] *Id.*, pp. 47-48.
[94] I&E St. No. 1, p. 13.

numerous prior rate cases.[95] In these cases, and others, the Commission has established a bright line test for incentive compensation expense. If the incentive compensation programs of the utility are reasonable and provide a benefit to ratepayers, then they may be recovered in their entirety.[96] The Commission has reaffirmed this standard in recent cases.[97] In *UGI Electric,* the Commission rejected a proposal to disallow incentive compensation that included, in part, a financial metric, stating:

> We find that [UGI] has provided substantial evidence of record to demonstrate that the incentive compensation program as a whole includes both financial and operating metrics and goals which benefit customers. For example, the Company has presented testimony that safety, reliability and customer service are all metrics utilized in the cash incentive program for eligible employees. See UGI St. 4-RJ at 9-10. Additionally, UGI has shown that the eligible employees have direct responsibilities for customer service and regulatory compliance or are otherwise responsible for ensuring safe and reliable service to customers. See e.g., UGI St. 1 at 1-2; and UGI St. 3 at 1. Moreover, we acknowledge that the incentive compensation appears necessary to attract and retain employees in a competitive market who serve key roles in ensuring safe and reliable service to customers. UGI St. 4-R at 12.
>
> Where, as here, the incentive program as a whole establishes that the employees' eligibility to receive the benefit is based on performance duties and metrics directly related to the provision

[95] *PPL Electric 2012*, p. 26; *Pa. PUC v Aqua Pennsylvania, Inc.*, 2008 Pa. PUC LEXIS 50 (Order entered July 31, 2008) ("*Aqua 2008*"), at *20-26; *Pa. PUC v. Duquesne Light Co.*, 63 Pa. P.U.C. 337, 1987 Pa. PUC LEXIS 342 (Order dated Mar. 10, 1987); *Pa. PUC v. PPL Gas Utilities Corporation*, Docket No. R-00061398, 2007 Pa. PUC LEXIS 2 (Order entered Feb. 8, 2007); *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2008-2073938, 2008 Pa. PUC LEXIS 32 (Order dated Dec. 19, 2008).
[96] *See, e.g.*, *PPL Electric 2012*, p. 26.
[97] *See Pa. PUC v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058 (Order entered Oct. 25, 2018) ("*UGI Electric*"), pp. 73-74; *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-2021-3027385 (Order entered May 16, 2022), p. 100 ("*Aqua 2022*").

> of service, the fact that the program includes a financial metric does not disqualify it from allowance as an expense for inclusion in the rate base. We find that because UGI's incentive compensation plan is reasonable, prudently incurred, and is not excessive in amount, UGI is permitted full recovery of this expense.[98]

Although the Commission's ruling in Columbia's 2025 rate case disallowed portions of an incentive compensation plan tied to financial performance,[99] National Fuel's claim in this case is distinguishable. Importantly, the Commission did not determine that incentive compensation linked in part to financial goals is unrecoverable or that financial goals do not benefit ratepayers. Rather, the Commission found that Columbia had failed to demonstrate that its financial goals benefit ratepayers.[100] The Company's incentive compensation program benefits ratepayers because: (1) the program helps attract and retain employees in a competitive market; (2) financial goals promote cost containment, operational efficiency, and help ensure access to cost-effective capital; and (3) the program is reasonable, prudently incurred, and is not excessive in amount. National Fuel's demonstrated track record of having the lowest natural gas delivery rates and residential bills in the Commonwealth along with the relative infrequency of its rate increase requests is tangible evidence that these incentives are producing positive benefits for ratepayers that have translated into sustainable affordability for its ratepayers over the long-term.[101]

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[98] *UGI Electric*, pp. 73-74.
[99] *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2025-3053499 (Order entered Dec. 9, 2025) ("*Columbia 2025*"), p. 123.
[100] *Id.*
[101] *See* National Fuel St. No. 1-R, pp. 12-14; National Fuel St. No. 5-R, p. 10.

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1. Executive Cash Bonuses

I&E recommends disallowing $379,731 out of the Company's $855,587 claim for executive cash bonuses, as well as related payroll taxes totaling $22,679,[102] on the basis that "financial goals do not assist in providing safe and reliable service to ratepayers."[103]

National Fuel has demonstrated that its executive cash bonus program, including its financial goals, provides significant benefits to ratepayers. This program includes a combination of financial performance, safety, reliability, customer service, emissions reduction, and diversity and inclusion initiatives.[104] These complementary goals are designed to incentivize Company leaders to effectively manage a business that can produce the best results for ratepayers.[105] Financial goals are one of many important aspects of the program because the Company must be able to access capital at reasonable costs in order to invest in and maintain infrastructure and attract the workforce needed to safely and effectively operate that infrastructure.[106] Goals that incentivize strong financial performance are critical to maintaining this cost-effective access to capital, which benefits ratepayers through a lower revenue requirement and lower rates.[107]

2. Restricted Stock-Based Compensation

The Company's incentive compensation proposal also includes claims for $182,075 in non-executive restricted stock and $290,746 in executive restricted stock. OCA and

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[102] I&E St. No. 1, pp. 11-13.
[103] I&E St. No. 1, p. 13.
[104] National Fuel St. No. 5-R, p. 3.
[105] National Fuel St. No. 5-R, p. 3.
[106] National Fuel St. No. 5-R, p. 3.
[107] National Fuel St. No. 5-R, p. 3.

OSBA recommend disallowing the full amount of these claims.

The Company's restricted stock-based compensation for both executives and non-executives should be approved because they are necessary and effective to retaining employees and promoting longevity at the Company. Shares of restricted stock vest over three equal annual installments. The restricted stock awards do not rely on achieving financial goals or performance conditions and instead provide an incentive for recipients to provide service to National Fuel for the requisite time. These rewards are designed to help retain top talent, ensure stability within the Company's workforce, secure continued transfer of knowledge, and allow individuals to grow their expertise within the organization.[108]

Attracting and retaining qualified employees remains critical to National Fuel's continued ability to provide safe, efficient and cost-effective service to ratepayers.[109] National Fuel witness Hawthorn explained at length that employee retention is a key issue for the Company.[110] Given the increasing operational complexities and regulatory requirements experienced by utilities and energy companies, and the expanded efforts to modernize pipeline and distribution systems, a competitive compensation package encouraging retention and longevity, including time-vested restricted stock, is critical to the continued success of National Fuel and benefits ratepayers.[111]

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[108] National Fuel St. No. 4, p. 6.
[109] National Fuel St. No. 4, p. 6.
[110] *See* National Fuel St. No. 5, pp. 6-9.
[111] National Fuel St. No. 4, pp. 14-15.

3. Executive Performance Shares

The Company's proposal includes a claim for $957,138 in executive performance shares.[112] I&E and OSBA argue that only 5% of the executive performance shares related to meeting emission reduction targets should be granted.[113] OCA recommends that 100% of the Company's executive performance shares be disallowed.[114]

The Company's executive performance shares have a retention element and operate on a performance cycle of three years.[115] This approach fosters long-term perspectives and performance from the management of National Fuel and encourages significant personal investment. This form of compensation recognizes that financial successes like long-term total shareholder return and long-term total return on capital are achieved through continued focus and commitment on numerous factors, including efficiently investing in the utility's delivery system, prudently operating the business, and providing safe, reliable, and affordable service to its customers.[116] For a utility like National Fuel that is experiencing very little customer and load growth in its service territory, maintaining affordable delivery rates is primarily achieved through the disciplined management of utility costs and finances over the long term, and requires a culture of cost containment and a commitment to capital efficiency that is set and continuously reinforced by executive leadership. Thus, the long-term nature and underlying focus on financial responsibility of

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[112] National Fuel St. No. 5-R, p. 10.
[113] I&E St. No. 1, p. 17; OSBA St. No. 1, p. 9.
[114] OCA St. 2, p. 14.
[115] National Fuel St. No. 5-R, p. 5-R, p. 10.
[116] National Fuel St. No. 4, p. 16.

the performance shares drive positive outcomes for ratepayers.[117]

In this regard, the Company has performed efficiently. It has the lowest rates of any major natural gas distribution company in the Commonwealth and has had reasonable spacing of rate increase requests.[118] Without the incentives described in this section, the Company would have to offer increased base salaries to attract and retain employees.[119] However, this approach would not benefit ratepayers because it would not directly incentivize cost containment along with safety, reliability, customer service, emissions reduction and diversity and inclusion initiatives.[120]

D. PAYROLL EXPENSE AND RELATED

OSBA proposes a downward adjustment to headcount of 9.67 full time employees ("FTE"), a $525,364 decrease to the overall revenue requirement, based on the difference between the projected headcount for the FPFTY and the average headcount for the twelve months ending January 31, 2026. [121]

OSBA's adjustment should be rejected for three reasons. First, the Company's proposed headcount (450 FTEs) already reflects a vacancy adjustment of 9 FTEs to account for the Company's actual headcount being below the budgeted headcount in recent years.[122] As such, an additional downward adjustment is not necessary. Second, OSBA's position undermines the purpose of a forward-looking test period by solely looking at historic

[117] National Fuel St. No. 5-R, p. 10.
[118] *See* National Fuel St. No. 1-R, pp. 12-13.
[119] National Fuel St. No. 5-R, p. 5.
[120] National Fuel St. No. 5-R, p. 5.
[121] National Fuel St. No. 3-R, p. 2.
[122] National Fuel St. No. 3-R, p. 2.

figures. The Company's proposed headcount is based on the Company's actual headcount as of September 30, 2025 (436 FTEs), with 23 forecasted additions by the end of the FPFTY, for a total headcount of 459 employees before the vacancy adjustment.[123] Third, as of April 2026, the Company's headcount is 451 FTEs, meaning the Company has already reached a total headcount in excess of the proposed FPFTY headcount.[124] For these reasons, the Commission should reject OSBA's headcount adjustment and base the revenue requirement on a headcount of 450 employees.

E. MEMBERSHIP DUES EXPENSE

National Fuel claims an amount of $234,266 for Company Dues and Memberships.[125] Both OCA and I&E propose downward adjustments to the Company's Dues and Memberships expense claim of $17,000 and $21,968, respectively.[126]

These adjustments should be rejected because they fail to consider the overall impact these funds and the associated organizations have on the Company's ratepayers and their communities. The Company's limited support of chambers of commerce and economic development agencies is intended to directly benefit ratepayers by promoting strong, resilient communities within its service territory.[127] In addition, economic growth helps retain and attract commercial and industrial use of natural gas, allowing fixed system costs to be spread over greater usage and helping to moderate upward pressure on rates.[128]

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[123] National Fuel St. No. 3-R, p. 3.
[124] National Fuel St. No. 3-R, p. 4.
[125] National Fuel Exh. ATF-1, Sch. 1.
[126] National Fuel St. No. 3-R, p. 8.
[127] National Fuel St. No. 3-R, p. 8.
[128] National Fuel St. No. 3-R, p. 8.

Participation in these organizations ensures energy infrastructure, safety, and reliability considerations are incorporated into local growth planning, thereby reducing long term system risks and costs.[129] Finally, building stronger communities by supporting economic stability and affordable, reliable service over the long term benefits all stakeholders – including small businesses and the residents who live and work in these communities.[130]

For these reasons, the proposed adjustments to the Company's Dues & Memberships claim should be rejected.

F. CUSTOMER PAYMENT TRANSACTION COSTS

OCA's direct case included a proposal for the Company to transition to fee-free payments for residential customers and absorb those costs. OCA proposes a $930,000 increase to O&M expense to reflect this recommendation.[131]

The Commission should reject OCA's fee-free payment proposal because OCA provides no data supporting that its $930,000 adjustment reflects an accurate forecast of the cost to transition to and implement a fee-free payment structure.[132] The proposed adjustment is slightly less than the processing fees paid by customers in 2025,[133] even while OCA witness Wise acknowledges that "[i]t is also likely that eliminating payment fees will encourage more customers to adopt online payment methods."[134] Absorbing payment process fees is a managerial decision that should be made by the Company and requires

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[129] National Fuel St. No. 3-R, p. 8.
[130] National Fuel St. No. 3-R, pp. 8-9.
[131] OCA St. No. 2, p. 21.
[132] National Fuel St. No. 17-R, p. 37.
[133] *See* OCA Exhibit LMW-3.
[134] OCA St. No. 5, p. 17.

consideration of many factors, including negotiating a reasonable rate with the Company's third party vendor, performing any system changes required to implement the change, and anticipating any growth in the adoption of online payments by customers if fees are eliminated.[135]

G. DEPRECIATION EXPENSE

National Fuel's depreciation expense claim is $25.3 million.[136] The calculation of annual depreciation expense and net salvage was prepared in accordance with standard procedures long accepted by this Commission.[137] On the other hand, OCA's witness, Mr. Andrews, overlooks several important factors in developing his depreciation expense recommendation and selectively follows only certain factors in his calculations.[138]

OCA proposes a downward adjustment of $4.67 million to depreciation expense based on its proposal to recompute annual depreciation accruals using the ASL procedure.[139] As explained in the following section of this brief, OCA's proposal to change long-standing precedent regarding the use of the ELG procedure in Pennsylvania is inappropriate and will shift to future customers costs that should be charged to current customers. That change will create higher, and continually increasing, rate base in the future and will result in increased rates to customers over time compared to the continued use of the ELG procedure. Further, the ELG procedure provides a more precise calculation

[135] National Fuel St. No. 17-R, p. 38.
[136] National Fuel Exhibit A (Rebuttal Update), Sch. B-2.
[137] National Fuel St. No. 8-R, p. 2.
[138] National Fuel St. No. 8-R, p. 23.
[139] OCA St. No. 4, p. 3. The ASL procedure is also known as the Average Life Group ("ALG") procedure.

of depreciation expense, and OCA has offered no justification for a change other than to produce a short-lived reduction to rates. OCA's proposal to adopt the ASL procedure should be rejected.

1. Determination of Annual Depreciation Accruals

The unrecovered original cost of property (original cost less accrued depreciation) must be recovered over the life of the property as part of the cost of providing service. The Company uses the straight line, remaining life depreciation method, with the ELG procedure, to allocate the unrecovered original cost to the annual revenue requirement to be borne by current and future customers.[140]

In determining the service lives of National Fuel's various assets, and the resulting depreciation rates, National Fuel engages the services of Gannett Fleming and its President, Mr. John Spanos. Mr. Spanos has over 39 years of depreciation experience and has presented expert testimony before approximately 47 regulatory commissions.[141] To develop service lives, Gannett Fleming performed a service life study to establish the estimated service lives of the Company's property. Mr. Spanos described the procedure used to perform the service life studies:

> The service life studies consisted of assembling and compiling historical data from the records related to the gas utility plant of the Company; statistically analyzing such data to obtain historical trends of survivor characteristics; obtaining supplementary information from management and operating personnel concerning Company practices and plans as they relate to plant operations; and interpreting the above data to

[140] National Fuel St. No. 8-R, p. 4.
[141] National Fuel St. No. 8, p. 2.

> form judgments of service life characteristics.
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> Iowa type survivor curves were used to describe the estimated survivor characteristics of the mass property groups. Individual service lives were used for major individual units of plant, such as reservoirs and buildings housing offices and shops. The life span concept was recognized by coordinating the lives of associated plant installed in subsequent years with the probable retirement date defined by the life estimated for the major unit.[142]

No party opposes the use of the straight line remaining life method. However, OCA proposes to switch from the ELG procedure to the ASL procedure.

As Mr. Spanos correctly observed, there are a number of flaws with Mr. Andrew's depreciation calculation:

> Q. Please explain all of the factors that affect the development of a depreciation rate.
>
> A. Depreciation rates are determined on many factors or key components that each affect the depreciation rate that should be used to properly recover the full service value of all assets by account. Additionally, this should be done in a systematic and rational manner. The first two key components are the service life and net salvage percentage. The service life estimate is represented by the survivor curve. The net salvage component is typically a percentage of cost of removal minus gross salvage that are applied to the accrual rate in order to recover the full service value over the life of the asset. Pennsylvania is unique to all other states in that the net salvage component is a five year amortization of the incurred costs after the asset is retired. Thus, a deferral. Second, is the depreciation procedure and method. Procedures are ALG vs ELG and the method is either remaining life or whole life. The next component to focus on is the plant to reserve ratio at the test year dates. Finally, the age of the surviving plant at the test year dates. Each of these factors has an impact on the depreciation rate, it is not just the depreciation procedure.

[142] National Fuel St. No. 8, pp. 6-7.

> Additionally, you must consider all of these factors when comparing to other utilities within the same state as well as those in other state jurisdictions.
>
> Q. Has Mr. Andrews considered all of these factors in developing his testimony?
>
> A. Disturbingly not. He clearly ignores the special handling of the net salvage recovery deferral in Pennsylvania. He does not consider the remaining life versus whole life component nor does he consider how close the theoretical reserve to book reserve variance is, which clearly shows the recovery of many years has been fair and reasonable based on the factors in place and the expected plant investment that has taken place over the past and forecasted into the future.[143]

2. Description of ELG and ALS Procedures

National Fuel witness Spanos explained the difference between the ELG and the ASL procedures:

> For the ELG procedure, a group of property (e.g., a vintage within a property account) is subdivided into groups having equal service lives. The size of these "equal life groups" is based on the estimated survivor characteristics of the account. Depreciation can then be calculated for each equal life group based on the straight line method, meaning that an equal amount of the group's service value is recorded as depreciation expense in each year of service. The total depreciation for an account is the summation of the calculated depreciation for each equal life group. Based on the survivor curve estimate for an account, the ELG procedure mathematically estimates the life for each unit in the account, and then depreciates each unit over its expected life. The procedure is also known as the Unit Summation Procedure.
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> * * *
>
> While the ELG procedure calculates depreciation for each equal life group, the ASL (or ALG) procedure depreciates every asset within an account over the average life of the entire

143 National Fuel St. No. 8-R, pp. 22-23.

> account. Using equal life groups, rather than an average life, as the basis for depreciation provides a more precise calculation that better matches recovery with consumption of assets by depreciating assets that have shorter lives than the average over their shorter lives (and the longer-lived assets over their longer lives) as opposed to depreciating all assets over the average life for the group.[144]

The ELG procedure appropriately matches cost recovery to service consumption of the asset, thereby better ensuring that current customers are paying for the assets in use. National Fuel witness Spanos provided a simple example of the merits of the ELG procedure.[145] Assume there are two assets within a group, each costing $1,000. Further assume that Unit A will be in service for 5 years and Unit B will be in service for 15 years. There is no net salvage for these units. Under the ELG procedure, this means there are two equal life groups. The annual depreciation rate for Unit A is 20% (1/5), producing an annual accrual of $200, and the annual depreciation rate for Unit B is 6.67% (1/15), producing an annual accrual of $66.67. Thus the annual accruals for the first five years would be $266.67. At the end of year 5, Unit A is retired. Under asset accounting procedures, when Unit A is retired, its original cost of $1,000 is removed from plant in service, and the accumulated depreciation reserve is likewise reduced by $1,000. Beginning in Year 6, the original cost of Unit B of $1,000 continues in plant in service, and there remains an amount of $333.33 in the depreciation reserve ($66.67 x 5). Thus with 5 years of Unit 2's 15 year life consumed, accumulated depreciation is exactly one-third of the original cost. Annual depreciation expense for Unit 2 will continue at $66.67. Further,

[144] National Fuel St. No. 8-R, pp. 3-4.
[145] National Fuel St. No. 8-R. pp. 4-5.

net rate base beginning in Year 6 will be $666.67, and will decline each year thereafter.[146]

In contrast, using the same assumptions and employing the ASL procedure, the average service life of the units is 10 years (([5+15]/2). For the first five years, the annual depreciation amount is $200 ($2,000 x 10%), or $1,000 after 5 years. When Unit A is retired after Year 5, $1,000 is removed from both plant in service and the accumulated depreciation reserve. At the start of Year 6, Unit B remains in service with an accumulated depreciation reserve balance of $0. Therefore, for the next 10 years, $100 ($1,000 x 10%) of annual depreciation expense must be recovered under the ASL procedure, even though Unit B is 1/3 of the way through its service life.[147] Moreover, net rate base as of the beginning of Year 6 ($1,000) will be above the net rate base under the ELG procedure ($666.67).[148] As Mr. Spanos summarized, the foregoing examples demonstrate that the ELG procedure better matches the cost recovery of both units with their service lives:

> The end of year 5 provides the best illustration of the difference between the two procedures. Under the ELG procedure, Unit A is fully recovered when retired at the end of year 5; Unit B is one-third through its service life and has had one-third of its cost recovered. This contrasts with the ASL procedure, in which accumulated depreciation is $0 at the end of year 5, even though the only unit remaining in service has consumed one-third of its service life. Clearly, the ELG procedure provides a better match regarding the consumption of the service value for the two units.[149]

The same principles apply to large property groups with many units of property.

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[146] National Fuel St. No. 8-R, pp. 5-6.
[147] National Fuel St. No. 6-R, p. 5.
[148] National Fuel St. No. 6-R, p. 5.
[149] National Fuel St. No. 6-R, p. 6.

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The survivor curve developed for each property account is used to divide an account into equal life groups. Under the ELG procedure, the survivor curve determines the percentages of the property account that is in each equal life group, which allows for the calculation of the annual accrual for the entire property group.[150] In contrast, under the ASL procedure, the depreciation expense for all property in the account is calculated based on the average service life of the entire group.[151] In so doing, the ASL procedure fails to take into account the reality of dispersion of retirements in a large group.

In actual utility operations, only a small percentage of a plant account will be retired at the average service life. To demonstrate this, Mr. Spanos provided a chart of the frequency curve for the 70-R2 Iowa survivor curve. The frequency curve shows the percentage of property in this account that will be retired at each age, based on the estimated survivor curve. This percentage is also the size of each equal life group:[152]

[150] National Fuel St. No. 8-R, pp. 7-8.
[151] National Fuel St. No. 8-R, p. 8.
[152] National Fuel St. No. 8-R, p. 8.

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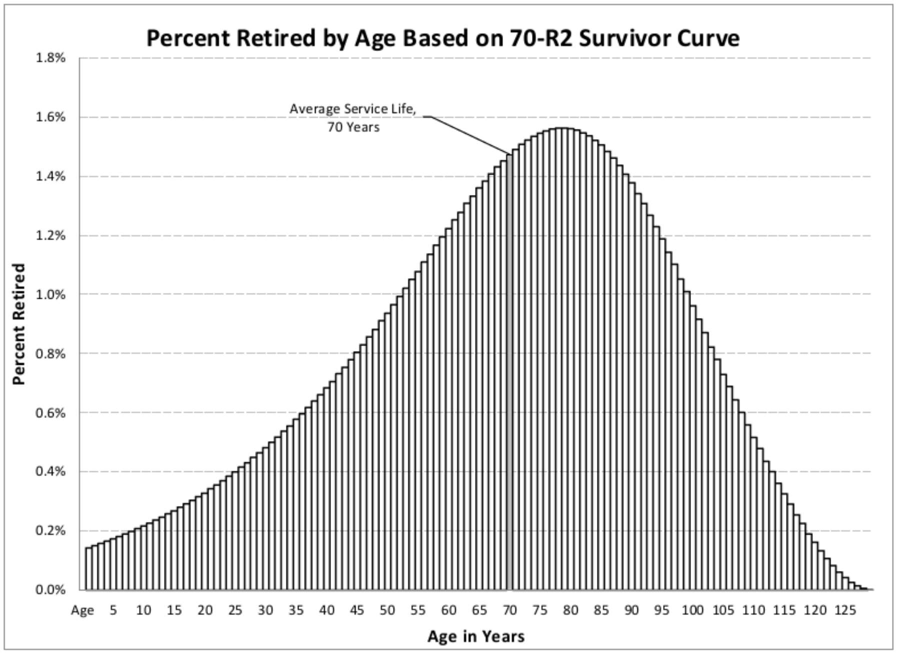


As this survivor curve shows, only a small percentage, approximately 1.47%, of the assets will have a 70 year service life. The majority of these assets will have a service life different than 70 years. The ELG procedure allocates depreciation expense in a manner that approximates the actual life of each equal life group. In contrast, the ASL depreciates all assets as if they have the same life, even though that will be wrong over 98% of the time.[153]

3. OCA's Arguments to Switch from the ELG to the ASL Procedure Are Without Merit

OCA offers various arguments in support of its proposal to change from the use of the ELG procedure to the use of the ASL procedure. These arguments are without merit and should be rejected. In fact, OCA's proposal contradicts over 40 years of PUC precedent

[153] National Fuel St. No. 8-R, p. 8.

approving the use of ELG for ratemaking purposes,[154] including most recently in 2025 when the Commission expressly rejected the very same proposal that OCA is making in this case.[155]

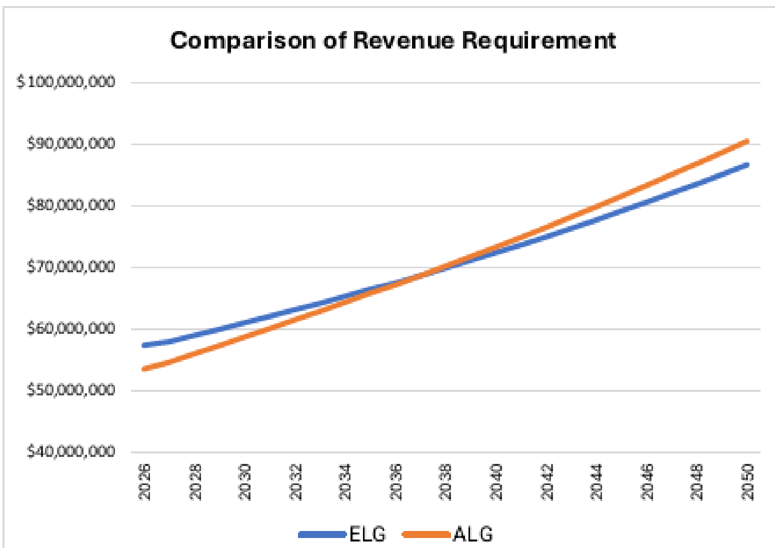
OCA witness Andrews contends that the ELG procedure causes current customers to pay more than future customers.[156] This argument is true only by comparing ELG and ASL depreciation rates at a spot in time and is harmful to customers in the longer term. As Mr. Spanos explained:

> The longstanding use of ELG depreciation rates for Pennsylvania utilities has resulted in a lower rate base than if ASL had been used. Customers today pay lower customer rates than if ASL had been used during the years since ELG's adoption. As a result, it has been in customers' interest not only to use ELG but also to use it consistently.
>
> Over time ASL will result in higher customer rates than ELG. It is correct to assume that if the Company were to switch from ELG to ASL there would be a *short*-term benefit to current customers. However, this is not because ASL is in customers' best interest in the long term, but only because current customers would benefit from both lower ASL depreciation rates and from the lower rate base that exists due to the longstanding use of ELG.
>
> Mr. Andrews' proposal is therefore not a recommendation that is in the long-term interest of lower customer rates. It is instead a short-term subsidy only to current customers who benefit from ELG depreciation rates that were paid by a previous generation of customers. The costs of a higher rate base will be paid for by future customers who will have to pay higher overall customer rates. Adopting ALG would serve as an intergenerational subsidy to current customers at the expense

154 National Fuel St. No. 8-R, p. 2.
155 *See Columbia 2025*.
156 OCA St. No. 4-SR, p. 17.

of other generations of customers.[157]

While ELG leads to higher depreciation expenses in the short term, it results in lower revenue requirements over the long term.[158] To illustrate this point, Mr. Spanos prepared a roughly 25-year forecast of plant and depreciation reserve balances for National Fuel under the two scenarios of maintaining the currently approved ELG procedure or changing to the ASL procedure. This forecast demonstrates that the change to the ASL procedure results in higher rates over time than continuation of the ELG procedure:[159]



OCA witness Andrews further argues that ELG results in intergenerational inequity for customers.[160] Mr. Andrews's unsupported argument is incorrect, as Mr. Spanos explained:

Q. DOES THE CONTINUED USE OF THE ELG PROCEDURE PRODUCE INTERGENERATIONAL

[157] National Fuel St. No. 8-R, p. 16.
[158] National Fuel St. No. 8-R, p. 17.
[159] National Fuel St. No. 8-R, p. 17.
[160] OCA St. No. 4-SR, p. 17.

> INEQUITY?
>
> A. No, quite the opposite. The very nature of the ELG procedure more precisely calculates depreciation expense for assets with like lives within a depreciable group and sums that expense to develop an annual depreciation accrual rate applicable to the depreciable group. As a result, it more appropriately matches the recovery of the asset's cost to the period of time over which it is providing service to rate payers.
>
> In contrast, there is a stronger argument that the ALG procedure results in intergenerational inequity. Because depreciation expense on shorter-lived assets occurs over the average service life, recovery for these assets is deferred. ELG produces a more equitable recovery by recovering these costs over the actual, shorter, service lives.[161]

OCA witness Andrew also contends, without factual support, that in order for a utility to properly apply ELG, it would need to revise depreciation rates every year. In response, Mr. Spanos explained that this was incorrect. Moreover, in Pennsylvania utilities are required to conduct annual depreciation updates.[162]

In support of its argument for a change in depreciation method, OCA asserts that most other jurisdictions use the ASL procedure, including National Fuel's operations in other jurisdictions.[163] However, the relevant standard should not be whether other jurisdictions use different depreciation methods. Ratemaking differences among jurisdictions are not unusual, and this Commission has never determined that it is bound by approaches used in other jurisdictions.[164] What is relevant is that ELG is the

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[161] National Fuel St. No. 8-R, pp. 20-21.
[162] National Fuel St. No. 8-R, p. 21.
[163] OCA St. No.4, pp.31-33.
[164] *See Columbia 2025.*

predominant method used in Pennsylvania for gas, electric and water utilities, and has been used consistently for over 40 years.[165]

In a related argument, OCA cites to decisions from the Indiana Utilities Regulatory Commission ("IURC") and the Kentucky Public Service Commission ("Kentucky PSC") rejecting the use of the ELG method for Duke Energy.[166] However, important facts distinguish the IURC and Kentucky PSC decisions. As Mr. Spanos explained, the IURC referenced "a changed landscape" and "a higher than average investment cycle" in support of its decision.[167] National Fuel is continuing to operate in the same investment landscape that it has for many years, and will continue to operate into the future as it maintains its ongoing investments in mains replacement.[168] Further, Duke Energy has substantial generation assets, which is not the case for National Fuel.[169]

4. Conclusion with Regard to Depreciation Expense

The use of the straight-line, remaining life depreciation method, with the ELG procedure, has been a common and long-accepted depreciation process in Pennsylvania. OCA has not offered evidence to justify a change to the ASL procedure. The Company's depreciation expense claim should be accepted.

[165] National Fuel St. No. 8-R, pp. 1-2.
[166] OCA St. No. 3, pp. 62-63.
[167] National Fuel St. No. 8-R, p. 24.
[168] National Fuel St. No. 8-R, p. 24.
[169] National Fuel St. No. 8-R, p. 24.

H. OTHER EXPENSE ADJUSTMENTS

1. Charge off Customer Accounts/Receivable ("A/R") Expense

While OCA originally challenged the Company's proposed $147,000 of Charge Off Customer A/R expense, OCA withdrew its proposed adjustment based on the Company's explanation in rebuttal that there is no cross over between this account and the Company's Uncollectible expense.[170] As such, the Company's claim should be accepted.

2. Office Employee Expenses

National Fuel claims an amount of $2 million for Office Employee Expense.[171] OCA proposes a downward adjustment of $64,000 to the expense on the basis that the Company's use of a compound annual growth rate ("CAGR") is not consistent with zero-based budgeting.[172]

The Commission should accept the Company's use of the CAGR from FY 2023 to FY 2025 of 3.67% to develop the Office Employee Expenses claim.[173] The Office Employee Expenses line item is primarily made up of software, office equipment, and employee training/travel expenses, all of which are subject to inflationary price increases.[174] As such, OCA's adjustment is unreasonable because it assumes that the prices for these line items will remain flat through the FPFTY, even while its own witness Mr. Deupree spends several pages of his testimony discussing the ongoing impacts of elevated

[170] OCA St. 2SR, p. 12.
[171] National Fuel Exh. ATF-2, Sch. 2.
[172] OCA St. 2, p. 16.
[173] National Fuel St. No. 3-R, p. 5.
[174] National Fuel St. No. 3-R, p. 5.

inflation.[175]

OCA's arguments related to zero-based budgeting should be rejected. As explained by National Fuel witness Formato, the actuals from the HTY (FY 2025) were the starting point for the O&M forecast used for both the FTY and the FPFTY, and the approved Company budget for FY 2026 was used as a reference for known and measurable adjustments that were made for the FTY and FPFTY figures.[176] The Company will develop a budget for this expense using a zero-based budgeting approach at the appropriate time. Given the nature of the expenses included in this line item, actual recent price increases (CAGR of 3.67%) were utilized to develop the forecasted expense for the FPFTY.[177] For these reasons, the Company's claim for Office Employee Expenses should be accepted.

3. Postage Expense

National Fuel claims an amount of $1.5 million for Postage Expense.[178] OCA also disagrees with the three-year CAGR utilized by the Company to project postage expense for the FPFTY and recommends a $175,000 reduction.[179]

OCA's proposed adjustment should be rejected. OCA's recommended 4.8% growth rate for this expense is tied to the U.S. Postal Service's ("USPS") planned 4.8% increase to first-class stamps scheduled for July 2026.[180] OCA's adjustment does not account for

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[175] *See* OCA St. No. 1, pp. 10-13.
[176] National Fuel St. No. 3, pp. 3-4.
[177] National Fuel St. No. 3-R, p. 5.
[178] National Fuel Exh. ATF-2, Sch. 7.
[179] OCA St. No. 2, p. 19.
[180] OCA St. No. 2, p. 19.

likely increases in January and July of 2027.[181] By July of 2026, a first-class stamp, which was $0.60 in January 2023, will be $0.82.[182] The Company's projection is based on the 3-year compound annual growth rate of 9.14% for postage rates for 1 ounce stamps between the January 2023 ($0.60) and December 2025 ($0.78). The USPS is still facing significant financial challenges and continues to warn of additional increases beyond July of 2026.[183] For these reasons, the Company's claim for Postage Expenses should be accepted.

4. Line Hit Collections

National Fuel's proposal includes a $156,000 adjustment to Other Expense - Line Hit Collections.[184] This line item accounts for the projected reimbursements the Company will receive in the FPFTY for line hit damages to its pipelines. The adjustment uses a three-year historic average to normalize the higher than normal collections received in the HTY of $449,000.[185] OCA proposes reversal of the Company's adjustment to reflect the elevated $449,000 HTY value.[186]

OCA's proposed removal of the Company's adjustment should be rejected. OCA incorrectly assumes that a period that exhibits high line hit collections, like the HTY, must also have higher repair expenses in that year such that the higher expense and higher collections act as a natural offset.[187] However, National Fuel witness Formato explained

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[181] National Fuel St. No. 3-R, p. 6.
[182] National Fuel St. No. 3-R, p. 6.
[183] National Fuel St. No. 3-R, p. 6.
[184] *See* National Fuel Exhibit ATF-2, Sch. 4.
[185] National Fuel St. No. 3-R, pp. 6-7.
[186] OCA St. No. 2, p. 17.
[187] OCA St. No. 2, pp. 16-17.

that line hit collections have significant lag, and recovery from third parties routinely crosses over fiscal years due to the time it takes to resolve, *inter alia*, financial liability related to the repair.[188] Additionally, the primary cost associated with line hits is internal Company labor, which was annualized in the Company's FPFTY projection and so does not reflect any corresponding bump related to higher line hit repair expense.[189] The Company's line hit collections totaled $232,000 in fiscal year 2023, $199,000 in fiscal year 2024, and $449,000 in fiscal year 2025 (the HTY).[190] Clearly, the HTY total is an outlier, at nearly double the 2023 total and more than double the 2024 total. The Company's proposed adjustment to Line Hit Collections appropriately normalizes the impact of an abnormal year and should be accepted.

5. Insurance Settlement Proceeds

OCA recommends that a regulatory liability related to insurance settlement proceedings, in the amount of $936,314, be refunded to ratepayers over a three-year period ($312,000 per year).[191] The Commission should reject OCA's argument that the liability, which is regularly used to shield ratepayers from environmental expenses, should be passed back to ratepayers.[192] OCA's proposal is flawed for two reasons. First, the balance in this account continues to be reduced, as the Company is actively processing environmental expenses against it. As of April 27, 2026, the balance in the account was down to

188 National Fuel St. No. 3-R, p.
189 National Fuel St. No. 3-R,
190 National Fuel Exhibit ATF-2, Sch. 4.
191 OCA St. No. 2, p. 15.
192 National Fuel St. No. 3-R, pp. 10-11.

$847,444.[193] Second, if a three-year pass-back was established, a normalizing adjustment would be needed to re-establish the O&M expense that ratepayers were shielded from because of this account. For example, in the HTY, environmental expense would have been $144,486 higher if not for this regulatory liability account.[194] The Commission should allow the Company to continue its historic practice of using these proceeds to offset new environmental expenses that would otherwise be recovered through base rates. If OCA's proposal is accepted, both the current balance of the account and the normalizing adjustment for the HTY shielded expense need to be considered.[195]

6. Uncollectible Expense

National Fuel accepts OCA's recommended 0.02% adjustment to the uncollectible factor, which results in a 1.53% uncollectible factor.[196]

VII. TAXES

A. INCOME TAXES

While OCA initially challenged the Company's Pennsylvania Corporate Income Tax rate,[197] this issue was resolved in surrebuttal when OCA witness Morgan accepted the Company's use of a 7.49% rate.[198] As such, the Company's proposed Pennsylvania Corporate Income Tax rate is no longer in dispute and should be accepted.

No party has proposed disallowance of Income Tax expense, other than as related

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[193] National Fuel St. No. 3-R, p. 11.
[194] National Fuel St. No. 3-R, p. 11.
[195] National Fuel St. No. 3-R, p. 11.
[196] OCA St. No. 2, p. 18.
[197] OCA St. No. 2SR, p. 22.
[198] OCA St. No. 2SR, p. 22.

to their respective other adjustments to rate base, expenses and return.

B. TAXES OTHER THAN INCOME TAXES

National Fuel's FPFTY claim for Taxes Other Than Income Taxes is $2.5 million.[199] The only proposed adjustments to this claim are to payroll taxes associated with I&E's proposed incentive compensation adjustments.[200] As the adjustments to labor and incentive compensation should be denied, as explained in Section VI.C of this brief, the proposed payroll tax adjustments also should be denied.

C. TAX AND AMORTIZATION ISSUES

National Fuel's amortization of the regulatory liability established for the Medicare subsidy of $921,649 was not included in the revenue requirement calculation in the Company's 2022 Rate Case. The Company proposes amortizing the full regulatory liability balance over three years, which results in a decrease to the revenue requirement of $307,216 annually over the three-year period.[201] No party objected to the Company's proposed treatment. Therefore, the Company requests that this methodology be approved.

The Company also proposed to amortize a regulatory asset for the over-refunded Tax Cuts and Jobs Act ("TCJA") surcharge of $242,147. The Company over-refunded the TCJA surcredit to customers and has this regulatory asset remaining on its books. The Company proposes amortizing the full regulatory balance over three years, which results in an increase to the revenue requirement of $80,716 annually over the three-year period.[202]

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[199] National Fuel Exhibit A (Rebuttal Update), Sch. B-5.
[200] *See* I&E St. No. 1, p. 14.
[201] National Fuel St. No. 12-R, p. 3.
[202] National Fuel St. No. 2, p. 7.

No party objected to the Company's proposed treatment. Therefore, the Company requests that this methodology be approved.

VIII. RATE OF RETURN

A. INTRODUCTION

As explained in prior sections of this brief, the Company has a long-term program to modernize its distribution system and to replace at risk pipe in its Pennsylvania service area. This program is accelerating. The Company's significant capital expenditures place pressure on cash flows and credit metrics.[203] As noted in the testimony of Company witness Hillery, Chairman DeFrank issued a Statement as to the Company's performance as follows:

> I find NFG's performance in meeting pipeline replacement targets, despite increased costs, to be commendable and worthy of recognition. Unfortunately, increased costs are now beginning to impact NFG's ability to meet replacement goals…Given these facts, approval of NFG's Petition is necessary, to ensure leak prone pipe replacement is not compromised.[204]

Accelerated pipeline investments going forward in the FPFTY must be supported by a reasonable return to continue to attract capital. The Company must continue to be able to raise the capital necessary to finance these investments. It is critical that the Commission demonstrate that Pennsylvania remains a constructive and supportive regulatory environment, through a fair rate of return. As the Commission observed in *PPL Electric 2012*:

[203] National Fuel St. No. 10, p. 43.
[204] National Fuel St. No. 1-R, p. 6.

> Furthermore, we note that the setting of the proper return on equity is even more critical in this proceeding as our Pennsylvania jurisdictional utilities implement plans to accelerate the greatly needed replacement of aging infrastructure. Attracting capital to Pennsylvania at reasonable rates to accomplish this infrastructure replacement has never been more important to PPL, its customers and the Commonwealth of Pennsylvania.[205]

The positions of OCA on equity ratio and ROE in this case are insufficient to support ongoing infrastructure investment. I&E's 9.81% ROE recommendation is also deficient.

As explained in detail below, the Company's proposed use of its actual capital structure is necessary and in accordance with precedent. The Company's ROE should be set within the range of 10.3% and 10.7%.

1. Rate of Return Standards

A public utility, whose facilities and assets have been dedicated to the service of the public, is entitled to an opportunity to earn a fair rate of return on its investment. The standards to be used by the Commission in determining what return rate is fair are well-established, having been set forth by the United States Supreme Court in *Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia ("Bluefield")*[206] over 100 years ago: Rates which are not sufficient to yield a reasonable return on the value of the property at the time it is being used to render service are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility of its property in violation of the Fourteenth Amendment.

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[205] *PPL Electric 2012* at p. 81.
[206] 262 U.S. 679, 690 (1923).

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The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.[207] These principles have been adopted and applied by the appellate courts of Pennsylvania in numerous cases.[208]

The return allowed to investors must be commensurate with the risk assumed, as the Supreme Court has stated in three landmark opinions. *Bluefield* requires that the rate of return reflect:

> . . . a return on the value of the [utility's] property which it employs for the convenience of the public equal to that generally being made at the same time on investments in other business undertakings which are attended by corresponding risks and uncertainties. . .[209]

Twenty-one years after *Bluefield*, the Supreme Court reiterated that standard in *Federal Power Commission v. Hope Natural Gas Co.*,[210] as follows:

> From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

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[207] *Bluefield*, p. 693.
[208] *See, e.g., Riverton Consolidated Water Co. v. Pa. PUC*, 186 Pa. Super. 1, 140 A.2d 114 (1958); *City of Pittsburgh v. Pa. PUC*, 182 Pa. Super. 376, 126 A.2d 777 (1956); *Lower Paxton Twp. v. Pa. PUC*, 13 Pa. Cmwlth. 135, 317 A.2d 917 (1974) ("*Lower Paxton Twp.*").
[209] *Bluefield*, p. 692.
[210] 320 U.S. 591, 603 (1944) ("*Hope*").

Later, in reaffirming *Hope*, the Supreme Court, in *Duquesne Light Co. v. Barasch*[211] observed that "[o]ne of the elements always relevant to setting the rate under *Hope* is the return investors expect given the risk of the enterprise."

The determination of a fair rate of return thus requires the review of many factors, including: (1) the earnings that are necessary to assure confidence in the financial integrity of the company and to provide a reasonable credit profile to permit access to capital markets on reasonable terms, and (2) the amount of the investment, the size and nature of the utility and, its business and financial risks, in comparison to other enterprises.[212] Moreover, the Commission's findings must be based upon substantial and competent evidence on the record before it, not upon speculation or hypothesis.[213]

2. Rate of Return Components

In determining the overall rate of return, the Commission uses the weighted average cost of capital method. This method determines the percentages of long-term debt and common equity in the Company's capital structure. It then determines the cost rate of capital for each component and weighs it by multiplying the percentages of each class of capital by the applicable cost rate. The Company's updated proposed cost of capital using a 10.5% median of the cost of equity range of 10.3 to 10.7%, is as follows:

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[211] 488 U.S. 299, 109 S. Ct. 609, 102 L. Ed. 2d 646, 661 (1989).

[212] *Pa. PUC v. Pa. Gas and Water Co. - Water Division*, 341 A.2d 239 (Pa. Cmwlth. 1975); *Lower Paxton Twp., supra*.

[213] *Ohio Bell Telephone Co. v. Pub. Util. Comm. of Ohio*, 301 U.S. 292 (1937); *United States Steel Corp. v. Pa. PUC*, 390 A.2d 849 (Pa. Cmwlth. 1978); *Octoraro Water Co. v. Pa. PUC*, 391 A.2d 1129 (Pa. Cmwlth. 1978).

Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	43.6%	5.58%	2.43%
Common Equity	56.40%	10.5%	5.92%
Total			8.35%

No party has challenged the Company's claimed cost rates for long-term debt. The issues of dispute involve the proxy group, the Company's capital structure ratio, and cost rate of common equity.

3. Proxy Group

In evaluating the capital structure and determining the required ROE, it is important to develop a group of companies that is both publicly traded and comparable to the Company. Data for the "proxy group" provides market information particularly for investors' required ROE. National Fuel witness Nowak explained how he developed the proxy group.[214] OCA witness Reno has accepted Mr. Nowak's Proxy Group, including Spire, Inc. ("Spire").[215] I&E witness Breuning proposes to remove Spire and Southwest Gas and add Chesapeake Utilities.[216] Mr. Bruening excludes Spire on the basis that it is in a transaction. Both Mr. Nowak and Ms. Reno observe that Spire's market data are stable and should be included. I&E witness Bruening objects to Southwest Gas because it has 48.42% revenues from regulatory activities and does not surpass his 50% cut off.[217] Mr. Nowak explained the reasons for maintaining the full proxy group, including Southwest

[214] National Fuel St. No. 10, pp. 23-27.
[215] OCA St. 3, p. 28.
[216] I&E St. No. 2, pp. 12-14.
[217] I&E St. No. 2, p. 12.

Gas.[218] As Mr. Nowak stated, percentage of net operating income is more representative of the risks faced by National Fuel and its investors than is the than is the percentage of regulated revenue that Mr. Breuning uses to screen his proxy group. On that basis, National Fuel is similar to Southwest Gas and it is appropriate to include Southwest Gas in the proxy group.[219] Using this Mr. Nowak's proxy group should be accepted. The Company notes that Mr. Breuning did not remove Spire and Southwest Gas from his list of recent natural gas authorized ROEs.[220]

B. CAPITAL STRUCTURE

Both OCA and I&E challenged the Company's capital structure. I&E proposes a slightly different capital structure of 55% equity and a 45% debt.[221] OCA proposes a hypothetical capital structure of 50% long-term debt and 50% equity.[222] OCA's and I&E's use of hypothetical capital structures instead of the Company's actual capital structure is unreasonable, contrary to precedent, and should be rejected.

1. The Company's Capital Structure

The Company's capital structure of 56.4% common equity and 43.6% long-term debt is its projected actual capital structure as of October 31, 2027, the end of the FPFTY.[223]

In support of the Company's capital structure, National Fuel witness Welch explained that the Company's common equity ratio is within the range of actual common

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[218] National Fuel St. No. 10-R, pp. 34-37.
[219] National Fuel St. No. 10-R, p. 34.
[220] I&E Exhibit No. 2, Sch. 7; Tr. 205-07.
[221] I&E St. No. 2, p 15.
[222] OCA St. No. 3, p. 6.
[223] National Fuel St. No. 10, p. 54.

equity ratios of the proxy group of gas companies used in this proceeding.[224] I&E's proxy group has a range of experienced five-year average common equity ratios for holding companies of natural gas distribution companies from 36.62% to 60.47%.[225] In *Columbia 2025*, the Commission allowed Columbia an equity ratio of 54.40%, where the equity ratio range was 35.96% to 60.16%.[226] Company witness Nowak also shows that the Company's equity ratio of 56.4 % is well within the equity ratios of the operating companies of his proxy group for 2022 to 2024.[227]

2. OCA's Hypothetical Capital Structure is Unjustified and Should be Rejected.

a. Applicable Legal Standards

The Commission has determined that a utility's actual capital structure is to be used, absent circumstances where the actual capital structure is atypical for the type of utility service being offered.[228] In determining whether the claimed capital structure is atypical, the Commission has reviewed the capital structure used by the utility to the range of capital structures employed by the barometer group of companies considered in the rate of return analysis. If a utility's capital structure is within a reasonable range of similar risk barometer group companies, the utility's capital structure should be used and not a hypothetical capital structure. For example, in *ALLTEL*, the Commission stated as follows:

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[224] National Fuel St. No. 11-R, p. 3.
[225] I&E St. No. 2, p. 16.
[226] *Columbia 2025*, pp. 209-10.
[227] National Fuel St. No. 10-R, p. 18; National Fuel Exh. JCN-10.
[228] *See Pa. PUC v. City of Lancaster – Water*, 1999 Pa. PUC Lexis 37 at *17; *Pa. PUC v. City of Bethlehem*, 84 Pa. P.U.C. 275, 304 (1995); *Carnegie National Gas Co. v. Pa. PUC*, 433 A.2d 938, 940 (Pa. Cmwlth. 1981).

> The ALJ recommended use of the Company's stand-alone capital structure since it met the following characteristics of an appropriate capital structure: (1) It was within a reasonable range of similar risk barometer group companies. (2) It reflected the Company's actual capital structure and projected near term capital structure. (3) It is consistent with the Company's apparent capital structure goal. (R.D., p. 28).
>
> We concur with the recommendation of the ALJ, particularly for the reason that the Company's actual capital structure falls within a range employed by similar risk barometer group companies, described by Mr. Shiavo as commensurate with capital ratios employed by other independent telephone operating companies.[229]

This analysis was reaffirmed by the Commission in *PPL Electric 2012*. In that case, PPL Electric proposed to use its actual capital structure. Both I&E and OCA proposed to use a hypothetical capital structure. I&E argued in favor of a hypothetical capital structure based upon a calculated industry average. OCA proposed a hypothetical capital structure that was based on an average of PPL Electric's capital structure for a recent five-year period. OCA also attempted to support its proposal by reference to the average common equity ratio of the barometer group sponsored by PPL.[230] The Commission rejected I&E's and OCA's contentions and adopted the Company's proposed capital structure, concluding:

> Absent a finding by the Commission that a utility's actual capital structure is atypical or too heavily weighted on either the debt or equity side, we would not normally exercise our discretion with regard to implementing a hypothetical capital structure. *See, Pa. PUC v. City of Lancaster – Water*, 1999 Pa. PUC Lexis 37 at *17; *Carnegie Natural Gas Co. v. Pa. PUC*, 433 A.2d 938, 940 (Pa. Cmwlth. 1981). With regard to these factors, we are persuaded by the arguments of PPL that its

[229] *Pa. PUC v. ALLTEL Pa., Inc.*, Docket Nos. R-942710 *et al*., Pa. PUC LEXIS 53, *106-107, (Order entered May 24, 1985) ("*ALLTEL*").
[230] *PPL Electric 2012*, pp. 63-65.

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> actual capital structure is not atypical, is with a range of reasonableness, and, pursuant to precedent, provides no basis to employ a hypothetical capital structure. Also, we are further swayed by PPL's assertion that it requires an equity ratio near the high end of the historic range employed by the barometer group companies to support its expanded infrastructure replacement program and its credit rating.[231]

The Commission has reaffirmed its prior decisions on capital structure in three recent decisions. In *Columbia 2021,* the Commission rejected an OCA proposal to adopt a hypothetical capital structure of 50% common equity and 50% debt, stating "we find no reason to deviate from the established Commission precedent, or to impose OCA's hypothetical capital structure on the Company."[232] The Commission adopted similar conclusions in *Aqua 2022*, *PAWC 2024,* and *Columbia 2025*.[233]

b. OCA and I&E Have Failed to Demonstrate that the Company's Proposed Capital Structure is Atypical

OCA has offered no evidence to support a conclusion that the Company's proposed capital structure is atypical, requiring the use of a hypothetical capital structure. OCA's only evidence is that the Company's equity ratio exceeds the average of the proxy group. However, as the Commission has made clear in *Columbia 2021* and the numerous other cases cited above, the average proxy group capital structure is not the standard employed to determine if a Company's actual capital structure is atypical. Rather, the standard is

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[231] *PPL Electric 2012*, p. 68.

[232] *Pa. PUC et al. v. Columbia Gas of Pa.*, Docket No. R-2020-3018835, p. 218 (Order entered Feb. 19, 2021) ("*Columbia 2021*"), p. 118.

[233] *See also Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-2021-3027385 (Order entered May 16, 2022) ("*Aqua 2022*"), pp. 138-41; *Pa. PUC v. Pennsylvania-American Water Company*, ("*PAWC 2024*") Docket No R-2023-3043189 (Order entered July 22, 2024), pp. 157-60.

whether the Company's actual capital structure is atypical, as measured by the barometer group range.

OCA's witness also asserts that a lower equity ratio will produce lower cost for the Company.[234] However, Ms. Reno does not recognize the effects of higher debt costs created by more debt at higher rates to replace the equity. Ms. Reno also contends that an above average equity ratio may be the result of the Company's parent using double leverage.[235] Double leverage references a situation where a parent raises capital by issuing debt and provides funds from the debt issuance to its subsidiary as equity. OCA witness Reno compares the parent's equity ratio in the historic test year of 53.9% parent equity to the projected equity of the Company in the FPFTY of 56.4%. This is an incorrect comparison as the projected equity ratio of the parent in the FPFTY is 62.5% as compared to the 56.4% for the Company.[236]

I&E also proposes to depart from actual equity ratio and proposes to use 55% instead of 56.14%. I&E relies on 5 year averages of equity ratios, some projections and cost savings to customers to support this hypothetical equity ratio.[237] Historic equity ratios do not properly reflect current market conditions and do not reflect the accelerated replacements planned by the Company. As to cost savings, ultimately debt costs would rise as greater financial risk is created by less equity.[238] The Company's projected capital structure of

[234] OCA St. No. 3-SR, p. 7.
[235] OCA St. 3, pp. 24-25.
[236] National Fuel St. No. 11-R p. 5.
[237] I&E St. No. 2, pp. 15-19.
[238] National Fuel St. No. 10-RJ, p. 10.

56.4% is well below the 60.16% high end of the range of equity ratios calculated for the proxy group of operating companies and is not atypical even as compared on a historic basis.[239]

OCA and I&E would have the Commission reject the evidence of typical capital structures and employ a process that would direct the use of a hypothetical capital structure any time the equity ratio exceeds the proxy group average. Such a standard would effectively mean that the Commission would adopt hypothetical capital structure ratios in many rate cases, contrary to long-established precedent. OCA would further ignore the fact, as noted by the Commission in *PPL Electric 2012*, that the need to support an extensive infrastructure replacement program further justifies an equity ratio above the "average."

There also would be significant consequences of using hypothetical equity ratios. In the immediate term, making this change would result in a substantial under recovery of its actual weighted average cost of capital because the Company would be earning the return of the current embedded debt cost of 5.58% for a substantial portion of its equity. To correct this, the utility would look for ways to reduce its equity ratio through increased leverage, which would carry additional debt service costs, or by returning capital to equity holders that is otherwise currently being recycled back into the business to fund capital expenditures (*i.e.*, retained earnings) This is an extraordinary change in the structure of how the Company finances infrastructure replacements, which is currently based on years

[239] National Fuel St. No. 10, pp. 54-55.

of precedents and practice made by the Commission to support replacements of aging pipelines. As shown on the Company's balance sheet, the vast majority of stockholders equity is retained earnings. These are earnings that are not provided to shareholders but are reinvested in the Company's facilities.[240] The ability of the Company to continue to retain earnings to finance pipeline replacements would have to be reevaluated. And, any significant increase in the debt ratio would negatively impact the Company's credit risk and is likely to raise interest rates on debt issuances and refinancings going forward.[241]

OCA has not, and cannot, show that the Company's capital structure is outside the norm for comparable gas companies. Having failed to do so, OCA impermissibly attempts to interfere in the management discretion of the Company to determine the capital structure the Company believes is necessary.[242] It is important to note that the Commission has recognized the importance of an above average equity ratio when accelerated pipeline replacement program is underway. OCA has failed to demonstrate that the Company's actual capital structure is atypical and, therefore, the use of a hypothetical capital structure is inappropriate.

3. Conclusion as to Capital Structure

The Company is acting prudently to replace aging plant to maintain reliable service and is maintaining a financial profile that will enable it to obtain the necessary financing

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[240] Book II, Question RR-01, p. 3.
[241] *See* National Fuel St. No. 10-RJ, p. 10.
[242] *Aqua 2022*, pp. 138-39 ("The use of an actual capital structure represents the Company's decision, in which it has *full discretion*, on how to capitalize its rate base" (emphasis added)).

to do so. That financial profile is within the range of capital structure ratios of the proxy groups presented in this proceeding. OCA's and I&E's hypothetical capital structures should be rejected.

C. DEBT COST RATE

There is no dispute concerning the debt cost rate to be used in determining the rate of return.

D. RETURN ON COMMON EQUITY

The Company's rate of return witness, Mr. Nowak, used three methods to determine the cost of equity. They are the Discounted Cash Flow ("DCF") model, the Capital Asset Pricing model ("CAPM") and the Bond Yield Plus Risk Premium model ("Risk Premium"). Mr. Nowak's direct testimony provides the results of these models and provided a range of 10.3% to 11.30% for a cost of equity.[243] Mr. Nowak updated the result of his models to reflect the rising cost of capital due to inflation but maintained his range of 10.3% to 11.30%.[244]

The Commission has used the DCF model as the primary model for establishing the cost of equity.[245] Use of the DCF model based upon current dividend yields and analysts 5-year projected earnings provides a strong basis for determining the cost of equity during the period that the rates set in this proceeding will be in effect. Mr. Nowak calculated a 10.65% mean DCF result based on analysts' projections of earnings.[246]

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[243] National Fuel St. No. 9, p. 4.
[244] National Fuel St. No. 9-R, pp. 12, 29.
[245] *Columbia 2025*, p. 216.
[246] National Fuel St. No. 10-R, p. 12.

I&E witness Breuning also calculated a 10.47% DCF cost of equity based upon analysts' projections.[247] Witness Breuning confirmed that he believed this DCF method was the best model for determining the ROE.[248] And, OCA witness Reno calculated a range of 10.48% to 10.61% for her constant growth DCF (EPS Growth).[249] The closeness of these results shows the clarity of results that are useful to investors and explains the Commission's reliance on this method. OCA witness Reno also relies on sustainable growth DCF approach. As explained by Company witness Nowak, Ms. Reno starts with a projected 10.35% ROE for her proxy group. This is a projected earned return. Through her retained growth adjustments, Ms. Reno converts that proposed earned return to a 9.87% to 10.03% allowed ROE.[250] It is highly unlikely that this proxy group will earn the expected return of 10.35% if the ROE is set between 9.87% and 10.3%.

The Commission has rejected the use of a sustainable growth rate DCF in determining the allowed ROE in prior cases.[251] Mr. Nowak explained other issues with using sustainable growth, including the multiple components that the analyst must determine and the erroneous assumption of the model.[252]

The Commission's long-term primary reliance on the DCF using earnings per share ("EPS") Growth has served the Commission and the Commonwealth well and should be

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[247] I&E St. No. 2, p. 32.
[248] Tr. 200-204.
[249] OCA St. No. 3, p. 49.
[250] National Fuel St. No. 10-R, p. 64.
[251] *See Columbia 2025*, pp. 219, 225; *Aqua 2022*, pp. 145, 153-55; *Pa. PUC v. Columbia Water Co.*, Docket Nos. R-2023-3040258, *et al.* (Order entered), pp. 90-91, 105.
[252] National Fuel St. No. 10-R, pp. 63-65, National Fuel St. No. 10-RJ, pp. 6-7.

continued.

In *Columbia 2025*, the Commission concluded that the CAPM is a useful tool in setting the ROE.[253]

As noted by Mr. Nowak, the CAPM can provide useful information if it is properly applied using a “projected risk free” rate and forward-looking estimates of market return.[254] Applying the CAPM with forward-looking estimates produces a ROE range 10.59 to 11.77%.[255] Mr. Nowak also noted that reasonable adjustments and inputs to the OCA witnesses’ CAPM would produce a 10.55% ROE.[256]

I&E witness Breuning also uses a CAPM model to determine the ROE. In his first calculation, he uses a risk free rate of 10-year treasury bonds and a risk premium based on the average return for the S&P for the last 100 years of 12.35% with an expected future market return estimate of 10.78% derived from a median estimated stock price for 3 to 5 years. He averages the two to develop a market return of 11.57%.[257] As National Fuel witness Nowak explained, Mr. Breuning understates the CAPM cost rate by not using 30 year bonds as the risk free rate and by using historic risk premiums. Using 30-year bonds and a risk premium based upon the projected weighted average of stocks produces a market premium of 15.23% adjusted to 12.20% to remove FERC exclusions for outlier growth rates. This conservative CAPM approach produces ROEs ranging from 10.57% to 10.61%

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[253] *Columbia 2025*, p. 226.
[254] National Fuel St. No. 10-R, p. 41.
[255] National Fuel St. No. 10-R, p. 52.
[256] National Fuel St. No. 10-R, p. 75.
[257] I&E St. No. 2, p. 35.

using 30 year bonds as the risk free rate and a projected market premium.[258]

Mr. Breuning's second CAPM using the Kroll market premium of 5.00% percent is not supported and produces an 8.85% CAPM cost rate, which is lower than any authorized ROE for a gas distribution company since at least 1980.[259]

On cross examination, Mr. Breuning expressed his continued view that the DCF using projected earnings is the best indication of the cost of equity.[260] The above changes to his CAPM conclusion demonstrate support for his DCF result.

Mr. Breuning also used the average ROEs of 9.7% in other states from 2025 through March 11, 2026 as a third component in choosing his recommended ROE.[261] Under cross examination, he admitted that he did not know how the ROEs were determined.[262] While it is reasonable to review other ROEs as a check, there are many differences in regulation of utilities in other states. In particular, the eastern and Midwest states have older facilities and require greater replacements and much of the ROE allowances reflect dated market data. It also should be noted that the *Columbia 2025* case was decided during this period. In *Columbia 2025*, the Commission determined that the cost of equity was 10.22%, but reduced it to 10.00% because of reduced regulatory lag of filing cases nearly every year.[263] The Commission arrived at a 10.22% ROE in the period where the average was 9.7%.

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[258] National Fuel St. No. 10-R, pp. 44-41, National Fuel Exh. JCN-4R, p.3.
[259] National Fuel St. No. 10-R, p. 47.
[260] Tr. 200-204.
[261] I&E St. No. 2, pp. 37-38.
[262] Tr. 207.
[263] *Columbia 2025*, pp. 235-38.

OSBA also used an average of other ROEs in different states to estimate the ROE.[264] Averages of ROEs determined in other states do not provide the bases for an ROE in Pennsylvania.

The Commission also should consider the use of the Risk Premium method in reaching a ROE. This method indicates a cost of equity of 10.44%. This model is important because of its connection of interest rates and inflation through utility bond rates and recognizes that risk premiums change inversely as interest rates change.[265]

1. OCA's Alternative ROE Should be Rejected

OCA proposes an alternative ROE of 9.06% if the Commission declines to accept its hypothetical capital structure.[266] The alternative ROE provides for the same revenue requirement reduction as would be made by adopting OCA's proposed hypothetical capital structure. As explained by Company witness Nowak, OCA's alternative ROE is not market based and a misuse of the Hamada model.[267] The Commission should not allow OCA to bypass its precedents on capital structure by reducing the ROE.

E. MANAGEMENT PERFORMANCE

The Company proposed a management efficiency adder of .25% to the ROE in its initial filing. As fully described in its testimony, the Company has demonstrated positive outcomes for ratepayers in a challenging environment.[268] However, the Company has

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[264] OSBA St. No. 1, pp. 12-13.
[265] National Fuel St. No. 10-R, pp. 19, 51, 72-26.
[266] OCA St. No. 3-SR, p. 3.
[267] National Fuel St. No. 10-R, pp. 75-76.
[268] *See, e.g.*, National Fuel St. No. 1, pp. 6-18.

withdrawn its request for the ROE adder, consistent with its other, similar initiatives that demonstrate its recognition of the affordability concerns currently impacting customers.

F. CONCLUSION AS TO RATE OF RETURN

As described above, the Company has consistently and successfully run its business in a way that is sensitive to customer affordability concerns and has further demonstrated that sensitivity through multiple initiatives adopted in this case. It is important that the Commission also support the efforts of the Company to maintain a financial profile that will enable the Company to attract capital on reasonable terms and to continue infrastructure replacement and service to its customers.[269] An ROE of 10.50% and a strong equity ratio achieves this balance.

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

The issues and positions of the Parties on how to assign the increase in this proceeding to the classes of customers and the changes in rates to collect those costs are explained in detail in the rebuttal testimony of National Fuel witness Taylor.[270]

A. ALLOCATED CLASS COST OF SERVICE STUDY

Once a revenue increase is determined there must be a process to determine how the various classes of customers rates will be increased to recover the revenue increase. A class

[269] OCA witness Reno requests that the Commission reduce the determined ROE if the Commission does not accept OCA's hypothetical capital structure. OCA St. 3, p 8. This would not be reasonable. The ROE and the Equity ratio affect the return, These components should be determined separately based on the record National Fuel St. No. 10-R, pp. 75-76.

[270] National Fuel St. No. 19-R, pp. 1-28.

cost of service study is performed to identify the allocation of preferred costs to customers by classes and current total revenues from the classes to assign the increase to the customer classes.

The primary issue in assigning costs to the customer classes is how to assign the costs of mains. The allocated cost of service study ("ACOSS") preferred by the Company assigns mains costs based on the customer demands to each class (Demand Study). OCA and I&E propose to allocate mains costs using 50% of peak demand and 50% annual throughout of gas deliveries (Peak and Avenue Study).[271]

B. REVENUE ALLOCATION

Once the costs and current revenues are assigned to the classes, a comparison is made of the degree to which each classes' revenues compare to allocated costs. The increased revenues are assigned to the classes based upon the differences of assigned costs to current revenues for each class.[272]

The Company does not agree with the allocations proposed by OCA and I&E primarily because these parties use the Peak and Average ACOSS. National Fuel witness Taylor's rebuttal explains why the Demand ACOSS properly assigns the costs of mains and should be employed to assign costs to the classes.[273]

It is also noted that OSBA submitted an alternative allocation in rebuttal testimony, which is provided in Table JBF-2-R of that testimony.[274] While the Company continues to

[271] National Fuel St. No. 19-R, p.4.
[272] National Fuel St. No. 19-R, p. 5.
[273] National Fuel St. No. 19-R, pp. 9-14.
[274] OSBA St. No. 1-R, p. 8.

support its allocation which allocates costs based upon its preferred ACOSS, and provides a midpoint among the Parties, the OSBA proposal also attempts to do so. In either case, any reduction of the allowed increase would be scaled back using the allocation percentage chosen.

National Fuel witness Taylor shows the resulting allocation proposal of the rate increase that each party proposed for each class in this proceeding:[275]

Rate Classes	National Fuel	OCA	OSBA	I&E	Average OCA, OSBA, I&E
Residential Service	78.33%	71.00%	83.13%	66.36%	**73.50%**
Small Commercial & PA Service (LE 250)	4.49%	4.24%	4.15%	4.07%	**4.15%**
Small Commercial & PA Service (GT 250)	4.60%	5.88%	4.26%	7.12%	**5.75%**
Large Comm PA Service	6.82%	10.14%	4.57%	11.18%	**8.63%**
NGV	0.11%	0.11%	0.11%	0.13%	**0.12%**
SVIS	0.22%	0.28%	0.15%	0.00%	**0.14%**
IVIS	2.88%	4.29%	1.93%	5.85%	**4.02%**
LVIS	1.34%	1.99%	0.90%	2.75%	**1.88%**
LIS	1.21%	2.08%	0.81%	2.54%	**1.81%**
Total	100.00%	100.00%	100.00%	100.00%	**100.00%**

C. RATE DESIGN

1. Summary of Proposed Rate Design

Once the amount of increase for each class is determined, rates to recover each class's assigned increase must be determined to recover the increased revenues. For most classes, customers pay a customer charge which is a fixed charge (basic service charge) every month and a volumetric charge for the amount of natural gas delivered.

2. Residential Rate Design

A study was conducted by the Company to determine the costs of connecting and

[275] National Fuel St. No. 19-R, p. 5, Table 1.

serving the customer. The Company's study for residential customers yielded a cost of $27.00 a month. The current charge is $14.00 per month and the Company proposed a $5.00 increase to $19.00 per month. Once the customer charge increase is determined, the remainder of revenue for the class is recovered through an increase in volumetric delivery rates.

OCA and I&E oppose the increase in the residential customer charge on the basis that it is derived from the Demand ACOSS and that it discourages conservation.[276] Company witness Taylor explained the cost of mains allocated by the different ACOSS studies does not include customer service costs and has no effect on the customer service cost.[277] OCA and I&E also contend that the residential customer charge should be increased only by the percent increase on rates generally to the class. Witness Taylor explained that customer service costs should be recovered as fixed costs because they do not vary by usage. The rate making process should follow costs.[278] Currently, the $14.00 customer charge recovers only about half of the $27.00 per month of customer service costs.

CAUSE-PA and PWPTF argue increasing the customer service charge will harm low use and low income customers. Witness Taylor explained that there are high use low income customers that are harmed by having fixed costs in volumetric delivery rates,

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[276] I&E St. No. 3, pp. 14-15; OCA St. No. 1, pp. 82-83. OCA recommends that, if the Commission increases the customer charge, the increase be proportional to the percentage rate increase class revenue requirement and subject to scalebacks. OCA St. No. 1, p. 79.
[277] National Fuel St. No. 19-R, pp. 23-24.
[278] National Fuel St. No. 19-R, p. 24.

placing an even greater effect on those customers, particularly in the winter months.[279]

CAUSE-PA and PWPTF also argue that higher customer service charges will discourage low income customers from conserving.[280] National Fuel witness Taylor responded that even with a $19.00 customer charge, 59% of distribution revenues would continue to be recovered through volumetric distribution rates and customers can avoid these costs and gas supply costs as well by conserving.[281]

The $19.00 residential customer charge should be approved.

3. Nonresidential Rate Design

There are no nonresidential rate design issues.

D. SCALE BACK

With regards to the rates that should be designed if the revenue increase is lower than proposed by the Company, each classes' increase should be scaled back proportionately. With regard to rate design, the proposed customer charges should be retained for each class and the remainder of the increase to each class should be assigned to the volumetric rates of that class. The Company's revenue allocation at the initial filed rate increase of $19,681,000 is provided in Table 4 of Mr. Taylor's direct testimony.[282] The proposed base service charges for each class are provided in Ms. Mann's direct testimony.[283] Proposed rates were provided at Exhibit CTM-2, which is attached to Ms.

[279] National Fuel St. No. 19-R, pp. 25-26.
[280] CAUSE-PA St. No. 1, p. 51; Task Force St. No. 1, p. 4.
[281] National Fuel St. No. 19-R, p. 27.
[282] National Fuel St. No. 19, p. 23.
[283] National Fuel St. No. 14, p. 17.

Mann's direct testimony (National Fuel St. No. 14).

E. OPEB CREDIT

Company witness Mann explains the Rider I (OPEB Surcredit) proposal. The Company has $7.12 million of OPEB surcredits to return to customers during the FPFTY. The Company proposed to return this amount to customers through a one-time $30.00 surcredit to confirmed low-income customers (approximately $1.025 million). At the request of CAUSE-PA, the Company will provide those credits to customers in the December 2026 billing period. The remainder of the funds of approximately $6.2 million will be provided under Rider I. The amounts for each class will be the same allocation used in the 2021 OPEB dockets.[284] The OPEB Rider I will offset a portion of the increase in rates approved in this proceeding during the FPFTY. It will create a step up in the base rates established in this proceeding.

F. SUMMARY AND ALTERNATIVES

The Company's proposed revenue allocation, proposed rates to recover the increase in revenues are based on the Demand ACOSS and a customer cost study. If the Commission uses a different ACOSS or a blend of the Demand and Peak and Average studies to allocate costs the allocation of the revenue increase will be changed, necessitating changes in the class rates. The OPEB Rider will offset some of the increase in distribution rates and assist low-income customers by crediting $30 to each low-income customer's account early in the 2026-2027 winter season.

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[284] National Fuel St. No. 14, pp. 13-14.

X. WEATHER NORMALIZATION ADJUSTMENT

A. INTRODUCTION

The Company was permitted in its last base rate case to establish a WNA to residential bills as a pilot. OCA and CAUSE-PA propose in this proceeding to end the WNA and I&E proposes to make changes to the WNA and continue it as a pilot. The rebuttal testimony of Company witness Taylor identifies the objections to the WNA and responds to each issue they raised.[285] The parties' proposals on the WNA will be addressed in this brief.

1. Contentions that the WNA should be Terminated

OCA and CAUSE-PA contend that the WNA is a mechanism to avoid regulatory lag.[286] As explained by Company witness Taylor, regulatory lag relates to increases in costs or investment that occur after base rates are set but are not able to be deferred or recovered until these costs are reflected in a future base rate change. In contrast, the WNA provides for charges and credits when weather deviates from the degree days used to set base rates. This is not regulatory lag. Further, the Public Utility Code specifically permits the Commission to authorize a WNA.[287]

OCA also argues that the WNA should be eliminated because it is "asymmetric" and has produced net customer charges rather than balanced surcharges and credits.[288] As Mr. Taylor explained:

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[285] National Fuel St. No. 19-R, pp. 28-41.
[286] OCA St. No. 1, p. 30; CAUSE-PA St. No. 1, pp. 55-56.
[287] 66 Pa. C.S. § 1330.
[288] *See* OCA St. No. 1, pp. 4, 27, 32, 38, 80.

> The WNA is not a "one-way surcharge mechanism." If it were, customers would not receive credits in periods when actual weather is colder than normal in a manner that produces downward WNA adjustments. The most recent example is the 2025–2026 heating season, during which customers received approximately $2.6 million in net WNA credits. Further, the mechanism operates as intended: it provides the Company an opportunity to come closer to recovering its Commission-authorized distribution revenue requirement by reducing weather-driven volatility in margin recovery, not by guaranteeing revenue or enabling over-collection, while protecting customers from paying more during colder than normal periods when gas usage increases.[289]

The WNA is symmetrical by design because it can produce either surcharges or credits, which offset lower or higher volumetric delivery charges that occur when actual weather is warmer or colder than the normal weather embedded in rates. The fact that a historical period experienced more warmer-than-normal conditions than colder-than-normal conditions, or vice-versa, does not make the mechanism asymmetric; it reflects the weather that occurred, not a one-sided feature of the mechanism. Neither the Company nor its ratepayers control those weather outcomes and the WNA ensures that neither the Company nor its ratepayers benefit or are harmed when weather-related consumption drives delivery revenues higher or lower than the base revenues authorized in this case.[290]

What the Company can do, and has done, is improve the assumptions used in the mechanism so that the normal weather benchmark better reflects recent conditions. Specifically, the Company updated the weather normalization from a 15-year average to a more current 10-year average. The expected result of using a more current normalization

[289] National Fuel St. No. 19-R, pp. 30-31.
[290] National Fuel St. No. 19-RJ, p. 10.

period is that the benchmark should better reflect recent weather conditions and, over time, support a more balanced pattern of customer surcharges and credits, depending on actual weather outcomes.[291]

2. Other Parties' Proposed Modifications of the WNA

I&E proposes to remove the month of May from the WNA. As noted by Mr. Taylor, temperatures in the Company's service territory are colder and the cold days continue longer in the year in the Company's service area as compared to other areas in the Commonwealth, including Pittsburgh where Columbia primarily operates.[292]

OCA witness Deupree proposed to exclude both the months of October and May.[293] Company witness Hilliard conducted a regression analysis to assess the "statistical significance of heating degree days on the heat load" and found that heat load was statistically significant to degree days for both October and May.[294] The proposals to remove October and May from the WNA should be rejected.

I&E also proposes to modify the WNA in several ways based upon the Commission's decision in Columbia 2025. I&E proposes to expand the deadband in which WNA does not apply from 3% to 5%.[295] As explained by Mr. Taylor, the $2.6 Million of credits the Company's customers received in the 2025-2026 winter would have been reduced if the dead band was 5% because a greater portion of the weather deviations would

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[291] National Fuel St. No. 19-RJ, pp. 10-11.
[292] National Fuel St. No. 19-R, pp. 39-41.
[293] National Fuel St. No. 19-R, pp. 39-41.
[294] National Fuel St. No. 13-R, p. 5.
[295] I&E St. No. 3, p. 6.

have been within the expanded dead band.[296] Expanding the deadband should be rejected because it will increase risk and create additional opportunity for the volatility of weather to negatively impact both ratepayers and the Company in an equal fashion.[297] Additionally, a lower deadband enhances affordability by reducing volatility and increasing predictability of monthly bills for customers.[298]

3. Effects of the WNA on Low Income Customers

CAUSE-PA raises concerns of the effects of the WNA on low-income customers. CAUSE-PA witness Deupree argues that the WNA will increase costs to low-income customers.[299] However, his argument is based on projections that temperatures will always be warmer than normal. Even if that were true, which it is not, low-income customers would pay no more than the distribution charges for normal temperatures less the dead band. In addition, the customers would have lower gas supply costs.

CAUSE-PA also expresses concerns for applying the charge under WNA to CAP bills.[300] Again, the charges and credits under the WNA will temper the CAP bills and reduce them in colder than normal weather. When temperatures are warmer than were expected in setting rates, customers pay a charge, but they are purchasing less natural gas. The mechanism is clearly symmetric. OCA's contention that the WNA is a one way surcharge mechanism is simply incorrect. In fact, in the 2025 – 2026 winter heating season

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[296] National Fuel St. No. 19-R, p. 38.
[297] National Fuel St. No. 19-RJ, p. 13.
[298] National Fuel St. No. 19-R, pp. 36, 38.
[299] CAUSE-PA St. No. 1, pp. 56-57.
[300] CAUSE-PA St. No. 1, p. 60.

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through March 2026, customers secured a net credit of $2.6 million.[301] The Commission should not terminate this potential benefit.[302]

4. Use of the 10 Year Average Degree Days in WNA

In this proceeding, the Company proposed to use the most recent ten-year average of degree days to project usage for setting base rates.[303] There is no opposition to that proposal.

The Company also proposed to use the same average degree days to calculate the charges and credits under the WNA because that is how the base rates were determined.

CAUSE-PA witness Geller contends that a new 10-year average of degree days should be used each year in the WNA.[304] The problem with this proposal is that the purpose of the WNA is to adjust for the differences between degree days used for setting rates and actual degree days with symmetrical adjustments based on actual temperatures. That cannot be accomplished if the starting target of degree days moves up and down and base rates are also not changed.[305] Accordingly, this CAUSE-PA adjustment should be rejected.

5. Proposal to Add Weather Stations to the WNA

OCA witness Deupree argues in surrebuttal that the Commission should use more weather stations in the WNA.[306]

Company witness Hilliard explained in rejoinder that use of more weather stations

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[301] National Fuel St. No. 19-R, p. 30.
[302] National Fuel St. No. 19-R, pp. 37-38.
[303] National Fuel St. No. 13, p. 7; National Fuel St. No. 19, pp. 25-26.
[304] CAUSE-PA St. No. 1, pp. 58, 59.
[305] National Fuel St. No. 19-R, pp. 40-41.
[306] OCA St. No. 1-SR, p. 11.

in the WNA without changing the weather data for the Company's demand forecast removes the connection of the WNA to the forecast used to set base rates.[307]

In addition, Ms. Hilliard demonstrated that the weather stations proposed to be added are not indicative of weather in the Company's service area. One of the additional stations proposed is Pittsburgh, which is not in the Company's service territory and has significantly lower degree days than the stations in the Company's territory. The Bradford station has significantly more degrees than Erie but only represents 2.7% of the Company's customers. Dubois also has higher degree days than Erie but represents only 5.6% customers. Together, Dubois and Bradford represent only 16,000 customers. In addition, these stations have spotty data reliability.[308]

OCA witness Deupree's proposal should be rejected.

6. Term of the WNA

The Company proposed in this proceeding that the WNA should be continued on a permanent basis because it serves the Company and its customers well. If the Commission decides to continue the WNA on pilot basis, the Company requests that the term be extended to the end of its next base rate case. As noted previously, it is necessary for the WNA to be linked to the degree days embedded in base rates.

XI. ENERGY EFFICIENCY PILOT

1. Pilot Overview

National Fuel proposes implementing a residential Energy Efficiency Pilot over a

[307] National Fuel St. No. 13-RJ, pp. 2-3.
[308] National Fuel St. No. 13-RJ, p. 4.

five-year period beginning in October 2026. This targeted program will provide rebates for residential customers to encourage the installation of high-efficiency natural gas appliances and includes the following measures: (1) space heating rebates for high-efficiency furnaces and boilers; (2) incentives for upgrading to high-efficiency water heaters, including tankless models; and (3) incentives for ENERGY STAR® certified natural gas clothes dryers.[309]

The many benefits of the EE Pilot are discussed in the direct testimony of National Fuel witness Solomon.[310] These benefits include: (1) access to a broader range of energy-efficient, low-emission natural gas solutions; (2) enhanced competitiveness with alternative energy sources; (3) reduced operating costs and improved seasonal use of gas facilities; (4) increased safety and efficiency in gas delivery; and (5) support for long-term system reliability and readiness for future energy needs.[311] The 5-year budget for the pilot is approximately $3.5 million (approximately $700,000 annually).[312] National Fuel will recover all reasonable and prudently incurred costs directly associated with program administration, marketing, customer rebates, and evaluation activities costs of the EE Pilot through a dedicated rider applied to all residential customers.[313] The rider will be reconciled annually to ensure accurate cost recovery and compliance with approved budgets.[314]

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[309] National Fuel St. No. 18, p. 5.
[310] *See* National Fuel St. No. 18, pp. 9-18.
[311] National Fuel St. No. 18, p. 18.
[312] National Fuel St. No. 18, p. 6.
[313] *See* National Fuel Exhibit F, proposed Rider D.
[314] National Fuel St. No. 18, p. 6.

National Fuel calculated the savings and benefits of the proposed EE Pilot using the Commission's Total Resource Cost ("TRC") developed for Energy Efficiency & Conservation Plans under Act 129.[315] Over the lifetime of the EE Pilot, the Company projects that 10,000 customers will participate, 56,255 Mcf in natural gas savings, $497,300 in energy savings, $80,000 in net savings using the TRC test, and a TRC benefit-cost ratio of 1.02.[316] No party has disputed the EE Pilot's projected benefits.

National Fuel will implement a robust Evaluation, Measurement & Verification plan to assess the performance and cost-effectiveness of the EE Pilot,[317] and will use a comprehensive stakeholder engagement and outreach strategy to ensure broad awareness, equitable access, and strong participation in the EE program across its residential customer segments.[318]

2. The Commission Should Reject The Other Parties' Recommended Expansion of the Pilot's Scope

The Commission should reject the recommendations of CAUSE-PA and OSBA to expand the scope of the proposed EE Pilot to include a dedicated low-income and a small business program, respectively.[319] These proposals would fundamentally change the design and purpose of the proposed EE Pilot, which does not have a budget to support the

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[315] National Fuel St. No. 18, p. 8; *see also 2026 Total Resource Cost (TRC) Test*, Docket No. M-2024-3048998 (Final Order entered Nov. 7, 2024).
[316] National Fuel St. No. 18, pp. 6-9. Tables showing the detailed breakdown of the EE Pilot's projected overall and annual budget, participation levels, energy savings measured in both McF and dollars, and total resource cost ("TRC") test benefits, costs, net benefits, and TRC ratio are provided on pages 6 through 9 of National Fuel St. No. 18.
[317] National Fuel St. No. 18, pp. 11-12.
[318] National Fuel St. No. 18, pp. 12-13.
[319] *See* CAUSE-PA St. No. 1, pp. 65-66; OSBA St. No. 1, p. 19.

recommended expansions. The Company's thoughtfully designed, rebate-based pilot should be approved without modification.

As explained by Company witness Solomon, CAUSE-PA's proposal to expand the EE Pilot to include a no-cost direct install low-income component in the EE Pilot is not a minor adjustment to a rebate-based pilot. It would be a fundamentally different program model with distinct eligibility rules, delivery infrastructure, contractor management requirements, and budget implications. Low-income energy efficiency programs typically have higher acquisition costs,[320] and CAUSE-PA has not provided any analysis of the costs associated with its proposal or the impact it would have on the cost effectiveness of the EE Pilot.[321] Further, while Act 129 requires EDCs to offer dedicated programming for customers at or below 150% of the FPIG, Act 129 is only applicable to Pennsylvania EDCs with over 100,000 customers.[322] An NGDC with a voluntary EE&C plan is not subject to this requirement, as recently confirmed by the Commission.[323]

The EE Pilot will have no income restrictions and all residential customers will be

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[320] *See* Phase V Final Implementation Order, p. 69, discussing the low-income carve out for Act 129 energy efficiency plans ("Because of the higher acquisition costs of low-income programs, to increase the budget share as the Low Income Advocates, DEP and other stakeholders recommend, could limit an EDC's ability to develop an EE&C plan with a well-reasoned and balanced set of measures tailored to usage and savings potential for each customer class.").

[321] *See, e.g.*, CAUSE-PA St. 1, pp. 61-68.

[322] *Id.*, p. 14.

[323] *See Columbia 2025*, p. 377 ("Here, we recognize that Columbia's Phase II EE Plan is voluntary and that there are no statutory or regulatory requirements for an NGDC to fund specific energy measures for households at or below 150% of the Federal poverty guidelines. See contra 66 Pa.C.S. § 2806.1(b)(1)(i)(G) (pertaining to duties of EDCs). In the absence of such mandates or of any legislative intent to require voluntary EE&C plans to comply with Section 2806.1(b)(1)(i)(G) of the Code, we shall decline to do so.")

eligible to participate. CAUSE-PA's claims that the EE Pilot will be inaccessible to low-income customers is not supported by any data or analysis. Importantly, the Company's proposal includes referral-based coordination between the EE Pilot, Low Income Usage Reduction Program ("LIURP"), the Emergency Repair and Replacement Program ("ERRP"), and other assistance programs to connect eligible customers to programs with deeper, no-cost weatherization services available.[324] CAUSE-PA's proposed additional tracking and reporting requirements would go well beyond coordination and effectively convert a voluntary, pilot stage efficiency program into a comprehensive universal service redesign. Mandating detailed income screening protocols, direct installation obligations, and expansive outreach and contractor requirements at the pilot stage is not necessary to ensure effective coordination, and it exceeds the scope of the Company's proposal.[325] The Company believes its proposed referral based coordination framework strikes the appropriate balance for a pilot program: it promotes alignment with LIURP and other efficiency and weatherization efforts, maintains clear program boundaries, and preserves flexibility to evaluate results before considering whether broader structural changes are warranted in the future.[326]

OSBA supports approval of the Company's proposed residential EE Pilot but recommends expanding the pilot to include a non-residential EE program, citing the Company's experience operating a non-residential EE program in New York.[327] The

[324] National Fuel St. No. 18-R, pp. 6-7.
[325] National Fuel St. No. 18-R, p. 7.
[326] National Fuel St. No. 18-R, p. 7.
[327] National Fuel St. No. 18-R, p. 16.

Company opposes expanding the EE Pilot to include non-residential customers at this time because doing so would materially alter the scope, objectives, and evaluation framework of the pilot. The EE Pilot in this case was intentionally designed as a targeted, residential-focused pilot, allowing the Commission to evaluate program performance, customer response, and administrative execution on a manageable and well-defined scale before considering broader expansion.[328] Expanding the pilot to include non-residential customers would introduce materially different load profiles, decision-making processes, rebate structures, and participation dynamics, undermining the pilot's straightforward design by making it more difficult to draw meaningful conclusions from initial program results.[329]

OSBA's and CAUSE-PA's recommendations would materially expand the scope and cost structure of the EE Pilot. From a budgetary standpoint, the parties are functionally requesting new or expanded programs, not refinements to the EE Pilot proposal before the Commission. These proposals should be evaluated separately with their own defined scope, budgets, and supporting analyses, rather than imposed on a limited, pilot-stage program designed and funded for a narrower and clearly defined purpose.[330] The Commission can approve the residential EE Pilot as proposed without prejudicing future

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[328] National Fuel St. No. 18-R, p. 16.
[329] National Fuel St. No. 18-R, p. 16.
[330] National Fuel St. No. 18-R, p. 20.

consideration of dedicated low-income or non-residential EE programs.[331]

3. Tracking and Reporting

The Company agrees with I&E's proposed tracking and reporting recommendations and respectfully requests that the Commission adopt reasonable, annual reporting requirements that are consistent with I&E's recommendations and not duplicative of the reporting already proposed in the Company's pilot design.[332] Importantly, I&E's recommendation includes tracking and reporting "information broken down for low-income customers as well as the number of referrals made to LIURP and the number of [customer referred] to LIURP that received LIURP services as a result of participating in the EE pilot."[333] This tracking would provide the Company and stakeholders with valuable information about low-income participation in the EE Pilot.

4. Cost Recovery

The Company's proposed recovery mechanism through a residential rider applicable to all residential customers is fully consistent with Pennsylvania regulatory practice and should be approved.[334] All electric distribution companies subject to Act 129 recover the costs of their mandatory Energy Efficiency and Conservation Plans through Commission approved riders that track program costs and adjust rates accordingly. While natural gas distribution companies are not subject to Act 129, the Commission has approved the use of rider mechanisms for voluntary natural gas energy efficiency programs

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[331] National Fuel St. No. 18-R, p. 18.
[332] National Fuel St. No. 18-R, p. 11.
[333] I&E St. No. 1, p. 27.
[334] National Fuel St. No. 18-R, p. 14.

as well.[335] These riders allow program costs to be transparently tracked, periodically reviewed, and recovered separately from base rates, while preserving Commission oversight and minimizing financial risk to customers.[336]

While OCA does not oppose the proposed EE Pilot programmatically, it does oppose the Company's proposed cost-recovery method through a dedicated rider.[337] OCA asserts that the Company's proposed EE Pilot and related cost recovery mechanism allegedly fail National Regulatory Research Institute ("NRRI") evaluation criteria for approval of riders or pilot mechanisms.[338] However, NRRI guidance does not establish legal requirements, mandatory tests, or enforceable standards and so does not prohibit the Commission's approval of the pilot.[339]

The Company's proposed recovery mechanism follows a Commission-approved model by using a rider to recover pilot-related costs in a transparent and controllable manner. Consistent with Pennsylvania practice, this approach supports regulatory oversight, limits customer exposure, and ensures that recovery is aligned with actual program experience rather than embedded in base rates.[340] For these reasons, the Commission should reject OCA's NRRI-based objections and approve the EE Pilot and rider as proposed.

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[335] National Fuel St. No. 18-R, pp. 14-15. Columbia Gas of Pennsylvania, Inc. and UGI Utilities, Inc. – Gas Division recover program costs through dedicated energy efficiency riders.
[336] National Fuel St. No. 18-R, p. 15.
[337] OCA St. No. 1, p. 43.
[338] OCA St. No. 1, pp. 41-42.
[339] National Fuel St. No. 18-R, pp. 11-12.
[340] National Fuel St. No. 18-R, p. 15.

XII. UNIVERSAL SERVICE

A. CUSTOMER ASSISTANCE PROGRAM

CAUSE-PA has proposed a number of prescriptive measures that it claims will increase enrollment in the Company's CAP.[341] The Company recognizes the importance of CAP in assisting low-income customers through lower rates and debt forgiveness and National Fuel is committed to the successful implementation and growth of the program. To that end, the Company has made sincere efforts in this proceeding to: (1) fully consider and understand CAUSE-PA's proposals; (2) describe the ways in which the Company's current operations already align with CAUSE-PA's recommendations; (3) adopt those proposals that have the potential to complement and enhance the Company's ongoing efforts; and (4) commit to evaluating those proposals that would require significant system changes before agreeing to implement them.[342]

1. Income Screening

CAUSE-PA witness Geller recommends that National Fuel be required to implement a new income screening process for all non-emergency calls.[343] National Fuel has serious process, staffing, and customer service concerns with CAUSE-PA's proposal, which are described below. Given these concerns, the Company committed in rebuttal to evaluating the proposal to understand the system and staffing changes necessary for its implementation before agreeing to a new process for handling every non-emergency call

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[341] *See* CAUSE-PA St. No. 1, p. 72.
[342] *See* National Fuel St. No. 17-R, pp. 4-21.
[343] CAUSE-PA St. No. 1, p. 12.

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that comes through its customer service center.

The Company has established processes for identifying low-income customers during contacts with the Company and making regular referrals to appropriate assistance programs when a customer's reported income indicates eligibility.[344] These points of contact include asking customers for income information any time they contact the Company related to being unable to pay a bill, ask about a termination notice or payment arrangement, or request an extension for bill payment. In these instances customers are referred to Universal Service programs, including CAP.[345] The Company also systematically identifies customers as low-income when it receives LIHEAP, CRISIS, or Supplemental payments from the Department of Human Services ("DHS") for the customer.[346] For those customers that have already provided income information in the past, income information is updated as needed through conversations with the customer to assess their eligibility for a new payment arrangement, and to reverify income for continued CAP enrollment. Finally, the Company also notifies customers about available Universal Service programs through bill inserts.[347]

CAUSE-PA's proposal to require the Company to screen all customers for their income level during all non-emergency calls would significantly increase call handle time, negatively impact customer service levels, require additional call center employee training, and ultimately require the hiring of additional call center employees to account for the

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[344] National Fuel St. No. 17-R, p. 5.
[345] National Fuel St. No. 17-R, p. 5.
[346] National Fuel St. No. 17-R, p. 5.
[347] National Fuel St. No. 17-R, p. 5.

increase in call handle time.[348] Mr. Geller claims that the process would only take a few seconds of call center time because the income screening and referrals could be handled by the Company's CARES personnel.[349] However, adopting this suggestion would simply shift the administrative burden to other employees with existing duties. Mr. Geller still fails to acknowledge the additional time, resources, and systems needed to implement the proposal. National Fuel does not have an Interactive Voice Response ("IVR") system and relies on customer service personnel to handle all calls, including recording and updating customer information.[350] The Company's claim in this case includes hiring three new employees to ensure that the Company is appropriately staffed to cover its *current* CAP program and call center needs.[351]

CAUSE-PA has not provided any analysis or calculations of the additional call times, resources, or administrative efforts its recommendation would require. As such, the Company must fully evaluate how incorporating income screening on all non-emergency calls would impact call handle time, develop a process for income screening that works within its staffing and systems, and determine the required staffing levels to maintain call center performance standards.[352] The Commission recently rejected a more limited income screening proposal in UGI's USECP proceeding, finding that UGI's existing processes

[348] National Fuel St. No. 17-R, p. 6.
[349] CAUSE-PA St. No. 1-SR, pp. 6-7.
[350] National Fuel St. No. 17-R, p. 13.
[351] National Fuel St. No. 3-R, p. 3.
[352] National Fuel St. No. 17-R, p. 8.

were sufficient.[353] CAUSE-PA's more extensive proposal should also be rejected. Instead, the Commission should direct the Company to evaluate the proposal and work with its USAC to develop a feasible plan for proactive income screening and a reasonable timeline for implementation, consistent with the Company's rebuttal testimony.

2. Benchmarking

The Commission should reject CAUSE-PA witness Geller's unreasonable benchmarking proposal for CAP enrollment, which would require the Company to increase its total CAP population by 5% of its estimated low-income population each year.[354] This means the Company would have to enroll a *minimum* of 2,877 new customers into CAP each year. As of January 2026, 6,352 customers were enrolled in the Company's CAP. Mr. Geller's proposal would require the Company to increase its overall CAP enrollment from 6,352 to 9,229 in a single year, or by more than 45%. To meet this goal, the Company would also need to replace any customers that left CAP during the year, either by defaulting, moving or stopping service, or voluntarily removing themselves from the program.[355]

Mr. Geller has not provided any analysis demonstrating that his 5% benchmark is reasonable, and his claims that implementing his outreach and screening proposals could achieve his benchmarking goal are unsupported. The benchmark is improperly based on the population of estimated low-income customers in the Company's service territory, who

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[353] *See UGI Utilities Inc. – Gas Division Universal Service and Energy Conservation Plan for 2026-2030*, Docket No. M-2025-3054362 (Order entered June 4, 2026), p. 93.
[354] CAUSE-PA St. No. 1, p. 36.
[355] National Fuel St. No. 17-R, pp. 10-11.

by definition have not been confirmed as eligible for CAP. Mr. Geller's benchmark also does not align with the Commission's measurement of CAP participation rates, which tracks average monthly CAP participation (not annual enrollment) and measures the CAP participation rate against the number of confirmed low income customers in a utility's service territory.[356]

The Company is actively working to increase CAP enrollment. Highlights of these efforts include 8,000 referrals in 2025 alone, increased enrollments through processing data sharing files from DHS, and the current development of a targeted outreach campaign that includes phone calls and emails to reach customers with high balances and customers with no recorded income.[357] The Company has also moved its CAP administrative work in house rather than relying on a third-party vendor and plans to hire three additional FTEs to support its CAP program work. In January 2025, the Company launched an online application for CAP, and customers can also complete their CAP recertification online.[358] The Company is successfully leveraging the DHS data sharing program to increase enrollments and simplify recertifications and expects this success to continue. For example, between July 2025 and January 2026, the Company increased its CAP enrollment by 698 customers.[359] The success of the Company's CAP should not be measured by enrollment alone but by the ongoing efforts the Company is taking to improve the

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[356] *See, e.g., Universal Service Programs & Collections Performance, 2024 Report* (Jan. 2026), p. 56.
[357] National Fuel St. No. 17-R, p. 12.
[358] National Fuel St. No. 17-R, p. 9.
[359] National Fuel St. No. 17-R, p. 12.

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accessibility of the program, educate and connect with customers who may be eligible, and increase staffing to administer the program in house.

For these reasons, CAUSE-PA's benchmarking proposal should be rejected.

3. CAP Recertification

CAUSE-PA also proposes expanding the methods used to contact CAP customers due for recertification through outreach to customers by email, mail, and text message, allowing online recertification, providing information for how to complete recertification online, and performing additional outreach to customers who fail to recertify and are removed from CAP.[360]

The Company already implements the majority of Mr. Geller's CAP recertification recommendations by allowing online recertification (including document uploading) in both desktop and mobile formats, reaching out to customers up for recertification by email or mail depending on their stated communication preference, providing a self-addressed, stamped envelope to customers who are sent a paper recertification application, and providing information for how to recertify online.[361]

However, the Company does not currently have the technical ability to send text messages to customers, and would first need to identify, select, and incorporate a new platform for sending text messages and then identify customers that consent to communications through text. As such, the Company cannot feasibly implement this

[360] CAUSE-PA St. No. 1, pp. 31-32.
[361] National Fuel St. No. 17-R, pp. 13-14.

aspect of the proposal.[362] Mr. Geller's proposal to require the Company to continue recertification efforts after customers have been removed from CAP should also be rejected. Customers are already notified that they have been removed from CAP and the Company appropriately provides information about recertification ahead of removal.[363]

In addition, as a matter of policy the Company only emails customers who have consented to electronic communications. The Company agreed in rebuttal to increase recertification outreach to include both email and mail for customers who have consented to receive electronic communications, which appropriately balances Mr. Geller's proposal with customers' stated choice.[364]

The Company's current procedures for recertification are sufficient and largely meet Mr. Geller's proposal. As such, the Commission should not require the Company to adopt CAUSE-PA's additional recertification procedures.

4. Leveraging DHS LIHEAP Data

CAUSE-PA also recommends expanding outreach to customers who participate in the DHS data sharing program and may be eligible for CAP or CAP recertification to include contacts by email, phone, and text messages.[365] The Company's current process mails simplified applications to customers who are not enrolled in CAP, which can be returned via mail, email, or online. This process resulted in 615 successful enrollments between August 2025 and February 2026 alone. Requiring the Company to add email and

[362] National Fuel St. No. 17-R, p. 14.
[363] National Fuel St. No. 17-R, pp. 13-14.
[364] National Fuel St. No. 17-R, p. 14.
[365] CAUSE-PA St. 1, pp. 34-36.

text messaging to this process is unnecessary at this time and should be rejected.

CAUSE-PA also recommends that the Company recertify CAP customers based on the receipt of DHS data rather than their programmatic recertification date. Currently, the Company only recertifies CAP customers based on DHS data if they are already eligible for recertification. Eligible customers are automatically recertified and provided a letter stating that their recertification is complete, no further action is required. For customers that are not eligible for recertification, the Company maintains that adhering to the programmatic recertification date is appropriate because it aligns with National Fuel's Commission-approved USECP.[366]

Notwithstanding the foregoing, the Company agrees to accept CAUSE-PA's proposal in part by expanding outreach to customers who may be eligible for CAP to include a phone call to inform them of the availability of the program based on their reported income, and to recertify all CAP customers based on DHS data, regardless of their renewal date. The Company believes this strikes an appropriate balance between National Fuel's current practices and CAUSE-PA's proposal without requiring duplicative communications to customers.

5. Tracking and Reporting

In rebuttal, the Company agreed to CAUSE-PA's recommendation to track and report additional data related to CAP to its USAC, including the number of applications and recertifications, the total number of CAP accounts with arrears, the total dollar amount

[366] National Fuel St. No. 17-R, p. 17.

in debt for CAP customers, and the average amount of debt for CAP customers.[367] Given that the Company does not currently have systems in place to track and aggregate this data, the Company requests until mid-2027 to implement these changes and present the data to its USAC.[368]

However, CAUSE-PA's recommendation that the Commission audit the Company's collections and universal service programs should be rejected. In rebuttal the Company provided context for the reported data that raised CAUSE-PA's concerns, *i.e.*, CAP defaults and arrearage management. While the Company has agreed to track data for CAP customers related to accounts in arrears, total amount in debt, and average amount in debt, the Company is not required to track and report this data to the Commission.[369] Simply because the Company does not track, report, or aggregate specific data in the format sought by CAUSE-PA in discovery does not indicate that the Company is out of compliance with the Commission's regulations. This recommendation is an unreasonable escalation of a discovery issue that the Company actively worked with CAUSE-PA to resolve, providing explanations and updating responses as necessary to ensure that the Company was responsive to data requests.[370]

The Company is already subject to comprehensive oversight and routine evaluation of its Universal Service Programs and reporting through established Commission-approved

[367] National Fuel St. No. 17-R, pp. 17-18.
[368] National Fuel St. No. 17-R, pp. 17-18.
[369] National Fuel St. No. 17-R, p. 18. The Company reports this data to the Commission broken into total residential customers and confirmed low-income customers. *See* Appendix B to CAUSE-PA St. No. 1, National Fuel's Response to OCA IV-1.
[370] National Fuel St. No. 17-R, pp. 20-21.

processes, which includes independent, third-party evaluations of the Company's Universal Service Programs designed to assess program effectiveness and compliance. CAUSE-PA's calls for an additional audit would be duplicative of these processes and is unnecessary.[371]

For these reasons, CAUSE-PA's recommended audit of the Company's tracking related to collections and Universal Service programs should be rejected.

B. LOW INCOME USAGE REDUCTION PROGRAM

1. Funding

National Fuel's LIURP provides low-income customers with no-cost weatherization services. Annual funding for the Company's LIURP is set at $1.4 million.[372] Task Force witness Warabak recommends that the Company increase its LIURP funding by a percentage equal to any approved increase to residential rates approved in this proceeding.[373]

The Company's current LIURP spending is sufficient. The LIURP budget rolls forward each year, and in 2025, the Company had carryover dollars of $1,450,879.24, even after the Company saw an increase in LIURP participation that year.[374] The increased spending in 2025 was partly due to a government shutdown that redirected work from other community agencies during that period.[375] Increasing the LIURP budget is unnecessary

[371] National Fuel St. No. 17-R, pp. 18-19.
[372] I&E St. No. 1-R, p. 5.
[373] CAUSE-PA St. 1, p. 41.
[374] National Fuel St. No. 17-R, p. 23.
[375] National Fuel St. No. 17-R, p. 22.

considering the program's current funding levels and budget surplus. The Task Force's proposal to increase LIURP funding should be rejected.

2. Programmatic Changes

CAUSE-PA and the Task Force make several recommendations to substantively change the Company's LIURP that should be rejected.

First, CAUSE-PA recommends expanding LIURP eligibility to mobile homes.[376] As explained by National Fuel witness Stoops, the Company does not offer LIURP weatherization services to mobile homes due to limited opportunities for meaningful energy savings. This practice is in line with other gas utilities in Pennsylvania, including Columbia and Peoples Natural Gas Company. Mr. Geller's proposal does not consider the practical obstacles of weatherizing mobile homes, including issues with construction, the need for structural repairs, and questionable cost-effectiveness of insulation due to the limited space available.[377] The Company offers assistance to customers living in mobile homes through its ERRP, which provides the emergency repair or replacement of natural gas heating and hot water heating equipment.[378] The Commission should reject the proposal to expand LIURP eligibility for mobile homes.

Next, CAUSE-PA asks the Commission to require National Fuel to prepare a comprehensive written plan to expend its full LIURP budget and expand the availability of usage reduction services, and file the plan at the Company's USECP docket within 90 days

[376] CAUSE-PA St. No. 1, p. 43.
[377] National Fuel St. No. 17-R, p. 24.
[378] National Fuel St. No. 17-R, p. 24.

of the entry of a final order in this proceeding.[379] This proposal should be rejected because it contemplates substantive programmatic changes of the Company's Commission-approved LIURP. The Company's existing USECP process is the appropriate forum to undertake comprehensive planning for LIURP, as it provides stakeholders the opportunity to review and provide input on the proposal and necessarily addresses issues of budget, eligibility, outreach, and community need.[380] Requiring the Company to file a new plan for an existing program on CAUSE-PA's tight deadline would deprive stakeholders, who may not be a part of this proceeding, of an opportunity to provide meaningful input and would not allow the Company sufficient time to plan and design the program changes contemplated by CAUSE-PA witness Geller. This proposal should be rejected.

Third, the Task Force proposes that the Company consider reducing its consumption threshold for its LIURP program.[381] The Company is already addressing this proposal through its ongoing implementation of its Low Consumption LIURP ("LC-LIURP") pilot program, which has been extended through the duration of the Company's 2022-2026 Universal Service and Energy Conservation Plan. The goal of this program is to identify and assist households with moderate consumption (annual consumption greater than or equal to 900 Ccf but less than 1,300 Ccf) in which the residence has a similar amount of square footage equal to the identified yearly consumption. With the Company's next

[379] CAUSE-PA St. No. 1, pp. 43-44.
[380] *See Aqua 2022*, p. 178 ("As the ALJ stated, this complex issue would be better reviewed in a universal service stakeholder process that would allow the parties to review data from the current program and its associated costs through a more flexible discussion.")
[381] Task Force St. No. 1, pp. 6-7.

USECP filing, the Company will evaluate whether it is appropriate to make LC-LIURP a permanent part of its LIURP.[382] As such, the Task Force's proposal is already being addressed and no further action is required at this time.

C. NEIGHBOR FOR NEIGHBOR HARDSHIP FUND

The Company's Neighbor for Neighbor ("NFN") hardship fund is facing a budget shortfall caused by an increase in the number of grants awarded, which more than doubled in 2025 as compared to 2023 and 2024. To avoid suspending the program and address the immediate funding shortfall, the Company elected to release its 2026 annual shareholder contribution early.[383] The Company's proposed changes to NFN eligibility are designed to extend the available funds while ensuring that the customers most in need of assistance continue to receive them. Specifically, the Company proposes limiting eligibility to customers and former customers of National Fuel, making income a mandatory criterion for eligibility (meaning applicants need to meet both the income requirement and one other specified/current requirement to qualify), and providing flexibility in the grant amount based on program demand and available funding.[384] The Company's proposed modifications to the NFN eligibility requirements are reasonable and should be approved.

CAUSE-PA opposes the Company's proposed changes and recommends that the Company voluntarily double its shareholder contributions level to $184,000 annually.[385] CAUSE-PA argues that the Company should address the budget shortfall through increased

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[382] National Fuel No. 17-R, pp. 25-26.
[383] National Fuel St. No. 17-R, p. 27.
[384] National Fuel St. No. 17-R, p. 28.
[385] CAUSE-PA St. No. 1, p. 50.

fundraising. The Company currently partners with the Greater Erie Community Action Committee ("GECAC") to help raise funds for NFN, a structure that preserves the independent and charitable nature of the fund.[386] Yet, because NFN relies on voluntary contributions for funding, National Fuel cannot guarantee that fundraising alone will be sufficient. The Company maintains that its proposed modifications will allow the Company to keep the fund available while limiting it to customers who are most in need, and that the flexibility to adjust grant awards will help prevent premature depletion of the fund and avoid temporary program suspensions. CAUSE-PA witness Geller claims that doubling the shareholder contribution would bring the Company in line with other utilities' average hardship contribution levels per customers, *i.e.*, $0.69 per customer.[387] Based on the Company's residential customer base of 196,629, the proposed contribution level would actually result in a per-customer funding level of $0.94, well above the referenced benchmark.[388]

CAUSE-PA's claims that the Company's proposal should be denied because it was not included in the Company's direct case should be rejected.[389] As CAUSE-PA acknowledges, the Company notified the parties of the proposed changes in response to CAUSE-PA's own discovery request.[390] CAUSE-PA responded to the proposal in its direct and surrebuttal testimony, so cannot claim that is was not provided the opportunity to

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[386] National Fuel St. No. 17-R, pp. 30-31.
[387] CAUSE-PA St. No. 1, p. 50.
[388] National Fuel St. No. 17-R, p. 27.
[389] CAUSE-PA St. No. 1, p. 48.
[390] CAUSE-PA St. No. 1, p. 48.

review and respond to the Company's proposal.

In light of the concerns raised by CAUSE-PA and the Company's ongoing commitment to maintaining customer access to the NFN hardship fund, the Company agrees to voluntarily increase its annual shareholder contribution by $30,000 (an approximately 30% increase to $122,000 annually) and will do so retroactively, meaning the Company will contribute an additional $30,000 in 2026. This results in a funding per customer level of $0.62, which is in line with the average cited by CAUSE-PA.

XIII. <u>CUSTOMER/QUALITY OF SERVICE ISSUES</u>

A. ROOT CAUSE ANALYSIS

The Commission should reject OCA witness Wise's recommendation to require the Company to perform regular, thorough root cause analysis of customer complaints above and beyond the Company's current process.[391] OCA fails to demonstrate that the Company's existing process is insufficient to identify systemic issues.[392] The Company already routinely reviews all customer complaints for compliance with Company policies and Commission regulations and addresses the issues with all Company personnel involved. This process also identifies underlying trends and provides group refresher training. Ms. Wise has not provided any evidence that this process is inadequate or not compliant with the Commission's regulations or orders.[393] Ms. Wise purports to contrast her "proactive" root cause analysis with the Company's "reactive" process, but reviewing

[391] OCA St. No. 5, p. 5.
[392] *See* OCA St. No. 5, p. 5; OCA St. No. 5-SR, p. 9.
[393] National Fuel St. No. 17-R, p. 33.

past complaints is a necessary starting point for any meaningful evaluation.[394] Ms. Wise also ignores the Company's proactive efforts to identify trends and prevent future issues through training.[395] OCA's vague proposal should be rejected.

B. PAYMENT AGREEMENT TRACKING

The Commission should also reject OCA witness Wise's recommendation to require the Company to conduct an analysis that tracks and "evaluate[s] the extent to which payments or payment agreements prevent terminations after a notice has been issued and report this information to the parties within six months," as a condition of any rate increase ordered in this proceeding.[396]

The Company is not currently required to track or evaluate the relationship between termination notices and payment agreements in the manner recommended. As the Company explained in rebuttal, it provides extensive training for employees to offer reasonable payment agreement terms to customers and prides itself on its focus on direct customer interaction, flexibility, and early intervention for effective arrearage management.[397] The Company is able to adequately monitor and evaluate customer payment behavior and payment arrangement outcomes through its existing tracking and reporting requirements. For example, the Company's current tracking shows that Total Dollars in Debt of customers on payment arrangements rose from 38.6% in 2022, to 46.8% in 2024, demonstrating that a growing percentage of customers carrying arrears are actively

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[394] OCA St. No. 5-SR, p. 9.
[395] National Fuel St. No. 17-R, p. 33.
[396] OCA St. No. 5, pp. 13-14.
[397] National Fuel St. No. 17-R, p. 33.

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enrolled in payment arrangements.[398]

The Company agrees that payment agreements provide an important tool to the Company and customers for avoiding termination and managing arrears. However, OCA's recommendation is premised on the claim that this data is necessary to evaluate whether the Company's payment agreement options are successfully preventing service termination.[399] National Fuel disagrees, and maintains that OCA has not demonstrated how requiring the Company to track this additional data will provide meaningful insight or actionable information to the Company beyond that already gained through current tracking and reporting requirements and existing arrearage management procedures. Absent a demonstrable benefit, the Company maintains that the administrative burden of tracking, analyzing, and reporting this data does not warrant its adoption.[400]

C. CALL CENTER PERFORMANCE/CUSTOMER SERVICE METRICS

The Company's initial filing included a request for a 25 basis point management efficiency adjustment to the ROE. In responding to the Company's request, other parties discussed the Company's call center performance and other customer service metrics. The Company withdrew its request for a management efficiency adjustment in rebuttal. No party recommended any other adjustments or proposals related to the Company's call center or other customer service metrics.

[398] National Fuel St. No. 17-R, p. 35.
[399] OCA St. No. 5, p. 13.
[400] National Fuel St. No. 17-R, pp. 35-36.

XIV. MISCELLANEOUS/OTHER ISSUES

A. LTIIP AND LPP REPLACEMENTS

The Company has increased its capital expenditures for distribution and transmission plant since 2023, spending $129.5 million between 2023 to 2025 for the replacement of mains, services, and measurement and regulation stations.[401] Between 2016 and 2024, the Company eliminated 371 miles or 31% of its leak prone bare steel and wrought iron pipelines and 7,337 or 34% of its bare steel services.[402] National Fuel has an accelerated LPP replacement program that is targeting replacement of all LPP by 2039.[403] The Company's Amended LTIIP evidences the Company's plan to meet this LPP replacement goal. Under the Amended LTIIP, National Fuel will continue to increase capital spending, with a planned total spending of approximately $253.4 million over the five-year period.[404] The increased spending reflects the accelerated LPP replacement schedule, projected higher average distribution LPP replacement costs per mile, and projected higher average transmission and high-pressure steel pipeline replacement costs per diameter-inch mile.[405]

I&E raised concerns that National Fuel will not meet its 2039 LPP replacement target based on the Company's historic average replacement rate of 44.64 miles per year.[406] These concerns overlooked National Fuel's Amended LTIIP projections for an accelerated

[401] National Fuel St. No. 9, p. 3.
[402] National Fuel St. No. 9, p. 7.
[403] National Fuel St. No. 1, p. 14.
[404] National Fuel St. No. 9, p. 3.
[405] National Fuel St. No. 9, pp. 4-6; National Fuel St. No. 9-R, pp. 2-3.
[406] I&E Statement No. 4, p. 10-11.

LPP replacement rate of 57 miles per year starting in 2027. At this accelerated rate, National Fuel will meet its replacement target in 2039.[407] In surrebuttal, I&E witness Burkett acknowledged the accelerated rate but continued to claim that the Company will not meet its 2039 target because the Company's projections include replacing two miles of vintage plastic pipe per year.[408] This is incorrect. The total of bare steel and wrought iron mileage remaining at the end of 2025 was 749.91 miles. Removing the two miles of vintage plastic pipe per year from the Company's projections results in a projected replacement of 52 miles in 2026 and 55 miles each year for the 13-year period from 2027 to 2039, for a total target LPP replacement of 767 miles. This means that the Company's projections will exceed its replacement target by 17.09 miles in 2039.[409] National Fuel is committed to meeting its LPP replacement target and making necessary investments to enhance and maintain the safety and reliability of the Company's distribution system.

B. RESTORATION COSTS

I&E recommends that the Company break down replacement costs into multiple categories and track and analyze the independent costs of items such as materials, labor, restoration, and permitting to better identify and negotiate potential cost savings on a project-by-project basis.[410] The Company's current cost tracking methods already provide the insight into project costs and potential savings that I&E's recommendation contemplates and further tracking is not necessary at this time.

[407] National Fuel St. No. 9-R, pp. 2-3.
[408] I&E St. No. 4-SR, p. 2.
[409] National Fuel St. No. 9-R, p. 3, Table 1.
[410] I&E Statement No. 4, p. 14-15.

The Company actively tracks and analyzes replacement costs, including restoration costs. Most of the Company's pipeline replacement work is completed using contractor crews selected through competitively bid contracts awarded on a per project basis or by geographical region. These contracts use a unit price basis for bid items, which includes all restoration, material, labor, and equipment to complete a specific construction task. Since those costs are rolled into the unit price for each bid item, a breakdown of those costs is not available.[411] National Fuel witness Schaeffer explained how the Company tracks and analyzes the costs of bid items in light of this limitation:

> The project planning phase includes measures to reduce and control costs by gathering and reviewing as-built information for existing gas and other utilities, designing one-call and mark out of existing utilities, conducting a field review of the proposed project to determine the best method for construction, minimizing impact to environmental and other natural resources, coordinating landowner issues, and minimizing or avoiding other potential conflicts. After a bid project is complete, a post investment analysis ("PIA") is submitted by the project engineer. The PIA includes a breakdown and comparison of the estimated versus actual costs as well as a comparison of the estimated versus actual construction schedule, including an explanation for any major variances. These variances are summarized and reviewed with Engineering and Operations management on a semi-annual basis to identify potential cost savings and improvements for future project planning.[412]

In addition, National Fuel witness Scouten described the Company's active efforts to reduce restoration costs, including by participating in countywide utility coordination meetings, working directly with PennDOT and municipalities, coordinating construction

[411] National Fuel St. No. 9-R, p. 4.
[412] National Fuel St. No. 9-R, pp. 4-5.

schedules, and obtaining private rights-of-way where possible. Mr. Scouten also noted that the Company actively categorizes and tracks replacement costs on an overall and project specific basis, analyzes costs drivers, identifies efficiencies, and negotiates cost savings.[413]

Under these existing processes, the Company actively tracks and analyzes replacement and restoration costs and identifies areas for potential cost savings in future projects. As such, I&E's recommended additional tracking is not necessary at this time.

C. TARIFF RULE 8

Rule 8 of National Fuel's Tariff, titled "Access to Premises," informs customers that, as a condition of service, Company personnel must have "free access" to Company facilities on customer property to perform necessary inspections, maintenance, leak response, repair, and emergency response activities.[414] National Fuel is proposing to amend Rule 8 to clarify that "free access" means not only that Company personnel may not be denied physical access to utility facilities but also that they will not be subject to unsafe or hazardous conditions while performing their duties.[415] The amended Tariff Rule 8 language is provided in National Fuel Exhibit F and should be approved without modification.[416]

National Fuel personnel must routinely enter customer premises to inspect gas systems and appliances, which are frequently located in basements or enclosed areas. These environments can present serious health and safety risks to National Fuel

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[413] National Fuel St. No. 16-R, p. 7.
[414] National Fuel St. No. 16, p. 28.
[415] National Fuel St. No. 16, p. 29.
[416] National Fuel St. No. 16, p. 29.

personnel—including unsanitary conditions, sewage exposure, and accumulated refuse, mold, and infestations—and typically are outside the Company's control.[417] Under the Company's current procedures, when health or safety issues prevent safe access to Company- or customer-owned equipment, National Fuel requires correction of these issues before employees can enter or work on the premises. This practice protects Company employees and ensures that all work can be performed in a safe environment and in accordance with the Company's safety protocols.[418]

The proposed amendment to Rule 8 identifies for customers certain unsafe and hazardous conditions that prevent the free access to Company facilities that the tariff guarantees. Although the language is new, it is consistent with the Company's current practices. The new language defines specific, observable, and understandable safety conditions that objectively prevent free access, "including . . . the presence of aggressive or uncontrolled animals (e.g., dogs), insect or rodent infestation, the display, use, or brandishing of firearms or other weapons in a threatening or intimidating manner, presence of excrement, debris, or other rubbish, or any other circumstance that may reasonably pose a threat to the health or safety of Company employees or agents."[419] This language reduces confusion, provides greater certainty and understanding to property owners, and promotes operational efficiency by avoiding access-related delays.

CAUSE-PA recommends rejecting the Company's proposed language and imposing

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[417] National Fuel St. No. 16-R, p. 2.
[418] CAUSE-PA St. 1, Appendix B, National Fuel's response to discovery request CAUSE-PA Set 4, No. 11.
[419] National Fuel St. No. 16, p. 29; National Fuel Exh. F.

new tracking and reporting requirements for any delays or denials of service based on the presence of health and safety conditions.[420] CAUSE-PA claims that the Company's language introduces "subjectivity" that could lead to the delay or termination of service based on "moral or cultural difference[s]" when a Company employee is not actually at risk.[421] Contrary to CAUSE-PA's contentions, the Company's proposal does not introduce subjectivity; it imposes an objective standard for identifying conditions that "reasonably pose a threat to the health or safety of Company employees or agents."[422] CAUSE-PA acknowledges that the proposed language aligns with the Company's current practices but still opposes memorializing them in the tariff for fear that it could lead to unwarranted delays or terminations.[423] However, the Commission's regulations already authorize utilities to terminate service if customers refuse access to facilities or violate tariff provisions in a way that endangers a person's safety or the integrity of the distribution system.[424] The proposed language is entirely consistent with these regulations. The Company maintains that informing customers of the conditions required for free access to Company facilities will improve predictability, transparency, and safety outcomes.

For these reasons, the Company's proposed Tariff Rule 8 amendment should be approved without modification.

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[420] CAUSE-PA St. 1-SR, pp. 24-26.
[421] *See* CAUSE-PA St. No. 1, pp. 70-71.
[422] National Fuel Exh. F, Proposed Rule 8 Amendment.
[423] CAUSE-PA St. No. 1, p. 70.
[424] *See* 52 Pa. Code §§ 56.81(3) and 56.98(4).

D. METHANE DETECTOR PROGRAM

I&E witness Burkett recommends that the Company implement a pilot methane detector installation program using Smart Remote Methane Detection ("SRMD") in a geographic region and consider using Advanced Metering Infrastructure ("AMI") technology and LoRaWAN or other communication network technology for the notification methodology in the proposed pilot.[425]

While the Company agrees with Mr. Burkett that methane detection technologies may be beneficial and help mitigate risk, the Company does not agree to conduct a methane detector pilot in Pennsylvania at this time. Importantly, the Company is currently operating another methane detector pilot program in its New York division. The New York pilot is designed to evaluate the feasibility, operational requirements, costs, and potential risks of methane detector technologies.[426] In this way, the New York pilot overlaps with I&E's proposal in this proceeding. Mr. Burkett's argument that there "may" be differences between the two divisions' distribution systems justifying a second pilot is undercut by his own recommendations to base the Pennsylvania pilot on New York models.[427] Given that the New York pilot is still under way, requiring the Company to fund and administer a duplicative pilot is not necessary at this time, especially as there is no guarantee that a Pennsylvania pilot would yield materially different or additional information.[428]

The Company is also concerned about the costs required to implement I&E's

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[425] *See* I&E St. No. 4, pp. 16-26.
[426] National Fuel St. No. 16-R, p. 8.
[427] I&E St. No. 4, pp. 20-21; I&E St. No. 4-R, p. 5.
[428] National Fuel St. No. 16-R, p. 8.

proposal. As explained by Mr. Scouten, a small-scale pilot would have limited effectiveness and value, while a broader program would not be feasible considering it would require substantial investment in infrastructure, IT systems, and field hardware. Moreover, installing the recommended SMRD technology, AMI meters, or LoRaWAN communication systems would have substantial impact on Pennsylvania customers. Mr. Scouten explained that deploying these technologies would require the same capital investment as replacing more than 150 miles of main and associated services. This level of expenditure would represent a significant redirection of resources away from core system replacement and safety enhancement activities with questionable added benefits, considering the New York pilot is currently underway.[429]

I&E claims that in 2025, the Commission required UGI Utilities, Inc. – Gas Division ("UGI Gas") and Philadelphia Gas Works ("PGW") to implement methane detector pilots.[430] However, these rate cases were not fully litigated. UGI Gas and PGW agreed to terms related to methane detection in settlements that were later approved by the Commission without modification– the Commission did not independently require these utilities to implement I&E's recommended pilot.[431] In addition, the terms in the PGW settlement relate to studying and reporting the feasibility of using SRMDs, not a full

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[429] National Fuel St. No. 16-R, p. 9.
[430] National Fuel St. No. 4, pp. 18-19.
[431] *See Pa. PUC v. UGI Utilities, Inc. – Gas Division*, Docket Nos. R-2024-3052716, *et al.* (Recommended Decision issued Aug. 8, 2025), pp. 41-42, *adopted without modification by* Docket Nos. R-2024-3052716, *et al.* (Order entered Sept. 11, 2025); *Pa. PUC v. Philadelphia Gas Works*, Docket Nos. R-2025-3053112, *et al.* (Recommended Decision issued Sept. 3, 2025), p. 20 ("*PGW 2025 RD*")*adopted without modification by* Docket No. R-2025-3053112, *et al.* (Order entered Oct. 9, 2025).

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pilot.[432] If the Commission were to direct National Fuel to design and implement a methane detector pilot, National Fuel would have a right to seek recovery of those funds. National Fuel is entitled to recover in rates all expenses reasonably necessary to provide service to its customers.[433] The costs incurred as a direct result of complying with the Commission's directive to implement a methane detector pilot is a prudently incurred expense and would have to be included in rates. For these reasons, the Commission should reject I&E's proposed methane detector pilot at this time.

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[432] *See PGW 2025 RD*, p. 20.

[433] *Butler Township v. Pa. PUC,* 473 A.2d 219, 221 (Pa. Cmwlth. 1984); *T.W. Phillips Gas and Oil Co. v. Pa. PUC,* 81 Pa. Cmwlth. 205, 474 A.2d 355 (Pa. Cmwlth. 1984).

XV. CONCLUSION

For all of the foregoing reasons, National Fuel Gas Distribution Corporation respectfully requests that Administrative Law Judge Katrina L. Dunderdale and the Pennsylvania Public Utility Commission approve the rate increase and other proposals set forth in Supplement No. 294 to Tariff Gas – PA. P.U.C. No. 9.

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Dated: June 22, 2026

Counsel for National Fuel Gas Distribution Corporation

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APPENDIX A

PROPOSED FINDINGS OF FACT

1. National Fuel Gas Distribution Corporation ("National Fuel" or "Company") filed for an approximately $19.7 million total rate increase on January 28, 2026.

2. National Fuel's updated request for rate relief totaling $16.2 million is based upon data for a fully projected future test year ("FPFTY") ending October 31, 2027.[1]

3. National Fuel adjusted its requested rate increase in its main brief to reflect a 10.5% return on equity ("ROE").[2]

4. National Fuel's adjustment results in a decrease of $3.4 million, or 17%, of the initial proposal.[3]

5. The Company's proposal includes the reinstatement of an OPEB surcredit, which will refund OPEB funds totaling approximately $6.2 million to all customers during the first year new rates are in effect.[4]

6. The OPEB proposal will also provide a one-time bill credit of $30, totaling approximately $1.025 million, to approximately 34,000 CAP, Level 1, and Level 2 customers, representing more than 15% of residential accounts.[5]

7. National Fuel will distribute this credit during the December 2026 billing period.[6]

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[1] National Fuel St. No. 1, pp. 5-6.
[2] National Fuel Main Brief, p. 1.
[3] See Appendix D for the calculations in support of this adjustment.
[4] National Fuel St. No. 14, p. 14.
[5] National Fuel St. No. 14, p. 14.
[6] National Fuel St. No. 14-R, p. 2.

8. Since 2021, the Company has refunded $50 million in OPEB funds back to ratepayers, which reduced rates annually by $7.7 million.[7]

9. The Company is able to return the remaining OPEB funds to customers now because it responsibly managed OPEB costs and made prudent investments over many decades.[8]

10. National Fuel's residential heating customers have the lowest average total bills and the lowest average delivery charges of all the major NGDCs in the Commonwealth.[9]

11. National Fuel will continue to have the lowest average total bills and the lowest average delivery charges after the rate increase is granted.[10]

12. National Fuel also has the lowest rate base per customer out of the major Pennsylvania NGDCs.[11]

13. National Fuel has only increased rates three times in the past 20 years and has not filed a rate case since 2022.[12]

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[7] National Fuel St. No. 1-R, p. 14.

[8] National Fuel St. No. 1-R, p. 14. As a result of these efforts, the Company no longer requires ratepayer funding for these benefits, which has reduced revenue requirements, and has allowed the Company to return funds previously collected from ratepayers to mitigate rate increases and provide bill relief. *Id.*

[9] National Fuel St. No. 1, pp. 8-9.

[10] Even if Company's originally proposed rate increase was granted in full, the Company's rates would be the lowest in the state. National Fuel St. No. 1, pp. 11-12.

[11] National Fuel St. No. 1-R, p. 13.

[12] National Fuel St. No. 1-R, p. 13. Prior to 2022, the Company had not sought a rate increase since May 31, 2006. I&E St. No. 1, p. 7.

14. The Company's rates to customers have historically grown at, or slower, than the general rate of inflation.[13]

15. The Company's customers have benefited from this stability in their monthly energy costs.[14]

16. One of the primary drivers of the need for rate relief is National Fuel's increasing investment in rate base.[15]

17. The Company has increased its projected investment in net plant by $141 million since its last rate case through investments to enhance and maintain the safety and reliability of the Company's distribution system and replace aging infrastructure.[16]

18. The Company is a implementing an accelerated leak prone pipe ("LPP") replacement program that will allow it to replace all remaining LPP in its system by 2039.[17]

19. Another key driver of the Company's requested rate increase is operating cost inflation, with the biggest impact coming from the Company's net labor expense.[18]

20. The competitive labor market has placed upward pressure on salaried and non-union employee wages.[19]

21. Employee retention is a critical issue for the Company.[20]

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[13] National Fuel St. No. 1-R, pp. 13-14.
[14] National Fuel St. No. 1-R, pp. 13-14.
[15] National Fuel St. No. 1, p. 13.
[16] National Fuel St. No. 1, p. 14.
[17] National Fuel St. No. 9-R, pp. 2-3.
[18] National Fuel St. No. 1, pp. 15-16.
[19] National Fuel St. No. 1, pp. 15-16.
[20] National Fuel St. No. 4, p. 6.

22. Attracting and retaining qualified employees helps National Fuel provide safe, efficient and cost-effective service to ratepayers.[21]

23. National Fuel must offer competitive wages and benefits to retain employees.[22]

24. Another driver of the Company's rate case is due to the significant impact that warmer winters and extreme volatility in heating degree days ("HDDs") have had from year to year on the Company's throughput and revenues.[23]

25. The Company modified its volumetric forecasting approach to use a 10-year average of heating degree days data published by NOAA as observed at the Erie, Pennsylvania International Airport from 2015 to 2024.[24]

26. The Company is requesting Commission approval to make the Weather Normalization Adjustment ("WNA") permanent.[25]

27. The WNA moderates the bill impacts of unusually warm or cold weather, provides customers with greater stability, and aligns billed revenues more closely with the Commission-approved revenue requirement.[26]

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[21] National Fuel St. No. 4, p. 6.
[22] National Fuel St. No. 1, p. 16.
[23] National Fuel St. No. 1, p. 16.
[24] National Fuel St. No. 1, p. 17.
[25] National Fuel St. No. 1, p. 18.
[26] National Fuel St. No. 19, pp. 23-24.

28. National Fuel has proposed launching a rebate-based Energy Efficiency Pilot for residential customers to incentivize customers to purchase efficient natural gas appliances.[27]

29. The Company's updated claim for rate base reflects the projected balance at the end of the FPFTY of $571.5 million and includes plant in service, depreciation reserve, cash working capital, gas storage inventory, deferred income taxes, materials and supplies inventory, customer deposits, and customer advances.[28]

30. The Company's claim for utility plant in service is $957.2 million for the FPFTY.[29]

31. FTY and FPFTY plant additions are derived from the Company's five-year capital forecast.[30]

32. The Company's utility plant has increased since its prior rate case proceeding in 2022 due primarily to investments in system modernization and leak prone pipe replacement as authorized by the Commission through the Company's Amended LTIIP.[31]

33. No party recommended adjustments to the Company's utility plant claim.

34. The depreciation reserve is the book reserve brought forward from the book reserve approved by the Commission in National Fuel's last base rate proceeding.[32]

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[27] *See* National Fuel St. No. 18, p. 5.
[28] National Fuel Exhibit A (Rebuttal Update), Sch. C-1.
[29] *See* National Fuel Exhibit A (Rebuttal Update), Sch. C-2.
[30] National Fuel St. No. 3, p. 4.
[31] *See* National Fuel St. No. 9, pp. 3-5.
[32] National Fuel St. No. 8, p. 5.

35. The Company's depreciation reserve as of the end of the FPFTY was calculated by Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming") and was projected generally using the straight-line remaining life method, with the Equal Life Group ("ELG") procedure.[33]

36. The Company's book depreciation reserve is $320.6 million.[34]

37. The Company's current claim for accrued depreciation in this proceeding is made on the same basis as it has been for over thirty years.[35]

38. OCA proposed adjusting the Company's accrued depreciation claim based on its $4.67 million depreciation expense adjustment resulting from the OCA's proposal to change the Company's depreciation method from the ELG procedure to the Average Service Life ("ASL") procedure.[36]

39. Net plant in service is determined by subtracting the depreciation reserve from utility plant.[37]

40. If the Company's undisputed claim for utility plant and its accumulated depreciation based on the Company's ELG method are accepted, National Fuel's net plant in service is $636.7 million.[38]

41. National Fuel's claim for gas inventory is $5.7 million.[39]

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[33] National Fuel St. No. 8, pp. 4-5; National Fuel Exh. C, pp. IV-1-8.
[34] National Fuel Exhibit A (Rebuttal Update), Sch. A-1.
[35] National Fuel St. No. 8, p. 4.
[36] OCA St. No. 2, p. 22.
[37] National Fuel Exhibit A (Rebuttal Update), Sch. C-1, line 3.
[38] National Fuel Exhibit A (Rebuttal Update), Sch. C-1, line 3.
[39] National Fuel St. No. 6, p. 11; National Fuel Exhibit A (Rebuttal Update), Sch. A-1.

42. The total accumulated deferred income taxes ("ADIT") ADIT set forth in the Company's rate base calculation is $73.9 million.[40]

43. The Company's claim for customer deposits for the FPFTY is $5.2 million.[41]

44. In rebuttal, the Company updated its rate base calculation to reflect customer advances and contributions in aid of construction ("CIAC") as deductions from rate base totaling $86,000.[42]

45. This deduction includes $25,000 in CIAC and $61,000 in customer advances for construction.[43]

46. These deductions were calculated using the 13-month average balance for these accounts ending September 30, 2025, consistent with the Company's method used to develop its other FPFTY amounts.[44]

47. OCA's proposed deductions for these accounts are based on a 13-month average ending February 2026.[45]

48. National Fuel's claim for materials and supplies is $1.6 million.[46]

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[40] National Fuel St. No. 6, p. 12; National Fuel Exhibit A (Rebuttal Update), Sch. C-6.
[41] National Fuel Exhibit A (Rebuttal Update), Sch. C-7, line17.
[42] National Fuel Exhibit A (Rebuttal Update, Sch. C-8.
[43] National Fuel St. No. 6-R, p. 2.
[44] National Fuel St. No. 6-R, p. 2.
[45] *See* OCA St. No. 2, pp. 10-11.
[46] National Fuel St. No. 6, p. 11; National Fuel Exhibit A (Rebuttal Update), Sch. A-1. CWC is the capital requirement calculated between (1) the lag in the receipt of revenue for rendering service and (2) the lag in the payment of cash expenses incurred to provide such service to National Fuel's customers. National Fuel St. No. 6, pp. 6-7.

49. As updated in rebuttal, the Company's claim for cash working capital ("CWC") is $6.7 million.[47]

50. In its Main Brief the Company accepted the OCA's position that non-cash expenses should be removed from the lead-lag study when determining the final CWC allowance approved in this proceeding, in line with Commission precedent.[48]

51. I&E and OCA recommend adjustments to the CWC based on their respective recommended adjustments to O&M expenses and recommended capital structures.[49]

52. The Company's CWC claim includes prepaid expenses as a component of working capital because they represent cash outlays made in advance of the period in which the related costs are recognized in expense.[50]

53. The Company's CWC method is consistent with the methodology previously accepted by the Commission.[51]

54. In rebuttal, the Company updated its lead-lag study to remove $2,732,664 in prepaid O&M expenses from "Other Expenses" so that prepaid expenses are reflected only once in in working capital.[52]

55. In surrebuttal, OCA accepted the Company's inclusion of prepaid expenses

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[47] National Fuel Exhibit A (Rebuttal Update), Sch. C-4, line 14.

[48] *See* OCA St. 2SR, p. 8; LKM-4A-SR, p. 4, lines 2-4. For National Fuel, this means removing incentive compensation expenses from the lead-lag study; rate case expense and insurance are cash expenses for the Company.

[49] *See* I&E St. No. 1, pp. 23-24; OCA St. No. 2, p. 9; National Fuel St. No. 6-R, p. 4.

[50] National Fuel St. No. 6-R, p. 3.

[51] National Fuel St. No. 6-R, p. 3.

[52] National Fuel St. No. 6-R, p. 4; Exhibit A (Rebuttal Update), Sch. C-4, p. 2. This update does not remove prepaid expenses from CWC altogether, only from the lead-lag study.

as a component of working capital and made updates to its proposed CWC adjustments.[53]

56. OCA witness Deupree increased the amount of prepaid expenses removed from the lead-lag study to $9,455,000, which is the sum of the *entire* FPFTY O&M expenses for insurance, PUC assessments, AGA dues, and IT services.[54]

57. The prepaid amounts of these O&M expenses totals $2,732,664.[55]

58. OCA's recommended CWC adjustment does not include prepaid expenses in the final calculation and does not remove them from the lead-lag study.[56]

59. If prepaid expenses were included, which total $1,080,000, OCA's CWC adjustment to rate base would be considerably less than $1,195,000.[57]

60. OCA Exhibit LKM-4B-SR incorporates prepaid expenses consistent and recommends an alternative downward adjustment to the CWC claim of $300,000.[58]

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[53] OCA St. No. 2SR, p. 8 ("I will accept the approach used by NFG, in its rebuttal filing, which includes prepayments in rate base, but removes prepaid expenses from the lead/lag study.").

[54] *OCA St. 2SR, p. 8;* National Fuel Exhibit ATF-1 (showing the full expense amounts for the FPFTY that are used in Mr. Deupree's calculation of prepaid expenses).

[55] *See* National Fuel St. No. 6-R, p. 4 (explaining that the Company's rebuttal update to the prepaid expenses reflected in the cash working capital removes the prepaid expenses from the "Other Expenses" category so that the O&M expenses and payment days align methodologies); *compare* National Fuel Exhibit ATF-1, Sch. 1 with OCA Exhibit LKM-4B-SR, p. 4 (showing that OCA witness Deupree's adjustments to prepaid expenses are equal to the total O&M expenses for the FPFTY amount for the categories "Other Insurance," "Regulatory Assessment," and "Information Services"); and *compare* I&E Exhibit 1, Sch. 4, p. 3 with OCA Exhibit LKM-4B-SR, pp.3-4 (showing that OCA witness Deupree's adjustment to prepaid expenses for AGA Dues is simply the Company's claim for all AGA dues in the fully projected test year).

[56] OCA Exhibit LKM-4A-SR, pp. 1 and 4.

[57] National Fuel Exhibit A (Rebuttal Update), Sch. C-4, p. 5.

[58] *Compare* OCA Exhibit LKM-4A-SR, p. 1, line 4 *to* OCA Exhibit LKM-4B-SR, p. 1, line 4.

61. National Fuel's claim for operating sales and revenues in the FPFTY at present rates is $265.5 million.[59]

62. The Company's claim for base customer charge revenue in the FPFTY at present rates, inclusive of DSIC revenues, is $139.7 million.[60]

63. The Company's claim for gas supply and cost adjustment revenue in the FPFTY at present rates is $124.6 million.[61]

64. National Fuel's claim for Other Revenues of $1.3 million ,[62] includes late payment charges (or "forfeited discounts"), rent from gas property, and other gas revenues.[63]

65. OCA's proposed $12,000 adjustment to Rent From Gas Property is based on an annual growth pattern of 6.03%.[64]

66. The Company's claim for revenues from Rent From Gas Property is $100,000.[65]

67. The Company's projection is based on the most recent intercompany rent amounts of $8,258 per month, or $99,096 per year.[66]

68. The Company's claim for Forfeited Discounts is $1.1 million.[67]

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[59] National Fuel Exhibit A (Rebuttal Update), Sch. D-1, line 5.
[60] National Fuel Exhibit A (Rebuttal Update), Sch. D-1, line 1.
[61] National Fuel Exhibit A (Rebuttal Update), Sch. D-1, line 1.

[63] National Fuel Exhibit A (Rebuttal Update), Sch. D-1, line 3; National Fuel St. No. 14, p. 9.
[64] OCA St. No. 2, p. 12; OCA St. No. 2SR, pp. 5-6.
[65] National Fuel Exhibit A (Rebuttal Update), Sch. B-3, line 8.
[66] National Fuel St. No. 6, p. 11; National Fuel Exhibit A (Rebuttal Update), Sch. A-1.
[67] National Fuel Exhibit A (Rebuttal Update), Sch. B-3, line 6.

69. This claim reflects the late payment charges the Company anticipates collecting during the FPFTY at present rates.[68]

70. OCA recommends an adjustment to Forfeited Discounts to account for the increased late payment charges associated with a rate increase.[69]

71. OCA's adjustment would be calculated by applying a forfeited discount ratio of 0.503%, based on a three-year average, to the rate increase granted.[70]

72. National Fuel's claim for rate case expense is $1.03 million normalized over a three-year period.[71]

73. I&E proposes normalizing rate case expense should be normalized over a five-year period, based on the filing interval of National Fuel's last three base rate cases.[72]

74. National Fuel has used a three-year normalization period because the Company anticipates the need to file rate cases more frequently than it has in the past due to continued inflationary pressures on labor and other operating expenses, coupled with accelerated infrastructure replacement and system modernization capital investments.[73]

75. The Company's historic and forecasted spending in its current Amended LTIIP shows the higher capital expenses that have been realized in recent years as well as the Company's plan to continue to spending at accelerated levels.[74]

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[68] National Fuel St. No. 14, p. 9.
[69] OCA St. No. 2SR, pp. 4-5.
[70] *See* OCA Exhibit LKM-1A-SR, page 1; OCA Exhibit LKM-6A-SR, line 15.
[71] National Fuel St. No. 3, p. 16; National Fuel Exhibit A (Rebuttal Update), Sch. D-6.
[72] I&E St. No. 1, pp. 6-8.
[73] National Fuel St. No. 3-R, pp. 9-10.
[74] National Fuel St. No. 3-R, pp. 9-10.

76. Two of the four data points utilized by I&E in the calculation of I&E's five-year normalization proposal are from over 20 years ago and so are not indicative of the current business landscape.[75]

77. The three-year gap between 2022 and 2025 reflects the Company's current operating model.[76]

78. The Commission has reviewed and approved incentive compensation programs in numerous prior rate cases.[77]

79. I&E recommends disallowing $379,731 out of the Company's $855,587 claim for executive cash bonuses, as well as related payroll taxes totaling $22,679.[78]

80. National Fuel's executive cash bonus program includes a combination of financial performance, safety, reliability, customer service, emissions reduction, and diversity and inclusion initiatives.[79]

81. These goals are designed to incentivize Company leaders to effectively manage a business that can produce the best results for ratepayers.[80]

82. The Company must be able to access capital at reasonable costs.[81]

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[75] National Fuel St. No. 3-R, p. 9.
[76] National Fuel St. No. 3-R, p. 10.
[77] *PPL Electric 2012*, p. 26; *Pa. PUC v Aqua Pennsylvania, Inc.*, 2008 Pa. PUC LEXIS 50 (Order entered July 31, 2008) ("*Aqua 2008*"), at *20-26; *Pa. PUC v. Duquesne Light Co.*, 63 Pa. P.U.C. 337, 1987 Pa. PUC LEXIS 342 (Order dated Mar. 10, 1987); *Pa. PUC v. PPL Gas Utilities Corporation*, Docket No. R-00061398, 2007 Pa. PUC LEXIS 2 (Order entered Feb. 8, 2007); *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2008-2073938, 2008 Pa. PUC LEXIS 32 (Order dated Dec. 19, 2008).
[78] I&E St. No. 1, pp. 11-13.
[79] National Fuel St. No. 5-R, p. 3.
[80] National Fuel St. No. 5-R, p. 3.
[81] National Fuel St. No. 5-R, p. 3.

83. Goals that incentivize strong financial performance help to provide cost-effective access to capital.[82]

84. Cost-effective access to capital benefits ratepayers through a lower revenue requirement and lower rates.[83]

85. The Company's incentive compensation proposal also includes claims for $182,075 in non-executive restricted stock and $290,746 in executive restricted stock.[84]

86. Shares of restricted stock vest over three equal annual installments. [85]

87. The restricted stock awards do not rely on achieving financial goals or performance conditions.

88. The restricted stock awards are designed to help retain top talent, ensure stability within the Company's workforce, secure continued transfer of knowledge, and allow individuals to grow their expertise within the organization.[86]

89. Attracting and retaining qualified employees is critical to National Fuel's continued ability to provide safe, efficient and cost-effective service to ratepayers.[87]

90. The Company's proposal includes a claim for $957,138 in executive performance shares.[88]

91. The Company's executive performance shares have a retention element and

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[82] National Fuel St. No. 5-R, p. 3.
[83] National Fuel St. No. 5-R, p. 3.
[84] National Fuel St. No. 5-R, p. 9.
[85] National Fuel St. No. 4, p. 6.
[86] National Fuel St. No. 4, p. 6.
[87] National Fuel St. No. 4, p. 6.
[88] National Fuel St. No. 5-R, p. 10.

operate on a performance cycle of three years.[89]

92. The long-term nature and responsible goals of the performance shares benefit ratepayers.[90]

93. Without the proposed incentive compensation program, the Company would have to offer increased base salaries to attract and retain employees.[91]

94. OSBA proposes a downward adjustment to headcount of 9.67 full time employees ("FTE"), a $525,364 decrease to the overall revenue requirement, based on the difference between the projected headcount for the FPFTY and the average headcount for the twelve months ending January 31, 2026. [92]

95. The Company's proposed headcount of 450 FTEs reflects a vacancy adjustment of 9 FTEs to account for the Company's actual headcount being below the budgeted headcount in recent years.[93]

96. The Company's proposed headcount is based on the Company's actual headcount as of September 30, 2025 (436 FTEs), with 23 forecasted additions by the end of the FPFTY, for a total headcount of 459 employees before the vacancy adjustment.[94]

97. As of April 2026, the Company's headcount is 451 FTEs, which is in excess of the proposed FPFTY headcount.[95]

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[89] National Fuel St. No. 5-R, p. 5-R, p. 10.
[90] National Fuel St. No. 5-R, p. 10.
[91] National Fuel St. No. 5-R, p. 5.
[92] National Fuel St. No. 3-R, p. 2.
[93] National Fuel St. No. 3-R, p. 2.
[94] National Fuel St. No. 3-R, p. 3.
[95] National Fuel St. No. 3-R, p. 4.

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98. National Fuel claims an amount of $234,266 for Company Dues and Memberships.[96]

99. OCA and I&E propose downward adjustments to the Company's Dues and Memberships expense claim of $17,000 and $21,968, respectively.[97]

100. The Company's limited support of chambers of commerce and economic development agencies is intended to directly benefit ratepayers by promoting strong, resilient communities within its service territory.[98]

101. Economic growth helps retain and attract commercial and industrial use of natural gas, allowing fixed system costs to be spread over greater usage and helping to moderate upward pressure on rates.[99]

102. Participation in chambers of commerce and economic development agencies ensures energy infrastructure, safety, and reliability considerations are incorporated into local growth planning.[100]

103. OCA proposes a $930,000 increase to O&M expense to reflect its recommendation for the Company to transition to fee-free payments for residential customers and absorb those costs.[101]

104. The proposed adjustment is slightly less than the processing fees paid by

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[96] National Fuel Exh. ATF-1, Sch. 1.
[97] National Fuel St. No. 3-R, p. 8.
[98] National Fuel St. No. 3-R, p. 8.
[99] National Fuel St. No. 3-R, p. 8.
[100] National Fuel St. No. 3-R, p. 8.
[101] OCA St. No. 2, p. 21.

customers in 2025.[102]

105. OCA witness Wise stated that "[i]t is also likely that eliminating payment fees will encourage more customers to adopt online payment methods."[103]

106. National Fuel's depreciation expense claim is $25.3 million.[104]

107. The calculation of annual depreciation expense and net salvage was prepared in accordance with standard procedures long accepted by this Commission.[105]

108. OCA proposes a downward adjustment of $4.67 million to depreciation expense based on its proposal to recompute annual depreciation accruals using the ASL procedure.[106]

109. The Company uses the straight line, remaining life depreciation method, with the ELG procedure, to allocate the unrecovered original cost to the annual revenue requirement to be borne by current and future customers.[107]

110. In determining the service lives of National Fuel's various assets, and the resulting depreciation rates, National Fuel engages the services of Gannett Fleming and its President, Mr. John Spanos.[108]

111. Mr. Spanos has over 39 years of depreciation experience and has presented

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[102] *See* OCA Exhibit LMW-3.
[103] OCA St. No. 5, p. 17.
[104] National Fuel Exhibit A (Rebuttal Update), Sch. B-2.
[105] National Fuel St. No. 8-R, p. 2.
[106] OCA St. No. 4, p. 3. The ASL procedure is also known as the Average Life Group ("ALG") procedure.
[107] National Fuel St. No. 8-R, p. 4.
[108] National Fuel St. No. 8, p. 2.

expert testimony before approximately 47 regulatory commissions.[109]

112. To develop service lives, Gannett Fleming performed a service life study to establish the estimated service lives of the Company's property.[110]

113. For the ELG procedure, a group of property (e.g., a vintage within a property account) is subdivided into groups having equal service lives.[111]

114. The size of these "equal life groups" is based on the estimated survivor characteristics of the account.[112]

115. Depreciation can then be calculated for each equal life group based on the straight line method, meaning that an equal amount of the group's service value is recorded as depreciation expense in each year of service.[113]

116. The total depreciation for an account is the summation of the calculated depreciation for each equal life group.[114]

117. Based on the survivor curve estimate for an account, the ELG procedure mathematically estimates the life for each unit in the account, and then depreciates each unit over its expected life.[115]

118. While the ELG procedure calculates depreciation for each equal life group, the ASL (or ALG) procedure depreciates every asset within an account over the average

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[109] National Fuel St. No. 8, p. 2.
[110] National Fuel St. No. 8, pp. 6-7.
[111] National Fuel St. No. 8-R, pp. 3-4.
[112] National Fuel St. No. 8-R, pp. 3-4.
[113] National Fuel St. No. 8-R, pp. 3-4.
[114] National Fuel St. No. 8-R, pp. 3-4.
[115] National Fuel St. No. 8-R, pp. 3-4.

life of the entire account.[116]

119. Using equal life groups, rather than an average life, as the basis for depreciation provides a more precise calculation that better matches recovery with consumption of assets by depreciating assets that have shorter lives than the average over their shorter lives (and the longer-lived assets over their longer lives) as opposed to depreciating all assets over the average life for the group.[117]

120. The ELG procedure appropriately matches cost recovery to service consumption of the asset, thereby better ensuring that current customers are paying for the assets in use.[118]

121. Under the ELG procedure, the survivor curve determines the percentages of the property account that is in each equal life group, which allows for the calculation of the annual accrual for the entire property group.[119]

122. In contrast, under the ASL procedure, the depreciation expense for all property in the account is calculated based on the average service life of the entire group.[120]

123. In actual utility operations, only a small percentage of a plant account will be retired at the average service life.[121]

124. The ELG procedure allocates depreciation expense in a manner that

[116] National Fuel St. No. 8-R, pp. 3-4.
[117] National Fuel St. No. 8-R, pp. 3-4.
[118] National Fuel St. No. 8-R. pp. 4-5.
[119] National Fuel St. No. 8-R, pp. 7-8.
[120] National Fuel St. No. 8-R, p. 8.
[121] National Fuel St. No. 8-R, p. 8.

approximates the actual life of each equal life group.[122]

125. The ASL depreciates all assets as if they have the same life, even though that will be wrong over 98% of the time.[123]

126. The longstanding use of ELG depreciation rates for Pennsylvania utilities has resulted in a lower rate base than if ASL had been used.[124]

127. Customers today pay lower customer rates than if ASL had been used during the years since ELG's adoption.[125]

128. Over time ASL will result in higher customer rates than ELG.[126]

129. The costs of a higher rate base will be paid for by future customers who will have to pay higher overall customer rates.[127]

130. Adopting ALG would serve as an intergenerational subsidy to current customers at the expense of other generations of customers.[128]

131. While ELG leads to higher depreciation expenses in the short term, it results in lower revenue requirements over the long term.[129]

132. Mr. Spanos prepared a roughly 25-year forecast of plant and depreciation reserve balances for National Fuel under the two scenarios of maintaining the currently approved ELG procedure or changing to the ASL procedure. This forecast demonstrates

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[122] National Fuel St. No. 8-R, p. 8.
[123] National Fuel St. No. 8-R, p. 8.
[124] National Fuel St. No. 8-R, p. 16.
[125] National Fuel St. No. 8-R, p. 16.
[126] National Fuel St. No. 8-R, p. 16.
[127] National Fuel St. No. 8-R, p. 16.
[128] National Fuel St. No. 8-R, p. 16.
[129] National Fuel St. No. 8-R, p. 17.

that the change to the ASL procedure results in higher rates over time than continuation of the ELG procedure/[130]

133. OCA originally challenged the Company's proposed $147,000 of Charge Off Customer A/R expense but later withdrew its proposed adjustment based on the Company's explanation in rebuttal that there is no cross over between this account and the Company's Uncollectible expense.[131]

134. National Fuel claims an amount of $2 million for Office Employee Expense.[132]

135. OCA proposes a downward adjustment of $64,000 to the expense on the basis that the Company's use of a compound annual growth rate ("CAGR") is not consistent with zero-based budgeting.[133]

136. National Fuel used the CAGR from FY 2023 to FY 2025 of 3.67% to develop the Office Employee Expenses claim.[134]

137. The Office Employee Expenses line item is primarily made up of software, office equipment, and employee training/travel expenses, all of which are subject to inflationary price increases.[135]

138. As explained by National Fuel witness Formato, the actuals from the HTY (FY 2025) were the starting point for the O&M forecast used for both the FTY and the

[130] National Fuel St. No. 8-R, p. 17.
[131] OCA St. 2SR, p. 12.
[132] National Fuel Exh. ATF-2, Sch. 2.
[133] OCA St. 2, p. 16.
[134] National Fuel St. No. 3-R, p. 5.
[135] National Fuel St. No. 3-R, p. 5.

FPFTY, and the approved Company budget for FY 2026 was used as a reference for known and measurable adjustments that were made for the FTY and FPFTY figures.[136]

139. National Fuel claims an amount of $1.5 million for Postage Expense.[137]

140. OCA disagrees with the three-year CAGR utilized by the Company to project postage expense for the FPFTY and recommends a $175,000 reduction.[138]

141. OCA's recommended 4.8% growth rate for this expense is tied to the U.S. Postal Service's ("USPS") planned 4.8% increase to first-class stamps scheduled for July 2026.[139]

142. By July of 2026, a first-class stamp, which was $0.60 in January 2023, will be $0.82.[140]

143. The Company's projection is based on the 3-year compound annual growth rate of 9.14% for postage rates for 1 ounce stamps between the January 2023 ($0.60) and December 2025 ($0.78).[141]

144. The USPS is still facing significant financial challenges and continues to warn of additional increases beyond July of 2026.[142]

145. National Fuel's proposal includes a $156,000 adjustment to Other Expense - Line Hit Collections.[143]

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[136] National Fuel St. No. 3, pp. 3-4.
[137] National Fuel Exh. ATF-2, Sch. 7.
[138] OCA St. No. 2, p. 19.
[139] OCA St. No. 2, p. 19.
[140] National Fuel St. No. 3-R, p. 6.
[141] National Fuel St. No. 3-R, p. 6.
[142] National Fuel St. No. 3-R, p. 6.
[143] *See* National Fuel Exhibit ATF-2, Sch. 4.

146. The adjustment uses a three-year historic average to normalize the higher than normal collections received in the HTY of $449,000.[144]

147. OCA proposes reversal of the Company's adjustment to reflect the elevated $449,000 HTY value.[145]

148. Line hit collections have significant lag, and recovery from third parties routinely crosses over fiscal years due to the time it takes to resolve, *inter alia*, financial liability related to the repair.[146]

149. The primary cost associated with line hits is internal Company labor, which was annualized in the Company's FPFTY projection.[147]

150. The Company's line hit collections totaled $232,000 in fiscal year 2023, $199,000 in fiscal year 2024, and $449,000 in fiscal year 2025 (the HTY).[148]

151. OCA recommends that a regulatory liability related to insurance settlement proceedings, in the amount of $936,314, be refunded to ratepayers over a three-year period ($312,000 per year).[149]

152. The balance in this account continues to be reduced, as the Company is actively processing environmental expenses against it.[150]

153. As of April 27, 2026, the balance in the account was down to $847,444.[151]

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[144] National Fuel St. No. 3-R, pp. 6-7.
[145] OCA St. No. 2, p. 17.
[146] National Fuel St. No. 3-R, p.
[147] National Fuel St. No. 3-R,
[148] National Fuel Exhibit ATF-2, Sch. 4.
[149] OCA St. No. 2, p. 15.
[150] National Fuel St. No. 3-R, p. 11.
[151] National Fuel St. No. 3-R, p. 11.

154. In the HTY, environmental expense would have been $144,486 higher if not for this regulatory liability account.[152]

155. In its Main Brief National Fuel accepted OCA's recommended 0.02% adjustment to the uncollectible factor, which results in a 1.53% uncollectible factor.[153]

156. OCA initially challenged the Company's Pennsylvania Corporate Income Tax rate.[154]

157. This issue was resolved in surrebuttal when OCA witness Morgan accepted the Company's use of a 7.49% rate.[155]

158. National Fuel's FPFTY claim for Taxes Other Than Income Taxes is $2.5 million.[156]

159. The only proposed adjustments to this claim are to payroll taxes associated with I&E's proposed incentive compensation adjustments.[157]

160. National Fuel's amortization of the regulatory liability established for the Medicare subsidy of $921,649 was not included in the revenue requirement calculation in the Company's 2022 Rate Case.[158]

161. The Company proposes amortizing the full regulatory liability balance over three years, which results in a decrease to the revenue requirement of $307,216 annually

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[152] National Fuel St. No. 3-R, p. 11.
[153] OCA St. No. 2, p. 18.
[154] OCA St. No. 2SR, p. 22.
[155] OCA St. No. 2SR, p. 22.
[156] National Fuel Exhibit A (Rebuttal Update), Sch. B-5.
[157] *See* I&E St. No. 1, p. 14.
[158] National Fuel St. No. 12-R, p. 3.

over the three-year period.[159]

162. The Company also proposed to amortize a regulatory asset for the over-refunded Tax Cuts and Jobs Act ("TCJA") surcharge of $242,147.[160]

163. The Company over-refunded the TCJA surcredit to customers and has this regulatory asset remaining on its books.[161]

164. The Company proposes amortizing the full regulatory balance over three years, which results in an increase to the revenue requirement of $80,716 annually over the three-year period.[162]

165. The Company's significant capital expenditures place pressure on cash flows and credit metrics.[163]

166. The determination of a fair rate of return thus requires the review of many factors, including: (1) the earnings that are necessary to assure confidence in the financial integrity of the company and to provide a reasonable credit profile to permit access to capital markets on reasonable terms, and (2) the amount of the investment, the size and nature of the utility and, its business and financial risks, in comparison to other enterprises.[164]

167. Data for the "proxy group" provides market information particularly for

[159] National Fuel St. No. 12-R, p. 3.
[160] National Fuel St. No. 2, p. 7.
[161] National Fuel St. No. 2, p. 7.
[162] National Fuel St. No. 2, p. 7.
[163] National Fuel St. No. 10, p. 43.
[164] *Pa. PUC v. Pa. Gas and Water Co. - Water Division*, 341 A.2d 239 (Pa. Cmwlth. 1975); *Lower Paxton Twp., supra*.

investors' required ROE.[165]

168. Mr. Breuning did not remove Spire and Southwest Gas from his list of recent natural gas authorized ROEs.[166]

169. I&E proposes a slightly different capital structure of 55% equity and a 45% debt.[167]

170. OCA proposes a hypothetical capital structure of 50% long-term debt and 50% equity.[168]

171. The Company's capital structure of 56.4% common equity and 43.6% long-term debt is its projected actual capital structure as of October 31, 2027, the end of the FPFTY.[169]

172. The Company's common equity ratio is within the range of actual common equity ratios of the proxy group of gas companies used in this proceeding.[170]

173. I&E's proxy group has a range of experienced five-year average common equity ratios for holding companies of natural gas distribution companies from 36.62% to 60.47%.[171]

174. In *Columbia 2025*, the Commission allowed Columbia an equity ratio of 54.40%, where the equity ratio range was 35.96% to 60.16%.[172]

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165 National Fuel St. No. 10, pp. 23-27.
166 I&E Exhibit No. 2, Sch. 7; Tr. 205-07.
167 I&E St. No. 2, p 15.
168 OCA St. No. 3, p. 6.
169 National Fuel St. No. 10, p. 54.
170 National Fuel St. No. 11-R, p. 3.
171 I&E St. No. 2, p. 16.
172 *Columbia 2025*, pp. 209-10.

175. The Company's equity ratio of 56.4% is well within the equity ratios of the operating companies of its proxy group for 2022 to 2024.[173]

176. The projected equity ratio of the parent in the FPFTY is 62.5% as compared to the 56.4% for the Company.[174]

177. The Company's projected capital structure of 56.4% is well below the 60.16% high end of the range of equity ratios calculated for the proxy group of operating companies and is not atypical even as compared on a historic basis.[175]

178. The Company's rate of return witness, Mr. Nowak, used three methods to determine the cost of equity: the Discounted Cash Flow ("DCF") model, the Capital Asset Pricing model ("CAPM") and the Bond Yield Plus Risk Premium model ("Risk Premium").[176]

179. National Fuel witness Nowak's direct testimony provides the results of these models and provided a range of 10.3% to 11.30% for a cost of equity.[177]

180. Mr. Nowak updated the result of his models to reflect the rising cost of capital due to inflation but maintained his range of 10.3% to 11.30%.[178]

181. The Commission has used the DCF model as the primary model for establishing the cost of equity.[179]

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[173] National Fuel St. No. 10-R, p. 18; National Fuel Exh. JCN-10.
[174] National Fuel St. No. 11-R p. 5.
[175] National Fuel St. No. 10, pp. 54-55.
[176] National Fuel St. No. 9, p. 4.
[177] National Fuel St. No. 9, p. 4.
[178] National Fuel St. No. 9-R, pp. 12, 29.
[179] *Columbia 2025*, p. 216.

182. Use of the DCF model based upon current dividend yields and analysts 5-year projected earnings provides a strong basis for determining the cost of equity during the period that the rates set in this proceeding will be in effect.[180]

183. Mr. Nowak calculated a 10.65% mean DCF result based on analysts' projections of earnings.[181]

184. I&E witness Breuning calculated a 10.47% DCF cost of equity based upon analysts' projections.[182]

185. Witness Breuning confirmed that he believed this DCF method was the best model for determining the ROE.[183]

186. OCA witness Reno calculated a range of 10.48% to 10.61% for her constant growth DCF (EPS Growth).[184]

187. The Commission has rejected the use of a sustainable growth rate DCF in determining the allowed ROE in prior cases.[185]

188. Issues with using the sustainable growth rate DCF method include the multiple components that the analyst must determine and the erroneous assumption of the model.[186]

189. In Columbia 2025, the Commission concluded that the CAPM is a useful tool

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[180] National Fuel St. No. 10-R, p. 12.
[181] National Fuel St. No. 10-R, p. 12.
[182] I&E St. No. 2, p. 32.
[183] Tr. 200-204.
[184] OCA St. No. 3, p. 49.
[185] *See Columbia 2025*, pp. 219, 225; *Aqua 2022*, pp. 145, 153-55; *Pa. PUC v. Columbia Water Co.*, Docket Nos. R-2023-3040258, *et al.* (Order entered), pp. 90-91, 105.
[186] National Fuel St. No. 10-R, pp. 63-65, National Fuel St. No. 10-RJ, pp. 6-7.

in setting the ROE.[187]

190. The CAPM can provide useful information if it is properly applied using a "projected risk free" rate and forward-looking estimates of market return.[188]

191. Applying the CAPM with forward-looking estimates produces a ROE range 10.59 to 11.77%.[189]

192. Mr. Nowak also noted that reasonable adjustments and inputs to the OCA witnesses' CAPM would produce a 10.55% ROE.[190]

193. I&E witness Breuning also uses a CAPM model to determine the ROE.[191]

194. In Mr. Breuning's first calculation, he uses a risk free rate of 10-year treasury bonds and a risk premium based on the average return for the S&P for the last 100 years of 12.35% with an expected future market return estimate of 10.78% derived from a median estimated stock price for 3 to 5 years.[192]

195. Mr. Breuning averages the two to develop a market return of 11.57%.[193]

196. Using 30-year bonds and a risk premium based upon the projected weighted average of stocks produces a market premium of 15.23% adjusted to 12.20% to remove FERC exclusions for outlier growth rates.[194]

197. This conservative CAPM approach produces ROEs ranging from 10.57% to

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[187] *Columbia 2025*, p. 226.
[188] National Fuel St. No. 10-R, p. 41.
[189] National Fuel St. No. 10-R, p. 52.
[190] National Fuel St. No. 10-R, p. 75.
[191] I&E St. No. 2, p. 35.
[192] I&E St. No. 2, p. 35.
[193] I&E St. No. 2, p. 35.
[194] National Fuel St. No. 10-R, pp. 44-41, National Fuel Exh. JCN-4R, p.3.

10.61% using 30 year bonds as the risk free rate and a projected market premium.[195]

198. Mr. Breuning's second CAPM using the Kroll market premium of 5.00% percent produces an 8.85% CAPM cost rate, which is lower than any authorized ROE for a gas distribution company since at least 1980.[196]

199. On cross examination, Mr. Breuning expressed his continued view that the DCF using projected earnings is the best indication of the cost of equity.[197]

200. Mr. Breuning also used the average ROEs of 9.7% in other states from 2025 through March 11, 2026 as a third component in choosing his recommended ROE.[198]

201. Mr. Breuning does not know how these ROEs were determined.[199]

202. In *Columbia 2025*, the Commission determined that the cost of equity was 10.22%, but reduced it to 10.00% because of reduced regulatory lag of filing cases nearly every year.[200]

203. OSBA also used an average of other ROEs in different states to estimate the ROE.[201]

204. The Risk Premium model indicates a cost of equity of 10.44% and is important because of its connection of interest rates and inflation through utility bond rates and recognizes that risk premiums change inversely as interest rates change.[202]

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[195] National Fuel St. No. 10-R, pp. 44-41, National Fuel Exh. JCN-4R, p.3.
[196] National Fuel St. No. 10-R, p. 47.
[197] Tr. 200-204.
[198] I&E St. No. 2, pp. 37-38.
[199] Tr. 207.
[200] *Columbia 2025*, pp. 235-38.
[201] OSBA St. No. 1, pp. 12-13.
[202] National Fuel St. No. 10-R, pp. 19, 51, 72-26.

205. Even with a $19.00 customer charge, 59% of distribution revenues would continue to be recovered through volumetric distribution rates.[203]

206. During the 2025–2026 heating season customers received approximately $2.6 million in net WNA credits.[204]

207. The WNA provides the Company an opportunity to come closer to recovering its Commission-authorized distribution revenue requirement by reducing weather-driven volatility in margin recovery, not by guaranteeing revenue or enabling over-collection, while protecting customers from paying more during colder than normal periods when gas usage increases.[205]

208. The WNA is symmetrical by design because it can produce either surcharges or credits depending on whether the actual weather is warmer or colder than the normal weather embedded in rates.[206]

209. The Company updated the weather normalization from a 15-year HDD average to a more current 10-year HDD average.[207]

210. Temperatures in the Company's service territory are colder and the cold days continue longer in the year in the Company's service area as compared to other areas in the Commonwealth, including Pittsburgh where Columbia primarily operates.[208]

211. The $2.6 Million of credits the Company's customers received in the 2025-

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[203] National Fuel St. No. 19-R, p. 27.
[204] National Fuel St. No. 19-R, pp. 30-31.
[205] National Fuel St. No. 19-R, pp. 30-31.
[206] National Fuel St. No. 19-RJ, p. 10.
[207] National Fuel St. No. 19-RJ, pp. 10-11.
[208] National Fuel St. No. 19-R, pp. 39-41.

2026 winter would have been reduced if the dead band was 5% because a greater portion of the weather deviations would have been within the expanded dead band.[209]

212. In this proceeding, the Company proposed to use the most recent ten-year average of degree days to project usage for setting base rates.[210]

213. The purpose of the WNA is to adjust for the differences between degree days used for setting rates and actual degree days with symmetrical adjustments based on actual temperatures.[211]

214. The use of more weather stations in the WNA without changing the weather data for the Company's demand forecast removes the connection of the WNA to the forecast used to set base rates.[212]

215. The weather stations proposed to be added are not indicative of weather in the Company's service area.[213]

216. One of the additional stations proposed is Pittsburgh, which is not in the Company's service territory and has significantly lower degree days than the stations in the Company's territory.[214]

217. The Bradford station has significantly more degrees than Erie but only represents 2.7% of the Company's customers [215]

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[209] National Fuel St. No. 19-R, p. 38.
[210] National Fuel St. No. 13, p. 7; National Fuel St. No. 19, pp. 25-26.
[211] National Fuel St. No. 19-R, pp. 40-41.
[212] National Fuel St. No. 13-RJ, pp. 2-3.
[213] National Fuel St. No. 13-RJ, p. 4.
[214] National Fuel St. No. 13-RJ, p. 4.
[215] National Fuel St. No. 13-RJ, p. 4.

218. Dubois also has higher degree days than Erie but represents only 5.6% customers.[216]

219. Together, Dubois and Bradford represent only 16,000 customers. In addition, these stations have spotty data reliability.[217]

220. National Fuel proposes implementing a residential Energy Efficiency Pilot over a five-year period beginning in October 2026. [218]

221. The EE Pilot will provide rebates for residential customers to encourage the installation of high-efficiency natural gas appliances and includes the following measures: (1) space heating rebates for high-efficiency furnaces and boilers; (2) incentives for upgrading to high-efficiency water heaters, including tankless models; and (3) incentives for ENERGY STAR® certified natural gas clothes dryers.[219]

222. The benefits of the EE Pilot include: (1) access to a broader range of energy-efficient, low-emission natural gas solutions; (2) enhanced competitiveness with alternative energy sources; (3) reduced operating costs and improved seasonal use of gas facilities; (4) increased safety and efficiency in gas delivery; and (5) support for long-term system reliability and readiness for future energy needs.[220]

223. The 5-year budget for the pilot is approximately $3.5 million (approximately $700,000 annually).[221]

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[216] National Fuel St. No. 13-RJ, p. 4.
[217] National Fuel St. No. 13-RJ, p. 4.
[218] National Fuel St. No. 18, p. 5.
[219] National Fuel St. No. 18, p. 5.
[220] National Fuel St. No. 18, p. 18.
[221] National Fuel St. No. 18, p. 6.

224. National Fuel will recover all reasonable and prudently incurred costs directly associated with program administration, marketing, customer rebates, and evaluation activities costs of the EE Pilot through a dedicated rider applied to all residential customers.[222]

225. The rider will be reconciled annually to ensure accurate cost recovery and compliance with approved budgets.[223]

226. National Fuel calculated the savings and benefits of the proposed EE Pilot using the Commission's Total Resource Cost ("TRC") developed for Energy Efficiency & Conservation Plans under Act 129.[224]

227. Over the lifetime of the EE Pilot, the Company projects that 10,000 customers will participate, 56,255 Mcf in natural gas savings, $497,300 in energy savings, $80,000 in net savings using the TRC test, and a TRC benefit-cost ratio of 1.02.[225]

228. National Fuel will implement an Evaluation, Measurement & Verification plan to assess the performance and cost-effectiveness of the EE Pilot.[226]

229. Low-income energy efficiency programs typically have higher acquisition

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[222] *See* National Fuel Exhibit F, proposed Rider D.
[223] National Fuel St. No. 18, p. 6.
[224] National Fuel St. No. 18, p. 8; *see also 2026 Total Resource Cost (TRC) Test*, Docket No. M-2024-3048998 (Final Order entered Nov. 7, 2024).
[225] National Fuel St. No. 18, pp. 6-9. Tables showing the detailed breakdown of the EE Pilot's projected overall and annual budget, participation levels, energy savings measured in both McF and dollars, and total resource cost ("TRC") test benefits, costs, net benefits, and TRC ratio are provided on pages 6 through 9 of National Fuel St. No. 18.
[226] National Fuel St. No. 18, pp. 11-12.

costs.[227]

230. The Company's proposal includes referral-based coordination between the EE Pilot, Low Income Usage Reduction Program ("LIURP"), the Emergency Repair and Replacement Program ("ERRP"), and other assistance programs to connect eligible customers to programs with deeper, no-cost weatherization services available.[228]

231. Expanding the pilot to include non-residential customers would introduce materially different load profiles, decision-making processes, rebate structures, and participation dynamics, undermining the pilot's straightforward design by making it more difficult to draw meaningful conclusions from initial program results.[229]

232. The Company agrees with I&E's proposed tracking and reporting recommendations and respectfully requests that the Commission adopt reasonable, annual reporting requirements that are consistent with I&E's recommendations and not duplicative of the reporting already proposed in the Company's pilot design. [230]

233. While natural gas distribution companies are not subject to Act 129, the Commission has approved the use of rider mechanisms for voluntary natural gas energy

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[227] *See* Phase V Final Implementation Order, p. 69, discussing the low-income carve out for Act 129 energy efficiency plans ("Because of the higher acquisition costs of low-income programs, to increase the budget share as the Low Income Advocates, DEP and other stakeholders recommend, could limit an EDC's ability to develop an EE&C plan with a well-reasoned and balanced set of measures tailored to usage and savings potential for each customer class.").

[228] National Fuel St. No. 18-R, pp. 6-7.

[229] National Fuel St. No. 18-R, p. 16.

[230] National Fuel St. No. 18-R, p. 11.

efficiency programs as well.[231]

234. Riders allow EE program costs to be transparently tracked, periodically reviewed, and recovered separately from base rates, while preserving Commission oversight and minimizing financial risk to customers.[232]

235. The Company has established processes for identifying low-income customers during contacts with the Company and making regular referrals to appropriate assistance programs when a customer's reported income indicates eligibility.[233]

236. These points of contact include asking customers for income information any time they contact the Company related to being unable to pay a bill, ask about a termination notice or payment arrangement, or request an extension for bill payment. In these instances customers are referred to Universal Service programs, including CAP.[234]

237. The Company also systematically identifies customers as low-income when it receives LIHEAP, CRISIS, or Supplemental payments from the Department of Human Services ("DHS") for the customer.[235]

238. For those customers that have already provided income information in the past, income information is updated as needed through conversations with the customer to assess their eligibility for a new payment arrangement, and to reverify income for

[231] National Fuel St. No. 18-R, pp. 14-15. Columbia Gas of Pennsylvania, Inc. and UGI Utilities, Inc. – Gas Division recover program costs through dedicated energy efficiency riders.
[232] National Fuel St. No. 18-R, p. 15.
[233] National Fuel St. No. 17-R, p. 5.
[234] National Fuel St. No. 17-R, p. 5.
[235] National Fuel St. No. 17-R, p. 5.

continued CAP enrollment.[236]

239. The Company also notifies customers about available Universal Service programs through bill inserts.[237]

240. Screening all customers for their income level during all non-emergency calls would significantly increase call handle time, negatively impact customer service levels, require additional call center employee training, and ultimately require the hiring of additional call center employees to account for the increase in call handle time.[238]

241. National Fuel does not have an Interactive Voice Response ("IVR") system and relies on customer service personnel to handle all calls, including recording and updating customer information.[239]

242. The Company's claim in this case includes hiring three new employees to ensure that the Company is appropriately staffed to cover its current CAP program and call center needs.[240]

243. The Company has also moved its CAP administrative work in house rather than relying on a third-party vendor and plans to hire three additional FTEs to support its CAP program work.[241]

244. In January 2025, the Company launched an online application for CAP, and

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[236] National Fuel St. No. 17-R, p. 5.
[237] National Fuel St. No. 17-R, p. 5.
[238] National Fuel St. No. 17-R, p. 6.
[239] National Fuel St. No. 17-R, p. 13.
[240] National Fuel St. No. 3-R, p. 3.
[241] National Fuel St. No. 17-R, p. 9.

customers can also complete their CAP recertification online.[242]

245. Between July 2025 and January 2026, the Company increased its CAP enrollment by 698 customers.[243]

246. The Company allows online recertification for CAP (including document uploading) in both desktop and mobile formats.[244]

247. The Company reaches out to customers up for recertification by email or mail depending on their stated communication preference, and provides a self-addressed, stamped envelope to customers who are sent a paper recertification application, and providing information for how to recertify online.[245]

248. The Company does not currently have the technical ability to send text messages to customers.[246]

249. In rebuttal, the Company agreed to CAUSE-PA's recommendation to track and report additional data related to CAP to its USAC, including the number of applications and recertifications, the total number of CAP accounts with arrears, the total dollar amount in debt for CAP customers, and the average amount of debt for CAP customers.[247]

250. National Fuel's LIURP provides low-income customers with no-cost weatherization services.[248]

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[242] National Fuel St. No. 17-R, p. 9.
[243] National Fuel St. No. 17-R, p. 12.
[244] National Fuel St. No. 17-R, pp. 13-14.
[245] National Fuel St. No. 17-R, pp. 13-14.
[246] National Fuel St. No. 17-R, p. 14.
[247] National Fuel St. No. 17-R, pp. 17-18.
[248] I&E St. No. 1-R, p. 5.

251. Annual funding for the Company's LIURP is set at $1.4 million.[249]

252. The LIURP budget rolls forward each year, and in 2025, the Company had carryover dollars of $1,450,879.24, even after the Company saw an increase in LIURP participation that year.[250]

253. The increased spending in 2025 was partly due to a government shutdown that redirected work from other community agencies during that period.[251]

254. The practical obstacles of weatherizing mobile homes, include issues with construction, the need for structural repairs, and questionable cost-effectiveness of insulation due to the limited space available.[252]

255. The Company offers assistance to customers living in mobile homes through its ERRP, which provides the emergency repair or replacement of natural gas heating and hot water heating equipment.[253]

256. The goal of the Company's Low Consumption LIURP ("LC-LIURP") pilot program is to identify and assist households with moderate consumption (annual consumption greater than or equal to 900 Ccf but less than 1,300 Ccf) in which the residence has a similar amount of square footage equal to the identified yearly consumption.[254]

257. The Company currently partners with the Greater Erie Community Action

[249] I&E St. No. 1-R, p. 5.
[250] National Fuel St. No. 17-R, p. 23.
[251] National Fuel St. No. 17-R, p. 22.
[252] National Fuel St. No. 17-R, p. 24.
[253] National Fuel St. No. 17-R, p. 24.
[254] National Fuel No. 17-R, pp. 25-26.

Committee ("GECAC") to help raise funds for its Neighbor for Neighbor ("NFN") Hardship Fund.[255]

258. The Company routinely reviews all customer complaints for compliance with Company policies and Commission regulations and addresses the issues with all Company personnel involved.[256]

259. This process also identifies underlying trends and provides group refresher training. [257]

260. The Company provides extensive training for employees to offer reasonable payment agreement terms to customers and uses early intervention for effective arrearage management.[258]

261. The Company's current tracking shows that Total Dollars in Debt of customers on payment arrangements rose from 38.6% in 2022, to 46.8% in 2024, demonstrating that a growing percentage of customers carrying arrears are actively enrolled in payment arrangements.[259]

262. The Company has increased its capital expenditures for distribution and transmission plant since 2023, spending $129.5 million between 2023 to 2025 for the replacement of mains, services, and measurement and regulation stations.[260]

263. Between 2016 and 2024, the Company eliminated 371 miles or 31% of its

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[255] National Fuel St. No. 17-R, pp. 30-31.
[256] National Fuel St. No. 17-R, p. 33.
[257] National Fuel St. No. 17-R, p. 33.
[258] National Fuel St. No. 17-R, p. 33.
[259] National Fuel St. No. 17-R, p. 35.
[260] National Fuel St. No. 9, p. 3.

leak prone bare steel and wrought iron pipelines and 7,337 or 34% of its bare steel services.[261]

264. National Fuel has an accelerated LPP replacement program that is targeting replacement of all LPP by 2039.[262]

265. Under the Amended LTIIP, National Fuel will continue to increase capital spending, with a planned total spending of approximately $253.4 million over the five-year period.[263]

266. The increased spending reflects the accelerated LPP replacement schedule, projected higher average distribution LPP replacement costs per mile, and projected higher average transmission and high-pressure steel pipeline replacement costs per diameter-inch mile.[264]

267. The Company's projections will allow it to exceed its replacement target by 17.09 miles in 2039.[265]

268. The Company actively tracks and analyzes replacement costs, including restoration costs.[266]

269. Most of the Company's pipeline replacement work is completed using contractor crews selected through competitively bid contracts awarded on a per project

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[261] National Fuel St. No. 9, p. 7.
[262] National Fuel St. No. 1, p. 14.
[263] National Fuel St. No. 9, p. 3.
[264] National Fuel St. No. 9, pp. 4-6; National Fuel St. No. 9-R, pp. 2-3.
[265] National Fuel St. No. 9-R, p. 3, Table 1.
[266] National Fuel St. No. 9-R, p. 4.

basis or by geographical region. [267]

270. These contracts use a unit price basis for bid items, which includes all restoration, material, labor, and equipment to complete a specific construction task. Since those costs are rolled into the unit price for each bid item, a breakdown of those costs is not available.[268]

271. The project planning phase includes measures to reduce and control costs by gathering and reviewing as-built information for existing gas and other utilities, designing one-call and mark out of existing utilities, conducting a field review of the proposed project to determine the best method for construction, minimizing impact to environmental and other natural resources, coordinating landowner issues, and minimizing or avoiding other potential conflicts.[269]

272. After a bid project is complete, a post investment analysis ("PIA") is submitted by the project engineer. The PIA includes a breakdown and comparison of the estimated versus actual costs as well as a comparison of the estimated versus actual construction schedule, including an explanation for any major variances.[270]

273. These variances are summarized and reviewed with Engineering and Operations management on a semi-annual basis to identify potential cost savings and improvements for future project planning.[271]

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[267] National Fuel St. No. 9-R, p. 4.
[268] National Fuel St. No. 9-R, p. 4.
[269] National Fuel St. No. 9-R, pp. 4-5.
[270] National Fuel St. No. 9-R, pp. 4-5.
[271] National Fuel St. No. 9-R, pp. 4-5.

274. The Company reduces restoration costs by participating in countywide utility coordination meetings, working directly with PennDOT and municipalities, coordinating construction schedules, and obtaining private rights-of-way where possible.[272]

275. The Company actively categorizes and tracks replacement costs on an overall and project specific basis, analyzes costs drivers, identifies efficiencies, and negotiates cost savings.[273]

276. National Fuel is proposing to amend Rule 8 of its tariff to clarify that "free access" means not only that Company personnel may not be denied physical access to utility facilities but also that they will not be subject to unsafe or hazardous conditions while performing their duties.[274]

277. National Fuel personnel must routinely enter customer premises to inspect gas systems and appliances, which are frequently located in basements or enclosed areas.[275]

278. These environments can present serious health and safety risks to National Fuel personnel—including unsanitary conditions, sewage exposure, and accumulated refuse, mold, and infestations—and typically are outside the Company's control.[276]

279. Under the Company's current procedures, when health or safety issues prevent safe access to Company- or customer-owned equipment, National Fuel requires

[272] National Fuel St. No. 16-R, p. 7.
[273] National Fuel St. No. 16-R, p. 7.
[274] National Fuel St. No. 16, p. 29.
[275] National Fuel St. No. 16-R, p. 2.
[276] National Fuel St. No. 16-R, p. 2.

correction of these issues before employees can enter or work on the premises. [277]

280. This practice protects Company employees and ensures that all work can be performed in a safe environment and in accordance with the Company's safety protocols.[278]

281. The proposed amendment to Rule 8 identifies for customers certain unsafe and hazardous conditions that prevent the free access to Company facilities that the tariff guarantees. [279]

282. The new language defines specific, observable, and understandable safety conditions that objectively prevent free access, "including . . . the presence of aggressive or uncontrolled animals (e.g., dogs), insect or rodent infestation, the display, use, or brandishing of firearms or other weapons in a threatening or intimidating manner, presence of excrement, debris, or other rubbish, or any other circumstance that may reasonably pose a threat to the health or safety of Company employees or agents."[280]

283. The Company is currently operating another methane detector pilot program in its New York division that is designed to evaluate the feasibility, operational requirements, costs, and potential risks of methane detector technologies.[281]

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[277] CAUSE-PA St. 1, Appendix B, National Fuel's response to discovery request CAUSE-PA Set 4, No. 11.
[278] CAUSE-PA St. 1, Appendix B, National Fuel's response to discovery request CAUSE-PA Set 4, No. 11.
[279] National Fuel St. No. 16, p. 29; National Fuel Exh. F.
[280] National Fuel St. No. 16, p. 29; National Fuel Exh. F.
[281] National Fuel St. No. 16-R, p. 8.

APPENDIX B

PROPOSED CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter and the parties to this proceeding.[282]

2. Under Section 1301 of the Public Utility Code, a public utility's rates must be just and reasonable.[283]

3. The Commission possesses a great deal of flexibility in its ratemaking function. "In determining just and reasonable rates, the [Commission] has discretion to determine the proper balance between the interests of ratepayers and utilities."[284]

4. The term "just and reasonable" is not intended to confine the ambit of regulatory discretion to an absolute or mathematical formulae; rather, the Commission is granted the power to balance the prices charged to utility customers and returns on capital to utility investors.[285]

5. A public utility seeking a general rate increase has the burden of proof to establish the justness and reasonableness of every element of the rate increase request.[286]

6. "It is well-established that the evidence adduced by a utility to meet this burden must be substantial."[287]

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[282] 66 Pa. C.S. §§ 1301, 1308(d).
[283] 66 Pa. C.S. § 1301.
[284] *See Popowsky v. Pa. Pub. Util. Comm'n*, 542 Pa. 99, 108, 665 A.2d 808, 812 (Pa. 1995).
[285] *Pa. Pub. Util. Comm'n v. Pennsylvania Gas and Water Co.*, 494 Pa. 326, 337, 424 A.2d 1213, 1219 (Pa. 1980), *cert. denied*, 454 U.S. 824, 102 S. Ct. 112, 70 L. Ed. 2d 97 (1981).
[286] 66 Pa.C.S. § 315(a); *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-00038805, 236 PUR 4th 218, 2004 Pa. PUC LEXIS 39 (Order entered Aug. 5, 2004) ("*Aqua 2004 Order*").
[287] *Lower Frederick Twp. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980).

7. However, a public utility, in proving that its proposed rates are just and reasonable, does not have the burden to affirmatively defend claims made in its filing that no other party has questioned. As the Commonwealth Court has explained: While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.[288]

8. Tariff provisions previously approved by the Commission are deemed just and reasonable and, therefore, a party challenging a previously-approved tariff provision bears the burden to demonstrate that the Commission's prior approval is no longer justified.[289]

9. Further, a party that raises an issue that is not included in a public utility's general rate case filing bears the burden of proof.[290]

10. The decision of the Commission must be supported by substantial evidence.[291]

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[288] *Allegheny Center Assocs. v. Pa. PUC*, 570 A.2d 149, 153 (Pa. Cmwlth. 1990).

[289] *See, e.g., Pa. PUC v. Philadelphia Gas Works*, Docket Nos. R-00061931, *et al.*, 2007 Pa. PUC LEXIS 45, at *165-68 (Order entered Sept. 28, 2007) (adopting the ALJ's discussion on burden of proof).

[290] *See, e.g., Pa. PUC v. Philadelphia Gas Works*, Docket Nos. R-00061931, *et al.*, 2007 Pa. PUC LEXIS 45, at *165-68 (Order entered Sept. 28, 2007) (adopting the ALJ's discussion on burden of proof).

[291] 2 Pa. C.S. § 704.

11. "Substantial evidence" is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion. More is required than a mere trace of evidence or a suspicion of the existence of a fact sought to be established.[292]

12. Rates which are not sufficient to yield a reasonable return on the value of the property at the time it is being used to render service are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility of its property in violation of the Fourteenth Amendment.[293]

13. Under the Public Utility Code, the Commission is required to consider management effectiveness in setting rates.[294]

14. The WNA is a form of alternative ratemaking that is expressly authorized by statute in Pennsylvania.[295]

15. The rates and terms of service set forth in Supplement No. 294 to National Fuel Gas Distribution Corporation Tariff Gas – PA P.U.C. No. 9 are supported by substantial evidence and are in the public interest. Therefore, National Fuel's proposed rate increase should be granted.

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[292] *Norfolk & Western Ry. Co. v. Pa. P.U.C.*, 489 Pa. 109, 413 A.2d 1037 (1980); *Erie Resistor Corp. v. Unemployment Comp. Bd. of Review*, 194 Pa. Superior Ct. 278, 166 A.2d 96 (1961); *Murphy v. Comm., Dept. of Public Welfare, White Haven Center*, 85 Pa. Commonwealth Ct. 23, 480 A.2d 382 (1984).
[293] *Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia,* 262 U.S. 679, 690 (1923).
[294] 66 Pa.C.S. § 523(a).
[295] 66 Pa. C.S. § 1330(b)(1)(i).

APPENDIX C

PROPOSED ORDERING PARAGRAPHS

1. The rate increase and other proposals set forth in Supplement No. 294 to National Fuel Gas Distribution Corporation Tariff Gas – PA P.U.C. No. 9 to become effective for service rendered on or after October 29, 2026, are approved.

2. National Fuel is authorized and directed to file tariffs, tariff supplements and/or tariff revisions, on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, et seq., and 53.101, designed to produce an annual revenue increase of approximately $16.2 Million, to become effective for service rendered on and after October 29, 2026.

3. The tariff revisions proposed by National Fuel are approved.

4. National Fuel's Weather Normalization Adjustment is approved to operate on a permanent basis, as set forth in the testimony of John. D. Taylor and Courtney T. Mann.

5. National Fuel is authorized and directed to implement its proposed Energy Efficiency Pilot, as set forth in the testimony of Erik M. Solomon.

6. The Complaint filed by the Office of Consumer Advocate is dismissed.

7. The Complaint filed by the Office of Small Business Advocate is dismissed.

8. The Complaint filed by the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania is dismissed.

9. That, upon acceptance and approval by the Commission of the tariff supplements filed by National Fuel, the investigation at Docket No. R-2025-3059428, and the above-captioned complaint dockets be marked closed.

TABLE I
National Fuel Gas Distribution Corporation
INCOME SUMMARY
R-2025-3059428

	Pro Forma Present Rates (1)	Company Adjustments (1)	Pro Forma Present Rates (Revised) (1)	ALJ Adjustments	ALJ Pro Forma Present Rates	ALJ Revenue Increase	Total Allowable Revenues
	$	$	$	$	$	$	$
Operating Revenue	265,524,000	16,189,000	281,713,000	0	281,713,000	0	281,713,000
Expenses:							
Operating Expense	203,996,000	248,000	204,244,000	0	204,244,000	0	204,244,000
Depreciation	25,302,000	0	25,302,000	0	25,302,000	0	25,302,000
Taxes, Other	2,489,000	0	2,489,000	0	2,489,000	0	2,489,000
Income Taxes:							
State	(330,000)	1,194,000	864,000	46	864,046	0	864,046
Federal	(1,998,000)	3,097,000	1,099,000	118	1,099,118	0	1,099,118
Total Expenses	229,459,000	4,539,000	233,998,000	164	233,998,164	0	233,998,164
Net Inc. Available for Return	36,065,000	11,650,000	47,715,000	(164)	47,714,836	0	47,714,836
Rate Base	571,431,000	0	571,431,000	0	571,431,000		571,431,000
Rate of Return	6.31%		8.35%				8.35%

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TABLE I(A)
National Fuel Gas Distribution Corporation
RATE OF RETURN
R-2025-3059428

	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
Total Cost of Debt			2.43%		2.43%
Long-term Debt	43.60%	5.58%	2.43%		2.43%
Short-term Debt	0.00%	0.00%	0.00%		0.00%
Preferred Stock	0.00%	0.00%	0.00%	0.73	0.00%
Common Equity	56.40%	10.50%	5.92%	0.73	8.10%
	100.00%		8.35%		10.54%
Pre-Tax Interest Coverage	4.33				
After-Tax Interest Coverage	3.43				

TABLE I(B)
National Fuel Gas Distribution Corporation
REVENUE FACTOR
R-2025-3059428

100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.01530000
PUC, OCA, OSBA Assessment Factors (*)	0.00000000
Gross Receipts Tax	0.00000000
Other Tax Factors	0.00000000
	0.98470000
State Income Tax Rate (*)	0.07490000
Effective State Income Tax Rate	0.07375403
Factor After Local and State Taxes	0.91094597
Federal Income Tax Rate (*)	0.21000000
Effective Federal Income Tax Rate	0.19129865
Revenue Factor (100% - Effective Tax Rates)	0.71964732

(*) Company Main Brief

TABLE II
National Fuel Gas Distribution Corporation
SUMMARY OF ADJUSTMENTS
R-2025-3059428

Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	$	$	$	$	$	$	$
RATE BASE:	0						
CWC:							
Int. & Div. (Table IV)	(IV!B38)						
Taxes (Table V)	(V!P34)						
O & M (Table VI)	(VI!B42)						
REVENUES:		0					
						0	0
EXPENSES:							
						0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
TAXES:							
Interest Synchronization (Table III)						46	118
TOTALS	0	0	0	0	0	46	118

TABLE III
National Fuel Gas Distribution Corporation
INTEREST SYNCHRONIZATION
R-2025-3059428

	Amount $
Company Rate Base Claim	571,431,000
ALJ Rate Base Adjustments	0
ALJ Rate Base	571,431,000
Weighted Cost of Debt	2.43%
ALJ Interest Expense	13,885,773
Company Claim (1)	13,886,381
Total ALJ Adjustment	608
Company Adjustment	
Net ALJ Interest Adjustment	608
State Income Tax Rate	7.49%
State Income Tax Adjustment	46
Net ALJ Interest Adjustment	608
State Income Tax Adjustment	46
Net ALJ Adjustment for F.I.T.	562
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	118

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TABLE IV
National Fuel Gas Distribution Corporation
CASH WORKING CAPITAL - Interest and Dividends
R-2025-3059428

Accrued Interest	Long-Term Debt	Short-Term Debt	Preferred Stock Dividends	
Company Rate Base Claim	$571,431,000	$571,431,000	Company Rate Base Claim	$571,431,000
ALJ Rate Base Adjustments	$0	$0	ALJ Rate Base Adjustments	$0
ALJ Rate Base	$571,431,000	$571,431,000	ALJ Rate Base	$571,431,000
Weighted Cost of Debt	2.43300000%	0.00000000%	Weighted Cost Pref. Stock	0.00000000%
ALJ Annual Interest Exp.	$13,902,916	$0	ALJ Preferred Dividends	$0
Average Revenue Lag Days	0.0	0.0	Average Revenue Lag Days	0.0
Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
Working Capital Adjustment				
ALJ Daily Interest Exp.	$38,090	$0	ALJ Daily Dividends	$0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
ALJ Working Capital	$0	$0		$0
Company Claim (1)	$0	$0	Company Claim (1)	$0
ALJ Adjustment	$0	$0		$0
Total Interest & Dividend Adj.	$0			

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TABLE V
National Fuel Gas Distribution Corporation
CASH WORKING CAPITAL -TAXES
R-2025-3059428

Description	Company Proforma Tax Expense Present Rates	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
PUC Assessment	$0	$0	$0	$0	$0	$0.00	0.00	$0
Public Utility Realty	$0	$0	$0		$0	$0.00	0.00	$0
Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
State Income Tax	$0	$46	$46	$0	$46	$0.13	0.00	$0
Federal Income Tax	$0	$118	$118	$0	$118	$0.32	0.00	$0
	$0	$164	$164	$0	$164			

ALJ Allowance	0
Company Claim (1)	0
ALJ Adjustment	0

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TABLE VI
National Fuel Gas Distribution Corporation
CASH WORKING CAPITAL -- O & M EXPENSE
R-2025-3059428

Description	Company Pro forma FPFTY Expense	ALJ	ALJ Pro forma Expenses	Lag Days	Lag Dollars
Purchased Gas Costs	$0	$0	$0	0.00	$0
Other Expenses (less Uncollectibles and Prepaid Expenses)	$0	$0	$0	0.00	$0
Payroll (Net Labor)	$0	$0	$0	0.00	$0
	$0	$0	$0	0.00	$0

ALJ Average Revenue Lag	0.0	
Less: ALJ Avg. Expense Lag	0.0	
Net Difference	0.0	Days
ALJ Pro forma O & M Expense per Day	$0	
ALJ CWC for O & M	$0	
Less: Company Claim (1)	$0	
ALJ Adjustment	$0	

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