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July 1, 2026

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

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

Dear Secretary Homsher:

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

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

Respectfully submitted,

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

CERTIFICATE OF SERVICE

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

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

Dated this 1st day of July 2026.

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Dated: July 1, 2026

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

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Table of Contents

I. INTRODUCTION 1

A. Procedural History 1

B. Legal Standards 1

II. SUMMARY OF ARGUMENT 1

A. Revenue Requirement 1

B. Rate Of Return 2

C. Depreciation 2

D. Cost Of Service, Revenue Allocation And Rate Design 2

E. Alternative Ratemaking 2

F. Customer/Quality Of Service 3

III. OVERALL POSITION ON RATE CASE 3

IV. RATE BASE 3

A. Utility Plant 3

B. Accumulated Depreciation 3

C. Net Plant In Service 3

D. Gas Inventory 4

E. Accumulated Deferred Income Taxes 4

F. Customer Deposits 4

G. Materials & Supplies 5

H. Cash Working Capital 5

V. OPERATING SALES AND REVENUES 7

A. Customer Sales And Revenues 7

B. Gas Supply Revenue 7

C. Other Revenues 8

1. Forfeited Discounts 8

2. Rent From Gas Property 8

D. Revenue Increase 9

VI. OPERATING EXPENSES 9

A. Company's Claimed O&M Expenses 9

B. Rate Case Expense 9

C. Incentive Compensation Expense 9

D. Payroll Expense And Related 11

E. Membership Dues Expense 11

F. Customer Payment Transaction Costs 12

G. Depreciation Expense 13

1. Introduction. 13

2. The OCA's Depreciation Analysis Relies On Substantial Evidence 14

3. NFG Unreasonably Claims That The ELG Is The Only Procedure That Recognizes Reality. 16

4. NFG Argues For Unnecessarily Higher Bills For Its Current Customers. 18

5. A Supermajority Of States Correctly Acknowledge That The ALG Procedure Is In The Best Interests Of Customers. 18

6. A Changed Landscape: 2026 Is Not 2006. 20

7. Applying The ALG Procedure Is Not New For Utilities In Pennsylvania. 21

8. NFG And I&E Misinterpret The Commission's Order In Columbia Gas' 2025 BRC. 22

9. There Is No Binding Precedent For Use Of The ELG Procedure 24

H. Other Expense Adjustments 25

1. Insurance Settlement Proceeds 25

2. Office Employee Expenses 26
3. Other Expenses – Line Hit Collection 27
4. Uncollectible Expense 28
5. Postage Expense 28
6. Interest Synchronization 29

VII. TAXES 29

A. Income Taxes 29
B. Taxes Other Than Income Taxes 30
C. Tax And Amortization Issues 30

VIII. RATE OF RETURN 30

A. Introduction 30
B. Capital Structure 32
C. Debt Cost Rate 36
D. Return On Common Equity 36
E. Management Performance 41
F. Conclusion As To Rate Of Return 41

IX. RATE DESIGN, REVENUE ALLOCATION, AND CLASS COST OF SERVICE 41

A. Allocated Cost of Service Study 41
B. Revenue Allocation 43
C. Rate Design 44
D. Scaleback 46
E. Other Post Employee Benefits 46
F. Summary and Alternative 47

X. WEATHER NORMALIZATION (WNA) 47

1. NFG's WNA Pilot Should Be Terminated Because NFG Has Not Satisfied Its Burden Of Proof To Show That Their WNA Results In Just And Reasonable Rates. 47

2. OCA's Proposed Modifications Should Be Approved If The Commission Determines To Allow The WNA To Continue. 50

XI. ENERGY EFFICIENCY PILOT 53

XII. UNIVERSAL SERVICE 54

XIII. CUSTOMER/QUALITY OF SERVICE ISSUES 54

A. Payment Arrangement Data 54

B. NFG's Payment Fees Should Be Eliminated. 57

C. Call Center Performance/Customer Service Metrics 59

XIV. MISCELLANEOUS/OTHER ISSUES 59

XV. CONCLUSION 59

APPENDIX A – OCA Revenue Allocation Impact Across Four Major Rate Classes

APPENDIX B – Revised Schedules

APPENDIX C – Revised Tables

TABLE OF AUTHORITIES

Page(s)

Cases

Bluefield Water Works & Improvement Co. v. Public Service Commission, 262 U.S. 679 (1923) ... 31, 32

Burleson v. Pa. PUC, 461 A.2d 1234 (Pa. 1983) ... 31, 36

Carnegie Natural Gas Co. v. Pa. PUC, 433 A.2d 938 (Pa. Cmwlth. 1981) ... 34

Colonial Sch. Dist. v. Montgomery Cty. Bd. of Assessment Appeals, 232 A.3d 1051 (Pa. Cmwlth. 2020) ... 37

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

East Norriton Township v. Gill Quarries, Inc., 604 A.2d 763 (Pa. Cmwlth. 1992) ... 37

Gibson v. Workers' Comp. Appeal Bd. (Armco Stainless & Alloy Prods.), 861 A.2d 938 (Pa. 2004) ... 38

Lindheimer v. Illinois Bell Tel. Co., 292 U.S. 151 (1934) ... 20

Popowsky v. Pa. PUC, 13 A.3d 583 (Pa. Cmwlth 2011) ... 53

Administrative Decisions

Application of Duke Energy Kentucky, Inc., Case No. 2017-00321, Order (Apr. 13, 2018) ... 19

Petition of Duke Energy Indiana, LLC., Cause No. 45253, Order (June 29, 2020) ... 19

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 (Order March 26, 2026) ... 21

Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc., Docket Nos. R-2025-3051499 ... 22, 23

Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.,
Docket Nos. R-2025-3051499, *et al.,* Order at 106-111 (Dec. 4, 2025) 22

Pa. PUC, et al v. Newtown Artesian Water Company,
Docket Nos. R-2019-300690 22

Pa. PUC, et al. v. Newtown Artesian Water Company,
Docket Nos. R-2024-3050208 22

Pa. PUC, et al. v. Peoples TWP LLP,
Docket Nos. No. R-2013-2355886 22

Pa. PUC v. Aqua Pennsylvania Wastewater, Inc.,
2022 Pa. PUC LEXIS 161 (Order, May 12, 2022) 53

Pa. PUC v. Columbia Gas of Pa.,
Docket No. R-2020-3018835, (Order, Feb. 19, 2021)..32

Pa. PUC v. Columbia Gas of Pa., Inc.,
R-2020-3018835 (Order Feb. 19, 2021) 42

Pa. PUC v. Nat'l Fuel Gas Dist. Co.,
1994 Pa. PUC LEXIS 134 (Order Dec. 6, 1994)...42, 43, 44

Pa. PUC v. PPL Electric Utilities Corp.,
Docket No. R-2012-2290597*,* Order at 68, (Dec. 28, 2012) 32

Pa. PUC v. PPL Gas Utilities Corporation,
Docket No. R-00061398, 2007 Pa. PUC LEXIS 2 (Feb. 8, 2007) 33

Pa. PUC v. Phila. Gas Works,
Docket R-2023-3037933 (Order, Nov. 9, 2023)..42

Statutes

66 Pa.C.S. § 1501..56, 57, 58, 59

Other Authorities

Pa. PUC v. Peoples Natural Gas Co. LLC, Docket No. R-2023-3044549,
Statement of Vice Chair Barrow, (Sep. 12, 2024) .... *passim*

PECO Energy Company 2025 Annual Depreciation Report,
Docket Nos. M-122300 and M-110550 (June 4, 2025)...22

I. INTRODUCTION

A. PROCEDURAL HISTORY

The OCA incorporates by reference the Procedural History section from its Main Brief submitted on June 22, 2026 in this proceeding.[1]

B. LEGAL STANDARDS

The OCA incorporates by reference the Legal Standards section from its Main Brief submitted on June 22, 2026 in this proceeding.[2]

II. SUMMARY OF ARGUMENT

The OCA incorporates by reference the Summary of Argument contained in its Main Brief submitted on June 22, 2026 in this proceeding.[3] On Reply, the OCA submits:

A. REVENUE REQUIREMENT

NFG has failed to adequately rebut the various adjustments proposed by the OCA to the overall requested revenue increase. However, the OCA has noted an error in the cash working capital claim and has modified its adjustment accordingly.[4] As such, the company's annual revenues should be increased by $4.37 million annually, a decrease of $11.83 million from the company's revised increase request, which is now $16.2 million. Using the OCA's alternative rate of return (ROR), NFG's annual revenues should be increased by $4.205 million.

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[1] OCA M.B. at 1.
[2] OCA M.B. at 1-3.
[3] OCA M.B. at 3-6.
[4] See, OCA R.B. at 5-7, infra; Appendix A, attached hereto.

B. RATE OF RETURN

In its Main Brief, NFG has abandoned the very position advanced by its own witness and now asks the Commission to adopt a new 10.5% return on equity (ROE) that is unsupported by any expert testimony or financial analysis contained in the evidentiary record. This unsupported position remains unreasonably high and should be rejected.

C. DEPRECIATION

NFG could provide significant rate relief to its customers simply by switching from the Equal Life Group (ELG) method of depreciation to the Average Life Group (ALG) method of depreciation but refuses to do so. This refusal is despite the fact that many other states use ALG, other Pennsylvania utilities use ALG and NFG's own witness has recommended using ALG in other proceedings.

D. COST OF SERVICE, REVENUE ALLOCATION AND RATE DESIGN

If the Commission determines to increase NFG's rates at this time, it should adopt the OCA's Peak and Average allocated cost of service study and the OCA's revenue apportionment. The Commission should also reject NFG's proposed increase to its monthly customer charge. The OCA has attached hereto as Appendix A its Proposed Revenue Allocation with the OCA's Proposed Revenue Increase.

E. ALTERNATIVE RATEMAKING

NFG's weather normalization adjustment (WNA) pilot should be terminated because the company has not satisfied its burden of proof to show that the WNA results in just and reasonable rates. If the commission determines to continue NFG's WNA, it should only do so as a pilot, and with a 5% deadband, removing the months of October and May and increasing the number of weather stations used.

F. CUSTOMER/QUALITY OF SERVICE

NFG has failed to adequately rebut the OCA's proposal that the Company collect and analyze payment arrangement data and eliminate payment fees.

III. OVERALL POSITION ON RATE CASE

In its Main Brief, the OCA demonstrated that NFG failed to satisfy its burden that a $18.7 million, or 7.4% total revenue, increase will produce rates that are just and reasonable. For the same reasons, NFG's newly proposed revenue requirement of $16.2 million based on its newly requested ROE should also be rejected.

In the event the Commission does not deny NFG's rate increase in its entirety, the OCA presented substantial evidence using the OCA's recommended ROR that the Commission should authority an increase of $4.37 million annually for the FPFTY ending October 31, 2027, or $11.83 million less than NFG's request. In the alternative, using NFG's desired ROR yields an increase of $4.205 million annually for the FPFTY ending October 31, 2027. The OCA has attached hereto as Appendix A its Proposed Revenue Allocation with the OCA's Proposed Revenue Increase.

IV. RATE BASE

A. UTILITY PLANT

The OCA did not address this issue in its testimony.

B. ACCUMULATED DEPRECIATION

The OCA did not address this issue in its testimony.

C. NET PLANT IN SERVICE

The OCA did not address this issue in its testimony.

D. GAS INVENTORY

The OCA did not address this issue in its testimony.

E. ACCUMULATED DEFERRED INCOME TAXES

The OCA did not address this issue in its testimony.

F. CUSTOMER DEPOSITS

The OCA recommended an adjustment to the Customer Deposits to reduce rate base by $54,000 which represents the value of the 13-month average balance in the Customer Advances account, as well as an adjustment of $45,000 to the CIAC account to reflect the value of the investments not incurred by NFG and therefore free capital which NFG is not entitled to receive a return on.[5] In its Main Brief, NFG discussed in the customer deposits section both customer deposits and contributions in aid of construction (CIAC).[6] The OCA discussed CIAC and Customer Advances as separate adjustments.[7] The OCA will address both issues in this reply.

First, OCA witness Morgan testified that "it is important to keep in mind that CIAC and Customer Advances are only collected when plant is placed in service to serve customers."[8] As such, Mr. Morgan modified his adjustment to decrease base rates by $20,000 to reflect the 13-month average CIAC balance.[9]

However, NFG argued that its claim for customer deposits is used to offset the need to provide further capital and that "the Commission should reject OCA's proposed

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[5] OCA M.B. at 10, 12.
[6] NFG M.B. at 15-16.
[7] OCA M.B. at 9-10, 12-13.
[8] OCA M.B. at 13, *quoting*, OCA St. 2SR at 9.
[9] OCA St. 2SR at 9; *see also*, OCA Exh. LKM-5A-SR.

deductions for these accounts, which are based on a 13-month average ending February 2026, because the OCA's methodology is inconsistent with that used to develop the Company's other FPFTY amounts."[10]

NFG's argument should be rejected because NFG's use of the historic test year (HTY) data regarding this account is stale in comparison to the FPFTY data used by Mr. Morgan.[11] As Mr. Morgan testified:

> The FPFTY uses the values of plant that are projected two years into the future. Therefore, I recommend using the most recent 13-month average because of the difficulty in forecasting these two accounts. The most recent 13-month average is also more appropriate than the HTY values, because it captures the CIAC and Customer Advances for plant currently in service and included in the FPFTY cost of service. It is important to keep in mind that CIAC and Customer Advances are only collected when plant is placed in services to serve customers.[12]

NFG's claim for customer deposits should be adjusted to reduce rate base by $54,000 which represents the 13-month average balance in the Customer Advances account and the CIAC should be adjusted to decrease base rates by $20,0000 to reflect the 13-month average CIAC balance.[13]

G. MATERIALS & SUPPLIES

The OCA did not address this issue in its testimony.

H. CASH WORKING CAPITAL

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[10] NFG M.B. at 15-16.
[11] OCA St. 2-SR at 9.
[12] *Id.*
[13] OCA M.B. at 9-10, 12-13; OCA Exh. LKM-5A-SR.

NFG's claim for cash working capital should be modified to reflect adjustments related to operating expenses, as well as the interest expense adjustments related to the OCA's adjustments to rate base and the OCA's recommended capital structure.[14] NFG's cash working capital claim should also be adjusted, as recommended by the OCA, because there are a number of amortizations and accrued expenses that NFG included in the lead/lag study operating expenses that do not require the use of cash and should be removed from the lead/lag study.[15] OCA witness Morgan, in his direct testimony, also recommended an adjustment to remove prepaid expenses, which NFG also included in rate base as a separate item in its presentation of the total cash working capital, to avoid double counting the effects of prepaid expenses.

NFG accepted the OCA's position that non-cash expenses should be removed from the lead lag study when determining the final cash working capital allowance.[16] NFG also accepted the OCA's position to remove prepaid expenses from the O&M expenses total used to calculate the expense lag days.[17]

However, in its Main Brief, NFG argued that the OCA adjustments to cash working capital are flawed for two reasons. First, NFG states that the OCA failed to properly incorporate prepaid expenses as a separate line item in the calculation of the total cash working capital. Second, the Company argues that Mr. Morgan increased the prepaid

[14] OCA M.B. at 10-11, *citing*, OCA St. 2 at 11 and OCA Exh. LKM-5A-SR.
[15] *Id.* at 11.
[16] NFG M.B. at 16-17.
[17] NFG M.B. at 16.

expenses amount removed from the lead/lag study by an amount that equals the total of those expenses.

Upon further review, the OCA has determined that an error was made in calculating rate base to reflect the change in prepaid expenses. The OCA has now accepted the Company's claim that Mr. Morgan's recommended cash working capital adjustment in his surrebuttal testimony is inconsistent with his testimony stating that he "will accept the approach used by NFG, in its rebuttal testimony, which includes prepaid expenses in rate base, but removes prepaid expenses from the lead/lag study.[18] This change is reflected in the attached revised schedules.[19] With respect to NFG's second claim, that Mr. Morgan increased the prepaid expenses amount removed from the lead/lag study by an amount that equals the total of those expenses, the OCA submits that these adjustments are appropriate because NFG did not remove these expenses, as it should, consistent with the approach of reinstating them as a separate line item in the total cash working capital claim.[20]

After revising the cash working capital as explained above, the effect on the Cash Working Capital allowance is an increase of $680,000 and an increase in rate base of the same amount, as noted in the attached revised schedules.

V. <u>OPERATING SALES AND REVENUES</u>

A. CUSTOMER SALES AND REVENUES

The OCA did not address this issue in its testimony.

B. GAS SUPPLY REVENUE

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[18] NFG M.B. at 18.
[19] OCA Exh. LKM-5A-SR (rev), attached hereto as Appendix B.
[20] OCA St. 2 at 10.

The OCA did not address this issue in its testimony.

C. OTHER REVENUES

1. Forfeited Discounts

As noted in the OCA's Main Brief, NFG's claims for Other Revenues should be increased by $21,000 in consideration of the adjusted Forfeited Discounts claim as noted by OCA witness Morgan who adjusted the claim because the rate increase to be decided in this proceeding will result in higher bills.[21] NFG disagrees with the use of using a three-year average when making this adjustment and instead argued that a 12-month weighted average should be used.[22]

The three-year average is a standard methodology used by the Commission because it is recognized that no single year is representative to use for deriving the forfeited discounts factor. Mr. Morgan noted that NFG uses a three-year average to determine uncollectible expense.[23] Thus, NFG witness Mann's opposition to the use of a three-year average for the forfeited discount factor because the Fiscal Year 2024 late payment charges were usually high and not representative of the FPFTY is without merit and should be rejected.[24] The intent of the adjustment is to normalize the forfeited discount factor to recognize the year-to-year fluctuations.[25]

2. Rent From Gas Property

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[21] OCA M.B. at 13-14, *citing*, OCA St. 2 at 12 and OCA Exh. LKM-6A-SR.
[22] NFG M.B. at 20-21.
[23] OCA St. 2SR at 5.
[24] *Id.*
[25] *Id.*

NFG's revenue claim should be increased by $12,000 in consideration of the Rent from Gas Property which has experienced a 6% average annual growth that should be reflected in the FPFTY projection of the revenues in this account.[26] In its Main Brief, NFG argued that the Commission should reject this $12,000 adjustment because the Company's projection aligns with the most recent intercompany rent amounts.[27]

The OCA's adjustment should be adopted because it is based on NFG's own data that shows a clear pattern and trend of annual increase in Rent From Gas Property.[28] As such, NFG's own data supports OCA witness Morgan's adjustment.

D. REVENUE INCREASE

The OCA did not address this issue in its testimony.

VI. <u>OPERATING EXPENSES</u>

A. COMPANY'S CLAIMED O&M EXPENSES

No response is required to this introductory section.

B. RATE CASE EXPENSE

The OCA did not address this issue in its testimony.

C. INCENTIVE COMPENSATION EXPENSE

Both the OCA and NFG agree that stock-based incentive compensation programs should be recoverable in rates if they provide a benefit to ratepayers.[29] The disagreement, however, is whether NFG's particular incentive compensation program in fact does provide

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[26] OCA M.B. at 14-15; *citing*, OCA St. 2 at 12 and OCA Exh. LKM-7A-SR and NFG Response to Section 53.53 III-H.5.
[27] NFG M.B. at 20.
[28] OCA M.B. at 15; *see also*, OCA St. 2SR at 6.
[29] OCA M.B. at 16-17; NFG M.B. at 24.

any benefit to ratepayers. As Mr. Morgan testified, it does not.[30] As such, NFG's claim for incentive compensation expense should be adjusted to reduce operations and maintenance expenses by $1.43 million.[31]

Mr. Morgan noted that portions of incentive compensation tied to shareholder earnings goals have been disallowed where metrics lacked a sufficient nexus to ratepayer benefits and instead advanced shareholder interests.[32] Mr. Morgan then quoted from NFG's incentive compensation plan to note that "the stated purpose of the plan [is] to 'advance the interests of the Company and its stockholders.'"[33] In its Main Brief, NFG argued among other things that its incentive compensation program "as a whole" provides material benefits to ratepayers and are focused on employee retention.[34]

NFG's arguments are without merit and should be rejected. To begin, Mr. Morgan does not contest the total employee rewards package, only who should bear the cost of the compensation that is aligned primarily with shareholders' interests.[35] Similarly, the basis of Mr. Morgan's adjustment has little to do with the payoff being based on stock or cash, although an employee who gets rewarded with stock has an incentive to act or make decisions that would increase share values.[36] Mr. Morgan testified:

> Shareholders' interests are not necessarily compatible with ratepayers' interests. For example, delaying certain expenditures may improve earnings and share values while

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[30] OCA M.B. at 16-17; citing, OCA St. 2 at 14.
[31] OCA M.B. at 16; *citing*, OCA St. 2 at 14 and OCA Exh. LKM-8A-SR.
[32] OCA M.B. at 16 (citations omitted).
[33] OCA M.B. at 17, *citing*, OCA St. 2 at 13.
[34] NFG M.B. at 23.
[35] OCA St. 2SR at 11.
[36] OCA St. 2SR at 11.

> degrading customer service. This is why those plans with customer service metrics tend to be in the interests of ratepayers. Based on the forgoing discussion, I recommend that the Equity Compensation Plan expenses be removed from the cost of service.[37]

NFG's operating expenses should be reduced by $1,430,000 to reflect this change in the incentive compensation plan.

D. PAYROLL EXPENSE AND RELATED

The OCA did not address this issue in its testimony.

E. MEMBERSHIP DUES EXPENSE

The OCA recommended an adjustment to the cost of service of $17,000 to NFG's claim for membership dues in economic development organizations, noting, among other things, that none of the organizations that NFG is a member of are focused on employee development or related to utility operations.[38] NFG, however, argued that this adjustment "fails to consider the overall impact these funds and the associate organizations have on the Company's ratepayers and their communities" that "building stronger communities by supporting economic stability and affordable, reliable service over the long term benefits all stakeholders."[39]

NFG's argument is without merit and should be rejected. As Mr. Morgan testified:

> Moreover, I believe economic development is not a function of a public utility. Instead, economic development initiatives are more aligned with governmental functions and responsibilities. Moreover, in the description of each of the organizations to whom NFG pays due and contributions, it is apparent that these

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[37] OCA St. 2SR at 11.
[38] OCA M.B. at 18-19, *citing*, OCA St. 2 at 20-21 and OCA Exh. LKM-15A-SR.
[39] NFG M.B. at 30-31.

> organizations are quasi-governmental and philanthropic in nature.[40]

Furthermore, Mr. Morgan added: "unless NFG can demonstrate that the local governments are unable, the utility's involvement and awareness of local growth planning of energy infrastructure, safety and reliability considerations should occur even if NFG were not a member of these economic development organizations."[41] As such, Mr. Morgan's adjustment should be accepted.

F. CUSTOMER PAYMENT TRANSACTION COSTS

The OCA recommended that NFG's operating expenses should be adjusted by $930,000 to reflect customer bill payment transaction fees that are absorbed by NFG for those customers who pay their bills by credit card, debit card, Venmo and PayPal.[42] NFG opposed this adjustment by claiming that the OCA provided no supporting data and arguing that absorbing payment process fees is a managerial decision that should be made by the Company.[43]

NFG's arguments should be rejected. The OCA's adjustment is supported by the testimony of OCA witness LeeAnn Wise through multiple rounds of testimony in this proceeding and based on Ms. Wise's years of experience and expertise on this issue.[44] Furthermore, absorbing payment processing fees is not simply a managerial decision that

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[40] OCA St. 2SR at 21 (citations omitted).
[41] OCA St. 2SR at 21.
[42] OCA M.B. at 19, *citing*, OCA St. 2 at 21 and OCA Exh. LKM-16A-SR; *see also*, OCA St. 5 at 16.
[43] NFG M.B. at 31-32.
[44] OCA M.B. at 106-107; *see also*, OCA St. 5 and 5SR.

should be left to the Company when the impact on rates could be as high as nearly $1 million. Given that significant impact on rates, the issue no longer is simply a "managerial decision," as NFG argues. In addition, for all the reasons discussed by Ms. Wise, below and in the OCA's Main Brief, the OCA contends that its adjustment to NFG's operating expenses should be accepted.

G. DEPRECIATION EXPENSE

1. Introduction.

Adopting the Average Life Group (ALG)[45] depreciation procedure in this proceeding would not only help NFG customers who are overextended financially and are trying to afford vital utility service, this procedure assures that the Company can recoup its plant-in-service costs as infrastructure depreciates over time.[46]

In its Main Brief, the Company claimed it is sensitive to affordability concerns,[47] but refused to acknowledge the significant rate relief it *could* provide by voluntarily switching depreciation grouping procedures.[48] Instead, the Company stated "OCA has offered no justification for a change other than to produce a short-lived reduction to rates."[49] What the Company called "short-lived" is actually more than a decade of lower rates according to the Company's own projections.[50]

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[45] The ALG procedure is also referred to as the Average Service Life (ASL) procedure. *Columbia Order* at Fn. 40.
[46] *See* OCA M.B. 19-40.
[47] NFG M.B. at 2.
[48] *See* NFG M.B. at 32-44
[49] NFG M.B. at 32-33.
[50] OCA M.B. at 26-31.

However, NFG's claims are logically inconsistent. The Company cannot hold both positions by claiming it is sensitive to affordability concerns while simultaneously *choosing* not to use a depreciation procedure that can provide relief to its customers when they need it now.

It is uncontroverted that NFG's depreciation procedure results in intergenerational inequity.[51] The Company's Main Brief presents significant bias toward a speculative and remote future.[52] On the other hand, the OCA's Main Brief contains a balanced analysis of what we know now and what we can predict with realistic accuracy in the near future. Measured against the OCA's Main Brief and substantial record evidence, NFG has failed to meet its burden of proof to justify its continued use of the Equal Life Group (ELG) procedure, as the OCA will explain further below.

2. The OCA's Depreciation Analysis Relies on Substantial Evidence

The OCA presented a comprehensive analysis of NFG's depreciation proposal and presented several conclusions in its Main Brief that justify switching from the ELG grouping procedure to the ALG grouping procedure, including that 1) NFG is in an accelerated investment period that will significantly increase revenue requirement and rate base; 2) NFG's depreciation expense has increased by more than 20% over a five-year period; and 3) that OCA's calculations result in a downward depreciation expense of $4.67 million.[53] Rather than refute OCA witness Andrews' analysis, NFG attempted to argue that

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[51] *Id*.
[52] NFG M.B. at 40-42.
[53] OCA M.B. at 21, 23.

Mr. Andrews ignored: 1) the handling of net salvage recovery deferral in Pennsylvania; 2) the remaining life versus whole life component; and 3) the theoretical reserve to book reserve variance.[54] The items that Mr. Andrews purportedly ignored were first identified in Company witness Spanos' rebuttal testimony.[55] The Company failed to acknowledge that Mr. Andrews subsequently addressed Mr. Spano's claims in his surrebuttal testimony and demonstrated they are without merit, as follows:

> I disagree with Mr. Spanos's characterization. In preparing my direct testimony, I reviewed the depreciation study that Mr. Spanos prepared for National Fuel, including the service life estimates, the net salvage parameters, and the depreciation technique. After reviewing these parameters, I determined that reasonable adjustments to service lives and net salvage rates were not warranted, and I accepted all of the Company's proposed life and net salvage parameters. The only change I recommended is the use of the ALG grouping procedure rather than the ELG grouping procedure.
>
> Mr. Spanos's claim that I ignored the components of depreciation rate development is inaccurate. Choosing not to propose changes to specific parameters after reviewing them is not the same as ignoring them. I explicitly discussed Pennsylvania's unique treatment of net salvage as a five-year amortization of actual costs of removal rather than inclusion in depreciation rates, and I explained why this treatment causes Pennsylvania depreciation rates to appear lower than rates in other jurisdictions. I also explicitly proposed the use of the remaining life technique. Mr. Spanos's assertion that I ignored these factors is simply not supported by the record.[56]

As Mr. Andrews explained, choosing not to propose changes to specific parameters after reviewing them is *not* the same as ignoring them.[57] NFG's claim that Mr. Andrews "disturbingly"[58] ignored key information reveals gaps in the Company's review of Mr.

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[54] NFG M.B. at 35.
[55] NFG M.B. at 34-35 (quoting NFG St. 8R at 22-23).
[56] OCA St. 4SR at 3-4.
[57] *Id*.
[58] NFG M.B. at 35.

Andrews' testimonies because he *did* discuss those topics the Company claimed he did not.[59]

3. NFG unreasonably claims that the ELG is the only procedure that recognizes reality.

Plant-in-service almost always depreciates and retires differently from original performance projections.[60] As OCA witness Andrews explained, the ALG procedure is suited to adapt to the fluctuating realities of plant degradation that do not align with original estimates, where ELG cannot due to its rigidity.[61] The OCA engaged directly with the relative accuracy of both ALG and ELG in terms of forecasting plant retirements whereas the Company attempted to bypass a thorough examination and simply state that the ELG procedure uniquely recognizes and accounts for plant retirements that do not occur when originally projected.[62]

OCA witness Andrews explained that the ALG procedure recognizes the reality that not all plant-in-service will retire as projected.[63] Depreciation experts use Iowa survivor curves to account for dispersion patterns of property retirements within an account.[64] Both ALG and ELG use the same survivor curves and both procedures recognize plant infrastructure will retire at times ranging well before an average service life to well after.[65]

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[59] *See* OCA St. 4 at 36-37 for Mr. Andrews' discussion of Pennsylvania's treatment of net salvage; *See* OCA St. 4 Exhibit BCA-2 for Mr. Andrews' use of the remaining life technique.
[60] OCA M.B. at 31-34. OCA St. 4 at 18-19.
[61] *Id*.
[62] OCA M.B. at 31-34.
[63] OCA St. 4SR at 8.
[64] *Id*.
[65] *Id*.

The difference between the procedures is how that range is handled.[66] Mr. Andrews testified that "the ELG procedure attempts to assign specific depreciation rates to specific life groups within the curve, while the ALG procedure uses the average of the dispersion pattern to set a single depreciation rate for the group." NFG's claim that only the ELG procedure incorporates dispersion and is therefore more accurate is simply incorrect. Furthermore, Mr. Andrews observed that NFG witness Spanos used hedging language when describing the accuracy of the ELG procedure as illustrated by this question and answer:

> **Q: MR. SPANOS USES THE TERMS "EXPECTED LIFE," "APPROXIMATES THE RESULT," AND "ACTUAL LIVES FORECAST BY THE ESTIMATED SURVIVOR CURVE" IN DESCRIBING THE ELG PROCEDURE.[67] PLEASE COMMENT.**
> A: Mr. Spanos's own language reveals the fundamental limitation of the ELG procedure. The lives used in the ELG calculation are not actual lives; they are expected lives, estimated lives, and forecasted lives, all of which are derived from the selected survivor curve. There is no guarantee that the actual life of each asset will match the life forecast by the survivor curve. As Mr. Spanos himself states on page 18 of his rebuttal testimony, "in real-world operations, circumstances can change such that assets are retired earlier than expected." This acknowledgment undermines the claimed precision of the ELG procedure: if circumstances can and do change such that assets are retired at times different than expected, then the precise allocation of cost among equal life groups that the ELG procedure relies on will not match the actual pattern of retirements. The ALG procedure is better equipped to handle this reality because it depreciates all assets based on the average life of the group, rather than attempting to assign individual costs to individual life groups based on forecasts that Mr. Spanos himself acknowledges may not materialize.[68]

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[66] OCA St. 4SR at 8.
[67] NFG St. 8R at 9-10.
[68] OCA St. 4SR at 8-9.

Either method allows the Company to recover prudent investments over the life of its assets The difference is the timing as to when the Company will recover its costs.[69] The OCA will explain in the next section that the timing under the ALG procedure is best for customers.

4. NFG argues for unnecessarily higher bills for its current customers.

The OCA's review of NFG's proposed depreciation analysis included examining how adoption of the ALG procedure would impact the Company's customers now, in the near future, and in the remote future and concluded that the ALG procedure is best for customers in terms of nominal value of money and time value of money.[70] NFG stated that Mr. Andrews' argument is only true if ELG and ALG are compared at "a spot in time,"[71] but NFG failed to define what it considered a spot in time. However, as Mr. Andrews explained, NFG is over emphasizing long-range projections based on speculative assumptions, plant activity, retirements, and rate of return.[72]

5. A supermajority of states correctly acknowledge that the ALG procedure is in the best interests of customers.

The OCA highlighted that other jurisdictions use the ALG procedure not for direct legal application to this case, but rather to offer information from a bird's eye view for the Commission to consider as it evaluates this current proceeding.[73] Showing how other jurisdictions approach ALG means the procedure has undergone thorough vetting, rigorous

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[69] *Id*.
[70] OCA St. 4SR at 11-12; OCA M.B. at 26-31.
[71] NFG M.B. at 40.
[72] OCA M.B. at 28.
[73] OCA M.B. at 38-40.

analysis, and repeated examination from other Commissions, which serves to: 1) validate the procedure as a well-established best-practice; 2) validate the merits of ALG over ELG because *the trend* is commissions accepting ALG over ELG and not vice versa; and 3) to show there is a well-tread path for utilities switching from ELG to ALG, so NFG in this proceeding would not be the first utility in the nation to make this adjustment.[74] As noted before, NFG's other affiliates utilize this procedure, so adopting it in Pennsylvania would not be unfamiliar to the Company.[75]

In its Main Brief, NFG mischaracterizes the OCA's position:

> [i]n 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. However, the relevant standard should not be whether other jurisdictions use different depreciation methods.[76]

The OCA agreed in its Main Brief.[77] The Commission in Pennsylvania has already stated that is *not* the standard to adhere to what other commissions decide.[78] Plus, utility companies in Pennsylvania already utilize the ALG procedure, which will be discussed further below. However, since ALG has not been widely adopted in Pennsylvania, there is a Catch-22 element at play: if there is not a body of decisions from the Commission to refer to demonstrate the positive attributes of ALG, and ALG proponents are barred from

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[74] See e.g. *Petition of Duke Energy Indiana, LLC.*, Cause No. 45253, Order (June 29, 2020); *Application of Duke Energy Kentucky, Inc.*, Case No. 2017-00321, Order (Apr. 13, 2018).
[75] OCA M.B. at 20.
[76] NFG M.B. at 42.
[77] OCA M.B. at 38-40.
[78] *Id*.

bringing in examples from other jurisdictions, how can the Commission objectively evaluate which procedure is best suited for a particular rate filing? To thread this needle, the OCA presented this information for its persuasive value only, not as Commission precedent.[79] Instead, the OCA cited U.S. Supreme Court precedent as the relevant standard.[80]

NFG stated in its Main Brief that, "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."[81] Here the OCA agreed with the Company's analysis of the Indiana Utility Regulatory Commission (IURC) decision and noted that NFG is similarly in a higher than average investment cycle, as Company witness Hillery stated in her direct testimony.[82]

The evidence and analysis presented by OCA in this proceeding stand on their own and application of rulings from other jurisdictions is not necessary for the Commission to rule in the OCAs favor here.

6. A Changed Landscape: 2026 is not 2006.

The OCA explained that the Commission has not evaluated NFG's depreciation procedures under contested conditions for more than 20 years and that the investment landscape has changed over time.[83] NFG stated that "is continuing to operate in the same

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[79] OCA M.B. at 38-40.
[80] *see Lindheimer v. Illinois Bell Tel. Co.*, 292 U.S. 151, 169 (1934); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 606 (1944).
[81] NFG M.B. at 43.
[82] NFG St. 1 at 14.
[83] OCA M.B. at 24.

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."[84] NFG witness Hillery testified that the Company filed an Amended Long-Term Infrastructure Improvement Plan (LTIIP) in December 2025.[85] In its Order approving NFG's proposed changes, the Commission recognized that:

> NFG explains that several factors have caused a significant increase to its planned construction costs, including, but not limited to, rising contractor labor costs, material costs, restoration and permitting costs, and inflationary increases stemming from the COVID-19 pandemic. NFG states that its cost estimates for its LTIIP were based on NFG's estimated cost per mile in 2021. Figure 1, below, plots NFG's average replacement cost per mile from 2019 through 2024, showing a 27% increase as compared to its 2019 baseline.[86]

The OCA takes no issue with NFG making a request to update its LTIIP as necessary. However, it is inaccurate to state that the Company is not operating in the same investment landscape as it has for many years and that the Commission has recognized evolving landscapes.[87]

7. Applying the ALG procedure is not new for utilities in Pennsylvania.

The Company claimed that applying ALG in this proceeding "contradicts over 40 years of PUC precedent approving the use of ELG for ratemaking purposes."[88] Rather than "contradict," ALG and ELG co-exist in Pennsylvania ratemaking. For example, PECO

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[84] NFG M.B. at 43.
[85] NFG St. 1 at 15.
[86] *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 Order (March 26, 2026).
[87] NFG M.B. at 43.
[88] NFG M.B. at 39-40.

Energy Company - Gas and Electric Operations utilizes the ALG procedure according to its most recent Annual Depreciation Report (ADR).[89] NFG witness Spanos explained that the ELG procedure was adopted in the 1980s in Pennsylvania and that NFG utilized ALG for vintages prior to 1982, so aside from NFG's affiliates that utilize the ALG procedure [90] in NFG witness Spanos' direct testimony, he included a list of cases[91] he has testified in on the subject of depreciation, including Newtown Artesian Water Company[92] and Peoples TWP LLP.[93] In those proceedings Mr. Spanos utilized the ALG procedure in Pennsylvania. The aforementioned cases settled and OCA included these examples here only to show that utility companies in Pennsylvania use the ALG procedure and that the use of the ALG procedure is not new to ratemaking in Pennsylvania.

8. NFG and I&E misinterpret the Commission's Order in Columbia Gas' 2025 BRC.

The Commission's Order in Columbia's 2025 BRC[94] affirmed that depreciation methods are up for discussion in each and every rate proceeding before the Commission,[95] similar to the ROE, ACOSS, proxy groups, and rate base determinations.[96] There are a

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[89] *See PECO Energy Company 2025 Annual Depreciation Report*, Docket Nos. M-122300 (Gas) and M-110550 (Electric) (June 4, 2025).
[90] NFG St. 8R at Fn. 5.
[91] *See* NFG St. 8 at *App. A*.
[92] *See Pa. PUC, et al v. Newtown Artesian Water Company*, Docket Nos. R-2024-3050208, *et al*; *See Pa. PUC, et al v. Newtown Artesian Water Company*, Docket Nos. R-2019-300690, *et al*.
[93] *See Pa. PUC, et al. v. Peoples TWP LLP*, Docket Nos. No. R-2013-2355886, *et, al*.
[94] *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2025-3051499, *et al.,* Order at 106-111 (Dec. 4, 2025) (*Columbia Order*).
[95] OCA M.B. at 34-35.
[96] *Federal Power Com. v. Hope Natural Gas Co*., 320 U.S. 591, 622 (1946).

myriad of variables that the Commission evaluates when evaluating a rate increase proposal, depreciation is no different.[97]

The Company argued that the "Commission expressly rejected the very same proposal that OCA is making in this case."[98] The OCA acknowledges that the Commission disagreed with the OCA in the Columbia proceeding as to a switch from ALG to ELG for the portion of Columbia's plant that does not utilize the ALG procedure. However, this is not the "very same proposal," because the evidence, company history, rate increase application in this proceeding are different than Columbia Gas 2025. I&E similarly state that it "believes the Commission weighed in on this issue in the last *Columbia Gas* case."[99] I&E is correct that the Commission weighed in on this issue in the Columbia Gas 2025 proceeding *for that proceeding*, but the outcome from that proceeding is not directly applicable to this proceeding.

I&E and NFG jump to foregone conclusions based upon the result of the Columbia Order as opposed to looking at the reasoning the Commission used to reach its conclusion. As the OCA stated in its Main Brief, it reviewed the reasoning supporting the Commission's choice to not order the use of ALG over ELG in that for certain Columbia plant.[100]The Commission stated that in Columbia 2025, the OCA had not properly applied the book reserve balances in its calculations and that it did not provide enough support to

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97 *Id*.
98 NFG M.B. at 40.
99 I&E M.B. at 5.
100 OCA M.B. at 35-38.

assuage concerns about potential increased costs for future customers.[101] The OCA explained in its Main Brief why the Commission's reservations in Columbia 2025 do not apply here.[102]

9. There is no binding precedent for use of the ELG procedure.

In its Main Brief, NFG uses the word "precedent" to describe the use of the ELG procedure.[103] In a legal context, precedent is a term-of-art that invokes an obligation in which parties to a proceeding *must* follow rulings under which similar circumstances from past proceedings present themselves in present and future proceedings.[104] As described above, the law in Pennsylvania when it comes to depreciation in utility ratemaking is the opposite of precedential, and therefore the Commission should provide no consideration for continued use of the ELG procedure through the lens of precedent. In the Commission's Columbia 2025 decision, it stated: "Based on our review of the record, the ALJs' Recommended Decision, the Exceptions to the Recommended Decision, and Replies thereto, we agree with the ALJs that the Company presented evidence outweighing the evidence presented by the OCA on this issue."[105] Here the Commission's reasoning is consistent with what the OCA provided in its Main Brief, which is depreciation proposals should be evaluated on a case-by-case basis.[106]

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[101] *Id*.
[102] *Id*.
[103] NFG M.B. at 32, 39.
[104] OCA M.B. at 37-38.
[105] *Columbia Order* at 111.
[106] OCA M.B. at 34-45.

H. OTHER EXPENSE ADJUSTMENTS

1. Insurance Settlement Proceeds

The OCA recommended in this proceeding that NFG's operating expenses should be reduced by $312,000 to reflect a 3-year flowback of environmental proceeds from an insurance settlement received by the Company noting that NFG's customers are entitled to have that amount returned to them.[107] NFG, however, argues that the OCA's adjustment should be denied because 1) the balance in this account continues to be reduced, and; 2) 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.[108] NFG's arguments should be rejected.

The OCA demonstrated in its Main Brief that NFG's explanation of how these funds are used is vague and that, currently, NFG is using the funds on a cost-free basis.[109] NFG's argument that it is actively processing environmental expenses against it does not negate the fact that NFG's customers are entitled to that money in the first place and that NFG should not be using that money on a cost-free basis, which Mr. Morgan noted is "unfair to ratepayers."[110] In this regard, the fact that Mr. Morgan has not recommended carrying charges be included in his adjustment to flow back the insurance settlement funds demonstrates that Mr. Morgan's adjustment is moderate.[111] Furthermore, NFG's argument

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[107] OCA M.B. at 40-42, *citing*, OCA St. 2 at 14-15 and OCA Exh. LKM-9A-SR.
[108] NFG M.B. at 47-48.
[109] OCA M.B. at 41.
[110] OCA St. 2SR at 17.
[111] OCA St. 2SR at 18.

that a normalization adjustment is needed should also be rejected because, typically, expense normalization before the Commission ranges between three to five years to establish a normalized expense level, which is precisely what Mr. Morgan proposed, as opposed to NFG's one-year of activity as the normalized level of expense.[112]

2. Office Employee Expenses

NFG's operating expenses should be reduced by $54,000 to reflect an adjustment to Office Employee Expenses because NFG's approach is inconsistent with zero-based budgeting that NFG witness Formato claims NFG uses for its operating budget and applies a compounding annual growth rate (CAGR) to historical costs.[113] NFG claims that CAGR is not inconsistent with zero-based budgeting and NFG's claim for $2 million in Office Employee Expense should be accepted.[114]

NFG's argument that the OCA's adjustment is unreasonable because it assumes that prices will remain flat through the FPFTY, which is inconsistent with OCA witness Deupree's testimony regarding inflation and fundamentally misunderstands Mr. Deupree's testimony on the macroeconomic factors that warrant denying NFG's rate increase request in its entirety.[115]

Mr. Deupree's testimony regarding macroeconomic factors supports accepting Mr. Morgan's adjustment to NFG's claim for Office Employee Expense to help keep costs down, not up. In addition, with regard to the use of CAGR, again NFG's argument should

[112] OCA St. 2SR at 19.
[113] OCA M.B. at 42, *citing*, OCA St. 2 at 16 and OCA Exh. LKM-10A-SR.
[114] NFG M.B. at 44-45.
[115] *See*, OCA St. 1 at 7-19.

be rejected. Mr. Morgan testified that 1) CAGR is not an inflation escalation rate but captures the changes in expenses from two points in time, 2) the annual inflation rate should be used instead of CAGR, and 3) an inflation escalator should not be the sole basis of determining FPFTY level of expenses.[116]

3. Other Expenses – Line Hit Collection

NFG's claim for operating expenses should be reduced by $156,000 to reflect adjustments to the claim for Other Expense – Line Hit Collections because NFG's claim does not recognize that if the cost of the offsetting component (reimbursements) is being normalized then it is also appropriate to normalize the expense incurred.[117] NFG, however, argued in its Main Brief that this adjustment 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.[118] NFG argued that line hit collections have significant lag and recovery from third parties routinely crosses over fiscal years, noting that the primary costs associated with line hits are internal Company labor.[119] NFG's argument should be rejected.

NFG's approach is one-sided because the Company is attempting to normalize only the reimbursements without also normalizing the expenses.[120] The fact that third party claims routinely cross over fiscal years from the incidents themselves supports Mr.

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[116] OCA St. 2SR at 14-15.
[117] OCA M.B. at 44-45; *see also*, OCA St. 2 at 16 and OCA Exh. LKM-11A-SR.
[118] NFG M.B. at 46.
[119] NFG M.B. at 46-47.
[120] OCA St. 2SR at 20.

Morgan's adjustment because of the lag between when the cost is incurred and when the reimbursement is received the expenses recorded in the account could be higher than normal increases.[121] NFG witness Formato's argument regarding internal Company labor costs also should be rejected because it ignores the costs associated with materials, overheads, contractors, permits, etc.[122]

4. Uncollectible Expense

The OCA has demonstrated that NFG's claim for uncollectible expense should be reduced by $73,000 to reflect removal of a 0.02% management adjustment by the Company that is not appropriate.[123] NFG has accepted the OCA's recommended 0.02% adjustment which results in a 1.53% uncollectible factor.[124]

5. Postage Expense

NFG's claim for postage expense should be decreased by $175,000 to remove the compound annual growth rate applied by NFG because NFG's adjustment is backward looking during a period when the US Postage Service implemented frequent rate increases that are not likely to be repeated.[125] NFG, however, claims OCA's adjustment should be rejected because it "does not account for likely increases in January and July of 2027," noting that "the USPS is still facing significant financial challenges and continues to warn of additional increases beyond July of 2026."[126]

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[121] *Id.*
[122] *Id.*
[123] OCA M.B. at 45-46, *citing*, OCA St. 2 at 18 and OCA Exh. LKM-13A-SR.
[124] NFG M.B. at 48.
[125] OCA M.B. at 46, *citing*, OCA St. 2 at 19 and OCA Exh. LKM-14A-SR.
[126] NFG M.B. at 45-46, *citing*, NFG St 3-R at 6.

NFG's argument is speculative and should be rejected. As Mr. Morgan testified: "Whatever problems the USPS faces, it would be inappropriate to use an escalation rate that is not known or certain. It is also not appropriate to use historical price increases to forecast future postal increases because those rates were set to recover specific costs at the time they were increased," adding that "[t]herefore, past postage rate increases are not indicate of the level of future rate increases."[127] NFG's postage claim should therefore be reduced by $175,000.

6. Interest Synchronization

The OCA has demonstrated that NFG's interest expense deduction should be increased by $2,153,000 to a total of $16,042,000 and the state and federal income taxes should be decreased by $150,000 and $421,000, respectively.[128] NFG did not discuss this issue in its Main Brief. Therefore, the OCA's adjustment should be adopted.

VII. TAXES

A. INCOME TAXES

As noted in the OCA's Main Brief, Mr. Morgan originally recommended an adjustment to tax rate used by NFG to determine the revenue requirement.[129] In response to NFG's rebuttal testimony regarding Mr. Morgan's adjustment, however, Mr. Morgan has revised his tax calculation and the revenue gross up factor to reflect the rate used by NFG so this issue is no longer in dispute.[130]

[127] OCA St. 2SR at 15-16.
[128] OCA M.B. at 47, *citing*, OCA St. 2 at 23 and OCA Exh. LKM-18A-SR.
[129] OCA M.B. at 47.
[130] OCA St. 2SR at 22.

B. TAXES OTHER THAN INCOME TAXES

The OCA did not address this issue in its testimony.

C. TAX AND AMORTIZATION ISSUES

The OCA did not address this issue in its testimony.

VIII. RATE OF RETURN

A. INTRODUCTION

In its Main Brief, the OCA recommended the following rate of return (ROR) for NFG:

- An overall ROR of 7.66%
- A Return on Equity (ROE) of 9.74%
- An imputed capital structure of 50% common equity and 50% debt for ratemaking purposes
- An alternative ROE of 9.06% if the Commission adopts NFG's capital structure.[131]

NFG in its Main Brief does not invalidate the substantial evidence supporting the OCA's recommended rate of return. Instead, it abandons the very position advanced by its own witness and asks the Commission to adopt a new 10.5% ROE that is unsupported by any expert testimony or financial analysis contained in the evidentiary record.[132]

This latest revision marks the third ROE requested by the Company during the course of this proceeding. NFG initially requested an 11.25% ROE, later reduced its request to 11.00% after withdrawing its proposed management efficiency adder, and now

[131] OCA M.B. at 48.
[132] NFG M.B. at 53.

requests a 10.50% ROE in its main brief.[133] These repeated downward revisions confirm what the OCA has maintained throughout this proceeding: NFG's original ROE proposal was excessive and unsupported by record evidence.[134] No Company witness testified that a 10.5% ROE is appropriate, nor did any witness present a financial analysis demonstrating that investors require such a return. The Commission's determination must be based on substantial evidence of record, not on a litigation position that has changed during every stage of the proceeding.[135]

In contrast, the OCA's recommendations are supported by substantial evidence in the form of comprehensive expert testimony and accepted financial principles. OCA witness Maureen Reno evaluated the Company's cost of equity using multiple Discounted Cash Flow (DCF) methodologies, employed the Capital Asset Pricing Model (CAPM) as a reasonableness check, analyzed NFG's capital structure in light of current industry practice and financial theory, and demonstrated that both NFG's proposed capital structure and ROE would unnecessarily increase costs borne by Pennsylvania ratepayers.[136] Ms. Reno's recommendation of a 9.74% ROE, together with a 50.0% common equity ratio, is firmly grounded in the evidentiary record, directly reflects Vice Chair Barrow's directive to "take a critical look at the Company's requested [ROR] and [ROE] as well as the capital structure … to ensure reasonableness," and satisfies the standards established by *Bluefield* and *Hope* by providing NFG with an opportunity to earn a return commensurate with

[133] *Id.* at 6, 53; OCA St. 3SR at 15.
[134] OCA St. 3 at 4; OCA St. 3SR at 3; OCA M.B. at 48-49, 55-59.
[135] *Burleson v. Pa. PUC*, 461 A.2d 1234, 1236 (Pa. 1983) (*Burleson*).
[136] OCA M.B. at 50-57.

investments of comparable risk while protecting customers from paying excessive financing costs.[137]

For these reasons, the Commission should reject the Company's unsupported request for a 10.5% ROE and instead adopt the OCA's well-supported recommendations.

B. CAPITAL STRUCTURE

In its Main Brief the OCA recommended a 50% equity and 50% debt capital structure based on OCA witness Reno's analysis of NFG's historical capitalization, its proposed future capitalization, recent industry-authorized equity ratios, expected proxy group capital structures, and the resulting impact on customers.[138]

NFG's Main Brief incorrectly suggests that Commission precedent requires adoption of its proposed 56.40% equity ratio simply because it falls within the range of equity ratios observed among its proxy group.[139] NFG primarily relies upon *PPL Electric 2012* and *Columbia 2021* for the proposition that the Commission generally employs a utility's actual capital structure unless it is atypical.[140] NFG overstates those decisions. They do not establish a per se rule requiring acceptance of an actual capital structure whenever it falls within a proxy group's range. Rather, they reaffirm the Commission's

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[137] *Statement of Vice Chair Kimberly Barrow*, Docket No. R-2025-3059228, Public Meeting (Feb. 19, 2026); *Bluefield Water Works & Improvement Co. v. Public Service Commission*, 262 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

[138] OCA M.B. at 52.

[139] NFG M.B. at 58-59.

[140] *Id.* at 56-58; *Pa. PUC v. Columbia Gas of Pa.*, Docket No. R-2020-3018835, Order at 118 (Feb. 19, 2021) (*Columbia 2021*); *Pa. PUC v. PPL Electric Utilities Corp.*, Docket No. R-2012-2290597*,* Order at 68, (Dec. 28, 2012) (*PPL Electric 2012*).

longstanding discretion to determine the capital structure that results in just and reasonable rates based upon the evidentiary record developed in each proceeding.[141]

It is also true that, using this discretion, the Commission has previously adopted hypothetical capital structures that closely track the average capitalization of the proxy group where the record demonstrated that such an adjustment better reflected a reasonable capital structure for ratemaking purposes.[142] In *PPL Gas 2007*, the utility proposed an actual capital structure consisting of 55.68% common equity and 44.32% debt.[143] The Commission instead adopted the ALJ's recommendation of a hypothetical capital structure that reflected the average debt-to-equity ratio of the barometer group after appropriate adjustments for the company's use of short-term debt.[144] The Commission specifically concluded that the adopted capital structure appropriately "align[ed] the hypothetical long-term debt and common equity used on average by the larger barometer group."[145] Thus, contrary to NFG's assertions, Commission precedent also demonstrates that the Commission may adopt a hypothetical capital structure based upon proxy-group averages where supported by substantial evidence.[146] That is precisely what Ms. Reno recommends in this case.[147]

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[141] *Columbia 2021* at 116-18; *PPL 2021* at 68.
[142] *Pa. PUC v. PPL Gas Utilities Corporation*, Docket No. R-00061398, 2007 Pa. PUC LEXIS 2 at **138-45 (Feb. 8, 2007) (*PPL Gas 2007*).
[143] *Id.*
[144] *Id.*
[145] *Id.* at 145.
[146] *Id.*
[147] OCA St. 3SR at 6.

Likewise, the Company's reliance upon *Carnegie Natural Gas Co.* is incomplete.[148] While NFG notes that *Carnegie* recognized that a utility's actual capital structure is generally entitled to consideration, the Commonwealth Court further acknowledged that wholly owned subsidiaries present unique ratemaking concerns because their capital structures may not reflect the financing decisions they would make if they were required to obtain debt and equity independently in the capital markets.[149] Under those circumstances, the Court expressly recognized that "the commission must make adjustments based upon substantial evidence in order to reach a fair result."[150] Ms. Reno's testimony is entirely consistent with that principle. NFG is a wholly owned subsidiary whose financing decisions cannot be viewed in isolation from those of its parent company, and the Commission therefore retains the authority to adopt a hypothetical capital structure where necessary to prevent customers from paying unnecessarily high financing costs.[151]

The cases NFG relies on to claim entitlement to its actual capital structure do not eliminate the Commission's discretion to adopt a hypothetical capital structure where the evidentiary record demonstrates that the proposed equity ratio is excessive.[152] Each rate case must be decided on its own record, and here the record demonstrates that NFG's proposed 56.40% equity ratio exceeds current industry practice, exceeds recent authorized equity ratios for regulated gas utilities, and would unnecessarily increase customer rates.[153]

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[148] *Carnegie Natural Gas Co. v. Pa. PUC*, 433 A.2d 938 (Pa. Cmwlth. 1981) (*Carnegie*).
[149] *Id.* at 940.
[150] *Id.*
[151] OCA M.B. at 51-52.
[152] *Columbia 2021* at 118; *PPL 2021* at 68; *Carnegie* 433 A.2d at 940.
[153] OCA M.B. at 50-51.

And while the Commission has ruled in favor of both actual hypothetical capital structures and hypothetical capital structures historically, the Commission recently indicated that the Commission may be moving more towards adjusting capital structures. For example, in a statement released in this docket when NFG filed their rate case, Vice Chair Barrow stated:

> I urge the parties to take a critical look at the Company's requested rate of return and return on equity (ROE) as well as the capital structure (common equity ratio and debt capital) to ensure reasonableness. Deviations in each of these items translate into millions of dollars charged to customers of all rate classes. Too often, the relationship between debt and ROE to cost of debt and capital is asserted as a general matter from basic economic principle alone. But, those relationships are not established empirically. That empirical relationship must periodically be re-established. Therefore, I believe a careful and detailed review of NFG's claimed capital structure and ROE is warranted.[154]

Vice Chair Barrow also previously stated in reference to the Peoples Natural Gas 2024 Rate Case:

> I agree with the OCA's capital structure proposal of 50% debt and 50% equity. Not only does this capital structure comport with Commission precedent but, as I&E highlighted, it is optimal when trying to balance the financial integrity of a utility as well as trying to control costs to ratepayers. … Historically, this Commission has viewed capital structures hewing closer to 50/50 as reasonable.[155]

Ms. Reno's capital structure recommendation and analyses align precisely with Vice Chair Barrow's statements. For these reasons, the Commission should reject NFG's

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[154] *Statement of Vice Chair Kimberly Barrow*, Docket No. R-2025-3059228, Public Meeting (Feb. 19, 2026).

[155] *Pa. PUC v. Peoples Natural Gas Co. LLC*, Docket No. R-2023-3044549 (Vice Chair Barrow Statement Sep. 12, 2024) at 2 (available at: https://www.puc.pa.gov/pcdocs/1848370.pdf).

proposed capital structure and adopt Ms. Reno's recommended 50.0% equity and 50.0% debt capital structure.

C. DEBT COST RATE

There is no dispute concerning the debt cost rate.

D. RETURN ON COMMON EQUITY

The OCA recommended that the Commission should reject NFG's requested ROE and adopt OCA witness Reno's recommended 9.74% ROE, or if the Commission adopts NFG's proposed capital structure, the OCA recommended that the Commission instead adopt Ms. Reno's alternative ROE of 9.06%.[156] These recommendations are based on Ms. Reno's DCF, CAPM, and Hamada analyses which examined projected earnings growth, dividend growth, book-value growth, and sustainable growth measures, together.[157]

NFG's Main Brief provides no evidentiary basis for rejecting Ms. Reno's recommended ROE or for adopting NFG's newly proposed 10.5% ROE.[158] Instead, NFG inexplicably abandons the recommendation of its own witness and asks the Commission to approve an ROE that is unsupported by any testimony or financial analysis contained in the record.[159] The Commission should reject this litigation position and instead adopt the OCA's recommended ROE because it is supported by substantial record evidence and accepted financial principles.[160]

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[156] OCA M.B. at 53.
[157] *Id.*
[158] NFG M.B. at 62-63.
[159] *Id.* at 53.
[160] *Burleson*, 461 A.2d at 1236.

NFG's revised request for a 10.5% ROE underscores the weakness of its position throughout this proceeding.[161] NFG originally sought an 11.25% ROE, later reduced that request to 11% after withdrawing its proposed management efficiency adjustment, and now requests a 10.5% ROE in briefing.[162] Yet no Company witness testified that investors require even a 10.5% return, nor did any witness perform a DCF, CAPM, or other financial analysis supporting that figure. NFG's evolving ROE request demonstrates precisely the OCA's argument throughout this proceeding that NFG's ROE recommendation substantially overstated investors' required return.[163] While the Company now implicitly concedes that its original request was unreasonable, it has failed to replace it with any alternative supported by the record.

Instead of introducing new evidence into the record (which has not yet closed), NFG's counsel has simply stated in NFG's Main Brief that it is now seeking a 10.5% ROE, a figure that is completely unsupported by NFG's witness testimony.[164] The Commonwealth Court has consistently held that "'an attorney's statement in an argument does not constitute evidence.'"[165] Rather, the "self-serving, unsubstantiated and unsworn statements by counsel are not competent evidence."[166] Whether evidence is

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[161] NFG M.B. at 53-54.
[162] *Id.* at 6, 53; OCA St. 3SR at 15.
[163] OCA St. 3 at 4; OCA St. 3SR at 3; OCA M.B. at 48-49, 55-59.
[164] NFG M.B. at 6, 53.
[165] *Colonial Sch. Dist. v. Montgomery Cty. Bd. of Assessment Appeals*, 232 A.3d 1051, 1061 (Pa. Cmwlth. 2020) (*quoting School District of Philadelphia v. Board of Revision of Taxe*s, 217 A.3d 472, 485 (Pa. Cmwlth. 2019)).
[166] *East Norriton Township v. Gill Quarries, Inc.*, 604 A.2d 763, n.9 (Pa. Cmwlth. 1992).

competent is a threshold question for consideration by a finder of fact.[167] NFG's sudden request in its Main Brief for a 10.5% ROE constitutes precisely the type of unsworn attorney argument that this Commission has repeatedly held cannot be relied upon to support any factual determination.[168]

In contrast, Ms. Reno conducted a comprehensive analysis employing multiple accepted financial methodologies.[169] She evaluated several forms of the DCF model, considered both analysts' earnings growth forecasts and sustainable growth estimates, employed the CAPM as a reasonableness check, and examined the effect of financial leverage through the Hamada framework.[170] Unlike NFG's witness, who relied heavily upon analysts' earnings growth projections and then further inflated his recommendation through a size risk adjustment,[171] Ms. Reno relied upon multiple independent analytical techniques to develop a balanced estimate of investors' required return.[172]

In its brief, NFG argues that Ms. Reno improperly relied upon a sustainable growth DCF analysis rather than analysts' earnings growth forecasts.[173] As Ms. Reno explained, sustainable growth provides an objective estimate of long-run investor expectations that is

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[167] *Gibson v. Workers' Comp. Appeal Bd. (Armco Stainless & Alloy Prods.)*, 861 A.2d 938, 944 (Pa. 2004) ("to test whether the evidence relied upon is substantial evidence in support of a finding, the reviewing court should ascertain whether the evidence admitted is competent, and if it is competent, whether it is sufficient to support the administrative finding.").
[168] NFG M.B. at 53-54.
[169] OCA M.B. at 54-58.
[170] *Id.*
[171] *Id.* at 57-58.
[172] *Id.* at 54-58.
[173] NFG M.B. at 63.

particularly appropriate when evaluating mature, regulated utilities.[174] Although Ms. Reno considered the sustainable growth methodology, it was only a small portion of her analysis.[175] Ms. Reno considered multiple DCF methodologies, primarily relying on the constant-growth DCF; evaluated the resulting range of reasonable returns; and selected the midpoint of that range.[176] NFG's selective criticism of only one component of her analysis therefore fails to rebut the reliability of her ultimate recommendation.[177]

NFG also continues to defend NFG witness Nowak's recommended ROE calculation despite abandoning the recommendation itself.[178] As the OCA explained in its Main Brief, Mr. Nowak's recommendation was driven by optimistic earnings growth assumptions and further increased through application of a size risk adjustment.[179] Ms. Reno appropriately rejected the size adjustment because NFG is not an independent stand-alone company competing for capital as a small utility; it is a wholly owned subsidiary of National Fuel Gas Company, a significantly larger publicly traded parent with substantial access to capital markets.[180] NFG offers no persuasive basis for concluding that investors require an additional premium associated with the risks typically faced by small, independent companies.[181]

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[174] OCA M.B. at 56-57.
[175] *Id.*
[176] *Id.* at 54-57.
[177] NFG M.B. at 63.
[178] *Id.* at 62.
[179] OCA M.B. at 57-58.
[180] *Id.*
[181] NFG M.B. at 62.

NFG also fails to rebut Ms. Reno's alternative ROE recommendation, calculated using the Hamada framework, of 9.06% if the Commission adopts NFG's capital structure.[182] NFG claims that the OCA's proposed alternative ROE is not market based and resulted from a misuse of the Hamada model.[183] The Hamada model recognizes the relationship between financial leverage and equity risk that as a company's equity ratio increases and financial leverage decreases, shareholders assume less financial risk and therefore require a lower return.[184] Conversely, where leverage increases, investors require greater compensation for the additional risk.[185] Accordingly, if the Commission adopts NFG's proposed equity-heavy capital structure, fundamental financial theory requires recognition that NFG's reduced financial risk also reduces its required return on equity.[186]

Notably, NFG offers no competing analysis demonstrating that Ms. Reno's application of the Hamada model is inconsistent with accepted financial theory.[187] Instead, it simply disagrees with the result because it produces a lower ROE.[188] Such disagreement does not rebut the substantial evidence supporting Ms. Reno's testimony.[189]

Because NFG's newly proposed 10.5% ROE is unsupported by substantial evidence, while the OCA's recommendation is fully supported by the record and results in a fair

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[182] *Id.* at 66.
[183] *Id.*
[184] OCA M.B. at 60.
[185] *Id.*
[186] *Id.*
[187] NFG M.B. at 66.
[188] *Id.*
[189] OCA St. 3SR at 24-26.

return, the Commission should adopt Ms. Reno's recommended ROE of 9.74% or alternative ROE of 9.06% if the Commission adopts NFG's capital structure.

E. MANAGEMENT PERFORMANCE

There is no dispute concerning management performance as NFG withdrew its ROE performance adder.

F. CONCLUSION AS TO RATE OF RETURN

The Commission should reject NFG's proposed capital structure and unsupported 10.50% return on equity.[190] Instead, the Commission should adopt Ms. Reno's recommended ratemaking capital structure of 50% common equity and 50% long-term debt together with a 9.74% return on equity.[191] Alternatively, should the Commission determine that NFG's proposed capital structure should be adopted, the Commission should also adopt Ms. Reno's corresponding ROE of 9.06%, which appropriately reflects the lower financial risk associated with the Company's equity-heavy capital structure.[192]

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

A. ALLOCATED COST OF SERVICE STUDY

In its Main Brief, the OCA showed that NFG relied on a faulty approach to cost allocation, resulting in improperly assigned costs.[193] The OCA further explained why the Peak and Average (P&A) allocated cost of service study (ACOSS) as proposed by OCA witness Deupree properly allocates the costs of distribution mains and should be selected

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[190] NFG M.B. at 67.
[191] OCA M.B. at 61.
[192] *Id.* at 62.
[193] *See generally* OCA M.B. at 62-69.

by the Commission over NFG's preferred Customer Demand ACOSS.[194] OCA witness Deupree's surrebuttal explains why NFG's contention that its preferred Customer Demand ACOSS "properly assigns the costs of mains" is incorrect.

Specifically, Mr. Deupree testifies that NFG is incorrect in stating that the P&A ACOSS fails to follow cost causation principles because the P&A ACOSS "is based on the understanding that natural gas facilities are built to supply both peak and non-peak service" and therefore that "both capacity and throughput are cost causation factors" driving mains investment.[195] Additionally, the Customer Demand ACOSS's relies on a fundamentally flawed zero-intercept study (ZIS) that uses a "complete hypothetical construct" to calculate the portions of mains investment related to customer demand where no strong statistical correlation exists between the number of NFG's customers and NFG's distribution mains investment.[196]

Finally, the Commission has repeatedly rejected the notion that a customer component should be included in allocating the costs of distribution mains.[197] Mr. Deupree's surrebuttal highlights just one of the most recent Commission decisions to the

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[194] *See generally Id.*
[195] OCA 1 SR at 12-13.
[196] *Id.* at 13, 14; *see also Pa. PUC v. Nat'l Fuel Gas Dist. Co.*, 1994 Pa. PUC LEXIS 134, *319 (Order Dec. 6, 1994) (*NFG 1994*) (noting the Commission's prior rejection of proposals for a zero-intercept or minimum system method of costs of service).
[197] *See e.g.*, *Pa. PUC v. Phila. Gas Works*, Docket R-2023-3037933 (Nov. 9, 2023), Order at 137; *Pa. PUC v. Columbia Gas of Pa., Inc.*, R-2020-3018835 (Feb. 19, 2021) Order at ; *NFG 1994*, 1994 Pa. PUC LEXIS 134, *319-21 ("We conclude that we should retain our historic practice of allocating total distribution costs based on each class's contribution to peak and annual requirements … The Peak and Average method that allocates mains equally is a sound and reasonable method of cost allocation and should remain intact.")

Commission's recent decision in *Columbia Gas 2025* which adopted a P&A cost allocation method and found "it is the load that determines the mains investment, not the number of customers served."[198] I&E also supports the use of the Peak and Average ACOSS over NFG's preferred Customer Demand ACOSS.[199]

B. REVENUE ALLOCATION

The Commission should reject NFG's proposed revenue allocation as based on the faulty ZIS and Customer Demand ACOSS and adopt the OCA's proposal because the OCA's proposal is based on the P&A methodology and applies the policy considerations of gradualism and other non-cost factors including evidence of the current macroeconomic environment.[200] OCA witness Deupree's surrebuttal explains why NFG's argument that the Customer Demand ACOSS should be utilized to allocate costs to the classes is incorrect based on cost causation principles, its reliance on a flawed ZIS, and the fact that throughput, or load, is more important to determining mains investment than the number of customers the main will serve[201]

Likewise, the OSBA's hybrid alternative to cost that would present a "middle ground"[202] between the NFG and OCA proposed ACOSS and the alternative revenue allocation it proposed as a result,[203] should be rejected because it continues to rely on

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[198] *Id.* at 16-17 (quoting *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2025-3053499 *et al.*, Order at 255 (Dec. 4, 2025) (*Columbia 2025*)).
[199] I&E M.B. at 36.
[200] OCA M.B. at 69-75.
[201] *See generally* OCA 1 SR at 12-17.
[202] OSBA St. 1-R at 3.
[203] OSBA St. 1-R at 3-8.

NFG's flawed Customer Demand ACOSS.[204] Not only is OSBA's "Solomonic solution"[205] not supported by substantial record evidence, OSBA only put forth this "solution" in its Rebuttal testimony[206] and then abandoned it in its Main Brief by concluding that NFG's ACOSS "align[s] with cost causation principles"[207] and that NFG's resulting revenue allocation "falls within the range of reasonableness."[208] NFG is the only party that provided support for the OSBA's alternative revenue allocation in its brief.[209] As the OSBA's alternative revenue allocation is not supported by substantial record evidence, it should also be rejected by the Commission.

C. RATE DESIGN

As discussed in the OCA's Main Brief, if the Commission determines an increase in rates is necessary, it should adopt the OCA's proposed revenue allocation and rate design.[210] The OCA's proposals more evenly allocate any rate increase across classes instead of over-burdening an already-burdened residential class.[211] Additionally, the OCA's proposal to "cap the allowed revenue increase to under-earning rate classes to no more than 1.15 times the system average increase"[212] is also more consistent with rate gradualism than I&E's proposal to cap the revenue increase to 1.50 times the system

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204 OCA St. 1SR at 17.
205 *Id.* (citing OSBA St. 1-R at 2).
206 OSBA St. 1-R at 3-8.
207 OSBA M.B. at 13.
208 OSBA M.B. at 14.
209 NFG M.B. at 68-69.
210 OCA M.B. at 62-78.
211 OCA M.B. at 78. *See generally* OCA M.B. at 70-78.
212 OCA St. 1 R at 11.

average[213] and should thus be adopted by the Commission. CAUSE-PA supports the OCA's proposed revenue allocation.[214]

Increasing the residential customer charge by 35.7% would exacerbate customer affordability concerns and recover the majority of customer related costs through monthly fixed costs.[215] Doing so would negatively impact public policy goals like energy efficiency and conservation, and fail to appropriately apply principles of cost causation, gradualism and overall fairness.[216] NFG merely mentions, but does not rebut, the OCA's argument that an increase in the residential customer charge from $14 to $19 discourages conservation and energy efficiency.[217] This discouragement is compounded by NFG's request to make their pilot WNA permanent, without any alteration besides moving from a 15-year normal to a 10-year normal for calculating its Heating Degree Days (HDDs).[218]

Moreover, NFG disregards OCA witness Deupree's analysis that customer-related costs for residential customers are approximately $22.70 per customer,[219] instead of $27, making NFG's argument that the current customer charge recovers only half of the customer service charges incorrect.[220] Instead, as OCA witness Deupree calculated, the current customer charge recovers nearly 62% of monthly customer-related costs.[221]

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[213] OCA St 1R at 10-11; OCA St. 1 at 67-68.
[214] CAUSE-PA M.B. at 43.
[215] *See generally* OCA M.B. at 73-76; OCA St. 1 at 69-78; OCA St. 1R at 18-19.
[216] *See generally* OCA M.B. at 73-76; OCA St. 1 at 69-78; OCA St. 1R at 18-19.
[217] OCA M.B. at 75-76; OCA St. 1 at 74-76; OCA St. 1SR at 19.
[218] NFG M.B. at 10; NFG St. 19 at 23, 25-26.
[219] OCA St. 1 at Exh. MWD-9; OCA St. 1SR at 18-19.
[220] NFG M.B. at 70.
[221] OCA St. 1SR at 19; OCA St. 1 at Exh. MWD-9.

NFG also does not dispute that an increase of $5 to the residential customer charge would be inconsistent with the average residential customer charges for other natural gas distribution utilities in Pennsylvania.[222] Finally, although customer service costs do not vary by usage, the Commission does not only consider cost of service in setting rates, but also considers other principles like gradualism and the ability for customers to conserve energy.[223] For these reasons, and the reasons provided in the OCA and CAUSE-PA's Main Briefs, NFG's proposal to increase the fixed monthly charge should be rejected.

D. SCALEBACK

All parties agree that in the case that the Commission grants a rate increase lower than that requested by NFG, that the increase to each class should be scaled back proportionately.[224] The OCA additionally demonstrated that any resulting scaleback should also be applied to any increase to NFG's monthly customer charge, a position with which both I&E and CAUSE-PA agree.[225] The Commission has done so consistently in past rate cases and should do the same in this case.[226]

E. OTHER POST EMPLOYEE BENEFITS

No parties opposed NFG's proposed continuance of Rider I to pass back $7.2 million in revenue collected to fund other post employee benefits to customers through

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[222] OCA M.B. at 70; OCA St. 1 at 73, Table 5.
[223] *Columbia 2025* at 279.
[224] NFG M.B. at 71; OSBA M.B. at 15; I&E M.B. at 39-40; OCA M.B. at 79; CAUSE-PA at 51.
[225] I&E M.B. at 40; CAUSE-PA M.B. at 51.
[226] *See e.g., Columbia 2025* at 174.

September 2026.[227] However, the OCA reiterates its prior contention that this pass-back is not sufficient to offset NFG's requested rate increase and, moreover, reflects that NFG has sufficient funds in light of current macroeconomic trends and affordability concerns.[228]

F. SUMMARY AND ALTERNATIVE

A rate increase for NFG is not justified at this time, particularly considering the affordability concerns raised by OCA witness Deupree.[229] If the Commission decides to grant a rate increase, for all the reasons above and in the OCA's Main Brief, the Commission should adopt the OCA's alternative Peak and Average ACOSS and the OCA's alternative revenue apportionment. The Commission should further reject NFG's proposed increase to its monthly customer charge. In the alternative, the Commission should limit any increase to NFG's monthly fixed customer charge to the percentage rate increase class revenue requirement and subject the customer charge to any scalebacks.

X. WEATHER NORMALIZATION (WNA)

1. NFG's WNA Pilot should be terminated because NFG has not satisfied its burden of proof to show that their WNA results in just and reasonable rates.

The OCA demonstrated in its Main Brief that the Commission should reject NFG's request to turn its WNA Pilot into a permanent mechanism because substantial evidence does not support a determination that the WNA is equitable or that it satisfies the Commission's policy factors regarding alternative rate mechanisms.[230] NFG argues in its

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[227] *See* OCA M.B. at 79-80; NFG St. 14 at 13.
[228] OCA M.B. at 80.
[229] OCA M.B. at 73-77; *see generally* OCA St. 1 at 7-19; OCA St. 1SR at 1-4.
[230] OCA M.B. at 82-90.

Main Brief that its WNA pilot should be made permanent because: (1) it is not a mechanism to avoid regulatory lag; (2) the WNA is symmetrical by design; and (3) the Commission is permitted to authorize a WNA.[231]

First, NFG's argument narrowly confines regulatory lag to mechanisms designed to recover cost or investment increases that occur in between rate cases.[232] As the OCA argued in its Main Brief, NFG's argument about regulatory lag "is inconsistent with the decoupling nature of the mechanism" which reduces risks associated with regulatory lag.[233] Moreover, as explained by OCA witness Deupree, the WNA pilot affects regulatory lag by permitting NFG to collect revenues declining as a result of decreasing use per customer between rate base cases.[234]

Second, NFG disregards the real inequitable results produced by the WNA pilot[235] by arguing that the WNA pilot design is symmetrical, historical weather outcomes do not make the pilot asymmetric, and that neither NFG nor its ratepayers control the weather outcomes.[236] NFG argues that the $2.6 million in net credits through March 2026 are a reason to allow the WNA pilot to continue permanently,[237] but NFG fails to tell the whole picture by not acknowledging that amount was halved after April 2026's estimated WNA

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[231] NFG M.B. at 73-74.
[232] OCA St. 1 at 6.
[233] OCA M.B. at 87.
[234] *Id.*
[235] OCA M.B. at 83-86.
[236] NFG M.B. at 74.
[237] NFG M.B. at 76-77.

surcharge, and that, even including the credits through March 2026, almost $7.9 million in total additional revenue has been extracted from its ratepayers through its WNA pilot.[238]

NFG argues further that the "WNA ensures that neither the Company nor its ratepayers benefit or are harmed" when the weather is higher or lower than forecast."[239] However, NFG's ratepayers have been harmed and are harmed by the WNA pilot because the WNA pilot: (1) has produced more surcharges than credits[240]; (2) charges customers for service they did not receive[241]; (3) shifts the risk of weather outcomes from NFG to ratepayers[242]; and (4) extracts additional money from ratepayers in exchange for an illusory "potential benefit."[243] All this while, NFG can more easily absorb the impact of weather-related volatility than its ratepayers.[244]

Finally, as explained in detail by the OCA in its Main Brief,[245] although the Commission is specifically permitted to authorize the WNA, the Commission is not required to do so and NFG must still satisfy its burden of proof that the WNA would result in just and reasonable rates.[246] NFG has failed to demonstrate that the WNA has and will result in just and reasonable rates for its ratepayers because it unreasonably shifts weather-related risks from NFG to its customers who are already struggling with affordability

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[238] OCA M.B. at 84.
[239] NFG M.B. at 74.
[240] OCA M.B. at 85-86.
[241] OCA M.B. at 86-87.
[242] OCA M.B. at 85-88.
[243] OCA M.B. at 88.
[244] OCA M.B. at 89-90.
[245] OCA M.B. at 82-95.
[246] OCA M.B. at 83.

concerns, all while purporting to be beneficial and fair for both customers and the Company.[247] Moreover, the totality of the factors the Commission considers when reviewing alternative ratemaking mechanisms weigh against authorizing NFG's proposed WNA.[248] For all the reasons provided in the OCA and CAUSE-PA's Main Briefs, NFG has failed to meet its burden, and the Commission should reject its proposed WNA.

2. OCA's proposed modifications should be approved if the Commission determines to allow the WNA to continue.

The OCA fully addressed in its Main Brief its proposed modifications to NFG's WNA proposal of raising the deadband to 5%,[249] and removing the months of October and May[250] should the Commission determine to allow NFG's WNA pilot to continue, and no further reply is necessary on those points.

NFG argues that its Pilot WNA should be approved on a permanent basis "because it serves the Company and its customers well."[251] The OCA in its Main Brief, demonstrated why the WNA mechanism has not been serving NFG's "customers well" but has instead inequitably operated in NFG's favor.[252]

The Commission should not make NFG's WNA permanent with only three years of data, particularly when NFG's data shows lopsided outcomes.[253] Two of the three years of data show the WNA pilot has produced net charges of approximately $6.9 million and $2.2

[247] OCA M.B. at 83-90; NFG M.B. at 10, 74-76.
[248] OCA M.B. at 90-95; OCA Exh. MWD-1.
[249] OCA M.B. at 96-97.
[250] OCA M.B. at 97-98.
[251] NFG M.B. at 78.
[252] OCA M.B. at 83-86.
[253] OCA M.B. at 85; NFG St. 1R at 9, Table 1.

million.[254] Data for the third heating season, while currently showing a net credit to customers of approximately $1.2 million, is as yet incomplete because it does not show any data for May 2026, data which could easily erase the current net credit to customers.[255] Moreover, NFG proposes to update its weather normalization from a 15-year average to a 10-year average.[256] Although reflecting more recent weather conditions may lead to more balanced charges and credits,[257] NFG's WNA mechanism should not be made permanent solely on an unproven assumption that future outcomes will be more balanced.

The OCA also recommended that the Commission require NFG to utilize more weather stations to determine its Heating Degree Days (HDDs) instead of solely relying on Erie as representative of its entire rate base. Erie weather is experienced by only 44 percent of NFG's customers.[258] NFG states that another 13% are covered by Youngstown, Ohio's weather station[259] and that Erie and Youngstown have similar weather.[260] Assuming that Erie's and Youngstown's weather is similar, this weather, which is only experienced by 60 percent of NFG's customer base, does not mean that Erie's weather is a reasonable proxy for NFG's entire customer base. This is true, particularly when considering that NFG's service territory extends as far east as the edge of McKean County and part of Cameron County and as far south as parts of Butler and Armstrong counties.[261]

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[254] OCA M.B. at 84-85; NFG St. 1R at 9, Table 1.
[255] OCA M.B. at 84-85; NFG St. 1R at 9, Table 1.
[256] NFG M.B. at 74-75; OCA M.B. at 86.
[257] NFG M.B. at 74-75.
[258] NFG Exh. CEH-1R, Table 2.
[259] *Id.*
[260] NFG St. 13R at 3.
[261] NFG Exh. CEH-1RJ.

NFG disputes the OCA's suggestion to use the Bradford and DuBois weather stations even though those weather stations are within NFG's service territory.[262] NFG argues that the Dubois weather station represents only 5.6 percent of its customers. However, DuBois has a similar number of HDDs to the Franklin, Meadville, and Slippery Rock weather stations which cover an additional 11.8 percent, 7.5, and 1.6% percent of customers, respectively.[263] Further, Ridgeway weather station, which encompasses another 6.1 percent of NFG's customers has a number of HDDs which is the midpoint between the DuBois and Bradford weather stations, and much closer to Bradford's than to Erie's number of HDDs.[264]

Although the DuBois and Bradford weather stations themselves may only cover about 16,000 NFG customers, adding the Franklin, Meadville, and Slippery Rock weather stations expands that coverage to almost 60,000 customers.[265] Therefore, adding the stations of DuBois and Bradford would provide a more reasonable proxy for those approximately 30 percent of NFG customers. Moreover, DuBois and Bradford are only missing 2 months and 1 month of weather data respectively over the ten years,[266] which does not make the data that "spotty" as to be unreliable.[267]

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[262] NFG M.B. at 78.
[263] NFG Exh. CEH-1R, Table 2, Table 3. Dubois, Franklin, Meadville, and Slippery Rock all have even more similar HDDs than Erie and Youngstown so it is fair to make the same comparison here as NFG makes between Erie and Youngstown. NFG Exh. CEH-1R, Table 3.
[264] NFG Exh. CEH-1R, Table 2, Table 3.
[265] NFG Exh. CEH-1R, Table 2, Table 3.
[266] NFG Exh. CEH-1R, Table 5.
[267] NFG M.B. at 78.

For these reasons, and all the reasons provided in the OCA's, CAUSE-PA, and I&E's Main Briefs, if the Commission determines to allow the WNA mechanism to continue, it should be conditioned on making the above modifications.

XI. ENERGY EFFICIENCY PILOT

As explained in detail in the OCA's Main Brief, NFG's Energy Efficiency (EE) Pilot Rider should be denied primarily because NFG's proposal represents single-issue ratemaking and the costs at issue do not meet the criteria for reconcilable riders.[268] NFG's proposed rider also fails to meet any of the National Regulatory Research Institute's (NRRI) recommended criteria for a cost recovery mechanism.[269]

NFG's proposed EE Pilot rider fails the Commission criteria for reconcilable riders pursuant to Section 1307[270] The legal standard for such riders, if not expressly authorized by the General Assembly, requires a utility to show that the expense sought to be recovered is easily identifiable, beyond the utility's control,[271] extraordinary, substantial, unexpected, or non-recurring.[272] Although the costs for NFG's proposed EE Pilot are easily identifiable from NFG's filing,[273] NFG has not shown that the costs are beyond the utility's control or unexpected because NFG plans to directly administer the program.[274] NFG has also not shown that the costs are extraordinary compared to other routine costs recovered through

[268] OCA M.B. at 101-104.
[269] OCA M.B. at 101-05.
[270] OCA M.B. at 102.
[271] *Popowsky v. Pa. PUC*, 13 A.3d 583, 591 (Pa. Cmwlth 2011).
[272] *Pa. PUC v. Aqua Pennsylvania Wastewater, Inc.*, 2022 Pa. PUC LEXIS 161 at *155 (Order, May 12, 2022).
[273] NFG St. 18 at 6.
[274] OCA St. 1 at 41 (citations and footnotes omitted); NFG St. 18 at 6-7.

base rates[275] or that the costs rise to a level of substantiality when compared with NFG's overall revenue.[276] Finally, NFG has not shown the costs are non-recurring, as the costs will be recurring for the five years of the pilot program.[277]

The OCA shows how NFG fails the legal standard for reconcilable riders and recognizing that while the NRRI criteria do not bind the Commission, the criteria provide secondary support for denying NFG's proposed EE Rider.[278] NFG, meanwhile, fails to identify in its Main Brief or in testimony the statutes, regulations, or past Commission decisions establishing the framework that it relies on for Commission approval of its EE Pilot Rider: "regulatory oversight, limited customer exposure, and recovery aligned with program experience."[279] This is a false legal standard that does not exist for reconcilable riders. For this reason, and for all the reasons provided in the OCA's Main Briefs, NFG failed to meet its burden of proof that its proposed EE Pilot rider would result in just and reasonable rates.

XII. <u>UNIVERSAL SERVICE</u>

The OCA did not address the issues in this section in its testimony.

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

A. PAYMENT ARRANGEMENT DATA

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[275] *See Aqua 2022* at *155.
[276] OCA St. 1 at 41-42.
[277] NFG St. 18 at 5.
[278] OCA M.B. at 104-05.
[279] NFG M.B. at 85; *see also* NFG St. 18R at 12 ("The Commission has consistently evaluated riders and pilot mechanisms on a case-specific basis, considering factors such as policy objectives, scope, duration, customer protections, and reporting requirements.").

The OCA recommended that NFG collect and analyze payment arrangement data and that NFG should evaluate the extent to which payments or payment arrangements prevent terminations after a notice has been issued in a report to the parties within six months.[280] NFG stated that "[t]he Company agrees that payment agreements provide an important tool to the Company and customers for avoiding termination and managing arrears."[281] However, in opposing the OCA's recommendation, NFG argues that the total dollars in debt for customers on payment arrangements rose from 38.6% in 2022, to 46.8% in 2024, demonstrating a growing percentage of customers carrying arrears are actively enrolled in payment arrangements.[282] NFG also argues that the OCA did not demonstrate how payment arrangement data analysis would provide meaningful insight or actionable information.[283]

While NFG argues that it trains its call center staff to inform customers of payment arrangements,[284] OCA witness Wise testified that "training alone does not demonstrate program effectiveness in reducing arrearages or preventing service disconnections. Program effectiveness must be supported by outcome-based evidence showing that the intended customer benefits have been achieved."[285] Simply put, training is not tracking and analysis.[286]

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[280] OCA M.B. at 106.
[281] NFG M.B. at 102.
[282] NFG M.B. at 101.
[283] NFG M.B. at 102.
[284] NFG M.B. at 101.
[285] OCA St. 5SR at 10-11.
[286] *Id.*

The increase in NFG customers' total dollars in debt for customers in payment arraignments is also not necessarily evidence of effectiveness.[287] OCA witness Wise testified: "This reflects participation but does not measure outcomes such as reduced terminations, successful completion of arrangements, or sustained payment performance. Accordingly, it is insufficient to evaluate program effectiveness."[288] The fact that the total debt for customers in payment arrangements has increased does not demonstrate that NFG's payment arrangements are effectively reducing the number of disconnections.[289]

Preventing disconnections is essential to providing safe and reliable service.[290] If payment arrangements are not actually reducing terminations, then the program is not fulfilling its fundamental purpose of maintaining continuous service while customers resolve arrears.[291]

Without tracking whether payment arrangements are successful in avoiding terminations, there is no way to determine whether customers are being disconnected despite participating in a payment arrangement.[292] OCA witness Wise testified that "[e]levated termination rates among customers on payment arrangements can indicate underlying problems such as unaffordable repayment terms, gaps in customer outreach or enrollment, misalignment between arrearage levels and structured payment plans, or

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[287] OCA St. 5SR at 11.
[288] *Id.*
[289] *Id.*
[290] OCA St. 5SR at 11; 66 Pa.C.S. § 1501.
[291] OCA St. 5SR at 11.
[292] *Id.*

weaknesses in plan administration."[293] If terminations for customers in payment arrangements is not tracked, payment arrangement issues may surface through increased customer complaints or increased bad debt.[294]

Payment arrangements are frequently relied upon as a primary alternative to disconnection.[295] If NFG's payment arrangements do not actually prevent termination, then they are likely ineffective.[296] Measuring termination avoidance allows the Commission to evaluate real-world effectiveness rather than relying on assumptions about program performance related to an increase in total dollars in debt means that NFG's payment arrangements are effective.[297]

B. NFG'S PAYMENT FEES SHOULD BE ELIMINATED.

The OCA recommended that NFG eliminate its $2.95 payment fee for online and telephonic payments.[298] NFG argues that the OCA did not provide data supporting its $930,000 adjustment to transition to and implement fee-free payments.[299] However, NFG acknowledges that the OCA's proposed adjustment is slightly less than the payment fees paid by NFG's customers in 2025.[300] Moreover, NFG argues that absorbing payment fees requires anticipating any growth in the adoption of online payments.[301]

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[293] OCA St. 5SR at 11-12.
[294] OCA St. 5SR at 12.
[295] *Id.*
[296] *Id.*
[297] *Id.*
[298] OCA M.B. at 106-107.
[299] NFG M.B. at 31.
[300] NFG M.B. at 31.
[301] NFG M.B. at 31-32.

The OCA's recommended $930,000 adjustment was based on the $930,384 in payment fees charged to NFG's customers in 2025.[302] While NFG argues that elimination of payment fees requires consideration of many factors including system changes, third party vendors, and anticipated growth[303], OCA witness Wise testified that "[i]ncreased electronic payment usage may also yield operational benefits, including reduced billing costs, improved payment timeliness, and lower collection-related expenses."[304] NFG did not account for these benefits.

NFG does not address the underlying customer affordability and accessibility concerns that forms the basis of the OCA's recommendation to eliminate payment fees.[305] OCA witness Wise testified that "payment processing fees can operate as an additional financial burden on customers who are already struggling to maintain service."[306] The mere existence of fee-free payment alternatives does not reasonably respond to the issue that there is additional burden through an additional charge for customers who must use more immediate payment channels if they are facing financial hardship, risk of termination, limited banking access, transportation barriers, irregular work schedules, or urgent payment needs.[307] Additionally, Pennsylvania's other natural gas distribution companies,

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302 *See* OCA M.B. at 106-107; OCA St. 5 at 16.
303 NFG M.B. at 31-32.
304 OCA St. 5SR at 13.
305 *Id.*
306 *Id.*
307 *See* OCA St. 5SR at 13.

such as UGI and Peoples Gas, already allow one-time credit or debit card payments online or by telephone with no fee.[308]

NFG neither disputes that its customers have incurred substantial payment processing fees, nor argues against the point that eliminating fees could increase the adoption of electronic and telephonic payment methods.[309] Instead, NFG's acknowledgement that eliminating payment fees could increase the adoption of online payments further supports evaluation of a fee-free payment structure as fee-free payments may also enhance both the customer's experience and operational efficiency.[310]

C. CALL CENTER PERFORMANCE/CUSTOMER SERVICE METRICS

As NFG withdrew its claim for a 25-basis point management efficiency adder, the OCA did not address NFG's call center performance in its Main Brief. While the OCA did not recommend any adjustments related to NFG's call center or other customer service metrics except for in relation to payment fees, NFG's customer service metrics are generally in line with industry peers.[311] While some indicators reflect performance slightly above its peers, others demonstrate results that are comparatively below peer performance.[312]

XIV. MISCELLANEOUS/OTHER ISSUES

The OCA did not address the issues in this section in its testimony.

XV. CONCLUSION

[308] OCA M.B. at 107.
[309] OCA St. 5SR at 13; NFG M.B. at 31-32.
[310] OCA St. 5SR at 14.
[311] OCA St. 5 at 8-15.
[312] *Id.*

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

Respectfully submitted,

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Dated: July 1, 2026

APPENDIX A

OCA Revenue Allocation Impact Across Four Major Rate Classes

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

NFD and OCA Proposed Revenue Allocations
For the Fully Projected Future Test Period Ending October 31, 2027

	Current Revenues ($ 000)	NFD Proposed Revenue Allocation			Allocation from Exhibit MWD-8			OCA Proposed Increase			OCA Alterantive Increase		
		Proposed Revenue Inc. ($ 000)	Proposed Revenue Inc. (%)	Relative Increase	Proposed Revenue Inc. ($ 000)	Proposed Revenue Inc. (%)	Relative Increase	Proposed Revenue Inc. ($ 000)	Proposed Revenue Inc. (%)	Relative Increase	Proposed Revenue Inc. ($ 000)	Proposed Revenue Inc. (%)	Relative Increase
Residential Service	**$ 97,367**	**$ 15,404**	**15.8%**	**1.10**	**$ 13,963**	**14.3%**	**1.00**	**$ 3,087**	**3.2%**	**1.00**	**$ 2,970**	**3.1%**	**1.00**
Commercial and Public Authority Service													
Extra Small (SCPA-LL)	$ 6,819	$ 883	12.9%	0.90	$ 834	12.2%	0.85	$ 184	2.7%	0.85	$ 177	2.6%	0.85
Small (between 250,000-1,000,000 ccf)	6,989	905	12.9%	0.90	1,156	16.5%	1.15	256	3.7%	1.15	246	3.5%	1.15
Large (greater than 1,000,000 ccf)	13,908	1,342	9.6%	0.67	1,994	14.3%	1.00	441	3.2%	1.00	424	3.1%	1.00
Total Commercial and Public Authority Service	**$ 27,716**	**$ 3,130**	**11.3%**	**0.79**	**$ 3,984**	**14.4%**	**1.00**	**$ 881**	**3.2%**	**1.00**	**$ 847**	**3.1%**	**1.00**
Natural Gas Vehicle Service (NGV)	**$ 131**	**$ 21**	**16.0%**	**1.11**	**$ 22**	**16.6%**	**1.15**	**$ 5**	**3.7%**	**1.15**	**$ 5**	**3.5%**	**1.15**
Industrial Service													
Small (SVIS)	$ 444	$ 43	9.7%	0.67	$ 54	12.2%	0.85	$ 12	2.7%	0.85	$ 12	2.6%	0.85
Intermediate (IVIS)	5,876	567	9.6%	0.67	843	14.3%	1.00	186	3.2%	1.00	179	3.1%	1.00
Large (LVIS)	2,730	263	9.6%	0.67	392	14.3%	1.00	87	3.2%	1.00	83	3.1%	1.00
Extra Large (LIS)	2,470	238	9.6%	0.67	409	16.5%	1.15	90	3.7%	1.15	87	3.5%	1.15
Total Industrial Service	**$ 11,520**	**$ 1,111**	**9.6%**	**0.67**	**$ 1,697**	**14.7%**	**1.02**	**$ 375**	**3.3%**	**1.02**	**$ 361**	**3.1%**	**1.02**
Total National Fuel Distribution Corporation	**$ 136,734**	**$ 19,666**	**14.4%**	**1.00**	**$ 19,665**	**14.4%**	**1.00**	**$ 4,348**	**3.2%**	**1.00**	**$ 4,183**	**3.1%**	**1.00**

$4,348 < OCA Revenue Increase per Exhibit LKM-1A-SR (Revised)
0.2211 < Scaleback Ratio

$4,183 < OCA Alternative Revenue Increase
0.2127 < Scaleback Ratio

APPENDIX B

Revised Schedules

Revised 6/25/26

National Fuel Gas Distribution Corporation

Summary of Operating Income
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Company Amounts at Present Rates		OCA Adjustments	Amounts After OCA Adjustments	Pro Forma Change in Revenues		Amounts After Change in Revenues	
		(1)		(2)	(3)	(4)		(5)	
1	Total Operating Revenues								
2	Customer & Distribution Revenue	$ 139,680	1/	$ -	$ 139,680	$ -		$ 139,680	
3	Gas Supply & Cost Adjustment Revenue	124,571	1/	12	124,583	-		124,583	
4	Other Revenues	1,273	1/	-	1,273	22	5/	1,295	
5	Increase in Service Revenue	-		-	-	4,348		4,348	
6	Total Revenues	265,524		12	265,536	**4,370**	6/	269,906	
7									
8	Total Operating Expenses								
9	Operation & Maintenance Expenses	204,049		(1,250)	202,798	67		202,865	
10	Depreciation & Amortization Expense	25,302	2/	(4,670)	20,632	-		20,632	
11	Taxes Other Than Income Taxes	2,489	3/	-	2,489	-		2,489	
12	Total Operating Expenses	231,839	4/	(5,920)	225,919	67		225,986	
13									
14	Operating Income Before Income Taxes	33,684		5,933	39,617	4,303		43,920	
15									
16	Income Taxes:								
17	State	(330)		281	(49)	327		278	
18	Federal	(2,010)		730	(1,280)	835		(445)	
19	Total Income Taxes	(2,340)		1,011	(1,329)			(167)	
20									
21	Net operating income Before Income Tax	$ 36,024		$ 4,922	$ 40,946	$ 4,303		$ 44,087	
22									
23	Rate Base	$ 571,456			$ 575,597			$ 575,597	
24									
25	Return On Rate Base	6.30%			7.11%			7.66%	6/

Notes:
1/ Company FPFTY Schedule A-1.
2/ Company FPFTY Schedule D-1, Line 15.
3/ Company FPFTY Schedule D-1, Line 16.
4/ Company FPFTY Schedule D-1, Line 17.
5/ Exhibit LKM -6A
6/ Calculated at OCA Recommended ROR.

National Fuel Gas Distribution Corporation

Summary of Revenue Increase at OCA Rate of Return
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description			Amount	Source
1	Adjusted Rate Base		$	575,597	Exhibit LKM-2, Page 1
2	Required Rate of Return			7.660%	Exhibit LKM -19A-SR
3					
4	Net Operating Income Required		$	44,091	
5	Net Operating Income at Present Rates			40,946	Exhibit LKM-1, Page 1
6					
7	Income Deficiency/(Surplus)		$	3,145	
8	Revenue Multiplier			1.389570	1/
9					
10	Required Change in Company Revenue		$	4,370	
11					
12	Proposed Revenue Change		$	4,370	
13	Less: Uncollectible	1.53%	$	67	
14	Less: State Income Tax	7.49%		327	
15					
16	Income Before Federal Taxes		$	3,976	
17	Federal Income Tax	21.00%		835	
18					
19	Income Deficiency/(Surplus)		$	3,141	

1/ Revenue Conversion Factor

Gross Revenue Factor	1.000000
Uncollectible Expense	-0.015300
State Taxable Income	0.984700
State Income Tax @7.49%	-0.073754
Federal Taxable Income	0.910946
Federal Income Tax @ 21%	-0.191299
Net Operating Income Factor	0.719647
Revenue Conversion Factor	1.389570

Revised 6/25/26

National Fuel Gas Distribution Corporation

Summary of Rate Base
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount per Company Filing [1/]	OCA Adjustments [2/]	Amount After OCA Adjustments
		(1)	(2)	(3)
1	Utility Plant	$ 957,237	$ -	$ 957,237
2	Accumulated Depreciation	(320,571)	4,670	(315,901)
3	Net Plant in Service	636,667	4,670	641,337
4	Working Capital	6,715	(515)	6,200
5	Gas Inventory	5,664	-	5,664
6	Accumulated Deferred Income Taxes	(73,925)	-	(73,925)
7	Customer Deposits	(5,166)	-	(5,166)
8	Contribution in Aid of Construction	(25)	(20)	(45)
9	Customer Advances	(61)	7	(54)
10	Materials & Supplies	1,587	-	1,587
11				
12	Total Rate Base	$ 571,456	$ 4,141	$ 575,597

Notes:

[1/] Company Schedule C-1, FPFTY.

[2/] Exhibit LKM - 2B, Page .2

National Fuel Gas Distribution Corporation

Summary of Rate Base Adjustments
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Source	Amount
1	Rate Base per Company Filing	Exhibit LKM-3A-SR	$ 571,456
2	OCA Adjustments:		
3	Adjustment to Cash Working Capital	Exhibit LKM-4A-SR	(515)
4	Adjustment to Include CIAC	Exhibit LKM-5A-SR	(20)
5	Adjustment to Include Customer Advances	Exhibit LKM-5A-SR	7
6	Adjustment to Accumulated Depreciation to Reflect OCA Recommended Depreciation Rates	Exhibit LKM-17A-SR	4,670
7			
8	Total Ratemaking Adjustments		$ 4,141
9	Adjusted Rate Base per OCA		$ 575,597

National Fuel Gas Distribution Corporation

Summary of Adjustments to Income Before Income Taxes
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount	Source
1	Operating Income per Company	$ 36,024	Exhibit LKM - 1A-SR
2			
3	OCA Adjustments:		
4	Reflect Growth in Rent From Gas Property	$ 9	Exhibit LKM-3A-SR Pg. 2
5	Remove Stock-Based Compensation	1,045	Exhibit LKM-3A-SR Pg. 2
6	Amortize Insurance Settlement Proceeds	194	Exhibit LKM-3A-SR Pg. 2
7	Remove Office Employee Inflation Adjustment	47	Exhibit LKM-3A-SR Pg. 2
8	Remove Other Expense -Line Hit Collections	114	Exhibit LKM-3A-SR Pg. 2
9	Remove Charge Off Of Customer A/R	-	Exhibit LKM-3A-SR Pg. 2
10	Normalize Uncollectible Expense	54	Exhibit LKM-3A-SR Pg. 2
11	Reflect Postage Rate Increase	128	Exhibit LKM-3A-SR Pg. 2
12	Remove Economic Development	13	Exhibit LKM-3A-SR Pg. 2
13	Include Customer Payment Transaction Costs	(679)	Exhibit LKM-3A-SR Pg. 2
14	Reflect OCA Recommended Depreciation Rates	3,413	Exhibit LKM-3A-SR Pg. 2
15	Interest Synchronization Adjustment	584	Exhibit LKM-3A-SR Pg. 2
16	Total OCA Adjustments	4,922	
17	Total OCA Adjustments	$ 40,946	

National Fuel Gas Distribution Corporation

Summary of Adjustments to Operating Income
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Operating Revenues	O&M Expenses	Depreciation & Amortization	Taxes Other Than Income	State Income Taxes	Federal Income Taxes	Operating Income
1	Amount per Company	$ 265,524	$ 204,049	$ 25,302	$ 2,489	$ (330)	$ (2,010)	$ 36,024
2								
3	OCA Adjustments:							
4	Reflect Growth in Rent From Gas Property	$ 12	$ -	$ -	$ -	$ 1	$ 2	$ 9
5	Remove Stock-Based Compensation	-	(1,430)	-	-	107	278	1,045
6	Amortize Insurance Settlement Proceeds	-	(266)	-	-	20	52	194
7	Remove Office Employee Inflation Adjustment	-	(64)	-	-	5	12	47
8	Remove Other Expense -Line Hit Collections	-	(156)	-	-	12	30	114
9	Remove Charge Off Of Customer A/R	-	-	-	-	-	-	-
10	Normalize Uncollectible Expense	-	(73)	-	-	5	14	54
11	Reflect Postage Rate Increase	-	(175)	-	-	13	34	128
12	Remove Economic Development	-	(17)	-	-	1	3	13
13	Include Customer Payment Transaction Costs	-	930	-	-	(70)	(181)	(679)
14	Reflect OCA Recommended Depreciation Rates	-	-	(4,670)	-	350	907	3,413
15	Interest Synchronization Adjustment	-	-	-	-	(163)	(421)	584
16	Total OCA Adjustments	$ 12	$ (1,250)	$ (4,670)	$ -	$ 281	$ 730	$ 4,922
17	Total Adjusted Income Before Income Taxes	$ 265,536	$ 202,798	$ 20,632	$ 2,489	$ (49)	$ (1,280)	$ 40,946

National Fuel Gas Distribution Corporation
Adjustment to Cash Working Capital
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount	
1	Working Capital for O&M Expenses	$ 6,902	1/
2	Interest Payments	(1,940)	2/
3	Tax Payment Lag Calculations	158	3/
4	Prepyments	**1,080**	
5			
6	OCA Total Working Capital Requirements	$ 6,200	
7	Company Total Working Capital Requirements	**6,715**	3/
8	Adjustment to Cash Working Capital	**$ (515)**	

Notes
[1/] Exhibit LKM-5 , Page 2
[2/] Exhibit-5 , Page 3
[3/] Schedule C-4, Page 1 (Rebuttal)

National Fuel Gas Distribution Corporation

Summary Calculation of Cash Working Capital
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Test Year Expenses per Co. [1/]	OCA Adjustments	Adjusted Test Year Expenses	Lead/Lag Days [1/]	Weighted Average	Totals
	WORKING CAPITAL REQUIREMENT						
1	Revenue Lag Days						47.16
2	Expense Lag Days						
3	Purchased Gas Costs	$ 124,571	$ -	$ 124,571	39.83	$ 4,961,646	
4	Other Expenses (less Uncollectible)	33,016	(6,713)	26,303	41.01	1,078,697	
5	Payroll (Net Labor)	40,592	(1,430)	39,162	10.32	404,157	
6							
7	Total	$ 198,179	$ (8,142)	$ 190,036		$ 6,444,500	
8							
9	O & M Expense Lag Days						33.91
10	Net (Lead) Lag Days						13.25
11							
12	Operating Expenses Per Day						$ 521
13							
14	Working Capital for O & M Expense						$ 6,902

Notes
[1/] Schedule C-4, Page 2

Revised 6/25/26

National Fuel Gas Distribution Corporation

Calculation of Cash Working Capital Interest Component

For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Reference Or Factor	# of Days	# of Days	Total
1	FPFTY Rate Base	Exhibit LKM - 2A-SR			$ 575,597
2	Long-term Debt Ratio	Exhibit LKM -19A-SR			50.00%
3	Embedded Cost of Long-term Debt	Exhibit LKM -19A-SR			5.58%
4	Pro forma Interest Expense	L 1 * L 2 * L 3			$ 16,059
5					
6	Daily Amount	L 4 / L 5 [Col 2]	365		$ 44
7	Days to mid-point of interest payments			91.25	
8	Less: Revenue Lag Days	NFGD Schedule C-4, Page 1		47.16	
9	Interest Payment lag days	L 7 - L 6			(44.1)
10	Total Interest for Working Capital	L 5 * L 8			$ (1,940)

National Fuel Gas Distribution Corporation

Adjustment to Operating Expenses for CWC prurposes
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount
1	Prepaid Expenses	
2	Insurance	$ (1,232)
3	PUC Assessments	(1,242)
4	AGA Dues	(142)
5	IT Services	(6,839)
6		
7	Non Cash Expenses	
8	Remove Stock-Based Compensation	(1,430)
9	Injuries and Damages	(180)
10	Rate Case Expense	(344)
11		
12	Correction of Other Expenses	2,748
13		
14	Cost of Service Adjustments	
15	Remove Office Employee Inflation Adjustment	(64)
16	Remove Other Expense -Line Hit Collections	(156)
17	Remove Charge Off Of Customer A/R	-
18	Reflect Postage Rate Increase	(175)
19	Remove Economic Development	(17)
20	Adjustment to Include Customer Payment Transaction Costs	930
21	Total Adjustment	$ (8,142)

National Fuel Gas Distribution Corporation

Adjustment to Reflect Contributions in Aid of Construction
and Customer Advances for Construction
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Month	Contributions in Aid of Construction [1/]	Customer Advances for Construction [1/]
1	Feb-25	$ 5,325	$ 61,169
2	Mar-25	8,800	60,353
3	Apr-25	-	60,353
4	May-25	17,344	60,353
5	Jun-25	15,003	60,353
6	Jul-25	22,082	60,353
7	Aug-25	-	60,353
8	Sep-25	6,000	48,645
9	Oct-25	24,350	48,645
10	Nov-25	-	48,645
11	Dec-25	480,417	48,645
12	Jan-26	-	43,874
13	Feb-26	11,038	43,058
14	13-Month Average ($000)	45	54
15	Company Amount	25 [2/]	61 [2/]
16	Adjustment to Rate Base	$ (20)	$ 7

Notes:
[1/] OCA 10-7 Attachment 1

R-2025-3059428
Exhibit LKM -6A-SR
Revised 6/25/26

National Fuel Gas Distribution Corporation

Calculation of Forfieted Discount Percentage
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Twelve Months Ended 9/30/2023	Twelve Months Ended 9/30/2024	Twelve Months Ended 9/30/2025
	Gas Service Revenue:			
1	480.0 Residential Sales	$ 200,708	$ 140,127	$ 163,839
2	481.1 Commercial Sales	31,557	20,092	25,583
3	481.2 Industrial Sales	2,745	1,460	2,054
4	481.3 Public Authority Sales	2,302	1,270	1,640
	489.3 Transportation -Dist. Facilities	36,160	41,530	45,231
5		$ 273,471	$ 204,478	$ 238,348
6				
7	487.0 Forfeited Discounts	1,373	1,077	1,146
8				
9	Forfeited Discounts Ratio	0.502%	0.527%	0.481%
10				
11	3-Year Average			0.503%
12				
13	Calculated Increase in Revenues			$ 4,370
14				
15	Increase in Forfieted Discount relate to Revenue Increase			$ 22

Notes:
[1/] OCA 10-20

R-2025-3059428
Exhibit LKM -7A-SR

National Fuel Gas Distribution Corporation

Adjustment to Rent From Gas Property
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount [1/]
1	Twelve Months Ended 9/30/2023	$ 89
2	Twelve Months Ended 9/30/2024	92
3	Twelve Months Ended 9/30/2025	100
4	Average Growth Factor	1.0603
5	HTY Rent From Gas Property	$ 100
6	FTY Rent From Gas Property	$ 106
7	Average Growth Factor	1.0603
8	FPFTY Rent From Gas Property per OCA	$ 112
9	FPFTY Rent From Gas Property per NFG	100
10	Adjustment to Other Operating Revenue	$ 12

Notes:
[1/] OCA 10-20

National Fuel Gas Distribution Corporation

Adjustment to Stock Based Compensation
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount
1	FPFTY Stock Based Compensation Rate Year Oct. 2027	$ 1,430 [1/]
2	Adjustment to Operating Expenses	$ (1,430)

Notes:
[1/] Exhibit MPW-1, Schedule 2, Page 14.

R-2025-3059428
Exhibit LKM -9A-SR

National Fuel Gas Distribution Corporation

Adjustment to Amortize Insurance Settlement Proceeds
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount [1/]
1	NFG Office Employee Expense Inflation Adjustment	$ 798
2	Amortization Period	3
3	Adjustment to Operating Expenses	$ (266)

Notes:
[1/] Information Submitted Pursuant to Section 53.51 et seq of the Commission's Regulations, III-F.8, Page 2.

National Fuel Gas Distribution Corporation

Adjustment to Office Employee Inflation Adjustment
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount [1/]
1	NFG Office Employee Expense Inflation Adjustment	$ 64
2	Adjustment to Operating Expenses	$ (64)

Notes:
[1/] OCA 10-20

National Fuel Gas Distribution Corporation

Adjustment to Other Expense -Line Hit Collections
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount [1/]
1	NFG Line Hit Collection Adjustment	$ 156
2	Adjustment to Operating Expenses	$ (156)

Notes:
[1/] ATF-2, Schedule 4.

National Fuel Gas Distribution Corporation

Adjustment to Remove Charge Off Of Customer A/R
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount [1/]
1	Charge Off Of Customer A/R	$ -
2	Adjustment to Operating Expenses	$ -

Notes:
[1/] I&E-RE-D-25.

National Fuel Gas Distribution Corporation

Adjustment to Uncollectible Expense
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount
1	Revenue at Presaent Rates	$ 264,263 [1/]
2	Uncollectible Factor	1.53% [2/]
3	Uncollectible Expense per OCA Before CAP Forgiveness	$ 4,043
4	Uncollectible Expense per NFG Before CAP Forgiveness	4,116 [3/]
5	Adjustment to Operating Expenses	$ (73)

Notes:
[1/] Exhibit LKM-1, Column (3), Lines 2+3.
[2/] National Fuel Exhibit ATF-3, Schedule 1 (excludes Management Adj.)
[3/] National Fuel Exhibit ATF-3, Schedule 1, line 9.

National Fuel Gas Distribution Corporation

Adjustment to Postage Expense
For the Fully Projected Future Test Year Ended July 31, 2024
($ in Thousands)

Line No.	Description	Amount	
1	HTY Normalized Postage Expense	$ 1,225	[1/]
2	Planned Postage Rate Increase	104.8%	
3	Pro Forma Posatge Expense	$ 1,284	
4	FPFTY Adjusted Postage Expense	1,459	[1/]
5	Adjustment to Operating Expenses	$ (175)	

Notes:
[1/] National Fuel Exhibit ATF-1.

National Fuel Gas Distribution Corporation

Adjustment to Remove Economic Development
Dues and Memberships
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount
1	Economic Development Dues and Memberships	$ 17 [1/]
2	Adjustment to Operating Expenses	$ (17)

Notes:
[1/] OCA 10-34.

R-2025-3059428
Exhibit LKM -16A-SR

National Fuel Gas Distribution Corporation

Adjustment to Include Customer Payment Transaction Costs
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount
1	Customer Payment Transaction Costs	$ 930 [1/]
2	Adjustment to Operating Expenses	$ 930

Notes:
[1/] OCA Set 7-4 attachment.

National Fuel Gas Distribution Corporation

Adjustment to Reflect OCA Recommended Depreciation Rates
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description	Amount
1	OCA Adjustment to Depreciation Expense	$ 4,670 [1/]
2	Adjustment to Operating Expenses	$ (4,670)
3	Adjustment to Accumulated Depreciation	$ 4,670

Notes:
[1/] OCA Set 7-4 attachment.

R-2025-3059428
Exhibit LKM -18A-SR
Revised 6/25/26

National Fuel Gas Distribution Corporation

Interest Synchronization Adjustment
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

Line No.	Description		Amount	
1	Adjusted Rate Base	$	575,597	1/
2	Weighted Cost of Debt		2.790%	
3	Adjusted Interest Deduction	$	16,059	
4	Interest Deduction Per Company		13,889	2/
5	Adjustment to Synchronize Interest Expense	$	2,170	
6	Effective State Income Tax Rate		7.49%	
7	Adjustment to State Income Taxes	$	(163)	
8	Federal Income Tax Base	$	2,007	
9	Federal Income Tax Rate		21.00%	
10	Adjustment to Federal Income Taxes	$	(421)	

Notes:
1/ Exhibit LKM-2, Page 1.
2/ Company Schedule D-11, FPFTY.

National Fuel Gas Distribution Corporation

Calculation of Rate of Return at OCA Recommended
ROE and Capital Structure
For the Fully Projected Future Test Period Ended October 31, 2027
($ in Thousands)

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

Source:
Per OCA Witness Reno

APPENDIX C

Revised Tables

TABLE I

Revised 6/25/26

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

Line No.	Description	Pro Forma at Present Rates	Recommended Adjustments	Adjusted at Present Rates	Revenue Adjustment	Total Allowable Revenues
1	Total Revenues	$ 265,524	$ 12	$ 265,536	$ 4,370	$ 269,906
2						
3	Operating Expenses					
4	Operation & Maintenance Expenses	204,049	(1,250)	202,798	67	202,865
5	Depreciation & Amortization Expense	25,302	(4,670)	20,632	-	20,632
6	Taxes Other Than Income Taxes	2,489	-	2,489	-	2,489
7	Total Operating Expenses	231,839	(5,920)	225,919	67	225,986
8						
9	Operating Income Before Income Taxes	33,684	5,933	39,617	4,303	43,920
10						
11	Income Taxes:					
12	State	(330)	281	(49)	327	278
13	Federal	(2,010)	730	(1,280)	835	(445)
14	Total Income Taxes	(2,340)	1,011	(1,329)	1,162	(167)
15						
16	Net operating income Before Income Tax	$ 36,024	$ 4,922	$ 40,946	$ 4,303	$ 44,087
17						
18	Rate Base	$ 571,456		$ 575,597		$ 575,597
19						
20	Return On Rate Base	6.30%		7.11%		7.66%

TABLE I(A)

Revised 6/25/26

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

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

Revised 6/25/26

TABLE I(B)

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

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

TABLE II

Revised 6/25/26

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

Line No.	Recommended Adjustment	Rate Base Effect	Revenue Effect	Expense Effect	Depreciation Expense Effect	Effect Upon Taxes-Other	State Tax Effect	Federal Tax Effect
1	Adjustment to Cash Working Capital	$ (515)	$ -	$ -	$ -	$ -	$ -	$ -
2	Adjustment to Include CIAC	(20)	-	-	-	-	-	-
3	Adjustment to Include Customer Advances	7	-	-	-	-	-	-
4	Reflect Growth in Rent From Gas Property	-	12	-	-	-	1	2
5	Remove Stock-Based Compensation	-	-	(1,430)	-	-	107	278
6	Amortize Insurance Settlement Proceeds	-	-	(266)	-	-	20	52
7	Remove Office Employee Inflation Adjustment	-	-	(64)	-	-	5	12
8	Remove Other Expense -Line Hit Collections	-	-	(156)	-	-	12	30
9	Remove Charge Off Of Customer A/R	-	-	-	-	-	-	-
10	Normalize Uncollectible Expense	-	-	(73)	-	-	5	14
11	Reflect Postage Rate Increase	-	-	(175)	-	-	13	34
12	Remove Economic Development	-	-	(17)	-	-	1	3
13	Include Customer Payment Transaction Costs	-	-	930	-	-	(70)	(181)
14	Reflect OCA Recommended Depreciation Rates	4,670	-	-	(4,670)	-	350	907
15	Interest Synchronization Adjustment	-	-	-	-	-	(163)	(421)
16	Total OCA Adjustments	$ 4,141	$ 12	$ (1,250)	$ (4,670)	$ -	$ 281	$ 730