August 26, 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.
Peoples Natural Gas Company, LLC
Docket No. R-2026-3060855
I&E Main Brief

Dear Secretary Homsher:

Enclosed for electronic filing is the **Non-Proprietary** version of the Main Brief of the Bureau of Investigation and Enforcement in the above-referenced docket. The **Proprietary** version has been submitted to the Secretary's Bureau via their ShareFile.

Copies are being served on parties per the attached Certificate of Service. Should you have any questions, please do not hesitate to contact me.

Sincerely,

Michael Podskoch

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Enclosures

cc: Administrative Law Judge Charece Z. Collins (*via email – charcollin@pa.gov*)
Per Certificate of Service

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2026-3060855
	:	
Peoples Natural Gas Company LLC	:	

MAIN BRIEF
OF
THE BUREAU OF INVESTIGATION AND ENFORCEMENT

NON-PROPRIETARY VERSION

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Dated: August 26, 2026

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I. INTRODUCTION

A. DESCRIPTION OF I&E

The Bureau of Investigation and Enforcement ("I&E") serves as the Pennsylvania Public Utility Commission's ("Commission" or "PUC") prosecutory bureau for purposes of representing the public interest in ratemaking and service matters before the Office of Administrative Law Judge.[1] By representing the public interest in rate proceedings before the Commission, I&E works to balance the interests of customers, utilities, and the regulated community as a whole to ensure that a utility's rates are just, reasonable, and nondiscriminatory.[2]

B. PROCEDURAL HISTORY

On March 27, 2026, Peoples Natural Gas Company LLC ("Peoples" or "Company") filed proposed Original Tariff Gas – Pa. P.U.C. No. 49 and Original Tariff Gas – Pa. P.U.C. No. S-5 with a proposed effective date of May 26, 2026. The rates set forth therein, if approved by the Commission, would increase Peoples' annual jurisdictional revenues by approximately $163.2 million, or 13.8%.

On March 31, 2026, the Office of Consumer Advocate ("OCA") filed a Formal Complaint and Public Statement. That same day, the Office of Small Business Advocate ("OSBA") filed its Notice of Appearance. On April 2, 2026, I&E filed its Notice of Appearance. On April 7, 2026, OSBA filed a Formal Complaint and Public Statement.

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1 *Implementation of Act 129 of 2008; Organization of Bureaus and Offices*, Docket No. M-2008-2071852, p. 5 (Order Entered August 11, 2011).

2 *See* 66 Pa. C.S. §§ 1301(a), 1304.

That same day, the Pennsylvania Weatherization Providers Task Force, Inc. ("PWPTF") filed a Petition to Intervene which was subsequently granted. On April 9, 2026, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA") filed a Formal Complaint. On April 13, 2026, CAUSE-PA filed its Notice of Appearance. On April 24, 2026, the Pennsylvania Independent Oil & Gas Association ("PIOGA") filed its Notice of Appearance and a Petition to Intervene which was subsequently granted. On May 1, 2026, the Retail Energy Supply Association ("RESA") filed a Petition to Intervene which was subsequently granted.

On April 16, 2026, the Commission entered an Order pursuant to Section 1308(d) of the Public Utility Code suspending the implementation of the proposed rates by operation of law until December 26, 2026, and opening an investigation into the lawfulness, justness, and reasonableness of the proposed rates, rules, and regulations contained therein. The case was assigned to the Office of Administrative Law Judge for the prompt scheduling of such hearings as may be necessary culminating in the issuance of a Recommended Decision.

A telephonic Prehearing Conference was held on April 28, 2026, before Administrative Law Judge ("ALJ") Charece Z. Collins wherein procedural matters were discussed and a litigation schedule was adopted which included evidentiary hearings scheduled for August 5-7, 2026.

In-person public input hearings were held on June 2, 2026, in Johnstown, PA; June 3, 2026, in Pittsburgh, PA; and June 10, 2026, in Greensburg, PA. Telephonic public input hearings were held on June 11, 2026.

The evidentiary hearing was held on August 5, 2026, in Harrisburg, PA wherein the parties moved for the admission of their pre-served testimonies and exhibits into the record. I&E moved for the admission of the following evidence:

- I&E Statement No. 1 – Direct Testimony of Vanessa Okum in both Proprietary and Non-Proprietary format
- I&E Exhibit No. 1 in both Proprietary and Non-Proprietary format
- I&E Statement No. 1-R – Rebuttal Testimony of Vanessa Okum
- I&E Exhibit No. 1-R
- I&E Statement No. 1-SR – Surrebuttal Testimony of Vanessa Okum in both Proprietary and Non-Proprietary format
- I&E Exhibit No. 1-SR
- Verification of Vanessa Okum
- I&E Statement No. 2 – Direct Testimony of D. C. Patel
- I&E Exhibit No. 2
- I&E Statement No. 2-SR – Surrebuttal Testimony of D. C. Patel in both Proprietary and Non-Proprietary format
- I&E Exhibit No. 2-SR in both Proprietary and Non-Proprietary format
- Verification of D. C. Patel
- I&E Statement No. 3 – Direct Testimony of Ethan H. Cline in both Proprietary and Non-Proprietary format
- I&E Exhibit No. 3 in both Proprietary and Non-Proprietary format
- I&E Statement No. 3-SR – Surrebuttal Testimony of Ethan H. Cline
- Verification of Ethan H. Cline
- I&E Statement No. 4 – Direct Testimony of Robert N. Gobrecht IV in both Proprietary and Non-Proprietary format
- I&E Exhibit No. 4 in both Proprietary and Non-Proprietary format
- I&E Statement No. 4-SR – Surrebuttal Testimony of Robert N. Gobrecht IV
- Verification of Robert N. Gobrecht IV

The hearings scheduled for August 6-7, 2026 were cancelled.

I&E now submits this Main Brief ("I&E MB") in support of the arguments made by the I&E witnesses in the record evidence presented.

C. LEGAL STANDARDS

It is axiomatic that the burden of proof in any proceeding involving a utility's existing or proposed rates is on the utility.[3] Peoples must satisfy its burden of proof by presenting a preponderance of evidence.[4] A preponderance of the evidence is such evidence that is more convincing, by even the smallest amount, than that presented by another party.[5] If a preponderance of evidence is submitted, the burden of going forward with competing evidence shifts to opposing parties to produce credible evidence of at least equal weight.

While the burden of going forward and producing evidence may shift back and forth between the parties, the ultimate burden of persuasion remains with the Company. Further, the Commission must ensure that any adjudication is supported by substantial evidence. "Substantial evidence" is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion.[6]

I&E asserts that Peoples has failed to meet its burden and therefore I&E respectfully requests that the Administrative Law Judge and the Commission adopt the adjustments and the overall revenue requirement set forth in the record evidence

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3 *See* 66 Pa. C.S. §§ 1301, 315(a); *Brockway Glass Co. v. Pennsylvania Public Utility Commission,* 437 A.2d 1067 (Pa. Commw. 1981); *Lower Frederick Twp. v. Pennsylvania Public Utility Commission*, 409 A.2d 505 (Pa. Commw. 1980).

4 *Samuel J. Lansberry, Inc. v. Pennsylvania Public Utility Commission*, 578 A.2d 600 (Pa. Commw. 1990).

5 *Se-Ling Hosiery v. Margulies*, 70 A.2d 854 (Pa. 1950).

6 *Norfolk & Western Ry. Co. v. Pennsylvania Public Utility Commission,* 413 A.2d 1037 (Pa. 1980).

presented by I&E as summarized in this I&E Main Brief and in the Appendices attached hereto.

II. SUMMARY OF ARGUMENT

OVERALL POSITION ON RATE CASE AND AFFORDABILITY OF RATES

I&E's total recommended revenue requirement for the Company is $1,277,670,962. This recommended revenue requirement represents an increase of $92,850,718 to the Company's claimed present rate revenues of $1,184,820,244.

Concerns regarding utility bill affordability have been raised in various statements by Vice Chair Kimberly Barrow and Governor Josh Shapiro. I&E recommends the Commission consider the impact any rate increase will have on Peoples' customers.

RATE BASE

I&E finds that $686,510,364 ($5,728,767,833 - $5,042,257,469) of rate base additions are associated with the fully projected future test year ("FPFTY"). I&E recommends a total rate base adjustment of $8,478,607 based on adjustments to the Company's labor ($4,250,657), incentive compensation ($1,318,847), payroll taxes ($446,296), other employee benefits ($1,100,335), and cash working capital ($1,362,472) claims.

The Company agreed to accept I&E's recommendation to provide I&E, OCA, and OSBA with an update to its plant additions and retirements for the Future Test Year ("FTY") and FPFTY.

REVENUES

The revenue requirement formula used in base rate cases is RR = E + D + T + (RB x ROR).

I&E opposes the Company's proposed 65-year regression analysis methodology and recommends that Peoples use a 10-year period to establish normal Heating Degree Days ("HDDs") to determine present rate revenue in future proceedings.

EXPENSES

I&E disagrees with the Company's use of average annual increases and inflation adjustments to adjust certain historic test year ("HTY") expenses as these increases are speculative and do not meet the standard of known and measurable and should therefore be rejected.

I&E recommends an allowance of $65,135,919, or a reduction of $3,013,545 ($68,149,464 - $65,135,919) to the Company's labor/vacancy expense claim.

I&E recommends an allowance of $5,813,777, or a reduction of $4,610,153 ($10,884,000 - $5,813,777) to the Company's incentive compensation claim.

I&E recommends an allowance of $18,661,800, or a reduction of $869,594 ($19,531,394 - $18,661,800) to the Company's employee benefits expense claim.

I&E recommends an allowance of $6,265,643, or a reduction of $1,402,736 ($7,668,379 - $6,265,643) to the Company's corporate insurance claim.

I&E recommends an allowance of $1,030,648, or a reduction of $108,657 ($1,139,305 - $1,030,648) to the Company's travel and entertainment expense claim.

I&E recommends an allowance of $1,062,518, or a reduction of $157,918 ($1,220,436 - $1,062,518) to the Company's memberships claim.

I&E recommends an allowance of $704,167, or a reduction of $34,718 ($738,885 - $704,167) to the Company's license and permit expense claim.

I&E recommends an allowance of $2,849,895, or a reduction of $234,304 ($3,084,199 - $2,849,895) to the Company's utilities and fuel expense claim.

I&E recommends an allowance of $259,746, or a reduction of $1,198,286 ($1,458,032 - $259,746) to the Company's advertising expense claim.

I&E recommends an allowance of $746,507, or a reduction of $90,469 ($836,976 - $746,507) to the Company's fleet expense claim.

I&E recommends an allowance of $10,183,664, or a reduction of $1,141,328 ($11,324,992 - $10,183,664) to the Company's materials and supplies claim.

I&E recommends an allowance of $411,429, or a reduction of $548,571 ($960,000 - $411,429) to the Company's rate case expense claim, to be normalized over 56 months for ratemaking purposes.

I&E recommends disallowance of the Company's pension expense claim of $3,164,136, or alternatively, if the Commission grants the Company this expense, a reduction of $835,288 to the Company's claim.

I&E recommends an allowance of $19,947,180, or a reduction of $2,055,313 ($22,002,493 - $19,947,180) to the Company's outside services – contracted claim.

I&E recommends an allowance of $5,406,725, or a reduction of $926,459 ($6,333,184 - $5,406,725) to the Company's outside services – administrative and general claim.

I&E recommends an allowance of $7,336,408, or a reduction of $286,705 ($7,623,113 - $7,336,408) to the Company's outside services – IT claim.

I&E did not present testimony on the Company's proposed natural gas hot water tank rebate program.

I&E recommends an allowance of $1,923,122, or a reduction of $1,016,537 ($2,939,659 - $1,923,122) to the Company's payment processing expense claim.

I&E accepted the Company's revision to its building leases claim in rebuttal testimony.

I&E recommends that the costs associated with the Low-Income Usage Reduction Program ("LIURP") Compliance Specialist should be recovered through base rates rather than through the Universal Service Program ("USP") Rider.

I&E did not present testimony on the Company's PUC assessment.

I&E did not present testimony on the Company's residential collection expense.

I&E did not present testimony on interest synchronization.

I&E did not present testimony on the cost of the other parties' proposals.

I&E recommends an allowance of $45,570,205, or a reduction of $1,362,472 ($46,932,677 - $45,570,205) to the Company's cash working capital claim, based on the Company's cash working capital workpapers and incorporating all of I&E witness Okum's recommendations. The Company accepted Ms. Okum's recommendation to remove uncollectible expense from its cash working capital calculation. I&E noted that its cash working capital recommendation is not a final recommendation because all adjustments to the Company's claims must be continually brought together in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order.

DEPRECIATION

I&E did not present testimony on depreciation expense.

TAXES

I&E recommends a reduction of $369,743 ($5,951,013 - $5,581,270) to the Company's payroll tax expense claim and a reduction of $446,296 ($8,106,040 - $7,659,744) to the Company's capitalized payroll taxes.

RATE OF RETURN

I&E recommends the following rate of return for the Company:

I&E Recommendation Peoples Natural Gas Company LLC Summary of Cost of Capital			
Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost Rate**
Long-Term Debt	50.00%	4.61%	2.31%
Common Equity	50.00%	10.20%	5.10%
Total	**100.00%**		**7.41%**

I&E recommends using its proposed capital structure of 50% long-term debt and 50% common equity.

I&E recommends using the Company's FPFTY claimed long-term debt cost rate of 4.61%.

I&E's recommended return on equity of 10.20% is based on a calculation of the average of I&E's Discounted Cash Flow ("DCF") method; the average of two variations of the Capital Asset Pricing Model ("CAPM") method; and the recent national average authorized return on equity ("ROE") for rate cases involving natural gas distribution utilities.

I&E rejected the Company's use of the Empirical Capital Asset Pricing Model ("ECAPM") and Bond Yield Plus Risk Premium ("BYPRP") methods.

I&E rejected the Company's use of the 30-year Treasury bond to determine the risk-free rate and instead supports the use of the 10-year Treasury bond.

I&E rejected the Company's use of outlier market risk premiums in its CAPM and ECAPM analyses.

I&E rejected the Company's claim regarding additional risk due to the Company's capital expenditure plan.

I&E rejected the Company's claim regarding bypass risk.

I&E rejected the Company's claim regarding the current and prospective capital market.

I&E rejected the Company's flotation cost adjustment.

I&E recommends that the Commission not award the Company additional management performance basis points for doing what is required under the Public Utility Code and Commission regulations in order to provide adequate, efficient, safe, and reasonable service. The twenty-five (25) basis points management performance adder would cost Peoples' ratepayers an additional $10,051,315 annually.

<u>REVENUE ALLOCATION AND RATE DESIGN</u>

I&E recommends that the revenue increase be allocated based on the Peak and Average Allocated Cost of Service Study ("ACOSS") at equal rates of return with the change that the large general ("LGS") class should not be allocated a decrease in rates, but instead the excess revenue from LGS class should be allocated across the remaining rate classes as part of the overall scale back of rates.

I&E did not recommend any adjustments to the Company's proposed customer charges; however, I&E recommends that the proposed customer charges be included in any scale back of rates.

If the Commission grants an increase less than the amount requested by the Company, then I&E recommends that all proposed increases to customer charges and usage rates be scaled back proportionately based on the ACOSS that is ultimately approved by the Commission.

<u>WEATHER NORMALIZATION ADJUSTMENT ("WNA")</u>

I&E opposes the Company using a 65-year regression analysis in determining the WNA's normalization period and opposes the Company's proposal to delay the implementation of the changes to the Normal HDDs until October 2027.

I&E recommends that the Company's present deadband of 3% be increased to 5%.

EFFECTIVE DATE OF RATES

I&E recommends that Peoples should agree to make the new rates effective on January 1, 2027 (the first day of the FPFTY) instead of the proposed December 27, 2026. If Peoples does not agree with I&E's recommendation, I&E recommends the Commission direct the Company: (1) to make the new rates effective January 1, 2027 (the first day of the FPFTY) instead of on December 27, 2026 and file an updated tariff rates and rules (Supplement to Tarriff Gas) pursuant to the 12 provisions of 52 Pa. Code §§ 53.1, et seq. and 53.101, designed to produce the approved annual distribution rate/revenue increase to become effective for service rendered *on and after January 1, 2027*; and (2) to file all subsequent base rate cases that should have new rate effective dates beginning with the first day or later of the claimed FPFTY.

UNIVERSAL SERVICE PROGRAM ("USP") RIDER

I&E recommends that the one-time credit adjustment be treated as a regulatory liability and credited back to all customers. I&E recommends that the credit generated from the tax repair deduction collar should flow through the Tax Repairs Surcharge Credit within 90 days following the effective date of new rates in the proceeding, and that the remaining $3,900,000 generated by the sales and use tax refund be treated as a regulatory liability that should be amortized over a period of four years, rounded down to the nearest year, resulting in annual amortization of $975,000 over the four-year period ($3,900,000 / 4 years = $975,000). I&E also recommends that Peoples be required to show an annual accounting of the progress for refunding this credit in its next base rate case filing.

Additionally, I&E recommends that the amount related to the tax repair deduction collar after the FPFTY be tracked throughout the year and returned via the Tax Repairs Surcharge Credit within 90 days of January 1, 2027 and recommends that Peoples be required to show an annual accounting of the credit in its next base rate case filing.

I&E did not present testimony on the Company's proposed revision to the bad debt offset calculation.

<u>LOW-INCOME CUSTOMER ISSUES</u>

I&E did not present testimony on the Company's customer assistance program.

I&E recommends no increase to the Company's LIURP budget.

<u>CUSTOMER SERVICE ISSUES</u>

I&E did not present testimony on specific customer service and quality of service issues.

<u>PROPOSED TARIFF CHANGES</u>

I&E did not present testimony on specific issues regarding the Company's proposed tariff changes.

<u>HOT WATER TANK REBATE PILOT PROGRAM</u>

I&E did not present testimony on the Company's proposed natural gas hot water tank rebate program.

<u>SAFETY</u>

I&E recommends that (1) Peoples review its first and second party damages to determine the resolution to these issues; (2) that Peoples' employees and contractors as well as locator personnel receive additional training to address the increasing trends of damages; and (3) that Peoples create a QA/QC program along with various metrics to analyze and assess its Damage Prevention Program for improvements to reduce damages. I&E recommends that Peoples provide I&E's Pipeline Safety Division a list of metrics and root cause procedures that Peoples will use to analyze their Damage Prevention Program by October 2026, and then, beginning in 2027, that Peoples schedule quarterly meetings with I&E's Pipeline Safety Division to review the root cause investigations that were performed along with the metrics that were created to show Peoples is driving down its damage numbers on its facilities.

I&E recommends that the Company implement a pilot program utilizing 500 to 1,000 Smart Remote Methane Detectors ("SRMDs") to allow for a study of the devices' effectiveness as well as the use of Advanced Metering Infrastructure ("AMI") and LoRaWAN or other communication technologies for notification methodology utilized by these devices as part of its pilot program. I&E also recommends that Peoples use a risk-based approach to determine the location that best maximizes the effectiveness of the methane detector pilot program.

PURCHASE OF RECEIVABLES PROGRAM

I&E did not present testimony on the purchase of receivables program.

LOCAL PRODUCTION – GATHERING AND COST RECOVERY ISSUES

I&E did not present testimony on local production issues.

COMPETITIVE RATE DISCOUNTS

Peoples agreed to accept I&E's recommendation that the Company be required to provide a competitive alternative analysis for any discount rate customers that have not had their competitive alternatives verified for longer than ten years at the time of the Company's next base rate case and justify the customers' discount rates as part of its filing in the next base rate case.

MISCELLANEOUS/OTHER ISSUES

I&E did not present testimony on the merger of PNG Gathering LLC into Peoples.

CONCLUSION

Peoples has not met its burden of proof as the record evidence presented by Peoples does not substantiate a revenue increase of $163.2 million. Instead, based on the weight of the record evidence, the Commission should only grant Peoples the I&E recommended revenue increase of $92,850,718. Further, the Commission should implement the recommendations set forth by I&E in its testimonies, exhibits and main brief arguments.

III. OVERALL POSITION ON RATE CASE AND AFFORDABILITY OF RATES

I&E's total recommended revenue requirement for the Company is $1,277,670,962.[7] This recommended revenue requirement represents an increase of $92,850,718 to the Company's claimed present rate revenues of $1,184,820,244.[8] This total recommended allowance incorporates I&E adjustments made in the direct and surrebuttal testimonies of I&E witness Vanessa Okum to operating and maintenance

7 I&E St. No. 1-SR, p. 4. *See also* App. A, Table I *infra*.

8 *Id.*

("O&M") expenses,[9] and the recommended adjustments made in the direct and surrebuttal testimonies of I&E witnesses D. C. Patel[10] and Ethan H. Cline.[11]

Concerns regarding utility bill affordability have been raised in various statements by Vice Chair Barrow and Governor Shapiro.[12]

In consideration of the above and the record evidence presented, I&E recommends the Commission consider the impact any rate increase will have on Peoples' customers.

IV. RATE BASE

Rate base, also known as measure of value, is the depreciated original cost of a utility's investment in plant a utility has in place to serve customers plus other additions and deductions that the Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers. Rate base is one part of the financial equation used by the Commission to determine the appropriate revenue that a utility is granted in a rate proceeding.

Additionally, the depreciated original cost is determined by subtracting the book reserve, which is the accumulation of all prior annual depreciation expense, and other items such as salvage value, from the original cost of the plant in service that is projected to be used and useful in the public service. The depreciated original cost of the plant in service is determined by taking a "snapshot" look at the depreciated original cost value of used and useful utility plant in service at the end of the FPFTY.

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9 *See* I&E St. No. 1; I&E St. No. 1-SR.
10 *See* I&E St. No. 2; I&E St. No. 2-SR.
11 *See* I&E St. No. 3; I&E St. No. 3-SR.
12 *See* I&E Exh. No. 2, Sch. 2.

Further, for a utility plant to be included in rates, the plant must be used and useful in the provision of utility service to the customers. Therefore, by definition, only plant currently providing or capable of providing utility service to customers or plant projected to be completed and in service by the end of the FPFTY is eligible to be reflected in rates.

I&E found that $686,510,364 ($5,728,767,833 - $5,042,257,469) of rate base additions are associated with the FPFTY.[13] I&E recommended a total rate base adjustment of $8,478,607 based on adjustments to the Company's labor ($4,250,657), incentive compensation ($1,318,847), payroll taxes ($446,296), other employee benefits ($1,100,335), and cash working capital ($1,362,472) claims.[14]

I&E witness Cline recommended that the Company be required to provide I&E, OCA, and OSBA no later than June 1, 2027, under this docket number, an update to Peoples Exhibits No. 5B, pp. I-3-I-6 and 5C, pp. I-3-I-6 that includes actual utility plant balances, actual plant additions, and actual retirements for the twelve months ending November 30, 2026, and not later than June 1, 2028 for the twelve months ending December 31, 2027.[15]

The Company agreed with I&E's recommendation; therefore, I&E's recommendation should be approved.[16]

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13 I&E St. No. 3, p. 2 (*citing* Peoples Exh. No. 8, Sch. No. 2, p. 1).

14 I&E St. No. 1-SR, p. 6.

15 I&E St. No. 3, pp. 2-4.

16 I&E St. No. 3-SR, p. 3 (*citing* Peoples St. No. 3-R, pp. 9-10 and Peoples St. No. 12-R, p. 3).

V. REVENUES

The revenue requirement formula used in base rate cases is as follows:

$$RR = E + D + T + (RB \times ROR)$$

Where:

RR = Revenue Requirement

E = Operating Expenses

D = Depreciation Expense

T = Taxes

RB = Rate Base

ROR = Overall Rate of Return[17]

In the above formula, the rate of return is expressed as a percentage.[18] The calculation of that percentage is independent of the determination of the appropriate rate base value for ratemaking purposes.[19] As such, the appropriate total dollar return is dependent upon the proper computation of the rate of return and the proper valuation of the Company's rate base.[20]

A. HEATING DEGREE DAY METHODOLOGY

The Company proposed normalizing billing determinants using a 65-year regression analysis framework in determining Heating Degree Days ("HDDs").[21] I&E

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17 I&E St. No. 2, p. 3.
18 *Id.*
19 *Id.*
20 *Id.*
21 I&E St. No. 3, p. 12 (*citing* Peoples St. No. 17, pp. 6-8).

witness Cline opposed the Company's proposal to use a 65-year regression analysis in determining the WNA's normalization period and recommended that Peoples use a 10-year period to establish normal HDDs to determine present rate revenue in future proceedings.[22] Mr. Cline's recommendation was based on the Commission's determination in the 2025 Columbia Gas of Pennsylvania, Inc. ("Columbia Gas") base rate case that "[u]sing a twenty-year cycle rather than a ten-year cycle appears to result in an 'historical bias' that diminishes the effect of the claimed recent trends and results in providing revenue to the Company when instead, customer should be realizing savings."[23] Extending the 20-year average analysis to a 65-year regression is not consistent with Commission precedent.

Therefore, I&E continues to oppose the Company's 65-year regression proposal and recommends that Peoples use a 10-year period to establish normal HDDs to determine present rate revenue in future proceedings.[24]

VI. EXPENSES

It is well settled that a utility is entitled to recover its reasonably and prudently incurred expenses.[25] Operating and maintenance expenses, if properly and prudently incurred, are allowed as part of the overall base rate computation. As such, a public utility is entitled to recover all reasonable and normal operating and maintenance

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22 *Id.* at p. 11-14.

23 *Id.* at p. 14 (*citing Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499, pp. 301-02 (Order Entered December 9, 2025)).

24 I&E St. No. 3, pp. 11-20; I&E St. No. 3-SR, pp. 5-12.

25 *UGI Corp. v. Pa. P.U.C.*, 410 A.2d 923, 932 (Pa. Commw. 1980).

expenses incurred by providing regulated service.[26] To the extent that expenses are not incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable through rates. The public utility requesting a rate increase and seeking to recover expenses has the burden of showing that the rate requested, including all claimed expenses, is just and reasonable.[27]

A. UPDATES TO ORIGINAL FILING

The Company updated its overall revenue requirement claim from $1,347,786,003 to $1,348,753,583 based upon the revised FPFTY pro forma revenue requirement calculation that reflects a total revenue increase of $163,933,339 compared to the original increase of $163,171,938.[28] The updated revenue requirement also reflects present rate revenue of $1,184,820,244 compared to the original $1,184,614,065.[29]

B. PROJECTED COST INCREASE ADJUSTMENTS

1. Average Annual Increases

As discussed in I&E witness Okum's surrebuttal testimony, I&E disagrees with the Company's use of average annual increases to adjust certain HTY expenses as these increases are speculative and do not meet the standard of known and measurable and should therefore be rejected.[30]

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26 *Western Pennsylvania Water Company v. Pa. P.U.C.*, 422 A.2d 906 (Pa. Commw. 1980).

27 66 Pa. C.S. § 315(a); *See also Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).

28 I&E St. No. 1-SR, pp. 2-3 (*citing* Peoples Exh. No. 2, Sch. 4, p. 2 Revised (Rebuttal) and Peoples Exh. No. 2, Sch. 4, p. 2).

29 *Id.*

30 *Id.* at pp. 4-5.

2. Inflation Adjustments

As discussed in I&E witness Okum's surrebuttal testimony, I&E disagrees with the Company's use of inflation adjustments to adjust certain HTY expenses as these increases are speculative and do not meet the standard of known and measurable and should therefore be rejected.[31]

C. LABOR/VACANCY EXPENSE

The Company's labor/vacancy expense claim is $164,275,474, which is projected to be capitalized at a rate of 58.52% resulting in an O&M labor expense claim of $68,149,464 and a rate base claim of $96,126,010.[32]

I&E recommended an allowance of $65,135,919, or a reduction of $3,013,545 ($68,149,464 - $65,135,919) to the Company's claim, and a rate base allowance of $91,875,353 or a reduction of $4,250,657 ($96,126,010 - $91,875,353) to the Company's claim.[33] I&E's recommendation was based on two main aspects: (1) applying a vacancy rate based on historic vacancies; and (2) adding the salary for the Low-Income Usage Reduction Program ("LIURP") compliance specialist that the Company proposed to include in the Universal Service Program ("USP") Rider.[34] I&E witness Okum maintained her vacancy rate recommendation but accepted Company witness Andrew P.

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31 *Id.*

32 I&E St. No. 1, p. 6 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2-3).

33 I&E St. No. 1-SR, p. 11.

34 *Id.* at pp. 6-10.

Wachter's assertion that I&E should have used a pre-capitalization number when removing the Company's vacancy assumptions.[35]

It is unreasonable to assume that the Company will maintain 100% full staffing based on its own historic vacancy records. Since there will always be search and placement time involved in filling vacancies, there will always be a certain level of vacancies on a day-to-day operating basis that should be reflected in Peoples' labor expense allowance. The Company's 0.54% vacancy rate adjustment did not match the Company's historical vacancy levels provided in response to I&E discovery, and as such, it is reasonable to apply the three-year historical average vacancy rate of 4.98% to the Company's claim.[36]

Therefore, in consideration of the record evidence presented, I&E recommends an allowance of $65,135,919, or a reduction of $3,013,545 ($68,149,464 - $65,135,919) to the Company's labor expense claim, and a rate base allowance of $91,875,353, or a reduction of $4,250,657 ($96,126,010 - $91,875,353) to the Company's claim.[37]

D. INCENTIVE COMPENSATION

The Company's claim for incentive compensation is $11,170,683, which is projected to be capitalized at a rate of 45.16% resulting in an incentive compensation expense claim of $6,125,473 and a rate base incentive compensation claim of $5,045,210.[38]

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35 *Id.* at pp. 10-11.
36 *Id.* at pp. 18-19.
37 *Id.* at pp. 8-12.
38 I&E St. No. 1, pp. 10-11 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 5).

These expenses are not capitalized, so the total allocated expense of $4,298,457 provided in response to I&E discovery increases the expense portion of the claim from $6,125,473 to $10,423,930 ($6,125,473 + $4,298,457), and I&E's recommendation was to allow 30% of the claim, or $1,289,537 ($4,298,457 x 0.30).[39] I&E's recommendation was based on the removal of the Company's claims in part, or as a whole, that were inappropriate or unsupported for ratemaking purposes.[40] I&E's allowance of 30% of the claim was based on the Commission's decision in the 2025 Columbia Gas base rate case to remove of 70% of Columbia Gas' incentive compensation claim for ratemaking purposes.[41]

I&E is not suggesting that the Company should discontinue offering incentive compensation plans, but rather recommending that the portions of the individual plans I&E identified be disallowed for ratemaking purposes, meaning that ratepayers should not fund programs or parts of programs designed to reward employees based on financial measures alone.

As seen in the most recent Pennsylvania-American Water Company ("PAWC") base rate case, the Commission found that PAWC failed to demonstrate the benefit to ratepayers of financial metrics in incentive compensation, and it denied the portion of

39 I&E St. No. 1-SR, p. 36 (*citing* I&E Exh. No. 1-SR, Sch. 1).
40 *Id.* at pp. 35-39.
41 I&E St. No. 1, pp. 13-14 (*citing Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499, p. 123 (Order Entered December 9, 2025)).

PAWC's claim related to financial metrics.[42] Shareholders should be required to fund the portions of the incentive compensation programs that require financial performance criteria to earn additional compensation.

Therefore, in consideration of the record evidence presented, I&E recommends an allowance of $5,813,777, or a reduction of $4,610,153 ($10,884,000 - $5,813,777) to the Company's incentive compensation claim, and an allowance of $3,726,363, or a reduction of $1,318,847 ($5,045,210 - $3,726,363) to the Company's rate base claim.[43]

E. EMPLOYEE BENEFITS EXPENSE

The Company's claim for employee benefits expense is $44,245,324, which is projected to be capitalized at a rate of 55.86% resulting in an employee benefits expense claim of $19,531,394 and a rate base claim for employee benefits of $24,713,929.[44] I&E recommends an allowance of $18,661,800, or a reduction of $869,594 ($19,531,394 - $18,661,800) to the Company's claim, and a rate base allowance of $23,613,594, or a reduction of $1,100,335 ($24,713,929 - $23,613,594) to the Company's claim, based on I&E's recommended adjustments to labor expense.[45]

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42 I&E St. No. 1-SR, p. 14 (*citing Pa. P.U.C. v. Pennsylvania American Water Company*, Docket Nos. R-2025-3057983 and R-2025-3058051, p. 114 (Order Entered July 27, 2026)).

43 I&E St. No. 1-SR, pp. 12-18.

44 I&E St. No. 1, p. 19 (*citing* Peoples Exh. No. 4, Sch. 1, p. 10).

45 I&E St. No. 1-SR, p. 23.

F. CORPORATE INSURANCE

The Company's claim for corporate insurance is $5,929,933.[46] I&E recommends an allowance of $6,265,643 for corporate insurance, or a reduction of $1,402,736 ($7,668,379 - $6,265,643) to the Company's claim, based on the Company's claim being speculative and not known and measurable.[47]

G. EMPLOYEE EXPENSE

I&E's recommendations regarding employee expense were discussed in the Labor/Vacancy Expense section above.

H. TRAVEL AND ENTERTAINMENT EXPENSE

The Company's claim for travel and entertainment expense is $1,139,305.[48] I&E recommends an allowance of $1,030,648, or a reduction of $108,657 ($1,139,305 - $1,030,648) to the Company's claim, based on the Company's claim being speculative and not known and measurable.[49]

I. COMPANY MEMBERSHIPS

The Company's claim for memberships expense is $1,220,436.[50] I&E recommends an allowance of $1,062,518, or a reduction of $157,918 ($1,220,436 - $1,062,518) to the Company's claim, based on removing the 7.17% annual increase from

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46 I&E St. No. 1, p. 31 (*citing* Peoples Exh. No. 4, Sch. 1, p. 2).
47 I&E St. No. 1, pp. 31-34; I&E St. No. 1-SR, pp. 27-28.
48 I&E St. No. 1, p. 34 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 17).
49 I&E St. No. 1, pp. 34-36; I&E St. No. 1-SR, pp. 28-29.
50 I&E St. No. 1, p. 36 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 18).

the FTY and FPFTY claims as the Company's claim is speculative and not known and measurable.[51]

J. LICENSE AND PERMIT EXPENSE

The Company's claim for license and permit expense is $738,885.[52] I&E recommends an allowance of $704,167, or a reduction of $34,718 ($738,885 - $704,167) to the Company's claim, based on the Company's claim being speculative and not known and measurable.[53]

K. UTILITIES AND FUEL EXPENSE

The Company's claim for utilities and fuel expense is $3,084,199.[54] I&E recommends an allowance of $2,849,895, or a reduction of $234,304 ($3,084,199 - $2,849,895) to the Company's claim, based on the Company's claim being speculative and not known and measurable.[55]

L. ADVERTISING EXPENSE

The Company's claim for advertising expense is $1,458,032 and largely relates to sponsorships of professional sports teams including Pittsburgh Steelers LLC of $918,791, Pittsburgh Penguins LP of $262,182, and Lozinak Professional Baseball LLC of $203,462, as well as sponsorship of a holiday market of $125,000.[56]

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51 I&E St. No. 1, pp. 36-37; I&E St. No. 1-SR, pp. 29-30.
52 I&E St. No. 1, p. 38 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 19).
53 I&E St. No. 1, pp. 38-39; I&E St. No. 1-SR, pp. 30-31.
54 I&E St. No. 1, p. 40 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 20).
55 I&E St. No. 1, pp. 40-41; I&E St. No. 1-SR, pp. 31-32.
56 I&E St. No. 1, pp. 42-43 (*citing* Peoples Exh. No. 4, Sch. 1, p. 2 and 21; I&E Exh. No. 1, Sch. 19, p. 2).

I&E recommended an allowance of $259,746 for advertising expense, or a reduction of $1,198,286 ($1,458,032 - $259,746) to the Company's claim.[57] I&E's reduction was based on the removal of advertising related to sponsorships and sports partnerships, as well as the removal of the inflation adjustment included in the Company's claim.[58]

The Company's claims relating to sponsorships and sports partnerships are inappropriate and should be disallowed for ratemaking purposes as the advertisements represent goodwill or promotional advertising and do not directly benefit ratepayers. It is not apparent that these advertisement programs meet any of the six criteria enumerated in 66 Pa. C.S. § 1316(a) as they: (1) are not required by law or regulation; (2) are not in support of the issuance, marketing, or acquisition of securities or other forms of financing; (3) do not encourage energy independence by promoting the wise development and use of domestic sources of coal, oil, or natural gas and does not promote one method of generating electricity as preferable to other methods of generating electricity; (4) do not provide important information to the public regarding safety, rate changes, means of reducing usage or bills, load management or energy conservation; (5) do not provide a direct benefit to ratepayers; or (6) promote community service or economic development.[59]

57 I&E St. No. 1-SR, p. 34.
58 I&E St. No. 1, pp. 43-45.
59 *See* 66 Pa. C.S. § 1316(a).

Additionally, it is inappropriate to increase expenses using a general inflation percentage as an inflation factor is speculative and does not meet the standard of known and measurable and should therefore be rejected.

Therefore, in consideration of the record evidence presented, I&E recommends an allowance of $259,746 for advertising expense, or a reduction of $1,198,286 ($1,458,032 - $259,746) to the Company's claim.[60]

M. FLEET EXPENSE

The Company's claim for fleet expense is $836,976.[61] I&E recommends an allowance of $746,507 or a reduction of $90,469 ($836,976 - $746,507) to the Company's claim, based on Company's claim being speculative and not known and measurable.[62]

N. MATERIALS AND SUPPLIES EXPENSE

The Company's claim for materials and supplies expense is $11,324,992.[63] I&E recommends an allowance of $10,183,664, or a reduction of $1,141,328 ($11,324,992 - $10,183,664) to the Company's claim, based on Company's claim being speculative and not known and measurable.[64]

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60 I&E St. No. 1, pp. 42-45; I&E St. No. 1-SR, pp. 32-34.
61 I&E St. No. 1, p. 45 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 22).
62 I&E St. No. 1, pp. 45-47; I&E St. No. 1-SR, pp. 34-35.
63 I&E St. No. 1, p. 47 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 23).
64 I&E St. No. 1, pp. 47-49; I&E St. No. 1-SR, pp. 35-36.

O. RATE CASE EXPENSE

The Company's claim for rate case expense is $960,000 and the Company requested a normalization period of two years (24 months).[65]

I&E recommended that the Company's rate case expense be normalized over a period of 56 months resulting in an annual expense of $411,429 (($1,920,000 ÷ 56 months) x 12 months), or a reduction of $548,571 ($960,000 - $411,429) to the Company's claim.[66]

I&E's recommendation was based on adjusting the normalization period to match Peoples' historic average base rate case filing frequency of 56 months ((27 months + 59 months + 83 months) ÷ 3).[67] As seen in the 2025 Columbia Gas base rate case, the Commission has consistently used the utility's historic average filing frequency rather than the utility's requested period when determining the appropriate rate case normalization period.[68] The Company's proposed rate case expense normalization period of 24 months is speculative and is not supported by the historic filing frequency.

Therefore, in consideration of the record evidence presented, I&E recommends an allowance of $411,429, or a reduction of $548,571 ($960,000 - $411,429) to the Company's rate case expense claim, to be normalized over 56 months for ratemaking purposes.[69]

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65 I&E St. No. 1, p. 53 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 27).
66 *Id.* at pp. 54-58.
67 *Id.* at pp. 54-55.
68 *Id.* at p. 58 (*citing Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499, p. 138 (Order Entered December 9, 2025)).
69 I&E St. No. 1, pp. 52-58; I&E St. No. 1-SR, pp. 37-39.

P. PENSION EXPENSE

The Company's claim for pension expense is $3,164,136.[70] I&E recommends disallowance of the entire $3,164,136 claim based on **[BEGIN PROPRIETARY]** [redacted] **[END PROPRIETARY]** However, should the Commission decide to grant the Company this expense, I&E recommends that the Commission should only allow a three-year average of net cash contributions for 2023, 2024, and 2025, or $2,328,848 (($5,670,000 + $1,316,545 + $0) / 3), or a reduction of $835,288 to Peoples' claim, rather than the Company's four-year average of $3,164,136 that inappropriately includes 2022 to capture an older historic amount of $5,670,000 which serves only to inflate the claim.[72]

Q. OUTSIDE SERVICES

1. Contracted

The Company's claim for outside services – contracted is $22,002,493.[73] I&E recommends an allowance of $19,947,180 for outside services – contracted, or a reduction of $2,055,313 ($22,002,493 - $19,947,180) to the Company's claim, based on the Company's claim being speculative and not known and measurable.[74]

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70 I&E St. No. 1, p. 17 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 8).
71 I&E St. No. 1, p. 18.
72 I&E St. No. 1-SR, pp. 21-22 (*citing* Peoples Exh. No. 4, Sch. 1, p. 8).
73 I&E St. No. 1, p. 23 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 11).
74 I&E St. No. 1, pp. 23-25; I&E St. No. 1-SR, pp. 24-25.

2. Administrative and General

The Company's claim for outside services – administrative and general is $6,333,184.[75] I&E recommends an allowance of $5,406,725 for outside services – administrative and general, or a reduction of $926,459 ($6,333,184 - $5,406,725) to the Company's claim, based on the Company's claim being speculative and not known and measurable.[76]

3. IT

The Company's claim for outside services – IT is $7,623,113.[77] I&E recommends an allowance of $7,336,408 for outside services – IT, or a reduction of $286,705 ($7,623,113 - $7,336,408) to the Company's claim, based on the Company's claim being speculative and not known and measurable.[78]

R. NATURAL GAS HOT WATER TANK REBATE PILOT

I&E did not present testimony on the Company's proposed natural gas hot water tank rebate pilot.

S. PAYMENT PROCESSING EXPENSE

The Company's claim for payment processing expense is $2,939,659.[79] I&E recommends an allowance of $1,923,122, or a reduction of $1,016,537 ($2,939,659 -

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75 I&E St. No. 1, p. 28 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 13).
76 I&E St. No. 1, pp. 28-30; I&E St. No. 1-SR, pp. 26-27.
77 I&E St. No. 1, p. 25 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 12).
78 I&E St. No. 1, pp. 25-27; I&E St. No. 1-SR, pp. 25-26.
79 I&E St. No. 1, p. 49 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 26).

$1,923,122) to the Company's claim, based on Company's claim being speculative and not known and measurable.[80]

T. BUILDING LEASES

The Company's claim for building leases expense is $4,693,640.[81] I&E accepted the Company's revision to its building leases claim in rebuttal testimony.[82]

U. UNIVERSAL SERVICE PROGRAM ("USP") RIDER

The Company proposed to recover three incremental costs through the USP Rider: (1) costs associated with a new LIURP Compliance Specialist; (2) costs associated with the recurring Independent Program Evaluation; and (3) costs associated with the Company's Cares program.[83]

Ms. Okum did not agree that the costs associated with the LIURP Compliance Specialist should be recovered through the USP Rider as all labor costs should continue to be included in base rates and therefore added the cost of labor and employee benefits for this employee to the respective sections of her direct testimony.[84] When these costs are included in a rider, the parties lose the ability to review these costs in the context of a rate case, and thus the parties' ability to verify that such costs are prudently incurred is hindered.

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80 I&E St. No. 1, pp. 49-51; I&E St. No. 1-SR, pp. 36-37.
81 I&E St. No. 1, p. 30 (*citing* Peoples Exh. No. 4, Sch. 1, pp. 2 and 14).
82 I&E St. No. 1-SR, p. 3.
83 I&E St. No. 1, p. 58 (*citing* Peoples St. No. 2, pp. 20-21).
84 *Id.* at pp. 58-59 (*citing* I&E Exh. No. 1, Sch. 3).

Therefore, in consideration of the record evidence presented, I&E recommends that the costs associated with the LIURP Compliance Specialist should be recovered through base rates rather than through the USP Rider.[85]

V. PUBLIC UTILITY COMMISSION ASSESSMENT

I&E did not present testimony on the Company's PUC assessment.

W. RESIDENTIAL COLLECTION EXPENSE

I&E did not present testimony on the Company's residential collection expense.

X. INTEREST SYNCHRONIZATION

I&E did not present testimony on interest synchronization.

Y. COST OF OTHER PARTIES' PROPOSALS

I&E did not present testimony on the cost of the other parties' proposals.

Z. UNCOLLECTIBLE ACCOUNTS EXPENSE

I&E witness Okum testified extensively regarding the Company's claim for its cash working capital ("CWC") expense in her direct[86] and surrebuttal[87] testimonies. Ms. Okum noted that cash working capital includes the amount of funds necessary to operate a utility during the interim between the rendition of service, including the payment of related expenses, and the utility's receipt of revenue in payment of services rendered.[88] Peoples calculates its cash working capital by using a lead/lag study which I&E does not

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85 I&E St. No. 1, pp. 58-59; I&E St. No. 1-SR, pp. 39-41.
86 I&E St. No. 1, pp. 60-62.
87 I&E St. No. 1-SR, pp. 44-45.
88 I&E St. No. 1, p. 60.

oppose.[89] A lead/lag study measures the differences in time between: (1) the time services are rendered until payment of those services is received; and (2) the time between the point when a utility has incurred an expense and the actual payment of the expense.[90]

I&E recommends an allowance of $45,570,205, or a reduction of $1,362,472 ($46,932,677 - $45,570,205) to the Company's claim, based on the Company's cash working capital workpapers and incorporating all of I&E witness Okum's recommendations.[91] Company witness Anton Ribich accepted Ms. Okum's recommendation to remove uncollectible expense from the Company's cash working capital calculation.[92]

Ms. Okum noted that her cash working capital recommendation is not a final recommendation because all adjustments to the Company's claims must be continually brought together in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order.[93] This process, known as iteration, effectively prevents the determination of a precise calculation until all adjustments have been made to the Company's claims.[94]

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89 *Id.* at p. 61.
90 *Id.* at pp. 60-61.
91 I&E St. No. 1-SR, p. 45 (*citing* I&E Exh. No. 1-SR, Sch. 2).
92 *Id.* at p. 44.
93 *Id.* at p. 45.
94 *Id.*

VII. DEPRECIATION

I&E did not present any record evidence or make any recommendations regarding depreciation expense other than using the Company's as-filed depreciation expense in I&E's analysis of Peoples' base rate filing and in conjunction with all other I&E base rate calculations.

VIII. TAXES

The Company's claim for payroll tax expense is $5,951,013 ($5,660,396 + $290,617).[95] I&E witness Okum noted that, because labor and incentive compensation are partially capitalized to rate base, a portion of payroll taxes will also be capitalized to rate base.[96] Ms. Okum calculated that amount to be $8,106,040 by adding capitalized labor and capitalized incentive compensation ($96,126,010 + $5,045,210) and applying the payroll tax experience factor of 8.0122%.[97]

I&E recommends a reduction of $369,743 ($5,951,013 - $5,581,270) to the Company's payroll tax expense claim and a reduction of $446,296 ($8,106,040 - $7,659,744) to the Company's capitalized payroll taxes, based on I&E's recommended adjustments to labor expense and incentive compensation.[98]

95 I&E St. No. 1, p. 15 (*citing* Peoples Exh. No. 6, Sch. 2, Att. 1).
96 *Id.*
97 *Id.*
98 I&E St. No. 1-SR, p. 19.

IX. RATE OF RETURN

A. INTRODUCTION

The Company claimed the following rate of return:[99]

Peoples Natural Gas Company LLC Summary of Cost of Capital			
Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost Rate**
Long-Term Debt	45.53%	4.61%	2.10%
Common Equity	54.47%	11.25%	6.13%
Total	**100.00%**		**8.23%**

I&E recommended the following rate of return for the Company:[100]

I&E Recommendation Peoples Natural Gas Company LLC Summary of Cost of Capital			
Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost Rate**
Long-Term Debt	50.00%	4.61%	2.31%
Common Equity	50.00%	10.20%	5.10%
Total	**100.00%**		**7.41%**

Rate of return is one of the components of the revenue requirement formula.[101] Rate of return is the amount of revenue an investment generates in the form of net income.[102] It is typically expressed as a percentage of the amount of an asset base at a

[99] I&E St. No. 2, p. 6.
[100] I&E St. No. 2-SR, p. 3.
[101] I&E St. No. 2, p. 2.
[102] *Id.*

particular point in time, which in base rate proceedings, is the projected rate base balance at the end of the test year.[103]

In the revenue requirement formula used in base rate cases (RR = E + D + T + (RB x ROR)) the rate of return is expressed as a percentage.[104] The calculation of that percentage is independent of the determination of the appropriate rate base value for ratemaking purposes.[105] As such, the appropriate total dollar return is dependent upon the proper computation of the rate of return and the proper valuation of the Company's rate base.[106]

Further, a fair and reasonable overall rate of return is one that will allow the utility an opportunity to recover those costs prudently incurred by all classes of capital used to finance the rate base during the prospective period in which its rates will be in effect.[107] The Commission has the authority to determine the fair revenue requirement and rate of return, which the utility has the opportunity to earn, but not a guarantee to earn.[108]

The *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia,* 292 U.S. 679, 692-93 (1923) ("*Bluefield*"), and *Federal Power Commission v. Hope Natural Gas Co.,* 320 U.S. 591, 603 (1944) ("*Hope Natural Gas*") cases set forth the principles that are generally accepted by regulators throughout the country as the appropriate criteria for measuring a fair rate of return:

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103 *Id.*
104 *Id.* at p. 3.
105 *Id.*
106 *Id.*
107 *Id.*
108 *Id.* at pp. 3-4.

- A utility is entitled to the opportunity of a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures;

- A utility is entitled to the opportunity of a return level reasonably sufficient to assure financial soundness;

- A utility is entitled to the opportunity of a return sufficient to maintain and support its credit and raise necessary capital; and

- A fair return can change (increase or decrease) along with economic conditions and capital markets.[109]

In base rate proceedings, the overall rate of return is traditionally calculated using the weighted average cost of capital method.[110] To calculate the weighted average cost of capital, a company's capital structure must first be determined by comparing the percentage of each capitalization component which has financed the rate base to total capital.[111] In Peoples' case, the capital components consist of long-term debt and common equity.[112] Next, the effective cost rate of each capital structure component must be determined.[113] The historical component of the debt cost rate can be computed accurately, and any future debt issuances are based on estimates.[114] The cost rate of common equity is not fixed and is more difficult to measure.[115] Because of this

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109 *Id.* at p. 4.
110 *Id.*
111 *Id.* at pp. 4-5.
112 *Id.* at p. 5.
113 *Id.*
114 *Id.*
115 *Id.*

difficulty, a proxy group is used.[116] Then, each capital structure component percentage is multiplied by its corresponding effective cost rate to determine the weighted capital component cost rate.[117] The table in the *"I&E Position"* section in I&E Statement No. 2 demonstrates the interaction of each capital structure component and its corresponding effective cost rate.[118] Finally, the sum of the weighted cost rates produces the overall rate of return.[119] This overall rate of return is multiplied by the rate base to determine the return portion of a company's revenue requirement. [120]

B. CAPITAL STRUCTURE

A capital structure represents how a firm has financed its rate base with different sources of funds.[121] The primary sources of funding are long-term debt and common equity. A capital structure may also include preferred stock and/or short-term debt.[122]

The Company's proposed capital structure is 45.53% long-term debt and 54.47% common equity.[123]

I&E recommended using a capital structure of 50% long-term debt and 50% common equity.[124] I&E witness Patel opined that Peoples' claimed capital structure of 54.47% common equity and 45.53% long-term debt is unreasonable for ratemaking

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116 *Id.*
117 *Id.*
118 *Id.* (*citing* I&E St. No. 2, p. 7).
119 *Id.* at pp. 5 and 11.
120 *Id.* at p. 5.
121 *Id.* at p. 12.
122 *Id.*
123 *Id.* at p. 13.
124 *Id.* at p. 14.

purposes due to the equity ratio being higher than his proxy group's five-year averages, Value Line's 2027 capital structure projections, and the recent national authorized capital structures for gas distribution utilities.[125] Mr. Patel also noted that Peoples' ultimate parent company, Essential Utilities, Inc's. ("Essential") capital structure is comprised of an equity ratio lower than 50% as opposed to Peoples claimed equity ratio of 54.47%.[126] Mr. Patel found that, in addition to Vice Chair Barrow's comments regarding consideration of the financial impact to customers in relation to equity heavy capital structures, it is necessary to use a hypothetical capital structure of 50/50 for ratemaking purposes, to balance the interests of the Company and ratepayers and ensure rate reasonableness without overburdening ratepayers.[127]

C. DEBT COST RATE

The Company is claiming a long-term debt cost rate of 4.61% for the FPFTY.[128]

I&E witness Patel recommended using the Company's claimed long-term debt cost rate.[129]

D. RETURN ON COMMON EQUITY

1. Summary of Recommended Return on Common Equity

I&E witness Patel testified extensively regarding the cost of common equity in his

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125 I&E St. No. 2-SR, p. 6.
126 *Id.* at p. 7.
127 *Id.* at p. 10 (*citing* I&E Exh. No. 2, Sch. 2, p. 1).
128 I&E St. No. 2, p. 20 (*citing* Peoples St. No. 15, p. 61).
129 *Id.*

direct[130] and surrebuttal[131] testimonies. Mr. Patel's testimony included an in-depth analysis of the common methods used to calculate the cost of common equity for public utilities.[132] Mr. Patel presented his cost of common equity findings using the discounted cash flow method ("DCF");[133] two versions of the capital asset pricing model ("CAPM");[134] and the national average authorized return on equity ("ROE") data[135] that he relied on to make his recommendation. I&E's final cost of common equity recommendation for Peoples is 10.20%.[136]

Mr. Patel's direct[137] and surrebuttal[138] testimonies also included extensive critiques and rebukes of the Company's rate of return and cost of common equity testimony and proposals. Finally, I&E notes that there have been voices raising concerns regarding utility bill affordability including statements by Vice Chair Barrow and concerns raised by Governor Shapiro in a recent letter to Pennsylvania Utility Leaders regarding higher utility costs and enormous profits earned by utilities in 2024.[139] I&E believes these concerns highlight the importance of ratepayers only being required to pay rates to fund costs that are necessary for the safe and reliable provision of natural gas service. I&E believes that its recommendations allow the Company to earn a fair return

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130 I&E St. No. 2, pp. 21-60.
131 I&E St. No. 2-SR, pp. 18-38.
132 I&E St. No. 2, pp. 21-26.
133 *Id.* at pp. 28-31.
134 *Id.* at pp. 31-37.
135 *Id.* at pp. 37-39.
136 I&E St. No. 2-SR, p. 3.
137 I&E St. No. 2, pp. 39-60.
138 I&E St. No. 2-SR, pp. 18-38.
139 *Id.* at p. 43 (*citing* I&E Exh. No. 2, Sch. 2, pp. 1-5 and 8-16).

while considering the overall cost to ratepayers. Given the current economic climate, it is important that ratepayers only be required to pay rates to fund costs that are absolutely necessary for the safe and reliable provision of natural gas service.

2. Proxy Group

A proxy group is a set of companies that have similar traits as compared to the subject utility.[140] This group of companies acts as a benchmark for determining the subject utility's rate of return in a base rate case.[141] Further, a proxy group's cost of equity is used as a benchmark to satisfy the long-established guideline of utility regulation that seeks to provide the subject utility with the opportunity to earn a return similar to that of companies with corresponding risks and uncertainties.[142]

Mr. Patel's proxy group included the following eight companies:[143]

Company	Stock Ticker
Atmos Energy Corp.	ATO
Chesapeake Utilities Corp.	CPK
New Jersey Resources Corp.	NJR
NiSource, Inc.	NI
Northwest Natural Holding Co.	NWN
One Gas, Inc.	OGS
Southwest Gas Holdings, Inc.	SWX
Spire, Inc.	SR

Mr. Patel noted that while I&E and Peoples had seven companies that match, I&E included one company that Peoples did not, Chesapeake Utilities Corporation (CPK).[144]

140 I&E St. No. 2, p. 8.
141 *Id.*
142 *Id.*
143 *Id.* at p. 11.
144 *Id.* at pp. 11-12.

3. Discounted Cash Flow ("DCF")

I&E used the DCF in its analysis as contains the most up-to-date projected information of any model and is the preferred method for determining the rate of return for the current economic market because it measures the cost of equity directly.[145] Mr. Patel eliminated Southwest Gas Holdings' outlier S&P Global Market Intelligence ("S&P") growth estimate of 12.59% for the purposes of his DCF analysis as S&P's growth projection for Southwest Gas Holdings is extremely inconsistent and would have an unreasonable and unwarranted impact on his analysis.[146]

The result of Mr. Patel's DCF analysis was 11.33%.[147] I&E did not present specific testimony on Peoples' DCF analysis.

4. Capital Asset Pricing Model ("CAPM")

The result of Mr. Patel's CAPM analysis was 9.57% ((10.28% + 8.86% ÷ 2) based on the average of using a traditional forecasted overall market return (10.28%) and using Kroll's recommended U.S. Equity Risk Premium ("ERP") and 20-year U.S. Treasury yield (8.86%).[148] Mr. Patel noted that, as I&E has historically reasoned, the CAPM inputs are subjective, and other than beta, not company or industry specific.[149] While I&E believes the DCF is the most reliable of the cost of equity models, I&E provided a

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145 *Id.* at p. 24.
146 *Id.* at pp. 30-31.
147 *Id.* at p. 31 (*citing* I&E Exh. No. 2, Sch. 6).
148 *Id.* at p. 36 (*citing* I&E Exh. No. 2, Sch. 10).
149 *Id.* at p. 37.

CAPM analysis as it does provide value and the Commission has recently relied on a combination of both the DCF and CAPM models.[150]

Mr. Patel disagreed with Peoples' use of the 30-year Treasury bond to determine the risk-free rate and instead supports the use of the 10-year Treasury bond.[151] Mr. Patel disagreed with Peoples' use of outlier market risk premiums in its CAPM and ECAPM analyses.[152] Mr. Patel disagreed with Peoples' claim regarding additional risk due to the Company's capital expenditure plan.[153] Mr. Patel disagreed with Peoples' claim regarding bypass risk.[154] Mr. Patel disagreed with Peoples' claim regarding the current and prospective capital market.[155] Mr. Patel disagreed with Peoples' flotation cost adjustment.[156]

Mr. Patel also considered national average authorized ROEs in his analysis. Mr. Patel noted that data provided by S&P showed the national average authorized ROE for gas distribution companies across the U.S. was 9.69% for rate cases decided in 2025 through 2026.[157] Mr. Patel incorporated recent national authorized equity returns for gas utilities in his ROE analysis because this information complies with the principle derived from the *Hope* and *Bluefield* cases that a utility is entitled to a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as

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150 *Id.*
151 *Id.* at pp. 44-45.
152 *Id.* at pp. 45-46.
153 *Id.* at pp. 46-49.
154 *Id.* at pp. 49-51.
155 *Id.* at pp. 51-53.
156 *Id.* at pp. 53-54.
157 *Id.* at p. 37 (*citing* I&E Exh. No. 2, Sch. 2, pp. 8-9).

those earned by highly profitable or speculative ventures.[158] I&E asserts that it is reasonable and logical to include in its recommendation the authorized returns of natural gas distribution companies in recently completed rate cases across the country.[159]

Company witness Jennifer E. Nelson criticized Mr. Patel's use of national average authorized ROEs in his analysis claiming that the returns cited reflect outdated data and should not be used as a substitute for market-based cost-of-equity analyses.[160] I&E argues that the present economic conditions are similar enough to the conditions that existed when those proceedings were litigated such that their returns are relevant to warrant inclusion in I&E's analysis. Additionally, Mr. Patel continued to assert that his ROE analysis did consider market-based cost-of-equity analyses reflecting utilities' risks.[161]

Lastly, I&E notes that its recommended ROE of 10.20% for the Company in this case is comparable, yet higher than the national average authorized ROE of 9.69% for gas distribution utilities.[162]

5. Risk Premium ("RP")

Mr. Patel excluded the RP method from his analysis as it is a simplified version of the CAPM and does not recognize company-specific risk through beta.[163]

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158 *Id.* at pp. 37-38.
159 *Id.* at p. 38.
160 I&E St. No. 2-SR, p. 15 (*citing* Peoples St. No. 15-R, pp. 58-59).
161 *Id.* at p. 16.
162 I&E St. No. 2, p. 38.
163 *Id.* at p. 25.

6. Comparable Earnings ("CE")

Mr. Patel excluded the CE method from his analysis as the choice of which companies are comparable is highly subjective and its historical usage has been minimal.[164]

7. Management Effectiveness Adjustment

The Company requested a 25-basis point (0.25%) upward adjustment to its recommended 11.00% cost of equity in recognition of Peoples' superior management performance.[165]

Mr. Patel rejected Peoples' arguments asserting that many of the reasons alleged by the Company fall within the categories of reliability, customer satisfaction, and safety that are required of every public utility company under 66 Pa. C.S. § 1501.[166] Additionally, the Company passes capital expenditures to its ratepayers via base rates, or it can utilize the distribution system improvement charge ("DSIC") for capital expenditure recovery.[167] Further, if the Company is effective at controlling operating and maintenance costs, those savings should flow through to ratepayers and/or investors.[168]

Finally, a 25-basis point increase to the cost of equity for management performance would add $10,051,315 directly to the Company's revenue requirement that would be borne by the ratepayers.[169] I&E does not support Peoples, or any utility, being

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164 *Id.* at pp. 25-26.
165 *Id.* at p. 55 (*citing* Peoples St. No. 15, pp. 5 and 71).
166 *Id.* at p. 56.
167 *Id.*
168 *Id.*
169 *Id.* at pp. 58-59.

gifted additional basis points for doing what it is required to do to provide adequate, efficient, safe, and reasonable service under 66 Pa. C.S. § 1501.[170]

E. ALTERNATIVE COST OF CAPITAL PROPOSALS

Mr. Patel disagreed with Peoples' use of the Empirical Capital Asset Pricing Model ("ECAPM") method. The ECAPM is a modified version of the CAPM which attempts to address the belief that the actual risk versus return correlation is flatter than what is predicted by the CAPM. The use of the ECAPM in estimating the cost of capital injects another measure of subjectivity to the CAPM in an attempt to make the Security Market Line more accurate. The ECAPM reduces the purpose of the beta, which is the only company-specific variable in the CAPM model. Additionally, as noted by Mr. Patel, the Commission has not approved the use of the method in the context of a fully litigated rate case.[171]

Mr. Patel also disagreed with Peoples' use of the Bond Yield Plus Risk Premium ("BYPRP"). The BYPRP is a method that relies on the theory that common stock is riskier than debt; thus, investors require a higher expected return on stocks than bonds to be properly compensated for the additional risk of holding equity as opposed to being a bondholder. The Commission has not approved the use of the method in the context of a fully litigated rate case.[172] Mr. Patel specifically excluded the BYPRP/Risk Premium method from his ROE analysis because it is a simplified version of the CAPM that,

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170 *Id.* at p. 60.
171 *Id.* at p. 42.
172 *Id.* at pp. 43-44.

unlike the CAPM, does not recognize company specific, or proxy group specific risk through a beta coefficient. As a result of the flaws in the ECAPM method and BYPRP method, the Commission should reject these alternate cost of capital proposals.

F. CONCLUSION AS TO RATE OF RETURN

In consideration of the above and the record evidence presented, I&E recommends that the Company should be afforded the opportunity to earn an overall rate of return of 7.41%.[173] This recommended overall rate of return is comprised of a weighted average of a 2.31% rate of return on long-term debt and a 5.10% rate of return on common equity.[174] I&E notes that I&E's recommended return on common equity of 10.20% is higher than the average return on equity of 9.69% of all rate cases decided/approved by state regulatory authorities in 2025.[175] Additionally, the average of equity ratios authorized for gas utilities was 51.64% in 2025, while Peoples is claiming a higher equity ratio of 54.47%.[176]

X. REVENUE ALLOCATION AND RATE DESIGN

A. INTRODUCTION

A utility's rate structure implements the Commission's approved revenue increase to determine how the overall increase will be allocated among the utility's various rate classes. Once a class revenue allocation is determined, development of a rate design will address how the tariffed rates and rate elements will generate the allocated revenues. A

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173 I&E St. No. 2-SR, pp. 42-43.
174 *Id.* at p. 3.
175 *Id.* at p. 54.
176 I&E St. No. 2, p. 18.

properly designed rate structure will not unduly burden one class of ratepayers to the benefit of another. Under the Public Utility Code, "[n]o public utility shall … make or grant any unreasonable preference to any person, corporation … No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service."[177] Differences in rates charged to different classes are permissible so long as there is reasonable basis for the discrepancy.[178] Generally "public utility rates should enable the utility to recover its cost of providing service and should allocate this cost among the utility's customers in a just, reasonable and nondiscriminatory manner."[179]

B. COST OF SERVICE

A utility provides service to a defined set of customer classes that are different in terms of demand and usage patterns.[180] A cost of service study ("COSS") allocates or assigns a utility's revenue requirement based on those service differences.[181] In other words, a COSS is a formalized analysis of costs that attempts to assign to each customer or rate class its proportionate share of the Company's total cost of service (i.e., the Company's total revenue requirement).[182]

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177 *See* 66 Pa. C.S. § 1304.

178 *See generally Peoples Natural Gas Company v. Pa. P.U.C.*, 409 A.2d 446 (Pa. Commw. 1979).

179 *See generally Pa. P.U.C. v. West Penn Power*, 73 Pa. P.U.C. 454, 510, 199 PUR 4th 110 (1990).

180 I&E St. No. 3, p. 21.

181 *Id.*

182 *Id.*

I&E witness Cline disagreed with the Company's customer-demand allocation proposal as it is inconsistent with long-standing Commission precedent that was reaffirmed in the 2025 Columbia Gas base rate case.[183] Mr. Cline recommended that the revenue increase be allocated based on the Peak and Average Allocated Cost of Service Study ("ACOSS") at equal rates of return with the change that the large general ("LGS") class should not be allocated a decrease in rates, but instead the excess revenue from the LGS class, $6,629,057 as proposed, should be allocated across the remaining rate classes as part of the overall scale back of rates.[184]

C. REVENUE ALLOCATION

Revenue allocation is described as the allocation of revenue responsibility between rate classes.[185] It is routinely accepted that for class revenue allocation purposes, cost of service is the "polestar."[186] Generally, utilities that provide more than one different type of utility service cannot shift costs from one operation to the other.[187] For example, a utility that provides both gas and electric service cannot require its gas customers to pay for plant serving electric customers.

As Mr. Cline recommended the Commission reject reliance on the proposed customer-demand ACOSS in favor of the Peak and Average ACOSS, Mr. Cline also

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183 I&E St. No. 3-SR, pp. 9-10 (*citing Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499, pp. 254-55 (Order Entered December 9, 2025)).

184 I&E St. No. 3, pp. 25-27.

185 *Ratemaking Guide*, p. 138.

186 *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (Pa. Commw. 2006).

187 *Ratemaking Guide*, p. 141.

recommended the Company's proposed allocation based on the customer-demand model be rejected in favor of I&E's allocation based on the Peak and Average ACOSS.[188]

D. RATE DESIGN

It is generally accepted that gradualism is a well-established ratemaking concept that seeks to limit the immediate increases customers receive when rates are increased and instead seeks to implement a necessary significant rate changes on a more gradual basis over time. If the Commission should approve a rate increase, then the Commission has the discretion to apply the concept of gradualism if the Commission determines the rate increase would result in a sudden and excessive increase that would violate the concept of gradualism.[189] For this reason, I&E identifies the concept of gradualism as one of the tools of discretion in the Commission's toolbox.

Mr. Cline did not recommend any adjustments to the Company's proposed customer charges; however, he recommended that the proposed customer charges be included in any scale back of rates.[190] OCA witness Michael Deupree disagreed with I&E's acceptance of the Company's proposed increase in monthly customer charges.[191] I&E neither supports nor opposes the OCA's recommendations regarding changes to the customer charges; however, I&E continues to recommend the customer charges be included in any scale back of rates.[192]

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188 I&E St. No. 3, pp. 34-35.

189 *See Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835, pp. 44-45 (Order Entered February 19, 2021).

190 I&E St. No. 3, pp. 31-32.

191 I&E St. No. 3-SR, p. 14 (*citing* OCA St. No. 1-R, p. 6).

192 *Id*. at p. 15.

E. ALLOCATION OF UNIVERSAL SERVICE COSTS

I&E did not present testimony on the allocation of universal service costs.

F. COMPETITIVE RATE CUSTOMERS

Mr. Cline recommended that the Company be required to provide a competitive alternative analysis for any discount rate customers that have not had their competitive alternatives verified for longer than ten years at the time of the Company's next base rate case and justify the customers' discount rates as part of its filing in the next base rate case.[193] Mr. Cline also recommended that the Commission order the Company to provide a competitive alternative analysis for each discount rate customer that has not been verified within ten years of each of Peoples' prospective base rate cases in perpetuity.[194]

The Company stated that it is willing to accept I&E's recommendation on a going forward, prospective basis and that it has engaged in the practice of limiting any new contract terms to 10 years and that it has reduced its number of negotiated customers since the last base rate case.[195] Therefore, I&E's recommendation should be approved.

XI. WEATHER NORMALIZATION ADJUSTMENT ("WNA")

Peoples currently has a Commission-approved WNA program in effect.[196] Peoples proposed to update the WNA's normalization period based on a 65-year regression analysis methodology.[197]

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193 I&E St. No. 3, p. 6.
194 *Id.*
195 I&E St. No. 3-SR, pp. 3-4 (*citing* Peoples St. No. 8-R, pp. 4-7).
196 I&E St. No. 3, p. 11 (*citing* Peoples St. No. 17, p. 37).
197 *Id.*

I&E witness Cline opposed the Company's proposal to use a 65-year regression analysis in determining the WNA's normalization period and recommended that Peoples use a 10-year period to establish normal HDDs to determine present rate revenue in future proceedings.[198] Mr. Cline's recommendation was based on the Commission's determination in the 2025 Columbia Gas base rate case that "[u]sing a twenty-year cycle rather than a ten-year cycle appears to result in an 'historical bias' that diminishes the effect of the claimed recent trends and results in providing revenue to the Company when instead, customer should be realizing savings."[199] Extending the 20-year average analysis to a 65-year regression is not consistent with Commission precedent.

Mr. Cline disagreed with the Company's proposal to delay the implementation of the changes to the Normal HDDs until October 2027 as this would result in a mismatch between the Normal HDDs in the WNA and the HDDs used to calculate rates once the new base rates go into effect during the 2026-2027 WNA period.[200] Mr. Cline recommended pausing the WNA program in its entirety for the 2026-2027 WNA period as this would avoid the mismatch in HDD calculation methodologies while granting the Company the time necessary to implement the billing changes and perform testing while avoiding any negative repercussions to Peoples customer base.[201]

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198 *Id.* at p. 11-14.

199 *Id.* at p. 14 (*citing Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499, pp. 301-02 (Order Entered December 9, 2025)).

200 I&E St. No. 3-SR, pp. 9-10 (*citing* Peoples St. No. 3-R, p. 17 and Peoples St. No. 17-R, p. 53).

201 *Id.* at p. 11.

Mr. Cline also recommended that the present 3% deadband be increased to 5% because this percentage more adequately captures what could be considered normal weather fluctuations in Pennsylvania and places more of the burden for weather variation back on the Company as a normal part of doing business, as stated by the Commission in the 2025 Columbia Gas base rate case.[202]

XII. EFFECTIVE DATE OF RATES

The first day of Peoples' FPFTY is January 1, 2027. In response to I&E discovery, the Company indicated that the effective date of new rates will be December 27, 2026 as the Company used the FPFTY with a one-month gap month (December 1-31, 2026) between the end of the FTY (November 30, 2026) and the beginning of the FPFTY (January 1, 2027) due to the requirements of 66 Pa. C.S. § 1308(d).[203]

I&E witness Patel disagreed with the Company's claim as the Company's revenue requirement, including the revenue increase claim, is forecasted and used in the ratemaking calculation for the 12-month FPFTY (January 1, 2027, through December 31, 2027), which does not include the gap month of December 2026.[204] The rates and the rate increase requested in this proceeding and the amounts recommended by the parties are based on the FPFTY period and not the gap month.[205] Mr. Patel noted that if Peoples is permitted to make new rates effective on December 27, 2026, instead of January 1,

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202 *Id.* at p. 7 (*citing Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499, pp. 301-02 (Order Entered December 9, 2025)).

203 I&E St. No. 2, p. 65 (*citing* I&E Exh. No. 2, Sch. 17, p. 1).

204 *Id.* at p. 66.

205 *Id.*

2027, then at the full revenue increase request of $163,171,938, the Company would recover an unsupported and unreasonable additional revenue increase of $2,235,232 (($163,171,938 ÷ 365) x 5) for that 5-day period from ratepayers.[206]

Therefore, in consideration of the record evidence presented, I&E recommends that Peoples should agree to make the new rates effective on January 1, 2027 (the first day of the FPFTY) instead of the proposed December 27, 2026.[207] If Peoples does not agree with I&E's recommendation, I&E recommends the Commission direct the Company: (1) to make the new rates effective January 1, 2027 (the first day of the FPFTY) instead of on December 27, 2026 and file an updated tariff rates and rules (Supplement to Tarriff Gas) pursuant to the 12 provisions of 52 Pa. Code §§ 53.1, et seq. and 53.101, designed to produce the approved annual distribution rate/revenue increase to become effective for service rendered *on and after January 1, 2027*; and (2) to file all subsequent base rate cases that should have new rate effective dates beginning with the first day or later of the claimed FPFTY.[208]

XIII. <u>UNIVERSAL SERVICE PROGRAM ("USP") RIDER</u>

A. ONE-TIME CREDIT ADJUSTMENT

Company witness Carol Scanlon proposed a defined credit that would partially offset universal service charges from January 1, 2027 through March 31, 2027.[209] The

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206 *Id.* (*citing* Peoples Exh. No. 2, Sch. 4, p. 2).
207 *Id.* at p. 68.
208 *Id.*
209 I&E St. No. 1, p. 59 (*citing* Peoples St. No. 3, pp. 5-9).

credit totals $5,168,768 and includes amounts from an excess book contingency reserve as well as proposed changes to the tax repairs deduction collar.[210]

I&E witness Okum recommended that the credit be treated as a regulatory liability and credited back to all customers accordingly, not simply the Company's proposal of reducing the burden on residential customers.[211] While Ms. Okum agreed with Ms. Scanlon that the credit generated from the tax repair deduction collar should flow through the Tax Repairs Surcharge Credit within 90 days following the effective date of new rates in the proceeding, she continued to recommend that the remaining $3,900,000 generated by the sales and use tax refund be treated as a regulatory liability that should be amortized over a period of four years, rounded down to the nearest year, resulting in annual amortization of $975,000 over the four-year period ($3,900,000 / 4 years = $975,000).[212] Ms. Okum also recommended that Peoples be required to show an annual accounting of the progress for refunding this credit in its next base rate case filing.[213]

Additionally, Ms. Okum disagreed with the Company's proposal to refund an unknown amount (estimated at $15,000,000 or more) related to the tax repair deduction collar after the FPFTY, between January 1, 2028 and March 31, 2028 through the USP rider.[214] Ms. Okum instead recommended that this amount be tracked throughout the year and returned via the Tax Repairs Surcharge Credit within 90 days of January 1, 2027

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210 *Id.* (*citing* Peoples St. No. 2, pp. 21, 22-26).
211 *Id.* at p. 60.
212 I&E St. No. 1-SR, pp. 42-43.
213 *Id.* at p. 43.
214 *Id.*

and recommended that Peoples be required to show an annual accounting of the credit in its next base rate case filing.[215]

B. BAD DEBT OFFSET CALCULATION

I&E did not present testimony on the Company's proposed revision to the bad debt offset calculation.

XIV. LOW-INCOME CUSTOMER ISSUES

A. CUSTOMER ASSISTANCE PROGRAM

I&E did not present testimony on the Company's customer assistance program.

B. LOW-INCOME USAGE REDUCTION PROGRAM ("LIURP")

I&E witness Okum did not oppose PWPTF witness Jennifer Warabak's recommendation that 75 additional customers should be served by the Company's LIURP, however, Ms. Okum disagreed with Ms. Warabak's assertion that an increase of 75 customers would require an increase in LIURP funding of $975,000.[216] Both Ms. Warabak's and Ms. Okum's calculations for additional LIURP jobs were less than the Company's minimum annual LIURP budget of $3,500,000 agreed to in the Low-Income Stipulation at Docket No. R-2023-3044549.[217] Additionally, the Company stated that all unspent funds are rolled into the budget for the following year and information provided by the Company in discovery showed that it did not spend its entire budget for the years

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215 *Id.*

216 I&E St. No. 1-R, p. 3.

214 *Id.* at p. 3 (*citing Pa. P.U.C. v. Peoples Natural Gas Company LLC,* Docket No. R-2023-3044549, p. 63 (Order Entered September 12, 2024)).

2023 through 2025.[218] Therefore, I&E recommends no increase to the Company's LIURP budget.

XV. CUSTOMER SERVICE ISSUES

A. SERVICE TERMINATIONS

I&E did not present testimony on specific customer service and quality of service issues.

XVI. PROPOSED TARIFF CHANGES

I&E did not present testimony on specific issues regarding the Company's proposed tariff changes.

XVII. HOT WATER TANK REBATE PILOT PROGRAM

I&E did not present testimony on the Company's proposed hot water tank rebate pilot program.

XVIII. SAFETY

A. DAMAGE PREVENTION

This issue was raised by I&E's Pipeline Safety Division in the direct testimony of I&E witness Gobrecht. Mr. Gobrecht noted that while Peoples' damages have been trending downwards, there is still concern with the total number of damages and damages caused by first and second parties as well as damages related to One Calls.[219]

I&E recommended that (1) Peoples review its first and second party damages to determine the resolution to these issues; (2) that Peoples' employees and contractors as

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[218] *Id.* at p. 4 (*citing* I&E Exh. No. 1-R, Sch. 1 and 2).
[219] I&E St. No. 4, pp. 13-14.

well as locator personnel receive additional training to address the increasing trends of damages; and (3) that Peoples create a QA/QC program along with various metrics to analyze and assess its Damage Prevention Program for improvements to reduce damages.[220] Additionally, I&E recommended that Peoples provide I&E's Pipeline Safety Division a list of metrics and root cause procedures that Peoples will use to analyze their Damage Prevention Program by October 2026, and then, beginning in 2027, that Peoples schedule quarterly meetings with I&E's Pipeline Safety Division to review the root cause investigations that were performed along with the metrics that were created to show Peoples is driving down its damage numbers on its facilities.[221]

In consideration of all of the record evidence submitted by I&E witness Gobrecht, I&E continues to recommend that Peoples implement I&E's recommendations to its Damage Prevention Program to ensure the safety of its personnel and the public.

B. METHANE DETECTION

This issue was raised by I&E's Pipeline Safety Division in the direct testimony of I&E witness Gobrecht. Mr. Gobrecht highlighted the usefulness and safety benefits of methane detectors within structures and the ability of real-time smart reporting technology to simultaneously notify the customer and the emergency gas response officials to potentially hazardous situations.[222] Mr. Gobrecht also opined that implementation of a methane detector pilot program would provide Peoples' customers

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220 *Id.* at pp. 13-15.
221 I&E St. No. 4-SR, pp. 4-5.
222 I&E St. No. 4, pp. 16-19.

with a safety tool that provides early warning alarms signaling a gas leak and a potentially hazardous situation.[223] Implementing an early warning audible alarm will afford additional time to safely evacuate and notify the emergency response officials.[224]

I&E recommended that the Company implement a pilot program utilizing 500 to 1,000 Smart Remote Methane Detectors ("SRMDs") to allow for a study of the devices' effectiveness as well as the use of Advanced Metering Infrastructure ("AMI") and LoRaWAN or other communication technologies for notification methodology utilized by these devices as part of its pilot program.[225] I&E also recommended that Peoples use a risk-based approach to determine the location that best maximizes the effectiveness of the methane detector pilot program.[226]

In consideration of all of the record evidence submitted by I&E witness Gobrecht, I&E continues to recommend Peoples implement a methane detector pilot program, using either audible detectors or SRMDs, to study its effectiveness and to monitor expenses.

XIX. PURCHASE OF RECEIVABLES PROGRAM

I&E did not present testimony on the purchase of receivables program.

XX. LOCAL PRODUCTION – GATHERING AND COST RECOVERY ISSUES

I&E did not present testimony on local production issues.

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223 *Id.*
224 *Id.*
225 *Id.* at pp. 20-21.
226 *Id.* at p. 21.

XXI. COMPETITIVE RATE DISCOUNTS

I&E's recommendations regarding competitive rate discounts were discussed in the Competitive Rate Customers section above.

XXII. MISCELLANEOUS/OTHER ISSUES

A. MERGER OF PNG GATHERING INTO PEOPLES

I&E did not present testimony on the merger of PNG Gathering LLC into Peoples.

XXIII. CONCLUSION

I&E respectfully submits that for all the reasons presented in this I&E Main Brief, Peoples has not met its burden of proof as the record evidence presented by Peoples does not substantiate a revenue increase of $163.2 million. Instead, based on the weight of the record evidence, Your Honor and the Commission should only grant Peoples the I&E recommended revenue increase of no more than $92,850,718 in accordance with the record evidence presented by I&E and summarized in this I&E Main Brief and the appended I&E Tables.

Respectfully submitted,

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Dated: August 26, 2026

APPENDIX A – Summary Tables of I&E Position and Adjustments

I&E TABLE I

TABLE I
Peoples Natural Gas Company, LLC
INCOME SUMMARY
R-2026-3060855

	Pro Forma Present Rates (1)	Company Adjustments	Company Pro Forma Present Rates Adjusted	I&E Adjustments	I&E Pro Forma Present Rates	I&E Revenue Increase	Total Allowable Revenues
	$	$	$	$	$	$	$
Operating Revenue	1,184,820,244	0	1,184,820,244	0	1,184,820,244	92,850,718	1,277,670,962
Expenses:							
O & M Expense	726,217,549	0	726,217,549	(21,229,172)	704,988,377	1,789,294	706,777,671
Depreciation/Amortization	181,181,596	0	181,181,596	(975,000)	180,206,596	0	180,206,596
Taxes, Other	13,759,055	0	13,759,055	0	13,759,055	0	13,759,055
Income Taxes:							
State	0	0	0	0	0	0	0
Federal	0	0	0	0	0	0	0
Deferred Taxes	*(46,945,792)*	0	(46,945,792)	0	(46,945,792)	0	(46,945,792)
Total Expenses	874,212,408	0	874,212,408	(22,204,172)	852,008,236	1,789,294	853,797,530
Net Inc. Available for Return	310,607,836	0	310,607,836	22,204,172	332,812,008	91,061,424	423,873,432
Rate Base	5,728,767,833	0	5,728,767,833	(8,478,607)	5,720,289,226		5,720,289,226
Rate of Return	*5.42%*		*5.42%*				7.41%

(1) Company Rebuttal Testimony with Deferred Taxes Adjusted by Company's $33,610,504 FPFTY Adjustment (which impacts the displayed ROR).

I&E TABLE I(A)

TABLE I(A)					
Peoples Natural Gas Company, LLC					
RATE OF RETURN					
R-2026-3060855					
			After-Tax Weighted	Effective Tax Rate	Pre-Tax Weighted
	Structure	Cost	Cost	Complement	Cost Rate
Total Cost of Debt			2.30500000%		
Long-term Debt	50.00%	4.61%	2.30500000%		2.31%
Short-term Debt	0.00%	0.00%	0.00000000%		
Preferred Stock	0.00%	0.00%	0.00000000%	1.000000	0.00%
Common Equity	50.00%	10.20%	5.10000000%	1.000000	5.10%
	100.00%		7.41000000%		7.41%
Pre-Tax Interest Coverage	3.21				
After-Tax Interest Coverage	3.21				

I&E TABLE I(B)

TABLE I(B)	
Peoples Natural Gas Company, LLC	
REVENUE FACTOR	
R-2026-3060855	
100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.01927065
PUC, OCA, OSBA Assessment Factors (*)	0.00000000
Gross Receipts Tax	0.00000000
Other Tax Factors	0.00000000
	0.98072935
State Income Tax Rate (*)	0.00000000
Effective State Income Tax Rate	0.00000000
Factor After Local and State Taxes	0.98072935
Federal Income Tax Rate (*)	0.00000000
Effective Federal Income Tax Rate	0.00000000
Revenue Factor (100% - Effective Tax Rates)	0.98072935
(*) Company Rebuttal	

I&E TABLE II

Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	$	$	$	$	$	$	$
RATE BASE:							
CWC:							
Capitalized Labor	(4,250,657)						
Capitalized Bonus	(1,318,847)						
Capitalized Benefits	(1,100,335)						
Capitalized Payroll Taxes	(446,296)						
Cash Working Capital	(1,362,472)						
REVENUES:							
		0				0	0
EXPENSES:							
Labor, Bonus, Pension, Benefits, Tax			(12,027,171)			0	0
Outside Services			(3,268,477)			0	0
Licenses, Permits			(34,718)			0	0
Corp Insurance			(1,402,736)			0	0
Travel			(108,657)			0	0
Memberships			(157,918)			0	0
Fleet, Utilites and Fuel			(324,773)			0	0
Advertising			(1,198,286)			0	0
Materials and Supplies			(1,141,328)			0	0
Payment Processing			(1,016,537)			0	0
Rate Case Expense			(548,571)			0	0
						0	0
DEPRECIATION/AMORTIZATION:							
Sales and Use Tax Amortization				(975,000)		0	0
TAXES:							
Interest Synchronization (Table III)						0	0
TOTALS	(8,478,607)	0	(21,229,172)	(975,000)	0	0	0

I&E TABLE III

TABLE III	
Peoples Natural Gas Company, LLC	
INTEREST SYNCHRONIZATION	
R-2026-3060855	
	Amount
	$
Company Rate Base Claim	5,728,767,833
I&E Rate Base Adjustments	(8,478,607)
I&E Rate Base	5,720,289,226
Weighted Cost of Debt	2.30500000%
I&E Interest Expense	131,852,667
Company Claim (1)	121,014,900
Total I&E Adjustment	(10,837,767)
Company Adjustment	0
Net I&E Interest Adjustment	(10,837,767)
State Income Tax Rate	0.00%
State Income Tax Adjustment	0
Net I&E Interest Adjustment	(10,837,767)
State Income Tax Adjustment	0
Net I&E Adjustment for Federal Income Tax	(10,837,767)
Federal Income Tax Rate	0.00%
Federal Income Tax Adjustment	0
(1) Company Rebuttal	

I&E TABLE IV

TABLE IV				
Peoples Natural Gas Company, LLC				
CASH WORKING CAPITAL - Interest and Dividends				
R-2026-3060855				
Accrued Interest			Preferred Stock Dividends	
	Long-Term Debt	Short-Term Debt		
Company Rate Base Claim	$5,728,767,833	$5,728,767,833	Company Rate Base Claim	$5,728,767,833
I&E Rate Base Adjustments	($8,478,607)	($8,478,607)	I&E Rate Base Adjustments	($8,478,607)
I&E Rate Base	$5,720,289,226	$5,720,289,226	I&E Rate Base	$5,720,289,226
Weighted Cost of Debt	2.30500000%	0.00%	Weighted Cost Pref. Stock	0.00000000%
I&E Annual Interest Exp.	$131,852,667	$0	I&E Preferred Dividends	$0
Average Revenue Lag Days	0.0	0.0	Average Revenue Lag Days	0.0
Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
Working Capital Adjustment				
I&E Daily Interest Exp.	$361,240	$0	I&E Daily Dividends	$0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
I&E Working Capital	$0	$0		$0
Company Claim (1)	$0	$0	Company Claim (1)	$0
I&E Adjustment	$0	$0		$0
Total Interest & Dividend Adj.	$0			
(1) Company Rebuttal				

I&E TABLE V

TABLE V
Peoples Natural Gas Company, LLC
CASH WORKING CAPITAL -TAXES
R-2026-3060855

Description	Company Proforma Tax Expense Present Rates	I&E Adjustments	I&E Pro forma Tax Expense Present Rates	I&E Allowance	I&E Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
PUC Assessment	$0	$0	$0	$0	$0	$0.00	0.00	$0
Public Utility Realty	$0	$0	$0		$0	$0.00	0.00	$0
Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
State Income Tax	$0	$0	$0	$0	$0	$0.00	0.00	$0
Federal Income Tax	$0	$0	$0	$0	$0	$0.00	0.00	$0
	$0	$0	$0	$0	$0			
						I&E Allowance		0
						Company Claim (1)		0
						I&E Adjustment		0

(1) Company Rebuttal

I&E TABLE VI

TABLE VI
Peoples Natural Gas Company, LLC
CASH WORKING CAPITAL -- O&M EXPENSE
R-2026-3060855

Description	Company Pro forma FPFTY Expense	I&E	I&E Pro forma Expenses	Lag Days	Lag Dollars
Service Company	$0	$0	$0	0.00	$0
Chemicals	$0	$0	$0	0.00	$0
Group Insurance	$0	$0	$0	0.00	$0
Insurance, Other	$0	$0	$0	0.00	$0
Labor	$0	$0	$0	0.00	$0
Leased Equip./Rent	$0	$0	$0	0.00	$0
Leased Vehicles	$0	$0	$0	0.00	$0
Miscellaneous	$0	$0	$0	0.00	$0
Natural Gas	$0	$0	$0	0.00	$0
Power	$0	$0	$0	0.00	$0
Purchased Water	$0	$0	$0	0.00	$0
Telephone	$0	$0	$0	0.00	$0
Waste Disposal	$0	$0	$0	0.00	$0
Post Retirement Benefits	$0	$0	$0	0.00	$0
Pensions	$0	$0	$0	0.00	$0
	$0	$0	$0	#DIV/0!	$0
I&E Average Revenue Lag	0.0				
Less: I&E Avg. Expense Lag	#DIV/0!				
Net Difference	#DIV/0!	Days			
I&E Pro forma O&M Expense per Day	$0				
I&E CWC for O&M	#DIV/0!				
Less: Company Claim (1)	$0				
I&E Adjustment	#DIV/0!				

(1) Company Rebuttal

APPENDIX B – Bill Impacts

Peoples Natural Gas
I&E Revenue Allocation at Proposed Rates
Docket No. R-2026-3060855

Line No.	Rate Class	Current Revenues	Company Increase	Company Allocation As Filed	I&E Recommended Increase	I&E Recommended Revenues at Full Increase	I&E Percent Change at Full Increase	I&E Recommended Scale Back Allocation	Increase over Current Revenues	I&E Percent Change at Scale Back	Scale Back Percent	Scale Back Percent Increase
	(A)	(B)		(C)		(D)	(E)	(F)	(G)	(H)		
1	Residential	$ 875,170,164	$ 118,163,447	$ 993,333,611	$ 86,089,063	$ 961,259,227	10%	$ 924,858,613	$ 49,688,449	6%	58%	6%
2	Small General	$ 116,045,676	$ 21,443,151	$ 137,488,827	$ 32,726,917	$ 148,772,593	28%	$ 134,934,832	$ 18,889,156	16%		16%
3	Medium General	$ 108,167,780	$ 21,264,419	$ 129,432,199	$ 39,504,555	$ 147,672,335	37%	$ 130,968,819	$ 22,801,039	21%		21%
4	Large General	$ 72,052,170	$ -	$ 72,052,170	$ -	$ 72,052,170	0%	$ 72,052,170	$ -	0%		0%
5	Mainline Service	$ 13,178,274	$ -	$ 13,178,274	$ 2,550,483	$ 15,728,757	19%	$ 14,650,349	$ 1,472,075	11%		11%
10	Total:	$ 1,184,614,064	$ 160,871,017	$ 1,345,485,081	$ 160,871,018	$ 1,345,485,082	14%	$ 1,277,464,783	$ 92,850,719	8%		8%

APPENDIX C – Proposed Findings of Fact

1. On March 27, 2026, Peoples filed Original Tariff Gas – Pa. P.U.C. No. 49 and Original Tariff Gas – Pa. P.U.C. No. S-5 seeking a general rate increase of approximately $163.2 million per year.

2. Peoples has not met its burden of proof as Peoples failed to present substantial credible record evidence to support its request for a revenue increase of $163.2 million.

3. The record evidence presented supports only a total revenue increase of $92,850,718. I&E St. No. 1-SR, p. 7. *See also* Appendix A, Table I *infra*.

4. I&E recommends that the Company should be afforded the opportunity to earn an overall rate of return of 7.41%. I&E St. No. 2-SR, pp. 42-43.

5. I&E recommends using a capital structure of 50% long-term debt and 50% common equity. I&E St. No. 2, p. 14.

6. I&E's recommended return on common equity of 10.20% is higher than the average return on equity of 9.69% of all gas utility rate cases decided/approved by state regulatory authorities in 2025. I&E St. No. 2, p. 38.

7. If Peoples is permitted to charge new rates effective on December 27, 2026 instead of the first day of the FPFTY of January 1, 2027, then at the full revenue increase request of $163,171,938, the Company would recover a minimum unsupported and unreasonable additional revenue increase of $2,235,232 (($163,171,938 ÷ 365) x 5) for that 5-day period from ratepayers. I&E St. No. 2, p. 66.

8. Peoples' proposed 65-year regression analysis in determining the WNA's normalization period is not supported by Commission precedent. I&E St. No. 3, p. 14.

9. Peoples' present WNA deadband of 3% should be increased to 5% consistent with Commission precent. I&E St. No. 3, p. 7.

10. Peoples' proposed customer charges are reasonable and should be included in any scale back of rates. I&E St. No. 3, pp. 31-32.

11. The Peoples' system would benefit from the implementation of real-time smart reporting technology that can simultaneously notify the customer and the emergency gas response officials to potentially hazardous situations. I&E St. No. 4, pp. 16-19.

APPENDIX D – Proposed Conclusions of Law

1. Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission. 66 Pa. C.S. § 1301.

2. No public utility shall … make or grant any unreasonable preference to any person, corporation … No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service. 66 Pa. C.S. § 1304.

3. The burden of proving the justness and reasonableness of every element of the utility's rate increase rests solely upon the public utility. 66 Pa. C.S. § 315(a); *Lower Frederick Twp. v. Pa. Pub. Util. Comm.*, 409 A.2d 505 (Pa. Commw. Ct. 1980).

4. Peoples Natural Gas Company LLC, as the base rate filer, must satisfy its burden of proof by a preponderance of evidence. *Samuel J. Lansberry, Inc. v. Pennsylvania Public Utility Commission*, 578 A.2d 600 (Pa. Commw. 1990).

5. A preponderance of evidence is such evidence that is more convincing, by even the smallest amount, than that presented by another party. *Se-Ling Hosiery v. Margulies*, 70 A.2d 854 (Pa. 1950).

6. The burden of proof is comprised of two distinct burdens: the burden of production and the burden of persuasion. The burden of production tells the adjudicator which party must come forward with evidence to support a particular position. *In re: Loudenslager's Estate,* 430 Pa. 33, 240 A.2d 477 (1968). The burden of persuasion determines which party must produce sufficient evidence to convince a judge that a fact has been established, and it never leaves the party on whom it is originally cast. *Reidel v. County of Allegheny,* 633 A.2d 1325, 1329 n. 11 (Pa. Commw. 1993).

7. The Commission must ensure that any adjudication is supported by substantial evidence. "Substantial evidence" is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion. *Norfolk & Western Ry. Co. v. Pennsylvania Public Utility Commission,* 413 A.2d 1037 (Pa. 1980).

8. While the burden of proof remains with the public utility throughout the rate proceeding, the Commission has stated that where a party proposes an adjustment to a ratemaking claim of a utility, the proposing party bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment. *Pa. Pub. Util. Comm. v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711 (Opinion and Order entered July 17, 2008).

9. The Commission must consider the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates in exchange for customers paying rates for service, which include the cost of utility plant in service and a rate of return. 66 Pa. C.S. § 523.

10. In exchange for the utility's provision of safe, adequate and reasonable service, the ratepayers are obligated to pay rates which cover the cost of service which includes reasonable operation and maintenance expenses, depreciation, taxes and a fair rate of return for the utility's investors. *Pa. Pub. Util. Comm. v. Pennsylvania Gas & Water Co.,* 61 Pa. PUC 409, 415-16 (1986); 66 Pa. C.S. § 1501.

11 The Commission has the discretionary authority to deny a proposed rate increase, in whole or in part, if the Commission finds that the service rendered by the public utility is inadequate. 66 Pa. C.S. § 526(a); *PA PUC v. Columbia Gas of Pennsylvania Inc.,* Docket No. R-2020-3018835, Order entered February 19, 2021.

12. A Commission decision is adequate where, on each of the issues raised, the Commission was merely presented with a choice of actions, each fully developed in the record, and its choice on each issue amounted to an implicit acceptance of one party's thesis and rejection of the other party's contention. *Popowsky, et al. v. Pa. Pub. Util. Comm.*, 550 Pa. 449, 706 A.2d 1197 (1997).

13. The standard formula for determining a utility's base rate revenue requirement is:

RR = E + D + T + (RB x ROR)

RR: Revenue Requirement

E: Operating Expense

D: Depreciation Expense

T: Taxes

RB: Rate Base

ROR: Overall Rate of Return

14. A utility is entitled to recover its reasonably incurred expenses. *UGI Corp. v. Pa. Pub. Util. Comm'n,* 410 A.2d 923 (Pa. Commw. 1980). Expenses include such items as the cost of operations and maintenance (labor, fuel and administrative costs, e.g.), depreciation and taxes. *Pennsylvania Power Company v. Pa. Pub. Util. Comm.,* 561 A.2d 43, 47 (Pa. Commw. 1989).

15. The public utility requesting a rate increase and seeking to recover expenses has the burden of showing that the rate requested, including all claimed expenses, is just and reasonable. 66 Pa. C.S. § 315(a); *See also Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).

16. To the extent that expenses are not reasonably incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable through rates. *Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).

17. It is the historical filings, not the actual intentions of the utility, which will guide the determination of the normalization period. *Pa. Pub. Util. Comm. v. City of Lancaster,* R-2010-2179103, et al. (Opinion and Order entered July 14, 2011), 2011 Pa. PUC LEXIS 1685; *Pa. Pub. Utility Comm. v. Metropolitan Edison Company,* R-2006-00061366, et al. (Opinion and Order entered January 4, 2007), 2007 Pa. PUC LEXIS 5.

18. The rate of return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management…to raise the money necessary for the proper discharge of public duties. *Bluefield Waterworks & Improvement Co. v. Public Service Comm. of West Virginia,* 262 U.S. 679 (1923).

19. Establishment of a rate structure is an administrative function peculiarly within the expertise of the Commission. *Emporium Water Company v. Pa. Pub. Util. Comm.,* 955 A.2d 456, 461 (Pa. Commw. 2008); *City of Lancaster v. Pa. Pub. Util. Comm.*, 769 A.2d 567, 571-72 (Pa. Commw. 2001). The question of reasonableness of rates and the difference between rates in their respective classes is an administrative question for the Commission to decide. *Pennsylvania Power & Light Co. v. Pa. Pub. Util. Comm.,* 516 A.2d 426 (Pa. Commw. 1986); *Park Towne v. Pa. Pub. Util. Comm.,* 43 A.2d 610 (1981).

20. The basic factor in allocating revenue is to have the rates reflect the cost of service. *Lloyd v. Pa. Pub. Util. Comm.,* 904 A.2d 1010, 1020 (Pa. Commw. 2006).

21. In order to implement an alternative ratemaking mechanism, the proposing utility must provide substantial evidence that the specific mechanism proposed by the utility would result in just and reasonable rates. *Pa. PUC v. PECO Energy Company - Gas* ("PECO WNA Order"), Docket No. R-2024-3046932, p. 14 (Order Entered December 12, 2024). *See also* 66 Pa.C.S. §§ 315(a), 1330.

22. To determine "just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose" of the Commission's policy and the policy laid out in Section 1330, the Commission, in a Policy Statement, developed 14

factors to be considered. *Pa. PUC v. PECO Energy Company - Gas* ("PECO WNA Order"), Docket No. R-2024-3046932, p. 15 (Order Entered December 12, 2024). *See* 52 Pa. Code § 69.3302(a).

23. "It is a primary concern of the Commission that alternative ratemaking is, in some way, rooted in the cost of service." *Pa. PUC v. PECO Energy Company - Gas* ("PECO WNA Order"), Docket No. R-2024-3046932, p. 16 (Order Entered December 12, 2024).

24. As is stated at 52 Pa. Code § 69.3301, "An alternative rate design methodology should reflect the sound application of cost-of-service principles, establish a rate structure that is just and reasonable, and consider customer impacts." *Pa. PUC v. PECO Energy Company - Gas* ("PECO WNA Order"), Docket No. R-2024-3046932, pp. 16-17 (Order Entered December 12, 2024), *quoting* 52 Pa. Code §§ 69.3301, 69.3302(a).

25. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia,* 292 U.S. 679, 692-93 (1923).

26. The Commission shall base its determination of the appropriate cost of equity on the results of the DCF method and shall use the CAPM results as a comparison thereto. The use of the DCF model has historically been our preferred methodology, the Commission should find no reason to deviate from the use of this method in the instant case. *PA PUC v. Columbia Gas of Pennsylvania Inc.,* Docket No. R-2020-3018835, Order entered February 19, 2021.

27. "Our decision on this issue is consistent with prior decisions in which we have determined that it was not appropriate to consider proposals relating to a public utility's energy burdens, CAP, and other universal service program issues within the context of a base rate proceeding, finding that such proposals are more properly considered in a public utility's Universal Service and Energy Conservation Plan (USECP) proceeding." *PA Public Utility Commission et al. v. Aqua Pennsylvania, Inc.*, (2022 Aqua Order), Docket No. R-2021-3027386 (Order Entered May 16, 2022).

28. “[A] LIURP budget can only be revised through a USECP proceeding initiated pursuant to the periodic USECP review process or in response to a petition to amend a USECP earlier than the periodic USECP review process.” Notice of Proposed Rulemaking for the *Initiative to Review and Revise the Exhibit Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1-58.18,* (2023 LIURP Rulemaking Order), Docket No. L-2016-2557886, p. 36 (Order Entered May 18, 2023).

29. “As LIURP is a ratepayer-funded program, considerations impacting its budget determination should be open to scrutiny and comment. USECP proceedings allow all interested parties to provide comments, raise questions, and review information justifying the proposed change to the LIURP budget in an on-the-record proceeding.” Notice of Proposed Rulemaking for the *Initiative to Review and Revise the Exhibit Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1-58.18,* (2023 LIURP Rulemaking Order), Docket No. L-2016-2557886, p. 37 (Order Entered May 18, 2023).

30. “Iteration” is an accepted ratemaking process that must be applied to the final calculation of rates as all adjustments are finalized.

31. “Scale back” of rates is an accepted rate making process that is applied to the final rate structure after the Commission approves the Company’s new total revenue requirement.

32. Peoples Natural Gas Company LLC did not meet its burden of proof.

APPENDIX E – Proposed Ordering Paragraphs

1. That I&E's proposed total revenue increase for Peoples of $92,850,718 is approved.

2. That I&E's recommended cost of common equity of 10.20% is accepted.

3. That I&E's recommended overall rate of return of 7.41% is accepted.

4. That Peoples' request for management performance points to be added to the overall rate of return is denied in its entirety.

5. That Peoples' new rates become effective January 1, 2027 (the first day of the FPFTY) instead of the proposed December 27, 2026.

6. That Peoples use the Peak and Average methodology to allocate any potential revenue increases among Peoples' customer classes.

7. That "scale back" of rates shall be proportionately applied to the new rates.

8. That Peoples' Weather Normalization Adjustment program be modified as recommended by I&E.

9. That no increase in the budgeted LIURP amount be approved in this base rate proceeding.

10. That the Company implement a pilot program utilizing SRMD methane detectors in a region where Peoples has risky pipe for the installation of 500 to 1,000 SRMDs.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2026-3060855
	:	
Peoples Natural Gas Company, LLC	:	

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Main Brief** dated August 26, 2026, in the manner and upon the persons listed below.

Served via Electronic Mail Only

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