

COMMONWEALTH OF PENNSYLVANIA



DARRYL A. LAWRENCE
Consumer Advocate

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

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

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

Dear Secretary Homsher:

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

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

Respectfully submitted,

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

Enclosures

cc: Honorable Judge Charece Collins (Via email: charcollin@pa.gov)
Certificate of Service

CERTIFICATE OF SERVICE

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

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

Dated this 26th day of August, 2026.

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SERVICE BY E-MAIL ONLY

Anthony D. Kanagy, Esq. *
Michael W. Gang, Esq. *
Hayley E. Wilburn, Esq. *
Lindsay A. Berkstresser, Esq. *
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101
akanagy@postschell.com
mgang@postschell.com
hwilburn@postschell.com
lberkstresser@postschell.com
Counsel for Peoples

Steven C. Gray, Esq. *
Office of Small Business Advocate
Forum Place
555 Walnut Street, 1st Floor
Harrisburg, PA 17101
sgray@pa.gov
Counsel for OSBA

Meagan Moore, Esq. *
Peoples Natural Gas Company
375 North Shore Drive

Michael A. Podskoch, Esq. *
Bureau of Investigation and Enforcement
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
mpodskoch@pa.gov
Counsel for I&E

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

Elizabeth R. Marx, Esq. *
Ria M. Pereira, Esq. *
John W. Sweet, Esq. *
Lauren N. Berman, Esq. *
Levi A. Phillips, Esq. *
Patrick Cicero, Esq. *
Laura F. Edinger, Esq. *
Pennsylvania Utility Law Project
118 Locust Street

Pittsburgh, PA 15212
meagan.moore@peoples-gas.com
Counsel for Peoples

Todd Pappasergi, Esq.
Pennsylvania Independent Oil
& Gas Association
100 Allegheny Drive, Suite 104
Warrendale, PA 15086
todd@pioga.org
Counsel for PIOGA

Todd S. Stewart, Esq.
HMS Legal LLP
501 Corporate Circle, Suite 302
Harrisburg, PA 17110
tsstewart@hmslegal.com
Counsel for RESA

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

Dated: August 26, 2026

Harrisburg, PA 17101
emarx@pautilitylawproject.org
rpereira@pautilitylawproject.org
jsweet@pautilitylawproject.org
lberman@pautilitylawproject.org
lphillips@pautilitylawproject.org
pcicero@pautilitylawproject.org
ledinger@pautilitylawproject.org
Counsel for CAUSE-PA

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

Jacob Guthrie, Esq.
Ryan M. Morden, Esq.
Olivia M. Spergel, Esq.
Assistant Consumer Advocates
OCAPeoplesBRC2026@paoca.org

Counsel for:
Darryl A. Lawrence
Consumer Advocate

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
OFFICE OF CONSUMER ADVOCATE

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

Jacob D. Guthrie, Esq.
Assistant Consumer Advocate
PA Attorney I.D. # 334367
JGuthrie@paoca.org

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

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

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

Date: August 26, 2026

Counsel for:
Darryl A. Lawrence
Consumer Advocate

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I. INTRODUCTION

A. Description of the Office of Consumer Advocate

The Office of Consumer Advocate (OCA) is a statutory advocate with the authority and duty to represent the interest of consumers as a party before the Commission in public utility rate requests.¹ The OCA's interest in this case is to ensure that utility consumers - who ultimately pay the revenue requirement to the utility - are paying no more than is necessary to ensure that public utility service remains adequate, reliable, and safe while allowing the utility to have the opportunity to recover its prudently incurred costs and earn a fair rate of return on its investments. Given that a utility's general rate increase request will substantially affect the interests of consumers, the Commission must "consistent with its other statutory responsibilities, take such action with due consideration to the interests of consumers."²

B. Procedural History

On March 27, 2026, Peoples Natural Gas Company LLC (Peoples) filed Original Tariff Gas – Pa. P.U.C. Nos. 49 and S-5 with the Commission, seeking an increase in base rates to produce approximately \$163.2 million in additional annual revenue, or a 24.0% increase in its distribution revenue requirement, effective May 26, 2026. In support of its filing, Peoples submitted Direct Testimony and accompanying materials pursuant to 66 Pa. C.S. Section 1308(d).

On March 31, 2026, the OCA filed a Notice of Appearance, Formal Complaint, and Public Statement. Also on March 31, the Office of Small Business Advocate (OSBA) filed a Notice of Appearance. On April 2, 2026, the Commission's Bureau of Investigation and Enforcement (I&E) entered its appearance. On April 7, 2026, OSBA filed a Formal Complaint and Public Statement,

¹ 71 P.S. § 309-4.

² 71 P.S. § 309-5.

and the Pennsylvania Weatherization Providers Task Force (the Task Force) filed a Petition to Intervene. On April 13, 2026, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) entered its appearance.

On April 16, 2026, the Commission issued an Order instituting an investigation into the lawfulness, justness, and reasonableness of Peoples' proposed and existing rates and suspended the effective date of the filing until December 26, 2026, pursuant to 66 Pa. C.S. Section 1308(d). The matter was assigned to the Office of Administrative Law Judge (OALJ) for further proceedings. On the same day, the Commission issued a Notice scheduling an Initial Telephonic Prehearing Conference for April 28, 2026, before Administrative Law Judge Charece Z. Collins (ALJ Collins), along with a Prehearing Conference Order directing the filing of prehearing memoranda by April 24, 2026.

Also on April 16, 2026, Vice Chair Kimberly Barrow issued a public statement supporting the suspension of the filing and urging heightened scrutiny of Peoples' proposed rate of return, capital structure, and substantial increase in projected plant investment. Vice Chair Barrow emphasized that even modest adjustments to such assumptions can materially affect customer charges and noted that Peoples must provide empirical support for its future test year projections, consistent with statutory requirements.

On April 24, 2026, the Pennsylvania Independent Oil & Gas Association (PIOGA) filed a Petition to Intervene. On April 28, 2026, State Senator Wayne Langerholc, Jr. of the 35th District submitted a letter opposing Peoples' proposed increase of \$163.2 million.

Also on April 28, 2026, ALJ Collins convened the Initial Prehearing Conference, during which the parties appeared, and a litigation schedule was established.

On May 1, 2026, the Retail Energy Supply Association (RESA) filed a Petition to Intervene. Multiple formal complaints were filed by customers of Peoples.

On May 20, 2026, the Commission issued notice of eight public input hearings, six held in-person across Johnstown, Pittsburgh, and Greensburg, and two conducted telephonically, to ensure broad public participation.

On June 11, 2026, during a telephonic public input hearing, a letter dated April 29, 2026, from Governor Josh Shapiro was received into the record. Governor Shapiro expressed significant concerns regarding Peoples' proposed capital structure, the transparency and cost-effectiveness of its planned investments, and the reasonableness of its proposed return on equity, urging modification or rejection of the filing absent demonstrable customer benefit.

On June 18, 2026, OCA served the Direct Testimony of Michael Deupree,³ Jared Geiger,⁴ David Garrett,⁵ Roger Colton,⁶ and Brendan Larkin-Connolly.⁷ OCA served Rebuttal Testimony on July 16, 2026, and Surrebuttal Testimony on July 31, 2026.

An evidentiary hearing was held on August 5, 2026, with participation from OCA, OSBA, I&E, CAUSE-PA, PIOGA, RESA, and Peoples.

³ Michael Deupree is a Senior Research Consultant with the Acadian Consulting Group (ACG), a research and consulting firm that specializes in the analysis of regulatory, economic, financial, accounting, statistical and public policy issues associated with regulated and energy industries. ACG is a Louisiana-registered partnership formed in 1995 and is located in Baton Rouge, Louisiana. OCA St. 1 at 1-2 and Appendix A.

⁴ Jared Geiger is a Senior Analyst at Exeter Associates, Inc. in Columbia, Maryland, specializing in issues pertaining to public utilities. OCA St. 2 at 1-2 and App. A.

⁵ David Garrett is an attorney and consultant specializing in public utility regulation. He is the managing member of Resolve Utility Consulting PLLC. OCA St. 3 at 1-2 and OCA Exh. DJG-1.

⁶ Roger Colton is the owner of the firm Fisher Sheehan & Colton, Public Finance and General Economics of Belmont, Massachusetts. He provides technical assistance to a variety of federal, state, and municipal agencies, consumer organizations and public utilities on rate and customer service issues involving water/sewer, natural gas and electric utilities. Among other things, he has published three books and more than 80 articles in law and economics journals. OCA St. 4 at 1-3 and OCA Exhibit RDC-1.

⁷ Brendan Larkin-Connolly is a Managing Consultant at Exeter Associates, Inc. in Columbia, Maryland. He has provided analytical support on various issues, such as base rates, revenue allocation, decoupling, capital cost recovery trackers and cost reconciliations in electric and gas proceedings in both the international and domestic contexts. OCA St. 5 at 1-3 and OCA Exh. BLC01.

C. Legal Standards

1. Utility Monopoly Regulation

Peoples is a natural gas distribution company (NGDC) with an exclusive monopoly franchise. Customers who reside in its certificated service territory have no choice; if they want natural gas distribution service, they must buy it from Peoples. Utility regulation stems from the state's police power to protect the health, safety, morals, and general welfare of their citizens. The regulation of utilities is one of the most important of the functions traditionally associated with the police power of the States.⁸ The Public Utility Code governing sales that are only rationally dealt in by a monopoly is a proper exercise of the state police power to regulate the health, safety, morals, and general welfare of citizens.⁹ The Commission's authority under the Code to oversee and regulate jurisdictional public utilities is a constitutional exercise of traditional state police powers as a reasonable exercise of police power by appropriate means for a legitimate end.¹⁰

2. Just and Reasonable and Not Unduly Discriminatory Rates

As a matter of law, a public utility's rates must be just and reasonable and in conformity with regulations or orders of the Commission.¹¹ A public utility may obtain "a rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers[,] as well as a reasonable rate of return on its investment."¹² The Commission "has broad discretion in determining whether rates are reasonable" and "is vested with discretion to decide what factors it

⁸ *Ark. Elec. Coop. Corp. v. Ark. Pub. Serv. Comm'n*, 461 U.S. 375, 377 (1983).

⁹ *Relief Elec. Light, Heat & Power Co's. Petition*, 63 Pa. Super. 1, 6-11, 1916 Pa. Super. LEXIS 89 (Pa. Super. 1916).

¹⁰ *Jenkins Twp. v. Pub. Serv. Comm'n*, 65 Pa. Super. 122, 1916 Pa. Super. LEXIS 30, **15-16 (Pa. Super. 1916) ("The authority which the commission seeks to exercise in this case is clearly the exercise of the police power inherent in our State as delegated to the commission by the provisions of the Public Service Company Law" (which the Public Utility Law of 1937 replaced) (which the Code (of 1978) replaced)).

¹¹ 66 Pa. C.S. § 1301(a).

¹² *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002) (*Lancaster 2002*).

will consider in setting or evaluating a utility's rates."¹³ The Commission's discretion to determine if a requested rate is just and reasonable includes the "power to make and apply policy" concerning the balance between rates charged to consumers and returns allowed to utility investors.¹⁴

There is ample authority for the proposition that the power to fix "just and reasonable" rates imports a flexibility in the exercise of a complicated regulatory function by a specialized decision-making body and that the term "just and reasonable" *was not intended to confine the ambit of regulatory discretion to an absolute or mathematical formulation but rather to confer upon the regulatory body the power to make and apply policy* concerning the appropriate balance between prices charged to utility customers and returns on capital to utility investors consonant with constitutional protections applicable to both.¹⁵

A utility's cost of providing service guides the ratemaking process.¹⁶ Additional important ratemaking concerns include quality of service, rate gradualism, and rate affordability.¹⁷ The Commission must determine whether projected expenses "are reasonably necessary to provide service..." during the prospective period in which its rates will be in effect.¹⁸ Only prudently incurred expenses are includable in expense claims; it is the burden of the public utility to prove that the expenses incurred are just and reasonable; and it is within the discretion of the Commission to exclude expenses as unreasonable.¹⁹

Rates must not be unduly discriminatory among customer groups.²⁰

3. Reasonable Opportunity to Earn a Fair Rate of Return

A public utility is entitled to no more than a reasonable opportunity to earn a fair rate of

¹³ *Popowsky 1996*, 683 A.2d at 961.

¹⁴ *Popowsky v. Pa. PUC*, 665 A.2d 808, 812 (Pa. 1995) (*Popowsky 1995*).

¹⁵ *Id.* (citations omitted) (emphasis added).

¹⁶ *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1019-21 (Pa. Cmwlth. 2006) (*Lloyd*).

¹⁷ *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835 (Order Feb. 19, 2021) (*Columbia 2020*), at 46-47 (citing 66 Pa. C.S. §§ 523, 526(a)) (citing also *Lloyd* at 1020 and *Pa. PUC v. Twin Lakes Util., Inc.*, Docket No. R-2019-3010958 (Order Mar. 26, 2020) at 48, 80).

¹⁸ *Lancaster 2002* at 982.

¹⁹ *Popowsky 1996*, 674 A.2d at 1154 (internal citations omitted).

²⁰ 66 Pa. C.S. § 1304.

return on its investments dedicated to public service.²¹ The United States Supreme Court held:

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 raise the money necessary for the proper discharge of public duties.²²

The allowed rate of return should reflect:

[A] return on the value of the [utility's] property which it employs for the convenience of the public equal to that being made at the same time on investments in other business undertakings which are attended by corresponding risks and uncertainties.²³

A fair return for public utility service is not equivalent to “profits such as are realized or anticipated in highly profitable enterprises or speculative ventures.”²⁴ A fair rate of return “should be commensurate with returns on investments in other enterprises having corresponding risks” while being sufficient “to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital.”²⁵ The Supreme Court noted, however, that:

The rate-making process under the Act, i.e., the fixing of ‘just and reasonable’ rates, involves a balancing of the investor and consumer interests. Thus we stated...that *regulation does not insure that the business shall produce net revenues*.²⁶

Consumers cannot readily negotiate with a utility and must “rely upon” the Commission to provide “a complete, permanent, and effective bond of protection from excessive rates and charges” of the public utility.²⁷ The Commission’s “responsibilities include the protection of

²¹ *Pennsylvania Gas & Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975) (citations omitted).

²² *Bluefield Water Works and Improvement Co. v. Public Serv. Comm’n of W.Va.*, 262 U.S. 679, 692-93 (1923) (*Bluefield*).

²³ *Bluefield* at 692.

²⁴ *Id.* at 692- 693.

²⁵ *Federal Power Comm’n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) (*Hope*).

²⁶ *Id.* (emphasis added) (internal quotations omitted); see also *Pa. PUC v. Phila. Suburban Water Co.*, 71 Pa. PUC 593, 623 (1989) (*PSW 1989*) (citing *Pittsburgh v. Pa. PUC*, 69 A.2d 844 (Pa.Super. 1949)); see also *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 310, 312 (1989) (*Duquesne Light*), *aff’g Barasch v. Pa. PUC*, 532 A.2d 325 (Pa. 1987).

²⁷ *Permian Basin Area Rate Cases*, 390 U.S. 747, 794-95 (1968) (*Permian Basin*) (citing *Atlantic Ref. Co. v. Pub. Serv. Comm’n*, 360 U.S. 378, 388 (1981)).

future, as well as present, consumer interests.”²⁸ Rates adopted by the Commission that are within a “zone of reasonableness” can withstand constitutional scrutiny.²⁹ Cost of capital analyses are generally accepted by the Commission as a basis for determining a fair rate of return under the “just and reasonable” standard of the Code. The appropriate rate of return is:

[T]he amount of money a utility earns, over and above operating expenses, depreciation expense, and taxes, expressed as a percentage of the legally established net valuation of utility property, the rate base. Included in the “return” are interest on long-term debt, dividends on preferred stock, and earnings on common equity. In other words, the return is the money earned from operations which is available for distribution among the various classes of contributors of money capital.³⁰

4. Due Consideration to the Interest of Consumers

An increase in base rates involves a substantial property right, entitling ratepayers to notice and procedural due process.³¹ Given that a utility’s general rate increase request will substantially affect the interests of consumers, the Commission must “consistent with its other statutory responsibilities, take such action with due consideration to the interests of consumers.”³²

II. SUMMARY OF ARGUMENT

Peoples’ request to increase its base rates should be rejected in its entirety.

In the event the Commission does not deny Peoples’ rate increase request in its entirety, the OCA presented substantial evidence supporting that Peoples requires no more than \$9.4 million in additional annual distribution revenues to provide safe, adequate, and reliable service at rates that are just and reasonable to both the Company and its customers.³³ This revenue requirement

²⁸ *Permian Basin* at 797.

²⁹ *Id.* at 797.

³⁰ *PSW 1989* at 622-23 (quoting Paul J. Garfield & Wallace F. Lovejoy, *Public Utility Economics*, 116 (1964)).

³¹ *McCloskey v. Pa. PUC*, 195 A.3d 1055, 1068 (Pa. Cmwlth. 2018) (*McCloskey 2018*) (citing *Barasch v. Pa. PUC*, 546 A.2d 1296, 1305-06 (Pa. Cmwlth. 1988) (*Barasch 1988*); citing also U.S. Const. amend. XIV, § 1).

³² 71 P.S. § 309-5.

³³ OCA St. 1SR at 2.

recommendation is based on the testimony of OCA witnesses Geiger – who presented testimony regarding adjustments to Peoples’ rate base and expense requests – and Garrett – who presented testimony regarding appropriate depreciation procedures and a rate of return within the zone of reasonableness. OCA witness Garrett’s rate of return analysis included recommendations to impute Peoples’ capital structure of 51.0% long-term debt and 49.0% common equity for ratemaking purposes and to authorize a return on equity of 8.8%.³⁴

In the event that the Commission declines to adopt Mr. Garrett’s recommended capital structure and utilizes Peoples’ proposed ratemaking capital structure of 45.5% long-term debt and 54.5% common equity, Mr. Garrett prepared an alternative return on equity recommendation of 8.5%.³⁵ Based on the alternative capital structure and return on equity components, OCA witness Geiger prepared an alternative revenue requirement recommendation of an increase of no more than \$17.8 million to additional annual distribution revenues.³⁶

This dual analysis is directly responsive to the Statement of Vice Chair Kimberly Barrow accompanying the Suspension Order in this proceeding.³⁷ In her statement, the Vice Chair “urge[d] the parties to take a critical look at the Company’s requested rate of return and return on equity (ROE) as well as the capital structure (common equity ratio and debt capital) to ensure reasonableness.”³⁸ The Vice Chair noted that “deviations in each of these items translate into millions of dollars charged to customers of all rate classes” and that a “careful and detailed review of Peoples’ claimed capital structure and ROE is warranted.”³⁹ The OCA empirically established the relationship between Peoples’ ratemaking capital structure and return on equity, as well as the

³⁴ OCA St. 3 at 4.

³⁵ OCA St. 3 at 4.

³⁶ OCA St. 1SR at 2.

³⁷ *Pa PUC v. Peoples Nat. Gas Co.*, Docket No. R-2026-3060855, Statement of Vice Chair Kimberly Barrow (Apr. 16, 2026).

³⁸ *Id.*

³⁹ *Id.*

revenue requirement impact of the same, in producing both primary and alternative recommendations for Peoples' revenue requirement.⁴⁰

Furthermore, the OCA has presented substantial record evidence in this case that supports, among other things, spreading the costs of Peoples' universal service programs among all customer classes, ordering Peoples to have an independent third-party investigation conducted regarding the disparate treatment of service terminations in minority communities and switching Peoples depreciation method from the Equal Life Group (ELG) to the Average Life Group (ALG). Doing so would be consistent with the Commission's obligation to ensure that Peoples' rates remain just and reasonable and consider the affordability crisis its customers are currently experiencing.

III. OVERALL POSITION ON RATE INCREASE AND AFFORDABILITY OF RATES

When Peoples filed its rate increase, it did not do so in a vacuum, it did so at a time when residential customers are considerably burdened trying to cover household expenses. Therefore, the OCA respectfully requests that the Commission give serious consideration to affordability when evaluating Peoples' rate increase request.⁴¹ The Commission expressly stated affordability is a relevant consideration when considering whether to grant a rate increase:

The Commission "has broad discretion in determining whether rates are reasonable" and "is vested with discretion to decide what factors it will consider in setting or evaluating a utility's rates." *When setting rates in a base rate proceeding, the Commission may consider rate affordability.* Such an evaluation requires the Commission to carefully consider the underlying record, including resolving conflicts in testimony and weighting evidence presented before it.⁴²

The Commission's ultimate standard when setting rates is ensuring that those rates are just and reasonable. This means that the "Commission has an ongoing duty to protect the public from

⁴⁰ OCA St. 3 at 4-6.

⁴¹ OCA St. 1 at 7.

⁴² *Pa PUC, et. al., v. Pennsylvania-American Water Company*; Docket Nos. R-2025-3057983, *et. al.*, Order at 36 (July 16, 2026) (PAWC Order) (emphasis added).

unreasonable rates while assuring that public utility companies are permitted to charge rates sufficient to cover their costs and provide a reasonable rate of return.”⁴³ The Commission stated just last month that “affordability is a growing issue,” that aligns with the Supreme Court of Pennsylvania’s longstanding recognition of the Commission’s discretion in approving rates:

There is ample authority for the proposition that the power to fix "just and reasonable" rates imports a flexibility in the exercise of a complicated regulatory function by a specialized decision-making body and that the term "just and reasonable" was not intended to confine the ambit of regulatory discretion to an absolute or mathematical formulation but rather to confer upon the regulatory body the power to make and apply policy concerning the appropriate balance between prices charged to utility customers and returns on capital to utility investors consonant with constitutional protections applicable to both.⁴⁴

OCA witness Michael Deupree explained that this means there is no one correct answer to what is “just and reasonable,” but, “instead requires regulators to balance the interest of several sectors of the public, including not only utility investors, but also the interests of the utility’s customers (that itself is comprised of different classes of customers with different individual interests).”⁴⁵ According to Mr. Deupree, this framework of regulation implies that regulators must be cognizant of the larger macroeconomic conditions impacting the utility customers, and how this impacts customers’ ability to afford utility service.⁴⁶ One example comes from the PAWC rate case when the Commission considered affordability by looking at how frequently the Company filed rate increases and stated: “We cannot overlook the factor that, given PAWC’s history and cadence of frequent base rate increase requests, affordability is a growing issue, exacerbated by recent and current economic conditions, including increased inflation.”⁴⁷

⁴³ *Duquesne Light Co. v. Pennsylvania Public Utility Com.*, 507 A.2d 1274, 1278 (Pa. Commw. 1986).

⁴⁴ *Pa. Public Util. Com v. Pa. Gas & Water Co. (water Div.)*, 424 A.2d 1213, 1219 (Pa. 1980).

⁴⁵ OCA St. 1 at 6.

⁴⁶ *Id.*

⁴⁷ *PAWC Order* at 40.

Peoples has similarly recently filed for successive rate requests with narrow gaps in between filings.⁴⁸ On December 19, 2025, the Company requested this base rate increase of \$163.2 million in the current proceeding.⁴⁹ This represents the first such requested increase since 2023, when the Company was authorized an approximate \$93 million increase in rates.⁵⁰ Mr. Deupree stated, “Combined, Company ratepayers will have seen a \$256.2 million, or nearly 30.6 percent, increase in total rate revenues in less than three years if the Company’s proposed rate increase is approved as proposed.”⁵¹ Mr. Deupree testified that Peoples’ filing comes at a time when utility costs are already adding to elevated household expenses:

Consumers experience utility rate increases alongside the ongoing price increases of food, housing, transportation, childcare, and other necessities. These concerns are especially acute for low-income households who devote a larger portion of their income to these necessities. PNG appears to recognize this concern and has adopted a Customer Assistance Program (“CAP”) to reduce utility bills for participating low-income customers with high energy burdens. However, even households that do not qualify for CAP face mounting pressure as wages fail to keep pace with the cost of living. It is for this reason that broader consumer price conditions must be considered when evaluating the appropriateness of the rate increases proposed in this proceeding.⁵²

This is in contrast to Peoples, which Mr. Deupree testified is not experiencing financial struggles due to macro-economic uncertainty:

On a weekly basis through mid-2026, Essential Utilities, Peoples’ parent entity, has seen its common stock trade at approximately \$37 to \$38 per share, a level consistent with the range observed throughout 2024 and 2025. While the stock has declined from its peak of approximately \$52 per share in early 2022, recent weekly trading data reflects a period of relative stability rather than acute market distress. This indicates that the Company is not in a position of obvious financial struggle attributable to recent economic uncertainty.⁵³

⁴⁸ OCA St. 1 at 6-7.

⁴⁹ Peoples St. 1 at 3.

⁵⁰ *Pennsylvania Public Utilities Commission v. Peoples Natural Gas Company, LLC*; Docket No. R-2023-3044549, Order at 1 (Sept. 12, 2024).

⁵¹ OCA St. 1 at 7.

⁵² *Id.*

⁵³ OCA St. 1 at 16.

Mr. Deupree formulated his analysis by reviewing data, such as the Consumer Price Index (CPI), which is published by the U.S. Bureau of Labor Statistics (BLS).⁵⁴ According to Mr. Deupree, “While the annualized growth in CPI has fallen from the highs that were seen in the immediate aftermath of the 2020 pandemic, it should be recognized that CPI is still elevated, reaching 4.2 percent in May 2026. This is well above the Federal Reserve’s annual inflation target of 2.0 percent.”⁵⁵ Though the CPI growth rate is not as high as it was following the pandemic, Mr. Deupree testified that does not mean prices have fallen:

It is important to recognize that CPI is reported monthly in terms of an annualized increase in consumer prices, meaning that a decline in the monthly ‘headline’ CPI (i.e. the month-to-month CPI growth rate often reported in the news) does not mean that consumer prices have decreased, but rather that the rate of growth in consumer prices has slowed. Figure 2 shows that overall, consumer prices have been continually increasing since at least 2021, even while the rate of growth has somewhat stabilized. Over the period January 2021 to January 2026, overall consumer prices increased 24.3 percent. Likewise, “core inflation” – which remove volatile energy and food prices – increased nearly 23.1 percent, indicating that growth in consumer prices since January 2021 are not driven by temporary shocks to energy and food prices, but rather represent systemic inflation that will persist for many years.⁵⁶

Mr. Deupree said the Federal Reserve recognized an increase of consumer prices during the past year and into next year, which he said means that consumers will continue to deal with increasing pressures on their cost of living: “This is important because the Federal Reserve’s own outlook has inflation above target levels in 2026.”⁵⁷ Mr. Deupree testified that Federal Reserve Bank of Philadelphia releases a report called the Survey of Professional Forecasters, which stated in its Second Quarter 2026 Survey that: “CPI and core CPI will rise 3.5 and 2.9 percent,

⁵⁴ OCA St. 1 at 8.

⁵⁵ *Id.*

⁵⁶ OCA St. 1 at 8.

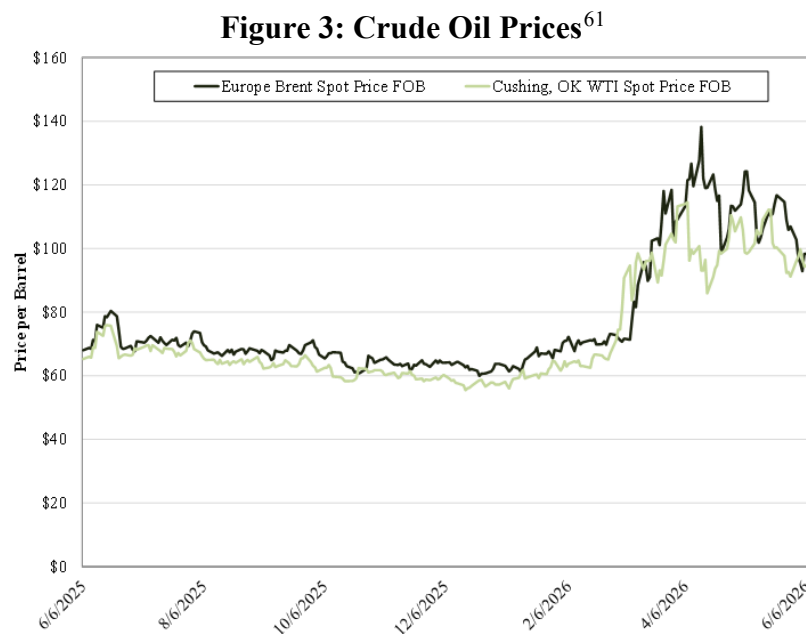
⁵⁷ OCA St. 1 at 10.

respectively.⁵⁸ This is measured on a fourth-quarter-over-fourth-quarter basis. This suggests that professional forecasters also expect inflation to remain elevated enough to affect affordability.”

Mr. Deupree said Pennsylvania consumers are currently experiencing financial pressure from all aspects of the energy market. Mr. Deupree explained as follows:

Wholesale electricity prices in the PJM western hub, for example, increased 48.8 percent on average from 2024 to 2025. Likewise, Pennsylvania citygate natural gas prices increased 2.8 percent from December 2024 to December 2025 on the back of a nearly 41.9 percent increase in wholesale natural gas prices during the same period.

Mr. Deupree said the geopolitical conflict in the Persian Gulf is impacting energy prices and increasing uncertainty.⁵⁹ He included Figure 3 below in his testimony, which shows the initial impacts on international and domestic crude oil prices:⁶⁰



Source: S&P Global

⁵⁸ OCA St. 1 at 11.

⁵⁹ OCA St. 1 at 12.

⁶⁰ Mr. Deupree included additional context in his testimony: “International crude oil prices measured at the Brent hub in the North Sea has increased by more than 36.7 percent since the beginning of the recent conflict. Likewise, domestic crude oil prices measured in terms of West Texas Intermediate (“WTI”) have increased by nearly 27.6 percent since the beginning of the recent conflict. Both indexes are now trading around \$100 per barrel, well above the historic range of \$60-\$80 per barrel that is normally seen for these commodities.” OCA St. 1 at 13.

⁶¹ *Id.*

Mr. Deupree observed increase in crude oil prices shows how price shocks caused by the conflict in the Persian Gulf will likely filter through the larger macroeconomy.⁶² He explained Pennsylvanians have already experienced higher gasoline prices due to global crude oil demand and shortened supply from the Persian Gulf.⁶³ Mr. Deupree testified this conflict will also impact Liquefied Natural Gas markets since consumers in Asia rely on supplies from the Persian Gulf:

Liquefied Natural Gas (“LNG”) supplies from the Persian Gulf to consumers in Asia. It is likely that these consumers will turn to alternative supplies from the US as stored supplies dwindle. This will, in turn, place upward pressures on wholesale natural gas prices in the US as more natural gas is diverted to international supplies.⁶⁴

Pennsylvania Governor Josh Shapiro, recognizing the compounding issues contributing to the affordability crises, issued an open letter to utility leaders and the Commission arguing that customers across the Commonwealth are experiencing higher utility costs, and that rising utility bills have become a driver of inflation.⁶⁵ Governor Shapiro stated that utilities must seek ways of procuring capital to finance investments in more affordable ways, conscious of the utility burdens facing many consumers across the Commonwealth.⁶⁶ Mr. Deupree said Governor Shapiro’s letter “appears to be that utilities and the Commission should balance consumer affordability concerns with the financial interests of utilities when determining just and reasonable rates for the Company.”⁶⁷ OCA witness Garrett presents OCA’s analysis of the Company’s proposed cost of capital below. However, Mr. Deupree explained that at a high level, the Company requests an

⁶² OCA St. 1 at 13.

⁶³ *Id.*

⁶⁴ OCA St. 1 at 14.

⁶⁵ OCA St. 1 at 17.

⁶⁶ *Id.*

⁶⁷ *Id.*

allowed ROE of 11.25 percent⁶⁸ with a capital structure comprised of 45.43 percent long-term debt and 54.47 percent common equity is an example of the concerns raised by Governor Shapiro.⁶⁹

On June 4, 2026, the yield on 10-year U.S. Treasuries reached 4.47 percent, the highest rate seen in about a year. Yet, the Company's proposed ROE represents a full 678 basis in excess of this already elevated rate. This is generally consistent with the Governor's observations that Pennsylvania utilities, on average, were requesting ROEs that were a "staggering" 682 basis points above 10-year Treasury rates. Likewise, the Company's parent, Essential Utilities, Inc. capital structure as of December 31, 2025, was 54.4 percent long-term debt and 45.6 percent common equity. This means that Essential Utilities, Inc. capital structure is far less equity focused when compared to People's proposed capital structure.⁷⁰

Peoples witness Fang responded to Mr. Deupree's discussion of macroeconomic conditions by claiming it improperly expands the scope of this proceeding beyond traditional cost-of-service ratemaking.⁷¹

Mr. Deupree responded by saying his spotlighting affordability is not a departure from traditional cost-of-service ratemaking principles and did not recommend that the Company's requested rate increase be evaluated solely on the basis of broader macroeconomic conditions. Similar to the Commission's statement on affordability in the PAWC proceeding, Mr. Deupree recommended that the Commission recognize that utility rate increases do not occur in a vacuum.⁷² He emphasized that the Company is not experiencing the financial constraints that its customers are: "Pennsylvania customers continue to face lingering inflationary pressures and potential additional economic uncertainty, while the Company's financial position has remained relatively stable with no obvious signs of market distress."⁷³ While the Company may not control macroeconomic conditions, it can control when it files a request to increase its rates,⁷⁴ and here chose to

⁶⁸ OCA St. 1 at 19; Peoples St. 15 at 5.

⁶⁹ *Id.*

⁷⁰ OCA St. 1 at 19.

⁷¹ Peoples St. 20R at 5.

⁷² OCA St. 1SR at 2-3.

⁷³ *Id.*

⁷⁴ OCA Exhibit MWD-1.

file during a year when its customers are struggling to cover their household expenses. Regarding Universal Service Programs, Mr. Deupree testified that, while they serve an important role, they do not eliminate the need for the Commission to consider broader affordability, including customers who do not qualify for assistance programs.⁷⁵

The OCA recommends that the Commission take into consideration current macroeconomic conditions, including consumer affordability concerns that are bearing down on Peoples customers, when determining just and reasonable rates for the Company.

In addition, OCA witness Roger Colton also provided extensive testimony regarding affordability of rates. As discussed in Mr. Colton's testimony, there are few considerations as important as affordability, as affordability "is in both the shareholder and ratepayers' best interests. Affordable bills will maximize revenues for the Company and will enable ratepayers to continue to receive an essential service."⁷⁶ 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.⁷⁷ Affordability is a fundamental consideration in determining whether proposed rates are just and reasonable. This was confirmed in the recent Commission decision in the *PAWC Order*. As explained by OCA witness Roger Colton:

The Commission specifically noted "a resounding chorus of customers who are struggling."⁷⁸ The Commission also noted that "affordability" is not simply a problem facing low-income customers, though that problem is substantial. It stated that "While PAWC responds to the affordability of its rates to low-income customers through its [Bill Discount Program], we highlight that only a small fraction of eligible low-income customers are actually enrolled in the Company's BDP."⁷⁹ The Commission went on to recognize, however, that affordability is not an issue that is solely the province of the poor. It stated that "We cannot overlook

⁷⁵ OCA St. 1SR at 3.

⁷⁶ *Pa. PUC v. Twin Lakes Utilities, Inc.*, 2020 Pa. PUC LEXIS 340, *52 (Mar. 26, 2020) (quoting *Pa. PUC v. Roaring Creek Water Co.*, 1995 Pa. PUC LEXIS 67, *116 (1995)).

⁷⁷ 66 Pa. C.S. § 1301.

⁷⁸ *Id.* at 37.

⁷⁹ *Id.* at 39.

the fact that, given PAWC's history and cadence of frequent base rate increase requests, affordability is a growing issue, exacerbated by recent and current economic conditions, including increased inflation.”⁸⁰

The Commission further concluded:

Because we believe that the issue of affordability must be viewed in the context of the magnitude and frequency of PAWC's rate cases, as well as the impact of recent and current economic conditions, we will give less weight to PAWC's affordability analyses. In doing so, we find that substantial record evidence demonstrates that PAWC's proposed rates are unaffordable for many PAWC water and wastewater customers. . . .Affordability is an issue that must be addressed for all customers, not just for those who apply for and are found eligible to receive low-income assistance.⁸¹

OCA witness Colton evaluated the affordability of Peoples rates to low-income customers:

- “At proposed rates, 238 of the 402 Peoples’ zip codes would have bills that exceed an affordable bill at proposed rates by \$1,000 or more at the average Q1 income [the 1/5 portion of the population with the lowest income] for each zip code.”⁸²
- “[A]t proposed rates, in 212 of Peoples 402 zip codes . . ., Q1 households would need an additional income of \$35,000 or more to afford the resulting bill.”⁸³
- “Peoples bills represent more than 26% of income for households with income less than \$10,000 at existing rates, and nearly 33% of income at the rates proposed in this proceeding. Even with income as high as \$45,000 to \$49,999, Peoples’ bill burdens range from 2.8% (existing rates) to 3.5% of income (proposed rates).”⁸⁴
- “[M]ore than one-of-four households [] with income less than \$50,000 in the Peoples service territory have income less than \$15,000 (with burdens ranging from 13% to 33% at proposed rates). Nearly two-in-five [] have income less than \$20,000, while nearly half [] have income less than \$25,000.”⁸⁵

With regard to the affordability of Peoples rates to moderate-income customers:

[I]n Pennsylvania, 10% to 13% of households with income between \$100,000 and \$200,000 were unable to pay their energy bill, or pay the full amount of their energy bill, in ‘almost every month,’ ‘some months’ or ‘one or months’ . . . [I]n Pennsylvania, for households with annual income somewhat lower, but still modest (\$75,000 to \$100,000), the difficulties in paying home energy bills were

⁸⁰ *Id.* at 40; OCA St. 4SR at 4-5.

⁸¹ *PAWC 2026* at 41.

⁸² OCA St. 4 at 12.

⁸³ *Id.* at 12-13.

⁸⁴ *Id.* at 14.

⁸⁵ *Id.* at 14-15.

even higher, with nearly 20% reporting that they were unable to pay an energy bill, or pay the full bill, in almost every month, some months, or one or two months.”⁸⁶

Affordability concerns extend beyond customers eligible for Universal Service Programs. Colton’s analysis demonstrates that moderate-income households and residential customers generally also face material difficulties paying their natural gas bills.⁸⁷ The Commission should evaluate the affordability consequences of Peoples’ proposed rates as part of its determination of whether those rates are just and reasonable, rather than treating affordability as an issue that can be addressed only after rates have been established through targeted assistance programs.

Mr. Colton also reviewed affordability issues in Peoples service territory specifically pertaining to the aging population and made the following findings:

- “[I]n 2024, . . . nearly half (48.8%) of all households with a householder age 65 or older in the zip codes served by Peoples had income less than \$50,000, while nearly 30% (28.1%) had incomes less than \$30,000. More than one-in-ten (10.1%) senior households had an income of less than \$15,000.”⁸⁸
- “More than 7% of households with a resident age 65 or older reported that that were ‘unable to pay an energy bill or unable to pay the full amount’ in almost every month, some months, or one or two months.”⁸⁹
- “Eight to nearly ten times more aging households reported keeping their home at a temperature that felt unsafe or unhealthy in almost every month, or reducing or forgoing expenditures on basic household necessities in almost every month in order to pay their utility bill, than reported being unable to pay their bill. Two to three times as many aging Pennsylvania households reported that they kept their homes at a temperature that felt unsafe or unhealthy in ‘some’ months, or reported forgoing expenditures on basic household necessities in ‘some’ months in order to pay their utility bill, than reported being unable to pay their bill.”⁹⁰

As Mr. Colton aptly asserted:

The extreme and dangerous actions that Pennsylvania’s aging households take in order to pay their home energy bills should be of concern to Peoples and to the Commission. These are not actions that can be attributed to macro-economic conditions that are of no concern to the utility. These dangerous actions are directly

⁸⁶ *Id.* at 21.

⁸⁷ *Id.* at 20-21.

⁸⁸ *Id.* at 41-42.

⁸⁹ *Id.* at 42.

⁹⁰ *Id.* at 42-43.

attributable to the inability of Pennsylvania’s aging households to pay their home energy bill.⁹¹

Further, Mr. Colton analyzed the affordability of Peoples rates to residential customers as a whole through use of the HB Score,⁹² which is the weighted average household gas burden using all income ranges. Mr. Colton recommends that the Commission use the HB Score methodology proposed by Patterson and Doyle,⁹³ explaining:

Writing in the October 2021 issue of the American Water Works Association’s (“AWWA”) “Water Science,” these researchers explored “multiple affordability metrics within and across utilities.”⁹⁴ After explicitly rejecting sole reliance on the median income as being non-representative, they recommend use of an “HB Score” (“HB” representing “household burden”) for the service territory.⁹⁵

Mr. Colton uses the HB Score to show to what degree Peoples’ proposed rate increase will increase the burden of gas bills on residential ratepayers in Peoples’ service territory, and found:

For Peoples, the weighted average HB Score at existing rates is a burden of 3.8%. At proposed rates, the average HB Score for the Peoples service territory increases to 4.7%. As can be seen, the rate increase sought by Peoples in this proceeding will increase the HB Score by 24% . . .⁹⁶

⁹¹ *Id.* at 43.

⁹² OCA witness Roger Colton calculated the HB Score in four steps: [1] Using the average Peoples usage and bill (as reported by the Company),⁹² I calculate for each zip code the Peoples burden separately for each income range for households.⁹² For each income range, I use the mid-point to represent that income range (e.g., for the income range \$10,000 to \$14,999, I use the mid-point of \$12,500); [2] I calculate a weighted household water burden for each income range within a zip code by dividing the number of households in each income range by the total number of households in that zip code and multiplying that weight with the burden for that income range; [3] I calculate the weight for each zip code by dividing the number of residential Peoples customers in that zip code by the total number of Peoples residential customers; and [4] I finally calculate the weighted burden for each zip code by multiplying the burden for each zip code with the zip code’s weight. *Id.* at 22-23.

⁹³ “While the Patterson/Doyle analysis was originally applied to water companies, there is no reason that the methodology would not be equally applicable to a natural gas utility (just as similar methodologies are used to assess burdens for natural gas and electric utilities). The input data for using the Patterson/Doyle methodology is derived from Census data. That data is not unique to water utilities. Overall, no data, and no calculation, used in the Patterson/Doyle methodology is unique to a water utility. OCA St. 4 at 22, n. 26.

⁹⁴ Patterson & Doyle, *Measuring Water Affordability and the Financial Capabilities of Utilities*, AWWA Water Science (October 2021).

⁹⁵ OCA St. 4 at 22.

⁹⁶ *Id.*

Also, income alone does not adequately measure a customer's ability to pay.⁹⁷ A customer may have sufficient annual income on paper but lack the liquid resources necessary to absorb an unexpectedly high winter gas bill.⁹⁸ Mr. Colton explained that households without adequate savings or emergency funds are particularly vulnerable to substantial month-to-month variations in utility bills.⁹⁹ Peoples' billing data demonstrates precisely this problem. Mr. Colton testified:

[A]s a natural gas utility, [] Peoples' residential customers experience substantial variation in their monthly bills. As heat-related consumption increases in the winter months and cooling related consumption increases in the hot weather months, the median bills increase correspondingly. These high seasonal bills contribute to a high annual burden as discussed in detail above. However, the high seasonality also places monthly stress on residential customers. In 2025, for example, a customer would need to have sufficient funds to pay a monthly bill \$277 higher in January (\$296) than they would need to have in July (\$18.73). At 125% of median usage, the difference between the average bill for the months of May through October 2025 (\$24.46) and the average bill for the months of December 2024 through March 2025 (\$214.27) was roughly \$180 a month. While covering only a four-month period (December through March), in other words, the household would need to have access to more than \$700 in additional resources simply to cover the monthly swing in Peoples bills.

Mr. Colton also cites data showing that 45 percent of Pennsylvania households do not have emergency funds, with one contributing cause being "that 24% of households were spending more than their income, while an additional 34% were spending about equal to their income."¹⁰⁰

The consequences of these affordability problems and rising utility rates are evident as the number of residential accounts in arrears has seen substantial growth in the past year:¹⁰¹

The seasonal spikes in the number of accounts in arrears in March 2025 and March 2026 are noticeably higher on a year-over-year basis than the same seasonal increases in the two corresponding years of 2023 and 2024.

It is not merely the level of arrears that is of concern, either, it is also the age of arrears. Just as Peoples has a high percentage of accounts with unpaid balances of \$300 or more, the Company also has a high percentage of accounts that

⁹⁷ *Id.* at 33.

⁹⁸ *Id.* at 34.

⁹⁹ *Id.*

¹⁰⁰ *Id.* at 40.

¹⁰¹ *Id.* at 25.

have unpaid balances that are 90 days old or older.¹⁰² The number of accounts with 90+ day balances consistently remains between 40% and 50% of the total number of accounts in arrears. From a dollar perspective, in October 2023, the proportion of dollars in arrears that were, in fact, 90 days old or older reached 82%.¹⁰³ In October 2024, that proportion remained at 77%, while in October 2025, the proportion remained at 73%.

While I note that there was a temporary dip in 90+ arrears during 2024, overall, the Company's performance has declined on a year-over-year basis ever since. In every month January 2025 through March 2026, the percentage of accounts with an unpaid balance of \$300 or more has been higher than the percentage in the corresponding month in the prior year . . .¹⁰⁴

These payment patterns are inconsistent with Peoples' assertion that its residential rates are generally affordable.¹⁰⁵ The increasing number and dollar amount of arrears, the age of those arrears, and the Company's continued high level of disconnections demonstrate that customers are experiencing actual difficulty paying their bills, not merely theoretical affordability concerns.

Additionally, the Commission should evaluate Peoples' proposed rates in context of the economic circumstances confronting its customers. OCA witness Colton identified increasing housing costs, inflation in essential household expenses, limited household savings, and other financial pressures confronting Peoples' customers.¹⁰⁶ Housing affordability is particularly relevant because utility costs are part of the cost of housing. Mr. Colton testified:

[I]n the Peoples service territory, [] the percentage of renters with very high housing burdens (remembering that "housing burdens" include utility costs) increased by more than 40% from 2019 to 2024 for households falling in the income ranges of \$20,000 to \$34,999. Moreover, in that time frame, the proportion of households with high rental burdens increased by more than 100% for households with income from \$35,000 to \$50,000, and by more than 150% for households with income of \$50,000 to \$74,999.¹⁰⁷

...

[E]ven though renter wages have substantially increased between 2019 and 2025, they have not generally increased at a rate sufficient to keep up with the

¹⁰² Peoples' Response to OCA-IV-30.

¹⁰³ Peoples' Response to OCA-IV-32.

¹⁰⁴ *Id.* at 25-27.

¹⁰⁵ Peoples St. 1-R at 10.

¹⁰⁶ OCA St. 4 at 29-33.

¹⁰⁷ *Id.* at 31.

increase in FMRs.¹⁰⁸ By 2025, the median renter wage as a percentage of the hourly wage needed to be able to afford a two-bedroom FMR had fallen in nine of the 16 counties studied. The decline was not small. In four of those nine counties, the decline was between 4.5% and 5.8% (Allegheny, Fayette, Mercer, Washington). In contrast, where there was a gain in renter housing buying power, the gain was minimal. In Butler and Cambria counties, the gain was only 0.1%, while in Somerset county, the gain was only 1.6%.

Given that utility costs are one component of the FMR calculated by HUD each year, as Peoples rates increase, so, too, the FMRs will increase throughout the Peoples service territory. When combined with rising housing prices generally, the rate increase sought by Peoples not only places the payment of future utility bills in jeopardy (as discussed in detail above), but it also places the access to housing in jeopardy.¹⁰⁹

Accordingly, the substantial evidence presented by Mr. Colton demonstrates that Peoples' proposed rate increase would impose significant and, for many customers, untenable financial burdens. In light of the Commission's obligation to consider affordability in determining whether proposed rates are just and reasonable, the Commission should find that Peoples' proposed rates are not just and reasonable and deny the Company's requested rate increase.

IV. RATE BASE

A. Cash Working Capital

Peoples requested a cash working capital (CWC) rate base component of \$47,681,867 in its initial filing, which was revised to \$46,932,677 based on adjustments that Peoples made to its claimed expenses in rebuttal testimony, based on its claimed expenses, long-term debt component of its capital structure, and cost of long-term debt.¹¹⁰ Peoples used a lead-lag study to calculate its claimed amount of CWC.¹¹¹

¹⁰⁸ "FMR" stand doe Fair Market Rents, which is where the U.S. Department of Housing and Urban Development (HUD) publishes its annual estimate of local housing costs. *Id.*

¹⁰⁹ *Id.* at 32.

¹¹⁰ Peoples St. 14-R at 4.

¹¹¹ *See* Peoples St. 14 at 3.

The OCA recommends that the Commission adjust Peoples' CWC rate base component based on the adjustments to Peoples' claimed rate base, expenses, long-term debt ratio, and cost of long-term debt, that the Commission approves in this proceeding.¹¹² OCA witness Geiger describes Peoples' CWC claim as follows:

The Company reflects cash working capital in its filing based on whether the timing of cash flows results in a funding requirement or a source of funds. Positive cash working capital represents funds provided by investors to finance the Company's operations during the period between the payment of expenses and the receipt of customer revenues. As such, positive cash working capital is included in rate base, allowing the Company the opportunity to earn a return on that investment. Conversely, negative cash working capital represents funds effectively supplied by customers through advance collections or favorable cash flow timing and is reflected as a rate base offset because those funds reduce the amount of investor-supplied capital required to support operations.¹¹³

OCA witness Geiger did not recommend "any substantive modifications to the lead-lag methodology or the calculation of revenue and expense lag days..."¹¹⁴

Based on his recommended adjustments to Peoples' claimed expenses and the recommendations of OCA witness Garrett regarding Peoples' long-term debt ratio and cost of long-term debt, OCA witness Geiger calculated an adjustment to Peoples' CWC rate base component of \$909,793.¹¹⁵ Peoples did not dispute the manner in which OCA witness Geiger's CWC adjustment recommendation was calculated. As a result, the OCA recommends that, if the Commission adopts its adjustments to Peoples' claimed expenses and long-term debt ratio, then it should adopt the OCA's recommended CWC adjustment of \$909,793.

¹¹² OCA St. 2 at 6-7.

¹¹³ OCA St. 2 at 6.

¹¹⁴ OCA St. 2 at 7.

¹¹⁵ OCA St. 2SR at 3; OCA Sch. JNG-4-SR.

B. Accumulated Depreciation

OCA witness Garrett recommends that the Commission reduce the Company's FPFTY depreciation expense claim by \$36,844,273.¹¹⁶ The OCA addresses in Section VII the merits of OCA witness Garrett's recommendation and why the Commission should reduce Peoples' FPFTY depreciation expense by requiring Peoples to calculate its depreciation expense using the Average Life Group/Average Service Life procedure. Based on OCA witness Garrett's recommended reduction to Peoples' depreciation expense, OCA witness Geiger made a corresponding reduction to Peoples' accumulated depreciation reserve of \$36,844,273.¹¹⁷ If the OCA's recommended depreciation procedure is adopted, then the Commission should make a corresponding adjustment to Peoples' rate base balance for the FPFTY.

V. REVENUES

The OCA did not present testimony disputing Peoples' claimed present rate revenues for the FPFTY, including the rebuttal phase adjustment to Peoples' FPFTY revenues.¹¹⁸

A. Heating Degree Day Methodology

The OCA did not present testimony regarding this issue.

VI. EXPENSES

A. Updates to Original Filing

The OCA did not present separate testimony regarding Peoples' updates to its original filing. Such updates are reflected in the OCA's revenue requirement recommendation.

¹¹⁶ OCA St. 3 at 11.

¹¹⁷ OCA St. 2 at 7; OCA Sch. JNG-5-SR.

¹¹⁸ OCA St. 2SR at 3.

B. Projected Cost Increase Adjustments

Peoples proposed two types of inflationary adjustments to forecast escalations in its FPPTY expense levels from HTY and FTY levels: historical escalations and inflation rate-based adjustments.¹¹⁹ The OCA recommended that certain of these escalation factors be removed or adjusted, as identified in the following table:

Adjustment	Historical or Inflationary	Amount of Adjustment
Travel and Entertainment	Historical	(\$108,658)
Advertising	Historical	(\$75,656)
Materials and Supplies	Historical	(\$625,353)
Outside Services – A&G	Historical	(\$1,281,601)
Payment Processing	Inflationary	(\$1,016,537)
Public Utility Commission Assessment	Historical	(\$823,737)

I&E also recommended that certain of these escalation factors be removed or adjusted.¹²⁰

For the reasons set forth in full below, the OCA recommends that the Commission assign little weight to Peoples’ testimony supporting these escalation adjustments and adopt the recommended adjustments of OCA witness Geiger to disallow the cost escalation adjustments.¹²¹

1. Average Annual Increases

Peoples proposed to use “a multi-year historical percentage experience change for each expense type individually and applied it to the HTY balances to determine the amount of change

¹¹⁹ Peoples St. 2-R at 4-11.

¹²⁰ See I&E St. 1; I&E St. 1SR.

¹²¹ OCA St. 2 at 18-19 (travel expense), 20-21 (advertising expense), 8-9 (materials and supplies expense), 21-22 (outside services – A&G), 25-26 (payment processing), 24-25 (PUC assessment); OCA St 2SR at 11 (travel expense), 12-13 (advertising expense), 5-6 (materials and supplies expense), 13-14 (outside services – A&G), 17-18 (payment processing), 15-16 (PUC assessment).

in balance to expect” during the FTY and FPFTY.¹²² The Company’s requested escalation factors, calculated using multi-year historical averages, should be rejected because they are inconsistent with recent Commission precedent regarding the use of inflationary adjustments and do not reflect known and measurable costs that the Company will incur by the close of the FPFTY.

For example, in *PAWC 2026*, the Commission recently stated:

We agree with the ALJs that when forecasting FPFTY expenses, all adjustments to expenses should be known and measurable and that adjustments for inflation are inherently speculative. We also agree with the ALJs finding that PAWC’s historical expense data does not track inflation trends and that other components, such as title and registration fees, are largely fixed and do not change in line with inflation.¹²³

Peoples should not be permitted to recover expense increases that it has not demonstrated are known and measurable.¹²⁴ Inflation adjustments, including those premised on historical averages of the costs experienced by the utility, are rife with uncertainty and speculative guess work as opposed to one that is bounded by reasonable projections. Such adjustments are insufficient for the utility to discharge its burden of proof for the FPFTY using “appropriate data evidencing the accuracy of the estimates contained in the future test year or a fully projected future test year.”¹²⁵

Peoples witness Wachter “utilized a 5-year average increase for all categories except Outside Services – IT, Outside Services – A&G and Licenses and Permits where a 4-year average was utilized and Company memberships where a 2-year average was utilized.”¹²⁶ OCA witness Geiger found that the periods used were not reflective of the recent cost to Peoples for these expense items; namely, there was significant volatility between 2023 and 2024 and 2024 and 2025, involving both cost increases and decreases for the identified expense items.¹²⁷ However, Peoples

¹²² Peoples St. 2-R at 4.

¹²³ *Pa. PUC v. Pa. American Water Co.*, Docket Nos. R-2025-3057983 *et al*, Order at 131 (July 27, 2026) (*PAWC 2026*).

¹²⁴ 66 Pa. C.S. § 315(e).

¹²⁵ 66 Pa. C.S. § 315(e).

¹²⁶ Peoples St. 2-R at 7.

¹²⁷ OCA St. 2 at 8-9, 18-22.

did not provide contractual or other evidentiary support for the use of the escalation factors.¹²⁸ Peoples' sole support for these escalation factors is that they are known and measurable because inflation is "going to continue related to the Company's expenses" based on the Company's experience with rising prices.¹²⁹

As in *PAWC 2026*, OCA witness Geiger found that Peoples' "expenses do not follow a consistent inflationary trend."¹³⁰ Rather, in recent years, Peoples' expenses "are subject to significant year-to-year variability."¹³¹ Accepting the Company's escalation factor approach would permit the Company to recover costs which are not known and measurable because they are forecasted without using specific, expense-based evidence of future cost escalations, such as contractual or other future cost commitments. As a result, the OCA respectfully request that the Commission reject the Company's proposed historical escalation factors.

2. Inflation Adjustments

In addition to its historical escalation factors, Peoples also proposed to use the Consumer Price Index (CPI) to calculate inflationary adjustments to its payment processing and advertising expenses.¹³² The Company's requested inflation-based escalation factors should be rejected because they are inconsistent with recent Commission precedent regarding the use of inflationary adjustments and do not reflect known and measurable FPFTY costs.

Blanket inflation adjustments, such as the ones proposed by Peoples in its filing, were recently disallowed by the Commission in *Wellsboro 2020*, *Aqua 2022*, *PGW 2023*, and *Columbia*

¹²⁸ See, e.g., OCA St. 2 at 22 ("Given the volatility of these expenses, the lack of support for the proposed 8.23% escalation factor, and the absence of contractual escalation provisions for most vendors, I do not believe the Company's proposed adjustment is reasonable.").

¹²⁹ Peoples St. 2-R at 6.

¹³⁰ OCA St. 2SR at 6.

¹³¹ *Id.*

¹³² Peoples St. 2-R at 9.

2025.¹³³ For example, in *PGW 2023*, the Commission rejected PGW’s request to apply a blanket 4.63% inflation adjustment to 20% of its expenses because it was applied broadly and did not meet the “‘known and measurable’ standard for increasing each FTY expense claim in the FPFTY.”¹³⁴ In *Columbia 2025*, in response to Columbia’s attempt to apply general inflation adjustments to seven different expenses, the Commission found that “Columbia did not demonstrate that making these adjustments, which are based on the application of blanket inflation rates of 2.93% and 3.05% for the FTY and the FPFTY, respectively, to the identified expense claims directly relates to the actual costs expected to be incurred in each identified expense account in the FTY and the FPFTY.”¹³⁵ Peoples should not be permitted to recover expense escalations that are not known and measurable, and cannot meet its burden of proof to provide “appropriate data evidencing the accuracy of the estimates contained in the future test year or a fully projected future test year” by using generic inflationary data which is not specifically tied to the expense adjustment.¹³⁶

The Company provides no evidentiary support for the conclusion that the CPI-based inflationary factors it used for expense adjustments will result in a fair and accurate estimate of the FPFTY expenses that Peoples will actually incur. First, the CPI is a measure of consumer prices and does not reflect the inflationary pressures placed on Peoples with respect to individual expense accounts.¹³⁷ Second, Peoples’ reliance on the existence of inflation to support its expense adjustment provides no specific ties to the expense accounts for which it applied the inflationary adjustment.¹³⁸ Third, and importantly, Peoples’ argument that the testimony of OCA witness

¹³³ *Pa. PUC v. Wellsboro Electric Co.*, R-2019-3008208, Order at 40 (Apr. 29, 2020) (*Wellsboro 2020*); *Pa. PUC v. Aqua Pa., Inc.*, 2022 PA. PUC LEXIS 161, *62-63 (May 16, 2022) (*Aqua 2022*); *Pa. PUC v. Phila. Gas Works*, 2023 PA. PUC LEXIS 298, *47 (Nov. 9, 2023) (*PGW 2023*); *Columbia 2025* at *92-93.

¹³⁴ *PGW 2023* at *47.

¹³⁵ *Columbia 2025* at *92.

¹³⁶ 66 Pa. C.S. § 315(e).

¹³⁷ OCA St. 1SR at 6.

¹³⁸ *Compare* Peoples St. 2-R at 10 (“inflation is a real thing and is expected in all expense categories over time”) with *PAWC 2026* at 131 (“adjustments for inflation are inherently speculative”).

Deupree regarding the impact of inflation on consumers somehow validates its position is deeply flawed. As stated by OCA witness Deupree:

Commission recognition of current inflationary concerns when deciding upon just and reasonable rates is distinct from deciding on appropriate expense estimates in future test years...Decisions on appropriate expense estimates require examination of known and measurable expected growth in expenses in order to ensure that the Company is allowed a reasonable opportunity to recover all prudent expenses while not burdening ratepayers with speculative future expenses that may never arise.¹³⁹

The existence and persistence of the growth of the price of consumer goods and services over time does not vindicate the blind usage of the CPI to claim additional costs over time.

Instead, the OCA recommends that the Commission utilize the HTY expense for the payment processing expense accounts instead of relying on the Company's CPI-based inflation factor,¹⁴⁰ which is insufficient to satisfy Peoples' burden of proof under the Public Utility Code.¹⁴¹

C. Labor/Vacancy Expense

Peoples proposed staffing levels at the conclusion of the FPFTY of 1,463 full time employees for a labor expense claim of \$68.149 million.¹⁴² Peoples assumed that approximately 30 of these positions would be vacant at the end of the FTY and eight of these positions would be vacant at the end of the FPFTY.¹⁴³ OCA witness Geiger recommended that the Company's vacancy reserve be set using the most recent three-year period, meaning that the vacancy rate by month for the last three years was averaged to produce a vacancy rate of 4.98%.¹⁴⁴

The methodology utilized by OCA witness Geiger was considered and adopted in *PGW 2023*, wherein the Commission utilized the OCA's recommended vacancy rate ratio based on a

¹³⁹ OCA St. 1SR at 6.

¹⁴⁰ OCA St. 2 at 20-21, 25-26.

¹⁴¹ 66 Pa. C.S. § 315(e)

¹⁴² OCA Sch. JNG-15-SR.

¹⁴³ OCA St. 2SR at 14.

¹⁴⁴ OCA Sch. JNG-15-SR.

three-year average ratio to adjust the utility's claimed employee count and associated expenses.¹⁴⁵ While Peoples claims that it will be able to attract and retain sufficient employees to have only eight vacancies – a vacancy rate of 0.55% – by the end of the FPFTY, its recent experience demonstrates otherwise.¹⁴⁶ By the end of November 2025, Peoples maintained a higher-than-average vacancy rate of 5.44%, with an average vacancy rate of 5.12% for the 12-month period ending November 30, 2025.¹⁴⁷ The Company's lowest vacancy rate occurred during the 12-month period ending November 30, 2023, closer in time to the COVID-19 pandemic, and has since increased: Peoples' reliance on a post-COVID-19 pandemic increase in hiring is misplaced.¹⁴⁸

The OCA's recommendation to use a three-year average historical period to calculate Peoples' vacancy levels is consistent with record evidence and recent Commission precedent. Based on this recommendation, OCA witness Geiger calculated a downwards adjustment of \$2,985,171 to Peoples' claimed labor expense. This results in a corresponding adjustment to Peoples' payroll tax expense of (\$239,176),¹⁴⁹ and an additional corresponding adjustment to Peoples' employee benefits expense of (\$887,355).¹⁵⁰ Peoples witness Hanechak testified that the OCA's calculations of these corresponding adjustments was accurate and, therefore, if the OCA's recommended vacancy rate ratio is accepted, these adjustments should also be accepted.¹⁵¹

D. Incentive Compensation

Peoples requested an employee incentive compensation and/or bonus expense allowance of \$6,125,473 for the FPFTY.¹⁵² Consistent with the Commission's recent orders in *Columbia*

¹⁴⁵ *PGW 2023* at *42-43.

¹⁴⁶ OCA St. 2SR at 14-15.

¹⁴⁷ OCA Sch. JNG-15-SR.

¹⁴⁸ OCA St. 2SR at 15.

¹⁴⁹ OCA Sch. JNG-16-SR.

¹⁵⁰ OCA Sch. JNG-17-SR.

¹⁵¹ Peoples St. 11-R at 4.

¹⁵² OCA St. 2 at 11.

2025 and *PAWC 2026*, the OCA recommends that the component of the employee incentive compensation and/or bonus expense claim related purely to financial performance, and not to customer service and/or safety objectives, be funded by Peoples' shareholders and not ratepayers.¹⁵³ I&E similarly recommends that the portion of Peoples' incentive compensation expense dedicated to serving shareholder interests should be funded by shareholders.¹⁵⁴

The Commission has established that, for a utility to meet its burden of proof regarding the inclusion of incentive compensation expenses in the utility's rates, the utility must demonstrate that the incentive compensation expense claim aligns primarily with ratepayer, not shareholder, interests.¹⁵⁵ In *Columbia 2025*, the Commission adopted the OCA and ALJs' recommendation to disallow the totality of Columbia's requested incentive compensation request when "Columbia did not explain why 70% of the incentive compensation expense is necessary to provide adequate service to ratepayers, given that only 30% of this claimed expense is related to operational safety and customer experience."¹⁵⁶ Similarly, in *PAWC 2026*, the Commission found that the utility:

failed to: (1) demonstrate, with credible evidence, that its financial metrics are reasonable or that they provide a benefit to ratepayers; and (2) meet its burden of proving that its claim in allocated performance compensation expenses is fair and necessary, or that it pertains to providing safe, adequate, and reliable service to customers. As noted by the ALJs and I&E, although operational metrics align employees with customers, financial metrics in performance pay align employees primarily with shareholder interests. Therefore, ratepayers should not be required to exclusively fund the payout of financial metrics, particularly given that PAWC did not establish that such costs are fair and necessary, or that they pertain to providing safe, adequate, and reliable service to customers.¹⁵⁷

¹⁵³ OCA St. 2 at 11.

¹⁵⁴ I&E St. 1 at 11-14.

¹⁵⁵ 66 Pa. C.S. § 315(a).

¹⁵⁶ *Columbia 2025* at *86-87.

¹⁵⁷ *PAWC 2026* at 114.

These holdings demonstrate that incentive compensation expenses compensating employees for a utility's financial performance are targeted to primarily benefit shareholders, and, as a result, the cost of such expenses is appropriately recovered from shareholders and not ratepayers.

While Peoples argues that its incentive compensation financial targets promote employees' stewardship of ratepayer funds¹⁵⁸, unspent ratepayer funds are subject to usage at the Company's discretion, such as through additional dividend payments to shareholders. As OCA witness Deupree testified, the price floor of established cost-of-service rates "allows shareholders to retain benefits created by regulatory lag (*i.e.*, earning an actual rate of return that is higher than the authorized rate of return or over-earning)..."¹⁵⁹ Whether ratepayers may experience a modicum of benefit from the incentive compensation plan is not the determinative factor; rather, the Commission looks to whether the desired outcomes of the plan align employees' interests primarily with those of the utility's shareholders.¹⁶⁰

Peoples has not demonstrated that it would be put at a disadvantage compared to other businesses if ratepayers are not required to fund its full incentive compensation expense claim.¹⁶¹ Because Peoples' arguments as to why ratepayers should bear 100% of the costs of its incentive compensation plan, including the components designed to align employees' interests with those of its shareholders, should be given little weight in light of the evidentiary record and recent Commission precedent, the OCA recommends that the Commission provide a downwards adjustment of \$2,520,984 to Peoples' FPFTY incentive compensation claim.¹⁶²

¹⁵⁸ Peoples St. 2-R at 18-19.

¹⁵⁹ OCA St. 1 at 23.

¹⁶⁰ *Columbia 2025* at *86-87; *PAWC 2026* at 114.

¹⁶¹ OCA St. 2SR at 7.

¹⁶² OCA St. 2SR at 9; OCA Sch. JNG-8-SR.

E. Employee Benefits Expense

The OCA recommends that Peoples' claimed employee benefits expense be decreased by \$887,355, as indicated in Section VI.C, consistent with the OCA's recommended vacancy rate adjustment. As Peoples agrees that the OCA's recommended employee benefits expense was calculated correctly¹⁶³, if the Commission adopts the OCA's recommended vacancy rate adjustment, it should also adopt the OCA's recommended employee benefits expense adjustment.

F. Corporate Insurance

The OCA withdrew its adjustment to Peoples' corporate insurance expense claim.¹⁶⁴

G. Employee Expense

Peoples proposed including costs totaling \$756,875 in the cost of service related to employee activities, such as employee events and safety awards, at the close of the FPFTY.¹⁶⁵ The OCA recommended a downwards adjustment of \$426,970 to the claimed expense to reflect the removal of costs that do not aid in the provision of safe and reliable public utility service.¹⁶⁶ The OCA does not contest the recovery of expenses related to Peoples' reimbursement of employee costs for parking leases and cell phones.¹⁶⁷

Peoples claims that it is reasonable and prudent to recover from ratepayers the costs of: employee gatherings, such as the Special Olympics Polar Plunge event; team lunches; Service Awards that reward employees' anniversaries with the Company; and other, similar, expenses.¹⁶⁸ However, Peoples' explanation of these expenses does not demonstrate that they are reasonable or

¹⁶³ Peoples St. 11-R at 4.

¹⁶⁴ OCA St. 2SR at 12.

¹⁶⁵ OCA St. 2 at 18.

¹⁶⁶ OCA St. 2 at 18; OCA St. 2SR at 10-11.

¹⁶⁷ OCA St. 2SR at 11.

¹⁶⁸ Peoples St. 2-R at 25-26.

necessary to the provision of safe and reliable service for Peoples' customers.¹⁶⁹ Unlike the parking lease and cell phone expenses which the OCA does not contest, the remaining employee expense items should not be recovered through Peoples' rates as they are only tangentially related to Peoples' natural gas distribution service. For these reasons, the OCA recommends that Peoples' employee expenses be adjusted downwards by \$426,970 for an expense allowance of \$329,905.¹⁷⁰

H. Travel and Entertainment Expense

Peoples proposed to include \$1.139 million of travel, meal, and entertainment expenses in the FPFTY.¹⁷¹ OCA witness Geiger recommended a downwards adjustment of \$908,032 to this expense claim, reflecting a disallowance of the escalation factor described *supra* in Section VI.B.1 of \$108,658 and a disallowance of \$799,375 in additional employee entertainment and promotional activity expenses.¹⁷² Of the additional employee entertainment and promotional activity expenses the OCA recommends disallowing, these expense items include an annual Company picnic, events at sporting venues, service anniversary rewards, matching Company shirts for events, and reimbursable meal expenses.¹⁷³ Peoples has failed to meet its burden of proof that it is reasonable to recover such costs through rates; while these expenses may fund discretionary activity and team bonding events for Peoples' employees, the Company has not demonstrated that such costs are reasonable or that they are related to providing safe and reliable service.¹⁷⁴ As a result, the OCA recommends a downwards adjustment of \$908,033 to this expense account.¹⁷⁵

¹⁶⁹ OCA St. 2SR at 11.

¹⁷⁰ OCA Sch. JNG-10-SR.

¹⁷¹ OCA St. 2 at 11.

¹⁷² OCA Sch. JNG-11-SR.

¹⁷³ Peoples St. 2-R at 27.

¹⁷⁴ OCA St. 2SR at 11.

¹⁷⁵ OCA Sch. JNG-11-SR.

I. Company Memberships

Peoples has proposed to include \$1.220 million in the FPFTY for expenses associated with its membership in trade and economic development organizations, as well as other types of memberships.¹⁷⁶ OCA witness Geiger reviewed the Company's memberships and found that "several of the organizations the Company has included do not aid in the provision of safe and reliable service to ratepayers."¹⁷⁷ In his surrebuttal testimony, Mr. Geiger revised his recommendation and determined that ratepayers and Peoples' shareholders should evenly bear the burden of 11 of these memberships.¹⁷⁸ Namely, the organizations for which cost should be shared between shareholders and ratepayers reflect business and economic development, public affairs, and community relations organizations.¹⁷⁹

These organizations provide shareholder benefits by promoting Company goodwill in the communities in which it operates, a benefit which inures exclusively to Peoples and does not directly result in the provision of safe and reliable service. As the Commission stated in *Columbia 2025*, "absent evidence that there is any *direct* benefit to ratepayers, Columbia should not be permitted to recover costs for membership in" local chambers of commerce.¹⁸⁰ Therefore, Mr. Geiger's recommendation reflects a reasonable share of the costs between Peoples and its ratepayers, in light of the Commission's clear precedent that membership costs which promote the Company's image as a good corporate citizen are not properly included in rates. The OCA recommends a downwards adjustment of \$57,914 for company membership expenses.

¹⁷⁶ OCA St. 2 at 16.

¹⁷⁷ OCA St. 2 at 16.

¹⁷⁸ OCA Sch. JNG-9-SR.

¹⁷⁹ OCA St. 2SR at 9-10.

¹⁸⁰ *Columbia 2025* at *101.

J. License and Permit Expense

The OCA did not present testimony regarding this issue.

K. Utilities and Fuel Expense

The OCA did not present testimony regarding this issue.

L. Advertising Expense

As described *supra* in Section VI.B.1, the OCA recommended that Peoples' historical escalation factor adjustment to HTY expense amounts, including advertising expense, be disallowed. For the reasons set forth in Section VI.B.1, the OCA recommends that the Commission disallow \$75,656 of Peoples' claimed advertising expense, based on the Company's actual HTY expense for this account.

M. Fleet Expense

The OCA did not present testimony regarding this issue.

N. Materials and Supplies

As described *supra*, in Section VI.B.1, Peoples proposed to use a historical escalation factor for the 12-month periods ended December 31, 2020, through December 31, 2024, to derive its claimed Materials and Supplies expense.¹⁸¹ The OCA recommends that the Commission deny Peoples' claimed historical-based escalation factors and, instead, use the average expense for the three 12-month periods ended November 30, 2023, through November 30, 2025, which better reflects the costs Peoples has actually incurred.¹⁸² Specifically, OCA witness Geiger testified that "costs decreased by 13.9% from 2023 to 2024 and then increased by only 0.46% from 2024 to

¹⁸¹ OCA St. 2 at 8.

¹⁸² OCA St. 2 at 8-9; OCA Sch. JNG-7-SR.

2025,” indicating significant volatility that is out-of-line with a consistent year-over-year escalation factor.¹⁸³ Based on Mr. Geiger’s findings, the OCA recommends that the Commission apply downwards adjustments of \$555,513 in the FTY and \$585,816 in the FPFTY to remove Peoples’ escalation factors.

O. Rate Case Expense

Peoples claimed a rate case expense of \$1.920 million normalized over a two-year period, for an annual expense claim of \$0.960 million included in the FPFTY.¹⁸⁴ While the OCA did not dispute the amount of Peoples’ rate case expense claim, the OCA recommends that the Commission adjust the normalization period for Peoples’ rate case expense claim to three and a half years, resulting in a downward adjustment of FPFTY rate case expense of \$411,429.¹⁸⁵ Peoples’ proposed normalization period does not accurately reflect its historic filing frequency and should not be accepted.

The Commission has consistently held that rate case expenses are normal operating expenses that are incurred on an irregular basis, meaning that the expenses should be normalized over a period based on the historical frequency of the utility’s rate filings.¹⁸⁶ OCA witness Geiger utilized the Company’s three most recent rate filings in 2019, 2023, and 2026, to compute an average interval of approximately three and a half years.¹⁸⁷ Notably, Peoples selected its normalization period based on the gap in time between the instant proceeding and its 2023 general

¹⁸³ OCA St. 2 at 8-9.

¹⁸⁴ OCA St. 2 at 7.

¹⁸⁵ OCA St. 2SR at 5.

¹⁸⁶ *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154 (Pa. Cmwlth. 1996) (“the period of normalization is determined by examining the utility’s *actual* historical rate filings, not upon the utility’s intentions.”) (emphasis in original) (*citing Pa. Pub. Util. Comm’n v. Borough of Media Water Works*, 72 Pa. PUC 144 (1990)); *see also, e.g., Columbia 2025* at *94; *Pa. PUC v. Columbia Water Co.*, 2024 PA. PUC LEXIS 23, *20-21 (Jan. 18, 2024) (*Columbia Water 2024*).

¹⁸⁷ OCA St. 2SR at 5.

rate increase request, alone, excluding its prior rate cases filed in 2010, 2012, and 2019.¹⁸⁸ Peoples witness Wachter claims that the period of time between the 2012 and 2019 rate filings was the result of a stay-out agreed-to as part of a merger proceeding, the time between the 2019 and 2023 rate filings was the result of a change in federal tax regulations, and, as a result, these time periods are not representative of Peoples' historic filing frequency.¹⁸⁹

While OCA Geiger accepted removing the time between the 2012 and 2019 rate cases due to the rate case stay out as an extraordinary circumstance¹⁹⁰, Peoples witness Wachter omitted that the Company's 2023 rate filing was the result of a come-back provision in the settlement regarding Peoples' tax repair election which required Peoples to file a rate case by December 31, 2023.¹⁹¹ Peoples' 2023 rate filing was submitted on December 29, 2023, the last business day compliant with the come-back provision.¹⁹² As a result, the amount of time between the 2019 and 2023 rate filings was influenced at least as much by the come-back provision as by the change in tax repair election; otherwise, Peoples would have requested a general rate increase prior to the last business day compliant with the come-back provision. Peoples witness Wachter's recommendation to remove the 2019 to 2023 period from the computation of the normalization period should be given less weight than the recommendation of OCA witness Geiger to include it because the time period is not extraordinary for the purposes of computing the normalization period for rate case expense. Inclusion of this period results in Peoples' rate case expense claim being normalized over three and a half years, and results in a downwards adjustment to rate case expense of \$411,429.¹⁹³

¹⁸⁸ Peoples St. 2-R at 38.

¹⁸⁹ *Id.*

¹⁹⁰ OCA St. 2SR at 5.

¹⁹¹ *Petition of Peoples Natural Gas Company LLC for Accounting and Regulatory Approvals and Approval of Related Tariff Surcredits Associated with Tax Repair Election*, Docket No. P-2020-3021191, Joint Petition for Settlement ¶ 17(d) (filed Mar. 11, 2021).

¹⁹² *Pa. PUC v. Peoples Nat. Gas Co.*, 2024 PA. PUC LEXIS 288, *3 (Sep. 12, 2024).

¹⁹³ OCA St. 2SR at 5; OCA Sch. JNG-6-SR.

P. Pension Expense

The OCA did not present testimony regarding this issue.

Q. Outside Services

1. Contracted

The OCA did not present testimony regarding this issue.

2. Administrative and General

As described *supra* in Section VI.B.1, the OCA recommended that Peoples' historical escalation factor adjustment to HTY expense amounts, including outside services – administrative and general, be disallowed. For the reasons set forth in Section VI.B.1, the OCA recommends that the Commission utilize the average of Peoples' experienced expense amounts in the past three years, as Peoples presented no evidence, such as contracts, to support its anticipated cost escalations over time.¹⁹⁴ As a result, the OCA recommends a downwards adjustment of \$1.282 million to Peoples' claimed outside services – administrative and general expense.¹⁹⁵

R. Natural Gas Hot Water Tank Rebate Pilot

The OCA recommends that Peoples' request to implement a Natural Gas Water Tank Rebate Program be denied. Based on this recommendation, the OCA removed the claimed annual expense of \$500,000 from the Company's requested revenue requirement.¹⁹⁶

S. Payment Processing Expense

Peoples proposed to include \$2.940 million of payment processing expenses in the FPFTY, including a 22.0% year-over-year escalation factor applied each year from the HTY to the

¹⁹⁴ OCA St. 2SR at 13-14.

¹⁹⁵ OCA Sch. JNG-14-SR.

¹⁹⁶ See Section XVII, *supra*; OCA St. 2SR at 18; OCA Sch. JNG-20-SR.

FPFTY.¹⁹⁷ Peoples failed to provide evidence, such as contracts with its third-party payment processor, to support its claim for a year-over-year increase in its payment processing expense.¹⁹⁸ The OCA recommended that the Commission utilize the HTY payment processing expense because the HTY expense amount reflects a significant escalation in Peoples’ historical experienced cost for payment processing; namely, the Company’s adoption of a no-fee credit card payment system resulted in a significant increase to the expense which is already reflected in the HTY amount.¹⁹⁹ Peoples presented no evidence to support that it will continue to experience an increase in costs at the same or a similar rate over time, since it has already adopted no-fee credit card payment processing.²⁰⁰ Therefore, the OCA recommends that the Commission decrease Peoples’ FPFTY payment processing expense claim by \$1,016,537, for an allowance of \$1,923,122, consistent with the OCA’s recommendation *supra* in Section VI.B.2.²⁰¹

T. Building Leases

The OCA did not present testimony regarding this issue.

U. Universal Service Program (USP) Rider

The Commission should approve Peoples’ proposed expenditures for (1) an additional employee to facilitate compliance with the Commission’s LIURP requirements and (2) studies to identify “zones of vulnerability” and associated communications costs.²⁰² However, those expenditures should be recovered through base rates rather than through a Rider.²⁰³

¹⁹⁷ OCA St. 2 at 25.

¹⁹⁸ OCA St. 2 at 25.

¹⁹⁹ OCA St. 2 at 25.

²⁰⁰ OCA St. 2SR at 17.

²⁰¹ OCA JNG-19-SR.

²⁰² *Id.* at 85.

²⁰³ *Id.*

Recovering these costs through the Universal Service Rider would improperly isolate individual cost increases from the other changes in Peoples' cost of service that will result from improved program performance.²⁰⁴ For example, targeted communications intended to increase CAP enrollment may increase outreach costs but simultaneously decrease working capital associated with arrears, credit and collection expenses, bad debt, and lost revenues resulting from disconnections.²⁰⁵ Similarly, effective LIURP expenditures can improve payment performance and reduce arrears, disconnections, and bad-debt write-offs.²⁰⁶

The Commission agreed with this position in the recent *PAWC 2026* decision, where PAWC similarly attempted to recover universal service costs through a CAP rider:

We agree with the ALJs that all rate impacts associated with the CAP costs proposed to be recovered in the CAP Rider should be considered because there could be decreases in certain expenses that may be realized through the CAP program, as well as possible double recovery of costs without an appropriate offset. Under the instant proposal, an offset of \$0.00 is not reasonable. Accordingly, we agree with the ALJs that it is more appropriate for cost recovery of PAWC's universal service costs to be addressed through the base rate process, rather than a new rider, at this time.²⁰⁷

The Commission should therefore consider the total cost-of-service impact rather than permitting Peoples to recover increased expenditures through the Universal Service Rider without accounting for the offsetting benefits those expenditures may produce. The Commission should order that the proposed costs be recovered through base rates instead of a Rider.

V. Public Utility Commission Assessment

Peoples claimed an expense amount for its Commission assessment by determining the average increase over the past five years of 6.0% and escalating its HTY expense by that amount

²⁰⁴ *Id.*

²⁰⁵ *Id.* at 85-86.

²⁰⁶ *Id.* at 86-87.

²⁰⁷ *PAWC 2026* at 334.

for its FTY and FPFTY expense claims.²⁰⁸ The OCA recommends utilizing the average experienced expense amount for the past three years, for an adjustment to Peoples' FPFTY expense claim of (\$823,737).²⁰⁹ Namely, Peoples failed to provide any evidence that it should anticipate to experience a 6.0% year-over-year increase in its assessment expense for the FTY and FPFTY; rather, it relies on a varying set of data to produce an escalation adjustment that fails to adequately capture the potential for increases and decreases in the expense amount, both of which are present in Peoples' historic assessment amount for the past three years.²¹⁰ Because Peoples assumes that it will experience a year-over-year increase in its expense amount, without evidentiary support, despite variance in the expense amount over time, the OCA's proposed adjustment is reasonable and should be adopted. The OCA's recommendation regarding the Commission assessment expense is consistent with its recommendations *supra* in Section VI.B.1, disallowing \$823,737 in the FPFTY expense claim for the Commission assessment.

W. Residential Collection Expense

OCA witness Colton recommended that, due to Peoples' inadequate and unreasonable residential collection expense practices, ratepayers should not be required to fund more than 50% of Peoples' claimed collection expense, as discussed *infra* in Section XIV.²¹¹ Pursuant to Section 523 of the Public Utility Code, the Commission may "mak[e] such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate" based on the consideration of evidence regarding "the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title."²¹²

²⁰⁸ OCA St. 2 at 25.

²⁰⁹ OCA St. 2SR at 16.

²¹⁰ OCA Sch. JNG-18-SR.

²¹¹ OCA St. 4 at 50.

²¹² 66 Pa. C.S. §523(a).

Based on the clear statutory authority to adjust a utility's claimed cost of service amount associated with inadequate service and the record evidence supporting that Peoples' credit and collection activities constitute inadequate and unreasonable service, OCA witness Colton recommended that the Commission reduce Peoples' residential collection expense claim by \$3.834 million.²¹³

X. Interest Synchronization

In order to correctly determine the Company's interest expense, OCA witness Geiger calculated an interest expense reduction of \$8.268 million by multiplying the OCA's recommended rate base by the weighted cost of debt in the OCA's recommended capital structure.²¹⁴ If the Commission adopts the OCA's recommended rate base and capital structure, then the Commission should make a corresponding interest synchronization adjustment to reflect the Company's altered tax liability, consistent with the recommendation of OCA witness Geiger.

Y. Cost of Other Parties' Proposals

The OCA did not present testimony regarding the expense implications of its recommended improvements to Peoples' quality of service and customer service. The OCA disputes that it is necessary or appropriate for the Commission to provide for specific allowances or general accommodations for the cost to implement the service improvements required under Section 1501 of the Public Utility Code. For example, in *Columbia 2025*, the Commission ordered the utility to make improvements and modifications to its customer service without specifically identifying an associated expense adjustment for these efforts.²¹⁵ Similarly, in *PAWC 2026*, the Commission did

²¹³ OCA St. 4SR at 30.

²¹⁴ OCA St. 2 at 28; OCA St. 2SR at 19-20; OCA Sch. JNG-22-SR.

²¹⁵ *Columbia 2025* at *248-56 (Columbia was ordered to: "review scripts for automated chat box or 'apps' to ensure customer rights associated with transactions are provided"; "develop and implement a process to screen" new and existing customers for their income level; and "conduct a monthly review of Customer Assistance Program accounts to ensure customers receive the most affordable rate"; "initiate and complete an internal study to determine whether a pilot program utilizing Smart Remote Methane Detectors is feasible").

not specifically authorize additional expense claims for the utility's requirements to modify its customer service.²¹⁶ The OCA submits that it would be inconsistent with prior Commission orders to identify specific expense allowances for the modifications to Peoples' service necessary to ensure that the same is adequate and reasonable. As a result, to the extent that Peoples requests additional revenue to implement the adjustments to service necessary to comply with Section 1501 of the Public Utility Code, such request is inappropriate and should be denied.

Z. Uncollectible Accounts Expense

The Commission should reject Peoples' proposed use of a two-year average of residential uncollectible activity to calculate the bad debt offset percent. Instead, Peoples should establish the CAP participation level using a 12-month average of actual historical enrollment provided by BCS and use write-off for CLI as published in the most recent BCS annual report on collections performance and universal service programs. This change would result in an 8.1% offset.²¹⁷

Peoples has not historically demonstrated sufficient accuracy in projecting future CAP participation.²¹⁸ Because of this, Peoples original proposal to base CAP participation on projected CAP participation and use a bad debt offset equal to the recent three-year average of residential uncollectible activity, is unreasonable.²¹⁹ Since Peoples' original rate filing, Peoples witness Ms. Scanlon agreed to revert back to the approach the Company utilized in the 2023 base rate case proceeding as recommended in OCA witness Colton's direct testimony.²²⁰ Thus, using the most

²¹⁶ *PAWC 2026* at 414-18 (PAWC was ordered to modify its bill discount program; implement and report on modifications to its arrearage management program; audit and investigate call center compliance; "conduct a root cause analysis of customer disputes and informal and formal complaints to identify complaint trends, underlying causes, and reforms or other steps undertaken to respond to these findings"; and modify its customers' bill presentation).

²¹⁷ OCA St. 4SR at 34-35.

²¹⁸ OCA St. 4 at 70-71.

²¹⁹ *Id.* at 71.

²²⁰ OCA St. 4SR at 34.

recent figure from BCS would result in an 8.1% offset.²²¹ OCA witness Colton initially recommended using the actual month-end CAP participation level at the time of the final order as the number over which the offset would be applied.²²² In surrebuttal, however, Mr. Colton recognized the legitimate concern that CAP participation varies from month to month and therefore agreed that a twelve-month average, ending with the month in which the final order is issued, is an appropriate methodology.²²³

Importantly, this methodology does not create a new reporting requirement or administrative burden as Peoples already reports monthly CAP participation to the BCS. The recommendation simply uses the Company's existing reporting to establish a more accurate rate-setting assumption.

Moreover, the offset should account for more than bad debt alone but should also reflect an avoided working capital expense as well.²²⁴ Peoples' own independent CAP evaluation found that CAP participation improved payment coverage by 36% compared with similarly situated low-income customers who did not participate in CAP.²²⁵ Peoples also reported that CAP customers paid 82 % of their bills in 2024, excluding energy-assistance payments.²²⁶ As OCA witness Colton explained, "From a rate perspective, the avoided working capital associated with these improved payment patterns associated with CAP participation is important because working capital is a capital expense. As such, it has a return on equity associated with it which, in turn, has a tax component associated with it. Every \$1 in reduced working capital, in other words, will yield greater than \$1 in reduced total expenditures."²²⁷

²²¹ *Id.* at 34-35.

²²² OCA St. 4 at 71.

²²³ OCA St. 4SR at 33-34.

²²⁴ OCA St. 4 at 72.

²²⁵ *Id.* at 72-73.

²²⁶ *Id.* at 73.

²²⁷ *Id.*

Accordingly, the Commission should reject Peoples' proposed use of a two-year average of residential uncollectible activity, using the 12-month average reported by BCS instead, and have the offset also account for working capital expense.

VII. DEPRECIATION EXPENSE

A. Introduction

A major issue in this proceeding is whether Peoples' claim for depreciation expense should be adjusted. Depreciation alone makes a significant impact on the entire rate increase request. Peoples' proposed depreciation rates amount to a total annual depreciation accrual of \$144 million based on plant balances as of November 30, 2027.²²⁸ However, the OCA has presented a depreciation method that will reduce the impact on consumers, is commonly used in Pennsylvania and other states, has been adopted by Peoples' own depreciation witness, and still allows the Company the opportunity to earn a return on its investment. The key difference between Peoples' position and the position advocated by the OCA is the method used to calculate the depreciation expense. Peoples uses a method referred to as the equal life group (ELG) whereas the OCA proposes that a method referred to as the average life group (ALG) method be used.²²⁹

As explained further below, the Commission should reject Peoples' use of the ELG method because it results in an accelerated form of cost recovery from consumers.²³⁰ As OCA witness Garrett testified:

Peoples' use of the ELG method, rather than the widely applied ALG method, increases the annual depreciation accrual charged to customers by \$27.1 million in the 2025 study, by \$31.5 million in the 2026 study and by \$36.8 million in the 2027 study. In other words, even if there are no adjustments to the net salvage rates, service life, or other depreciation parameters for any accounts in the

²²⁸ OCA St. 3 at 8, *citing*, OCA Exhibit DJG-17.

²²⁹ The ALG method is sometimes referred to as Average Service Life, or ASL.

²³⁰ OCA St. 3 at 9.

depreciation study, using the majority-viewed ALG method alone will result in significantly fairer rates for customers.²³¹

Mr. Garrett also noted that even Peoples' own witness in this proceeding, Mr. Spanos, proposed using the ALG depreciation method in the recent PPL Electric Utilities Corporation base rate case.²³² Under the ELG method, current customers are subsidizing future customers and those future customers will likely never see the benefit of using the ELG method of depreciation.

The ALG method should be adopted in this proceeding when setting Peoples' rates.

B. Regulatory Standards

Depreciation is the loss, not restored by current maintenance, which is due to all the factors causing the ultimate retirement of the property such as wear and tear, decay, inadequacy and obsolescence.²³³ The original cost of plant assets, rather than the present value or some other measure, is the proper basis for calculating depreciation expense.²³⁴ As the Supreme Court held:

The company has the burden of making a convincing showing that the amounts it has charged to operating expenses for depreciation have not been excessive. That burden is not sustained by proof that its general accounting system has been correct. The calculations are mathematical, but the predictions underlying them are essentially matters of opinion.²³⁵

Such is the legal standard upon which Peoples' claim for depreciation must be examined. Peoples has the burden in this rate case to show that its proposed depreciation expense that it is seeking to recover from current ratepayers is not excessive. The OCA has provided substantial evidence to show that Peoples has not met that burden.

Despite the Supreme Court's mandates, these legal standards do not mandate a specific procedure for conducting a depreciation analysis. These standards, however, direct that analysts

²³¹ *Id.*

²³² *Id.*, citing, *Pa.PUC, et al. v. PPL Electric Utilities Corporation*, Docket No. R-2025-3057164 (Sept. 30, 2025).

²³³ *Lindheimer v. Illinois Bell Tel. Co.*, 292 U.S. 151, 167 (1934).

²³⁴ *Id.*

²³⁵ *Id.* at 167.

use a system for estimating depreciation rates that will result in the “systematic and rational” allocation of capital recovery for the utility.²³⁶ As Mr. Garrett testified: “over the years, analysts have developed ‘depreciation systems’ designed to analyze grouped property in accordance with this standard.”²³⁷

C. Average Life v. Equal Life Method

The primary difference between the ALG method and the ELG method is that, in the ALG method, a constant accrual rate based on the average life of all property in the group is applied to the surviving party, whereas, in the ELG method, property is divided into subgroups that each have a common life.²³⁸ As Mr. Garrett testified: “pertinently, the ELG method results in higher depreciation rates in the early years of a vintage’s life. This fact is confirmed by authoritative depreciation literature.”²³⁹ The NARUC Public Utility Depreciation Practice manual provides that the ELG method “results in annual accruals that are *higher* during the early years of a vintage’s life, thereby causing an increase in depreciation expense and revenue requirements during these years.”²⁴⁰ As such, a seemingly simple difference in depreciation methods – constant versus accelerated – in fact has a large impact on the ultimate rates determined.

The ultimate remaining life of utility property is not known just because a particular depreciation method is used. When a utility installs a pole, for example, or some other asset, it is not known whether that pole will remain an asset in service for 20, 40 or 60 years. And, a customer receiving service from that pole in year five does not receive more benefit from that pole than a customer who receives service from that pole in year 60. Both generations of customers rely on

²³⁶ OCA St. 3 at 61.

²³⁷ *Id.*

²³⁸ *Id.* at 62.

²³⁹ *Id.* (citations omitted).

²⁴⁰ *Id.* at 62-63, *citing*, National Association of Regulatory Utility Commissioners, *Public Utility Depreciation Practices* 176 (NARUC 1996) (emphasis added).

the pole to receive utility service and both would pay the same for that pole under the ALG method. Under the ELG method, however, the customer in year five pays more than the customer in year 60. Claims about protecting future customers is untenable. Neither utilities nor utility commissions know who will be customers decades from now, what technologies they will use or what the utility system will look like. What is known is that if a pole remains used and useful in the future, future customers will benefit from the pole just as much as current customers do.

The ALG method is used by analysts and adopted by regulators in the vast majority of jurisdictions and in the vast majority of cases, including by Peoples' witness Spanos who uses the ALG method in other jurisdictions.²⁴¹ Mr. Garrett testified regarding various other jurisdictions that changed from the ELG method to the ALG method.

In a case involving Duke Energy Indiana in 2020, the company proposed depreciation rates using the ELG method which the Indiana commission rejected, noting that "the use of ELG in a higher than average investment cycle has the effect of unnecessarily increasing the near term depreciation expense as compared to the use of ALG."²⁴² In Mississippi, the Mississippi Public Service Commission, in a case involving Atmos Energy, also adopted the position of Mr. Garrett when finding that "the depreciation rates as proposed by Staff, based on the standard ALG method, result in just and reasonable depreciation expense to customers" and directed Atmos to adopt the ALG method for establishing depreciation rates in Mississippi.²⁴³ Similarly, in Kentucky, the Kentucky Public Service Commission found in a case involving Duke Kentucky that the ELG

²⁴¹ *Id.* at 63, *citing*, Peoples response to OCA discovery OCA-IX-021(e).

²⁴² *Id.* at 63–64, *citing* Brief for Appellant at 90, Indiana Office of Util. Consumer Counselor v. Duke Energy Ind., LLC, (Ind. Util. Regul. Comm'n 2023) (Cause No. 45253). "[W]e find the evidence presented by OUCC witness Mr. Garrett and Industrial Group witness Mr. Andrew's persuasive, as both witnesses showed that the ELG method results in unreasonably high depreciation rates." *See* Testimony of David J. Garrett on Behalf of the Ind. Office of Util. Consumer Counselor at 7, In re Ind.-Am. Water Co. (Ind. Util. Regul. Comm'n July 21, 2023) (Cause No. 45870).

²⁴³ *Id.* at 64–65, *citing*, In re Atmos Energy Corp., Docket No. 2025-UN-59, at 20 (Miss. Pub. Serv. Comm'n June 2, 2025).

procedure front-loads depreciation expenses in earlier years and decreases it in the later years of an asset's depreciation life, creating a mismatch of revenues and expenses.²⁴⁴

While the OCA recognizes that the Pennsylvania Commission is not bound by the precedent of other state commissions, the OCA raises these facts to help guide the Pennsylvania Commission in the current case, especially noting that other commissions have, in fact, changed from ELG to ALG, as the OCA advocates in this proceeding. These other jurisdictions changed from ELG to ALG. So, too, should this Commission. Doing so will instantly lower rates charged to current consumers, especially where Peoples has made substantial, recent capital investments and especially in this time when so many consumers have affordability concerns.

OCA witness Garrett provided an example of how the ELG method results in higher depreciation rates in earlier years relative to the ALG method assuming a group of property containing two units, one with an original cost of \$4,000 and a 4-year life and the second with an original cost of \$6,000 and an 8-year life.²⁴⁵ Mr. Garrett noted that, under the ALG method, the depreciation rate is 15.625%, but under the ELG method, the depreciation rate is 17.5% because the two units in the example are treated separately under the ELG method²⁴⁶ Mr. Garrett concluded:

As demonstrated above, the ALG method results in a fairer application of depreciation rates compared to the ELG method given the realities of ratemaking proceedings. Thus, the Commission should reject the Company's use of the ELG method, which effectively results in an accelerated form of cost recovery from consumers. The Company's use of the ELG method increases the annual depreciation accrual charged to customers by \$27.1 million in the 2025 study, \$31.4 million in the 2026 study, and by \$36.4 million in the 2027 study. In other words, even if there are no adjustment to net salvage rates, service life, or other depreciation parameters for any accounts in the depreciation study, using the

²⁴⁴ *Id.* at 65-66, *citing*, In re Application of Atmos Energy Corp. (Ky. Pub. Serv. Comm'n Jan. 28, 2019) (Case No. 2018-00281) (*quoting* In re Application of Duke Energy Ky., Inc., Case No. 2017-00321, Order at 10 (Ky. Pub. Serv. Comm'n Apr. 13, 2018)).

²⁴⁵ *Id.* at 66.

²⁴⁶ *Id.* at 67-68.

majority-view ALG method alone will result in significantly lower depreciation rates and expense.²⁴⁷

Mr. Garrett also addressed the arguments from Peoples' witness Spanos' regarding the ELG method. In response to Mr. Garrett's direct testimony, Mr. Spanos argued that the ELG method is more equitable not only for future customers but also for current customers and disagrees with Mr. Garrett's characterization of the ELG method as being an accelerated form of cost recovery.²⁴⁸ However, Mr. Garrett noted that Mr. Spanos has acknowledged that in jurisdictions other than Pennsylvania he uses the ALG procedure more often.²⁴⁹ Therefore, Mr. Spanos' claim that ALG procedure might not be fair, accurate or reasonable, and the ELG method is more equitable, necessarily means that he is using a less equitable procedure in his depreciation studies in those other jurisdictions.²⁵⁰ Mr. Garrett added:

In reality, the ALG procedure that Mr. Spanos uses a majority of the time is very fair and reasonable (assuming reasonable estimates are made for other depreciation parameters). Furthermore, it is disingenuous for Mr. Spanos to suggest that his decisions are somehow affected by the financial well-being of customers. Mr. Spanos does not represent either present or future customers in this case, and he exclusively represents utilities as I understand.²⁵¹

Mr. Garrett added that "what is clear, however, is that the ELG procedure will result in higher cash flows for Peoples relative to the ALG procedure."²⁵²

Mr. Spanos' narrative that the ELG method is actually better for both current and future customers is misleading, at best. As Mr. Garrett testified:

First, Mr. Spanos is simply testifying on what is in the best interest of the Company. There is nothing inappropriate about that, however, the Commission should easily reject the notion that his positions are in the best interest of ratepayers when the Company also has shareholder interests in mind as well. Second,

²⁴⁷ *Id.* at 68.

²⁴⁸ OCA St. 3SR at 10, *citing*, Peoples St 16-R at 3.

²⁴⁹ OCA St. 3SR at 10, *citing*, Peoples response to OCA interrogatory 10-18(e).

²⁵⁰ OCA St. 3SR at 10.

²⁵¹ OCA St. 3SR at 11.

²⁵² OCA St. 3SR at 11; *see also*, OCA St. 3 at 62-69.

accepting Mr. Spanos's narrative would mean that both he and utility commissions in the vast majority of jurisdictions around the country are promoting a depreciation methodology that is harmful to customers, though for some reasons he is being particularly charitable to the customers of Pennsylvania. Third, it is simply not reasonable to assume that the Company shares any vision of the future in which customers are paying lower rates, regardless of the depreciation methodology. Rather, the Company is an entity that will operate exactly as it is incentivized to, which does not at all involve lower customer rates.²⁵³

Mr. Garrett added that Mr. Spanos's approach also ignores the time value of money, it results in current customers subsidizing future customers, and, most importantly, it requires a naivete about basic concepts of organizational behavior and incentive structures.²⁵⁴ Even if customers completely paid off rate base today, the ELG method of depreciation would still incentivize Peoples to immediately start developing ways to increase rate base beyond that which is strictly necessary to provide safe and reliable service.²⁵⁵ As Mr. Garrett testified, "the fact of the matter is simple: the Company is proposing ELG because it is in *their* best interest to do so."²⁵⁶

Ultimately, to the extent that there is any argument that using the ALG method instead of the ELG method offers short term gain for long term pain, it is more accurate to say that using the ELG method instead of the ALG method in fact provides both short term pain *and* long term pain as the rates put into effect at the conclusion of a base rate case generally never subsequently go down, but only go up. This hurts both current *and* future customers of the Company.²⁵⁷

Mr. Garrett concluded by providing an example using Company Account 376 – Distribution Mains where Mr. Spanos proposed an average life of 72 years for this account.²⁵⁸ Mr. Garrett did not contest the use of the 72 year average, but noted that under a basic straight line

²⁵³ OCA St. 3SR at 11-12.

²⁵⁴ OCA St. 3SR at 12.

²⁵⁵ OCA St. 3SR at 12-13.

²⁵⁶ OCA St. 3SR at 13 (emphasis in original).

²⁵⁷ OCA St. 3SR at 13.

²⁵⁸ OCA St. 3SR at 14, *citing*, Peoples response to OCA discovery OCA-IX-003.

depreciation formula those assets would be recovered in 72 years whereas, applying the ELG method would recover those assets in 43 years, cutting the recovery period nearly in half.²⁵⁹ To say that cutting a cost recovery period nearly in half of its undisputed service life is somehow better for current customers is unreasonable, ignores the time value of money and disregards any fundamental understanding of organizational behavior.²⁶⁰ Mr. Garrett described the ELG method as “exclusively a profit maximizing tactic for the Company that has nothing to do with fairness.”²⁶¹

Even the example from Peoples witness Spanos supports the point that current customers are subsidizing future customers under the ELG method. Mr. Spanos testified “it is correct to assume that if the Company were to switch from ELG to [ALG] there would be a short-term benefit to current customers.”²⁶² Yet, Mr. Spanos’ Figure 3 in his Rebuttal Testimony, when responding to OCA witness Garrett, shows that the revenue requirement is higher under the ELG method for the first 12 years in the graph he provides.²⁶³ As such, what Mr. Spanos described as a “short-term” benefit, is in fact 12 years’ worth of lower revenue requirement that Peoples’ customers have to pay. Notably, in those 12 years, the Company would very likely be continuing to acquire additional rate base, expanding its earning potential for its shareholders and never, in fact, reducing its rates to reflect the later depreciation value of the asset. Under the ELG method, Peoples’ rates would have to be adjusted every year to reflect the change in value under the ELG depreciation method. Yet, the reality of utility ratemaking is that the depreciation expense is locked in to rates at the conclusion of a rate case and never goes down, as would be required for future customers of Peoples to realize any value of the ELG method.

²⁵⁹ OCA St. 3SR at 14-15.

²⁶⁰ OCA St. 3SR at 15.

²⁶¹ OCA St. 3SR at 15 (noting as well that annual updates to depreciation rates would not alleviate the concerns about the proper application of the ELG method).

²⁶² Peoples St. 16-R at 16.

²⁶³ Peoples St. 16-R at 17 (Figure 3. Comparison of Revenue Requirement).

The Commission, in this case, should reject Peoples use of the ELG method and adopt the ALG method as proposed by the OCA and its expert witness Mr. Garrett.

D. Service Life Analysis

To estimate the service lives of grouped depreciable assets, Mr. Garrett testified that depreciation analysts study historical plant data to estimate the average lives of property groups similar to the process used in the actuarial process used to study human mortality.²⁶⁴ The most common actuarial method used by depreciation analysts is called the “retirement rate method,” where the original property data, including additions, retirements, transfers and other transactions, are organized by vintage and transaction year and the retirement rate method is ultimately used to develop an “observed life table,” or OLT.²⁶⁵ The OLT shows the percentage of property surviving at each age interval and the pattern of property retirement is described as a “survivor curve.”²⁶⁶

In this case, Peoples’ aged property data is used to create OLTs for each account.²⁶⁷ Mathematical fitting is an important part of the curve-fitting process to promote objective, unbiased results, but still, professional judgment may be needed for specific situations.²⁶⁸ For example, not every portion of the OLT curve may be given equal weight.²⁶⁹ Mr. Garrett testified that he is not recommending any service life adjustments in this case following his analysis, because he believes it is more important for the Commission to focus on the ALG v. ELG issue and limit accelerated form of cost recovery that would unfairly burden current customers under the ELG method proposed by Mr. Spanos.²⁷⁰

²⁶⁴ OCA St. 3 at 69.

²⁶⁵ *Id.* at 69.

²⁶⁶ *Id.* at 69; *see also*, Appendices B and C to Mr. Garrett’s Direct Testimony for a more detailed discussion of the actuarial analysis used to determine the average lives of grouped industrial property and the “Iowa curve,” which is the most widely used survivor curve.

²⁶⁷ *Id.* at 70.

²⁶⁸ *Id.* at 70.

²⁶⁹ *Id.* at 71.

²⁷⁰ *Id.* at 71.

Mr. Garrett then provided an example, using Account 380 – Services, to explain the impact of using various survivor curves in determining depreciation rates. Mr. Garrett explained that he and Mr. Spanos used different survivor curves to represent the average remaining life of the assets for this account, noting that the curve selected by Mr. Spanos is shorter than the retirement pattern indicated in the survivor curve.²⁷¹ Mr. Garrett added: “Based on this evidence, the depreciation rate [Mr. Spanos] proposes for this account is arguably too high. Mathematical curve fitting techniques can be used to further assess the results.”²⁷²

E. Conclusion

Using the ELG method of depreciation creates short term pain and long term pain for Peoples’ customers. One of the most significant ways to help ensure that Peoples’ rates remain just and reasonable, in light of the affordability crisis facing many consumers, while still ensuring that the Company receives its reasonable return on investment, is to direct Peoples to use the ALG method of depreciation instead of the ELG method. Doing so would be consistent with what a supermajority of other states use, as well as other Pennsylvania utilities use and what Mr. Spanos himself has recommended in other cases. Adopting Mr. Garrett’s proposed depreciation rates under the ALG method would reduce Peoples’ proposed depreciation accrual by \$27.1 million in the 2025 study, by \$31.5 million in the 2026 study and by \$36.8 million in the 2027 study.²⁷³ Among other things, the ALG method will protect both current and future customers, instead of unnecessarily burdening current customers as would occur with the ELG method and provide an instant reduction to Peoples’ rate increase request.

²⁷¹ *Id.* at 72, *see also*, Figure 4 (Account 376.10 – Steel Mains).

²⁷² *Id.* at 72-73.

²⁷³ *Id.* at 75.

VIII. TAXES

As a result of its recommended adjustments to Peoples' proposed rate base, expense, and return allowances, the OCA included a recommended allowance for state and federal taxes.²⁷⁴ To the extent that the Commission adopts a revenue requirement less than that proposed by Peoples in its initial filing, the OCA recommends that the Commission adjust the Company's state and federal tax expenses consistent with the authorized revenue requirement.

IX. RATE OF RETURN

A. Introduction

Both Governor Shapiro and Vice Chair Barrow recognize the impact of the authorized rate of return on utility rates and therefore on affordability of utility service.²⁷⁵ As such, the Commission should reject Peoples' proposed return on equity (ROE) of 11.25% because it is excessive and unsupported. Instead, OCA witness David Garrett presented an objective equity analysis that demonstrates that a market-based cost of equity for Peoples is no higher than 8.8%.²⁷⁶ Similarly, in order to promote a fair authorized rate of return (ROR), the Commission should also reject Peoples' proposed equity-rich ratemaking capital structure which consists of much higher amounts of high-cost equity than low-cost debt. As Mr. Garrett testified, "I propose a ratemaking capital structure for the Company that is equal to the proxy group average, which consists of 51% debt and 49% equity."²⁷⁷ Mr. Garrett also proposed in the alternative that, if the Commission accepts Peoples' proposed ratemaking capital structure, then it should authorize an ROE of 8.5%.²⁷⁸ Through this Brief, the OCA presents Mr. Garrett's detailed analysis.

²⁷⁴ OCA Sch. JNG-1-SR, page 2; OCA Sch. JNG-3-SR.

²⁷⁵ OCA St. 1 at 17; *see also*, Statement of Vice Chair Kimberly Barrow (Apr. 16, 2026).

²⁷⁶ OCA St. 3, *passim*.

²⁷⁷ OCA St. 3 at 3.

²⁷⁸ OCA St. 3 at 3.

1. Regulatory Standards, General Concepts and Methodology

The OCA has presented a detailed discussion of the regulatory standards applicable to all base rate cases such as this one.²⁷⁹ These concepts are well known in utility regulation. In fact, the United States Supreme Court has addressed these issues on multiple occasions.

First, for example, the Supreme Court found that the amount of risk in the business is a most important factor in determining the appropriate allowed rate of return.²⁸⁰ In *Bluefield*, the Supreme Court also determined that “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.”²⁸¹ The Supreme Court later added that “from the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business.”²⁸² In *Hope*, the Supreme Court made clear that the allowed return should be based on actual cost of capital and that the awarded return must be fair, just and reasonable under the circumstances of each case.²⁸³

The models Mr. Garrett employed in this case adhere to these legal principles and closely estimate Peoples’ market-based cost of equity. Mr. Garrett testified:

It is important to understand that the *awarded* return and the *cost* of capital are different but related concepts. The two concepts are related in that the legal and technical standards encompassing the issue require that the awarded return reflects the true cost of capital. On the other hand, the two concepts are different in that the legal standards do not mandate that awarded returns exactly match the cost of capital.²⁸⁴

²⁷⁹ For a more detailed discussion of the applicable regulatory standards, general concepts and methodology, please see Mr. Garrett’s testimony, OCA St. 3, at 11-17.

²⁸⁰ *Wilcox v. Consolidated Gas Co. of New York*, 212 U.S. 19 (1909) (*Wilcox*).

²⁸¹ *Bluefield Water Works & Improvement v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923).

²⁸² *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1941) (*Hope*).

²⁸³ See, OCA St. 3 at 12.

²⁸⁴ OCA St 3 at 13-14.

Mr. Garrett concluded that “the problem is, with respect to regulated utilities, there has been a trend in which awarded returns fail to closely track with actual market-based cost of capital,” resulting in detriment to ratepayers and the state’s economy.²⁸⁵ Mr. Garrett concluded that if the Commission were to adopt Peoples’ position in this case, it would be permitting an excess transfer of wealth from customers to the company’s shareholders establishing an awarded return that far exceeds the true cost of capital.²⁸⁶ The Commission here must focus on Peoples’ actual cost of equity, rather than awarded returns from other jurisdictions which may be influenced by other factors, such as political factors, that are not based on true market conditions.²⁸⁷

Similarly, Mr. Garrett also provided an excellent discussion in his testimony of his approach to estimating the cost of equity in this case. Unlike competitive firms that set their own cost of capital, regulators determine a utility’s cost of capital to establish a fair ROR.²⁸⁸ Regulators use several models to establish a utility’s cost of capital, including the Capital Asset Pricing Model (CAPM) and the Discounted Cash Flow (DCF) methods, both of which Mr. Garrett also relied on in this case.²⁸⁹ The models used to estimate the cost of equity attempt to measure the ROE using several different inputs to compare the results of the models and look for outlying results and inconsistencies, as well as to create a narrower range for the cost of equity estimate.²⁹⁰ One factor in using these models is to determine a “proxy group” that is comparable to the company at issue. Using a proxy group better assesses the financial soundness of the utility compared to other sound utilities, provides more reliability and confidence in the overall results and is necessary when the

²⁸⁵ OCA St. 3 at 14.

²⁸⁶ *Id.*

²⁸⁷ *Id.* at 14-15.

²⁸⁸ *Id.* at 15.

²⁸⁹ *Id.*

²⁹⁰ *Id.* at 15-16.

utility at issue is not a publicly traded company.²⁹¹ In this case, Mr. Garrett used the same proxy group as Peoples' witness Ms. Nelson used for her analysis.²⁹²

2. Risk and Return Concepts

Mr. Garrett also provided extensive testimony regarding the relationship between the concepts of risk and return as it relates to utility ratemaking. As Mr. Garrett testified, "risk is the most important factor for the Commission to consider when determining the allowed return," and "the more (or less) risk an investor assumes, the larger (or smaller) return the investor will demand."²⁹³ Mr. Garrett added that there are two types of risk: firm-specific risk that affects the individual company, such as introducing a new product, and market risk, which affects all companies in the market to varying degrees, such as interest rate risk, inflation risk, socio-economic risks.²⁹⁴ Firm-specific risk can be minimized through diversification so that any firm-specific action will have only a small impact on the overall portfolio, whereas market risk cannot be eliminated through diversification.²⁹⁵

The calculation called "beta" is used to measure the covariance between a single stock and the market portfolio when measuring market risk.²⁹⁶ Mr. Garrett discussed betas because it is used in the CAPM analysis and because companies such as public utilities have a beta of less than one and are referred to as "defensive stocks," and are low-risk.²⁹⁷ The fact that utilities are defensive

²⁹¹ *Id.* at 16.

²⁹² *Id.*

²⁹³ *Id.* at 17.

²⁹⁴ *Id.* at 17-18. Mr. Garrett uses the U.S. market in 2011 as a good example for contrasting firm-specific risk and market risk. *Id.* at 18.

²⁹⁵ *Id.* at 19-21; *see also*, Figure 7 showing that as more stocks are added to a portfolio, the amount of firm-specific risk is reduced until it is eventually eliminated. No matter how many stocks are added, there remains a certain level of fixed market risk.

²⁹⁶ *Id.* at 21-22. Mr. Garrett explained beta by adding that "if the market increases (decreases) by 1.0%, a stock with a beta of 1.5% will, on average, increase (decrease) by 1.5%. *Id.* at 22.

²⁹⁷ *Id.* at 22-23; *see also*, Figure 8 showing that utilities have less risk than companies in the telecommunications, transportation, advertising and software industries.

firms that are exposed to little market risk is a benefit to society such that normal business operations can be maintained when the business cycle enters a recession and utility investors can be confident that utility stock prices will not widely fluctuate.²⁹⁸

This lower risk should be appropriately reflected in the Company's awarded return.²⁹⁹

B. Capital Structure

Both Governor Shapiro and Vice Chair Barrow also recognize that another vital element in determining an appropriate ROR for a utility is the capital structure for the company. In her statement dated April 16, 2026, made at the time this matter was suspended for investigation, Vice Chair Barrow expressed concern regarding Peoples' proposed capital structure and its impact on the company's requested increase.³⁰⁰ As such, Peoples' proposed capital structure of 54% and 46% should be rejected and the 51% and 49% structure proposed by OCA witness Garrett should be adopted for purposes of setting rates in this matter.

As Mr. Garrett testified, "capital structure" refers to the way a company finances its overall operations through external financing, with the primary sources of long-term, external financing being debt capital and equity capital.³⁰¹ Equity capital has a higher cost than debt capital which causes firms to reduce their weighted average cost of capital (WACC) by recapitalizing and increasing their debt financing.³⁰² The term "weighted cost of capital" refers to the weighted average cost of all the components of a company's capital structure, including debt and equity.³⁰³ Determining the cost of debt is straightforward because they are generally interest payments on bonds, but determining the cost of equity is more complex because there is no explicit "cost" of

²⁹⁸ *Id.* at 23-24.

²⁹⁹ *Id.* at 24.

³⁰⁰ Statement of Vice Chair Kimberly Barrow (Apr. 16, 2026).

³⁰¹ OCA M.B. at 48.

³⁰² *Id.* at 48-49.

³⁰³ *Id.* at 49.

equity; instead, the cost of equity must be estimated through various financial models.³⁰⁴ As OCA witness Garrett testified:

A competitive firm can add value by increasing debt. After a certain point, however, the marginal cost of additional debt outweighs its marginal benefit. This is because the more debt the firm uses, the higher interest expense it must pay, and the likelihood of loss increases.³⁰⁵

Mr. Garrett added: “A competitive firm’s value is maximized when the WACC is minimized.”³⁰⁶

For regulated utilities, however, Mr. Garrett testified that, under the rate base rate of return model a higher WACC results in higher rates, all else equal - utilities can increase their revenue by increasing their WACC, not reducing it.³⁰⁷ Therefore, because there is no incentive for a regulated utility to minimize WACC, a Commission standing in place of competition must ensure that the regulated utility is operating at the lowest reasonable WACC.³⁰⁸ Mr. Garrett added that utilities can generally afford to have higher debt levels than other industries because regulated utilities have large amounts of fixed assets, stable earnings and low risk relative to other industries and can afford to have relatively higher debt ratios.³⁰⁹ In other words, because utilities have low levels of risk and operate a stable business, they should generally operate with relatively high levels of debt to achieve their optimal capital structure.³¹⁰

According to Value Line, the average capital structure mix for the proxy group consists of 51% debt and 49% equity which is notably higher than Peoples’ proposed capital structure consisting of only 46% debt.³¹¹ Mr. Garrett testified that this means that Peoples has a lower level

³⁰⁴ *Id.* at 49.

³⁰⁵ *Id.* at 50.

³⁰⁶ *Id.* at 51.

³⁰⁷ *Id.* at 52.

³⁰⁸ *Id.* at 52.

³⁰⁹ *Id.* at 52.

³¹⁰ *Id.* at 53.

³¹¹ *Id.* at 53.

of financial risk relative to the proxy group. Essential Utilities, Peoples' parent company, has a debt ratio of 54% which is significantly higher than Peoples' proposed debt ratio of only 46%.³¹² This is significant for ratemaking purposes because, since Peoples is a wholly owned subsidiary of Essential, Peoples' "equity" on its balance sheet is funded by its parent company.³¹³ Because Essential has a debt ratio of 54%, the parent company is using debt to finance the purchase of Peoples' equity, a strategy known as "double leveraging" which amounts to financial arbitrage and is unfair to customers since it would require them to pay a high equity return on the utility's low-cost debt.³¹⁴ As Mr. Garrett testified, "adopting my capital structure recommendation would mitigate the unfair effects of double leverage that would otherwise be imposed on customers."³¹⁵ Nonetheless, Mr. Garrett bases his capital structure recommendation on the average capital structure of the proxy group.

To consider the impact of his capital structure proposal on Peoples' cost of equity estimate, Mr. Garrett also performed an analysis using the Hamada model. The Hamada formula can be used to analyze changes in a firm's cost of capital as it adds or reduces financial leverage, or debt, in its capital structure by starting with an "unlevered" beta and then "relevering" the beta at different debt ratios.³¹⁶ As leverage increases, equity investors bear increasing amounts of risk, leading to higher betas.³¹⁷ In this case, using the Hamada model, with the average capital structure of the proxy group of 51% debt and 49% equity, because Peoples' debt ratio is notably lower than that of the proxy group, when Peoples is "relevered" to match the proxy group, it results in a lower ROE than if Peoples had been operating with a capital structure equal to that of the proxy group.³¹⁸

³¹² *Id.* at 53.

³¹³ *Id.* at 54.

³¹⁴ *Id.* at 54.

³¹⁵ *Id.* at 54; *see also*, Figure 14 (Industries with Debt Ratios Greater than 56%).

³¹⁶ *Id.* at 56.

³¹⁷ *Id.* at 56.

³¹⁸ *Id.* at 57.

When running the Hamada model, Mr. Garrett determined that “if the Commission were to adopt the Company’s proposed capital structure, its indicated cost of equity estimate (under the CAPM) would be 8.5%.”³¹⁹ Mr. Garrett added:

Based on the results of the Hamada Model, if the Commission does not make an adjustment to Peoples’ ratemaking capital structure in this case, then the Company’s estimated cost of equity is only 8.5%. However, I recommend the Commission impute a ratemaking capital structure consisting of 51% debt and 49% equity for Peoples, which is equal to the proxy group average. If the Commission imputes this capital structure, then Peoples’ estimated cost of equity under the CAPM is 8.8%.³²⁰

Finally, Mr. Garrett responded to Ms. Nelson’s criticisms of his capital structure adjustment, much of which simply defends the operating and proposed capital structure of Peoples.³²¹ Mr. Garrett explained that Peoples’ capital structure is not at issue because the Commission has no authority to dictate to the Company how it chooses a particular capital structure.³²² Mr. Garrett added: “Rather, the capital structure used for ratemaking purposes and setting a fair and reasonable rate of return is fully within the Commission’s discretion. In other words, it is not possible to have a fair rate of return without a fair capital structure,” noting that his proposed ratemaking capital structure is substantially similar to I&E witness Patel and CAUSE-PA witness Cicero, both 50% debt and 50% equity, and based on the average capital structure of the proxy group.³²³

Mr. Garrett also responded to Ms. Nelson’s criticism that using holding companies in the proxy group should not be used to assess a fair capital structure by noting that using the capital structure of the proxy group to assess a fair ratemaking capital structure is the only correct

³¹⁹ *Id.* at 58; *see also*, Figure 15 (Hamada Model ROE).

³²⁰ *Id.* at 59.

³²¹ Peoples St. 15-R at 16-38.

³²² OCA St. 3SR at 8.

³²³ OCA St. 3SR at 8; *see also*, I&E St 2 at 14 and CAUSE-PA St. 1 at 34.

approach.³²⁴ Mr. Garrett added that he and Ms. Nelson use the same proxy group to estimate the cost of equity for the Company and, because the market evidence used to estimate the ROE is based on publicly traded parent holding companies, not their regulated operating subsidiaries.³²⁵ Mr. Garrett concluded that “Ms. Nelson’s erroneous approach uses parent-company data to estimate investors’ required return on equity, while relying on the balance sheets of a *different group* of companies to justify a substantially higher equity ratio. That mismatch overstates the amount of cost equity that should be included in rates and is inconsistent with the financial assumptions embedded in Ms. Nelson’s own proxy group.”³²⁶

Ms. Nelson’s capital structure arguments should be rejected.

C. Debt Cost Rate

The OCA did not present testimony regarding this issue.

D. Return on Common Equity

1. Summary of Recommended Return on Common Equity

A utility’s awarded ROE should be based on its cost of equity, which can be estimated using various financial models. In estimating Peoples’ cost of equity, OCA witness Garrett performed a cost of equity analysis on a proxy group of utility companies using the two most widely used and widely accepted financial models for calculating cost of equity in utility rate proceedings: the CAPM and the DCF Model. Furthermore, Mr. Garrett conducted two variations of both models with the following results:

³²⁴ OCA St. 3SR at 9.

³²⁵ OCA St. 3SR at 9.

³²⁶ OCA St. 3SR at 9.

Model	Cost of Equity
CAPM (at Proxy Debt Ratio)	8.8%
Hamada CAPM (at Company-Proposed Debt Ratio)	8.5%
DCF Model (Analyst Growth)	7.6%
DCF Model (Sustainable Growth)	7.1%
Model Average	8.0%
Recommended ROE	8.8%

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As shown in this Figure, the average result of Mr. Garrett's models is 8.0% and his recommended ROE is 8.8%, which represents the top end of his modeling range.³²⁸ In addition, Peoples' request for a management effectiveness adjustment should be rejected, as discussed below.

2. Proxy Group

The OCA did not present testimony regarding this issue.

3. Discounted Cash Flow Analysis

In reviewing Peoples ROE request, Mr. Garrett conducted multiple analyses, including a DCF analysis. The DCF Model is based on a fundamental financial model which maintains that the value of a security is equal to the present value of the future cash flows it generates.³²⁹ The DCF Model has three primary inputs: 1) stock price, 2) dividend and 3) the long-term growth rate.

The stock prices and dividends are known inputs based on recorded data. In his testimony, Mr. Garrett used a 30-day average of stock prices for each company in the proxy group to

³²⁷ OCA St. 3 at 60.

³²⁸ *Id.*

³²⁹ *Id.* at 24.

determine the stock price to use for the DCF Model.³³⁰ Mr. Garrett testified: “the DCF Model used in utility rate cases is a derivation of the dividend discount model, which is used to determine the current value of an asset.”³³¹ Using a 30-day average for the current stock price adheres to market efficiency principles while avoiding any irregularities that may arise from using a single current stock price, especially considering the significant length of time between when an application is filed and testimony is due.³³² Using a short-term average of stock prices represents a good balance between adhering to well-established principles of market efficiency while avoiding any unnecessary contentions that may arise from using a single stock price on a given day.³³³

The dividend term in the DCF Model represents dividends per share. Mr. Garrett used forward-looking annualized dividends published in Yahoo! Finance for the dividend input into his constant growth DCF Model.³³⁴ Although Mr. Garrett’s stock price and dividend inputs are more recent than those used by Peoples witness Nelson, there is not a statistical difference between them because utility stock prices and dividends are generally quite stable.³³⁵

The third factor in the DCF Model, the growth rate projection, however, must be estimated and is also the most critical input into the model.³³⁶ The DCF Model used in this case is based on the sustainable growth valuation model where a stock is valued by the present value of its future cash flows in the form of dividends.³³⁷ Mr. Garrett testified that, for mature, low-growth firms such as utilities, estimating the sustainable growth rate is more transparent, and that “for utility companies, it is necessary to focus primarily on a long-term growth rate in dividends.”³³⁸ In his

³³⁰ *Id.* at 25.

³³¹ *Id.* at 25.

³³² *Id.* at 25.

³³³ *Id.* at 26.

³³⁴ *Id.* at 26.

³³⁵ *Id.* at 26.

³³⁶ *Id.* at 27.

³³⁷ *Id.* at 27.

³³⁸ *Id.* at 27-28.

testimony, Mr. Garrett provided a discussion of the growth determinants involved in this factor, including 1) historical growth, where a firm's actual historical experience may be used to theoretically provide a good starting point for estimating short-term growth, 2) analyst growth rates, which are short-term projections of earnings growth published by institutional research analysts such as Value Line and Bloomberg, and 3) sustainable growth rates, noting that no firm can grow forever at a rate higher than the growth rate of the economy, for example.³³⁹

Mr. Garrett testified: "the results of analyst growth variation of my DCF Model is commonly presented in rate proceedings and considered by regulators when assessing a utility's authorized ROE" and he "considered two variations: one using a sustainable growth rate and one using analysts' growth rates."³⁴⁰ The results of these models are 7.1% and 7.6% respectively.³⁴¹

In contrast, Peoples witness Nelson's application of the DCF Model produced an indicated cost of equity result of 10.53%.³⁴² Mr. Garrett testified that the result of Ms. Nelson's DCF does not indicate a reasonable cost of equity estimate for Peoples:

Whether the sustainable GDP growth rate or the projected dividend growth rates published by Value Line are considered, the highest DCF result I obtained was 7.6%. The primary reason Ms. Nelson's DCF results are overstated is her use of unsustainably high growth rates for some proxy companies, and average growth rates for the proxy group that are unsustainably high.³⁴³

Mr. Garrett noted for example that Ms. Nelson incorporated an annual long-term growth rate as high as 10.5% for Southwest Gas Holdings, Inc., meaning that Ms. Nelson believes the

³³⁹ *Id.* at 29-31.

³⁴⁰ *Id.* at 32.

³⁴¹ *Id.* at 32, *citing*, OCA Exh. DJG-6.

³⁴² *Id.* at 32, *citing*, Peoples St. 15 at 4.

³⁴³ *Id.* at 32-33.

company's earnings will grow by more than 10.5% each year, every year, in perpetuity, and calling such a suggestion "simply unsustainable and technically impossible."³⁴⁴

Likewise, Ms. Nelson's criticisms of Mr. Garrett's DCF Model are without merit and should be rejected. Ms. Nelson criticized Mr. Garrett's use of analyst's dividend growth projections in the DCF Model claiming he should have considered earnings per share rather than dividends per share to assess Peoples' long-term growth rate in the DCF Model.³⁴⁵ Mr. Garrett noted, however, that the DCF model directly considers dividends, rather than earnings, because dividends is the "cash flow" to investors that is being discounted in the model to ultimately estimate the cost of equity, which Ms. Nelson herself has acknowledged.³⁴⁶ Mr. Garrett testified that Ms. Nelson also relied on earnings growth rates as part of her DCF Model and that it is not unreasonable to consider earnings growth rates as a proxy for dividend growth in the DCF Model, as long as long-term growth rate projections are generally sustainable.³⁴⁷ In this case, however, Ms. Nelson's assumption that Peoples' annual earnings growth rate will outpace U.S. GDP in perpetuity is not just an unreasonable assumption, it is impossible.³⁴⁸

As such, Ms. Nelson's DCF Model is overstated.

Similarly, I&E witness DC Patel also presented a DCF model that is overstated. Mr. Patel's DCF model result was 11.33%.³⁴⁹ As Mr. Garrett testified, "the primary reason Mr. Patel's DCF Model produced a much higher result than mine is his use of unsustainably high growth rates. Mr. Patel used a composite growth rate for the proxy group of 8.1%."³⁵⁰ In contrast, the average growth rate Mr. Garrett used for the proxy group was only 6.2% for his analyst-growth DCF Model and

³⁴⁴ *Id.* at 33.

³⁴⁵ Peoples St. 15-R at 29.

³⁴⁶ OCA St. 3SR at 4, *citing*, Peoples St 15-R at 29.

³⁴⁷ OCA St. 3SR at 4.

³⁴⁸ OCA St. 3SR at 4-5.

³⁴⁹ I&E St. 2 at 7.

³⁵⁰ OCA St. 3R at 3, *citing*, I&E St. 2 at 31.

the average growth rate for his sustainable growth DCF Model is equal to the long-term U.S. GDP growth, which is only 3.7%.³⁵¹ Mr. Garrett added:

Mr. Patel's average growth rate in excess of 8.10% for the proxy group is unrealistic. This growth rate suggests that the proxy group, on average, can achieve dividend (and/or earnings) growth that is more than two times the rate of annual long-term GDP growth, every year in perpetuity. Mathematically, this assumption suggests that the annual earnings of the proxy group would eventually surpass total U.S. GDP, which is obviously impossible.³⁵²

Mr. Garrett concluded that the analyst growth rates used by Mr. Patel are not intended to be long-term growth rate estimates, noting that the published growth rates used by Mr. Patel are five-year growth rate projections.³⁵³

Mr. Patel's DCF Model, therefore, is also overstated.

4. Capital Asset Pricing Model Analysis

In addition to his DCF analysis, OCA witness Mr. Garrett also conducted a Capital Asset Pricing Model (CAPM) analysis when reviewing Peoples' requested ROE. The CAPM is a market-based model founded on the principle that investors expect higher returns for incurring additional risk and CAPM estimates that expected return in a manner consistent with the legal standards governing the fair rate of return.³⁵⁴ Mr. Garrett testified that CAPM is a useful model because it directly considers the amount of risk inherent in a business and directly measures the most important component of a fair rate of return analysis: risk.³⁵⁵

³⁵¹ OCA St. 3R at 3.

³⁵² OCA St. 3R at 3.

³⁵³ OCA St. 3R at 3. Mr. Garrett noted, as an example, that Mr. Patel uses a five-year growth rate of 12.59% for Spire, which is projected by S&P. However, Mr. Patel, not S&P, suggests that Spire's earnings can grow at an annual rate of more than 12% each year, every year, forever, which is an unreasonable assumption and should be rejected outright.

³⁵⁴ OCA St. 3 at 33; *citing, Wilcox, supra*.

³⁵⁵ *Id.* at 34.

The basic CAPM equation requires only three inputs to estimate the cost of equity. Mr. Garrett discusses each of these in detail in his direct testimony.

The first input is the risk-free rate which is the level of return investors can achieve without assuming any risk.³⁵⁶ Investors often use the U.S. Treasury securities to represent the risk-free rate because they accept that those securities essentially contain no default risk and estimate cash flows over long periods of time.³⁵⁷ The 30-day average of daily Treasury yield curve rates on 30-year Treasury bonds in Mr. Garrett's risk-free rate estimate is 5.02%.³⁵⁸

The second factor is the Beta Coefficient where Beta represents the sensitivity of a given security to movements in the overall market where the expected risk premium on each investment is proportional to its beta.³⁵⁹ Historical betas for publicly traded firms are published by various institutional analysts and Mr. Garrett used betas recently published by Value Line Investment Survey, although there is evidence that betas published by Value Line may overestimate the risk of utilities.³⁶⁰ Using this data resulted in a beta for the total proxy group of 0.77.³⁶¹

The third factor is the equity risk premium (ERP) which is the required return on the market portfolio less the risk-free rate and is a level of return investors expect above the risk-free rate in exchange for investing in risky securities.³⁶² There are three basic methods that can be used to estimate the ERP: 1) calculating a historical average which is simply taking the difference between returns on stocks and returns on government bonds over a certain period of time and many leading scholars agree is not ideal, 2) expert surveys, which in 2026 reported an average ERP of 5.3% for 2026, and 3) the implied equity premium approach which relies on the "Gordon Growth Model,"

³⁵⁶ *Id.*

³⁵⁷ *Id.*

³⁵⁸ *Id.* at 35.

³⁵⁹ *Id.* at 35.

³⁶⁰ *Id.* at 35-36.

³⁶¹ *Id.* at 36.

³⁶² *Id.* at 36.

a basic stock valuation model that has been widely used in finance for many years where the current value of an asset is equal to the present value of its future cash flows.³⁶³

As part of his analysis, Mr. Garrett collected data for the index value, operating earnings, dividends, and buybacks for the S&P 500 over the past six years and calculated the dividend yield, the buyback yield and the gross cash yield for each year and a compound annual growth rate from operating earnings.³⁶⁴ Mr. Garrett used these inputs along with the risk-free rate and current value of the index to calculate a current required return on the U.S. equity market of 9.7% and subtracted the risk-free rate to arrive at the implied equity risk premium of 5.1%.³⁶⁵ For his final ERP estimate used in his CAPM analysis, Mr. Garrett averaged the results of the ERP surveys, the estimated ERP report by Krolls, the estimated ERP calculated by Dr. Damodaran and the implied ERP based on his calculations to get an average ERP of 4.9%.³⁶⁶

Mr. Garrett concluded that, using the inputs for the risk-free rate, beta and equity risk premium, Mr. Garrett estimated that Peoples' CAPM cost of equity is 8.8% if the proxy group average debt ratio is assumed and 8.5% if it is not.³⁶⁷

Finally, in addition to conducting his own extensive examination of the appropriate ROE for Peoples in this case, Mr. Garrett also addressed why the examination performed by Peoples witness Nelson should be rejected. In particular, Mr. Garrett stated that Ms. Nelson's application of the CAPM produced results ranging as high as 13.11% in part because she incorporated a variation of CAPM called the "empirical CAPM" (ECAPM) which produced even higher results,

³⁶³ *Id.* at 37-39.

³⁶⁴ *Id.* at 41.

³⁶⁵ *Id.*

³⁶⁶ *Id.* at 42, see Figure 10.

³⁶⁷ *Id.* at 42-43.

noting too that Ms. Nelson conducted another type of risk premium analysis which produced results as high as 10.28%.³⁶⁸

Mr. Garrett added that “the primary factor which causes Ms. Nelson’s CAPM results to be unreasonably high is her use of an unreasonably high ERP estimate,” noting that Ms. Nelson used an ERP as high as 11.7% in her analysis.³⁶⁹ Mr. Garrett reiterated that the expert survey he used reports an average ERP of 5.3%, the Kroll report estimated an ERP of 5.0%, Dr. Damodaran reports an estimated ERP of only 4.5%, each of which is considerably lower than the ERP used by Ms. Nelson.³⁷⁰ When compared with the other independent sources for the ERP, as well as Mr. Garrett’s estimate, Ms. Nelson’s ERP is clearly too high.

Mr. Garrett also addressed Ms. Nelson’s use of another version of the CAPM called the ECAPM which produced a result for Ms. Nelson as high as 13.93%.³⁷¹ Mr. Garrett testified that there are several problems with ECAPM, including that 1) the Value Line betas both Ms. Nelson and he used in the real CAPM have already been adjusted upwards to account for the theory that low-beta stocks might have a tendency to be underestimated, 2) the type of beta-adjustment used by Value Line in fact overstates betas from consistently low-beta industries like utilities and 3) Ms. Nelson’s ECAPM still suffers from the same overestimated ERP input.³⁷² Mr. Garrett concluded that “Ms. Nelson’s ECAPM should be disregarded for its ERP inputs alone which were based on old, out of date data result in unreasonable ERP significantly higher than that of other experts in the industry.”³⁷³

³⁶⁸ *Id.* at 44, *citing*, Peoples St 15. at 42.

³⁶⁹ *Id.* at 44, *citing*, Peoples St 15. at Fig. 14.

³⁷⁰ *Id.* at 45, *see*, Figure 12.

³⁷¹ *Id.* at 46, *citing*, Peoples St. 15 at Peoples Exh. JEN-5.

³⁷² *Id.* at 46-47.

³⁷³ *Id.* at 48.

Finally, Mr. Garrett also addressed another type of risk premium analysis which considers authorized ROEs dating back to 1980 and noted that this model also does not indicate a reasonable cost of equity for Peoples.³⁷⁴ Mr. Garrett testified that authorized ROEs from other jurisdictions are not market-based, relying on nearly 50-year-old data belies Ms. Nelson's characterization that the cost of capital is "forward looking," and the use of the alternative risk premium analysis is circular in that using over inflated ROEs elsewhere to justify an over-inflated ROE in this case continues a vicious cycle that enriches shareholder's at utility customer's expense.³⁷⁵ Peoples witness Nelson's use of the risk premium model should be rejected in this case.

Likewise, Ms. Nelson's criticisms of Mr. Garrett's CAPM analysis are without merit and should be rejected. Ms. Nelson criticized Mr. Garrett's use of an ERP estimate published by Kroll arguing that Kroll's estimate "would not meet the comparable return standard as required by the *Hope* and *Bluefield* decisions" because it would lead to CAPM results that "are well below recently authorized ROEs for natural gas utilities."³⁷⁶ Mr. Garrett, however, testified that:

the cost of equity and authorized returns are entirely different concepts. An authorized return is simply whatever a regulator says it is, whether it is 5% or 10%. In contrast, *Hope* and *Bluefield* require the authorized ROE to be based on cost. The CAPM is a Nobel-Prize winning model that is specifically designed to estimate that cost. No input to the CAPM is dependent on the decisions of regulators.³⁷⁷

Mr. Garrett added that he considered three reliable and objective sources to include in his overall ERP estimate and conducted his own ERP estimate which was similar to those from other

³⁷⁴ *Id.* at 48.

³⁷⁵ *Id.* at 49.

³⁷⁶ OCA St. 3SR at 5, *citing*, Peoples St. 15-R at 78.

³⁷⁷ OCA St. 3SR at 5.

sources.³⁷⁸ Mr. Garrett concluded that “investors are more likely to rely on these types of sources for the ERP than Ms. Nelson’s personal ERP estimate.”³⁷⁹

Mr. Garrett also addressed the CAPM analysis by I&E witness Patel. As with his DCF Model analysis discussed, Mr. Patel’s CAPM analysis is also incorrect and should be rejected. Mr. Garrett testified that Mr. Patel conducted two variations of the CAPM – the first variation has a result of 10.28% and the second variation has a result of 8.86%.³⁸⁰ Mr. Garrett added:

The main difference between his two CAPM variations is the equity risk premium (ERP) input. In the higher of the two CAPM results, Mr. Patel calculated his own ERP estimate by relying on data starting in the Great Depression. As thoroughly discussed in my direct testimony, this type of historical approach is contrary to modern academic literature and most certainly overstates the ERP. In Mr. Patel’s second variation of the CAPM, he relies on a current ERP estimate published by Kroll.³⁸¹

Mr. Patel’s application of the CAPM produces a significantly higher result than his 8.8% for Peoples whereas his second application of the CAPM produces a substantially similar result.³⁸²

5. Risk Premium Analysis

The OCA incorporates by reference in the discussion above in Section IX.D.4 regarding the CAPM Mr. Garrett’s risk premium analysis.

6. Comparable Earnings

The OCA incorporates by reference in the discussion above in Section IX.D.4 regarding the CAPM Mr. Garrett’s comparable earnings analysis.

³⁷⁸ OCA St. 3SR at 6-7; Figure 1 (Equity Risk Premium Comparison).

³⁷⁹ OCA St. 3SR at 7.

³⁸⁰ OCA St. 3R at 4, *citing*, I&E St. 2 at 36.

³⁸¹ OCA St. 3R at 4.

³⁸² OCA St. 3R at 4-5; *see also*, Figure 1 (My CAPM Summary).

7. Management Effectiveness Adjustment

Sections 523, 1501, and 1505 of the Public Utility Code provide pertinent legal standards to assess when evaluating Peoples' call center performance. Pursuant to Section 523:

The commission shall consider, in addition to all other relevant evidence of record, the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title. On the basis of the commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate. Any adjustment made under this section shall be made on the basis of specific findings upon evidence of record, which findings shall be set forth explicitly, together with their underlying rationale, in the final order of the commission.³⁸³

OCA witness Larkin-Connolly testified that "Peoples has requested that the Commission authorize a 0.25% addition to the return on common equity proposed by its cost of capital witness."³⁸⁴ In addition to Section 523, Section 1501 of the Public Utility Code provides in pertinent part, "[e]very public utility shall furnish and maintain adequate, efficient, safe, and reasonable service and facilities, and shall make all such repairs, changes, alterations, substitutions, extensions, and improvements in or to such service and facilities as shall be necessary or proper for the accommodation, convenience, and safety of its patrons, employees, and the public."³⁸⁵

It is well established that whether a utility's rates are just and reasonable is inextricably intertwined with the quality of service provided by the utility.³⁸⁶ However, as described *supra* in Section IX.D.7, Peoples failed to provide a quantification as to how a 25-basis point adjustment was calculated to reflect Peoples' claim of exceptional service. As set forth below, the OCA also found Peoples' service to be unexceptional and noted significant call center staffing issues during the month in April, in addition to an increase in the number of damage-related formal and informal

³⁸³ 66 Pa. C.S. § 523.

³⁸⁴ OCA St. 5 at 48.

³⁸⁵ 66 Pa. C.S. § 1501

³⁸⁶ *Nat'l Utils. v. Pa. PUC*, 709 A.2d 972, 973 (Pa. Cmwlth. 1998).

customer complaints. Because Peoples has failed to establish that its service is exceptional and deserving of an adjustment to its claimed return on equity, the OCA requests that the Commission deny Peoples’ requested management performance adder.

a. Peoples’ call center performance is unexceptional.

OCA witness Larkin-Connolly conducted an extensive examination of Peoples’ call center performance over the past six years, in order to “capture both the accessibility and the quality of customer contacts with the Company.”³⁸⁷ Mr. Larkin-Connolly used this data, as well as the Commission’s Bureau of Consumer Services’ (BCS’) reported data on the call center performance of other NGDCs. Based on his review of this data, Mr. Larkin-Connolly concluded that Peoples’ call center performance is unexceptional compared to the call centers of other NGDCs.

Over time, Mr. Larkin-Connolly found that Peoples’ call center performance has not improved, as set forth in the following table:

Peoples Call Center and Customer Contact Indicators, 2019-2024³⁸⁸								
Indicator	2019	2020	2021	2022	2023	2024	6-year change	3-year change
<i>Unabandoned Call Rate³⁸⁹</i>	98%	99%	99%	97%	97%	96%	-2%	-1%
<i>Calls Answered in 30 seconds</i>	84%	93%	87%	85%	85%	86%	2%	1%
<i>Satisfaction with Reaching the Company</i>	90%	92%	90%	84%	84%	86%	-4%	2%
<i>Satisfaction with Automated Phone System</i>	87%	85%	82%	78%	79%	76%	-11%	-2%
<i>Ease of Using EDC’s Automated Telephone System</i>	84%	84%	78%	76%	78%	76%	-8%	0%
<i>Satisfaction with Choices Offered by Auto Telephone System</i>	85%	83%	81%	76%	80%	74%	-11%	-2%
<i>Satisfaction with Wait to Speak to Representative</i>	88%	86%	84%	78%	77%	79%	-9%	1%
<i>Satisfaction with Reps Handling of Contact</i>	96%	94%	93%	94%	91%	90%	-6%	-4%
<i>Satisfaction w/Call Center Reps Courtesy</i>	96%	97%	94%	97%	94%	94%	-2%	-3%
<i>Satisfaction w/Call Center Reps Knowledge</i>	96%	94%	93%	93%	91%	92%	-4%	-1%

³⁸⁷ OCA St. 5 at 10.

³⁸⁸ OCA St. 5 at 11.

³⁸⁹ OCA witness Larkin-Connolly used the Unabandoned Call Rate metric, instead of the Abandoned Call Rate metric reported by BCS, to show positive change over time through a positive number, consistent with the remaining metrics in the table. Unabandoned Call Rate is calculated as 100% less the Abandoned Call Rate.

As is demonstrated in this table, over the past six years, only Peoples’ call answered rate has improved; in the past three years, Peoples has shown greater improvement than in the past six years, improving its call answered rate, satisfaction with reaching the company, and satisfaction with the wait to speak to a representative.³⁹⁰ All other metrics declined or stayed the same. Peoples did not dispute that its call center performance has declined over time.³⁹¹

OCA witness Larkin-Connolly assembled the following table to compare Peoples’ call center performance to that of its NGDC peers:

Call Center and Customer Contact Indicators: Peoples vs. NGDC Average (2023/2024)³⁹²			
Indicator	Peoples	NGDC Avg	Difference
<i>Unabandoned Call Rate³⁹³</i>	97%	97%	--
<i>Calls Answered in 30 seconds</i>	86%	86%	--
<i>Satisfaction with Reaching the Company</i>	85%	84%	+1%
<i>Satisfaction with Automated Phone System</i>	78%	78%	--
<i>Ease of Using EDC’s Automated Telephone System</i>	77%	78%	-1%
<i>Satisfaction with Choices Offered by Auto Telephone System</i>	77%	77%	--
<i>Satisfaction with Wait to Speak to Representative</i>	78%	80%	-2%
<i>Satisfaction with Reps Handling of Contact</i>	91%	91%	--
<i>Satisfaction w/Call Center Reps Courtesy</i>	94%	94%	--
<i>Satisfaction w/Call Center Reps Knowledge</i>	92%	91%	--

Based on this data, OCA witness Larkin-Connolly concluded that, over time, Peoples’ quality of customer service has declined to meet the level demonstrated by other NGDCs, “where the Company may have previously been able to point to results showing it had above average service – now it appears to be more or less right around industry average.”³⁹⁴

³⁹⁰ OCA St. 5 at 12.

³⁹¹ OCA St. 5SR at 2.

³⁹² OCA St. 5 at 11.

³⁹³ OCA witness Larkin-Connolly used the Unabandoned Call Rate metric, instead of the Abandoned Call Rate metric reported by BCS, to show positive change over time through a positive number, consistent with the remaining metrics in the table. Unabandoned Call Rate is calculated as 100% less the Abandoned Call Rate.

³⁹⁴ OCA St. 5 at 12.

As a result, Peoples has failed to demonstrate exceptional service. The Company did not dispute that its call center performance declined over time, or that the performance indicates that Peoples is unexceptional in comparison to other NGDCs.³⁹⁵ Instead, Peoples argued that it has demonstrated strong live customer service interactions, based on low abandonment rates, improving speed to answer times, and improvement in satisfaction in reaching the Company.³⁹⁶ Peoples' call center, nevertheless, has trended towards the level of performance and customer satisfaction recently experienced by other NGDCs; unexceptional service is not an adequate basis for recognition of management effectiveness, particularly where there is no evidentiary record suggesting high levels of customer satisfaction with the Company's performance.³⁹⁷ Peoples' performance indicates compliance with its statutory obligation and nothing more.³⁹⁸

b. Peoples' management inadequately staffs its call centers in April.

In observing the Company's call center performance, OCA witness Larkin-Connolly identified a concerning trend: each year in April for the past six years, Peoples' customers' wait times to reach call center staff increases dramatically in comparison to other months.³⁹⁹ As stated by Mr. Larkin-Connolly: "For five of six years, April was the month with the higher number of calls received. Also evident in the figure is that these peak call months have the highest average wait times [] with peaks in average wait times occurring in April in four of the last six years."⁴⁰⁰ During this time, call abandonment rates also spike, where, in four of the last six years, Peoples'

³⁹⁵ OCA St. 5SR at 2.

³⁹⁶ Peoples St. 18-R at 13-14.

³⁹⁷ *Pa. PUC v. UGI Utils., Inc. – Electric Div.*, Docket No. R-2017-2640058, Order at 113-15 (Oct. 25, 2018) (*UGI Electric 2018*).

³⁹⁸ 66 Pa. C.S. §§ 523, 1501; *see also* 66 Pa. C.S. § 315(a) (Peoples bears the burden of proof to support a claim for recognition of superior and exceptional management performance).

³⁹⁹ OCA St. 5 at 13.

⁴⁰⁰ OCA St. 5 at 13.

customers experienced a call abandonment rate 1.5 to 2.0 times greater than the average call abandonment rate for the year.⁴⁰¹

This pattern can be predictably traced to the end of the heating moratorium period in Pennsylvania, which concludes on March 31 of each year. Consistent with this analysis, OCA witness Larkin-Connolly explained his concerns:

Elevated wait times and call abandonment rates are direct measures of service degradation. When customers cannot reach a representative, either because they abandon a call after a long wait or because the system cannot accommodate them, they receive a lesser quality of service. My concern is that despite the predictability of these annual peaks in calls, Peoples does not take steps to increase the number of representatives in its call center. Staffing data provided in response to OCA-XIII-003 shows that there have been no noticeable increases in staffing levels in recent Aprils to address the influx of calls.⁴⁰²

In four of the last six years, Peoples' call center staffing in April was below the rolling six-month average level for the preceding periods.⁴⁰³ During the two years in which staffing levels were not lower than the rolling six-month average call wait times in April were not the highest in the year.⁴⁰⁴

OCA witness Larkin-Connolly testified that Peoples "has been operating at a chronic deficit relative to its own approved staffing levels, and April staffing has never reached 89 in any year in the data," reflecting a management decision to not adequately staff its call center during a predictably high-volume time in the year.⁴⁰⁵ Specifically, "the staffing data shows that Peoples has generally chosen not to increase staffing ahead of April. The consequence of that choice is a foreseeable drop in service quality during the months when customers most need to reach their utility."⁴⁰⁶ Peoples did not dispute that April call center staffing has never reach its approved level; instead, Peoples argued it uses support staff and overtime during high-volume months.

⁴⁰¹ OCA St. 5 at 13.

⁴⁰² OCA St. 5 at 14.

⁴⁰³ OCA St. 5 at 15.

⁴⁰⁴ OCA St. 5 at 15.

⁴⁰⁵ OCA St. 5 at 16.

⁴⁰⁶ OCA St. 5 at 16.

Despite Peoples' operational decisions to attempt to fill gaps in its April call center staffing levels, the Company's customers continue to experience increased difficulty in reaching Peoples' representatives during a time when they need it most. Because of the clear pattern demonstrated by the data, and the predictable nature of higher call volumes in April, Peoples has failed to provide evidence of exceptional management performance in customer service.

c. Peoples' customers have increasingly submitted formal and informal damage-related complaints.

OCA witness Larkin-Connolly also reviewed Peoples' customer complaint data to assess the effectiveness of Peoples' management and its quality of customer service. Similar to its call center performance, Mr. Larkin-Connolly concluded that Peoples customers submit informal complaints to BCS at similar rates to other NGDCs, excepting the Philadelphia Gas Works.⁴⁰⁷ However, over time, more Peoples customers have submitted formal and informal complaints to BCS regarding personnel problems, damages, and service quality when compared to the average of other NGDCs.⁴⁰⁸ Based on this data, OCA witness Larkin-Connolly concluded:

Property damage emerges as a recurring theme in both the informal and formal complaint records, and it is the category where Peoples' informal complaint share diverges most from the peer average...Whether this reflects the scale of Peoples' pipeline replacement and infrastructure work, practices around site management and restoration, or something else is a question the Company should be expected to answer. This is not a finding of systemic failure, but it is an issue that deserves monitoring and, at minimum, a clearer explanation from the Company of what steps it has taken to reduce damage-related complaints from its field operations.⁴⁰⁹

While Peoples argues that the complaint data includes subjective determinations by BCS employees as how to categorize the submitted complaints, the trend in the data speaks for itself.⁴¹⁰ Namely, the pattern persists year-to-year, indicating a low likelihood that the subjective

⁴⁰⁷ OCA St. 5 at 26-27.

⁴⁰⁸ OCA St. 5 at 29, 32.

⁴⁰⁹ OCA St. 5 at 32-33.

⁴¹⁰ OCA St. 5SR at 4.

categorization of BCS employees would influence the trend Mr. Larkin-Connolly observed.⁴¹¹ Despite the additional context provided by Peoples, which may account for variations within a single year, Mr. Larkin-Connolly's conclusion regarding the trend in an increased number of damage-related complaints over time was unchanged at the close of the evidentiary record.⁴¹²

As a result, Mr. Larkin-Connolly's concern regarding an increasing trend in damage-related ratepayer complaints over time, as reported by BCS, indicates a further lack of support for Peoples' claim of exceptional management performance. In addition to the evidence presented and described *supra* regarding Peoples' call center performance, the OCA respectfully requests that the Commission deny the Company's request for a return on equity adjustment associated with exceptional management performance.

E. Alternative Cost of Capital Proposals

The OCA incorporates by reference in the discussion above in Section IX.B regarding capital structure Mr. Garrett's alternative cost of capital proposal.

F. Conclusion as to Rate of Return

In conclusion, based on Mr. Garrett's cost of equity analysis on a proxy group of utility companies using the two most widely used and widely accepted financial models for calculating cost of equity in utility rate proceedings – the CAPM and the DCF Model, including two variations of both – Mr. Garrett determined a cost of equity of 8.8% using the CAPM, 8.5% using the Hamada CAPM, 7.6% using the DCF Model (analyst growth) and 7.1% using the DCF Model (sustainable growth) for a model average of 8.0%.⁴¹³ Mr. Garrett therefore recommends an authorized ROE of 8.8%, which represents the top end of his model range.⁴¹⁴ This is true with regard to Peoples'

⁴¹¹ OCA St. 5SR at 4.

⁴¹² OCA St. 5SR at 4.

⁴¹³ *Id.* at 59-60; *see also*, Figure 16 (Cost of Equity Model Summary).

⁴¹⁴ *Id.* at 60.

originally presented ROE analysis provided in its Direct Testimony as well as the updated ROE analysis provided in its Rebuttal Testimony which suffer from the same errors and unrealistic assumptions as were presented in the Direct Testimony.⁴¹⁵

X. REVENUE ALLOCATION AND RATE DESIGN

A. Introduction

Peoples' proposed allocated class cost of service study (ACOSS) utilizes an empirically flawed minimum-system study (MSS) approach to determine the allocation of distribution main costs and should be rejected.⁴¹⁶ In doing so, Peoples' study would allocate 100 percent of costs associated with demand related distribution main investments based on peak day demands. Peoples' reliance on the MSS and use of peak demand cost allocation methodology should be rejected by the Commission as using the MSS and peak day demand result in an improper assignment of costs to Peoples customer classes. The OCA has proposed the use of a Peak and Average (P&A) method incorporating weights based on the Company's test year load factor. OCA witness Mr. Michael Deupree's proposed alternative to Peoples' ACOSS based weights on a ratio of peak day system requirements to average daily system requirements, using data specific to Peoples for allocation of distribution mains costs.

Peoples proposal to increase its fixed customer charge by \$9.20 or from \$16.80 to \$26, or by 54.8%, is equally unreasonable and not supported by evidence. This large increase in the customer charge is inconsistent with principles of cost causation, maintaining rate consistency, promoting conservation, encouraging affordability, and maintaining equity for low-income customers. Residential customers are already seeing the largest increase in rates under the

⁴¹⁵ OCA St. 3SR at 2, *citing*, Peoples St. 15-R at 5.

⁴¹⁶ *See* Peoples St. 17.

Company's proposal and would be forced to bear the recovery of additional charges through this increase to the customer charge. Peoples' proposed customer charge increase should also be rejected.

B. Cost Of Service

The OCA identified two important faults with Peoples Allocated Cost of Service Study (ACOSS) pertaining to allocation factors.⁴¹⁷ The first issue is the Company's use of a minimum-system study (MSS) to classify a portion of costs associated with distribution mains as customer related.⁴¹⁸ OCA witness Deupree testified that MSS "are premised on a flawed hypothetical relationship between investments in distribution mains and customer growth that empirically does not exist."⁴¹⁹ The second issue is the Company's demand cost allocation method, which Mr. Deupree stated "fails to recognize that distribution mains supply both peak and non-peak service and thus perform both a demand and commodity function."⁴²⁰ Mr. Deupree recommended that the Commission reject the Company's proposal and approve an alternative class classification of distribution mains that incorporate a peak and average (P&A) cost allocation method, which uses weights based on the company's test year system load factor.⁴²¹ As the Commission previously determined:

distribution mains exist and are related to both annual demands and peak demands. Both annual and peak demands must be recognized in the allocation of distribution mains cost if the allocation is to be in accord with the principle of cost-causality. It is not reasonable to allocate distribution mains investment based solely on design peak day demands...⁴²²

⁴¹⁷ OCA St. 1 at 47.

⁴¹⁸ *Id.*

⁴¹⁹ *Id.*

⁴²⁰ *Id.*

⁴²¹ OCA St. 1 at 58-59.

⁴²² *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2025 PA. PUC LEXIS 395, *162-63 (Order Dec. 9, 2025) (*Columbia 2025*).

The utility is not entitled to a rebuttable presumption as a matter of law as to the correctness of its chosen ACOSS methodology but, instead, bears the burden of proof, as in all other aspects of its rate increase request.⁴²³ Furthermore, Mr. Deupree testified that the accuracy of an ACOSS can have a significant impact on revenue recovery due to the allocation assigned to different rate classes, as follows:

Higher-use customers, such as large commercial and industrial customers, are generally more price sensitive than residential and small commercial customers. This is due to the relative impact that rate increases can have on their overall operating costs and the margins of the goods or services they produce. In the natural gas context, these customers often have alternatives available, including fuel switching to other energy sources, modifying production processes, or in some cases reducing or relocating operations. As a result, they tend to be more responsive to changes in rates. By comparison, residential and small commercial customers typically have fewer practical alternatives and are therefore less able to adjust their usage in response to price changes, particularly for essential uses such as space heating during the winter. Because of these differences in price elasticity, the way costs are allocated among customer classes can influence the stability and predictability of revenue recovery. Allocating a disproportionate share of costs to more price-sensitive customers may increase the risk of reduced usage or load migration, which can, in turn, impact the Company's ability to recover its authorized revenue requirement. Accordingly, while cost allocation should remain grounded in cost causation principles, it is also important to recognize how allocation decisions can affect customer behavior and, ultimately, revenue recovery.⁴²⁴

This statement from Mr. Deupree underscores the importance of his recommendations and why the Commission should reject the Company's ACOSS and adopt the plan designed by OCA which reflects cost causation principles and provides a reasonable basis for allocating costs among customer classes.

⁴²³ 66 Pa. C.S. § 315(a).

⁴²⁴ OCA St. 1 at 44-45.

1. Minimum-System Study Flaws

Peoples allocates distribution mains costs using an Average Study, which combines results from two separate methodologies,⁴²⁵ as Mr. Deupree explained:

Under the Customer-Demand study, the minimum system size (“MSS”) approach is used to determine what portion of mains costs are customer-related versus demand-related. Under the Demand-Commodity study, the mains costs are split evenly between demand and commodity components on a 50/50 basis. The Average Study weights these two approaches equally, yielding a classification of an approximately 24 percent customer-related, 51 percent demand-related, and 25 percent commodity related.⁴²⁶

Mr. Deupree explained that the MMS approach entails estimating the hypothetical minimum costs of deploying distribution mains that only provide customers with connection to the Company’s natural gas distribution system, but not a system sufficient to serve the customer’s actual natural gas demand requirements.⁴²⁷ He went on to explain that MMS studies are flawed in that they deal in hypotheticals that often do not exist in the real world and furthermore attempt to model an empirical relationship that does not exist.⁴²⁸ Mr. Deupree explained by one example, “a zero-diameter distribution main is completely a hypothetical construct that does not, and indeed could not, exist in the real world.”⁴²⁹ He said examples like this makes the results of MSS analyses difficult, if not impossible, to verify.

Mr. Deupree added that it “should be recognized that the argument that distribution system costs are related to the number of customers on a utility’s system is not a new argument, and the academic literature in utility regulation has questioned for quite some time the use of MSS studies.”⁴³⁰ Mr. Deupree relied on Dr. James Bonbright in his criticism of the MSS methodology. Dr. Bonbright found “a lack of empirical support in academic literature for a causal relationship

⁴²⁵ Peoples St. 17 at 24-25.

⁴²⁶ OCA St. 1 at 48.

⁴²⁷ OCA St. 1 at 47.

⁴²⁸ OCA St. 1 at 49

⁴²⁹ *Id.*

⁴³⁰ *Id.*

between distribution system costs and the number of customers.”⁴³¹ OCA witness Deupree testified: “The true driving factors of utility distribution system costs are much more complicated and depend on a host of other factors, such as the size of a service territory and the population density within it.”⁴³²

Mr. Deupree testified, the ultimate conclusion of a MSS classification of cost as “customer-related, as the Company has done in the current proceeding, is ‘clearly indefensible’ due to the lack of a relationship between changes in the number of customers on a utility system and its distribution costs.”⁴³³

2. Peak & Average Method

By contrast, OCA witness Deupree urges the Commission adopt the use of the Peak and Average (P&A) method incorporating weights based on the Peoples’ test year system load factor.⁴³⁴ OCA witness Deupree’s recommended method would base weights on a ratio of peak day system requirements to average daily system requirements.⁴³⁵ While a P&A method often uses a pure 50%/50% weighting for the energy and demand components, the OCA’s proposal uses data that is specific to NFG for an allocation of mains costs.

In its recent *Columbia Order*, the Commission adopted a P&A cost allocation method to classify and allocate costs associated with natural gas distribution mains.⁴³⁶ In reaching its decision, the Commission directly addressed the position that a portion of these costs could be classified as customer-related based on an analysis of a hypothetical minimum system:

In light of the above, we remain of the opinion that although mains serve customers, it is the throughput that determines the type of main investment because

⁴³¹ OCA St. 1 at 50-51.

⁴³² *Id.*

⁴³³ OCA St. 1 at 51.

⁴³⁴ OCA St. 1 at 53-59.

⁴³⁵ OCA St. 1 at 53.

⁴³⁶ *Columbia Order* at 255.

it is the load that determines the main investment, not the number of customers served. As the Commission stated in Columbia Gas 2021, the existence of one customer, five customers, or ten customers does not determine the amount of mains investment. Mains investment is driven by the loads placed upon it, not by the number of customers served.⁴³⁷

In Rebuttal, Peoples argued that its proposed blended ACOSS “reasonably recognized both customer-related and load-related cost causation” and therefore provides “a sound basis for revenue apportionment and rate design.”⁴³⁸ Specifically, the Company argued that the OCA’s recommendation to relies exclusively on at the “P&A” methodology and therefore places “too much emphasis on a single dimension of cost causation while giving insufficient recognition to the customer-related characteristics of the distribution system.”⁴³⁹ Peoples further claimed that “system use is not the same as cost causation”⁴⁴⁰ because distribution facilities are constructed not only to satisfy coincident peak-day requirements, but also connect customers to the system.⁴⁴¹ People’s theory is that its blended ACOSS provides a more balanced assessment of cost causation and “a more reasonable measure of class cost responsibility than the exclusive reliance on a single methodology.”⁴⁴² Mr. Deupree testified that the Company erred in attempting to allocate a portion of costs associated with its distribution mains investments on the basis of customer counts:

In my Direct Testimony I examined trends in changes in average number of customers on the Company’s system and the Company’s net investment in distribution mains over the 10-year period from 2016 through 2025. This analysis did not find any statistically significant correlation between annual net additions in the Company’s distribution mains and changes in the Company’s customer counts. This analysis furthermore did not find any correlation in the annual growth rate of the Company’s booked distribution mains investment and the annual growth rate of the Company’s customers. This result implies that the Company’s distribution system investments are largely unrelated to addressing customer growth needs.⁴⁴³

⁴³⁷ *Id.* at 255 (*emphasis added*).

⁴³⁸ Peoples St. 17R at 3.

⁴³⁹ Peoples St. 17R at 17.

⁴⁴⁰ *Id.*

⁴⁴¹ *Id.*

⁴⁴² Peoples St. 17R at 18.

⁴⁴³ OCA Exh. MWD-4.

During the pendency of this rate proceeding, the Commission published a Recommended Decision in National Fuel Gas Distribution Corporation (NFG)’s rate proceeding where the ALJ examined a proposal similar to Peoples and concluded that “the Peak and Average ACOSS will lead to just and reasonable rates while the Demand ACOSS will not . . .”⁴⁴⁴ The Commission has not issued a final Opinion and Order at the time of the filing of this Main Brief, but demonstrates the use of P&A, along with the underlying arguments supported by the OCA, is the Commission’s consistent preference when faced with facts similar to Peoples’ proposal and therefore the OCA urges the Commission to adopt its proposal.

C. Revenue Allocation

The OCA’s ACOSS should be used to apportion the revenue requirement across Peoples’ customer classes because it adheres to ratemaking principles.⁴⁴⁵ According to Mr. Deupree, the revenue apportionment process for setting Peoples’ utility rates:

The revenue distribution process allocates a utility’s overall revenue deficiency across customer classes, which in turn, is used to establish a new set of retail rates. The revenue distribution process often uses the results from the ACOSS as its starting point, but not necessarily as its ending point. Class-specific revenue responsibilities are established by allocating the system-wide revenue deficiency to classes that are under-earning, relative to their estimated rate of return (“ROR”), and assigning, at least in theory, revenue decreases to those classes that are over-earning relative to their ACOSS-estimated class returns. The final class revenue responsibilities are then used, in conjunction with each class’s billing determinants, to determine rates. In summary, the revenue distribution process can be viewed as the initial step taken in establishing rates.⁴⁴⁶

Mr. Deupree explained what constitutes other policy goals that are prominent components of generally accepted ratemaking principles:

- 1) Rates should be fair, just, and reasonable, and not unduly discriminatory.
- 2) To the extent possible, gradualism should be used to protect customers from rate shock.

⁴⁴⁴ Pa. PUC, et. al. v. National Fuel Gas Dist. Corp., Docket Nos R-2025-3059428, et. al., R.D. at 268 (July 31, 2026).

⁴⁴⁵ OCA St. 1 at 59-64.

⁴⁴⁶ OCA St. 1 at 59.

- 3) Rate continuity should be maintained.
- 4) Rates should be informed by costs, but class cost of service results need not be the only factor used in rate development.
- 5) Rates should be understandable to customers.⁴⁴⁷

Mr. Deupree's revenue apportionment method based on his alternative ACOSS results limits the rate increase in a way that adheres to the principles listed above. Mr. Deupree recommends that the Commission cap the proposed rate increase to any single customer class to no more than 1.15 times the system average increase. He additionally recommends that no class receive a rate increase less than 0.50 times the system average increase.⁴⁴⁸ Mr. Deupree explained the cost parity ratio as follows:

A cost parity ratio standardizes these various class revenue-to-cost ratios against the overall utility system revenue-to-cost ratio. For instance, assume that residential class revenues cover 80 percent of residential class costs through the ACOSS, and further assume that, system-wide, utility revenues also cover 80 percent of utility costs. In this example, the residential class has a relative cost parity ratio of 1.0 as it covers the same percentage of utility costs as the utility as a whole covers (i.e., 80 percent divided by 80 percent equals 1.0). A relative cost parity ratio greater than 1.0 indicates that a particular class covers a greater percentage of utility costs than other classes, while a relative cost parity ratio less than 1.0 indicates that a particular class is covering a lesser percentage of utility costs than other classes.⁴⁴⁹

The Company's approach, which was informed by the results of its ACOSS, reflects an effort to move all rate classes closer to the overall system rate of return. However, Mr. Deupree examined People's proposed allocation and he made several findings.⁴⁵⁰ This includes finding that the Company sets Large General and Mainline Service's proposed revenue at their current levels.⁴⁵¹ He also found that the Company caps the increase for the Small General class at 1.5 times the overall system increase. Additionally, he found that the Company targets the increase for

⁴⁴⁷ OCA St. 1 at 60.

⁴⁴⁸ OCA St. 1 at 64.

⁴⁴⁹ OCA St. 1 at 62.

⁴⁵⁰ OCA St. 1 at 61.

⁴⁵¹ *Id.*

Residential and Medium General to their cost of service, and then allocates the remaining required increase between those two classes based on relative targets, resulting in Residential's increase at 1.05 times the system average increase and Medium General's increase at 1.25 times the system average increase.⁴⁵² The Company proposes these increases in order to move rates closer to a cost parity ratio of 1.0.

The difference between Peoples' cost allocation and the OCA cost allocation can be summarized as follows:

Increase by Class	Peoples Allocation			OCA Allocation		
	Dollar Figure	Percentage	Relative Proposed Rate Increase	Dollar Figure	Percentage	Relative Proposed Rate Increase
Residential	\$ 118,163,447	27.39%	1.05	\$ 115,120,705	26.68%	1.02
Small (SGS)	\$ 21,443,151	39.14%	1.50	\$ 16,439,749	30.01%	1.15
Medium (MGS)	\$ 21,264,419	32.50%	1.25	\$ 19,633,122	30.01%	1.15
Large (LGS)	\$ -	0%	0	\$ 7,523,349	13.05%	0.5
Service (MLS)	\$ -	0%	0	\$ 2,154,092	30.01%	1.15
Total Proposed Increase	\$ 160,871,017	26.09%	1	\$ 160,871,017	26.09%	1 ⁴⁵³

Using the OCA's allocation that also reflects the OCA's proposed revenues increase of \$9.4 million demonstrates:

Increase by Class	OCA Case-in-Chief		
	Dollar Figure	Percentage	Relative Proposed Rate Increase
Residential	\$ 6,721,927	1.56%	1.02
Small (SGS)	\$ 962,308	1.76%	1.15
Medium (MGS)	\$ 1,149,234	1.76%	1.15
Large (LGS)	\$ 440,383	0.76%	0.50
Municipal Service (MLS)	\$ 126,091	1.76%	1.15
Total Proposed Increase	\$ 9,399,941	1.53%	1.00

OSBA found Mr. Deupree's allocation plan to be reasonable as Mr. Deupree testified: "In its rebuttal testimony OSBA noted that my ACROSS results indicate that the Small General Service

⁴⁵² *Id.*

⁴⁵³ *See*, OCA Exhibits MWD-6 and MWD-7.

(“SGS”) class is currently under-earning relative to the system average. However, OSBA noted that my proposed revenue allocation was geared towards a more gradual progress to cost-based rates in comparison to the Company’s proposed revenue allocation.¹ OSBA ultimately found my proposed revenue allocation reasonable given the size of the proposed rate increases in this proceeding.”⁴⁵⁴

Mr. Deupree’s findings mean the Company’s apportionment approach is inconsistent with rate gradualism,⁴⁵⁵ which rate refers to the general understanding that sound rate design should prevent significant rate increases for any customer group that may cause rate shock. The Company’s proposal is based on the results of a faulty ACROSS that overstates the current rate of return the Company derives from its large general service customers while understating the rate of return the Company derives from its residential and small general service customers, and therefore should be rejected.⁴⁵⁶

D. Rate Design

The OCA demonstrated that Peoples’ proposal to increase the monthly basic service charge for residential customers by 54.8 percent should be rejected.⁴⁵⁷ In terms of real dollar impact, that is an increase of \$9.20 per month, a significant jump from the current \$16.80 to a proposed \$26.00 per month, or \$110.40 per year on each residential customer without taking into account the distribution increase.⁴⁵⁸ OCA witness Deupree testified that the Commission should reject the Company’s proposed increase in residential and commercial customer charges because his analysis of customer-related costs finds that residential rate classes are currently recovering a majority of

⁴⁵⁴ OCA St. 4SR at 16.

⁴⁵⁵ *Id.*

⁴⁵⁶ OCA St. 1 at 63.

⁴⁵⁷ OCA St. 1 at 64-74.

⁴⁵⁸ OCA St. 1 at 67.

customer-related costs through monthly customer charges.⁴⁵⁹ Mr. Deupree also found that Peoples' proposal would negatively impact the public policy goals of energy efficiency and would burden low-use customers with a greater than average portion of any proposed increase in the case.⁴⁶⁰ OCA witness Deupree explained that natural gas utility rates are usually comprised of two or three components:

The first component is the fixed monthly customer charge or what is sometimes referred to as the basic service charge. The second is the energy-based component that is a volumetric rate applied toward a customer's monthly energy usage during a billing period, often measured in terms of therms or dekatherms (Dth). Finally, demand rates are surcharges that are assessed based upon a customer's maximum usage during a billing period.⁴⁶¹

Mr. Deupree explained some smaller use customer classes, such as residential and small general services classes, are not demand-metered and therefore only the customer and volumetric charges appear on their bill.⁴⁶² When developing the fixed monthly charge, Mr. Deupree said it can be instructive to establish a baseline on how much cost is attributable to different customer classes, but cautioned that costs do not need to serve as the only basis to determine the best customer charge.⁴⁶³ Mr. Deupree testified that rate design and development of the fixed customer charge should factor in important goals, for example:

rates are sometimes designed to send certain price signals to consumers in order to influence their usage decisions. Sometimes, rate design becomes a balancing act since rates must be designed to be both supply-eliciting (i.e., assist utilities in the financing of capital investments) and demand-inhibiting (i.e., inhibit the growth in demand that generates the need for capital investments).⁴⁶⁴

⁴⁵⁹ OCA St. 1 at 74.

⁴⁶⁰ *Id.*

⁴⁶¹ OCA St. 1 at 64-64.

⁴⁶² *Id.*

⁴⁶³ OCA St. 1 at 65.

⁴⁶⁴ OCA St. 1 at 66.

Peoples claimed that it needs a drastic jump in its Customer Charges to cover the costs of its infrastructure improvements and other costs, but Mr. Deupree conducted an analysis of costs commonly associated with basic service charges and found that the residential and commercial service rate classes currently cover the majority of their customer-related costs through the currently monthly customer charges.⁴⁶⁵ In his analysis, Mr. Deupree looked at types of costs typically associated with the basic service charge, such as: “removing and setting meters; maintenance of meters; meter reading expenses; customer records and collections; customer billing and accounts; and customer service and information expenses.”⁴⁶⁶ Looking at these different customer related components, Mr. Deupree testified that Peoples residential and commercial rate classes currently recover the majority of their customer related costs through the current basic service charge.⁴⁶⁷ He explained the lowest, the residential class, still recovers nearly 76 percent of its customer-related costs through its monthly customer charge.⁴⁶⁸

Mr. Deupree demonstrated that on a cost basis, Peoples cannot justify its proposed increase in the customer charge.⁴⁶⁹ He also conducted an examination on a comparative basis to other regional natural gas distribution companies and what their residential and small commercial customer charges.⁴⁷⁰ He found that \$26.00 would be far above the average of \$17.22 per month charged by other investor-owned natural gas utilities:

⁴⁶⁵ OCA St. 1 at 67-68.

⁴⁶⁶ OCA St. 1 at 68.

⁴⁶⁷ *Id.*

⁴⁶⁸ *Id.*

⁴⁶⁹ *Id.*

⁴⁷⁰ OCA St. 1 at 69.

Table 4: Survey of Regional Customer Charges⁴⁷¹

Company	State	Residential Customer Charge (\$/month)	Small Commercial Customer Charge (\$/month)
Peoples Natural Gas Company LLC	PA	\$ 16.80	\$ 22.00
Peoples Natural Gas Company LLC	PA	\$ 26.00	\$ 32.14
Delmarva Power and Light Company	DE	17.00	69.20
Washington Gas Light Company	DC	19.05	34.40
Baltimore Gas and Electric	MD	16.15	39.05
Washington Gas Light Company	MD	11.85	21.50
Elizabethtown Gas Company	NJ	11.50	41.05
New Jersey Natural Gas	NJ	12.00	55.00
Public Service Electric and Gas Company	NJ	9.38	27.62
South Jersey Gas Company	NJ	10.50	40.50
KeySpan Gas East Corporation	NY	27.50	50.00
National Fuel Gas Distribution Corporation	NY	21.00	22.50
Niagara Mohawk Power Corporation	NY	23.75	28.60
Orange and Rockland Utilities, Inc.	NY	22.50	35.00
The Brooklyn Union Gas Company	NY	24.50	50.00
Columbia Gas of Pennsylvania, Inc.	PA	20.15	36.55
National Fuel Gas Distribution	PA	14.00	27.00
PECO Energy Company	PA	15.70	36.38
UGI Utilities, Inc.	PA	16.25	36.42
Peer Group Average		\$ 17.22	\$ 38.28

Source: Utility Tariffs.

The Company's proposed increase to the residential customer charge is also inconsistent with the promotion of energy efficiency and conservation in Pennsylvania for the simple reason that it places more costs into the fixed component of rates than in the variable component, according to Mr. Deupree, who explained: "This reduces economic incentives for ratepayers to control monthly utility bills through energy efficiency and conservation efforts, because only the variable component of bills is avoidable."⁴⁷² Peoples has not met its burden of proof that would justify diminishing the policy goal of conservation.

I&E supported the Company's customer charge proposal, but its rationale for support of a higher monthly customer charge is not necessary because of alternative ratemaking tools available

⁴⁷¹ *Id.*

⁴⁷² OCA St. 4 at 70.

to Peoples.⁴⁷³ I&E’s position is that the fixed customer charge represents revenue that the Company is guaranteed to receive each month, regardless of the level of usage and therefore there exists a tradeoff between revenue stability from a high customer charge, and affordability and conservation from a low customer charge and higher usage rates.⁴⁷⁴ Mr. Deupree said the Commission should give little weight to this argument because Peoples has the ability to utilize Fully Projected Future Test Years within rate cases and the Distribution System Improvement Charge (DSIC) between rate cases mitigate a significant portion of Company risks posed by regulatory lag.⁴⁷⁵ He added that the Company’s ability to forecast expected changes in volumes in the current rate case using its FPFTY structure already mitigate volumetric risks to the Company and, likewise, Company volumetric risks associated with warmer than normal winters in the future mitigated further if the Commission decides to maintain the Company’s current WNA.⁴⁷⁶

E. Allocation of Universal Service Costs

The Commission should adopt the position advanced by the OCA and require that universal service costs be allocated among all customer classes rather than borne exclusively by residential customers. Mark Szybist, the Governor’s Special Counsel for Energy Affordability, as part of his testimony opposing Peoples rate increase provided during the June 11, 2026 public input hearing, submitted as an exhibit, Governor Josh Shapiro’s, letter addressed to Pennsylvania utilities on April 29, 2026. In the letter, Governor Shapiro expressed that Pennsylvania has “reached a tipping point,” and he explained that utilities must “change the behaviors causing rate increases” and that “Pennsylvania consumers should not be asked to pay a single dollar more than is needed to support

⁴⁷³ OCA St. 4R at 5-7.

⁴⁷⁴ OCA St. 4R at 6.

⁴⁷⁵ OCA St. 4R at 7.

⁴⁷⁶ *Id.*

a safe and reliable utility system.”⁴⁷⁷ By requiring all customer classes to share in the cost of universal service programs, the Commission can take a major step towards addressing the general problem of affordability. The evidentiary record in this proceeding supports making such a finding. Now is the time for the Commission to take action.

The Commission has already determined that allocating CAP costs among all customer classes is lawful. Indeed, the Commission has expressly recognized that “[t]here is no statutory or appellate prohibition that limits the recovery of CAP costs, whether specifically calculated or as part of total universal service costs, to funding from the residential class. Universal service funding from non-residential classes, while not mandatory, is permissible.”⁴⁷⁸

More recently, in its 2026 Final Order on “large load” customers, the Commission confirmed that it “ha[s] the authority to require other customer classes, not just the residential class, to contribute to the costs of universal service programs” and that it has “an obligation to ensure that electric service is available to all customers on reasonable terms and conditions.”⁴⁷⁹ This applies equally to gas as the Commission must also ensure that gas service is available to all customer on just and reasonable terms.⁴⁸⁰ Therefore, in light of the Commission’s own prior findings, and the evidence presented, the Commission should not continue a cost-allocation practice that unfairly and unreasonably places the entire burden on residential customers.

The fundamental flaw in limiting CAP costs to residential customers is the premise that the benefits of universal service are attributable only to the residential class. That premise is

⁴⁷⁷ Tr. at 249, 259, Governor Josh Shapiro Hearing Ex. 1 at 6 (June 11, 2026).

⁴⁷⁸ *2019 Amendments to CAP Policy Statement*, Docket No. M-2019-3012599, Order at 96 (Nov. 5, 2019) (*hereinafter 2019 CAP Policy Amendments*).

⁴⁷⁹ *Interconnection and Tariffs for Large Load Customers*, Docket No. M-2025-3054271, Order at 107 (Apr. 30, 2026) (*hereinafter Large Load Final Order*).

⁴⁸⁰ *See e.g.*, 66 Pa. C.S. § 1318.

inconsistent with the Commission’s prior findings concerning both the nature of universal service programs and the causes of the need for those programs.

The cost of providing service through the Peoples’ CAP program does not have a cost-causation basis that can be confined to the residential class. As OCA witness Roger Colton explained, the Commission has previously recognized that universal service costs are caused by factors endemic to society as a whole, rather than factors specific to residential customers.⁴⁸¹ In its *2019 CAP Policy Amendments Order*, the Commission expressly found that “poverty, poor housing stock, and other factors that contribute to households struggling to afford utility service are not just ‘residential class problems.’”⁴⁸²

The Commission went further. It found that universal service programs advance a broader public purpose and concluded that “the *General Assembly clearly identified the public purpose of these programs* in the Competition Acts by requiring that their costs be nonbypassable.”⁴⁸³ The Competition Act specifically states, in pertinent part:

After notice and hearings, the commission shall establish for each natural gas distribution company an appropriate *nonbypassable*, competitively neutral cost-recovery mechanism which is designed to recovery fully the natural gas distribution company’s universal service and energy conservation costs over the life of these programs.⁴⁸⁴

The Commission also recognized that “[c]learly, there is a persuasive argument to be made that home heating and energy assistance for low-income households serves a public good whose responsibility is not merely other residential ratepayers.”⁴⁸⁵ When the Commission determines that a program serves a public good, it cannot reasonably assume that the costs of that program are

⁴⁸¹ OCA St. 4 at 74.

⁴⁸² *Id.* at 74-75 (quoting *2019 CAP Policy Amendments Order* at 94).

⁴⁸³ *Id.* at 75 (quoting *2019 CAP Policy Amendments Order* at 96 (emphasis added)).

⁴⁸⁴ 66 Pa. C.S. § 2203(6) (emphasis added).

⁴⁸⁵ *Id.* (quoting *2019 CAP Policy Amendments Order* at 94-95).

appropriately assigned solely to the customer class that directly receives the program benefits. A public good, by definition, may confer benefits beyond the customers who receive a direct program subsidy. And the societal conditions that create the need for universal service programs, including poverty, inadequate wages, poor housing stock, and inflation, do not stop at the residential/non-residential customer-class boundary.

Further, the Commission has already determined that there is no statutory requirement that funding for special programs come only from those who benefit directly from the programs.⁴⁸⁶ Thus, the argument that non-residential customers should be excluded because they are not the direct recipients of CAP benefits cannot be reconciled with the Commission’s own precedent.

The Company’s own CAP participation data demonstrates why the need for universal service cannot fairly be characterized as a residential-class problem. Table 1 below, represents the average income for CAP participants, average household size for CAP participants, and the income at 100% of Federal Poverty Level (FPL) for a two-person household.⁴⁸⁷

<i>Table 1. CAP Participant Characteristics⁴⁸⁸</i>				
	Avg HH Size	Avg CAP Income	100% FPL (2-person HH)	Pct Employed
2020	2.44	\$14,754	\$17,240	33%
2021	2.46	\$14,808	\$17,420	36%
2022	2.45	\$15,057	\$18,310	41%
2023	2.45	\$16,172	\$19,720	23%
2024	2.50	\$16,164	\$20,440	39%
2025	2.50	\$16,295	\$21,150	36%

⁴⁸⁶ 2019 CAP Policy Amendments Order at 96 (quoting *MEIUG v. Pa. PUC*, 960 A.2d 189, 202 (2008); *Lloyd v. Pa. PUC*, 904 A.2d 1010 (Pa. Cmwlth. 2006)).

⁴⁸⁷ OCA St. 4 at 75-76.

⁴⁸⁸ Peoples’ response to OCA-IV-01.

Over the past six years, the average income of Peoples CAP participants has remained below 100% of the FPL for a two-person household, and the gap has grown substantially.⁴⁸⁹ In 2025, for example, the average CAP participant income was only \$16,295, compared with \$21,150 at 100% of FPL for a two-person household.⁴⁹⁰ This is true even though the average CAP household contains approximately 2.5 people, not 2.⁴⁹¹

The reason for extremely low household income cannot simply be explained as a lack of employment among CAP participants.⁴⁹² As Mr. Colton explained:

This declining income can in large part be attributed to the performance of the economy as a whole, which includes non-residential customers. Consistently over the past six years, one-third or more of the Company's CAP participants have been employed. The fact that the wages received by these households leave them with a poverty-level income can be attributed to the wage-payer as much as it is attributed to the wage-earner. The fact that CAP participants with employment income still have income less than the FPL for a two-person household is a societal problem, not a residential problem.⁴⁹³

Accordingly, it is reasonable to allocate the cost of Peoples' universal service programs to non-residential customers because the wages paid by employers, i.e., non-residential customers, are a significant factor affecting whether working households can afford basic necessities, including utility service.⁴⁹⁴ Assigning all CAP costs to residential customers effectively treats the consequences of low wages and economic hardship as costs caused exclusively by the households experiencing them.⁴⁹⁵ It ignores the broader economic circumstances that produce the need for universal service assistance in the first place.

⁴⁸⁹ OCA St. 4 at 75-76.

⁴⁹⁰ *Id.*

⁴⁹¹ *Id.*

⁴⁹² *Id.* at 76.

⁴⁹³ *Id.*

⁴⁹⁴ OCA St. 4SR at 36-37.

⁴⁹⁵ *Id.*

In rebuttal testimony, OSBA witness Mark Ewen testified that “there is no causal relationship between PNG’s universal service costs and small business customers.”⁴⁹⁶ However, in response, OCA witness Colton explained that that assertion “is incorrect in that one substantial ‘cause’ of the need for universal service programs is the failure of small businesses to pay a livable wage.”⁴⁹⁷ Requiring residential customers alone to bear universal service costs can therefore operate as an indirect transfer from residential ratepayers to the businesses whose labor costs may contribute to the economic circumstances necessitating public assistance.

The same is true of inflation. As OCA witness Colton testified, the extraordinary increase in the cost of basic necessities has disproportionately harmed low- and moderate-income households.⁴⁹⁸ The United Way’s ALICE analysis reports that “in Pennsylvania, the ALICE Essentials Index also increased faster than the national CPI . . . [a]nd like the national trend, essential costs in Pennsylvania increased at a faster rate following the pandemic (5.3% annual increase in the ALICE Essentials Index from 2021 to 2024, compared to 2.3% between 2007 and 2019).”⁴⁹⁹ Maintaining residential responsibility for CAP costs threatens to make the underlying affordability problem worse.

When evaluating whether the Commission should allocate universal costs amongst all customer classes, there are at least two groups of residential customers to whom the Commission should pay particular attention to.⁵⁰⁰ First are income-eligible customers who do not participate in CAP.⁵⁰¹ Second are customers whose incomes exceed CAP eligibility limits but remain insufficient to meet their basic household necessities, including their utility bills. This latter

⁴⁹⁶ OSBA St. 2-R at 3.

⁴⁹⁷ OCA St. 4SR at 36.

⁴⁹⁸ OCA St. 4 at 77.

⁴⁹⁹ *Id.* at 77-78 (quoting *The State of ALICE in Pennsylvania: 2026 Update on Financial Hardship*, United for ALICE, 6 (2026)).

⁵⁰⁰ *Id.* at 76.

⁵⁰¹ *Id.*

population occupies the well-recognized income “cliff.”⁵⁰² Exclusive residential allocation places additional pressure on both groups.

For income-eligible nonparticipants, every dollar of CAP costs assigned exclusively to the residential class increases the burden borne by customers who are not receiving CAP benefits.⁵⁰³ As those bills become less affordable, more customers may enroll in CAP.⁵⁰⁴ Increased participation then increases CAP costs, which in turn places an even greater burden on the remaining income-eligible nonparticipants.⁵⁰⁵ The result is a self-reinforcing cycle.

The consequences extend beyond CAP participants. OCA witness Colton testified:

As the Company’s bills become increasingly unaffordable, those customers who have “too much” income to qualify for CAP, but too little money to be able to afford their utility bills, will face increasing payment difficulties. Since public purpose programs do not exist to meet the needs of these customers who have income beyond the “cliff,” the increasing inability-to-pay will create additional costs to the Company, in terms of lost revenue, credit and collection expenses, working capital expenses along with the associated return on equity and tax impacts), bad debt, and the like. Again, as a result, the utility enters into a spiral of self-reinforcing harm to everyone. As these additional costs get incorporated into standard rates, rates to all residential customers will increase, thus making bills even more unaffordable to those with income just beyond the cliff. Moreover, as rates go up, CAP costs will also go up (as the difference between bills at standard rates and bills at CAP rates increases).⁵⁰⁶

Allocating a portion of CAP costs to all customer classes interrupts this cycle. It spreads a public-purpose cost more broadly, reducing the amount that must be recovered exclusively from residential customers and thereby reducing the pressure that drives additional affordability problems. As Mr. Colton explained, “[a]llocating CAP costs to all customer classes not only interrupts the cycle that I have identified, but it does so consistent with the General Assembly’s

⁵⁰² *Id.*

⁵⁰³ *Id.* at 79.

⁵⁰⁴ *Id.*

⁵⁰⁵ *Id.*

⁵⁰⁶ *Id.* at 79-80.

finding that universal service costs are a public good, and further consistent with the Commission’s prior finding of the ‘public purpose’ of universal service expenditures. . . .”⁵⁰⁷

CAUSE-PA witness Patrick Cicero similarly recommends Peoples recover universal service costs across all rate classes explaining that “[t]he ‘cause’ of the need for [the universal service] program is poverty – a societal problem. Residential customers do not cause poverty.”⁵⁰⁸

He further explains that:

Even looking at a model where the “beneficiary pays” causes the conclusion that while the most obvious benefits of universal service programs are apparent to the residential rate class, this is too narrow of a view as there are a multitude of societal benefits which inure to non-residential ratepayers that cannot be ignored. These programs are meant to remediate the impacts of poverty and utility insecurity with long term and far-ranging impacts for low income households, as well as the surrounding communities in which they live and work. Households who cannot afford utility services are more prone to a host of adverse consequences, including increased rates of health complications and hospitalization, eviction, and food insecurity.

. . .

In addition to the adverse physical health impacts which result from lack of utility services, low income customers who face utility insecurity often struggle with heightened levels of stress, anxiety and depression – and must take time away from work to arrange payments, locate or apply for assistance programs, and arrange for reconnections. These consequences of utility insecurity significantly undermine worker productivity, which – in turn – impacts businesses, nonprofits, governmental entities, schools, and other non-residential customer groups. In addition, low income assistance programs help utility companies to control uncollectible expenses which impact all ratepayers.⁵⁰⁹

The Commission has already considered arguments that recovering universal service costs from commercial and industrial customers could negatively affect businesses. In its *2019 CAP Policy Amendments* Order, it rejected those concerns finding:

OSBA and the Industrial Customers have argued that recovering costs of universal service programs from industrial and commercial customers may negatively impact businesses in the Commonwealth. However, we have not seen evidence that the economic climate in Philadelphia has been negatively impacted as a result of

⁵⁰⁷ *Id.* at 80.

⁵⁰⁸ CAUSE-PA St. 1 at 78.

⁵⁰⁹ *Id.* at 78-79.

universal service costs charged by PGW.⁵¹⁰ Further, as noted by multiple parties in the *Review* proceeding, many states recover the cost of utility low-income programs from all ratepayer classes, including New York, New Jersey, Ohio, Illinois, Maine, and New Hampshire.⁵¹¹ We are not aware that this practice has negatively impacted the business climate of any these states.⁵¹²

PGW's allocation of universal service plan costs is particularly instructive. In its 2024 Report, the Commission's Bureau of Consumer Services stated that "PGW's 2024 Universal Service Spending includes only the amount recovered from residential customers, which was 71% of PGW's \$64,313,154 2024 total Universal Service Spending."⁵¹³ Thus, approximately 29% of PGW's universal service spending was allocated to non-residential customers. That percentage is actually somewhat greater than the non-residential share of CAP costs proposed by the OCA in this proceeding, below. This also would not be the first-time non-residential customers in Peoples territory paid a share of CAP program costs. Despite not taking a position on this issue in this proceeding, Company witness Rita Black "confirmed that 4.25% of costs pertaining to CAP were shared with non-residential ratepayers prior to the implementation of the Company's universal service rider."⁵¹⁴

The Commission therefore need not speculate about whether non-residential customers can appropriately bear a portion of universal service costs. Pennsylvania already has an example of such an allocation. And the Commission has previously found no evidence that PGW's practice harmed the business climate.⁵¹⁵

⁵¹⁰ In PGW's 2017 rate case, the Commission noted that recovering universal service costs from all ratepayers does not appear to be a violation of Title 66 or Commission regulations. *Pa. PUC v. PGW*, Docket No. R-2017-2586783, Order at 74 (Nov. 8, 2017).

⁵¹¹ New York, for example, determines the specific distribution of this cost recovery in rate cases, where the total impacts of all revenue requirement changes can be considered. *See Order Adopting Low Income Program Modifications and Directing Utility Filings*, NY P.S.C. Docket No. 14-M-0565, Order at 4 (May 20, 2016).

⁵¹² *2019 CAP Policy Amendments* Order at 95-96.

⁵¹³ *Universal Service Programs & Collections Performance 2024 Report*, Pa. PUC BCS, 91, n. 3 (Jan. 2026).

⁵¹⁴ Peoples St. 10-RJ at 13-14.

⁵¹⁵ *2019 CAP Policy Amendments* Order at 95-96.

OCA witness Colton recommends the following cost allocation mechanism:

I recommend that the costs to be allocated among all customer classes be the total CAP costs (CAP Credits + Arrearage Forgiveness + Administration) reported by the Company to the Pennsylvania PUC in the most recently completed calendar year prior to the year in which the Company receives a final order in a base rate case. For Peoples, the total costs would be \$28,873,507.78.⁵¹⁶ This figure is an authoritative figure, already required to be reported to the Commission, available as publicly accessible information.

I recommend that the interclass allocations be based on each class's allocation of total distribution revenue requirement (excluding taxes) agreed to in a settlement of this case, or that is approved by a final PUC Order if the case is litigated.⁵¹⁷ Using this figure would not involve developing a new number. The costs to be allocated between customer classes in this proceeding would thus be those as are set forth in the Table below. For non-residential customers, the universal service cost could be added on as an undesignated part of the customer charge. For residential customers, the CAP costs would continue to be collected as they have historically been collected. There would, in other words, with the exception of the charges deducted to be collected from other rate classes, be no change in the manner in which residential universal service charges are collected through the USP Rider (along with the periodic reconciliation).

Table 2. Inter-Class Allocation of CAP Costs (Peoples, 2026)		
Customer Class	Revenue Requirement Allocation (Rev.Req. excluding taxes)	CAP Cost Allocation
Residential	74.10%	\$21,395,269.26
Small General	10.90%	\$3,147,212.35
Medium General	9.80%	\$2,829,603.76
Large General	3.90%	\$1,126,066.80
Mainline Service	1.40%	\$404,229.11
Sum		\$28,902,381.29

Given that I propose that the non-residential class allocations be done on a “fixed fee” basis, I recommend that the dollar amount of the non-residential allocations be fixed until the Company files its next base rate proceeding.⁵¹⁸

⁵¹⁶ Peoples’ response to OCA-IV-001, at 82.

⁵¹⁷ See Peoples Ex. 11, at 28:350, 42:35.

⁵¹⁸ OCA St. 4 at 82-83.

Mr. Colton based his recommendation, in part, on the universal service payments the Commission recently required of large load customers:

Contributions to utility universal service programs would not only help ameliorate the impact of rising energy prices for low-income universal service program participants but will also help all residential customers by relieving some of the cost burden of these programs, which are currently borne solely by residential electric customers. However, while EDCs are free to propose what they think best in this regard, we are inclined to favor a flat fee model based upon the Large Load Customer's peak demand as opposed to a volumetric charge. Such a fee structure would be simpler for the EDCs to assess and administer and provide greater predictability and transparency for both the utility and the Large Load Customer.
⁵¹⁹

Mr. Colton's flat fee model, however, differs slightly by allocating a portion of universal service costs to all customer classes, not just residential and large load customers, and is not based on the Commission's peak demand methodology, using the customer classes' percentage of revenue requirement, instead of peak demand.

For all of these reasons, the Commission should require non-residential customer classes to contribute an appropriate and predictable share of CAP costs and adopt OCA witness Roger Colton's allocation of universal service proposal. Doing so would recognize universal service for what the Commission has already determined it to be: a public good serving a broader public purpose, whose costs should not be imposed exclusively on residential customers.

F. Competitive Rate Customers

The OCA is not briefing this section.

XI. WEATHER NORMALIZATION ADJUSTMENT ("WNA")

A. Introduction

The OCA recommends that the Commission affirmatively discontinue Peoples' current weather normalization adjustment (WNA) mechanism, because as OCA witness Michael Deupree

⁵¹⁹ *Large Load Final Order* at 107.

testified, it does not serve ratepayers and Peoples does not need the WNA for any claimed regulatory lag concerns due to the Company's use of a fully projected future test year (FPFTY) and distribution system investment charge (DSIC).⁵²⁰ If the Commission determines that it will authorize continuation of Peoples' WNA, the OCA recommends that the Commission increase the deadband from three percent to five percent and eliminate the months of October and May from the WNA period.⁵²¹ According to Mr. Deupree, this alternate remedy would strengthen ratepayer protections and would furthermore make the Company's WNA consistent with the recent WNA modifications for Columbia Gas of Pennsylvania (Columbia)⁵²² approved by the Commission.

Company witness Michael Huwar stated, "Peoples serves more than 700,000 customers and over two million people in Southwestern Pennsylvania. Each customer represents at least one individual, but most represent more than that – perhaps a family or a business with employees."⁵²³ Mr. Huwar made this statement in the context of economic development and job creation, but it is also useful to illustrate the dynamic between the Company and an individual ratepayer when it comes to the practical reality of the Company's WNA mechanism.⁵²⁴ The implementation of Peoples' WNA created a vastly asymmetrical situation where an individual customer is exposed to weather-related risk, likely unbeknownst to them, versus a NGDC which has robust access to full-time staff, sophisticated analytics, and financial flexibility to absorb negative impact of weather-related risk.⁵²⁵ Mr. Huwar described the WNA as mutually beneficial for the company and the customer, but evidence in this proceeding demonstrated that the Company stands to receive more revenue from ratepayers than it would otherwise have if the WNA had not been

⁵²⁰ OCA St. 4 at 4.

⁵²¹ *Id.*

⁵²² *See Pa. PUC, et al. V. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2025-3053499, *et al.*, Opinion and Order (Dec. 4, 2025) (Columbia 2025).

⁵²³ Peoples St. 1 at 28.

⁵²⁴ *Id.*

⁵²⁵ OCA Exh. MWD-1 at 1.

implemented.⁵²⁶ While the Company describes itself at a net plus to the regional economy through job creation, continuation of its WNA is poised to be a net negative to the household economy of ratepayers if it is permitted to continue. The optimistic description of the WNA that suggests customers will experience a balance of extra account charges and credits does not match the reality experienced by ratepayers, and therefore it should be discontinued.

1. Peoples' WNA sheds financial risk onto residential customers thereby destabilizing customers' ability to control energy costs

According to Mr. Deupree, the WNA shifts weather-related risks away from Peoples and onto its customers. Mr. Deupree testified:

Given the macroeconomic risks that are already shifted to customers beyond direct utility rates through increased prices due to tariffs, increased oil prices due to wars in the middle east, and rising utility rates, Peoples' WNA goes directly against affordability concerns for ratepayers.⁵²⁷

Mr. Deupree explained that Peoples is able to shift risk away from itself through the ability to file for rate increases at any time and shift future weather-related risk to customers through a WNA (as well as infrastructure risks through the DSIC). Peoples' ratepayers are made responsible for Peoples' risk through additional surcharges and are only credited when Peoples' weather-related risk does not materialize, which has not been the case according to the trends Mr. Deupree observed with the Company and in the industry.⁵²⁸ In other words, the WNA symmetrical design produces inequitable results. OCA witness Deupree described the theory behind the Company's WNA as follows:

Peoples' WNA is a Commission-approved adjustment mechanism that reconciles distribution revenues to the level that would have been collected under normal weather conditions. It compares actual heating degree days ("AHDDs") to

⁵²⁶ Peoples St. 1 at 31; *See* OCA Sts. 1 at 29-39; ISR at 7-13.

⁵²⁷ OCA St. 1 at 37-38.

⁵²⁸ *Id.*

normal heating degree days (“NHDDs”) embedded in base rates and adjusts revenues for deviations during the heating season. The mechanism operates symmetrically, producing surcharges in warmer-than-normal periods and credits in colder-than-normal periods. The Company’s WNA applies to the Residential and Small/General Service classes, operates during the October through May heating season, includes a three-percent deadband, is calculated on a bills-rendered basis, is presented as a separate line item on customer bills, and includes a May limiter.⁵²⁹

According to Mr. Deupree, WNAs are generally used to reduce revenue volatility that results from fluctuations in weather which can lower customer gas usage and thus reduce a utility’s recovery of fixed costs through volumetric rates.⁵³⁰ He explained, “The intent is to provide more predictable revenues for the utility while smoothing customer bills.”⁵³¹ He added that the “intent” or “goal” must be balanced with customer protections to ensure the mechanism does not systematically overcharge customers or remove all utility risk.⁵³²

Peoples’ WNA is relatively new⁵³³ and thanks to weather anomalies, nascent data gives the impression that the mechanism is working in to customers’ benefit.⁵³⁴ The WNA resulted in a net charge to residential and non-residential ratepayers during the 2024-2025 heating season but a net credit during the 2025-2026 heating season.⁵³⁵ Across both heating seasons, the WNA has produced a net credit to ratepayers of approximately \$5.3 million, which the Company leans heavily on to support its claim that the WNA is a positive mechanism.⁵³⁶ Mr. Deupree testified why that is illusory:

⁵²⁹ OCA St. 1 at 29.

⁵³⁰ OCA St. 1 at 30.

⁵³¹ *Id.*

⁵³² *Id.*

⁵³³ According to Mr. Deupree “In its Final Order in Docket No. R-2023-3044549, the Commission approved the Company’s proposed WNA as part of a non-unanimous settlement, subject to several modifications negotiated among the settling parties. Specifically, the Commission approved the WNA with a three percent deadband, required that the WNA charge or credit be presented as a separate line item on customer bills, directed that the WNA calculation be performed on a bills rendered basis, and capped the WNA adjustment for bills rendered in May so as not to exceed 100 percent of the billed distribution amount for that same period.” OCA St. 1 at 31-32.

⁵³⁴ OCA St. 1 at 33.

⁵³⁵ *Id.*

⁵³⁶ *Id.*

Q. DO YOU BELIEVE THIS IS EVIDENCE THAT THE WNA IS WORKING AS INTENDED AND WILL CONTINUE TO PROVIDE MONETARY BENEFITS TO RATEPAYERS IN THE FUTURE?

A. No. Historic WNA revenues are heavily influenced by significantly below average temperatures that occurred in late January 2026 due to Winter Storm Fern, but were recorded during the February 2026 WNA period. **Excluding this anomalous event, the Company’s WNA netted the Company more than \$8.0 million through March 2026.**⁵³⁷

Mr. Deupree’s explanation⁵³⁸ that the most recent heating season is anomalous is further underscored by the fact that studies show revenue decoupling end up charging customers higher rates. In surrebuttal testimony, Mr. Deupree included a table from one study that provides the number of instances in which there were observed rate increases or rate decreases for electric and gas utilities under revenue decoupling over a 10-year period:

Table 1: Summary of Lesh Report⁵³⁹

Refund/Surcharge	Number of Reconciliations			Share of All Reconciliations		
	Gas	Electric	Total	Gas	Electric	Total
Refund Percent						
Greater than 3 percent	2	0	2	3.1%	0.0%	2.3%
Less than or equal to 3 percent	1	3	4	1.5%	13.0%	4.5%
Less than or equal to 2 percent	2	1	3	3.1%	4.3%	3.4%
Less than or equal to 1 percent	13	6	19	20.0%	26.1%	21.6%
Total				27.7%	43.5%	31.8%
Surcharge Percent						
Less than 1 percent	23	7	30	35.4%	30.4%	34.1%
Less than 2 percent	7	4	11	10.8%	17.4%	12.5%
Less than 3 percent	5	2	7	7.7%	8.7%	8.0%
Greater than 3 percent	12	0	12	18.5%	0.0%	13.6%
Total				72.3%	56.5%	68.2%
Total Decoupled Utilities	65	23	88	100.0%	100.0%	100.0%

⁵³⁷ *Id* (emphasis added).

⁵³⁸ OCA witness Deupree provided a detailed description of Winter Storm Fern’s impact on the WNA: Winter Storm Fern moved across Pennsylvania from January 23 through 27, 2026, dropping 11.2 inches of snow in the Pittsburgh area on a single day – the second heaviest snowfall in the area of the current century so far. More important for the WNA, Winter Storm Fern also brought extreme cold to the region in its aftermath, such that the Pennsylvania Department of Health issued a Health Advisory for the period January 27 to February 1, 2026, due to forecasted wind chill values near negative 20 degrees Fahrenheit.⁵⁸ The Commission itself issued a statement January 23, 2026, advising consumers to prepare for the winter storm and an extended period of extreme cold.” OCA St. 1 at 33-34.

⁵³⁹ OCA St. 1 SR at 9.

The table shows that 72 percent of the gas utilities in the sample and 57 percent of all the electric utilities in the same sample had reconciliations resulting in rate increases instead of rate decreases. According to Mr. Deupree:

This stands in contradiction to the typical utility assertion that decoupling will yield results that are symmetrical (i.e., will lead to equal rate increases and decreases). The results are even more prevalent when examining large reconciliations. Only three percent of all survey reconciliations associated with gas decoupling programs resulted in refunds to customers greater than three percent. This is approximately one-sixth of the 19 percent of surveyed gas decoupling reconciliations that resulted in surcharges to customers greater than three percent.⁵⁴⁰

In Columbia's most recent rate case, the Commission found that the Company recovered over \$74 million in revenue through the application of the WNA from the Columbia rate payers, according to historical data.⁵⁴¹ Columbia's service territory is similar to Peoples and encompasses western and southwestern Pennsylvania and therefore is arguably subjected to similar weather conditions, forecasts, and outcomes.⁵⁴²

According to Mr. Deupree, the Company's testimony reflects a critical focus on improving revenue stability and predictability under a rate structure that recovers a substantial portion of fixed distribution costs through volumetric charges. Company witness Taylor said: "The WNA stabilizes recovery of authorized distribution revenues attributable to weather-sensitive usage while operating symmetrically to protect customers when weather is colder than normal."⁵⁴³ Mr. Deupree testified that Peoples has already implemented several mechanisms that meaningfully reduce regulatory lag and support timely cost recovery, as follows:

⁵⁴⁰ *Id.*

⁵⁴¹ *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2025-3053499, *et al.*, R.D. at 28 (Oct. 3, 2025).

⁵⁴² See specific territory in each utility's respective tariffs: *Columbia Gas of Pennsylvania, Inc. Rates and Rules for Furnishing Gas Service in the Territory as Described Herein*, Supplement No. 418 to Tariff Gas – Pa P.U.C. No. 9 at Tenth Revised Page Nos. 7-10 (Effective Dec. 16, 2026) (Columbia Tariff); *Peoples Natural Gas Company LLC Rates and Rules Governing the Furnishing of Natural Gas Service to Retail Customers*, Supplement No. 25 Gas – Pa. PUC No. 48 at First Revised Page Nos. 11-17 (Effective Sept. 27, 2024) (Peoples Tariff).

⁵⁴³ Peoples St. 17 at 38.

First, the Company proposed to use a FPFTY in this proceeding, consistent with its approach in its prior base rate case, which better aligns projected revenues with anticipated costs during the rate period. Second, the Company has implemented a DSIC, which provides a vehicle for interim recovery of qualifying capital expenditures made between base rate cases, thereby reducing the gap between investment and recovery. These tools provide the Company with multiple avenues to manage regulatory lag and ensure timely cost recovery.⁵⁴⁴

Mr. Deupree said the continuation of the WNA would further enhance this framework which is generally costs and revenues through reducing regulatory lag.⁵⁴⁵ The Company responded by thinking of these concepts in silos, arguing that the WNA is not intended to address regulatory lag because it does not change the Company's authorized revenue requirement or rate of return.⁵⁴⁶ Mr. Deupree testified: "In my opinion, these mechanisms should not be viewed in isolation. Rather, the Commission should consider their combined effect when evaluating whether the continuation of the Company's existing WNA remains appropriate and in the public interest."⁵⁴⁷

During the pendency of this proceeding, the Commission is also considering a rate increase for National Fuel Gas Distribution Corporation (NFG) where its WNA pilot is under review.⁵⁴⁸ At the date of submission of this Main Brief, the Commission has not issued a final Opinion and Order in the NFG proceeding. However, the ALJ issued a Recommended Decision where she rejected the NFG's request to make its WNA pilot permanent, she further recommended that the pilot be discontinued, stating: "The WNA transfers the risk of price volatility and weather variability from NFG to the ratepayers. Over the three years of the pilot, NFG passed more charges onto residential customers than paid credits to ratepayers. During the three years of the pilot, residential customers were denied clear weather-related consumption and price signals."⁵⁴⁹ The ALJ's reasoning and

⁵⁴⁴ OCA St. 1 at 20-21.

⁵⁴⁵ OCA St. 1 at 21.

⁵⁴⁶ Peoples St. 17R at 59.

⁵⁴⁷ OCA St. 1SR at 10.

⁵⁴⁸ *Pa. PUC v National Fuel Gas Distribution, et al.*, Docket Nos. R-2025-3059428, R.D. (July 31, 2026).

⁵⁴⁹ *Id.* at 309.

outcome align with the OCA's position in this proceeding, and therefore the OCA believes it warrants due consideration by the ALJ in this proceeding.⁵⁵⁰

As Mr. Deupree demonstrated, Peoples' WNA is primarily about revenue stabilization for the Company by quantifying risk using normal heat degree days (NHDD) and average heat degree days (AHDD) to help the Company convert Commission authorized revenues into Commission guaranteed revenues.⁵⁵¹ The byproduct of WNA is that this mechanism establishes asymmetric risk allocation, leaves ratepayers exposed to upward rate adjustments without any assurance of offsetting benefits or improved utility performance, and therefore it should be discontinued.⁵⁵²

2. The Commission's policy factors indicate that continuation of Peoples WNA would not result in just and reasonable rates.

The Commission developed 14 factors that it considers in determining "just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose" of the Commission's policy and the policy laid out in Section 1330.⁵⁵³ Section 1330 specifically states:

"[i]t is the policy of the Commonwealth that utility ratemaking should encourage and sustain investment through appropriate cost-recovery mechanisms to enhance the safety, security, reliability or availability of utility infrastructure and be consistent with the efficient consumption of utility service."⁵⁵⁴

While no one factor is dispositive, the totality of all factors weigh against the authorized continuation of Peoples' WNA.⁵⁵⁵

⁵⁵⁰ *Id.*

⁵⁵¹ OCA St. 1 at 27-29.

⁵⁵² OCA St. 1 at 28.

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

⁵⁵⁴ 66 Pa. C.S. § 1330(a)(2).

⁵⁵⁵ *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2026 PA. PUC LEXIS 60, *75-80 (Order Denying Reconsideration Feb. 19, 2026) (wherein the Commission declined to consider its policy factors regarding alternative ratemaking mechanisms).

For brevity, the OCA provides a limited discussion of the relevant policy factors to this proceeding and incorporates by reference the statements of OCA witness Deupree regarding how the proposed WNA fails to satisfy the Commission's policy factors.⁵⁵⁶ Specifically, the OCA will address cost causation (#1), expectation of charges relative to consumption (#3), conservation and energy efficiency (#5 and #6), rate stability (#8), and customer understandability (#13).

First, Peoples' proposed continuation of its WNA is not cost based because it charges customers for the distribution of natural gas that they do not consume, as described *supra*, based on how the WNA is calculated.⁵⁵⁷ Peoples WNA is premised on ensuring the Company will recover its annual fixed costs of providing gas distribution service; however, the WNA adjustment is applied as a variable charge to customer's bills.⁵⁵⁸

Second, Peoples' proposed WNA does not reflect the demand a customer would anticipate to be charged because the WNA creates the anomaly where customers see rate increases when they reduce consumption and rate decreases when they increase consumption.⁵⁵⁹ OCA witness Deupree said if the WNA is generating revenue, then it inherently does not reflect the level of demand associated with the customer's anticipated consumption levels, because the WNA only generates revenue if the demand is less than anticipated.⁵⁶⁰ Peoples' claims its proposal to set NHDD using a 65-year regression rather than the average of a 65-year regression and a 20-year average to capture recent warming trends, which the Company claims will more accurately track recent warming trends.⁵⁶¹ The OCA did not take a position regarding the Company's 65-year modification proposal, only that according to Mr. Deupree, this is not a structural change.⁵⁶²

⁵⁵⁶ OCA Exh. MWD-1 at 1-2.

⁵⁵⁷ OCA Exh. MWD-1 at 1.

⁵⁵⁸ 52 Pa. Code §§ 69.3302(a)(1).

⁵⁵⁹ OCA Exh. MWD-1 at 1

⁵⁶⁰ *Id.*

⁵⁶¹ Peoples Exh. JDT-6.

⁵⁶² OCA St. 1 at 30.

Furthermore, the 65-year regression modification does not change the fact that when a customer's bill is higher than the energy consumed, that means that charge is not aligned with cost causation principles.⁵⁶³

Third, if Peoples' WNA is permitted to continue, it will interfere with the price signals embedded in Peoples volumetric distribution rate which should incentivize conservation and energy efficiency investment.⁵⁶⁴ While, as Peoples argues, the design of its WNA may not affect a customer's ability to "pursue energy efficiency measure,"⁵⁶⁵ and that "strong incentives" are maintained for customers to pursue energy efficiency measures, OCA witness Deupree testified that Peoples' WNA design actually do the opposite:

The WNA may be perceived as a disincentive to employ energy efficiency measures for customers whose energy efficiency initiative takes place during periods of warmer than normal weather. These customers will see increased WNA charges after reducing usage through implementing energy efficiency initiatives.⁵⁶⁶

For example, a customer contemplating an energy efficiency investment during a colder-than-normal winter would see bills which may be too low to signal the investment is warranted and, during a subsequent warmer-than-normal heating season, would see bills which may be too high to permit them the opportunity to make that investment.⁵⁶⁷ As the Commission stated in *PECO Gas 2024*:

The WNA affects the distribution charge on a customer's bill, while only commodity charges will be based on actual usage, thus muting the effect of consumers' efforts to conserve energy on their bill. Similarly, it will be difficult for consumers to gauge the return on investment for energy efficiency investments when their efforts to conserve energy are not clearly beneficial in reducing their costs.⁵⁶⁸

⁵⁶³ OCA Exh. MWD-1 at 1, 52 Pa. Code §§ 69.3302(a)(3).

⁵⁶⁴ OCA Exh. MWD-1 at 1.

⁵⁶⁵ Peoples Exh. JDT-6.

⁵⁶⁶ OCA Exh. MWD-1 at 1.

⁵⁶⁷ OCA Exh. MWD-1 at 1.

⁵⁶⁸ *Pa. PUC v. PECO Energy Co. – Gas Division, 2024 PA. PUC LEXIS 355, *81 (Order Dec. 12, 2024) (PECO Gas 2024)*.

Customers are thus deprived of both ability and understanding to make the best decisions regarding when to invest in energy efficiency for their household. Therefore, the Commission's fifth and sixth policy factors weigh against approval of the proposed WNA.⁵⁶⁹

Fourth, continuing Peoples' WNA harms –not helps– Peoples' customers' rate stability.⁵⁷⁰ According to Mr. Deupree, the WNA shifts weather-related risks away from Peoples and onto its customers. WNA adds another surcharge to customers' bills without any showing that the WNA would reduce the frequency of base rate case filings. It therefore does not improve rate stability, according to Mr. Deupree.⁵⁷¹ The WNA quantifies risk and uses that quantification to shift costs associated with it onto customers.⁵⁷² Peoples could lower overall risk without the WNA by getting more of its customers to sign up for budget billing, 12 equal payments per month, subject to reconciliation at the end of the applicable period, providing bill certainty during the year, as opposed to year-to-year which may be more difficult to track.⁵⁷³ According to Peoples witness Black, channels to steer customers onto budget billing arrangements already exist:

any residential customer can enroll in the Company's budget billing plan. Budget billing smooths out this volatility by providing a monthly average bill. Customers can enroll in budget billing online through the Company's e-account, or with a customer service agent via telephone. Customers can 6 enroll in the budget plan at any time during the year.⁵⁷⁴

In *PECO Gas 2024*, the Commission found “that the budget billing program more effectively evens out bills for customers than the proposed WNA, and still allows customers to easily understand and predict their bills.”⁵⁷⁵ A customer affirmatively chooses to enroll in budget billing to prevent bill volatility and enable better budgeting; the continued authorization of

⁵⁶⁹ 52 Pa. Code §§ 69.3302(a)(5)(6).

⁵⁷⁰ OCA Exh. MWD-1 at 1.

⁵⁷¹ OCA Exh. MWD-1 at 1.

⁵⁷² OCA St. 1 at 27-28.

⁵⁷³ OCA St. 1 at 30.

⁵⁷⁴ Peoples St. 10-R at 19.

⁵⁷⁵ *PECO Gas 2024* at *81.

Peoples' WNA deprives customers of the ability to elect to enroll, muting the purported benefits of the decoupling mechanism, and failing to provide actual bill stability in a way which is recognizable to Peoples' customers.⁵⁷⁶ As a result, the Commission's eighth policy factor weighs against approval of the proposed WNA.⁵⁷⁷

Fifth, the WNA in practice and in concept remains difficult to understand for customers.

Mr. Deupree explained:

Customers have no means of anticipating future WNA changes as it is impossible for customers to forecast WNA charges in advance and likely difficult for customers to calculate even after the fact. For these reasons elements of the WNA likely are not understandable to customers and effectively is viewed as just another surcharge present on the customer's bill.⁵⁷⁸

This sentiment was verified by public input hearings in this proceeding. One customer called the WNA a "fictitious weather adjustment"⁵⁷⁹ and urged the Commission to discontinue it:

It is unfair and confusing addition to our bills each month. In April, which should have been a lower gas bill as we come into the spring months and warmer weather, I was hit with an additional \$23.13 charge under this program because apparently it was warmer that month than expected. This creates a confusing bill structure where we are . . . not paying for the gas we use, we're paying for what someone thinks we should have used up that month based on the weather.⁵⁸⁰

This is especially true, considering that customers do not have access to all of the information necessary to verify the accuracy of their WNA charges on their bills because, in part, "a customer cannot easily look at the multi-variable formula used to calculate the WNA and determine how their bill would be affected by their usage" and a "customer will not have access

⁵⁷⁶ OCA St. 1 at 30.

⁵⁷⁷ 52 Pa. Code §§ 69.3302(a)(8).

⁵⁷⁸ OCA Exh. MWD-1 at 1.

⁵⁷⁹ Tr. 161.

⁵⁸⁰ Tr. 158-159.

to all of the data used to complete the bill calculation” the Commission has previously found a proposed WNA to be unjust and unreasonable.⁵⁸¹

For these reasons, the weight of the Commission’s policy factors indicate that Peoples’ proposed continuation of its WNA will not result in just and reasonable rates. Peoples’ proposed modified 65-year regression model proposal lacks the structural impact to make continuing the WNA just and reasonable. Therefore, the OCA respectfully requests that Peoples’ WNA be discontinued.

3. If the Commission declines to discontinue Peoples’ WNA, the OCA alternatively recommends modifications in the form of a 5% deadband and eliminating the months of October and May.

While the OCA’s primary position is that Peoples’ proposed continuation of its WNA should be denied, if the Commission determines, contrary to the weight of evidence presented, that Peoples’ WNA should be permitted to continue, the OCA recommends its continued use be conditioned upon certain modifications.⁵⁸² Specifically, OCA witness Deupree found that the Commission’s modifications to the WNA proposed in *Columbia 2025* should be applied to Peoples WNA: an increase in the deadband from three percent to five percent and removing the months of October and May from the proposed WNA’s applicable period.⁵⁸³

In *Columbia 2025*, the Commission stated: “if the goal of the WNA is to improve stability and customer bills and Company revenues, a 5% deadband adequately captures what could be considered normal weather fluctuations in Pennsylvania.”⁵⁸⁴ The Commission further explained that a larger deadband places more responsibility for calculating and forecasting weather variations

⁵⁸¹ *PECO Gas 2024* at *83.

⁵⁸² OCA St. 1 at 34-38.

⁵⁸³ OCA St. 1 at 34.

⁵⁸⁴ *Columbia 2025* at 301.

on the utility as a normal part of doing business.⁵⁸⁵ According to Mr. Deupree, “Consistent with this reasoning, increasing the Company’s deadband from three percent to five percent would provide greater protection to ratepayers and better align with the Commission’s recent determination on this issue.”⁵⁸⁶

Mr. Deupree also disagreed with the inclusion of the months of October and May in the Peoples’ WNA heating season period.⁵⁸⁷ He explained that “the Fall month of October and the Spring month of May are best represented as shoulder months between the winter heating season and the summer cooling season which often sees little heating or cooling requirements for customers and customers only see heating use during years with early and/or late winters.”⁵⁸⁸ Contrary to the purported goal of stability, Mr. Deupree observed that the inclusion of these shoulder months within Peoples’ WNA heating season exposes ratepayers to unnecessary variation in the WNA by shifting the weather risk during these shoulder periods from the Company onto ratepayers.⁵⁸⁹ Mr. Deupree included Table 1 below in his direct testimony, which examines historical variation in monthly AHDD for the October through May period using weather data from the Pittsburgh, Pennsylvania weather station located in the Company’s service territory over the 65-year period October 1960 through May 2025.⁵⁹⁰

⁵⁸⁵ *Id.*

⁵⁸⁶ OCA St. 1 at 35.

⁵⁸⁷ *Id.*

⁵⁸⁸ *Id.*

⁵⁸⁹ *Id.*

⁵⁹⁰ OCA St. 35-36.

Table 1: Analysis of Historic Weather Variability⁵⁹¹

	Standard Deviations			Coefficient Variation
	-1	0	1	
OCT	288	376	465	24%
NOV	572	672	772	15%
DEC	837	996	1,155	16%
JAN	992	1,157	1,322	14%
FEB	835	977	1,120	15%
MAR	649	775	902	16%
APR	355	435	516	19%
MAY	108	188	267	42%

Source: National Oceanic and Atmospheric Administration, National Centers for Environmental Information, GHCN-Daily, Station USW00094823.

According to Mr. Deupree’s analysis of the data above, he found that the coefficient of variation (COV) for AHDD is greatest in the month of May but also elevated during the fall month of October. He explained, as follows:

COV is mathematically the standard deviation of a data series divided by its mean and is a way to present the variance of different data series on a normalized basis as a percent of the average of the data series. For example, the COV of AHDD for the month of May is 26 percent, meaning that the average expected variance in AHDD during the month of May is 26 percent of the expected NHDD based on historic averages. Likewise, the COV of AHDD for the month of October is 22 percent of expected NHDD based on historic averages. The COV for all other months is no greater than 20 percent. Therefore, the Commission should eliminate the months of October and May from the WNA period since these months have seen high variability in weather conditions.⁵⁹²

In the Commission’s recent *Columbia 2025* Order, the Commission agreed that the month of May should be removed from the WNA calculation. Specifically, the Commission explained that “May is not a winter or traditional heating month in Pennsylvania but more appropriately a shoulder month when customers can expect to start seeing their heating bills decline.”⁵⁹³ The Commission also noted that retaining May “could result in customers seeing WNA bill increases

⁵⁹¹ *Id.*

⁵⁹² OCA St. 1 at 36.

⁵⁹³ *Columbia 2025* at 301.

as late as June.”⁵⁹⁴ Peoples service territory overlaps with Columbia’s service territory, notably in Allegheny County. According to Peoples tariff, it serves more than 100 Cities, Townships, and Boroughs in Allegheny County.⁵⁹⁵ According to Columbia’s tariff, “The Company is certified to serve in all cities, boroughs and townships in Allegheny County.”⁵⁹⁶ This, arguably, may lead to customers residing in one municipality being subjected to a WNA mechanism in May because they are a customer of one gas company where other residents of the same municipality may not be subjected to a WNA mechanism for the month of May because they are a customer of the other gas company. In this situation, the weather conditions would be the same for the municipality but some residents could be exposed to extra billing charges and some residents would not.

Discontinuing Peoples’ WNA is the most just, reasonable, and equitable outcome in this proceeding, but if the Commission decides to grant Peoples the ability to continue its WNA, it should include additional safeguards for customers, particularly in light of substantial evidence demonstrating that WNA mechanisms are a net negative for customers. Namely, the Commission should expand Peoples deadband from three percent to five percent, and its WNA should no longer apply to bills rendered in October and May to provide necessary consumer protections as part of the proposed WNA’s core functions, consistent with the Commission’s decision in *Columbia 2025*.⁵⁹⁷

XII. EFFECTIVE DATE OF RATES

The OCA did not present testimony regarding this issue.

XIII. UNIVERSAL SERVICE PROGRAM RIDER

The OCA incorporates by reference, Section VI.U, *supra*, on this issue.

⁵⁹⁴ *Columbia 2025* at 301-302.

⁵⁹⁵ *Peoples Tariff*.

⁵⁹⁶ *Columbia Tariff*.

⁵⁹⁷ *See Columbia 2025* at 301-302.

XIV. LOW-INCOME CUSTOMER SERVICE ISSUES

A. Customer Assistance Program Under-Enrollment

Peoples' position, that affordability is an issue to be addressed exclusively through targeted Customer Assistance Programs (CAP) or through state and federal social programs, would improperly narrow the Commission's ratemaking inquiry.⁵⁹⁸ However, despite Peoples' reliance on CAPs as the premier remedy for affordability concerns, the company persistently fails to achieve adequate participation, leaving its low-income customer base severely under-enrolled in its CAP.⁵⁹⁹ As OCA witness Colton explained, CAPs do not reach every customer experiencing affordability problems.⁶⁰⁰

Table 3. Estimated Low-Income, Confirmed Low-Income and CAP Participants			
	2022	2023	2024
Estimated Low-Income ⁶⁰¹	146,971	145,831	144,472
Confirmed Low-Income ⁶⁰²	108,055	112,886	112,624
Pct confirmed	73.5%	77.4%	78.0%
CAP participants ⁶⁰³	29,760	27,236	25,738
Pct CAP participants	27.5%	24.1%	22.9%

As seen in the Table above, in 2024, Peoples had an estimated low-income population of approximately 144,472 customers and had identified 112,624 customers as Confirmed Low-Income (CLI), yet only 25,738 customers participated in CAP, a participation rate of just 22.9

⁵⁹⁸ OCA St. 4SR at 3.

⁵⁹⁹ OCA St. 4 at 49.

⁶⁰⁰ *Id.*

⁶⁰¹ 2024 BCS Report at 7.

⁶⁰² 2024 BCS Report at 6. Percent Confirmed Low-Income is Confirmed Low-Income divided by the number of estimated low-income.

⁶⁰³ 2024 BCS Report at 56. Percent CAP participation is CAP participants divided by the number of Confirmed Low-Income.

percent of Confirmed Low-Income customers.⁶⁰⁴ Thus, even among customers whom Peoples has identified as low-income, the overwhelming majority are not receiving CAP assistance. Accordingly, the Commission should direct Peoples' to make a more concerted effort to increase CAP enrollment.

B. Effectiveness and Efficiency of Peoples' Credit and Collection Actions.

Section 523 of the Public Utility Code requires:

The commission shall consider, in addition to all other relevant evidence of record, the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title. On the basis of the commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate.⁶⁰⁵

OCA witness Colton identifies Peoples' credit and collection expenditures as an appropriate subject for such an adjustment.

The record demonstrates that a disproportionately high number of Confirmed Low-Income (CLI) customers are in arrears and that there has been a significant deterioration in collection outcomes. OCA witness Colton testified:

The percentage of Confirmed Low-Income customers in arrears for the last three years for which data is reported has consistently run two times higher than the percentage of residential accounts in arrears. The average level of arrears (of accounts in arrears) for Confirmed Low-Income customers has been from 40% (2023) to more than 50% (2022) higher than the average level of arrears for residential customers. The level of arrears at the time of disconnection for Confirmed Low-Income customers has been from 25% (2022, 2024) to 40% higher than residential customers in general.⁶⁰⁶

In 2022, the disconnection rate for Confirmed Low-Income customers was lower than in other years (Residential = 2.6%; Confirmed Low-Income = 3.9%). However, in 2023 and in 2024, the disconnection rate for Confirmed Low-Income

⁶⁰⁴ *Id.* at 49-50.

⁶⁰⁵ 66 Pa. C.S. § 523.

⁶⁰⁶ OCA St. 4 at 45.

customers was three times higher than the disconnection rate for residential customers as a whole (2023: 3.5% vs. 10.5%; 2024: 3.5% vs. 10.2%).⁶⁰⁷

One of the most problematic facts I found in a review of Peoples payment arrangements is that Peoples' payment arrangements do not provide a reasonable opportunity for residential customers to retire their arrears. The Company provided aggregated three-year data for the years 2023 through 2025. This data demonstrates that 71.5% (55,172 of 71,162) of the residential payment arrangements newly entered into during that time, ended in default, while 83.7% (35,047 of 41,896) of the Confirmed Low-Income payment arrangements, ended in default.⁶⁰⁸ Even so, this percentage is very likely an under-count of the number of broken payment arrangements because payment arrangements entered into in more recent months will be included in the "new payment arrangement" numbers, but likely will not have reached the point of having defaulted.⁶⁰⁹

Despite these poor payment and collection patterns, Peoples continues to substantially under-enroll low-income customers in its CAP.

Enrollment in CAP is extremely important as Peoples' data clearly shows that CAP payment patterns are significantly better than the payment patterns of the Company's CLI customers.⁶¹⁰ OCA witness Colton provided:

In contrast to the arrearage and disconnection rates for Confirmed Low-Income customers discussed above, the Company's CAP customers have a payment rate of 82.0% and 85.4% in 2024 and 2025 respectively. The "payment rates" reported to BCS are payments only by the customer. Additional payments made by LIHEAP are *not* included. In 2025, in other words, Peoples' CAP customers paid 85.4% of their bill *before* receiving LIHEAP.⁶¹¹

Based on the evidence provided by Mr. Colton regarding the inefficiency and ineffectiveness of Peoples credit and collection expenditures, and the Commission's obligation "to mak[e] such adjustments to specific components of the utility's claimed cost of service" when considering the "efficiency, effectiveness and adequacy" of such service under Section 523, the

⁶⁰⁷ *Id.* at 46.

⁶⁰⁸ Peoples Response to OCA-IV-17.

⁶⁰⁹ *Id.* at 46-47.

⁶¹⁰ *Id.* at 47.

⁶¹¹ *Id.* at 47-48.

Commission should adopt Colton's recommendation that Peoples' credit and collection expenses be shared fifty-fifty rather than recovered entirely from ratepayers.⁶¹²

C. Limiting The Collection and Retention of Social Security Numbers

The Commission should direct Peoples to immediately limit its collection and retention of customers' Social Security Numbers (SSNs) and, within 12-months after a final order in this proceeding, develop and adopt an alternative means of verifying customer identity and assessing credit risk.⁶¹³ Peoples asks applicants for SSNs to "verify identity and check credit risk score," and admits that it retains SSNs used to establish service indefinitely.⁶¹⁴ This practice unnecessarily exposes customers to the risks of identity theft without demonstrating that indefinite retention is necessary to provide utility service.

OCA witness Roger Colton testified:

The use of SSNs by private entities is one of the leading causes of identity theft. SSNs, along with a person's date of birth and name, are the three most sought-after pieces of personal information sought by identity thieves. According to the 2007 report of the Presidential Task Force on Identity Theft, a person's SSN is the single most important piece of personally identifiable information available to identity thieves. Unlike names and addresses, which can change over a person's lifetime, it is "virtually impossible" for a person to change his/her SSN.⁶¹⁵

⁶¹² *Id.* at 50 (quoting 66 Pa. C.S. § 523).

⁶¹³ *Id.* at 57.

⁶¹⁴ *Id.* (quoting Peoples Response to OCA-V-6, 7).

⁶¹⁵ *Id.* at 58. Unlike a lost key, the social security number cannot be changed merely because it has been lost or stolen. "Identity Theft and Your Social Security Number," Social Security Administration, Pub. No. 05-10064, Oct. 2007, at 6, available at <http://www.ssa.gov/pubs/10064.pdf>. There must be evidence that (1) someone is in fact wrongfully using the number, and (2) that the individual to whom the number belongs is being disadvantaged by the wrongful use. *Id.*

Other federal agencies and organizations such as the federal Office of Management and Budget, the Federal Trade Commission, and the Association for Computing Machinery have similarly raised concerns about and advised against the use of SSNs when possible.⁶¹⁶

Therefore, Mr. Colton recommends that the Commission order Peoples to, within 12 months of a final decision in this proceeding, report to the Commission its plan to eliminate the collection and retention of customer SSNs and, at a minimum, “be directed to: (1) refrain from retaining SSNs from customers for more than 30-days after the customer establishes service; (2) refrain from providing a customer SSN to any entity outside of the Company; and (3) notify the customer, at the time the customer is asked to provide his/her/their SSN that, in the absence of the first two steps outlined above, that the SSN will be retained in perpetuity and that the SSN will be provided to a multi-national credit firm, to allow the customer to take such notice into account in deciding whether to provide their SSN.”⁶¹⁷

XV. CUSTOMER SERVICE ISSUES

A. Service Terminations – Disparate Treatment

The Commission should find that Peoples’ nonpayment termination practices produce a substantial and unexplained disparate impact on Black households. The evidence is clear. The Company has not provided a sufficient legitimate, nondiscriminatory explanation for that disparity. And even if the Company were to have made this showing, a comprehensive root cause analysis by an independent third party is still necessary to determine whether those practices provide adequate and reasonable service under Section 1501 of the Public Utility Code and, if not, what corrective measures are required.

⁶¹⁶ See OCA St. 4 at 59-62.

⁶¹⁷ *Id.* at 63-64.

Section 1501 of the Public Utility Code requires every public utility to furnish and maintain “adequate, efficient, safe, and reasonable service and facilities.”⁶¹⁸ The term “service” is construed “in its broadest and most inclusive sense” and encompasses the practices and actions of a utility that affect its customers.⁶¹⁹ A utility’s termination procedures are a critical component of the utility’s service and adequate termination practices are important to ensuring that termination remains an action of last resort.⁶²⁰

Peoples’ nonpayment termination practices result in substantially more terminations in portions of its service territory with higher concentrations of Black households, and the Company has not established why.⁶²¹ The OCA does not allege that Peoples intentionally targets Black households.⁶²² Nor does the OCA contend that Peoples’ employees make termination decisions based on race.⁶²³ The concern is instead one of disparate impact: a facially neutral termination process is producing a materially different outcome in communities with greater concentrations of Black households.⁶²⁴

That distinction is critical. A practice may have a discriminatory effect without expressly considering race or being adopted with discriminatory intent.⁶²⁵ As the United States Supreme Court has explained, it is not necessary to prove that a specific practice “had a racial purpose or invidious intent” for the practice to be invalid because of its disparate impact.⁶²⁶ Pennsylvania

⁶¹⁸ 66 Pa. C.S. § 1501.

⁶¹⁹ *PECO Energy Co. v. Twp. of Upper Dublin*, 922 A.2d 996, 1000 (Pa. Cmwlth. 2007) (citing 66 Pa. C.S. § 102).

⁶²⁰ See 52 Pa. Code §§ 56.81-56.118 (Commission’s regulations regarding termination procedures); see also *Universal Service Programs & Collections Performance 2024 Report*, Pa. PUC, 11 (Jan. 2026) (“Termination of public utility service is the most serious consequence of customer nonpayment and is viewed as a last resort when customers fail to meet their payment obligations.”).

⁶²¹ OCA St. 4 at 53-54

⁶²² *Id.* at 51-52.

⁶²³ *Id.*

⁶²⁴ OCA St. 4SR at 26-27.

⁶²⁵ *Id.*

⁶²⁶ *Conn. v. Teal*, 457 U.S. 440, 446 (1982).

courts likewise recognize disparate impact as a distinct theory from intentional disparate treatment.⁶²⁷ As a result, the Commission’s consideration of Peoples’ disproportionate termination of Black households for nonpayment must go beyond whether the Company’s procedures are explicitly or implicitly discriminatory on their face.⁶²⁸

The record therefore presents a question that the Commission cannot answer merely by determining whether Peoples intended to discriminate: Why does a facially neutral termination process produce disproportionately more nonpayment disconnections in the portions of Peoples’ service territory with the greatest concentrations of Black households? The appropriate response by the Commission to address that unanswered question is the ordering of a root cause analysis.

The OCA’s evidence of disparate impact comes principally from the analysis of OCA witness Roger Colton.⁶²⁹ Mr. Colton did the following examination of Peoples’ residential customer and nonpayment-disconnection data to support his conclusion that Peoples disproportionately disconnects service to its black customers:

I begin by identifying two ways to identify the Black population in Peoples’ service territory: (1) the number of households where the householder is Black alone;⁶³⁰ and (2) the population by race (Black alone).⁶³¹ In both instances, I limit my population to Black/African-American customers alone (thus excluding multi-race households and population).

I work with zip code data which the Company provided identifying the number of residential customers by each zip code in its service territory.⁶³² I matched those zip codes to Zip Code Tabulation Areas (“ZCTAs”) provided by the

⁶²⁷ See *Winn v. Trans World Airlines, Inc.*, 484 A.2d 392, 398–402 (Pa. 1984) (Larsen, J., opinion in support of affirmance); *Girard Fin. Co. v. Pa. Human Rels. Comm’n*, 52 A.3d 523, 534–35 (Pa. Cmwlth. 2012).

⁶²⁸ See *Eagle Run Holdings, LLC v. Zoning Hearing Bd. of Reading*, 302 A.3d 1261, 2023 Pa. Commw. Unpub. LEXIS 351, *12 (Pa. Cmwlth. July 6, 2023) (citing *Lapid-Laurel v. Zoning Bd. of Adjustment*, 284 F.3d 442, 467 (3d Cir. 2002)) (unpublished) (a disparate impact analysis does not “entail consideration of the [policy’s] text as, by nature, disparate impact presupposes facially neutral enactments or actions.”).

⁶²⁹ OCA St. 4 at 51–56.

⁶³⁰ U.S. Census Bureau, *Table B25006: Race of Householder*, American Community Survey (5-year estimates), U.S. Census Bureau Data Portal (last visited Aug. 17, 2026).

⁶³¹ U.S. Census Bureau, *Table B02001: Race*, American Community Survey (5-year estimates), U.S. Census Bureau Data Portal (last visited Aug. 17, 2026).

⁶³² Peoples’ Response to OCA-IV-4. Zip codes that did not have at least one (1) residential customer were excluded.

Census Bureau. According to the Census Bureau, ZCTAs are functionally equivalent to zip codes.⁶³³

I calculate the percentage of households identified as having Black householders, as well as the percentage of population identified as Black, for each zip code as well as for the Peoples service territory as a whole. I identify zip codes with a percentage of Black householders and/or Black population higher than the percentage for the service territory as a whole as “Above Average Black” zip codes.⁶³⁴ I also rank-ordered all zip codes from the lowest percentage to the highest percentage, and then divided that rank ordering into ten equal parts (each part of which is called a “decile”). The one-tenth of zip codes with the highest percentage Blacks (householders, population) is the “tenth decile” with the one-tenth of zip codes with the lowest percentage being the “first decile.”⁶³⁵

Based on this analysis, Mr. Colton found as follows:

The data shows that Above-Average Black zip codes face a disproportionately high number of nonpayment disconnections in the Peoples service territory. Table 4 below shows that:

- While 30.07% of all residential customers⁶³⁶ live in Above-Average Black zip codes (householders), 42.97% of all residential nonpayment disconnections⁶³⁷ occur in those zip codes. Similarly, while 30.92% of all residential customers live in Above-Average Black zip codes (population), 43.80% of all residential nonpayment disconnections occur in those zip codes.
- The pattern does not change if the data is limited to Confirmed Low-Income customers (rather than extending to all residential customers). While 32.73% of all Confirmed Low-Income customers live in Above-Average Black zip codes (householders),⁶³⁸ 45.42% of all Confirmed Low-Income nonpayment disconnections occur in those zip codes. Similarly, while 33.40% of all Confirmed Low-Income customers live in Above-

⁶³³ Hereafter, I will refer to this as “zip code” data.

⁶³⁴ For example, solely to illustrate, the Peoples service territory as a whole identifies 6.7% of its households as having Black householders. It identifies 7.2% of its total population as being Black. In comparison, zip code 15001 has 12.0% of its households identified as having a Black householder and 11.5% of its population as being Black. Zip code 15001 is thus identified as an “Above Average Black” zip code.

⁶³⁵ OCA St. 4 at 52-53.

⁶³⁶ Peoples’ Response to OCA-IV-4.

⁶³⁷ Peoples’ Response to OCA-IV-16.

⁶³⁸ Peoples’ Response to OCA-IV-4.

Average Black zip codes (population), 46.13% of all Confirmed Low-Income nonpayment disconnections occur in those zip codes.

Table 4. Total Population, Disconnect Notices and Nonpayment Disconnections				
	Total Residential		Confirmed Low-Income	
	Above-Average Black (householders)	Above-Average Black (population)	Above-Average Black (householders)	Above-Average Black (population)
Percentage of total customers (CLI customers)	30.07%	30.92%	32.73%	33.40%
Percentage of nonpayment disconnection	42.97%	43.80%	45.42%	46.13%

The same results are found when I examine the data based on deciles. For residential customers, I find that while 28.80% of all residential customers reside in the Tenth Decile of zip codes measured by Black householders, 41.34% of all residential nonpayment disconnections occur in those zip codes. A similar pattern presents itself when the deciles are based on Black population rather than on Black householders.⁶³⁹

These figures identify a consistent and substantial disparity across multiple measures of racial composition, across the residential customer population as a whole, and the confirmed low-income population. Most importantly, the disparity cannot simply be dismissed as a consequence of a greater concentration of low-income customers in predominantly Black ZIP codes.⁶⁴⁰ Mr. Colton’s analysis specifically examined that possibility, and the disparity remained.⁶⁴¹

Mr. Colton therefore concluded that “[t]he distribution of nonpayment service disconnections is disproportionately weighed toward the Company’s Black population.”⁶⁴² He recommended that Peoples conduct an independent root cause analysis to determine what is

⁶³⁹ OCA St. 4 at 53-55.

⁶⁴⁰ *Id.* at 55.

⁶⁴¹ *Id.* at 54.

⁶⁴² *Id.* at 51.

driving the disproportionate level of utility disconnections in the 40 ZIP codes with the highest concentration of Black households.⁶⁴³

Peoples witnesses, Rita Black and Michelle Parks' responses do not rebut Mr. Colton's data and analysis.⁶⁴⁴ Instead, the Company's witnesses point to the mechanics of its termination process and provide a heat-map analysis that determines CAP eligibility but does not address the disproportionate disconnections in areas with higher populations of black households.⁶⁴⁵ Therefore, instead of actually rebutting the OCA's argument and providing a legitimate, nondiscriminatory explanation for the disparate impact, Ms. Black focused her rebuttal on an unrelated heat map analysis that identified areas and specific accounts for CAP eligibility.⁶⁴⁶

Peoples witness Rita Black testified that Mr. Colton has not "proven that households disconnected were in fact households of color" because Peoples does not collect customer-level racial data and because the Census data used in his analysis are not specific to individual households.⁶⁴⁷ She then recommended additional CAP outreach as the appropriate response to the ZIP codes disproportionately impacted as identified in Mr. Colton's analysis.⁶⁴⁸

Although customer outreach is important, Ms. Black's testimony does not establish that Mr. Colton's analysis is erroneous, nor does the heat-map analysis address the same issues presented by his disparate-impact analysis.⁶⁴⁹ Mr. Colton did not claim to identify the race of each individual customer whose service was terminated; rather, he analyzed Peoples' nonpayment disconnection data by ZIP code and compared the racial composition of those communities using

⁶⁴³ *Id.* at 56; OCA St. 4SR at 30-31.

⁶⁴⁴ OCA St. 4SR at 19-21, 26-27.

⁶⁴⁵ *Id.* at 26.

⁶⁴⁶ Peoples St. 10-R at 16-18.

⁶⁴⁷ Peoples St. 10-RJ at 11-12.

⁶⁴⁸ *Id.*

⁶⁴⁹ OCA St. 4SR at 19.

Census data.⁶⁵⁰ The absence of customer-level racial data is therefore not a rebuttal to the geographic statistical analysis that Mr. Colton actually performed. OCA witness Colton responded:

[Ms. Black] does not explain why she believes improving energy burdens is the sole remedy to the disproportionate disconnection of service to communities of color; she does not explain (let alone document) that there is a relationship between the disproportionate disconnection of service to communities of color and the lack of CAP enrollment in those communities; and she does not explain how reviewing “results of our outreach activities, specifically as it pertains to the use of the heat maps,” would be expected to remedy the disconnection of service for nonpayment in communities of color.⁶⁵¹

Ms. Black’s rebuttal testimony implicitly denies the presence of the racial discrimination which I documented in my Direct Testimony without ever engaging in the data that found disproportionate nonpayment disconnections to exist. While the preparation of the “heat maps” which Ms. Black attached to her Rebuttal Testimony is perhaps an important step forward in doing what she suggests (i.e., to inform outreach activities for CAP), they do not address the cause of, let alone potential mechanisms through which to redress, the presence of disproportionate nonpayment disconnections in communities of color in the Peoples service territory.⁶⁵²

Peoples witness Ms. Parks addressed Mr. Colton’s conclusion that Peoples’ nonpayment terminations disproportionately impact people of color by testifying that Peoples’ termination process is automated through 22 SAP workflow controls and is based on objective arrearage criteria.⁶⁵³ According to Peoples, the process does not consider or apply customer race, ethnicity, neighborhood demographics, or another protected characteristic in determining whether an account is eligible for termination.⁶⁵⁴ That response may establish that Peoples does not intentionally target Black customers, but that is not the claim the OCA has presented.

⁶⁵⁰ OCA St. 4 at 52-53.

⁶⁵¹ *Id.*

⁶⁵² OCA St. 4SR at 20-21.

⁶⁵³ OCA St. 4SR at 26.

⁶⁵⁴ *Id.*

OCA witness Mr. Colton expressly distinguished between intentional discrimination or “targeting” and disparate impact.⁶⁵⁵ His testimony does not contend that Peoples identifies Black customers and intentionally selects them for termination.⁶⁵⁶ Rather, his analysis demonstrates that Peoples’ termination practices *have the effect* of producing disproportionately high termination rates in communities with higher concentrations of Black households.⁶⁵⁷ Thus, Peoples’ testimony answers questions that the OCA did not ask: 1) Whether Peoples’ system is automated, 2) whether its employees know the race of individual customers, and 3) whether the SAP workflow contains an instruction to consider race? These questions are beside the point if the facially neutral criteria nevertheless produce a disparate racial effect.

Peoples itself has already recognized the distinction between intentional discrimination and practices that have a discriminatory effect in other contexts.⁶⁵⁸ Peoples’ tariff concerning cash security deposits provides that its credit-scoring methodology may not “directly, or have the effect of, discriminating based on a protected class.”⁶⁵⁹ The tariff thus recognizes precisely the distinction that a practice may discriminate directly, or it may have the effect of discriminating, without explicit consideration of a protected characteristic.

The same principle applies to automated termination procedures. Peoples’ automated termination procedures are SAP-based (SAP is the software system Peoples uses to manage customer accounts and billing-related processes) workflow controls that automatically determine whether a customer account meets objective arrearage criteria for nonpayment disconnection.⁶⁶⁰ Automation, however, does not immunize a practice from disparate-impact scrutiny. A neutral rule

⁶⁵⁵ *Id.* at 26-27.

⁶⁵⁶ *Id.*

⁶⁵⁷ *Id.*

⁶⁵⁸ *Id.* at 27.

⁶⁵⁹ Peoples Natural Gas Company LLC tariff, Supplement No. 2 to Gas—PA PUC No. 48, First Revised Page No. 19 (Effective Sep. 27, 2024).

⁶⁶⁰ Peoples St. 18-R at 8-9.

can produce unequal effects regardless of whether a human or a computer decisionmaker knows the race of the affected customer.⁶⁶¹ If anything, the automation of Peoples' termination procedures makes a root cause analysis more, not less, appropriate. The Company knows the criteria programmed into its system, and that those criteria do not include "customer race, ethnicity, neighborhood demographics, or any other protected characteristic in determining whether an account is eligible for nonpayment disconnection," but Peoples does not establish why application of its criteria results in substantially greater termination rates in predominantly Black communities.⁶⁶²

The Company's response therefore does not explain the disparity identified by Mr. Colton. It merely establishes the absence of the kind of intentional targeting that the OCA does not allege. Peoples has not identified a legitimate, nondiscriminatory explanation that accounts for why the application of its neutral termination criteria produces the observed racial disparity.

Accordingly, the Commission should apply the two-part disparate-impact framework, which is well established in other contexts, in this proceeding. Under this two-part framework, the party challenging the practice must first establish a prima facie disparate impact.⁶⁶³ Statistics may establish a prima facie disparate-impact case.⁶⁶⁴ The showing does not require proof of discriminatory intent, either explicit or implicit.⁶⁶⁵ Second, once the prima facie showing is made, the burden shifts to the proponent of the challenged practice to provide a legitimate, nondiscriminatory explanation for the disparate impact.⁶⁶⁶ Pennsylvania Courts have used this test

⁶⁶¹ OCA St. 4 at 55-56.

⁶⁶² Peoples St. 18-R at 8-9.

⁶⁶³ *Teal*, 457 U.S. at 446-47; *Girard Fin. Co.*, 52 A.3d at 534-35.

⁶⁶⁴ *Girard Fin. Co.*, 52 A.3d at 534 n.10 (citing *International Brotherhood of Teamsters v. United States*, 431 U.S. 324 (1977)).

⁶⁶⁵ *Teal*, 457 U.S. at 446; *Winn*, 484 A.2d at 401-03; *Girard Fin. Co.*, 52 A.3d at 534.

⁶⁶⁶ *Teal*, 457 U.S. at 446.

under the Pennsylvania Human Relations Act (PHRA).⁶⁶⁷ The Commonwealth Court and the Pennsylvania Supreme Court have also considered the showing required for a claim of disparate impact under the Free and Equal Elections and Uniformity Clauses of the Pennsylvania Constitution.⁶⁶⁸

It is particularly important that the Commission apply this two-step framework here, because the Commonwealth Court has made it clear that OCA's presentation of the disparate-impact theory and the governing two-part test to the Commission was missing from the prior 2023 Peoples base rate proceeding.⁶⁶⁹ In the 2023 Peoples base rate proceeding, the OCA raised the same disparate impact issues it raises here.⁶⁷⁰ The Court affirmed the Commission's order, denying the OCA's request for a root cause analysis on waiver grounds, because the OCA had not adequately presented the disparate-impact theory or the two-part test in front of the Commission, specifically stating:

Here, we are constrained to conclude that the OCA waived its disparate impact argument, as it never raised this issue before the Commission, but included the issue in its legal brief . . . in its appellate brief and at oral argument before this Court, the "OCA recognize[d] that the application of the disparate impact standard to terminations for nonpayment of public utility service is one of first impression." (OCA's Br., at 17) (emphasis added). The OCA likewise averred that "[d]isparate impact analyses have not been applied in the context of adequate and reasonable public utility service, specifically, but other areas of law provide a two part test[.]" (OCA's Br., at 13) (emphasis added.) . . . Therefore, despite the admitted novelty of its disparate impact argument, the OCA failed to expressly raise it below, leaving the Commission without notice of the specifics of its claim within the context of its broader Section 1501 issue.⁶⁷¹

⁶⁶⁷ See *Winn v. Trans World Airlines, Inc.*, 484 A.2d 392, 398-402 (Pa. 1984); *Allegheny Hous. Rehab. Corp. v. Pa. Human Relations Comm'n*, 532 A.2d 315, 319 (Pa. 1987).

⁶⁶⁸ See *League of Women Voters v. Commonwealth*, 178 A.3d 737, 817 (Pa. 2018) (prohibiting disparate impact on a political partisan basis when designing voting districts); *Valley Forge Towers Apts. N, LP v. Upper Merion Area Sch. Dist. & Keystone Realty Advisors, LLC*, 163 A.3d 962, 979 (Pa. 2017) (prohibiting the intentional or systematic disparate treatment of particular sub-classifications of property).

⁶⁶⁹ *D. Lawrence v. Pa. PUC*, No. 1346 C.D. 2024, Opinion (Pa. Cmwlth. 2026).

⁶⁷⁰ *Id.* at 3-5.

⁶⁷¹ *Id.* at 9-11.

The Commonwealth Court, however, did not decide that disparate impact cannot be considered under Section 1501. Rather, Senior Judge Leadbetter, in her dissent, did “not agree that OCA waived the issue of whether it had put on sufficient evidence to justify a root cause study to determine whether Peoples’ practices had a disparate impact on black households,” finding that the evidence presented in Mr. Colton’s testimony was “more than sufficient to preserve the issue.”⁶⁷² The Court held only that the OCA had failed to preserve that legal theory by presenting it to the ALJ and the Commission in the first instance.⁶⁷³ The OCA is now expressly doing so.

The OCA has satisfied the first step. Mr. Colton’s analysis shows a substantial and consistent disparity between the percentage of Peoples’ customers living in above-average-Black ZIP codes and the percentage of nonpayment disconnections occurring in those ZIP codes.⁶⁷⁴ The disparity persists when the analysis is limited to confirmed low-income customers.⁶⁷⁵ Merely because the zip codes studied by Mr. Colton have been identified by Peoples as “vulnerable households to be targeted for increased CAP outreach” does not erase the fact that Mr. Colton’s analysis controls for the income levels of the studied zip codes.⁶⁷⁶ Peoples has not demonstrated that the OCA’s statistical showing is erroneous, nor has it identified an alternative explanation that accounts for the racial disparity.

At the second step, Peoples’ response—that the termination process is automated and does not consider race—does not satisfy its burden.⁶⁷⁷ That explanation establishes only that the process is facially neutral and that Peoples does not intentionally target Black customers.⁶⁷⁸ It does not explain why the process has the disparate effect identified by Mr. Colton or why Peoples’

⁶⁷² *D. Lawrence*, No. 1346 C.D. 2024, Dissenting Opinion at 1, 3.

⁶⁷³ *D. Lawrence*, No. 1346 C.D. 2024, Opinion at 11-12.

⁶⁷⁴ OCA St. 4 at 53-55.

⁶⁷⁵ *Id.* at 54.

⁶⁷⁶ Peoples St. 10-RJ at 12.

⁶⁷⁷ OCA St. 4SR at 26.

⁶⁷⁸ *Id.* at 26-27.

termination procedures were developed in this manner, rather than a manner that does not produce a discriminatory effect.

That distinction is dispositive. A facially neutral practice is precisely the type of practice to which disparate-impact analysis applies, i.e., a practice that falls more harshly on one group than another and cannot be justified by a valid, nondiscriminatory purpose.⁶⁷⁹ The relevant question is therefore not whether Peoples intentionally programmed race into its termination system. It is whether Peoples can identify a legitimate, nondiscriminatory basis for the termination procedures, and one that explains the system's demonstrated disparate effect. Peoples has not done so in this case.

The absence of an identified cause is precisely why the Commission should order a root cause analysis. Section 1501 requires adequate and reasonable service, and Section 1505(a) authorizes the Commission to order a utility to alter its service when necessary to bring that service into compliance with the Code.⁶⁸⁰ Section 501(a), moreover, grants the Commission broad authority, and imposes upon it a duty, to enforce and carry out the provisions and purposes of the Public Utility Code.⁶⁸¹

The Commission has previously used investigations and root-cause-type analyses as remedies for identified service-quality problems. For example, in the Pennsylvania-American Water Company 2023 rate proceeding, the Commission found service-quality deficiencies and ordered an investigation into the quality-of-service problems and their causes, culminating in a root cause analysis report.⁶⁸² Likewise, in the 2023 Philadelphia Gas Works rate proceeding, the Commission ordered measures requiring the utility to analyze adverse trends and develop

⁶⁷⁹ *Winn*, 484 A.2d at 401 (citing *Teamsters*, 431 U.S. at 335, n.15).

⁶⁸⁰ 66 Pa. C.S. §§ 1501, 1505(a).

⁶⁸¹ 66 Pa. C.S. § 501(a).

⁶⁸² *Pa. PUC v. Pa.-American Water Co.*, Docket Nos. R-2023-3043189 et al., Opinion and Order (July 22, 2024).

processes for addressing identified service problems.⁶⁸³ These examples demonstrate that an investigation into the causes of an identified service deficiency is an appropriate regulatory remedy and is not an extraordinary intrusion into utility operations.

A root cause analysis is a reasonable remedy that aims to determine why there is a disparate impact.⁶⁸⁴ It does not presume that Peoples intentionally discriminated. It does not require the Company to abandon automated termination procedures merely because a statistical disparity exists. And it does not dictate the ultimate cause of the disparity before that cause is known. Instead, it requires Peoples to undertake a systematic investigation into why its termination procedures produce the demonstrated disparity and what changes, if any, are necessary to eliminate an inadequate or unreasonable service condition. And the evidence presented by OCA witness Colton supports this remedy, and is sufficient to warrant the requested remedy in light of the limited nature of the remedy's scope and its overall reasonableness.

In this proceeding, the OCA has renewed its case, presented additional evidence, and provided a more detailed recommendation to the Commission, while the Company relies on the same argument regarding the automation of its termination procedures. Accordingly, the Commission should (1) find that the OCA has established a prima facie disparate impact case, (2) find that Peoples has not identified a sufficient explanation for the demonstrated disparity, and (3) order Peoples to conduct and submit a comprehensive root cause analysis of its nonpayment termination procedures. Such an order is necessary to determine whether Peoples is providing

⁶⁸³ *Pa. PUC v. Phila. Gas Works*, Docket Nos. R-2023-3037933 et al., Opinion and Order (Nov. 9, 2024).

⁶⁸⁴ For example, the OCA did not recommend that the Commission give effect to any findings regarding the existence of a disparate impact resulting from Peoples' termination procedures by making adjustments to Peoples' cost of service, such as through the disallowance of specific expense allowances or through the rejection of Peoples' requested management performance adder to its return on equity, despite its clear opportunity to do so. 66 Pa. C.S. §§ 523(a), 526(a). Rather, the OCA's analysis determined that further investigation is required into the demonstrated disparate impact of Peoples' termination procedures, not a penalty to the Company.

adequate and reasonable service as required by Section 1501 and, if not, what changes are necessary to bring its termination practices into compliance with the Public Utility Code.

B. Rebilling/Back-Billing Data Tracking

OCA witness Larkin-Connolly also reviewed Peoples' billing and operational performance, particularly examining rebilling and back-billing events since 2019.⁶⁸⁵ Due to a vendor printing error in 2024, Peoples experienced a significant delay in the printing and mailing of bills for one month, affecting approximately 25% of Peoples' residential customer base.⁶⁸⁶ Peoples also experienced significant spikes in rebills and/or back-bills in March and October of 2024, which were not caused by the bill printing vendor disruption.⁶⁸⁷ However, Peoples was unable to identify the rebill cause because it does not track the causes for such events.⁶⁸⁸

OCA witness Larkin-Connolly defined back-billing as "a make-up bill for service that was previously unbilled or underbilled because of a meter or meter-communication failure, a missed or estimated read later corrected by an actual read, or a billing-system or account error."⁶⁸⁹ He defined rebilling as "the cancellation and reissuance of a bill to correct charges that were calculated incorrectly the first time."⁶⁹⁰ Both terms are used to describe the Company's request for a customer to pay non-current charges.⁶⁹¹

Due to the significant number of rebills and back-bills issued in 2024 which the Company was not able to attribute to a particular cause, OCA witness Larkin-Connolly recommended that

⁶⁸⁵ OCA St. 5 at 18.

⁶⁸⁶ OCA St. 5 at 20.

⁶⁸⁷ OCA St. 5 at 22.

⁶⁸⁸ OCA St. 5 at 22. Peoples claimed that the cause of the rebills during these periods may be related to encoder-receiver-transmitter meter-reading devices, though Mr. Larkin-Connolly found that the number of rebills issued due to the encoder-receiver-transmitter meter-reading devices error was too low to account for the significant number of rebills in 2024, comprising less than 2% of total rebills issued. OCA St. 5 at 23.

⁶⁸⁹ OCA St. 5 at 21.

⁶⁹⁰ OCA St. 5 at 21.

⁶⁹¹ OCA St. 5 at 21.

“Peoples maintain contemporaneous records of any back-billing or rebilling event affecting more than 100 customers from a common cause and be prepared to provide, in its next base rate case, complete information about the event, including the number of customers affected and the bill impact by customer, along with the dates and copies of any communications with Commission staff regarding the event.”⁶⁹² This recommendation is targeted to Mr. Larkin-Connolly’s concern that Peoples may treat back-billing or rebilling events “as operational blips rather than events warranting proactive attention and communication.”⁶⁹³ Improved internal data collection will enable Peoples, the Commission, the OCA, and other advocates to better understand and advise on rebilling or back-billing events that impact a significant number of customers. Absent adequate internal data collection, Peoples will struggle to identify patterns to proactively target and address to ensure that its service remains compliant with the Public Utility Code.

The Commission’s authority to implement the OCA’s recommendation is clear:

Whenever the commission, after reasonable notice and hearing, upon its own motion or upon complaint, finds that the service or facilities of any public utility are unreasonable, unsafe, inadequate, insufficient, or unreasonably discriminatory, or otherwise in violation of this part, the commission shall determine and prescribe, by regulation or order, the reasonable, safe, adequate, sufficient, service or facilities to be observed, furnished, enforced, or employed, including all such repairs, changes, alterations, extensions, substitutions, or improvements in facilities as shall be reasonably necessary and proper for the safety, accommodation, and convenience of the public.⁶⁹⁴

The OCA has provided sufficient evidence to indicate that the Company’s data tracking for rebilling and back-billing events is inadequate to permit Peoples to identify the cause of significant events, and has provided sufficient evidence for the Commission to determine and prescribe specific modifications to Peoples’ service to improve its adequacy. The burden on the Company

⁶⁹² OCA St. 5SR at 11.

⁶⁹³ OCA St. 5 at 24.

⁶⁹⁴ 66 Pa. C.S. § 1505(a).

to begin tracking such data will be relatively minor. Due to the narrowness and reasonableness of the OCA's recommendation, the Commission should Order Peoples to begin recording data regarding rebilling and back-billing events as described by OCA witness Larkin-Connolly.

C. Mailed Cost Summaries

OCA witness Larkin-Connolly further examined the engagement that Peoples customers have with their Peoples bills over time. Based on his review of the data, Mr. Larkin-Connolly recommends that the Commission consider periodic mailed cost summaries for residential customers, showing usage and total billed amounts over time, "to preserve baseline visibility into utility costs for customers across all billing and payment arrangements."⁶⁹⁵ While this recommendation is not specific to Peoples or an identification of a deficiency in Peoples' service, it is germane for the Commission to consider how utilities could improve customers' relationship with their utility bills by being better informed about bill and usage trends over time.

Specifically, Mr. Larkin-Connolly testified that:

A customer who receives a paper bill and pays it manually each month has a recurring prompt to look at what they are being charged. A customer enrolled in both electronic billing and automatic payment has, by design, removed those prompts: the bill arrives in an inbox that may go unopened, and the payment leaves the account without any action required. That is a convenience many customers reasonably choose. But the combination tends to reduce month-to-month attention to the size and movement of the bill, and that reduced engagement has consequences for how billing or cost problems come to light.⁶⁹⁶

Further, approximately 10% more non-CAP residential customers utilize both electronic billing and use AutoPay (11.1%) compared to CAP residential customers utilizing the same (1.3%).⁶⁹⁷

Based on this data, OCA witness Larkin-Connolly concluded that bill engagement may be

⁶⁹⁵ OCA St. 5 at 43.

⁶⁹⁶ OCA St. 5 at 41-42.

⁶⁹⁷ OCA St. 5 at 41.

inversely related to income, as “a customer for whom the gas bill represents a larger share of household income has more reason to watch it closely each month.”⁶⁹⁸ Due to higher levels of customer engagement with their monthly bills, CAP customers may be “the ones most likely to notice and report a billing or cost problem,” meaning that concerns over Peoples’ billing and service may “tend to be treated as affordability matters specific to that population rather than as early indicators of problems that may affect the broader customer base.”⁶⁹⁹

For these reasons, the OCA recommends that the Commission consider, on a non-utility-specific basis, whether additional mailed cost summaries to utility customers could provide greater transparency into usage and payment amounts for customers over time. Such mailed cost summaries would create an additional touch point between the utility and customer, and may create greater awareness of billing concerns that are not affordability-related.

XVI. PROPOSED TARIFF CHANGES

As part of its filing, Peoples requested authorization to implement four modifications to its distribution service tariff that the OCA recommends the Commission deny because of concerns raised by both OCA witness Colton and OCA witness Larkin-Connolly.

A. Nonliability/Limitation Of Liability

Peoples proposes to expand language limiting the Company’s liability for service-related damages and emphasizing that customers are responsible for protecting their premises from damages associated with interruption of gas service, including when a property is vacant or unoccupied. The proposed language also appears to limit recovery for incidental, indirect, special, and consequential damages and cap other damages absent willful or wanton misconduct.

⁶⁹⁸ OCA St. 5 at 42.

⁶⁹⁹ OCA St. 5 at 42.

The OCA recommends that the request to tighten this provision be denied because, as described *supra*, Peoples customers are increasingly submitting informal and formal complaints related to damage to their property associated with Peoples’ construction activities.⁷⁰⁰ While liability limits are not inherently unreasonable, OCA witness Larkin-Connolly testified that the Company’s current liability limits are sufficiently protective.⁷⁰¹ Namely, the current tariff provisions “already protect the Company from open-ended liability exposure.”⁷⁰² For purposes of Section 1501 of the Public Utility Code, the proposed tariff revision is unreasonable and should be rejected as too restrictive, in light of the increasing number of damage-related complaints.⁷⁰³

B. Dishonored Payments

Peoples proposes language to the Billing and Payment section (Rule 10) of the Rules and Regulation of its retail tariff, that will allow the Company to require certified funds to prevent termination or restore service where the customer has a history of returned payments or has not demonstrated a good-faith effort to pay within the prior 12 months. It also proposes authority to remove a customer from eAccount or other online payment options if it detects “abuse” of those platforms, including repeated cancellations of online payments.

OCA witness Larkin-Connolly testified “that the proposed language reserves broad discretionary authority for the Company without establishing any criteria, notice requirements, or review process.”⁷⁰⁴ Specifically, the proposed tariff change:

[A]llows Peoples to require certified funds or the ability to remove a customer from electronic payment options based on its own assessment that the customer has a history of returned payments or has not demonstrated good-faith payment effort within the prior twelve months. There is no definition of what constitutes a history of returned payments, no minimum threshold before the restriction applies, no

⁷⁰⁰ OCA St. 5 at 45.

⁷⁰¹ OCA St. 5 at 45.

⁷⁰² OCA St. 5 at 45.

⁷⁰³ 66 Pa. C.S. § 1501 (“every public utility may have *reasonable* rules and regulations governing the conditions under which it shall be required to render service”) (emphasis added).

⁷⁰⁴ OCA St. 5 at 45.

requirement that the Company notify the customer or BCS before acting, and no mechanism for the customer to contest the determination.⁷⁰⁵

Peoples' proposed change is not proportionate to the burden placed on customers if they are not permitted to pay by check or online, meaning that they "must obtain a money order or cashier's check, which adds cost and inconvenience that falls hardest on customers with limited banking access," without imposing procedural guardrails to protect and adequately inform customers.⁷⁰⁶ While Peoples claims that notifying customers that a payment was returned is sufficient to notify customers that they are, going forward, prohibited from paying by check or eAccount, a returned payment notice is insufficient to inform a customer that they have a demonstrated pattern of returned payments which warrants fewer payment options.⁷⁰⁷ As a result, the proposed tariff change is unreasonable, and the Commission should reject it.

C. Cap Restrictions On Recreational Gas Use

Peoples proposes to remove CAP customers from the program for engaging in "recreational gas use."⁷⁰⁸ The proposal would permit re-enrollment only after verification that the recreational gas connection has been removed. The Commission should reject this proposal because Peoples has not demonstrated that the proposed restriction addresses a material problem or established an administratively reasonable method for enforcing it.⁷⁰⁹

As Mr. Colton testified, the proposal is particularly problematic because Peoples has not adequately defined what constitutes recreational use.⁷¹⁰ Instead, Peoples provides a list which is ambiguously expanded through the use of the terms "such as, but not limited to."⁷¹¹ The Company

⁷⁰⁵ OCA St. 5 at 45-46.

⁷⁰⁶ OCA St. 5 at 46.

⁷⁰⁷ OCA St. 5SR at 8.

⁷⁰⁸ Peoples St. 10 at 8.

⁷⁰⁹ OCA St. 4 at 65-66.

⁷¹⁰ *Id.* at 65.

⁷¹¹ *Id.* (quoting Peoples St. 10 at 8).

does not explain how it would determine whether a particular appliance is being used for a prohibited purpose.⁷¹² Nor does it explain how Peoples would determine the frequency or extent of the allegedly prohibited use for purposes of billing the customer for “unjustified usage.”⁷¹³

The proposal creates a significant risk of erroneous CAP termination without an adequate corresponding appeal mechanism concerning the amount of alleged “unjustified” usage.⁷¹⁴ OCA witness Colton explained enforcement would itself impose expenses which may exceed the cost for providing CAP credits for such an “unjustified use,” including the “cost of (1) policing CAP participants to determine whether, and to what extent, such use is occurring; (2) enforcing the ban through the removal of CAP participants and determining the appropriate amount to be billed for the ‘unjustified use;’ and (3) collecting that billing for the unjustified use.”⁷¹⁵

Peoples witness Black attempts to justify this tariff change by claiming that “pool heaters are the key appliance for which this provision is targeted” and explaining the process for identifying the “unjustified use” of a pool heater while on CAP. This explanation, however, does not justify the use of the open-ended terms “such as, but not limited to” and does not ease the OCA’s concerns that Peoples could arbitrarily remove low-income customers from CAP without remedy. The proposal should therefore be denied as an unnecessary and potentially harmful restriction on assistance to customers who are already experiencing affordability problems.

OCA witness Larkin-Connolly found that “Peoples has not established that recreational gas use by CAP customers is a material or widespread problem.”⁷¹⁶ In its rebuttal testimony, Peoples modified its initial proposal to eliminate the list of appliances it identified as

⁷¹² *Id.*

⁷¹³ *Id.* at 66.

⁷¹⁴ *Id.*

⁷¹⁵ *Id.*

⁷¹⁶ OCA St. 5 at 46.

recreational⁷¹⁷ and only specify pool heaters, in addition to permitting a demonstration of medical necessity for the “recreational” appliance.⁷¹⁸ Though the OCA accepts Peoples’ addition of a medical-necessity certification option in its rebuttal testimony⁷¹⁹ as an improvement to the as-filed proposal, its underlying concerns are unaddressed. Neither proposal “includes any notice, review, or contestability process before a customer is removed from CAP.”⁷²⁰

As proposed, Peoples is vested with significant discretion to remove customers from CAP without providing notice to the customer of the potential for removal. Namely, Peoples uses usage statistics to “flag” customer accounts that the Company suspects of recreational usage.⁷²¹ Once notified that the account’s enrollment in CAP has been suspended, the customer can “restore participation in CAP” if and only if they provide documentation that the appliance is medically necessary.⁷²² The Company’s proposal does not consider (1) that its “flag” could be incorrect and there could be another reason for increased natural gas consumption or (2) that a customer would halt usage of a recreational compliance if they are made aware *ex ante* that they would be removed from CAP. Further procedural guardrails must be put in place before Peoples’ proposal can be adopted; based on the record evidence presented, Peoples’ proposed CAP recreational usage language is unreasonable and its proposal should be denied.

D. CAP benefit reversal for alleged fraud.

Peoples proposes to reverse CAP benefits obtained through “fraudulent means” and rebill those reversed benefits to CAP customers.⁷²³ This proposal should be rejected because the

⁷¹⁷ Including, “but not limited to, interior or exterior pool heaters and/or hot tubs, recreational appliances, outdoor appliances such as gas grills, fire pits/rings, fireplaces, gas lamps, heaters and other cooking appliances, and heated outdoor buildings such as a shed, shop or garage...” Peoples St. 10-R at 4-5.

⁷¹⁸ Peoples St. 10-R at 4-5.

⁷¹⁹ Peoples St. 10-R at 4-5.

⁷²⁰ OCA St. 5SR at 9.

⁷²¹ Peoples St. 10-RJ at 8.

⁷²² Peoples St. 10-RJ at 8.

⁷²³ Peoples St. 10 at 10-11.

Company does not define what entering the program “through fraudulent means” consists of, other than “failure to report all income,” does not establish any meaningful standards for enforcement, and failed to demonstrate that the proposal is necessary or reasonable.⁷²⁴

First, failure to report income does not necessarily constitute fraud.⁷²⁵ It may result from mistake, misunderstanding, or uncertainty regarding what constitutes reportable income.⁷²⁶ This is particularly important for low-income customers, whose income may come from variable, seasonal, informal, or otherwise difficult-to-document sources.⁷²⁷ The mere fact that income was not reported cannot, *ipso facto*, establish that a customer acted fraudulently.⁷²⁸

The proposal is also impermissibly broad because it is not limited to alleged fraud in obtaining entry into CAP.⁷²⁹ A CAP participant “obtains benefits” throughout their participation in the program.⁷³⁰ Thus, under Peoples’ proposed tariff language, the Company could accuse a participant months after enrollment of failing to report income and seek to recover CAP benefits previously received.⁷³¹ For example, a customer who has participated in CAP for 18 months could be accused of failing to report income during Months 9 through 13 and be back-billed for the CAP benefits received during that period.⁷³² The proposal therefore creates continuing and potentially retroactive liability for CAP participants without establishing any meaningful temporal limitation.

Peoples likewise fails to address how its proposal would apply to variable or seasonal income.⁷³³ A customer’s income may increase during certain months and decline during others,

⁷²⁴ OCA St. 4 at 67.

⁷²⁵ *Id.* at 67-68.

⁷²⁶ *Id.* at 68.

⁷²⁷ *Id.*

⁷²⁸ *Id.*

⁷²⁹ *Id.*

⁷³⁰ *Id.*

⁷³¹ *Id.*

⁷³² *Id.*

⁷³³ *Id.*

while the customer's annual income remains within CAP eligibility limits.⁷³⁴ Yet, under Peoples' proposal, an increase in income during particular months could result in those months being deemed to have generated "incorrectly received" CAP benefits, even where the customer remains eligible based on annual income.⁷³⁵

The proposal would also undermine the Commission's decision to extend CAP income recertification periods.⁷³⁶ If CAP participants remain subject to a continuous obligation to report every change in income, the practical benefit of an extended recertification period is substantially diminished.⁷³⁷ As OCA witness Colton explains, the Company's proposal is flawed

... because of its failure to impose a period of repose, the expiration of which would insulate a CAP participant from being accused of a failure to report all income. The Company's tariff leaves the time period open-ended during which it can seek to bill for CAP benefits "incorrectly received." Doing so imposes unreasonable record-keeping requirements on the CAP participant, who would never know whether they will be challenged on a failure to report all income. Even then, the CAP participant would be placed in the difficult, if not impossible, position of needing to prove a negative. If Peoples argues that the CAP participant did receive income which the participant did not report, the CAP participant would be in the position of documenting that they did not receive such income. Peoples should, at a minimum, explain how a CAP participant can prove what income they did not receive in a given time period.⁷³⁸

Similar to its recreational gas use proposal, Peoples has not established the costs it is trying to prevent and the costs it may incur in the process of implementing this proposal.⁷³⁹ Peoples should not be permitted to impose potentially retroactive liability on vulnerable CAP participants based on an undefined standard that could transform an inadvertent or immaterial reporting error into grounds for recovery of months of CAP benefits.

⁷³⁴ *Id.*

⁷³⁵ *Id.*

⁷³⁶ *Id.* at 68-69.

⁷³⁷ *Id.*

⁷³⁸ *Id.* at 69.

⁷³⁹ *Id.*

The proposal lacks procedural protections for customers currently enrolled in CAP, such as “any defined process, standard of proof, or review mechanism.”⁷⁴⁰ As stated by OCA witness Larkin-Connolly, “[a] unilateral benefit reversal with repayment obligation imposed on a low-income household is a serious action that should require a more structured process than the proposed language provides.”⁷⁴¹ While the Company’s testimony emphasizes the need to remove customers from CAP based on the existence of fraud, it does not respond to the need for procedural safeguards before the customer is unilaterally removed from CAP.⁷⁴² Peoples witness Black claims that the Company’s approach has been “to provide sufficient notice to customers and to allow the customers to provide evidence of their eligibility to avoid a reversal of benefits.”⁷⁴³ However, it is Peoples’ tariff that controls its behavior and provides defined ratepayer protections approved by the Commission and subject to the Commission’s scrutiny.⁷⁴⁴ Absent Commission-reviewed and approved tariff language, the Company’s non-tariffed practices are not sufficient to protect Peoples customers. As a result, the proposed CAP fraud reversal tariff modification should be rejected as unreasonable, absent inclusion in the Company’s tariff of a defined standard of proof, advance notice, and a customer appeal process *prior to* removal of CAP benefits.⁷⁴⁵

Accordingly, the Commission should reject Peoples’ proposal to back-bill CAP participants for benefits allegedly obtained through “fraudulent means.”

XVII. HOT WATER TANK REBATE PILOT PROGRAM

Peoples requested Commission authorization to implement a three-year Natural Gas Hot Water Tank Rebate Pilot beginning in January 2027, and to recover the cost of the same in rates.⁷⁴⁶

⁷⁴⁰ OCA St. 5 at 47.

⁷⁴¹ OCA St. 5 at 47.

⁷⁴² OCA St. 5SR at 9-11.

⁷⁴³ Peoples St. 10-RJ at 14.

⁷⁴⁴ 66 Pa. C.S. § 1501.

⁷⁴⁵ 66 Pa. C.S. § 1501; OCA St. 5SR at 10.

⁷⁴⁶ OCA St. 2 at 26.

This program would cost ratepayers \$500,000 per year, with a budget allocated towards \$365,000 for customer rebates, \$21,000 for program administration, and \$114,000 for marketing and outreach.⁷⁴⁷ The OCA recommends that the Commission affirmatively disallow recovery of any Pilot costs through rates.

Namely, as stated by OCA witness Geiger, “[i]ncome-qualified customers may already receive assistance through the Company's Emergency Furnace and Service Line Repair (‘EFSLR’) Program and Low Income Usage Reduction Program (‘LIURP’)” to replace existing low-efficiency natural gas water heaters.⁷⁴⁸ The proposed Pilot program is designed to acquire new customers and increase throughput on Peoples’ natural gas distribution system, not to provide existing customers with additional benefits, by switching customers from electric to natural gas water heaters. As a result, the cost of the Pilot is appropriately borne by Peoples’ shareholders.

A customer’s choice to use an electric or a natural gas appliance is individual to them. The Commission should not sanction a program which favors one energy source over another merely because the sponsoring utility avers that their energy source, in this case natural gas, provides additional benefits; Peoples’ emphasis on improving the affordability of its customers’ bills is most favorably described as thinly cloaked self-interest.⁷⁴⁹ If Peoples is convinced that acquiring additional throughput through offering rebates to switch from electric to natural gas water heaters is in its customers’ interest, it can implement the Pilot using shareholder funds. However, ratepayers should not bear the burden of Peoples’ customer acquisition costs. Therefore, the OCA recommends that the proposed Pilot be denied, and that the cost of the Pilot be removed from Peoples’ proposed revenue requirement, resulting in a \$500,000 disallowance.

⁷⁴⁷ OCA St. 2 at 26.

⁷⁴⁸ OCA St. 2 at 27.

⁷⁴⁹ Peoples St. 8-R at 10-13; Peoples St. 8-RJ at 5-7.

XVIII. SAFETY

The OCA did not present testimony regarding this issue.

XIX. PURCHASES OF RECEIVABLES

The OCA did not present testimony regarding this issue.

XX. LOCAL PRODUCTION

The OCA did not present testimony regarding this issue.

XXI. COMPETITIVE RATE DISCOUNT

The OCA did not present testimony regarding this issue.

XXII. MISCELLANEOUS/OTHER ISSUES

The OCA did not present testimony regarding this issue.

XXIII. CONCLUSION

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

Respectfully submitted,

/s/Joel Cheskis

Joel Cheskis, Esq. (PA. ID # 81617)
Senior Assistant Consumer Advocate
Jacob D. Guthrie, Esq. (PA. ID# 334367)
Ryan Morden, Esq. (PA. ID# 335679)
Olivia M. Spergel, Esq. (PA. ID# 337929)
Assistant Consumer Advocates

Email: OCAPeoplesBRC2026@paoca.org

Counsel for:
Darryl A. Lawrence
Consumer Advocate

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

Dated: August 26, 2026

Appendix A

Tables

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

	Pro Forma Present Rates \$ (1)	Company Adjustments \$ (2)	Pro Forma Present Rates \$ (3) = (1) + (2)	ALJ Adjustments \$ (4)	ALJ Pro Forma Present Rates \$ (5) = (3) + (4)	ALJ Revenue Increase \$ (6)	Total Allowable Revenues \$ (7) = (5) + (6)
Operating Revenue	1,184,614	206	1,184,820	0	1,184,820	9,350	1,194,170
Expenses:							
Gas Supply Production	505,919	0	505,919		505,919		505,919
O & M Expense	219,345	0	219,345	(16,354)	202,991		202,991
Uncollectable Expense	173,113		173,113		173,113	180	173,293
Late Fees						67	
Depreciation	8,068	0	8,068	(36,844)	(28,776)		(28,776)
Taxes, Other	13,759	0	13,759	(239)	13,520		13,520
Income Taxes:							
State	176	0	176	1,289	1,465	646	2,110
Federal	(80,732)	0	(80,732)	3,482	(77,250)	1,782	(75,468)
Total Expenses	839,649	0	839,649	(48,667)	790,982	2,540	793,590
Return	344,965	206	345,171	48,667	393,838	6,809	400,647
Rate Base	5,728,768	0	5,728,768	35,935	5,764,702		5,764,702
Rate of Return	6.02%		6.03%				6.95000000%

(1) As filed

(3) Company Main Brief

TABLE I(A)
Peoples Natural Gas Company LLC
RATE OF RETURN
R-2026-3060855

	<u>Structure</u> (1)	<u>Cost</u> (2)	<u>After-Tax Weighted Cost</u> [(3) = (1) x (2)]	<u>Effective Tax Rate Complement</u> (4)	<u>Pre-Tax Weighted Cost Rate</u> [(5) = (3) x (4)]
Total Cost of Debt			2.64000000%		
Long-term Debt	51.00%	5.17%	2.64000000%		2.64%
Short-term Debt	0.00%	0.00%	0.00000000%		
Preferred Stock	0.00%	0.00%	0.00000000%	0.737135	0.00%
Common Equity	<u>49.00%</u>	8.80%	<u>4.31000000%</u>	0.737135	<u>5.85%</u>
	<u>100.00%</u>		<u>6.95000000%</u>		<u>8.49%</u>
Pre-Tax Interest Coverage	3.22				
After-Tax Interest Coverage	2.63				

TABLE I(B)
Peoples Natural Gas Company LLC
REVENUE FACTOR
R-2026-3060855

100%	<u>1.00000000</u>
Less:	
Uncollectible Accounts Factor (*)	0.01927065
PUC, OCA, OSBA Assessment Factors (*)	0.00000000
Late Payments	0.00721049
Other Tax Factors	<u>0.00000000</u>
	0.987940
State Income Tax Rate (*)	<u>0.06990000</u>
Effective State Income Tax Rate	<u>0.06905699</u>
Factor After Local and State Taxes	0.91888284
Federal Income Tax Rate (*)	<u>0.21</u>
Effective Federal Income Tax Rate	<u>0.190638</u>
Revenue Factor (100% - Effective Tax Rates)	<u>0.72824464</u>
	1.00000000
Revenue Multiplier	1.373165

(*) Company Exhibit No. 2, Schedule No. 4 - 53.53 III.A.17

TABLE II
Peoples Natural Gas Company LLC
SUMMARY OF ADJUSTMENTS
R-2026-3060855

<u>Adjustments</u> (1)	<u>Rate Base</u> (2) \$	<u>Revenues</u> (3) \$	<u>Expenses</u> (4) \$	<u>Depreciation</u> (5) \$	<u>Taxes-Other</u> (6) \$	<u>State Income Tax</u> (7) \$	<u>Federal Income Tax</u> (8) \$
RATE BASE:							
Adjustment to Accumulated Depreciation	36,844						
CWC:							
Int. & Div. (Table IV)	86						
Taxes (Table V)	248						
O & M (Table VI)	(1,243)						
REVENUES:		9,350				0	0
EXPENSES:							
Adjustment to Depreciation Expenses				(36,844)		2,575	7,110
Adjustment to Revise Normalization Period of Rate Case Expense			(411)			29	79
Adjustment to Materials and Supplies			(625)			44	121
Adjustment to Incentive Compensation			(2,521)			176	487
Adjustment to Membership Expenses			(58)			4	11
Adjustment to Employee Activities			(427)			30	82
Adjustment to Travel Expenses			(908)			63	175
Adjustment to Corporate Insurance			0			0	0
Adjustment to Advertising Expense			(76)			5	15
Adjustment to Outside Services - A&G			(1,282)			90	247
Adjustment to Vacancy Reserve: Payroll Expense			(2,985)			209	576
Adjustment to Vacancy Reserve: Payroll Taxes					(239)	17	46
Adjustment to Vacancy Reserve: Employee Benefits			(887)			62	171
Adjustment to PUC Assessment			(824)			58	159
Adjustment to Payment Processing			(1,017)			71	196
Adjustment to Nat Gas Hot Water Tank Pilot			(500)			35	96
Adjustment to Residential Collection Expense			(3,834)			0	0
						0	0
TAXES:							
Interest Synchronization (Table III)						(2,179)	(6,089)
TOTALS	35,935	9,350	(16,354)	(36,844)	(239)	1,289	3,482

TABLE III
Peoples Natural Gas Company LLC
INTEREST SYNCHRONIZATION
R-2026-3060855

(1)	Amount \$ (2)
Company Rate Base Claim	5,728,768
ALJ Rate Base Adjustments (Table II)	<u>35,935</u>
ALJ Rate Base (Line 1 - Line 2)	5,764,702
Weighted Cost of Debt (Table IA)	<u>2.64%</u>
ALJ Interest Expense (Line 3 x Line 4)	152,188
Company Claim ⁽¹⁾	<u>121,015</u>
Total ALJ Adjustment (Line 6 - Line 5)	(31,173)
Company Adjustment ⁽¹⁾	<u>0</u>
Net ALJ Interest Adjustment (Line 7 - Line 8)	(31,173)
State Income Tax Rate (Table IB)	<u>6.99%</u>
State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	<u>(2,179)</u>
Net ALJ Interest Adjustment (Line 9)	(31,173)
State Income Tax Adjustment (Line 11)	<u>(2,179)</u>
Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)	(28,994)
Federal Income Tax Rate	<u>21%</u>
Federal Income Tax Adjustment (Line 14 x Line 15)	<u><u>(6,089)</u></u>

⁽¹⁾ Company Main Brief

TABLE IV
Peoples Natural Gas Company LLC
CASH WORKING CAPITAL - Interest and Dividends
R-2026-3060855

Accrued Interest			Preferred Stock Dividends	
(1)	Long-Term Debt (2)	Short-Term Debt (3)	(4)	(5)
1. Company Rate Base Claim	\$5,728,768 ^{1/}	\$5,728,768	Company Rate Base Claim	\$5,728,768
2. ALJ Rate Base Adjustments	<u>\$35,935</u>	<u>\$36,844</u>	ALJ Rate Base Adjustments	<u>\$36,844</u>
3. ALJ Rate Base	\$5,764,702	\$5,765,612	ALJ Rate Base	\$5,765,612
4. Weighted Cost of Debt	<u>2.64%</u>	<u>0.00%</u>	Weighted Cost Pref. Stock	<u>0.00000000%</u>
5. ALJ Annual Interest Exp.	<u>\$152,188</u>	<u>\$0</u>	ALJ Preferred Dividends	<u>\$0</u>
6. Average Revenue Lag Days	58.9	58.9	Average Revenue Lag Days	58.9
7. Average Expense Lag Days	<u>57.9</u>	<u>0.0</u>	Average Expense Lag Days	<u>0.0</u>
8. Net Lag Days	<u>1.00</u>	<u>58.9</u>	Net Lag Days	<u>58.9</u>
9. Working Capital Adjustment				
10. ALJ Daily Interest Exp.	\$417	\$0	ALJ Daily Dividends	\$0
11. Net Lag Days	<u>1.00</u>	<u>58.9</u>	Net Lag Days	<u>58.9</u>
12. ALJ Working Capital	418	\$0		\$0
13. Company Claim ⁽¹⁾	<u>\$333</u>	<u>\$0</u>	Company Claim ⁽¹⁾	<u>\$0</u>
14. ALJ Adjustment	<u>\$86</u>	<u>\$0</u>		<u>\$0</u>
15. Total Interest & Dividend Adj.	<u>\$86</u>			

⁽¹⁾ Company Main Brief.

^{2/} Company Exhibit No. 2, Schedule No. 4, p. 3

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

Description (1)	Company Proforma Tax Expense Present Rates (2)	ALJ Adjustments (3)	ALJ Pro forma Tax Expense Present Rates (4)	ALJ Allowance (5)	ALJ Adjusted Taxes at Present Rates (6)	Daily Expense (7)	Net Lead/ Lag Days (8)	Accrued Tax Adjustment (9)
Taxes Other Than Income Taxes	\$13,759	(\$239)	\$13,520		\$13,520	\$37.04	-10.00	(\$370)
State Income Tax	\$176	\$1,289	\$1,465		\$1,465	\$4.01	5.31	\$21
Federal Income Tax	(\$80,732)	\$3,482	(\$77,250)		(\$77,250)	(\$211.64)	23.30	(\$4,931)
	<u>(\$66,797)</u>	<u>\$4,532</u>	<u>(\$62,265)</u>	<u>\$0</u>	<u>(\$62,265)</u>			
						ALJ Allowance		(5,280)
						Company Claim ⁽¹⁾		<u>(5,528)</u>
						ALJ Adjustment		<u>248</u>

⁽¹⁾ Company Main Brief

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

Description (1)	Company Pro forma F.T.Y. Expense (2)	ALJ (3)	ALJ Pro forma Expenses (4)	Lag Days (5)	CWC Lag Factor	Lag Dollars (6)
Gas Purchase Costs	\$505,919	\$0	\$505,919	25.41	0.0696	\$0
Payroll	\$74,275	(\$5,506)	\$68,769	43.26	0.1185	(\$653)
Employee Benefits	\$19,388	(\$887)	\$18,501	62.60	0.1715	(\$152)
Other O&M	\$108,655	(\$9,961)	\$98,694	16.06	0.0440	(\$438)
	<u>\$708,237</u>	<u>(\$16,354)</u>	<u>\$691,883</u>	<u>0.00</u>		<u>(\$1,243)</u>

⁽¹⁾ Company Main Brief

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

	Pro Forma Present Rates \$ (1)	Company Adjustments \$ (2)	Pro Forma Present Rates \$ (3) = (1) + (2)	ALJ Adjustments \$ (4)	ALJ Pro Forma Present Rates \$ (5) = (3) + (4)	ALJ Revenue Increase \$ (6)	Total Allowable Revenues \$ (7) = (5) + (6)
Operating Revenue	1,184,614	206	1,184,820	0	1,184,820	17,829	1,202,649
Expenses:							
Gas Supply Production	505,919	0	505,919		505,919		505,919
O & M Expense	219,345	0	219,345	(16,354)	202,991		202,991
Uncollectable Expense	173,113		173,113		173,113	344	173,457
Late Fees						129	
Depreciation	8,068	0	8,068	(36,844)	(28,776)		(28,776)
Taxes, Other	13,759	0	13,759	(239)	13,520		13,520
Income Taxes:							
State	176	0	176	2,457	2,633	1,231	3,864
Federal	(80,732)	0	(80,732)	6,747	(73,985)	3,399	(70,586)
Total Expenses	839,649	0	839,649	(44,234)	795,415	4,845	800,389
Return	344,965	206	345,171	44,234	389,405	12,984	402,389
Rate Base	5,728,768	0	5,728,768	36,114	5,764,882		5,764,882
Rate of Return	6.02%		6.03%				6.98000000%

(1) As filed

(3) Company Main Brief

TABLE I(A)
Peoples Natural Gas Company LLC
RATE OF RETURN
R-2026-3060855

	<u>Structure</u> (1)	<u>Cost</u> (2)	<u>After-Tax Weighted Cost</u> [(3) = (1) x (2)]	<u>Effective Tax Rate Complement</u> (4)	<u>Pre-Tax Weighted Cost Rate</u> [(5) = (3) x (4)]
Total Cost of Debt			2.35000000%		
Long-term Debt	45.53%	5.17%	2.35000000%		2.35%
Short-term Debt	0.00%	0.00%	0.00000000%		
Preferred Stock	0.00%	0.00%	0.00000000%	0.737135	0.00%
Common Equity	<u>54.47%</u>	8.50%	<u>4.63000000%</u>	0.737135	<u>6.28%</u>
	<u>100.00%</u>		<u>6.98000000%</u>		<u>8.63%</u>
Pre-Tax Interest Coverage	3.67				
After-Tax Interest Coverage	2.97				

TABLE I(B)
Peoples Natural Gas Company LLC
REVENUE FACTOR
R-2026-3060855

100%	<u>1.00000000</u>
Less:	
Uncollectible Accounts Factor (*)	0.01927065
PUC, OCA, OSBA Assessment Factors (*)	0.00000000
Late Payments	0.00721049
Other Tax Factors	<u>0.00000000</u>
	0.987940
State Income Tax Rate (*)	<u>0.06990000</u>
Effective State Income Tax Rate	<u>0.06905699</u>
Factor After Local and State Taxes	0.91888284
Federal Income Tax Rate (*)	<u>0.21</u>
Effective Federal Income Tax Rate	<u>0.190638</u>
Revenue Factor (100% - Effective Tax Rates)	<u>0.72824464</u>
	1.00000000
Revenue Multiplier	1.373165

(*) Company Exhibit No. 2, Schedule No. 4 - 53.53 III.A.17

TABLE II
Peoples Natural Gas Company LLC
SUMMARY OF ADJUSTMENTS
R-2026-3060855

<u>Adjustments</u> (1)	<u>Rate Base</u> (2) \$	<u>Revenues</u> (3) \$	<u>Expenses</u> (4) \$	<u>Depreciation</u> (5) \$	<u>Taxes-Other</u> (6) \$	<u>State Income Tax</u> (7) \$	<u>Federal Income Tax</u> (8) \$
RATE BASE:							
Adjustment to Accumulated Depreciation	36,844						
CWC:							
Int. & Div. (Table IV)	40						
Taxes (Table V)	473						
O & M (Table VI)	(1,243)						
REVENUES:		17,829				0	0
		0					
EXPENSES:							
Adjustment to Depreciation Expenses				(36,844)		2,575	7,110
Adjustment to Revise Normalization Period of Rate Case Expense			(411)			29	79
Adjustment to Materials and Supplies			(625)			44	121
Adjustment to Incentive Compensation			(2,521)			176	487
Adjustment to Membership Expenses			(58)			4	11
Adjustment to Employee Activities			(427)			30	82
Adjustment to Travel Expenses			(908)			63	175
Adjustment to Corporate Insurance			0			0	0
Adjustment to Advertising Expense			(76)			5	15
Adjustment to Outside Services - A&G			(1,282)			90	247
Adjustment to Vacancy Reserve: Payroll Expense			(2,985)			209	576
Adjustment to Vacancy Reserve: Payroll Taxes					(239)	17	46
Adjustment to Vacancy Reserve: Employee Benefits			(887)			62	171
Adjustment to PUC Assessment			(824)			58	159
Adjustment to Payment Processing			(1,017)			71	196
Adjustment to Nat Gas Hot Water Tank Pilot			(500)			35	96
Adjustment to Residential Collection Expense			(3,834)			0	0
						0	0
TAXES:							
Interest Synchronization (Table III)						(1,011)	(2,824)
TOTALS	36,114	17,829	(16,354)	(36,844)	(239)	2,457	6,747

TABLE III
Peoples Natural Gas Company LLC
INTEREST SYNCHRONIZATION
R-2026-3060855

(1)	Amount \$ (2)
Company Rate Base Claim	5,728,768
ALJ Rate Base Adjustments (Table II)	<u>36,114</u>
ALJ Rate Base (Line 1 - Line 2)	5,764,882
Weighted Cost of Debt (Table IA)	<u>2.35%</u>
ALJ Interest Expense (Line 3 x Line 4)	135,475
Company Claim ⁽¹⁾	<u>121,015</u>
Total ALJ Adjustment (Line 6 - Line 5)	(14,460)
Company Adjustment ⁽¹⁾	<u>0</u>
Net ALJ Interest Adjustment (Line 7 - Line 8)	(14,460)
State Income Tax Rate (Table IB)	<u>6.99%</u>
State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	<u>(1,011)</u>
Net ALJ Interest Adjustment (Line 9)	(14,460)
State Income Tax Adjustment (Line 11)	<u>(1,011)</u>
Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)	(13,449)
Federal Income Tax Rate	<u>21%</u>
Federal Income Tax Adjustment (Line 14 x Line 15)	<u><u>(2,824)</u></u>

⁽¹⁾ Company Main Brief

TABLE IV
Peoples Natural Gas Company LLC
CASH WORKING CAPITAL - Interest and Dividends
R-2026-3060855

Accrued Interest			Preferred Stock Dividends	
(1)	Long-Term Debt (2)	Short-Term Debt (3)	(4)	(5)
1. Company Rate Base Claim	\$5,728,768 ^{1/}	\$5,728,768	Company Rate Base Claim	\$5,728,768
2. ALJ Rate Base Adjustments	<u>\$36,114</u>	<u>\$36,844</u>	ALJ Rate Base Adjustments	<u>\$36,844</u>
3. ALJ Rate Base	\$5,764,882	\$5,765,612	ALJ Rate Base	\$5,765,612
4. Weighted Cost of Debt	<u>2.35%</u>	<u>0.00%</u>	Weighted Cost Pref. Stock	<u>0.00000000%</u>
5. ALJ Annual Interest Exp.	<u>\$135,475</u>	<u>\$0</u>	ALJ Preferred Dividends	<u>\$0</u>
6. Average Revenue Lag Days	58.9	58.9	Average Revenue Lag Days	58.9
7. Average Expense Lag Days	<u>57.9</u>	<u>0.0</u>	Average Expense Lag Days	<u>0.0</u>
8. Net Lag Days	<u>1.00</u>	<u>58.9</u>	Net Lag Days	<u>58.9</u>
9. Working Capital Adjustment				
10. ALJ Daily Interest Exp.	\$371	\$0	ALJ Daily Dividends	\$0
11. Net Lag Days	<u>1.00</u>	<u>58.9</u>	Net Lag Days	<u>58.9</u>
12. ALJ Working Capital	372	\$0		\$0
13. Company Claim ⁽¹⁾	<u>\$333</u>	<u>\$0</u>	Company Claim(1)	<u>\$0</u>
14. ALJ Adjustment	<u>\$40</u>	<u>\$0</u>		<u>\$0</u>
15. Total Interest & Dividend Adj.	<u>\$40</u>			

⁽¹⁾ Company Main Brief.

^{2/} Company Exhibit No. 2, Schedule No. 4, p. 3

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

Description (1)	Company Proforma Tax Expense Present Rates (2)	ALJ Adjustments (3)	ALJ Pro forma Tax Expense Present Rates (4)	ALJ Allowance (5)	ALJ Adjusted Taxes at Present Rates (6)	Daily Expense (7)	Net Lead/ Lag Days (8)	Accrued Tax Adjustment (9)
Taxes Other Than Income Taxes	\$13,759	(\$239)	\$13,520		\$13,520	\$37.04	-10.00	(\$370)
State Income Tax	\$176	\$2,457	\$2,633		\$2,633	\$7.21	5.31	\$38
Federal Income Tax	(\$80,732)	\$6,747	(\$73,985)		(\$73,985)	(\$202.70)	23.30	(\$4,723)
	<u>(\$66,797)</u>	<u>\$8,965</u>	<u>(\$57,832)</u>	<u>\$0</u>	<u>(\$57,832)</u>			
						ALJ Allowance		(5,055)
						Company Claim ⁽¹⁾		<u>(5,528)</u>
						ALJ Adjustment		<u>473</u>

⁽¹⁾ Company Main Brief

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

Description (1)	Company Pro forma F.T.Y. Expense (2)	ALJ (3)	ALJ Pro forma Expenses (4)	Lag Days (5)	CWC Lag Factor	Lag Dollars (6)
Gas Purchase Costs	\$505,919	\$0	\$505,919	25.41	0.0696	\$0
Payroll	\$74,275	(\$5,506)	\$68,769	43.26	0.1185	(\$653)
Employee Benefits	\$19,388	(\$887)	\$18,501	62.60	0.1715	(\$152)
Other O&M	\$108,655	(\$9,961)	\$98,694	16.06	0.0440	(\$438)
	<u>\$708,237</u>	<u>(\$16,354)</u>	<u>\$691,883</u>	<u>0.00</u>		<u>(\$1,243)</u>

⁽¹⁾ Company Main Brief

Appendix B

OCA Proposed Findings of Facts

Appendix B – OCA Proposed Findings of Fact

OVERALL POSITION ON RATE CASE / AFFORDABILITY

1. The Commission should impute Peoples' capital structure to 51.0% long-term debt and 49.0% common equity for ratemaking purposes and authorize a return on equity of 8.8%. OCA St. 3 at 4.
2. In the event that the Commission declines to adopt the OCA's recommended capital structure and utilizes Peoples' proposed ratemaking capital structure of 45.5% long-term debt and 54.5% common equity, the Commission should adopt the OCA's alternative return on equity recommendation of 8.5%. OCA St. 3 at 4.
3. If the Commission adopts the OCA's alternative capital structure and return on equity components, the Commission should adopt an increase of no more than \$17.8 million to additional annual distribution revenues. OCA St. 1SR at 2.
4. Vice Chair Kimberly Barrow issued a Statement accompanying the Suspension Order which urge[d] the parties to take a critical look at the Company's requested rate of return and return on equity (ROE) as well as the capital structure (common equity ratio and debt capital) to ensure reasonableness. The Vice Chair noted that deviations in each of these items translate into millions of dollars charged to customers of all rate classes and that a careful and detailed review of Peoples' claimed capital structure and ROE is warranted. *Pa PUC v. Peoples Nat. Gas Co.*, Docket No. R-2026-3060855, Statement of Vice Chair Kimberly Barrow (Apr. 16, 2026).
5. The OCA empirically established the relationship between Peoples' ratemaking capital structure and return on equity, as well as the revenue requirement impact of the same, in producing both primary and alternative recommendations for Peoples' revenue requirement. OCA St. 3 at 4-6.
6. Peoples filed its rate case at a time when residential customers are considerably burdened trying to cover household expenses. OCA St. 1 at 7.
7. Peoples has filed for successive rate requests with narrow gaps in between filings. OCA St. 1 at 6-7.
8. On December 19, 2025, the Company requested this base rate increase of \$163.2 million in the current proceeding. Peoples St. 1 at 3.
9. This represents the first such requested increase since 2023, when the Company was authorized an approximate \$93 million increase in rates. *Pennsylvania Public Utilities Commission v. Peoples Natural Gas Company, LLC*; Docket No. R-2023-3044549, Order at 1 (Sept. 12, 2024).

10. Combined, Company ratepayers will have seen a \$256.2 million, or nearly 30.6 percent, increase in total rate revenues in less than three years if the Company's proposed rate increase is approved as proposed. OCA St. 1 at 7.
11. Peoples' filing comes at a time when utility costs are already adding to elevated household expenses alongside the ongoing price increases of food, housing, transportation, childcare, and other necessities. OCA St. 1 at 7.
12. Affordability concerns are especially acute for low-income households who devote a larger portion of their income to these necessities. OCA St. 1 at 7.
13. Households that do not qualify for Customer Assistance Programs face mounting pressure as wages fail to keep pace with the cost of living. OCA St. 1 at 7.
14. On a weekly basis through mid-2026, Essential Utilities, Peoples' parent entity, has seen its common stock trade at approximately \$37 to \$38 per share, a level consistent with the range observed throughout 2024 and 2025. While the stock has declined from its peak of approximately \$52 per share in early 2022, recent weekly trading data reflects a period of relative stability rather than acute market distress. This indicates that the Company is not in a position of obvious financial struggle attributable to recent economic uncertainty. OCA St. 1 at 16.
15. The annualized growth in Consumer Price Index (CPI) has fallen from the highs that were seen in the immediate aftermath of the 2020 pandemic, it should be recognized that CPI is still elevated, reaching 4.2 percent in May 2026. OCA St. 1 at 8.
16. The Consumer Price Index is reported monthly in terms of an annualized increase in consumer prices, meaning that a decline in the monthly 'headline' CPI (i.e. the month-to-month CPI growth rate often reported in the news) does not mean that consumer prices have decreased, but rather that the rate of growth in consumer prices has slowed. OCA St. 1 at 8.
17. Overall, consumer prices have been continually increasing since at least 2021, even while the rate of growth has somewhat stabilized. OCA St. 1 at 8.
18. Over the period January 2021 to January 2026, overall consumer prices increased 24.3 percent. Likewise, "core inflation" – which remove volatile energy and food prices – increased nearly 23.1 percent, indicating that growth in consumer prices since January 2021 are not driven by temporary shocks to energy and food prices, but rather represent systemic inflation that will persist for many years. OCA St. 1 at 8.
19. Wholesale electricity prices in the PJM western hub increased 48.8 percent on average from 2024 to 2025. Likewise, Pennsylvania citygate natural gas prices increased 2.8 percent from December 2024 to December 2025 on the back of a nearly 41.9 percent increase in wholesale natural gas prices during the same period. OCA St. 1 at 12.

20. The geopolitical conflict in the Persian Gulf is impacting energy prices and increasing uncertainty. OCA St. 1 at 12.
21. An increase in crude oil prices shows how price shocks caused by the conflict in the Persian Gulf will likely filter through the larger macroeconomy. OCA St. 1 at 13.
22. Pennsylvanians have already experienced higher gasoline prices due to global crude oil demand and shortened supply from the Persian Gulf. OCA St. 1 at 13.
23. The conflict in the Persian Gulf will also impact Liquefied Natural Gas supplies from the Persian Gulf to consumers in Asia. It is likely that these consumers will turn to alternative supplies from the US as stored supplies dwindle. This will, in turn, place upward pressures on wholesale natural gas prices in the US as more natural gas is diverted to international supplies. OCA St. 1 at 14.
24. Governor Josh Shapiro issued an open letter to utility leaders and the Commission arguing that customers across the Commonwealth are experiencing higher utility costs, and that rising utility bills have become a driver of inflation. OCA St. 1 at 17.
25. Governor Josh Shapiro stated that utilities must seek ways of procuring capital to finance investments in more affordable ways, conscious of the utility burdens facing many consumers across the Commonwealth. OCA St. 1 at 17.
26. The Commission recently noted that affordability is not simply a problem facing low-income customers, though that problem is substantial. OCA St. 4SR at 4.
27. The Commission recently noted that PAWC responded to the affordability of its rates to low-income customers through its Bill Discount Program and highlighted that only a small fraction of eligible low-income customers were actually enrolled in the Company's BDP. *Pa. PUC v. Pa. American Water Co.*, Docket Nos. R-2025-3057983 *et al*, Order at 39 (July 27, 2026).
28. The Commission recently recognized that affordability is not an issue that is solely the province of the poor by stating that it cannot overlook the fact that, given the Company's history and cadence of frequent base rate increase requests, affordability is a growing issue, exacerbated by recent and current economic conditions, including increased inflation. OCA St. 4SR at 4-5 (quoting *Pa. PUC v. Pa. American Water Co.*, Docket Nos. R-2025-3057983 *et al*, Order at 40 (July 27, 2026)).
29. At proposed rates, 238 of the 402 Peoples' zip codes would have bills that exceed an affordable bill at proposed rates by \$1,000 or more at the average Q1 income (the 1/5 portion of the population with the lowest income) for each zip code. OCA St. 4 at 12.
30. At proposed rates, in 212 of Peoples 402 zip codes, Q1 households would need an additional income of \$35,000 or more to afford the resulting bill. OCA st 4 at 12-13.

31. Peoples' bills represent more than 26% of income for households with income less than \$10,000 at existing rates, and nearly 33% of income at the rates proposed in this proceeding. Even with income as high as \$45,000 to \$49,999, Peoples' bill burdens range from 2.8% (existing rates) to 3.5% of income (proposed rates). OCA St. 4 at 14.
32. More than one-of-four households with income less than \$50,000 in the Peoples service territory have income less than \$15,000 (with burdens ranging from 13% to 33% at proposed rates). Nearly two-in-five have income less than \$20,000, while nearly half have income less than \$25,000. OCA St 4 at 14-15.
33. In Pennsylvania, 10% to 13% of households with income between \$100,000 and \$200,000 were unable to pay their energy bill, or pay the full amount of their energy bill, in almost every month, some months or one or months. OCA St. 4 at 21.
34. In Pennsylvania, for households with annual income somewhat lower, but still modest (\$75,000 to \$100,000), the difficulties in paying home energy bills were even higher, with nearly 20% reporting that they were unable to pay an energy bill, or pay the full bill, in almost every month, some months, or one or two months. OCA St. 4 at 21.
35. Moderate-income households and residential customers generally also face material difficulties paying their natural gas bills. OCA St. 4 at 20-21.
36. In 2024, nearly half (48.8%) of all households with a householder age 65 or older in the zip codes served by Peoples had income less than \$50,000, while nearly 30% (28.1%) had incomes less than \$30,000. OCA St. 4 at 41-42.
37. More than one-in-ten (10.1%) senior households had an income of less than \$15,000. OCA St. 4 at 41-42.
38. More than 7% of households with a resident age 65 or older reported that that were unable to pay an energy bill or unable to pay the full amount in almost every month, some months, or one or two months. OCA St. 4 at 42.
39. Eight to nearly ten times more aging households reported keeping their home at a temperature that felt unsafe or unhealthy in almost every month, or reducing or forgoing expenditures on basic household necessities in almost every month in order to pay their utility bill, than reported being unable to pay their bill. OCA St. 4 at 96.
40. Two to three times as many aging Pennsylvania households reported that they kept their homes at a temperature that felt unsafe or unhealthy in some months, or reported forgoing expenditures on basic household necessities in some months in order to pay their utility bill, than reported being unable to pay their bill. OCA St. 4 at 96.
41. The extreme and dangerous actions that Pennsylvania's aging households take are directly attributable to the inability of Pennsylvania's aging households to pay their home energy bill. OCA St. 4 at 43.

42. OCA witness Colton analyzed the affordability of Peoples rates to residential customers as a whole through use of the HB Score, which is the weighted average household gas burden using all income ranges. OCA St. 4 at 22-23.
43. HB Score shows to what degree Peoples' proposed rate increase will increase the burden of gas bills on residential ratepayers in Peoples' service territory. OCA St. 4 at 22.
44. For Peoples, the weighted average HB Score at existing rates is a burden of 3.8%. OCA St. 4 at 22.
45. At proposed rates, the average HB Score for the Peoples service territory increases to 4.7%. OCA St. 4 at 22.
46. The rate increase sought by Peoples in this proceeding will increase the HB Score by 24%. OCA St. 4 at 22.
47. Income alone does not adequately measure a customer's ability to pay. OCA St. 4 at 33.
48. A customer may have sufficient annual income on paper but lack the liquid resources necessary to absorb an unexpectedly high winter gas bill. OCA St. 4 at 34.
49. Households without adequate savings or emergency funds are particularly vulnerable to substantial month-to-month variations in utility bills. OCA St. 4 at 34.
50. As a natural gas utility, Peoples' residential customers experience substantial variation in their monthly bills. OCA St. 4 at 36-37.
51. As heat-related consumption increases in the winter months and cooling related consumption increases in the hot weather months, the median bills increase correspondingly. OCA St. 4 at 36-37.
52. These high seasonal bills contribute to a high annual burden. OCA St. 4 at 36-37.
53. The high seasonality also places monthly stress on residential customers. OCA St. 4 at 36-37.
54. In 2025, for example, a customer would need to have sufficient funds to pay a monthly bill \$277 higher in January (\$296) than they would need to have in July (\$18.73). OCA St. 4 at 36-37.
55. At 125% of median usage, the difference between the average bill for the months of May through October 2025 (\$24.46) and the average bill for the months of December 2024 through March 2025 (\$214.27) was roughly \$180 a month. OCA St. 4 at 36-37.
56. While covering only a four-month period (December through March), the household would need to have access to more than \$700 in additional resources to cover the monthly swing in Peoples bills. OCA St. 4 at 36-37.

57. Failing to identify and recognize the inability-to-pay due to a lack of resources to respond to the monthly volatility in bills, is not merely a failure to identify payment problems from the perspective of the customer, but represents a serious increase in the financial risk to Peoples. OCA St. 4 at 36-37.
58. 45 percent of Pennsylvania households do not have emergency funds, with one contributing cause being that 24% of households were spending more than their income, while an additional 34% were spending about equal to their income. OCA St. 4 at 40.
59. The number of residential accounts in arrears has seen substantial growth in the past year, with particularly significant seasonal increases in March 2025 and March 2026. OCA St. 4 at 25.
60. Just as Peoples has a high percentage of accounts with unpaid balances of \$300 or more, the Company also has a high percentage of accounts that have unpaid balances that are 90 days old or older. OCA St. 4 at 25-27 (citing Peoples Response to OCA-IV-30).
61. The number of accounts with 90+ day balances consistently remains between 40% and 50% of the total number of accounts in arrears. OCA St. 4 at 25-27.
62. From a dollar perspective, in October 2023, the proportion of dollars in arrears that were 90 days old or older reached 82%. OCA St. 4 at 25-27 (citing Peoples' Response to OCA-IV-32).
63. In October 2024, that proportion remained at 77%, while in October 2025, the proportion remained at 73%." OCA St. 4 at 25-27 (citing Peoples' Response to OCA-IV-32).
64. There was a temporary dip in 90+ arrears during 2024, but overall, the Company's performance has declined on a year-over-year basis ever since. OCA St. 4 at 25-27.
65. In every month January 2025 through March 2026, the percentage of accounts with an unpaid balance of \$300 or more has been higher than the percentage in the corresponding month in the prior year. OCA St. 4 at 25-27.
66. Increasing housing costs, inflation in essential household expenses, limited household savings, and other financial pressures confront Peoples' customers. OCA St. 4 at 29-33.
67. In the Peoples service territory, the percentage of renters with very high housing burdens (housing burdens include utility costs) increased by more than 40% from 2019 to 2024 for households falling in the income ranges of \$20,000 to \$34,999. OCA St. 4 at 31.
68. In that time frame, the proportion of households with high rental burdens increased by more than 100% for households with income from \$35,000 to \$50,000, and by more than 150% for households with income of \$50,000 to \$74,999. OCA St. 4 at 31.
69. Even though renter wages have substantially increased between 2019 and 2025, they have not generally increased at a rate sufficient to keep up with the increase in fair market rents. OCA St. 4 at 32.

70. By 2025, the median renter wage as a percentage of the hourly wage needed to be able to afford a two-bedroom fair market rents had fallen in nine of the 16 counties studied. OCA St. 4 at 32.
71. In four of those nine counties, the decline was between 4.5% and 5.8% (Allegheny, Fayette, Mercer, Washington. OCA St. 4 at 32
72. Where there was a gain in renter housing buying power, the gain was minimal. OCA St. 4 at 32.
73. In Butler and Cambria counties, the gain was only 0.1%, while in Somerset county, the gain was only 1.6%. OCA St. 4 at 32.
74. Given that utility costs are one component of the fair market rents calculated by HUD each year, as Peoples rates increase, so, too, the fair market rents will increase throughout the Peoples service territory. OCA St. 4 at 32.
75. When combined with rising housing prices generally, the rate increase sought by Peoples not only places the payment of future utility bills in jeopardy, but it also places the access to housing in jeopardy. OCA St. 4 at 32.

RATE BASE

76. Peoples requested a cash working capital rate base component of \$47,681,867 in its initial filing, which was revised to \$46,932,677 based on adjustments that Peoples made to its claimed expenses in rebuttal testimony, based on its claimed expenses, long-term debt component of its capital structure, and cost of long-term debt. Peoples St. 14-R at 4.
77. Peoples used a lead-lag study to calculate its claimed amount of cash working capital. Peoples St. 14 at 3.
78. Peoples' cash working capital rate base component should be reduced on the adjustments to Peoples' claimed rate base, expenses, long-term debt ratio, and cost of long-term debt, that the Commission approves in this proceeding. OCA St. 2 at 6-7.
79. The Company reflects cash working capital in its filing based on whether the timing of cash flows results in a funding requirement or a source of funds. Positive cash working capital represents funds provided by investors to finance the Company's operations during the period between the payment of expenses and the receipt of customer revenues. As such, positive cash working capital is included in rate base, allowing the Company the opportunity to earn a return on that investment. Conversely, negative cash working capital represents funds effectively supplied by customers through advance collections or favorable cash flow timing and is reflected as a rate base offset because those funds reduce the amount of investor-supplied capital required to support operations. OCA St. 2 at 6.

80. The Commission should adopt Peoples' lead-lag methodology or the calculation of revenue and expense lag day. OCA St. 2 at 7.
81. Based on the recommended adjustments to Peoples' claimed expenses and Peoples' long-term debt ratio and cost of long-term debt, the appropriate adjustment to Peoples' cash working capital rate base component is (\$909,793). OCA St. 2SR at 3; OCA Sch. JNG-4-SR.
82. The Company's FPFTY depreciation expense claim should be reduced by \$36,844,273. OCA St. 3 at 11.
83. Peoples' accumulated depreciation reserve should be reduced by \$36,844,273. OCA St. 2 at 7; OCA Sch. JNG-5-SR.

OPERATION AND MAINTENANCE EXPENSE

84. Peoples proposed two types of inflationary adjustments to forecast escalations in its FPFTY expense levels from HTY and FTY levels: historical escalations and inflation rate-based adjustments. Peoples St. 2-R at 4-11.
85. I&E recommended that certain of Peoples' proposed escalation factors be removed or adjusted. I&E St. 1; I&E St. 1SR.
86. Peoples proposed to use a multi-year historical percentage experience change for each expense type individually and applied it to the HTY balances to determine the amount of change in balance to expect during the FTY and FPFTY. Peoples St. 2-R at 4.
87. Peoples witness Wachter utilized a 5-year average increase for all categories except Outside Services – IT, Outside Services – A&G and Licenses and Permits where a 4-year average was utilized and Company memberships where a 2-year average was utilized. Peoples St. 2-R at 7.
88. The periods Peoples used were not reflective of the recent cost to Peoples for these expense items; namely, there was significant volatility between 2023 and 2024 and 2024 and 2025, involving both cost increases and decreases for the identified expense items. OCA St. 2 at 8-9, 18-22.
89. Peoples did not provide contractual or other evidentiary support for the use of the escalation factors. *See, e.g.*, OCA St. 2 at 22.
90. Peoples' sole support for these escalation factors is that they are known and measurable because inflation is going to continue related to the Company's expenses based on the Company's experience with rising prices. Peoples St. 2-R at 6.
91. Peoples' expenses do not follow a consistent inflationary trend. Rather, in recent years, Peoples' expenses are subject to significant year-to-year variability. OCA St. 2SR at 6.

92. Peoples proposed to use the Consumer Price Index to calculate inflationary adjustments to its payment processing and advertising expenses. Peoples St. 2-R at 9.
93. The Consumer Price Index is a measure of consumer prices and does not reflect the inflationary pressures placed on Peoples with respect to individual expense accounts. OCA St. 1SR at 6.
94. Peoples' reliance on the existence of inflation to support its expense adjustment provides no specific ties to the expense accounts for which it applied the inflationary adjustment. Peoples St. 2-R at 10.
95. Peoples should utilize the HTY expense for the payment processing expense accounts instead of relying on the Company's Consumer Price Index-based inflation factor. OCA St. 2 at 20-21, 25-26.
96. Peoples proposed staffing levels at the conclusion of the FPFTY of 1,463 full-time employees for a labor expense claim of \$68.149 million. OCA Sch. JNG-15-SR.
97. Peoples assumed that approximately 30 of these positions would be vacant at the end of the FTY and eight of these positions would be vacant at the end of the FPFTY. OCA St. 2SR at 14.
98. The Company's vacancy reserve should be set using the most recent three-year period, a vacancy rate of 4.98%, based on the average vacancy rate by month for the last three years. OCA Sch. JNG-15-SR.
99. While Peoples claims that it will be able to attract and retain sufficient employees to have only eight vacancies – a vacancy rate of 0.55% – by the end of the FPFTY, its recent experience demonstrates otherwise. By the end of November 2025, Peoples maintained a higher-than-average vacancy rate of 5.44%, with an average vacancy rate of 5.12% for the 12-month period ending November 30, 2025. The Company's lowest vacancy rate occurred during the 12-month period ending November 30, 2023, closer in time to the COVID-19 pandemic, and has since increased. OCA St. 2SR at 14-15; OCA Sch. JNG-15-SR.
100. The Company's claimed labor expense should be reduced by \$2,985,17. OCA St. 2SR at 14-15; OCA Sch. JNG-15-SR.
101. Due to the downwards adjustment in the Company's claimed labor expense, Peoples' payroll tax expense claim should be reduced by \$239,176 and its employee benefits expense should be reduced by \$887,355. OCA Sch. JNG-16-SR; OCA Sch. JNG-17-SR.
102. Peoples witness Hanechak testified that the OCA's calculations of the payroll tax and employee benefits expense adjustments are accurate. Peoples St. 11-R at 4.

103. Peoples requested an employee incentive compensation and/or bonus expense allowance of \$6,125,473 for the FPFTY. OCA St. 2 at 11.
104. The employee incentive compensation and/or bonus expense claim related purely to financial performance, and not to customer service and/or safety objectives, should be funded by Peoples' shareholders and not ratepayers. OCA St. 2 at 11.
105. I&E recommends that the portion of Peoples' incentive compensation expense dedicated to serving shareholder interests should be funded by shareholders. I&E St. 1 at 11-14.
106. The price floor of established cost-of-service rates allows shareholders to retain benefits created by regulatory lag (*i.e.*, earning an actual rate of return that is higher than the authorized rate of return or over-earning). OCA St. 1 at 23.
107. Peoples has not demonstrated that it would be put at a disadvantage compared to other businesses if ratepayers are not required to fund its full incentive compensation expense claim. OCA St. 2SR at 7.
108. The Company's claimed incentive compensation expense should be reduced by \$2,520,984 to reflect removal of the portion related purely to financial performance. OCA St. 2SR at 9; OCA Sch. JNG-8-SR.
109. Peoples proposed including costs totaling \$756,875 in the cost of service related to employee activities, such as employee events and safety awards, at the close of the FPFTY. Peoples St. 11-R at 4.
110. Peoples' claimed employee activities expense should be reduced by \$426,970 to reflect the removal of costs that do not aid in the provision of safe and reliable public utility service. OCA St. 2 at 18; OCA St. 2SR at 10-11.
111. Peoples proposed to include \$1.139 million of travel, meal, and entertainment expenses in the FPFTY. OCA St. 2 at 11.
112. Peoples claims that it is reasonable and prudent to recover from ratepayers the costs of: employee gatherings, such as the Special Olympics Polar Plunge event; team lunches; Service Awards that reward employees' anniversaries with the Company; and other, similar, expenses. OCA St. 2SR at 11.
113. Peoples' explanation of these expenses does not demonstrate that they are reasonable or necessary to the provision of safe and reliable service for Peoples' customers. OCA St. 2SR at 11.
114. Of the additional employee entertainment and promotional activity expenses disallowed, these expense items include an annual Company picnic, events at sporting venues, service anniversary rewards, matching Company shirts for events, and reimbursable meal

expenses, which the Company has not demonstrated are reasonable or that they are related to providing safe and reliable service. OCA St. 2SR at 11.

115. Peoples' claimed travel, meal, and entertainment expenses should be reduced by \$908,032, reflecting a disallowance of the escalation factor of \$108,658 and a disallowance of \$799,375 in additional employee entertainment and promotional activity expenses. OCA St. 2 at 11.
116. Peoples has proposed to include \$1.220 million in the FPFTY for expenses associated with its membership in trade and economic development organizations, as well as other types of memberships. OCA St. 2 at 16.
117. Several of the organizations for which the Company requested membership expenses be included in rates do not aid in the provision of safe and reliable service to ratepayers. OCA St. 2 at 16.
118. Ratepayers and Peoples' shareholders should evenly bear the burden of 11 of these memberships. Namely, the organizations for which cost should be shared between shareholders and ratepayers reflect business and economic development, public affairs, and community relations organizations. OCA Sch. JNG-9-SR; OCA St. 2SR at 9-10.
119. The Company's claimed membership expense should be reduced by \$57,914 to reflect the sharing of certain membership expenses between Peoples' shareholders and ratepayers. OCA Sch. JNG-9-SR; OCA St. 2SR at 9-10.
120. The Company's claimed advertising expense should be reduced by \$75,656, reflecting the use of the Company's actual HTY expense for this account and the removal of the unsupported escalation factor adjustment to the HTY expense amount. OCA Sch. JNG-13-SR.
121. Peoples proposed to use a historical escalation factor for the 12-month periods ended December 31, 2020, through December 31, 2024, to derive its claimed Materials and Supplies expense. OCA St. 2 at 8.
122. Peoples' materials and supplies costs decreased by 13.9% from 2023 to 2024 and then increased by only 0.46% from 2024 to 2025, indicating significant volatility that is out-of-line with a consistent year-over-year escalation factor. OCA St. 2 at 8-9.
123. The Company's claimed materials and supplies expense should be reduced by \$585,816 to reflect the removal of Peoples' claimed historical escalation factors and the use of the average expense for the three 12-month periods ended November 30, 2023, through November 30, 2025, which better reflects the costs Peoples has actually incurred OCA St. 2 at 8-9; OCA Sch. JNG-7-SR.
124. Peoples claimed a rate case expense of \$1.920 million normalized over a two-year period, for an annual expense claim of \$0.960 million included in the FPFTY. OCA St. 2 at 7.

125. Peoples' proposed normalization period does not accurately reflect its historic filing frequency and should not be accepted. OCA St. 2SR at 5.
126. Based on the Company's three most recent rate filings in 2019, 2023, and 2026, the average rate case interval is approximately three and a half years. OCA St. 2SR at 5.
127. Peoples selected its normalization period based on the gap in time between the instant proceeding and its 2023 general rate increase request, alone, excluding its prior rate cases filed in 2010, 2012, and 2019. Peoples witness Wachter claims that the period of time between the 2012 and 2019 rate filings was the result of a stay-out agreed-to as part of a merger proceeding, the time between the 2019 and 2023 rate filings was the result of a change in federal tax regulations, and, as a result, these time periods are not representative of Peoples' historic filing frequency. Peoples St. 2-R at 38.
128. The Company's 2023 rate filing was the result of a come-back provision in the settlement regarding Peoples' tax repair election which required Peoples to file a rate case by December 31, 2023. OCA St. 2SR at 5; *Petition of Peoples Natural Gas Company LLC for Accounting and Regulatory Approvals and Approval of Related Tariff Surcredits Associated with Tax Repair Election*, Docket No. P-2020-3021191, Joint Petition for Settlement ¶ 17(d) (filed Mar. 11, 2021).
129. Peoples' 2023 rate filing was submitted on December 29, 2023, the last business day compliant with the come-back provision. *Pa. PUC v. Peoples Nat. Gas Co.*, 2024 PA. PUC LEXIS 288, *3 (Sep. 12, 2024).
130. Peoples' claim that the time between the 2019 and 2023 rate filings should be excluded from the calculation of its historical filing frequency is unreasonable. OCA St. 2SR at 5.
131. Peoples' claimed rate case expense should be reduced by \$411,429 to reflect the use of a three-and-a-half-year normalization period, consistent with Peoples' historic filing frequency. OCA St. 2SR at 5.
132. The Company's request to utilize a historical escalation factor adjustment to HTY outside services – administrative and general should be disallowed. OCA St. 2SR at 13-14.
133. The Company's claimed outside services – administrative and general expense should be reduced by \$1.282 million to reflect the removal of the historical escalation factor. OCA Sch. JNG-14-SR.
134. Peoples' request to implement a Natural Gas Water Tank Rebate Program should be denied, and the corresponding \$500,000 included in rates to fund the Program should be removed. OCA St. 2SR at 18; OCA Sch. JNG-20-SR.

135. Peoples proposed to include \$2.940 million of payment processing expenses in the FPFTY, including a 22.0% year-over-year escalation factor applied each year from the HTY to the FPFTY. OCA St. 2 at 25.
136. Peoples failed to provide evidence, such as contracts with its third-party payment processor, to support its claim for a year-over-year increase in its payment processing expense. OCA St. 2 at 25.
137. Peoples' HTY payment processing expense amount reflects a significant escalation in Peoples' historical experienced cost for payment processing; namely, the Company's adoption of a no-fee credit card payment system resulted in a significant increase to the expense which is already reflected in the HTY amount. OCA St. 2 at 25.
138. Peoples presented no evidence to support that it will continue to experience an increase in costs at the same or a similar rate over time, since it has already adopted no-fee credit card payment processing. OCA St. 2SR at 17.
139. Peoples' payment processing expense claim should be reduced by \$1,016,537, for an allowance of \$1,923,122, to reflect the removal of the Company's proposed escalation factor. OCA JNG-19-SR.
140. Peoples claimed an expense amount for its Commission assessment by determining the average increase over the past five years of 6.0% and escalating its HTY expense by that amount for its FTY and FPFTY expense claims. OCA St. 2 at 25.
141. The Company's Commission assessment claim should be reduced by \$823,737 to reflect the removal of the Company's proposed historical escalation and the use of a three-year average for the expense amount. OCA St. 2SR at 16.
142. Due to Peoples' inadequate and unreasonable residential collection expense practices, ratepayers should not be required to fund more than 50% of Peoples' claimed collection expense. OCA St. 4 at 50.
143. Peoples' residential collection expense claim should be reduced by \$3.834 million to reflect the removal of 50% of residential collection expense from rates, which should be borne by shareholders. OCA St. 4SR at 30.
144. If the Commission adopts the OCA's recommended rate base and capital structure, then the Commission should make a corresponding interest synchronization adjustment to reflect the Company's altered tax liability. OCA St. 2 at 28; OCA St. 2SR at 19-20; OCA Sch. JNG-22-SR.
145. The Company's interest expense claim should be reduced by \$8.268 to reflect the interest synchronization calculation associated with the OCA's recommended rate base and capital structure. OCA St. 2 at 28; OCA St. 2SR at 19-20; OCA Sch. JNG-22-SR.

146. The Company's uncollectible expense amount should be calculated using a revenue multiplier, included in the gross-up factor. OCA Sch. JNG-1-SR, page 2; Peoples St. 2-RJ at 24.
147. Peoples' proposed expenditures for universal service costs include (1) an additional employee to facilitate compliance with the Commission's LIURP requirements and (2) studies to identify "zones of vulnerability" and associated communications costs. OCA St. 4 at 85.
148. Recovering these costs through the Universal Service Rider would isolate individual cost increases from the other changes in Peoples' cost of service that will result from improved program performance. OCA St. 4 at 85.
149. Targeted communications intended to increase Customer Assistance Program enrollment may increase outreach costs but simultaneously decrease working capital associated with arrears, credit and collection expenses, bad debt, and lost revenues resulting from disconnections. OCA St. 4 at 85-86.
150. Effective LIURP expenditures can improve payment performance and reduce arrears, disconnections, and bad-debt write-offs. OCA St. 4 at 86-87.
151. Ratepayers should not be required to fund more than 50% of Peoples' claimed collection expense. OCA St. 4 at 50.
- 152.** Based on statutory authority to adjust a utility's claimed cost of service amount associated with inadequate service and the record evidence supporting that Peoples' credit and collection activities constitute inadequate and unreasonable service, the Commission should reduce Peoples' residential collection expense claim by \$3.834 million. OCA St. 4SR at 30.
153. A Customer Assistance Program participation level using a 12-month average of actual historical enrollment provided by the Bureau of Consumer Services (BCS) and use write-off for confirmed low-income (CLI) customers as published in the most recent BCS annual report on collections performance and universal service programs would result in an 8.1% offset. OCA St. 4SR at 34-35.
154. Peoples has not historically demonstrated sufficient accuracy in projecting future Customer Assistance Program participation. OCA St. 4 at 70-71.
155. Peoples originally proposed to base Customer Assistance Program participation on projected Customer Assistance Program participation and use a bad debt offset equal to the recent three-year average of residential uncollectible activity. OCA St. 4 at 71.
156. Since Peoples' original rate filing, Peoples witness Ms. Scanlon agreed to revert back to the approach the Company utilized in the 2023 base rate case proceeding as recommended in OCA witness Colton's direct testimony. OCA St. 4SR at 34.

157. OCA witness Colton initially recommended using the actual month-end Customer Assistance Program participation level at the time of the final order as the number over which the offset would be applied. OCA St. 4 at 71.
158. In surrebuttal, Mr. Colton recognized the concern that Customer Assistance Program participation varies from month to month and therefore agreed that a twelve-month average, ending with the month in which the final order is issued, is an appropriate methodology. OCA St. 4SR at 33-34.
159. Peoples' own independent Customer Assistance Program (CAP) evaluation found that CAP participation improved payment coverage by 36% compared with similarly situated low-income customers who did not participate in CAP. OCA St. 4 at 72-73.
160. Peoples also reported that Customer Assistance Program customers paid 82% of their bills in 2024, excluding energy-assistance payments. OCA St. 4 at 73.
161. The avoided working capital associated with these improved payment patterns associated with Customer Assistance Program participation is important because working capital is a capital expense. OCA St. 4 at 73.
162. Working capital has a return on equity associated with it which, in turn, has a tax component associated with it. OCA St. 4 at 73.
163. Every \$1 in reduced working capital, will yield greater than \$1 in reduced total expenditures. OCA St. 4 at 73.

DEPRECIATION

164. Peoples' proposed depreciation rates amount to a total annual depreciation accrual of \$144 million based on plant balances as of November 30, 2027. OCA St. 3 at 8, *citing*, OCA Exhibit DJG-17.
165. Peoples' use of the Equal Life Group (ELG) method should be rejected because it results in an accelerated form of cost recovery from consumers. OCA St. 3 at 9.
166. Peoples' use of the ELG method, rather than the widely applied Average Life Group (ALG) method, increases the annual depreciation accrual charged to customers by \$27.1 million in the 2025 study, by \$31.5 million in the 2026 study and by \$36.8 million in the 2027 study. OCA St. 3 at 9.
167. Even if there are no adjustments to the net salvage rates, service life, or other depreciation parameters for any accounts in the depreciation study, using the majority-viewed Average Life Group method alone will result in significantly fairer rates for customers. OCA St. 3 at 9.
168. Peoples' witness in this proceeding, Mr. Spanos, proposed using the Average Life Group depreciation method in the recent PPL Electric Utilities Corporation base rate case. OCA

St. 3 at 9 *citing, Pa.PUC, et al. v. PPL Electric Utilities Corporation*, Docket No. R-2025-3057164 (Sept. 30, 2025).

169. Analysts use a system for estimating depreciation rates that will result in the “systematic and rational” allocation of capital recovery for the utility. OCA St. 3 at 61.
170. The primary difference between the Average Life Group (ALG) method and the Equal Life Group (ELG) method is that, in the ALG method, a constant accrual rate based on the average life of all property in the group is applied to the surviving party, whereas, in the ELG method, property is divided into subgroups that each have a common life. OCA St. 3 at 62.
171. The Equal Life Group method results in higher depreciation rates in the early years of a vintage’s life. This fact is confirmed by authoritative depreciation literature. OCA St. 3 at 62.
172. The Average Life Group (ALG) method is used by analysts and adopted by regulators in the vast majority of jurisdictions and in the vast majority of cases, including by Peoples’ witness Spanos who uses the ALG method in other jurisdictions. OCA St. 3 at 63, *citing*, Peoples response to OCA discovery OCA-IX-021(e).
173. The Average Life Group method results in a fairer application of depreciation rates compared to the Equal Life Group method given the realities of ratemaking proceedings. OCA St. 3 at 68.
174. The Company’s use of the Equal Life Group method increases the annual depreciation accrual charged to customers by \$27.1 million in the 2025 study, \$31.4 million in the 2026 study, and by \$36.4 million in the 2027 study. OCA St. 3 at 68.
175. Even if there are no adjustments to net salvage rates, service life, or other depreciation parameters for any accounts in the depreciation study, using the majority-view Average Life Group method alone will result in significantly lower depreciation rates and expense. OCA St. 3 at 68.
176. Mr. Spanos’ claim that Average Life Group procedure might not be fair, accurate or reasonable, and the ELG method is more equitable, necessarily means that he is using a less equitable procedure in his depreciation studies in those other jurisdictions. OCA St. 3SR at 10.
177. The Equal Life Group procedure will result in higher cash flows for Peoples relative to the Average Life Group procedure. OCA St. 3SR at 11; *see also*, OCA St. 3 at 62-69.
178. Mr. Spanos is simply testifying on what is in the best interest of the Company. OCA St. 3SR at 11-12.
179. Accepting Mr. Spanos’s narrative would mean that both he and utility commissions in the vast majority of jurisdictions around the country are promoting a depreciation methodology

that is harmful to customers, though for some reasons he is being particularly charitable to the customers of Pennsylvania. OCA St. 3SR at 11-12.

180. Peoples is an entity that will operate exactly as it is incentivized to, which does not at all involve lower customer rates. OCA St. 3SR at 11-12.
181. Mr. Spanos's approach ignores the time value of money, it results in current customers subsidizing future customers, and, most importantly, it requires a naivete about basic concepts of organizational behavior and incentive structures. OCA St. 3SR at 12.
182. Even if customers completely paid off rate base today, the Equal Life Group method of depreciation would still incentivize Peoples to immediately start developing ways to increase rate base beyond that which is strictly necessary to provide safe and reliable service. OCA St. 3SR at 12-13.
183. Peoples is proposing Equal Life Group because it is in their best interest to do so. OCA St. 3SR at 13.
184. Using the Equal Life Group method instead of the Average Life Group method in fact provides both short term pain and long term pain as the rates put into effect at the conclusion of a base rate case generally never subsequently go down, but only subsequently go up hurting both current and future customers of the Company. OCA St. 3SR at 13; *see also*, Peoples St. 16-R at 16.
185. Peoples witness Spanos testified "it is correct to assume that if the Company were to switch from ELG to [ALG] there would be a short-term benefit to current customers." Peoples St. 16-R at 16.
186. To estimate the service lives of grouped depreciable assets, depreciation analysts study historical plant data to estimate the average lives of property groups similar to the process used in the actuarial process used to study human mortality. OCA St. 3 at 69.
187. The most common actuarial method used by depreciation analysts is called the "retirement rate method," where the original property data, including additions, retirements, transfers and other transactions, are organized by vintage and transaction year and the retirement rate method is ultimately used to develop an "observed life table," or OLT. OCA St. 3 at 69.
188. The observed life table method shows the percentage of property surviving at each age interval and the pattern of property retirement is described as a "survivor curve." OCA St. 3 at 69.

RATE OF RETURN

189. Both Governor Josh Shapiro and Vice Chair Barrow recognize the impact of the authorized rate of return on utility rates and therefore on affordability of utility service. OCA St. 1 at 17.; *see also*, Statement of Vice Chair Kimberly Barrow (Apr. 16, 2026).

190. OCA witness David Garrett presented an objective equity analysis that demonstrates that a market-based cost of equity for Peoples is no higher than 8.8%. OCA St. 3, *passim*.
191. In order to promote a fair authorized rate of return (ROR), the Commission should also reject Peoples' proposed equity-rich ratemaking capital structure which consists of much higher amounts of high-cost equity than low-cost debt but should adopt Mr. Garrett's proposed a ratemaking capital structure for the Company that is equal to the proxy group average, which consists of 51% debt and 49% equity." OCA St. 3, *passim*.
192. If the Commission accepts Peoples' proposed ratemaking capital structure, then it should authorize an return on equity of 8.5%. OCA St. 3 at 9.
193. The allowed return should be based on actual cost of capital and that the awarded return must be fair, just and reasonable under the circumstances of each case. OCA St. 3 at 12.
194. The models Mr. Garrett employed in this case adhere to these legal principles and closely estimate Peoples' market-based cost of equity. OCA St 3 at 13-14.
195. With respect to regulated utilities, there has been a trend in which awarded returns fail to closely track with actual market-based cost of capital, resulting in detriment to ratepayers and the state's economy. OCA St. 3 at 14.
196. The Commission must focus on Peoples' actual cost of equity, rather than awarded returns from other jurisdictions which may be influenced by other factors, such as political factors, that are not based on true market conditions. OCA St. 3 at 14-15.
197. Unlike competitive firms that set their own cost of capital, regulators determine a utility's cost of capital to establish a fair rate of return. OCA St. 3 at 15.
198. In this case, Mr. Garrett used the same proxy group as Peoples' witness Ms. Nelson used for her analysis. OCA St. 3 at 15.
199. Risk is the most important factor for the Commission to consider when determining the allowed return, and the more (or less) risk an investor assumes, the larger (or smaller) return the investor will demand. OCA St. 3 at 17.
200. Utilities are defensive firms that are exposed to little market risk is a benefit to society such that normal business operations can be maintained when the business cycle enters a recession and utility investors can be confident that utility stock prices will not widely fluctuate. OCA St. 3 at 24.
201. The Discounted Cash Flow Model is based on a fundamental financial model which maintains that the value of a security is equal to the present value of the future cash flows it generates. OCA St. 3 at 24.
202. The Discounted Cash Flow Model has three primary inputs: 1) stock price, 2) dividend and 3) the long-term growth rate. OCA St. 3 at 25.

203. The Discounted Cash Flow Model used in utility rate cases is a derivation of the dividend discount model, which is used to determine the current value of an asset. OCA St. 3 at 25.
204. Using a 30-day average for the current stock price adheres to market efficiency principles while avoiding any irregularities that may arise from using a single current stock price, especially considering the significant length of time between when an application is filed and testimony is due. OCA St. 3 at 25.
205. Using a short-term average of stock prices represents a good balance between adhering to well-established principles of market efficiency while avoiding any unnecessary contentions that may arise from using a single stock price on a given day. OCA St. 3 at 26
206. The third factor in the Discounted Cash Flow Model, the growth rate projection, must be estimated and is also the most critical input into the model. OCA St. 3 at 27.
207. For mature, low-growth firms such as utilities, estimating the sustainable growth rate is more transparent, and for utility companies, it is necessary to focus primarily on a long-term growth rate in dividends. OCA St. 3 at 27-28.
208. The results of analyst growth variation of my Discounted Cash Flow Model is commonly presented in rate proceedings and considered by regulators when assessing a utility's authorized ROE. OCA St. 3 at 32.
209. The results of these sustainable growth and analysts' growth rate models are 7.1% and 7.6% respectively. OCA St. 3 at 32.
210. Peoples witness Nelson's application of the Discounted Cash Flow Model produced an indicated cost of equity result of 10.53%. Peoples St. 15 at 4.
211. The result of Ms. Nelson's Discounted Cash Flow Model does not indicate a reasonable cost of equity estimate for Peoples. OCA St. 3 at 33.
212. Ms. Nelson incorporated an annual long-term growth rate as high as 10.5% for Southwest Gas Holdings, Inc., meaning that Ms. Nelson believes the company's earnings will grow by more than 10.5% each year, every year, in perpetuity. OCA St. 3 at 33.
213. The Discounted Cash Flow Model directly considers dividends, rather than earnings, because dividends is the "cash flow" to investors that is being discounted in the model to ultimately estimate the cost of equity, which Ms. Nelson herself has acknowledged. OCA St. 3SR at 4.
214. It is not unreasonable to consider earnings growth rates as a proxy for dividend growth in the Discounted Cash Flow Model, as long as long-term growth rate projections are generally sustainable. OCA St. 3SR at 4.
215. Ms. Nelson's assumption that Peoples' annual earnings growth rate will outpace U.S. GDP in perpetuity is not just an unreasonable assumption, it is impossible. OCA St. 3SR at 4-5.

216. I&E witness Patel's Discounted Cash Flow Model result was 11.33%. I&E St. 2 at 7.
217. The primary reason Mr. Patel's Discounted Cash Flow Model produced a much higher result than Mr. Garrett's is his use of unsustainably high growth rates. Mr. Patel used a composite growth rate for the proxy group of 8.1%. OCA St. 3R at 3.
218. The average growth rate Mr. Garrett used for the proxy group was only 6.2% for his analyst-growth Discounted Cash Flow Model and the average growth rate for his sustainable growth Discounted Cash Flow Model is equal to the long-term U.S. GDP growth, which is only 3.7%. OCA St. 3R at 3.
219. The analyst growth rates used by Mr. Patel are not intended to be long-term growth rate estimates, noting that the published growth rates used by Mr. Patel are five-year growth rate projections. OCA St. 3R at 3.
220. The Capital Asset Pricing Model (CAPM) is a market-based model founded on the principle that investors expect higher returns for incurring additional risk and CAPM estimates that expected return in a manner consistent with the legal standards governing the fair rate of return. OCA St. 3 at 33.
221. The Capital Asset Pricing Model is a useful model because it directly considers the amount of risk inherent in a business and directly measures the most important component of a fair rate of return analysis: risk. OCA St. 3 at 34.
222. The first input of the Capital Asset Pricing Model is the risk-free rate which is the level of return investors can achieve without assuming any risk. OCA St. 3 at 34.
223. Investors often use the U.S. Treasury securities to represent the risk-free rate because they accept that those securities essentially contain no default risk and estimate cash flows over long periods of time. OCA St. 3 at 34.
224. The 30-day average of daily Treasury yield curve rates on 30-year Treasury bonds in Mr. Garrett's risk-free rate estimate is 5.02%. OCA St. 3 at 34.
225. The second factor in the Capital Asset Pricing Model is the Beta Coefficient where Beta represents the sensitivity of a given security to movements in the overall market where the expected risk premium on each investment is proportional to its beta. OCA St. 3 at 35.
226. Mr. Garrett used a beta for the total proxy group of 0.77. OCA St. 3 at 36.
227. The third factor in the Capital Asset Pricing Model is the equity risk premium which is the required return on the market portfolio less the risk-free rate and is a level of return investors expect above the risk-free rate in exchange for investing in risky securities. OCA St. 3 at 36.
228. There are three basic methods that can be used to estimate the equity risk premium (ERP): 1) calculating a historical average which is simply taking the difference between returns on stocks and returns on government bonds over a certain period of time and many leading

scholars agree is not ideal, 2) expert surveys, which in 2026 reported an average ERP of 5.3% for 2026, and 3) the implied equity premium approach which relies on the “Gordon Growth Model,” a basic stock valuation model that has been widely used in finance for many years where the current value of an asset is equal to the present value of its future cash flows. OCA St. 3 at 36.

- 229. For his final equity risk premium (ERP) estimate used in his Capital Asset Pricing Model analysis, Mr. Garrett averaged the results of the ERP surveys, the estimated ERP report by Krolls, the estimated ERP calculated by Dr. Damodaran and the implied ERP based on his calculations to get an average ERP of 4.9%. OCA St. 3 at 42.
- 230. Mr. Garrett estimated that Peoples’ Capital Asset Pricing Model cost of equity is 8.8% if the proxy group average debt ratio is assumed and 8.5% if it is not. OCA St. 3 at 42-43.
- 231. Ms. Nelson’s application of the Capital Asset Pricing Model produced results ranging as high as 13.11% in part because she incorporated a variation of CAPM called the “empirical CAPM” which produced even higher results, noting too that Ms. Nelson conducted another type of risk premium analysis which produced results as high as 10.28%. OCA St. 3 at 44.
- 232. The Kroll report estimated an equity risk premium (ERP) of 5.0%, Dr. Damodaran reports an estimated ERP of only 4.5%, each of which is considerably lower than the ERP used by Ms. Nelson. OCA St. 3 at 45.
- 233. There are several problems with ECAPM, including that 1) the Value Line betas both Ms. Nelson and he used in the real CAPM have already been adjusted upwards to account for the theory that low-beta stocks might have a tendency to be underestimated, 2) the type of beta-adjustment used by Value Line in fact overstates betas from consistently low-beta industries like utilities and 3) Ms. Nelson’s ECAPM still suffers from the same overestimated ERP input. OCA St. 3 at 46-47.
- 234. Ms. Nelson’s ECAPM should be disregarded for its ERP inputs alone which were based on old, out of date data result in unreasonable ERP significantly higher than that of other experts in the industry. OCA St. 3 at 48.
- 235. Relying on nearly 50-year-old data belies Ms. Nelson’s characterization that the cost of capital is “forward looking,” and the use of the alternative risk premium analysis is circular in that using over inflated return on equity (ROE) elsewhere to justify an over-inflated ROE in this case continues a vicious cycle that enriches shareholders at utility customer’s expense. OCA St. 3 at 49.
- 236. As with his Capital Asset Pricing Model (CAPM) analysis, Mr. Patel’s CAPM analysis is also incorrect and should be rejected. OCA St. 3R at 4.
- 237. Mr. Patel calculated his own equity risk premium (ERP) estimate by relying on data starting in the Great Depression which is contrary to modern academic literature and most certainly overstates the ERP. OCA St. 3R at 4.

238. Mr. Patel’s application of the Capital Asset Pricing Model (CAPM) produces a significantly higher result than his 8.8% for Peoples whereas his second application of the CAPM produces a substantially similar result. OCA St. 3R at 4-5.
239. In her statement dated April 16, 2026, made at the time this matter was suspended for investigation, Vice Chair Barrow expressed concern regarding Peoples’ proposed capital structure and its impact on the company’s requested increase. Statement of Vice Chair Kimberly Barrow (Apr. 16, 2026).
240. The term “capital structure” refers to the way a company finances its overall operations through external financing, with the primary sources of long-term, external financing being debt capital and equity capital. OCA St. 3 at 48.
241. Equity capital has a higher cost than debt capital which causes firms to reduce their weighted average cost of capital by recapitalizing and increasing their debt financing. OCA St. 3 at 49.
242. The term “weighted cost of capital” refers to the weighted average cost of all the components of a company’s capital structure, including debt and equity. OCA St. 3 at 48.
243. Determining the cost of debt is straightforward because they are generally interest payments on bonds, but determining the cost of equity is more complex because there is no explicit “cost” of equity; instead, the cost of equity must be estimated through various financial models. OCA St. 3 at 49.
244. A competitive firm’s value is maximized when the weighted average cost of capital is minimized. OCA St. 3 at 51.
245. All else equal, utilities can increase their revenue by increasing their weighted average cost of capital, not reducing it. OCA St. 3 at 52.
246. Because there is no incentive for a regulated utility to minimize weighted average cost of capital, a Commission standing in place of competition must ensure that the regulated utility is operating at the lowest reasonable weighted average cost of capital. OCA St. 3 at 48.
247. Utilities can generally afford to have higher debt levels than other industries because regulated utilities have large amounts of fixed assets, stable earnings and low risk relative to other industries and can afford to have relatively higher debt ratios. OCA St. 3 at 52.
248. According to Value Line, the average capital structure mix for the proxy group consists of 51% debt and 49% equity which is notably higher than Peoples’ proposed capital structure consisting of only 46% debt. OCA St. 3 at 53.
249. Peoples has a lower level of financial risk relative to the proxy group. OCA St. 3 at 53.
250. Essential Utilities, Peoples’ parent company, has a debt ratio of 54% which is significantly higher than Peoples’ proposed debt ratio of only 46%. OCA St. 3 at 53.

251. Peoples is a wholly owned subsidiary of Essential and, as such, Peoples' "equity" on its balance sheet is funded by its parent company. OCA St. 3 at 54.
252. Because Essential has a debt ratio of 54%, the parent company is using debt to finance the purchase of Peoples' equity, a strategy known as "double leveraging" which amounts to financial arbitrage and is unfair to customers since it would require them to pay a high equity return on the utility's low-cost debt. OCA St. 3 at 54.
253. Mr. Garrett bases his capital structure recommendation on the average capital structure of the proxy group. OCA St. 3 at 56.
254. In this case, using the Hamada model, with the average capital structure of the proxy group consists of 51% debt and 49% equity, because Peoples' debt ratio is notably lower than that of the proxy group, when Peoples is "relevered" to match the proxy group, it results in a lower ROE than if Peoples had been operating with a capital structure equal to that of the proxy group. OCA St. 3 at 57.
255. When running the Hamada model, if the Commission were to adopt the Company's proposed capital structure, its indicated cost of equity estimate (under the Capital Asset Pricing Model) would be 8.5%. OCA St. 3 at 58.
256. The capital structure used for ratemaking purposes and setting a fair and reasonable rate of return is fully within the Commission's discretion; in other words, it is not possible to have a fair rate of return without a fair capital structure. OCA St. 3 at 58.
257. Mr. Garrett's proposed ratemaking capital structure is substantially similar to I&E witness Patel and CAUSE-PA witness Cicero and based on the average capital structure of the proxy group. OCA St. 3R at 9.
258. Ms. Nelson's erroneous approach uses parent-company data to estimate investors' required return on equity, while relying on the balance sheets of a *different group* of companies to justify a substantially higher equity ratio. That mismatch overstates the amount of cost equity that should be included in rates and is inconsistent with the financial assumptions embedded in Ms. Nelson's own proxy group. OCA St. 3R at 9.
259. Mr. Garrett determined a cost of equity of 8.8% using the Capital Asset Pricing Model (CAPM), 8.5% using the Hamada CAPM, 7.6% using the Discounted Cash Flow (DCF) Model (analyst growth) and 7.1% using the DCF Model (sustainable growth) for a model average of 8.0%. OCA St. 3 at 59-60.
260. Peoples should be authorized an return on equity of 8.8%, which represents the top end of Mr. Garrett's model range. OCA St. 3 at 60.

COST OF SERVICE

261. The minimum use study (MSS) is premised on a flawed hypothetical relationship between investments in distribution mains and customer growth that empirically does not exist. OCA St. 1 at 47.

262. Distribution mains supply both peak and non-peak service and thus perform both a demand and commodity function. OCA St. 1 at 47.
263. The accuracy of an Allocated Cost Class of Service Study can have a significant impact on revenue recovery due to the allocation assigned to different rate classes. OCA St. 1 at 44-45.
264. Large commercial and industrial customers, are generally more price sensitive than residential and small commercial customers. This is due to the relative impact that rate increases can have on their overall operating costs and the margins of the goods or services they produce. OCA St. 1 at 44-45.
265. Large commercial and industrial customers often have alternatives available, including fuel switching to other energy sources, modifying production processes, or in some cases reducing or relocating operations. As a result, they tend to be more responsive to changes in rates. OCA St. 1 at 44-45.
266. Residential and small commercial customers typically have fewer practical alternatives and are therefore less able to adjust their usage in response to price changes, particularly for essential uses such as space heating during the winter. OCA St. 1 at 44-45.
267. Because of the differences in price elasticity between residential and small commercial customers versus large commercial and industrial customers, the way costs are allocated among customer classes can influence the stability and predictability of revenue recovery. OCA St. 1 at 44-45.
268. Allocating a disproportionate share of costs to more price-sensitive customers may increase the risk of reduced usage or load migration, which can, in turn, impact the Company's ability to recover its authorized revenue requirement. OCA St. 1 at 44-45.
269. While cost allocation should remain grounded in cost causation principles, it is also important to recognize how allocation decisions can affect customer behavior and, ultimately, revenue recovery. OCA St. 1 at 44-45.
270. Peoples allocates distribution mains costs using an Average Study, which combines results from two separate methodologies. Peoples St. 17 at 24-25.
271. Under the Customer-Demand study, the minimum system size ("MSS") approach is used to determine what portion of mains costs are customer-related versus demand-related. Under the Demand-Commodity study, the mains costs are split evenly between demand and commodity components on a 50/50 basis. The Average Study weights these two approaches equally, yielding a classification of an approximately 24 percent customer-related, 51 percent demand-related, and 25 percent commodity related. OCA St. 1 at 48.
272. The minimum system size approach entails estimating the hypothetical minimum costs of deploying distribution mains that only provide customers with connection to the Company's natural gas distribution system, but not a system sufficient to serve the customer's actual natural gas demand requirements. OCA St. 1 at 47.

273. Minimum system size studies are flawed in that they deal in hypotheticals that often do not exist in the real world and furthermore attempt to model an empirical relationship that does not exist. OCA St. 1 at 49.
274. One example of a flaw in a minimum system size study is a zero-diameter distribution main is completely a hypothetical construct that does not, and indeed could not, exist in the real world.” OCA St. 1 at 49.
275. Minimum system size analyses are difficult, if not impossible, to verify. OCA St. 1 at 49.
276. The argument that distribution system costs are related to the number of customers on a utility’s system is not a new argument, and the academic literature in utility regulation has questioned for quite some time the use of minimum system size studies. OCA St. 1 at 49.
277. Dr. Bonbright found “a lack of empirical support in academic literature for a causal relationship between distribution system costs and the number of customers.” OCA St. 1 at 50-51.
278. The true driving factors of utility distribution system costs are much more complicated and depend on a host of other factors, such as the size of a service territory and the population density within it. OCA St. 1 at 50-51.
279. The revenue distribution process allocates a utility’s overall revenue deficiency across customer classes, which in turn, is used to establish a new set of retail rates. The revenue distribution process often uses the results from the Allocated Cost Class of Service Study (ACOSS) as its starting point, but not necessarily as its ending point. Class-specific revenue responsibilities are established by allocating the system-wide revenue deficiency to classes that are under-earning, relative to their estimated rate of return, and assigning, at least in theory, revenue decreases to those classes that are over-earning relative to their ACOSS-estimated class returns. The final class revenue responsibilities are then used, in conjunction with each class’s billing determinants, to determine rates. In summary, the revenue distribution process can be viewed as the initial step taken in establishing rates. OCA St. 1 at 59.
280. Prominent components of generally accepted ratemaking principles include:
- 1) Rates should be fair, just, and reasonable, and not unduly discriminatory.
 - 2) To the extent possible, gradualism should be used to protect customers from rate shock.
 - 3) Rate continuity should be maintained.
 - 4) Rates should be informed by costs, but class cost of service results need not be the only factor used in rate development.
 - 5) Rates should be understandable to customers.

OCA St. 1 at 60.

281. The Commission should cap the proposed rate increase to any single customer class to no more than 1.15 times the system average increase and no class should receive a rate increase less than 0.50 times the system average increase. OCA St. 1 at 64.
282. A cost parity ratio standardizes these various class revenue-to-cost ratios against the overall utility system revenue-to-cost ratio. For instance, assume that residential class revenues cover 80 percent of residential class costs through the Allocated Cost Class of Service Study, and further assume that, system-wide, utility revenues also cover 80 percent of utility costs. In this example, the residential class has a relative cost parity ratio of 1.0 as it covers the same percentage of utility costs as the utility as a whole covers (i.e., 80 percent divided by 80 percent equals 1.0). A relative cost parity ratio greater than 1.0 indicates that a particular class covers a greater percentage of utility costs than other classes, while a relative cost parity ratio less than 1.0 indicates that a particular class is covering a lesser percentage of utility costs than other classes. OCA St. 1 at 62.
283. Peoples' proposal to increase the monthly basic service charge for residential customers by 54.8 percent should be rejected. OCA St. 1 at 64-74.
284. In terms of real dollar impact, the Company's proposed increase of \$9.20 per month is a significant jump from the current \$16.80 to a proposed \$26.00 per month, or \$110.40 per year on each residential customer without taking into account the distribution increase. OCA St. 1 at 67.
285. Peoples' rate design proposal would negatively impact the public policy goals of energy efficiency and would burden low-use customers with a greater than average portion of any proposed increase in the case. OCA St. 1 at 67.
286. Natural gas utility rates are usually comprised of two or three components: The first component is the fixed monthly customer charge or what is sometimes referred to as the basic service charge. The second is the energy-based component that is a volumetric rate applied toward a customer's monthly energy usage during a billing period, often measured in terms of therms or dekatherms (Dth). Finally, demand rates are surcharges that are assessed based upon a customer's maximum usage during a billing period. OCA St. 1 at 64-64.
287. Some smaller use customer classes, such as residential and small general services classes, are not demand-metered and therefore only the customer and volumetric charges appear on their bill. OCA St. 1 at 64-64.
288. When determining the fixed customer charge, the Commission should factor in important goals, for example: rates are sometimes designed to send certain price signals to consumers in order to influence their usage decisions. Sometimes, rate design becomes a balancing act since rates must be designed to be both supply-eliciting (i.e., assist utilities in the financing of capital investments) and demand-inhibiting (i.e., inhibit the growth in demand that generates the need for capital investments). OCA St. 1 at 66.

- 289. Peoples current customer charge for the residential and commercial service rate classes currently covers the majority of their customer-related costs through the currently monthly customer charges. OCA St. 1 at 67-68.
- 290. Types of costs typically associated with the basic service charge include removing and setting meters; maintenance of meters; meter reading expenses; customer records and collections; customer billing and accounts; and customer service and information expenses. OCA St. 1 at 68.
- 291. Peoples' residential and commercial rate classes currently recover the majority of their customer related costs through the current basic service charge. OCA St. 1 at 68.
- 292. The residential class recovers nearly 76 percent of its customer-related costs through its monthly customer charge. OCA St. 1 at 68.
- 293. Peoples' proposed \$26.00 would be far above the average of \$17.22 per month charged by other investor-owned natural gas utilities. OCA St. 1 at 69.

REVENUE ALLOCATION AND RATE DESIGN

- 294. Mark Szybist, the Governor's Special Counsel for Energy Affordability, as part of his testimony opposing Peoples rate increase provided during the June 11, 2026 public input hearing, submitted as an exhibit, Governor Shapiro's, letter addressed to Pennsylvania utilities on April 29, 2026. Tr. 249, 259, Governor Josh Shapiro Hearing Ex. 1 at 6 (June 11, 2026).
- 295. Governor Shapiro expressed that Pennsylvania has "reached a tipping point," and utilities must "change the behaviors causing rate increases" and that "Pennsylvania consumers should not be asked to pay a single dollar more than is needed to support a safe and reliable utility system." Tr. at 249, 259, Governor Josh Shapiro Hearing Ex. 1 at 6 (June 11, 2026).
- 296. Universal service costs are caused by factors endemic to society as a whole, rather than factors specific to residential customers. OCA St. 4 at 74.
- 297. Over the past six years, the average income of Peoples Customer Assistance Program participants has remained below 100% of the federal poverty level for a two-person household, and the gap has grown substantially. OCA St. 4 at 75-76.
- 298. In 2025, the average Customer Assistance Program participant income was only \$16,295, compared with \$21,150 at 100% of FPL for a two-person household. OCA St. 4 at 75-76.
- 299. The average Customer Assistance Program household contains approximately 2.5 people, not 2. OCA St. 4 at 75-76.
- 300. The reason for extremely low household income cannot be explained as a lack of employment among Customer Assistance Program participants. OCA St. 4 at 76.

301. This declining income can in large part be attributed to the performance of the economy as a whole, which includes non-residential customers. OCA St. 4 at 76.
302. Consistently over the past six years, one-third or more of the Company's Customer Assistance Program participants have been employed. OCA St. 4 at 76.
303. The wages received by low-income households leave them with a poverty-level income which can be attributed to the wage-payer as much as it is attributed to the wage-earner. OCA St. 4 at 76.
304. The fact that Customer Assistance Program participants with employment income still have income less than the federal poverty level for a two-person household is a societal problem, not a residential problem. OCA St. 4 at 76.
305. The wages paid by employers, i.e., non-residential customers, are a significant factor affecting whether working households can afford basic necessities, including utility service. OCA St. 4SR at 36-37.
306. Assigning all Customer Assistance Program costs to residential customers effectively treats the consequences of low wages and economic hardship as costs caused exclusively by the households experiencing them. OCA St. 4SR at 36-37.
307. In rebuttal testimony, OSBA witness Mark Ewen testified that there is no causal relationship between Peoples' universal service costs and small business customers. OSBA St. 2-R at 3.
308. OCA witness Colton explained that one substantial cause of the need for universal service programs is the failure of small businesses to pay a livable wage. OCA St. 4SR at 36.
309. The extraordinary increase in the cost of basic necessities has disproportionately harmed low- and moderate-income households. OCA St. 4 at 77.
310. The United Way's Asset Limited, Income Constrained, Employed (ALICE) analysis reports that in Pennsylvania, the ALICE Essentials Index increased faster than the national CPI and like the national trend, essential costs in Pennsylvania increased at a faster rate following the pandemic (5.3% annual increase in the ALICE Essentials Index from 2021 to 2024, compared to 2.3% between 2007 and 2019). OCA St. 4 at 77-78 (quoting *The State of ALICE in Pennsylvania: 2026 Update on Financial Hardship*, United for ALICE, 6 (2026)).
311. When evaluating whether the Commission should allocate universal costs amongst all customer classes, there are at least two groups of residential customers to whom the Commission should pay particular attention to: First are income-eligible customers who do not participate in Customer Assistance Program and second are customers whose incomes exceed Customer Assistance Program eligibility limits but remain insufficient to meet their basic household necessities, including their utility bills. OCA St. 4 at 76.
312. The second population occupies the well-recognized income "cliff." OCA St. 4 at 76.

313. For income-eligible nonparticipants, every dollar of Customer Assistance Program costs assigned exclusively to the residential class increases the burden borne by customers who are not receiving Customer Assistance Program benefits. OCA St. 4 at 79.
314. As bills become less affordable, more customers may enroll in Customer Assistance Program. OCA St. 4 at 79.
315. Increased participation then increases Customer Assistance Program costs, which in turn places an even greater burden on the remaining income-eligible nonparticipants. OCA St. 4 at 79.
316. As the Company's bills become increasingly unaffordable, those customers who have "too much" income to qualify for Customer Assistance Program, but too little money to be able to afford their utility bills, will face increasing payment difficulties. OCA St. 4 at 79-80.
317. Since public purpose programs do not exist to meet the needs of these customers who have income beyond the "cliff," the increasing inability-to-pay will create additional costs to the Company, in terms of lost revenue, credit and collection expenses, working capital expenses along with the associated return on equity and tax impacts), and bad debt OCA St. 4 at 79-80.
318. As these additional costs get incorporated into standard rates, rates to all residential customers will increase, thus making bills even more unaffordable to those with income just beyond the cliff. OCA St. 4 at 79-80.
319. As rates go up, Customer Assistance Program costs will also go up (as the difference between bills at standard rates and bills at CAP rates increases). OCA St. 4 at 79-80.
320. Allocating Customer Assistance Program costs to all customer classes not only interrupts this cycle, but it does so consistent with the General Assembly's finding that universal service costs are a public good, and further consistent with the Commission's prior finding of the public purpose of universal service expenditures. OCA St. 4 at 80.
321. CAUSE-PA witness Patrick Cicero recommends Peoples recover universal service costs across all rate classes explaining that "[t]he 'cause' of the need for [the universal service] program is poverty – a societal problem. Residential customers do not cause poverty." CAUSE-PA St. 1 at 78.
322. Customer Assistance Programs are meant to remediate the impacts of poverty and utility insecurity with long term and far-ranging impacts for low income households, as well as the surrounding communities in which they live and work. CAUSE-PA St. 1 at 78-79.
323. Households who cannot afford utility services are more prone to a host of adverse consequences, including increased rates of health complications and hospitalization, eviction, and food insecurity. CAUSE-PA St. 1 at 78-79.
324. In addition to the adverse physical health impacts which result from lack of utility services, low-income customers who face utility insecurity often struggle with heightened levels of

stress, anxiety and depression – and must take time away from work to arrange payments, locate or apply for assistance programs, and arrange for reconnections. CAUSE-PA St. 1 at 78-79.

325. These consequences of utility insecurity significantly undermine worker productivity, which – in turn – impacts businesses, nonprofits, governmental entities, schools, and other non-residential customer groups. CAUSE-PA St. 1 at 78-79.
326. Low-income assistance programs help utility companies to control uncollectible expenses which impact all ratepayers. CAUSE-PA St. 1 at 78-79.
327. In its 2024 Report, the Commission’s Bureau of Consumer Services stated that “PGW’s 2024 Universal Service Spending includes only the amount recovered from residential customers, which was 71% of PGW’s \$64,313,154 2024 total Universal Service Spending.” *Universal Service Programs & Collections Performance 2024 Report*, Pa. PUC BCS, 91, n. 3 (Jan. 2026).
328. Company witness Rita Black confirmed that 4.25% of costs pertaining to Customer Assistance Programs were shared with non-residential ratepayers prior to the implementation of the Company’s universal service rider. Peoples St. 10-RJ at 13-14.
329. OCA witness Colton recommends that the costs to be allocated among all customer classes be the total Customer Assistance Program costs (CAP Credits + Arrearage Forgiveness + Administration) reported by the Company to the Pennsylvania PUC in the most recently completed calendar year prior to the year in which the Company receives a final order in a base rate case. OCA St. 4 at 82-83.
330. For Peoples, the total Customer Assistance Program costs would be \$28,873,507.78. Peoples Response to OCA-IV-001 at 82.
331. OCA witness Colton recommends that the interclass allocations be based on each class’s allocation of total distribution revenue requirement (excluding taxes) agreed to in a settlement of this case, or that is approved by a final PUC Order if the case is litigated. OCA St. 4 at 82-83 (citing Peoples Ex. 11, at 28:350, 42:35).
332. For non-residential customers, the universal service cost could be added on as an undesignated part of the customer charge. OCA St. 4 at 82-83.
333. For residential customers, the Customer Assistance Program costs would continue to be collected as they have historically been collected. OCA St. 4 at 82-83.
334. There would, with the exception of the charges deducted to be collected from other rate classes, be no change in the manner in which residential universal service charges are collected through the USP Rider (along with the periodic reconciliation). OCA St. 4 at 82-83.
335. OCA witness Colton recommends that the dollar amount of the non-residential allocations be fixed until the Company files its next base rate proceeding. OCA St. 4 at 82-83.

WEATHER NORMALIZATION ADJUSTMENT

- 336. Peoples does not need the Weather Normalization Adjustment charge for any claimed regulatory lag concerns due to the Company's use of a fully projected future test year (FPFTY) and distribution system investment charge (DSIC). OCA St. 1 at 4.
- 337. Given the macroeconomic risks that are already shifted to customers beyond direct utility rates through increased prices due to tariffs, increased oil prices due to wars in the middle east, and rising utility rates, Peoples' Weather Normalization Adjustment goes directly against affordability concerns for ratepayers. OCA St. 1 at 37-38.
- 338. Peoples is able to shift risk away from itself through the ability to file for rate increases at any time and shift future weather-related risk to customers through a Weather Normalization Adjustment (as well as infrastructure risks through the DSIC). OCA St. 1 at 37-38.
- 339. Peoples' ratepayers are made responsible for Peoples' risk through additional surcharges and are only credited when Peoples' weather-related risk does not materialize, which has not been the case according to observed trends with the Company and in the industry. OCA St. 1 at 37-38.
- 340. Peoples' Weather Normalization Adjustment is a Commission-approved adjustment mechanism that reconciles distribution revenues to the level that would have been collected under normal weather conditions. It compares actual heating degree days (AHDDs) to normal heating degree days (NHDDs) embedded in base rates and adjusts revenues for deviations during the heating season. The mechanism operates symmetrically, producing surcharges in warmer-than-normal periods and credits in colder-than-normal periods. OCA St. 1 at 29.
- 341. The Company's Weather Normalization Adjustment applies to the Residential and Small/General Service classes, operates during the October through May heating season, includes a three-percent deadband, is calculated on a bills-rendered basis, is presented as a separate line item on customer bills, and includes a May limiter. OCA St. 1 at 29.
- 342. Weather Normalization Adjustments are generally used to reduce revenue volatility that results from fluctuations in weather which can lower customer gas usage and thus reduce a utility's recovery of fixed costs through volumetric rates. OCA St. 1 at 30.
- 343. Weather Normalization Adjustment goals of evening must be balanced with customer protections to ensure the mechanism does not systematically overcharge customers or remove all utility risk. OCA St. 1 at 30.
- 344. Peoples' Weather Normalization Adjustment resulted in a net charge to residential and non-residential ratepayers during the 2024-2025 heating season but a net credit during the 2025-2026 heating season. OCA St. 1 at 30.

345. Across both heating seasons, the Weather Normalization Adjustment (WNA) has produced a net credit to ratepayers of approximately \$5.3 million, which the Company leans heavily on to support its claim that the WNA is a positive mechanism. OCA St. 1 at 30.
346. Peoples' \$5.3 million net credit for customers is illusory: Historic Weather Normalization Adjustment (WNA) revenues are heavily influenced by significantly below average temperatures that occurred in late January 2026 due to Winter Storm Fern, but were recorded during the February 2026 WNA period. Excluding this anomalous event, the Company's WNA netted the Company more than \$8.0 million through March 2026. OCA St. 1 at 30.
347. In Columbia's most recent rate case, the Commission found that the Company recovered over \$74 million in revenue through the application of the Weather Normalization Adjustment from the Columbia rate payers, according to historical data. *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2025-3053499, *et al.*, R.D. at 28 (Oct. 3, 2025).
348. Columbia's service territory is similar to Peoples and encompasses western and southwestern Pennsylvania and therefore is arguably subjected to similar weather conditions, forecasts, and outcomes. See specific territory in each utility's respective tariffs: *Columbia Gas of Pennsylvania, Inc. Rates and Rules for Furnishing Gas Service in the Territory as Described Herein*, Supplement No. 418 to Tariff Gas – Pa P.U.C. No. 9 at Tenth Revised Page Nos. 7-10 (Effective Dec. 16, 2026) (Columbia Tariff); *Peoples Natural Gas Company LLC Rates and Rules Governing the Furnishing of Natural Gas Service to Retail Customers*, Supplement No. 25 Gas – Pa. PUC No. 48 at First Revised Page Nos. 11-17 (Effective Sept. 27, 2024) (Peoples Tariff).
349. Peoples has already implemented several mechanisms that meaningfully reduce regulatory lag and support timely cost recovery, as follows: First, the Company proposed to use a FPFTY in this proceeding, consistent with its approach in its prior base rate case, which better aligns projected revenues with anticipated costs during the rate period. Second, the Company has implemented a Distribution System Improvement Charge, which provides a vehicle for interim recovery of qualifying capital expenditures made between base rate cases, thereby reducing the gap between investment and recovery. These tools provide the Company with multiple avenues to manage regulatory lag and ensure timely cost recovery. OCA St. 1 at 20-21.
350. Peoples' Weather Normalization Adjustment is primarily about revenue stabilization for the Company by quantifying risk using normal heat degree days (NHDD) and average heat degree days (AHDD) to help the Company convert Commission authorized revenues into Commission guaranteed revenues. OCA St. 1 at 27-29.
351. The byproduct of the Weather Normalization Adjustment is that this mechanism establishes asymmetric risk allocation, leaves ratepayers exposed to upward rate adjustments without any assurance of offsetting benefits or improved utility performance, and therefore it should be discontinued. OCA St. 1 at 28.

352. Peoples' proposed continuation of its Weather Normalization Adjustment is not cost based because it charges customers for the distribution of natural gas that they do not consume, as described *supra*, based on how the WNA is calculated. Exh. MWD-1 at 1.
353. Peoples' proposed Weather Normalization Adjustment (WNA) does not reflect the demand a customer would anticipate to be charged because the WNA creates the anomaly where customers see rate increases when they reduce consumption and rate decreases when they increase consumption. A Exh. MWD-1 at 1.
354. If the Weather Normalization Adjustment (WNA) is generating revenue, then it inherently does not reflect the level of demand associated with the customer's anticipated consumption levels, because the WNA only generates revenue if the demand is less than anticipated. OCA Exh. MWD-1 at 1.
355. If Peoples' Weather Normalization Adjustment is permitted to continue, it will interfere with the price signals embedded in Peoples volumetric distribution rate which should incentivize conservation and energy efficiency investment. OCA Exh. MWD-1 at 1.
356. The Weather Normalization Adjustment (WNA) may be perceived as a disincentive to employ energy efficiency measures for customers whose energy efficiency initiative takes place during periods of warmer than normal weather. These customers will see increased WNA charges after reducing usage through implementing energy efficiency initiatives. OCA Exh. MWD-1 at 1.
357. Continuing Peoples' Weather Normalization Adjustment (WNA) harms –not helps– Peoples' customers' rate stability. The WNA shifts weather-related risks away from Peoples and onto its customers. WNA adds another surcharge to customers' bills without any showing that the WNA would reduce the frequency of base rate case filings. It therefore does not improve rate stability. OCA Exh. MWD-1 at 1.
358. The Weather Normalization Adjustment quantifies risk and uses that quantification to shift costs associated with it onto customers. OCA St. 1 at 27-28.
359. Peoples could lower overall risk without the Weather Normalization Adjustment by getting more of its customers to sign up for budget billing, 12 equal payments per month, subject to reconciliation at the end of the applicable period, providing bill certainty during the year, as opposed to year-to-year which may be more difficult to track. OCA St. 1 at 30.
360. The Weather Normalization Adjustment (WNA) in practice and in concept remains difficult to understand for customers because customers have no means of anticipating future WNA changes as it is impossible for customers to forecast WNA charges in advance and likely difficult for customers to calculate even after the fact. OCA St. 1 at 35.
361. The Fall month of October and the Spring month of May are best represented as shoulder months between the winter heating season and the summer cooling season which often sees little heating or cooling requirements for customers and customers only see heating use during years with early and/or late winters. OCA St. 1 at 35.

362. The inclusion of October and May within Peoples' Weather Normalization Adjustment (WNA) heating season exposes ratepayers to unnecessary variation in the WNA by shifting the weather risk during these shoulder periods from the Company onto ratepayers. OCA St. 1 at 35.
363. Coefficient of Variation (COV) is mathematically the standard deviation of a data series divided by its mean and is a way to present the variance of different data series on a normalized basis as a percent of the average of the data series. For example, the COV of AHDD for the month of May is 26 percent, meaning that the average expected variance in AHDD during the month of May is 26 percent of the expected NHDD based on historic averages. Likewise, the COV of AHDD for the month of October is 22 percent of expected NHDD based on historic averages. The COV for all other months is no greater than 20 percent. Therefore, the Commission should eliminate the months of October and May from the WNA period since these months have seen high variability in weather conditions. OCA St. 1 at 36.
364. Because of overlapping territories, customers residing in one municipality being subjected to a Weather Normalization Adjustment (WNA) mechanism in May because they are a customer of one gas company where other residents of the same municipality may not be subjected to a WNA mechanism for the month of May because they are a customer of the other gas company. In this situation, the weather conditions would be the same for the municipality but some residents could be exposed to extra billing charges and some residents would not. See specific territory in each utility's respective tariffs: *Columbia Gas of Pennsylvania, Inc. Rates and Rules for Furnishing Gas Service in the Territory as Described Herein*, Supplement No. 418 to Tariff Gas – Pa P.U.C. No. 9 at Tenth Revised Page Nos. 7-10 (Effective Dec. 16, 2026) (Columbia Tariff); *Peoples Natural Gas Company LLC Rates and Rules Governing the Furnishing of Natural Gas Service to Retail Customers*, Supplement No. 25 Gas – Pa. PUC No. 48 at First Revised Page Nos. 11-17 (Effective Sept. 27, 2024) (Peoples Tariff).

LOW-INCOME CUSTOMER SERVICE ISSUES

365. Despite Peoples' reliance on Customer Assistance Programs (CAP) as the premier remedy for affordability concerns, the company persistently fails to achieve adequate participation, leaving its low-income customer base severely under-enrolled in its CAP. OCA St. 4 at 49.
366. Customer Assistance Programs do not reach every customer experiencing affordability problems. OCA St. 4 at 49.
367. In 2024, Peoples had an estimated low-income population of approximately 144,472 customers and had identified 112,624 customers as Confirmed Low-Income (CLI), yet only 25,738 customers participated in Customer Assistance Program, a participation rate of just 22.9 percent of CLI customers. OCA St. 4 at 49-50.
368. The percentage of Confirmed Low-Income customers in arrears for the last three years for which data is reported has consistently run two times higher than the percentage of residential accounts in arrears. OCA St. 4 at 45.

369. The average level of arrears (of accounts in arrears) for Confirmed Low-Income customers has been from 40% (2023) to more than 50% (2022) higher than the average level of arrears for residential customers. OCA St. 4 at 45.
370. The level of arrears at the time of disconnection for Confirmed Low-Income customers has been from 25% (2022, 2024) to 40% higher than residential customers in general. OCA St. 4 at 45.
371. In 2022, the disconnection rate for Confirmed Low-Income customers was lower than in other years (Residential = 2.6%; Confirmed Low-Income = 3.9%). OCA St. 4 at 46.
372. In 2023 and in 2024, the disconnection rate for Confirmed Low-Income customers was three times higher than the disconnection rate for residential customers as a whole (2023: 3.5% vs. 10.5%; 2024: 3.5% vs. 10.2%). OCA St. 4 at 46.
373. Peoples' payment arrangements do not provide a reasonable opportunity for residential customers to retire their arrears. OCA St. 4 at 46-47.
374. The Company provided aggregated three-year data for the years 2023 through 2025; this data demonstrates that 71.5% (55,172 of 71,162) of the residential payment arrangements newly entered into during that time, ended in default, while 83.7% (35,047 of 41,896) of the Confirmed Low-Income payment arrangements, ended in default. OCA St. 4 at 46-47 (citing Peoples Response to OCA-IV-17).
375. This percentage is very likely an under-count of the number of broken payment arrangements because payment arrangements entered into in more recent months will be included in the new payment arrangement numbers, but likely will not have reached the point of having defaulted. OCA St. 4 at 46-47.
376. Peoples' data shows that Customer Assistance Program payment patterns are significantly better than the payment patterns of the Company's confirmed low-income customers. OCA St. 4 at 47.
377. In contrast to the arrearage and disconnection rates for Confirmed Low-Income customers, the Company's Customer Assistance Program customers have a payment rate of 82.0% and 85.4% in 2024 and 2025 respectively. OCA St. 4 at 47-48.
378. The payment rates reported to Bureau of Consumer Services are payments only by the customer; additional payments made by LIHEAP are not included. OCA St. 4 at 47-48.
379. In 2025, Peoples' Customer Assistance Program customers paid 85.4% of their bill before receiving LIHEAP. OCA St. 4 at 47-48.

380. Peoples asks applicants for Social Security Numbers (SSNs) to verify identity and check credit risk score, and admits that it retains SSNs used to establish service indefinitely. OCA St. 4 at 57 (quoting Peoples Response to OCA-V-6, 7).
381. The use of Social Security Numbers by private entities is one of the leading causes of identity theft. OCA St. 4 at 58.
382. Social Security Numbers, along with a person's date of birth and name, are the three most sought-after pieces of personal information sought by identity thieves. OCA St. 4 at 58.
383. According to the 2007 report of the Presidential Task Force on Identity Theft, a person's Social Security Numbers is the single most important piece of personally identifiable information available to identity thieves. OCA St. 4 at 58.
384. Unlike names and addresses, which can change over a person's lifetime, it is virtually impossible for a person to change his/her Social Security Numbers. OCA St. 4 at 58.
385. Federal agencies and organizations such as the federal Office of Management and Budget, the Federal Trade Commission, and the Association for Computing Machinery have similarly raised concerns about and advised against the use of SSNs when possible. OCA St. 4 at 59-62.
386. The Commission should order Peoples to, within 12 months of a final decision in this proceeding, report to the Commission its plan to eliminate the collection and retention of customer Social Security Numbers (SSNs) and, at a minimum, be directed to: (1) refrain from retaining SSNs from customers for more than 30-days after the customer establishes service; (2) refrain from providing a customer SSN to any entity outside of the Company; and (3) notify the customer, at the time the customer is asked to provide his/her/their SSN that, in the absence of the first two steps outlined above, that the SSN will be retained in perpetuity and that the SSN will be provided to a multi-national credit firm, to allow the customer to take such notice into account in deciding whether to provide their SSN. OCA St. 4 at 63-64.

CUSTOMER SERVICE ISSUES

Service Terminations – Disparate Treatment

387. Peoples' nonpayment termination practices result in substantially more terminations in portions of its service territory with higher concentrations of Black households, and the Company has not established why. OCA St. 4 at 53-54.
388. A practice may have a discriminatory effect without expressly considering race or being adopted with discriminatory intent. OCA St. 4SR at 26-27.
389. The data shows that Above-Average Black zip codes face a disproportionately high number of nonpayment disconnections in the Peoples service territory. OCA St. 4 at 53-55.

390. While 30.07% of all residential customers live in Above-Average Black zip codes (householders), 42.97% of all residential nonpayment disconnections occur in those zip codes. Similarly, while 30.92% of all residential customers live in Above-Average Black zip codes (population), 43.80% of all residential nonpayment disconnections occur in those zip codes. OCA St. 4 at 53-55 (citing Peoples' Response to OCA-IV-4, 16).
391. While 32.73% of all Confirmed Low-Income customers live in Above-Average Black zip codes (householders), 45.42% of all Confirmed Low-Income nonpayment disconnections occur in those zip codes. OCA St. 4 at 53-55 (citing Peoples' Response to OCA-IV-4).
392. While 33.40% of all Confirmed Low-Income customers live in Above-Average Black zip codes (population), 46.13% of all Confirmed Low-Income nonpayment disconnections occur in those zip codes. OCA St. 4 at 53-55.
393. For residential customers, while 28.80% of all residential customers reside in the Tenth Decile of zip codes measured by Black householders, 41.34% of all residential nonpayment disconnections occur in those zip codes; a similar pattern presents itself when the deciles are based on Black population rather than on Black householders. OCA St. 4 at 53-55.
394. The disparity cannot be dismissed as a consequence of a greater concentration of low-income customers in predominantly Black ZIP codes, as OCA witness Colton's analysis specifically examined that possibility, and the disparity remained. OCA St. 4 at 54-55.
395. The distribution of nonpayment service disconnections is disproportionately weighed toward the Company's Black population. OCA St. 4 at 51.
396. Peoples should conduct an independent root cause analysis to determine what is driving the disproportionate level of utility disconnections in the 40 ZIP codes with the highest concentration of Black households. OCA St. 4 at 56; OCA St. 4SR at 30-31.
397. The Company's witnesses point to the mechanics of its termination process and provide a heat-map analysis that determines Customer Assistance Program eligibility but does not address the disproportionate disconnections in areas with higher populations of black households. OCA St. 4SR at 26.
398. Peoples' witness Black focused her rebuttal on an unrelated heat map analysis that identified areas and specific accounts for Customer Assistance Program eligibility. Peoples St. 10-R at 16-18.
399. Peoples witness Rita Black testified that Mr. Colton has not proven that households disconnected were in fact households of color because Peoples does not collect customer-level racial data and because the Census data used in his analysis are not specific to individual households. Peoples St. 10-RJ at 11-12.

400. Ms. Black then recommended additional Customer Assistance Program outreach as the appropriate response to the ZIP codes disproportionately impacted as identified in Mr. Colton's analysis. Peoples St. 10-RJ at 11-12.
401. Ms. Black's testimony does not establish that Mr. Colton's analysis is erroneous, nor does the heat-map analysis address the same issues presented by his disparate-impact analysis. OCA St. 4SR at 19.
402. Mr. Colton did not claim to identify the race of each individual customer whose service was terminated; rather, he analyzed Peoples' nonpayment disconnection data by ZIP code and compared the racial composition of those communities using Census data. OCA St. 4 at 52-53.
403. Ms. Black does not explain why she believes improving energy burdens is the sole remedy to the disproportionate disconnection of service to communities of color; she does not explain (let alone document) that there is a relationship between the disproportionate disconnection of service to communities of color and the lack of Customer Assistance Program enrollment in those communities; and she does not explain how reviewing results of our outreach activities, specifically as it pertains to the use of the heat maps, would be expected to remedy the disconnection of service for nonpayment in communities of color. OCA St. 4SR at 20-21.
404. Ms. Black's rebuttal testimony implicitly denies the presence of the racial discrimination without ever engaging in the data that found disproportionate nonpayment disconnections to exist. OCA St. 4SR at 20-21.
405. While the preparation of the heat maps which Ms. Black attached to her Rebuttal Testimony is an important step forward in informing outreach activities for Customer Assistance Program, Peoples does not address the cause of, let alone potential mechanisms through which to redress, the presence of disproportionate nonpayment disconnections in communities of color in the Peoples service territory. OCA St. 4SR at 20-21.
406. Peoples witness Ms. Parks addressed Mr. Colton's conclusion that Peoples' nonpayment terminations disproportionately impact people of color by testifying that Peoples' termination process is automated through 22 SAP workflow controls and is based on objective arrearage criteria. OCA St. 4SR at 26.
407. Peoples claims the process does not consider or apply customer race, ethnicity, neighborhood demographics, or another protected characteristic in determining whether an account is eligible for termination. OCA St. 4SR at 26.
408. Peoples termination practices have the effect of producing disproportionately high termination rates in communities with higher concentrations of Black households. OCA St. 4SR at 26-27.

- 409. Peoples itself has already recognized the distinction between intentional discrimination and practices that have a discriminatory effect in other contexts. OCA St. 4SR at 27.
- 410. Peoples' tariff concerning cash security deposits provides that its credit-scoring methodology may not directly, or have the effect of, discriminating based on a protected class. Peoples Natural Gas Company LLC tariff, Supplement No. 2 to Gas—PA PUC No. 48, First Revised Page No. 19 (Effective Sep. 27, 2024).
- 411. Peoples' automated termination procedures are SAP-based (SAP is the software system Peoples uses to manage customer accounts and billing-related processes) workflow controls that automatically determine whether a customer account meets objective arrearage criteria for nonpayment disconnection. Peoples St. 18-R at 8-9.
- 412. A neutral rule can produce unequal effects regardless of whether a human or a computer decisionmaker knows the race of the affected customer. OCA St. 4 at 55-56.
- 413. Peoples knows the criteria programmed into its system, and that those criteria do not include customer race, ethnicity, neighborhood demographics, or any other protected characteristic in determining whether an account is eligible for nonpayment disconnection, but Peoples does not establish why application of its criteria results in substantially greater termination rates in predominantly Black communities. Peoples St. 18-R at 8-9.

CUSTOMER SERVICE ISSUES

- 414. Due to a vendor printing error in 2024, Peoples experienced a significant delay in the printing and mailing of bills for one month, affecting approximately 25% of Peoples' residential customer base. OCA St. 5 at 20.
- 415. Peoples experienced significant spikes in rebills and/or back-bills in March and October of 2024, which were not caused by the bill printing vendor disruption. However, Peoples was unable to identify the rebill cause because it does not track the causes for such events. OCA St. 5 at 22.
- 416. Back-billing is defined as a make-up bill for service that was previously unbilled or underbilled because of a meter or meter-communication failure, a missed or estimated read later corrected by an actual read, or a billing-system or account error. OCA St. 5 at 21.
- 417. Rebilling is defined as the cancellation and reissuance of a bill to correct charges that were calculated incorrectly the first time. OCA St. 5 at 21.
- 418. Both back-billing and rebilling are used to describe the Company's request for a customer to pay non-current charges. OCA St. 5 at 21.
- 419. Due to the significant number of rebills and back-bills issued in 2024 which the Company was not able to attribute to a particular cause, Peoples should maintain contemporaneous

records of any back-billing or rebilling event affecting more than 100 customers from a common cause and be prepared to provide, in its next base rate case, complete information about the event, including the number of customers affected and the bill impact by customer, along with the dates and copies of any communications with Commission staff regarding the event. OCA St. 5SR at 11.

- 420. Peoples may treat back-billing or rebilling events as operational blips rather than events warranting proactive attention and communication, which does not permit fulsome review of such events. OCA St. 5 at 24.
- 421. The Commission should consider periodic mailed cost summaries for residential customers, showing usage and total billed amounts over time, to preserve baseline visibility into utility costs for customers across all billing and payment arrangements. OCA St. 5 at 43.
- 422. A customer who receives a paper bill and pays it manually each month has a recurring prompt to look at what they are being charged. A customer enrolled in both electronic billing and automatic payment has, by design, removed those prompts: the bill arrives in an inbox that may go unopened, and the payment leaves the account without any action required. That is a convenience many customers reasonably choose. But the combination tends to reduce month-to-month attention to the size and movement of the bill, and that reduced engagement has consequences for how billing or cost problems come to light. OCA St. 5 at 41-42.
- 423. Approximately 10% more non- Customer Assistance Program residential customers utilize both electronic billing and use AutoPay (11.1%) compared to Customer Assistance Program residential customers utilizing the same (1.3%). OCA St. 5 at 41.
- 424. Bill engagement may be inversely related to income, as a customer for whom the gas bill represents a larger share of household income has more reason to watch it closely each month. OCA St. 5 at 42.
- 425. Due to higher levels of customer engagement with their monthly bills, Customer Assistance Program customers may be the ones most likely to notice and report a billing or cost problem, meaning that concerns over Peoples' billing and service may tend to be treated as affordability matters specific to that population rather than as early indicators of problems that may affect the broader customer base. OCA St. 5 at 42.
- 426. Peoples proposes to expand language limiting the Company's liability for service-related damages and emphasizing that customers are responsible for protecting their premises from damages associated with interruption of gas service, including when a property is vacant or unoccupied. The proposed language also appears to limit recovery for incidental, indirect, special, and consequential damages and cap other damages absent willful or wanton misconduct. OCA St. 5 at 43-45.

427. Peoples proposes language to the Billing and Payment section (Rule 10) of the Rules and Regulation of its retail tariff, that will allow the Company to require certified funds to prevent termination or restore service where the customer has a history of returned payments or has not demonstrated a good-faith effort to pay within the prior 12 months. It also proposes authority to remove a customer from eAccount or other online payment options if it detects abuse of those platforms, including repeated cancellations of online payments. OCA St. 5 at 43-45.
428. Peoples proposes to prohibit Customer Assistance Program (CAP) customers from using natural gas for recreational purposes, including pool heaters, hot tubs, outdoor appliances, gas grills, fire pits/rings, fireplaces, gas lamps, heaters, outdoor cooking appliances, and heated outdoor buildings such as sheds, shops, or garages. The proposal would remove customers from CAP for such use, with re-enrollment permitted only after verification that the recreational gas connection has been removed. OCA St. 5 at 43-45.
429. Peoples also proposes language allowing the Company to reverse Customer Assistance Program benefits if it determines that a CAP participant obtained benefits through fraudulent means, with the customer responsible for repayment of the reversed benefits. OCA St. 5 at 43-45.
430. Peoples' proposed nonliability for damages to customer property tariff change should be denied because Peoples customers are increasingly submitting informal and formal complaints related to damage to their property associated with Peoples' construction activities. OCA St. 5 at 45.
431. Peoples' current liability limits in its tariff are sufficiently protective. OCA St. 5 at 45.
432. Regarding Peoples' proposed tariff changes to the dishonored payments provisions, the proposed language reserves broad discretionary authority for the Company without establishing any criteria, notice requirements, or review process. OCA St. 5 at 45.
433. As written, the proposed tariff changes to the dishonored payments provisions allows Peoples to require certified funds or the ability to remove a customer from electronic payment options based on its own assessment that the customer has a history of returned payments or has not demonstrated good-faith payment effort within the prior twelve months. There is no definition of what constitutes a history of returned payments, no minimum threshold before the restriction applies, no requirement that the Company notify the customer or Bureau of Consumer Services before acting, and no mechanism for the customer to contest the determination. OCA St. 5 at 45-46.
434. If customers are not permitted to pay by check or online, they must obtain a money order or cashier's check, which adds cost and inconvenience that falls hardest on customers with limited banking access, without procedural guardrails to protect and adequately inform customers. OCA St. 5 at 46.

- 435. A returned payment notice is insufficient to inform a customer that they have a demonstrated pattern of returned payments which warrants fewer payment options. OCA St. 5SR at 8.
- 436. Peoples has not established that recreational gas use by Customer Assistance Program customers is a material or widespread problem. OCA St. 5 at 46.
- 437. Peoples' proposed Customer Assistance Program (CAP) recreational use tariff language does not include any notice, review, or contestability process before a customer is removed from CAP. OCA St. 5SR at 9.
- 438. Peoples uses usage statistics to flag customer accounts that the Company suspects of recreational usage. Peoples St. 10-RJ at 8.
- 439. Once notified that the account's enrollment in Customer Assistance Program (CAP) has been suspended, the customer can restore participation in CAP if and only if they provide documentation that the appliance is medically necessary. Peoples St. 10-RJ at 8.
- 440. Peoples' proposed modification for Customer Assistance Program (CAP) fraud reversal lacks procedural protections for customers currently enrolled in CAP, such as any defined process, standard of proof, or review mechanism. OCA St. 5 at 47.
- 441. A unilateral benefit reversal with repayment obligation imposed on a low-income household is a serious action that should require a more structured process than the proposed language provides. OCA St. 5 at 47.
- 442. Peoples' proposed tariff revisions regarding limitation of liability, dishonored payments, Customer Assistance Program (CAP) restrictions on recreational gas use, and CAP benefit reversal for alleged fraud should be denied. OCA St. 5 at 43-45.

PROPOSED TARIFF CHANGES

- 443. Peoples proposes to remove Customer Assistance Program customers from the program for engaging in "recreational gas use." Peoples St. 10 at 8.
- 444. The proposal would remove customers from Customer Assistance Program for such use, with re-enrollment permitted only after verification that the recreational gas connection has been removed. Peoples St. 10 at 8.
- 445. Peoples has not adequately defined what constitutes recreational use. OCA St. 4 at 65.
- 446. Peoples provides a list which is ambiguously expanded through the use of the terms "such as, but not limited to." OCA St. 4 at 65 (quoting Peoples St. 10 at 8).
- 447. Peoples does not explain how it would determine whether a particular appliance is being used for a prohibited purpose. OCA St. 4 at 65.

448. Peoples does not explain how the Company would determine the frequency or extent of the allegedly prohibited use for purposes of billing the customer for “unjustified usage.” OCA St. 4 at 66.
449. Enforcement would itself impose expenses which may exceed the cost for providing Customer Assistance Program (CAP) credits for such an “unjustified use,” including the cost of (1) policing CAP participants to determine whether, and to what extent, such use is occurring; (2) enforcing the ban through the removal of CAP participants and determining the appropriate amount to be billed for the “unjustified use;” and (3) collecting that billing for the unjustified use. OCA St. 4 at 66.
450. Peoples has not established that recreational gas use by Customer Assistance Program customers is a material or widespread problem. OCA St. 5 at 46.
451. In its rebuttal testimony, Peoples modified its initial proposal to eliminate the list of appliances it identified as recreational and only specify pool heaters, in addition to permitting a demonstration of medical necessity for the “recreational” appliance. Peoples St. 10-R at 4-5.
452. Peoples’ new proposal does not include any notice, review, or contestability process before a customer is removed from Customer Assistance Program. OCA St. 5SR at 9.
453. Peoples uses usage statistics to “flag” customer accounts that the Company suspects of recreational usage. Peoples St. 10-RJ at 8.
454. Once notified that the account’s enrollment in Customer Assistance Program (CAP) has been suspended, the customer can restore participation in CAP if and only if they provide documentation that the appliance is medically necessary. Peoples St. 10-RJ at 8.
455. Peoples proposes to reverse Customer Assistance Program (CAP) benefits obtained through “fraudulent means” and rebill those reversed benefits to CAP customers. Peoples St. 10 at 10-11.
456. Peoples does not define what entering the program “through fraudulent means” consists of, other than to provide one example, “failure to report all income,” does not establish any meaningful standards for enforcement, and failed to demonstrate that the proposal is necessary or reasonable. OCA St. 4 at 67.
457. Failure to report income does not necessarily constitute fraud; it may result from mistake, misunderstanding, or uncertainty regarding what constitutes reportable income. OCA St. 4 at 67-68.
458. Low-income customers’ income may come from variable, seasonal, informal, or otherwise difficult-to-document sources. OCA St. 4 at 68.
459. Under Peoples’ proposed tariff language, the Company could accuse a participant months after enrollment of failing to report income and seek to recover Customer Assistance Program (CAP) benefits previously received; for example, a customer who has participated

in CAP for 18 months could be accused of failing to report income during Months 9 through 13 and be back-billed for the CAP benefits received during that period. OCA St. 4 at 68.

- 460. A customer's income may increase during certain months and decline during others, while the customer's annual income remains within Customer Assistance Program eligibility limits. OCA St. 4 at 68.
- 461. Under Peoples' proposal, an increase in income during particular months could result in those months being deemed to have generated "incorrectly received" Customer Assistance Program benefits, even where the customer remains eligible based on annual income. OCA St. 4 at 68.
- 462. Peoples' proposal would undermine the Commission's decision to extend Customer Assistance Program (CAP) income recertification periods because, if CAP participants remain subject to a continuous obligation to report every change in income, the practical benefit of an extended recertification period is substantially diminished. OCA St. 4 at 68-69.
- 463. Peoples' tariff leaves the time period open-ended during which it can seek to bill for Customer Assistance Program benefits incorrectly received. OCA St. 4 at 69.
- 464. Peoples' tariff imposes unreasonable record-keeping requirements on the Customer Assistance Program (CAP) participant, who would never know whether they will be challenged on a failure to report all income; even then, the CAP participant would be placed in the difficult, if not impossible, position of needing to prove a negative. OCA St. 4 at 69.
- 465. If Peoples argues that the Customer Assistance Program (CAP) participant did receive income which the participant did not report, the CAP participant would be in the position of documenting that they did not receive such income. OCA St. 4 at 69.
- 466. Peoples should, at a minimum, explain how a Customer Assistance Program participant can prove what income they did not receive in a given time period. OCA St. 4 at 69.
- 467. Peoples has not established the costs it is trying to prevent and the costs it may incur in the process of implementing this proposal. OCA St. 4 at 69.
- 468. Peoples' proposal lacks procedural protections for customers currently enrolled in Customer Assistance Programs, such as any defined process, standard of proof, or review mechanism. OCA St. 5 at 47.
- 469. A unilateral benefit reversal with repayment obligation imposed on a low-income household is a serious action that should require a more structured process than the proposed language provides. OCA St. 5 at 47.
- 470. Peoples witness Black claims that the Company's approach has been to provide sufficient notice to customers and to allow the customers to provide evidence of their eligibility to avoid a reversal of benefits. Peoples St. 10-RJ at 14.

- 471. Peoples requested Commission authorization to implement a three-year Natural Gas Hot Water Tank Rebate Pilot beginning in January 2027, and to recover the cost of the same in rates. OCA St. 2 at 26.
- 472. Peoples' Natural Gas Hot Water Tank Rebate Pilot would provide residential customers with a \$1,000 rebate if they converted from an electric water heater to a high-efficiency natural gas water heater. OCA St. 2 at 26.
- 473. Peoples' Natural Gas Hot Water Tank Rebate Pilot program would cost ratepayers \$500,000 per year, with a budget allocated towards \$365,000 for customer rebates, \$21,000 for program administration, and \$114,000 for marketing and outreach. OCA St. 2 at 26.
- 474. Income-qualified customers may already receive assistance through the Company's Emergency Furnace and Service Line Repair ("EFSLR") Program and Low Income Usage Reduction Program ("LIURP") to replace existing low-efficiency natural gas water heaters. OCA St. 2 at 27.
- 475. Peoples' Natural Gas Hot Water Tank Rebate Pilot is designed to acquire new customers and increase throughput on Peoples' natural gas distribution system, not to provide existing customers with additional benefits, by switching customers from electric to natural gas water heaters. OCA St. 2 at 27.

Appendix C

OCA Proposed Conclusions of Law

Appendix C – OCA Proposed Conclusions of Law

LEGAL STANDARD

1. The regulation of utilities is one of the most important functions traditionally associated with the police power of the States. *Ark. Elec. Coop. Corp. v. Ark. Pub. Serv. Comm'n*, 461 U.S. 375, 377 (1983).
2. The Public Utility Code governing sales that are only rationally dealt with by a monopoly is a proper exercise of the state police power to regulate the health, safety, morals, and general welfare of citizens. *Relief Elec. Light, Heat & Power Co's. Petition*, 63 Pa. Super. 1, 6-11, 1916 Pa. Super. LEXIS 89 (Pa. Super. 1916).
3. The Commission's authority under the Code to oversee and regulate jurisdictional public utilities is a constitutional exercise of traditional state police powers as a reasonable exercise of police power by appropriate means for a legitimate end. *Jenkins Twp. v. Pub. Serv. Comm'n*, 65 Pa. Super. 122, 1916 Pa. Super. LEXIS 30, **15-16 (Pa. Super. 1916).
4. As a matter of law, a public utility's rates must be just and reasonable and in conformity with regulations or orders of the Commission. 66 Pa.C.S. § 1301.
5. A public utility may obtain "a rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers[,] as well as a reasonable rate of return on its investment." *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002).
6. The Commission "has broad discretion in determining whether rates are reasonable" and "is vested with discretion to decide what factors it will consider in setting or evaluating a utility's rates." *Popowsky v. Pa. PUC*, 665 A.2d 808, 812 (Pa. 1995).
7. The Commission's discretion to determine if a requested rate is just and reasonable includes the "power to make and apply policy" concerning the appropriate balance between rates charged to consumers and returns allowed to utility investors. *Popowsky v. Pa. PUC*, 665 A.2d 808, 812 (Pa. 1995).
8. There is ample authority for the proposition that the power to fix "just and reasonable" rates imports a flexibility in the exercise of a complicated regulatory function by a specialized decision-making body and that the term "just and reasonable" *was not intended to confine the ambit of regulatory discretion to an absolute or mathematical formulation but rather to confer upon the regulatory body the power to make and apply policy* concerning the appropriate balance between prices charged to utility customers and returns on capital to utility investors consonant with constitutional protections applicable to both. *Popowsky v. Pa. PUC*, 665 A.2d 808, 812 (Pa. 1995).
9. A utility's cost of providing service guides the ratemaking process. *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1019-21 (Pa. Cmwlth. 2006).

10. The Commission must determine whether projected expenses “are reasonably necessary to provide service...” during the prospective period in which its rates will be in effect. *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002).
11. Only prudently incurred expenses are includable in expense claims; it is the burden of the public utility to prove that the expenses incurred are just and reasonable; and it is within the discretion of the Commission to exclude expenses as unreasonable. *Popowsky v. Pa. PUC*, 665 A.2d 808, 812 (Pa. 1995).
12. Rates must not be unduly discriminatory among customer groups. 66 Pa. C.S. § 1304.
13. A public utility is entitled to no more than a reasonable opportunity to earn a fair rate of return on its investments dedicated to public service. *Pennsylvania Gas & Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975).
14. 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 raise the money necessary for the proper discharge of public duties. *Bluefield Water Works and Improvement Co. v. Public Serv. Comm’n of W.Va.*, 262 U.S. 679, 692-93 (1923).
15. A return on the value of the utility’s property which it employs for the convenience of the public equal to that being made at the same time on investments in other business undertakings which are attended by corresponding risks and uncertainties. *Bluefield Water Works and Improvement Co. v. Public Serv. Comm’n of W.Va.*, 262 U.S. 679, 692-93 (1923).
16. A fair return for public utility service is not equivalent to “profits such as are realized or anticipated in highly profitable enterprises or speculative ventures.” *Bluefield Water Works and Improvement Co. v. Public Serv. Comm’n of W.Va.*, 262 U.S. 679, 692-93 (1923).
17. A fair rate of return “should be commensurate with returns on investments in other enterprises having corresponding risks” while being sufficient “to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital.” *Federal Power Comm’n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).
18. Consumers cannot readily negotiate with a utility and must “rely upon” the Commission to provide “a complete, permanent, and effective bond of protection from excessive rates and charges” of the public utility. *Permian Basin Area Rate Cases*, 390 U.S. 747, 794-95 (1968) (citing *Atlantic Ref. Co. v. Pub. Serv. Comm’n*, 360 U.S. 378, 388 (1981)).
19. The Commission’s “responsibilities include the protection of future, as well as present, consumer interests.” *Permian Basin Area Rate Cases*, 390 U.S. 747, 794-95 (1968) (citing *Atlantic Ref. Co. v. Pub. Serv. Comm’n*, 360 U.S. 378, 388 (1981)).

20. Rates adopted by the Commission that are within a “zone of reasonableness” can withstand constitutional scrutiny. *Permian Basin Area Rate Cases*, 390 U.S. 747, 794-95 (1968) (citing *Atlantic Ref. Co. v. Pub. Serv. Comm’n*, 360 U.S. 378, 388 (1981)).
21. An increase in base rates involves a substantial property right, entitling ratepayers to notice and procedural due process. *McCloskey v. Pa. PUC*, 195 A.3d 1055, 1068 (Pa. Cmwlth. 2018) (citing *Barasch v. Pa. PUC*, 546 A.2d 1296, 1305-06 (Pa. Cmwlth. 1988); citing also U.S. Const. amend. XIV, § 1).
22. Given that a utility’s general rate increase request will substantially affect the interests of consumers, the Commission must “consistent with its other statutory responsibilities, take such action with due consideration to the interests of consumers.” 71 P.S. § 309-5.

OVERALL POSITION ON RATE CASE / AFFORDABILITY

23. The OCA supported its recommendation that Peoples be permitted to increase its annual distribution revenues by no greater than \$9,349,545 million with substantial evidence. 2 Pa. C.S. § 704.
24. The Commission “has broad discretion in determining whether rates are reasonable” and “is vested with discretion to decide what factors it will consider in setting or evaluating a utility’s rates.” *When setting rates in a base rate proceeding, the Commission may consider rate affordability*. Such an evaluation requires the Commission to carefully consider the underlying record, including resolving conflicts in testimony and weighting evidence presented before it. *Pa PUC, et. al., v. Pennsylvania-American Water Company*; Docket Nos. R-2025-3057983, *et. al.*, Order at 36 (July 16, 2026) (emphasis added).
25. The “Commission has an ongoing duty to protect the public from unreasonable rates while assuring that public utility companies are permitted to charge rates sufficient to cover their costs and provide a reasonable rate of return.” *Duquesne Light Co. v. Pennsylvania Public Utility Com.*, 507 A.2d 1274, 1278 (Pa. Commw. 1986).
26. There is ample authority for the proposition that the power to fix “just and reasonable” rates imports a flexibility in the exercise of a complicated regulatory function by a specialized decision-making body and that the term “just and reasonable” was not intended to confine the ambit of regulatory discretion to an absolute or mathematical formulation but rather to confer upon the regulatory body the power to make and apply policy concerning the appropriate balance between prices charged to utility customers and returns on capital to utility investors consonant with constitutional protections applicable to both. *Pa. Public Util. Com v. Pa. Gas & Water Co. (water Div.)*, 424 A.2d 1213, 1219 (Pa. 1980).
27. There is no one correct answer to what is “just and reasonable,” but, “instead requires regulators to balance the interest of several sectors of the public, including not only utility investors, but also the interests of the utility’s customers (that itself is comprised of different classes of customers with different individual interests).” OCA St. 1 at 6.

28. One example comes from the PAWC rate case when the Commission considered affordability by looking at how frequently the Company filed rate increases and stated: “We cannot overlook the factor that, given PAWC’s history and cadence of frequent base rate increase requests, affordability is a growing issue, exacerbated by recent and current economic conditions, including increased inflation.” *Pa PUC, et. al., v. Pennsylvania-American Water Company*; Docket Nos. R-2025-3057983, *et. al.*, Order at 40 (July 16, 2026).
29. There are few considerations as important as affordability, as affordability “is in both the shareholder and ratepayers’ best interests. Affordable bills will maximize revenues for the Company and will enable ratepayers to continue to receive an essential service.” *Pa. PUC v. Twin Lakes Utilities, Inc.*, 2020 Pa. PUC LEXIS 340, *52 (Mar. 26, 2020) (quoting *Pa. PUC v. Roaring Creek Water Co.*, 1995 Pa. PUC LEXIS 67, *116 (1995)).
30. 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.
31. Affordability is a fundamental consideration in determining whether proposed rates are just and reasonable. *Pa. PUC v. Pa. American Water Co.*, Docket Nos. R-2025-3057983 *et al*, Order at 36 (July 27, 2026).
32. In *PAWC 2026*, the Commission concluded: “Because we believe that the issue of affordability must be viewed in the context of the magnitude and frequency of PAWC’s rate cases, as well as the impact of recent and current economic conditions, we will give less weight to PAWC’s affordability analyses. In doing so, we find that substantial record evidence demonstrates that PAWC’s proposed rates are unaffordable for many PAWC water and wastewater customers. . . .Affordability is an issue that must be addressed for all customers, not just for those who apply for and are found eligible to receive low-income assistance.” *Pa. PUC v. Pa. American Water Co.*, Docket Nos. R-2025-3057983 *et al*, Order at 41 (July 27, 2026).

OPERATIONS AND MAINTENANCE EXPENSE

33. When forecasting FPFTY expenses, all adjustments to expenses should be known and measurable and that adjustments for inflation are inherently speculative. *Pa. PUC v. Pa. American Water Co.*, Docket Nos. R-2025-3057983 *et al*, Order at 131 (July 27, 2026).
34. Peoples should not be permitted to recover expense increases that it has not demonstrated are known and measurable. 66 Pa. C.S. § 315(e).
35. Inflation adjustments, including those premised on historical averages of the costs experienced by the utility, are rife with uncertainty and speculative guess work as opposed to one that is bounded by reasonable projections. Such adjustments are insufficient for the utility to discharge its burden of proof for the FPFTY using appropriate data evidencing

the accuracy of the estimates contained in the future test year or a fully projected future test year. 66 Pa. C.S. § 315(e).

36. Peoples failed to satisfy its burden of proof that its proposed historical escalation factors are known and measurable for purposes of inclusion in rates and, therefore, its request to recover such costs should be denied. 66 Pa. C.S. §§ 315(a), 315(e).
37. Blanket inflation adjustments, such as the ones proposed by Peoples in its filing, were recently disallowed by the Commission in *Wellsboro 2020*, *Aqua 2022*, *PGW 2023*, and *Columbia 2025*. *Pa. PUC v. Wellsboro Electric Co.*, R-2019-3008208, Order at 40 (Apr. 29, 2020); *Pa. PUC v. Aqua Pa., Inc.*, 2022 PA. PUC LEXIS 161, *62-63 (May 16, 2022); *Pa. PUC v. Phila. Gas Works*, 2023 PA. PUC LEXIS 298, *47 (Nov. 9, 2023); *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2025 PA. PUC LEXIS 395, *92-93 (Dec. 4, 2025).
38. In *PGW 2023*, the Commission rejected PGW's request to apply a blanket 4.63% inflation adjustment to 20% of its expenses because it was applied broadly and did not meet the 'known and measurable' standard for increasing each FTY expense claim in the FPFTY. *Pa. PUC v. Phila. Gas Works*, 2023 PA. PUC LEXIS 298, *47 (Nov. 9, 2023).
39. In *Columbia 2025*, in response to Columbia's attempt to apply general inflation adjustments to seven different expenses, the Commission found that Columbia did not demonstrate that making these adjustments, which are based on the application of blanket inflation rates of 2.93% and 3.05% for the FTY and the FPFTY, respectively, to the identified expense claims directly relates to the actual costs expected to be incurred in each identified expense account in the FTY and the FPFTY. *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2025 PA. PUC LEXIS 395, *92 (Dec. 4, 2025).
40. Peoples should not be permitted to recover expense escalations that are not known and measurable, and cannot meet its burden of proof to provide appropriate data evidencing the accuracy of the estimates contained in the future test year or a fully projected future test year by using generic inflationary data which is not specifically tied to the expense adjustment. 66 Pa. C.S. § 315(e).
41. Peoples failed to satisfy its burden of proof that its proposed CPI-based inflation adjustment factors are known and measurable for purposes of inclusion in rates and, therefore, its request to recover such costs should be denied. 66 Pa. C.S. §§ 315(a), 315(e).
42. A vacancy rate ratio based on a three-year average ratio is an appropriate means to adjust a utility's claimed employee count and associated expenses. *Pa. PUC v. Phila. Gas Works*, 2023 PA. PUC LEXIS 298, *42-43 (Nov. 9, 2023).
43. Peoples failed to satisfy its burden of proof that its proposed labor expense is known and measurable for purposes of inclusion in rates and, therefore, its request to recover the totality of the expense amount should be denied. 66 Pa. C.S. § 315(a).

44. For a utility to meet its burden of proof regarding the inclusion of incentive compensation expenses in the utility's rates, the utility must demonstrate that the incentive compensation expense claim aligns primarily with ratepayer, and not shareholder, interests. 66 Pa. C.S. § 315(a).
45. Where a utility fails to explain why a portion of its incentive compensation expense claim is necessary to provide adequate service to ratepayers and is related to operational safety and customer experience, that portion of its incentive compensation expense claim should not be recovered through rates. *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2025 PA. PUC LEXIS 395, *92 (Dec. 4, 2025).
46. Ratepayers should not be required to exclusively fund the payout of financial metrics, particularly where the utility did not establish that such costs are fair and necessary, or that they pertain to providing safe, adequate, and reliable service to customers. *Pa. PUC v. Pa. American Water Co.*, Docket Nos. R-2025-3057983 *et al*, Order at 114 (July 27, 2026).
47. Whether ratepayers may experience a modicum of benefit from the incentive compensation plan is not the determinative factor; rather, the Commission looks to whether the desired outcomes of the plan align employees' interests primarily with those of the utility's shareholders. *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2025 PA. PUC LEXIS 395, *86-87 (Dec. 4, 2025); *Pa. PUC v. Pa. American Water Co.*, Docket Nos. R-2025-3057983 *et al*, Order at 114 (July 27, 2026).
48. Peoples failed to satisfy its burden of proof that the totality of its proposed incentive compensation expense is known and measurable for purposes of inclusion in rates and, therefore, its request to recover the totality of the expense amount should be denied. 66 Pa. C.S. § 315(a).
49. Peoples failed to satisfy its burden of proof that its proposed employee benefits expense is known and measurable for purposes of inclusion in rates and, therefore, its request to recover the totality of the expense amount should be denied. 66 Pa. C.S. § 315(a).
50. Peoples failed to satisfy its burden of proof that its proposed employee expense is directly related to providing safe and adequate service and is reasonable to recover in rates and, therefore, its request to recover the totality of the expense amount should be denied. 66 Pa. C.S. § 315(a).
51. Peoples failed to satisfy its burden of proof that its proposed travel and entertainment expense is directly related to providing safe and adequate service and is reasonable to recover in rates and, therefore, its request to recover the totality of the expense amount should be denied. 66 Pa. C.S. §§ 315(a), 315(e).
52. Absent evidence that there is any *direct* benefit to ratepayers, a utility should not be permitted to recover costs for membership in local chambers of commerce. *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2025 PA. PUC LEXIS 395, *101 (Dec. 4, 2025).

53. Peoples failed to satisfy its burden of proof that its proposed company membership expense is directly related to providing safe and adequate service and is reasonable to recover in rates and, therefore, its request to recover the totality of the expense amount should be denied. 66 Pa. C.S. §§ 315(a), 315(e).
54. Peoples failed to satisfy its burden of proof that its proposed advertising expense is known and measurable for purposes of inclusion in rates and, therefore, its request to recover the totality of the expense amount should be denied. 66 Pa. C.S. §§ 315(a), 315(e).
55. Peoples failed to satisfy its burden of proof that its proposed materials and supplies expense is known and measurable for purposes of inclusion in rates and, therefore, its request to recover the totality of the expense amount should be denied. 66 Pa. C.S. §§ 315(a), 315(e).
56. Rate case expenses are normal operating expenses that are incurred on an irregular basis, meaning that the expenses should be normalized over a period based on the historical frequency of the utility's rate filings. *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154 (Pa. Cmwlth. 1996) (citing *Pa. Pub. Util. Comm'n v. Borough of Media Water Works*, 72 Pa. PUC 144 (1990)); *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2025 PA. PUC LEXIS 395, *20-21 (Dec. 4, 2025).
57. Peoples failed to satisfy its burden of proof that its proposed rate case expense is known and measurable for purposes of inclusion in rates and, therefore, its request to recover the totality of the expense amount should be denied. 66 Pa. C.S. §§ 315(a), 315(e).
58. Peoples failed to satisfy its burden of proof that its proposed outside services – administrative and general expense is known and measurable for purposes of inclusion in rates and, therefore, its request to recover the totality of the expense amount should be denied. 66 Pa. C.S. §§ 315(a), 315(e).
59. Peoples failed to satisfy its burden of proof that it is appropriate to recover the costs of a customer acquisition pilot program through rates and, therefore, its request to implement the proposed Natural Gas Hot Water Tank Rebate Pilot Program and recover the costs of the same through rates should be denied. 66 Pa. C.S. § 315(a).
60. Peoples failed to satisfy its burden of proof that its proposed payment processing expense is known and measurable for purposes of inclusion in rates and, therefore, its request to recover the totality of the expense amount should be denied. 66 Pa. C.S. §§ 315(a), 315(e).
61. Peoples failed to satisfy its burden of proof that its proposed Public Utility Commission assessment expense is known and measurable for purposes of inclusion in rates and, therefore, its request to recover the totality of the expense amount should be denied. 66 Pa. C.S. §§ 315(a), 315(e).
62. The Commission may make such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate based on the consideration of evidence regarding the efficiency, effectiveness and adequacy of service

of each utility when determining just and reasonable rates under this title. 66 Pa. C.S. § 523(a).

63. Peoples' credit and collection activities are inefficient, ineffective, and/or inadequate and, therefore, the OCA's recommendation to reduce the portion of the costs of Peoples' credit and collection activities recovered through rates is adopted.
64. Prior Commission orders have required utilities to implement modifications to the utilities' service without providing adjustments to the utilities' authorized revenue requirement related to the cost of implementing such modifications. *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2025 PA. PUC LEXIS 395, *248-56 (Dec. 4, 2025); *Pa. PUC v. Pa. American Water Co.*, Docket Nos. R-2025-3057983 *et al*, Order at 414-18 (July 27, 2026).
65. The OCA supported its recommended modifications to Peoples' claimed expenses with substantial evidence and should be adopted. 2 Pa. C.S. § 704.
66. All rate impacts associated with the Customer Assistance Program (CAP) costs proposed to be recovered in the CAP Rider should be considered because there could be decreases in certain expenses that may be realized through the CAP program, as well as possible double recovery of costs without an appropriate offset. Under the instant proposal, an offset of \$0.00 is not reasonable. Accordingly, we agree with the ALJs that it is more appropriate for cost recovery of PAWC's universal service costs to be addressed through the base rate process, rather than a new rider, at this time. *Pa. PUC v. Pa. American Water Co.*, Docket Nos. R-2025-3057983 *et al*, Order at 334 (July 27, 2026).
67. The Commission may "mak[e] such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate" based on the consideration of evidence regarding "the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title." 66 Pa. C.S. §523(a).

DEPRECIATION

68. Depreciation is the loss, not restored by current maintenance, which is due to all the factors causing the ultimate retirement of the property such as wear and tear, decay, inadequacy and obsolescence. *Lindheimer v. Illinois Bell Tel. Co.*, 292 U.S. 151, 167 (1934).
69. The original cost of plant assets, rather than the present value or some other measure, is the proper basis for calculating depreciation expense. *Lindheimer v. Illinois Bell Tel. Co.*, 292 U.S. 151, 167 (1934).
70. The company has the burden of making a convincing showing that the amounts it has charged to operating expenses for depreciation have not been excessive. That burden is not sustained by proof that its general accounting system has been correct. The calculations are mathematical, but the predictions underlying them are essentially matters of opinion. *Lindheimer v. Illinois Bell Tel. Co.*, 292 U.S. 151, 167 (1934).

71. In a case involving Duke Energy Indiana in 2020, the company proposed depreciation rates using the ELG method which the Indiana commission rejected, noting that “the use of ELG in a higher than average investment cycle has the effect of unnecessarily increasing the near term depreciation expense as compared to the use of ALG.” Brief for Appellant at 90, *Indiana Office of Util. Consumer Counselor v. Duke Energy Ind., LLC*, (Ind. Util. Regul. Comm’n 2023) (Cause No. 45253). “[W]e find the evidence presented by OUCC witness Mr. Garrett and Industrial Group witness Mr. Andrew’s persuasive, as both witnesses showed that the ELG method results in unreasonably high depreciation rates.” See Testimony of David J. Garrett on Behalf of the Ind. Office of Util. Consumer Counselor at 7, *In re Ind.-Am. Water Co.* (Ind. Util. Regul. Comm’n July 21, 2023) (Cause No. 45870).
72. In Mississippi, the Mississippi Public Service Commission, in a case involving Atmos Energy, also adopted the position of Mr. Garrett when finding that “the depreciation rates as proposed by Staff, based on the standard ALG method, result in just and reasonable depreciation expense to customers” and directed Atmos to adopt the ALG method for establishing depreciation rates in Mississippi. *In re Atmos Energy Corp.*, Docket No. 2025-UN-59, at 20 (Miss. Pub. Serv. Comm’n June 2, 2025).
73. In Kentucky, the Kentucky Public Service Commission found in a case involving Duke Kentucky that the ELG procedure front-loads depreciation expenses in earlier years and decreases it in the later years of an asset’s depreciation life, creating a mismatch of revenues and expenses. *In re Application of Atmos Energy Corp.* (Ky. Pub. Serv. Comm’n Jan. 28, 2019) (Case No. 2018-00281) (*quoting In re Application of Duke Energy Ky., Inc.*, Case No. 2017-00321, Order at 10 (Ky. Pub. Serv. Comm’n Apr. 13, 2018)).

RATE OF RETURN

74. The amount of risk in the business is a most important factor in determining the appropriate allowed rate of return. *Wilcox v. Consolidated Gas Co. of New York*, 212 U.S. 19 (1909)
75. 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. *Bluefield Water Works & Improvement v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923).
76. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1941).

COST OF SERVICE/ALLOCATION/RATE DESIGN

77. Distribution mains exist and are related to both annual demands and peak demands. Both annual and peak demands must be recognized in the allocation of distribution mains cost if the allocation is to be in accord with the principle of cost-causality. It is not reasonable to allocate distribution mains investment based solely on design peak day demands... *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2025 PA. PUC LEXIS 395, *162-63 (Order Dec. 9, 2025).

78. The utility is not entitled to a rebuttable presumption as a matter of law as to the correctness of its chosen Allocated Cost Class of Service Study methodology but, instead, bears the burden of proof, as in all other aspects of its rate increase request. 66 Pa. C.S. § 315(a).
79. In its recent *Columbia Order*, the Commission adopted a P&A cost allocation method to classify and allocate costs associated with natural gas distribution mains and in reaching its decision, the Commission directly addressed the position that a portion of these costs could be classified as customer-related based on an analysis of a hypothetical minimum system: In light of the above, we remain of the opinion that although mains serve customers, *it is the throughput that determines the type of main investment because it is the load that determines the main investment, not the number of customers served*. As the Commission stated in *Columbia Gas 2021*, the existence of one customer, five customers, or ten customers does not determine the amount of mains investment. Mains investment is driven by the loads placed upon it, not by the number of customers served. *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2025 PA. PUC LEXIS 395, *255 (Order Dec. 9, 2025).
80. The Peak and Average Allocated Cost Class of Service Study (ACOSS) will lead to just and reasonable rates while the Demand ACOSS will not . . . *Pa. PUC, et. al. v. National Fuel Gas Dist. Corp.*, Docket Nos R-2025-3059428, et. al., R.D. at 268 (July 31, 2026).
81. There is no statutory or appellate prohibition that limits the recovery of Customer Assistance Program costs, whether specifically calculated or as part of total universal service costs, to funding from the residential class. Universal service funding from non-residential classes, while not mandatory, is permissible.” *2019 Amendments to CAP Policy Statement*, Docket No. M-2019-3012599, Order at 96 (Nov. 5, 2019).
82. In its 2026 Final Order on “large load” customers, the Commission confirmed that it “ha[s] the authority to require other customer classes, not just the residential class, to contribute to the costs of universal service programs” and that it has “an obligation to ensure that electric service is available to all customers on reasonable terms and conditions.” *Interconnection and Tariffs for Large Load Customers*, Docket No. M-2025-3054271, Order at 107 (Apr. 30, 2026).
83. The Commission must ensure that gas service is available to all customers on just and reasonable terms. *See e.g.*, 66 Pa. C.S. § 1318.
84. In its *2019 CAP Policy Amendments Order*, the Commission expressly found that “poverty, poor housing stock, and other factors that contribute to households struggling to afford utility service are not just ‘residential class problems.’” *2019 Amendments to CAP Policy Statement*, Docket No. M-2019-3012599, Order at 94 (Nov. 5, 2019).
85. Universal service programs advance a broader public purpose and concluded that “the *General Assembly clearly identified the public purpose of these programs* in the Competition Acts by requiring that their costs be nonbypassable.” *2019 Amendments to CAP Policy Statement*, Docket No. M-2019-3012599, Order at 96 (Nov. 5, 2019).

86. After notice and hearings, the commission shall establish for each natural gas distribution company an appropriate *nonbypassable*, competitively neutral cost-recovery mechanism which is designed to recovery fully the natural gas distribution company's universal service and energy conservation costs over the life of these programs. 66 Pa. C.S. § 2203(6) (emphasis added).
87. There is a persuasive argument to be made that home heating and energy assistance for low-income households serves a public good whose responsibility is not merely other residential ratepayers. *2019 Amendments to CAP Policy Statement*, Docket No. M-2019-3012599, Order at 94-95 (Nov. 5, 2019).
88. There is no statutory requirement that funding for special programs come only from those who benefit directly from the programs. *2019 Amendments to CAP Policy Statement*, Docket No. M-2019-3012599, Order at 96 (Nov. 5, 2019) (quoting *MEIUG v. Pa. PUC*, 960 A.2d 189, 202 (2008); *Lloyd v. Pa. PUC*, 904 A.2d 1010 (Pa. Cmwlth. 2006)).
89. The Commission has already rejected arguments that recovering universal service costs from commercial and industrial customers could negatively affect businesses. *2019 Amendments to CAP Policy Statement*, Docket No. M-2019-3012599, Order at 95-96 (Nov. 5, 2019).
90. OSBA and the Industrial Customers have argued that recovering costs of universal service programs from industrial and commercial customers may negatively impact businesses in the Commonwealth. However, we have not seen evidence that the economic climate in Philadelphia has been negatively impacted as a result of universal service costs charged by PGW. Further, as noted by multiple parties in the *Review* proceeding, many states recover the cost of utility low-income programs from all ratepayer classes, including New York, New Jersey, Ohio, Illinois, Maine, and New Hampshire. We are not aware that this practice has negatively impacted the business climate of any these states. *2019 Amendments to CAP Policy Statement*, Docket No. M-2019-3012599, Order at 95-96 (Nov. 5, 2019) (citing *Pa. PUC v. PGW*, Docket No. R-2017-2586783, Order at 74 (Nov. 8, 2017); *Order Adopting Low Income Program Modifications and Directing Utility Filings*, NY P.S.C. Docket No. 14-M-0565, Order at 4 (May 20, 2016)).
91. Contributions to utility universal service programs would not only help ameliorate the impact of rising energy prices for low-income universal service program participants but will also help all residential customers by relieving some of the cost burden of these programs, which are currently borne solely by residential electric customers. However, while EDCs are free to propose what they think best in this regard, we are inclined to favor a flat fee model based upon the Large Load Customer's peak demand as opposed to a volumetric charge. Such a fee structure would be simpler for the EDCs to assess and administer and provide greater predictability and transparency for both the utility and the Large Load Customer. *Interconnection and Tariffs for Large Load Customers*, Docket No. M-2025-3054271, Order at 107 (Apr. 30, 2026).

WEATHER NORMALIZATION ADJUSTMENT

92. If the Commission determines that it will authorize continuation of Peoples' Weather Normalization Adjustment (WNA), increasing the deadband from three to five percent would strengthen ratepayer protections and would furthermore make the Company's WNA consistent with the recent WNA modifications for Columbia Gas of Pennsylvania (Columbia) approved by the Commission. *See Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2025-3053499, *et al.*, Opinion and Order (Dec. 4, 2025).
93. In Columbia's most recent rate case, the Commission found that the Company recovered over \$74 million in revenue through the application of the Weather Normalization Adjustment from the Columbia rate payers, according to historical data. *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2025-3053499, *et al.*, R.D. at 28 (Oct. 3, 2025).
94. The Weather Normalization Adjustment transfers the risk of price volatility and weather variability from NFG to the ratepayers. Over the three years of the pilot, NFG passed more charges onto residential customers than paid credits to ratepayers. During the three years of the pilot, residential customers were denied clear weather-related consumption and price signals. *Pa. PUC v National Fuel Gas Distribution, et al.*, Docket Nos. R-2025-3059428, R.D. (July 31, 2026) (Final Opinion and Order is still pending before the Commission).
95. The Commission developed 14 factors that it considers in determining "just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose" of the Commission's policy and the policy laid out in Section 1330. See 66 Pa. C.S. § 1330.
96. It is the policy of the Commonwealth that utility ratemaking should encourage and sustain investment through appropriate cost-recovery mechanisms to enhance the safety, security, reliability or availability of utility infrastructure and be consistent with the efficient consumption of utility service. 66 Pa. C.S. § 1330(a)(2).
97. While no one factor is dispositive, the totality of all factors weigh against the authorized continuation of Peoples' Weather Normalization Adjustment. *Pa. PUC v. Columbia Gas of Pa., Inc.*, 2026 PA. PUC LEXIS 60, *75-80 (Order Denying Reconsideration Feb. 19, 2026) (wherein the Commission declined to consider its policy factors regarding alternative ratemaking mechanisms).
98. People's Weather Normalization Adjustment (WNA) is premised on ensuring the Company will recover its annual fixed costs of providing gas distribution service; however, the WNA adjustment is applied as a variable charge to customer's bills. 52 Pa. Code §§ 69.3302(a)(1).
99. When a Peoples customer's bill is higher than the energy consumed, that means that charge is not aligned with cost causation principles. 52 Pa. Code § 69.3302(a)(3).
100. The Weather Normalization Adjustment affects the distribution charge on a customer's bill, while only commodity charges will be based on actual usage, thus muting the effect of consumers' efforts to conserve energy on their bill. Similarly, it will be difficult for consumers to gauge the return on investment for energy efficiency investments when their

efforts to conserve energy are not clearly beneficial in reducing their costs. *Pa. PUC v. PECO Energy Co. – Gas Division*, 2024 PA. PUC LEXIS 355, *81 (Order Dec. 12, 2024).

101. Peoples’ customers are deprived of both ability and understanding to make the best decisions regarding when to invest in energy efficiency for their household. 52 Pa. Code §§ 69.3302(a)(5)(6).
102. A customer affirmatively chooses to enroll in budget billing to prevent bill volatility and enable better budgeting; the continued authorization of Peoples’ Weather Normalization Adjustment deprives customers of the ability to elect to enroll, muting the purported benefits of the decoupling mechanism, and failing to provide actual bill stability in a way which is recognizable to Peoples’ customers. 52 Pa. Code §§ 69.3302(a)(8).
103. Customers do not have access to all of the information necessary to verify the accuracy of their Weather Normalization Adjustment (WNA) charges on their bills because, in part, “a customer cannot easily look at the multi-variable formula used to calculate the WNA and determine how their bill would be affected by their usage” and a “customer will not have access to all of the data used to complete the bill calculation” the Commission has previously found a proposed WNA to be unjust and unreasonable. *Pa. PUC v. PECO Energy Co. – Gas Division*, 2024 PA. PUC LEXIS 355, *81 (Order Dec. 12, 2024)
104. If the goal of the Weather Normalization Adjustment is to improve stability and customer bills and Company revenues, a 5% deadband adequately captures what could be considered normal weather fluctuations in Pennsylvania. *See Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2025-3053499, *et al.*, Opinion and Order (Dec. 4, 2025) (Columbia 2025).
105. A larger deadband places more responsibility for calculating and forecasting weather variations on the utility as a normal part of doing business. *See Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2025-3053499, *et al.*, Opinion and Order (Dec. 4, 2025).
106. May is not a winter or traditional heating month in Pennsylvania but more appropriately a shoulder month when customers can expect to start seeing their heating bills decline. *See Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2025-3053499, *et al.*, Opinion and Order at 301-302 (Dec. 4, 2025).

LOW-INCOME CUSTOMER SERVICE ISSUES

107. The commission shall consider, in addition to all other relevant evidence of record, the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title. On the basis of the commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate. 66 Pa. C.S. § 523.

CUSTOMER SERVICE ISSUES

Service Terminations – Disparate Treatment

108. Every public utility to furnish and maintain “adequate, efficient, safe, and reasonable service and facilities.” 66 Pa. C.S. § 1501.
109. The term “service” is construed “in its broadest and most inclusive sense” and encompasses the practices and actions of a utility that affect its customers. *PECO Energy Co. v. Twp. of Upper Dublin*, 922 A.2d 996, 1000 (Pa. Cmwlth. 2007) (citing 66 Pa. C.S. § 102).
110. A utility’s termination procedures are a critical component of the utility’s service and adequate termination practices are important to ensuring that termination remains an action of last resort. 52 Pa. Code §§ 56.81-56.118 (Commission’s regulations regarding termination procedures); *see also Universal Service Programs & Collections Performance 2024 Report*, Pa. PUC, 11 (Jan. 2026) (“Termination of public utility service is the most serious consequence of customer nonpayment and is viewed as a last resort when customers fail to meet their payment obligations.”).
111. It is not necessary to prove that a specific practice “had a racial purpose or invidious intent” for the practice to be invalid because of its disparate impact. *Conn. v. Teal*, 457 U.S. 440, 446 (1982).
112. Pennsylvania courts likewise recognize disparate impact as a distinct theory from intentional disparate treatment. *See Winn v. Trans World Airlines, Inc.*, 484 A.2d 392, 398–402 (Pa. 1984) (Larsen, J., opinion in support of affirmance); *Girard Fin. Co. v. Pa. Human Rels. Comm’n*, 52 A.3d 523, 534-35 (Pa. Cmwlth. 2012).
113. The Commission’s consideration of Peoples’ disproportionate termination of Black households for nonpayment must go beyond whether the Company’s procedures are explicitly or implicitly discriminatory on their face. *See Eagle Run Holdings, LLC v. Zoning Hearing Bd. of Reading*, 302 A.3d 1261, 2023 Pa. Commw. Unpub. LEXIS 351, *12 (Pa. Cmwlth. July 6, 2023) (citing *Lapid-Laurel v. Zoning Bd. of Adjustment*, 284 F.3d 442, 467 (3d Cir. 2002)) (unpublished) (a disparate impact analysis does not “entail consideration of the [policy’s] text as, by nature, disparate impact presupposes facially neutral enactments or actions.”).
114. Under the two-part disparate-impact framework, which is well established in other contexts, the party challenging the practice must first establish a prima facie disparate impact. *Conn. v. Teal*, 457 U.S. 440, 446 (1982); *Girard Fin. Co. v. Pa. Human Rels. Comm’n*, 52 A.3d 523, 534-35 (Pa. Cmwlth. 2012).
115. Statistics may establish a prima facie disparate-impact case. *Girard Fin. Co. v. Pa. Human Rels. Comm’n*, 52 A.3d 523, 535, n. 10 (Pa. Cmwlth. 2012) (citing *International Brotherhood of Teamsters v. United States*, 431 U.S. 324 (1977)).
116. The showing does not require proof of discriminatory intent, either explicit or implicit. *Conn. v. Teal*, 457 U.S. 440, 446 (1982); *Winn v. Trans World Airlines, Inc.*, 484 A.2d 392, 401-03 (Pa. 1984) (Larsen, J., opinion in support of affirmance); *Girard Fin. Co. v. Pa. Human Rels. Comm’n*, 52 A.3d 523, 534 (Pa. Cmwlth. 2012).

117. Second, once the prima facie showing is made, the burden shifts to the proponent of the challenged practice to provide a legitimate, nondiscriminatory explanation for the disparate impact. *Conn. v. Teal*, 457 U.S. 440, 446 (1982).
118. Pennsylvania Courts have used this test under the Pennsylvania Human Relations Act. See *Winn v. Trans World Airlines, Inc.*, 484 A.2d 392, 398-402 (Pa. 1984); *Allegheny Hous. Rehab. Corp. v. Pa. Human Relations Comm'n*, 532 A.2d 315, 319 (Pa. 1987).
119. The Commonwealth Court and the Pennsylvania Supreme Court have also considered the showing required for a claim of disparate impact under the Free and Equal Elections and Uniformity Clauses of the Pennsylvania Constitution. See *League of Women Voters v. Commonwealth*, 178 A.3d 737, 817 (Pa. 2018) (prohibiting disparate impact on a political partisan basis when designing voting districts); *Valley Forge Towers Apts. N, LP v. Upper Merion Area Sch. Dist. & Keystone Realty Advisors, LLC*, 163 A.3d 962, 979 (Pa. 2017) (prohibiting the intentional or systematic disparate treatment of particular sub-classifications of property).
120. The Commonwealth Court has made it clear that OCA's presentation of the disparate-impact theory and the governing two-part test to the Commission was missing from the prior 2023 Peoples base rate proceeding. *D. Lawrence v. Pa. PUC*, No. 1346 C.D. 2024, Opinion (Pa. Cmwlth. 2026).
121. In the 2023 Peoples base rate proceeding, the OCA raised the same disparate impact issues it raises here. *D. Lawrence v. Pa. PUC*, No. 1346 C.D. 2024, Opinion at 3-5 (Pa. Cmwlth. 2026).
122. The Court affirmed the Commission's order, denying the OCA's request for a root cause analysis on waiver grounds, because the OCA had not adequately presented the disparate-impact theory or the two-part test in front of the Commission, specifically stating: "Here, we are constrained to conclude that the OCA waived its disparate impact argument, as it never raised this issue before the Commission, but included the issue in its legal brief . . . in its appellate brief and at oral argument before this Court, the 'OCA recognize[d] that the application of the disparate impact standard to terminations for nonpayment of public utility service is one of first impression.' (OCA's Br., at 17) (emphasis added). The OCA likewise averred that '[d]isparate impact analyses have not been applied in the context of adequate and reasonable public utility service, specifically, but other areas of law provide a two part test[.]'" (OCA's Br., at 13) (emphasis added.) . . . Therefore, despite the admitted novelty of its disparate impact argument, the OCA failed to expressly raise it below, leaving the Commission without notice of the specifics of its claim within the context of its broader Section 1501 issue." *D. Lawrence v. Pa. PUC*, No. 1346 C.D. 2024, Opinion at 9-11 (Pa. Cmwlth. 2026).
123. Senior Judge Leadbetter, in her dissent, did "not agree that OCA waived the issue of whether it had put on sufficient evidence to justify a root cause study to determine whether Peoples' practices had a disparate impact on black households," finding that the evidence presented in Mr. Colton's testimony was "more than sufficient to preserve the issue." *D. Lawrence v. Pa. PUC*, No. 1346 C.D. 2024, Dissenting Opinion at 1, 3 (Pa. Cmwlth. 2026).

124. The Court held only that the OCA had failed to preserve that legal theory by presenting it to the Administrative Law Judge and the Commission in the first instance. *D. Lawrence v. Pa. PUC*, No. 1346 C.D. 2024, Opinion at 11-12 (Pa. Cmwlth. 2026).
125. A facially neutral practice is precisely the type of practice to which disparate-impact analysis applies, i.e., a practice that falls more harshly on one group than another and cannot be justified by a valid, nondiscriminatory purpose. *Winn v. Trans World Airlines, Inc.*, 484 A.2d 392, 401 (Pa. 1984) (citing *International Brotherhood of Teamsters v. United States*, 431 U.S. 324, 335, n.15 (1977)).
126. Section 1501 requires adequate and reasonable service, and Section 1505(a) authorizes the Commission to order a utility to alter its service when necessary to bring that service into compliance with the Code. 66 Pa. C.S. §§ 1501, 1505(a).
127. The Commission has broad authority, and a duty, to enforce and carry out the provisions and purposes of the Public Utility Code. 66 Pa. C.S. § 501(a).
128. The Commission has previously used investigations and root-cause-type analyses as remedies for identified service-quality problems. *See e.g., Pa. PUC v. Pa.-American Water Co.*, Docket Nos. R-2023-3043189 et al., Opinion and Order (July 22, 2024) (finding service-quality deficiencies and ordering an investigation into the quality-of-service problems and their causes, culminating in a root cause analysis report); *Pa. PUC v. Phila. Gas Works*, Docket Nos. R-2023-3037933 et al., Opinion and Order (Nov. 9, 2024) (ordering measures requiring the utility to analyze adverse trends and develop processes for addressing identified service problems).
129. The Commission shall consider, in addition to all other relevant evidence of record, the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title. On the basis of the commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate. Any adjustment made under this section shall be made on the basis of specific findings upon evidence of record, which findings shall be set forth explicitly, together with their underlying rationale, in the final order of the commission. 66 Pa. C.S. § 523(a).
130. It is well established that whether a utility's rates are just and reasonable is inextricably intertwined with the quality of service provided by the utility. *Nat'l Utils. v. Pa. PUC*, 709 A.2d 972, 973 (Pa. Cmwlth. 1998).
131. Unexceptional service is not an adequate basis for recognition of management effectiveness, particularly where there is no evidentiary record suggesting high levels of customer satisfaction with the Company's performance. 66 Pa. C.S. §§ 523, 1501; *see also* 66 Pa. C.S. § 315(a).
132. Peoples has failed to satisfy its burden of proof that it is just and reasonable to recover an additional return on common equity associated with the efficiency, effectiveness, and/or adequacy of its management and, therefore, its request for a 25 basis point adjustment to

its return on common equity associated with the same is denied. 66 Pa. C.S. §§ 315(a), 523(a).

133. Peoples should begin recording data regarding rebilling and back-billing events as described by OCA witness Larkin-Connolly. 2 Pa. C.S. § 704.
134. Peoples' data tracking for rebilling and back-billing events is unreasonable, unsafe, inadequate, insufficient, and/or unreasonably discriminatory, and/or otherwise in violation of the Public Utility Code. 66 Pa. C.S. § 1505(a).
135. The reasonable, safe, adequate, sufficient, service to be observed, furnished, enforced, and/or employed is to begin recording data regarding rebilling and back-billing events, and Peoples is prescribed to make such modifications to its service necessary in order to comport with this level of service. 66 Pa. C.S. § 1505(a).
136. Peoples failed to satisfy its burden of proof that its proposed nonliability/limitation of liability tariff revision is reasonable and/or not unduly discriminatory and, therefore, its request to implement these revisions is denied. 66 Pa. C.S. §§ 1501, 1502.
137. Peoples failed to satisfy its burden of proof that its proposed dishonored payment tariff revision is reasonable and/or not unduly discriminatory and, therefore, its request to implement these revisions is denied. 66 Pa. C.S. §§ 1501, 1502.
138. Peoples failed to satisfy its burden of proof that its proposed Customer Assistance Program restrictions on recreational gas use tariff revision is reasonable and/or not unduly discriminatory and, therefore, its request to implement these revisions is denied. 66 Pa. C.S. §§ 1501, 1502.
139. Peoples failed to satisfy its burden of proof that its proposed Customer Assistance Program benefit reversal for alleged fraud tariff revision is reasonable and/or not unduly discriminatory and, therefore, its request to implement these revisions is denied. 66 Pa. C.S. §§ 1501, 1502.
140. The OCA supported its recommendation that Peoples' proposed tariff revisions be denied with substantial evidence. 2 Pa. C.S. § 704.

PROPOSED TARIFF CHANGES

141. It is Peoples' tariff that controls its behavior and provides defined ratepayer protections approved by the Commission and subject to the Commission's scrutiny. 66 Pa. C.S. § 1501.

HOT WATER TANK REBATE PILOT PROGRAM

142. Peoples failed to satisfy its burden of proof that it is appropriate to recover the costs of a customer acquisition pilot program through rates and, therefore, its request to implement the proposed Natural Gas Hot Water Tank Rebate Pilot Program and recover the costs of the same through rates should be denied. 66 Pa. C.S. § 315(a).

- 143.** The OCA supported its recommendation that Peoples' proposed Natural Gas Hot Water Tank Rebate Pilot Program be denied with substantial evidence. 2 Pa. C.S. § 704.

Appendix D

OCA Proposed Ordering Paragraphs

Appendix D – OCA Proposed Ordering Paragraphs

It is hereby ORDERED THAT:

1. Peoples Natural Gas Company LLC shall not place into effect the rates, rules, and regulations contained in Original Tariff Gas – Pa PUC No. 49 and Original Tariff Gas – Pa PUC No. S-5, which have been found to be unjust, unreasonable and/or unduly discriminatory, and, therefore, unlawful.
2. Peoples Natural Gas Company LLC is authorized to file tariffs, tariff supplement, or tariff revisions containing rates designed to produce no less than an annual base rate increase of \$9,349,545.
3. Peoples Natural Gas Company LLC shall file detailed calculations with its tariff filing, which shall demonstrate to this Commission's satisfaction that the filed rates comply with the proof of revenue, in the form and manner customarily filed in support of compliance tariffs.
4. Peoples Natural Gas Company LLC's depreciation expense adjustment based on the Equal Life Group method of depreciation is rejected and shall be determined based on the Average Life Group method of depreciation.
5. Peoples Natural Gas Company LLC's proposed capital structure of 54% and 46% should be rejected and the 51% and 49% structure proposed by Office of Consumer Advocate should be adopted.
6. Peoples Natural Gas Company LLC should be authorized a return on equity of 8.8%.
7. Peoples Natural Gas Company LLC Allocated Cost Class of Service Study is denied and the use of the Office of Consumer Advocate's Allocated Cost Class of Service Study is approved.
8. Peoples Natural Gas Company LLC shall take steps to improve outreach, intake, and enrollment in its Customer Assistance Program; have an independent third party conduct a root cause analysis of its disproportionate number of disconnections in the 40 zip codes with the highest proportion of Black householders; and consider customers' ability to afford offered payment arrangements.
9. Peoples Natural Gas Company LLC's proposed additions #9 and #10 to the Rate CAP portion of its tariff are denied.
10. Peoples Natural Gas Company LLC shall, within 12 months of a final decision in this proceeding, report to the Commission its plan to eliminate the collection and retention of customer Social Security Numbers.
11. Peoples Natural Gas Company LLC's residential collection expense claim shall be reduced by \$3.834 million.

12. Peoples Natural Gas Company LLC's request for a Universal Service Plan Rider is denied.
13. Peoples Natural Gas Company LLC shall allocate its total Customer Assistance Program costs to all customers and between customer classes on a competitively neutral basis based on the percentage of revenue produced by each customer class.
14. Peoples Natural Gas Company LLC shall use a bad debt offset calculation of 8.1%, with a proposed threshold amount equal to the Customer Assistance Program enrollment for the month the Final Order for this proceeding is entered.
15. The request of Peoples Natural Gas Company LLC to implement revisions to its distribution tariff regarding nonliability/limitation of liability, dishonored payments, Customer Assistance Program restrictions on recreational gas use, and Customer Assistance Program benefit reversal for alleged fraud are denied.
16. The request of Peoples Natural Gas Company LLC to implement the proposed Natural Gas Hot Water Tank Rebate Pilot Program is denied.
17. The Complaints filed by the various parties to this proceeding at Docket Number R-2025-3053499 are granted in part and denied in part, to the extent consistent with this Commission's Opinion and Order.

DATE: _____

Charece Z. Collins

Administrative Law Judge