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COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET, HARRISBURG, PA 17120

BUREAU OF
INVESTIGATION
&
ENFORCEMENT

September 4, 2026

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

Re: Pennsylvania Public Utility Commission v.
Peoples Natural Gas Company, LLC
Docket No. R-2026-3060855
I&E Reply Brief

Dear Secretary Homsher:

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

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

Sincerely,

Michael Podskoch

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MAP/nb
Enclosures

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

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY BRIEF
OF
THE BUREAU OF INVESTIGATION AND ENFORCEMENT

NON-PROPRIETARY VERSION

Michael A. Podskoch, Jr.
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Pennsylvania Public Utility Commission
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Commonwealth Keystone Building
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Dated: September 4, 2026

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I. INTRODUCTION

A. DESCRIPTION OF I&E

The description of the Bureau of Investigation and Enforcement ("I&E") was addressed in its Main Brief ("I&E MB").[1]

B. PROCEDURAL HISTORY

The history of this proceeding was addressed in I&E's Main Brief filed on August 26, 2026, and in the main briefs submitted by the various parties. The parties to this base rate proceeding are Peoples Natural Gas Company LLC ("Peoples or "Company"), I&E; the Office of Consumer Advocate ("OCA"); the Office of Small Business Advocate ("OSBA"); the Pennsylvania Weatherization Providers Task Force, Inc. ("PWPTF"); the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA"); the Pennsylvania Independent Oil & Gas Association ("PIOGA"); and the Retail Energy Supply Association ("RESA").

I&E now submits this I&E Reply Brief ("I&E RB") in reply to the main briefs of Peoples ("Peoples MB"); OCA ("OCA MB"); and CAUSE-PA ("CAUSE MB"). This I&E RB is submitted in support of the arguments and recommendations made by the I&E witnesses, the record evidence presented, and I&E's Main Brief. Overall, the arguments made in the parties' main briefs have been raised consistently throughout the litigation process and have already been addressed in I&E's direct, rebuttal and surrebuttal testimonies, as well as in I&E's Main Brief. This I&E RB will supplement I&E's ongoing arguments as necessary.

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1 *See* I&E MB, p. 1.

C. LEGAL STANDARDS

I&E fully addressed the applicable burden of proof in its Main Brief.[2]

I&E reiterates that Peoples has failed to meet its burden and therefore I&E respectfully requests that the Administrative Law Judge ("ALJ") and the Commission adopt the adjustments and the overall revenue requirement set forth in the record evidence presented by I&E as summarized in I&E's Main Brief and in the Appendices attached thereto.

II. <u>SUMMARY OF ARGUMENT</u>

<u>OVERALL POSITION ON RATE CASE AND AFFORDABILITY OF RATES</u>

Reiterating the summary of the arguments from I&E's MB, I&E continues to assert that Peoples failed to present substantial credible evidence to support its request for a $163.2 million revenue requirement increase. Instead, I&E's total recommended revenue requirement for the Company is $1,277,670,962. This recommended revenue requirement represents an increase of $92,850,718 to the Company's claimed present rate revenues of $1,184,820,244.

<u>RATE BASE</u>

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

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2 *See* I&E MB, pp. 4-5.

($446,296), other employee benefits ($1,100,335), and cash working capital ($1,362,472) claims.

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

REVENUES

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

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

EXPENSES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

I&E did not present testimony on interest synchronization.

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

I&E recommends an allowance of $45,570,205, or a reduction of $1,362,472 ($46,932,677 - $45,570,205) to the Company's cash working capital claim, based on the

Company's cash working capital workpapers and incorporating all of I&E witness Vanessa Okum's recommendations. The Company accepted Ms. Okum's recommendation to remove uncollectible expense from its cash working capital calculation. I&E noted that its cash working capital recommendation is not a final recommendation because all adjustments to the Company's claims must be continually brought together in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order.

DEPRECIATION

I&E did not present testimony on depreciation expense.

TAXES

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

RATE OF RETURN

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

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

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

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

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

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

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

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

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

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

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

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

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

REVENUE ALLOCATION AND RATE DESIGN

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

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

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

WEATHER NORMALIZATION ADJUSTMENT ("WNA")

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

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

EFFECTIVE DATE OF RATES

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

UNIVERSAL SERVICE PROGRAM ("USP") RIDER

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

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

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

LOW-INCOME CUSTOMER ISSUES

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

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

CUSTOMER SERVICE ISSUES

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

PROPOSED TARIFF CHANGES

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

HOT WATER TANK REBATE PILOT PROGRAM

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

SAFETY

I&E recommends that the following damage prevention recommendations as modified by Peoples should be approved:

1. The Company agrees to continue performing root cause analyses of utility fault damages to determine areas of improvement;

2. The Company agrees that Peoples employees and contractors (as well as locator personnel) will receive additional training to address damage trends on Peoples system; and

3. The Company agrees to create a QA/QC program to assess causes of damages related to (1) mapping errors, (2) lines not marked and (3) lines marked incorrectly to determine areas of improvements to reduce damages.

Additionally, I&E recommends that Peoples provide I&E's Pipeline Safety Division a list of metrics and root cause procedures that Peoples will use to analyze their Damage Prevention Program by October 2026, and then, beginning in 2027, that Peoples schedule quarterly meetings with I&E's Pipeline Safety Division to review the root cause investigations that were performed along with the metrics that were created.

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

PURCHASE OF RECEIVABLES PROGRAM

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

LOCAL PRODUCTION – GATHERING AND COST RECOVERY ISSUES

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

COMPETITIVE RATE DISCOUNTS

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

MISCELLANEOUS/OTHER ISSUES

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

CONCLUSION

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

III. OVERALL POSITION ON RATE CASE AND AFFORDABILITY OF RATES

As presented in I&E's MB, I&E's total recommended revenue requirement for the Company is $1,277,670,962.[3] This recommended revenue requirement represents an increase of $92,850,718 to the Company's claimed present rate revenues of $1,184,820,244.[4] This total recommended allowance incorporates I&E adjustments made in I&E direct and surrebuttal testimonies to operating and maintenance ("O&M") expenses by I&E witness Vanessa Okum,[5] and the recommended adjustments made in the direct and surrebuttal testimonies of I&E witnesses D. C. Patel[6] and Ethan H. Cline.[7] No argument in any of the other parties main briefs warrants I&E changing its previously stated overall position.

IV. RATE BASE

As noted in I&E's MB, rate base, also known as measure of value, is the depreciated original cost of a utility's investment in plant a utility has in place to serve customers plus other additions and deductions that the Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers.[8] For a utility plant to be included in rates, the plant must be used and useful in the provision of utility service to the customers.[9] Therefore, by definition, only

3 I&E MB, p. 15 (*citing* I&E St. No. 1-SR, p. 4).
4 *Id.*
5 *See* I&E St. No. 1; I&E St. No. 1-SR.
6 *See* I&E St. No. 2; I&E St. No. 2-SR.
7 *See* I&E St. No. 3; I&E St. No. 3-SR.
8 I&E MB, p. 16.
9 *Id.* at p. 17.

plant currently providing or capable of providing utility service to customers or plant projected to be completed and in service by the end of the FPFTY is eligible to be reflected in rates.[10]

As noted in I&E's MB, I&E found that $686,510,364 ($5,728,767,833 - $5,042,257,469) of rate base additions are associated with the FPFTY.[11] I&E recommended a total rate base adjustment of $8,478,607 based on adjustments to the Company's labor ($4,250,657), incentive compensation ($1,318,847), payroll taxes ($446,296), other employee benefits ($1,100,335), and cash working capital ($1,362,472) claims.[12]

As noted in I&E's MB, I&E recommended that the Company be required to provide I&E, OCA, and OSBA no later than June 1, 2027, under this docket number, an update to Peoples Exhibits No. 5B, pp. I-3-I-6 and 5C, pp. I-3-I-6 that includes actual utility plant balances, actual plant additions, and actual retirements for the twelve months ending November 30, 2026, and not later than June 1, 2028 for the twelve months ending December 31, 2027.[13]

The Company agreed with I&E's recommendation regarding the update to Peoples Exhibits No. 5B, pp. I-3-I-6 and 5C, pp. I-3-I-6; therefore, I&E's recommendation should be approved.[14]

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10 *Id.*
11 *Id.* (*citing* I&E St. No. 3, p. 2).
12 *Id.* (*citing* I&E St. No. 1-SR, p. 6).
13 *Id.* (*citing* I&E St. No. 3, pp. 2-4).
14 *Id.* (*citing* I&E St. No. 3-SR, p. 3).

V. REVENUES

The revenue requirement formula used in base rate cases was summarized in I&E's MB.[15]

A. HEATING DEGREE DAY METHODOLOGY

As noted in I&E's MB, I&E opposed the Company's proposal to use a 65-year regression analysis in determining the WNA's normalization period and recommended that Peoples use a 10-year period to establish normal HDDs to determine present rate revenue in future proceedings.[16]

Peoples argued that a 10-year or 20-year average embeds legacy weather patterns that are not representative of forward-looking expectations.[17]

I&E continues to oppose the Company's 65-year regression proposal as it is not consistent with Commission precedent[18] and continues to recommend that Peoples use a 10-year period to establish normal HDDs to determine present rate revenue in future proceedings.[19]

VI. EXPENSES

As noted in I&E's MB, it is well settled that a utility is entitled to recover its reasonably and prudently incurred expenses.[20] As such, a public utility is entitled to recover all reasonable and normal operating and maintenance expenses incurred by

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15 *Id.* at p. 18.
16 *Id.* at pp. 18-19 (*citing* I&E St. No. 3, pp. 11-14).
17 Peoples MB, p. 13.
18 *See Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499, pp. 301-02 (Order Entered December 9, 2025).
19 I&E MB, p. 19 (*citing* I&E St. No. 3, pp. 11-20; I&E St. No. 3-SR, pp. 5-12).
20 *Id.* (*citing UGI Corp. v. Pa. P.U.C.*, 410 A.2d 923, 932 (Pa. Commw. 1980)).

providing regulated service.[21] The public utility requesting a rate increase and seeking to recover expenses has the burden of showing that the rate requested, including all claimed expenses, is just and reasonable.[22]

A. UPDATES TO ORIGINAL FILING

Updates to the Company's overall revenue requirement claim were discussed in I&E's MB.[23]

B. PROJECTED COST INCREASE ADJUSTMENTS

1. Average Annual Increases

As discussed in I&E's MB, I&E disagrees with the Company's use of average annual increases to adjust certain HTY expenses as these increases are speculative and do not meet the standard of known and measurable and should therefore be rejected.[24]

2. Inflation Adjustments

As discussed in I&E's MB, I&E disagrees with the Company's use of inflation adjustments to adjust certain HTY expenses as these increases are speculative and do not meet the standard of known and measurable and should therefore be rejected.[25]

C. LABOR/VACANCY EXPENSE

I&E recommended an allowance of $65,135,919, or a reduction of $3,013,545 ($68,149,464 - $65,135,919) to the Company's labor expense claim, and a rate base

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21 *Id.* at pp. 19-20 (*citing Western Pennsylvania Water Company v. Pa. P.U.C.*, 422 A.2d 906 (Pa. Commw. 1980)).

22 *Id.* at p. 20 (*citing* 66 Pa. C.S. § 315(a); *See also Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989)).

23 *Id.* (*citing* I&E St. No. 1-SR, pp. 2-3).

24 *Id.* (*citing Id.* at pp. 4-5).

25 *Id.* at p. 21 (*citing Id.*).

allowance of $91,875,353 or a reduction of $4,250,657 ($96,126,010 - $91,875,353) to the Company's claim.[26] I&E's recommendation was based on two main aspects: (1) applying a vacancy rate based on historic vacancies; and (2) adding the salary for the Low-Income Usage Reduction Program ("LIURP") compliance specialist that the Company proposed to include in the Universal Service Program ("USP") Rider.[27]

Peoples argues that it is not reasonable to rely exclusively on historical vacancy rates when forecasting future vacancies.[28] However, the Company's vacancy rate adjustment in this proceeding of 0.54% is well below the Company's historical vacancy levels, and as such, I&E argues that it is reasonable to apply its three-year historical average vacancy rate of 4.98% to the Company's claim.[29]

Therefore, I&E continues to recommend an allowance of $65,135,919, or a reduction of $3,013,545 ($68,149,464 - $65,135,919) to the Company's labor expense claim, and a rate base allowance of $91,875,353, or a reduction of $4,250,657 ($96,126,010 - $91,875,353) to the Company's claim.[30]

D. INCENTIVE COMPENSATION

I&E's recommendation was to allow 30% of the Company's incentive compensation claim, or $1,289,537 ($4,298,457 x 0.30).[31] I&E's recommendation was based on the removal of the Company's claims in part, or as a whole, that were

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26 *Id.* (*citing Id.* at p. 11).
27 *Id.* (*citing Id.* at pp. 6-10).
28 Peoples MB, p. 19.
29 I&E MB, p. 22 (*citing* I&E St. No. 1-SR, pp. 18-19).
30 *Id.* (*citing Id.* at pp. 8-12).
31 *Id.* at p. 23 (*citing Id.* at p. 36).

inappropriate or unsupported for ratemaking purposes.[32] I&E's allowance of 30% of the claim was based on the Commission's decision in the 2025 Columbia Gas of Pennsylvania, Inc. ("Columbia Gas") base rate case to remove of 70% of Columbia Gas' incentive compensation claim for ratemaking purposes.[33]

Peoples argued that this case is different from the 2026 Pennsylvania-American Water Company ("PAWC") base rate case where the Commission found that PAWC failed to demonstrate that its financial metrics provided a benefit to ratepayers or that the financial metrics pertained to providing safe and reliable service.[34] However, much like PAWC, the evidentiary record demonstrate that Peoples has failed to show that its incentive compensation plans provide a benefit to rate payers or pertain to the provision of safe and reliable. I&E continues to recommend that ratepayers not fund programs or parts of programs designed to reward employees based on financial measures alone.

Therefore, I&E continues to recommend an allowance of $5,813,777, or a reduction of $4,610,153 ($10,884,000 - $5,813,777) to the Company's incentive compensation claim, and an allowance of $3,726,363, or a reduction of $1,318,847 ($5,045,210 - $3,726,363) to the Company's rate base claim.[35]

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32 *Id.* (*citing Id.* at pp. 35-39).

33 *Id.* (*citing* I&E St. No. 1, pp. 13-14; *See also Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499, p. 123 (Order Entered December 9, 2025)).

34 Peoples MB, p. 22 (*citing Pa. P.U.C. v. Pennsylvania American Water Company*, Docket Nos. R-2025-3057983 and R-2025-3058051 (Order Entered July 27, 2026)).

35 I&E MB, p. 24 (*citing* I&E St. No. 1-SR, pp. 12-18).

E. EMPLOYEE BENEFITS EXPENSE

I&E continues to recommend an allowance of $18,661,800, or a reduction of $869,594 ($19,531,394 - $18,661,800) to the Company's employee benefits claim, and a rate base allowance of $23,613,594, or a reduction of $1,100,335 ($24,713,929 - $23,613,594) to the Company's claim, based on I&E's recommended adjustments to labor expense.[36]

F. CORPORATE INSURANCE

I&E continues to recommend an allowance of $6,265,643 for corporate insurance, or a reduction of $1,402,736 ($7,668,379 - $6,265,643) to the Company's claim, based on the Company's claim being speculative and not known and measurable.[37]

G. EMPLOYEE EXPENSE

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

H. TRAVEL AND ENTERTAINMENT EXPENSE

I&E continues to recommend an allowance of $1,030,648, or a reduction of $108,657 ($1,139,305 - $1,030,648) to the Company's travel and entertainment expense claim, based on the Company's claim being speculative and not known and measurable.[38]

I. COMPANY MEMBERSHIPS

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

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36 *Id.* (*citing Id.* at p. 23).
37 *Id.* at p. 25 (*citing* I&E St. No. 1, pp. 31-34; I&E St. No. 1-SR, pp. 27-28).
38 *Id.* (*citing* I&E St. No. 1, pp. 34-36; I&E St. No. 1-SR, pp. 28-29).

removing the 7.17% annual increase from the FTY and FPFTY claims as the Company's claim is speculative and not known and measurable.[39]

J. LICENSE AND PERMIT EXPENSE

I&E continues to recommend an allowance of $704,167, or a reduction of $34,718 ($738,885 - $704,167) to the Company's claim, based on the Company's claim being speculative and not known and measurable.[40]

K. UTILITIES AND FUEL EXPENSE

I&E continues to recommend an allowance of $2,849,895, or a reduction of $234,304 ($3,084,199 - $2,849,895) to the Company's claim, based on the Company's claim being speculative and not known and measurable.[41]

L. ADVERTISING EXPENSE

I&E recommended an allowance of $259,746 for advertising expense, or a reduction of $1,198,286 ($1,458,032 - $259,746) to the Company's claim.[42] I&E's reduction was based on the removal of advertising related to sponsorships and sports partnerships, as well as the removal of the inflation adjustment included in the Company's claim.[43]

Peoples argued that I&E's adjustment should be rejected because it was made simply to remove "sports related" advertising.[44] However, this characterization is

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39 *Id.* (*citing* I&E St. No. 1, pp. 36-37; I&E St. No. 1-SR, pp. 29-30).
40 *Id.* at p. 26 (*citing* I&E St. No. 1, pp. 38-39; I&E St. No. 1-SR, pp. 30-31).
41 *Id.* (*citing* I&E St. No. 1, pp. 40-41; I&E St. No. 1-SR, pp. 31-32).
42 *Id.* at p. 27 (*citing* I&E St. No. 1-SR, p. 34).
43 *Id.* (*citing Id.* at pp. 43-45).
44 Peoples MB, p. 30.

inaccurate. I&E's adjustment was made because these advertisements do not directly benefit ratepayers nor meet any of the other criteria enumerated in 66 Pa. C.S. § 1316(a).[45]

Additionally, as these expenses were increased using a general inflation factor, I&E continues to assert that this is inappropriate because using a general inflation percentage as an inflation factor is speculative and does not meet the standard of known and measurable. Therefore, it should be rejected.[46]

I&E continues to recommend an allowance of $259,746 for advertising expense, or a reduction of $1,198,286 ($1,458,032 - $259,746) to the Company's claim.[47]

M. FLEET EXPENSE

I&E continues to recommend an allowance of $746,507 or a reduction of $90,469 ($836,976 - $746,507) to the Company's fleet expense claim, based on Company's claim being speculative and not known and measurable.[48]

N. MATERIALS AND SUPPLIES EXPENSE

I&E continues to recommend an allowance of $10,183,664, or a reduction of $1,141,328 ($11,324,992 - $10,183,664) to the Company's materials and supplies claim, based on Company's claim being speculative and not known and measurable.[49]

45 I&E MB, p. 27; *See* 66 Pa. C.S. § 1316(a).
46 *Id.* at p. 28.
47 *Id.* (*citing* I&E St. No. 1, pp. 42-45; I&E St. No. 1-SR, pp. 32-34).
48 *Id.* (*citing* I&E St. No. 1, pp. 45-47; I&E St. No. 1-SR, pp. 34-35).
49 *Id.* (*citing* I&E St. No. 1, pp. 47-49; I&E St. No. 1-SR, pp. 35-36).

O. RATE CASE EXPENSE

I&E recommended that the Company's rate case expense be normalized over a period of 56 months resulting in an annual expense of $411,429 (($1,920,000 ÷ 56 months) x 12 months), or a reduction of $548,571 ($960,000 - $411,429) to the Company's claim.[50] I&E's recommendation was based on adjusting the normalization period to match Peoples' historic average base rate case filing frequency of 56 months ((27 months + 59 months + 83 months) ÷ 3).[51]

Peoples argued that the most important factor to consider is when its next case will be filed.[52] The Commission has consistently disagreed with this argument. As seen as recently as the 2025 Columbia Gas base rate case, the Commission continues to favor the utility's historic average filing frequency rather than the utility's requested period when determining the appropriate rate case normalization period.[53]

Therefore, consistent with Commission precedent, I&E continues to recommend an allowance of $411,429, or a reduction of $548,571 ($960,000 - $411,429) to the Company's rate case expense claim, to be normalized over 56 months for ratemaking purposes.[54]

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50 *Id.* at p. 29 (*citing* I&E St. No. 1, pp. 54-58).
51 *Id.* (*citing Id.* at pp. 54-55).
52 Peoples MB, p. 33.
53 I&E MB, p. 29 (*citing Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499, p. 138 (Order Entered December 9, 2025)).
54 *Id.* (*citing* I&E St. No. 1, pp. 52-58; I&E St. No. 1-SR, pp. 37-39).

P. PENSION EXPENSE

I&E continues to recommend disallowance of the entire $3,164,136 claim based on **[BEGIN PROPRIETARY]** [redacted] **[END PROPRIETARY]** However, should the Commission decide to grant the Company this expense, I&E continues to recommend that the Commission should only allow a three-year average of net cash contributions for 2023, 2024, and 2025, or $2,328,848 (($5,670,000 + $1,316,545 + $0) / 3), or a reduction of $835,288 to Peoples' claim, rather than the Company's four-year average of $3,164,136 that inappropriately includes 2022 to capture an older historic amount of $5,670,000 which serves only to inflate the claim.[56]

Q. OUTSIDE SERVICES

1. Contracted

I&E continues to recommend an allowance of $19,947,180 for outside services – contracted, or a reduction of $2,055,313 ($22,002,493 - $19,947,180) to the Company's claim, based on the Company's claim being speculative and not known and measurable.[57]

2. Administrative and General

I&E continues to recommend an allowance of $5,406,725 for outside services – administrative and general, or a reduction of $926,459 ($6,333,184 - $5,406,725) to the Company's claim, based on the Company's claim being speculative and not known and measurable.[58]

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55 *Id.* at p. 30 (*citing* I&E St. No. 1, p. 18).
56 *Id.* (*citing* I&E St. No. 1-SR, pp. 21-22).
57 *Id.* (*citing* I&E St. No. 1, pp. 23-25; I&E St. No. 1-SR, pp. 24-25).
58 *Id.* at p. 31 (*citing* I&E St. No. 1, pp. 28-30; I&E St. No. 1-SR, pp. 26-27).

3. IT

I&E continues to recommend an allowance of $7,336,408 for outside services – IT, or a reduction of $286,705 ($7,623,113 - $7,336,408) to the Company's claim, based on the Company's claim being speculative and not known and measurable.[59]

R. NATURAL GAS HOT WATER TANK REBATE PILOT

I&E took no position on this issue.

S. PAYMENT PROCESSING EXPENSE

I&E continues to recommend an allowance of $1,923,122, or a reduction of $1,016,537 ($2,939,659 - $1,923,122) to the Company's claim, based on Company's claim being speculative and not known and measurable.[60]

T. BUILDING LEASES

I&E accepted the Company's revision to its building leases claim in rebuttal testimony.[61]

U. UNIVERSAL SERVICE PROGRAM ("USP") RIDER

I&E did not agree that the costs associated with the LIURP Compliance Specialist should be recovered through the USP Rider. I&E argued that all labor costs should continue to be included in base rates and therefore I&E witness Okum added the cost of labor and employee benefits for this employee to the respective sections of her direct testimony.[62] When these costs are included in a rider, the parties lose the ability to

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59 *Id.* (*citing* I&E St. No. 1, pp. 25-27; I&E St. No. 1-SR, pp. 25-26).

60 *Id.* pp. 31-32 (*citing* I&E St. No. 1, pp. 49-51; I&E St. No. 1-SR, pp. 36-37).

61 *Id.* at p. 32 (*citing* I&E St. No. 1-SR, p. 3).

62 *Id.* (*citing* I&E St. No. 1, pp. 58-59).

review these costs in the context of a rate case, and thus the parties' ability to verify that such costs are prudently incurred is hindered.

Therefore, I&E continues to recommend that the costs associated with the LIURP Compliance Specialist should be recovered through base rates rather than through the USP Rider.[63]

V. PUBLIC UTILITY COMMISSION ASSESSMENT

I&E took no position on this issue.

W. RESIDENTIAL COLLECTION EXPENSE

I&E took no position on this issue.

X. INTEREST SYNCHRONIZATION

I&E took no position on this issue.

Y. COST OF OTHER PARTIES' PROPOSALS

I&E took no position on this issue.

Z. UNCOLLECTIBLE ACCOUNTS EXPENSE

I&E noted in its MB that Peoples calculates its cash working capital ("CWC") by using a lead/lag study which I&E does not oppose.[64] Further, I&E recommended an allowance of $45,570,205, or a reduction of $1,362,472 ($46,932,677 - $45,570,205) to the Company's claim, based on the Company's cash working capital workpapers and incorporating all of I&E witness Okum's recommendations.[65] I&E noted that Company

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63 *Id.* at p. 33 (*citing* I&E St. No. 1, pp. 58-59; I&E St. No. 1-SR, pp. 39-41).
64 *Id.* at pp. 33-34 (*citing* I&E St. No. 1, p. 61).
65 *Id.* at p. 34 (*citing* I&E St. No. 1-SR, p. 45).

witness Anton Ribich accepted Ms. Okum's recommendation to remove uncollectible expense from the Company's cash working capital calculation.[66]

I&E continues to recommend a cash working capital allowance of $45,570,205.[67] However, this cash working capital recommendation is not a final recommendation because all adjustments to the Company's claims, whether made by I&E or any other party, must be continually brought together in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order.[68] This process, known as iteration, effectively prevents the determination of a precise calculation until all adjustments have been made to the Company's claims.[69]

VII. DEPRECIATION

I&E took no position on this issue.

VIII. TAXES

I&E continues to recommend a reduction of $369,743 ($5,951,013 - $5,581,270) to the Company's payroll tax expense claim and a reduction of $446,296 ($8,106,040 - $7,659,744) to the Company's capitalized payroll taxes, based on I&E's recommended adjustments to labor expense and incentive compensation.[70]

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66 *Id.* (*citing Id.* at p. 44).
67 *Id.*
68 *Id.* (*citing Id.* at p. 45).
69 *Id.* (*citing Id.*).
70 *Id.* (*citing Id.* at p. 19).

IX. RATE OF RETURN

A. INTRODUCTION

I&E noted the controlling principles and case law regarding I&E's overall rate of return analysis in its MB.[71] I&E ultimately recommended the following rate of return for the Company:[72]

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

B. CAPITAL STRUCTURE

I&E noted in its MB that a capital structure represents how a firm has financed its rate base with different sources of funds.[73] The Company's proposed capital structure is 45.53% long-term debt and 54.47% common equity.[74]

I&E recommended using a capital structure of 50% long-term debt and 50% common equity.[75] I&E found that Peoples' claimed capital structure of 54.47% common

71 *Id.* at pp. 36-39 (*citing* I&E St. No. 2, pp. 2-5, 11; *See also Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia,* 262 U.S. 679, 692-93 (1923), and *Federal Power Commission et al v. Hope Natural Gas Co.,* 320 U.S. 591, 603 (1944) (cases which set forth the principles that are generally accepted by regulators throughout the country as the appropriate criteria for measuring a fair rate of return)).

72 *Id.* at p. 36 (*citing* I&E St. No. 2-SR, p. 3).

73 *Id.* at p. 39 (*citing* I&E St. No. 2, p. 12).

74 *Id.* (*citing Id.* at p. 13).

75 *Id.* (*citing Id.* at p. 14).

equity and 45.53% long-term debt is unreasonable for ratemaking purposes due to the equity ratio being higher than its proxy group's five-year averages, Value Line's 2027 capital structure projections, and the recent national authorized capital structures for gas distribution utilities.[76] I&E also noted that Peoples' ultimate parent company, Essential Utilities, Inc's. ("Essential") capital structure is comprised of an equity ratio lower than 50% as opposed to Peoples claimed equity ratio of 54.47%.[77] I&E found that, in consideration of the financial impact to customers in relation to equity heavy capital structures, it is necessary to use a hypothetical capital structure of 50/50 for ratemaking purposes, to balance the interests of the Company and ratepayers and ensure rate reasonableness without overburdening ratepayers.[78]

Peoples argued that I&E's use of hypothetical capital structures instead of the Company's actual capital structure is unreasonable, contrary to precedent, and should be rejected.[79] However, as explained above and in the I&E MB, in the interest of balancing the needs of the customers and the Company and ensuring rates are just and reasonable, it is necessary to employ a 50/50 capital structure for this utility. As a result, I&E continues to recommend the ALJ and the Commission adopt a capital structure of 50% long-term debt and 50% common equity for this utility in this proceeding.

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76 *Id.* at pp. 39-40 (*citing* I&E St. No. 2-SR, p. 6).
77 *Id.* at p. 40 (*citing Id.* at p. 7).
78 *Id.* (*citing Id.* at p. 10).
79 Peoples MB, pp. 59-69.

C. DEBT COST RATE

I&E continues to recommend using the Company's claimed long-term debt cost rate of 4.61% for the FPFTY.[80]

D. RETURN ON COMMON EQUITY

1. Summary of Recommended Return on Common Equity

I&E presented its cost of common equity findings using the discounted cash flow method ("DCF");[81] two versions of the capital asset pricing model ("CAPM");[82] and the national average authorized return on equity ("ROE") data[83] that it relied on to make its recommendation. I&E's final cost of common equity recommendation for Peoples is 10.20%.[84]

In its main brief, Peoples highlighted the fact that its recommended ROE of 11.25% falls within the range of results of I&E's ROE analysis to further assert the reasonableness of its claim.[85] However, I&E continues to assert that its recommended ROE of 10.20% for the Company should be adopted.

Finally, I&E noted in its MB that there have been voices raising concerns regarding utility bill affordability including statements by Vice Chair Barrow and concerns raised by Governor Josh Shapiro in a recent letter to Pennsylvania Utility Leaders regarding higher utility costs and profits earned by utilities in 2024.[86] I&E

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80 I&E MB, p. 40 (*citing* I&E St. No. 2, p. 20).
81 *Id.* at p. 41 (*citing Id.* at pp. 28-31).
82 *Id.* (*citing Id.* at pp. 31-37).
83 *Id.* (*citing Id.* at pp. 37-39).
84 *Id.* (*citing* I&E St. No. 2-SR, p. 3).
85 Peoples MB, p. 73.
86 I&E MB, p. 41 (*citing* I&E St. No. 2-SR, p. 43).

continues to believe these concerns highlight the importance of ratepayers only being required to pay rates to fund costs that are necessary for the safe and reliable provision of natural gas service.[87]

2. Proxy Group

I&E's proxy group included the following eight companies:[88]

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

I&E noted that while I&E and Peoples had seven companies that match, I&E included one company that Peoples did not, Chesapeake Utilities Corporation (CPK).[89] Peoples acknowledged that it accepted I&E's inclusion of CPK to narrow the scope of contested issues regarding rate of return in this case.[90]

3. Discounted Cash Flow ("DCF")

The result of I&E's DCF analysis was 11.33%.[91] I&E did not present specific testimony on Peoples' DCF analysis.

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87 *Id.*
88 *Id.* at p. 42 (*citing* I&E St. No. 2, p. 11).
89 *Id.* (*citing Id.* at pp. 11-12).
90 Peoples MB, pp. 73-74.
91 I&E MB, p. 43 (*citing* I&E St. No. 2, p. 31).

In its main brief, OCA argued that I&E's DCF model was overstated.[92] I&E continues to assert the reasonableness of its DCF analysis for the reasons articulated above and in the I&E MB.

4. Capital Asset Pricing Model ("CAPM")

The result of I&E's CAPM analysis was 9.57% ((10.28% + 8.86% ÷ 2) based on the average of using a traditional forecasted overall market return (10.28%) and using Kroll's recommended U.S. Equity Risk Premium ("ERP") and 20-year U.S. Treasury yield (8.86%).[93] While I&E believes the DCF is the most reliable of the cost of equity models, I&E provided a CAPM analysis as it does provide value and the Commission has recently relied on a combination of both the DCF and CAPM models.[94]

Both Peoples and OCA argued that I&E's CAPM analysis was incorrect and should be rejected.[95] I&E continues to assert the reasonableness of its CAPM analysis for the reasons articulated above and in the I&E MB.

I&E continues to disagree with Peoples' use of the 30-year Treasury bond to determine the risk-free rate and instead supports the use of the 10-year Treasury bond.[96] I&E continues to disagree with Peoples' use of outlier market risk premiums in its CAPM and ECAPM analyses.[97] I&E continues to disagree with Peoples' claim regarding additional risk due to the Company's capital expenditure plan.[98] I&E continues to

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92 OCA MB, pp. 68-69.
93 I&E MB, p. 43 (*citing* I&E St. No. 2, p. 36).
94 *Id.* at pp. 43-44 (*citing Id.* at p. 37).
95 Peoples MB, pp. 77-80; OCA MB, p. 74.
96 I&E MB, p. 44 (*citing* I&E St. No. 2, pp. 44-45).
97 *Id.* (*citing Id.* at pp. 45-46).
98 *Id.* (*citing Id.* at pp. 46-49).

disagree with Peoples' claim regarding bypass risk.[99] I&E continues to disagree with Peoples' claim regarding the current and prospective capital market.[100] I&E continues to disagree with Peoples' flotation cost adjustment.[101]

I&E also considered the national average authorized ROE for gas distribution companies across the U.S. of 9.69% for rate cases decided in 2025 through 2026 in its ROE analysis.[102] Peoples continued to criticize I&E's use of national average authorized ROEs in its analysis claiming that the returns cited reflect outdated data.[103] I&E continues to assert that it is reasonable and logical to include in its recommendation the authorized returns of natural gas distribution companies in recently completed rate cases across the country.[104]

Lastly, I&E reiterates that its recommended ROE of 10.20% for the Company in this case is comparable, yet higher than the national average authorized ROE of 9.69% for gas distribution utilities.[105]

5. Risk Premium ("RP")

I&E excluded the RP method from its analysis as it is a simplified version of the CAPM and does not recognize company-specific risk through beta.[106]

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99 *Id.* (*citing Id.* at pp. 49-51).
100 *Id.* (*citing Id.* at pp. 51-53).
101 *Id.* (*citing Id.* at pp. 53-54).
102 *Id.* (*citing Id.* at p. 37).
103 Peoples MB, p. 80.
104 I&E MB, p. 45 (*citing* I&E St. No. 2, p. 38).
105 *Id.* (*citing Id.*).
106 *Id.* (*citing Id.* at p. 25).

6. Comparable Earnings ("CE")

I&E excluded the CE method from its analysis as the choice of which companies are comparable is highly subjective and its historical usage has been minimal.[107]

7. Management Effectiveness Adjustment

I&E continues to assert that it does not support Peoples, or any utility, being gifted additional basis points for doing what it is required to do to provide adequate, efficient, safe, and reasonable service under 66 Pa. C.S. § 1501.[108] I&E also reiterates that a 25-basis point increase to the cost of equity for management performance would add $10,051,315 directly to the Company's revenue requirement that would be borne by the ratepayers.[109]

E. ALTERNATIVE COST OF CAPITAL PROPOSALS

I&E continues to assert that, as a result of the flaws in the Empirical Capital Asset Pricing Model ("ECAPM") method and Bond Yield Plus Risk Premium ("BYPRP") method, the Commission should reject these alternate cost of capital proposals.[110]

F. CONCLUSION AS TO RATE OF RETURN

In consideration of the record evidence presented and the arguments made in all of the parties main briefs, I&E continues to recommend that the Company should be afforded the opportunity to earn an overall rate of return of 7.41%.[111] This recommended overall rate of return is comprised of a weighted average of a 2.31% rate of return on

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107 *Id.* at p. 46 (*citing Id.* at pp. 25-26).
108 *Id.* at pp. 46-47 (*citing Id.* at p. 60).
109 *Id.* at p. 46 (*citing Id.* at pp. 58-59).
110 *Id.* at pp. 47-48 (*citing Id.* at pp. 42-44).
111 *Id.* at p. 48 (*citing* I&E St. No. 2-SR, pp. 42-43).

long-term debt, and a 5.10% rate of return on common equity.[112] Finally, I&E's calculated return on common equity is 10.20%.[113]

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

A. INTRODUCTION

As noted in I&E's MB, a utility's rate structure implements the Commission's approved revenue increase to determine how the overall increase will be allocated among the utility's various rate classes.[114] A properly designed rate structure will not unduly burden one class of ratepayers to the benefit of another.[115] Under the Public Utility Code, "[n]o public utility shall … make or grant any unreasonable preference to any person, corporation … No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service."[116] Differences in rates charged to different classes are permissible so long as there is reasonable basis for the discrepancy.[117] Generally "public utility rates should enable the utility to recover its cost of providing service and should allocate this cost among the utility's customers in a just, reasonable and nondiscriminatory manner."[118]

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112 *Id.* (*citing Id.* at p. 3).
113 *Id.* (*citing Id.* at p. 4).
114 *Id.*
115 *Id.* at. pp. 48-49.
116 *Id.* at p. 49 *(citing* 66 Pa. C.S. § 1304).
117 *Id.* (*citing Peoples Natural Gas Company v. Pa. P.U.C.*, 409 A.2d 446 (Pa. Commw. 1979)).
118 *Id.* (*citing Pa. P.U.C. v. West Penn Power*, 73 Pa. P.U.C. 454, 510, 199 PUR 4th 110 (1990)).

B. COST OF SERVICE

As noted in I&E's MB, a utility provides service to a defined set of customer classes that are different in terms of demand and usage patterns.[119] A cost of service study ("COSS") allocates or assigns a utility's revenue requirement based on those service differences.[120]

I&E continues to recommend that the revenue increase be allocated based on the Peak and Average Allocated Cost of Service Study ("ACOSS") at equal rates of return with the change that the large general ("LGS") class should not be allocated a decrease in rates, but instead the excess revenue from the LGS class, $6,629,057 as proposed, should be allocated across the remaining rate classes as part of the overall scale back of rates.[121]

C. REVENUE ALLOCATION

I&E continues to recommend that the Company's proposed allocation based on the customer-demand model be rejected in favor of I&E's allocation based on the Peak and Average ACOSS.[122]

D. RATE DESIGN

In its main brief, OCA disagreed with I&E's acceptance of the Company's proposed increase in monthly customer charges.[123] I&E neither supports nor opposes the

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119 *Id.* (*citing* I&E St. No. 3, p. 21).
120 *Id.* (*citing Id.*).
121 *Id.* at p. 50 (*citing Id.* at pp. 25-27).
122 *Id.* at pp. 50-51 (*citing Id.* at pp. 34-35).
123 OCA MB, pp. 94-95.

OCA's recommendations regarding changes to the customer charges; however, I&E continues to recommend the customer charges be included in any scale back of rates.[124]

E. ALLOCATION OF UNIVERSAL SERVICE COSTS

I&E took no position on this issue.

F. COMPETITIVE RATE CUSTOMERS

I&E recommended that the Company be required to provide a competitive alternative analysis for any discount rate customers that have not had their competitive alternatives verified for longer than ten years at the time of the Company's next base rate case and justify the customers' discount rates as part of its filing in the next base rate case.[125] I&E also recommended that the Commission order the Company to provide a competitive alternative analysis for each discount rate customer that has not been verified within ten years of each of Peoples' prospective base rate cases in perpetuity.[126]

The Company stated that it is willing to accept I&E's recommendation on a going forward, prospective basis and that it has engaged in the practice of limiting any new contract terms to 10 years and that it has reduced its number of negotiated customers since the last base rate case.[127] Therefore, I&E's recommendation should be approved.

XI. WEATHER NORMALIZATION ADJUSTMENT ("WNA")

I&E continues to oppose the Company's proposal to use a 65-year regression analysis in determining the WNA's normalization period and continues to recommend

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124 I&E MB, p. 51 (*citing* I&E St. No. 3, p. 15).
125 *Id.* at p. 52 (*citing Id.* at p. 6).
126 *Id.* (*citing Id.*).
127 *Id.* (*citing* I&E St. No. 3-SR, pp. 3-4).

that Peoples use a 10-year period to establish normal HDDs to determine present rate revenue in future proceedings.[128] I&E's recommendation was based on the Commission's determination in the 2025 Columbia Gas base rate case that "[u]sing a twenty-year cycle rather than a ten-year cycle appears to result in an 'historical bias' that diminishes the effect of the claimed recent trends and results in providing revenue to the Company when instead, customer should be realizing savings."[129]

I&E also disagreed with the Company's proposal to delay the implementation of the changes to the Normal HDDs until October 2027 as this would result in a mismatch between the Normal HDDs in the WNA and the HDDs used to calculate rates once the new base rates go into effect during the 2026-2027 WNA period.[130] I&E continues to recommend pausing the WNA program in its entirety for the 2026-2027 WNA period as this would avoid the mismatch in HDD calculation methodologies while granting the Company the time necessary to implement the billing changes and perform testing while avoiding any negative repercussions to Peoples customer base.[131]

I&E also continues to recommend that the present 3% deadband be increased to 5% because this percentage more adequately captures what could be considered normal weather fluctuations in Pennsylvania and places more of the burden for weather variation

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[128] *Id.* at p. 53 (*citing Id.* at pp. 11-14).

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

[130] *Id.* (*citing* I&E St. No. 3-SR, pp. 9-10).

[131] *Id.* (*citing Id.* at p. 11).

back on the Company as a normal part of doing business, as stated by the Commission in the 2025 Columbia Gas base rate case.[132]

XII. EFFECTIVE DATE OF RATES

I&E continues to recommend that Peoples should agree to make the new rates effective on January 1, 2027 (the first day of the FPFTY) instead of the proposed December 27, 2026.[133] If Peoples does not agree with I&E's recommendation, I&E continues to recommend the Commission direct the Company: (1) to make the new rates effective January 1, 2027 (the first day of the FPFTY) instead of on December 27, 2026 and file an updated tariff rates and rules (Supplement to Tarriff Gas) pursuant to the 12 provisions of 52 Pa. Code §§ 53.1, et seq. and 53.101, designed to produce the approved annual distribution rate/revenue increase to become effective for service rendered *on and after January 1, 2027*; and (2) to file all subsequent base rate cases that should have new rate effective dates beginning with the first day or later of the claimed FPFTY.[134]

I&E reiterates that if Peoples is permitted to make new rates effective on December 27, 2026, instead of January 1, 2027, then at the full revenue increase request of $163,171,938, the Company would recover an unsupported and unreasonable additional revenue increase of $2,235,232 (($163,171,938 ÷ 365) x 5) for that 5-day period from ratepayers.[135]

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132 *Id.* (*citing Id.* at p. 7; *See also Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499, pp. 301-02 (Order Entered December 9, 2025)).
133 *Id.* at p. 55 (*citing* I&E St. No. 2, p. 68).
134 *Id.* (*citing Id.*).
135 *Id.* at pp. 54-55 (*citing Id.*).

XIII. UNIVERSAL SERVICE PROGRAM ("USP") RIDER

A. ONE-TIME CREDIT ADJUSTMENT

I&E recommended that the credit be treated as a regulatory liability and credited back to all customers accordingly, not simply the Company's proposal of reducing the burden on residential customers.[136] While I&E agreed with the Company that the credit generated from the tax repair deduction collar should flow through the Tax Repairs Surcharge Credit within 90 days following the effective date of new rates in the proceeding, I&E continues to recommend that the remaining $3,900,000 generated by the sales and use tax refund be treated as a regulatory liability that should be amortized over a period of four years, rounded down to the nearest year, resulting in annual amortization of $975,000 over the four-year period ($3,900,000 / 4 years = $975,000).[137] Peoples stated that if the Commission adopts I&E's approach regarding the sales & use tax refund, the Company would be amendable to treating the amount as a regulatory liability, amortized over four years.[138] I&E also continues to recommend that Peoples be required to show an annual accounting of the progress for refunding this credit in its next base rate case filing.[139]

Additionally, I&E disagreed with the Company's proposal to refund an unknown amount (estimated at $15,000,000 or more) related to the tax repair deduction collar after the FPFTY, between January 1, 2028 and March 31, 2028 through the USP rider.[140] I&E

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136 *Id.* at p. 56 (*citing* I&E St. No. 1, p. 60).
137 *Id.* (*citing* I&E St. No. 1-SR, pp. 42-43).
138 Peoples MB, p. 117.
139 I&E MB, p. 56 (*citing* I&E St. No. 1-SR, p. 43).
140 *Id.* (*citing Id.*).

continues to recommend that this amount be tracked throughout the year and returned via the Tax Repairs Surcharge Credit within 90 days of January 1, 2027 and that Peoples be required to show an annual accounting of the credit in its next base rate case filing.[141]

B. BAD DEBT OFFSET CALCULATION

I&E took no position on this issue.

XIV. LOW-INCOME CUSTOMER ISSUES

A. CUSTOMER ASSISTANCE PROGRAM

I&E took no position on this issue.

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

I&E did not oppose PWPTF witness Jennifer Warabak's recommendation that 75 additional customers should be served by the Company's LIURP, however, I&E disagreed with Ms. Warabak's assertion that an increase of 75 customers would require an increase in LIURP funding of $975,000.[142] In its main brief, CAUSE-PA requested that the Commission adopt Ms. Warabak's recommendation and order Peoples to increase its annual budget by $975,000 to support serving an additional 75 customers per year through LIURP.[143] I&E continues to recommend no increase to the Company's LIURP budget.

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[141] *Id.* at pp. 56-57 (*citing Id.*).
[142] *Id.* at p. 57 (*citing* I&E St. No. 1-R, p. 3).
[143] CAUSE MB, p. 93.

XV. CUSTOMER SERVICE ISSUES

A. SERVICE TERMINATIONS

I&E took no position on this issue.

XVI. PROPOSED TARIFF CHANGES

I&E took no position on this issue.

XVII. HOT WATER TANK REBATE PILOT PROGRAM

I&E took no position on this issue.

XVIII. SAFETY

A. DAMAGE PREVENTION

In its main brief, Peoples stated it is generally willing to accept I&E's recommendations regarding damage prevention with the following modifications:

1. The Company agrees to continue performing root cause analyses of utility fault damages to determine areas of improvement;

2. The Company agrees that Peoples employees and contractors (as well as locator personnel) will receive additional training to address damage trends on Peoples system; and

3. The Company agrees to create a QA/QC program to assess causes of damages related to (1) mapping errors, (2) lines not marked and (3) lines marked incorrectly to determine areas of improvements to reduce damages.[144]

Peoples also agreed to meet with I&E periodically to review its root cause analyses and the metrics related to the specific causes of damages.[145]

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[144] Peoples MB, p. 142.
[145] *Id.*

I&E is willing to accept Peoples' modifications except for its proposed periodic review of its root cause analyses. I&E continues to recommend that, beginning in 2027, I&E and Peoples meet quarterly to review the Company's root cause analyses and metrics in order to ensure that Peoples is driving down its damage numbers on its facilities.[146]

Therefore, I&E recommends that the following damage prevention recommendations as modified by Peoples should be approved:

1. The Company agrees to continue performing root cause analyses of utility fault damages to determine areas of improvement;

2. The Company agrees that Peoples employees and contractors (as well as locator personnel) will receive additional training to address damage trends on Peoples system; and

3. The Company agrees to create a QA/QC program to assess causes of damages related to (1) mapping errors, (2) lines not marked and (3) lines marked incorrectly to determine areas of improvements to reduce damages.

Additionally, I&E continues to recommend that Peoples provide I&E's Pipeline Safety Division a list of metrics and root cause procedures that Peoples will use to analyze their Damage Prevention Program by October 2026, and then, beginning in 2027, that Peoples schedule quarterly meetings with I&E's Pipeline Safety Division to review the root cause investigations that were performed along with the metrics that were created.

146 I&E MB, p. 59 (*citing* I&E St. No. 4-SR, pp. 4-5).

B. METHANE DETECTION

In its main brief, Peoples stated it is willing to implement a methane detection pilot which will include but is not limited to: (i) the evaluation of available methane detection technology equipment such as local audible alarm, (ii) the operational impacts and requirements associated with the methane detection equipment, (iii) the legal and regulatory implications of deploying methane detection across the Peoples' service territory, (iv) customer interest in methane detection; and the remote communication capabilities of that methane detection and Peoples' systems.[147] As part of its pilot, the Company agreed to monitor related expenses.[148] The Company also stated it will report on the results of its pilot in its next base rate proceeding.[149]

I&E recommended that the Company implement a pilot program utilizing 500 to 1,000 Smart Remote Methane Detectors ("SRMDs") to allow for a study of the devices' effectiveness as well as the use of Advanced Metering Infrastructure ("AMI") and LoRaWAN or other communication technologies for notification methodology utilized by these devices as part of its pilot program.[150] I&E also recommended that Peoples use a risk-based approach to determine the location that best maximizes the effectiveness of the methane detector pilot program.[151]

I&E continues to assert that the Peoples' system would benefit from the implementation of real-time smart reporting technology that can simultaneously notify

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147 Peoples MB, p. 143.
148 *Id.*
149 *Id.*
150 I&E MB, p. 60 (*citing* I&E St. No. 4, pp. 20-21).
151 *Id.* (*citing Id.* at p. 21).

the customer and the emergency gas response officials to potentially hazardous situations.[152] Therefore, I&E continues to recommend Peoples implement a methane detector pilot program utilizing SRMDs to study its effectiveness and to monitor expenses. I&E also continues to recommend that the Company's SRMD analysis be completed in a timeframe of two years or before the next rate case.[153]

XIX. PURCHASE OF RECEIVABLES PROGRAM

I&E took no position on this issue.

XX. LOCAL PRODUCTION – GATHERING AND COST RECOVERY ISSUES

I&E took no position on this issue.

XXI. COMPETITIVE RATE DISCOUNTS

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

XXII. MISCELLANEOUS/OTHER ISSUES

A. MERGER OF PNG GATHERING INTO PEOPLES

I&E took no position on this issue.

XXIII. CONCLUSION

I&E respectfully submits that for all the reasons presented in this I&E Reply Brief, Peoples has not met its burden of proof as the record evidence presented by Peoples did not substantiate a revenue increase of $163.2 million. Instead, based on the weight of the record evidence, Your Honor and the Commission should only grant Peoples the I&E

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152 *Id.* (*citing Id.* at pp. 16-19).
153 *Id.* (*citing* I&E St. No. 4-SR, p. 7).

recommended revenue increase of $92,850,718 million in accordance with the record evidence presented by I&E and summarized in this I&E Reply Brief; I&E's Main Brief and the I&E Tables appended to its Main Brief.

Respectfully submitted,

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Dated: September 4, 2026

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Reply Brief** dated September 4, 2026, in the manner and upon the persons listed below.

Served via Electronic Mail Only

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