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File #: 203798

September 4, 2026

VIA ELECTRONIC FILING

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

Re: Pennsylvania Public Utility Commission, *et al.* v. Peoples Natural Gas Company LLC
Docket Nos. R-2026-3060855, *et al.*

Dear Secretary Homsher:

Enclosed for filing is the Reply Brief on behalf of Peoples Natural Gas Company LLC in the above-referenced proceedings.

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

Respectfully submitted,

Lindsay A. Berkstresser

Lindsay A. Berkstresser

LAB/sll
Attachment

cc: Honorable Charece Z. Collins *(via email; w/attachment)*
Certificate of Service

CERTIFICATE OF SERVICE

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

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, *et al.*	:	Docket Nos. R-2026-3060855
	:	C-2026-3061455
v.	:	C-2026-3061593
	:	C-2026-3061685
Peoples Natural Gas Company LLC	:	

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I. INTRODUCTION

On August 26, 2026, Peoples Natural Gas Company LLC ("Peoples" or the "Company"), the Pennsylvania Public Utility Commission's ("Commission") Bureau of Investigation and Enforcement ("I&E"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE PA"), the Retail Energy Supply Association ("RESA"), and the Pennsylvania Independent Oil & Gas Association ("PIOGA") submitted Main Briefs ("MB") in the referenced docket. The Pennsylvania Weatherization Providers Task Force did not submit a Main Brief.

In its Main Brief, Peoples anticipated and responded to many of the arguments that have been raised by other parties. In several instances, Peoples' position is fully set forth in its Main Brief and further response in this Reply Brief ("RB") is not necessary. This Reply Brief is being filed in response to certain arguments presented by other parties in their Main Briefs and to respond to new arguments and requests for relief raised for the first time by parties in their Main Briefs.

For the reasons explained below, in its Main Brief, and in its filing and supporting testimony and exhibits, Peoples' proposed rate increase is fully supported by the record in this case, which demonstrates that the Company's proposal is just and reasonable and should be approved.

A. LEGAL STANDARDS

Utility regulation has been characterized as a "Regulatory Compact." Utilities are provided with an exclusive territory in which to serve customers in exchange for the obligation to provide safe and reliable service and to charge rates determined by the Commission based on the utility's cost to serve its customers. The setting of rates on this basis provides utility investors with a reasonable opportunity to recover costs and earn a return on their investments, which, in turn, has allowed utilities to raise capital in all economic circumstances to build the facilities necessary to provide safe and reliable service to customers. Indeed, the Commission has described the Regulatory Company as follows:

> It is our opinion that in exchange for the utility's provision of safe, adequate, and reasonable service, the ratepayers are obligated to pay rates which cover the cost of service which includes **reasonable operation and maintenance expenses, depreciation, taxes and a fair rate of return to the utility's investors**. Thus, as the OCA contends, a <u>quid pro quo</u> relationship exists between the utility and its ratepayers. In return for providing safe and adequate service, the utility is entitled to recover, through rates, these enumerated costs. We find this principle to be consistent with the standards enunciated in [Federal Power Commission v. Hope Nat. Gas Co.] wherein it was stated that the ". . . fixing of just and reasonable rates involves a balancing of the investor and the consumer interest. . . ."[1]

Section 1301(a) of the Public Utility Code mandates that "[e]very rate made, demanded, or received by any public utility ... shall be just and reasonable, and in conformity with [the] regulations or orders of the commission."[2] Pursuant to the just and reasonable standard, a 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."[3] A public utility is entitled to an opportunity to earn a fair rate of return on the value of its property dedicated to public service.[4]

While the Commission has discretion in setting rates, when determining a fair rate of return, the Commission must adhere to the constitutional standards established by the United States Supreme Court in the seminal cases *Bluefield Water Works and Improvement Co. v. Public Service Comm'n of West Virginia*, 262 U.S. 679, 692-93 (1923) ("*Bluefield*") and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) ("*Hope*"). These standards are described in the Company's Main Brief. The Commission must reach a conclusion that is based on evidence that rates are not confiscatory while also balancing the interests of the utility and customers in obtaining both

[1] *Pa. PUC v. Pa. Gas and Water Co.*, Docket No. R-00922482, 1993 Pa. PUC LEXIS 115 (Order entered June 23, 1993) ("*PG&W 1993*") (*citing Pennsylvania Gas and Water Co.*, 61 Pa. P.U.C. 409, (1986)) (emphasis added).
[2] 66 Pa. C.S. § 1301(a).
[3] *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002).
[4] *Pennsylvania Gas and Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975) (citations omitted).

safe and reliable service and reasonable rates.[5] As explained by the United States Supreme Court: "a State's decision to arbitrarily switch back and forth between methodologies in a way which required investors to bear the risk of bad investments at some times while denying them the benefit of good investments at others would raise serious constitutional questions."[6]

II. SUMMARY OF ARGUMENT

Substantial evidence in this case fully supports the Commission's approval of Peoples' requested revenue increase of $163.2 million. The Commission should reject other parties' adjustments to the Company's expenses, revenue allocation, rate design, rate of return, and capital structure. The other parties have not met their burden of proof to discontinue the Company's Weather Normalization Adjustment ("WNA"), which has been operating as intended since the Commission approved the WNA as a permanent mechanism in the Company's last base rate proceeding. Further, the Commission should approve the Company's Hot Water Tank Rebate Pilot Program and the tariff modifications proposed by the Company. The Company's position on these issues as well as other issues in the case is more fully set forth below and in the Company's Main Brief.

III. OVERALL POSITION ON RATE CASE AND AFFORDABILITY OF RATES

Peoples understands that rate increases impact customers, which is why the Company has historically looked for avenues to support its infrastructure modernization program without the need to file frequent rate cases. These efforts have allowed the Company to make investments in safety and reliability by replacing aging, at-risk pipe, all while keeping customers' rates at a relatively stable level over time. However, in order to maintain the Company's system in a manner that enables the Company to meet its obligation of providing safe and reliable service, a rate increase is unavoidable at this time. The Company is supporting a large, ongoing capital program that is necessary to replace

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[5] *Popowsky v. Pa. PUC*, 665 A.2d 805 542 Pa. 99 (1995).
[6] *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 315 (1989).

bare steel and cast/wrought iron and first-generation plastic pipe. As explained below and in the Company's Main Brief, Peoples is taking substantial measures to mitigate the impacts of a rate increase on its customers and is taking great care to make sure that its most vulnerable customers, in particular, continue to receive affordable natural gas distribution service.

OCA and CAUSE PA argue that the Commission should consider affordability when setting rates. The Company does not dispute that affordability is one of the issues that the Commission can consider. However, the Commission must also consider Peoples' obligation to provide safe and reliable service, which depends on its ability to execute the replacement of at-risk pipe as set forth in its Commission-approved Long-Term Infrastructure Improvement Plan ("LTIIP"). Ultimately, the Commission must balance the need to maintain rates at a reasonable level with the need to provide safe, reliable, and continuous service to customers now and into the future. Peoples' proposal in this case strikes that balance.

None of the arguments presented in the other parties' Main Briefs change the fact that the substantial evidence in this case supports Peoples' proposed revenue increase. OCA and CAUSE PA ask the Commission to deny the Company any rate increase whatsoever based on the inaccurate claim that Peoples' rates are categorically unaffordable for all of its customers.[7] However, every party in this case who presented a revenue requirement recommended a rate *increase*, including OCA.[8] I&E acknowledges the importance of affordability as one consideration in a rate case, but unlike OCA and CAUSE PA, I&E recognizes that the rate relief is necessary and recommends an overall revenue increase of $92.85 million.[9]

OCA's and CAUSE PA's overall position in this case is one-sided and extreme. Their

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[7] CAUSE-PA MB, pp. 17-18; OCA MB, pp. 9-10, 22.
[8] If the Commission grants a revenue increase, OCA recommends a revenue increase of $9.4 million. OCA MB, p. 7. CAUSE PA stated that witness Cicero was not making a specific revenue recommendation in this proceeding but recommends an increase no higher than OCA's recommendation. CAUSE PA MB, pp. 18, 31.
[9] I&E MB, p. 15.

arguments are designed to achieve a singular goal – keep the overall revenue requirement at or as close to zero as possible. In this regard, their positions are rooted in the belief that "the end justifies the means." This approach completely disregards the Commission's long-standing principles of cost-of-service ratemaking and market-based cost of capital and runs afoul of the Regulatory Compact. Their proposals are so unreasonable that they completely lack credibility. To illustrate with just one example, *CAUSE PA's equity return estimate is below all authorized equity returns for natural gas utilities since 1980, while OCA's equity return estimate is below all but one.*[10]

OCA and CAUSE PA blatantly ignore evidence regarding the Company's cost to serve its customers, which in this case is made up in large part of the capital expenditures incurred to replace at-risk pipe and modernize the Company's system. Nowhere in their Main Briefs do OCA or CAUSE PA acknowledge that the Company's approximately $2.3 billion in investment to improve its system for customers through the Fully Projected Future Test Year ("FPFTY") is the main driver of this case.[11] Instead, OCA and CAUSE PA attempt to use the Commission's ratemaking process as a vehicle to solve broader societal concerns related to inflation, housing, and healthcare, which is improper. The Commission has recently rejected similar attempts by OCA and CAUSE PA.[12]

OCA and CAUSE PA disregard the importance of maintaining a financially healthy company with a strong equity ratio, especially during this period of substantial infrastructure investment, a principle that the Commission has endorsed.[13] They do not acknowledge that without rate relief, the Company's overall rate of return would be 5.99% and the return on equity would be 7.14%,[14] which

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[10] Peoples St. No. 15-R, p. 14.
[11] Peoples St. No. 1, p. 4.
[12] See *Pa. PUC v. Columbia Gas of Pennsylvania*, R-2020-3018835, Opinion and Order entered February 19, 2021 (refusing to completely deny Columbia's requested rate relief due to the pandemic).
[13] *See e.g., Pa. PUC v. PPL Electric Utilities Corp.*, Docket No. R-2012-2290597, 2012 Pa. PUC LEXIS 1757 (Recommended Decision Oct. 19, 2012); *Pa. PUC v. PPL Electric Utilities Corp.,* Docket No. R-2012-2290597 (Order entered Dec. 28, 2012), at p. 26.
[14] Peoples Filing Requirements, Statement of Reasons. See also, Peoples Filing Requirements § 53.53III.A.17. Exhibit 2, Sch. at line 27.

is far less than required to provide the Company with a reasonable opportunity to attract the necessary capital for its investments. Notably, none of the expert witnesses in this case suggest that an equity return that low would be sufficient. Even under their alternative proposals where the Commission grants a rate increase, CAUSE PA and OCA ask the Commission to set the equity return at 7.68% and 8.8%, respectively.[15] The Company presented expert testimony explaining that those returns would be insufficient to continue supporting the capital requirements of its modernization program.[16] The level of returns proposed by OCA and CAUSE PA are confiscatory and do not meet the constitutional standards set forth in *Bluefield* and *Hope*.

OCA's and CAUSE PA's positions are just as short-sighted as they are one-sided. They take the position that no rate increase, or very little increase, is warranted without regard to the long-term impacts of their proposals. As explained herein and in the Company's Main Brief, OCA's and CAUSE PA's positions on depreciation,[17] capital structure, and cost of capital, if adopted, would have long-term detrimental effects on customers. First, their proposal to switch from the Equal Life Group ("ELG") to the Average Life Group ("ALG") would end up costing customers more in the long run because ALG results in higher, and continually increasing, rate base, which will exceed the amount of depreciation expense.[18] Second, imputing a hypothetical capital structure is not an effective way to reduce customer costs. As company witness Nelson explained, increasing the proportion of debt in the capital structure results in greater financial risk, and thus any near-term savings from a lower equity ratio would be offset, or more than offset, by higher borrowing costs, increased financial risk, and reduced access to capital moving forward.[19] Third, their unreasonably low equity return would

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[15] OCA MB, p. 56; CAUSE PA MB, p. 31. CAUSE PA witness Cicero states that he is not making a specific ROE recommendation but modeled a return based on the principles outlined by Governor Shapiro.
[16] Peoples St. No. 15-R, pp. 4, 7-10.
[17] In its Main Brief, CAUSE PA asks the Commission to adopt OCA's proposal on depreciation even though CAUSE PA presented no testimony on the subject.
[18] Peoples St. No. 16-R, p. 12.
[19] Peoples St. No. 15-R, pp. 54-55.

hinder the Company's ability to secure cost-effective capital and would ultimately lead to higher financing costs.[20] Moreover, if no rate increase is granted in this case, even when one is justified by a traditional cost of service analysis, the magnitude of Peoples' next rate request will only be compounded.

OCA's and CAUSE PA's positions are inconsistent with the substantial evidence in this case, which demonstrates the following:

Peoples is projected to spend $1.2 billion in 2026 and 2027 in LTIIP investments alone.[21] None of the parties disagreed with Peoples' plan to invest this amount to improve its system. None of the parties have challenged the reasonableness of Peoples' ongoing program to replace the most leak-prone categories of pipe. None of the parties have challenged the prudency of any of the Company's investments in its LTIIP to date or otherwise claimed that they are not necessary. OCA and CAUSE PA simply do not believe that customers, the beneficiaries of these investments, should pay for them.

Peoples' investments are materially improving the safety and reliability of its system. OCA and CAUSE PA ignore the benefits that customers receive from the Company investing in its system. These investments have produced material and tangible benefits for customers and the community. For example, Grade 1 and 2 leaks have been reduced by more than 90% since 2018, which also support Peoples' methane emissions reductions goals.[22] Peoples infrastructure modernization program also supports the local economy through the creation of skilled labor jobs that are needed to complete pipeline replacement work.[23]

[20] Peoples St. No. 15-RJ, pp. 18-19.
[21] Peoples St. No. 1, p. 4. Peoples received approval for its currently-effective LTIIP on December 15, 2025. *See Petition of Peoples Natural Gas Company, LLC for Approval of its Third Long-Term Infrastructure Improvement Plan,* Docket No. P-2025-3057167.
[22] Peoples St. No. 1, pp. 10-12.
[23] Peoples St. No. 1, p. 4; Peoples St. No. 6-R, p. 13.

Peoples is reinvesting its profits back into its system to the benefit of customers. CAUSE PA and OCA claim that the requested rate increase is simply to generate additional profit for shareholders.[24] Their claims are not accurate. Peoples is investing billions of dollars in system improvements rather than the flowback of capital to investors.[25] For example, the Company's ratio of capital expenditures to retained earnings between 2021 and 2025 has been approximately 2.3x on average, meaning that Peoples' capital needs exceed its internally generated funds by more than double.[26] Customers benefit from Peoples reinvesting its profits back into its system through improved safety, reliability, and quality of service.

Affordability is a top priority for Peoples. OCA and CAUSE PA ignore the substantial efforts that Peoples has undertaken, as well as the efforts that it continues to undertake as part of this case, to maintain affordable rates. These efforts are described on pages 4-8 of the Company's Main Brief and in the testimony of Company witnesses Huwar and Black.

Non-CAP residential customers will receive substantial bill credits in the winter months over the next two years under Peoples' proposal in this case. OCA and CAUSE PA express concern regarding a subset of customers whose incomes do not qualify them for CAP but who may still be constrained to pay their bills as well as those customers who qualify but choose not to enroll in CAP.[27] Peoples credit adjustment proposal, which is explained on pages 115-117 of the Company's Main Brief, is specifically designed to help these customers. The credit will reduce their bills by approximately $8.46 per month during the period January 1, 2027 though March 31, 2027 and by approximately $24.56 per month during the period January 1, 2028 through March 31, 2028.[28] The average monthly bill impact at the full amount of the requested rate increase was calculated to be

[24] CAUSE PA MB, pp. 18-19; OCA MB, p. 73.
[25] Peoples St. No. 19-R, pp. 8-9.
[26] Peoples St. No. 15-RJ, pp. 21-22.
[27] CAUSE PA MB, pp. 13, 23.; OCA MB, p
[28] Peoples St. No. 3, p. 8.

$15.09 per month for non-CAP residential customers.[29] Therefore, *the Company's proposal will offset the monthly bill impacts by more than half during the first winter that rates are in effect and will more than offset the full amount of the rate increase during the second winter that rates are in effect.*

The amount to be passed back to customers as a result of the Tax Repairs Deduction substantially offsets the requested rate increase. Peoples has passed back **over** $100 million annually to all customers since its last case and is updating that amount to approximately $130 million in this case.[30] Regarding the retroactive catch-up deduction related to Tax Repairs, the Company has refunded over $104 million to customers through December 31, 2025 and plans to refund an additional $21 million by 2031.

Peoples has a robust CAP Program and participation is increasing. Peoples has the most expansive CAP eligibility guideline of any NGDC or EDC in Pennsylvania. Through the Company's Expanded CAP or "ECAP" Program, customers whose income is between 151% to 200% of the Federal Poverty Level are eligible to participate.[31] Through the Company's substantial outreach efforts and its "You or someone you know" philosophy for communicating about its low-income programs, CAP participation increased by 18% in 2025.[32] Fang's customer-level analysis further confirms that CAP materially reduces energy burden for participating customers.[33]

Peoples does not have a history of filing successive rate cases. OCA and CAUSE PA allege that Peoples has filed for successive rate increases.[34] This is not an accurate characterization. They ignore the full history of the Company's rate case filings over the last several years. The chart below summarizes Peoples' rate case filing history since 2012:

[29] Peoples MB, Appendix B.
[30] Peoples St. No. 1, pp. 16-17.
[31] Peoples St. No. 10, pp. 3-5.
[32] Peoples St. No. 10, p. 6; Peoples St. No. 1, p. 18.
[33] Peoples St. No. 20-R, pp. 21-25, Peoples St. No. 20-RJ, pp. 14-16
[34] OCA MB, p. 11; CAUSE PA MB, p. 23.

	Filing Date	Effective Date	FPFTY End	Years Since Last Case
1*	2/28/12	11/31/12	10/31/12**	1.4
2	1/28/19	10/29/19	10/31/20	6.9
3	12/29/23	9/27/24	9/30/25	4.9
4	3/27/26	1/1/27	12/31/27	2.3

*The former Peoples Gas/TWP filed a rate case in 2013.
**Represents a Future Test Year.

As this chart demonstrates, Peoples has filed just three rate cases in the last fourteen years.[35] This is attributable to the various management efforts of the Company, including the acquisition of Equitable Gas Company, and the subsequent efforts to merge operations.[36] While the Company's careful management and targeted efforts to maintain affordability have served its customers well for over a decade, the Company is now in a position where it cannot maintain its substantial level of investment without rate relief. OCA and CAUSE PA compare the frequency of Peoples' rate case filings to the recent Pennsylvania American Water case and suggest that the Commission should look negatively upon Peoples for its rate case filing history. This comparison is simply wrong. Unlike in the Pennsylvania American Water case where the rate case filing history was six rate cases since 2013,[37] *Peoples has filed only half of that many rate cases in the same amount of time*. OCA's and CAUSE PA's position would punish Peoples for not filing regular rate cases up until this point and effectively discriminates against the Company by treating it the same as if it has been filing regular rate cases for many years when it clearly has not.

The WNA has stabilized rates and produced considerable credits for customers. While

[35] Peoples St. No. 3-SR, pp. 5-6.
[36] Peoples St. No. 1, pp. 15-16.
[37] *Pa. PUC v. Pennsylvania American Water*, Docket No. R-2025-3057983 (Order entered July 27, 2026) at p. 112.

OCA and CAUSE PA oppose the WNA,[38] they acknowledge the importance of bill stability, especially for low-income customers. The WNA improves bill stability during the winter months when it is most important for low-income customers.[39] Further, customers have benefited from a total credit amount of over $22.6 million during the 2025-2026 heating season.[40] The Company's response to other parties' arguments regarding the WNA is fully set forth in Section XI. below.

Peoples' rates are, indeed, affordable. OCA and CAUSE PA's arguments that Peoples rates are unaffordable should be given little weight. Company witness Huwar presented a chart based on the Commission's "2026 Rate Comparison Report" comparing Peoples' delivered energy cost to that of other NGDCs and EDCs in Pennsylvania.[41] The chart shows that Peoples has the third lowest delivered energy cost of any NGDC or EDC in Pennsylvania just pennies more than the second lowest energy company. Yet, OCA and CAUSE PA continue to claim that Peoples' rates are unaffordable.[42] They ignore evidence demonstrating that Peoples is 34% less than the most expensive NGDC and 13% less than the average NGDC, and Peoples is 80% less than the most expensive EDC and 70% less than the average EDC.[43] Even if the Commission were to grant the entire residential rate increase of 13.1% requested by the Company,[44] Peoples' rates would still be lower than the average price for an NGDC in Pennsylvania.[45] The rates presented in the report and summarized in the chart have all been approved by the Commission as just and reasonable as of January 31, 2026, and do not take into account any rate increases that were approved since that time.[46] In fact, since the Rate Comparison Report was prepared by the Commission's Bureau of Technical Utility Servies, OCA and CAUSE

[38] CAUSE PA MB, p. 22; OCA MB, p. 105.
[39] Peoples St. No. 17-R at p. 58; Peoples MB, p. 108.
[40] Peoples St. No. 17, p. 3.
[41] Peoples St. No. 1-R, pp. 10-14; Peoples Exh. MAH-1R; Peoples MB, p. 7.
[42] *See* OCA MB; CAUSE PA MB.
[43] Peoples St. No. 1-R, pp. 10-14; Peoples Exh. MAH-1R.
[44] Peoples Exh. No. JDT-6, p. 1.
[45] Peoples St. No. 1-R, p. 11.
[46] *Id.* at pp. 11-12.

PA have agreed to or not opposed settlements that would increase the rates for utilities that were already more expensive than Peoples.[47] This fact directly contradicts OCA's and CAUSE PA's position that Peoples' rates are not affordable. Ms. Fang's customer-level gas-burden analysis provides additional record support for this conclusion.[48]

The arguments raised by OCA and CAUSE PA do not support the proposition that Peoples' rates are unaffordable. OCA and CAUSE PA point to termination and arrears data for confirmed low-income customers,[49] but these statistics alone do not demonstrate that Peoples' rates are unaffordable. CAUSE PA fails to mention that Peoples' termination rate for confirmed low-income customers aligns with the industry average for NGDCs.[50] CAUSE PA also does not recognize that Peoples is more likely to restore service for low-income customers than other NGDCs.[51] Further, while Peoples makes every effort to ensure that its customers apply and receive the benefits that they are eligible for, there are many factors that influence arrears and terminations, such as a customer's decision not to seek assistance or pay their bill, which are outside of the Company's control. This issue is not unique to Peoples.[52] CAUSE PA claims that the Company's energy burden analysis demonstrates that bills are unaffordable,[53] but fails to acknowledge that CAP materially reduces the energy burden, and even if the entire amount of the Company's rate increase were approved, the energy burdens for all customers are still within the Commission's guidelines.[54]

Taken together, these facts overwhelmingly support approval of the Company's case. Peoples is the only party who presented evidence demonstrating that it prioritizes *both safety and affordability*

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[47] *See, e.g., Pa. PUC v. UGI Utilities, Inc. Gas Division*, Docket No. R-2025-3059523 (Recommended Decision July 31, 2026); *Pa. PUC v. PPL Electric Utilities Corp.*, Docket No. R-2025-3057164 (Order entered Aug. 27, 2026).
[48] Peoples St. No. 20-R, pp. 15-27, Peoples St. No. 20-RJ, pp. 8-16
[49] CAUSE PA MB, pp. 21-22; OCA MB, pp. 20-21.
[50] Peoples St. No. 10-R, pp. 14-15.
[51] *Id.* at pp. 15-16.
[52] *Id.* at p. 15.
[53] CAUSE PA MB, p. 20.
[54] Peoples St. No. 20-R, pp. 23-24. 52 Pa. Code § 69.265.

for its customers. OCA and CAUSE PA do not even attempt to address these facts and instead ask the Commission to ignore this evidence and grant very little, if any, of the Company's requested revenue requirement. OCA's and CAUSE PA's positions would violate the fundamental principles established in the Regulatory Compact as well as federal constitutional standards because substantial evidence shows that Peoples is in need of rate relief in order to recover its prudently incurred capital and O&M expenses as well as an opportunity to earn a fair return on its investments.

IV. RATE BASE

As explained in Peoples' Main Brief, the Company continues to dispute I&E's and OCA's adjustments that have a corresponding impact to Cash Working Capital ("CWC"). Therefore, the parties' proposed adjustments along with the corresponding adjustments to CWC should be rejected. The Company also opposes OCA witness Garrett's proposal to change from the Equal Life Group ("ELG") to the Average Life Group ("ALG") and his corresponding adjustment to accumulated depreciation.

V. REVENUES

A. HEATING DEGREE DAY METHODOLOGY

The Company addressed why its proposed Heating Degree Day ("HDD") methodology should be approved and why other parties' criticisms of the methodology are without merit in Sections V.A and XI.F of its Main Brief.

VI. EXPENSES

A. UPDATES TO ORIGINAL FILING

See pages 13-14 of the Company's Main Brief.

B. PROJECTED COST INCREASE ADJUSTMENTS

1. Average Annual Increases

The Company responded to I&E's and OCA's position on average annual increase adjustments on pages 14-16 of its Main Brief. In its Main Brief, OCA cites to the recent Pennsylvania American Water Company ("*PAWC*") case as an example where the Commission rejected an adjustment based on inflation.[55] In that case, the Commission stated, "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."[56] The Commission's reasoning for denying the adjustment in *PAWC* does not apply to the facts of this case. Here, Peoples' proposed adjustments do in fact track the Company's experience with these cost categories increasing year over year. The expense categories that are the subject of Peoples' adjustment are also very different than the "largely fixed" cost categories at issue in *PAWC*. Peoples has applied the adjustment to expense categories like Materials & Supplies, Fleet, Utilities & Fuel, Outside Services, Insurance, and other expense categories, all of which have experienced cost increases due to inflation and other factors.[57] Further, OCA conflates Peoples' proposed average annual increase adjustment with an adjustment that is based on an inflation factor. As Company witness Wachter explained, the average annual increase adjustments are based on the Company's known experience with each of the expense categories rather than the application of a standard inflation factor.[58] The Company's adjustments for known increases in expenses should be approved.

2. Inflation Adjustments

The Company responded to I&E's and OCA's position on inflation adjustments on page 17 of its Main Brief. In its Main Brief, OCA argues that the Commission has previously rejected inflation adjustments.[59] The cases that OCA cites do not support its position. In all of the cases relied on by OCA, the Commission rejected inflation adjustments because they were applied broadly across

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[55] OCA MB, p. 26.
[56] *Pa. PUC v. Pa. American Water Co.*, Docket Nos. R-2025-3057983 *et al*, Order at 131 (July 27, 2026) (*PAWC*), p. 131.
[57] Peoples MB, pp. 14-16.
[58] Peoples St. No. 2-R, pp. 4-6.
[59] OCA MB, pp. 27-29.

several expense categories. For example, in *PGW 2023*, the Commission rejected *a blanket inflation adjustment* that PGW *applied to 20% of its expenses*.[60] In *Columbia 2025*, the Commission rejected Columbia's attempt to apply inflation adjustments *to seven different expenses*.[61] Unlike the adjustments at issue in those cases, Peoples is not proposing to apply a broad inflation adjustment to several expense categories in this case. Rather, Peoples limited its inflation adjustments to just two expense categories where it was more reasonable to use an index-based approach.[62] OCA ignores cases like *PECO Gas* where the Commission has approved inflation adjustments when they are applied to limited categories of expenses.[63] Moreover, OCA's position on inflation and its applicability to this case is one-sided. OCA contradicts itself by arguing at length that customers are experiencing inflationary pressures but ignoring the fact that the Company is operating in the same inflationary environment.[64]

C. LABOR/VACANCY EXPENSE

Peoples responded to I&E's and OCA's position on labor/vacancy expenses on pages 18-20 of its Main Brief. In its Main Brief, OCA states that Peoples' historical vacancy rate does not align with the Company's claim for labor expense in this case.[65] However, OCA ignores the known and measurable changes that have occurred with respect to the Company's vacancy rate as a result of the Company's recruitment efforts. Peoples' vacancy rate has decreased by 14% as of March 2026. This downward trend in the Company's vacancy rate supports its claim for labor expense in this case.[66] Peoples' claim should be approved.

D. INCENTIVE COMPENSATION

[60] *Pa. PUC v. Phila. Gas Works*, 2023 PA. PUC LEXIS 298, *47 (Nov. 9, 2023) ("*PGW 2023*").
[61] *Columbia 2025* at *92.
[62] Peoples St. No. 2-R, p. 9.
[63] *PA PUC v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929 (Order entered June 22, 2021), p. 10 ("*PECO Gas*").
[64] OCA MB, pp. 12-15.
[65] OCA MB, pp. 29-30.
[66] Peoples St. No. 2-R, pp. 11-12.

Peoples responded to I&E's and OCA's arguments regarding incentive compensation on pages 20-23 of its Main Brief. In their Main Briefs, I&E and OCA propose that the Company be denied recovery of the portion of incentive compensation expense that is related to financial performance.[67] Their proposed adjustment is based on the assertion that this portion of incentive compensation primarily benefits shareholders and not customers.[68] The Company clearly explained why this is not an accurate characterization of the Company's incentive compensation program. On pages 21-23 of its Main Brief, Peoples explained the numerous ways in which its incentive compensation program benefits customers. On page 20 of its Main Brief, the Company cited to numerous cases where the Commission approved incentive compensation program expenses in their entirety if they are reasonable and benefit ratepayers. Notably, in *UGI Electric,* the Commission concluded that:

> Where, as here, the incentive program as a whole establishes that the employees' eligibility to receive the benefit is based on performance duties and metrics directly related to the provision of service, the fact that the program includes a financial metric does not disqualify it from allowance as an expense for inclusion in the rate base.[69]

Similarly, in *Pa. PUC v. PPL Electric Utilities Corp.* ("*PPL 2012*"),[70] OCA and I&E argued that half of incentive compensation costs should be disallowed because earnings per share performance and other financial measures impact shareholder value. The Commission rejected the adjustment.[71] Peoples has demonstrated that its incentive compensation program is both reasonable and benefits ratepayers. Therefore, consistent with the Commission's prior orders, the Company's incentive compensation expense should be approved.

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[67] I&E MB, pp. 22-24; OCA MB, pp. 30-32.
[68] *Id.*
[69] *Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division,* Docket No. R-2017-2640058 (Order entered Oct. 25, 2018), p. 74 ("*UGI Electric*").
[70] Docket No. R-2012-2290597 (Order entered Dec. 28, 2012), Order at pp. 25-26.
[71] *Id.*

OCA claims that Peoples has not shown that it would be put at a disadvantage compared to other business if it were not permitted to recover the full amount of inventive compensation expense.[72] However, the Company clearly explained that it would be disadvantaged because its incentive compensation is market based and is necessary to be able to attract and retain competent employees.[73] I&E acknowledges that it is not its position that the Company should stop offering incentive compensation.[74] Peoples' claim for incentive compensation expense is reasonable, necessary, and should be approved in its entirety.

E. EMPLOYEE BENEFITS EXPENSE

Peoples addressed employee benefits expense on pages 23-24 of its Main Brief. Peoples' claim should be approved.

F. CORPORATE INSURANCE

See pages 14-16 and 24 of the Company's Main Brief.

G. EMPLOYEE EXPENSE

In its Main Brief, the Company addressed I&E's and OCA's positions on employee expense. In its Main Brief, OCA stated that it does not oppose the costs of employee cell phones and parking leases but continues to claim that costs associated with team lunches and small employee gatherings should be disallowed.[75] OCA's logic is that these employee expenses are only "tangentially" related to proving natural gas distribution service.[76] OCA's position is arbitrary and illogical. These expenses are critical for employee retention and promote employee engagement, which directly and positively impacts the service that the Company provides to its customers.[77] To accept OCA's position would be to suggest that the Company should not support team-building activities and employee recognition.

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[72] OCA MB, p. 32.
[73] Peoples MB p. 23.
[74] I&E MB, p. 23.
[75] OCA MB, pp. 33-34.
[76] *Id.*
[77] Peoples MB, pp. 24-26.

OCA has not provided a reasonable basis to disallow these expenses and its adjustment should be rejected.

H. TRAVEL AND ENTERTAINMENT EXPENSE

The Company responded to I&E's and OCA's claims regarding Travel and Entertainment expense in its Main Brief. In its Main Brief, OCA claims that Peoples did not demonstrate why these costs are reasonable or how they relate to providing utility service.[78] Contrary to OCA's assertion, the Company described each of these expenses in its Main Brief and explained why they are reasonable and necessary costs of doing business.[79] Peoples' claim should be approved.

I. COMPANY MEMBERSHIPS

Peoples addressed I&E's and OCA's position on memberships expense in its Main Brief. In its Main brief, OCA argues that both the Company and customers benefit from these memberships and therefore the Company and customers should share in the costs.[80] OCA has not demonstrated why a portion of the Company's memberships should be disallowed when Peoples has shown that its memberships in these organizations provide a direct benefit to customers as explained in the Company's Main Brief. OCA's partial disallowance fails to account for the positive impacts that the Company's memberships in these organizations has on the customers and communities that it serves. The Commission has previously allowed similar expenses.[81] The entire amount of the Company's memberships is properly recoverable.

J. LICENSE AND PERMIT EXPENSE

The Company addressed I&E's position on license and permit expense in its Main Brief. The

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[78] OCA MB, p. 34.
[79] Peoples MB,
[80] OCA MB, p.35.
[81] *See, e.g., Pa PUC, et al. v. Pennsylvania-American Water Company,* Docket Nos. R-00943231, *et al.,* 1995 Pa. PUC LEXIS 170, at *44 (Order dated July 24, 1995) (memberships are part of utility's economic development efforts); *PUC, et al. v. The Columbia Water Company,* Docket Nos. R-2008-2045157, *et al.,* 2009 Pa. PUC LEXIS 1423, at *59-60 (Order entered June 10, 2009) (rejecting OCA's argument to disallow chamber of commerce memberships).

Company's claim should be approved.

K. UTILITIES AND FUEL EXPENSE

The Company addressed I&E's position on utilities and fuel expense in its Main Brief. The Company's claim should be approved.

L. ADVERTISING EXPENSE

The Company addressed I&E's and OCA's positions on advertising expense in its Main Brief. In its Main Brief, I&E does not refute the Company's explanation as to how its advertising expense meets the requirements to be recoverable under 66 Pa. C.S. § 1316(a), but instead simply claims "it is not apparent" that the Company's advertising programs meet any of the criteria.[82] I&E overlooks Company witness Wachter's testimony explaining how the Company's advertising expense meets the statutory criteria by providing important information to the public regarding safety and customer programs and promoting economic development.[83] This information directly benefits customers. Further, I&E continues to make an adjustment related to the Holiday Market.[84] Mr. Wachter made it clear that the Holiday Market costs were not included in the claim.[85] Thus, I&E's adjustment improperly removes a cost from the claim that was never there in the first place. OCA accepts that the Company did not include Holiday Market costs in the claim.[86] The Company's claim for advertising expense should be approved.

M. FLEET EXPENSE

The Company addressed I&E's position on fleet expense in its Main Brief. The Company's claim should be approved.

N. MATERIALS AND SUPPLIES EXPENSE

[82] I&E MB, p. 28.
[83] Peoples St. No. 2-R, pp. 34-36.
[84] I&E MB, p. 26.
[85] Peoples St. No. 2-R, p. 31.
[86] OCA St. No. 2SR, p. 13.

The Company addressed I&E's and OCA's positions regarding Materials and Supplies Expense in its Main Brief. In its Main Brief, OCA continues to recommend using a three-year average but has not provided sufficient evidence to demonstrate that a three-year average would better reflect the increase in cost for this category of expense.[87] The Company's claim should be approved.

O. RATE CASE EXPENSE

Peoples addressed OCA's and I&E's position on rate case expense in its Main Brief. Peoples' claim for rate case expense should be normalized over a two-year period.[88] OCA's three-and-a half-year normalization period and I&E's 56-month normalization period overlook the Company's current operations, increased capital investments, and inflationary pressures, which will require the Company to file more frequent rate cases in the years to come. The Commission's prior decisions on rate case expense support basing the expense on future expectations of filing frequency.[89]

OCA's and I&E's proposals also fail to reflect the reasons why the Company was able to file less frequent rate cases historically as explained in the Company's Main Brief. OCA claims that "the amount of time between the 2019 and 2023 rate filings was influenced at least as much by the come-back provision [in the Tax Repair Election Settlement] 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."[90] The Company disagrees with OCA's interpretation of Tax Repair Election Settlement and its impacts on the timing of the Company's rate case filing.[91] As explained by Mr. Wachter, "the main reason for the time that has elapsed between the 2019 and 2023 case was the result of the Company receiving Accounting and Regulatory approval regarding its

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[87] OCA MB, pp. 36-37.
[88] Peoples MB, pp. 33-34.
[89] *UGI Electric* at 59-60; *Pa PUC v. Citizens' Electric Company of Lewisburg, PA,* Docket No. R-2019-3008212 (Order entered April 27, 2020) ("*Citizens' Electric*"), p. 80.
[90] OCA MB, p. 38.
[91] *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) (Mar. 11, 2021).

treatment of the tax repair election in Docket No. P-2020-3021191. Specifically, the Company changed its tax accounting method to define its unit of property under the IRS's tangible property regulations, which allowed the Company to prospectively deduct, as an operating expense on its income tax returns, the costs of certain asset improvements that otherwise would be capitalized and depreciated for tax purposes."[92] Mr. Wachter's testimony is clear that the amount of time between the 2019 case and the 2023 case is attributable to the unique financial ramifications of the Tax Repair Election.

Further, OCA's position on the frequency of the Company's rate case filings is inconsistent. OCA claims that the Company files "successive" rate cases when it comes to the affordability of rates[93] but then disputes that the Company will need to file more regular rate cases in the future when it comes determining rate case expense. Given the contradictory nature of OCA's position on this issue, its testimony should be given little weight.

The Company's claim for rate case expense should be approved.

P. PENSION EXPENSE

The Company addressed I&E's adjustments to pension expense in its Main Brief. I&E provides no basis for its disallowance other than that the plan is overfunded.[94] Mr. Wachter explained why I&E's argument is incorrect.[95] The Company's claim for pension expense should be approved.

Q. OUTSIDE SERVICES

See pages 14-16 and 36 of the Company's Main Brief. The Company's claim for Outside Services – Contracted, Administrative and General, and IT should be approved.

R. NATURAL GAS HOT WATER TANK REBATE PILOT

See pages 36 and 141-142 of the Company's Main Brief.

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[92] Peoples St. No. 2-R, p. 38.
[93] OCA MB, p. 11.
[94] I&E MB, p. 30.
[95] Peoples St. No. 2-R, pp. 42-43; Peoples MB, pp. 34-36.

S. PAYMENT PROCESSING EXPENSE

Peoples addressed I&E's and OCA's positions on payment processing expense in its Main Brief. In its Main Brief, OCA frames the Company's adjustment as a "22.0% year-over-year escalation factor."[96] OCA misconstrues the Company's adjustment. Mr. Wachter specifically explained that the increase is attributable to increased customer usage of the payment processing service.[97] OCA also claims that Peoples failed to provide evidence to support its claim, but this is incorrect.[98] Mr. Wachter described several reasons why it is reasonable to expect that this growing percentage of customers will pay their utility bills using credit cards, all of which were supported by substantial evidence.[99] OCA did not provide sufficient evidence to overcome the Company's evidence supporting its adjustment. The Company's claim for payment processing expense should be approved.

T. BUILDING LEASES

See page 38 of the Company's Main Brief.

U. UNIVERSAL SERVICE PROGRAM RIDER

Recovery of costs through the USP Rider is discussed in Section XVI.A below.

V. PUBLIC UTILITY COMMISSION ASSESSMENT

The Company responded to OCA's position on Public Utility Commission assessment expense in its Main Brief. In its Main Brief, OCA claims that Peoples failed to provide evidence supporting its adjustment.[100] OCA claims that the adjustment is based on the assumption that the Company will experience a year-over-year increase in the expense amount.[101] OCA's criticisms are without merit. As the Company explained in its Main Brief, the increase is based on the average of increases over a five-year period. Thus, the increase percentage is based on the Company's actual experience with this

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[96] OCA MB, pp. 39-40.
[97] Peoples St. No. 2-R, p. 45.
[98] OCA MB, pp. 39-40.
[99] Peoples St. No. 2-R, p. 45-48; Peoples MB, p. 37.
[100] OCA MB, pp. 41-42.
[101] *Id.*

expense category. OCA did not present any evidence to dispute that basing the expense on the average amount of increases over the past five years would be unreasonable. The Company's claim should be approved.

W. RESIDENTIAL COLLECTION EXPENSE

The Company responded to OCA's position on residential collection expense in its Main Brief. In its Main Brief, OCA claims that Peoples' residential collection practices are "inadequate" and "unreasonable" but does not provide sufficient evidence to support these claims. Conversely, the Company provided substantial evidence to defend why its residential collections are reasonable. OCA's adjustment, which is rooted in its baseless claim regarding the Company's collection practices, should be denied.

X. INTEREST SYNCHRONIZATION

The Company responded to OCA's interest synchronization adjustment in its Main Brief. In its Main Brief, OCA fails to acknowledge Mr. Wachter's rebuttal testimony, which explained that even if OCA's capital structure is accepted, it is not proper to make an interest synchronization adjustment because there is no impact on income taxes.[102] The Company further explained that OCA witness Geiger used the wrong tax rates in his calculation but OCA did not acknowledge or correct these errors. OCA presented no evidence in response to the Company's well-reasoned position on this issue. OCA's interest synchronization adjustment is improper and should be rejected.

Y. COST OF OTHER PARTIES' PROPOSALS

The Company responded to OCA's position on this issue in its Main Brief. In its Main Brief, OCA cites two cases where it claims that the Commission has ordered the utility to implement a change to its customer service practices without specifically authorizing an associated expense

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[102] Peoples St. No. 2-R, pp. 50-53.

adjustment.[103] However, OCA has not demonstrated that the utilities in those cases requested that the Commission make an allowance for the cost of implementing OCA's proposals as Peoples has done in this case. Therefore, those cases are inapplicable here. OCA has not explained why the Company should not be permitted to recover the costs of implementing OCA's own proposals regarding its customer service when the Company is entitled to recover its prudently incurred expenses.[104] The Company's request that provisions be made in this case for the future recovery of incremental costs associated with implementing OCA's proposals is reasonable and should be approved.

Z. UNCOLLECTIBLE ACCOUNTS EXPENSE

The Company responded to the positions of I&E and OCA on this issue in its Main Brief. Peoples' response to OCA's position on the bad debt offset is set forth in Section XIIIB. below.

VII. DEPRECIATION

The only party to challenge the Company's depreciation expense in this case is OCA.[105] In its Main Brief, CAUSE PA claims for the first time that it supports OCA's position on depreciation expense.[106] CAUSE PA did not present testimony on this issue, and it should not be permitted to raise this argument for the first time in its brief.[107] Peoples anticipated and responded to many of the arguments raised by OCA and addressed them in the Company's Main Brief.

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[103] OCA MB, pp. 43-44.
[104] *See Butler Township v. Pa. PUC*, 473 A.2d 219, 221 (Pa. Cmwlth. 1984); T.W. Phillips Gas and Oil Co. v. Pa. PUC, 474 A.2d 355 (Pa. Cmwlth. 1984).
[105] OCA MB, p. 46.
[106] CAUSE PA MB, pp. 25-26.
[107] *Pa. PUC v. Pa. Power & Light Co.*, Docket Nos. R-822169, *et al.*, 57 Pa. PUC 559, 596-97 (Order entered Aug. 19, 1983) (citing *Pa. PUC v Philadelphia Electric Co.*, Docket No. R-811626 (Order dated May 21, 1982) ("Merits aside, it is highly inappropriate for a party to propose a completely new adjustment for the first time in its brief."); *see also Parks v. Pa. Electric Co.*, Docket No. C-2018-3004227, 2024 Pa. PUC LEXIS 365, at *18 (Order entered Dec. 19, 2024) (determining that considering the complainants' requests for relief raised for the first time in the briefing stage would violate the utility's due process rights); *Enron Capital & Trade Res. Corp. v. Peoples Natural Gas Co.*, Docket No. R-00973928C0001, 1997 Pa. PUC LEX 178, at *10-11 (Recommended decision issued Nov. 13, 1997) ("Enron can not be permitted to introduce an argument at the briefing stage which it did not introduce in the evidentiary phase of this proceeding . . . Imposing [the new proposal] without the other parties having notice and an opportunity to be heard would violate their due process rights."), *affirmed*, 1998 Pa. PUC LEXIS 199 (Order entered Aug. 24, 1998).

1. The Conversion of Equal Life Group Depreciation to Average Service Life Depreciation Is Not in Customers' Best Interest

OCA proposes to shift from the Equal Life Group ("ELG") method of determining depreciation expense and accrued depreciation to the Average Service Life ("ASL") method. OCA's primary goal is to reduce current depreciation expense by approximately $36.8 million to reduce the overall revenue requirement in this case.[108] Yet, none of OCA's arguments in favor of changing to the ASL procedure recognize the harm that will result from this change. OCA's determination to obtain a one-time reduction to the rate increase proposed in this case leads it to ignore the negative impacts to customers that will result in future years.

OCA's claim that its proposal will "instantly lower rates"[109] is misguided. While it is true that OCA's proposal would temporarily lower rates, this position ignores the fact that a reduction in depreciation expense will reduce the growth of accumulated depreciation and therefore increase net rate base.[110] Mr. Spanos presented a chart to illustrate that in approximately twelve years, OCA's proposal will result in higher total costs to customers every year moving forward.[111] To be clear, if OCA's proposal is accepted there will be a one-time reduction in depreciation expense in this case followed by a corresponding one-time increase and a continual increase in rate base thereafter.

OCA disputes the Company's position that OCA's proposal is not in customers' best interest. OCA claims that even if rate base was fully "paid off," the ELG method incentivizes the Company to "start developing ways to increase rate base beyond that which is strictly necessary to provide safe and reliable service."[112] OCA's accusation is false and it has provided no evidence to support this baseless claim.

1. The Commission has Considered and Rejected OCA's Arguments to Adopt ASL

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108 OCA MB, p. 46.
109 OCA MB, p. 50.
110 Peoples St. No. 16-R, p. 12.
111 *Id.* at p. 13, Figure 3.
112 OCA, p. 52.

The Commission has considered and rejected OCA's proposal to adopt the ASL method of depreciation in *Columbia 2025* as well as most recently in *PA American 2026.*[113] OCA overlooks the many compelling reasons for the Commission's rejection of the ASL procedure in *Columbia 2025* that have carried through to the record in this proceeding. These findings include:

- "[T]he alleged benefit of the ASL procedure . . . of lower depreciation expense and a short-term reduction in rates for current customers, is not a result of the procedure itself, but is a result of the proposed change in procedure."[114]
- "[A] switch to the ASL procedure would increase rate base in comparison to the continued use of the ELG procedure (by lowering accumulated depreciation), leading to higher rates in the long run."[115]
- "[A]doption of the ASL procedure would serve as an intergenerational subsidy to current customers at the expense of other generations of customers."[116]
- "The intergenerational inequity that would be developed from changing to the ASL procedure after approximately forty years of using the ELG procedure is that future customers would be paying less than current and past customers for the recovery of the same assets from which they are receiving service."[117]
- "The ELG procedure correctly matches depreciation expense of the straight-line allocation of service value over the period the assets are in service and avoids the back-end loading of the ASL procedure."[118]
- "[O]ther jurisdictions' differing use of the ASL procedure, as noted by the OCA, is not relevant since these jurisdictions use other depreciation parameters (e.g., whole-life vs. remaining-life, net salvage treatment)."[119]

Peoples presented substantial record evidence demonstrating that adopting OCA's proposal will lead to the same negative outcomes because it is based on the same flawed ASL procedure.

2. OCA's Intergenerational Equity Argument is Misguided

[113] See *Columbia 2025,* p. 111; *PA American 2026* (Recommended Decision May 15, 2026), p. 222; (Order entered July 27, 2026).
[114] *Columbia 2025*, p. 108; Peoples St. No. 16-R, p. 12.
[115] *Columbia 2025*, p. 109; Peoples St. No. 16-R, p. 13.
[116] *Columbia 2025*, p. 109; Peoples St. No. 16-R, pp. 16-17.
[117] *Columbia 2025*, p. 109; Peoples St. No. 16-R, pp. 16-18.
[118] *Columbia 2025*, p. 110; Peoples St. No. 16-R, p. 4.
[119] *Columbia 2025*, p. 111; Peoples St. No. 16-R, p. 23.

OCA argues that the ELG method creates intergenerational inequity.[120] However, OCA fails to recognize that it is the ASL method, not the ELG method, that would have future customers bear the cost of providing service to current customers. First, the level of rate base today is lower because of the use of the ELG procedure so past and present ratepayers have already fairly paid for the service of the assets they have utilized and that have been retired.[121] Second, OCA's contention that the ELG procedure is unfair to future ratepayers when considering the time value of money fails because OCA has not restated the original cost of plant to today's dollars and instead has solely focused on the level of recovery from today through the next twelve years. OCA does not recognize that the ELG procedure properly recovers the plant investment as it is utilized and the periodic reviews that are required in Pennsylvania ensure that all generations are paying for the benefit of the assets that are in service.[122] Thus, OCA witness Garrett's discussion related to the time value of money only considers the recovery component and not the offsetting benefit that ratepayers have received with the reduced plant in service value.

3. OCA's Reliance on Other Jurisdictions' and Utilities' Use of the ASL Method Is Not Compelling in this Case

OCA attempts to compare situations in other jurisdictions and involving other utilities to support a change from the ELG procedure in this case.[123] As the Company explained in its Main Brief, the Indiana and Kentucky cases cited by OCA involve electric generation assets which are significantly different assets involving significantly different recovery.[124] OCA ignores that two of the more recent cases in Indiana had depreciation rates approved based on the ELG procedure and involve assets that are more similar to Peoples' assets.[125] Moreover, the Commission has already

[120] OCA MB, pp. 51-52.
[121] Peoples St. No. 16-R, p. 12.
[122] Peoples St. No. 16-R, pp. 10-12.
[123] OCA Main Brief, pp. 38-40.
[124] Peoples MB, pp. 54-55.
[125] *See Verified Petition Of The Board Of Directors For Utilities Of The Department Of Public Utilities Of The City Of Indianapolis For Presentation And Approval Of New Depreciation Accrual Rates*, Cause No. 45988 (State of Indiana

dismissed OCA's reliance on other jurisdictions in determining the appropriate depreciation method, stating that these jurisdictions use other depreciation parameters (e.g., whole-life vs. remaining-life, net salvage treatment)."[126] Therefore, these cases are not applicable in Pennsylvania. OCA also references PPL Electric's use of ASL in support of its claim that Peoples should be required to adopt ASL, but again, fails to recognize the fundamentally different assets involved between the two utilities.[127]

4. Service Life for Account 380.00, Services

In its Main Brief, the Company addressed OCA's proposal to modify the service life for Account 380.00 and the flaws with Mr. Garrett's recommendation. OCA's proposal to change the service life should be rejected.

5. Conclusion as to Depreciation Expense

As explained herein and in the Company's Main Brief, OCA has failed to present sufficient evidence to support its proposal to change the long-standing depreciation procedure in Pennsylvania. The ALJ and the Commission should reject OCA's proposed depreciation expense adjustment based on its erroneous recommendation to use the ASL procedure.

VIII. TAXES

As the Company explained in its Main brief, the Company's proposal to continue the following tax related provisions from its 2023 base rate case settlement is unopposed and should be approved:[128]

- The Company's STAS rate shall be reset to 0.00% upon the effective date of new rates.
- The TRSR will continue to apply to all customers, except for customers with negotiated rates.
- Effective with Calendar Year 2027, the level of tax repair benefits

Utility Regulatory Commission Order approved Oct. 16, 2024); *Petition Of Aqua Indiana, Inc. For Approval Of New Depreciation Accrual Rates To Be Applicable To The Wastewater Plant Of Its Aboite Wastewater System*, Cause No. 46334 (State of Indiana Utility Regulatory Commission Order approved June 24, 2026).

[126] *Columbia 2025*, p. 111.

[127] OCA MB, p. 47.

[128] Peoples St. No. 7, p. 28-29.

claimed in the calculation of income tax expense shall have a collar of $13.5 million applied on the higher and lower end of the net repairs deductions incorporated into base rates.

- If the net repairs deductions for Peoples vary by more than $13.5 million above or below the $507.5 million amount included in base distribution rates in this proceeding, Peoples will record a regulatory asset or liability for the related income tax expense impacts of the repairs deduction variations above $521 million or below $494 million. The effective date of the revised collar will be January 1, 2027.
- Peoples shall report on the regulatory asset or liability amounts of the net repairs deduction income tax impacts in its quarterly earnings reports after the conclusion of the FPFTY. Within 30 days of reporting a regulatory asset or liability with a net cumulative income tax impact amount of $25 million or larger, Peoples shall file with the Commission and shall copy the statutory parties, a plan for recovering or refunding the regulatory asset or liability amount to customers.
- If there are remaining deferrals of the differences in income tax expense for Peoples' net repairs deductions, the balance shall be addressed in Peoples' next base rate case based on the recorded regulatory asset and liability amounts.
- Whether similar recording of the impact on current income tax expense from net repairs deduction variations above or below a collar in a regulatory asset or liability account should continue shall also be re-evaluated in Peoples' next base rate case.
- Changes resulting from the enactment of the TCJA created differences in the deferred tax rates that were used prior to January 1, 2018, creating excess accumulated deferred income taxes. Peoples will continue amortizing the total excess ADIT using the ARAM upon the effective date of new rates. The remaining unamortized excess ADIT balance will continue as a reduction to rate base in all future proceedings until the full amount is returned to ratepayers.
- The Company's request to recover any amounts refunded to customers that are not realized due to state NOLC limitations is approved. To the extent that the benefit of the Company's state NOLC is affected by: (i) any disallowance due to the 40% taxable income limit and/or the 20 year carryforward limitation; (ii) any subsequent disallowance by a future IRS or Pennsylvania Department of Revenue audit; (iii) any changes in tax rate; or (iv) any change in rules or guidance that require a change to the originating amount of the NOL, the Company will be permitted to defer those impacts for future recovery from customers.

The Company also explained in its Main Brief that I&E's adjustments to payroll taxes should be rejected because the Company disputes the underlying adjustments upon which I&E's payroll tax adjustments are based.

IX. RATE OF RETURN

A. INTRODUCTION

Four parties have presented positions on rate of return: Peoples, I&E, OCA, and CAUSE PA.[129] These positions are as follows:

Party	**Return on Equity**	**Overall Rate of Return[130]**
Peoples	11.25%	8.23%
I&E	10.20%	7.41%
OCA	8.80%	6.95%
CAUSE PA	7.68%	N/A

CAUSE PA did not prepare an independent, market-based rate of return analysis. CAUSE PA's "alternative" approach to determining the rate of return is addressed in Section IX.E below. At the outset, CAUSE PA's positions on cost of capital should be given little weight because they are not based on any market-based analysis or expert testimony. As explained in the Company's Main Brief and as further explained herein, CAUSE PA's positions are based on faulty assumptions and misunderstandings of fundamental cost of capital principles.

A substantial part of the difference between Peoples's and I&E's return on common equity positions is that I&E does not include any management performance adder in its recommendation. If 25 basis points were added to I&E's return on equity, its recommendation would be 10.45%.

[129] CAUSE-PA, in its MB, supports the OCA's rate of return position, but presented no rate of return analysis in testimony. Further, CAUSE PA's MB contains an error on pages 39-40 wherein it incorrectly states that OCA's recommendation is an 8.5% equity return at a 51%/49% debt to equity capital structure, and OCA's alternative recommendation is an 8.8% equity return. However, OCA's primary equity return recommendation is 8.8% with its 51%/49% capital structure recommendation, or alternatively, 8.5% with the Company's requested capital structure.

[130] Positions are as presented in parties' MBs.

Further, a substantial difference between the Company's revenue requirement and I&E's revenue requirement is that I&E uses a hypothetical capital structure. Had I&E based its revenue requirement recommendation on the Company's actual capital structure, consistent with its past practice when the capital structure is within the range of the barometer group, the resulting revenue requirement would have been $114.1 million using I&E's recommended ROE of 10.20% as demonstrated in Appendix A attached hereto.

OCA's grossly inadequate proposed rate of return is presented in the context of its proposal to adopt a hypothetical capital structure with a higher percentage of debt (but no higher debt cost rate) than the Company's projected actual capital structure. This change effectively reduces the return on equity that Peoples would have an opportunity to achieve to a level below what OCA claims. At Peoples' actual capital structure ratio and OCA's overall rate of return of 6.98%, Peoples would be provided an opportunity to earn a return on common equity of only 8.50%, not 8.80%:

Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost Rate**
Long-Term Debt	45.53%	5.17%	2.35%
Short-Term Debt	0%	0%	0%
Common Equity	54.47%	8.5%	4.63%
			6.98%

OCA's addition of hypothetical debt in the capital structure also creates greater hypothetical income tax deductions, and thus lower income tax expense, for ratemaking purposes. As a result, the return on equity that Peoples will be provided an opportunity to receive, under OCA's hypothetical capital structure, will be even less than the 8.50% computed above.

As explained in Section IX.A of Peoples's Main Brief, the Commission should demonstrate its continued support for investment to replace aging infrastructure through a proper rate of return. The Commission should reject the grossly inadequate returns proposed by OCA and CAUSE PA, as well as the insufficient return proposed by I&E. In particular, OCA's and CAUSE PA's return on equity proposals are well below the 10.25% return on equity recently authorized for gas utilities for Distribution System Improvement Charge ("DSIC") purposes,[131] and would signal to the investment community that the Commission has pulled back its support for gas safety investment. It defies rational thinking that Peoples would be authorized to receive a less than 9% return on common equity for FPFTY plant investments, as OCA and CAUSE PA suggest, while other NGDCs earn 10.25% on capital improvements eligible for recovery through the DSIC.

1. Rate of Return Standards

I&E, OCA, and CAUSE PA all recite and apply improper standards for determining the rate of return. CAUSE PA states:

> When faced with a range of ROE options presented by financial models, CAUSE-PA witness Cicero recommended that the Commission should not play Goldilocks and pick the ROE that is "just right." Rather, the Commission should choose *the lowest ROE* that the models suggest and consider whether there are other criteria to evaluate whether an even lower ROE would nevertheless be sufficient.[132]

OCA states, "a Commission . . . must ensure that the regulated utility is operating at the *lowest* [Weighted Average Cost of Capital]."[133] I&E's standard is no more than "absolutely necessary."[134] None of these standards are consistent with the Commission's precedent applying the constitutional standards set forth in *Bluefield* and *Hope* that the return must be "reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties" as discussed in the Company's Main Brief.[135] The parties

[131] *See* August 27, 2026 Quarterly Earnings Report at Docket No. M-2026-3063930.
[132] CAUSE PA MB, p. 40.
[133] OCA MB, p. 61 (emphasis added).
[134] I&E MB, p. 42.
[135] Peoples MB, pp. 58-60.

go on to use these incorrect standards to inform their recommendations, and therefore their recommendations should be rejected.

B. CAPITAL STRUCTURE

Peoples has reflected in the case its projected actual FPFTY capital structure of 54.47% common equity and 45.53% long-term debt.[136] I&E, OCA and CAUSE PA propose to impute hypothetical capital structures. I&E's and CAUSE PA's capital structures are comprised of 50.00% common equity and 50.00% debt, while OCA's capital structure is comprised of 51.00% long-term debt and 49.00% common equity.[137]

As explained in Peoples' Main Brief, the parties' proposals to adopt a hypothetical capital structure are contrary to long-standing Commission precedent that the choice of capital structure is within the discretion of utility management and is not to be changed absent proof that the capital structure is atypical or outside a range of reasonableness.[138] I&E, OCA, and CAUSE-PA do not offer an argument that People's capital structure is atypical or outside a range of reasonableness as defined by substantial Commission precedent. CAUSE-PA's sole legal citation is to a 1958 Superior Court case which held that under the peculiar circumstances of that case, the actual capital structure of a wholly owned subsidiary *might* be unfair to the utility or to customers.[139] However, the *Riverton* decision is not contrary to long-established Commission precedent. The Commission recognizes that, for any utility, a capital structure that is atypical or outside a range of reasonableness may be replaced with a hypothetical capital structure, but that is not the case here.

Peoples conclusively demonstrated that its actual capital structure is not atypical or outside a range of reasonableness. As the Commission has made clear in the many cases cited in Peoples' Main

[136] Peoples St. No. 15, p. 6.
[137] I&E MB, p. 9; OCA MB, p. 56; CAUSE-PA MB, p. 33.
[138] Peoples MB, pp. 60-63.
[139] CAUSE PA MB, p. 34 (citing *Riverton Consol. Water Co. v. Pa. PUC,* 140 A.2d 114 at 121 (Pa. Super. 1958) ("*Riverton*")).

Brief, the standard for determining whether a capital structure is atypical is whether the capital structure falls outside the range of capital structures of the barometer group.[140] Peoples' capital structure falls squarely within the range of the gas proxy barometer groups used in this proceeding.[141] Notably, three of I&E's eight proxy group companies have higher equity ratios (one with 55% equity and two with 60% equity) than Peoples' actual capital structure.[142]

I&E and OCA refer to the "average" capital structures for the proxy group but do not offer sufficient evidence to support the conclusion that Peoples' proposed capital structure is atypical, requiring the use of a hypothetical capital structure.[143] Their only evidence is that the Company's equity ratio exceeds the average of the proxy group.[144] However, as the Commission has made clear in *Columbia 2021*[145] and the numerous other cases cited in Peoples' Main Brief, the **average** proxy group capital structure is not the standard employed to determine if a Company's actual capital structure is atypical. Rather, the standard is whether the Company's actual capital structure is atypical, as measured by the barometer group **range.**

The evidence, as cited above, demonstrates that various gas utilities employ a higher level of common equity than Peoples. However, OCA and I&E would have the Commission reject this evidence of typical capital structures and employ a process that would direct the use of a hypothetical structure any time an actual capital structure varies from the proxy group average. Such a standard would effectively mean that the Commission would adopt hypothetical capital structure ratios in virtually every rate case, contrary to long-established precedent. OCA would further ignore the fact, as noted by the Commission in *PPL Electric 2012*, that the need to support an extensive infrastructure

140 Peoples MB, pp. 62-63.

141 Peoples MB, p. 62-65; Peoples St. No. 15-R, pp. 100, 11.

142 I&E St. No. 2, p. 17.

143 OCA MB, p. 61. I&E MB, p. 40.

144 OCA St. No 3, pp. 50-52; I&E St. No. 2, p. 15.

145 *Pa. PUC, et al. v. Columbia Gas of Pa.,* Docket No. R-2020-3018835, (Order entered Feb. 19, 2021) ("*Columbia 2021*").

replacement program further justifies an equity ratio above the "average."[146]

OCA and CAUSE PA contend that the Commission has "discretion" to adopt a different capital structure.[147] However, the Commission does not have unbridled discretion. There are long-established, and recently reaffirmed,[148] standards for when the Commission may override management decisions on capital structure and to disregard those standards would be an abuse of discretion.

Peoples' management maintains a financial profile that will enable it to obtain the necessary financing to continue its infrastructure replacement program. That financial profile is within the range of capital structure ratios of the proxy groups presented in this proceeding. The parties' proposed hypothetical capital structure should be rejected.

Finally, CAUSE PA, OCA, and I&E reference Vice Chair Barrow's statement in this proceeding regarding rate of return and conclude that based on this statement, Peoples' actual capital structure should be rejected. [149] In response, Ms. Nelson disagreed that Vice Chair Barrow's statement requires the imputation of a hypothetical capital structure.[150] Rather, Vice Chair Barrow's statement instructed the parties in this case to take a critical look at the Company's rate of return, return on equity, and capital structure.[151] As evidenced by the extensive discovery and multiple rounds of testimony in this case, the parties have carefully examined these issues. Based upon the full record in this case, Peoples' actual capital structure should be approved.

C. DEBT COST RATE

In its Main Brief, CAUSE PA does not challenge Peoples's cost of long-term debt of 4.61%.

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[146] *Pa. PUC v. PPL Electric Utilities Corp.*, Docket No. R-2012-2290597, 2012 Pa. PUC LEXIS 1757 (Recommended Decision Oct. 19, 2012) (Order entered Dec. 28, 2012).
[147] OCA MB, p. 63. CAUSE PA MB, p. 39; I&E MB, p. 40.
[148] *Pa. PUC v. Pennsylvania-American Water Company*, ("*PAWC 2024*") Docket No R-2023-3043189 (Order entered July 22, 2024), Order at pp. 157-60.
[149] OCA MB, p. 60. I&E MB, p. 40. CAUSE PA MB, p. 34.
[150] Peoples St. No. 15-R, p. 29.
[151] Statement of Kimberly Barrow, Vice Chair at Docket No. R-2026-3060855 (April 16, 2026).

However, CAUSE PA disputes Ms. Nelson's testimony regarding the relationship between the debt ratio and the cost of debt. As referenced in Peoples' Main Brief, Company witness Nelson explained how imputing a higher debt ratio increases risk could result in credit ratings downgrades thereby increasing the cost of debt. She further explained that any near-term savings from a lower equity ratio may be offset, or more than offset, by higher borrowing costs, increased financial risk, and reduced access to capital.[152] In response, CAUSE PA questions Ms. Nelson's position and accuses her argument of being "self-serving,"[153] yet CAUSE PA presents no creditable evidence to rebut Ms. Nelson's well-reasoned testimony. Mr. Cicero's statement reflects a fundamental lack of understanding of how capital markets operate.

In its Main Brief, CAUSE PA also comments that Peoples' "great-grandparent," Essential Utilities has not recently flowed equity infusions down to the operating company level.[154] This statement ignores the fact that Peoples has recently received capital infusions of *debt*.[155]

Moreover, Ms. Nelson's testimony should be given much greater weight than Mr. Cicero's testimony. Mr. Cicero is not an expert in cost of capital matters.[156] Unlike Mr. Cicero, Ms. Nelson has a bachelor's degree in business economics and a master's degree in resource and applied economics. She has more than fifteen years of experience in the energy industry having served as a consultant and energy regulatory economist for state government agencies. She has testified before more than twenty state regulatory commissions on a range of financial and regulatory issues, including cost of capital.[157] CAUSE PA's arguments lack evidentiary support, are not advanced by a cost of capital expert and should be rejected.

D. RETURN ON COMMON EQUITY

[152] Peoples St. No. 15-R, pp. 52-55.
[153] CAUSE PA MB, pp. 36-37.
[154] CAUSE PA St. No. 1-SR, p. 21.
[155] Peoples St. No. 15-RJ, pp. 21-22.
[156] CAUSE PA St. No. 1, pp. 3-5, Appendix A.
[157] Peoples St. Np. 15, pp. 1-2.

1. Summary of Recommended Return on Common Equity

The ALJ and the Commission should adopt the Company's recommended return on common equity of 11.25%, inclusive of 25 basis points for management performance. A return on common equity of 11.25% is well supported by the record evidence and is based on Ms. Nelson's analysis considering the results of the Discounted Cash Flow ("DCF") model, the Capital Asset Pricing model ("CAPM") (including the Empirical CAPM or "ECAPM"), and the Bond Yield Plus Risk Premium model ("Risk Premium"). Notably, the Company's recommended 11.25% return on equity is very close to the low end of the range of I&E witness Patel's DCF result and is also below the Company's CAPM result.[158] As explained herein, other parties' criticisms of Ms. Nelson's analysis are without merit.

While I&E's recommended return on equity of 10.20% falls at the low end of the range of Ms. Nelson's estimates, OCA's recommended equity return of 8.8% and CAUSE PA's recommended equity return of 7.68% are completely unreasonable and confiscatory in violation of the constitutional standards set forth in *Bluefield* and *Hope*. In its Main Brief, the Company addressed many problems with OCA witness Garrett's analysis and his resulting recommendation. CAUSE PA did not present a market-based analysis, and therefore its testimony on this subject should be given little weight.

2. Proxy Group

See pages 73 through 75 of Peoples' Main Brief.

3. Discounted Cash Flow ("DCF")

Ms. Nelson's updated DCF Model produced an equity return of 11.03%.[159] The reasonableness of Ms. Nelson's DCF result is further supported by I&E witness Patel's DCF result of 11.33%.[160] The Company's Main Brief addressed the flaws in OCA witness Garrett's DCF analysis, which resulted in a range of estimates from 7.1% to 7.6%.

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158 *See* Peoples MB, p. 70.
159 Peoples St. No. 15-R, p. 15.
160 *Id.* at pp. 112-113.

In OCA's Main Brief, OCA claims that Ms. Nelson erred in her DCF analysis by using unsustainably high growth rates.[161] Ms. Nelson responded to this criticism in her rebuttal testimony:

> **Q. OCA WITNESS GARRETT ASSERTS YOUR DCF RESULTS ARE OVERSTATED DUE TO YOUR USE OF "AVERAGE GROWTH RATES FOR THE PROXY GROUP THAT ARE UNSUSTAINABLY HIGH." (OCA STATEMENT 3, PP. 32-33.) WHAT IS YOUR RESPONSE?**
>
> A. I disagree. Both Mr. Patel and I have used analyst EPS growth rate projections in our DCF models to estimate the ROE for Peoples. As explained in my Direct Testimony, Peoples Statement No. 15, at pages 23 and 24, over the long term, dividend growth can only be sustained by earnings growth. Importantly, when providing guidance to investors regarding the overall total return targets in their investor presentations, companies define the total return as the dividend yield plus earnings growth, not dividend or sustainable growth. As I explain in my Direct Testimony, Peoples Statement No. 15, at pages 23 and 24, academic research has shown that analysts' consensus earnings forecasts are better at predicting the valuation of common stocks and studies suggest that investors base their investment decisions on analysts' expectations of growth in earnings. I am not aware of any similar findings regarding dividend-based growth estimates. In addition, the only forward-looking growth rates that are available on a consensus basis are analysts' EPS growth rate projections. Because dividend growth rate projections are only reported by a single source (Value Line), they are more susceptible to potential anomalies than earnings growth rates, which are reported by many sources and generally represent a consensus view. The fact that earnings growth projections are the only widely reported and accepted estimates of growth further supports the finding that earnings growth is the most meaningful measure of growth among the investment community.[162]

The Commission has previously accepted DCF estimates that solely relied on analyst EPS growth rates as the expected long-term annual growth rate input when determining its authorized equity return. For example, in *Columbia 2025*, the Commission adopted a return on equity ("ROE") that utilized I&E's DCF methodology using analysts' earnings growth rates combined with I&E's CAPM methodologies.[163]

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[161] OCA MB, pp. 67-68.
[162] Peoples St. No. 15-R, pp. 70-71.
[163] *Pa. PUC v. Columbia Gas of Pennsylvania, Inc*., Docket No. R-2025-3053499, Opinion and Order entered

OCA also claims that Ms. Nelson's analysis incorrectly assumes that Peoples' annual earnings growth rate will outpace U.S. GDP.[164] Ms. Nelson addressed why OCA's argument is incorrect in her rebuttal testimony:[165]

> **Q. IS THERE EVIDENCE TO REFUTE MR. GARRETT'S CLAIM THAT "THE AGGREGATE GROWTH RATE OF THE ECONOMY [IS] TYPICALLY A LIMITING FACTOR FOR THE TERMINAL GROWTH RATE OF THE DCF MODEL"?**
> A. Yes, I present two analyses that illustrate utility growth is not limited by GDP growth. First, from 2010 through May 2026, the S&P 500 Utilities Index had a compound annual growth rate ("CAGR") of 7.33 percent, when looking at price-only growth (excluding dividends, which would be comparable to the analyst growth rates used in my DCF analysis, as stock prices are driven by earnings growth over the long-term). (OCA Statement 3, p. 31.) This CAGR is much more comparable to the analyst growth rates that I use in my analysis (proxy group average of 7.84 percent) than Mr. Garrett's 3.8 percent GDP growth rate. Second, utilities' earnings and consequently dividend growth are driven by increased utility investment or rate base that is not necessarily dependent on GDP growth. Utility capital expenditures have been growing at a rate that far exceeds GDP over the past 3-, 5-, and 10- year periods, as can be seen in Figure 11 below.

Figure 11: Compound Annual Growth in Capital Expenditures (2015-2025)[78]

	3-yr CAGR (2022-2025)	5-yr CAGR (2020-2025)	10-yr CAGR (2015-2025)
Peoples' Proxy Group	9.93%	9.19%	11.29%
Total Gas Utility Sector	9.47%	8.76%	8.57%

> The analyst average projected EPS growth rates for the proxy group used in my and Mr. Patel's DCF analyses (7.84 percent and 8.27 percent, respectively) are lower than the rate of growth in utility capital expenditures over the past 10 years and, therefore, are not overstated. Rather, they are highly consistent with rate base growth, as would be expected. Moreover, these capital expenditure growth rates indicate that utility growth is not constrained by economic growth.

Further, with respect to Mr. Garrett's use of a projected nominal GDP growth rate, Ms. Nelson

December 9, 2025, at 218, 234-235 ("*Columbia 2025*").
[164] OCA MB, p. 68.
[165] Peoples St. No. 15-R, pp. 74-75.

stated:[166]

> **Q. PLEASE EXPLAIN WHY YOU DISAGREE WITH MR. GARRETT'S USE OF A PROJECTED NOMINAL GDP GROWTH RATE IN THE DCF MODEL.**
> A. Using a uniform growth rate for each of the proxy companies is inconsistent with the DCF model's assumptions and dividend yields that differ for each proxy company. Stock prices and investors' return requirements are based on expectations of an individual company's growth, which will differ from company to company. Relying on a uniform growth rate for all companies, as Mr. Garrett assumes, violates the assumptions of the DCF model. In addition, other commissions have decided against using GDP growth in the DCF model. For example, the Florida Public Service Commission noted "[w]e find that [Office of Public Counsel] witness Garrett's DCF model result of 7.1 percent is not reasonable because it uses the national GDP as the growth rate and does not reflect the growth rate of regulated natural gas utilities, and shall be given little weight." Similarly, the North Carolina Utilities Commission noted that "Witness Walters' 'generic' GDP-based growth rate simply does not reflect the real world expected growth of a utility like [Duke Energy Carolinas]. Accordingly, the Commission determines that neither the sustainable growth methodology nor the Multi-Stage DCF should be accorded any weight in this case." Lastly, no company, or investor, would be satisfied with growth that simply tracks the broader economy. Investors would and do shift capital to more attractive investments. Companies are constantly searching for new avenues of growth and have levers such as capital resource allocation to achieve growth greater than GDP. There is no reason to expect that an individual corporation competing for capital as a going concern will limit its future earnings to that of GDP. Limiting growth in the DCF model to long-term GDP is an unfounded constraint.

OCA's criticisms of the Company's DCF analysis are unfounded and should be rejected.

4. Capital Asset Pricing Model ("CAPM")

Many of the issues related to the parties' disagreement over the CAPM inputs were discussed in the Company's Main Brief as well as in the rebuttal testimony of Ms. Nelson.[167] In particular, the Company explained why Mr. Garrett's and Mr. Patel's CAPM analyses are flawed.[168]

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[166] *Id.* at pp. 72-73.
[167] Peoples St. No. 15-R, pp. 76-98; Peoples MB, pp. 78-81.
[168] I*d.*

OCA and I&E dispute Ms. Nelson's use of the ECAPM.[169] Ms. Nelson addressed these concerns in her rebuttal testimony. Specifically, Mr. Patel claimed in his testimony that ECAPM reduces the purpose of beta and adds subjectivity to the model.[170] These arguments are incorrect, as explained by Ms. Nelson in rebuttal. First, I&E fails to consider that the ECAPM addresses the fact that the risk-return relationship is flatter than what is predicted by the traditional CAPM.[171] In certain instances, the ECAPM produces a lower return on equity, and in other cases a higher return on equity.[172] ECAPM is not "subjective," but rather is a refinement to produce results more in line with what is observed in the market. Second, the ECAPM in no way reduces the purpose of beta. The ECAPM makes no risk adjustment to beta but instead recognizes empirically observed differences between CAPM projections and actual returns.[173] Further, ECAPM has been relied upon by the public utility commissions in numerous other states.[174]

OCA claims that Ms. Nelson's Equity Risk Premium ("ERP") estimate is unreasonably high.[175] In response, Ms. Nelson explained why her ERP estimate is reasonable:

> **Q. WHAT IS YOUR RESPONSE TO MR. GARRETT'S POSITION THAT YOUR MARKET RISK PREMIUM ESTIMATE IS TOO HIGH? (OCA STATEMENT 3, PP. 45-46.)**
> A. I disagree with that position. First, I emphasize that I do not rely solely on my forward-looking market risk premium. As shown in Figure 1 of my Direct Testimony, the low end of my recommended range is supported by the CAPM results using the long-term average historical market return. (Peoples Statement No. 15, pp. 4-5.) Nevertheless, the use of a forward-looking or projected MRP is reasonable because the cost of equity is forward-looking and each of the CAPM components is meant to be a forward-looking parameter. Second, as discussed in my Direct Testimony, market returns in the range of my forward-looking market return estimates have occurred quite frequently. (Peoples Statement No. 15, pp. 32-33.) For an additional perspective, I also reviewed the frequency of the highest

[169] OCA MB, pp. 71-72; I&E MB, pp. 47-48.
[170] I&E MB, p. 47.
[171] Peoples St. No. 15-R, pp. 94-95.
[172] *Id.* at p. 94, Figure 8.
[173] Peoples St. No. 15-R, pp. 96-97; Peoples St. No. 15-RJ, p. 11.
[174] Peoples St. No. 15-RJ, p. 11.
[175] OCA MB, pp. 71-72.

MRP presented in my Rebuttal Testimony, 10.47 percent. (Peoples Natural Gas Exhibit No. JEN-4R.) As shown in the shaded area in Figure 17 below, MRPs in the range of 10.47 percent or higher have occurred in 47 of the past 100 years (47.0 percent of the time). From that perspective, the forward-looking market risk premium estimates are not unreasonably high.

* * *

Moreover, because market returns historically have been volatile, my market return estimates are statistically indistinguishable from the long-term historical arithmetic average market return. As such, my projected market return estimates are reasonable and consistent with historically observed market returns. Finally, I note that I have relied on the most conservative forward market return estimate from Value Line and excluded the higher forward market return estimates from Bloomberg.[176]

5. Risk Premium

As explained in Peoples Main Brief, Ms. Nelson conducted a Risk Premium analysis, which yielded a cost of equity 10.30% as updated in Ms. Nelson's rebuttal testimony.[177] The Risk Premium analysis provides stability to the CAPM and DCF results, which can fluctuate based on market conditions.[178]

In its Main Brief, OCA claims that Ms. Nelson's use of the ERP model should be rejected because it relies on data that is not forward-looking and produces a circular result.[179] Ms. Nelson explained why these criticisms are without merit:

[M]y Risk Premium analysis determines the appropriate risk premium based on the relationship between historical authorized ROEs for natural gas utilities and Treasury bond yields over the last 46 years. As shown in Exhibit JEN-5R, my Risk Premium analysis is supported by a regression equation that evaluates the relationship between Treasury bond yields and the equity risk premium over time. The regression equation has an R-square of 0.8252, which indicates a high degree of correlation (82.52 percent) between the change in the equity risk premium and changes in interest rates, making the model a reliable predictor of the equity risk premium at various levels of interest rates. This is a highly statistically significant and intuitive relationship, reflecting how the equity risk premium responds to changes in interest

176 Peoples St. No. 15-R, pp. 91-93.
177 Peoples St. No. 15-R, p. 112.
178 *Id.* at p. 103.
179 OCA MB, p. 73.

rates and economic conditions.

*   *   *

> Mr. Garrett's circularity argument assumes that authorized ROEs mechanically ratchet upward over time without regard to underlying capital market conditions. My Risk Premium analysis does not simply carry forward prior authorized returns; it models how the equity risk premium has historically moved in relation to changes in interest rates, which allows the analysis to calibrate for current capital market conditions rather than anchor to historical ROE levels in isolation.[180]

The Commission has previously considered the results of the Risk Premium method in determining the appropriate equity return. In *PPL Electric 2012*, the Commission explained, "[w]e also note that we historically have primarily relied upon the DCF methodology in arriving at previous determinations of the proper cost of equity and utilized the results of methods, such as the CAPM and RP methods, as a check upon the reasonableness of the DCF derived equity return amount, tempered by informed judgment."[181] In *Aqua 2022*, the Commission reiterated its reference to the PPL Electric 2012 Order concluding that "methodologies other than the DCF can be used as a check upon the reasonableness of the DCF derived ROE calculation."[182] The Risk Premium method is given weight by other state utility commissions as well.[183] Ms. Nelson's Risk Premium model provides another relevant perspective on investors' return requirements for NGDCs and should be used by the Commission to inform its authorized equity return in this case.

6. Comparable Earnings

See page 81 of the Company's Main Brief.

7. Management Effectiveness Adjustment

As explained in Peoples' Main Brief, the Commission is required to consider management effectiveness in setting rates, and the Commission has included, where appropriate, an incremental

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[180] Peoples St. No. 15-R, p. 66.
[181] *Pa. PUC v. PPL Electric Utilities Corp.*, R-2012-2290597, Opinion and Order entered December 28, 2012, at 80-81 ("*PPL Electric 2012*").
[182] *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, Opinion and Order entered May 16, 2022, at 154-155 ("*Aqua 2022*").
[183] Peoples St. No. 15-R, p. 101.

upward adjustment to the cost of common equity to reflect management effectiveness. Peoples has provided extensive evidence to demonstrate that it provides high-quality service and has undertaken substantial efforts to enhance the safety of its system and the service it provides to customers. This evidence supports Peoples' proposed 25-basis point addition to the allowed rate of return on common equity.

I&E seeks to ignore the statutory directive of Section 523 of the Public Utility Code, which requires the Commission to consider management effectiveness in setting rates. I&E argues that Peoples should not receive any recognition for management performance through a basis point addition to ROE, claiming the Company is just doing what is required under Section 1501 of the Public Utility Code.[184] I&E's position disregards the specific statutory directive to consider "efficiency, effectiveness and adequacy of service" when determining just and reasonable rates. Moreover, Peoples' evidence demonstrates a commitment to safety and customer service that go beyond the basics of what is required by Section 1501.

OCA claims that Peoples' service is unexceptional and offers three examples.[185] However, neither Section 523 of the Public Utility Code nor any prior Commission precedent has required exemplary performance in every aspect of operations to receive recognition of management performance through a basis point addition. For example, in *PPL Electric 2012*, the Commission granted a 12-basis point adjustment for management effectiveness, despite I&E's contentions that PPL had "considerable room for improvement" in various areas of operations.[186] Moreover, OCA's claims of less than superior performance reflect a misunderstanding of Peoples' operations.

OCA claims that Peoples' call center performance is unexceptional compared to the

[184] I&E MB, p. 46.
[185] OCA MB, pp. 76-80.
[186] *PPL Electric 2012.*

performance of other NGDCs.[187] However, Company witness Parks explained, "[t]he data shows that customers continue to have strong access to live assistance and generally positive experiences with Peoples [customer service representatives ("CSR")]. Call abandonment has remained very low, speed of answer has improved modestly since 2019, and representative courtesy and knowledge continue to score in the 90% range."[188]

OCA claims that Peoples inadequately staffs its call centers in April.[189] Ms. Park's explained that this is not an accurate characterization:

> The Company disagrees with Mr. Larkin-Connolly's characterization that Peoples has failed to take steps to increase call center staffing during periods of elevated call volume or that the organization is operating with a "chronic deficit" in staffing. Peoples continuously monitors call volumes, service levels, staffing availability, and workload trends, and it takes operational steps to align resources with customer demand, including the use of schedule utilization of Back Office support staff who are trained for Contact Center call handling, to assist with inbound voice calls in high call volume months. Peoples also adjusts CSR schedules to cover peak volumes, offers overtime, and other workforce management measures as appropriate. While actual staffing levels may fluctuate due to ordinary attrition, hiring timelines, training requirements, leave activity, and other operational factors, those fluctuations do not demonstrate inaction or a sustained failure to properly staff the contact center. Rather, the Company actively manages staffing needs in response to seasonal call volume expectations, and customer service requirements.
>
> *   *   *
>
> Peoples has continued to monitor contact center performance and resource needs and has taken actions intended to support service quality, including staffing adjustments, training, technology enhancements, and process improvements where appropriate. Accordingly, the staffing data alone does not establish that the Company failed to invest in customer service or that any service quality impact was foreseeable.[190]

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[187] OCA MB, pp. 76-78.
[188] Peoples St. No. 18-R, pp. 13-14.
[189] OCA MB at pp. 78-80.
[190] Peoples St. No. 18-R, pp. 14-15.

OCA claims that Peoples' damaged-related customer complaints have increased.[191] Company witness Black explained the Company's process with respect to damage related complaints:

> The Company carefully reviews all customer complaints, whether those be informal or formal, to determine the root cause of the issue. Complaints can often be attributed to lack of customer awareness of utility processes. This is particularly true regarding restoration expectations, for example. If a pipeline project is still underway on a street, repair of the street cannot begin until the project is complete, although a customer may file a complaint because they are dissatisfied with waiting for this to occur. Or, landscaping may be disturbed and given the time of year, cannot be appropriately restored until the spring season. If our team sees customer complaints regarding these types of issues, they are raised with leadership to ensure the customer receives appropriate communication and a resolution to their concern.[192]

I&E and OCA also ignore the many examples of how Peoples provides exemplary service as described on pages 81-84 of Peoples' Main Brief, including the Company's success in replacing a troubled gathering system, which resulted in over 1,600 customers keeping their natural gas distribution service. The Commission has previously accepted companies' efforts to rehabilitate struggling systems as worthy of management performance recognition by adding additional ROE basis points.[193]

For the reasons explained above and in Section IX.D of Peoples' Main Brief, as well in the direct testimony of Mr. Huwar, Peoples should receive recognition for management effectiveness in the rate of return.

E. ALTERNATIVE COST OF CAPITAL PROPOSALS

For the reasons explained herein and in the Company's Main Brief, OCA's and CAUSE PA's alternative cost of capital proposals should be rejected.

OCA proposes an alternative equity return of 8.5% if the Commission declines to accept its

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[191] OCA MB at pp. 80-81.
[192] Peoples St. No. 10R, p. 27.
[193] *Aqua 2022* Order at 168-173; ee Pa. PUC v. Pennsylvania-American Water Company, Docket Nos. R-2025-3057983, et al. (Order entered July 27, 2026) ("*PA American 2026*") at 203-206.

hypothetical capital structure.[194] As explained by Company witness Nelson and in the Company's Main Brief, OCA's alternative equity return is not market based and misuses the Hamada model.[195] OCA should not be permitted to bypass the Commission's precedent on capital structure by simply reducing the equity return.

Despite the fact that the Commission has historically relied on market-based models to determine the appropriate cost of equity, CAUSE PA witness Cicero did not present a market-based analysis in this case. Instead, he recommends that the Commission pick the lowest equity return possible and then consider whether an even lower equity return would be sufficient under the alternative framework set forth in Governor Shapiro's letter.[196] As explained in Peoples' Main Brief, there are many flaws with this approach, and it should be rejected.

Mr. Cicero's recommendation is not market-based, and no other utilities use such an approach. It is an unsound and radical departure from the Commission's long-standing use of market-based models like the DCF and CAPM. Further, Mr. Cicero's endorsement of the approach outlined in Governor Shapiro's letter should be given little evidentiary weight as Mr. Cicero admitted that he was consulted by Governor Shapiro's office and that he provided feedback to the Governor's office on the very letter that he is relying on in this case.[197] Mr. Cicero's desire to interject political perspectives into this proceeding through the Governor's letter is not a substitute for the Commission's objective, evidence-based ratemaking process. Moreover, Mr. Cicero also qualifies his testimony by stating the he is not making a specific rate of return recommendation.[198] Therefore, his testimony is of little value to the Commission's determination in this case.

F. CONCLUSION AS TO RATE OF RETURN

[194] OCA St. No. 3, p. 59.
[195] Peoples Main Brief, p. 79; Peoples St. No. 15-R, pp. 82-83.
[196] CAUSE PA MB, p. 40.
[197] Peoples Hearing Exh. No. 2.
[198] CAUSE PA St. No. 1, p. 34.

For the reasons explained herein and in the Company's Main Brief, the ALJ and the Commission should authorize Peoples' 11.25% equity return.

X. REVENUE ALLOCATION AND RATE DESIGN

A. INTRODUCTION

In its Main Brief, the Company explained that its proposed allocation of the $163.2 million increase in annual operating revenues fairly considers the results of the allocated cost of service ("ACOS") studies in determining customer classes' total revenue responsibility.[199] The Company accounted for other important principles, including gradualism and value of service, to ensure an efficient rate design that allows the Company an opportunity to recover the cost of service.

B. COST OF SERVICE

In its initial filing, Company Witness Taylor prepared an ACOS study using an Average Study that combines the results of a Customer-Demand study and a Demand-Commodity study.[200] Under the Customer-Demand study, mains costs are classified between customer and demand components based on the results of a Minimum System ("MSS") study. Under the Demand-Commodity study, mains costs are classified on a 50/50 basis between demand and commodity components. The Average Study reflects an equal weighting of these two approaches.[201]

In its Main Brief, CAUSE-PA did not take a position on cost of service.[202] Similarly, OSBA stated that either cost of service methodology proposed by the Company or advocated by the OCA and I&E is acceptable to the OSBA."[203]

The OCA suggested two "faults" with the Company's ACOS: (1) the Company's use of an MSS to classify a portion of costs associated with distribution mains as customer-related; and (2) the

[199] Peoples MB, at p. 91.
[200] Peoples St. No. 17, at pp. 24-25.
[201] *Id.*
[202] CAUSE-PA MB, at p. 47.
[203] OSBA MB, at p. 6.

Company's demand cost allocation method "fails to recognize that distribution mains supply both peak and non-peak service and thus perform both a demand and commodity function."[204] I&E also disagreed with the Company's proposal, finding that it is "inconsistent with long-standing Commission precedent that was reaffirmed in the 2025 Columbia Gas base rate case."[205]

OCA's Witness Deupree and I&E's Witness Cline both recommend that the Commission rely on the Peak & Average methodology and reject the Company's MSS approach.[206] Further, they take issue with the Company's belief that distribution mains should be allocated based on load-related and customer-related bases, arguing instead that customer-related classification of distribution mains is inappropriate.[207] However, as explained by the Company in its Main Brief and the testimony of Company witness Taylor, Mr. Cline's and Mr. Deupree's positions do not accurately reflect how the system is designed.[208] Exclusive reliance on the Peak & Average methodology improperly ignores the fact that mains investment is driven by both the need to connect a customer and the ability to serve customers' peak-day requirements in a reliable manner.[209] Instead, Company Witness Taylor's evaluation and incorporation of both approaches to the proposed ACOS study represents a fairer and more reasonable approach that reflects the multiple parties' perspectives on the factors that drive distribution system investment than either methodology can on its own.

Therefore, the Commission should approve the Company's Average ACOS study because it reasonably recognizes both customer-related and load-related cost causation while also incorporating accepted ratemaking considerations such as gradualism and rate stability. The Average ACOS represents a balanced assessment of class cost responsibility and provides a reasonable foundation for

[204] OCA MB, at p. 83.
[205] I&E MB, at p. 50.
[206] OCA MB, at p. 83; I&E Main Brief, at p. 50.
[207] Peoples MB, at p. 93.
[208] Peoples MB, at p. 93; Peoples St. No. 17-R, p. 17.
[209] Peoples St. No. 17-R, p. 17.

revenue apportionment and rate design.

C. REVENUE ALLOCATION

In its Main Brief, the Company explained its process of determining how an increase in revenues is assigned to the customer classes.[210] The Company's Witness Taylor used the Average ACOS study to guide the revenue allocation and rate design process, which deliberately moves all rate classes closer to the overall system rate of return, reduces the subsidies that currently exist between classes, and is consistent with long-standing regulatory practice and precedent, including the *Lloyd* decision.

A table of other parties' revenue allocation proposals can be found in the Company's Main Brief.[211] In its Main Brief, CAUSE-PA did not take a position on overall revenue allocation.[212] The OSBA recommends limiting any rate increase to 1.25 times the system average increase.[213] OCA proposes capping the proposed rate increase for any single customer class at no more than 1.15 times the system average increase, while setting a minimum rate increase of 0.50 times the system average.[214] I&E recommends 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.[215]

As explained by the Company in its Main Brief, while all of these allocation proposals reduce allocations to each party's respective class, they fail to move *all* classes closer to unity under the Average ACOS study, as the Company's revenue allocation proposal does. Therefore, the Commission should accept the Company's revenue allocation proposal as explained in its Main Brief and in the testimony of Company Witness Taylor.

D. RATE DESIGN

[210] Peoples MB, at pp. 94-96.
[211] Peoples MB, at p. 96.
[212] CAUSE-PA MB, at p. 47.
[213] OSBA MB, at p. 7.
[214] OCA MB, at p. 89.
[215] I&E MB, at pp. 50-51.

1. Residential Rate Design

In its Main Brief, the Company explained the reasons for requesting an increase in the residential customer charge from $16.80 to $26.00 as supported by the Company's customer cost analysis.[216] Overall, the Company's proposal supports more cost-reflective rates by recovering a greater portion of customer-related fixed costs through the monthly customer charge while continuing to preserve substantial recovery through volumetric delivery charges, which the Commission has previously accepted as reasonable in residential rate design.[217]

CAUSE-PA indicated that the Commission should reject Peoples' residential customer charge because it "will erode conservation and efficiency goals and the ability to save money through conservation."[218] OCA similarly explained that the Company's residential rate 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."[219] I&E Witness Cline did not recommend any adjustments to the Company's proposed customer charges; however, he recommended that the proposed customer charges be included in any scale back of rates.[220] The other parties also expressed general concern that low-income customers would disproportionately be impacted by the increased rates. None of these arguments support rejecting the Company's proposed residential customer charge.

The Company's proposed customer charge would not impair customers' ability to reduce their bills through conservation for multiple reasons. Approximately 65% of the residential distribution base rate revenues would still be recovered through volumetric delivery charges.[221] Therefore, a majority of the Company's distribution base rate revenues, and all commodity costs, will remain

[216] Peoples MB, at pp. 98-102.
[217] Peoples MB, at p. 99.
[218] CAUSE-PA MB, at p. 47.
[219] OCA MB, at p. 92.
[220] I&E MB, at p. 51.
[221] Peoples St. 17-R, at p.29

associated with usage, allowing customers to continue to realize meaningful savings through conservation. When evaluating the proposed customer charge in the context of a customer's total bill, the customer charges make up 20% of the average customer's annual bill, and approximately 80% of the bill continues to consist of delivery charges, commodity costs, and volumetric rider charges.[222]

The Company's proposal to recover more of its fixed costs through the customer charge helps stabilize bills by spreading distribution costs throughout the year. In turn, low-income customers benefit because stabilized distribution rates results in less cost recovery in the winter months, when usage and arrears are typically higher, and shifts that recovery to summer months, when usage is typically lower.[223]

The Company's proposed $26.00 residential customer charge should be approved.

2. Nonresidential Rate Design

The Company's proposed customer charges for nonresidential customers, including the rate classes SGS, MGS, LGS, and MLS, are set forth in the Company's Main Brief and in the testimony of Mr. Taylor.[224]

OSBA addressed the SGS customer charge and recommended that it remain at $22.00 per month for several reasons.[225] OSBA claims that the Company failed to provide sufficient support for the proposed SGS customer charge.[226] However, OSBA Witness Kubas did not present a customer cost study, identify any specific cost that is improperly included in the Company's customer cost analysis, or demonstrate that the customer-related costs reflected in the ACOS study are unreasonable.[227] OSBA has failed to provide sufficient evidence to support its recommendation and its proposal should be denied. Instead, the Company's proposal represents a reasonable movement

[222] *Id.*, at pp. 29-31.
[223] Peoples St. No. 17-R, p. 35.
[224] Peoples St. No. 17, at p. 34; *Peoples Main Brief*, at p. 102.
[225] OSBA MB, at pp. 8-11.
[226] *Id.*, at p. 8.
[227] Peoples St. No. 17-R, at p. 26.

toward improved alignment between customer-related costs and customer-related revenues.

The Company's proposed nonresidential customer charges should be approved.

E. ALLOCATION OF UNIVERSAL SERVICE COSTS

CAUSE PA and OCA recommend that the costs of the Company's Universal Service Programs ("USP") be borne by all ratepayers, not just the residential class.[228] The OSBA opposed this recommendation.[229] I&E did not present testimony on the allocation of universal service costs.[230]

The Company's position on this issue is set forth in its Main Brief. As stated in the Company's Main Brief, the recommendation advanced by CAUSE-PA and OCA represents a policy issue that impacts all utility companies, not just Peoples.[231] Therefore, consideration of this issue would be better suited for a general proceeding where all stakeholders have an opportunity to participate. Further, if CAUSE PA's and OCA's proposal were adopted, it would materially change the way that USP costs are recovered, and the Company would need ample time to implement such a change in its billing systems.

F. COMPETITIVE RATE CUSTOMERS

In its filings and Main Brief, OSBA Witness Kubas recommended that the Company separate negotiated rate customers and corresponding revenue into a separate "Negotiated" customer class for future cost of service studies performed by the Company.[232] CAUSE-PA, OCA, and I&E did not take a position on the Competitive Rate Customer issue in their Main Briefs.[233]

For purposes of the ACOS study, the Company places negotiated rate customers within the tariff classes under which they receive service.[234] The OSBA argues that allowing negotiated rate

[228] CAUSE-PA MB, at pp. 52-61; OCA MB, at pp. 95-105.
[229] OSBA MB, at pp. 11-14.
[230] I&E MB, at p. 50.
[231] Peoples MB, at p. 103.
[232] OSBA MB, at pp. 14-15.
[233] CAUSE-PA MB, at p. 61; OCA MB, at p. 105; I&E MB, at p. 52.
[234] Peoples MB, at p. 104.

customers to be viewed separately would allow the Commission and other interested parties to independently review the cost responsibility and revenue relationships of tariff rate customers.[235]

While the Company stated in its Main Brief that the OSBA's recommendation is one possible alternative study design, OSBA has not shown that any modification to the Company's ACOS study or revenue allocation is warranted in this proceeding.[236] Further, Witness Kubas did not demonstrate that the Company's current treatment of negotiated rate customers results in unreasonable cost allocations, unreasonable revenue apportionment, or unreasonable rates in this proceeding. Therefore, the Company disagrees with any modification to the Company's ACOS study, revenue allocation, or proposed rates based on OSBA Witness Kubas' recommendation and OSBA's recommendation should be rejected.

XI. WEATHER NORMALIZATION ADJUSTMENT ("WNA")

A. PARTIES HAVE NOT MET THEIR BURDEN OF PROOF TO DEMONSTRATE THAT PEOPLES' COMMISSION-APPROVED WNA SHOULD BE ELIMINATED OR MODIFIED

1. Overview of Parties' Positions on WNA

Peoples explained in its Main Brief that the Company's approved WNA continues to serve its intended purpose of reducing the impact of abnormal weather on the recovery of authorized weather-sensitive distribution revenues while preserving symmetrical treatment of both the Company and its customers. [237] The mechanism benefits customers because it reduces the degree to which customer bills vary solely due to actual weather being warmer or colder than the normal weather assumptions used to establish rates. This ensures that customers are more likely to pay amounts closer to the approved revenue requirement set in base rate cases. Whereas without the WNA customers may pay significantly more or less. The substantial evidence in this case demonstrates that the WNA is working

[235] OSBA St. No. 1, at pp. 10-11.
[236] Peoples MB, at p. 105.
[237] Peoples MB, pp. 105-115.

as intended and should continue operating without modification.

In their Main Briefs, OCA and CAUSE PA argue that the WNA should be discontinued, or if it is not discontinued, that it be modified to increase the deadband from 3% to 5% and to exclude certain months.[238] I&E proposes to change the deadband from 3% to 5% and opposes the Company's methodology for calculating Heating Degree Days ("HDD").[239]

OSBA expresses its concerns with the WNA but does not propose that it be discontinued or modified. Instead, OSBA suggests that the Commission should consider the WNA when setting the Company's ROE. OSBA did not raise this argument in its testimony, and it should not be permitted to do so for the first time in briefs. By waiting until the briefing stage of this case to introduce such an argument, OSBA is depriving the Company of an opportunity to present evidence in response.[240] Even if OSBA's claim were to be considered, Company witness Nelson explained that the majority of the companies in the proxy group have mechanisms similar to the WNA, and therefore any corresponding reduction in risk is already accounted for in the Company's ROE analysis.[241]

OSBA also states that it opposes the Company's proposal to change the HDD methodology. However, OSBA did not state this position in its testimony and merely stated that the Company should perform a bill impact study regarding its use of the 65-year regression methodology.[242] OSBA's change of position from testimony to its brief should not be considered. Further, the Company submits regular reports to the Commission regarding its WNA, and therefore OSBA's recommendation is unnecessary. For these reasons, OSBA's claims should be disregarded.

2. Other Parties have the Burden of Proof

As the parties seeking to discontinue or modify a ratemaking mechanism that has been

[238] OCA MB, p. 120 CAUSE PA MB, pp. 61, 80.
[239] I&E MB, pp. 11, 52-54.
[240] *See note* 107, *supra*.
[241] Peoples St. No. 15-R, pp. 13-14; Peoples Exhibit No. JEN-8.
[242] OSBA St. No. 2, p. 16.

approved by the Commission, OCA, CAUSE PA and I&E have the burden of proof.[243] CAUSE PA states that "the burden of proof does not fall on opposing parties".[244] CAUSE PA is incorrect. The WNA is a permanent program that has been approved by the Commission. It is not a pilot program that expires, and Peoples is not making a new proposal in this case regarding the WNA. As the Company explained in its Main Brief, the only proposal it is making with respect to the WNA is to update the methodology used to determine normal HDDs as required by its tariff.[245] Additionally, it is important to note at the outset that the WNA is authorized by statute,[246] and the Commission has issued an order specifically authorizing Peoples' WNA.[247] Simply because OCA and CAUSE PA fundamentally disagree with the WNA as a ratemaking mechanism is not proof that it should be discontinued. The other parties positions are mostly based upon speculation of what may happen rather than the record in this case. The other parties have not met their burden of proof and therefore, the Company's WNA program should continue as approved, with the Company's updated HDDs.

3. Use of the FPFTY and DSIC Do Not Eliminate the Need for the WNA

The WNA provides revenue stability and allows the Company a reasonable opportunity to recover its authorized revenue requirement. The Commission fully recognized this benefit of the WNA when it stated, "models such as a weather normalization adjustment or a revenue per customer adjustment, if proposed and implemented with care, could balance utility and consumer needs by just and reasonable means that better ensure utility revenue recovery and system use."[248]

OCA and CAUSE PA claim that the FPFTY and DSIC can be used to reduce regulatory lag

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[243] *Pa. PUC v. Metropolitan Edison Company, et al.,* Docket Nos. R-00061366 *et al.*, 2007 Pa. PUC LEXIS 5 (Order entered Jan. 11, 2007); *Pa. PUC v. Metropolitan Edison Company, et al.,* Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5 (Order entered Jan.11, 2007), at *111-12.
[244] CAUSE PA MB, p. 62.
[245] Peoples, MB, p. 106.
[246] 66 Pa. C.S. § 1330.
[247] *Pa. PUC v. Peoples Natural Gas Company LLC,* Docket No. R-2023-3044549 (Order entered Sept. 12, 2024).
[248] *Fixed Utility Distribution Rates Policy Statement*, Docket No. M-2015-2518883 (Order entered July 18, 2019). p. 23.

and therefore the WNA is not needed.[249] Peoples addressed this argument in its Main Brief and explained why the FPFTY and DSIC are entirely distinct from the WNA and are not a substitute for the WNA. Without the WNA, the Company will always be in a position of under recovering its fixed costs through volumetric rates when weather is warmer than normal, and the customer will always be at risk of over paying when the weather is colder than normal. This results in a cost recovery situation that is not ideal for the customers or the Company, yet OCA and CAUSE PA completely disregard this two-sided reality. The WNA is necessary to help the Company mitigate a potential mismatch between authorized revenue and actual amount of revenue recovered due to volumetric rates. The FPFTY and DSIC do not address this issue.

4. The WNA is Symmetrical

OCA claims that the WNA is "vastly asymmetrical" and that customers are exposed to more risk than the utility.[250] CAUSE PA also claims that the WNA inappropriately shifts the risk of revenue fluctuations due to weather from the Company onto customers.[251] Mr. Taylor dispelled these claims in his testimony:

> **Q. WHAT HAS THE COMPANY'S EXPERIENCE BEEN WITH THE WNA SINCE ITS APPROVAL?**
> A. The Company's experience demonstrates that the mechanism operates symmetrically. The 2024-2025 heating season was warmer than normal, resulting in net WNA charges to customers to address weather-driven revenue shortfalls. The 2025-2026 heating season, through February, has been colder than normal, resulting in net WNA credits to customers. These results illustrate that the WNA does not guarantee revenues or earnings. Rather, it adjusts for deviations from normal weather in either direction; therefore, [it is] operating symmetrically.[252]

OCA and CAUSE PA ignore the fact that the Company's actual history with the WNA disproves

[249] OCA MB, pp. 110-111; CAUSE PA MB, pp. 67,79.
[250] OCA MB, p. 106.
[251] CAUSE PA MB, p. 62
[252] Peoples St. No. 17, p. 43.

their argument that the WNA is one-sided.

OCA and CAUSE PA claim that the WNA produces inequitable results.[253] They acknowledge that through mid-March 2026 customers received a net credit from the WNA but claim that the net credit was due to an "anomalous" weather event where the temperature was colder than normal.[254] Their argument misses the point – the very purpose of the WNA is to provide a credit to customers when weather is colder than normal, just as it did during winter 2025-2026. Conversely, had temperatures been warmer than normal, a charge would have been applied. This is evidence that the WNA is functioning exactly as it is intended and that the WNA is, indeed, mutually beneficial to the Company and customers. It is not, as OCA and CAUSE PA claim, a reason to discontinue the WNA.

OCA witness Deupree and CAUSE PA witness Cicero try to predict the future by claiming that colder than normal weather events such as the one that occurred in winter 2025-2026 will not continue to happen in the future, but there is no evidence to suggest that their predictions are accurate. In fact, OCA and CAUSE PA's arguments are premised on mere speculation that colder than normal weather will occur with less frequency than warmer than normal weather. As Mr. Taylor explained:

> Observed weather is highly volatile, and however "normal" weather is defined, there have been, and likely will continue to be, years and even longer periods of weather that is warmer and colder than normal (resulting in WNA credits and charges to customers). Despite the observed warming trend, each and every year has not been, nor is likely to be warmer than the prior year. Colder than normal weather is not "anomalous" as witness Deupree suggests, it is simply an observed characteristic of volatile weather.[255]

Further, CAUSE PA's reference to the "warming trend" ignores the fact that the Company's proposed method for calculating HDDs will account for this warming trend in what is determined to be "normal" weather for purposes of the WNA. Therefore, customers will not be disadvantaged by the

[253] OCA MB, pp. 107-108; CAUSE PA MB, pp. 65.
[254] OCA MB, p. 109; CAUSE PA MB, p. 65.
[255] Peoples St. No. 17-R, p. 60.

"warming trend" as Mr. Cicero claims. This also illustrates the value of utilizing the Company's statistically sound regression based approach to determine HDDs rather than the simple average approach suggested by the parties. The Company's regression methodology works to smooth out the impacts of potentially anomalous weather events.[256]

5. Peoples' WNA Contains Substantial Consumer Protections

As described above, certain parties to this proceeding argue that increasing the deadband from 3% to 5% and eliminating the months of October and May from the WNA period would strengthen consumer protections and make Peoples' WNA consistent with Columbia's WNA. These modifications are not necessary because Peoples' WNA already has substantial consumer protections, some of which go above and beyond the consumer protections that were considered in Columbia's case. These protections were explained in the Company's Main brief as well as in the testimony of Mr. Taylor.

The parties overlook that there are important distinctions between Columbia's WNA and Peoples' WNA. First, Peoples' WNA contains a "limiter" that provides additional protection during the month of May. For bills rendered in May, the WNA adjustment will not exceed 100% of the billed distribution amount (delivery charge plus customer charge) for that same billing period.[257] Removing the month of May (or any other month) from the WNA is unnecessary. Second, the Company's 65-year regression methodology will benefit customers because it will more closely track recent warming trends. The proposed methodology will narrow the circumstances in which the WNA will produce adjustments by making the definition of "normal" weather more representative of what is expected to be normal on a forward-looking basis. Adding a 5% deadband on top of the move to a 65-year trend for determining normal weather is unnecessary.[258]

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[256] *Id.* at p. 45.
[257] Peoples St. No. 17, pp. 39-40.
[258] Peoples St. No. 17-RJ, p. 6.

I&E opposes the Company's 65-year regression methodology on the basis that the Commission adopted a 20-year average in Columbia.[259] Again, as explained in the Company's Main Brief, I&E's comparison to Columbia is irrelevant because the Commission was not presented with an option of a 65-year regression analysis in Columbia's case.

The Company's WNA includes several other consumer protections to ensure fairness and transparency as explained by Mr. Taylor, including:[260]

> a. No Over-Recovery of Revenue: The WNA mechanism operates with deadband and a limiter. Outside of the deadband and the limiter, the WNA results in an adjusted bill that reflects the revenues that would be recovered under normal weather, i.e., the same normal weather used to set rates.
> b. No Cross-Subsidization: The WNA is customer-specific.
> c. Regulatory Oversight: The WNA is subject to Commission review and regulatory reporting requirements to ensure compliance with approved revenue stabilization objectives and to protect consumers from unintended rate impacts.
> d. Customer Transparency and Education: Peoples provides clear bill disclosures and customer education regarding WNA adjustments, ensuring consumers understand how the mechanism works and how it impacts their bills.

Peoples' has designed its WNA with significant protections for its customers. Since the WNA was approved in Peoples' last rate case, it has been operating in a manner that is beneficial to both customers and the Company. It is in the public interest for the WNA to continue.

6. The WNA Does Not Negatively Impact Low-Income Customers.

CAUSE PA claims that the WNA disproportionality burdens low-income customers and suggests that CAP customers be excluded from the WNA.[261] Peoples addressed these concerns in its Main Brief.[262] CAUSE PA also claims that the WNA makes it harder for low-income customers to plan for and manage utility expenses when, in fact, the opposite is true. The WNA provides greater

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[259] I&E MB, p. 53.
[260] Peoples Exh. JDT-6, pp. 3-4.
[261] CAUSE PA MB, p. 79.
[262] Peoples MB, pp. 100-111.

bill stability during the winter months by reducing the volatility associated with abnormal weather.[263] Thus, the WNA makes it easier for customers to plan and budget for their utility bill.

Further, Mr. Taylor explained the problems with CAUSE PA's proposal:[264]

> **Q. WOULD EXEMPTING CAP CUSTOMERS FROM THE WNA IMPROVE THE OPERATION OF THE MECHANISM?**
>
> A. No. The WNA reconciles weather-driven differences between the normal weather assumptions embedded in base rates and actual weather during the WNA period. CAP customers are part of the residential class and receive service under rates that embed those same normal weather assumptions. Removing CAP customers from the WNA would create a mismatch between the rates used to establish revenues and the customers included in the weather reconciliation. It would also shift the effect of that exemption to other customers or to the universal service recovery mechanism, depending on how the exemption were implemented. In other words, it could subject the customers who pay for CAP credits to have such credits be subject to 100% of the fluctuations in weather for CAP customer usage. That outcome would not make the mechanism more accurate or more equitable.

CAUSE PA has not presented sufficient evidence to support its request to exclude CAP customers from the WNA.

CAUSE PA also claims that WNA billed revenue should be excluded from the revenue upon which the DSIC is assessed.[265] This claim is based on CAUSE PA's unsupported assertion that the WNA harms certain households. There is no evidence to support CAUSE PA's position, and it should be rejected. Further, CAUSE PA's claim that the WNA inflates other riders, including the DSIC and USP Rider, ignores the fact that this operates both ways.[266] In other words, the WNA can also function to lower the amount collected through those riders.

7. The Commission's Policy Factors Weigh Heavily in Favor of Maintaining the Existing WNA

[263] Peoples Exh. No. JDT-6, p. 2; Peoples St. No. 17, p. 38; Peoples St. No. 17-R, pp. 66-67.
[264] Peoples St. No. 17-RJ, pp. 10-11.
[265] CAUSE PA MB, p. 80.
[266] CAUSE PA MB, p. 63.

OCA and CAUSE-PA argue that the WNA does not satisfy the Commission's Policy Factors for alternative ratemaking mechanisms.[267] The Commission previously considered and rejected these same arguments against the WNA in the Company's 2023 rate case.[268] As described below, Peoples witness Taylor addressed the Commission's Policy Statement Factors and explained how the Company's WNA satisfies each of the Policy Factors.[269] As an initial matter, the Company notes that the Policy Factors are not binding on the Commission. Policy statements provide nonbinding guidance and do not have the force of law.[270] The Commission made this point clear in its Act 58 Implementation Order when it stated:[271]

> The Commission recognizes that the proceeding at Docket No. M-2015-2518883 began prior to the passage of Act 58 and that both address policy considerations related to alternative ratemaking methodologies available to utilities. The Commission notes, however, that Act 58 and the proposed policy statement, while addressing utility alternative ratemaking, each have a different function in the process of establishing such rates for utilities. As will be discussed more fully below, Act 58 gave the Commission express statutory authority to approve alternative rate mechanisms for electric, natural gas, and water or wastewater utilities and what notices of such ratemaking requests are to be given to customers. While establishing the Commission's express statutory authority to approve alternative rate methodologies, Act 58 did not expressly determine which alternative rate methodology, if any, are to be used by which utility.
>
> On the other hand, the proposed policy statement is intended only to give guidance to fixed utilities and interested stakeholders on what is to be considered when investigating alternative ratemaking methodologies in a Section 1308 rate proceeding. While intending to assist utilities and stakeholders, the policy statement does not establish a binding norm, nor does it establish a predicate for the adoption of an alternative rate mechanism by any fixed utility. The Commission is continuing to review the comments submitted under Docket No. M-

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[267] OCA MB, pp. 112-117; CAUSE PA MB, p. 62

[268] *See Pa. PUC v. Peoples Natural Gas Company LLC,* Docket No. R-2023-3044549 (Order entered Sept. 12, 2024).

[269] Peoples Exh. JDT-6.

[270] *See Petition of Philadelphia Gas Works for a Statement of Policy on the Application of Philadelphia Gas Works' Cash Flow Ratemaking Method,* 2009 Pa. PUC LEXIS 2018, *20 (December 30, 2009) (policy statements are only an indication of how the PUC intends to proceed); *Pa. Associated Builders & Contrs., Inc. v. Commonwealth Dep't of Gen. Servs.*, 996 A.2d 576, 583 (Pa. Cmwlth. 2010); *R.M. v. Pennsylvania Hous. Fin. Agency*, 740 A.2d 302, 308 (Pa. Cmwlth. 1999).

[271] *Implementation of Act 58 of 2018 Alternative Ratemaking for Utilities,* Docket No. M-2018-3003269 (April 25, 2019), pp. 3-4.

> 2015-2518883, as well as the comments submitted under the above referenced Docket relating to the proposed policy statement and will consider how to proceed, taking into consideration what, if any, impact Act 58 has on the policy statement and how that policy statement will interact with Act 58.

CAUSE PA's and OCA's reliance on the Policy Statement as a basis for eliminating the WNA is contrary to the Commission's stated purpose of the Policy Statement. However, as explained below and in the testimony of Mr. Taylor, the Policy Factors support continuation of the WNA.[272]

a. Alignment with Cost Causation Principles.

Peoples's WNA is designed to recover distribution revenues needed to satisfy the cost-of-service requirement determined in this proceeding, while mitigating the variance between actual and projected distribution revenues due to weather. The Company recovers a significant portion of fixed costs through volumetric rates.[273] These fixed costs do not vary with the amount of gas delivered to customers and are composed of fixed operation and maintenance expenses, administrative and general expenses, depreciation, certain taxes, a portion of working capital requirements, and return on investment. These costs also do not vary in the short term with changes in temperature. Because the Company's fixed monthly charge affords it an opportunity to recover only a portion of its actual fixed costs, the WNA mechanism better aligns distribution revenues with cost causation principles.

CAUSE PA and OCA argue that the WNA results in situations where customers are paying for natural gas service that they did not use.[274] However, their argument fails to consider that the Company must design and maintain its system so that it is available and can be relied on by customers to meet their needs under all weather conditions, and the Company must be able to recover the costs of doing so. This is true even when usage is lower than projected due to weather.

b. Impact on Fixed Capacity Utilization.

Mr. Taylor addressed this factor in his testimony and explained how the WNA plays a role in

[272] Peoples Exh. JDT-6.
[273] Peoples Exh. No. JDT-6, p. 1.
[274] CAUSE PA MB, p. 61; OCA MB, pp. 108, 113-116.

the efficient utilization of the Company's gas distribution capacity.[275]

c. Reflection of Demand Associated with Consumption.

In his testimony, Mr. Taylor explained how the WNA works to align normalized usage with consumption levels.[276] OCA and CAUSE PA argue that the WNA fails to meet this policy factor.[277] Their position reflects a lack of understanding that customer-specific demand is continually updated through the WNA formula and reflects the level of demand associated with the customer's anticipated consumption levels.[278]

d. Limiting Intraclass Cost Shifting.

Mr. Taylor explained that Peoples's WNA is applied on a customer-specific basis and is designed to be revenue-neutral within each customer class, such that it does not create or exacerbate cross-subsidization either within or across classes.[279]

e. Eliminate Disincentives for the Promotion of Energy Efficiency

Mr. Taylor explained that the Company's WNA only addresses variations due to weather and does not affect customers' ability to pursue energy efficiency measures.[280] Energy efficiency continues can continue to be promoted through volumetric delivery rates, commodity charges, and targeted conservation programs.[281]

f. Customer Incentives to Employ Efficiency Measures

OSBA and CAUSE PA claim that the WNA reduces incentives to conserve energy.[282] Mr. Taylor explained that this is not the case. Customers retain strong incentives to reduce usage because the commodity and other charges remain volumetric. The proposed WNA does not eliminate these price signals, so lower usage still results in lower bills.[283] Contrary to OCA's and CAUSE-PA's

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[275] Peoples Exh. JDT-6.
[276] *Id.*
[277] OCA MB, p. 113 CAUSE-PA MB, p. 68-70.
[278] *Id.*
[279] Peoples Exh. JDT-6.
[280] *Id.*
[281] Peoples St. No. 17-R.
[282] OSBA MB, p. 15; CAUSE PA MB, p. 47.
[283] Peoples Exh. JDT-6.

assertions, customers still have a strong incentive to utilize energy efficiency measures and will see savings on their bills when they reduce consumption, even with a WNA.

g. Impacts on Low-Income Customers

Under the current WNA mechanism, customers who are currently enrolled to pay their bills based on a percentage of their household income will see little to no impact on their bills under the WNA mechanism.[284] Peoples further addressed the WNA's impacts on low-income customers and how it can help low-income customers mitigate higher winter energy burdens above as well as in its Main Brief.

h. Rate Stability

The WNA promotes bill stability. The WNA mechanism provides customers with more stable annual bills and directly mitigates volatility in their monthly costs because it reduces weather-related fluctuations in the bill.[285] CAUSE PA and OCA claim that the WNA does not effectively promote bill stability.[286] Their position on this issue is contradictory. Both parties acknowledge the importance of bill stability for customers through programs such as budget billing, yet they do not acknowledge that rate stability is also a benefit of the WNA.[287]

OCA cites to the Commission's denial of PECO's proposed WNA.[288] However, OCA does not identify a very important difference between the WNA that was proposed in PECO's case and Peoples' currently effective WNA. The proposed WNA at issue in PECO was proposed with a 1% deadband, whereas here, Peoples' WNA contains a 3% deadband as well as numerous other protections that were not part of the PECO case. In the PECO case, the Commission specifically stated that, "[a]lthough PECO has repeatedly argued that its proposed WNA is similar to the WNAs

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[284] *Id*.
[285] *Id.*
[286] OCA MB, pp. 114-116; CAUSE PA MB, pp. 67-68, 72-73.
[287] OCA MB, pp. 115-116;CAUSE PA MB, pp. 50-51, 68, 81.
[288] OCA MB, pp. 114-115.

of other NGDCs, we find that it differs substantially from the majority of existing WNAs."[289] The Commission pointed to the 3% deadband as one of the key differences.[290] OCA's comparison to the PECO case is disingenuous and inapplicable to the facts of this case. Similarly, OSBA cites to the performance of PGW's WNA in the spring of 2022.[291] However, OSBA fails to consider that PGW's WNA did not contain the same protections and controls that are present in this case.

i. Interaction with Weather

Mr. Taylor addressed this issue in his direct testimony and explained that the purpose of the WNA is to adjust revenues to account for warmer or colder than normal weather. While the WNA does not ensure that the Company will recover nor will the customers pay 100% of the authorized distribution revenues, it does reduce the amount of weather-related variation in both customer bills and associated utility distribution revenues.[292]

j. Impacts on the Frequency of Rate Case Filings and Regulatory Lag

Mr. Taylor explained that the WNA does not impact the Company's rate case frequency nor does it affect regulatory lag.[293] OCA's and CAUSE PA's contentions that other mechanisms can be used to reduce regulatory lag and therefore the WNA is not needed are addressed above.

k. Interaction with Other Revenue Sources

Mr. Taylor explained that the WNA is solely focused on recovering distribution costs that are approved as part of the Company's base rate revenue requirement, and it does not interact with other revenue sources.[294]

l. Consumer Protections

The Company addressed the many consumer protections contained in its WNA above and in its Main Brief. Mr. Taylor also addressed this issue in his testimony.

m. Customer Understandability

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289 *Pa. PUC v. PECO Energy Company- Gas Division*, Docket No. R-2024-3046932, 2024 PA. PUC LEXIS 355, *84-85 (Order entered Dec. 12, 2024).
290 *Id.*
291 OSBA MB, p. 15.
292 Peoples Exh. JDT-6.
293 *Id.*
294 *Id.*

CAUSE PA and OSBA claim that the WNA causes customer confusion.[295] However, this has not been Peoples' experience. The Company has been offering the WNA since 2024 and provides detailed information to customers explaining how the mechanism works.[296] The WNA is displayed as a separate item on bills to promote clarity.[297] Customer acceptance has been satisfactory with only two formal complaints since the WNA's inception.[298] This demonstrates that the Company's efforts to educate customers and address their questions related to the WNA have been successful.

n. Utility Reliability and Improvement Support.

The WNA helps to minimize volatility in the recovery of the Company's authorized revenue requirement.[299] In this regard, the WNA supports the Company's investments in infrastructure improvement and helps the Company recover the revenue that is necessary to support its ongoing capital investments.

8. OCA's Reliance on the National Fuel Recommended Decision is Improper

In its Main Brief, OCA inappropriately quotes from a portion of the Recommended Decision in the pending National Fuel Gas Distribution Corporation ("National Fuel") rate case and claims that it supports elimination of Peoples' WNA.[300] OCA is wrong for several reasons. First, it is improper to cite the Recommended Decision as that case is still pending and a Commission order has not yet been issued. The parties to that case have filed exceptions, and it is entirely possible that the Commission will reach a different conclusion than what is stated in the Recommended Decision. Second, OCA ignores the fact that Peoples' WNA is different from National Fuel's WNA. As explained above, Peoples' WNA operates differently than other utilities' WNA mechanisms. It has different protections that are not part of National Fuel's WNA, such as the May limiter. Third, in the

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[295] OSBA MB, p. 15; CAUSE PA MB, p. 79.
[296] Peoples Exh. JDT-6.
[297] *Id.*
[298] Peoples St. No. 17, p. 42.
[299] *Id.*
[300] OCA MB, pp. [ ].

National Fuel case, the WNA was a pilot program and the Company requested to make the WNA a permanent mechanism. Here, Peoples' WNA is already a permanent Commission-approved mechanism. Finally, unlike the record in the National Fuel case where the WNA had produced net charges, here the WNA has produced net credits.[301] For these reasons, OCA's reliance on the National Fuel Recommended Decision is unfounded.

B. TIMING OF ANY WNA CHANGES

In its Main Brief, I&E stated that the Company proposed to delay implementation of a change in the HDD methodology until October 2027.[302] I&E misinterprets the Company's request. Company witness Scanlon clarified that the Company's request was to delay any changes to the existing WNA, *other than the Company's proposal to update HDDs*, until the next WNA season after a final order is issued in this proceeding.[303] Thus, as explained in Ms. Scanlon's testimony, I&E's suggestion to pause the WNA program during the 2026-2027 WNA period is unnecessary and should not be adopted.[304]

C. OTHER WNA PROPOSALS

The Company responded to CAUSE PA's alternative WNA proposals, including the proposal to apply the WNA on a per class basis, in its Main Brief.[305]

D. CONCLUSION AS TO WNA

As explained herein and in the Company's Main Brief, the WNA continues to operate effectively and as intended when the Commission approved the WNA in the Company's last rate case. Many of the other parties' arguments in opposition to the WNA have been previously considered

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[301] *See Pa. PUC v. National Fuel Gas Distribution Corporation*, Docket No. R-2025-3059428 (Recommended Decision July 31, 2026), pp. 282-283.
[302] I&E MB, p. 53.
[303] Peoples St. No. 3-RJ, pp. 3-4.
[304] *Id.*
[305] See Peoples MB, p. 11.

and rejected by the Commission.[306] The Commission has continued to approve WNAs that are reasonable and have functioned effectively as is the case with Peoples' WNA.[307] The other parties raise nothing new here and have not met their burden of proof to demonstrate that the WNA is no longer producing just and reasonable rates or that it should be eliminated or modified. Their proposals should be rejected.

XII. EFFECTIVE DATE OF RATES

I&E's proposal to change the effective date of rates should be denied. I&E has not provided sufficient evidence to require the Company to postpone the effective date of rates until January 1, 2027. As the Company explained in its Main Brief, the Company's effective date of rates coincides with the suspension period in this case and should be approved.

XIII. UNIVERSAL SERVICE PROGRAM RIDER

A. ONE-TIME CREDIT ADJUSTMENT

In its Main Brief, the Company explained why its proposal to refund the sales and use tax refund and the tax repairs deduction collar for 2025 and 2026 through the USP Rider is appropriate. I&E opposes the Company's proposals and instead suggests that these amounts should be refunded to all customers.[308] The Company continues to support its proposal, as explained by Company witness Scanlon, as the most appropriate method for refunding these amounts in this case. The Company explained that these credits will have a meaningful impact on the bills of non-CAP residential customers and will substantially offset the impact of the proposed rate increase on these customers' bills.[309] The Company's proposal should be approved.

B. BAD DEBT OFFSET CALCULATION

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[306] *See Pa. PUC v. Peoples Natural Gas Company LLC,* Docket No. R-2023-3044549 (Order entered Sept. 12, 2024), pp. 92-93.
[307] *See Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 (Order entered Dec. 9, 2025).
[308] I&E MB, p. 12.
[309] Peoples St. No. 3, pp. 6-9.

In its Main Brief, the Company explained that it was proposing two changes to the bad debt offset calculation: (1) the CAP participation level that prompts when the bad debt offset is applicable and (2) the uncollectible amount used in the calculation. Regarding the CAP participation level, the Company recommended using 39,010 as the CAP participation level as this figure is consistent with the base number of projected CAP participants used to set rates in this proceeding.[310] OCA witness Colton suggested that it be set at the month-end participation level as of the month of a final order in this proceeding. Ms. Scanlon explained that using a single data point in time is not appropriate due to monthly fluctuations in CAP participation. In its Main Brief, OCA stated that Mr. Colton recognized the legitimate concern that CAP participation varies from month to month and recommended using a twelve-month average, ending with the month in which the final order is issued.[311]

The Company maintains that 39,010 is the appropriate level of CAP participation as it is consistent with the methodology recommended by Mr. Colton in the Company's 2023 base rate case. Ms. Scanlon explained that Mr. Colton's concerns with the Company's figure are unwarranted because Mr. Colton failed to consider information for customers in the 151-200% group, who are also included in the Company's CAP.[312] However, if the Commission were to accept Mr. Colton's recommendation, it should use an average number of customers over a period of time and include customers in the 151-200% FPL.

As stated in the Company's Main Brief, the Company accepted Mr. Colton's proposal for establishing the uncollectible percentage calculation, which results in an offset of 7.4%.[313] In its Main Brief, OCA broadly claims that the offset should account for more than bad debt alone and should also reflect what it claims to be avoided working capital expense.[314] However, OCA has failed to

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[310] Peoples St. No. 3-R, p. 12.
[311] OCA MB, p. 45.
[312] Peoples St. No. 3-R, pp. 12-13.
[313] Peoples St. No. 3-R, pp. 15-16.
[314] Peoples MB, pp. 45-46.

provide any specific support for this proposal and it should be rejected.

XIV. LOW-INCOME CUSTOMER ISSUES

A. CUSTOMER ASSISTANCE PROGRAM ("CAP")

OCA claims that Peoples has failed to achieve adequate participation in CAP and recommends that the Commission direct Peoples to make a more concerted effort to increase CAP enrollment. This recommendation should be rejected. OCA fails to provide any recommendation as to what this "concerted effort" might entail. Moreover, the Company has demonstrated its significant efforts not only to identify low-income customers and to screen them for universal service program eligibility but also to increase its CAP enrollment levels, including through its CEOP. These efforts are discussed in the Company's Main Brief as well as in the testimony of Company witnesses Huwar and Black.[315]

B. LOW-INCOME USAGE REDUCTION PROGRAM

In its Main Brief, CAUSE PA adopts PWPTF's recommendation that Peoples increase its annual LIURP budget by $975,000 to support serving an additional 75 customers per year.[316] PWPTF did not submit a Main Brief and therefore provided no further argument or support for its recommendation. As Peoples explained in its Main Brief, this recommendation is redundant. Peoples is already on track to surpass the level of households that would be served through PWPTF's recommendation, and its below-budget LIURP spending in 2024 and 2025 was the result of a transition to a new program administrator.[317] Likewise, I&E recommends no increase to the Company's LIURP budget.[318] PWPTF's proposal, as adopted by CAUSE PA, should be denied.

XV. CUSTOMER SERVICE ISSUES

A. SERVICE TERMINATIONS

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[315] Peoples St. No. 10, pp. 5-8; Peoples St. No. 1, p. 18.
[316] CAUSE PA MB, p. 93.
[317] Peoples MB, p. 122.
[318] I&E MB, p. 58.

OCA recommends that the Commission "find that Peoples' nonpayment termination practices produce a substantial and unexplained disparate impact on black households," and recommends that a root cause analysis be performed.[319] OCA posits that Peoples has not provided a "sufficient legitimate, nondiscriminatory explanation" for such a disparity.[320] CAUSE PA also adopts the recommendation of OCA witness Colton.[321] OCA's recommendation should be rejected.

As OCA acknowledges, it raised the same argument in Peoples' 2023 base rate case. The Commission rejected this argument, because "absent proof of explicit discrimination, it is not the role of the Commission to impose this task upon a single public utility in the context of a base rate proceeding."[322] OCA argues, however, that the Commission should apply a two-step disparate-impact framework in this proceeding.[323] OCA argues that it has satisfied the first prong which is the establishment of a prima facie disparate impact.[324] As explained in the Company's Main Brief, the Company disagrees that OCA has presented sufficient evidence of disparate impact. OCA also argues that Peoples failed to satisfy the second prong of OCA's framework, which is the requirement that a legitimate, non-discriminatory basis to justify the terminations be provided.[325] OCA is incorrect. The Company's service termination procedures are strictly based on arrearages and do not account for demographics. Peoples does not discriminate, nor does it consider racial demographics when pursuing termination- or collections-related activity.[326] Contrary to OCA's assertions, the fact that Peoples' terminations are strictly based on objective arrearage criteria is a legitimate, non-discriminatory basis which justifies its termination practices.

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[319] OCA MB, p. 125.
[320] *Id*.
[321] CAUSE PA MB, p. 94.
[322] *Pa. PUC et al. v. Peoples Natural Gas Company LLC*, Docket No. R-2023-3044549, Recommended Decision (entered July 15, 2024) (adopted September 12, 2024).
[323] OCA MB, pp. 133-134.
[324] OCA MB, p. 133.
[325] OCA MB, pp. 135-136.
[326] Peoples MB, p. 126.

OCA has failed to present any new or different evidence in this case than it did in the Company's 2023 rate case when the Commission denied OCA's proposal. Therefore, OCA has not met its burden of proof, and the Commission should deny its proposal, consistent with its decision in the Company's last case.

B. USE OF SOCIAL SECURITY NUMBERS ("SSN")

In its Main Brief, OCA recommends that the Commission direct Peoples to "immediately limit its collection and retention of customers' [SSNs]," and that Peoples develop and adopt alternative means of verifying customer identity.[327] This recommendation should be rejected. As Peoples witness Black has testified, SSNs are effective and consistent tools that aid the Company in many processes including balance transfers, collections, and accounting.[328] The Company also acknowledged the importance of protecting this customer information.[329] OCA has not presented sufficient evidence to support it recommendation that the Company be required to stop using SSNs nor does it explain how the Company would continue performing the necessary tasks described above without customers' SSNs.

C. CUSTOMER SERVICE PERFORMANCE

In its Main Brief, OCA recommends that Peoples track billing events affecting more than 100 customers.[330] However, OCA has failed to demonstrate that Peoples' current reporting, handling, and tracking of billing events is inadequate. As Peoples explained in its Main Brief, the Company's current reporting is consistent with its regulatory obligations, and OCA has provided no basis for implementing reporting, handling, and tracking requirements beyond what the Company currently does. OCA's proposal should be denied.[331]

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[327] OCA MB, p. 124.
[328] Peoples MB, p. 129; Peoples St. No. 18-R, pp. 11-12.
[329] Peoples St.18-R, p. 12.
[330] OCA MB, p. 139.
[331] Peoples MB, p. 130-131.

In its Main Brief, OCA also recommends that the Commission consider requiring periodically mailed cost summaries for Peoples' residential customers.[332] OCA acknowledges that this recommendation is not specific to Peoples, nor does it constitute the identification of a deficiency in Peoples' service.[333] Peoples already provides customers with specific billing and account information upon request, and this information is also available to customers online. This recommendation should be rejected.

D. PAYMENT ARRANGEMETNS FOR SGS AND MGS CUSTOMERS

In its Main Brief, OSBA requests that the Company "add a formal late payment plan to the SGS and MGS tariffs."[334] OSBA further requests that the Company continue to track its interactions with small business customers who report financial difficulties. As the Company explained in its Main Brief, OSBA has not shown that the Company's existing practice of working with small business customers who experience financial difficulties is insufficient. Therefore, OSBA's recommendation is unnecessary and should be denied.

XVI. PROPOSED TARIFF CHANGES

A. RATE CAP

1. Recreational Gas Use

In their Main Briefs, CAUSE PA and OCA opposed Peoples' proposal to add provision No. 9 to its Rate CAP tariff regarding recreational gas use.[335] As the Company explained in its Main Brief, its proposal will have the effect of memorializing and clarifying existing language within its USECP for a provision which is already enforced. Additionally, the Company proposed revisions to the provision in its rebuttal testimony to incorporate input from CAUSE PA and OCA.[336] CAUSE PA

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[332] OCA MB, p. 141.
[333] OCA MB, p. 140.
[334] OSBA MB, p. 16.
[335] CAUSE PA MB, p. 89; OCA MB, p. 143.
[336] Peoples St. No. 10-R, pp. 3-4.

also recommended in its Main Brief that, if the Company's proposal to add provision No. 9 to its Rate CAP regarding recreational gas use is approved, that the proposed revisions within Peoples witness Black's rebuttal testimony be included. [337] The Company does not object to this recommendation. This tariff provision is reasonable and should be approved.

2. Fraudulent CAP Participation

CAUSE PA discussed its recommendation, in Section XIV.A.1. of its Main Brief, that Peoples' proposal to add provision No. 10 to its Rate CAP regarding the obtainment of fraudulent CAP benefits should be denied, and that the Company work with its USAG to develop objective guidelines for CAP fraud-related disputes and present a proposal in its next rate case.[338] OCA also recommends that the Company's proposal be rejected.[339]

CAUSE PA and OCA argue that the Company's procedure is too subjective, which could lead to unjustified removal of customers from CAP.[340] The Company fully addressed these concerns in its Main Brief and explained that it will treat suspected instances of CAP fraud on a case-by-case basis, allows Peoples to work closely with customers to ensure that the utmost consideration is involved in the process.[341] Further, there is an existing dispute process whereby customers may dispute the Company's finding of CAP fraud, or they may contact BCS. The instant proposal should not be rejected merely to delay the proposed changes until a future base rate proceeding while the Company works with its USAG.

B. RIDER UNIVERSAL SERVICE

As explained in its Main Brief, the Company proposes to recover the following costs through the USP Rider: (1) costs associated with the Customer Assistance, Referral, and Evaluation Services

[337] CAUSE PA MB, p. 89.
[338] CAUSE PA MB, p. 88.
[339] OCA MB, pp. 145-146.
[340] CAUSE PA MB, p. 86; OCA MB, pp. 146-148.
[341] Peoples MB, pp. 133-135.

("CARES") Program; (2) Independent Program Evaluation costs; and (3) costs related to the LIURP Compliance Specialist. None of the parties dispute that these are necessary costs. The parties' disagreement is focused solely on how these costs should be recovered.

I&E claims that the LIURP Compliance Specialist costs should be recovered through base rates instead of through the USP Rider because they are labor costs.[342] The Company explained in its Main Brief why the costs of the LIURP Compliance Specialist are appropriately recovered through the USP Rider. However, if I&E's proposal to recover these costs in base rates is adopted, I&E's recommended revenue requirement in this case should be adjusted to reflect these costs.

OCA also opposes the recovery of these USP costs through the USP Rider and claims that they should be recovered through base rates instead. However, OCA has not adjusted its recommended revenue requirement to account for these costs. Because OCA has not disputed that these are necessary and prudent costs, it is improper for OCA to challenge the recovery of these costs through the USP Rider without making a corresponding adjustment to include them in base rates in this case. OCA cites to *PAWC 2026*, but this case does not support its position to exclude Peoples' USP costs from the Rider. Rather, *PAWC 2026*, the Commission's order was focused on the appropriate amount of the CAP offset if the costs were to be recovered through the Rider.[343]

CAUSE PA also opposes the Company's proposal to include these USP costs in the USP Rider, claiming that they would be subject to limited review by the Commission.[344] This is not a valid reason to exclude these costs from the Rider because costs recovered through the Rider are still subject to regular review and audit by the Commission.[345] CAUSE PA cites to *Columbia 2025*, claiming the Commission has not allowed labor costs to be recovered through the USP Rider. As explained in the

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[342] I&E MB, p. 32.
[343] OCA MB, p. 41 (citing *PAWC 2026*).
[344] CAUSE PA MB, pp. 82-83.
[345] Peoples St. No. 10-R, pp. 10-11.

Company's Main Brief, *Columbia 2025* is distinguishable from the facts of this case.[346] With respect to CARES, the Company is proposing the recovery of dedicated outreach and consumer education costs, and not internal labor or employee expenses. Similarly, the Company's proposal to recover the Independent Program Evaluation costs through the USP Rider does not involve internal staffing. The costs related to the LIURP Compliance Specialist are also distinguishable. While these are labor-related costs, CAUSE fails to recognize that Columbia has an existing LIURP position that is recovered through the Rider.[347]

C. NONLIABILITY OF COMPANY/LIMITATION OF LIABILITY

OCA recommended that Peoples' proposed revision to Rule 8 of its tariff regarding nonliability or limitation of liability be denied.[348] Yet, OCA acknowledges that the liability limits "are not inherently unreasonable."[349] Moreover, the current language does not provide sufficient protections, and the proposed language represents a mere clarification rather than imposing additional limitations on liability. OCA's recommendation should be rejected.

D. DISHONORED PAYMENTS

OCA avers that Peoples' proposed change to Rule 10 of its tariff regarding dishonored payments is unreasonable and recommends that the proposal be denied.[350] OCA's recommendation should be rejected. It is not a new practice for Peoples to disallow checks after repeated instances of returned payments, consistent with the Commission's regulations at Section 56.94.[351] The proposed language is specifically tailored to customers with a history of returned payments and will contribute toward protections for the Company from operational burdens, increased collections costs, and

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[346] Peoples MB, pp. 135-138.
[347] Peoples St. No. 10-R, pp. 10-11.
[348] OCA MB, p. 141.
[349] OCA MB, p. 142.
[350] OCA MB, p. 143.
[351] 52 Pa. Code § 56.94.

growing arrears.[352]

E. OTHER TARIFF REVISIONS

No parties recommended adjustments or proposals related to the Company's further tariff revisions, and they should be approved.

XVII. HOT WATER TANK REBATE PILOT PROGRAM

The Company proposes a Hot Water Tank Rebate Pilot Program ("Pilot Program" or "Pilot") for consumers to lower their annual energy spending through a switch from electric water heaters to natural gas water heaters. The Pilot is described in detail in the direct testimony of Peoples witness Ravenstahl. OCA and CAUSE PA oppose the Pilot.

CAUSE PA argues the Pilot is unnecessary because two Electric Distribution Companies ("EDCs") in Peoples service territory offer rebates for high-efficiency electric hot water heaters through their Act 129 Phase V Energy Efficiency & Conversation ("EE&C") plans.[353] CAUSE PA ignores the fact that regardless of the EDC rebates, Peoples' Pilot will help improve affordability for customers. Company witness Ravenstahl explained that the current prices of natural gas and electricity make natural gas cheaper than electricity from either EDC today, and in the future.[354] Peoples witness Huwar, citing the American Gas Association and Department of Energy, testified that natural gas will continue to cost significantly less than other fuels.[355] Through the Pilot, Peoples offers a rebate on the most affordable long-term hot water heater for consumers.

CAUSE PA further contends that the Pilot's cost-effectiveness is uncertain without a Total Resource Cost ("TRC") test.[356] However, the Pilot's benefits are obvious. Witness Ravenstahl demonstrated that by switching from a 40-gallon electric heater to a 40-gallon natural gas gravity

[352] Peoples St. No. 13-R, p. 5.
[353] CAUSE PA MB at 28.
[354] Peoples St. No. 8-RJ, pp. 6-7.
[355] Peoples St. No. 1, pp. 21-22.
[356] CAUSE PA MB at 98-99.

vent heater, along with a rebate, the customer's electric bill will lower immediately.[357]

Lastly, CAUSE PA claims that fuel-switching offends Pennsylvania's "complicated history with fuel switching," citing Act 129.[358] However, Act 129 applies to EDCs.[359] In fact, the Commission allowed *UGI – Electric Division's 2010* EE&C plan to include incentives for customers to switch from electric water heaters dryers, and furnaces, to natural gas versions.[360]

OCA argues that the Pilot is unnecessary because existing Company customers can still rely on Peoples's EFSLR and LIURP.[361] However, OCA does not acknowledge that not all customers qualify for these programs. Therefore, EFSLR and LIURP are not a replacement for the Pilot.

For the reasons explained herein and in the Company's Main Brief, the Pilot Program should be approved.

XVIII. SAFETY

A. DAMAGE PREVENTION

I&E proposes that Peoples 1) reviews first and second party damages to determine resolutions, 2) provide additional training to employs, contractors, and locator personnel to address damage trends, 3) create a QA/QC program with various metrics and assess Damage Prevention Program for improvements, 4) provide I&E's Pipeline and Safety Division with a list of metrics and root causes, analyze Peoples Damage Prevention Program, then schedule quarterly meetings with Pipeline and Safety Division to discuss reducing damage numbers.[362] The Company is agreeable to these recommendations with the modifications set forth in the Company's Main Brief.[363]

B. METHANE DETECTION

[357] Peoples St. No. 8, pp. 12-13.
[358] CAUSE PA M.B. at 98.
[359] *See* 66 Pa. C.S. §§ 2806.1–2806.3.
[360] *Petition of UGI Utilities, Inc. - Electric Division for Approval of its Energy Efficiency and Conservation Plan*, at 8-11, Docket No. M-2010-2210316 (Order entered Mar. 16, 2012).
[361] OCA MB at 149.
[362] I&E MB at 58-59.
[363] Peoples MB at 142.

In its Main Brief, I&E recommends that Peoples implement a methane detector pilot program, using either audible detectors or Smart Remote Methane Detectors ("SRMDs").[364] As discussed in Peoples's Main Brief, the Company is willing to implement a methane detection pilot within the parameters described in the Company's Main Brief.[365] The Company requests flexibility and time to evaluate the feasibility of methane detection prior to any mandated deployment of a specific methane technology.

XIX. PURCHASE OF RECEIVABLES PROGRAM

In its Main Brief, RESA claims that Peoples adopted CAUSE PA's proposal to limit participation in its POR Program to suppliers that price their products at or below Peoples' Price to Compare ("PTC").[366] To clarify, although Peoples acknowledges certain merits of CAUSE PA's proposal, Peoples has not "adopted" CAUSE PA's recommendation.[367] However, Peoples also does not adopt RESA's recommendation that the Commission outright reject CAUSE PA's proposed restriction on POR Program eligibility either.[368]

In its Main Brief, CAUSE PA sets forth a new recommendation that the Commission could choose to eliminate the Company's POR Program entirely.[369] This is an entirely new proposal from what CAUSE PA recommended in its testimony and should not be considered.[370]

Peoples maintains its position that it is not clear that the POR Program, when coupled with unrestricted supplier pricing, has actually led to a cumulative benefit for Peoples' customers.[371] RESA averred that Peoples provided no evidence "to support their proposal."[372] Although Peoples has not

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[364] I&E M.B. at 59-60.
[365] Peoples M.B. at 142-43.
[366] RESA MB, p. 4.
[367] Peoples St. No. 21-R, pp. 4-5; Peoples MB, pp. 143-145.
[368] RESA MB, p. 13.
[369] CAUSE PA MB, p. 100.
[370] *See note* 107, *supra*.
[371] Peoples MB, p. 144.
[372] RESA MB, p. 9.

adopted CAUSE PA's proposal, the Company did provide evidence of supplier prices to show its concern regarding the number of residential customers paying more than the PTC for commodity service.[373]

The Company supports a balanced approach between promoting competition and protecting customers, and retail market reform may be appropriately handled in a separate rulemaking or policy proceeding. However, should the Commission choose to adopt CAUSE PA's proposal, it would be prudent to necessitate clear rules for suppliers in order to guide entry and exit from the POR Program.[374]

XX. LOCAL PRODUCTION – GATHERING AND COST RECOVERY ISSUES

A. RATE SCHEDULE APPALACHIAN GATHERING SERVICE ("RATE AGS")

In its Main Brief, PIOGA claims that Peoples failed to prove that the selected $0.05/Mcf increase in Rate AGS is just and reasonable.[375] As Peoples explained in its Main Brief, the absence of a producer-specific cost study does not make the proposed rate unreasonable.[376] The gathering system functions to serve both consumers <u>and</u> producers, and there are operations and maintenance costs embedded in the continued operation of the gathering system to the benefit of both of these parties.[377] The proposed increase would also contribute to increased capital to upgrade certain gathering pipelines, also to the benefit of both of these parties.[378]

PIOGA makes a new argument for the first time in its Main Brief, regarding Peoples' selected methodology and calculation of the new Rate AGS charge, in that the change is "actually an 18.75% increase to Rate AGS, not the allegedly proportional 13.8% increase."[379] As an initial matter, this argument was raised for the first time in PIOGA's Main Brief and should be disregarded for that

[373] Peoples St. No. 21-R, pp. 4-5; Peoples St. No. 21-SR, p. 4.
[374] Peoples MB, p. 145.
[375] *See* PIOGA MB, pp. 10-16.
[376] *See* Peoples MB, p. 146.
[377] Peoples MB, pp. 146-147; Peoples St. No. 5, p. 19.
[378] Peoples St. No. 5, p. 19.
[379] PIOGA MB, pp. 11-13.

reason alone as PIOGA has deprived the Company of an opportunity to present evidence in response.[380] Nevertheless, PIOGA's argument lacks merit. Peoples was transparent and specific in explaining that the 13.8% increase, representing the overall total requested increase in revenue, would be applied to the current gathering revenue recovery of $7.4 million, resulting a need to collect approximately $8.4 million, of which a certain amount would be collected under negotiated rates that will not change as a rsult of the bsae rate case, and the remainder collected from the full tariff volumes under Rate AGS.[381] Peoples did not represent that the proposed increase to Rate AGS was calculated by applying a strict 13.8% increase to the current rate of $0.24/Mcf. Therefore, PIOGA's argument that the Company's methodology is flawed based on its representations is not only too late, but it is highly misleading.

PIOGA's arguments that producers may lack the practical ability to use Peoples' gathering system, and thus that the proposed increase in Rate AGS should be evaluated in light of practical access, should also be rejected.[382] PIOGA argues that the Commonwealth's opinion in *Philadelphia Industrial & Commercial Gas Users Group v. Pa. PUC* stands for the proposition that "rate and tariff obligations must be evaluated together when the conditions of service bear on cost causation and justness and reasonableness."[383] Yet, the context of *Philadelphia Industrial* is different from that of the instant case. The dispute in that case related to whether interruptible customers could be treated the same as fixed customers for purposes of cost allocation, and the Commonwealth Court relied upon the principle of cost causation in its determination that there was not sufficient evidence that the interruptible customers caused the NGDC to incur fixed costs, specifically noting that NGDCs "do not plan or size their distribution mains to meet interruptible loads – they plan them to meet non-

[380] *See note* 107, *supra*.
[381] Peoples St. No. 5, p. 19.
[382] PIOGA MB, pp. 11, 16.
[383] PIOGA MB, p. 16; 342 A.3d 140 (Pa. Cmwlth. 2025).

interruptible loads."[384] Here, the gathering system specifically functions to gather and deliver natural gas from conventional producers, as well as to provide access to local supplies for customers. The capital costs and operations and maintenance costs associated with the system are directly attributable to the producers who inject supply into the gathering system.[385]

PIOGA recommends in its Main Brief that if the Commission declines to retain the existing Rate AGS charge, it should increase the charge by no more than the final systemwide percentage increase authorized by the Commission.[386] PIOGA's proposal directly contradicts the principle that rates should be designed based on the cost to serve. Company witness Taylor presented the total gathering cost of service in Exhibit JDT-2. Company witness Palombo explained:[387]

> The selected rate of $0.29/Mcf is a measured approach that increases producer contribution while still leaving most gathering costs with customers. Further, PIOGA's testimony ignores that the Company evaluated four options for setting this rate and selected the option that had the lowest impact on the producers. Below is a summary of those options and the resulting chosen rate:
>
> - Recover the entire gathering system cost of service from producers. This results in a gathering rate of $1.506 per Mcf.
> - Maintain the producers 28.4% contribution towards the entire gathering system cost of service as set in the 2023 base rate case. This results in a gathering rate of $0.324 per Mcf.
> - Increase the gathering rate by the overall increase in rates requested in this case. This results in a gathering rate of $0.295 per Mcf which was rounded to $0.29 per Mcf. [Option Selected]
> - Recover the same total gathering revenues from producers as this rate was designed to do in the 2023 base rate case. This results in a gathering rate of $0.30 per Mcf.

Moreover, Mr. Palombo explained, the Company's proposed Rate AGS requires producers to contribute only 25.7% of the total costs of the gathering system, which is about 10% less of a

[384] *Philadelphia Industrial & Commercial Gas Users Group v. Pa. PUC*, 342 A.3d 140, 156 (Pa. Cmwlth. 2025).
[385] Peoples St. No. 5-R, pp. 3-4.
[386] PIOGA MB, pp. 18-19.
[387] Peoples St. No. 5-R, pp. 5-6.

contribution as compared to the Company's last rate case.[388] The Company's proposed Rate AGS is reasonable, cost based, and should be approved.

B. OPERATIONAL CONCERNS

PIOGA recommends that the Commission "require a bounded process" wherein Peoples uses reasonable efforts to communicate with producers before an operational change would result in loss of flow, receipt-point expiration, or shut-in, and that Peoples administer its MIMA to include protections for producers such as notice, good-faith communication, and reasonable opportunity to cure documentation. PIOGA has presented no testimony to demonstrate that Peoples is not reasonable in the operation and administration of its MIMA, or that Peoples is unreasonable in communications with producers. In fact, the only testimony that PIOGA presented on this point demonstrates the opposite: Peoples engaged in reasonable and situation-specific communications with witness Kriebel to accommodate operational concerns.[389] Moreover, PIOGA fails to acknowledge that its MIMA language was just negotiated and agreed to by PIOGA in the Company's 2023 base rate proceeding.[390] PIOGA's recommendations should be rejected.

XXI. COMPETITIVE RATE DISCOUNTS

I&E recommends that competitive rate customers who have not had their competitive alternative verified for a period of longer than ten years be subject to a competitive alternative analysis.[391] In its Main Brief, I&E claims that the Company stated that it was willing to accept I&E's recommendation on a going forward, prospective basis because the Company is already limiting any new negotiated rate contracts to a term of no more than 10 years.[392] To clarify, the Company does not accept I&E's proposal to the extent that it could be interpreted as requiring the Company to engage

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[388] Peoples St. No. 5-R, p. 3; *see also* Peoples Exh. EAP-1R.
[389] Peoples St. No. 5-R, p. 6.
[390] *See Pa. PUC v. Peoples Natural Gas Company*, Docket No. R-2023-3044549, Petition for Non-Unanimous Settlement filed May 30, 2024 at ¶¶92-97.
[391] I&E MB, p. 52.
[392] *Id.*

in a competitive alternative analysis for any of its existing legally binding contracts. Currently, the Company has 11 existing contracts. However, as stated in the Company's Main Brief, the Company does agree that it will review the competitive alternatives every ten years for any new competitive rate contracts that it enters into moving forward.[393]

XXII. CONCLUSION

For all of the foregoing reasons, Peoples Natural Gas Company LLC respectfully requests that Administrative Law Judge Charece Z. Collins and the Pennsylvania Public Utility Commission approve the rate increase and other proposals set forth in Original Tariff Gas – Pa PUC No. 49 and Original Tariff Gas – Pa PUC S-5 and reject the proposals of the other parties as explained in Peoples' Main Brief and Reply Brief.

Respectfully submitted,

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Dated: September 4, 2026

[393] Peoples MB, pp. 148-149.

APPENDIX A

I&E Rate Increase with Company's Capital Structure

			Forumlas	Source/Calculation
Rate Base	$	5,720.3	**A**	*I&E MB, Appendix A, page 1*
Rate Base Equity %		4.47%	**B**	*54.47% (Company's Equity Layer) minus 50.0% (I&E's Equity Layer*
Rate Base Debt %		-4.47%	**C**	*Inverse of B*
Cost of Debt		4.61%	**D**	*I&E MB, Appendix A, page 2*
Return on Equity		10.20%	**E**	*I&E MB, Appendix A, page 2*
Effective Income Tax Rate		21.00%	**F**	
Equity Return	$	26.1	**G=AxBxE**	*Calculation*
Cost of Debt	$	(11.8)	**H=AxCxD**	*Calculation*
Income Taxes	$	6.9	**I=(G/(1-F)-G)**	*Calculation*
Revenue Requirement	$	21.2	**J=G+H+I**	*Calculation*
I&E Main Brief Increase	$	92.9	**K**	*I&E MB, Appendix A, page 1*
I&E Main Brief Increase w/ Company's Capital Structure		114.1	**L=J+K**	*Calculation*