

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2026-3060855
Office of Consumer Advocate	:	C-2026-3061455
Office of Small Business Advocate	:	C-2026-3061593
Coalition for Affordable Utility Services and	:	C-2026-3061685
Energy Efficiency in Pennsylvania	:	
Jonathan Visser	:	C-2026-3063372
Christopher Kelley	:	C-2026-3063787
Ben B. Troyer Jr.	:	C-2025-3059337
	:	
v.	:	
	:	
Peoples Natural Gas Company LLC	:	

RECOMMENDED DECISION

Before
Charece Z. Collins
Administrative Law Judge

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I. INTRODUCTION

On March 27, 2026, Peoples Natural Gas Company LLC (Peoples or Company) filed Original Tariff Gas – Pa. P.U.C. No. 49 and Original Tariff Gas – Pa. P.U.C. No. S-5 with the Pennsylvania Public Utility Commission to be effective for service rendered on or after May 26, 2026. The Company proposed increasing rates to produce additional overall revenue of approximately \$163.2 million annually, which is a 13.8% increase to the overall distribution revenue requirement. If approved, residential customer bills using 86 Mcf/year would increase from \$122.20 to \$138.23 per month (13.1%).

Based upon the record evidence, I recommend an annual revenue increase in the amount of \$105,396,889, or 8.90%. It is recommended that Peoples' new rates become effective December 26, 2026. The additional requests of the Company, and my recommendations for each, are discussed in the recommended decision below.

The suspension date is December 26, 2026. The last reasonable public meeting date prior to the suspension date is December 3, 2026.

II. HISTORY OF THE PROCEEDING

On March 27, 2026, Peoples Natural Gas Company LLC (Peoples or Company) filed Original Tariff Gas – Pa. P.U.C. No. 49 and Original Tariff Gas – Pa. P.U.C. No. S-5 with the Pennsylvania Public Utility Commission (Commission) to be effective for service rendered on or after May 26, 2026. It proposed changes to Peoples' base retail distribution rates designed to produce an increase in revenues of approximately \$163.2 million annually, or by 13.8%. If approved, residential customer bills using 86 Mcf/year would increase from \$122.20 to \$138.23 per month (13.1%).

On March 31, 2026, the Office of Consumer Advocate (OCA) filed a Complaint and Public Statement in the above-captioned rate case at Docket No. C-2026-3061455.

On March 31, 2026, the Office of Small Business Advocate (OSBA) filed a Notice of Appearance. On April 7, 2026, the OSBA filed a Public Statement, a Formal Complaint, and a Verification, which was docketed at Docket No. C-2026-3061593.

On April 2, 2026, the Commission's Bureau of Investigation and Enforcement (I&E) filed its Notice of Appearance.

On April 7, 2026, the Pennsylvania Weatherization Providers Task Force (Task Force) filed a Petition to Intervene. As the Petition was unopposed, it was granted at the April 28, 2026 Prehearing Conference.

On April 9, 2026, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) filed a Formal Complaint at Docket No. C-2026-3061685. On April 13, 2026, CAUSE-PA filed a Notice of Appearance.

On April 16, 2026, the Commission issued an Order instituting an investigation into the lawfulness, justness and reasonableness of Peoples' proposed and existing rates, and suspending Supplement Nos. 49 and S-5 until December 26, 2026, unless permitted by Commission Order to become effective at an earlier date pursuant to 66 Pa.C.S. §1308(d). The matter was referred to the Office of the Administrative Law Judge for the prompt scheduling of hearings as may be necessary and the issuance of a Recommended Decision. This matter was assigned to Administrative Law Judge Charece Z. Collins (the ALJ).

On April 16, 2026, the Commission issued a Call-In Telephone Prehearing Conference Notice scheduling a prehearing conference for April 28, 2026. Also, on April 16, 2026, my Prehearing Conference Order was served.

On April 24, 2026, the Pennsylvania Independent Oil & Gas Association (PIOGA) filed a Notice of Appearance and a Petition to Intervene. As the Petition was unopposed, it was granted at the April 28, 2026 Prehearing Conference.

The Prehearing Conference convened as scheduled on April 28, 2026. Counsel for Peoples, I&E, OCA, OSBA, CAUSE-PA, the Task Force, and PIOGA appeared and various procedural matters were discussed.

On May 1, 2026, the Retail Energy Supply Association (RESA) filed a Petition to Intervene.

On May 6, 2026, the Commission issued an In-Person Evidentiary Hearing Notice, scheduling hearings for August 5, 2026 through August 7, 2026 in Harrisburg, PA.

On May 11, 2026, Peoples filed a Motion for Protective Order. The Motion for Protective Order was unopposed by the parties, I&E, OCA, OSBA, CAUSE-PA, the Task Force, PIOGA, and RESA. The Motion was granted via Order dated June 11, 2026.

On May 20, 2026, a Hearing Notice was issued scheduling eight public input hearings specifying the dates, times, locations and procedures to be followed for participating in six in-person public input hearings and two telephonic public input hearings. The dates were June 2, 2026 at 1:00 p.m. and 6:00 p.m. (in Johnstown, PA); June 3, 2026 at 1:00 p.m. and 6:00 p.m. (in Pittsburgh, PA); June 10, 2026 at 1:00 p.m.

and 6:00 p.m. (in Greensburg, PA) and June 11, 2026 at 1:00 p.m. and 6:00 p.m. (telephonically). All of these public input hearings were held as scheduled.

On June 10, 2026, a formal Complaint was filed by Jonathan Visser and docketed at C-2026-3063372.

On June 19, 2026, consumer Complainant Ben B. Troyer, Jr. and Peoples filed a Joint Motion to consolidate the December 10, 2025 formal complaint (regarding Peoples' Weather Normalization Adjustment) with this proceeding.¹

On June 25, 2026, a formal Complaint was filed by Christopher Kelley and docketed at C-2026-3063787.

The Motion to Consolidate filed by Peoples and Mr. Troyer, being unopposed, was granted and Mr. Troyer's formal Complaint was consolidated with this proceeding in my Prehearing Order served on July 30, 2026. The formal Complaints in this matter also were consolidated with this proceeding in my Prehearing Order served on July 30, 2026. The Petition to Intervene filed by RESA, which was unopposed, was also granted in my July 30, 2026 Prehearing Order.

The first of the three scheduled evidentiary hearings was held on August 5, 2026. All parties waived the cross-examination of their witnesses, and I had no questions for the witnesses, so they were excused from the hearing. The parties submitted their evidence and exhibits into evidence at the hearing. The hearings on August 6 and 7, 2026 were cancelled as they were no longer necessary. The exhibits

¹ Mr. Troyer's Complaint was filed on December 10, 2025, at docket number C-2025-3059337. While it was filed prior to the rate case filing, the Company and Mr. Troyer filed a Motion to consolidate the Complaint with the rate case as the issues in the Complaint will be addressed in this rate case.

admitted into the record are as follows (and are kept in the same format as submitted by the Parties in their respective exhibit lists)²:

Peoples

1) Rate Case Filing (filed March 27, 2026) (Peoples Hearing Exhibit 1) Consists of Volumes 1 through 11

Volume 1 – Exhibits 1 – 4

Volume 2 – Exhibit 5

Volume 3 – Exhibits 6-10

Volume 4 – Exhibits 11-13

Volume 5 – Exhibit 14

Volume 6 – Exhibit 15-16

Volume 7 – Exhibits 17-19

Volume 8 - contains the Company's Direct Testimony Statements 1-14

(1) Peoples Statement No. 1 –Michael Huwar

(2) Peoples Statement No. 2 –Andrew P. Wachter (a) Appendix A – Filing Requirements and Standard Data Requests

(3) Peoples Statement No. 3 – Carol A. Scanlon (a) Appendix A – Standard Data Requests and Filing Requirements

(b) Exhibit Nos. CAS-1 through CAS-2

(4) Peoples Statement No. 4 – Dawn Folks (a) Appendix A – Filing Requirements and Standard Data Requests

² Any changes were only made to add clarity.

(5) Peoples Statement No. 5 – Edward Palombo (a) Appendix A – Filing Requirements and Standard Data Requests

(b) Exhibit No. EAP-1

(6) Peoples Statement No. 6 – Paul Becker

(7) Peoples Statement No. 7 – Angela Jiang (a) Appendix A – Filing Requirements and Standard Data Requests

(8) Peoples Statement No. 8 – Luke Ravenstahl

(9) Peoples Statement No. 9 – Joyce Mitole (a) Appendix A – Filing Requirements and Standard Data Requests

(10) Peoples Statement No. 10 – Rita Black (a) Exhibit Nos. RFP-1 through RFB-2

(11) Peoples Statement No. 11 – Rudolph Hanechak (a) Appendix A – Filing Requirements and Standard Data Requests

(12) Peoples Statement No. 12 – Nick Tufarolo (a) Appendix A – Filing Requirements and Standard Data Requests

(b) Exhibit No. NT-1

(13) Peoples Statement No. 13 – Krista Snyder (a) Appendix A - Filing Requirements and Standard Data Requests

(b) Exhibit Nos. KMS-1 through KMS-2

(14) Peoples Statement No. 14 – Anton Ribich (a) Appendix A – Filing Requirements and Standard Data Requests

(b) Exhibit No. AR-1

ix) Volume 9 - contains the Company's Direct Testimony Statements 15-17 (1) Peoples Statement No. 15 – Jennifer Nelson (a) Appendix A – Filing Requirements and Standard Data Requests

(b) Exhibit Nos. JEN-1 through JEN-13

(2) Peoples Statement No. 16 – John J. Spanos (a) Appendix A

(3) Peoples Statement No.17 – John D. Taylor (a) Exhibit Nos. JDT-1 through JDT-6

x) Volume 10 contains CONFIDENTIAL information

xi) Volume 11 contains HIGHLY CONFIDENTIAL information

2) Revised Exhibits (served June 5, 2026) Revised Exhibit 4, Schedule 22

Revised Peoples Statement No. 5 – Edward Palombo Revised Exhibit No. EAP-1

3) Rebuttal Testimony (served on July 16, 2026)

a) Peoples Statement No. 1-R – Mike Huwar Exhibit No. MAH-1R

b) Peoples Statement No. 2-R – Andrew P. Wachter

c) Peoples Statement No. 3-R – Carol A. Scanlon Exhibit Nos. CAS-1R through CAS-5R

Peoples Statement No. 4-R – Dawn Folks Exhibit No. DMF-1R

Peoples Statement No. 5-R – Edward Palombo Exhibit No. EAP-1R

Peoples Statement No. 6-R – Paul Becker Exhibit Nos. PB-1R through PB-3R

Exhibit No. PB-4R (**CONFIDENTIAL**)

Exhibits Nos. PB-5R through PB-6R

Exhibit No. PB-7R (**CONFIDENTIAL**)

Peoples Statement No. 8-R – Luke Ravenstahl

Peoples Statement No. 10-R – Rita Black Exhibit No. RFB-1R

Peoples Statement No. 11-R – Rudolph Hanechak

Peoples Statement No. 12-R – Nick Tufarolo

Peoples Statement No. 13-R – Krista Snyder

Peoples Statement No. 14-R – Anton Ribich Exhibit No. AR-1R

Peoples Statement No. 15-R – Jennifer Nelson Exhibit Nos. JEN-1R through JEN-12R

Peoples Statement No. 16-R – John J. Spanos Exhibit Nos. JJS-1R through JJS-2R

Peoples Statement No. 17-R – John D. Taylor

Peoples Statement No. 18-R – Michelle Parks

Peoples Statement No. 19-R – Daniel J. Schuller Exhibit No. DJS-1R

Peoples Statement No. 20-R – Cynthia S. Fang Exhibit No. CSF-1R

Peoples Statement No. 21-R – Steven Kolich

4) Revisions (served July 20, 2026) Exhibit 2, Schedule 4 (pgs. 2-5) Revised
Errata to Peoples Statement No. 2R – Andrew Wachter

5) Revision (served July 21, 2026) Errata to Peoples Statement No. 1R – Michael Huwar
Exhibit MAH-1R Revised

6) Surrebuttal Testimony (served on July 31, 2026) Peoples Statement No. 3-SR –
Carol Scanlon

Peoples Statement No. 10-SR – Rita Black

Peoples Statement No. 15-SR – Jennifer Nelson

Peoples Statement No. 17-SR – John D. Taylor

Peoples Statement No. 21-SR – Steven Kolich

7) Rejoinder Testimony (served on August 3, 2026) Peoples Statement No. 2-RJ –
Andrew Wachter

Peoples Statement No. 3-RJ – Carol Scanlon

Peoples Statement No. 6-RJ – Paul Becker

Peoples Statement No. 8-RJ - Luke Ravenstahl

Peoples Statement No. 10-RJ – Rita Black

Peoples Statement No.17-RJ – John D. Taylor

Peoples Statement No.18-RJ – Michelle Parks

8) Rejoinder Testimony (served on August 4, 2026) Peoples Statement No. 15-RJ –
Jennifer Nelson (**Public and Confidential Versions**) Exhibit JEN-1RJ through JEN-2RJ

Peoples Statement No. 16-RJ – John J. Spanos

Peoples Statement No. 20-RJ – Cynthia S. Fang

Exhibits Served August 2, 2026

Peoples Hearing Exhibit 2 (Response to Peoples-CAUSE PA-III-10)1

Peoples Hearing Exhibit 3 (Evidence List)

I&E

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

- I&E Exhibit No. 3 in both Proprietary and Non-Proprietary format
-
- I&E Statement No. 3-SR – Surrebuttal Testimony of Ethan H. Cline
-
- Verification of Ethan H. Cline
-
- I&E Statement No. 4 – Direct Testimony of Robert N. Gobrecht IV in both Proprietary and Non-Proprietary format
-
- I&E Exhibit No. 4 in both Proprietary and Non-Proprietary format
-
- I&E Statement No. 4-SR – Surrebuttal Testimony of Robert N. Gobrecht IV
-
- Verification of Robert N. Gobrecht IV

OCA

DIRECT TESTIMONY

OCA Statement No. 1: Direct Testimony of Michael Deupree consisting of written testimony with signed verification of Michael Deupree, and the following:

- Exhibit MWD-1 through Exhibit MWD-8

OCA Statement No. 2: Direct Testimony of Jared Geiger consisting of written testimony with signed verification of Jared Geiger, and the following:

- Appendix A – Resume of Jared Geiger
- Schedule JNG-1 through Schedule JNG-23

CONFIDENTIAL OCA Statement No. 2: **Confidential** Direct Testimony of Jared Geiger consisting of written testimony with signed verification of Jared Geiger, and the following:

- Appendix A – Resume of Jared Geiger
- Schedule JNG-1 through Schedule JNG-23

OCA Statement No. 3: Direct Testimony of David Garrett consisting of written testimony with signed verification of David Garrett, and the following:

- Exhibit DJG-1 through Exhibit DJG-27
- Appendix A through Appendix E

OCA Statement No. 4: Direct Testimony of Roger Colton consisting of written testimony with signed verification of Roger Colton, and the following:

- Exhibit RDC-1: Summary Vitae

OCA Statement No. 5: Direct Testimony of Brendan Larkin-Connolly consisting of written testimony with signed verification of Brendan Larkin-Connolly, and the following:

- Exhibit BLC-1 – Curriculum vitae (CV) of Brendan Larkin-Connolly
- Exhibit BLC-2

CONFIDENTIAL

OCA Statement No. 5:

Direct Testimony of Brendan Larkin-Connolly consisting of written testimony with signed verification of Brendan Larkin-Connolly, and the following:

- Exhibit BLC-1 – Curriculum vitae (CV) of Brendan Larkin-Connolly
- Exhibit BLC-2

REBUTTAL TESTIMONY

OCA Statement No. 1R: Rebuttal Testimony of Michael Deupree consisting of written testimony with signed verification of Michael Deupree.

OCA Statement No. 3R: Rebuttal Testimony of David Garrett consisting of written testimony with signed verification of David Garrett.

SURREBUTTAL TESTIMONY

OCA Statement No. 1SR: Surrebuttal Testimony of Michael Deupree consisting of written testimony with signed verification of Michael Deupree.

OCA Statement No. 2SR: Corrected Surrebuttal Testimony of Jared Geiger consisting of written testimony with signed verification of Jared Geiger.

- Exhibit JG-2SR-1 through Exhibit JG-2SR-9
- Schedule JNG-1-SR through Schedule JNG-23-SR

CONFIDENTIAL

OCA Statement No. 2SR: OCA Statement No. 2SR: Confidential Surrebuttal Testimony of Jared Geiger consisting of written testimony with signed verification of Jared Geiger

- Exhibit JG-2SR- 1 through Exhibit JG-2SR-9
- Schedule JNG-1-SR through Schedule JNG-23-SR

OCA Statement No. 3SR: Surrebuttal Testimony of David Garrett consisting of written testimony with signed verification of David Garrett, and the following:

- Exhibit DG-3SR

OCA Statement No. 4SR: Surrebuttal Testimony of Roger Colton consisting of written testimony with signed verification of Roger Colton.

OCA Statement No. 5SR: Surrebuttal Testimony of Brendan Larkin-Connolly consisting of written testimony with signed verification of Brendan Larkin-Connolly.

ADDITIONAL EXHIBITS

OCA Hearing Exhibit 1: List of Evidence to be Moved into the Evidentiary Record by the Office of Consumer Advocate (OCA)

OSBA

- Direct Testimony of Joseph Kubas, labeled OSBA Statement No. 1, on behalf of the Office of Small Business Advocate (“OSBA”), with signed Verification of Joseph Kubas.
- Direct Testimony and Exhibit of Mark D. Ewen, labeled OSBA Statement No. 2, with associated Exhibit IEC-1, on behalf of the Office of Small Business Advocate (“OSBA”), with signed Verification of Mark D. Ewen.
- Rebuttal Testimony of Mark D. Ewen, labeled OSBA Statement No. 2-R, on behalf of the Office of Small Business Advocate (“OSBA”), with signed Verification of Mark D. Ewen.

- Surrebuttal Testimony of Joseph Kubas, labelled OSBA Statement No. 1-SR, on behalf of the Office of Small Business Advocate (“OSBA”), with signed Verification of Joseph Kubas.

CAUSE-PA

-Direct Testimony of Patrick M. Cicero on Behalf of The Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), CAUSE-PA Statement 1 (As Corrected by Errata July 15, 2026 and July 31, 2026). 89 pages of written testimony

- Appendix A: Resume, Patrick Cicero
- Appendix B: Cited Discovery Responses
- Appendix C: Exhibits Cicero C-1 through C-4

-Surrebuttal Testimony of Patrick M. Cicero on Behalf of The Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), CAUSE-PA Statement 1-SR 63 pages of written testimony

- Appendix A: Cited Discovery Response

-Verification of Patrick M. Cicero to CAUSE-PA Statement 1 and CAUSE-PA Statement 1-SR

-CAUSE-PA Stipulated Exhibit 1 – Pittsburgh Post Gazette, April 28, 2024

PIOGA

- Direct Testimony of Daniel J. Weaver
- Sur-Rebuttal Testimony of Daniel J. Weaver
- Direct Testimony of D. Marc Jacobs, Jr.
- Sur-Rebuttal Testimony of D. Marc Jacobs, Jr.
- Direct Testimony of Shane Kriebel
- Sur-Rebuttal Testimony of Shane Kriebel.

WEATHERIZATION TASK FORCE

PWPTF Statement No. 1 - Direct Testimony of Jennifer Warabak

RESA

- Direct Testimony of Francis Caliva (RESA/Caliva Statement No. 1), with Exhibits CR-1, CR-2, CR.3, CR-4, CR-5 and CR-6
- Surrebuttal Testimony of Francis Caliva (RESA/Caliva Statement No. 1-SR)

On August 26, 2026, Main Briefs were filed by Peoples, I&E, OCA, OSBA, CAUSE-PA, PIOGA, and RESA.

Reply Briefs were filed on September 4, 2026, by Peoples, I&E, OCA, OSBA, CAUSE -PA, PIOGA, RESA and the Weatherization Task Force.

The record closed on September 4, 2026, the deadline for the filing of Reply Briefs.

The hearing record consists of the transcripts, the evidence and exhibits admitted at the August 5 evidentiary hearing, and all briefs. This matter is now ready for a Recommended Decision.

Public Input Hearings

On June 2, 2026, the first two in-person public input hearings were held at 1:00 p.m. and 6:00 p.m. in Johnstown, Pennsylvania. No witnesses testified at either the 1:00 p.m. or the 6:00 p.m. hearings.

On June 3, the next two in-person public input hearings were held at 1:00 p.m. and 6:00 p.m. in Pittsburgh, Pennsylvania. At 1:00 p.m., six witnesses testified. Jessica Semler testified on behalf of Pennsylvania State Senator Lindsey Williams and read Senator Williams' statement into the record. Tr. 62. Ms. Semler conveyed that Senator Williams and her colleagues are "working to improve affordability for the people of Pennsylvania, and that includes addressing the unacceptable rise in utility costs that we are all facing." Tr. 63. Ms. Semler further conveyed that Peoples is seeking to give its investors an 11.25 percent rate of return, similar to the 12 percent return on equity (ROE) granted in 2024. The statement noted that customers cannot offset this increase by conserving energy, as "most of the requested increase would come from the fixed monthly customer charge." Tr. 64. The Statement emphasized that Senator Williams has heard from many constituents about how increased costs are impacting their lives. Funding for programs like SNAP, LIHEAP and Medicare/Medicaid is uncertain. The Statement further emphasized that the hard working families of Pennsylvania "cannot and should not be expected to pay more for their utilities," and asked for the rate case to be withdrawn. Tr. 64-65.

Bridget Barrett, District Office Director for Pennsylvania State Representative Emily Kinkead, testified next on behalf of Senator Kinkead. Tr. 67. Similar to Senator Williams' statement, Representative Kinkead's statement focused on the rising costs of vital utility services and the financial relief sorely needed by the constituents of Pennsylvania. Representative Kinkead's statement stressed that seniors on fixed incomes and working families call her office daily to find relief for the financial strains they are enduring. Tr. 67. Representative Kinkead acknowledged that utilities must occasionally adjust rates to maintain safe and effective services, but "the consistently high requests from many utilities across the Commonwealth these last several years have been unreasonable." Tr. 68. Representative Kinkead called on stricter limitations for a utility's ability to raise rates. Tr. 68.

Richard Culbertson testified on behalf of himself.³ Mr. Culbertson provided documentation purported to be his written testimony. Tr. 70. Mr. Culbertson testified that he is a resident of Mount Lebanon and a Peoples customer. Tr. 72. Mr. Culbertson testified that Pennsylvania consumers should not be asked to pay a single dollar more than is needed to support safe and reliable utilities. Tr. 81. Mr. Culbertson recommended that the PUC:

pause this rate case until they [PUC] establish efficient, proper and due process in accordance with Pennsylvania Public Utility Code. This includes independent and reliable audits conducted by competent third party auditors and assurance that Peoples has effective internal controls over its operations, including effective and efficient auditor operations, reliable reporting, financial and non-financial, and compliance with appropriate laws, regulations, standards and orders. In addition, the assurance is that the rate base is free from waste, fraud, abuse and mismanagement and unsafe conditions.

Tr. 105.

Catherine Qureshi, CEO of the Pittsburgh Parks Conservancy, testified on behalf of the Parks Conservancy. Tr. 110. Ms. Qureshi spoke in support of Peoples Natural Gas, and noted that for nearly 30 years, the Parks Conservancy has worked to strengthen its communities, and Peoples has been a long-standing and valued partner in that mission. Ms. Qureshi recognized the importance of “maintaining and strengthening the infrastructure and services that communities rely on every day,” and averred that Peoples pairs that “responsibility with meaningful reinvestment into the neighborhoods it serves.” Tr. 111.

³ The Company filed objections to Mr. Culbertson’s testimony on June 15, 2026. While it is agreed that much of Mr. Culbertson’s testimony was not relevant to the instant proceeding, which involves Peoples’ base rate increase, the rates charged, and service provided by Peoples, in light of the fact that Mr. Culbertson was not represented by counsel and is not an attorney, the Company’s objections will be denied, but Mr. Culbertson’s testimony will be given the proper weight in this Decision.

Christopher Harrison, a professor and Peoples customer, testified on behalf of himself. Tr. 113-114. Mr. Harrison testified that “this rate increase is principally about return to shareholder value.” Tr. 114. Mr. Harrison further testified that gas prices have actually fallen in the last two decades because of the abundance of natural gas in Western Pennsylvania. Tr. 114-115. Mr. Harrison averred that Peoples’ current rate of return of 7.1% is already good, and the proposed increase to 11.3% is excessive. Tr. 115.

Ross Miller testified on behalf of Pittsburgh Vintage Grand Prix, a 501(c)(3) nonprofit. Tr. 118-119. Mr. Miller explained how Peoples supports their nonprofit by explaining:

We operate a large scale motorsport event every July with a series of ancillary events around the periphery of it. Our event in Schenley Park every July is one of the largest of its kind in the country. And our mission benefits individuals with autism and intellectual and developmental disabilities. We are one of the largest fundraisers for autism in the state of Pennsylvania. And we would not be able to host our event without the support of Peoples and other community minded organizations like them.

Tr. 119.

At 6:00 p.m., eight witnesses testified. Carrie Nolan-Robinson, Executive Director of the Northside Chamber of Commerce, and a Peoples customer, testified on behalf of the Chamber and on her own behalf as a resident. Tr. 145-146. Ms. Nolan-Robinson testified that she recognized the “importance of maintaining safe, reliable infrastructure” and the costs required to maintain it. Tr. 146 - 147. However, Ms. Nolan-Robinson requested that the Commission consider whether now is the time to impose a new increase, or if no increase or a reduced increase would be more appropriate “given the economic realities facing Pennsylvania households and businesses.” Tr. 147.

Ms. Nolan-Robinson discussed in detail the many economic struggles being faced by residents and businesses alike. Tr. 147.

Ms. Nolan-Robinson also urged the Commission to expand eligibility for customer assistance programs by increasing household income limits, and the expansion may enable more seniors and economically challenged households to qualify for programs that can help. Tr. 148. Ms. Nolan-Robinson also asked the Commission to consider the uncertainty surrounding pending merger and acquisition involving Peoples, and that Customers are being asked to incur higher costs prior to clarity surrounding the long-term impacts of these corporate changes. Tr. 148.

Thomas West, small business owner and residential customer of Peoples, testified. Tr. 150-151. Mr. West testified that he is running for the Pennsylvania State Senate. Tr. 151. Mr. West testified regarding the aging infrastructure needs of Peoples, weighed against the financial struggles and limits of the customers, and urged the Commission to ensure transparency, fairness, and that every dollar approved by the Commission is necessary and reasonable. Tr. 151-154.

Garrett Ebeck, drafter and Peoples customer, testified on behalf of himself. Tr. 155-156. Mr. Ebeck testified about his concerns regarding the price of his gas (and other utility) bills, as well as the increase of the DSIC charge. Tr. 156-157. Mr. Ebeck also noted the income that the Company earned last year and questioned how necessary the rate increase was. Tr. 158. Mr. Ebeck also testified regarding his concerns about the Company's Weather Normalization Adjustment and the confusion it elicits among customers. Tr. 158-159.

Hersh Merenstein, Senior Director of External Affairs with the Boys and Girls Clubs of Western Pennsylvania, and Peoples customer, testified on behalf of the Boys and Girls Club. Tr. 161-162. Mr. Merenstein testified that "Peoples has been a

valued partner to our organization, providing meaningful support that directly benefits the youth we serve,” and discussed the many ways Peoples has helped the organization. Tr. 163-164.

Matthew Kaminski, mechanical engineer and a Peoples customer, testified on behalf of himself. Tr. 165-166. Mr. Kaminski testified that he has worked in the nuclear power industry and oil and gas industries for the past 15 years, “both designing and constructing large energy infrastructure projects, including natural gas pipelines, compressor stations, metering and regulating stations.” Mr. Kaminski currently works at the U.S. Department of Energy. Tr. 166-167. Mr. Kaminski asked a number of questions regarding the requested rate increase and Peoples’ operations, including, but not limited to, whether the utility upgrades are already completed or are they for 5 future upgrades; whether Peoples performs the upgrades themselves or if the work contracted out; and if contracted out, whether the projects are competitively bid to qualify contractors to ensure the best value is obtained for the money. Tr 167-168. On behalf of Peoples, Attorney Moore explained that many of Mr. Kaminski’s questions are answered by technical experts throughout the course of the litigation, and the information is available for public review. Tr. 170.

Ms. Jaclyn Clifford, attorney and a Peoples customer, testified on behalf of herself.⁴ Tr. 171-172. Ms. Clifford testified that she opposes the requested rate increase and asked the Commission to reject it completely. Tr. 173. Ms. Clifford discussed the timing of the request as the economy is currently struggling, the impact that inflation is already having on customers, and the income that the Company has earned.” Tr. 173-175.

⁴ While every other witness made themselves available for cross-examination, Ms. Clifford unfortunately left the room following her testimony before all attorneys had the opportunity for cross-examination. Tr. 181.

Matthew Popovic, a teacher and a Peoples customer, testified on behalf of himself. Tr. 177. He urged the Commission to track where the profits are going, and the salaries of the corporate executives, as it considers the requested rate increase, especially in light of the financial constraints of its customers. Tr. 178-179.

Jack Stewart, locksmith and a Peoples customer, testified on behalf of himself. Mr. Stewart noted the high gas prices, the identity of many of Peoples' shareholders, and questioned whether the purpose of the rate increase was to pay the shareholders. Tr. 182-183.

On June 10, the next two in-person public input hearings were held at 1:00 p.m. and 6:00 p.m. in Greensburg, Pennsylvania. At 1:00 p.m., one witness testified. Michael Daniher, chief operating officer for the Laurel Highlands Council, Scouting America, and Peoples customer, testified on behalf of the organization and himself. Tr. 199-200. Mr. Daniher testified about how Peoples partners with the organization to help youth to determine the professional path they will choose for their lives, and his appreciation for their financial support of the organization. Tr. 200-201. As a resident, Mr. Daniher testified that he owns properties that utilize propane, and propane prices are very volatile, and he cannot plan his budgets as he can for natural gas. Tr. 201. Mr. Daniher, the fire chief in his community, also testified about the assumed gas emergencies that Peoples will dispatch for only to find that they are not emergencies at all, and the expense that costs the Company. Tr. 202. Mr. Daniher also discussed the expense of Peoples addressing true gas emergencies, and that the volunteer firefighters in the community appreciate the support. Tr. 202-204.

At 6:00 p.m., one witness testified. Nick Hoffman, a Peoples customer, testified on behalf of himself. Tr. 220-222. Mr. Hoffman testified that the proposed increase is too high, and his MCF charges on his last three bills were excessive. Tr. 222. Mr. Hoffman testified that utilities should plan for future infrastructure changes by saving

money over time, rather than obtaining increases from customers. Mr. Hoffman also testified against the continuation of Peoples' Weather Normalization Adjustment (WNA) and Peoples' proposed change to its heating degree days charge. Tr. 222-224.

On June 11, the final two public input hearings were held telephonically at 1:00 p.m. and 6:00 p.m. At 1:00 p.m., one witness testified. Mark Szybist, Special Counsel for Energy Affordability for Governor Shapiro, testified. Tr. 247-248. Mr. Szybist read a statement from Governor Shapiro into the record. Mr. Szybist also sought, and I granted, the admission of the Governor's written statement, and a letter the Governor issued dated April 29, 2026, into the record. Tr. 249, 259. Mr. Szybist testified that the April 29, 2026 letter was an open letter to utility leaders "that calls attention to the rising utility cost across the Commonwealth and calls on utility leaders to implement a new approach to raising capital and investing in their systems. Specifically, the letter calls on utilities to implement three new practices, none of which requires new law or new action by the Public Utility Commission." Tr. 250. The letter urged utilities to seek to raise capital in the most effective way possible, and "absent extraordinary justification, the equity share of a distribution utility should not exceed the equity share of the holding company." Tr. 250-251. The letter also urged utilities to clearly and plainly explain why any new proposed investments are necessary, "using transparent data and justify the cost-effectiveness of those investments," and evaluating alternatives to make sure that the investments truly are the most cost-effective options. Tr. 251. The Governor's letter also articulated that utility companies must propose justifiable returns on equity when they propose an increase of their rates. The letter also proposed a new process for determining new returns on equity through competitive bids. Tr. 252. And, the letter stated that absent extraordinary circumstances, the capital structure of distribution of a utility should have a share of equity that is no greater than the share of its parent company. Tr. 253-254. The Governor acknowledged that Peoples' rate case was filed prior to the April 2026 letter. Tr. 252-253.

Mr. Szybist then testified regarding the Governor's comments on the Peoples rate case. First, the Governor notes that the capital structure that Peoples has proposed has equity-heavy structure that is very different from the equity in the capital structure of Peoples' ultimate parent company, Essential Utilities, Inc. Tr. 253. The comments note that Peoples has proposed in this proceeding, a capital structure of 54.5 percent common equity, 45.5 percent long-term debt. However, the capital structure of Peoples' parent company, Essential Utilities, is 54.9 percent debt, 45.1 percent equity, which means that the parent company is able to access capital at relatively low rates, but customers of Peoples pay relatively high costs for capital, which is objectionable under the Governor's letter. Tr. 254.

The comments also note that much of Peoples proposed increase is traceable to its Long-Term Infrastructure Improvement Plan, and it does not provide detailed justifications or a cost-effectiveness analysis the Governor has recommended for customers. Tr. 254. The comments also state that while Peoples discusses the rising cost of various inputs, including labor supplies, it is also proposing very large capital investment, and these factors combined with the higher ROE appear to be what is leading to the increase in rates. Tr. 255. The comments further note the 13.1% that will occur for the average residential bill, if the rate increase is approved, and that it may not accurately reflect the increase in distribution rates that may occur. Tr. 255-256.

Lastly, the comments conveyed the Governor's request that Peoples work with the parties to develop a proposal that addresses the Governor's concerns, and the Governor objects to Peoples' current proposed rate application. Tr. 257-258.

No witnesses testified at the 6:00 p.m. telephonic public input hearing.

III. FINDINGS OF FACT

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

2. Peoples’ revenue requirement is based upon data for a fully projected future test year (“FPFTY”) ending December 26, 2026.

3. This is the Company’s first rate increase request since December 29, 2023.⁶

4. The revenue requirement formula used in base rate cases is $RR = E + D + T + (RB \times ROR)$.⁷

5. I&E witness Cline recommended that Peoples use a 10-year period to establish normal Heating Degree Days to determine present rate revenue in future proceedings.⁸

6. Mr. Cline’s recommendation was based on the Commission’s determination in the 2025 Columbia Gas of Pennsylvania, Inc. (“Columbia Gas”) base rate case.⁹

⁵ Peoples St. 3 at 2-4; Peoples Exh. 2, Sch. 4.

⁶ *Pa. PUC et al. v. Peoples Natural Gas Company LLC*, Docket No. R-2023-3044549, Recommended Decision (entered July 15, 2024) (adopted Sept. 12, 2024).

⁷ I&E MB at 6.

⁸ *Id.* at p. 11-14.

⁹ *See Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2025-3053499, (Opinion and Order entered Dec. 9, 2025).

7. Mr. Cline testified that “[u]sing a twenty-year cycle rather than a ten-year cycle appears to result in an ‘historical bias’ that diminishes the effect of the claimed recent trends and results in providing revenue to the Company when instead, customer should be realizing savings.”¹⁰

8. Extending the 20-year average analysis to a 65-year regression is not consistent with Commission precedent.

9. I&E witness Okum testified against the Company’s use of average annual increases to adjust certain historical test year (HTY) expenses as these increases are speculative and do not meet the standard of known and measurable and should therefore be rejected.¹¹

10. Peoples claimed limited general inflation adjustments with respect to the categories of expenses: Payment Processing (\$77,284 adjustment) and Advertising (\$75,656 adjustment).

11. Peoples utilized the CPI – Consumer Price Index - for both of these categories of 2.70%.¹²

12. The Commission has allowed general inflation adjustments when they are applied to limited categories of expenses. For example, in *PECO Gas*, the Commission approved the application of the Consumer Price Index to Outside Services Costs.¹³

¹⁰ I&E St. 3 at 12, 14 (*citing Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 at 301-02 (Order Entered Dec. 9, 2025)).

¹¹ *Id.* at pp. 4-5.

¹² Peoples Volume 1, Exhibit No. 4, Schedule 1 at 32.

¹³ *PA PUC v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929 (Order entered June 22, 2021) at 10 (“*PECO Gas*”).

13. I&E's recommendation for labor/vacancy expense was based on (1) applying a vacancy rate based on historic vacancies; and (2) adding the salary for the Low-Income Usage Reduction Program compliance specialist that the Company proposed to include in the Universal Service Program ("USP") Rider.¹⁴

14. Peoples' 0.54% vacancy rate adjustment did not match its historical vacancy levels provided in response to I&E discovery, and as such, I&E maintains that it is reasonable to apply the three-year historical average vacancy rate of 4.98% to the Company's claim.¹⁵

15. Peoples' incentive compensation program will enable it to attract and retain talent, promoting cost containment and efficiencies, promoting a financially healthy Company, which in turn benefits ratepayers in the form of safe and reliable service, and being reasonable and prudently incurred.¹⁶

16. The inclusion of financial performance metrics in the Company's incentive compensation program will incentivize employees and management to reduce and control costs, seek out and develop productivity improvements, and use Company resources in the most efficient manner possible. For example, the impact that most employees have on financial targets is to achieve their O&M budgets, which drives employees to be efficient with the costs that they incur and to improve operational effectiveness. These cost savings are ultimately reflected in rates.¹⁷

¹⁴ I&E St. 1-SR at pp. 6-10.

¹⁵ *Id.* at pp. 18-19.

¹⁶ Peoples St. 2-R at 16-22.

¹⁷ Peoples St. 2-R at 18-19.

17. Because financing costs are ultimately reflected in rates, maintaining financial health can contribute to lower costs for customers over time. Peoples maintains that these outcomes provide both direct and indirect benefits to customers.¹⁸

18. I&E recommends an allowance of \$18,661,800 for employee benefits expense, and a rate base allowance of \$23,613,594, based on I&E's recommended adjustments to labor expense.¹⁹

19. I&E recommends an allowance of \$6,265,643 for corporate insurance, based on the Company's claim being speculative and not known and measurable.²⁰

20. Peoples hosts small employee gatherings, such as the Special Olympics Polar Plunge event, and team lunches, which are an integral part of the Company's employee recognition and engagement program and are necessary to encourage an engaged workforce.²¹

21. Peoples also holds Service and Safety Awards, which recognize employees who have committed their careers to the Company and are an important part of employee satisfaction.²²

22. Peoples witness Wachter testified regarding why Peoples' travel and entertainment expenses are appropriate.²³

¹⁸ Peoples St. 2-R at 19-20.

¹⁹ I&E St. 1-SR at 23.

²⁰ I&E St. 1 at 31-34; I&E St. 1-SR at 27-28.

²¹ Peoples St. 2-R at 25-26.

²² Peoples St. 2-R at 25-26.

²³ Peoples St. 2-R at 27-28.

23. The travel and entertainment expenses claimed by Peoples are regular business expenses for travel, employee recognition and employee meals, which are consistent with the Commission's precedent allowing costs related to employee activities.²⁴

24. I&E recommends an allowance of \$1,062,518 for Company memberships based on removing the 7.17% annual increase from the Future Test Year (FTY) and FPFTY claims as the Company's claim is speculative and not known and measurable.²⁵

25. The Company's claim for license and permit expense is \$738,885.²⁶

26. Peoples' claim for utilities and fuel expense is \$3,084,199.²⁷

27. I&E recommended an allowance of \$259,746 for advertising expense.²⁸

28. I&E's reduction was based on the removal of advertising related to sponsorships and sports partnerships, as well as the removal of the inflation adjustment included in Peoples' claim.²⁹

²⁴ See *UGI Electric* at 70-71 (allowing employee recognition costs); *see also PA PUC v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929, Order entered June 22, 2021 at 101 (allowing Travel, Meals and Entertainment Costs); *Pa. PUC v. Pennsylvania-American Water Company*, Docket No. R-00943231, 1995 Pa. PUC LEXIS 170 at *37-39 (Order entered July 24, 1995) (allowing expenditures on employee activities that have a positive impact on employee morale and productivity).

²⁵ I&E St. 1 at 36-37; I&E St. 1-SR at 29-30.

²⁶ I&E St. 1 at 38 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 19).

²⁷ I&E St. 1 at 40 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 20).

²⁸ I&E St. 1-SR at 34.

²⁹ I&E St. 1 at 43-45.

29. The advertisement programs of Peoples do not appear to meet the criteria of 66 Pa.C.S. § 1316(a).³⁰

30. I&E recommends an allowance of \$746,507 for Peoples' fleet expense claim, based on Company's claim being speculative and not known and measurable.³¹

31. I&E recommends an allowance of \$10,183,664 for materials and supplies expense, based on Peoples' claim being speculative and not known and measurable.³²

32. Peoples' historic average base rate case filing frequency is 56 months.³³

33. I&E recommends the three-year-average of net cash contributions for 2023, 2024 and 2025 for pension expense.³⁴

34. I&E recommends an allowance of \$19,947,180 for outside services – contracted, based on the Company's claim being speculative and not known and measurable.³⁵

³⁰ See 66 Pa. C.S. § 1316(a).

³¹ I&E St. 1 at 45-47; I&E St. 1-SR at 34-35.

³² I&E St. 1 at 47-49; I&E St. 1-SR at 35-36.

³³ *Id.* at pp. 54-55.

³⁴ I&E St. 1-SR at 21-22 (*citing* Peoples Exh. No. 4, Sch. 1 at 8).

³⁵ I&E St. 1 at 23-25; I&E St. 1-SR at 24-25.

35. I&E recommends an allowance of \$5,406,725 for outside services – administrative and general, based on the Company’s claim being speculative and not known and measurable.³⁶

36. Peoples proposed a Hot Water Tank Pilot for consumers to lower their annual energy bills by switching from electric water heaters to natural gas water heaters, to be implemented over a three-year period beginning in January 2027.³⁷

37. The Hot Water Tank Pilot is designed to provide a \$1,000 rebate to eligible residential customers to encourage installation of high-efficiency natural gas hot water tank appliances and to offset the up-front cost of installation.³⁸

38. The Hot Water Tank Pilot is expected to help save consumers approximately \$195 - \$375 per year by using a natural gas tank to heat water rather than an electric tank.³⁹

39. The HTY expense amount reflects a significant escalation in Peoples’ historical experienced cost for payment processing; i.e., its adoption of a no-fee credit card payment system resulted in a significant increase to the expense which is already reflected in the HTY amount.⁴⁰

40. I&E has accepted Peoples’ reduction to its building leases expense claim in the amount of \$785,433.⁴¹

³⁶ I&E St. 1 at 28-30; I&E St. 1-SR at 26-27.

³⁷ Peoples St. 8 at 9.

³⁸ Peoples St. 8 at 9.

³⁹ Peoples St. 8 at 12.

⁴⁰ OCA St. 2 at 25.

⁴¹ I&E St. 1-SR at 3.

41. No party challenged the Company's claim for building leases.⁴²

42. Including costs in base rates, as opposed to a rider, enables parties to review the costs in the context of the rate case.⁴³

43. Recovering costs through the Universal Service Rider could isolate individual cost increases from the other changes in Peoples' cost of service that will result from improved program performance.⁴⁴

44. The OCA recommends utilizing the average experienced expense amount for the past three years, for an adjustment to Peoples' FPFTY expense claim of \$823,737.⁴⁵

45. OCA witness Colton recommended that the Commission reduce Peoples' residential collection expense claim by \$3.834 million.⁴⁶

46. The reduction recommended by OCA for the residential collection expense claim would not require customers to fund more than 50% of Peoples' claimed collection expense.⁴⁷

47. While the ELG procedure calculates depreciation for each equal life group, the ASL (or ALG) procedure depreciates every asset within an account over the average life of the entire account.⁴⁸

⁴² Peoples St. 2-R at 24; I&E St. 1 at 30-31.

⁴³ I&E St. 1 at 58-59; I&E St. 1-SR at 39-41.

⁴⁴ Id.

⁴⁵ OCA St. 2SR at 16.

⁴⁶ OCA St. 4SR at 30.

⁴⁷ OCA St. 4 at 50.

⁴⁸ Peoples St. 16-R at 3-4.

48. Using equal life groups, rather than an average life, as the basis for depreciation provides a more precise calculation that better matches recovery with consumption of assets by depreciating assets that have shorter lives than the average over their shorter lives.⁴⁹

49. Only a small percentage, approximately 1.55%, of the assets will have an 80 year service life. The majority of these assets will have a service life different than 80 years.⁵⁰

50. The ELG procedure allocates depreciation expense in a manner that approximates the actual life of each equal life group.⁵¹

51. ELG leads to higher depreciation expenses in the short term, it results in lower revenue requirements over the long term.⁵²

52. The Company's most recent annual depreciation report was filed on June 30, 2026, and was approved for accounting purposes using the ELG procedure.⁵³

53. The Company's common equity ratio is within the range of actual common equity ratios of the proxy group of gas companies used in this proceeding.⁵⁴

54. When comparing the Company's equity ratio to the five-year average equity ratio that ranges from 48.15% to 60.07%, the Company's equity ratio is

⁴⁹ Peoples St. 16-R at 3-4.

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² Peoples St. 16-R at 17.

⁵³ Peoples St. 16-R at 22-23.

⁵⁴ Peoples St. 15 at 59-60.

within the range of the proxy group, and in fact, is slightly below the proxy group mean and median of 54.63% and 55.04%, respectively.⁵⁵

55. In *Columbia 2025*, the Commission allowed Columbia an equity ratio of 54.40%, where the equity ratio range was 35.96% to 60.16%.⁵⁶

56. Imputing a hypothetical capital structure that is materially more leveraged as some of the parties have suggested in this case could result in Peoples facing a credit downgrade as was the case for some utilities in other states.⁵⁷

57. The Company's proposed debt cost rate to be used in determining the rate of return is 4.61%.⁵⁸

58. There is no dispute concerning the debt cost rate.⁵⁹

59. CAPM inputs are subjective, and other than beta, not company or industry specific.⁶⁰

60. The DCF is the most reliable of the cost of equity models, though a CAPM analysis does provide value and the Commission has recently relied on a combination of both the DCF and CAPM models.⁶¹

⁵⁵ Peoples St. 15-R at 19; Peoples Exh. JEN-6R.

⁵⁶ *Columbia 2025* at 209-10.

⁵⁷ Peoples St. 15-R at 31-32.

⁵⁸ Peoples St. 15 at 61.

⁵⁹ Peoples MB at 69.

⁶⁰ *Id.* at 37.

⁶¹ *Id.*

61. I&E's recommended ROE of 10.20% for the Company in this case is comparable, yet higher than the national average authorized ROE of 9.69% for gas distribution utilities.⁶²

62. Peoples' proposed a 65-year regression analysis in determining the WNA's normalization period.⁶³

63. If Peoples' WNA continues, I&E witness Cline recommended that Peoples use a 10-year period to establish normal HDDs to determine present rate revenue in future proceedings.⁶⁴

64. Using a twenty-year cycle rather than a ten-year cycle appears to result in an historical bias that diminishes the effect of the claimed recent trends and results in providing revenue to the Company when instead, customer should be realizing savings."⁶⁵

65. If Peoples' present WNA continues, the deadband of 3% should be increased to 5%, because this percentage more adequately captures what could be considered normal weather fluctuations in Pennsylvania and places more of the burden for weather variation back on the Company as a normal part of doing business.⁶⁶

66. Peoples' proposed effective date of rates coincides with the end of the suspension period which is December 26, 2026.

⁶² I&E St. 2 at 38.

⁶³ I&E St. 3 at 14.

⁶⁴ *Id.* at p. 11-14.

⁶⁵ *Id.* at p. 14 (*citing Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 at 301-02 (Order Entered December 9, 2025)).

⁶⁶ I&E St. 3 at 7.

67. Peoples proposed to apply a defined credit adjustment to offset the USP Rider charges that are paid for by non-CAP residential customers through the periods of January 1, 2027 through March 31, 2027 (Year 1) and January 1, 2028 through March 31, 2028 (Year 2).⁶⁷

68. The one-time credit adjustment will be comprised of the sales and use tax refund of \$3.9 million plus the tax repairs deduction collar which is estimated to be \$1.2 million for 2025 and more than \$15 million in 2026.⁶⁸

69. The one-time credit adjustment will help income-eligible customers who are not participating in CAP as well as those customers whose incomes exceed CAP eligibility but may still be constrained by their monthly bill obligations by reducing monthly bills for non-CAP residential customers.⁶⁹

70. The Company proposes to revise the bad debt offset calculation, specifically the CAP participation level that prompts when the bad debt offset is applicable and the uncollectible amount used in the calculation.⁷⁰

71. The purpose of these proposed changes are to align both the CAP participation level and the uncollectible percentage used in the bad debt offset calculation with more recently experienced trends.⁷¹

⁶⁷ Peoples St. 3 at 6-9.

⁶⁸ Peoples St. 2 at 22-23; Peoples St. 3 at 6-9.

⁶⁹ Peoples St. 10 at 20-21.

⁷⁰ Peoples MB 117-118.

⁷¹ Peoples MB 117-118.

72. The Company would accept OCA witness Mr. Colton's recommendation for establishing the uncollectible percentage using a multi-year average for 2023/2024, which results in an offset of 7.4%.⁷²

73. In 2024, Peoples had an estimated low-income population of approximately 144,472 customers and had identified 112,624 customers as Confirmed Low-Income (CLI), yet only 25,738 customers participated in CAP, a participation rate of just 22.9 percent of Confirmed Low-Income customers.⁷³

74. Both Task Force witness Ms. Warabak's and I&E witness Ms. Okum's calculations for additional LIURP jobs were less than the Company's minimum annual LIURP budget of \$3,500,000 agreed to in the Low-Income Stipulation at Docket No. R-2023-3044549.⁷⁴

75. Peoples states that its Hardship Fund provides grants of up to \$500 to customers with incomes up to 200% of the FPL. Customers with incomes between 151-200% of the FPL are referred to the Hardship Fund before CAP enrollment, in order to reduce their total balance.⁷⁵

76. A utility's termination procedures are a critical component of the utility's service and adequate termination practices are important to ensuring that termination remains an action of last resort.⁷⁶

⁷² *Id.* at p. 16; Peoples Exh. No. CAS-5R.

⁷³ *Id.* at 49-50.

⁷⁴ I&E MB at 57.

⁷⁵ Peoples St. 10 at 4.

⁷⁶ *See* 52 Pa. Code §§ 56.81-56.118 (Commission's regulations regarding termination procedures); *see also Universal Service Programs & Collections Performance 2024 Report*, Pa. PUC, 11 (Jan. 2026) ("Termination of public utility service is the most serious consequence of customer nonpayment and is viewed as a last resort when customers fail to meet their payment obligations.").

77. Measures requiring the utility to analyze adverse trends and develop processes for addressing identified service problems may be needed.⁷⁷

78. Peoples may need to conduct an independent root cause analysis to determine what is driving the disproportionate level of utility disconnections within the Company's service territory.⁷⁸

79. Peoples proposed to revise its tariff to provide that customers enrolled in CAP may not use natural gas for recreational purposes, such as pool heaters and/or hot tubs, recreational appliances, outdoor appliances, and heated outdoor buildings.⁷⁹

80. Peoples emphasizes that the prohibition of recreational natural gas use is an existing provision within the Company's Commission-approved USECP. The Company can be and has been penalized where it fails to identify recreational natural gas use.⁸⁰

81. Peoples agrees to periodically meet with I&E to review its root cause analyses and metrics related to specific causes of damages.⁸¹

82. I&E witness Mr. Gobrecht highlighted the usefulness and safety benefits of methane detectors within structures and the ability of real-time smart

⁷⁷ *Pa. PUC v. Phila. Gas Works*, Docket Nos. R-2023-3037933 et al., Opinion and Order (Nov. 9, 2024).

⁷⁸ OCA St. 4 at 4-5, 51-57.

⁷⁹ Peoples St. 13 at 5; Peoples St. 10 at 8.

⁸⁰ Peoples St. 10-R at 3-4.

⁸¹ Peoples St. 8-RJ at 5.

reporting technology to simultaneously notify the customer and the emergency gas response officials to potentially hazardous situations.⁸²

83. Mr. Gobrecht also opined that implementation of a methane detector pilot program would provide Peoples' customers with a safety tool that provides early warning alarms signaling a gas leak and a potentially hazardous situation.⁸³

84. Implementing an early warning audible alarm will afford additional time to safely evacuate and notify the emergency response officials.⁸⁴

85. I&E recommended that the Company implement a pilot program utilizing 500 to 1,000 Smart Remote Methane Detectors ("SRMDs") to allow for a study of the devices' effectiveness as well as the use of Advanced Metering Infrastructure ("AMI") and LoRaWAN or other communication technologies for notification methodology utilized by these devices as part of its pilot program.⁸⁵

86. Peoples maintains a Purchase Of Receivables program in which Natural Gas Suppliers ("suppliers" or "NGS") can sell eligible customer commodity receivables to Peoples at a tariff-approved discount.⁸⁶

87. Peoples submits that gathering systems move conventionally produced gas from the producer to the distributor. They benefit both producers and customers by functioning as what is often the sole means of delivery of gas for a

⁸² I&E St. 4 at 16-19.

⁸³ *Id.*

⁸⁴ *Id.*

⁸⁵ *Id.* at pp. 20-21.

⁸⁶ Peoples St. 21-R at 2.

producer and result in cost savings to customers. The proposed rate increase for Rate AGS represents a reasonable shared contribution to cover increased operating and maintenance costs, as well as increased capital to upgrade gathering lines.⁸⁷

88. Peoples is limiting any new contracts to term of ten years and verifying competitive alternatives prior to entering into a new contract. As a result, Peoples has reduced its number of negotiated contracts from 17 to 11.⁸⁸

89. No party challenged the inclusion of the items related to the merger of PNG Gathering into Peoples.⁸⁹

90. Once a class revenue allocation is determined, development of a rate design will address how the tariffed rates and rate elements will generate the allocated revenues.⁹⁰

91. OCA's alternative class classification of distribution mains incorporates a peak and average cost allocation method, which uses weights based on the company's test year system load factor.⁹¹

92. OCA's proposal uses data that is specific to Peoples for an allocation of mains costs. Its weighting is based on the Peoples' test year system load factor and, specifically, would base weights on a ratio of peak day system requirements to average daily system requirements.⁹²

⁸⁷ *Id.*

⁸⁸ Peoples St. 8-R at 4.

⁸⁹ Peoples MB 149.

⁹⁰ I&E MB at 48.

⁹¹ *Id.* (citing OCA St. 1 at 58-59).

⁹² OCA St. 1 at 53-59.

93. OCA submits that its ACROSS should be used to apportion the revenue requirement across Peoples' customer classes because it adheres to ratemaking principles.⁹³

94. OSBA ultimately found OCA's proposed revenue allocation, which is a more gradual progress to cost-based rates in comparison to Peoples' proposal, to be reasonable given the size of the proposed rate increases in this proceeding."⁹⁴

95. Peoples proposes to increase the Residential customer charge from \$16.80 to \$26.00 as supported by the Company's customer cost analysis.⁹⁵

96. OCA submits that it has demonstrated that Peoples' proposal to increase the monthly basic service charge for residential customers by 54.8 percent should be rejected.⁹⁶

97. OCA witness Mr. Deupree found that customer-related costs to provide service to residential customers on the Company's system are approximately \$21.98 per customer per month.⁹⁷ Importantly, this means that the Company's current monthly customer charge of \$16.80 per month recovers nearly 76 percent of monthly customer-related costs.⁹⁸

⁹³ OCA St. 1 at 59-64.

⁹⁴ OSBA St. 2SR at 3.

⁹⁵ Peoples MB at 98-99 (citing *Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597 (Opinion and Order entered Dec. 28, 2012) (*PPL Electric 2012*)).

⁹⁶ OCA MB at 82-83, 91; OCA St. 1 at 64-74.

⁹⁷ OCA MB at 91-95.

⁹⁸ OCA St. 1 at 68, 74.

98. Mr. Deupree conducted an examination on a comparative basis to other regional natural gas distribution companies and what their residential and small commercial customer charges.⁹⁹

99. Witness Deupree found that \$26.00 would be far above the average of \$17.22 per month charged by other investor-owned natural gas utilities in the northeast and the highest in Pennsylvania with Columbia at the next highest at \$20.15.¹⁰⁰

100. Higher fixed customer charges reduces economic incentives for ratepayers to control monthly utility bills through energy efficiency and conservation efforts, because only the variable component of bills is avoidable.¹⁰¹

101. Peoples can utilize Fully Projected Future Test Years within rate cases and the Distribution System Improvement Charge (DSIC) between rate cases, which mitigate a significant portion of Company risks posed by regulatory lag.¹⁰²

102. OCA submits that the Commission should require that universal service costs be allocated among all customer classes rather than borne exclusively by residential customers. OCA points to an April 29, 2026 letter from Governor Josh Shapiro to Pennsylvania utilities explaining that utilities must “change the behaviors causing rate increases” and that “Pennsylvania consumers should not be asked to pay a single dollar more than is needed to support a safe and reliable utility system.”¹⁰³

103. The cost of providing service through the Peoples’ CAP program does not have a cost-causation basis that can be confined to the residential class. As OCA witness Roger Colton explained, the Commission has previously recognized that

⁹⁹ OCA St. 1 at 69.

¹⁰⁰ *Id.*

¹⁰¹ *See* OCA St. 1 at 70-74.

¹⁰² OCA St. 1R at 7.

¹⁰³ Governor Josh Shapiro Hearing Exh. 1 at 6.

universal service costs are caused by factors endemic to society as a whole, rather than factors specific to residential customers.¹⁰⁴

104. OCA witness Mr. Colton testified that the extraordinary increase in the cost of basic necessities has disproportionately harmed low- and moderate-income households.¹⁰⁵

105. I&E recommends that Peoples be required to provide a competitive alternative analysis for any discount rate customers that have not had their competitive alternatives verified for longer than ten years at the time of the Company's next base rate case and justify the customers' discount rates as part of its filing in the next base rate case.¹⁰⁶

106. I&E also recommends that the Commission order the Company to provide a competitive alternative analysis for each discount rate customer that has not been verified within ten years of each of Peoples' prospective base rate cases in perpetuity.¹⁰⁷

IV. DISCUSSION

A. Summary of Issues and Arguments

This base rate proceeding primarily involves various issues which were addressed by the Parties in their Main Briefs as set forth below.

¹⁰⁴ OCA St. 4 at 74; OCA MB at 97.

¹⁰⁵ OCA St. 4 at 77.

¹⁰⁶ I&E St. 3 at 6.

¹⁰⁷ *Id.*

The Discussion Section that follows is divided into various major sections addressing specific issues and various sub issues. A common base rate briefing outline was not provided by all Parties as ordered and argued issues addressed by the Parties. The undersigned presiding officer has used her best efforts to organize and address the positions of the Parties. The ALJ's recommended disposition is included at the end of each major category. If a Party did not address a certain category, that Party is not mentioned under that category.

B. Legal Standards

In a rate case, it is axiomatic that the burden of proof to demonstrate the rates sought are just and reasonable lies squarely on the utility proposing the rates rather than a party challenging the implementation of those rates.¹⁰⁸ Public utilities have the burden to establish the justness and reasonableness of every element of their rate increase proposals in all proceedings conducted under Section 1308(d) of the Public Utility Code. 66 Pa.C.S. § 1308(d). Moreover, “[p]ursuant to Section 102 of the [Public Utility] Code, 66 Pa.C.S. § 102, a public utility’s rates include, *inter alia*, every individual charge that utility demands for any service offered, rendered, or furnished by the utility, whether received directly or indirectly.”¹⁰⁹

The standard of proof, which a public utility must meet, is set forth in Section 315(a) of the Public Utility Code (Code), 66 Pa.C.S.A. § 315(a), which specifies that, “[i]n any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceeding upon complaint involving any

¹⁰⁸ See 66 Pa.C.S.A. § 315(a); see also, *Lower Frederick Twp. v. Pa. Pub. Util. Comm’n*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980); *Brockway Glass v. Pa. Pub. Util. Comm’n*, 437 A.2d 1067 (Pa. Cmwlth. 1981).

¹⁰⁹ *Metro. Edison Co. v. Pa. Pub. Util. Comm’n*, 22 A.3d 353, 359 (Pa.Cmwlth. 2011) (underline added for emphasis) (citing 66 Pa.C.S.A. § 102).

proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.” Pennsylvania’s Commonwealth Court has upheld this standard of proof and has applied it in base rate proceedings,¹¹⁰ even when the question concerning an element of the base rate increase request was raised by a party instead of the public utility.¹¹¹

In this proceeding, the burden of proof lies squarely with Peoples because it is the public utility seeking permission from the Commission to increase its base rate and change some elements of rate base. The burden of proof did not shift to any statutory party or individual challenging the requested rate increase. Instead, the utility’s burden, to establish the justness and reasonableness of every component of its rate request, is an affirmative one and remains with the public utility throughout the course of the rate proceeding.¹¹²

Under the Public Utility Code, rates charged by public utilities must be just and reasonable and cannot result in unreasonable rate discrimination.¹¹³ As indicated above, the public utility seeking a general rate increase has the burden of proof to establish the justness and reasonableness of every element of the rate increase request.¹¹⁴

¹¹⁰ *Lower Frederick Twp. v. Pa. Pub. Util. Comm’n*, *supra*. See also *Brockway Glass v. Pa. Pub. Util. Comm’n*, *supra*.

¹¹¹ See *Pa. Pub. Util. Comm’n v. National Fuel Gas Distribution Corp.*, 1994 Pa. PUC LEXIS 134 *5 (1994); *Pa. Pub. Util. Comm’n v. Breezewood Telephone Company*, 74 Pa. PUC 431 (1991); and *Pa. Pub. Util. Comm’n v. Equitable Gas Co.*, 57 Pa. PUC 423, 471 (1983).

¹¹² See also 66 Pa.C.S.A. §1501, requiring a utility to have reasonable rules governing service. There is no similar burden placed on parties which challenge a proposed rate component. See *Berner v. Pa. Pub. Util. Comm’n*, 116 A.2d 738, 744 (Pa. 1955).

¹¹³ 66 Pa.C.S.A. §§ 1301, 1304.

¹¹⁴ 66 Pa.C.S.A. § 315(a); *Pa. Pub. Util. Comm’n v. Aqua Pa., Inc.*, Docket No. R-00038805, 236 PUR 4th 218, 2004 Pa. PUC LEXIS 39 (August 5, 2004).

C. Analysis

1. RATE BASE

Peoples

The Company updated its Cash Working Capital (“CWC”) claim to reflect the updates to O&M Expense identified by Peoples witness Mr. Wachter. The Company’s revised CWC claim is \$46,932,677.¹¹⁵

The revised CWC claim includes I&E witness Okum’s recommendation to remove uncollectible accounts expense from the CWC calculation.¹¹⁶

None of the active parties in this case challenged Peoples’ plant additions.¹¹⁷

I&E

I&E finds that \$686,510,364 (\$5,728,767,833 - \$5,042,257,469) of rate base additions are associated with the FPFTY. I&E recommends a total rate base adjustment of \$8,478,607 based on adjustments to the Company’s labor (\$4,250,657), incentive compensation (\$1,318,847), payroll taxes (\$446,296), other employee benefits (\$1,100,335), and cash working capital (\$1,362,472) claims.¹¹⁸

¹¹⁵ Peoples Exh. No. AR-1.

¹¹⁶ Peoples St. 14-R at 5.

¹¹⁷ Peoples MB at 12.

¹¹⁸ I&E MB at 5.

I&E witness Cline recommended that the Company be required to provide I&E, OCA, and OSBA no later than June 1, 2027, under this docket number, an update to Peoples Exhibits No. 5B at I-3-I-6 and 5C at I-3-I-6 that includes actual utility plant balances, actual plant additions, and actual retirements for the twelve months ending November 30, 2026, and not later than June 1, 2028 for the twelve months ending December 31, 2027.¹¹⁹

The Company agreed to accept I&E's recommendation to provide I&E, OCA, and OSBA with an update to its plant additions and retirements for the FTY and FPFTY.¹²⁰

OCA

The OCA recommends that the Commission adjust Peoples' CWC rate base component based on the adjustments to Peoples' claimed rate base, expenses, long-term debt ratio, and cost of long-term debt, that the Commission approves in this proceeding.¹²¹ OCA witness Geiger describes Peoples' CWC claim as follows:

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

¹¹⁹ I&E St. 3 at 2-4; I&E MB at 17.

¹²⁰ I&E St. 3 at 5.

¹²¹ OCA St. 2 at 6-7.

offset because those funds reduce the amount of investor-supplied capital required to support operations.¹²²

OCA witness Geiger did not recommend “any substantive modifications to the lead-lag methodology or the calculation of revenue and expense lag days...”¹²³

Based on his recommended adjustments to Peoples’ claimed expenses and the recommendations of OCA witness Garrett regarding Peoples’ long-term debt ratio and cost of long-term debt, OCA witness Geiger calculated an adjustment to Peoples’ CWC rate base component of \$909,793.¹²⁴ Peoples did not dispute the manner in which OCA witness Geiger’s CWC adjustment recommendation was calculated. As a result, the OCA recommends that, if the Commission adopts its adjustments to Peoples’ claimed expenses and long-term debt ratio, then it should adopt the OCA’s recommended CWC adjustment of \$909,793.¹²⁵

OSBA

OSBA is not briefing this issue.¹²⁶

CAUSE-PA

CAUSE-PA did not take a position on this issue in its main brief.¹²⁷

¹²² OCA St. 2 at 6.
¹²³ OCA St. 2 at 7.
¹²⁴ OCA St. 2SR at 3; OCA Sch. JNG-4-SR.
¹²⁵ OCA MB at 23.
¹²⁶ OSBA MB at 4.
¹²⁷ CAUSE-PA MB at 25.

PIOGA

PIOGA did not take a position on this issue.¹²⁸

RECOMMENDATION

Based on my other recommendations that bear on CWC and capitalized expenses, I recommend a total rate base adjustment of (\$6,769,370).

I recommend that Peoples be required to provide I&E, OCA, and OSBA, no later than June 1, 2027, under this docket number, an update to Peoples Exhibits No. 5B at I-3-I-6 and 5C at I-3-I-6 that includes actual utility plant balances, actual plant additions, and actual retirements for the twelve months ending November 30, 2026, and not later than June 1, 2028 for the twelve months ending December 31, 2027. This reporting proposed by I&E is reasonable and appropriate, and also agreed to by Peoples.¹²⁹

2. REVENUES

Heating Degree Day Methodology

Peoples

To calculate the billing determinants, the Company proposes to use a regression methodology based on 65 years of annual Heating Degree Day (HDD) for the

¹²⁸ PIOGA MB at 9.

¹²⁹ I&E M.B. at 17.

Pittsburgh area.¹³⁰ The regression trend results in an annual HDD estimate of 5,086 for the FPFTY.¹³¹

Peoples acknowledges that a 10-year or 20-year average may reflect relatively recent conditions, but it does not account for the directional trend observed across the broader historical record. As a result, it embeds legacy weather patterns that are not representative of forward-looking expectations.¹³² The regression methodology, by contrast, reflects both the long-term record and the directional evolution of HDD. Reliance solely on the regression methodology provides a more transparent and analytically sound estimate of normal HDD and should be approved in this case.

Peoples proposes to use the same regression methodology for purposes of the WNA.

I&E

I&E notes that the revenue requirement formula used in base rate cases is $RR = E + D + T + (RB \times ROR)$.¹³³

I&E opposes the Company's proposed 65-year regression analysis methodology and recommends that Peoples use a 10-year period to establish normal Heating Degree Days to determine present rate revenue in future proceedings.¹³⁴

¹³⁰ Peoples St. 17 at 3-4.

¹³¹ *Id.* at p. 5.

¹³² *Id.* at pp. 6-7.

¹³³ I&E MB at 6.

¹³⁴ I&E MB at 6.

In the above formula, the rate of return is expressed as a percentage.¹³⁵ The calculation of that percentage is independent of the determination of the appropriate rate base value for ratemaking purposes.¹³⁶ As such, the appropriate total dollar return is dependent upon the proper computation of the rate of return and the proper valuation of the Company's rate base.¹³⁷

I&E witness Cline opposed the Company's proposal to use a 65-year regression analysis¹³⁸ in determining the WNA's normalization period and recommended that Peoples use a 10-year period to establish normal HDDs to determine present rate revenue in future proceedings.¹³⁹ Mr. Cline's recommendation was based on the Commission's determination in the 2025 Columbia Gas of Pennsylvania, Inc. ("Columbia Gas") base rate case.¹⁴⁰

Mr. Cline explained that "[u]sing a twenty-year cycle rather than a ten-year cycle appears to result in an 'historical bias' that diminishes the effect of the claimed recent trends and results in providing revenue to the Company when instead, customer should be realizing savings."¹⁴¹ Extending the 20-year average analysis to a 65-year regression is not consistent with Commission precedent.

¹³⁵ I&E St. 2 at 3.

¹³⁶ I&E St. 2 at 3.

¹³⁷ I&E St. 2 at 3; I&E MB at 18.

¹³⁸ I&E St. 3 at 12 (*citing* Peoples St. 17 at 6-8).

¹³⁹ *Id.* at p. 11-14.

¹⁴⁰ *See Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2025-3053499, (Opinion and Order entered Dec. 9, 2025).

¹⁴¹ I&E St. 3 at 12 at p. 14 (*citing Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 at 301-02 (Order Entered December 9, 2025)).

Therefore, I&E continues to oppose the Company's 65-year regression proposal and recommends that Peoples use a 10-year period to establish normal HDDs to determine present rate revenue in future proceedings.¹⁴²

OCA

The OCA did not present testimony regarding this issue.¹⁴³

OSBA

OSBA notes that Peoples' current WNA methodology, used to calculate the Normal Heating Degree Day, averages a 65-year regression calculation with a 20-year HDD normalization.¹⁴⁴ OSBA further notes that Peoples proposes to eliminate the 20-year HDD normalization from its methodology.¹⁴⁵ The OSBA opposes this change.

The OSBA instead recommends that the dead-band be increased from 3% to 5%. This will help to reduce the volatility of rates paid by Peoples' small business customers.

The OSBA objects to Peoples' proposal to eliminate the 20-year HDD normalization calculation as there is insufficient data for concluding that such a change is just and reasonable. OSBA maintains that Peoples admits that it has not performed any analysis as to the impact of its proposed change.¹⁴⁶

¹⁴² I&E St. 3 at 11-20; I&E St. 3-SR at 5-12; I&E MB at 18-19.

¹⁴³ OCA MB at 24.

¹⁴⁴ OSBA Statement No 2 at 12.

¹⁴⁵ Id.

¹⁴⁶ OSBA St. 2 at 16.

OSBA submits that if Peoples wishes to propose such a change to the Company's NHDD calculation, it should include a detailed study setting forth the impact such a change would have on its small business customers.¹⁴⁷

CAUSE-PA

CAUSE-PA does not take a position in this Main Brief on heating degree day methodology, other than its position that the WNA should be rejected.¹⁴⁸

RECOMMENDATION

This ALJ acknowledges Commission precedent regarding the 10-year period to establish normal Heating Degree Days. It is well noted that I&E expert witness Cline opposed the Company's proposal to use a 65-year regression analysis¹⁴⁹, emphasizing the Commission's determination in Columbia Gas that use of a 20-year cycle could result in a historical bias that negatively impacts customer savings."¹⁵⁰ This ALJ agrees with the argument that extending the 20-year average analysis to a 65-year regression is not consistent with Commission precedent, and could lead to a greater bias. Moreover, as OSBA maintained, there is insufficient data for concluding that the elimination of the 20-year average, as proposed by Peoples, is just and reasonable. Peoples has also maintained that it has not performed any analysis as to the impact of its proposed change.¹⁵¹

¹⁴⁷ OSBA MB at 5.

¹⁴⁸ CAUSE-PA MB at 25.

¹⁴⁹ I&E St. 3 at 12 (*citing* Peoples St. 17 at 6-8).

¹⁵⁰ *Id.* at p. 14 (*citing* Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc., Docket No. R-2025-3053499 at 301-02 (Order Entered Dec. 9, 2025)).

¹⁵¹ OSBA St. 2 at 16.

Therefore, this ALJ recommends that Peoples' proposal for a 65-year average be rejected, and I&E's proposal for a 10-year average be adopted in this proceeding.

3. EXPENSE

Updates To Original Filing

Peoples

The Company identified three adjustments to its claim in the course of responding to discovery and preparing rebuttal testimony. The Company provided these adjustments to parties in discovery and reflected the updates in its rebuttal testimony. These adjustments included: 1) an increase in existing revenue of \$206,179, which reduces the claim; 2) a reduction in O&M of \$785,433 related to building leases, which reduces the claim; and 3) an increase in O&M of \$1,738,446 related to insurance expense, which increases the claim. The net impact of these adjustments increases the Company's claim by approximately \$746,834 excluding CWC.¹⁵²

Peoples maintains that it is normal practice in a base rate proceeding for a utility to include updates to its claim, including both increases or decreases, to correct mistakes or to reflect new information. No party presented testimony disputing the Company's updates to its claim¹⁵³ and some parties reflected the updates in their testimonies.¹⁵⁴

¹⁵² Peoples St. 2-R at 3-4.

¹⁵³ Peoples St. 2-RJ at 6-7.

¹⁵⁴ Peoples MB at 13-14.

OCA

The OCA did not present separate testimony regarding Peoples' updates to its original filing. Such updates are reflected in the OCA's revenue requirement recommendation.¹⁵⁵

OSBA

The OSBA did not brief this issue.¹⁵⁶

CAUSE-PA

CAUSE-PA does not take a position in this Main Brief on Peoples' claimed expenses.¹⁵⁷

RECOMMENDATION

As the parties have not opposed the updates proposed by Peoples, and they are reasonable and just, this ALJ recommends that the filing is permitted to be updated in this manner.

¹⁵⁵ OCA MB at 24.
¹⁵⁶ OSBA MB at 5.
¹⁵⁷ CAUSE-PA MB at 25.

4. PROJECTED COST INCREASE ADJUSTMENTS

a. Average Annual Increases

Peoples

The Company's claim includes adjustments to reflect known and recently incurred activity for several expense accounts. These expenses include Outside Services – Contracted, Outside Services – IT, Outside Services – A&G, Corporate Insurance, Travel, Memberships, Licenses & Permits, Utilities & Fuel, Advertising, Fleet, Materials & Supplies, and PUC Assessment. For these accounts, the Company used a multi-year historical percentage experience change for each individual expense type and applied it to the Historic Test Year (“HTY”) balances to determine the amount of change expected in the Future Test Year (“FTY”) and Fully Projected Future Test Year (“FPFTY”).¹⁵⁸ The Company utilized a five-year average increase for all categories except Outside Services – IT, Outside Services – A&G, and Licenses and Permits where a four-year average was used and Company Memberships where a two-year average was used. The Company used a shorter period for these expense categories due to the existence of abnormal items in the longer historical period, which enabled the Company to provide a more normalized percentage increase for these categories.¹⁵⁹

Peoples notes the arguments posed by I&E and OCA to support their recommended adjustments, and argues that their positions are flawed, and their adjustments should not be accepted. Peoples submits that as Mr. Wachter explained in rebuttal testimony, the increased expenses are not speculative but based on known and

¹⁵⁸ Peoples St. 2-R at 4.

¹⁵⁹ *Id.* at p. 7.

measurable changes that were experienced by the Company in each of the expense categories using the most recent historic data available.¹⁶⁰

Peoples further argues that I&E and OCA confuse the average annual increases proposed by the Company with a blanket inflation adjustment that is unrelated to the specific expense. Mr. Wachter explained that utilizing average annual increases is different than utilizing a generic inflation adjustment because the average annual increase methodology uses known and measurable historic increases for each specific expense account.¹⁶¹ The adjustments to each category of expenses are based on actual historic increases for that specific category, so they are a better predictor of future expense levels. Peoples further avers that OCA's and I&E's arguments against the average annual increases are premised on the notion that the Company's costs will not continue to rise.¹⁶²

Peoples maintains that I&E's and OCA's positions are also flawed because they effectively limit non-contractual expense increases to the HTY expense level. Peoples submits that this is contrary to established ratemaking principles in Pennsylvania which allow utilities to project expenses for both the FTY and FPFTY. Section 315(e) of the Public Utility Code, 66 Pa.C.S. § 315(e), expressly allows the use of a FPFTY and allows utilities to estimate expenses for the FPFTY when the utility provides "appropriate data evidencing the accuracy of the estimates contained in the FTY or FPFTY."¹⁶³ The Company's provision of actual historical increases experienced on an annual basis meets this statutory standard. Further, Peoples notes that its witness Wachter presented data demonstrating that inflation has occurred in most months for the last six decades, and it is therefore reasonable to expect that the Company's costs will continue to increase.¹⁶⁴

¹⁶⁰ Peoples St. 2-R at 6.

¹⁶¹ *Id.* at pp. 4-5.

¹⁶² Peoples St. 2-R at 9; Peoples St. 2-RJ at 7-8.

¹⁶³ 66 Pa.C.S. § 315(e).

¹⁶⁴ Peoples St. 2-R at 10.

Peoples noted that the Commission has previously accepted similar adjustments in other cases to reflect average annual increases. For example, in *Aqua 2022*, the Commission approved the use of a three-year, year-over-year, average increase to adjust general liability insurance.¹⁶⁵

I&E

As discussed in I&E witness Okum’s surrebuttal testimony, I&E disagrees with the Company’s use of average annual increases to adjust certain HTY expenses as these increases are speculative and do not meet the standard of known and measurable and should therefore be rejected.¹⁶⁶

OCA

OCA witness Geiger found that Peoples’ “expenses do not follow a consistent inflationary trend.”¹⁶⁷ Rather, in recent years, Peoples’ expenses “are subject to significant year-to-year variability.”¹⁶⁸ Accepting the Company’s escalation factor approach would permit the Company to recover costs which are not known and measurable because they are forecasted without using specific, expense-based evidence of future cost escalations, such as contractual or other future cost commitments. As a result, the OCA respectfully request that the Commission reject the Company’s proposed historical escalation factors.¹⁶⁹

¹⁶⁵ See *Pa. PUC v. Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc.*, Docket Nos. R-2021-3027385, et al. (Order entered May 16, 2022) (“Aqua 2022”); Peoples’ MB at 14-17.

¹⁶⁶ I&E St. No. 1-SR. at pp. 4-5; I&E MB at 20.

¹⁶⁷ OCA St. 2SR at 6.

¹⁶⁸ *Id.*

¹⁶⁹ OCA MB at 27.

RECOMMENDATION

I find persuasive the testimony of I&E witness Okum and OCA witness Geiger, who recommended disallowing or modifying certain of the Company's average annual increases. Ms. Okum's proposed adjustment related to her rejection of the average annual increases in expense categories is \$6,514,263. Mr. Geiger's proposed adjustment related to his rejection of the average annual increases in expense categories is \$7,695,809. Ms. Okum claims that the average annual increases proposed by Peoples should be rejected based on her belief that the increased expenses are not known and measurable, because they are not based on contractual terms or other known variables. Throughout her testimony, Ms. Okum characterizes these increases in expenses as "speculative."¹⁷⁰ Mr. Geiger also cites a lack of contractual terms with escalation provisions to support his argument.¹⁷¹

Given the lack of clearly identifiable evidence to support the increases as proposed by Peoples, this ALJ recommends that they be rejected by the Commission. This ALJ is in favor of the proposed adjustment in the amount of \$6,514,263, as testified to by I&E witness Okum.

Inflation Adjustments

Peoples

The Company claimed limited general inflation adjustments with respect to the categories of expenses: Payment Processing (\$77,284 adjustment) and Advertising (\$75,656 adjustment). The Company utilized the CPI – Consumer Price Index - for both

¹⁷⁰ I&E St. 1.

¹⁷¹ OCA St. 2 at 22.

of these categories of 2.70%.¹⁷² Due to the fluctuating nature of these expenses, Peoples averred that it was more reasonable to use an index-based approach rather than an average annual increase methodology to establish the FPFTY costs for these expense categories.¹⁷³

Peoples submits that its witness Wachter presented data demonstrating that inflation has occurred in most months for the last six decades, and it is therefore reasonable to expect that inflation will continue.¹⁷⁴ Peoples further argues that the other parties' testimony in this proceeding supports the fact that inflation will continue, which further validates the appropriateness of the Company's inflation adjustments.¹⁷⁵

Peoples notes that the Commission has allowed general inflation adjustments when they are applied to limited categories of expenses. For example, in *PECO Gas*, the Commission approved the application of the Consumer Price Index to Outside Services Costs.¹⁷⁶

I&E

As discussed in I&E witness Okum's surrebuttal testimony, I&E disagrees with the Company's use of inflation adjustments to adjust certain HTY expenses as these increases are speculative and do not meet the standard of known and measurable and should therefore be rejected.¹⁷⁷

¹⁷² Peoples Volume 1, Exhibit No. 4, Schedule 1 at 32.

¹⁷³ Peoples St. 2-R at 9.

¹⁷⁴ Peoples St. 2-R at 10.

¹⁷⁵ OCA St. 1 at 19.

¹⁷⁶ *PA PUC v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929 (Order entered June 22, 2021) at 10 ("*PECO Gas*"); Peoples MB at 17-18.

¹⁷⁷ I&E St. No. 1-SR, pp. 2-3 (*citing* Peoples Exh. No. 2, Sch. 4, p. 2 Revised (Rebuttal) and Peoples Exh. No. 2, Sch. 4, p. 2); I&E MB at 21.

OCA

The OCA recommends that the Commission utilize the HTY expense for the payment processing expense accounts instead of relying on the Company's CPI-based inflation factor,¹⁷⁸ which is insufficient to satisfy Peoples' burden of proof under the Public Utility Code.¹⁷⁹

RECOMMENDATION

This ALJ acknowledges the likelihood that inflation will continue into the future, and the Commission's precedent of approval of an application of the Consumer Price Index to Outside Services Costs.¹⁸⁰ This ALJ further acknowledges that I&E witness Okum opposes the Company's proposal to apply the general inflation adjustment for the categories of Payment Processing and Advertising, as she maintains that using a general inflation percentage is speculative and not known or measurable.¹⁸¹

However, in light of Commission precedent and the likelihood of ongoing inflation, this ALJ recommends the adoption of the two inflation adjustments as proposed by Peoples: a \$77,284 adjustment for Payment Processing and a \$75,656 adjustment for Advertising, utilizing a CPI of 2.70% for both of these categories.

¹⁷⁸ OCA St. 2 at 20-21, 25-26.

¹⁷⁹ 66 Pa. C.S. § 315(e); OCA MB at 29.

¹⁸⁰ *PA PUC v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929 (Order entered June 22, 2021) at 10 (“*PECO Gas*”).

¹⁸¹ I&E St. 1 at 44-50.

5. LABOR/VACANCY EXPENSE

Peoples

The Company proposed a vacancy adjustment of 30 open positions for the FTY and eight open positions for the FPFTY.¹⁸² Peoples maintains that its expectation that employee vacancies will decline during the forecast period is supported by its recent experience. Peoples further avers that it has already demonstrated progress in filling open positions, as the vacancy rate for the months of December 2025 through March 2026 was 4.38%, down 14% from the average during the twelve months ended November 30, 2025. The Company's substantial improvement in recruiting effectiveness and workforce replenishment efforts is demonstrated by the reduction in vacancy rate.¹⁸³

Peoples further avers that broader labor market trends support its proposed vacancy adjustments, and the unprecedented recruiting and retention challenges that were present following the COVID-19 pandemic have moderated significantly. According to Peoples, the U.S. Bureau of Labor Statistics reported that (1) the national quits rate remained approximately 1.9% during 2026, which is significantly below post-pandemic turnover levels, and (2) job openings have stabilized following several years of exceptionally high vacancy levels. As Peoples witness Wachter explained, these trends indicate that employees are changing jobs less frequently, and employers are facing a more balanced labor market than existed several years ago.¹⁸⁴

Peoples further submits, as discussed by Peoples witness Wachter, that external labor market research similarly demonstrates that hiring conditions have become more favorable for employers. Indeed Hiring Lab reported that hiring demand has

¹⁸² Peoples St. 2 at 10.

¹⁸³ Peoples St. 2-R at 11-12.

¹⁸⁴ Peoples St. 2-R at 12.

largely returned to pre-pandemic levels, and the ratio of vacancies to employed workers has declined substantially from the pandemic, including improved availability of candidates.¹⁸⁵

Peoples argues that its forecasted vacancy rate is not based only on general economic conditions but rather is supported by its specific recruiting and retention initiatives, including enhanced workforce planning, targeted recruiting efforts, competitive compensation programs, employee development initiatives, and succession planning activities. Peoples maintains that these efforts are designed to improve employee retention while accelerating the filling of vacant positions.¹⁸⁶

Peoples also maintains that it is not reasonable to rely exclusively on historical vacancy rates when forecasting future vacancies as both I&E and OCA have done in this case. Although historic vacancy rates are an important consideration, Peoples argues that the forecast should consider known and measurable changes in the Company's recruiting performance and labor market conditions.¹⁸⁷

I&E

I&E notes that the Company's labor/vacancy expense claim is \$164,275,474, which is projected to be capitalized at a rate of 58.52% resulting in an O&M labor expense claim of \$68,149,464 and a rate base claim of \$96,126,010.¹⁸⁸

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

¹⁸⁵ *Id.* at p. 12.

¹⁸⁶ *Id.* at p. 13.

¹⁸⁷ *Id.* at pp. 13-14.

¹⁸⁸ I&E St. 1 at 6 (*citing* Peoples Exh. No. 4, Sch. 1 at 2-3).

allowance of \$91,875,353 or a reduction of \$4,250,657 (\$96,126,010 - \$91,875,353) to the Company's claim.¹⁸⁹ I&E's recommendation was based on two main aspects: (1) applying a vacancy rate based on historic vacancies; and (2) adding the salary for the Low-Income Usage Reduction Program ("LIURP") compliance specialist that the Company proposed to include in the Universal Service Program ("USP") Rider.¹⁹⁰ I&E witness Okum maintained her vacancy rate recommendation but accepted Company witness Andrew P. Wachter's assertion that I&E should have used a pre-capitalization number when removing the Company's vacancy assumptions.¹⁹¹

I&E argues that it is unreasonable to assume that the Company will maintain 100% full staffing based on its own historic vacancy records. I&E submits that since there will always be search and placement time involved in filling vacancies, there will always be a certain level of vacancies on a day-to-day operating basis that should be reflected in Peoples' labor expense allowance. I&E notes that the Company's 0.54% vacancy rate adjustment did not match the Company's historical vacancy levels provided in response to I&E discovery, and as such, I&E maintains that it is reasonable to apply the three-year historical average vacancy rate of 4.98% to the Company's claim.¹⁹²

Therefore, in consideration of the record evidence presented, I&E recommends an allowance of \$65,135,919, or a reduction of \$3,013,545 (\$68,149,464 - \$65,135,919) to the Company's labor expense claim, and a rate base allowance of \$91,875,353, or a reduction of \$4,250,657 (\$96,126,010 - \$91,875,353) to the Company's claim.¹⁹³

¹⁸⁹ I&E St. 1-SR at 11.

¹⁹⁰ I&E St. 1-SR at pp. 6-10.

¹⁹¹ *Id.* at pp. 10-11.

¹⁹² *Id.* at pp. 18-19.

¹⁹³ *Id.* at pp. 8-12; I&E MB at 21-22.

OCA

The OCA's recommendation to use a three-year average historical period to calculate Peoples' vacancy levels is consistent with record evidence and recent Commission precedent. Based on this recommendation, OCA witness Geiger calculated a downwards adjustment of \$2,985,171 to Peoples' claimed labor expense. This results in a corresponding adjustment to Peoples' payroll tax expense of (\$239,176),¹⁹⁴ and an additional corresponding adjustment to Peoples' employee benefits expense of (\$887,355).¹⁹⁵ Peoples witness Hanechak testified that the OCA's calculations of these corresponding adjustments was accurate and, therefore, if the OCA's recommended vacancy rate ratio is accepted, these adjustments should also be accepted.¹⁹⁶

OSBA

The OSBA did not brief this issue.¹⁹⁷

RECOMMENDATION

This ALJ notes that I&E and OCA both proposed adjustments to the Company's proposed vacancies. I&E witness Okum proposed a vacancy rate of 4.98%, resulting in a reduction to the Company's labor expense of \$3,013,545.¹⁹⁸ This includes \$2,921,936 related to Ms. Okum's vacancy credit and \$91,609 related to her LIURP

¹⁹⁴ OCA Sch. JNG-16-SR.

¹⁹⁵ OCA Sch. JNG-17-SR.

¹⁹⁶ Peoples St. 11-R at 4; OCA MB at 30.

¹⁹⁷ OSBA MB at 5.

¹⁹⁸ I&E's proposed adjustment reflects corrections to its original adjustment that were accepted by Ms. Okum in surrebuttal testimony. See I&E St. 1-SR at 8-11.

position adjustment. OCA witness Geiger proposed a vacancy rate of 5.25%, resulting in a reduction to the Company's labor expense of \$2,985,171.¹⁹⁹

While this ALJ notes the Company's position regarding its own experience between September 2025 and March 2026, this ALJ also agrees that vacancies will always be a part of the process and it is unlikely that Peoples will remain 100% fully staffed 100% of the time. This ALJ also appreciates I&E's consideration of adding a salary for a LIURP compliance specialist that Peoples proposed to include in its USP Rider.²⁰⁰

This Judge agrees with I&E's recommendation for an allowance of \$65,135,919 (in other words, a reduction of \$3,013,545) to the Company's claim, and a rate base allowance of \$91,875,353 (in other words, a reduction of \$4,250,657) to the Company's claim²⁰¹ and recommends that these allowances be adopted by the Commission.

6. INCENTIVE COMPENSATION

Peoples

Peoples submits that it has demonstrated that its incentive compensation program, including the financial metrics contained therein, provide material benefits to ratepayers.²⁰²

¹⁹⁹ OCA's proposed adjustment reflects corrections to its original adjustment that were accepted by Mr. Geiger in surrebuttal testimony. See OCA St. 2SR at 14-15.

²⁰⁰ *Id.* at pp. 6-10.

²⁰¹ I&E St. 1-SR at 11.

²⁰² Peoples St. 2-R at 16-22.

Peoples maintains that its incentive compensation program includes various metrics that are designed to benefit customers by providing market-based compensation which supports retention of talented employees. These metrics include safety, customer satisfaction, environmental stewardship, and financial goals. Peoples maintains that it has shown that its incentive compensation program, inclusive of the financial performance metric, benefits ratepayers because (1) it is necessary for the Company to attract and retain talent, (2) it promotes cost containment and efficiencies, (3) it promotes a financially healthy Company, which in turn benefits ratepayers in the form of safe and reliable service, and (4) it is reasonable and prudently incurred.

Peoples avers that it has demonstrated that its incentive compensation plans include both financial and operating goals that benefit customers. The inclusion of financial performance metrics in the Company's incentive compensation program benefits customers by incentivizing employees and management to reduce and control costs, seek out and develop productivity improvements, and use Company resources in the most efficient manner possible. For example, the impact that most employees have on financial targets is to achieve their O&M budgets, which drives employees to be efficient with the costs that they incur and to improve operational effectiveness. These cost savings are ultimately reflected in rates.²⁰³

Peoples further avers that the inclusion of financial metrics in its incentive compensation program also benefits customers by supporting the delivery of safe, reliable, and affordable utility service. Maintaining financial strength provides the Company with the ability to attract capital and financing on more favorable terms, invest in infrastructure, maintain credit quality, and provide quality service at the lowest reasonable long-term cost. Peoples notes that because financing costs are ultimately reflected in rates, maintaining financial health can contribute to lower costs for customers

²⁰³ Peoples St. 2-R at 18-19.

over time. Peoples maintains that these outcomes provide both direct and indirect benefits to customers.²⁰⁴

Peoples notes that as its witness Wachter explained, strong financial health is necessary for the Company to continually provide safe and reliable service to its customers as financially healthy companies are in a better position to invest in infrastructure improvements and maintain the resources dedicated to improving reliability and quality of service, including responding to emergencies.²⁰⁵

Peoples maintains that it further demonstrated that its incentive compensation is reasonable, prudently incurred, and not excessive in amount. No party challenged the amount of the Company's claim for incentive compensation, only the fact that financial metrics are part of incentive compensation. The Company states that its incentive compensation is market-based and is necessary for it to attract and retain employees, which directly benefits customers. Eliminating or reducing the Company's incentive compensation program would have a significant impact on the Company's ability to attract and retain competent employees. Peoples avers that its compensation programs are regularly reviewed to ensure market competitiveness. The Company uses several third-party compensation surveys to compare itself against market data and trends.²⁰⁶

Peoples concludes its argument by stating that its incentive compensation program, inclusive of its financial metric, advances several important objectives that provide meaningful benefits to customers, including customer service, affordability, reliability, safety, and operational efficiency.²⁰⁷

²⁰⁴ Peoples St. 2-R at 19-20.

²⁰⁵ *Id.* at pp. 17-21.

²⁰⁶ *Id.* at p. 21.

²⁰⁷ *Id.* at p. 20; Peoples MB at 20-23.

I&E

I&E notes that the Company's claim for incentive compensation is \$11,170,683, which is projected to be capitalized at a rate of 45.16% resulting in an incentive compensation expense claim of \$6,125,473 and a rate base incentive compensation claim of \$5,045,210.²⁰⁸

I&E argues that these expenses are not capitalized, and therefore, the total allocated expense of \$4,298,457 provided in response to I&E discovery increases the expense portion of the claim from \$6,125,473 to \$10,423,930 (\$6,125,473 + \$4,298,457), and I&E's recommendation was to allow 30% of the claim, or \$1,289,537 (\$4,298,457 x 0.30).²⁰⁹ I&E maintains that its recommendation is based on the removal of the Company's claims in part, or as a whole, that were inappropriate or unsupported for ratemaking purposes.²¹⁰ I&E's allowance of 30% of the claim was based on the Commission's decision in the 2025 Columbia Gas base rate case to remove 70% of Columbia Gas' incentive compensation claim for ratemaking purposes.²¹¹

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

²⁰⁸ I&E St. 1 at 10-11 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 5).

²⁰⁹ I&E St. 1-SR at 36 (*citing* I&E Exh. No. 1-SR, Sch. 1).

²¹⁰ *Id.* at 35-39.

²¹¹ I&E St. 1 at 13-14 (*citing* *Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 at 123 (Order Entered Dec. 9, 2025)).

I&E submits that, as seen in the most recent Pennsylvania-American Water Company (“PAWC”) base rate case, the Commission found that PAWC failed to demonstrate the benefit to ratepayers of financial metrics in incentive compensation, and it denied the portion of PAWC’s claim related to financial metrics.²¹² I&E argues that shareholders should be required to fund the portions of the incentive compensation programs that require financial performance criteria to earn additional compensation. Therefore, in consideration of the record evidence presented, I&E recommends an allowance of \$5,813,777, or a reduction of \$4,610,153 (\$10,884,000 - \$5,813,777) to the Company’s incentive compensation claim, and an allowance of \$3,726,363, or a reduction of \$1,318,847 (\$5,045,210 - \$3,726,363) to the Company’s rate base claim.²¹³

OCA

OCA witness Deupree testified that the price floor of established cost-of-service rates “allows shareholders to retain benefits created by regulatory lag (*i.e.*, earning an actual rate of return that is higher than the authorized rate of return or over-earning)[.]”²¹⁴ OCA argues that whether ratepayers may experience benefits from the incentive compensation plan is not the determining factor, but rather, the Commission looks to whether the desired outcomes of the plan align employees’ interests primarily with those of the utility’s shareholders.²¹⁵

OCA argues that Peoples has not demonstrated that it would be put at a disadvantage compared to other businesses if its proposals on this issue are not

²¹² I&E MB at 22-24 (citing I&E St. 1-SR at 14 (*citing Pa. P.U.C. v. Pennsylvania American Water Company*, Docket Nos. R-2025-3057983 and R-2025-3058051 at 114 (Order Entered July 27, 2026))).

²¹³ I&E St. 1-SR at 12-18.

²¹⁴ OCA St. 1 at 23.

²¹⁵ *Columbia 2025* at *86-87; *PAWC 2026* at 114.

accepted.²¹⁶ OCA argues that Peoples’ proposes that ratepayers should bear 100% of the costs of its incentive compensation plan, including the components designed to align employees’ interests with those of its shareholders. The OCA instead recommends that the Commission provide a downwards adjustment of \$2,520,984 to Peoples’ FPFTY incentive compensation claim.²¹⁷

RECOMMENDATION

This ALJ agrees that the incentive compensation program proposed by Peoples is supported by evidence that it provides benefits to customers. I&E proposes to reduce the Company’s claim for incentive compensation by \$4,610,153 and rate base by \$1,318,847.²¹⁸ OCA proposes to reduce the Company’s claim for incentive compensation by \$2,520,984.²¹⁹

I&E and OCA argue that because the Company’s incentive compensation includes financial goals, that portion of the Company’s incentive compensation expense should not be recoverable.²²⁰ This ALJ accepts Peoples’ position that this argument has been rejected by the Commission in prior rate cases where the Commission has reviewed and approved the recovery of expenses for incentive compensation programs.²²¹ In these

²¹⁶ OCA St. 2SR at 7.

²¹⁷ OCA St. 2SR at 9; OCA Sch. JNG-8-SR; OCA MB at 32.

²¹⁸ I&E St. 1-SR at 15.

²¹⁹ OCA St. 2-SR at 9.

²²⁰ I&E St. 1 at 12-14; OCA St. 1 at 11-12.

²²¹ 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) (“PPL Electric 2012 RD”); *Pa. PUC v. PPL Electric Utilities Corp.*, Docket No. R-2012-2290597, at p. 26 (Order entered Dec. 28, 2012) (“PPL Electric 2012”); *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711, 2008 Pa. PUC LEXIS 50 at *20-26 (Order July 31, 2008) (“Aqua 2008”); *Pa. PUC v. Duquesne Light Co.*, 1987 Pa. PUC LEXIS 342 (Order Mar. 10, 1987); *Pa. PUC v. PPL Gas Utilities Corporation*, Docket No. R-

cases, the Commission has established a bright line test for incentive compensation expense. If the incentive compensation programs of the utility are reasonable and provide a benefit to ratepayers, they may be recovered in their entirety.²²² The Commission has reaffirmed this standard in recent cases.²²³ For example, in *UGI Electric*, the Commission rejected a proposal to disallow incentive compensation that included, in part, a financial metric, stating:

We find that [UGI] has provided substantial evidence of record to demonstrate that the incentive compensation program as a whole includes both financial and operating metrics and goals which benefit customers.

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. We find that because UGI's incentive compensation plan is reasonable, prudently incurred, and is not excessive in amount, UGI is permitted full recovery of this expense.²²⁴

Therefore, in light of the above, and for similar reasoning above as to the importance of incentivized programs for employees, I recommend that the Incentive Compensation Program as proposed by Peoples be accepted by the Commission.

00061398 (Order Feb. 8, 2007); *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2008-2073938, 2008 Pa. PUC LEXIS 32 (Order Dec. 19, 2008).

²²² PPL Electric 2012 at 26.

²²³ See *Pa. PUC v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058 (Order entered Oct. 25, 2018) (“*UGI Electric*”) at 73-74; *Aqua 2022* at 100.

²²⁴ See *Pa. PUC v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058 (Order entered Oct. 25, 2018) (“*UGI Electric*”) at 73-74; *Aqua 2022* at 100.

7. EMPLOYEE BENEFITS EXPENSE

Peoples

Peoples' claim for employee benefits expense is \$44,245,324, which is projected to be capitalized at a rate of 55.86% resulting in an employee benefits expense claim of \$19,531,394 and a rate base claim for employee benefits of \$24,713,929.²²⁵ According to Peoples, I&E witness Okum recommended two adjustments related to employee benefits expense. The first adjustment corresponds to Ms. Okum's recommended vacancy adjustment to labor expense. The second adjustment is to add back the costs associated with the Company's proposed LIURP Compliance Specialist position that the Company has proposed to recover through the USP Rider.²²⁶

I&E

I&E notes that Peoples' claim for employee benefits expense is \$44,245,324, which is projected to be capitalized at a rate of 55.86% resulting in an employee benefits expense claim of \$19,531,394 and a rate base claim for employee benefits of \$24,713,929.²²⁷ I&E recommends an allowance of \$18,661,800, or a reduction of \$869,594 (\$19,531,394 - \$18,661,800) to the Company's claim, and a rate base allowance of \$23,613,594, or a reduction of \$1,100,335 (\$24,713,929 - \$23,613,594) to the Company's claim, based on I&E's recommended adjustments to labor expense.²²⁸

²²⁵ I&E St. 1 at 19 (*citing* Peoples Exh. No. 4, Sch. 1 at 10).

²²⁶ Peoples MB at 23-24.

²²⁷ I&E St. 1 at 19 (*citing* Peoples Exh. No. 4, Sch. 1 at 10).

²²⁸ I&E St. 1-SR at 23; I&E MB at 24.

OCA

The OCA recommends that Peoples' claimed employee benefits expense be decreased by \$887,355, consistent with the OCA's recommended vacancy rate adjustment.²²⁹

RECOMMENDATION

Similar to the vacancy rate adjustment, this ALJ agrees with I&E's recommendation of an allowance of \$18,661,800 (in other words, a reduction of \$869,594 to the Company's claim, and a rate base allowance of \$23,613,594 (in other words, a reduction of \$1,100,335) to the Company's claim, based on I&E's recommended adjustments to labor expense.²³⁰

8. CORPORATE INSURANCE

Peoples

The Company's corrected claim for corporate insurance is \$7,668,379.²³¹ Peoples notes that I&E accepted the Company's adjusted claim amount except for the proposed increase resulting from the historic average annual increases. Likewise, OCA accepted the Company's corrected claim for corporate insurance but made an adjustment of \$150,963 based on what Peoples characterized as an incorrect statement of its original claim as discussed by Company witness Wachter.²³²

²²⁹ OCA MB at 33.

²³⁰ I&E St. 1-SR at 23.

²³¹ Peoples St. 2-R at 23; Peoples Exhibit No. APW-1R.

²³² *Id.* at p. 24; Peoples MB at 24.

I&E

I&E notes that the Company's claim for corporate insurance is \$5,929,933.²³³ I&E recommends an allowance of \$6,265,643 for corporate insurance, or a reduction of \$1,402,736 (\$7,668,379 - \$6,265,643) to the Company's claim, based on the Company's claim being speculative and not known and measurable.²³⁴

OCA

The OCA withdrew its adjustment to Peoples' corporate insurance expense claim.²³⁵ OCA MB at 33.

RECOMMENDATION

This ALJ is in agreement with I&E's recommendation of a reduction of this expense in the amount of \$1,402,736, based on the claim not being measurable. While this is an important claim to support the needs of the company to provide safe and reasonable service, record evidence does not support the amount fully proposed by Peoples.

²³³ I&E St. 1 at 31 (*citing* Peoples Exh. No. 4, Sch. 1 at 2).

²³⁴ I&E St. 1 at 31-34; I&E St. 1-SR at 27-28; I&E main MB at 25.

²³⁵ OCA St. 2SR at 12.

9. EMPLOYEE EXPENSE

Peoples

Peoples' claim in this proceeding includes \$756,875 in employee expenses broken down as follows:²³⁶

e. Employee Activity Costs:	Peoples Natural Gas Company LLC
EMPLOYEE EVENTS	51,541
MANAGEMENT LEADERSHIP MEETING	768
DEVICE REIMBURSEMENT	126,820
OTHER	74,402
PARKING LEASES	203,085
SERVICE/SAFETY AWARDS	247,078
< \$500	34,305
SAFETY-RELATED	18,875
Total Employee Activity Costs	\$ 756,875

Peoples avers that it has demonstrated that these are prudently incurred costs that are necessary, normal course employee expenses and further can help to attract and retain employees.²³⁷ The Company submits that it hosts small employee gatherings, such as the Special Olympics Polar Plunge event, and team lunches. Peoples maintains that these events are an integral part of the Company's employee recognition and engagement program and are necessary to encourage an engaged workforce. Service and Safety Awards are another important part of the Company's employee recognition programs. Service Awards recognize employees who have committed their careers to the Company. Peoples argues that these awards are an important part of employee satisfaction as evidenced by the feedback received when the Company surveyed its employees.²³⁸ Peoples notes that these awards also encourage employees to work safely, which saves the Company and customers money.

²³⁶ Peoples St. 2-R at 25.

²³⁷ Peoples St. 2-R at 25-26.

²³⁸ Peoples St. 2-R at 25-26.

Peoples further argues that in UGI Electric's 2017 base rate case, the Commission allowed employee expenses that involved an element of employee recognition.²³⁹

Peoples maintains that the Employee Service and Safety Awards and Employee Event costs are an integral part of the Company's employee recognition and engagement program. An engaged and tenured workforce is necessary for the Company to continue to provide safe and reliable service to customers.²⁴⁰

I&E

I&E's recommendations regarding employee expense were discussed in the Labor/Vacancy Expense section.²⁴¹

²³⁹ *Pa PUC v. UGI Electric*, Docket No. R-2017-2640058 (Order entered Oct. 25, 2018) at 70-71.

²⁴⁰ Peoples MB at 24-26.

²⁴¹ I&E MB at 25.

OCA

OCA notes that Peoples proposed including costs totaling \$756,875 in the cost of service related to employee activities, such as employee events and safety awards, at the close of the FPFTY.²⁴² The OCA recommended a downwards adjustment of \$426,970 to the claimed expense to reflect the removal of costs that do not aid in the provision of safe and reliable public utility service.²⁴³ The OCA does not contest the recovery of expenses related to Peoples' reimbursement of employee costs for parking leases and cell phones.²⁴⁴

OCA argues that Peoples claims that it is reasonable and prudent to recover from ratepayers the costs of: employee gatherings, such as the Special Olympics Polar Plunge event; team lunches; Service Awards that reward employees' anniversaries with the Company; and other, similar, expenses.²⁴⁵ However, Peoples' explanation of these expenses does not demonstrate that they are reasonable or necessary to the provision of safe and reliable service for Peoples' customers.²⁴⁶ Unlike the parking lease and cell phone expenses which the OCA does not contest, the remaining employee expense items should not be recovered through Peoples' rates as they are only tangentially related to Peoples' natural gas distribution service. For these reasons, the OCA recommends that Peoples' employee expenses be adjusted downwards by \$426,970 for an expense allowance of \$329,905.²⁴⁷

²⁴² OCA St. 2 at 18.

²⁴³ OCA St. 2 at 18; OCA St. 2SR at 10-11.

²⁴⁴ OCA St. 2SR at 11.

²⁴⁵ Peoples St. 2-R at 25-26.

²⁴⁶ OCA St. 2SR at 11.

²⁴⁷ OCA Sch. JNG-10-SR; OCA MB at 33-34.

RECOMMENDATION

I am persuaded by Peoples' contention that a strong and motivated workforce is crucial to maintaining employees, and a fully staffed and motivated workforce means that employees are on hand to address all customer needs in the utility's various departments. While I acknowledge the OCA's position that Peoples' discussion of its small employee gatherings does not prove that they are necessary for Peoples to provide safe and reliable service to its customers, I disagree. Rather, I find that incentivized employee programs only strengthen a utility's ability to provide quality service.

Therefore, this ALJ recommends the adoption of Peoples' proposal of \$756,875 for employee expenses.

10. TRAVEL AND ENTERTAINMENT EXPENSE

Peoples

The Company proposed to recover \$799,375 of travel and entertainment expenses in this proceeding.

Peoples maintains that its witness Wachter provided a detailed explanation of the expenses and why they are appropriate as summarized below.²⁴⁸

Description	Amount	Reason for Inclusion
Employee events	\$269,797	These costs mainly relate to the costs associated with an employee picnic at Kennywood, an annual employee event at Lerner Speedway and other such events. These are important employee

²⁴⁸ Peoples St. 2-R at 27-28.

		events that act as a way to build camaraderie and reward employees for hard work. The best places to work have these types of activities.
Sports Sponsorship Related expense	\$207,066	Costs represent costs related to corporate functions at sporting venues and other company events. These costs include the value of the tickets received in conjunction with the advertising partnerships the Company has with the various sports teams among other costs. These tickets are used for employee recognition and other such business purposes.
Service Awards & Related	\$112,213	These costs relate to the service awards provided to employees to recognize their service anniversary and to reward them for their commitment to serving our customers. This also includes costs related to employee items such as Company shirts for the annual picnic.
Misc. Employee Spending	<u>\$210,299</u>	Represents other employee related costs such as other reimbursable meals incurred during approved overtime, business related meals and working meals This equates to about \$110 per employee.
Total	\$799,375	

As demonstrated on the table, Peoples maintains that these are regular business expenses for travel, employee recognition and employee meals. These are

normal, reasonable costs of doing business and are consistent with the Commission's precedent allowing costs related to employee activities.²⁴⁹

I&E

I&E notes that the Company's claim for travel and entertainment expense is \$1,139,305.²⁵⁰ I&E recommends an allowance of \$1,030,648, or a reduction of \$108,657 (\$1,139,305 - \$1,030,648) to the Company's claim, based on the Company's claim being speculative and not known and measurable.²⁵¹

OCA

Peoples proposed to include \$1.139 million of travel, meal, and entertainment expenses in the FPFTY.²⁵² OCA witness Geiger recommended a downwards adjustment of \$908,032 to this expense claim, reflecting a disallowance of the escalation factor of \$108,658 and a disallowance of \$799,375 in additional employee entertainment and promotional activity expenses.²⁵³ Of the additional employee entertainment and promotional activity expenses the OCA recommends disallowing, these expense items include an annual Company picnic, events at sporting venues, service anniversary rewards, matching Company shirts for events, and reimbursable meal

²⁴⁹ See *UGI Electric* at 70-71 (allowing employee recognition costs); *see also PA PUC v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929, Order entered June 22, 2021 at 101 (allowing Travel, Meals and Entertainment Costs); *Pa. PUC v. Pennsylvania-American Water Company*, Docket No. R-00943231, 1995 Pa. PUC LEXIS 170 at *37-39 (Order entered July 24, 1995) (allowing expenditures on employee activities that have a positive impact on employee morale and productivity); Peoples MB at 26-27.

²⁵⁰ I&E St. 1 at 34 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 17).

²⁵¹ I&E St. 1 at 34-36; I&E St. 1-SR at 28-29; I&E MB at 25.

²⁵² OCA St. 2 at 11.

²⁵³ OCA Sch. JNG-11-SR.

expenses.²⁵⁴ Peoples has failed to meet its burden of proof that it is reasonable to recover such costs through rates; while these expenses may fund discretionary activity and team bonding events for Peoples' employees, the Company has not demonstrated that such costs are reasonable or that they are related to providing safe and reliable service.²⁵⁵ As a result, the OCA recommends a downwards adjustment of \$908,033 to this expense account.²⁵⁶

RECOMMENDATION

This ALJ is in agreement with the Company's proposal for travel and entertainment expense for similar reasons as employee expenses. This ALJ notes that I&E witness Okum proposed to eliminate the Company's multi-year average annual increase for travel and entertainment expense. OCA witness Geiger proposed to remove \$799,375 of travel and entertainment expenses that he claims are "discretionary entertainment and promotional expenses."²⁵⁷ However, as stated above, a strong and motivated workforce paves the way for a Company that is successful in its efforts to provide safe and reliable service. This ALJ recommends that the Commission approve the Company's proposal of \$799,375.

²⁵⁴ Peoples St. 2-R at 27.

²⁵⁵ OCA St. 2SR at 11.

²⁵⁶ OCA Sch. JNG-11-SR; OCA MB at 34.

²⁵⁷ OCA St. 2 at 18-19.

11. COMPANY MEMBERSHIPS

Peoples

Peoples notes that it is a member of certain organizations which assist it in operating efficiently and maintaining awareness of regulatory trends and issues.²⁵⁸

Peoples witness Wachter presented the following summary of the Company's memberships and the reasons for their inclusion in the Company's claim:²⁵⁹

Organization	Amount	Basis for Inclusion in the Claim
AI Horizons	\$28,716	This is a business development group comparable to a chamber with a focus on attracting business & industry related to artificial intelligence and data centers to Western Pennsylvania. The Company joined the group to support their economic development in the region.
African American Chamber of Commerce, Beaver County Chamber of Commerce, Greater Pittsburgh Chamber of Commerce, North Side Chamber of commerce, Pittsburgh Airport Area Chamber of commerce, Pennsylvania Chamber of Business & Industry, Downtown Neighbors Alliance, Pittsburgh Metropolitan Area Hispanic Chamber of Commerce, and	\$68,619	These organizations are created to serve both the companies and the individuals in these specific regions to improve the economy and quality of life through legislative and regulatory improvements. These are a "unified voice" to convey the needs and priorities of the region to local, state, and federal decision makers. Without being part of these organizations that are created for the greater good of our region, the organizations lose power in their voice to do right by our region and its inhabitants.

²⁵⁸ Peoples St. 2-R at 28-29.

²⁵⁹ Peoples St. 2-R at 28-29.

Organization	Amount	Basis for Inclusion in the Claim
Downtown Neighbors Alliance		
Curate Solutions Inc.	\$13,701	This is a technology that allows our business to track city and county ordinances, policies and regulations that could impact our business. This technology keeps us abreast of any policy changes that could affect Peoples Gas and its customers.
Leadership Pittsburgh Inc.	\$13,324	The Company supports participation in Leadership Pittsburgh Inc. because it provides valuable leadership development, community engagement, and regional collaboration opportunities that ultimately benefit both the Company and its customers. Leadership Pittsburgh's mission is to strengthen regional leadership through programs, partnerships, and connections that bring together leaders from business, government, nonprofit, and civic organizations to address issues affecting Southwestern Pennsylvania. Participation in Leadership Pittsburgh enhances an employee's understanding of the economic, social, and infrastructure challenges facing the communities the Company serves. Through interaction with leaders from diverse sectors, participants gain broader perspectives, learn best practices, and develop relationships that can facilitate collaboration on issues affecting customers and the region. From a customer perspective, these experiences help Company leaders become more informed and effective decision-makers. Improved leadership capabilities support better strategic planning, stronger stakeholder engagement, and more responsive customer-focused policies. In addition, the program's emphasis on regional problem-solving and community impact aligns with the Company's

Organization	Amount	Basis for Inclusion in the Claim
		obligation to provide safe, reliable, and affordable utility service while contributing positively to the economic vitality of the communities it serves. The Company has numerous leaders participate in this development program.
Total	\$115,828	

Peoples argues that it has demonstrated that its membership in these organizations benefits customers, and the Company's membership costs should be approved.²⁶⁰

I&E

I&E notes that the Company's claim for memberships expense is \$1,220,436.²⁶¹ I&E recommends an allowance of \$1,062,518, or a reduction of \$157,918 (\$1,220,436 - \$1,062,518) to the Company's claim, based on removing the 7.17% annual increase from the FTY and FPFTY claims as the Company's claim is speculative and not known and measurable.²⁶²

OCA

OCA argues that its witness Geiger reviewed the Company's memberships and found that "several of the organizations the Company has included do not aid in the provision of safe and reliable service to ratepayers."²⁶³ In his surrebuttal testimony, Mr. Geiger revised his recommendation and determined that ratepayers and Peoples'

²⁶⁰ Peoples MB at 27-29.

²⁶¹ I&E St. 1 at 36 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 18).

²⁶² I&E St. 1 at 36-37; I&E St. 1-SR at 29-30; I&E MB at 25-26.

²⁶³ OCA St. 2 at 16.

shareholders should evenly bear the burden of 11 of these memberships.²⁶⁴ Namely, the organizations for which cost should be shared between shareholders and ratepayers reflect business and economic development, public affairs, and community relations organizations.²⁶⁵

OCA submits that these organizations provide shareholder benefits by promoting Company goodwill in the communities in which it operates, a benefit which inures exclusively to Peoples and does not directly result in the provision of safe and reliable service. OCA notes that as the Commission stated in *Columbia 2025*, “absent evidence that there is any direct benefit to ratepayers, Columbia should not be permitted to recover costs for membership in” local chambers of commerce.”²⁶⁶ Therefore, Mr. Geiger’s recommendation reflects a reasonable share of the costs between Peoples and its ratepayers, in light of the Commission’s clear precedent that membership costs which promote the Company’s image as a good corporate citizen are not properly included in rates. The OCA recommends a downwards adjustment of \$57,914 for company membership expenses.²⁶⁷

RECOMMENDATION

This ALJ notes that I&E witness Okum proposed to eliminate the Company’s multi-year average annual increase adjustments to Company Memberships. OCA witness Geiger proposed to disallow \$115,828 in expenses related to the Company’s memberships.²⁶⁸ This ALJ is in agreement with I&E’s recommendation to

²⁶⁴ OCA Sch. JNG-9-SR.

²⁶⁵ OCA St. 2SR at 9-10.

²⁶⁶ Columbia 2025 at *101.

²⁶⁷ OCA MB at 35.

²⁶⁸ OCA St. 2 at 16-17

reduce the Company's claim by this amount, for a total allowance of \$1,062,518 (as opposed to the Company's proposed allowance of \$1,220,436).²⁶⁹

12. LICENSE AND PERMIT EXPENSE

Peoples

The Company's claim for license and permit expense is \$738,885. Peoples notes that the only adjustment to license and permit expense was presented by I&E witness Okum. Ms. Okum proposed to eliminate the Company's multi-year average annual increase adjustments. The Company rejects this adjustment.²⁷⁰

I&E

I&E notes that the Company's claim for license and permit expense is \$738,885.²⁷¹ I&E recommends an allowance of \$704,167, or a reduction of \$34,718 (\$738,885 - \$704,167) to the Company's claim, based on the Company's claim being speculative and not known and measurable.²⁷²

OCA

The OCA did not present testimony regarding this issue.²⁷³

²⁶⁹ I&E St. 1 at 36 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 18).

²⁷⁰ Peoples MB at 29.

²⁷¹ I&E St. 1 at 38 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 19).

²⁷² I&E St. 1 at 38-39; I&E St. 1-SR at 30-31; I&E MB at 26.

²⁷³ OCA MB at 36.

RECOMMENDATION

This ALJ acknowledges is in agreement with the allowance as proposed by the Company. This ALJ therefore recommends that the Company's proposed claim for license and permit expense in the amount of \$738,885 be approved by the Commission.

13. UTILITIES AND FUEL EXPENSE

Peoples

The only adjustment to utilities and fuel expense was presented by I&E witness Okum. Ms. Okum proposed to eliminate the Company's multi-year average annual increase adjustments. The Company rejected this adjustment.²⁷⁴

I&E

I&E notes that the Company's claim for utilities and fuel expense is \$3,084,199.²⁷⁵ I&E recommends an allowance of \$2,849,895, or a reduction of \$234,304 (\$3,084,199 - \$2,849,895) to the Company's claim, based on the Company's claim being speculative and not known and measurable.²⁷⁶

OCA

The OCA did not present testimony regarding this issue.²⁷⁷

²⁷⁴ Peoples MB at 29.

²⁷⁵ I&E St. 1 at 40 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 20).

²⁷⁶ I&E St. 1 at 40-41; I&E St. 1-SR at 31-32; I&E MB at 26.

²⁷⁷ OCA MB at 36.

RECOMMENDATION

Similar to the license and permit allowance, this ALJ is in agreement with the Company's proposal of \$3,084,199 for utilities and fuel expense.

14. ADVERTISING EXPENSE

Peoples

The Company's claim for advertising expense in this proceeding is \$1,458,032.²⁷⁸

People's notes that the Public Utility Code expressly authorizes the recovery of advertising expenses which meet any of the following criteria:²⁷⁹

- (1) Is required by law or regulation.
- (2) Is in support of the issuance, marketing or acquisition of securities or other forms of financing.
- (2) Encourages energy independence by promoting the wise development and use of domestic sources of coal, oil or natural gas and does not promote one method of generating electricity as preferable to other methods of generating electricity.
- (4) Provides important information to the public regarding safety, rate changes, means of reducing usage or bills, load management or energy conservation.
- (5) Provides a direct benefit to ratepayers.

²⁷⁸ Peoples Volume 1, Exhibit No. 4, Schedule 1 at 2, line 16.

²⁷⁹ 66 Pa. C.S. § 1316(a).

(6) Is for the promotion of community service or economic development.

Peoples argues that its sports-related messaging meets several of the statutory criteria for recovery. As explained by Peoples witness Wachter, the Company uses partnerships with local professional sports teams to increase customer and public awareness of critical safety information in the seasons which most closely correspond to potential dangers. For example, Peoples leverages its partnerships with the Altoona Curve to promote “Call 811” safe digging practices in print and video advertisements at the ballpark. The advertisements refer customers to the Company’s website where they can find information regarding safe digging and other important gas safety information, which has been viewed more than 47,000 times from 2024-July 2026 as a result of the Company’s advertising efforts.²⁸⁰ Peoples notes that it also partners with the Pittsburgh Steelers and Pittsburgh Penguins to educate the public about how to use your senses to recognize and respond to natural gas leaks and how to detect and prevent carbon monoxide poisoning. Peoples uses all three of its sports partnerships to communicate about bill assistance programs such as LIHEAP and Dollar Energy Fund during the winter heating seasons.

Peoples maintains that customers benefit from the Company’s sports partnership advertising campaigns regarding safety and bill assistance, and that these partnerships provide economic development benefits to the community. The Company’s professional sports partners are catalysts for economic development in the City of Pittsburgh and the western Pennsylvania region. For example, a 2024 PricewaterhouseCoopers LLC study estimated the Pittsburgh Steelers generated approximately \$3.4 billion in direct or indirect contributions to Allegheny County and helped create more than 3,000 jobs in a four-year period, in addition to providing \$140

²⁸⁰ Peoples St. 2-R at 33-34.

million in tax revenue to local and state governments.²⁸¹ The Company's professional sports partners are also engaged in many community service projects throughout the region. For example, the Pittsburgh Penguins Foundation's most recent Community Impact Report cites charitable investments exceeding \$6 million benefiting more than 200 local organizations in 2024-2025.²⁸²

Peoples maintains that sports partnerships advertising provides direct benefits to the Company's customers and the local community and these advertising expenses are properly recoverable.²⁸³

I&E

I&E notes that the Company's claim for advertising expense is \$1,458,032 and largely relates to sponsorships of professional sports teams including Pittsburgh Steelers LLC of \$918,791, Pittsburgh Penguins LP of \$262,182, and Lozinak Professional Baseball LLC of \$203,462, as well as sponsorship of a holiday market of \$125,000.²⁸⁴

I&E recommended an allowance of \$259,746 for advertising expense, or a reduction of \$1,198,286 (\$1,458,032 - \$259,746) to the Company's claim.²⁸⁵ I&E's reduction was based on the removal of advertising related to sponsorships and sports partnerships, as well as the removal of the inflation adjustment included in the Company's claim.²⁸⁶

²⁸¹ Peoples St. 2-R at 35-36.

²⁸² *Id.* at p. 36.

²⁸³ 66 Pa. C.S. § 1316(a); Peoples MB at 29-31.

²⁸⁴ I&E St. 1 at 42-43 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 21; I&E Exh. No. 1, Sch. 19 at 2).

²⁸⁵ I&E St. 1-SR at 34.

²⁸⁶ I&E St. 1 at 43-45.

The Company's claims relating to sponsorships and sports partnerships are inappropriate and should be disallowed for ratemaking purposes as the advertisements represent goodwill or promotional advertising and do not directly benefit ratepayers. It is not apparent that these advertisement programs meet any of the six criteria enumerated in 66 Pa. C.S. § 1316(a) as they: (1) are not required by law or regulation; (2) are not in support of the issuance, marketing, or acquisition of securities or other forms of financing; (3) do not encourage energy independence by promoting the wise development and use of domestic sources of coal, oil, or natural gas and does not promote one method of generating electricity as preferable to other methods of generating electricity; (4) do not provide important information to the public regarding safety, rate changes, means of reducing usage or bills, load management or energy conservation; (5) do not provide a direct benefit to ratepayers; or (6) promote community service or economic development.²⁸⁷

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

Therefore, in consideration of the record evidence presented, I&E recommends an allowance of \$259,746 for advertising expense, or a reduction of \$1,198,286 (\$1,458,032 - \$259,746) to the Company's claim.²⁸⁸

²⁸⁷ See 66 Pa. C.S. § 1316(a).

²⁸⁸ I&E St. 1 at 42-45; I&E St. 1-SR at 32-34; I&E MB at 26-28.

OCA

The OCA recommended that Peoples' historical escalation factor adjustment to HTY expense amounts, including advertising expense, be disallowed. The OCA recommends that the Commission disallow \$75,656 of Peoples' claimed advertising expense, based on the Company's actual HTY expense for this account.²⁸⁹

RECOMMENDATION

This ALJ acknowledges that I&E witness Okum proposed to eliminate \$997,630 related to the Company's advertising associated with sports partnerships.²⁹⁰ This ALJ agrees. It is not clear from the record evidence that sports partnerships are necessary and essential for the provision of safe and reliable service for Peoples customers, and it is therefore not clear that Peoples customers should bear the burden of cost for this type of advertising. While Peoples efforts to inform the community on various issues are commendable, it does not appear that these efforts should be financially supported by customers who are already struggling to pay their bills. Therefore, this ALJ is in agreement with I&E's recommendation for an allowance of \$259,746 for advertising expense.

²⁸⁹ OCA MB at 36.

²⁹⁰ I&E witness Okum also proposed to eliminate the Company's multi-year average annual increase for an adjustment of \$75,656, which the Company addressed in Section VI.B, above.

15. FLEET EXPENSE

Peoples

Peoples notes that the only adjustment to fleet expense was presented by I&E witness Okum. Ms. Okum proposed to eliminate the Company's multi-year average annual increase adjustments. Peoples rejects this adjustment for the same reasons discussed in the Average Annual Increases section.²⁹¹

I&E

I&E notes that the Company's claim for fleet expense is \$836,976.²⁹² I&E recommends an allowance of \$746,507 or a reduction of \$90,469 (\$836,976 - \$746,507) to the Company's claim, based on Company's claim being speculative and not known and measurable.²⁹³

OCA

The OCA did not present testimony regarding this issue.²⁹⁴

²⁹¹ Peoples MB at 32.

²⁹² I&E St. 1 at 45 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 22).

²⁹³ I&E St. 1 at 45-47; I&E St. 1-SR at 34-35; I&E MB at 28.

²⁹⁴ OCA MB at 36.

RECOMMENDATION

Similar to the discussion under the Average Annual Increases section, given the lack of clearly identifiable evidence to support that increases as proposed by Peoples, this ALJ recommends that they be rejected by the Commission. This ALJ is in favor of the proposed adjustment in the amount of \$746,507, as testified to by I&E witness Okum.

16. MATERIALS AND SUPPLIES EXPENSE

Peoples

Peoples notes that I&E witness Okum proposed to eliminate the Company's multi-year average annual increase adjustments for Materials and Supplies Expense, and OCA witness Geiger proposed to use a three-year average of expenses. Peoples rejects these proposals for the same reasons discussed in the Average Annual Increases section.²⁹⁵

I&E

The Company's claim for materials and supplies expense is \$11,324,992.²⁹⁶ I&E recommends an allowance of \$10,183,664, or a reduction of \$1,141,328 (\$11,324,992 - \$10,183,664) to the Company's claim, based on Company's claim being speculative and not known and measurable.²⁹⁷

²⁹⁵ Peoples MB at 32.

²⁹⁶ I&E St. 1 at 47 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 23).

²⁹⁷ I&E St. 1 at 47-49; I&E St. 1-SR at 35-36; I&E MB at 28.

OCA

The OCA recommends that the Commission deny Peoples' claimed historical-based escalation factors and, instead, use the average expense for the three 12-month periods ended November 30, 2023, through November 30, 2025, which better reflects the costs Peoples has actually incurred.²⁹⁸ Specifically, OCA witness Geiger testified that "costs decreased by 13.9% from 2023 to 2024 and then increased by only 0.46% from 2024 to 2025," indicating significant volatility that is out-of-line with a consistent year-over-year escalation factor.²⁹⁹ Based on Mr. Geiger's findings, the OCA recommends that the Commission apply downwards adjustments of \$555,513 in the FTY and \$585,816 in the FPFTY to remove Peoples' escalation factors.³⁰⁰

RECOMMENDATION

Similar to the discussion under the Average Annual Increases section, given the lack of clearly identifiable evidence to support that increases as proposed by Peoples, this ALJ recommends that they be rejected by the Commission. This ALJ is in favor of the proposed adjustment in the amount of \$10,183,664, as testified to by I&E witness Okum.

17. RATE CASE EXPENSE

Peoples

Peoples proposed to normalize rate case expense over a two-year period based on the estimated filing time between this case and the Company's next rate case.

²⁹⁸ OCA St. 2 at 8-9; OCA Sch. JNG-7-SR.

²⁹⁹ OCA St. 2 at 8-9.

³⁰⁰ OCA MB at 36-37.

The Company anticipates spending over \$1.23 billion in 2028 and 2029 under its Long-Term Infrastructure Improvement Plan (“LTIIP”).³⁰¹ As explained by Peoples witness Wachter, the Distribution System Improvement Charge (“DSIC”) would provide insufficient revenue to cover LTIIP expenditures during 2028 and 2029. The revenue requirement on \$1.23 billion in investment would be over \$100 million; whereas the DSIC capped at 5% of distribution revenue is less than \$45 million. Thus, Peoples submits that the DSIC would recover less than half of the revenue requirement on the Company’s LTIIP spend. Peoples further submits that this illustrates that DSIC revenue is insufficient to provide an adequate return on two years of LTIIP capital expenditures for infrastructure replacement beyond the FPFTY.³⁰²

Peoples witness Wachter explained that the historical time period between cases was affected by stay-out periods due to the unique circumstances of an acquisition and the Internal Revenue Service tax repair election.³⁰³ Moreover, Peoples maintains that the most important factor to consider is when the next case will be filed. Mr. Wachter explained that in order to meet its LTIIP requirements, the Company must file within a two-year period, or it will experience insufficient revenues to provide an adequate revenue requirement.³⁰⁴

In recent cases, the Commission has held that rate case expenses, like other expenses, can be based on future projections. In *UGI Electric*, the Commission adopted UGI’s rate case normalization period based on future projections stating as follows:³⁰⁵

We agree with UGI that the ALJs did not properly consider the Company’s planned acceleration of its capital

³⁰¹ Peoples St. 2-R at 37-41.

³⁰² Peoples St. 2-R at 39-40.

³⁰³ Peoples St. 2-R at 38-39.

³⁰⁴ Peoples St. 2-R at 39-40.

³⁰⁵ *UGI Electric* at 59-60.

expenditures in determining the appropriate normalization period.

The Company has shown that its Long-Term Infrastructure Improvement Plan (LTIIIP) plan has significantly increased capital spending in order to repair, replace or improve qualifying distribution asset categories such as poles, underground and overhead conductor and transformers. Pursuant to its LTIIIP, the Company will be spending over \$8 million per year on these capital projects in each of the years following the FPFTY, which over a three-year period would amount to \$24 million in capital expenditures. UGI has established that this \$24 million expenditure would approximate a \$3 million revenue requirement shortfall and would require the Company to seek relief pursuant to a base rate case. [citation omitted]

The record evidence supports a finding that a long period between rate base proceedings is highly unlikely and that the Company's proposed use of a three-year normalization period for rate case expense is appropriate. Accordingly, we shall adopt the proposed rate case expenses in the amount of \$676,000 and permit amortization of this expense over a three-year period, resulting in a normalized claim of \$225,000 per year.

The Commission held the same in *Citizens' Electric*, stating as follows:³⁰⁶

We note further that this proceeding is premised on the use of a FPFTY and the recognition that certain expenses may be based on future expectations. Consistent with our determination in the *UGI Order*, the normalization period for rate case expense is one of those expenses. Thus, we may depart from the common practice of setting a normalization period based on historic filing frequency where substantial evidence exists to support a different normalization period. Such is the case here, where Citizens' has enumerated convincingly the reasons that support a shortened filing frequency cycle.

³⁰⁶ *PA PUC v. Citizens' Electric Company of Lewisburg, PA*, Docket No. R-2019-3008212 (Order entered April 27, 2020) ("*Citizens' Electric*") at 80.

Peoples notes that OCA witness Geiger updated his position to a 3.5-year amortization period in response to Mr. Wachter's testimony and based upon Mr. Geiger recognizing that the stay out period between 2012 to 2019 is less representative of future base rate case filing frequency.³⁰⁷ Peoples argues that the same logic should be applied to the period of 2019 to 2023.

Peoples maintains that using a two-year normalization period of rate case expenses is justified based on its LTIIP expenditures alone.³⁰⁸

I&E

I&E notes that the Company's claim for rate case expense is \$960,000 and the Company requested a normalization period of two years (24 months).³⁰⁹

I&E recommended that the Company's rate case expense be normalized over a period of 56 months resulting in an annual expense of \$411,429 ($(\$1,920,000 \div 56 \text{ months}) \times 12 \text{ months}$), or a reduction of \$548,571 ($\$960,000 - \$411,429$) to the Company's claim.³¹⁰

I&E's recommendation is based on adjusting the normalization period to match Peoples' historic average base rate case filing frequency of 56 months ($(27 \text{ months} + 59 \text{ months} + 83 \text{ months}) \div 3$).³¹¹ As seen in the 2025 Columbia Gas base rate case, I&E notes that the Commission has consistently used the utility's historic average filing frequency rather than the utility's requested period when determining the appropriate rate

³⁰⁷ Peoples St. 2-RJ at 17.

³⁰⁸ Peoples MB at 32-34.

³⁰⁹ I&E St. 1 at 53 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 27).

³¹⁰ *Id.* at pp. 54-58.

³¹¹ *Id.* at pp. 54-55.

case normalization period.³¹² I&E submits that the Company's proposed rate case expense normalization period of 24 months is speculative and is not supported by the historic filing frequency.

Therefore, in consideration of the record evidence presented, I&E recommends an allowance of \$411,429, or a reduction of \$548,571 (\$960,000 - \$411,429) to the Company's rate case expense claim, to be normalized over 56 months for ratemaking purposes.³¹³

OCA

OCA notes that Peoples claimed a rate case expense of \$1.920 million normalized over a two-year period, for an annual expense claim of \$0.960 million included in the FPFTY.³¹⁴ While the OCA did not dispute the amount of Peoples' rate case expense claim, the OCA recommends that the Commission adjust the normalization period for Peoples' rate case expense claim to three and a half years, resulting in a downward adjustment of FPFTY rate case expense of \$411,429.³¹⁵ OCA argues that Peoples' proposed normalization period does not accurately reflect its historic filing frequency and should not be accepted.

OCA further notes that the Commission has consistently held that rate case expenses are normal operating expenses that are incurred on an irregular basis, meaning that the expenses should be normalized over a period based on the historical frequency of

³¹² *Id.* at p. 58 (citing *Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 at 138 (Order Entered December 9, 2025)).

³¹³ I&E St. 1 at 52-58; I&E St. 1-SR at 37-39; I&E MB at 29.

³¹⁴ OCA St. 2 at 7.

³¹⁵ OCA St. 2SR at 5.

the utility's rate filings.³¹⁶ OCA witness Geiger utilized the Company's three most recent rate filings in 2019, 2023, and 2026, to compute an average interval of approximately three and a half years.³¹⁷ The OCA has therefore normalized the rate expense claim over three and a half years, and results in a downwards adjustment to rate case expense of \$411,429.³¹⁸

RECOMMENDATION

Peoples notes that OCA and I&E both proposed to increase the normalization period of rate case expense based on the Company's rate case filing history. OCA witness Geiger proposed a five-year normalization period.³¹⁹ This reduces the Company's annual claim of \$960,000 by \$411,429 to \$548,571. I&E witness Okum proposed a 56-month normalization period.³²⁰ I&E's proposed adjustment reduces the Company's claim of \$960,000 by \$548,571 to \$411,429. As I&E's recommendation is based on adjusting the normalization period to match Peoples' historic average base rate case filing frequency of 56 months,³²¹ which is supported by Commission precedent,³²² I recommend that I&E's recommended allowance of \$411,429 be accepted by the Commission.

³¹⁶ *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154 (Pa. Cmwlth. 1996) ("the period of normalization is determined by examining the utility's *actual* historical rate filings, not upon the utility's intentions.") (emphasis in original) (*citing Pa. Pub. Util. Comm'n v. Borough of Media Water Works*, 72 Pa. PUC 144 (1990)); *see also, e.g., Columbia 2025* at *94; *Pa. PUC v. Columbia Water Co.*, 2024 PA. PUC LEXIS 23, *20-21 (Jan. 18, 2024) (*Columbia Water 2024*).

³¹⁷ OCA St. 2SR at 5.

³¹⁸ OCA St. 2SR at 5; OCA Sch. JNG-6-SR; OCA MB at 37-38.

³¹⁹ OCA St. 2 at 7-8.

³²⁰ I&E St. 1 at 54.

³²¹ *Id.* at pp. 54-55.

³²² *Id.* at p. 58 (*citing Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 at 138 (Order Entered Dec. 9, 2025)).

18. PENSION EXPENSE

Peoples

The Company's claim for pension expense is \$3,164,136.³²³ The Company used a four-year average of pension expense to determine its claim in this proceeding. The Company notes that it also seeks to maintain an appropriate funding cushion to mitigate the effects of potential market volatility and changing actuarial assumptions. Peoples submits that maintaining a strong funded status reduces the risk that significant future contribution requirements could arise during periods of economic stress. Peoples argues that this approach benefits both employees and customers by promoting long-term financial stability and reducing the likelihood of substantial swings in future pension expense.

Furthermore, Peoples maintains that pension contributions reflect cash funding requirements and funding policies that are distinct from pension accounting measurements. Peoples argues that the accounting funded status reported on the balance sheet does not, by itself, determine the amount of prudent future contributions. Pension funding decisions are based upon actuarial evaluations of future obligations, expected benefit payments, regulatory requirements, and the Company's long-term funding objectives.

The Company argues that its approach is consistent with sound financial management principles. A well-funded pension plan strengthens benefit security for employees, supports long-term financial stability, and reduces the potential for larger funding requirements in future periods. For these reasons, Peoples argues that the mere existence of an overfunded pension position does not support eliminating pension

³²³ Peoples Volume 1, Exhibit No. 4, Schedule No. 1 at 2, line 3.

expense from rates or concluding that future pension contributions are unnecessary. Peoples maintains that it has consistently funded its pension plan in a prudent manner and will continue to do so in the future.³²⁴

I&E

I&E notes that the Company's claim for pension expense is \$3,164,136.³²⁵ I&E recommends disallowance of the entire \$3,164,136 claim.³²⁶ I&E submits that, should the Commission decide to grant the Company this expense, I&E recommends that the Commission should only allow a three-year average of net cash contributions for 2023, 2024, and 2025, or \$2,328,848 $((\$5,670,000 + \$1,316,545 + \$0) / 3)$, or a reduction of \$835,288 to Peoples' claim, rather than the Company's four-year average of \$3,164,136 that, I&E submits, inappropriately includes 2022 to capture an older historic amount of \$5,670,000 which serves only to inflate the claim.³²⁷

OCA

The OCA did not present testimony regarding this issue.³²⁸

RECOMMENDATION

I&E witness Okum proposes to disallow the entire FPFTY claim for pension expense based on her belief that it is questionable whether the Company will

324 Peoples MB at 34-36.
325 I&E St. 1 at 17 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 8).
326 I&E St. 1 at 18.
327 I&E St. 1-SR at 21-22 (*citing* Peoples Exh. No. 4, Sch. 1 at 8); I&E MB at 30.
328 OCA MB at 39.

need to make a contribution in 2026 or 2027 due to the overfunded status of the plan.³²⁹ Peoples argues that I&E's proposed disallowance of the Company's pension expense is speculative and does not reflect how the Company funds its pension plan. Peoples witness Mr. Wachter explained the Company's prudent approach to funding its pension plan³³⁰:

The existence of an overfunded pension at a particular point in time does not mean that future pension contributions are unnecessary or imprudent. Rather, pension funding decisions are based on long-term obligations and funding policies designed to ensure that sufficient assets are available to meet promised retirement benefits over many decades.

A pension plan's funded status is highly sensitive to factors that are outside of management's control, including investment performance, discount rates, employee demographics, mortality assumptions, retirement patterns, and other actuarial factors. As a result, a funded position that appears favorable in one year can change materially in subsequent years. Consequently, prudent pension management requires the Company to evaluate funding needs on a prospective basis rather than relying solely on a snapshot of the plan's funded status at a single point in time.

Alternatively, I&E recommends that the Commission should only allow a three-year average of net cash contributions for 2023, 2024, and 2025, or \$2,328,848 (in other words, a reduction of \$835,288 to Peoples' claim), rather than the Company's four-year average of \$3,164,136. In consideration of the two arguments, I recommend that the Commission approve the middle line of allowing the pension expense, but at the reduction of \$835,288, as recommended by I&E.

³²⁹ I&E St. 1 at 18.

³³⁰ Peoples St. 2-R at 42-43.

19. OUTSIDE SERVICES

Contracted

Peoples

Peoples notes that the only adjustment to Outside Services - Contracted was presented by I&E witness Okum. Ms. Okum proposed to eliminate the Company's multi-year average annual increase adjustments. The Company rejected this adjustment.³³¹

I&E

I&E notes that the Company's claim for outside services – contracted is \$22,002,493.³³² I&E recommends an allowance of \$19,947,180 for outside services – contracted, or a reduction of \$2,055,313 (\$22,002,493 - \$19,947,180) to the Company's claim, based on the Company's claim being speculative and not known and measurable.³³³

OCA

The OCA did not present testimony regarding this issue.³³⁴

³³¹ Peoples MB at 36.

³³² I&E St. 1 at 23 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 11).

³³³ I&E St. 1 at 23-25; I&E St. 1-SR at 24-25; I&E MB at 30.

³³⁴ OCA MB at 39.

RECOMMENDATION

Similar to the discussion under the Average Annual Increases section, given the lack of clearly identifiable evidence to support that increases as proposed by Peoples, this ALJ recommends that they be rejected by the Commission. This ALJ is in favor of the proposed allowance in the amount of \$19,947,180 for outside services – contracted, as testified to by I&E witness Okum.

Administrative and General

Peoples

Peoples notes that I&E witness Okum proposed to eliminate the Company's multi-year average annual increase adjustments for Outside Services – Administrative and General. Peoples further notes that OCA witness Geiger proposed to use a three-year average of expenses. The Company rejected this adjustment.³³⁵

I&E

I&E notes that the Company's claim for outside services – administrative and general is \$6,333,184.³³⁶ I&E recommends an allowance of \$5,406,725 for outside services – administrative and general, or a reduction of \$926,459 (\$6,333,184 - \$5,406,725) to the Company's claim, based on the Company's claim being speculative and not known and measurable.³³⁷

³³⁵ Peoples MB at 36.

³³⁶ I&E St. 1 at 28 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 13).

³³⁷ I&E St. 1 at 28-30; I&E St. 1-SR at 26-27.; I&E MB at 31.

OCA

The OCA recommended that Peoples' historical escalation factor adjustment to HTY expense amounts, including outside services – administrative and general, be disallowed. The OCA recommends that the Commission utilize the average of Peoples' experienced expense amounts in the past three years, as Peoples presented no evidence, such as contracts, to support its anticipated cost escalations over time.³³⁸ As a result, the OCA recommends a downwards adjustment of \$1.282 million to Peoples' claimed outside services – administrative and general expense.³³⁹

RECOMMENDATION

In light of OCA's notation of a lack of solid evidence in support of Peoples' claim for Outside Services – Administrative and General, and I&E's reduction recommendation due to a speculative proposal, this ALJ agrees with I&E's recommendation and recommends that the Commission approve an allowance in the amount of \$5,406,725 for outside services – administrative and general.

IT Services

I&E

I&E notes that the Company's claim for outside services – IT is \$7,623,113.³⁴⁰ I&E recommends an allowance of \$7,336,408 for outside services – IT, or

³³⁸ OCA St. 2SR at 13-14.

³³⁹ OCA Sch. JNG-14-SR; OCA MB at 39.

³⁴⁰ I&E St. 1 at 25 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 12).

a reduction of \$286,705 (\$7,623,113 - \$7,336,408) to the Company's claim, based on the Company's claim being speculative and not known and measurable.³⁴¹

RECOMMENDATION

This ALJ recommends that the Commission accept I&E's recommendation of an allowance of \$7,336,408 for outside services – IT. IT services are necessary and those that are supported by the evidence of record are recommended for approval in this proceeding.

20. NATURAL GAS HOT WATER TANK REBATE PILOT

Peoples

Peoples included \$500,000 in its claim for expense related to the Company's proposed Natural Gas Hot Water Tank Rebate Pilot.³⁴² Peoples notes that OCA witness Geiger made an adjustment to reject the full \$500,000 based on OCA's position that the Pilot be denied. Peoples rejects OCA's position.³⁴³

I&E

I&E did not present testimony on the Company's proposed natural gas hot water tank rebate pilot.³⁴⁴

³⁴¹ I&E St. 1 at 25-27; I&E St. 1-SR at 25-26; I&E MB at 31.

³⁴² Peoples St. 2-R at 44.

³⁴³ Peoples MB at 36.

³⁴⁴ I&E MB at 31.

OCA

The OCA recommends that Peoples' request to implement a Natural Gas Water Tank Rebate Program be denied. Based on this recommendation, the OCA removed the claimed annual expense of \$500,000 from the Company's requested revenue requirement.³⁴⁵

RECOMMENDATION

This Judge is not against Peoples attempting a pilot rebate program for its customers' water heaters. Peoples can use the data from this pilot program to determine what to do in future years, and the program can prove useful to customers. This Judge therefore recommends that the Commission accept Peoples' claim of \$500,000 for the program.

21. PAYMENT PROCESSING EXPENSE

Peoples

Peoples' claim for payment processing expense is \$2,939,659.³⁴⁶ The Company adjusted the FTY and FPFTY expense by 22% or \$939,253 to account for the expected increased adoption of the payment processing service by customers and increased the FPFTY expense by 2.7% or \$77,284. Peoples explains that the 22% represents the average percentage increase of payment processing fees over the last two years mainly resulting from an increase in customer usage for these payment channels.³⁴⁷

³⁴⁵ See Section XVII, *supra*; OCA St. 2SR at 18; OCA Sch. JNG-20-SR; OCA MB at 39.

³⁴⁶ Peoples Volume 1, Exhibit No. 4, Schedule No. 1 at 2, line 21.

³⁴⁷ Peoples St. 2-R at 45.

Peoples notes that I&E and OCA proposed to use the HTY expense and rejected the Company's adjustments.

As Peoples witness Mr. Wachter explained, there are several reasons to expect that a growing percentage of customers will pay their utility bills using credit cards:³⁴⁸

First, national payment studies conducted by the Federal Reserve demonstrate a continuing migration toward electronic and card-based payments. The Federal Reserve's 2025 *Diary of Consumer Payment Choice* found that credit cards accounted for 35% of all consumer payments, making them the most frequently used payment instrument in the United States. The study further found that increased credit card usage, remote payments, and mobile-device payments were significant contributors to the growth in overall consumer payment activity. Consumers made an average of 48 digital payments per month in 2024, reflecting a continuation of the trend toward digital payment methods.

Second, the Federal Reserve has documented long-term growth in non-cash payment activity. Data from the Federal Reserve Payments Study show continuing increases in card payment volumes and values across the U.S. economy. The growth of general-purpose card payments has been persistent over multiple reporting periods, demonstrating widespread consumer acceptance of electronic payment methods for both recurring and discretionary expenses.

Third, utility-specific research shows that consumers increasingly view credit cards as an acceptable and convenient method for paying utility bills. A 2025 study of consumer bill-payment behavior found that 70% of consumers use credit cards to pay at least some of their bills, including utility bills. The same study reported that 42% of respondents specifically use credit cards for utility payments and that approximately one-half of respondents

³⁴⁸ *Id.* at pp. 46-47.

believe credit cards make it easier to pay bills on time. The research also found that consumers often use credit cards to gain convenience, financial flexibility, rewards benefits, and automated payment capabilities.

Fourth, utility customers increasingly expect digital and mobile payment options. The Federal Reserve's consumer payment studies indicate that remote and mobile payments continue to grow. Remote payments have increased year after year since 2021, while mobile-phone-based payments have nearly tripled since 2018. These findings demonstrate that customers increasingly prefer payment methods that allow them to make payments electronically without mailing checks or visiting payment locations.

Peoples argues that I&E and OCA do not provide sufficient evidence to overcome the Company's evidence supporting the increased utilization of electronic and card-based payments and the associated processing fees.³⁴⁹

I&E

I&E notes that the Company's claim for payment processing expense is \$2,939,659.³⁵⁰ I&E recommends an allowance of \$1,923,122, or a reduction of \$1,016,537 (\$2,939,659 - \$1,923,122) to the Company's claim, based on Company's claim being speculative and not known and measurable.³⁵¹

OCA

OCA notes that Peoples proposed to include \$2.940 million of payment processing expenses in the FPFTY, including a 22.0% year-over-year escalation factor

³⁴⁹ Peoples MB at 36-37.

³⁵⁰ I&E St. 1 at 49 (*citing* Peoples Exh. No. 4, Sch. 1 at 2 and 26).

³⁵¹ I&E St. 1 at 49-51; I&E St. 1-SR at 36-37; I&E MB at 31-32.

applied each year from the HTY to the FPFTY.³⁵² OCA argues that Peoples failed to provide evidence, such as contracts with its third-party payment processor, to support its claim for a year-over-year increase in its payment processing expense.³⁵³ The OCA recommended that the Commission utilize the HTY payment processing expense because the HTY expense amount reflects a significant escalation in Peoples' historical experienced cost for payment processing; namely, the Company's adoption of a no-fee credit card payment system resulted in a significant increase to the expense which is already reflected in the HTY amount.³⁵⁴ Peoples presented no evidence to support that it will continue to experience an increase in costs at the same or a similar rate over time, since it has already adopted no-fee credit card payment processing.³⁵⁵ Therefore, the OCA recommends that the Commission decrease Peoples' FPFTY payment processing expense claim by \$1,016,537, for an allowance of \$1,923,122.³⁵⁶

RECOMMENDATION

In consideration of the evidence presented on this matter, this ALJ recommends that the Commission accept OCA's recommended allowance amount of \$1,923,122.

³⁵² OCA St. 2 at 25.

³⁵³ OCA St. 2 at 25.

³⁵⁴ OCA St. 2 at 25.

³⁵⁵ OCA St. 2SR at 17.

³⁵⁶ OCA Exh. JNG-19-SR; OCA MB at 39-40.

22. **BUILDING LEASES**

Peoples

The Company's updated claim for building leases is \$3,908,207. The updated claim reflects a reduction of \$785,433 from the original claim, which was accepted by I&E. No party challenged the Company's claim for building leases.³⁵⁷

I&E

I&E notes that the Company's claim for building leases expenses is \$4,693,640.³⁵⁸ I&E accepted the Company's revision to its building leases claim in rebuttal testimony.³⁵⁹

OCA

The OCA did not present testimony regarding this issue.³⁶⁰

RECOMMENDATION

This Judge recommends that the Commission accept the Company's proposal of \$3,908,207 for building leases, which was reduced from its original claim and has been accepted by I&E.

³⁵⁷ Peoples St. 2-R at 24; I&E St. 1 at 30-31; Peoples MB at 38.

³⁵⁸ I&E St. 1 at 30 (*citing* Peoples Exh. No. 4, Sch. 1 at 2, 14).

³⁵⁹ I&E St. 1-SR at 3; I&E MB at 32.

³⁶⁰ OCA MB at 40.

Universal Service Program Rider

Peoples

The Company proposed to recover three incremental costs through the USP Rider: (1) costs associated with a new LIURP Compliance Specialist; (2) costs associated with the recurring Independent Program Evaluation, which was normalized over a six-year period corresponding with the frequency of this evaluation; and (3) certain costs related to the Company's Cares Program.³⁶¹

I&E

I&E notes that the Company proposed to recover three incremental costs through the USP Rider: (1) costs associated with a new LIURP Compliance Specialist; (2) costs associated with the recurring Independent Program Evaluation; and (3) costs associated with the Company's Cares program.³⁶²

I&E witness Okum did not agree that the costs associated with the LIURP Compliance Specialist should be recovered through the USP Rider as all labor costs should continue to be included in base rates and therefore added the cost of labor and employee benefits for this employee to the respective sections of her direct testimony.³⁶³ When these costs are included in a rider, the parties lose the ability to review these costs in the context of a rate case, and thus the parties' ability to verify that such costs are prudently incurred is hindered.

³⁶¹ Peoples MB at 38 (citing Peoples St. 2-R at 48).

³⁶² I&E St. 1 at 58 (*citing* Peoples St. 2 at 20-21).

³⁶³ *Id.* at pp. 58-59 (*citing* I&E Exh. No. 1, Sch. 3).

Therefore, in consideration of the record evidence presented, I&E recommends that the costs associated with the LIURP Compliance Specialist should be recovered through base rates rather than through the USP Rider.³⁶⁴

OCA

The OCA submits that the Commission should approve Peoples' proposed expenditures for (1) an additional employee to facilitate compliance with the Commission's LIURP requirements and (2) studies to identify "zones of vulnerability" and associated communications costs.³⁶⁵ However, those expenditures should be recovered through base rates rather than through a Rider.³⁶⁶

Recovering these costs through the Universal Service Rider would improperly isolate individual cost increases from the other changes in Peoples' cost of service that will result from improved program performance.³⁶⁷ For example, targeted communications intended to increase CAP enrollment may increase outreach costs but simultaneously decrease working capital associated with arrears, credit and collection expenses, bad debt, and lost revenues resulting from disconnections.³⁶⁸ Similarly, effective LIURP expenditures can improve payment performance and reduce arrears, disconnections, and bad-debt write-offs.³⁶⁹

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

³⁶⁴ I&E St. 1 at 58-59; I&E St. 1-SR at 39-41; I&E MB at 32-33.

³⁶⁵ *Id.* at 85.

³⁶⁶ *Id.*

³⁶⁷ *Id.*

³⁶⁸ *Id.* at 85-86.

³⁶⁹ *Id.* at 86-87.

We agree with the ALJs that all rate impacts associated with the CAP costs proposed to be recovered in the CAP Rider should be considered because there could be decreases in certain expenses that may be realized through the CAP program, as well as possible double recovery of costs without an appropriate offset. Under the instant proposal, an offset of \$0.00 is not reasonable. Accordingly, we agree with the ALJs that it is more appropriate for cost recovery of PAWC's universal service costs to be addressed through the base rate process, rather than a new rider, at this time.³⁷⁰

The Commission should therefore consider the total cost-of-service impact rather than permitting Peoples to recover increased expenditures through the Universal Service Rider without accounting for the offsetting benefits those expenditures may produce. The Commission should order that the proposed costs be recovered through base rates instead of a Rider.³⁷¹

RECOMMENDATION

In light of the testimony presented by I&E, this Judge recommends that the Commission accept I&E's proposal that costs associated with the LIURP Compliance Specialist be recovered through base rates instead of a Rider, so that the parties have the ability to review the labor costs in the context of a rate case. The Company's proposal is otherwise adopted.

³⁷⁰ *PAWC 2026* at 334.

³⁷¹ *OCA MB* at 40-41.

23. PUBLIC UTILITY COMMISSION ASSESSMENT

Peoples

The Company's claim for PUC Assessment expense is \$3.859 million. Peoples based its claim for PUC Assessment expense on the 2025 invoice amount plus a 6% increase. The 6% increase represents the average of increases over a five-year period.³⁷²

I&E

I&E did not present testimony on the Company's PUC assessment.³⁷³

OCA

The OCA recommends utilizing the average experienced expense amount for the past three years, for an adjustment to Peoples' FPFTY expense claim of (\$823,737).³⁷⁴ OCA argues that Peoples failed to provide any evidence that it should anticipate to experience a 6.0% year-over-year increase in its assessment expense for the FTY and FPFTY; rather, it relies on a varying set of data to produce an escalation adjustment that fails to adequately capture the potential for increases and decreases in the expense amount, both of which are present in Peoples' historic assessment amount for the past three years.³⁷⁵ The OCA submits that its recommendation regarding the

³⁷² Peoples MB at 38.

³⁷³ I&E MB at 33.

³⁷⁴ OCA St. 2SR at 16.

³⁷⁵ OCA Sch. JNG-18-SR.

Commission assessment expense is consistent with its recommendations disallowing \$823,737 in the FPFTY expense claim for the Commission assessment.³⁷⁶

RECOMMENDATION

OCA witness Geiger disagreed with the Company's application of the 6% increase to the 2025 invoice amount and instead proposed to normalize the PUC Assessment expense by taking the average of the most recent three years, which resulted in an adjustment of \$823,737.³⁷⁷ This ALJ is in agreement with witness Geiger's testimony and recommends that the Commission accept the adjustment in the amount of \$823,737.

24. RESIDENTIAL COLLECTION EXPENSE

Peoples

Peoples notes that OCA witness Geiger proposes to adopt OCA witness Colton's recommendation with respect to residential collection expense. Mr. Colton proposes that Peoples be directed to implement a 50-50 sharing of credit and collection expenses, which OCA claims amounts to a reduction of \$3,833,503.³⁷⁸ Peoples argues that the OCA's proposed 50-50 sharing of residential collection expense is improper, and the Company should be permitted to recover the entire amount of its residential collection expense. However, as explained by Mr. Wachter, Peoples submits that if the OCA's proposal were to be adopted, it overstates the adjustment by \$575,244 by double counting the amount of confirmed low-income collection expense.³⁷⁹ Mr. Colton recognized that

³⁷⁶ OCA MB at 42.

³⁷⁷ OCA St. 2 at 24-25.

³⁷⁸ OCA St. 4 at 4, 50.

³⁷⁹ Peoples St. 2-R at 49-50.

he inadvertently double counted the 41,150,487 of low-income collection expense in his adjustment. As such, he reduced his proposed disallowance by \$575,244.³⁸⁰

Peoples avers that the OCA's proposed disallowance of 50% of the Company's residential collection expense is based on Mr. Colton's belief that the Company's collection practices are ineffective and his concern regarding Customer Assistance Program ("CAP") enrollment.³⁸¹ Neither of Mr. Colton's reasons justify the OCA's proposal to deny half of the Company's cost recovery. The Company argues that its payment arrangement practices are consistent with the Commission's regulations at 52 Pa. Code § 54.75 as reflected in its justified Commission-issued Payment Arrangement ("PAR") rate, which is one third of the industry average.³⁸² Peoples further argues that with respect to CAP, as Company witness Black explained, the Company's CAP enrollment has grown significantly.³⁸³

Peoples avers that the annual collection operating expense that Mr. Colton refers to in his recommendation is not intended to be used for ratemaking purposes, and Mr. Colton's recommendation to base a ratemaking adjustment on this figure is inappropriate. Instead, this figure is reported to the Commission pursuant to the requirements of the Universal Service Reporting Requirements Data Dictionary and includes the following: "administrative expenses associated with termination activity, negotiating payment arrangements, budget counseling, investigation and resolving informal and formal complaints associated with payment arrangements, securing and maintaining deposits, tracking delinquent accounts, collection agencies' expenses, litigation expenses other than Commission related, dunning expenses and winter survey

³⁸⁰ OCA St. 4SR at 30.

³⁸¹ OCA St. 4 at 43-50.

³⁸² Peoples St. 18-R at 6-7.

³⁸³ Peoples St. 10-R at 11-14.

expenses.”³⁸⁴ The Data Dictionary also provides that CAP recipients should be excluded from the calculation of this figure. The expense amount is not limited to directly identifiable expenses and includes estimated labor costs to perform the activity.³⁸⁵ While this figure may serve as a useful comparison point between utilities regarding credit and collection activities, it does not form the appropriate basis for the OCA’s ratemaking adjustment.³⁸⁶

I&E

I&E did not present testimony on the Company’s residential collection expense.³⁸⁷

³⁸⁴ Peoples St. 18-R at 7-8.

³⁸⁵ *Id.*

³⁸⁶ Peoples MB at 38-40.

³⁸⁷ I&E MB at 33.

OCA

OCA witness Colton recommended that, due to Peoples' inadequate and unreasonable residential collection expense practices, ratepayers should not be required to fund more than 50% of Peoples' claimed collection expense.³⁸⁸ Pursuant to Section 523 of the Public Utility Code, the Commission may "mak[e] such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate" based on the consideration of evidence regarding "the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title."³⁸⁹ Based on the clear statutory authority to adjust a utility's claimed cost of service amount associated with inadequate service and the record evidence supporting that Peoples' credit and collection activities constitute inadequate and unreasonable service, OCA witness Colton recommended that the Commission reduce Peoples' residential collection expense claim by \$3.834 million.³⁹⁰

RECOMMENDATION

This Judge agrees that customers should not have to pay for more than half of this expense. Therefore, this Judge recommends that the Commission accepts OCA's proposal to reduce Peoples' residential collection expense claim by \$3,834 million.

³⁸⁸ OCA St. 4 at 50.

³⁸⁹ 66 Pa. C.S. §523(a).

³⁹⁰ OCA St. 4SR at 30; OCA MB at 42-43.

25. INTEREST SYNCHRONIZATION

Peoples

Peoples notes that OCA witness Geiger proposed a reduction in state income tax expense of \$2.2 million and federal income taxes expense of \$6 million based on OCA's proposed adjustments to the Company's capital structure.³⁹¹ Peoples argues that OCA's capital structure should be rejected, and therefore the interest synchronization adjustment should also be rejected. However, Peoples submits that even if OCA's capital structure adjustment is accepted, the interest synchronization adjustment should still be rejected.³⁹²

Peoples argues that although interest expense is tax deductible, the resulting increase in revenue is taxable. Thus, there is no impact on income taxes. Stated differently, a reduction in interest would create lower taxes, but there would be a corresponding increase in revenue which would increase taxes. Mr. Wachter presented the following chart to illustrate this point.³⁹³

<i>in 000s</i>	Increase Tax Expense	Flow Reduced Interest through Rate Increase	Total
Revenue		\$ 31,172	\$ 31,172
Interest	\$ 31,172		\$ 31,172
Pre-Tax Book Income	\$ (31,172)	\$ 31,172	\$ -
Income Taxes at 21%	\$ (6,546)	\$ 6,546	\$ -
Net Income	\$ (24,626)	\$ 24,626	\$ -

³⁹¹ OCA St. 2 at 28.

³⁹² Peoples St. 2-R at 50-53.

³⁹³ *Id.* at p. 51; Peoples MB at 40-41.

I&E

I&E did not present testimony on interest synchronization.³⁹⁴

OCA

OCA witness Geiger calculated an interest expense reduction of \$8.268 million by multiplying the OCA's recommended rate base by the weighted cost of debt in the OCA's recommended capital structure.³⁹⁵

RECOMMENDATION

Because I have accepted Peoples' proposed capital structure, I recommend that the interest synchronization adjustment proposed by OCA be rejected.

26. COST OF OTHER PARTIES' PROPOSALS

Peoples

Peoples argues that the OCA and CAUSE-PA made certain recommendations in this proceeding that, if adopted, would result in the Company incurring additional costs. These proposals relate to the Company's customer service and low-income programs and are described on pages 52-53 of Peoples St. No. 2-R. Even

³⁹⁴ I&E MB at 33.

³⁹⁵ OCA St. 2 at 28; OCA St. 2SR at 19-20; OCA Sch. JNG-22-SR; OCA MB at 43.

though the parties seek to require the Company to implement their proposals, Peoples argues that the parties did not identify the costs associated with these proposals.³⁹⁶

The Company is opposed to adopting the parties' proposals. However, in the event that the Company is ordered to implement any of the proposals, the Company submits that it must be permitted to recover all prudently incurred expenses.³⁹⁷ The Company requests that if the Commission requires it to implement any of these proposals that the Commission's order also include provisions for future recovery of incremental costs incurred as a result of implementing the proposals.³⁹⁸

I&E

I&E did not present testimony on the cost of the other parties' proposals.³⁹⁹

OCA

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

³⁹⁶ Peoples St. 2-R at 53.

³⁹⁷ 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).

³⁹⁸ Peoples St. 2-R at 52; Peoples St. 2-RJ at 23-24; Peoples MB at 41-42.

³⁹⁹ I&E MB at 33.

expense adjustment for these efforts.⁴⁰⁰ Similarly, in *PAWC 2026*, the Commission did not specifically authorize additional expense claims for the utility's requirements to modify its customer service.⁴⁰¹ The OCA submits that it would be inconsistent with prior Commission orders to identify specific expense allowances for the modifications to Peoples' service necessary to ensure that the same is adequate and reasonable. As a result, to the extent that Peoples requests additional revenue to implement the adjustments to service necessary to comply with Section 1501 of the Public Utility Code, such request is inappropriate and should be denied.⁴⁰²

28. UNCOLLECTIBLE ACCOUNTS EXPENSE

Peoples

In the revenue requirements recommended by I&E witness Okum and OCA witness Geiger, Peoples argues that they both rolled back their allowance for uncollectible accounts expense concurrently with their reduction to the Company's overall claim. Peoples submits that ultimate recovery of incremental uncollectible

⁴⁰⁰ *Columbia 2025* at *248-56 (Columbia was ordered to: "review scripts for automated chat box or 'apps' to ensure customer rights associated with transactions are provided"; "develop and implement a process to screen" new and existing customers for their income level; and "conduct a monthly review of Customer Assistance Program accounts to ensure customers receive the most affordable rate"; "initiate and complete an internal study to determine whether a pilot program utilizing Smart Remote Methane Detectors is feasible").

⁴⁰¹ *PAWC 2026* at 414-18 (PAWC was ordered to modify its bill discount program; implement and report on modifications to its arrearage management program; audit and investigate call center compliance; "conduct a root cause analysis of customer disputes and informal and formal complaints to identify complaint trends, underlying causes, and reforms or other steps undertaken to respond to these findings"; and modify its customers' bill presentation).

⁴⁰² OCA MB at 43-44.

accounts expense should be calculated based on the rate increase approved in this proceeding.⁴⁰³

I&E

I&E recommends an allowance of \$45,570,205, or a reduction of \$1,362,472 (\$46,932,677 - \$45,570,205) to the Company's cash working capital claim, based on the Company's cash working capital workpapers and incorporating all of I&E witness Okum's recommendations. The Company accepted Ms. Okum's recommendation to remove uncollectible expense from its cash working capital calculation. I&E noted that its cash working capital recommendation is not a final recommendation because all adjustments to the Company's claims must be continually brought together in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order.⁴⁰⁴

I&E witness Okum testified extensively regarding the Company's claim for its cash working capital ("CWC") expense in her direct⁴⁰⁵ and surrebuttal⁴⁰⁶ testimonies. Ms. Okum noted that cash working capital includes the amount of funds necessary to operate a utility during the interim between the rendition of service, including the payment of related expenses, and the utility's receipt of revenue in payment of services rendered.⁴⁰⁷ Peoples calculates its cash working capital by using a lead/lag study which I&E does not oppose.⁴⁰⁸ A lead/lag study measures the differences in time between: (1) the time services are rendered until payment of those services is received; and (2) the

⁴⁰³ Peoples St. 2-RJ at 24; Peoples MB at 42.

⁴⁰⁴ I&E MB at 6-9.

⁴⁰⁵ I&E St. 1 at 60-62.

⁴⁰⁶ I&E St. 1-SR at 44-45.

⁴⁰⁷ I&E St. 1 at 60.

⁴⁰⁸ *Id.* at p. 61.

time between the point when a utility has incurred an expense and the actual payment of the expense.⁴⁰⁹

I&E recommends an allowance of \$45,570,205, or a reduction of \$1,362,472 (\$46,932,677 - \$45,570,205) to the Company's claim, based on the Company's cash working capital workpapers and incorporating all of I&E witness Okum's recommendations.⁴¹⁰ Company witness Anton Ribich accepted Ms. Okum's recommendation to remove uncollectible expense from the Company's cash working capital calculation.⁴¹¹

Ms. Okum noted that her cash working capital recommendation is not a final recommendation because all adjustments to the Company's claims must be continually brought together in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order.⁴¹² This process, known as iteration, effectively prevents the determination of a precise calculation until all adjustments have been made to the Company's claims.⁴¹³

OCA

OCA argues that the Commission should reject Peoples' proposed use of a two-year average of residential uncollectible activity to calculate the bad debt offset percent. Instead, Peoples should establish the CAP participation level using a 12-month average of actual historical enrollment provided by BCS and use write-off for CLI as

⁴⁰⁹ *Id.* at pp. 60-61.

⁴¹⁰ I&E St. 1-SR at 45 (*citing* I&E Exh. No. 1-SR, Sch. 2).

⁴¹¹ *Id.* at p. 44.

⁴¹² *Id.* at p. 45.

⁴¹³ *Id.*; I&E MB at 33-34.

published in the most recent BCS annual report on collections performance and universal service programs. This change would result in an 8.1% offset.⁴¹⁴

OCA further argues that Peoples has not historically demonstrated sufficient accuracy in projecting future CAP participation.⁴¹⁵ Because of this, Peoples original proposal to base CAP participation on projected CAP participation and use a bad debt offset equal to the recent three-year average of residential uncollectible activity, is unreasonable.⁴¹⁶ Since Peoples' original rate filing, Peoples witness Ms. Scanlon agreed to revert back to the approach the Company utilized in the 2023 base rate case proceeding as recommended in OCA witness Colton's direct testimony.⁴¹⁷ Thus, using the most recent figure from BCS would result in an 8.1% offset.⁴¹⁸ OCA witness Colton initially recommended using the actual month-end CAP participation level at the time of the final order as the number over which the offset would be applied.⁴¹⁹ In surrebuttal, however, Mr. Colton recognized the legitimate concern that CAP participation varies from month to month and therefore agreed that a twelve-month average, ending with the month in which the final order is issued, is an appropriate methodology.⁴²⁰

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

⁴¹⁴ OCA St. 4SR at 34-35.

⁴¹⁵ OCA St. 4 at 70-71.

⁴¹⁶ *Id.* at 71.

⁴¹⁷ OCA St. 4SR at 34.

⁴¹⁸ *Id.* at 34-35.

⁴¹⁹ OCA St. 4 at 71.

⁴²⁰ OCA St. 4SR at 33-34.

Moreover, OCA submits that the offset should account for more than bad debt alone but should also reflect an avoided working capital expense as well.⁴²¹ OCA argues that Peoples’ independent CAP evaluation found that CAP participation improved payment coverage by 36% compared with similarly situated low-income customers who did not participate in CAP.⁴²² Peoples also reported that CAP customers paid 82 % of their bills in 2024, excluding energy-assistance payments.⁴²³ As OCA witness Colton explained, “From a rate perspective, the avoided working capital associated with these improved payment patterns associated with CAP participation is important because working capital is a capital expense. As such, it has a return on equity associated with it which, in turn, has a tax component associated with it. Every \$1 in reduced working capital, in other words, will yield greater than \$1 in reduced total expenditures.”⁴²⁴

RECOMMENDATION

In considering the evidence and various perspectives from the parties who submitted briefs on this issue, this ALJ recommends that the Commission adopt Peoples’ proposal as is.

⁴²¹ OCA St. 4 at 72.

⁴²² *Id.* at 72-73.

⁴²³ *Id.* at 73.

⁴²⁴ *Id.*; OCA MB at 44-45.

28. DEPRECIATION

Peoples

Peoples' depreciation expense and net salvage claim is \$18.2 million.⁴²⁵
The calculation of annual depreciation expense and amortization of net salvage was prepared in accordance with standard procedures long accepted by this Commission.⁴²⁶

Peoples witness Mr. Spanos took issue with OCA witness Mr. Garrett's depreciation calculation:

Q. Please explain all of the factors that affect the development of a depreciation rate.

A. Depreciation rates are determined on many factors or key components that each affect the depreciation rate that should be used to properly recover the full service value of all assets by account. Additionally, this should be done in a systematic and rational manner. The first two key components are the service life and net salvage percentage. The service life estimate is represented by the survivor curve. The net salvage component is typically a percentage of cost of removal minus gross salvage that are applied to the accrual rate in order to recover the full service value over the life of the asset. Pennsylvania is unique to all other states in that the net salvage component is a five-year amortization of the incurred costs after the asset is retired. Thus, a deferral. Second, is the depreciation procedure and method. Procedures are ALG or ELG, and the method is either remaining life or whole life. The next component to focus on is the plant to reserve ratio at the test year dates. Finally, the age of the surviving plant at the test year dates. Each of these factors has an impact on the depreciation rate. It is not simply the depreciation procedure. Additionally, one must consider all of these factors when comparing to

⁴²⁵ Peoples Exhibit No. 2, Sch. 4, page 2 rows 4 and 5.

⁴²⁶ Peoples St. 16-R at 2.

other utilities within the same state as well as those in other state jurisdictions.

Q. Has Mr. Garrett considered all of these factors in developing his testimony?

A. Disturbingly, it appears not. He clearly ignores the special handling of the net salvage recovery deferral in Pennsylvania. He does not consider how close the theoretical reserve to book reserve variance is, which clearly shows the recovery of many years has been fair and reasonable based on the factors in place and the expected plant investment that has taken place over the past and forecasted into the future.⁴²⁷

Peoples argues that the unrecovered original cost of property (original cost less accrued depreciation) must be recovered over the life of the property as part of the cost of providing service. The Company maintains that it uses the straight line, remaining life depreciation method, with the ELG procedure, to allocate the unrecovered original cost to the annual revenue requirement to be borne by current and future customers.⁴²⁸

In determining the service lives of Peoples' various assets, and the resulting depreciation rates, the Company engages the services of Gannett Fleming and its President, Mr. John Spanos. Mr. Spanos has over 39 years of depreciation experience and has presented expert testimony before approximately 47 regulatory commissions.⁴²⁹ To develop service lives, Gannett Fleming performed a service life study in 2023 as the standard five-year cycle within Pennsylvania to establish the estimated service lives of

⁴²⁷ Peoples St. 16-R at 21-22; Peoples MB at 42-44.

⁴²⁸ Peoples St. 16-R at pp. 4-6.

⁴²⁹ Peoples St. 16 at 2.

the Company's property. Mr. Spanos described the procedure used to perform the service life studies:

The service life studies consisted of assembling and compiling historical data from the records related to the gas utility plant of the Company; statistically analyzing such data to obtain historical trends of survivor characteristics; obtaining supplementary information from management and operating personnel concerning Company practices and plans as they relate to plant operations; and interpreting the above data to form judgments of service life characteristics. Iowa type survivor curves were used to describe the estimated survivor characteristics of the mass property groups. Individual service lives were used for major individual units of plant, such as reservoirs and buildings housing offices and shops. The life span concept was recognized by coordinating the lives of associated plant installed in subsequent years with the probable retirement date defined by the life estimated for the major unit.⁴³⁰

Peoples notes that OCA witness Garrett proposes to modify the service life for Account 380.00, Services by extending the average service life by seven years, which results in a twelve-year maximum life increase.⁴³¹ In Pennsylvania, utilities file service life studies with the Commission every five years.⁴³² In 2023, Peoples submitted its most recent five-year service life study to the Commission, and all depreciation parameters and methods, including the use of the ELG procedure, were approved.⁴³³

⁴³⁰ *Id.* at 6-7; Peoples MB at 44-45.

⁴³¹ Peoples St. 16-R at 26.

⁴³² 52 Pa. Code § 73.5.

⁴³³ See Docket No. M-2023-3042647. The Commission took no action for 180 days following the filing of the service life study, and pursuant to 52 Pa. Code § 73.9(c), the service lives were deemed approved.

Peoples disagrees with OCA witness Mr. Garrett's proposal to change Account 380.00 from the approved 55-R2 survivor curve to the 62-R2 survivor curve. Peoples argues that Mr. Garrett inappropriately bases his analysis entirely on mathematical curve fitting and uses service life data through 2022, which inappropriately excludes the most up-to-date transactional data.⁴³⁴ As Peoples witness Spanos explained, depreciation, and estimating service lives in particular, is a forecast of the future and not merely a calculation of what happened in the past.⁴³⁵ The National Association of Regulatory Utility Commissioners ("NARUC") explains that analysis of historical data is only one part of the process of estimating service lives:

A depreciation study is commonly described as having three periods of analysis: the past, present, and future. The past and present can usually be analyzed with great accuracy using many currently available analytical tools. The future still must be predicted and must largely include some subjective analysis. Informed judgment is a term used to define the subjective portion of the depreciation study process. It is based on a combination of general experience, knowledge of the properties and a physical inspection, information gathered throughout the industry, and other factors which assist the analyst in making a knowledgeable estimate.

The use of informed judgment can be a major factor in forecasting. A logical process of examining and prioritizing the usefulness of information must be employed, since there are many sources of data that must be considered and weighed by importance. For example, the following forces of retirement need to be considered: Do the past and current service life dispersions represent the future? Will scrap prices rise or fall? What will be the impact of future technological obsolescence? Will the company be in existence in the future? The analyst must rank the factors and decide the relative weight to apply to each. The final estimate might not resemble any one of the specific factors;

⁴³⁴ Peoples St. 16-R at 35.

⁴³⁵ *Id.* at 27.

however, the result would be a decision based upon a combination of the components.⁴³⁶

Peoples maintains that, unlike Mr. Garrett, Mr. Spanos incorporated the various factors discussed by NARUC into his service life estimates, including conducting site visits to familiarize himself with the assets that are the subject of the study.⁴³⁷

For Account 380.00 in particular, Peoples argues that Mr. Garrett fails to consider how much of the gas services will be replaced along with the replacement of low-pressure mains, nor does he consider the service life estimates used by other gas companies.⁴³⁸ The 62-year average life for gas services is beyond the upper end of the industry ranges.⁴³⁹

The Company maintains that its service life for Account 380.00, which was approved in the Company's most recent service life study filed with the Commission, is the more reasonable estimate because it is more consistent with the mortality characteristics for the account through the entire life cycle and is more consistent with the estimates for other gas utilities.⁴⁴⁰

Peoples witness Spanos explained the difference between the ELG and the ASL procedures:

For the ELG procedure, a group of property (e.g., a vintage within a property account) is subdivided into groups having equal service lives. The size of these "equal life groups" is based on the estimated survivor characteristics of the account. Depreciation can then be calculated for each equal life group based on the straight line method, meaning that an equal amount of the group's service value is recorded as

⁴³⁶ *Id.* at pp. 29-30 (citing NARUC Treatise at 126-128, emphasis added).

⁴³⁷ *Id.* at pp. 30-31.

⁴³⁸ *Id.* at p. 37.

⁴³⁹ *Id.* at p. 26.

⁴⁴⁰ *Id.* at pp. 37-38; Peoples MB at 45-47.

depreciation expense in each year of service. The total depreciation for an account is the summation of the calculated depreciation for each equal life group. Based on the survivor curve estimate for an account, the ELG procedure mathematically estimates the life for each unit in the account, and then depreciates each unit over its expected life. The procedure is also known as the Unit Summation Procedure.

* * *

While the ELG procedure calculates depreciation for each equal life group, the ASL (or ALG) procedure depreciates every asset within an account over the average life of the entire account. Using equal life groups, rather than an average life, as the basis for depreciation provides a more precise calculation that better matches recovery with consumption of assets by depreciating assets that have shorter lives than the average over their shorter lives (and the longer-lived assets over their longer lives) as opposed to depreciating all assets over the average life for the group.⁴⁴¹

The ELG procedure appropriately matches cost recovery to service consumption of the asset, thereby better ensuring that current customers are paying for the assets in use.⁴⁴² Peoples witness Spanos provided a simple example of the merits of the ELG procedure. Assume there are two assets within a group, each costing \$1,000. Further assume that Unit A will be in service for 5 years and Unit B will be in service for 15 years. There is no net salvage for these units. Under the ELG procedure, this means there are two equal life groups. The annual depreciation rate for Unit A is 20% (1/5), producing an annual accrual of \$200, and the annual depreciation rate for Unit B is 6.67% (1/15), producing an annual accrual of \$66.67. Thus the annual accruals for the first five years would be \$266.67. At the end of year 5, Unit A is retired. Under asset accounting procedures, when Unit A is retired, its original cost of \$1,000 is removed

⁴⁴¹ Peoples St. 16-R at 3-4.

⁴⁴² Id.

from plant in service, and the accumulated depreciation reserve is likewise reduced by \$1,000. Beginning in Year 6, the original cost of Unit B of \$1,000 continues in plant in service, and there remains an amount of \$333.33 in the depreciation reserve ($\$66.67 \times 5$). Thus with 5 years of Unit 2's 15 year life consumed, accumulated depreciation is exactly one-third of the original cost. Annual depreciation expense for Unit 2 will continue at \$66.67. Further, net rate base beginning in Year 6 will be \$666.67, and will decline each year thereafter.⁴⁴³

In contrast, Peoples submits that using the same assumptions and employing the ASL procedure, the average service life of the units is 10 years ($((5+15)/2)$). For the first five years, the annual depreciation amount is \$200 ($\$2,000 \times 10\%$), or \$1,000 after 5 years. When Unit A is retired after Year 5, \$1,000 is removed from both plant in service and the accumulated depreciation reserve. At the start of Year 6, Unit B remains in service with an accumulated depreciation reserve balance of \$0. Therefore, for the next 10 years, \$100 ($\$1,000 \times 10\%$) of annual depreciation expense must be recovered under the ASL procedure, even though Unit B is 1/3 of the way through its service life. Moreover, net rate base as of the beginning of Year 6 (\$1,000) will be above the net rate base under the ELG procedure (\$666.67).⁴⁴⁴ As Mr. Spanos summarized, the foregoing examples demonstrate that the ELG procedure better matches the cost recovery of both units with their service lives:

The end of year 5 provides the best illustration of the difference between the two procedures. Under the ELG procedure, Unit A is fully recovered when retired at the end of year 5; Unit B is one-third through its service life and has had one-third of its cost recovered. This contrasts with the ASL procedure, in which accumulated depreciation is \$0 at the end of year 5, even though the only unit remaining in service has consumed one-third of its service life.

⁴⁴³ *Id.* at pp. 4-6.

⁴⁴⁴ *Id.* at pp. 4-6.

Clearly, the ELG procedure provides a better match regarding the consumption of the service value for the two units.⁴⁴⁵

Peoples maintains that the same principles apply to large property groups with many units of property. The survivor curve developed for each property account is used to divide an account into equal life groups. Under the ELG procedure, the survivor curve determines the percentages of the property account that is in each equal life group, which allows for the calculation of the annual accrual for the entire property group.⁴⁴⁶ In contrast, under the ASL procedure, the depreciation expense for all property in the account is calculated based on the average service life of the entire group. In so doing, the ASL procedure fails to take into account the reality of dispersion of retirements in a large group.⁴⁴⁷

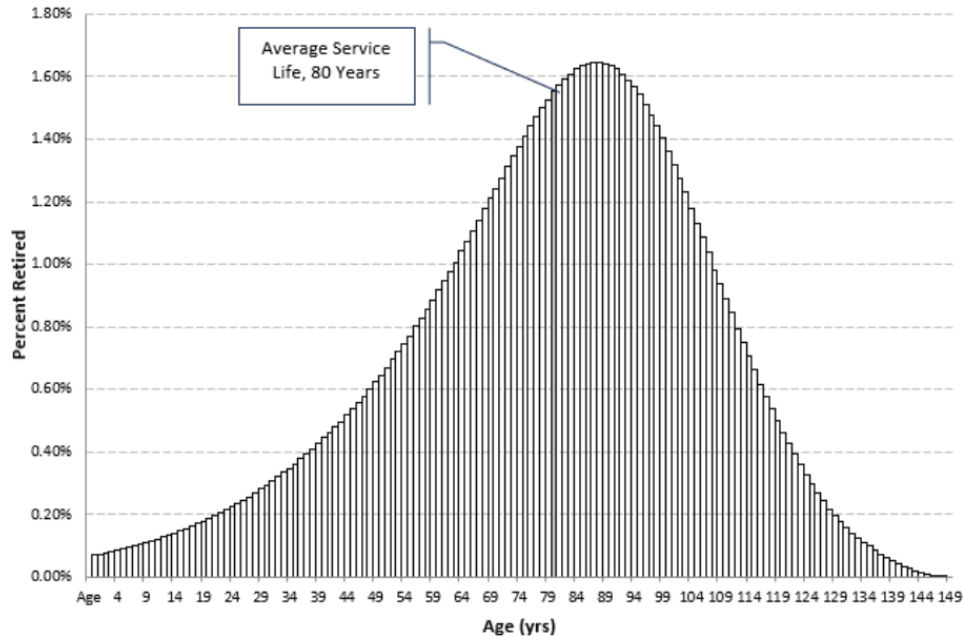
In actual utility operations, Peoples states that only a small percentage of a plant account will be retired at the average service life. To demonstrate this, Mr. Spanos provided a chart of the frequency curve for the 80-R2.5 Iowa survivor curve. The frequency curve shows the percentage of property in this account that will be retired at each age, based on the estimated survivor curve. This percentage is also the size of each equal life group.⁴⁴⁸

⁴⁴⁵ *Id.* at pp. 6-7.

⁴⁴⁶ *Id.* at pp. 7-8.

⁴⁴⁷ *Id.* at p. 8.

⁴⁴⁸ *Id.* at pp. 8-9.



Peoples submits that as this survivor curve shows, only a small percentage, approximately 1.55%, of the assets will have an 80 year service life. The majority of these assets will have a service life different than 80 years. The ELG procedure allocates depreciation expense in a manner that approximates the actual life of each equal life group. In contrast, the ASL depreciates all assets as if they have the same life, even though that will be wrong over 98% of the time.⁴⁴⁹

Peoples notes that OCA offers various arguments in support of its proposal to change from the use of the ELG procedure to the use of the ASL procedure, and Peoples disagrees with these arguments. Peoples argues that OCA's proposal contradicts over 40 years of Commission precedent approving the use of ELG for ratemaking purposes, including most recently in the Commission's *Columbia 2025* order and again last month in the Commission's *PA American 2026* decision when the Commission expressly rejected the very same proposal that OCA is making in this case.⁴⁵⁰

⁴⁴⁹ *Id.*; Peoples MB at 47-50.

⁴⁵⁰ See *Columbia 2025* at 111; *PA American 2026* (Recommended Decision May 15, 2026) at 222; (Order entered July 27, 2026).

OCA witness Garrett contends that the ELG procedure causes current customers to pay more than future customers.⁴⁵¹ This argument is true only by comparing ELG and ASL depreciation rates at a spot in time and, in fact, Mr. Garrett's position is harmful to customers in the longer term. As Mr. Spanos explained:

The longstanding use of ELG depreciation rates for Pennsylvania utilities has resulted in a lower rate base than if ASL had been used. Customers today pay lower customer rates than if ASL had been used during the years since ELG's adoption. As a result, it has been in customers' interest not only to use ELG but also to use it consistently.

Over time ASL will result in higher customer rates than ELG. It is correct to assume that if the Company were to switch from ELG to ASL there would be a *short-term* benefit to current customers. However, this is not because ASL is in customers' best interest in the long term, but only because current customers would benefit from both lower ASL depreciation rates and from the lower rate base that exists due to the longstanding use of ELG.

Mr. Garrett's proposal is therefore not a recommendation that is in the long-term interest of lower customer rates. It is instead a short-term subsidy only to current customers who benefit from ELG depreciation rates that were paid by a previous generation of customers. The costs of a higher rate base will be paid for by future customers who will have to pay higher overall customer rates. Adopting ALG would serve as an intergenerational subsidy to current customers at the expense of other generations of customers.⁴⁵²

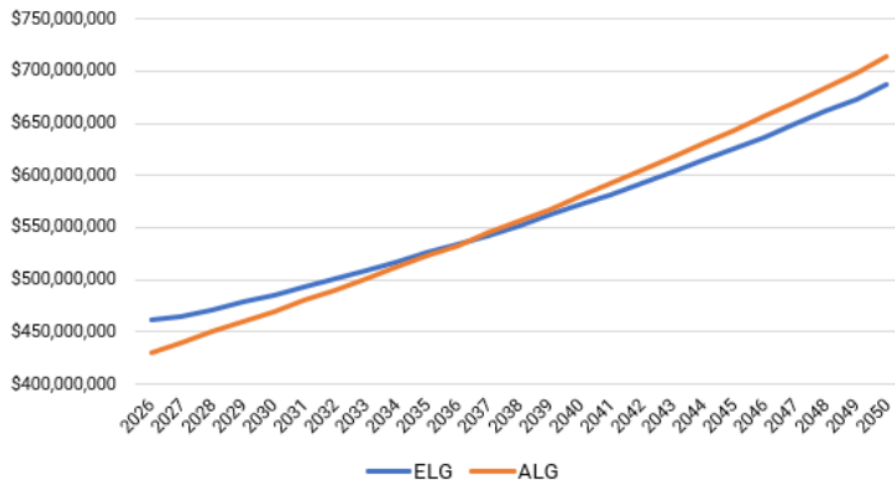
While ELG leads to higher depreciation expenses in the short term, it results in lower revenue requirements over the long term.⁴⁵³ To illustrate this point,

⁴⁵¹ OCA St. 3 at 62-68.

⁴⁵² Peoples St. 8-R at 16-17.

⁴⁵³ Peoples St. 16-R at 17.

Mr. Spanos prepared a roughly 25-year forecast of plant and depreciation reserve balances for Peoples under the two scenarios of maintaining the currently approved ELG procedure or changing to the ASL procedure. This forecast demonstrates that the change to the ASL procedure results in higher rates over time than continuation of the ELG procedure:⁴⁵⁴



OCA witness Garrett further argues that ELG results in intergenerational inequity for customers.⁴⁵⁵ Mr. Garrett’s unsupported argument is incorrect, as Mr. Spanos explained:

Q. Does the use of the ALG procedure produce Intergenerational Inequity?

A. No, quite the opposite. The very nature of the ELG procedure more precisely calculates depreciation expense for assets with like lives within a depreciable group and sums that expense to develop an annual depreciation accrual rate applicable to the depreciable group. As a result, it more appropriately matches the recovery of the asset’s

⁴⁵⁴ Id.

⁴⁵⁵ OCA St. 3-SR at 15

cost to the period of time over which it is providing service to rate payers.

In contrast, there is a stronger argument that the ALG procedure results in intergenerational inequity. Because depreciation expense on shorter-lived assets occurs over the average service life, recovery for these assets is deferred. ELG produces a more equitable recovery by recovering these costs over the actual, shorter, service lives.⁴⁵⁶

In fact, it is Mr. Garrett's proposal that would result in intergenerational inequity. Peoples argues that switching from ELG to ALG would result in a major swing in depreciation expense that contradicts the concept of systematic and rational recovery that is foundational to depreciation.⁴⁵⁷

Peoples submits that current customers benefit from the continued use of the ELG because rate base is lower than had ASL been used for this time. The more precise recovery through ELG benefits customers over time because shorter-lived assets are correctly recovered over their useful lives, resulting in lower rate base and lower return on rate base that exceeds the higher annual depreciation expense.⁴⁵⁸ Peoples argues that over time, ASL depreciation rates will result in higher rate base and higher overall costs to customers.⁴⁵⁹

Moreover, Peoples maintains that in Pennsylvania utilities are required to conduct annual depreciation updates. The Company submits annual depreciation reports to the Commission each year updating the Company's depreciation accrual rates for book purposes as well as identifying the underlying depreciation parameters and calculation methods and procedures used to determine depreciation expense. The Company's most

⁴⁵⁶ Peoples St. 16-R at 20.

⁴⁵⁷ Peoples St. 16-RJ at 3.

⁴⁵⁸ Peoples St. 16-R at 12.

⁴⁵⁹ Peoples St. 16-R at 12.

recent annual depreciation report was filed on June 30, 2026, and was approved for accounting purposes using the ELG procedure. Under the Commission's regulations at 52 Pa. Code § 73.9(c):

In subsequent ratemaking proceedings, the most recent annual depreciation report or service life study approved or deemed approved for accounting purposes only under this chapter, constitutes a rebuttable presumption as to the reasonableness of the accrued depreciation claimed for ratemaking purposes, and the burden of proving the unreasonableness of the accrued depreciation shall be on the challenging party.

According to Peoples witness Mr. Spanos, Mr. Garrett's characterization of ELG as an accelerated procedure is not accurate. From the HTY to the FPFTY, when investments are projected to increase by over 20%, the composite rate change is very minimal (increase of 0.02%) using the ELG procedure.⁴⁶⁰

I&E

I&E did not present testimony on depreciation expense, other than using the Company's as-filed depreciation expense in I&E's analysis of Peoples' base rate filing and in conjunction with all other I&E base rate calculations.⁴⁶¹

OCA

According to OCA, the key difference between Peoples' position and the position advocated by the OCA is the method used to calculate the depreciation expense.

⁴⁶⁰ Peoples St. 16-R at 22-23; Peoples MB at 50-55.

⁴⁶¹ I&E MB at 9, 35.

Peoples uses a method referred to as the equal life group (ELG) whereas the OCA proposes that a method referred to as the average life group (ALG) method be used.⁴⁶²

As explained further below, OCA argues that the Commission should reject Peoples' use of the ELG method because it results in an accelerated form of cost recovery from consumers.⁴⁶³ As OCA witness Garrett testified:

Peoples' use of the ELG method, rather than the widely applied ALG method, increases the annual depreciation accrual charged to customers by \$27.1 million in the 2025 study, by \$31.5 million in the 2026 study and by \$36.8 million in the 2027 study. In other words, even if there are no adjustments to the net salvage rates, service life, or other depreciation parameters for any accounts in the depreciation study, using the majority-viewed ALG method alone will result in significantly fairer rates for customers.⁴⁶⁴

Mr. Garrett also noted that even Peoples' own witness in this proceeding, Mr. Spanos, proposed using the ALG depreciation method in the recent PPL Electric Utilities Corporation base rate case.⁴⁶⁵ Under the ELG method, current customers are subsidizing future customers and those future customers will likely never see the benefit of using the ELG method of depreciation.

OCA argues that the ALG method should be adopted in this proceeding when setting Peoples' rates.⁴⁶⁶

⁴⁶² The ALG method is sometimes referred to as Average Service Life, or ASL.

⁴⁶³ OCA St. 3 at 9.

⁴⁶⁴ Id.

⁴⁶⁵ Id., citing, Pa.PUC, et al. v. PPL Electric Utilities Corporation, Docket No. R-2025-3057164 (Sept. 30, 2025).

⁴⁶⁶ OCA MB at 46-47.

OCA witness Garrett provided an example of how the ELG method results in higher depreciation rates in earlier years relative to the ALG method assuming a group of property containing two units, one with an original cost of \$4,000 and a 4-year life and the second with an original cost of \$6,000 and an 8-year life.⁴⁶⁷ Mr. Garrett noted that, under the ALG method, the depreciation rate is 15.625%, but under the ELG method, the depreciation rate is 17.5% because the two units in the example are treated separately under the ELG method.⁴⁶⁸ Mr. Garrett concluded:

As demonstrated above, the ALG method results in a fairer application of depreciation rates compared to the ELG method given the realities of ratemaking proceedings. Thus, the Commission should reject the Company's use of the ELG method, which effectively results in an accelerated form of cost recovery from consumers. The Company's use of the ELG method increases the annual depreciation accrual charged to customers by \$27.1 million in the 2025 study, \$31.4 million in the 2026 study, and by \$36.4 million in the 2027 study. In other words, even if there are no adjustment to net salvage rates, service life, or other depreciation parameters for any accounts in the depreciation study, using the majority-view ALG method alone will result in significantly lower depreciation rates and expense.⁴⁶⁹

Mr. Garrett also addressed the arguments from Peoples' witness Spanos' regarding the ELG method. In response to Mr. Garrett's direct testimony, Mr. Spanos argued that the ELG method is more equitable not only for future customers but also for current customers and disagrees with Mr. Garrett's characterization of the ELG method as being an accelerated form of cost recovery.⁴⁷⁰ However, Mr. Garrett noted that Mr. Spanos has acknowledged that in jurisdictions other than Pennsylvania he uses the

⁴⁶⁷ *Id.* at 66.

⁴⁶⁸ *Id.* at 67-68.

⁴⁶⁹ *Id.* at 68.

⁴⁷⁰ OCA St. 3SR at 10, *citing*, Peoples St 16-R at 3.

ALG procedure more often.⁴⁷¹ Therefore, Mr. Spanos' claim that ALG procedure might not be fair, accurate or reasonable, and the ELG method is more equitable, necessarily means that he is using a less equitable procedure in his depreciation studies in those other jurisdictions.⁴⁷² Mr. Garrett added:

In reality, the ALG procedure that Mr. Spanos uses a majority of the time is very fair and reasonable (assuming reasonable estimates are made for other depreciation parameters). Furthermore, it is disingenuous for Mr. Spanos to suggest that his decisions are somehow affected by the financial well-being of customers. Mr. Spanos does not represent either present or future customers in this case, and he exclusively represents utilities as I understand.⁴⁷³

Mr. Garrett added that "what is clear, however, is that the ELG procedure will result in higher cash flows for Peoples relative to the ALG procedure."⁴⁷⁴

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

First, Mr. Spanos is simply testifying on what is in the best interest of the Company. There is nothing inappropriate about that, however, the Commission should easily reject the notion that his positions are in the best interest of ratepayers when the Company also has shareholder interests in mind as well. Second, accepting Mr. Spanos's narrative would mean that both he and utility commissions in the vast majority of jurisdictions around the country are promoting a depreciation methodology that is harmful to customers, though for some reasons he is being particularly

⁴⁷¹ OCA St. 3SR at 10, *citing*, Peoples response to OCA interrogatory 10-18(e).

⁴⁷² OCA St. 3SR at 10.

⁴⁷³ OCA St. 3SR at 11.

⁴⁷⁴ OCA St. 3SR at 11; *see also*, OCA St. 3 at 62-69.

charitable to the customers of Pennsylvania. Third, it is simply not reasonable to assume that the Company shares any vision of the future in which customers are paying lower rates, regardless of the depreciation methodology. Rather, the Company is an entity that will operate exactly as it is incentivized to, which does not at all involve lower customer rates.⁴⁷⁵

Mr. Garrett added that Mr. Spanos's approach also ignores the time value of money, it results in current customers subsidizing future customers, and, most importantly, it requires a naivete about basic concepts of organizational behavior and incentive structures.⁴⁷⁶ Even if customers completely paid off rate base today, the ELG method of depreciation would still incentivize Peoples to immediately start developing ways to increase rate base beyond that which is strictly necessary to provide safe and reliable service.⁴⁷⁷ As Mr. Garrett testified, "the fact of the matter is simple: the Company is proposing ELG because it is in *their* best interest to do so."⁴⁷⁸

OCA submits that the Commission should reject Peoples use of the ELG method and adopt the ALG method as proposed by the OCA and its expert witness Mr. Garrett.⁴⁷⁹

To estimate the service lives of grouped depreciable assets, Mr. Garrett testified that depreciation analysts study historical plant data to estimate the average lives of property groups similar to the process used in the actuarial process used to study human mortality.⁴⁸⁰ The most common actuarial method used by depreciation analysts is called the "retirement rate method," where the original property data, including additions,

⁴⁷⁵ OCA St. 3SR at 11-12.

⁴⁷⁶ OCA St. 3SR at 12.

⁴⁷⁷ OCA St. 3SR at 12-13.

⁴⁷⁸ OCA St. 3SR at 13 (emphasis in original).

⁴⁷⁹ OCA MB at 50-54.

⁴⁸⁰ OCA St. 3 at 69.

retirements, transfers and other transactions, are organized by vintage and transaction year and the retirement rate method is ultimately used to develop an “observed life table,” or OLT.⁴⁸¹ The OLT shows the percentage of property surviving at each age interval and the pattern of property retirement is described as a “survivor curve.”⁴⁸²

OSBA

The OSBA is not briefing this issue.⁴⁸³

CAUSE-PA

CAUSE-PA urges the Commission and adopt the recommendation of OCA witness Garrett to authorize depreciation rates for Peoples’ assets that are calculated using the average life group (“ALG”) method for all vintage years, and to reject Peoples proposal to use the equal life group (ELG) depreciation method.⁴⁸⁴ Requiring the use of the ALG method is a means of balancing the scales in favor of consumers who are paying unaffordable rates today based on the decisions Peoples has made, including the decision to use an accelerated method of depreciation. This change alone will result in significantly fairer rates for customers and will save ratepayers \$36.8 million by 2027.⁴⁸⁵

⁴⁸¹ *Id.* at 69.

⁴⁸² *Id.* at 69; *see also*, Appendices B and C to Mr. Garrett’s Direct Testimony for a more detailed discussion of the actuarial analysis used to determine the average lives of grouped industrial property and the “Iowa curve,” which is the most widely used survivor curve.

⁴⁸³ OSBA MB at 5.

⁴⁸⁴ OCA St. 3 at 8.

⁴⁸⁵ *Id.*; CAUSE-PA MB at 25-27.

RECOMMENDATION

In light of the various arguments presented by Peoples, OCA, and CAUSE-PA, and in light of the Commission precedent highlighted by Peoples, this ALJ recommends that the Commission accept Peoples' proposed depreciation claim of \$18.2 million.

29. TAXES

Peoples

As explained on pages 28-29 of the direct testimony of Peoples witness Jiang, the Company is requesting to continue to certain tax related provisions from its 2023 base rate case settlement as updated in this case in order to maintain consistency in tax treatment.⁴⁸⁶

I&E

I&E recommends a reduction of \$369,743 (\$5,951,013 - \$5,581,270) to the Company's payroll tax expense claim and a reduction of \$446,296 (\$8,106,040 - \$7,659,744) to the Company's capitalized payroll taxes. I&E argues that the Company's claim for payroll tax expense is \$5,951,013 (\$5,660,396 + \$290,617).⁴⁸⁷ I&E witness Okum noted that, because labor and incentive compensation are partially capitalized to rate base, a portion of payroll taxes will also be capitalized to rate base.⁴⁸⁸ Ms. Okum calculated that amount to be \$8,106,040 by adding capitalized labor and capitalized

⁴⁸⁶ Peoples MB at 55.

⁴⁸⁷ I&E St. 1 at 15 (*citing* Peoples Exh. No. 6, Sch. 2, Att. 1).

⁴⁸⁸ *Id.*

incentive compensation (\$96,126,010 + \$5,045,210) and applying the payroll tax experience factor of 8.0122%.⁴⁸⁹

I&E recommends a reduction of \$369,743 (\$5,951,013 - \$5,581,270) to the Company's payroll tax expense claim and a reduction of \$446,296 (\$8,106,040 - \$7,659,744) to the Company's capitalized payroll taxes, based on I&E's recommended adjustments to labor expense and incentive compensation.⁴⁹⁰

OCA

As a result of its recommended adjustments to Peoples' proposed rate base, expense, and return allowances, the OCA included a recommended allowance for state and federal taxes.⁴⁹¹ To the extent that the Commission adopts a revenue requirement less than that proposed by Peoples in its initial filing, the OCA recommends that the Commission adjust the Company's state and federal tax expenses consistent with the authorized revenue requirement.⁴⁹²

OSBA

The OSBA is not briefing this issue.⁴⁹³

CAUSE-PA

⁴⁸⁹

Id.

⁴⁹⁰

I&E St. 1-SR at 19; I&E MB at 35.

⁴⁹¹

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

⁴⁹²

OCA MB at 56.

⁴⁹³

OSBA MB at 5.

CAUSE-PA does not take a position in this Main Brief on any adjustments, including taxes, to the Company's FPFTY revenues under current rates.⁴⁹⁴

RECOMMENDATION

As I have recommended adoption of the I&E position on labor/vacancy expense, I also recommend that the Commission accept I&E's related payroll tax adjustments.

30. RATE OF RETURN

Legal Standards

A public utility is entitled to an opportunity to earn a fair rate of return on the value of the property dedicated to public service. *Pennsylvania Gas and Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975) (citations omitted). In 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 Natural Gas*). In *Bluefield*, the Supreme Court stated:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable

⁴⁹⁴ CAUSE-PA MB at 27.

enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

Bluefield, 262 U.S. at 692-93. Twenty years later, in *Hope Natural Gas*, the Supreme Court reiterated:

From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that 14 standard the return to equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Hope Natural Gas, 320 U.S. at 603.

Capital Structure

Peoples

The Company submits that its FPFTY capital structure consists of 54.47% common equity and 45.53% long-term debt.⁴⁹⁵ In support of the Company's capital structure, Peoples witness Nelson explained that the Company's common equity ratio is within the range of actual common equity ratios of the proxy group of gas companies

⁴⁹⁵ Peoples St. 15 at 56; Peoples Exh. JEN-10.

used in this proceeding.⁴⁹⁶ Ms. Nelson calculated the average capital structure for each of the proxy group operating companies over the last three years. The proxy group operating companies finance their regulated natural gas distribution operations with an average of 54.51% common equity (and a median of 55.39%), within a range of 48.70% to 60.15%.⁴⁹⁷ When comparing the Company's equity ratio to the five-year average equity ratio that ranges from 48.15% to 60.07%, the Company's equity ratio is within the range of the proxy group, and in fact, is slightly below the proxy group mean and median of 54.63% and 55.04%, respectively.⁴⁹⁸ Peoples maintains that it has demonstrated that its capital structure is consistent with its peers. In *Columbia 2025*, the Commission allowed Columbia an equity ratio of 54.40%, where the equity ratio range was 35.96% to 60.16%.⁴⁹⁹ Peoples submits that the other parties have not presented sufficient evidence to depart from that precedent here.⁵⁰⁰

The Commission has determined that a utility's actual capital structure is to be used, absent circumstances where the actual capital structure is atypical for the type of utility service being offered.⁵⁰¹ Peoples submits that none of the other parties have demonstrated that Peoples' actual capital structure is atypical or deviates from industry standards. Rather, the Company's capital structure is well within industry standards and the capital structures of its peers.⁵⁰²

Peoples asserts that I&E witness Patel and OCA witness Garrett err by using consolidated holding company capital structures in their analyses. Peoples argues

⁴⁹⁶ Peoples St. 15 at 59-60.

⁴⁹⁷ Peoples St. 15-R at 25; Peoples Exh. JEN-6R.

⁴⁹⁸ Peoples St. 15-R at 19; Peoples Exh. JEN-6R.

⁴⁹⁹ *Columbia 2025* at 209-10.

⁵⁰⁰ Peoples MB at 59-60.

⁵⁰¹ See *Pa. PUC v. City of Lancaster – Water*, 1999 Pa. PUC Lexis 37 at *17; *Pa. PUC v. City of Bethlehem*, 84 Pa. P.U.C. 275, 304 (1995); *Carnegie National Gas Co. v. Pa. PUC*, 433 A.2d 938, 940 (Pa. Cmwlth. 1981).

⁵⁰² Peoples MB at 60-64.

that using consolidated holding company capital structures does not accurately reflect how natural gas distribution utilities are financed because they are at the holding company level, not the operating company level and do not reflect the common financing constraints faced by regulated operating subsidiaries with the obligation to serve.⁵⁰³ For these reasons, no weight should be given to I&E's and OCA's analyses based on consolidated holding company capital structures.⁵⁰⁴ Peoples contends that even if the Commission were to consider the consolidated holding company capital structures, Peoples' equity ratio of 54.47% is still within the proxy group equity ratio ranges presented by Mr. Patel and Mr. Garrett and therefore meets the Commission's standards.⁵⁰⁵

Peoples states that Mr. Patel's review of recent authorized equity ratios for natural gas utilities suffers from several flaws and does not support his conclusion to impose a hypothetical capital structure. Only 15 of the 52 rate cases referenced in his analysis are for companies included in Mr. Patel's or Ms. Nelson's proxy group. Notably, the average authorized equity ratio for those companies is 53.89%, which is not far removed from Peoples' equity ratio.⁵⁰⁶ Peoples argues that Mr. Patel's analysis fails to acknowledge that the authorized equity ratios referenced report the percentage of equity to total capital, which may include short-term debt and non-investor supplied sources of capital that are not included in Peoples' capital structure.⁵⁰⁷ Moreover, authorized equity ratios in 2025 and 2026 range from 43.17% to 61.05%. Peoples submits that the Company's equity ratio of 54.47% is well within this range.⁵⁰⁸ More than 61% of the 52 rate cases with an equity ratio determination in 2025 and 2026 are above Mr. Patel's recommended equity ratio of 50%, and more than one-third of those above 50% are equal

⁵⁰³ Peoples St. 15-R at 25.

⁵⁰⁴ *Id.*; Peoples St. 15-RJ at 8.

⁵⁰⁵ Peoples St. 15-Rat 26.

⁵⁰⁶ *Id.* at 27-28; Peoples Exh. JEN7-R.

⁵⁰⁷ Peoples St. 15-Rat 28.

⁵⁰⁸ *Id.* at 28-29.

to or greater than 54%.⁵⁰⁹ Peoples concludes that Mr. Patel’s own analysis supports that the Company’s equity ratio is reasonable and should be approved.

Mr. Garrett contends that the Company is engaging in “double leverage” to the benefit of its parent company.⁵¹⁰ The concept of “double leverage” refers to the financial practice in which a parent company borrows money to invest in the equity of its subsidiary.⁵¹¹ Ms. Nelson explained that because the source of an investor’s funds is not determinative of the investor-required return, Mr. Garrett’s reference to debt held at the parent level is irrelevant.⁵¹² Peoples notes that the Commission has rejected such double leverage arguments in the past as have several other state utility commissions.⁵¹³

Mr. Patel and Mr. Cicero claim that a hypothetical capital structure would result in savings to customers.⁵¹⁴ As Ms. Nelson explained, their argument relies on the faulty assumption that if the debt leverage in Peoples’ capital structure was increased from its actual equity ratio that the cost of debt and equity would remain the same. Peoples contends they would not. The cost of debt depends, in part, on the amount of financial risk associated with the proportion of debt in the capital structure.⁵¹⁵ While

⁵⁰⁹ Id.

⁵¹⁰ OCA St. 3 at 6.

⁵¹¹ Peoples St. 15-R at 32.

⁵¹² Id. at 33-34.

⁵¹³ See *Pa. PUC v. Pa. Gas & Water Co.*, Docket No. R-00922482 (Order entered June 23, 1993); *Pa. PUC v. Gen. Tel. Co. of Pa.*, Docket No. R-822109 (Order entered Sept. 16, 1983); *Pa. PUC v. Pa. Elec. Co.*, Docket No. R-78040599 (Order entered Jan. 11, 1979). See also Peoples St. 15-R at 35-36.

⁵¹⁴ I&E St. 2 at 18; CAUSE-PA St. 1 at 34.

⁵¹⁵ Peoples St. 15-R at 36-37. (The Commission has acknowledged that “there is a direct relationship between the cost of debt and the amount of financial risk shown by the debt ratio.” See e.g., *Pa. PUC v. PECO Energy Company*, R-2020-3018929, Opinion and Order, at page 145 (June 22, 2020). See also *Pa. PUC v. Columbia Gas of Pennsylvania*, R-2020-3018835, Opinion and Order entered Feb. 19, 2021, at 116, where the Commission noted that Columbia Gas’s “actual capitalization forms the basis upon which Columbia attracts capital. For example, proposed long-term debt cost rate of

Mr. Patel and Mr. Cicero suggest increasing leverage, they do not account for the cost implications of the additional long-term debt in their proposed hypothetical capital structures. Higher levels of debt increases financial risk, which increases the cost of debt and equity, all else equal. Peoples submits that Mr. Patel and Mr. Cicero do not reflect the higher cost of debt in their analysis.⁵¹⁶ Peoples avers that this higher cost of debt would *increase* customers' rates.⁵¹⁷

Mr. Garrett cites the capital structures of various companies in other industries, which he claims supports his suggestion of a hypothetical capital structure.⁵¹⁸ Peoples argues Mr. Garrett's reference to these companies is irrelevant to the analysis in this proceeding because non-regulated firms are not comparable to regulated utilities,⁵¹⁹ and therefore no weight should be given to Mr. Garrett's comparisons to non-utility capital structures.

Peoples contends that imputing a hypothetical capital structure that is materially more leveraged as some of the parties have suggested in this case could result in Peoples facing a credit downgrade as was the case for some utilities in other states.⁵²⁰ A credit downgrade could make it more difficult for the Company to access cost-effective capital to support its investments and thus result in higher financing costs, which would ultimately be reflected in rates. Such an increase in financing costs would *increase* customers' rates.

4.73%, *infra*, fully reflects the capitalization determined by the Company to be appropriate.”)

⁵¹⁶ Peoples St. 15-R at 36-37; Peoples St. 15-RJ at 6.

⁵¹⁷ Peoples St. 15-R at 54-55.

⁵¹⁸ OCA St. 3 at 54-56.

⁵¹⁹ Peoples St. 15-R at 37-38.

⁵²⁰ Peoples St. 15-R at 31-32.

Peoples concludes that I&E, OCA, and CAUSE-PA have not demonstrated that Peoples' capital structure is outside the norm for comparable gas companies. Having failed to do so, these parties impermissibly attempt to interfere in the management discretion of the Company to determine the necessary capital structure.⁵²¹ Peoples notes that the Commission has recognized the importance of an above average equity ratio when accelerated pipeline replacement program is underway as is the case for Peoples.⁵²² The parties have failed to demonstrate that the Company's actual capital structure is atypical and, therefore, the use of a hypothetical capital structure is inappropriate. Peoples submits that its financial profile is within the range of capital structure ratios of the proxy groups presented in this proceeding.⁵²³

I&E

I&E recommended using a capital structure of 50% long-term debt and 50% common equity.⁵²⁴ I&E witness Patel opined that Peoples' claimed capital structure of 54.47% common equity and 45.53% long-term debt is unreasonable for ratemaking purposes due to the equity ratio being higher than his proxy group's five-year averages, Value Line's 2027 capital structure projections, and the recent national authorized capital structures for gas distribution utilities.⁵²⁵ Mr. Patel also noted that Peoples' ultimate parent company, Essential Utilities, Inc's. ("Essential") capital structure is comprised of an equity ratio lower than 50% as opposed to Peoples claimed equity ratio of 54.47%.⁵²⁶ Mr. Patel found that, in addition to Vice Chair Barrow's comments regarding

⁵²¹ *Aqua 2022* at 138-39 ("The use of an actual capital structure represents the Company's decision, in which it has *full discretion*, on how to capitalize its rate base" (emphasis added)).

⁵²² See PPL Electric 2012.

⁵²³ Peoples MB at 64-69.

⁵²⁴ *Id.* at 14.

⁵²⁵ I&E St. 2-SR at 6.

⁵²⁶ *Id.* at 7.

consideration of the financial impact to customers in relation to equity heavy capital structures, it is necessary to use a hypothetical capital structure of 50/50 for ratemaking purposes, to balance the interests of the Company and ratepayers and ensure rate reasonableness without overburdening ratepayers.⁵²⁷

OCA

OCA submits that both Governor Shapiro and Vice Chair Barrow also recognize that another vital element in determining an appropriate ROR for a utility is the capital structure for the company. In her statement dated April 16, 2026, made at the time this matter was suspended for investigation, Vice Chair Barrow expressed concern regarding Peoples' proposed capital structure and its impact on the company's requested increase.⁵²⁸ As such, Peoples' proposed capital structure of 54% and 46% should be rejected and the 51% and 49% structure proposed by OCA witness Garrett should be adopted for purposes of setting rates in this matter.

OCA witness Garrett testified that a competitive firm can add value by increased debt, but after a certain point, the marginal cost of additional debt outweighs its marginal benefit.⁵²⁹ For regulated utilities, however, Mr. Garrett testified that, under the rate base rate of return model a higher weighted average cost of capital (WACC) results in higher rates, all else equal - utilities can increase their revenue by increasing their WACC, not reducing it.⁵³⁰ Therefore, because there is no incentive for a regulated utility to minimize WACC, a Commission standing in place of competition must ensure that the regulated utility is operating at the lowest reasonable WACC.⁵³¹ Mr. Garrett added that

⁵²⁷ *Id.* at 10 (*citing* I&E Exh. 2, Sch. 2 at 1); I&E MB at 39-40.

⁵²⁸ Statement of Vice Chair Kimberly Barrow (Apr. 16, 2026).

⁵²⁹ *Id.* at 50.

⁵³⁰ *Id.* at 52.

⁵³¹ *Id.* at 52.

utilities can generally afford to have higher debt levels than other industries because regulated utilities have large amounts of fixed assets, stable earnings and low risk relative to other industries and can afford to have relatively higher debt ratios.⁵³² In other words, because utilities have low levels of risk and operate a stable business, they should generally operate with relatively high levels of debt to achieve their optimal capital structure.⁵³³

According to Value Line, the average capital structure mix for the proxy group consists of 51% debt and 49% equity which is notably higher than Peoples' proposed capital structure consisting of only 46% debt.⁵³⁴ Mr. Garrett testified that this means that Peoples has a lower level of financial risk relative to the proxy group. Essential Utilities, Peoples' parent company, has a debt ratio of 54% which is significantly higher than Peoples' proposed debt ratio of only 46%.⁵³⁵ OCA contends that this is significant for ratemaking purposes because, since Peoples is a wholly owned subsidiary of Essential, Peoples' "equity" on its balance sheet is funded by its parent company.⁵³⁶ Because Essential has a debt ratio of 54%, the parent company is using debt to finance the purchase of Peoples' equity, a strategy known as "double leveraging" which amounts to financial arbitrage and is unfair to customers since it would require them to pay a high equity return on the utility's low-cost debt.⁵³⁷ Mr. Garrett testified that "adopting my capital structure recommendation would mitigate the unfair effects of double leverage that would otherwise be imposed on customers."⁵³⁸ Nonetheless, Mr.

⁵³² *Id.* at 52.

⁵³³ *Id.* at 53.

⁵³⁴ *Id.* at 53.

⁵³⁵ *Id.* at 53.

⁵³⁶ *Id.* at 54.

⁵³⁷ *Id.* at 54.

⁵³⁸ *Id.* at 54; *see also*, Figure 14 (Industries with Debt Ratios Greater than 56%).

Garrett bases his capital structure recommendation on the average capital structure of the proxy group.

Finally, Mr. Garrett responded to Ms. Nelson's criticisms of his capital structure adjustment, much of which simply defends the operating and proposed capital structure of Peoples.⁵³⁹ Mr. Garrett explained that Peoples' capital structure is not at issue because the Commission has no authority to dictate to the Company how it chooses a particular capital structure.⁵⁴⁰ Mr. Garrett added: "Rather, the capital structure used for ratemaking purposes and setting a fair and reasonable rate of return is fully within the Commission's discretion. In other words, it is not possible to have a fair rate of return without a fair capital structure," noting that his proposed ratemaking capital structure is substantially similar to I&E witness Patel and CAUSE-PA witness Cicero, both 50% debt and 50% equity, and based on the average capital structure of the proxy group.⁵⁴¹

Mr. Garrett also responded to Ms. Nelson's criticism that using holding companies in the proxy group should not be used to assess a fair capital structure by noting that using the capital structure of the proxy group to assess a fair ratemaking capital structure is the only correct approach.⁵⁴² Mr. Garrett added that he and Ms. Nelson use the same proxy group to estimate the cost of equity for the Company and, because the market evidence used to estimate the ROE is based on publicly traded parent holding companies, not their regulated operating subsidiaries.⁵⁴³ Mr. Garrett concluded that "Ms. Nelson's erroneous approach uses parent-company data to estimate investors' required return on equity, while relying on the balance sheets of a *different group* of companies to justify a substantially higher equity ratio. That mismatch overstates the amount of cost

⁵³⁹ Peoples St. 15-R at 16-38.

⁵⁴⁰ OCA St. 3SR at 8.

⁵⁴¹ OCA St. 3SR at 8; *see also*, I&E St 2 at 14 and CAUSE-PA St. 1 at 34.

⁵⁴² OCA St. 3SR at 9.

⁵⁴³ OCA St. 3SR at 9.

equity that should be included in rates and is inconsistent with the financial assumptions embedded in Ms. Nelson's own proxy group."⁵⁴⁴ OCA submits that Ms. Nelson's capital structure arguments should be rejected.⁵⁴⁵

CAUSE-PA

CAUSE-PA avers that the Commission should impute a fair, 50/50 capital structure for ratemaking purposes because Peoples' claimed capital structure is too heavily weighted to equity, which unreasonably and unnecessarily increases the rates charged to customers.⁵⁴⁶ For his part, Governor Shapiro recommends a ratemaking capital structure that is 54.9% debt and 45.12% equity, which is the actual capital structure employed by Essential Utilities.⁵⁴⁷ CAUSE-PA generally supports the Governor's recommendation, and submits that adoption of the actual capital structure utilized by the controlling entity of a monopoly utility will produce the most equitable result. Nevertheless, and notwithstanding CAUSE-PA's support for alignment of capital structure with a monopoly utility's controlling corporate parent, CAUSE-PA recommends in this case a moderated approach that adopts a 50/50 structure for ratemaking purposes.⁵⁴⁸ CAUSE-PA states that imputing this structure would help to gradually move the Company from its equity skewed ratemaking capital structure to one that is more consistent with its role as a monopoly provider of essential utility service to captive customers.⁵⁴⁹ This approach – rooted in the principle of gradualism – will help ensure that the overall rate of return that the Commission authorizes considers affordability of rates as a factor.⁵⁵⁰ This approach also moves the Company gradually

⁵⁴⁴ OCA St. 3SR at 9.

⁵⁴⁵ OCA MB at 60-64.

⁵⁴⁶ OCA St. 3 at 5; CAUSE-PA St. 1 at 47.

⁵⁴⁷ Governor's Exhibit 1.

⁵⁴⁸ CAUSE-PA St. 1 at 47

⁵⁴⁹ Id.

⁵⁵⁰ CAUSE-PA St. 1-SR at 24-25.

towards a capital structure that is more reflective of the risk that it would bear if it were subject to actual equity markets – like its great grandparent – Essential Utilities.⁵⁵¹

CAUSE-PA also cites Vice Chair Barrow’s statement dated April 16, 2026, expressing concern regarding Peoples’ proposed capital structure and its impact on the Company’s proposed rate increase.⁵⁵² CAUSE-PA submits that its approach to gradually move the operating company’s capital structure to that of its corporate parent takes these concerns seriously and is firmly within the authority Commission’s authority. CAUSE-PA argues that the Commission is not restrained to accept the capitalization ratio proposed by Peoples and can impute a revised capitalization ratio for ratemaking purposes.⁵⁵³ This is especially true for Companies like Peoples, which are not publicly traded and are wholly owned subsidiaries of public companies. In this instance, Pennsylvania Courts have held that the capital structure of utilities that are wholly-owned subsidiaries may differ from what it would maintain if it were obliged to obtain its debt and equity financing on the open market rather than from a parent company.⁵⁵⁴

In Pennsylvania American Water’s most recent rate case, the Commission found that it “must closely examine the total relevant record evidence in this proceeding when setting the appropriate capital structure.”⁵⁵⁵ Considering the totality of evidence in the case, including affordability and macroeconomic considerations, the Commission found it appropriate to apply a hypothetical capital structure for PAWC’s Water operations.⁵⁵⁶ The Commission stated that, “although it is often true that a utility’s actual

⁵⁵¹ Id.

⁵⁵² Statement of Vice Chair Kimberly Barrow, April 16, 2026

⁵⁵³ *Riverton Consol. Water Co. v. Pa. P.U.C.*, 140 A.2d 114, 121 (Pa. Super. Ct. 1958) (*Riverton*).

⁵⁵⁴ Id.

⁵⁵⁵ *PA. PUC v. Pennsylvania-American Water Company*, Docket No. R-2025-3057983, Opinion and Order at 184 (Adopted July 16, 2026, Entered July 27, 2026).

⁵⁵⁶ Id. at 185.

capital structure should be utilized in determining the appropriate ROE and overall rate of return to authorize, there are situations in which the Commission must diverge from the use of an actual capital structure.”⁵⁵⁷

CAUSE-PA notes that Essential Utilities’ capital structure is 54.9% debt and 45.1% equity, which is far more heavily weighted to the debt side and nearly the inverse of what it proposes for Peoples in this proceeding.⁵⁵⁸ In Governor Shapiro’s recent letter to utility CEOs, and in his testimony at the public input hearings through Special Counsel for Energy Affordability Mark Szybist, he urged utilities to protect consumers by favoring lower-cost debt over expensive equity.⁵⁵⁹ He argued that debt should represent a clear majority of a utility’s proposed ratemaking capital structure and stated any proposed equity share exceeding the equity amount employed by the utility’s parent holding company should require *extraordinary* justification.⁵⁶⁰ He also urged utilities to utilize Department of Energy loans instead of relying on costly equity.⁵⁶¹ CAUSE-PA agrees.

CAUSE-PA concludes that, in this case, the capitalization ratio chosen by the Company places an excessive and undue emphasis on the higher return on equity at the expense of the lower cost of debt.⁵⁶² CAUSE-PA urges the Commission to exercise its discretion in a manner that ensures Peoples is not taking undue and unfair advantage of its captive customers. The Commission should impute a 50/50 capital structure as recommended by CAUSE-PA witness Cicero in his direct testimony.⁵⁶³ This result would be far more beneficial for consumers than Peoples’ proposal and would help ease the

⁵⁵⁷ *Id.*

⁵⁵⁸ CAUSE-PA St. 1 at 44, Table 10.

⁵⁵⁹ Governor Shapiro Exhibit 1.

⁵⁶⁰ *Id.*

⁵⁶¹ *Id.*

⁵⁶² CAUSE-PA St. 1 at 47.

⁵⁶³ CAUSE-PA St. 1 at 47.

burden on low-income households, while providing the Company with an opportunity to earn a fair rate of return.⁵⁶⁴

Disposition

I recommend that the Commission adopt Peoples' capital structure. Commission precedent clearly indicates that actual capital structure should be adopted unless a capital structure is atypical or outside a range of reasonableness. *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2025-3053499 (Order entered Dec.9, 2025) at 212-213; *Pa. PUC v. Pennsylvania-American Water Company*, Docket Nos. R-2023-3043189 and R-2023-3043190 (Opinion and Order entered July 22, 2024) at 158; *Pa. PUC v. Columbia Water Company*, Docket No. R-2023-3040258 (Opinion and Order entered Jan. 18, 2024) at 84; *Pa. PUC v. PECO Energy Company - Gas Division*, Docket No. R-2020-3018929 (Opinion and Order entered June 22, 2021) at 144-145; *Pa. PUC, et al. v. Columbia Gas of Pa.*, Docket Nos. R-2020-3018835, et al. (Order entered Feb. 19, 2021) at 11117; *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597 (Opinion and Order entered Dec. 28, 2012) at 68. Here, Peoples' capital structure is within the range of equity ratios of the proxy group of utilities.⁵⁶⁵ Therefore, Peoples' capital structure is clearly not atypical. I similarly find that Peoples' capital structure is reasonable as it is within the range of equity ratios of the proxy group of utilities.

⁵⁶⁴ CAUSE-PA MB at 32-36.

⁵⁶⁵ Peoples St. 15 at 59-60.

Debt Cost Rate

Peoples

The Company's proposed debt cost rate to be used in determining the rate of return is 4.61%.⁵⁶⁶ Peoples submits that there is no dispute concerning the debt cost rate, and the Company's debt cost rate should be accepted.⁵⁶⁷

I&E

I&E witness Patel recommended using the Company's claimed long-term debt cost rate.⁵⁶⁸

OCA

The OCA did not present testimony regarding this issue.⁵⁶⁹

CAUSE-PA

CAUSE-PA accepts Peoples calculated embedded cost of long-term debt of 4.61%.⁵⁷⁰

⁵⁶⁶ Peoples St. 15 at 61.

⁵⁶⁷ Peoples MB at 69.

⁵⁶⁸ Peoples St. 15 at 61; I&E MB at 40.

⁵⁶⁹ OCA MB at 64.

⁵⁷⁰ CAUSE-PA MB at 36-37.

Disposition

Noting that no party disputed Peoples calculation of its cost of long-term debt, I recommend that the Commission adopt a cost of long-term debt of 4.61%.

Return On Common Equity

Proxy Group

Peoples

Peoples states that, in evaluating the capital structure and determining the required ROE, it is important to develop a group of companies that is both publicly traded and comparable to the Company. Data for the “proxy group” provides market information particularly for investors’ required ROE. On pages 16 through 21 of her direct testimony, Peoples witness Nelson explained how she developed the proxy group, which is comprised of seven companies.

OCA witness Garrett accepted Ms. Nelson’s proxy group.⁵⁷¹ I&E witness Patel included an eighth company – Chesapeake Utilities Corp. – in his proxy group.⁵⁷² In order to narrow the scope of contested issues regarding rate of return in this case, Ms. Nelson accepted Mr. Patel’s inclusion of Chesapeake Utilities Corp. and also excluded the S&P high earnings growth rate for Southwest Gas Holdings, Inc. in her DCF analysis as Mr. Patel suggested.⁵⁷³

⁵⁷¹ OCA St. 3 at 16.

⁵⁷² I&E St. 2 at 10-12.

⁵⁷³ Peoples St. 15-R at 67-68.

I&E

Mr. Patel's proxy group included the following eight companies:⁵⁷⁴

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

Mr. Patel noted that while I&E and Peoples had seven companies that match, I&E included one company that Peoples did not, Chesapeake Utilities Corporation (CPK).⁵⁷⁵

OCA

The OCA did not present testimony regarding this issue.⁵⁷⁶

Discounted Cash Flow ("DCF")

Peoples

Peoples notes that the Commission has used the DCF model as the primary model for establishing the cost of equity.⁵⁷⁷ Use of the DCF model based upon analysts'

⁵⁷⁴ *Id.* at 11.

⁵⁷⁵ *Id.* at 11-12; I&E MB at 42.

⁵⁷⁶ OCA MB at 65.

⁵⁷⁷ Columbia 2025 at 216.

projected earnings provides a strong basis for determining the cost of equity during the period that the rates set in this proceeding will be in effect.⁵⁷⁸ Ms. Nelson calculated a 10.91% DCF result based on analysts' projections of earnings, which she calculated by averaging the Constant Growth DCF of 10.79% and the Quarterly Growth DCF of 11.03%.⁵⁷⁹ Ms. Nelson updated her analysis in her Rebuttal Testimony and the average of her Constant Growth and Quarterly Growth DCF results increased by 12 basis points to 11.03%.⁵⁸⁰

Peoples avers that the results of Ms. Nelson's DCF analysis are similar to Mr. Patel's DCF results and the methodology that has been previously accepted by the Commission, although Mr. Patel's analysis produced a slightly higher result.⁵⁸¹ I&E witness Patel calculated a DCF cost of equity based on analysts' projections of 11.33%, which is 33 basis points higher than Ms. Nelson's base ROE recommendation of 11.0% and 8 basis points higher than Ms. Nelson's 11.25% ROE inclusive of management performance.⁵⁸² Peoples maintains that the overall closeness of these results demonstrates the general agreement on the inputs and explains the Commission's reliance on this method.

OCA witness Garrett's DCF analysis produced ROE estimates ranging from 7.1% to 7.6% depending on his growth rate assumption.⁵⁸³ Ms. Nelson explained why Mr. Garrett's reliance on alternative measures of growth such as dividend growth and GDP growth are flawed. Dividend growth projections are not widely reported or relied on by investors. Peoples submits that dividend growth can only be sustained by earnings growth, and dividend growth is subject to near-term management decisions regarding dividend payouts, which may not be reflective of a company's long-term

⁵⁷⁸ Peoples St. 15-R at 70-71.

⁵⁷⁹ Peoples St. 15 at 4.

⁵⁸⁰ Peoples St. 15-R at 15; Peoples Exh. JEN-1R, Peoples Exh. JEN-2R.

⁵⁸¹ Peoples St. 15-R at 76.

⁵⁸² I&E St. 2 at 7.

⁵⁸³ OCA St. 3 at 32.

growth prospects.⁵⁸⁴ Peoples notes that the growth rates used by Mr. Garrett in his analysis are *below current utility bond yields*. Peoples asserts that Mr. Garrett's use of a GDP growth rate in the DCF model is similarly flawed because the use of a uniform growth rate for each of the proxy companies is inconsistent with the model itself, which is based on the expectations of an individual company's growth.⁵⁸⁵ Peoples concludes that, for these reasons, Mr. Garrett's DCF analysis should not be given any weight.⁵⁸⁶

I&E

I&E avers that its DCF analysis contains the most up-to-date projected information of any model and is the preferred method for determining the rate of return for the current economic market because it measures the cost of equity directly.⁵⁸⁷ Mr. Patel eliminated Southwest Gas Holdings' outlier S&P Global Market Intelligence ("S&P") growth estimate of 12.59% for the purposes of his DCF analysis as S&P's growth projection for Southwest Gas Holdings is extremely inconsistent and would have an unreasonable and unwarranted impact on his analysis.⁵⁸⁸ The result of Mr. Patel's DCF analysis was 11.33%.⁵⁸⁹ I&E did not present specific testimony on Peoples' DCF analysis.⁵⁹⁰

OCA

In reviewing Peoples ROE request, Mr. Garrett conducted multiple analyses, including a DCF analysis, which includes three primary inputs: 1) stock price,

⁵⁸⁴ Peoples St. 15-R at 72.

⁵⁸⁵ *Id.* at 72-73.

⁵⁸⁶ Peoples MB at 75-76.

⁵⁸⁷ Peoples St. 15-R at 24.

⁵⁸⁸ *Id.* at 30-31.

⁵⁸⁹ *Id.* at 31 (*citing* I&E Exh. 2, Sch. 6).

⁵⁹⁰ I&E MB at 43.

2) dividend and 3) the long-term growth rate. Mr. Garrett used a 30-day average of stock prices for each company in the proxy group to determine the stock price to use for the DCF Model.⁵⁹¹ Mr. Garrett used forward-looking annualized dividends published in Yahoo! Finance for the dividend input into his constant growth DCF Model.⁵⁹² Mr. Garrett considered two growth variations: one using a sustainable growth rate and one using analysts' growth rates.⁵⁹³ The results of these models are 7.1% and 7.6% respectively.⁵⁹⁴

In contrast, Peoples witness Nelson's application of the DCF Model produced an indicated cost of equity result of 10.53%.⁵⁹⁵ Mr. Garrett testified that the result of Ms. Nelson's DCF does not indicate a reasonable cost of equity estimate for Peoples:

Whether the sustainable GDP growth rate or the projected dividend growth rates published by Value Line are considered, the highest DCF result I obtained was 7.6%. The primary reason Ms. Nelson's DCF results are overstated is her use of unsustainably high growth rates for some proxy companies, and average growth rates for the proxy group that are unsustainably high.⁵⁹⁶

Mr. Garrett noted for example that Ms. Nelson incorporated an annual long-term growth rate as high as 10.5% for Southwest Gas Holdings, Inc., meaning that Ms. Nelson believes the company's earnings will grow by more than 10.5% each year,

⁵⁹¹ *Id.* at 25.

⁵⁹² *Id.* at 26.

⁵⁹³ *Id.* at 32.

⁵⁹⁴ *Id.* at 32, *citing*, OCA Exh. DJG-6.

⁵⁹⁵ *Id.* at 32, *citing*, Peoples St. 15 at 4.

⁵⁹⁶ *Id.* at 32-33.

every year, in perpetuity, and calling such a suggestion “simply unsustainable and technically impossible.”⁵⁹⁷

OCA asserts that Ms. Nelson’s criticisms of Mr. Garrett’s DCF Model are without merit and should be rejected. Ms. Nelson criticized Mr. Garrett’s use of analyst’s dividend growth projections in the DCF Model claiming he should have considered earnings per share rather than dividends per share to assess Peoples’ long-term growth rate in the DCF Model.⁵⁹⁸ OCA states that Mr. Garrett noted, however, that the DCF model directly considers dividends, rather than earnings, because dividends is the “cash flow” to investors that is being discounted in the model to ultimately estimate the cost of equity, which Ms. Nelson herself has acknowledged.⁵⁹⁹ Mr. Garrett testified that Ms. Nelson also relied on earnings growth rates as part of her DCF Model and that it is not unreasonable to consider earnings growth rates as a proxy for dividend growth in the DCF Model, as long as long-term growth rate projections are generally sustainable.⁶⁰⁰ OCA avers that, in this case, however, Ms. Nelson’s assumption that Peoples’ annual earnings growth rate will outpace U.S. GDP in perpetuity is not just an unreasonable assumption, it is impossible,⁶⁰¹ and therefore Ms. Nelson’s DCF Model is overstated.

OCA argues that, similarly, I&E witness DC Patel also presented a DCF model that is overstated. Mr. Patel’s DCF model result was 11.33%.⁶⁰² As Mr. Garrett testified, “the primary reason Mr. Patel’s DCF Model produced a much higher result than mine is his use of unsustainably high growth rates. Mr. Patel used a composite growth rate for the proxy group of 8.1%.”⁶⁰³ In contrast, the average growth rate Mr. Garrett used

⁵⁹⁷ *Id.* at 33.

⁵⁹⁸ Peoples St. 15-R at 29.

⁵⁹⁹ OCA St. 3SR at 4, *citing* Peoples St 15-R at 29.

⁶⁰⁰ OCA St. 3SR at 4.

⁶⁰¹ OCA St. 3SR at 4-5.

⁶⁰² I&E St. 2 at 7.

⁶⁰³ OCA St. 3R at 3, *citing*, I&E St. 2 at 31.

for the proxy group was only 6.2% for his analyst-growth DCF Model and the average growth rate for his sustainable growth DCF Model is equal to the long-term U.S. GDP growth, which is only 3.7%.⁶⁰⁴ OCA similarly argued that Mr. Patel's assumption of annual earnings growth rate outpacing total U.S. GDP is impossible,⁶⁰⁵ and therefore is also overstated.

Mr. Garrett concluded that the analyst growth rates used by Mr. Patel are not intended to be long-term growth rate estimates, noting that the published growth rates used by Mr. Patel are five-year growth rate projections.⁶⁰⁶

Capital Asset Pricing Model ("CAPM")

Peoples

Peoples notes that in *Columbia 2025*, the Commission concluded that the CAPM is a useful tool in setting the ROE.⁶⁰⁷ Applying the CAPM using the risk-free rates and forward-looking estimates of market return produces a ROE range of 13.06% to 13.11%.⁶⁰⁸ Ms. Nelson also considered the ECAPM, which resulted in a forward-looking range of 13.93% to 13.89%. Ms. Nelson explained the ECAPM is useful because it addresses the tendency of the CAPM to underestimate cost of equity for companies such as regulated utilities with relatively low Beta coefficients.⁶⁰⁹ Peoples avers that ECPAM

⁶⁰⁴ OCA St. 3R at 3.

⁶⁰⁵ OCA St. 3R at 3.

⁶⁰⁶ OCA St. 3R at 3. Mr. Garrett noted, as an example, that Mr. Patel uses a five-year growth rate of 12.59% for Spire, which is projected by S&P. However, Mr. Patel, not S&P, suggests that Spire's earnings can grow at an annual rate of more than 12% each year, every year, forever, which is an unreasonable assumption and should be rejected outright; OCA MB at 65-69.

⁶⁰⁷ Columbia 2025 at 226.

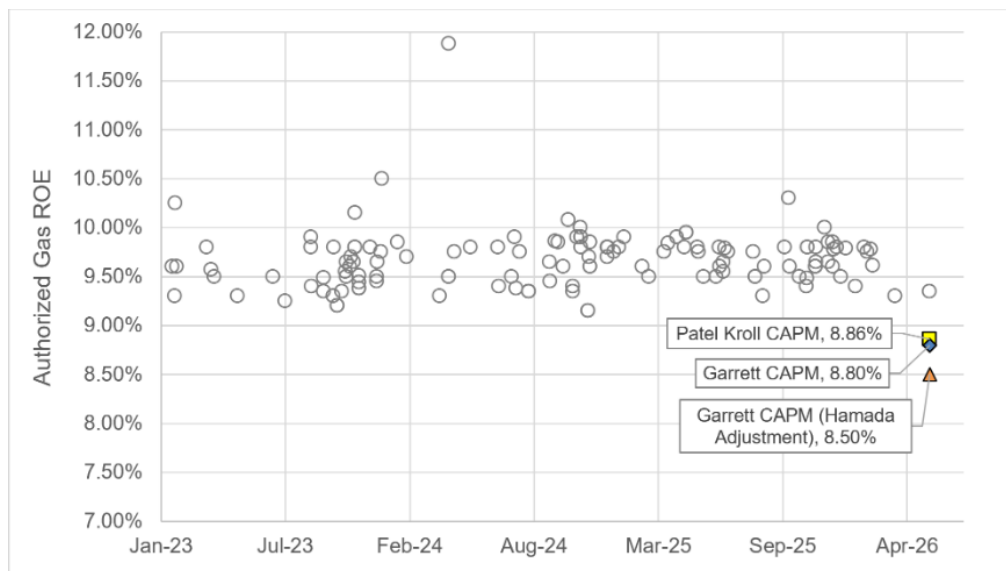
⁶⁰⁸ Peoples St. 15 at 39.

⁶⁰⁹ *Id.* at 35.

is supported by academic studies and is used by investors as well as certain regulatory commissions.⁶¹⁰ The average of all of Ms. Nelson’s CAPM and ECAPM results using historical and forward market returns as presented on page 15 of her direct testimony is 11.94%.

Peoples submits that Mr. Garrett’s CAPM estimates and Mr. Patel’s CAPM estimate based on Kroll’s recommended equity risk premium are fundamentally flawed and do not meet the comparable return standard as required by *Hope* and *Bluefield*. As Ms. Nelson demonstrated in the following chart, Mr. Garrett’s CAPM estimates and Mr. Patel’s Kroll-based CAPM are well below the recently authorized ROEs for natural gas utilities and are counter to the higher interest rate environment.⁶¹¹

Figure 14: Mr. Garrett’s CAPM ROE Estimates and Mr. Patel’s Kroll MRP CAPM ROE Estimate vs. Natural Gas Utility Authorized ROEs (Jan. 2023-May 2026)



⁶¹⁰ *Id.* at 37-38.

⁶¹¹ Peoples St. 15-R at 78-79.

Peoples avers that, regarding the CAPM risk-free rate, Mr. Garrett correctly uses a 30-year Treasury bond yield while Mr. Patel understates the CAPM cost rate by using only a 10-year Treasury bond yield. In determining the security most relevant to the application of the CAPM, it is important to select the term that best matches the life of the underlying investment. The 30-year Treasury bond better matches the life of long-duration utility investments.⁶¹²

Peoples asserts that Mr. Garrett erroneously applied a Hamada adjustment to his CAPM analysis. As Ms. Nelson explained, Mr. Garrett incorrectly applied the Hamada adjustment to the Company's book value when it should have been applied to the market value of the Company's capital structure. In doing so, Mr. Garrett's Hamada adjustment distorts the cost of equity. Because the proxy companies' equity on a market value basis is greater than the book values of equity, a properly applied Hamada adjustment should result in an upward adjustment to ROE, not a downward adjustment as Mr. Garrett has applied.⁶¹³

Mr. Garrett recommends an alternative ROE of 8.5% if the Commission does not impose a hypothetical capital structure, which is based on his Hamada adjustment.⁶¹⁴ Peoples states that, as explained by Company witness Nelson, OCA's alternative ROE is not market based and misuses the Hamada model. Peoples concludes that the Commission should reject OCA's alternative ROE recommendation, which is simply an attempt to bypass the well-established precedents on capital structure by reducing the ROE.

Both Mr. Patel and Mr. Garrett reference Kroll in determining their market risk premium. Peoples states that their use of Kroll is unsupported and should be

⁶¹² Peoples St. 15-R at 79-81.

⁶¹³ *Id.* at 82-83.

⁶¹⁴ OCA St. 3 at 59.

rejected. Ms. Nelson demonstrated that Kroll's equity risk premium is not developed in relation to its risk-free rate even though academic studies have shown that there is an inverse relationship between the two metrics.⁶¹⁵ Kroll's equity risk premium does not provide a reliable basis for the CAPM analysis in this case.

Peoples concludes that, for the reasons explained above and in Ms. Nelson's testimony, Mr. Garrett's CAPM-based ROE estimates and Mr. Patel's Kroll CAPM ROE produce unrealistically low ROEs in violation of the *Hope* and *Bluefield* standards and should be outright rejected. While Mr. Patel's forecasted CAPM analysis also suffers from several flaws, Ms. Nelson demonstrated that correcting these errors raises Mr. Patel's forecasted CAPM from 10.28% to 12.11%.⁶¹⁶

I&E

The result of Mr. Patel's CAPM analysis was 9.57% $((10.28\% + 8.86\% \div 2)$ based on the average of using a traditional forecasted overall market return (10.28%) and using Kroll's recommended U.S. Equity Risk Premium ("ERP") and 20-year U.S. Treasury yield (8.86%).⁶¹⁷ Mr. Patel noted that, as I&E has historically reasoned, the CAPM inputs are subjective, and other than beta, not company or industry specific.⁶¹⁸ While I&E believes the DCF is the most reliable of the cost of equity models, I&E provided a CAPM analysis as it does provide value and the Commission has recently relied on a combination of both the DCF and CAPM models.⁶¹⁹

⁶¹⁵ Peoples St. 15-R at 85-86; Peoples St. 15-RJ at 10-11.

⁶¹⁶ Peoples St. 15-R at 97-98; Peoples Exh. JEN-10R; Peoples MB at 77-80.

⁶¹⁷ Peoples St. 15-R at 36 (*citing* I&E Exh. 2, Sch. 10).

⁶¹⁸ *Id.* at 37.

⁶¹⁹ *Id.*

Mr. Patel disagreed with Peoples' use of the 30-year Treasury bond to determine the risk-free rate and instead supports the use of the 10-year Treasury bond.⁶²⁰ Mr. Patel disagreed with Peoples' use of outlier market risk premiums in its CAPM and ECAPM analyses.⁶²¹ Mr. Patel disagreed with Peoples' claim regarding additional risk due to the Company's capital expenditure plan.⁶²² Mr. Patel disagreed with Peoples' claim regarding bypass risk.⁶²³ Mr. Patel disagreed with Peoples' claim regarding the current and prospective capital market.⁶²⁴ Mr. Patel disagreed with Peoples' flotation cost adjustment.⁶²⁵

Mr. Patel also considered national average authorized ROEs in his analysis. Mr. Patel noted that data provided by S&P showed the national average authorized ROE for gas distribution companies across the U.S. was 9.69% for rate cases decided in 2025 through 2026.⁶²⁶ Mr. Patel incorporated recent national authorized equity returns for gas utilities in his ROE analysis because this information complies with the principle derived from the *Hope* and *Bluefield* cases that a utility is entitled to a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures.⁶²⁷ I&E asserts that it is reasonable and logical to include in its recommendation the authorized returns of natural gas distribution companies in recently completed rate cases across the country.⁶²⁸

Ms. Nelson criticized Mr. Patel's use of national average authorized ROEs in his analysis claiming that the returns cited reflect outdated data and should not be used

⁶²⁰ *Id.* at 44-45.

⁶²¹ *Id.* at 45-46.

⁶²² *Id.* at 46-49.

⁶²³ *Id.* at 49-51.

⁶²⁴ *Id.* at 51-53.

⁶²⁵ *Id.* at 53-54.

⁶²⁶ *Id.* at 37 (*citing* I&E Exh. 2, Sch. 2 at 8-9).

⁶²⁷ *Id.* at 37-38.

⁶²⁸ *Id.* at 38.

as a substitute for market-based cost-of-equity analyses.⁶²⁹ I&E argues that the present economic conditions are similar enough to the conditions that existed when those proceedings were litigated such that their returns are relevant to warrant inclusion in I&E's analysis. Additionally, Mr. Patel continued to assert that his ROE analysis did consider market-based cost-of-equity analyses reflecting utilities' risks.⁶³⁰

Lastly, I&E notes that its recommended ROE of 10.20% for the Company in this case is comparable, yet higher than the national average authorized ROE of 9.69% for gas distribution utilities.⁶³¹

OCA

In addition to his DCF analysis, Mr. Garrett also conducted a CAPM analysis when reviewing Peoples' requested ROE.⁶³² Mr. Garrett concluded that, using the inputs for the risk-free rate, beta and equity risk premium, Peoples' CAPM cost of equity is 8.8% if the proxy group average debt ratio is assumed and 8.5% if it is not.⁶³³

Finally, in addition to conducting his own extensive examination of the appropriate ROE for Peoples in this case, Mr. Garrett also addressed why the examination performed by Peoples witness Nelson should be rejected. Mr. Garrett added that "the primary factor which causes Ms. Nelson's CAPM results to be unreasonably high is her use of an unreasonably high ERP estimate," noting that Ms. Nelson used an ERP as high as 11.7% in her analysis.⁶³⁴ Mr. Garrett reiterated that the expert survey he used reports an average ERP of 5.3%, the Kroll report estimated an ERP of 5.0%,

⁶²⁹ I&E St. 2-SR at 15 (*citing* Peoples St. 15-R at 58-59).

⁶³⁰ *Id.* at 16.

⁶³¹ I&E St. 2 at 38; I&E MB at 43-45.

⁶³² OCA St.3 at 33; *citing*, *Wilcox*, *supra*.

⁶³³ *Id.* at 42-43.

⁶³⁴ *Id.* at 44, *citing*, Peoples St. 15. at Fig. 14.

Dr. Damodaran reports an estimated ERP of only 4.5%, each of which is considerably lower than the ERP used by Ms. Nelson.⁶³⁵ OCA avers that when compared with the other independent sources for the ERP, as well as Mr. Garrett's estimate, Ms. Nelson's ERP is clearly too high.

Mr. Garrett also addressed Ms. Nelson's use of another version of the CAPM called the ECAPM which produced a result for Ms. Nelson as high as 13.93%.⁶³⁶ Mr. Garrett testified that there are several problems with ECAPM, including that 1) the Value Line betas both Ms. Nelson and he used in the real CAPM have already been adjusted upwards to account for the theory that low-beta stocks might have a tendency to be underestimated, 2) the type of beta-adjustment used by Value Line in fact overstates betas from consistently low-beta industries like utilities and 3) Ms. Nelson's ECAPM still suffers from the same overestimated ERP input.⁶³⁷ Mr. Garrett concluded that "Ms. Nelson's ECAPM should be disregarded for its ERP inputs alone which were based on old, out of date data result in unreasonable ERP significantly higher than that of other experts in the industry."⁶³⁸

Finally, Mr. Garrett also addressed another type of risk premium analysis which considers authorized ROEs dating back to 1980 and noted that this model also does not indicate a reasonable cost of equity for Peoples.⁶³⁹ Mr. Garrett testified that authorized ROEs from other jurisdictions are not market-based, relying on nearly 50-year-old data belies Ms. Nelson's characterization that the cost of capital is "forward looking," and the use of the alternative risk premium analysis is circular in that using over inflated ROEs elsewhere to justify an over-inflated ROE in this case continues a

⁶³⁵ *Id.* at 45, *see*, Figure 12.

⁶³⁶ *Id.* at 46, *citing*, Peoples St. 15 at Peoples Exh. JEN-5.

⁶³⁷ *Id.* at 46-47.

⁶³⁸ *Id.* at 48.

⁶³⁹ *Id.* at 48.

vicious cycle that enriches shareholder's at utility customer's expense.⁶⁴⁰ OCA argues that Ms. Nelson's use of the risk premium model should be rejected in this case.

Likewise, OCA states that Ms. Nelson's criticisms of Mr. Garrett's CAPM analysis are without merit and should be rejected. Ms. Nelson criticized Mr. Garrett's use of an ERP estimate published by Kroll arguing that Kroll's estimate "would not meet the comparable return standard as required by the *Hope* and *Bluefield* decisions" because it would lead to CAPM results that "are well below recently authorized ROEs for natural gas utilities."⁶⁴¹ Mr. Garrett, however, testified that:

the cost of equity and authorized returns are entirely different concepts. An authorized return is simply whatever a regulator says it is, whether it is 5% or 10%. In contrast, *Hope* and *Bluefield* require the authorized ROE to be based on cost. The CAPM is a Nobel-Prize winning model that is specifically designed to estimate that cost. No input to the CAPM is dependent on the decisions of regulators.⁶⁴²

Mr. Garrett added that he considered three reliable and objective sources to include in his overall ERP estimate and conducted his own ERP estimate which was similar to those from other sources.⁶⁴³ Mr. Garrett concluded that "investors are more likely to rely on these types of sources for the ERP than Ms. Nelson's personal ERP estimate."⁶⁴⁴

Mr. Garrett also addressed the CAPM analysis by I&E witness Patel. OCA states that, as with his DCF Model analysis discussed, Mr. Patel's CAPM analysis is also incorrect and should be rejected. Mr. Garrett testified that Mr. Patel conducted two

⁶⁴⁰ *Id.* at 49.

⁶⁴¹ OCA St. 3SR at 5, *citing*, Peoples St. 15-R at 78.

⁶⁴² OCA St. 3SR at 5.

⁶⁴³ OCA St. 3SR at 6-7; Figure 1 (Equity Risk Premium Comparison).

⁶⁴⁴ OCA St. 3SR at 7.

variations of the CAPM – the first variation has a result of 10.28% and the second variation has a result of 8.86%.⁶⁴⁵ Mr. Garrett added:

The main difference between his two CAPM variations is the equity risk premium (ERP) input. In the higher of the two CAPM results, Mr. Patel calculated his own ERP estimate by relying on data starting in the Great Depression. As thoroughly discussed in my direct testimony, this type of historical approach is contrary to modern academic literature and most certainly overstates the ERP. In Mr. Patel's second variation of the CAPM, he relies on a current ERP estimate published by Kroll.⁶⁴⁶

OCA contends that Mr. Patel's application of the CAPM produces a significantly higher result than his 8.8% for Peoples whereas his second application of the CAPM produces a substantially similar result.⁶⁴⁷

Risk Premium

Peoples

Peoples submits that the Commission should also consider the Risk Premium method in reaching a ROE. This method indicates a cost of equity between 10.21% and 10.35%.⁶⁴⁸ Peoples contends that this model is important because of its connection of interest rates and inflation through utility bond rates and recognizes that risk premiums change inversely as interest rates change.⁶⁴⁹ The Commission has recognized the usefulness of the Risk Premium method as a check on the results of the

⁶⁴⁵ OCA St. 3R at 4, *citing*, I&E St. 2 at 36.

⁶⁴⁶ OCA St. 3R at 4.

⁶⁴⁷ OCA St. 3R at 4-5; *see also*, Figure 1 (My CAPM Summary); OCA MB at 69-74.

⁶⁴⁸ Peoples Exh. JEN-6 and Peoples Exh. JEN-5R.

⁶⁴⁹ Peoples St. 15 at 39-43.

DCF.⁶⁵⁰ Risk Premium is relied upon by many other state regulatory commissions as well.⁶⁵¹

In developing a recommended ROE, I&E witness Patel gives 1/3 weight to the national average authorized returns for natural gas utilities and claims that Ms. Nelson's recommended ROE is too high relative to the national authorized returns of other gas utilities.⁶⁵² Authorized ROEs of gas utilities in other states alone are not determinative of the appropriate ROE for Peoples. Peoples avers that authorized ROEs are a trailing indicator because they are established based on market conditions that existed at the time those proceedings were litigated and decided. For this reason, a more appropriate approach is to model the relationship between the equity risk premium and the prevailing interest rate environment as Ms. Nelson did in her Bond Yield Plus Risk Premium analysis.⁶⁵³ The returns cited by Mr. Patel reflect a narrow subset of gas utility authorized ROEs and are backward looking, whereas Ms. Nelson's analysis estimates the ROE based on a statistical relationship using current and projected market conditions.⁶⁵⁴

I&E

Mr. Patel excluded the RP method from his analysis as it is a simplified version of the CAPM and does not recognize company-specific risk through beta.⁶⁵⁵

⁶⁵⁰ See PPL Electric 2012 Order at 81-81; see also Aqua 2022 Order at 154-155.

⁶⁵¹ Peoples St. 15-R at 101.

⁶⁵² I&E St. 2 at 37-38, 63.

⁶⁵³ Peoples St. 15 at 39-43; Peoples St. 15-R at 58-59.

⁶⁵⁴ Peoples St. 15-R at 58-59; Peoples MB at 80.

⁶⁵⁵ *Id.* at 25; I&E MB at 45.

OCA

The OCA incorporated by reference the discussion of Mr. Garrett regarding the CAPM risk premium analysis.⁶⁵⁶

Comparable Earnings

Peoples

The Company did not prepare a Comparable Earnings Analysis.⁶⁵⁷

I&E

Mr. Patel excluded the CE method from his analysis as the choice of which companies are comparable is highly subjective and its historical usage has been minimal.⁶⁵⁸

OCA

The OCA incorporated by reference its discussion regarding the CAPM Mr. Garrett's comparable earnings analysis.⁶⁵⁹

Management Effectiveness Adjustment

Peoples

⁶⁵⁶ OCA MB at 74.

⁶⁵⁷ Peoples MB at 81.

⁶⁵⁸ Peoples St. 15-R at 25-26; I&E MB at 46.

⁶⁵⁹ OCA MB at 74.

Peoples witness Huwar explained that the Commission should provide an upward adjustment of 0.25% to the equity cost rate for exemplary management performance. The management performance adjustment would result in a ROE of 11.25%, which is within the range of equity cost rates presented by the Company and I&E.

Peoples submits that its witness Huwar explained the many ways in which the Company has improved the safety and reliability of its system, including significantly reduced leaks in its pipelines. Since 2018, the Company has reduced its outstanding Grade 1 and 2 leaks by more than 90%.⁶⁶⁰ Since 2020, the Company has reduced its damage rates by 26% despite receiving more locate ticket requests and marking more tickets year-over-year. The Company has one of the largest LTIIPs in Pennsylvania, demonstrating its commitment to reducing methane emissions and keeping its system safe and reliable.⁶⁶¹

Peoples states that an important example of Peoples' operational performance is the Goodwin Tombaugh project. In 2020, the Company agreed to undertake a project to replace a troubled gathering system that needed substantial improvement in order to continue serving 1,600 utility customers.⁶⁶² The project included the replacement of more than 300 miles of bare steel gathering pipeline with an estimated budget of \$120 million over a seven-year period. As the close of this seven-year period approaches, the project is on track to be completed by year's end and to be under budget as well.⁶⁶³

⁶⁶⁰ Peoples St. 1 at 12.

⁶⁶¹ Peoples St. 1-R at 5.

⁶⁶² *Id.* at 5.

⁶⁶³ *Id.* at 5-6.

The Commission has previously awarded additional basis points to a utility's ROE based on the acquisition and rehabilitation of troubled systems. In both *Aqua 2022* and *PA American 2026*, the Commission awarded additional basis points to recognize the companies' efforts in rescuing troubled water and wastewater systems.⁶⁶⁴ Mr. Huwar described how Peoples' acquisition of the troubled gathering system is akin to the troubled water and wastewater systems that were the subject of the *Aqua 2022* and *PA American 2026* cases.⁶⁶⁵

Peoples states that Mr. Huwar also explained how management has operated the Company in a prudent manner to keep rates affordable for customers. Peoples avers that the ability of the Company to file only three base rate cases in the past thirteen years during a period of extensive investment demonstrates these efficiencies and the Company's commitment to keeping its rates as low as reasonably possible.⁶⁶⁶

Peoples also states that the Company demonstrated that its customer service statistics are at or near the top of the range for Pennsylvania gas distribution companies.⁶⁶⁷ For example, the Company's consumer complaint rate remains lower than the average for Pennsylvania NGDCs. Peoples is tied for the lowest justified PAR rate of its NGDC peers, and its infraction rates continue to remain very low compared to other NGDCs.⁶⁶⁸ The Company has also undertaken several initiatives to improve its customer service as explained by Mr. Huwar.⁶⁶⁹

Peoples concludes that its outstanding performance and continual improvements in the categories of safe and reliable services, management efficiencies,

⁶⁶⁴ Aqua 2022 Order at 168-173; PA American 2026 Order at 203-206.

⁶⁶⁵ *Id.* at 6-7.

⁶⁶⁶ Peoples St. 3-SR at 5-6.

⁶⁶⁷ Peoples St. 1 at 24-26.

⁶⁶⁸ *Id.* at 23-26.

⁶⁶⁹ *Id.* at 26-28.

and customer service justifies recognition of the Company through a 25 basis point addition to its ROE.⁶⁷⁰

I&E

Mr. Patel rejected Peoples’ arguments for a management effectiveness adjustment, asserting that many of the reasons alleged by the Company fall within the categories of reliability, customer satisfaction, and safety that are required of every public utility company under 66 Pa. C.S. § 1501.⁶⁷¹ Additionally, the Company passes capital expenditures to its ratepayers via base rates, or it can utilize the distribution system improvement charge (“DSIC”) for capital expenditure recovery.⁶⁷² Further, if the Company is effective at controlling operating and maintenance costs, those savings should flow through to ratepayers and/or investors.⁶⁷³

Finally, a 25-basis point increase to the cost of equity for management performance would add \$10,051,315 directly to the Company’s revenue requirement that would be borne by the ratepayers.⁶⁷⁴ I&E does not support Peoples, or any utility, being gifted additional basis points for doing what it is required to do to provide adequate, efficient, safe, and reasonable service under 66 Pa. C.S. § 1501.⁶⁷⁵

OCA

OCA submits that Peoples failed to provide a quantification as to how a 25-basis point adjustment was calculated to reflect Peoples’ claim of exceptional service.

⁶⁷⁰ Peoples MB at 81-84.

⁶⁷¹ Peoples St. 1 at 56.

⁶⁷² *Id.*

⁶⁷³ *Id.*

⁶⁷⁴ *Id.* at 58-59.

⁶⁷⁵ *Id.* at 60; I&E MB at 46-47.

OCA found Peoples’ service to be unexceptional and noted significant call center staffing issues during the month in April, in addition to an increase in the number of damage-related formal and informal customer complaints.

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

Peoples Call Center and Customer Contact Indicators, 2019-2024⁶⁷⁶								
Indicator	2019	2020	2021	2022	2023	2024	6-year change	3-year change
<i>Unabandoned Call Rate⁶⁷⁷</i>	98%	99%	99%	97%	97%	96%	-2%	-1%
<i>Calls Answered in 30 seconds</i>	84%	93%	87%	85%	85%	86%	2%	1%
<i>Satisfaction with Reaching the Company</i>	90%	92%	90%	84%	84%	86%	-4%	2%
<i>Satisfaction with Automated Phone System</i>	87%	85%	82%	78%	79%	76%	-11%	-2%
<i>Ease of Using EDC’s Automated Telephone System</i>	84%	84%	78%	76%	78%	76%	-8%	0%
<i>Satisfaction with Choices Offered by Auto Telephone System</i>	85%	83%	81%	76%	80%	74%	-11%	-2%
<i>Satisfaction with Wait to Speak to Representative</i>	88%	86%	84%	78%	77%	79%	-9%	1%
<i>Satisfaction with Reps Handling of Contact</i>	96%	94%	93%	94%	91%	90%	-6%	-4%
<i>Satisfaction w/Call Center Reps Courtesy</i>	96%	97%	94%	97%	94%	94%	-2%	-3%
<i>Satisfaction w/Call Center Reps Knowledge</i>	96%	94%	93%	93%	91%	92%	-4%	-1%

OCA notes that, as is demonstrated in this table, over the past six years, only Peoples’ call answered rate has improved; in the past three years, Peoples has shown greater

⁶⁷⁶ OCA St. 5 at 11.

⁶⁷⁷ OCA witness Larkin-Connolly used the Unabandoned Call Rate metric, instead of the Abandoned Call Rate metric reported by BCS, to show positive change over time through a positive number, consistent with the remaining metrics in the table. Unabandoned Call Rate is calculated as 100% less the Abandoned Call Rate.

improvement than in the past six years, improving its call answered rate, satisfaction with reaching the company, and satisfaction with the wait to speak to a representative.⁶⁷⁸ All other metrics declined or stayed the same. Peoples did not dispute that its call center performance has declined over time.⁶⁷⁹

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

***Call Center and Customer Contact Indicators: Peoples vs. NGDC Average
(2023/2024)***⁶⁸⁰

<i>Indicator</i>	<i>Peoples</i>	<i>NGDC Avg</i>	<i>Difference</i>
<i>Unabandoned Call Rate</i> ⁶⁸¹	97%	97%	--
<i>Calls Answered in 30 seconds</i>	86%	86%	--
<i>Satisfaction with Reaching the Company</i>	85%	84%	+1%
<i>Satisfaction with Automated Phone System</i>	78%	78%	--
<i>Ease of Using EDC's Automated Telephone System</i>	77%	78%	-1%
<i>Satisfaction with Choices Offered by Auto Telephone System</i>	77%	77%	--
<i>Satisfaction with Wait to Speak to Representative</i>	78%	80%	-2%
<i>Satisfaction with Reps Handling of Contact</i>	91%	91%	--
<i>Satisfaction w/Call Center Reps Courtesy</i>	94%	94%	--
<i>Satisfaction w/Call Center Reps Knowledge</i>	92%	91%	--

Based on this data, OCA witness Larkin-Connolly concluded that, over time, Peoples' quality of customer service has declined to meet the level demonstrated by other NGDCs, "where the Company may have previously been able to point to results showing it had

⁶⁷⁸ OCA St. 5 at 12.

⁶⁷⁹ OCA St. 5SR at 2.

⁶⁸⁰ OCA St. 5 at 11.

⁶⁸¹ OCA witness Larkin-Connolly used the Unabandoned Call Rate metric, instead of the Abandoned Call Rate metric reported by BCS, to show positive change over time through a positive number, consistent with the remaining metrics in the table. Unabandoned Call Rate is calculated as 100% less the Abandoned Call Rate.

above average service – now it appears to be more or less right around industry average.”⁶⁸²

OCA concludes that, as a result, Peoples has failed to demonstrate exceptional service. The Company did not dispute that its call center performance declined over time, or that the performance indicates that Peoples is unexceptional in comparison to other NGDCs.⁶⁸³ Instead, Peoples argued that it has demonstrated strong live customer service interactions, based on low abandonment rates, improving speed to answer times, and improvement in satisfaction in reaching the Company.⁶⁸⁴ OCA avers that Peoples’ call center, nevertheless, has trended towards the level of performance and customer satisfaction recently experienced by other NGDCs; unexceptional service is not an adequate basis for recognition of management effectiveness, particularly where there is no evidentiary record suggesting high levels of customer satisfaction with the Company’s performance.⁶⁸⁵ Peoples’ performance indicates compliance with its statutory obligation and nothing more.⁶⁸⁶

In observing the Company’s call center performance, OCA states that its witness Larkin-Connolly identified a concerning trend: each year in April for the past six years, Peoples’ customers’ wait times to reach call center staff increases dramatically in comparison to other months.⁶⁸⁷ During this time, call abandonment rates also spike,

⁶⁸² OCA St. 5 at 12.

⁶⁸³ OCA St. 5SR at 2.

⁶⁸⁴ Peoples St. 18-R at 13-14.

⁶⁸⁵ *Pa. PUC v. UGI Utils., Inc. – Electric Div.*, Docket No. R-2017-2640058, Order at 113-15 (Oct. 25, 2018) (*UGI Electric 2018*).

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

⁶⁸⁷ OCA St. 5 at 13.

where, in four of the last six years, Peoples’ customers experienced a call abandonment rate 1.5 to 2.0 times greater than the average call abandonment rate for the year.⁶⁸⁸

OCA submits that this pattern can be predictably traced to the end of the heating moratorium period in Pennsylvania, which concludes on March 31 of each year. In four of the last six years, Peoples’ call center staffing in April was below the rolling six-month average level for the preceding periods.⁶⁸⁹ During the two years in which staffing levels were not lower than the rolling six-month average call wait times in April were not the highest in the year.⁶⁹⁰

OCA witness Larkin-Connolly testified that Peoples “has been operating at a chronic deficit relative to its own approved staffing levels, and April staffing has never reached 89 in any year in the data,” reflecting a management decision to not adequately staff its call center during a predictably high-volume time in the year.⁶⁹¹ Specifically, “the staffing data shows that Peoples has generally chosen not to increase staffing ahead of April. The consequence of that choice is a foreseeable drop in service quality during the months when customers most need to reach their utility.”⁶⁹² Peoples did not dispute that April call center staffing has never reach its approved level; instead, Peoples argued it uses support staff and overtime during high-volume months.

Despite Peoples’ operational decisions to attempt to fill gaps in its April call center staffing levels, the Company’s customers continue to experience increased difficulty in reaching Peoples’ representatives during a time when they need it most. Because of the clear pattern demonstrated by the data, and the predictable nature of

⁶⁸⁸ OCA St. 5 at 13.

⁶⁸⁹ OCA St. 5 at 15.

⁶⁹⁰ OCA St. 5 at 15.

⁶⁹¹ OCA St. 5 at 16.

⁶⁹² OCA St. 5 at 16.

higher call volumes in April, Peoples has failed to provide evidence of exceptional management performance in customer service.

OCA witness Larkin-Connolly also reviewed Peoples' customer complaint data to assess the effectiveness of Peoples' management and its quality of customer service. Similar to its call center performance, Mr. Larkin-Connolly concluded that Peoples customers submit informal complaints to BCS at similar rates to other NGDCs, excepting the Philadelphia Gas Works.⁶⁹³ However, over time, more Peoples customers have submitted formal and informal complaints to BCS regarding personnel problems, damages, and service quality when compared to the average of other NGDCs.⁶⁹⁴

OCA submits that, while Peoples argues that the complaint data includes subjective determinations by BCS employees as how to categorize the submitted complaints, the trend in the data speaks for itself.⁶⁹⁵ Namely, the pattern persists year-to-year, indicating a low likelihood that the subjective categorization of BCS employees would influence the trend Mr. Larkin-Connolly observed.⁶⁹⁶ Despite the additional context provided by Peoples, which may account for variations within a single year, Mr. Larkin-Connolly's conclusion regarding the trend in an increased number of damage-related complaints over time was unchanged at the close of the evidentiary record.⁶⁹⁷

OCA concludes that Mr. Larkin-Connolly's concern regarding an increasing trend in damage-related ratepayer complaints over time, as reported by BCS, indicates a further lack of support for Peoples' claim of exceptional management

⁶⁹³ OCA St. 5 at 26-27.

⁶⁹⁴ OCA St. 5 at 29, 32.

⁶⁹⁵ OCA St. 5SR at 4.

⁶⁹⁶ OCA St. 5SR at 4.

⁶⁹⁷ OCA St. 5SR at 4.

performance. In addition to the evidence presented regarding Peoples' call center performance, the OCA requests that the Commission deny the Company's request for a return on equity adjustment associated with exceptional management performance.⁶⁹⁸

Disposition

For the following reasons, I recommend the Commission adopt I&E's recommended cost of common equity of 10.20%.

First, I recommend that the Commission adopt I&E's proxy group, which Peoples agreed to adopt, and no other party opposed.

Second, I recommend that the Commission adopt I&E's recommended cost of equity based on I&E's DCF and CAPM models. The Commission has consistently held that a return on equity should be determined by using an informed judgement based on both DCF and CAPM methodologies. *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2025-3053499 (Order entered Dec.9, 2025) at 225-226; *Pa. PUC v. Pennsylvania-American Water Company*, Docket Nos. R-2023-3043189 and R-2023-3043190 (Opinion and Order entered July 22, 2024) at 171-172; *Pa. PUC v. Columbia Water Company*, Docket No. R-2023-3040258 (Opinion and Order entered January 18, 2024) at 171-172; *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 and R-2021-3027386 (Opinion and Order entered May 16, 2022) at 154-155. I agree with Peoples that the OCA's DCF and CAPM models are inadequate as they result in a return on equity lower than all but one authorized return on equity for natural gas utilities in the past 46 years.⁶⁹⁹ Similarly, CAUSE-PA's recommended return on equity is inadequate as it would produce a return on equity lower than all authorized return on equity for natural gas utilities in the

⁶⁹⁸ OCA MB at 75-81.

⁶⁹⁹ Peoples St. 15-R at 4.

past 46 years.⁷⁰⁰ However, I do not recommend that the Commission adopt Peoples' cost of equity models as they rely on elements previously disfavored by the Commission, including use of 30-year Treasury bonds and reliance on ECAPM and RP analyses.⁷⁰¹ By contrast, I find that I&E's recommendation includes Commission-accepted DCF and CAPM analyses, including Commission-accepted inputs, such as use of a 10-year Treasury bond in the CAPM analysis,⁷⁰² and ultimately provides Peoples a fair return on equity.

Third, I do not find that Peoples provided sufficient evidence that any adjustment for management effectiveness is warranted. I find that many of the reasons cited by Peoples fall within the categories of reliability, customer satisfaction, and safety that are required of every public utility company under 66 Pa. C.S. § 1501, including replacement of the Goodwin Tombaugh system. Although Peoples cites instances where water utilities were awarded additional basis points to ROE due to acquisition and rehabilitation of troubled systems, those instances are not comparable to replacement of the Goodwin Tombaugh system. In those instances, water utilities acquire independently-operated troubled systems, where here, the Goodwin Tombaugh system was an already existing portion of Peoples system to be replaced. Peoples should not be further rewarded for fixing an existing portion of its system.

⁷⁰⁰ Id.

⁷⁰¹ *PAWC 2024* at 172 (rejecting PAWC's ECAPM analysis and agreeing with I&E's use of 10-year Treasury notes in its CAPM analysis); *Aqua 2022* at 154 (rejecting use of Aqua's RP analysis and agreeing with I&E's use of 10-year Treasury notes in its CAPM analysis).

⁷⁰² Id.

Alternative Cost of Capital Proposals

Peoples

Peoples notes that certain parties reference the April 29, 2026 letter from Governor Shapiro addressed to all Pennsylvania utilities, which suggested a number of reforms to the way in which a utility determines its cost of capital. The Governor’s letter suggested that utilities should (1) seek to raise capital through the most cost-effective sources, including greater reliance on debt, and any equity share above the equity employed by the utility’s holding company would require “extraordinary justification,” (2) identify specific reliability or safety concerns being addressed through its investments and demonstrate that the investments will provide meaningful customer benefits, and (3) provide “transparent, justifiable equity returns” either through a public competitive process for a benchmark portion of incremental equity or by limiting the requested ROE to a formula based on the current 10-year Treasury yield plus the five-year median of the equity risk premium as published in the *Federal Reserve’s Financial Stability Reports*.⁷⁰³

Peoples submits that the proposal would not produce returns that are comparable to investments of similar risk. It does not account for the differences in risk in a Pennsylvania utility’s ROE for ratemaking purposes. Instead, every utility – whether electric, natural gas, or water – would receive the same ROE assuming the same risk-free rate and equity risk premium were used. This approach is counter to the financial principle that the risk of the investment drives the cost of capital.⁷⁰⁴ Peoples avers that this type of formulaic benchmarking is not a substitute for comprehensive analysis of current capital market conditions, investor expectations, utility-specific risk, and the need

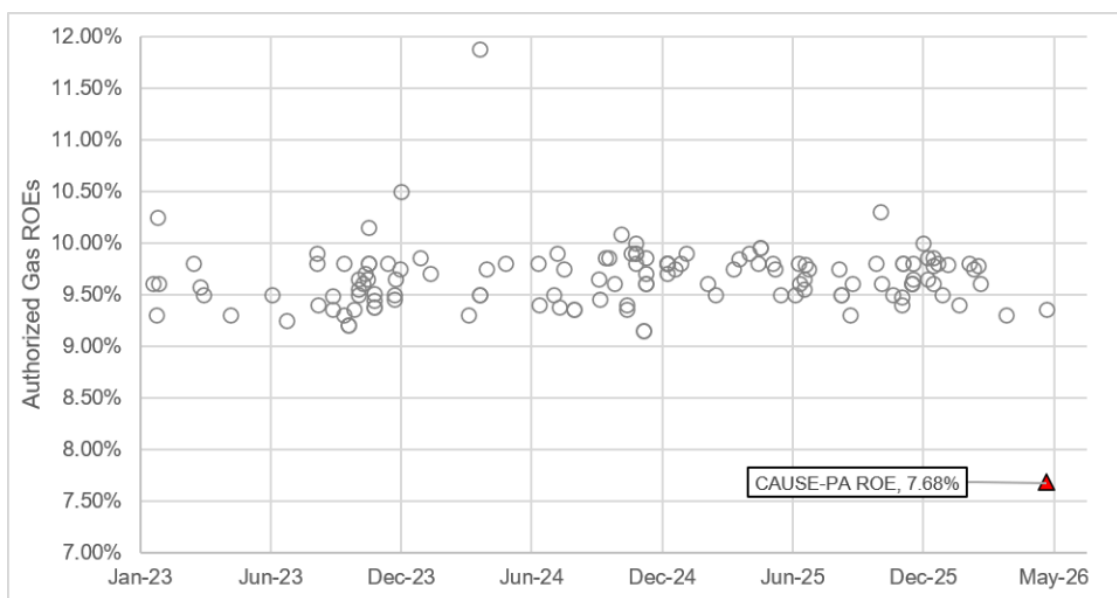
⁷⁰³ I&E Exhibit 2, Schedule 2 at 13-16.

⁷⁰⁴ Id.

to maintain financial integrity and attract capital, all of which are rigorously examined by the various parties to a rate proceeding as well as by the Commission.⁷⁰⁵

CAUSE-PA witness Cicero estimated the Company's ROE based on the methodology outlined in the Governor's letter to be 7.68%.⁷⁰⁶ Peoples contends this ROE does not meet the *Hope* and *Bluefield* comparable return standard. Ms. Nelson prepared the following chart, which demonstrates the extreme departure of a 7.68% ROE as compared to recent authorized ROEs available for other natural gas utilities:⁷⁰⁷

Figure 5: Governor Shapiro's Proposed ROE Methodology vs. Authorized ROEs for Natural Gas Utilities (Jan. 2023 – May 2026)



Peoples argues that the proposal is not sufficient to assure confidence in the utility's financial integrity nor is it adequate to maintain and support the utility's credit and attract capital. Reducing both the ROE and equity ratio by hundreds of basis points each would place significant pressure on the utility's credit profile, financial integrity,

⁷⁰⁵ *Id.* at 43.

⁷⁰⁶ CAUSE-PA St. 1 at 34.

⁷⁰⁷ Peoples St. 15-R at 45-46.

and ability to attract capital.⁷⁰⁸ Ms. Nelson explained that the Federal Reserve’s *Financial Stability Report* is not an appropriate source to determine a utility’s equity risk premium. The *Financial Stability Report* is not designed to estimate the cost of equity for regulated utilities. Rather, it is intended to identify potential vulnerabilities in the financial and banking systems. Unlike a utility’s cost of equity, the *Financial Stability Report* is backward-looking and slow to adjust to current market conditions.⁷⁰⁹ Ms. Nelson also explained that the 10-year Treasury yield is not the appropriate benchmark for utility ROE determinations because it does not reflect the long-term nature of utility infrastructure investment, which is often thirty years or more.⁷¹⁰

Peoples states that, with respect to the ratemaking capital structure, the methodology proposed in the Governor’s letter inappropriately relies on holding company capital structures. The reliance on holding company capital structure is misplaced as it does not reflect the operating utility’s specific risks, financing needs, or cost of service, nor does not acknowledge the utility’s obligation to serve, which requires it to effectively access capital in all market conditions.⁷¹¹ Relying on consolidated holding company capital structures could produce inequitable and arbitrary outcomes. For example, two utilities with similar operations, customers, and risk profiles could be authorized two very different capital structures simply because one has a conservatively financed pure play parent while the other has a more leveraged, diversified parent.⁷¹² Neither appropriately reflects the risk of the underlying investment.

At the public input hearings, Mr. Szybist, the Governor’s Special Counsel for Energy Affordability, testified that the Governor has called on utilities to raise capital

⁷⁰⁸ *Id.* at 41-43.

⁷⁰⁹ *Id.* at 46-37.

⁷¹⁰ *Id.* at 47-48.

⁷¹¹ *Id.* at 52-53.

⁷¹² *Id.* at 53.

in the most effective way possible. In response, Peoples witness Schuller explained how the Company raises capital in a highly efficient, cost-effective manner.⁷¹³ Mr. Schuller further explained that through the push down debt process, Peoples' parent company, Essential, issues debt in the market and then loans it to Peoples via intercompany notes, pursuant to which the Company's customers pay the same interest rate that Essential is paying on the public debt.⁷¹⁴

Peoples states that, moreover, the Governor's proposal to rely more heavily on lower-cost debt will not necessarily reduce customer costs, and in fact, could increase total financing costs for customers. Higher leverage increases financial risk. Both debt and equity investors will require higher returns to compensate for greater financial risk. As a result, greater reliance on debt can increase longer-term costs for customers.⁷¹⁵

The Governor's letter proposes a competitive equity framework, which Ms. Nelson explained raises significant concern. The proposed equity auction is vague, untested, and potentially disruptive to utility financing.⁷¹⁶ It is unclear who would participate, what instrument would be sold, how ownership rights would be determined, how liquidity would be provided, or how the auction would result in a durable regulatory ROE for an operating utility. Because utilities must provide safe and reliable service to their customers, an experimental mechanism that could impair access to capital is not appropriate.⁷¹⁷

With regard to the letter's request for investment-specific information, Peoples has provided this information to the parties involved in this proceeding as well as

⁷¹³ Peoples St. 19-R at 3-4.

⁷¹⁴ *Id.* at 7.

⁷¹⁵ Peoples St. 15-R at 54.

⁷¹⁶ *Id.* at 55.

⁷¹⁷ *Id.* at 55-56.

through its publicly available, Commission-approved LTIIP and Asset Optimization Plans.⁷¹⁸ Additionally, several Company witness testified regarding the Company's program to modernize its infrastructure so that it can continue providing safe and reliable service to the benefit of its customers.⁷¹⁹

I&E

I&E notes that Mr. Patel disagreed with Peoples' use of the ECAPM method and Mr. Patel also disagreed with Peoples' use of the BYPRP. As a result of the flaws in the ECAPM method and BYPRP method, the Commission should reject these alternate cost of capital proposals.⁷²⁰

OCA

OCA reiterates its discussion regarding capital structure. OCA MB at 81. OCA avers that Peoples' concerns that the principles outlined by the Governor fail to meet the standards of *Hope* and *Bluefield* fail to consider that the concepts highlighted by the Governor are foundational to ensuring just and reasonable rates consistent with the Public Utility Code and applicable precedent and, in doing so, will help achieve the reasonable ROR that Peoples is focused on. Peoples' concerns about "formulaic benchmarking"⁷²¹ that could arise as a result of the Governor's letter is, in fact, consistent with traditional rate base/rate of return ratemaking.

Similarly, Peoples' arguments against the testimony of the Governor's Special Counsel for Energy Affordability should also be rejected. For example, Peoples

⁷¹⁸ Peoples Exh. PB-2R; Peoples Exh. PB-3R.

⁷¹⁹ Peoples St. 1 at 10-11; Peoples St. 6 at 3-4; Peoples MB at 84-90.

⁷²⁰ I&E MB at 47-48.

⁷²¹ Peoples MB at 86.

argues that relying “more heavily on lower-cost debt will not necessarily reduce customer costs, and in fact, could increase total financing costs for customers.”⁷²² Peoples argument is not only contrary to the arguments of the Governor and the Governor’s Special Counsel for Energy Affordability, but is also contrary to the Statement of Vice Chair Barrow who recognized the impact of these issues on affordability and the rates ultimately paid by consumers. Peoples’ arguments should be rejected.⁷²³

CAUSE-PA

CAUSE-PA reiterates its recommendations regarding rate of return, and states the Commission should further consider whether ROE should be reduced based on the criteria outlined by Governor Shapiro.⁷²⁴

Disposition

To the extent parties reiterated their positions on rate of return, I have already recommended disposition of the various elements of calculating rate of return as discussed above. To the extent parties are advocating further reduction to the rate of return, primarily as outlined by Governor Shapiro’s letter, I decline to recommend further modifications to the Company’s rate of return. I recognize ongoing concerns regarding affordability. However, I do not find that the record contains sufficient evidence in this proceeding to justify departing from the established rate of return principles discussed above. As Peoples convincingly explains, to do so would risk conflict with the cornerstone comparable return standard articulated in *Hope* and *Bluefield*.

31. REVENUE ALLOCATION AND RATE DESIGN

⁷²² Peoples MB at 86.
⁷²³ OCA RB at 39-40.
⁷²⁴ CAUSE-PA MB at 43-44.

As aptly explained by I&E, a utility's rate structure implements the Commission's approved revenue increase to determine how the overall increase will be allocated among the utility's various rate classes. Once a class revenue allocation is determined, development of a rate design will address how the tariffed rates and rate elements will generate the allocated revenues.⁷²⁵

The class cost of service is the "polestar" of utility ratemaking.⁷²⁶ However, the allocation of revenue among a utility's various rate classes, while informed by science and engineering, also involves consideration of ratemaking policy and principles of gradualism. There is no single "correct" cost allocation methodology. The application of science and policy to the allocation of a revenue increase is within the Commission's discretion: "[T]here is no set formula for determining proper ratios among the rates of different customer classes. What is reasonable under the circumstances, the proper difference among rate classes, is an administrative question for the Commission to decide."⁷²⁷

The Commission has explained the interplay among ratemaking methodologies and the consideration of other factors to set just and reasonable rates, as follows:

These norms, or traditional ratemaking methodologies, are used to determine a utility's cost of providing service, or its revenue requirement, and to determine appropriate rate structure, which includes, among other things, the appropriate allocation of the revenue requirement to various customer classes. However, while these

⁷²⁵ I&E MB at 48.

⁷²⁶ See *Lloyd v. Pa. Pub. Util. Comm'n*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006), *appeal denied*, 916 A.2d 1104 (Pa. 2007) (*Lloyd*).

⁷²⁷ *Peoples Nat. Gas Co. v. Pa. Pub. Util. Comm'n*, 409 A.2d 446, 456 (Pa. Cmwlth. 1979) (citations omitted).

ratemaking norms provide a rational and methodical way to analyze and determine the utility's cost of service, they also permit the consideration and weighing of important factors or principles in setting just and reasonable rates, such as quality of service, gradualism, and rate affordability.

We acknowledge that there are several factors that must be considered when designing a rate recovery proposal, one of which is the concept of gradualism and affordability . . . However, while affordability is permitted to be considered, it is but one of many factors to be considered and weighed by the Commission in determining a utility's rates.^[728]

a. COST OF SERVICE

A utility provides service to a defined set of customer classes that are different in terms of demand and usage patterns.⁷²⁹ A cost of service study ("COSS") – also referred to by the parties as an allocated cost of service study ("ACOSS") – allocates or assigns a utility's revenue requirement based on those service differences.⁷³⁰ Although class cost of service studies may appear to have great precision, the Commission has repeatedly recognized that the cost of service study is only a guide to designing rates and is only one factor, albeit an important one, to be considered in the rate setting process.⁷³¹

1) Peoples

⁷²⁸ *Pa. Pub. Util. Comm'n v. Cmty. Utils. Inc.*, Docket No. R-2021-3025206 at 65-66 (Opinion and Order entered Jan. 13, 2022) (citations omitted).

⁷²⁹ *See, e.g.,* I&E St. 3 at 21.

⁷³⁰ *Id.*

⁷³¹ *See, e.g., Pa. Pub. Util. Comm'n v. West Penn Power Co.*, Docket No. R-901609 (Opinion and Order entered Dec. 14, 1990); *Pa. Pub. Util. Comm'n v. Pa. Power & Light Co.*, Docket No. R-822169 (Opinion and Order entered Aug. 19, 1983) (*Pa. Power & Light*).

Peoples submits that its proposed allocation of revenue among the rate classes is primarily driven by the cost to serve each class. While other factors, such as gradualism, may be considered, these factors are not permitted to trump cost of service as the primary basis for allocating the revenue increase.⁷³² It contends that, consistent with the Commonwealth Court’s directive in *Lloyd*, a proposed revenue allocation will only be found to be reasonable where it moves distribution rates for each class closer to the full cost of providing service.⁷³³ It asserts that any significant departure from the results of a cost of service study requires the proponent to fully justify the deviation.⁷³⁴

Peoples prepared its ACOSS using an Average Study that combines the results of a Customer-Demand study and a Demand-Commodity study.⁷³⁵ It explains that, 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.⁷³⁶

Other parties, including OCA, I&E, and OSBA, propose various alternatives regarding revenue apportionment.⁷³⁷ Peoples identifies the primary distinction in the parties’ positions in assigning costs to the customer classes is how to assign the costs of mains.⁷³⁸ Specifically, OCA witness Deupree and I&E witness Cline

⁷³² Peoples MB at 91 (citing *Lloyd*).

⁷³³ *Id.* (citing *Pa. Pub. Util. Comm’n v. PPL Elec. Utils. Corp.*, Docket No. R-00049255 (Order on Remand entered July 25, 2007)).

⁷³⁴ Peoples MB at 91-92 (citing *Philadelphia Suburban Water Co. v. Pa. Pub. Util. Comm’n*, 808 A.2d 1044, 1060 (Pa. Cmwlth. 2002)).

⁷³⁵ Peoples St. 17 at 24-25.

⁷³⁶ *Id.*

⁷³⁷ OCA St. 1 at 76-77; I&E St. 3 at 25; OSBA St. 2. at 11-12. CAUSE-PA generally supports OCA’s approach.

⁷³⁸ Peoples MB at 92-93.

recommend that the Commission rely on the Peak & Average methodology and reject the Company's MSS approach as well as the related customer classification of a portion of distribution mains.⁷³⁹ Mr. Cline's and Mr. Deupree's recommendations are based on the premise that distribution mains should be allocated exclusively on a load-related basis and that customer-related classification of distribution mains is inappropriate.

Peoples argues that the I&E and OCA positions do not accurately reflect how the system is designed. Company witness Taylor asserts that I&E and OCA place too much emphasis on a single dimension of cost causation while giving insufficient recognition to the customer-related characteristics of the distribution system. He testified as follows:

Simply stated, system use is not the same as cost causation.

Distribution mains recognize two cost-causative realities. First, mains investment is driven by the need to connect and maintain an integrated delivery system for a given number and geographic dispersion of customers. Second, mains must be sized to provide sufficient capacity to serve coincident peak-day requirements safely and reliably.

Therefore, distribution facilities are not constructed solely to accommodate annual throughput; if they were built to this standard, there would be massive outages and significant safety implications. They are also constructed to connect customers to the system, provide access to service, and maintain sufficient capacity to meet customer requirements. The Company's blended methodology recognizes both realities and therefore provides a more balanced assessment of cost causation than an approach that relies exclusively on a single methodology.^[740]

⁷³⁹ OCA St. 1 at 4-5; I&E St. 1 at 25-27.

⁷⁴⁰ Peoples St. 17-R at 17.

Peoples contends that its position does not ask the Commission to choose exclusively between competing methodologies. Rather, Mr. Taylor evaluated both approaches and incorporated both into the proposed ACOSS.⁷⁴¹ The Company argues that this equal weighting approach more fairly and reasonably reflects the multiple parties' perspectives on the factors that drive distribution system investment, i.e., customer-related and load-related cost causation, than either methodology standing alone. Peoples also argues that its Average ACOSS incorporates accepted ratemaking considerations such as gradualism and rate stability.⁷⁴²

2) I&E

I&E witness Cline disagreed with the Company's customer-demand allocation proposal as it is inconsistent with long-standing Commission precedent that was reaffirmed in the 2025 Columbia Gas base rate case.⁷⁴³ Mr. Cline recommended that the revenue increase be allocated based on the Peak & Average ACOSS at equal rates of return, with the change that the large general service ("LGS") class should not be allocated a decrease in rates, but instead the excess revenue from the LGS class, \$6,629,057 as proposed, should be allocated across the remaining rate classes as part of the overall scale back of rates.⁷⁴⁴

3) OCA

As noted, OCA objects to Peoples ACOSS for two reasons, pertaining to allocation factors. The first is the Company's use of an MSS to classify a portion of costs

⁷⁴¹ Peoples MB at 93-94 (citing Peoples St. 17-R at 11).

⁷⁴² *Id.* at 94 (citing Peoples St. 17-R at 3, 8).

⁷⁴³ I&E St. 3-SR at 9-10 (citing *Pa. Pub. Util. Comm'n. v. Columbia Gas of Pa., Inc.*, Docket No. R-2025-3053499 (Opinion and Order entered Dec. 9, 2025) at 254-55).

⁷⁴⁴ I&E St. 3 at 25-27; I&E MB at 50.

associated with distribution mains as customer related.⁷⁴⁵ OCA witness Deupree testified that MSS “are premised on a flawed hypothetical relationship between investments in distribution mains and customer growth that empirically does not exist.”⁷⁴⁶ Mr. Deupree explained by one example, “a zero-diameter distribution main is completely a hypothetical construct that does not, and indeed could not, exist in the real world.”⁷⁴⁷ He testified that examples like this make the results of MSS analyses difficult, if not impossible, to verify.

Further, OCA’s witness Deupree examined trends in changes in average number of customers on the Company’s system and the Company’s net investment in distribution mains over the 10-year period from 2016 through 2025. Mr. Deupree’s analysis did not find any statistically significant correlation (1) between annual net additions in the Company’s distribution mains and changes in the Company’s customer counts or (2) in the annual growth rate of the Company’s booked distribution mains investment and the annual growth rate of the Company’s customers.⁷⁴⁸

OCA’s second issue with Peoples’ ACROSS is the Company’s demand cost allocation method. OCA argues that Peoples’ method “fails to recognize that distribution mains supply both peak and non-peak service and thus perform both a demand and commodity function.”⁷⁴⁹ OCA’s alternative class classification of distribution mains incorporates a peak and average cost allocation method, which uses weights based on the company’s test year system load factor.⁷⁵⁰ OCA asserts that this is consistent with the Commission’s determination in the 2025 Columbia Gas base rate case that:

⁷⁴⁵ OCA St. 1 at 47.

⁷⁴⁶ OCA MB at 85 (citing OCA St. 1 at 47).

⁷⁴⁷ OCA St. 1 at 49.

⁷⁴⁸ OCA RB at 44 (citing OCA St. 1 at Exh. MWD-4; OCA St. 1SR at 14).

⁷⁴⁹ OCA MB at 83 (quoting OCA St. 1 at 47).

⁷⁵⁰ *Id.* (citing OCA St. 1 at 58-59).

distribution mains exist and are related to both annual demands and peak demands. Both annual and peak demands must be recognized in the allocation of distribution mains cost if the allocation is to be in accord with the principle of cost-causality. It is not reasonable to allocate distribution mains investment based solely on design peak day demands...^[751]

With regard to OCA's recommended P&A method, OCA explains that its proposal uses data that is specific to Peoples for an allocation of mains costs. Its weighting is based on the Peoples' test year system load factor and, specifically, would base weights on a ratio of peak day system requirements to average daily system requirements.⁷⁵²

OCA argues that use of the P&A method is consistent with the Commission's consistent preference when faced with facts similar to Peoples' proposal.⁷⁵³ OCA points to the recent *Columbia 2025* Order in which the Commission adopted a P&A cost allocation method to classify and allocate costs associated with natural gas distribution mains. According to OCA, the Commission directly addressed – and rejected – the position that a portion of these costs could be classified as customer-related based on an analysis of a hypothetical minimum system:

In light of the above, we remain of the opinion that although mains serve customers, it is the throughput that determines the type of main investment because it is the load that determines the main investment, not the number of customers served. As the Commission stated in *Columbia Gas 2021*, the existence of one customer, five customers, or

⁷⁵¹ *Pa. Pub. Util. Comm'n v. Columbia Gas of Pa., Inc.*, R-2025-3053499 (Opinion and Order entered Dec. 9, 2025) at 254-55 (*Columbia 2025*).

⁷⁵² OCA St. 1 at 53-59.

⁷⁵³ OCA RB at 44 (citing, e.g., *Pa. PUC v. Phila. Gas Works*, Docket R-2023-3037933 (Opinion and Order entered Nov. 9, 2023) at 137; *Pa. Pub. Util. Comm'n v. Columbia Gas of Pa., Inc.*, R-2020-3018835 (Opinion and Order entered Feb. 19, 2021) at 213-218).

ten customers does not determine the amount of mains investment. Mains investment is driven by the loads placed upon it, not by the number of customers served.^[754]

OCA emphasizes that Peoples is not entitled to a rebuttable presumption as a matter of law as to the correctness of its chosen ACOSS methodology but, instead, bears the burden of proof, as in all other aspects of its rate increase request.⁷⁵⁵ OCA asserts that Peoples did not meet its burden demonstrating why its ACOSS should be approved because, in part, it did not distinguish why the Commission's preference for the P&A methodology should not be utilized in this case.

4) OSBA

The OSBA does not prefer either Peoples' ACOSS or the P&A ACOSS recommended by other parties.⁷⁵⁶

5) CAUSE-PA

CAUSE-PA did not take a position on this issue in its briefs.⁷⁵⁷

6) Recommendation

I recommend that the Commission adopt a Peak & Average-only methodology to use for cost allocation in this proceeding.

⁷⁵⁴ OCA MB at 83 (quoting *Columbia 2025* at 255 (*emphasis added*)).

⁷⁵⁵ *Id.* at 84 (citing 66 Pa.C.S. § 315(a)).

⁷⁵⁶ OSBA MB at 6.

⁷⁵⁷ CAUSE-PA MB at 46.

I am persuaded by I&E and OCA that, consistent with the Commission's findings in prior natural gas utility rate proceedings, the P&A methodology is also best suited here. In *Columbia 2025*, the Commission reaffirmed its opinion that load determines the main investment, not the number of customers served.⁷⁵⁸ It stated further:

The fundamental function of a natural gas distribution system is to provide throughput for customers to receive at their meters, which is why it is a reasonable, cost causative basis for allocating the costs of distribution mains, whereas the distribution system is not designed or constructed merely to connect to customers.⁷⁵⁹

For Peoples, OCA witness Deupree's analysis found no statistically significant correlation between annual net additions in the Company's distribution mains and changes in its customer counts, nor any correlation in the annual growth rate of the Company's booked distribution mains investment and the annual growth rate of its customers. This indicates that the number of customers connecting to its system is not driving Peoples' investments, and provides further indication that the P&A methodology is the most appropriate methodology to use for allocating the cost of Peoples' distribution mains.

Consistent with this cost-causative approach, I further recommend the Commission adopt the COSS recommended by OCA, which allocates mains costs using Peoples-specific data.

⁷⁵⁸ *Columbia 2025* at 253-55 (citing *Pa. Pub. Util. Comm'n v. Columbia Gas of Pa.*, Docket No. R-2020-3018835 (Opinion and Order entered Feb. 19, 2021); *see also Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2023-3037933 (Opinion and Order entered Nov. 9, 2023)).

⁷⁵⁹ *Id.* at 253-54.

b. REVENUE ALLOCATION

1) Peoples

Peoples' proposed allocation of its filed-for \$163.2 million increase in annual operating revenues is provided in Peoples Exhibit 11.

Peoples' asserts that its proposed revenue allocation fairly considers the results of the ACOS studies in determining customer classes' total revenue responsibility, while also taking into account other important principles such as gradualism and value of service.⁷⁶⁰ Peoples witness Taylor used the Average ACOS to guide the revenue allocation and rate design process. The proposed revenue allocation reflects a deliberate effort to move all rate classes closer to the overall system rate of return, thereby reducing the subsidies that currently exist between classes.⁷⁶¹ Peoples asserts that this approach is consistent with long-standing regulatory practice and precedent, including the *Lloyd* decision. The table below summarizes the Company's revenue allocation proposal.⁷⁶²

Table 5 – Proposed Class Revenue Apportionment

Customer Classes	Current Revenues	Proposed Revenue Change	Proposed Percentage Change	Proposed Rate of Return	Proposed Revenue to Cost Ratio (Parity Ratio)
Residential	\$ 875,171,173	\$ 118,163,447	13.50%	8.1%	0.99
Small General	\$ 116,045,549	\$ 21,443,151	18.48%	6.6%	0.94
Medium General	\$ 108,167,260	\$ 21,264,419	19.66%	8.0%	0.99
Large General	\$ 72,051,809	\$ -	0.00%	15.5%	1.38
Mainline Service	\$ 13,178,274	\$ -	0.00%	1.0%	0.74
Total	\$ 1,184,614,065	\$ 160,871,017	13.58%		

⁷⁶⁰ Peoples MB at 91.

⁷⁶¹ Peoples St. 17 at 31.

⁷⁶² Peoples MB at 94.

The foregoing allocation reflects the full amount of the Company's proposed rate increase.⁷⁶³ To the extent the allowed increase is less than that proposed by the Company, Peoples proposes that the Company's revenue allocation should be used to scale back each class's revenues proportionally.⁷⁶⁴

The increase was allocated based on the goal of moving toward full parity for all classes over time, while addressing issues of gradualism.⁷⁶⁵ Mr. Taylor explained the Company's revenue allocation process as follows:⁷⁶⁶

It was decided that this fully cost-based option was not the preferred solution to the interclass revenue issue, given the large decrease that was required for the Large General class which would result in more of an increase needed from the other classes, and the fact that the vast majority of revenues within the Mainline Service class are from negotiated contract customers. After discussions with the Company, the increase proposed in this case was allocated based on a desire to move toward full parity over time, while addressing issues of gradualism and recognizing these dynamics with the Large General and Mainline Service classes. To accomplish this, the Company first set Large General and Mainline Service's proposed revenues to their current revenues. Second, capped the increase to the Small General class to 1.5 times the overall system increase and set the targeted increase for Residential and Medium General to their cost to serve. Finally, allocated the additional increase required between Residential and Medium General based on the relative targeted revenue increase for each class, which ultimately results in Residential's increase at 1.05 times the overall system increase and Medium General at 1.25 times. While there are various yardsticks used to measure the degree of movement

⁷⁶³ The difference between the \$163.2 million proposed increase and \$160.8 million shown in the table represents other miscellaneous service fees and gathering. Peoples MB at 94-95.

⁷⁶⁴ Peoples MB at 95, 103; Peoples St. 17-R at 39.

⁷⁶⁵ *Id.* at pp. 31-32.

⁷⁶⁶ *Id.* at P. 32.

toward cost of service, the Company evaluated two metrics: (1) the percentage movement towards the system rate of return; and (2) the reduction in the subsidies occurring between classes.

The following table shows the parity ratios for each class.

Table 6 - Comparison of Relative Rate of Return by Rate Class⁷⁶⁷

Customer Classes	Current Total Revenues	Total Revenues at Proposed	Current Return	Proposed Return	Current Revenue to Cost Parity Ratio	Proposed Revenue to Cost Parity Ratio
Residential	\$ 875,171,173	\$ 994,520,060	5.8%	8.1%	1.00	0.99
Small General	\$ 116,045,549	\$ 137,617,255	3.1%	6.6%	0.90	0.94
Medium General	\$ 108,167,260	\$ 129,662,826	5.3%	8.0%	0.94	0.99
Large General	\$ 72,051,809	\$ 72,454,884	18.1%	15.5%	1.57	1.38
Mainline Service	\$ 13,178,274	\$ 13,530,978	0.6%	1.0%	0.82	0.74
Total System	\$ 1,184,614,065	\$ 1,347,786,003	6.0%	8.2%	1.00	1.00

According to Peoples, the Company's proposed revenue allocation results in the reduction of existing subsidies and excesses among the rate classes and moves the return for all rate classes closer to the indicated cost of service for each class. The Company's proposed revenue allocation represents a fair allocation of the proposed revenue increase among the customer classes and should be approved.

Peoples summarizes the other parties' revenue allocation proposals in the table below:⁷⁶⁸

Table 1 - Revenue Apportionment Comparison

Rate Classes	Peoples	OCA	I&E	OSBA	Average (OCA, I&E, OSBA)
Residential	73%	72%	51%	73%	65%
Small General	13%	10%	21%	12%	14%
Medium General	13%	12%	25%	11%	16%
Large General	0%	5%	0%	3%	3%
Mainline Service	0%	1%	3%	0%	1%
Total	100%	100%	100%	100%	100%

⁷⁶⁷ Peoples St. 17 at 33.

⁷⁶⁸ Peoples St. 17-R at 5, Table 1.

Additionally, OCA witness Deupree also recommends that “the Commission cap the proposed rate increase to any single customer class to no more than 1.15 times the system average increase” and that “no class receive a rate increase less than 0.50 times the system average increase.”⁷⁶⁹ Peoples objects to these constraints, arguing that “while gradualism is an appropriate consideration in revenue apportionment, the specific caps and floors proposed by Witness Deupree are not derived from any cost-of-service principle... The practical effect of such constraints is to preserve existing disparities in class rates of return and slow movement toward rates that more closely identify the costs incurred to serve each class.”⁷⁷⁰

Peoples states that OSBA witness Ewen does not present a separate ACOSS methodology or recommend a specific alternative treatment of distribution mains. Rather, he recommends modifications to the allocation of the Company’s requested revenue increase based primarily on considerations of gradualism and value-of-service principles.⁷⁷¹ In Peoples’ view, OSBA’s recommendations place too much emphasis on gradualism and value-of-service considerations. It contends that those factors may be relevant but should not be given greater rate than the cost responsibility reflected in a reasonable cost of service study. As stated by Peoples witness Taylor, “Doing so risks perpetuating existing disparities among classes and weakening the relationship between rates and the costs incurred to serve those classes. There is also a subjective level of interpretation when it comes to value-of-service considerations, which is not fully vetted or explained by [OSBA] Witness Ewen.”

In sum, Peoples maintains that its own revenue allocation proposal should be accepted over those of the other parties because it is reasonable and moves all classes closer to unity under the Average ACOSS. The Company claims that other parties’

⁷⁶⁹ OCA St. 1 at 5.

⁷⁷⁰ Peoples MB at 96-97 (citing Peoples St. 17-R at 7).

⁷⁷¹ *Id.* (citing OSBA St. 2 at 10).

allocation proposals “are simply designed to reduce allocations to their respective classes.”⁷⁷²

2) I&E

I&E describes revenue allocation as the allocation of revenue responsibility between rate classes.⁷⁷³ It is routinely accepted that for class revenue allocation purposes, cost of service is the “polestar.”⁷⁷⁴ I&E states that, generally, utilities that provide more than one different type of utility service cannot shift costs from one operation to the other.⁷⁷⁵ For example, a utility that provides both gas and electric service cannot require its gas customers to pay for plant serving electric customers.

As I&E witness Cline recommended the Commission reject reliance on the proposed customer-demand ACOSS in favor of the Peak & Average ACOSS, Mr. Cline also recommended the Company’s proposed allocation based on the customer-demand model be rejected in favor of I&E’s allocation based on the Peak & Average ACOSS.⁷⁷⁶ Specifically, I&E recommends that the revenue increase be allocated based on the Peak & Average COSS at equal rates of return, with the change that the LGS class should not be allocated a decrease in rates. Instead, the excess revenue from the LGS class, \$6,629,057 as proposed, should be allocated across the remaining rate classes as part of the overall scale back of rates.⁷⁷⁷

⁷⁷² Peoples MB at 94-97.

⁷⁷³ *A Guide to Utility Ratemaking*, Cawley and Kennard (2018 Edition) at 138 (*Ratemaking Guide*).

⁷⁷⁴ See Lloyd.

⁷⁷⁵ *Ratemaking Guide* at 141.

⁷⁷⁶ I&E MB at 50-51 (citing I&E St. 3 at 34-35).

⁷⁷⁷ I&E St. 3 at 27.

3) OCA

OCA argues that its ACROSS should be used to apportion the revenue requirement across Peoples' customer classes because it adheres to ratemaking principles.⁷⁷⁸ OCA witness Deupree explains that the revenue distribution process is the initial step taken in establishing rates:

The revenue distribution process allocates a utility's overall revenue deficiency across customer classes, which in turn, is used to establish a new set of retail rates. The revenue distribution process often uses the results from the ACOS study as its starting point, but not necessarily as its ending point. Class-specific revenue responsibilities are established by allocating the system-wide revenue deficiency to classes that are under-earning, relative to their estimated rate of return ("ROR"), and assigning, at least in theory, revenue decreases to those classes that are over-earning relative to their ACOS study-estimated class returns. The final class revenue responsibilities are then used, in conjunction with each class's billing determinants, to determine rates.⁷⁷⁹

OCA witness Deupree explained, in his view, what constitutes other policy goals that are prominent components of generally accepted ratemaking principles:

- 1) Rates should be fair, just, and reasonable, and not unduly discriminatory.
- 2) To the extent possible, gradualism should be used to protect customers from rate shock.
- 3) Rate continuity should be maintained.
- 4) Rates should be informed by costs, but class cost of service results need not be the only factor used in rate development.
- 5) Rates should be understandable to customers.⁷⁸⁰

⁷⁷⁸ OCA St. 1 at 59-64.

⁷⁷⁹ OCA St. 1 at 59.

⁷⁸⁰ OCA St. 1 at 60.

OCA contends that Mr. Deupree’s revenue apportionment method based on his alternative ACOSS results limits the rate increase in a way that adheres to the principles listed above. Specifically, Mr. Deupree recommends that the Commission cap the proposed rate increase to any single customer class to no more than 1.15 times the system average increase. He additionally recommends that no class receive a rate increase less than 0.50 times the system average increase.⁷⁸¹ Mr. Deupree explained that a cost parity ratio standardizes these various class revenue-to-cost ratios against the overall utility system revenue-to-cost ratio. Specifically, a relative cost parity ratio greater than 1.0 indicates that a particular class covers a greater percentage of utility costs than other classes, while a relative cost parity ratio less than 1.0 indicates that a particular class is covering a lesser percentage of utility costs than other classes.⁷⁸²

The difference between Peoples’ cost allocation and OCA’s cost allocation can be summarized as follows:⁷⁸³

⁷⁸¹ OCA St. 1 at 64.

⁷⁸² OCA St. 1 at 62.

⁷⁸³ OCA MB at 90 (citing OCA Exhs. MWD-6, MWD-7). OCA also provides OCA’s allocation at OCA’s recommended revenue increase of \$9.4 million, which demonstrates the same relative proposed rate increases:

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

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

OCA contends that the Company's apportionment is based on the results of a faulty ACOSS that overstates the current rate of return the Company derives from its large general service customers while understating the rate of return the Company derives from its residential and small general service customers, and therefore should be rejected.⁷⁸⁴

As additional support for its position, OCA points out that OSBA found its allocation plan to be reasonable because OCA's COSS results indicate that the Small General Service class is currently under-earning relative to the system average. Further, OSBA ultimately found OCA's proposed revenue allocation, which is a more gradual progress to cost-based rates in comparison to Peoples' proposal, to be reasonable given the size of the proposed rate increases in this proceeding."⁷⁸⁵

4) OSBA

The OSBA recommends that, if Peoples' ACOSS is adopted, the OSBA's revenue allocation should be adopted. If the P&A cost of service study is adopted, the OSBA states that the revenue allocation proposed by OCA is acceptable.⁷⁸⁶

⁷⁸⁴ OCA MB at 88-91 (citing OCA St. 1 at 63).

⁷⁸⁵ OSBA St. 2SR at 3.

⁷⁸⁶ OSBA MB at 8.

More specifically, if Peoples’ “Average Study” COSS is adopted, the OSBA finds that the Company’s proposed revenue allocation does follow the results of its COSS. However, Peoples limits rate increases to 1.50 times the system average increase.⁷⁸⁷ The OSBA recommends that any rate increase be limited to 1.25 times the system average increase.

The OSBA revenue allocation proposal is set forth below:

Table IEC-3⁷⁸⁸					
Summary of IEC Alternative Revenue Allocation					
	Increase \$000	Increase %	R/C Current	R/C Proposed	Increase/System Avg. Increase
Residential	\$118,163	13.5%	1.00	0.99	0.99
Small General	\$19,699	17.0%	0.90	0.93	1.25
Medium General	\$18,361	17.0%	0.94	0.97	1.25
Large General	\$4,647	6.5%	1.57	1.42	0.47
Mainline Service	\$0	0.0%	0.82	0.74	0.00
Total	\$160,871	13.6%	1.00	1.00	1.00
Source: IEC WP1					

OSBA states that, if the P&A methodology is adopted, OCA proposed a revenue allocation would limit the maximum rate increase for any rate class to 1.15 times the system average increase while setting a minimum rate increase of 0.50 times the system average.⁷⁸⁹ OCA’s revenue proposal is set forth below:

⁷⁸⁷ *Id.* (citing OSBA St. 2 at 10).

⁷⁸⁸ OSBA St. 2 at 12.

⁷⁸⁹ OSBA St. 2 at 2.

Summary of OCA Proposed Revenue Allocation				
	Current Revenues	Increase \$000	Increase %	Increase/System Avg. Increase
Residential	\$431,489	\$115,121	26.7%	1.02
Small General	\$54,789	\$16,440	30.0%	1.15
Medium General	\$65,431	\$19,633	30.0%	1.15
Large General	\$57,668	\$7,523	13.0%	0.50
Mainline Service	\$7,179	\$2,154	30.0%	1.15
Total	\$616,556	\$160,871	26.1%	1.00

As already noted, the OCA revenue allocation proposal is acceptable to OSBA.⁷⁹⁰

To the extent the overall revenue requirement is reduced; OSBA's position is that these allocations should be scaled back on a relative basis.

5) CAUSE-PA

CAUSE-PA did not take a position on overall revenue allocation. However, CAUSE-PA challenges the current allocation of universal service costs solely to residential customers as being unjust and unreasonable.⁷⁹¹ That issue is discussed later in this Decision, under a separate heading.

6) Recommendation

In Peoples' 2024 base rate case, the Commission observed that "any COSS includes a certain level of subjectivity because, as with any analysis, there are

⁷⁹⁰ OSBA MB at 8.

⁷⁹¹ CAUSE-PA MB at 47.

assumptions and decisions made regarding the interpretation of data and how that data is characterized and used in the analysis.”⁷⁹²

As discussed above, Peoples prepared its ACOSS using an Average Study that combines the results of a Customer-Demand study and a Demand-Commodity study to determine the revenue allocation. OCA and I&E both used the Peak & Average COSS to determine their revenue allocations and both disagreed with Peoples’ use of an average study. If the P&A methodology is adopted, OSBA indicated that OCA’s proposed revenue allocation is acceptable.

Consistent with my decision that the Peak & Average COSS will lead to just and reasonable rates, and based on the evidence presented by the parties, I do not accept Peoples propose allocation of revenue. I am persuaded by OCA’s argument that its COSS, on which its revenue allocation is based, more accurately reflects the current rate of return the Company derives from its large general service, residential and small general service customers. While the I&E revenue allocation is also based on a Peak & Average COSS, I&E relies on the study performed by Peoples.⁷⁹³ As observed earlier, OCA’s recommended P&A method uses data that is specific to Peoples for an allocation of mains costs.

Further, I find that OCA’s revenue allocation is a reasonable result. As noted by OSBA, OCA’s allocation would limit the maximum rate increase for any rate class to 1.15 times the system average increase while setting a minimum rate increase of 0.50 times the system average.⁷⁹⁴ While this is a more gradual progress to cost-based rates in comparison to the maximum rate increase limit proposed by Peoples (1.5 times

⁷⁹² *Pa. Pub. Util. Comm’n v. Peoples Natural Gas Co. LLC*, Docket No. R-2023-3044549 (Opinion and Order entered Sept. 12, 2024).

⁷⁹³ I&E St. 3 at 26-27; I&E Exh. 3, Sch. 3.

⁷⁹⁴ OSBA St. 2 at 2.

the system average increase), I find this appropriate given the magnitude of the requested rate increase.

Moreover, as Peoples' comparison of the percentage of the overall revenue increase that the parties proposed to assigned to each customer class showed, OCA proposed to allocate 72% of the increase to the residential class. Peoples proposed to allocate 73%. Thus, while the Peoples and OCA disagree regarding the current rate of return the Company derives from each customer class and how much gradualism should be exercised in moving all classes to full parity, their end result was somewhat similar.

Rate Classes	Peoples	OCA
Residential	73%	72%
Small General	13%	10%
Medium General	13%	12%
Large General	0%	5%
Mainline Service	0%	1%
Total	100%	100%

Consistent with the foregoing discussion, I recommend that the Commission utilize the OCA's recommended allocation of the allowed overall revenue increase among the classes.

c. RATE DESIGN

1) Peoples

Peoples states that its rate design strategy in this case is to make incremental movements toward reflecting the Company's relative cost of serving each rate class. Peoples proposes to increase the customer charges for the rate classes shown

in the following table, with the remaining proposed increase to be recovered in the volumetric charge.⁷⁹⁵

Table 7 – Fixed Monthly Customer Charges

Rate Schedule	Annual Consumption	Current	Proposed
Residential	All	\$ 16.80	\$ 26.00
SGS	0 to 499 Mcf	\$ 22.00	\$ 32.14
SGS	500 to 999 Mcf	\$ 44.00	\$ 64.28
MGS	1,000 to 2,499 Mcf	\$ 101.00	\$ 110.00
MGS	2,500 to 24,999 Mcf	\$ 145.00	\$ 158.00
LGS	25,000 to 49,999 Mcf	\$ 940.00	\$ 987.00
LGS	50,000 to 99,999 Mcf	\$ 1,465.00	\$ 1,538.00
LGS	100,000 to 199,999 Mcf	\$ 2,130.00	\$ 2,237.00
LGS	Over 200,000 Mcf	\$ 5,630.00	\$ 5,912.00
MLS	Over 500,000 Mcf	\$ 5,630.00	\$ 5,912.00

Even with the proposed customer charge increases, Peoples claims that the customer charges for all classes remain below the customer-related unit costs that Company witness Taylor identified for those classes.⁷⁹⁶ The other parties present different views on the Company’s customer charges, which were addressed by Company witness Taylor. As discussed above, the Company does not agree with the alternative cost allocation methodologies of OCA witness Deupree and I&E witness Cline and, likewise, the Company does not agree with the customer charge recommendations that flow from those methodologies.⁷⁹⁷

Peoples proposes to increase the Residential customer charge from \$16.80 to \$26.00 as supported by the Company’s customer cost analysis. It argues that developing cost of service rates applies to designing the rates themselves, and it not just

⁷⁹⁵ Peoples MB at 98; Peoples St. 17 at 33-34.

⁷⁹⁶ Peoples St. 17 at 22.

⁷⁹⁷ Peoples MB at 98, n.378.

applicable to revenue allocation.⁷⁹⁸ Peoples states that in *PPL Electric 2012*, the Commission noted that an increase to the customer charge is reasonable when usage-based charges still comprise a greater portion of the total bill so that customers will still have a clear opportunity to reduce their total bills through conservation.⁷⁹⁹ It notes further that, in *PPL Electric 2012*, the Commission rejected I&E's and OCA's position of "no increase" to the customer charge because it was not based on a proper cost analysis.⁸⁰⁰ Peoples argues that the Company's proposed residential customer charge should be approved because it represents a meaningful movement toward appropriate full fixed cost recovery while also allowing for substantial recovery through usage-based charges.

Peoples summarizes the opposition of OCA, I&E, CAUSE-PA, and Task Force to the Company's proposed increase to the residential customer charge as being based on reasons including affordability, conservation, bill impacts to low-income customers, and customer bill management. Peoples disagrees with their recommendations to reject or modify aspects of the Company's proposed residential rate design and customer charge increases, or to place greater emphasis on affordability and customer bill impacts.⁸⁰¹

Specifically, Peoples contends that the proposed residential customer charge does not disproportionately impact low-income customers as the proposed rate design produces generally consistent annual bill impacts across the customer groups and, in fact, benefits low-income customers.⁸⁰² Mr. Taylor prepared an analysis comparing the

⁷⁹⁸ Peoples MB at 98-99 (citing *Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597 (Opinion and Order entered Dec. 28, 2012) (*PPL Electric 2012*)).

⁷⁹⁹ Peoples MB at 99 (citing *PPL Electric 2012*).

⁸⁰⁰ *Id.*

⁸⁰¹ Peoples MB at 99-102.

⁸⁰² Peoples St. 17-R at 33-35.

annual bill increases under the Company's proposed customer charge and the existing customer charge with no increase. The results showed that the representative CAP customer's bill would be approximately \$36 higher if the Commission were to maintain the current residential customer charge rather than accept the Company's proposed customer charge in this case.⁸⁰³

The Company also argues that, under its proposed customer charge, a majority (65%) of the Company's distribution base rate revenues, and all commodity costs, will remain associated with usage, allowing customers to continue to realize meaningful savings through conservation.⁸⁰⁴ In the context of a residential customer's total bill, Peoples witness Taylor states that the proposed 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 chargers.⁸⁰⁵

Also, Mr. Taylor cautioned against placing too much emphasis on conservation in designing customer charges because fixed customer-related costs do not vary with usage, so recovering them through volumetric charges can produce less stable recovery of fixed distribution costs over time and weaken the relationship between costs and how they are recovered.⁸⁰⁶ Further, Peoples witness Taylor testified that energy efficiency can be promoted in other ways, including through volumetric delivery rates, commodity charges, and targeted conservation programs that don't compromise the appropriate recovery of customer-related fixed costs.⁸⁰⁷

⁸⁰³ *Id.* at 34-35.

⁸⁰⁴ Peoples St. 17-R at 29.

⁸⁰⁵ *Id.* at 29-31.

⁸⁰⁶ Peoples St. 17 at 28.

⁸⁰⁷ *Id.*; Peoples MB at 101.

Recovering more of the Company's fixed costs through the customer charge helps stabilize bills by spreading distribution costs throughout the year. Stabilizing distribution rates benefits low-income customers by charging less for distribution service in the winter months when usage, as well as arrears, are typically higher and moving that recovery to summer months when usage is typically lower.⁸⁰⁸

Peoples states that CAUSE-PA, OCA, and Task Force raise concerns that the Company's proposed increase in the fixed monthly customer charge will reduce the amount of bill reduction that can be obtained through LIURP measures.⁸⁰⁹ The Company disputes this because most (97%) of the Company's LIURP participants are enrolled in the CAP program, which allows them to make payments that are not based on monthly fixed or variable charge amounts.⁸¹⁰ Further, Peoples argues that the savings resulting to customers from LIURP participation would not be undermined by an increase in the fixed customer charge, because LIURP savings often result in a reduction in customer usage that is more significant than the increase to the customer charge.⁸¹¹ As of 2024, LIURP participation averaged a reduction of 24.89% in annual usage.⁸¹²

Peoples proposed customer charges for nonresidential customers, which includes rate classes SGS, MGS, LGS, and MLS, are set forth in the Table above and on page 34 of Peoples St. No. 17. The Company describes the OSBA position as a challenging the Company's proposed SGS customer charge for customers using 0 and 499 Mcf annually, which is an increase from the existing rate of \$22.00 to \$32.14 per month.⁸¹³ According to Peoples, OSBA claims that the Company failed to provide

⁸⁰⁸ Peoples St. 17-R at 35-37.

⁸⁰⁹ Peoples MB at 101 (citing CAUSE-PA St. 1 at 53-54; OCA St. 1R at 3; Task Force St. 1 at 7).

⁸¹⁰ Peoples MB at 101-102 (citing Peoples St. 10-R at 21).

⁸¹¹ *Id.*

⁸¹² Peoples St. 10-SR at 4.

⁸¹³ Peoples MB at 102 (citing OSBA St. 1 at 6).

sufficient support for the proposed SGS customer charge and recommends retaining the current SGS customer charge for customers using between 0 and 499 Mcf annually.⁸¹⁴

In response, Peoples witness Taylor argues that that Mr. Kubas did not present a customer cost study and does not identify any specific cost that is improperly included in the Company's customer cost analysis, nor does he demonstrate that the customer-related costs reflected in the ACOSS are unreasonable.⁸¹⁵ The Company asserts that its ACOSS provides the information necessary to evaluate the customer-related costs supporting the proposed customer charge.

Peoples responds further that its Company's discussion of intra-class equity and fixed cost recovery follow directly from its customer cost analysis.⁸¹⁶ It states that, to the extent customer-related costs exceed the existing customer charge, a greater portion of those costs must be recovered through volumetric rates, resulting in differing contributions toward recovery of customer-related costs among customers within the class. The Company submits that its proposed nonresidential customer charges should be approved because they represent a reasonable movement toward improved alignment between customer-related costs and customer-related revenues.⁸¹⁷

Regarding scale back, Peoples submits that, if the approved revenue increase in this case is ultimately lower than that proposed by the Company, each class's increase should be scaled back proportionately; however, it proposes that the Company's proposed customer charges should be retained for each class, and the remainder of the increase for each class should be assigned to that class's volumetric rates.⁸¹⁸ Mr. Taylor

⁸¹⁴ *Id.*

⁸¹⁵ Peoples St. 17-R at 26.

⁸¹⁶ Peoples MB at 102 (citing OSBA St. 1 at 8).

⁸¹⁷ Peoples MB at 102.

⁸¹⁸ *Id.*; Peoples St. 17-R at 39.

testified that customer charges should not be included in any proportional scale back because the purpose of the customer charge is to recover customer-related fixed costs and a reduction in the overall revenue requirement does not necessarily alter the customer-related costs identified in the customer cost analysis. Consequently, he argued that a mechanical scale back of customer charges could disconnect customer charges from cost causation and shift additional fixed costs into volumetric rates.⁸¹⁹

Peoples proposes for the Merchant Function Charge reflected in the Company's final tariff implementing approved rates to be updated based upon current gas cost information rather than the commodity prices in place when the case was filed.⁸²⁰ No party opposed this proposal. The Company contends that the proposal is reasonable and should be approved.⁸²¹

Peoples witness Taylor explained that since the filing of the Company's direct testimony, its gas cost rates have declined from the levels reflected in the Company's originally proposed Merchant Function Charge. Because the Merchant Function Charge is calculated based upon the applicable gas cost rate, Mr. Taylor recommends that the Merchant Function Charge included in the Company's final rate design should be updated to reflect the gas cost rates expected to be in effect when the Company's new base rates become effective.⁸²² Based upon the Company's current gas cost rates effective July 1, 2026, he states that the Merchant Function Charge would be \$0.1045 per Mcf for the Residential class and \$0.0229 per Mcf for Commercial and Industrial classes. This recommendation affects only the Merchant Function Charge

⁸¹⁹ Peoples St. 17-R at 39.

⁸²⁰ Peoples St. 17-R at 40-42.

⁸²¹ Peoples MB at 103.

⁸²² Peoples St. 17-R at 41.

reflected in the Company's final rate design; it does not affect revenue apportionment, customer charges, or any other rate design issues.⁸²³

2) I&E

Regarding rate design, I&E contends as follows:

It is generally accepted that gradualism is a well-established ratemaking concept that seeks to limit the immediate increases customers receive when rates are increased and instead seeks to implement a necessary significant rate changes on a more gradual basis over time. If the Commission should approve a rate increase, then the Commission has the discretion to apply the concept of gradualism if the Commission determines the rate increase would result in a sudden and excessive increase that would violate the concept of gradualism.^[824] For this reason, I&E identifies the concept of gradualism as one of the tools of discretion in the Commission's toolbox.⁸²⁵

I&E did not recommend any adjustments to the Company's proposed customer charges and, moreover, noted that it neither supports nor opposes the OCA's recommendations regarding changes to the customer charges.⁸²⁶ Further, if the Commission grants an increase less than the amount requested by the Company, then I&E recommends that (1) the proposed customer charges be included in any scale back of rates and (2) all proposed increases to customer charges and usage rates be scaled back proportionately based on the ACOSS that is ultimately approved by the Commission.⁸²⁷

⁸²³ *Id.* at 41-42.

⁸²⁴ I&E MB at 51 (citing *Pa. Pub. Util. Comm'n v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835 (Opinion and Order Entered Feb. 19, 2021) at 44-45).

⁸²⁵ I&E MB at 51.

⁸²⁶ *Id.* (citing I&E St. 3 at 31-32; I&E St. 3-SR at 14).

⁸²⁷ I&E St. 3 at 31-32; I&E St. 3-SR at 15; I&E MB at 51.

3) OCA

OCA submits that it has demonstrated that Peoples' proposal to increase the monthly basic service charge for residential customers by 54.8 percent should be rejected.⁸²⁸ In terms of real dollar impact, that represents an increase of \$9.20 per month, a significant jump from the current \$16.80 to a proposed fixed charge of \$26.00 per month, or \$110.40 per year, on each residential customer without taking into account the distribution increase or the compounded affordability burdens discussed throughout the OCA's main brief.⁸²⁹

OCA witness Deupree independently analyzed the Company's expenses directly related to providing service to customers. He looked at types of costs typically associated with the basic service charge, such as: "removing and setting meters; maintenance of meters; meter reading expenses; customer records and collections; customer billing and accounts; and customer service and information expenses."⁸³⁰ Mr. Deupree found that customer-related costs to provide service to residential customers on the Company's system are approximately \$21.98 per customer per month.⁸³¹ Importantly, this means that the Company's current monthly customer charge of \$16.80 per month recovers nearly 76 percent of monthly customer-related costs.⁸³² Mr. Deupree's study also shows that Peoples is recovering a majority of its customer-related costs for commercial customers through their monthly customer charges.⁸³³ Thus, OCA asserts that Mr. Deupree demonstrated that on a cost basis, Peoples cannot justify its proposed increase in the customer charge.⁸³⁴

⁸²⁸ OCA MB at 82-83, 91; OCA St. 1 at 64-74.

⁸²⁹ OCA RB at 46; OCA St. 1 at 67.

⁸³⁰ OCA St. 1 at 68.

⁸³¹ OCA MB at 91-95.

⁸³² OCA St. 1 at 68, 74.

⁸³³ OCA St. 1 at 67-68, 74; OCA St. 1R at 6.

⁸³⁴ *Id.*

Additionally, Mr. Deupree conducted an examination on a comparative basis to other regional natural gas distribution companies and what their residential and small commercial customer charges.⁸³⁵ He found that \$26.00 would be far above the average of \$17.22 per month charged by other investor-owned natural gas utilities in the northeast and the highest in Pennsylvania with Columbia at the next highest at \$20.15.⁸³⁶

Table 4: Survey of Regional Customer Charges⁸³⁷

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

The OCA also asserts that Peoples’ proposed increase to the residential customer charge is inconsistent with the promotion of energy efficiency and conservation in Pennsylvania for the simple reason that it places more costs into the fixed component

⁸³⁵ OCA St. 1 at 69.

⁸³⁶ *Id.*

⁸³⁷ *Id.* (Source cited as “Utility Tariffs”).

of rates than in the variable component. Mr. Deupree explained that higher fixed customer charges reduces economic incentives for ratepayers to control monthly utility bills through energy efficiency and conservation efforts, because only the variable component of bills is avoidable.⁸³⁸

At the same time, Peoples does not need higher fixed charges because it already has alternative ratemaking tools available.⁸³⁹ Specifically, the OCA argues that the Company can utilize Fully Projected Future Test Years within rate cases and the Distribution System Improvement Charge (DSIC) between rate cases, which mitigate a significant portion of Company risks posed by regulatory lag.⁸⁴⁰ Moreover, volumetric risks to the Company are mitigated by its ability to forecast expected changes in volumes in the current rate case using its FPFTY structure and, likewise, volumetric risks associated with warmer than normal winters in the future will be further mitigated if the Commission decides to maintain the Company's current WNA.⁸⁴¹ Thus, OCA contends that there is no need to further mitigate volumetric risks by increasing fixed monthly customer charges at the expense of encouraging energy efficiency and burdening low-use customers with a greater than average portion of any proposed increase in this case.⁸⁴²

4) OSBA

As noted, the OSBA addressed the Small General Service customer charge for customers using 0 to 499 Mcf annually and recommended that it remain at \$22.00 per month for several reasons.⁸⁴³ As set forth by OSBA, the primary reason it should not be increased is that Peoples "failed to provide a detailed customer cost analysis showing a

⁸³⁸ See OCA St. 1 at 70-74.

⁸³⁹ OCA St. 1R at 5-7.

⁸⁴⁰ OCA St. 1R at 7.

⁸⁴¹ *Id.*

⁸⁴² OCA St. 1 at 74; OCA St. 1R at 6.

⁸⁴³ OSBA St. 1 at 6.

breakdown of the individual components used to support the proposed SGS \$32.14 per month customer charge. Instead, Peoples only provides two components.”⁸⁴⁴ Likewise, Peoples claim that a higher SGS customer charge would alleviate any subsidy within the small business class cannot be demonstrated without a detailed customer cost analysis.⁸⁴⁵ “[G]iven the chance to provide a simple customer cost analysis to support increasing the SGS customer charge, the Company determined it wasn’t necessary.”⁸⁴⁶ OSBA asserts that, since Peoples has the burden of proof in this proceeding, “any failure to support the SGS customer charge accrues to the Company.”⁸⁴⁷ OSBA maintains that not all fixed costs are customer costs for purposes of recovery in the customer charge.⁸⁴⁸

In addition, OSBA disputes that the Company’s other assertions support increasing the SGS customer charge. Peoples claimed that a higher SGS customer charge would address bill volatility, but OSBA contends that is addressed through budget billing. Peoples also made claims of customer confusion, the necessary to recover fixed costs, and the proper price signals. However, OSBA argues there is no indication that customers “better understand a higher customer charge, are in any way concerned with the recovery of the company’s fixed costs, or that a higher customer charge sends the proper ‘price signal.’”⁸⁴⁹ OSBA also disputes Peoples’ argument that any low-income issues felt by the small business class would be alleviated by a higher customer charge, because “low-income issues” do not apply to SGS customers.⁸⁵⁰

OSBA witness Kubas emphasized that “small business customers will experience greater savings through conservation under a rate structure with a lower

⁸⁴⁴ OSBA MB at 8 (citing OSBA St. 1 at 5).

⁸⁴⁵ OSBA St. 1 at 8.

⁸⁴⁶ OSBA MB at 10 (citing Peoples St. 17-R at 26).

⁸⁴⁷ *Id.* at 10 (citing OSBA St. 1-SR at 8).

⁸⁴⁸ *Id.*; OSBA St. 1-SR at 9, 16.

⁸⁴⁹ OSBA MB at 9 (citing OSBA St. 1 at 7); *see also* OSBA St. 1-SR at 14.

⁸⁵⁰ *Id.*

customer charge and higher usage rate compared to a rate structure with a higher customer charge and lower usage rate.”⁸⁵¹ OSBA contends that Peoples did not adequately address this argument. Moreover, responsive to Peoples argument that its higher SGS customer charge does not eliminate the incentives for customers to conserve,⁸⁵² OSBA responded that “[w]hile this is may be true, [Peoples] failed to address why the Commission should approve a rate structure with a higher customer charge that provides *less* of an incentive for a customer to conserve.”⁸⁵³

Responsive to Peoples’ contention that a higher SGS customer charge would help with the recovery of future fixed costs, OSBA witness Kubas pointed out that “[t]he Company has many opportunities to stabilize future revenue other than a higher customer charge including but not limited to the weather normalization adjustment, adding new customers, and adding new volumes.”⁸⁵⁴ Additionally, he testified that:

[T]he use of a Fully Projected Future Test Year in cases like this allows the Company to project usage declines in rates before the decline occurs.^[855] Finally, the Company stated that it will likely file a base rate case in 2 years or less.^[856] A rate case that soon will allow the Company to reflect recovery of any fixed costs not being recovered in the final usage rates fairly quickly.^[857]

⁸⁵¹ OSBA St. 1 at 9.

⁸⁵² Peoples St. 17-R at 29-30.

⁸⁵³ OSBA MB at 10; *see* OSBA St. 1-SR at 13.

⁸⁵⁴ OSBA St. 1-SR at 10.

⁸⁵⁵ OSBA St. 1-SR at 15 (citing Peoples St. 17 at 9).

⁸⁵⁶ *Id.* (citing Peoples St. 2-R at 39).

⁸⁵⁷ OSBA St. 1-SR at 15-16.

5) CAUSE-PA

In this proceeding, Peoples proposes a 54.8% increase to its residential customer charge, seeking to increase the monthly fixed fee from \$16.80 to \$26.00.⁸⁵⁸ The Company argues that, even at its proposed \$26.00 fixed charge, usage-based charges still comprise 65% of the total bill, and that, therefore, customers could still reduce through conservation.⁸⁵⁹ However, CAUSE-PA argues that Peoples fails to acknowledge that its proposed residential customer charge would lock in \$312 per year in fixed charges (an additional \$110.40 per year over current rates).⁸⁶⁰ This presents a significant and unavoidable cost for low-income households that are already struggling to maintain service.⁸⁶¹ The effect would be to weaken the ability of low-income households to save money on their bills through careful conservation and participation in Peoples' Low Income Usage Reduction Program, undercutting the purpose of LIURP to reduce bills for low-income customers.⁸⁶² CAUSE-PA asks the Commission to reject any increase to Peoples' residential customer charge.⁸⁶³

CAUSE-PA argues that every dollar that is locked into the customer charge undermines the ability of consumers to mitigate the rate increase through conservation and efficiency. It explains that Peoples proposal would weaken the ability of low-income households to save money on their bills through careful conservation, including participation in Peoples' Low Income Usage Reduction Program, undercutting the

⁸⁵⁸ CAUSE-PA St. 1 at 48.

⁸⁵⁹ Peoples MB at 99-100.

⁸⁶⁰ CAUSE-PA MB at 48.

⁸⁶¹ *Id.*

⁸⁶² CAUSE-PA St. 1 at 53; 52 Pa. Code § 58.1 (“The programs are intended to assist low-income customers conserve energy and reduce residential energy bills. The reduction in energy bills should decrease the incidence and risk of customer payment delinquencies and the attendant utility costs associated with uncollectible accounts expense, collection costs and arrearage carrying costs.”).

⁸⁶³ CAUSE-PA St. 1 at 56.

program's purpose to reduce bills for low-income customers.⁸⁶⁴ As more residential customer bills are shifted to the fixed charge, the achievable bill savings – and the corresponding impact on bill payment ability – will erode. This threatens the continued effectiveness of ratepayer investments intended to reduce energy consumption, delinquencies, collections, and uncollectible costs that are the goal of Peoples' statutorily required LIURP.⁸⁶⁵

Peoples argues that the detrimental effects of its proposed increased fixed charge on LIURP bill savings are not relevant because most LIURP participants are enrolled in CAP.⁸⁶⁶ However, CAUSE-PA points out that due to income fluctuation and other factors, customers who are enrolled in CAP do not always stay on CAP.⁸⁶⁷ Additionally, many CAP customers are billed according to their average bill.⁸⁶⁸ These customers depend on the corresponding bill savings from LIURP to afford their monthly bill.

Peoples argues that higher fixed monthly charges allow for greater predictability in household budgets and is preferable because low-income households have less ability to control their usage.⁸⁶⁹ CAUSE-PA does not dispute that low-income households are less able to afford home energy efficiency and weatherization, nor that disparities in energy burden for low-income households are exacerbated by inequities in housing efficiency, causing many low-income households to face disproportionately harsh impacts from rising rates.⁸⁷⁰ However, CAUSE-PA contends that, as rates increase, many low-income households are forced, out of necessity and poverty, to take other steps

⁸⁶⁴

Id.

⁸⁶⁵

CAUSE-PA St. 1 at 54.

⁸⁶⁶

Peoples MB at 101.

⁸⁶⁷

CAUSE-PA RB at 32 (citing Peoples St. 10, Ex. RFB-1 at 2, 9-12).

⁸⁶⁸

Id. (citing Peoples St. 10 at 10:6-7).

⁸⁶⁹

Peoples St. 17 at 36.

⁸⁷⁰

CAUSE-PA St. 1 at 55-56.

to reduce usage, often to the point of deprivation – keeping the home at an unsafe temperature or otherwise foregoing food, medicine, and other necessities.⁸⁷¹

CAUSE-PA also argues that there are far more equitable methods to address rising energy insecurity, than by imposing higher fixed charges on all residential customers, including low and moderate income households fortunate to live in efficient homes. These include targeted energy efficiency and weatherization services for high usage households, improved access for tenants to LIURP services, and improved access to income-based rates and arrearage management through CAP.⁸⁷²

CAUSE-PA emphasizes that a bill that is stable but unaffordable is meaningless for low-income customers struggling to stay connected to service.⁸⁷³ While bill stability is a helpful tool for customers, enrollment in CAP which provides a bill based on a customer's ability to pay is far more useful to create actual bill stability from one month to the next than a higher fixed customer charge.⁸⁷⁴ Further, CAUSE-PA states that Peoples is legally required to offer the option of budget billing which is meant to produce bill stability without decreasing incentives for conservation and energy efficiency.⁸⁷⁵

OCA witness Deupree also presented data from the Residential Energy Consumption Survey ("RECS") produced by the United States Energy Information Administration ("EIA") and household data from the Census division in which Pennsylvania is located.⁸⁷⁶ CAUSE-PA points to this data as demonstrating that as income increases, gas consumption also increases, and vice versa: as income decreases,

⁸⁷¹ *Id.* at 55.

⁸⁷² CAUSE-PA St. 1 at 55.

⁸⁷³ *Id.*

⁸⁷⁴ CAUSE-PA St. 1 at 55.

⁸⁷⁵ CAUSE-PA St. 1 at 55.

⁸⁷⁶ OCA St. 1 at 74.

gas usage decreases, contradicting any assertion that low-income customers benefit from an increased fixed charge.⁸⁷⁷

The combination of Peoples' proposed customer charge increase and its WNA to insulate Peoples from the normal business risks associated with the sale of a commodity that a consumer may use less of in a given year.⁸⁷⁸ Together, these rate design mechanisms create a double penalty for customers because they pay a higher fixed customer charge regardless of usage, *plus* they bear more of the risk of a warmer winter.⁸⁷⁹ CAUSE-PA submits that the Commission should reject Peoples' proposed increase to its residential customer charge, as well as its Peoples' proposed continuation of its WNA pilot.

However, if the Commission awards any increase in the revenue requirement and if the Commission allows Peoples to retain its WNA, then CAUSE-PA does not oppose an increase in the residential monthly customer charge that is proportionately scaled back from Peoples' proposal to any revenue requirement authorized in this case.⁸⁸⁰ This is because retaining the WNA with a higher volumetric charge would produce a higher WNA charge in months it is assessed, since the WNA is based on the volumetric charge.

⁸⁷⁷ *Id.* at 74.

⁸⁷⁸ CAUSE-PA St. 1 at 50-51.

⁸⁷⁹ CAUSE-PA St. 1 at 50-51.

⁸⁸⁰ CAUSE-PA St. 1 at 56; CAUSE-PA St. 1-SR at 31.

6) Task Force

The Task Force supports and joins in the positions and arguments set forth by CAUSE-PA in its Main Brief regarding residential rate design.⁸⁸¹

7) Recommendation

As I&E explained, once a class revenue allocation is determined, development of a rate design will address how the tariffed rates and rate elements will generate the allocated revenues.⁸⁸² What is reasonable under the circumstances, the proper difference among rate classes, is an administrative question for the Commission to decide.”⁸⁸³ Further, in its recent decision in *Columbia Gas 2026*, the Commission discussed its disposition regarding rate design, stating:

While we understand the reasons behind the Company’s request for greater revenue recognition from fixed monthly charges, in reviewing changes in rate design, it is important that we balance the interests of utilities (i.e., revenue stability) and consumers (i.e., affordability and conservation concerns).⁸⁸⁴

In the instant proceeding, as stated by Peoples witness Taylor, the OCA’s customer charge recommendations flow from the cost allocation methodology used by OCA. He states: “[Mr. Deupree’s] conclusions are driven in substantial part by his

⁸⁸¹ Task Force RB at 1.

⁸⁸² I&E MB at 48.

⁸⁸³ *Peoples Nat. Gas Co. v. Pa. Pub. Util. Comm’n*, 409 A.2d 446, 456 (Pa. Cmwlth. 1979) (citations omitted).

⁸⁸⁴ *Pa. Pub. Util. Comm’n v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835 (Opinion and Order Entered Feb. 19, 2021) at 279.

rejection of a customer-related component of distribution mains.”⁸⁸⁵ Consistent with my recommendation that the Commission adopt the COSS recommended by OCA, I also find that the OCA’s customer cost study provides a more reasonable basis for evaluating the customer-related costs of providing service.

(a) Customer Charges

As shown in OCA Exhibit MWD-8, I find that OCA demonstrated that on a cost basis, Peoples has not justified its proposed \$26.00 residential customer charge. Rather, the OCA’s analysis showed that customer-related costs to serve residential customers on Peoples’ system is approximately \$21.98 per customer per month.⁸⁸⁶ OCA and CAUSE-PA contend that the current residential customer charge should be retained because it allows the Company to recover most (76%) of its \$21.98 residential customer costs through fixed charges.⁸⁸⁷

Moving these customers to their full cost-based rates of \$21.98 would impose an increase of nearly 31%.⁸⁸⁸ While this is a lesser increase than proposed by Peoples, the bill impact remains markedly high given the evidence presented by OCA and CAUSE-PA regarding the impact of higher fixed costs on affordability.

As noted by I&E, the concept of gradualism is one of the tools of discretion in the Commission’s toolbox.⁸⁸⁹ In applying gradualism, I am informed by the Commission’s recent decision in *Columbia Gas 2026*. In the circumstances of that proceeding, the Commission adopted a customer charge increase that moved

⁸⁸⁵ Peoples St. 17-SR at 4.

⁸⁸⁶ OCA Exh. MWD-8.

⁸⁸⁷ *Id.* [$\$16.80 \div \$21.98 \times 100 = 76\%$]; CAUSE-PA St. .

⁸⁸⁸ [$\$21.98 - \$16.80 = \$5.18$, $\$5.18 \div \$16.80 \times 100 = 30.8\%$].

⁸⁸⁹ I&E MB at 51; *see Pa. Pub. Util. Comm’n v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835 (Opinion and Order Entered Feb. 19, 2021) at 44-45.

approximately halfway towards a cost-based rate, which the Commission found to be a reasonable compromise in consideration of gradualism in customer bill impacts.

In the interest of gradualism, I recommend an increase to the monthly residential customer charge of \$2.50, from \$16.80 to \$19.30.⁸⁹⁰ Here, as in *Columbia Gas*, I find that increasing the charge makes appropriate movement towards a cost-based rate (roughly halfway) and reflects a more reasonable increase of 15% to the existing residential customer charge. Further, to the extent the Commission adopts a lesser revenue increase than requested by the Company, I also recommend the actual residential customer charge should be reduced to reflect the scale back that I recommend below.

I find further support for the reasonableness of this customer charge in the peer analysis that OCA witness Deupree performed. It shows that my recommended residential customer charge of \$19.30 is within the range of the other Pennsylvania utilities in their peer group.

OSBA recommends that the customer charge for small general service customers using 0 to 499 Mcf annually remain the same, based primarily on its argument that Peoples failed to support its customer-related cost study with a detailed customer cost analysis showing a breakdown of the individual components used to support its proposed SGS per month customer charge.⁸⁹¹ As shown in OCA Exhibit MWD-8, the OCA's cost study also showed the Company's current customer charges for SGS customers are recovering most (62%) but not all of the customer-related unit costs identified for the SGS class.

⁸⁹⁰ $[\$21.98 - \$16.80 = \$5.18 \times 1/2 = \$2.59]$

⁸⁹¹ OSBA MB at 8; OSBA St. 1 at 5 (citing Peoples Exh. 11 at 18 and noting that Peoples' calculated customer-related unit cost for the SGS class is \$43.06 per month).

However, OCA witness Deupree's study does not distinguish between the SGS customers as a whole and the contribution of the SGS customers currently paying \$22.00 per month (using less than 499 Mcf annually) from those currently paying \$44.00 per month (using 500 to 999 Mcf annually). As such, I recommend moving the customer charges for the small general service customers towards the OCA's calculated cost-based rate for the SGS class by the same increase I have recommended for residential customers (15%). Specifically, I recommend an increase of \$3.30 to the monthly SGS customer charge for customers using 0 to 499 Mcf annually, from \$22.00 to \$25.30. I recommend an increase of \$6.60, from \$44.00 to \$50.60, for customers using 500 to 999 Mcf annually. Again, to the extent the Commission adopts a lesser revenue increase than Peoples requested, I also recommend that the actual SGS customer charges should be reduced to reflect the scale back that I recommend below.

For the remaining non-residential classes, based on the OCA's analysis, I recommend that their current customer charges should not be increased relative to volumetric rates because those classes are fully paying their customer-related costs through fixed charges.⁸⁹² Again, I recommend that the actual customer charges should be reduced to reflect the scale back that I recommend below.

(b) Scale Back

The parties have varied positions on scale back. As discussed above:

- Peoples proposes that each class's increase should be scaled back proportionately based on the Company's ACOSS and also that the Company's proposed customer charges should be retained for each class, with the remainder of the increase for each class assigned to that class's volumetric rates.

⁸⁹² OCA Exh. MWD-8.

- I&E recommends that all proposed increases to customer charges and volumetric rates (both) should be scaled back proportionately based on the ACOSS that is ultimately approved by the Commission.
- Following from OCA's recommendation to maintain the existing residential and small commercial customer charges, the OCA's position is that any increase for the residential and SGS class should be recovered in volumetric rates. It is noted that OCA witness Deupree also testified that if the Commission finds that any increase in monthly customer charges is warranted, the increases should be limited to the percentage increase in class revenue requirement and, furthermore, subject to scale backs to reflect changes in allocated class revenue increases pursuant to Commission order.⁸⁹³
- CAUSE-PA's position is that any revenue increase should be recovered from residential volumetric rates, unless the Commission allows Peoples to retain its WNA. In that scenario, CAUSE-PA does not oppose an increase in the monthly residential customer charge that is proportionately scaled back to any revenue requirement authorized in this case for the residential class.

As I have recommended that less than Peoples' requested revenue increase be approved, I also recommend a scale back based on the OCA's COSS and OCA's proposed revenue allocation, as follows:

For the residential and small general service classes, the residential customer charge of \$19.30, SGS customer charge for customers using 0 to 499 Mcf annually of \$25.30, and SGS customer charge for customers using 500 to 999 Mcf annually of \$50.60 should be scaled back proportionally with the respective usage rate increases to those classes. For the remaining non-residential classes, their existing customer charges should be scaled back proportionally with the respective usage rate increases to those classes.

⁸⁹³ OCA St. 1R at 8.

(c) Merchant Function Charge

As a final matter, I recommend that the Commission adopt Peoples' proposal regarding the Merchant Function Charge, which no other party opposed. The Merchant Function Charge is calculated based upon the applicable gas cost rate, and the final tariffs implementing approved rates should reflect the gas cost rates in effect when Peoples' new base rates become effective.

d. ALLOCATION OF UNIVERSAL SERVICE COSTS

1) Peoples

Peoples opposes the recommendation by CAUSE-PA and OCA that the costs of the Company's Universal Service Programs ("USP") be borne by all ratepayers, not just the residential class. Peoples argues that the policy question regarding whether universal service costs should continue to be recovered exclusively from residential customers impacts the entire utility industry and should not be isolated to this case.⁸⁹⁴ The Company contends that CAUSE-PA's proposal would impose an obligation on Peoples' non-residential customers that is not placed on the non-residential customers of other utilities in Pennsylvania. Peoples argues that it is inappropriate to single out Peoples' non-residential customers because other similar customers, including customers of Peoples' competitors, are not required to pay for these programs.⁸⁹⁵

Also, Peoples argues that CAUSE-PA's proposal fails to take into account that universal service costs are recovered pursuant to a reconciled recovery mechanism, the Universal Service Rider.⁸⁹⁶ It asserts that, whether universal service costs are

⁸⁹⁴ Peoples MB at 103-104; Peoples RB at 53.

⁸⁹⁵ Peoples St. 17-R at 21-22.

⁸⁹⁶ *Id.* at 20-21.

recovered through a fixed monthly charge, a volumetric charge, or some combination of the two can produce significantly different outcomes for customers with different usage characteristics and load factors.⁸⁹⁷ Peoples asks that, before modifying the recovery of universal service costs, the Commission should evaluate both the proposed allocation among customer classes and the resulting bill impacts under the proposed recovery mechanism to ensure the costs are recovered equitably and reasonably.⁸⁹⁸ 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.⁸⁹⁹

2) I&E

I&E did not present testimony on the allocation of universal service costs.⁹⁰⁰

3) OCA

OCA submits that the Commission should require that universal service costs be allocated among all customer classes rather than borne exclusively by residential customers. OCA points to an April 29, 2026 letter from Governor Josh Shapiro to Pennsylvania utilities explaining that utilities must “change the behaviors causing rate increases” and that “Pennsylvania consumers should not be asked to pay a single dollar more than is needed to support a safe and reliable utility system.”⁹⁰¹ This letter was submitted as an exhibit by the Governor's Special Counsel for Affordability, Mark

⁸⁹⁷ *Id.* at 20-21.

⁸⁹⁸ Peoples MB at 103-104.

⁸⁹⁹ Peoples RB at 53.

⁹⁰⁰ I&E MB at 52.

⁹⁰¹ Governor Josh Shapiro Hearing Exh. 1 at 6.

Szybist, at the June 11, 2026 public input hearing in this proceeding, as part of his testimony opposing Peoples rate increase.⁹⁰² OCA asserts that, by requiring all customer classes to share in the cost of universal service programs, the Commission can take a major step towards addressing the general problem of affordability.

OCA points to precedent in which the Commission has determined that allocating Customer Assistance Program (CAP) costs among all customer classes is lawful. Indeed, the Commission has expressly recognized that “[t]here is no statutory or appellate prohibition that limits the recovery of CAP costs, whether specifically calculated or as part of total universal service costs, to funding from the residential class. Universal service funding from non-residential classes, while not mandatory, is permissible.”⁹⁰³ In a more recent order addressing large load electric customers, the Commission confirmed that it “ha[s] the authority to require other customer classes, not just the residential class, to contribute to the costs of universal service programs.”⁹⁰⁴

OCA maintains that the cost of providing service through the Peoples’ CAP program does not have a cost-causation basis that can be confined to the residential class. As OCA witness Roger Colton explained, the Commission has previously recognized that universal service costs are caused by factors endemic to society as a whole, rather than factors specific to residential customers.⁹⁰⁵ In support of its position, OCA addresses Commission precedent, including that:

- “poverty, poor housing stock, and other factors that contribute to households struggling to afford utility service are not just ‘residential class problems.’”⁹⁰⁶

⁹⁰² Tr. at 249, 259.

⁹⁰³ *2019 CAP Policy Amendments* at 96; OCA MB at 96; OCA St. 1-SR at 50.

⁹⁰⁴ Interconnection and Tariffs for Large Load Customers, Docket No. M-2025-3054271, Order at 107 (Apr. 30, 2026) (Large Load Final Order).

⁹⁰⁵ OCA St. 4 at 74; OCA MB at 97.

⁹⁰⁶ OCA St. 4 at 74-75 (quoting *2019 CAP Policy Amendments* at 94).

- universal service programs advance a broader public purpose and concluded that “the *General Assembly clearly identified the public purpose of these programs* in the Competition Acts by requiring that their costs be nonbypassable.”⁹⁰⁷

- “[c]learly, there is a persuasive argument to be made that home heating and energy assistance for low-income households serves a public good whose responsibility is not merely other residential ratepayers.”⁹⁰⁸

- there is no statutory requirement that funding for special programs come only from those who benefit directly from the programs.⁹⁰⁹

OCA further submits that the Company’s own CAP participation data demonstrates why the need for universal service cannot fairly be characterized as a residential-class problem. It presents the analysis of OCA witness Colton, in support of its argument that the extremely low household income cannot simply be explained as a lack of employment among CAP participants.⁹¹⁰

	<i>Table 1. CAP Participant Characteristics</i> ⁹¹¹			
	Avg HH Size	Avg CAP Income	100% FPL (2-person HH)	Pct Employed
2020	2.44	\$14,754	\$17,240	33%
2021	2.46	\$14,808	\$17,420	36%
2022	2.45	\$15,057	\$18,310	41%
2023	2.45	\$16,172	\$19,720	23%
2024	2.50	\$16,164	\$20,440	39%
2025	2.50	\$16,295	\$21,150	36%

⁹⁰⁷ *Id.* at 75 (quoting *2019 CAP Policy Amendments* at 96 (emphasis added)).

⁹⁰⁸ *Id.* (quoting *2019 CAP Policy Amendments* at 94-95).

⁹⁰⁹ *2019 CAP Policy Amendments* at 96 (quoting *Met-Ed Indus. Users Grp. v. Pa. Pub. Util. Comm’n*, 960 A.2d 189, 202 (Pa. Cmwlth. 2008) (MEIUG); *Lloyd*.

⁹¹⁰ OCA St. 4 at 75-76.

⁹¹¹ *Id.* (citing Peoples’ response to OCA-IV-01).

As Mr. Colton explained:

This declining income can in large part be attributed to the performance of the economy as a whole, which includes non-residential customers. Consistently over the past six years, one-third or more of the Company's CAP participants have been employed. The fact that the wages received by these households leave them with a poverty-level income can be attributed to the wage-payer as much as it is attributed to the wage-earner. The fact that CAP participants with employment income still have income less than the FPL for a two-person household is a societal problem, not a residential problem.^[912]

Thus, OCA asserts, it is reasonable to allocate the cost of Peoples' universal service programs to non-residential customers because the wages paid by employers, i.e., non-residential customers, are a significant factor affecting whether working households can afford basic necessities, including utility service. It contends that assigning all CAP costs to residential customers effectively treats the consequences of low wages and economic hardship as costs caused exclusively by the households experiencing them.⁹¹³

The OCA also points to testimony by Mr. Colton that the extraordinary increase in the cost of basic necessities has disproportionately harmed low- and moderate-income households.⁹¹⁴ The United Way's ALICE analysis reports that "in Pennsylvania, the ALICE Essentials Index also increased faster than the national CPI . . . [a]nd like the national trend, essential costs in Pennsylvania increased at a faster rate following the pandemic (5.3% annual increase in the ALICE Essentials Index from 2021

⁹¹² OCA St. 4 at 76.

⁹¹³ OCA MB at 99 (citing OCA St. 4SR at 36-37).

⁹¹⁴ OCA St. 4 at 77.

to 2024, compared to 2.3% between 2007 and 2019).”⁹¹⁵ OCA argues that maintaining residential responsibility for CAP costs threatens to make the underlying affordability problem worse.

Additionally, the OCA argues that, for income-eligible nonparticipants, every dollar of CAP costs assigned exclusively to the residential class increases the burden borne by customers who are not receiving CAP benefits.⁹¹⁶ It asserts that, as those bills become less affordable, more customers may enroll in CAP.⁹¹⁷ Increased participation then increases CAP costs and, moreover, as rates go up, CAP costs will also go up (as the difference between bills at standard rates and bills at CAP rates increases). OCA witness Colton testified that increasing inability-to-pay will create also additional costs to the Company, in the form of lost revenue, credit and collection expenses, working capital expenses along with the associated return on equity and tax impacts) and bad debt.⁹¹⁸ As these additional costs get incorporated into standard rates, rates to all residential customers will increase, which in turn places an even greater burden on the remaining income-eligible nonparticipants. The result is a self-reinforcing cycle that harms everyone.⁹¹⁹ OCA concludes this discussion with the argument that:

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

⁹¹⁵ *Id.* at 77-78 (quoting The State of ALICE in Pennsylvania: 2026 Update on Financial Hardship, United for ALICE, 6 (2026)).

⁹¹⁶ OCA MB at 101; OCA St. 4 at 79.

⁹¹⁷ *Id.*

⁹¹⁸ OCA St. 4 at 80.

⁹¹⁹ OCA MB at 101; OCA St. 4 at 80.

a public good, and further consistent with the Commission’s prior finding of the ‘public purpose’ of universal service expenditures. . . .”^[920]

OCA notes that CAUSE-PA witness Patrick Cicero similarly recommends Peoples recover universal service costs across all rate classes explaining that “[t]he ‘cause’ of the need for [the universal service] program is poverty – a societal problem. Residential customers do not cause poverty.”⁹²¹

OCA witness Colton recommends the following cost allocation mechanism:

I recommend that the costs to be allocated among all customer classes be the total CAP costs (CAP Credits + Arrearage Forgiveness + Administration) reported by the Company to the Pennsylvania PUC in the most recently completed calendar year prior to the year in which the Company receives a final order in a base rate case. For Peoples, the total costs would be \$28,873,507.78.^[922] This figure is an authoritative figure, already required to be reported to the Commission, available as publicly accessible information.

I recommend that the interclass allocations be based on each class’s allocation of total distribution revenue requirement (excluding taxes) agreed to in a settlement of this case, or that is approved by a final PUC Order if the case is litigated.^[923] Using this figure would not involve developing a new number. The costs to be allocated between customer classes in this proceeding would thus be those as are set forth in the Table below. For non-residential customers, the universal service cost could be added on as an undesignated part of the customer charge. For residential customers, the CAP costs would continue to be collected as they have historically been collected. There would, in other words, with the exception of the charges deducted to be

⁹²⁰ *Id.*

⁹²¹ OCA MB at 102 (citing CAUSE-PA St. 1 at 78).

⁹²² OCA St. 4 at 82-83 (citing Peoples’ response to OCA-IV-001 at 82).

⁹²³ *Id.* (citing Peoples Exh 11 at 28:350, 42:35).

collected from other rate classes, be no change in the manner in which residential universal service charges are collected through the USP Rider (along with the periodic reconciliation).

Given that I propose that the non-residential class allocations be done on a “fixed fee” basis, I recommend that the dollar amount of the non-residential allocations be fixed until the Company files its next base rate proceeding.^[924]

OCA explained that Mr. Colton’s recommendation is based, in part, on the universal service payments the Commission recently required of large load customers, where the Commission favored a flat fee model based upon the customer’s peak demand rather than a volumetric charge.⁹²⁵ OCA notes, however, that Mr. Colton’s flat fee model differs slightly by allocating a portion of universal service costs to all customer classes, not just residential and large load customers, and is not based on the Commission’s peak demand methodology. He uses the customer classes’ percentage of revenue requirement, instead of peak demand.⁹²⁶

As noted, OCA recommends using the allocation approved by the Commission for each class’s allocation of total distribution revenue requirement, excluding taxes. As an example, however, OCA witness Colton runs his calculation using the Company’s proposed allocation.⁹²⁷ His results are shown in the table below.

⁹²⁴ OCA MB at 104 (quoting OCA St. 4 at 82-83).

⁹²⁵ OCA MB at 105 (citing *Large Load Order* at 107).

⁹²⁶ OCA MB at 105.

⁹²⁷ OCA St. 4 at 83-84; OCA MB at 104.

Table 2. Inter-Class Allocation of CAP Costs (Peoples, 2026) ^[928]		
Customer Class	Revenue Requirement Allocation (Rev.Req. excluding taxes)	CAP Cost Allocation
Residential	74.10%	\$21,395,269.26
Small General	10.90%	\$3,147,212.35
Medium General	9.80%	\$2,829,603.76
Large General	3.90%	\$1,126,066.80
Mainline Service	1.40%	\$404,229.11
Sum		\$28,902,381.29

OCA witness Colton testified that these results do not substantively differ – and are actually somewhat less than – the current percentage of CAP spending that Philadelphia Gas Works allocates to non-residential customers (29%).⁹²⁹

According to OCA, the Commission has already considered the economic impact which this allocation has had on the non-residential customer classes, quoting from the Commission’s Final Order in the *2019 Amendments to CAP Policy Statement*:

OSBA and the Industrial Customers have argued that recovering costs of universal service programs from industrial and commercial customers may negatively impact businesses in the Commonwealth. However, we have not seen evidence that the economic climate in Philadelphia has been negatively impacted as a result of universal service costs charged by PGW. Further, as noted by multiple parties in the *Review* proceeding, many states recover the cost of utility low-income programs from all ratepayer classes, including New York, New Jersey, Ohio, Illinois, Maine, and New Hampshire. We are not aware that

⁹²⁸ OCA St. 4 at 83.

⁹²⁹ *Id.* (citing 2024 BCS annual Report on Universal Service Programs and Collections Performance at 91).

this practice has negatively impacted the business climate of any these states.^[930]

Based on this, OCA asserts that there is no need for the Commission to speculate about whether non-residential customers can appropriately bear a portion of universal service costs because Pennsylvania already has an example of such an allocation and the Commission has previously found no evidence that PGW's practice harmed the business climate.⁹³¹

4) OSBA

The OSBA submits that universal service costs ("USCs") should not be recovered from all customer classes. It references testimony by OCA witness Colton arguing that the "macroeconomic conditions" of Peoples' service territory,⁹³² the limited "liquid resources" of the customers in Peoples' service territory,⁹³³ and the "the aging population in Peoples service territory" are reasons why USCs should be recovered from all classes.⁹³⁴

OSBA states that CAUSE-PA made a similar argument for recovering USCs from all customer classes, specifically, that "[t]he 'cause' of the need for this program [Universal Services Programs] is poverty – a societal problem." CAUSE-PA continues by stating that "the most obvious benefits of universal service programs are apparent to the residential rate class, this is too narrow of a view as there are a multitude of societal benefits which inure to non-residential ratepayers that cannot be ignored."⁹³⁵

⁹³⁰ OCA MB at 102-103 (quoting *2019 CAP Policy Amendments* at 95-96); see OCA St. 4 at 84.

⁹³¹ OCA MB at 103; *2019 CAP Policy Amendments* at 95-96.

⁹³² OSBA MB at 11 (citing OCA St. 4 at 29).

⁹³³ *Id.* (citing OCA St. 4 at 37).

⁹³⁴ *Id.* (citing OCA St. 4 at 41).

⁹³⁵ OSBA MB at 11 (citing CAUSE-PA St. 1 at 78).

OSBA agrees that the benefits of universal service programs accrue to the residential class. OSBA also points to testimony where CAUSE-PA then goes on to cite studies which claim that recovering USCs from all customer classes will help solve health, food insecurity, and housing issues, as well as helping families with children.⁹³⁶

OSBA argues that the OCA and CAUSE-PA base their support on societal problems, despite neither party citing a statute or caselaw that enables the Commission to solve societal problems.⁹³⁷

OSBA states that the Commission has recently provided guidance that USCs may be recovered from non-residential classes but notes that the Commission's *2019 CAP Policy Amendments* is a policy statement that does not have the legal authority of a regulation or statute.⁹³⁸ It argues that the Legislature has not granted the Commission the authority to solve health, housing, food or child issues, nor has the Legislature given the Commission a broad mandate to address societal issues across the Commonwealth.⁹³⁹

OSBA also rejects OCA's argument that the Commission's use of the term "nonbypassable" in a policy statement supports the OCA's position. OSBA contends that the Commonwealth Court has quashed that argument by ruling that the term "reasonably means that residential customers cannot by-pass their prior funding of universal service costs by choice, or non-choice, of an electric generation supplier."⁹⁴⁰ The same language appears in Pennsylvania's Natural Gas Choice and Competition Act, so OSBA contends that the same legal conclusion would apply.

⁹³⁶ OSBA MB at 12 (citing CAUSE-PA St. 1 at 78-79).

⁹³⁷ OSBA MB at 12.

⁹³⁸ *Id.* (citing CAUSE-PA St. 1 at 78).

⁹³⁹ OSBA MB at 12.

⁹⁴⁰ *Id.* (citing MEIUG at 202).

OSBA notes that the Commission has authorized a model tariff for large-loading customers (e.g., Data Centers), which requires contributions to USCs.⁹⁴¹ According to OSBA, OCA and CAUSE-PA should be extremely pleased with this development, because it (1) provides USCs funding from a customer class other than the residential class and (2) that data centers, which dwarf the size and natural gas usage of any small business across the Commonwealth, will thus provide significant funding for the residential universal service programs.⁹⁴²

OSBA challenges the failure of OCA and CAUSE-PA to provide any analysis of the impact of charging universal service costs to Peoples' small business customers. It asserts that one partial solution to society's economic ills is "to have a robust and healthy small business environment, where such businesses are thriving, in part due to low energy costs, and offering a plethora of well-paying jobs. Increasing the cost of energy for small businesses will not help with this goal."⁹⁴³ Rather the data about small business customers' late bills shows that:

Between January 2023 and June 2026, the monthly number of SGS bills that were 1-60 days late increased from 3,497 to 5,896 – a 69 percent increase. Over the same period, the monthly number of bills more than 60 days late grew from 661 to 971, an increase of 47 percent.⁹⁴⁴

OSBA states that this data indicates that it would be unjust and unreasonable to assign another charge to Peoples' struggling small businesses.

⁹⁴¹ OSBA MB at 12-13 (citing *Large Load Order*).

⁹⁴² OSBA MB at 12-13.

⁹⁴³ *Id.* at 13.

⁹⁴⁴ *Id.* (citing OSBA St. 2 at 3; Peoples response to OSBA-II-009).

Additionally, OSBA disputes OCA's premise that New York, New Jersey, Ohio, Illinois, Maine, and New Hampshire have assigned universal service costs to all ratepayer classes.⁹⁴⁵ OSBA contends that those states do not have an Office of Small Business Advocate and posits that small businesses in those states are struggling.⁹⁴⁶

5) CAUSE-PA

As noted, CAUSE-PA recommends that the Commission should require non-residential customers to equitably and proportionally contribute to universal service and energy conservation costs. It states that the Choice Act requires large gas utilities, including Peoples, to administer a suite of universal service and energy conservation programs to assist low-income households and other vulnerable customers are able to maintain service to their home.⁹⁴⁷ While the Choice Act explicitly addresses cost recovery, it does not address cost allocation.⁹⁴⁸ Specifically, the Choice Act requires the Commission "to establish for each natural gas distribution company an appropriate *nonbypassable*, competitively neutral cost-recovery mechanism which is designed to recover fully the natural gas distribution company's universal service and energy conservation costs over the life of these programs."⁹⁴⁹ CAUSE-PA contends that residential customers do not, alone, cause energy insecurity and should not solely bear the costs.⁹⁵⁰

⁹⁴⁵ OSBA MB at 14; OCA St. 4 at 84 (referencing the Commission's discussion of those states in the *2019 CAP Policy Amendments*).

⁹⁴⁶ OSBA MB at 14.

⁹⁴⁷ CAUSE-PA MB at 52; 66 Pa.C.S. § 2202.

⁹⁴⁸ CAUSE-PA MB at 52 (citing *2019 CAP Policy Amendments* at 80; 66 Pa.C.S. Ch. 22; 52 Pa. Code Chs. 54, 58, 62).

⁹⁴⁹ 66 Pa.C.S. § 2203(6).

⁹⁵⁰ CAUSE-PA MB at 52-53.

Like OCA, CAUSE-PA argues that allocation of universal service costs is consistent with applicable law. It asserts that the cost of ensuring universal access to very basic human needs – like home heating – are, at their core, public purpose programs and embedded in the fabric of the regulatory compact.⁹⁵¹ CAUSE-PA states:

In *Lloyd v. Pa. PUC* the Commonwealth Court affirmed the right to recover the costs of “public purpose programming” from all rate classes.^[952] In *Lloyd*, the PPL Industrial Customer Alliance (PPLICA) challenged the Commission’s decision to allow cross-class recovery of funding for the Sustainable Energy Fund (SEF) in PPL’s service territory.^[1] PPLICA argued that SEF provided “no demonstrable benefits to ratepayers” and asserted that there was no legal justification for the program.^[953] PPLICA argued that recovery of costs through rates constituted an “unlawful tax on ratepayers which only the General Assembly has the power to impose.”^[954]

The Commonwealth Court roundly rejected PPLICA’s arguments, finding explicitly that the General Assembly – through section 2802(17) of the Choice Act^[1] – “specifically authorized that public service programs such as SEF be funded.”^[955] The Court also concluded that there was substantial evidence to support the Commission’s conclusion that SEF provided demonstrable benefits to ratepayers, and therefore deferred to the Commission as the finder of fact.^[956] Ultimately, pursuant to these findings, the Commonwealth Court affirmed the continued recovery of public purpose program costs from all ratepayers and definitively concluded that “SEF funding was not a tax, hidden or otherwise, but a conservation program directly related to conservation programs that the General Assembly permitted to be funded.”^[957]

951 *Id.* at 53.

952 *Id.* (citing *Lloyd*).

953 CAUSE-PA MB at 53 (citing *Lloyd* at 1024-1025).

954 *Id.*

955 *Id.* (citing *Lloyd* at 1025-1026).

956 CAUSE-PA MB at 53-54 (citing *Lloyd* at 1026-1029).

957 CAUSE-PA MB at 54 (citing *Lloyd* at 1027).

CAUSE-PA also discusses the *2019 CAP Policy Amendments* and notes the Commission’s acknowledgement that the “cause” of the need for these programs is poverty – a societal problem, not an individual rate class problem – and its recognition that residential customers do not cause poverty.⁹⁵⁸ The Commission explained that the provision of universal services to help low-income families maintain service to their homes is “a benefit to the economic climate of a community.”⁹⁵⁹ The Commission directed utilities and stakeholders to address CAP cost recovery in utility-specific rate proceedings, indicating that “*the Commission will no longer routinely exempt non-residential classes from universal service obligations.*”⁹⁶⁰

CAUSE-PA also discusses the more recent Interconnection and Tariffs for Large Load Customers proceeding, where the Commission confirmed that it has the authority to require nonresidential class to contribute to the costs of universal service programs, and that the Commission has an obligation to ensure that service is available to all customers on reasonable terms and conditions.⁹⁶¹

Accordingly, CAUSE-PA argues that assignment of universal service costs to all ratepayers is consistent with sound public policy and moves to a discussion of its proposed methodology for that assignment and why the change is appropriately made for Peoples, in this base rate case.⁹⁶² In his direct testimony, CAUSE-PA witness Cicero recommended that universal service costs be assigned to all rate classes based on their respective distribution revenue requirements per the Company’s cost of service study

⁹⁵⁸ CAUSE-PA MB at 54 (citing *2019 CAP Policy Amendments* at 97).

⁹⁵⁹ *2019 CAP Policy Amendments* at 7, 94-96, 107.

⁹⁶⁰ CAUSE-PA MB at 54 (citing *2019 CAP Policy Amendments* at 97 (emphasis added); *see also* 52 Pa. Code. § 69.266 (b)).

⁹⁶¹ CAUSE-PA MB at 54-55 (citing *Large Load Order* at 107).

⁹⁶² CAUSE-PA MB at 55-60.

(COSS) filed in the current case.⁹⁶³ He explained this recommendation was based on the public purpose nature of these programs, the Commission’s policy statement, and because all utility ratepayers benefit from the existence of these programs.⁹⁶⁴

CAUSE-PA refers next to testimony by Peoples witness Black, who explained that, while Peoples currently only recovers universal service costs from residential customers, this has not always been the case.⁹⁶⁵ She explained that Peoples’ CAP costs were previously recovered through a mechanism that adjusted delivery base rates on a quarterly basis to align with changing gas costs and enrollment levels and 4.25% of CAP costs were allocated to non-residential customers.⁹⁶⁶ She stated that while the Company acknowledges the desire to spread the costs to nonresidential rate classes, it would need to evaluate the cost of potential IT changes to implement the change.⁹⁶⁷ CAUSE-PA also points to testimony by Peoples witness Taylor, where he agreed that “assisting low-income customers serves an important public policy objective that benefits society more broadly.”⁹⁶⁸ But, he says that if the Commission approves a broader allocation of universal service costs, it should apply that policy on a consistent, statewide basis.⁹⁶⁹

Responsive to Peoples’ witnesses, CAUSE-PA responds that the just allocation of universal service and energy conservation costs is appropriately decided in this proceeding because the Commission has *already* addressed universal service cost recovery in a statewide proceeding and determined that these issues should be presented

⁹⁶³ CAUSE-PA St. 1 at 81.

⁹⁶⁴ *Id.* at 78-81.

⁹⁶⁵ Peoples St. 10-R at 24.

⁹⁶⁶ *Id.*

⁹⁶⁷ *Id.*

⁹⁶⁸ CAUSE-PA MB at 56 (citing Peoples St. 17-R at 21-22).

⁹⁶⁹ Peoples St. 17-R at 21-22.

in *rate cases*.⁹⁷⁰ Thus, it would be inappropriate to defer this important issue to some unspecified future proceeding. Peoples' choice to file a rate case without properly preparing to address appropriate recovery of universal service costs from all ratepayers, consistent with this policy directive, should not be accepted as a basis to postpone the issue for yet another future proceeding.

CAUSE-PA responds to testimony by OSBA witness Ewen, who argued that (1) small business customers should not contribute to universal service programs because these customers cannot take advantage of “residential-only” programs and (2) there is no causal relationship between Peoples' universal service costs and small business customers.⁹⁷¹ According to CAUSE-PA, these arguments ignore “the fundamental economic realities that all customer classes (including industry, business, commerce, educational institutions, hospitals, local and state governments, and other residential customers) benefit from the availability and existence of universal service programs and assistance.”⁹⁷²

CAUSE-PA points to data showing that, consistently over the past six years, one-third or more of Peoples' CAP customers have been employed.⁹⁷³ It argues that the fact that the wages received by these households leave them with a poverty-level income can be attributed to the wage-payer as much as it is attributed to the wage-earner. CAUSE-PA witness Cicero testified to data showing that:

In 2024, statewide, 30% of CAP customers, 31.7% of LIURP recipients, and 47% of customers who received a

⁹⁷⁰ CAUSE-PA MB at 56-57 (quoting *2019 CAP Policy Amendments* at 80, 97; 52 Pa. Code § 69.266 (b); also citing 52 Pa. Code § 69.265(1)).

⁹⁷¹ CAUSE-PA MB at 57 (citing OSBA St. 1-R at 3-5).

⁹⁷² CAUSE-PA MB at 58 (citing CAUSE-PA St. 1 at 78-80; CAUSE-PA St. 1-SR at 51).

⁹⁷³ CAUSE-PA MB at 58 (citing OCA St. 4 at 76).

hardship fund were employed.^[974] The next largest group of low income assistance program participants are retired seniors or individuals on disability who do not receive sufficient social security, disability, or retirement benefits to afford basic life necessities, including energy services.^[975] According to the Self Sufficiency Standard, a family of four living in the counties served by Peoples requires an income between \$20,887 (42%) and \$39,047 (79%) per year more than is had by a four-person household with annual income at 150% FPL.^[976]

Further, CAUSE-PA witness Cicero testified that low-income customers who face utility insecurity often must take time away from work to arrange payments, locate or apply for assistance programs, and arrange for reconnections, and struggle with heightened levels of stress, anxiety and depression.⁹⁷⁷ These consequences of utility insecurity significantly undermine worker productivity, which in turn impacts businesses, nonprofits, governmental entities, schools, and other non-residential customer groups.⁹⁷⁸

CAUSE-PA asserts that, for all of these reasons, all customer classes (*including large load customers, industry, business, commerce, educational institutions, hospitals, local and state governments, and other residential customers*) benefit from the availability and existence of universal service programs and assistance, and all classes should contribute to the costs.⁹⁷⁹ Therefore, it is sound public policy and appropriate for the Commission to order Peoples to adopt a broad allocation of costs to all rate classes.⁹⁸⁰

⁹⁷⁴ CAUSE-PA St. 1 at 80.

⁹⁷⁵ *Id.*

⁹⁷⁶ *Id.* at 22.

⁹⁷⁷ CAUSE-PA St. 1 at 80.

⁹⁷⁸ *Id.*; *see* CAUSE-PA MB at 59-60.

⁹⁷⁹ CAUSE-PA MB at 60 (*emphasis in original*).

⁹⁸⁰ *Id.* (citing CAUSE-PA St. 1 at 80).

6) Task Force

The Task Force supports and joins in the positions and arguments set forth by CAUSE-PA in its Main Brief regarding allocation of universal service costs.⁹⁸¹

7) Recommendation

As noted by CAUSE-PA and OCA, the Commission has stated that there is no statutory or appellate prohibition that limits universal service funding to the residential class.⁹⁸² Universal service funding from non-residential classes is permissible, while not mandatory.⁹⁸³ This was more recently affirmed by the Commission, where it stated:

[t]he Commission has the authority to require other customer classes, not just the residential class, to contribute to the costs of universal service programs and that we do have an obligation to ensure that electric service is available to all customers on reasonable terms and conditions. We point to the Commission's long-standing Policy Statement on Customer Assistance Programs at 52 Pa. Code §§ 69.261 – 69.267; specifically, 69.266 (relating to cost recovery) that declares "No rate class should be considered routinely exempt from CAP and other universal service obligations."⁹⁸⁴

⁹⁸¹ Task Force RB at 1.

⁹⁸² 2019 CAP Policy Amendments at 96.

⁹⁸³ *Id.*; see *MEIUG* at 202 (citing *Lloyd v. Pa. PUC*, 904 A.2d 1010 (Pa. Cmwlth. 2006)).

⁹⁸⁴ *Large Load Order* at 107.

I also consider that, in the same proceeding, the Commission required a non-residential class to fund universal service costs. Further, in establishing that requirement, the Commission stated:

Contributions to utility universal service programs would not only help ameliorate the impact of rising energy prices for low-income universal service program participants but will also help all residential customers by relieving some of the cost burden of these programs, which are currently borne solely by residential electric customers.⁹⁸⁵

Based on the record developed here, and consistent with the Commission’s prior findings, I agree with OCA and CAUSE-PA that the cost of providing service through the Peoples’ CAP program “does not have a cost-causation basis that can be confined to the residential class” and the benefits of universal service are not attributable only to the residential class.⁹⁸⁶ Moreover, I am persuaded by the Pennsylvania and Peoples-specific evidence about the increasing affordability problem that continuing to exempt non-residential customers from contributing to universal service costs is not an appropriate or reasonable result. I refer the reader, in particular, to the testimony and analysis of OCA witness Colton and OCA’s summary on pages 16 to 22 of its Main Brief.

Accordingly and for the additional reasons discussed below, I recommend that the Commission adopt the recommendation that Peoples be required to allocate universal service costs among all customer classes.

Peoples and OSBA oppose this issue being raised in the context of Peoples base rate case. Peoples states that “consideration of this issue would be better suited for a general proceeding where all stakeholders have an opportunity to participate.” However,

⁹⁸⁵ *Id.*

⁹⁸⁶ OCA MB at 96-97; *see* OCA St. 4 at 74-76; OCA St. 4SR at 36-37; CAUSE-PA St. 1 at 78-81; *2019 CAP Policy Amendments* at 94-95.

the Commission’s policy statement at 52 Pa. Code § 69.266 specifically provides for consideration in rate cases.

(b) In rate cases, parties may raise the issue of recovery of CAP costs, whether specifically or as part of universal service program costs in general, from all ratepayer classes. No rate class should be considered routinely exempt from CAP and other universal service obligations.⁹⁸⁷

Further, the Commission expressly directed: “Utilities should be prepared to address recovery of CAP costs (and other universal service costs) from any ratepayer classes in their individual rate case filing.”⁹⁸⁸ I agree with the proponent parties that it is not appropriate to postpone changing the allocation of universal service costs to another statewide proceeding, when the policy issue has already been addressed in a statewide proceeding and the Commission specified that recovery of universal costs should be presented in rate cases. Interested parties were on notice of the policy statement stating that no rate class is exempt from funding universal service program costs,⁹⁸⁹ and had opportunity to participate in the instant rate case.

While I was not persuaded by OSBA’s evidence and arguments about universal service cost recovery from small business customers, I have also recommended that the Commission adopt a revenue allocation that provides a lesser allocation of the overall revenue increase to small business customers in the small general service class (10%) than was proposed by Peoples (13%), I&E (21%) and OSBA (12%, based on the OSBA’s position if Peoples ACOSS methodology were adopted).⁹⁹⁰

⁹⁸⁷ 52 Pa. Code § 69.266; *2019 CAP Policy Amendments* at 97.

⁹⁸⁸ *2019 CAP Policy Amendments* at 80.

⁹⁸⁹ 52 Pa. Code § 69.266 (effective Mar. 21, 2020, 50 Pa.B. 1652).

⁹⁹⁰ Peoples St. 17-R at 5 (Table 1).

CAUSE-PA and OCA have recommended different means for allocating the universal service costs, which are described above. CAUSE-PA recommends volumetric assignment after the costs have been allocated to each class⁹⁹¹ and, specifically, that universal service costs be assigned to all rate classes based on their respective distribution revenue requirements per the Company's COSS filed in the current case.⁹⁹² For the non-residential classes, OCA recommends a fixed or flat fee allocation that would remain in place until the next Peoples base rate case.⁹⁹³ OCA proposes to base the interclass allocations on each class's allocation of total distribution revenue requirement (excluding taxes) that is adopted by the Commission. For residential customers, OCA proposes no change as to how universal service costs are already collected, *i.e.* through the USP Rider, along with periodic reconciliation.⁹⁹⁴

I recommend that the Commission adopt OCA's flat-fee allocation. It would limit necessary billing changes to the non-residential classes and could be accomplished through an undesignated part of customer charges.⁹⁹⁵ Also, in the context of its *Large Load Order* the Commission favored a flat fee model for the non-residential, large loads class as opposed to a volumetric charge.⁹⁹⁶ As for all allocations, necessary adjustments to the assignment of universal service cost among nonresidential customers can be made in the next and subsequent base rate cases.⁹⁹⁷

As a final matter, Peoples contended that the Company would need ample time to make a change to its billing systems.⁹⁹⁸ I note that CAUSE-PA witness Cicero

⁹⁹¹ CAUSE-PA St. 1-SR at 51.

⁹⁹² CAUSE-PA St. 1 at 81.

⁹⁹³ OCA St. 4 at 82-83.

⁹⁹⁴ *See* Peoples Exh. 11 at 28:350, 42:35.

⁹⁹⁵ OCA St. 4 at 82-83.

⁹⁹⁶ *Large Load Order* at 107; *see* OCA MB at 105.

⁹⁹⁷ CAUSE-PA St. 1-SR at 51.

⁹⁹⁸ Peoples RB at 53; Peoples St.

was amenable to a “longer ramp up period to allow this change to be implemented during a normal IT workflow, such that it should not add material costs over and above what would occur if Peoples changes its rates.”⁹⁹⁹ However, I did not identify any quantification of “ample time” in the record. As such, I will recommend that the change be implemented with the effective date of new rates. To the extent the Company requires additional time for compliance, it can make an appropriate filing with the Commission.

e. COMPETITIVE RATE CUSTOMERS

1) OSBA

OSBA witness Kubas explained that Peoples ACOSS includes the Residential (R), Small General Service (SGS), Medium General Service (MGS), Large General Service (LGS) and Mainline Service (MLS) classes.¹⁰⁰⁰ Of those, the SGS, MGS, LGS, and MLS classes include customers that have rates that are negotiated, also referred to as competitive discount customers.¹⁰⁰¹ OSBA argues that including negotiated rate customers in a class skews the results of the cost of service study because:

Granting negotiated rates to customers within a class results in a revenue shortfall for that class. Then under proposed rates other customers in that class pay higher rates to make up for the revenue shortfall in that class. Under this scenario, the true cost of providing service to tariff rate customers in these classes is higher than it otherwise would be.¹⁰⁰²

⁹⁹⁹ CAUSE-PA St. 1-SR at 50.

¹⁰⁰⁰ OSBA St. 1 at 9 (citing Vol. IV, Peoples Exh. 11 at 14).

¹⁰⁰¹ *Id.* (citing Vol. 9, Peoples Exh. JDT-4 at 1-5).

¹⁰⁰² OSBA St. 1 at 10.

Accordingly, for future cost of service studies performed by Peoples, the OSBA recommends that the Company separate the negotiated customers and corresponding revenue into a separate “Negotiated” customer class.¹⁰⁰³

OSBA notes that the Company expressed a concern that negotiated customers could have different usage patterns. In response, OSBA contends that the negotiated customers are more likely to be large, non-heating customers that have steady usage patterns. The OSBA also stated that if more than one negotiated flex rate class is necessary, creating more than one class would be acceptable.

The OSBA maintains that separating negotiated customers into one or more classes in future cost of service studies is important for intervening parties to understand the true cost of service for negotiated customers and the degree of cross-class subsidization that results from negotiated rates.¹⁰⁰⁴ Therefore, it requests that the ALJ and Commission should direct Peoples to separate the negotiated customers into one or more classes in all future cost of service studies.

2) I&E

Regarding competitive rate customers but distinct from the issue discussed above, I&E recommends that Peoples be required to provide a competitive alternative analysis for any discount rate customers that have not had their competitive alternatives verified for longer than ten years at the time of the Company’s next base rate case and justify the customers’ discount rates as part of its filing in the next base rate case.¹⁰⁰⁵ I&E also recommends that the Commission order the Company to provide a competitive

¹⁰⁰³ OSBA St. at 10.

¹⁰⁰⁴ OSBA St. 1 at 10.

¹⁰⁰⁵ I&E St. 3 at 6.

alternative analysis for each discount rate customer that has not been verified within ten years of each of Peoples' prospective base rate cases in perpetuity.¹⁰⁰⁶

As an initial matter, I note that I&E addresses this issue within Section X.D (Revenue Allocation and Rate Design) and Peoples addresses this issue within Section XXI (Competitive Rate Discounts) of their common briefing outline. For simplicity's sake, I will separately address this section below under the Competitive Rate Discounts.

I&E does not otherwise address Competitive Rate Customers or the issue raised by OSBA.

3) Peoples

Regarding OSBA's recommendation, Peoples notes that the Company places negotiated-rate customers within the tariff classes under which they receive service, for purposes of its ACOSS.¹⁰⁰⁷ Peoples witness Taylor acknowledged that separately identifying negotiated-rate customers may be one reasonable approach for future studies, but Peoples maintains that OSBA has not shown that any modification to the Company's ACOSS or revenue allocation is warranted in this proceeding.¹⁰⁰⁸ According to Peoples, its existing study evaluates the tariff classes as they currently exist while separately recognizing negotiated delivery volumes and negotiated delivery rates in the revenue proof. As a result, negotiated delivery revenues are reflected based upon the negotiated rates actually associated with those customers, rather than being assumed to pay otherwise applicable tariff rates. The Company notes that negotiated-rate arrangements are generally intended to retain customers that may have competitive

¹⁰⁰⁶ *Id.*

¹⁰⁰⁷ Peoples St. 17-R at 19.

¹⁰⁰⁸ Peoples St. 17-R at 19-20; Peoples MB at 105.

alternatives while continuing to recover a portion of the Company's fixed costs from those customers.¹⁰⁰⁹

Peoples contends that OSBA 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 ACROSS, revenue allocation, or proposed rates based on the OSBA recommendation, and asks the Commission to reject the OSBA's recommendation.¹⁰¹⁰

4) OCA

OCA did not provide a position on this issue.¹⁰¹¹

5) CAUSE-PA

CAUSE-PA did not take a position on this issue.¹⁰¹²

6) Recommendation

To confirm, OSBA does not recommend any modification to Peoples ACROSS, revenue allocation or proposed rates based on the OSBA's ACROSS recommendation, *in this proceeding*. Although Peoples contends that OSBA 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, I disagree that is basis to reject OSBA's prospective recommendation.

¹⁰⁰⁹ Peoples MB at 105.

¹⁰¹⁰ *Id.*; Peoples St. 17-R at 20.

¹⁰¹¹ OCA MB at 105.

¹⁰¹² CAUSE-PA MB at 60; CAUSE-PA RB at 41.

OSBA witness Kubas testified that separating the negotiated rate customers and corresponding revenue from those customers into a separate class “will enable the Commission and interested parties to determine the true cost of providing tariff rate service to each of the remaining classes without the lower revenue from customers that pay negotiated rates skewing the results of each class in the COSS.”¹⁰¹³

Additionally, it does not appear that Peoples – or any other parties – object to OSBA’s recommendation concerning *future* ASOS studies. While Peoples witness Ravenstahl raised a question whether negotiated rate customers have different cost causation patterns, OSBA responded that the Company could divide the negotiated customers into two or more groups such as large and small, or steady and peak if that is appropriate to address different usage/cost causation patterns.¹⁰¹⁴

As the recommendation is reasonable, I recommend that Peoples be required to separate negotiated rate customers and the corresponding revenue into one or more separate classes in the cost of service study filed in its next base rate case. In that proceeding the parties can address whether that requirement should continue for future cost of service studies.

Additionally, I recommend that I&E’s recommendation for competitive alternative analysis be adopted in part. Specifically, I recommend that, for new competitive rate contracts that Peoples enters into going forward, the Commission require Peoples to provide a competitive alternative analysis (1) for any discount rate customers that have not had their competitive alternatives verified for longer than ten years at the time of the Company’s next base rate case and justify the customers’ discount rates as part of its filing in the next base rate case, and (2) for each discount rate customer that has

¹⁰¹³ OSBA St. 1 at 10.

¹⁰¹⁴ OSBA St. 1SR at 21.

not been verified within ten years of each of Peoples’ prospective base rate cases in perpetuity. This requirement helps to address I&E’s concern, Peoples agreed to it being applied on a prospective basis, and no party opposed.

32. **WEATHER NORMALIZATION ADJUSTMENT (“WNA”)**

Peoples

Peoples notes that the WNA was approved in the Company’s last base rate proceeding.¹⁰¹⁵ The key features of the WNA are that it (1) applies to residential and small/medium general service customers; (2) operates during the months of October through May; (3) includes a 3% deadband; (4) is calculated on a bills-rendered basis; (5) includes a limiter for bills rendered in May such that the WNA adjustment will not exceed 100% of the billed distribution amount (delivery charge plus customer charge) for that same billing period; and (6) requires annual reporting of billed WNA revenues, actual and normal HDD, and bill impact information.¹⁰¹⁶

In this proceeding, the Company maintains that it did not make any changes to its currently approved WNA other than to update the normal weather methodology used to determine HDD as required by its tariff.¹⁰¹⁷ Upon review and evaluation of the WNA, the Company determined that it has been operating effectively pursuant to its existing structure.¹⁰¹⁸ Through mid-March 2026, the WNA provided customers with a total net credit of \$10.8 million since inception. During the 2025-2026 heating season

¹⁰¹⁵ *Pa. PUC v. Peoples Natural Gas Company LLC*, Docket No. R-2023-3044549 (Order entered Sept. 12, 2024)

¹⁰¹⁶ Peoples St. 17 at 39-40.

¹⁰¹⁷ *Id.* at p. 40.

¹⁰¹⁸ *Id.* at p. 42.

alone, which was much colder than normal, the WNA provided customers with a credit of \$22.6 million as of mid-March 2026.¹⁰¹⁹

The Company argues that its actual operating experience demonstrates the symmetrical operation of the WNA: both credits and charges have occurred during each heating season, with credits occurring during colder-than-normal periods and charges occurring during warmer-than-normal periods. Those results are consistent with the intended operation of the mechanism and demonstrate that the WNA is not a one-way surcharge mechanism.¹⁰²⁰

OCA and CAUSE-PA contend that the WNA is not needed due to the Company's use of the FPFTY and DSIC.¹⁰²¹ Peoples argues that the OCA and CAUSE-PA conflate several regulatory mechanisms that serve different purposes. As Mr. Taylor explained:¹⁰²²

The Company's FPFTY is intended to better align authorized rates with the costs expected during the period rates will be in effect, thereby reducing traditional regulatory lag associated with historic test years. Likewise, the DSIC provides a mechanism for recovering qualifying infrastructure investments between general rate cases.

The WNA serves a different purpose. While the FPFTY and DSIC address the timing of cost recovery and infrastructure investment recovery, the WNA addresses the impact of abnormal weather on weather-sensitive distribution revenues after rates have been established. It does so by normalizing customer bills to the same estimate of normal weather that was used in developing the Company's billing determinants.

¹⁰¹⁹ Peoples St. 17 at 3.

¹⁰²⁰ Peoples MB at 105-106.

¹⁰²¹ OCA St. 1 at 37-38; CAUSE-PA St. 1 at 58-66,

¹⁰²² Peoples St. 17-R at 56-57.

Accordingly, the existence of a FPFTY or other regulatory mechanisms does not eliminate the effects of abnormal weather or diminish the need for an appropriate weather normalization mechanism. Those mechanisms are complementary rather than duplicative because each addresses a different source of revenue or bill variability. The WNA also benefits customers by moderating bill impacts caused solely by weather deviations from normal, thereby reducing the extent to which customers experience higher or lower bills because actual weather differs from the weather assumptions used to set rates.

The OCA and CAUSE-PA expressed concern over how the WNA manages weather-related risk and its impacts on customers.¹⁰²³ Peoples witness Mr. Taylor explained that the WNA is not a revenue guarantee nor is it a way to limit risk only for the benefit of the Company. Abnormal weather affects both customers and the Company because colder-than-normal weather can materially increase customer bills, while warmer-than-normal weather can reduce usage and produce under recovery of weather sensitive distribution revenues.¹⁰²⁴ In this regard, Peoples submits that the WNA works to provide stability to both the Company and its customers. Had the WNA not been in place during this past heating season, customers would have missed out on a total net credit of \$10.8 million through March 2026. Moreover, the Public Utility Code specifically permits the Commission to authorize a WNA.¹⁰²⁵

The Company argues that it should be permitted to continue its WNA as it is currently operating. 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

¹⁰²³ OCA St. 1 at 32-33; CAUSE-PA St. 1 at 59.

¹⁰²⁴ Peoples St. 17-R at p. 58.

¹⁰²⁵ 66 Pa. C.S. § 1330; Peoples MB at 107-108.

the Company and its customers.¹⁰²⁶ Peoples argues that the other parties' have not met their burden of proving that their proposals to modify the existing WNA are reasonable or necessary based on the evidence presented in this case, and these proposals should be denied. Peoples MB at 109-110. The Company further submits that the WNA will temper CAP bills and reduce them in colder than normal weather. When temperatures are warmer than normal, customers pay a charge, but they are also purchasing less natural gas. The mechanism is clearly symmetric.¹⁰²⁷ Peoples argues that the Commission should not end the potential for customers to receive WNA credits.¹⁰²⁸

The Company proposes to use a 65-year regression to align with how the Company establishes its base rate billing determinants. Peoples maintains that it is important to ensure methodological consistency between the weather normalization assumptions used to establish base rate billing determinants and those used in the WNA. As Mr. Taylor explained:¹⁰²⁹

When rates are set, billing determinants are normalized to reflect "normal" weather conditions. The WNA then compares actual weather to that same normalized baseline. If different normalization methodologies are used for rate-setting and WNA reconciliation, the mechanism could over- or under-correct relative to the assumptions embedded in customer rates. That outcome would be inconsistent with the WNA's purpose, which is to reconcile revenues to the same weather conditions used to establish rates.

In this proceeding, the Company is normalizing billing determinants using a 65-year regression framework. Aligning the WNA normalization methodology with that same 65-year regression ensures that both base rates and

¹⁰²⁶ Peoples St. 17-R at 53.

¹⁰²⁷ Peoples St. 17-RJ at 9-10.

¹⁰²⁸ Peoples MB at 111.

¹⁰²⁹ Peoples St. 17 at 40-41.

subsequent WNA calculations rely on the same weather foundation. This approach:

- Maintains internal consistency between revenue requirement development and WNA reconciliation;
- Avoids unintended distortions that could arise from using different normalization baselines;
- Preserves the integrity of the matching principle by ensuring that revenue assumptions and reconciliation mechanisms rely on the same weather foundation; and
- Enhances transparency and predictability for both customers and the Commission.

Peoples submits that even when billing determinants are normalized using a statistically robust long-term regression, actual weather will continue to vary from normal conditions from year to year. Therefore, Peoples maintains that the WNA remains necessary for both customers and the Company to address annual deviations between actual HDD and normal HDD assumptions embedded in rates.¹⁰³⁰

As explained above, the Company is proposing a trend-based definition of normal HDD rather than a simple average so that future observed HDD are more likely to be evenly distributed around calculated normal HDD, resulting in a more even distribution of charges and credits than would occur with a simple average-based definition of normal HDD. Mr. Taylor explained that the Pennsylvania Annual HDD data demonstrates that a trend is a better representation of HDD than any simple average, regardless of the term, i.e. 10-year or 20-year.¹⁰³¹

¹⁰³⁰ *Id.* at pp. 41-42.

¹⁰³¹ Peoples St. 17-R at 61-62.

Peoples notes that witnesses Deupree, Cline, Ewen and Cicero oppose the 65-year regression. In response, Mr. Taylor explained why the Company's proposal to use the regression based analysis is the superior methodology:¹⁰³²

Q. WHY DO YOU BELIEVE THE COMPANY'S REGRESSION METHODOLOGY PROVIDES THE MOST REASONABLE ESTIMATE OF NORMAL HDD?

A. The Company's methodology to estimate normal HDD recognizes that there is a well-established and accepted long-term warming trend reflected in the historical HDD record. Rather than simply averaging historical HDD, such as over 20 years or 10 years, the regression statistically estimates the downward trend in HDD and projects (extrapolates) that trend forward to 2027, the FPFTY.

Given the downward trend in Pittsburgh Area annual HDD, it stands to reason that a trend provides a better indication or estimate of future HDD than a simple average. The trend does not strictly provide a "forecast" of future HDD for any particular year, but provides an indication of central tendency or mean of future HDD.

On pages 44-51 of his rebuttal testimony, Mr. Taylor explains the statistical support for the 65-year regression. Peoples argues that the other parties have not demonstrated that the regression methodology is unreasonable or that another methodology would produce a better estimate of future HDD.¹⁰³³

Peoples notes that if any changes to the WNA are implemented (other than the Company's recommended update to the development of HDD), those changes should not take effect until the start of the next WNA heating season after a final order is entered in this proceeding (i.e. October 1, 2027). The Company would need sufficient time to

¹⁰³² *Id.* at p. 44.

¹⁰³³ Peoples MB at 112-113.

effectuate billing changes and conduct testing to ensure consistent application of any changes, which would not be possible in the middle of the upcoming heating season when new rates become effective.¹⁰³⁴

I&E

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

I&E recommends that the Company's present deadband of 3% be increased to 5%.¹⁰³⁵

I&E acknowledges that Peoples currently has a Commission-approved WNA program in effect.¹⁰³⁶ Peoples proposed to update the WNA's normalization period based on a 65-year regression analysis methodology.¹⁰³⁷

I&E witness Cline opposed the Company's proposal to use a 65-year regression analysis in determining the WNA's normalization period and recommended that Peoples use a 10-year period to establish normal HDDs to determine present rate revenue in future proceedings.¹⁰³⁸ Mr. Cline's recommendation was based on the Commission's determination in the 2025 Columbia Gas base rate case that "[u]sing a twenty-year cycle rather than a ten-year cycle appears to result in an 'historical bias' that diminishes the effect of the claimed recent trends and results in providing revenue to the

¹⁰³⁴ Peoples St. 3-R at 17; Peoples MB at 114.

¹⁰³⁵ I&E MB at 11.

¹⁰³⁶ I&E St. 3 at 11 (*citing* Peoples St. 17 at 37).

¹⁰³⁷ *Id.*

¹⁰³⁸ *Id.* at p. 11-14.

Company when instead, customer should be realizing savings.”¹⁰³⁹ Extending the 20-year average analysis to a 65-year regression is not consistent with Commission precedent.

Mr. Cline disagreed with the Company’s proposal to delay the implementation of the changes to the Normal HDDs until October 2027 as this would result in a mismatch between the Normal HDDs in the WNA and the HDDs used to calculate rates once the new base rates go into effect during the 2026-2027 WNA period.¹⁰⁴⁰ Mr. Cline recommended pausing the WNA program in its entirety for the 2026-2027 WNA period as this would avoid the mismatch in HDD calculation methodologies while granting the Company the time necessary to implement the billing changes and perform testing while avoiding any negative repercussions to Peoples customer base.¹⁰⁴¹

Mr. Cline also recommended that the present 3% deadband be increased to 5% because this percentage more adequately captures what could be considered normal weather fluctuations in Pennsylvania and places more of the burden for weather variation back on the Company as a normal part of doing business, as stated by the Commission in the 2025 Columbia Gas base rate case.¹⁰⁴²

OCA

¹⁰³⁹ *Id.* at p. 14 (*citing Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 at 301-02 (Order Entered Dec. 9, 2025)).

¹⁰⁴⁰ I&E St. 3-SR at 9-10 (*citing* Peoples St. 3-R at 17 and Peoples St. 17-R at 53).

¹⁰⁴¹ *Id.* at p. 11.

¹⁰⁴² *Id.* at p. 7 (*citing Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 at 301-02 (Order Entered Dec. 9, 2025)); I&E MB at 52-54.

The OCA recommends that the Commission affirmatively discontinue Peoples’ current weather normalization adjustment (WNA) mechanism, because as OCA witness Michael Deupree testified, it does not serve ratepayers and Peoples does not need the WNA for any claimed regulatory lag concerns due to the Company’s use of a fully projected future test year (FPFTY) and distribution system investment charge (DSIC).¹⁰⁴³ If the Commission determines that it will authorize continuation of Peoples’ WNA, the OCA recommends that the Commission increase the deadband from three percent to five percent and eliminate the months of October and May from the WNA period.¹⁰⁴⁴ According to Mr. Deupree, this alternate remedy would strengthen ratepayer protections and would furthermore make the Company’s WNA consistent with the recent WNA modifications for Columbia Gas of Pennsylvania (Columbia)¹⁰⁴⁵ approved by the Commission.

OCA notes that Company witness Michael Huwar stated, “Peoples serves more than 700,000 customers and over two million people in Southwestern Pennsylvania. Each customer represents at least one individual, but most represent more than that – perhaps a family or a business with employees.”¹⁰⁴⁶ Mr. Huwar made this statement in the context of economic development and job creation, but it is also useful to illustrate the dynamic between the Company and an individual ratepayer when it comes to the practical reality of the Company’s WNA mechanism.¹⁰⁴⁷ The implementation of Peoples’ WNA created a vastly asymmetrical situation where an individual customer is exposed to weather-related risk, likely unbeknownst to them, versus a NGDC which has robust access to full-time staff, sophisticated analytics, and financial flexibility to absorb

¹⁰⁴³ OCA St. 4 at 4.

¹⁰⁴⁴ *Id.*

¹⁰⁴⁵ *See Pa. PUC, et al. V. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2025-3053499, *et al.*, Opinion and Order (Dec. 4, 2025) (Columbia 2025).

¹⁰⁴⁶ Peoples St. 1 at 28.

¹⁰⁴⁷ *Id.*

negative impact of weather-related risk.¹⁰⁴⁸ Mr. Huwar described the WNA as mutually beneficial for the company and the customer, but evidence in this proceeding demonstrated that the Company stands to receive more revenue from ratepayers than it would otherwise have if the WNA had not been implemented.¹⁰⁴⁹ OCA argues that while the Company describes itself at a net plus to the regional economy through job creation, continuation of its WNA is poised to be a net negative to the household economy of ratepayers if it is permitted to continue. OCA ultimately argues that the optimistic description of the WNA that suggests customers will experience a balance of extra account charges and credits does not match the reality experienced by ratepayers, and therefore it should be discontinued.

CAUSE-PA

CAUSE-PA argues that the Commission should reject Peoples' proposal to continue its Weather Normalization Adjustment (WNA) and should end the WNA with the effective date of rates in this proceeding.¹⁰⁵⁰ The WNA is a lopsided mechanism that shields the Company from revenue fluctuations due to warming weather trends by inappropriately shifting the risk of weather variability onto consumers.

Peoples' WNA is a charge that Peoples currently applies to Residential, Commercial SGS, and Commercial MGS customer bills each month from October through May to account for whether the temperature for the month was warmer than normal or cooler than normal.¹⁰⁵¹ In simplified terms, Peoples' WNA is applied to residential and small business customer bills, not based on their actual usage as

¹⁰⁴⁸ OCA Exh. MWD-1 at 1.

¹⁰⁴⁹ Peoples St. 1 at 31; *See* OCA Sts. 1 at 29-39; 1SR at 7-13.

¹⁰⁵⁰ *Id.* at 63.

¹⁰⁵¹ *Id.* at 57; Volume V, Peoples Exhibit 14, Current Tariff, Appendix A – Peoples Natural Gas Company LLC Retail Tariff No. 48 – effective February 12, 2026, First Revised Page No. 79.

determined by the weather, but on what they *would have used* if the weather conformed to the “normal” weather as calculated by Peoples WNA formula.¹⁰⁵² When the weather is *warmer* than “normal,” Peoples charges customers for service they *did not use* but would have used if temperatures were “normal.”¹⁰⁵³ When the weather is *colder* than “normal,” Peoples credits customers for service they *did use* but would not have had the temperatures been “normal.”¹⁰⁵⁴

CAUSE-PA argues that Peoples’ WNA is out of step with the Commission’s Distribution Rates Policy Statement, undermining the policy concerns embodied in the Commission’s enumerated factors for evaluating alternative ratemaking mechanisms like the WNA.¹⁰⁵⁵ CAUSE-PA further notes that apart from the Company, none of the parties to this proceeding supports the WNA, and OCA and CAUSE-PA actively oppose its continuation.¹⁰⁵⁶ CAUSE-PA argues that while the burden of proof does not fall on the opposing parties to prove proposed rates are unjust or unreasonable, the evidence in this case shows that this alternative rate proposal, if allowed to continue, will produce unjust and unreasonable rates in the long term. CAUSE-PA submits that Peoples has failed to meet its burden to show that this alternative ratemaking proposal is just and reasonable.

CAUSE-PA argues that the Commission should reject Peoples proposal to continue its WNA for several reasons. First, the WNA shifts weather related risk from the utility to customers in a way that is inappropriate for a monopoly provider of essential services; and it improperly assumes that Peoples is *entitled to guaranteed* revenue based on weather as it existed in the past rather than as it exists at the time the Company

¹⁰⁵² CAUSE-PA St. 1 at 58.

¹⁰⁵³ *Id.*

¹⁰⁵⁴ CAUSE-PA St. 1 at 58.

¹⁰⁵⁵ *Id.*, Appendix C, Exhibit C-2.

¹⁰⁵⁶ *Id.* at 57-64; OCA St. 1 at 75; OSBA St. 1 at 12-17; I&E St. 3 at 11-15.

delivers service.¹⁰⁵⁷ Second, the WNA requires an overly complicated and nuanced calculation that is difficult for customers to understand and operates contrary to reasonable customer expectations that lower usage will result in lower bills.¹⁰⁵⁸ Third, while technically mathematically bi-directional, in practice over the long term, the WNA is likely to work to the detriment of customers and the benefit of Peoples due to warming weather associated with climate change.¹⁰⁵⁹ Fourth, the WNA charge inflates other riders collected by Peoples including its DSIC and Universal Service Rider.¹⁰⁶⁰

CAUSE-PA further argues that Peoples' proposal to modify the heating degree calculation is insufficient to address the inherent unfairness of the WNA itself. In its rate filing, Peoples proposes continuing its WNA rider but amending it to use only a 65-year regression-based framework rather than its current average of a 65-year regression and 20-year average heating degree days.¹⁰⁶¹ This proposal does not alleviate the underlying uncertainty associated with billing based on normalized weather rather than actual weather.¹⁰⁶² It does not change the fundamental reality that the WNA is that it shifts the risk of under collection from the utility – where it belongs – to its far less sophisticated customers – many of whom simply cannot bear this risk financially.¹⁰⁶³

CAUSE-PA argues that Peoples' WNA is designed to insulate Peoples from the business risk of under collection due to climate change at the expense of its customers, because, over the long term, winters are warmer and they are projected to continue to warm.¹⁰⁶⁴ CAUSE-PA maintains that there is no real debate that

¹⁰⁵⁷ *Id.* at 58.

¹⁰⁵⁸ *Id.* at 59.

¹⁰⁵⁹ CAUSE-PA St. 1 at 59.

¹⁰⁶⁰ *Id.* at 59; CAUSE-PA St. 1-SR at 41-42.

¹⁰⁶¹ CAUSE-PA St. 1 at 57; Peoples St. 17 at 37.

¹⁰⁶² CAUSE-PA St. 1 at 62.

¹⁰⁶³ *Id.* at 63.

¹⁰⁶⁴ *Id.* at 61-62.

Pennsylvania's weather is warming at a rapid pace, and that warming weather trends are projected to continue over time.¹⁰⁶⁵ Thus, the WNA is far more likely to produce significant asymmetry and surcharge customers each year than provide net credits.¹⁰⁶⁶ CAUSE-PA further submits that Peoples' WNA lacks the range of customer protections ordered by the Commission in allowing Columbia Gas to continue its WNA mechanism on a pilot basis until the company's next rate case. There, the Commission required that Columbia implement a range of additional customer protections, including implementation of a 5% deadband and elimination of the shoulder month of May for the purposes of WNA calculation.¹⁰⁶⁷

Ultimately, CAUSE-PA argues that Peoples has failed to meet its burden of proving that its pilot WNA operates in a just and reasonable manner and, as such, its proposal to continue the WNA should be rejected and the WNA should end.¹⁰⁶⁸

OSBA

OSBA acknowledges that Peoples' WNA was approved as a permanent mechanism in the last base rate case proceeding in Docket No. R-2023-3044549. OSBA argues that there are three problems with any WNA that the OSBA must point out. First, OSBA argues that a WNA causes customers to be billed for natural gas usage that is not metered but estimated. This causes customer confusion.¹⁰⁶⁹ Second, OSBA maintains that energy conservation is of prime concern to all parties and the Commission. However, any WNA mechanism weakens the price signals customers receive when it is extremely cold. The WNA causes a resulting per-mcf rate during a cold period, lessening a

¹⁰⁶⁵ *Id.*

¹⁰⁶⁶ *Id.*

¹⁰⁶⁷ *Pa. PUC v. Columbia Gas of Pa., Inc.*, Opinion and Order, Docket No. R-2025-3053499 at 279 at 301-302 (Order entered Dec. 4, 2025).

¹⁰⁶⁸ CAUSE-PA MB at 61-63.

¹⁰⁶⁹ OSBA St. 2 at 14.

customer's incentive to conserve. Third, OSBA argues that in an excessive warm period, a WNA mechanism can raise prices to extreme levels. The seminal example is, of course, PGW's WNA mechanism raising prices by a factor of 10 in the spring of 2022.¹⁰⁷⁰

Ultimately, OSBA argues that the effect of Peoples' WNA in this proceeding is to lower the Company's risk. Although the OSBA does not make a specific ROE recommendation, OSBA submits that Peoples risk is materially lower with its WNA in place.¹⁰⁷¹

RECOMMENDATION

In considering the extensive arguments of the parties in this case, this ALJ recommends that the proposed WNA be discontinued by the Commission. However, if the Commission allows the continuance of the Company's WNA, this ALJ recommends that the present 3% deadband be increased to 5%, and that the months of October and May be removed.

OCA witness Mr. Deupree has testified that the WNA shifts weather-related risks away from Peoples and onto its customers. Specifically, Mr. Deupree testified:

Given the macroeconomic risks that are already shifted to customers beyond direct utility rates through increased prices due to tariffs, increased oil prices due to wars in the middle east, and rising utility rates, Peoples' WNA goes directly against affordability concerns for ratepayers.¹⁰⁷²

¹⁰⁷⁰ OSBA St. 2 at 15.

¹⁰⁷¹ OSBA MB at 14-15.

¹⁰⁷² OCA St. 1 at 37-38.

Mr. Deupree explained that Peoples is able to shift risk away from itself through the ability to file for rate increases at any time and shift future weather-related risk to customers through a WNA (in addition to infrastructure risks through the DSIC). Peoples' ratepayers are therefore made responsible for Peoples' risk through additional surcharges and are only credited when Peoples' weather-related risk does not materialize, which has not been the case according to the trends Mr. Deupree observed with the Company and in the industry.¹⁰⁷³

Moreover, recent Peoples WNA data appears to show that the mechanism is working to the customers' benefit.¹⁰⁷⁴ The WNA resulted in a net charge to residential and non-residential ratepayers during the 2024-2025 heating season but a net credit during the 2025-2026 heating season.¹⁰⁷⁵ Across both heating seasons, the WNA has produced a net credit to ratepayers of approximately \$5.3 million, which the Company leans heavily on to support its claim that the WNA is a positive mechanism.¹⁰⁷⁶ However, according to Mr. Deupree's testimony, these results are not accurate:

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

A. No. Historic WNA revenues are heavily influenced by significantly below average temperatures that occurred in late January 2026 due to Winter Storm Fern, but were recorded during the February 2026 WNA period. **Excluding this anomalous event, the Company's WNA netted the Company more than \$8.0 million through March 2026.**¹⁰⁷⁷

¹⁰⁷³

Id.

¹⁰⁷⁴

OCA St. 1 at 33.

¹⁰⁷⁵

Id.

¹⁰⁷⁶

Id.

¹⁰⁷⁷

Id. (emphasis added).

Moreover, Mr. Deupree’s explanation¹⁰⁷⁸ that the most recent heating season is anomalous is further underscored by the fact that studies show revenue decoupling end up charging customers higher rates. In surrebuttal testimony, Mr. Deupree included a table from one study that provides the number of instances in which there were observed rate increases or rate decreases for electric and gas utilities under revenue decoupling over a 10-year period:

Table 1: Summary of Lesh Report¹⁰⁷⁹

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

¹⁰⁷⁸ OCA witness Deupree provided a detailed description of Winter Storm Fern’s impact on the WNA: Winter Storm Fern moved across Pennsylvania from January 23 through 27, 2026, dropping 11.2 inches of snow in the Pittsburgh area on a single day – the second heaviest snowfall in the area of the current century so far. More important for the WNA, Winter Storm Fern also brought extreme cold to the region in its aftermath, such that the Pennsylvania Department of Health issued a Health Advisory for the period January 27 to February 1, 2026, due to forecasted wind chill values near negative 20 degrees Fahrenheit. The Commission itself issued a statement January 23, 2026, advising consumers to prepare for the winter storm and an extended period of extreme cold.” OCA St. 1 at 33-34.

¹⁰⁷⁹ OCA St. 1 SR at 9.

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

This stands in contradiction to the typical utility assertion that decoupling will yield results that are symmetrical (i.e., will lead to equal rate increases and decreases). The results are even more prevalent when examining large reconciliations. Only three percent of all survey reconciliations associated with gas decoupling programs resulted in refunds to customers greater than three percent. This is approximately one-sixth of the 19 percent of surveyed gas decoupling reconciliations that resulted in surcharges to customers greater than three percent.¹⁰⁸⁰

In Columbia's most recent rate case, the Commission found that the Company recovered over \$74 million in revenue through the application of the WNA from the Columbia rate payers, according to historical data.¹⁰⁸¹ Columbia's service territory is similar to Peoples' territory and encompasses western and southwestern Pennsylvania and therefore is arguably subjected to similar weather conditions, forecasts, and outcomes.¹⁰⁸²

According to Mr. Deupree, Peoples' testimony reflects a critical focus on improving revenue stability and predictability under a rate structure that recovers a

¹⁰⁸⁰ *Id.*

¹⁰⁸¹ *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2025-3053499, *et al.*, R.D. at 28 (Oct. 3, 2025).

¹⁰⁸² See specific territory in each utility's respective tariffs: *Columbia Gas of Pennsylvania, Inc. Rates and Rules for Furnishing Gas Service in the Territory as Described Herein*, Supplement No. 418 to Tariff Gas – Pa P.U.C. No. 9 at Tenth Revised Page Nos. 7-10 (Effective Dec. 16, 2026) (Columbia Tariff); *Peoples Natural Gas Company LLC Rates and Rules Governing the Furnishing of Natural Gas Service to Retail Customers*, Supplement No. 25 Gas – Pa. PUC No. 48 at First Revised Page Nos. 11-17 (Effective Sept. 27, 2024) (Peoples Tariff).

substantial portion of fixed distribution costs through volumetric charges. Company witness Taylor said: “The WNA stabilizes recovery of authorized distribution revenues attributable to weather-sensitive usage while operating symmetrically to protect customers when weather is colder than normal.”¹⁰⁸³ Mr. Deupree testified that Peoples has already implemented several mechanisms that meaningfully reduce regulatory lag and support timely cost recovery, as follows:

First, the Company proposed to use a FPFTY in this proceeding, consistent with its approach in its prior base rate case, which better aligns projected revenues with anticipated costs during the rate period. Second, the Company has implemented a DSIC, which provides a vehicle for interim recovery of qualifying capital expenditures made between base rate cases, thereby reducing the gap between investment and recovery. These tools provide the Company with multiple avenues to manage regulatory lag and ensure timely cost recovery.¹⁰⁸⁴

Mr. Deupree said the continuation of the WNA would further enhance this framework which is generally costs and revenues through reducing regulatory lag.¹⁰⁸⁵ The Company responded by thinking of these concepts in silos, arguing that the WNA is not intended to address regulatory lag because it does not change the Company’s authorized revenue requirement or rate of return.¹⁰⁸⁶ Mr. Deupree testified: “In my opinion, these mechanisms should not be viewed in isolation. Rather, the Commission should consider their combined effect when evaluating whether the continuation of the Company’s existing WNA remains appropriate and in the public interest.”¹⁰⁸⁷

¹⁰⁸³ Peoples St. 17 at 38.

¹⁰⁸⁴ OCA St. 1 at 20-21.

¹⁰⁸⁵ OCA St. 1 at 21.

¹⁰⁸⁶ Peoples St. 17R at 59.

¹⁰⁸⁷ OCA St. 1SR at 10.

As Mr. Deupree demonstrated, Peoples' WNA is primarily about revenue stabilization for the Company by quantifying risk using normal heat degree days (NHDD) and average heat degree days (AHDD) to help the Company convert Commission authorized revenues into Commission guaranteed revenues.¹⁰⁸⁸ The byproduct of WNA is that this mechanism establishes asymmetric risk allocation, leaves ratepayers exposed to upward rate adjustments without any assurance of offsetting benefits or improved utility performance, and therefore it should be discontinued.¹⁰⁸⁹

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

Alternatively, if the Commission does not end Peoples' WNA, I recommend that the Commission accept modifications in the form of a 5% deadband, and the elimination of the months of October and May. I&E witness Mr. Cline testified that 5% more adequately captures what could be considered normal weather fluctuations in Pennsylvania and places more of the burden for weather variation back on the Company as a normal part of doing business, as stated by the Commission in the 2025 Columbia Gas base rate case.¹⁰⁹⁰ Moreover, OCA has submitted that if the Commission determines that Peoples' WNA should be permitted to continue, the OCA recommends its continued use be conditioned upon certain modifications.¹⁰⁹¹ Specifically, OCA witness Deupree found that the Commission's modifications to the WNA proposed in *Columbia 2025*

¹⁰⁸⁸ OCA St. 1 at 27-29.

¹⁰⁸⁹ OCA St. 1 at 28.

¹⁰⁹⁰ *Id.* at p. 7 (citing *Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 at 301-02 (Order Entered Dec. 9, 2025)).

¹⁰⁹¹ OCA St. 1 at 34-38.

should be applied to Peoples WNA: an increase in the deadband from three percent to five percent and removing the months of October and May from the proposed WNA's applicable period.¹⁰⁹²

In *Columbia 2025*, the Commission stated: “if the goal of the WNA is to improve stability and customer bills and Company revenues, a 5% deadband adequately captures what could be considered normal weather fluctuations in Pennsylvania.”¹⁰⁹³ The Commission further explained that a larger deadband places more responsibility for calculating and forecasting weather variations on the utility as a normal part of doing business.¹⁰⁹⁴ According to Mr. Deupree, “Consistent with this reasoning, increasing the Company’s deadband from three percent to five percent would provide greater protection to ratepayers and better align with the Commission’s recent determination on this issue.”¹⁰⁹⁵

Mr. Deupree also disagreed with the inclusion of the months of October and May in the Peoples’ WNA heating season period.¹⁰⁹⁶ He explained that “the Fall month of October and the Spring month of May are best represented as shoulder months between the winter heating season and the summer cooling season which often sees little heating or cooling requirements for customers and customers only see heating use during years with early and/or late winters.”¹⁰⁹⁷ Contrary to the purported goal of stability, Mr. Deupree observed that the inclusion of these shoulder months within Peoples’ WNA heating season exposes ratepayers to unnecessary variation in the WNA by shifting the weather risk during these shoulder periods from the Company onto ratepayers.¹⁰⁹⁸

¹⁰⁹² OCA St. 1 at 34.

¹⁰⁹³ *Columbia 2025* at 301.

¹⁰⁹⁴ *Id.*

¹⁰⁹⁵ OCA St. 1 at 35.

¹⁰⁹⁶ *Id.*

¹⁰⁹⁷ *Id.*

¹⁰⁹⁸ *Id.*

Mr. Deupree included Table 1 below in his direct testimony, which examines historical variation in monthly AHDD for the October through May period using weather data from the Pittsburgh, Pennsylvania weather station located in the Company's service territory over the 65-year period October 1960 through May 2025.¹⁰⁹⁹

Table 1: Analysis of Historic Weather Variability¹¹⁰⁰

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

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

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

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

¹⁰⁹⁹ OCA St. 35-36.

¹¹⁰⁰ *Id.*

May from the WNA period since these months have seen high variability in weather conditions.¹¹⁰¹

In the Commission's recent *Columbia 2025* Order, the Commission agreed that the month of May should be removed from the WNA calculation. Specifically, the Commission explained that "May is not a winter or traditional heating month in Pennsylvania but more appropriately a shoulder month when customers can expect to start seeing their heating bills decline."¹¹⁰² The Commission also noted that retaining May "could result in customers seeing WNA bill increases as late as June."¹¹⁰³

OCA has noted that Peoples service territory overlaps with Columbia's service territory, notably in Allegheny County. According to Peoples tariff, it serves more than 100 Cities, Townships, and Boroughs in Allegheny County.¹¹⁰⁴ According to Columbia's tariff, "The Company is certified to serve in all cities, boroughs and townships in Allegheny County."¹¹⁰⁵ This, arguably, may lead to customers residing in one municipality being subjected to a WNA mechanism in May because they are a customer of one gas company where other residents of the same municipality may not be subjected to a WNA mechanism for the month of May because they are a customer of the other gas company. In this situation, the weather conditions would be the same for the municipality but some residents could be exposed to extra billing charges and some residents would not.

I am in agreement with the evidence and arguments presented by I&E, OCA, OBSA and CAUSE-PA in this matter.

¹¹⁰¹ OCA St. 1 at 36.

¹¹⁰² *Columbia 2025* at 301.

¹¹⁰³ *Columbia 2025* at 301-302.

¹¹⁰⁴ Peoples Tariff .

¹¹⁰⁵ Columbia Tariff.

33. EFFECTIVE DATE OF RATES

Peoples

Peoples maintains that the effective date of rates coincides with the end of the suspension period. The Commission's April 16, 2026 Order in this case suspended rates until December 26, 2026. I&E argues that the effective date of new rates should be January 1, 2027. (Peoples main brief p. 114). Peoples notes that it disagrees with I&E's proposal to change the effective date of rates. As has been the practice in prior cases, the Company projected its FPFTY in this proceeding with a one-month gap between the end of its FTY and the beginning of its FPFTY based on the requirements of Section 1308(d) of the Code, which do not allow the Company to begin the FPFTY prior to the legal effective date of new rates. As Ms. Scanlon explained, in the Company's two most recent rate cases, new rates have become effective during the gap month but after the suspension period.¹¹⁰⁶ The same practice is appropriate in this case to meet the requirements of Section 1308(d).

Peoples notes that I&E claims that it made a similar recommendation in Columbia's most recent rate case,¹¹⁰⁷ and the Commission agreed with I&E. However, Peoples argues that I&E ignores an important distinction between the Columbia case and the facts of this case. Columbia filed its case on March 15, 2024, utilizing a FPFTY based upon January 1, 2025 to December 31, 2025. The Commission reasoned that because the rates the Commission approved for Columbia in the prior case accounted for projected expenses through December 31, 2025, allowing another increase to take effect on January 1, 2026 would result rates above what was established in the prior case. That is not the case here. Peoples last case was filed on December 29, 2023 with an FPFTY of

¹¹⁰⁶ Peoples St. 3-R at 6-7.

¹¹⁰⁷ Docket No. R-2025-3053499.

October 1, 2024 through September 30, 2025. The FPFTY in this proceeding is January 1, 2027 through December 31, 2027. The record evidence does not appear to show an overlap of rate effective periods or the possibility of duplicate recovery.¹¹⁰⁸

I&E

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

I&E witness Patel disagreed with the Company's claim as the Company's revenue requirement, including the revenue increase claim, is forecasted and used in the ratemaking calculation for the 12-month FPFTY (January 1, 2027, through December 31, 2027), which does not include the gap month of December 2026.¹¹⁰⁹ The rates and the rate increase requested in this proceeding and the amounts recommended by the parties are based on the FPFTY period and not the gap month.¹¹¹⁰ Mr. Patel noted that if Peoples is permitted to make new rates effective on December 27, 2026, instead of January 1, 2027, then at the full revenue increase request of \$163,171,938, the Company

¹¹⁰⁸ Peoples St. 3-R at 8-9; Peoples MB at 114-115.

¹¹⁰⁹ *Id.* at p. 66.

¹¹¹⁰ *Id.*

would recover an unsupported and unreasonable additional revenue increase of \$2,235,232 $((\$163,171,938 \div 365) \times 5)$ for that 5-day period from ratepayers.¹¹¹¹

OCA

The OCA did not present testimony regarding this issue. OCA MB at 120.

CAUSE-PA

CAUSE-PA did not take a position on this issue. CAUSE-PA MB at 81.

RECOMMENDATION

I recommend that the Commission accept the proposed suspension date by Peoples, which is also the date chosen by the Commission, by operation of law, of December 26, 2026.

34. UNIVERSAL SERVICE PROGRAM RIDER

One-Time Credit Adjustment

Peoples

The Company proposes to apply a defined credit adjustment to offset the USP Rider charges that are paid for by non-CAP residential customers through the periods of January 1, 2027 through March 31, 2027 (Year 1) and January 1, 2028 through

¹¹¹¹ *Id.* (citing Peoples Exh. No. 2, Sch. 4 at 2); I&E MB at 54-55.

March 31, 2028 (Year 2).¹¹¹² Peoples submits that the credit will be comprised of the sales and use tax refund of \$3.9 million plus the tax repairs deduction collar which is estimated to be \$1.2 million for 2025 and more than \$15 million in 2026.¹¹¹³

The Company believes that the credit will help income-eligible customers who are not participating in CAP as well as those customers whose incomes exceed CAP eligibility but may still be constrained by their monthly bill obligations.¹¹¹⁴ For example, the credit will reduce the monthly bills for these customers by approximately \$8.46 for a non-CAP residential customer with average monthly usage of 44 Mcf during the period January 1, 2027 through March 31, 2027, and will reduce monthly bills by approximately \$24.56 for a non-CAP residential customer with average usage of 44 Mcf during the period of January 1, 2028 through March 31, 2028. By applying the credit over the period of January 1 through March 31 each year, customers will receive a greater benefit because bills are usually higher in these colder winter months.¹¹¹⁵

I&E

I&E recommends that the one-time credit adjustment be treated as a regulatory liability and credited back to all customers. I&E recommends that the credit generated from the tax repair deduction collar should flow through the Tax Repairs Surcharge Credit within 90 days following the effective date of new rates in the proceeding, and that the remaining \$3,900,000 generated by the sales and use tax refund be treated as a regulatory liability that should be amortized over a period of four years, rounded down to the nearest year, resulting in annual amortization of \$975,000 over the

¹¹¹² Peoples St. 3 at 6-9. As noted in Ms. Scanlon's testimony, the last stage of the credit would occur from January 1, 2028 through March 31, 2028 and would contain only the true up of Year 2.

¹¹¹³ Peoples St. 2 at 22-23; Peoples St. 3 at 6-9.

¹¹¹⁴ Peoples St. 10 at 20-21.

¹¹¹⁵ Peoples St. 3 at 8; Peoples MB at 115-117.

four-year period ($\$3,900,000 / 4 \text{ years} = \$975,000$). I&E also recommends that Peoples be required to show an annual accounting of the progress for refunding this credit in its next base rate case filing.

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

I&E did not present testimony on the Company's proposed revision to the bad debt offset calculation.¹¹¹⁶

OCA

The OCA incorporated its earlier arguments on this issue into this section.¹¹¹⁷

OSBA

The OSBA is not briefing this issue.¹¹¹⁸

CAUSE-PA

CAUSE-PA did not take a position on this issue.¹¹¹⁹

¹¹¹⁶ I&E MB at 12-13, 55-57.

¹¹¹⁷ OCA MB at 120.

¹¹¹⁸ OSBA MB at 16.

¹¹¹⁹ CAUSE-PA MB at 82.

RECOMMENDATION

I&E witness Okum opposes the Company's proposal and instead recommends that the tax refund should be treated as a regulatory liability and credited to all customers.¹¹²⁰ The Company submits that its proposal is the optimal approach in this case because it will have the most meaningful impact to non-CAP residential customers. If the credits were applied to all customers as Ms. Okum suggests, the amount of credit per customer would be less and not as impactful for this subset of residential customers.¹¹²¹ The Company argues that its proposal provides a significant benefit to non-CAP residential customers and should be accepted.

In the alternative, as Company witness Scanlon explained, the Company submits that if the Commission were to adopt Ms. Okum's proposal, the credit should be flowed back through the existing Tax Repairs Surcredit ("TRS") mechanism.¹¹²² In surrebuttal testimony, Ms. Okum agreed with the TRS approach for the portion of the credit related to the tax repairs collar refund but not the sales & use tax portion of the refund. In rejoinder testimony, Ms. Scanlon reiterated the Company's position but stated that if the Commission adopts Ms. Okum's approach regarding the sales & use tax refund, the Company would be amendable to treating the amount as a regulatory liability, amortized over four years.¹¹²³

In consideration of the arguments of both parties, this ALJ recommends that the Commission adopt Peoples proposal as submitted. As Peoples explained, the credit should help income-eligible customers who are not participating in CAP as well as

¹¹²⁰ I&E St. 1 at 59-60.
¹¹²¹ Peoples Exh. CAS-1R.
¹¹²² Peoples St. 3-R at 4.
¹¹²³ Peoples St. 3-RJ at 7.

those customers whose incomes exceed CAP eligibility but may still be constrained by their monthly bill obligations. In light of this, I recommend that Peoples' proposal be adopted without modification.

35. BAD DEBT OFFSET CALCULATION

Peoples

The Company proposes to revise the bad debt offset calculation, specifically the CAP participation level that prompts when the bad debt offset is applicable and the uncollectible amount used in the calculation. Peoples submits that the purpose of these proposed changes are to align both the CAP participation level and the uncollectible percentage used in the bad debt offset calculation with more recently experienced trends. Specifically, the Company proposes to set the threshold amount to trigger the bad debt offset calculation at a CAP enrollment in excess of 39,010, which is the base number of projected CAP customers used to set rates in this proceeding. For the uncollectible percentage, the Company initially proposed using the recent three-year average of residential uncollectible activity, which resulted in a rate of 1.93%.¹¹²⁴ OCA witness Colton challenged the Company's proposed base CAP participation level and the uncollectible percentage used to calculate the bad debt offset.

Peoples noted that Mr. Colton suggested that the base CAP participation level be set at the month-end participation level as of the month a final order is issued in this proceeding.¹¹²⁵ Ms. Scanlon demonstrated that Mr. Colton's recommendation to use a single data point in time is not appropriate because the level of CAP participation fluctuates from month to month.¹¹²⁶ Rather, it is more appropriate to set the base CAP

¹¹²⁴ *Id.* at 5; Peoples Exh. No. 3, Sch. 15; Peoples Exh. No. 19.

¹¹²⁵ OCA St. 4 at 4, 71.

¹¹²⁶ Peoples St. 3-R at 13.

participation level at 39,010 as the Company has proposed, which is consistent with the approach that Mr. Colton previously recommended in the Company's 2023 base rate case.¹¹²⁷ However, Peoples submits that if the Commission were to accept Mr. Colton's proposal, the base CAP participation level should be determined using an average CAP participation over a period of time rather than a single data point and should include customers at 151-200% FPL as the Company's CAP extends to these customers.

Peoples further noted that Mr. Colton suggested that the uncollectible percentage be determined by dividing the gross write-offs in dollars for confirmed low-income customers by the annual residential revenues for confirmed low-income customers as reported in the Commission's Universal Service Programs and Collections Performance Reports.¹¹²⁸ In rebuttal testimony, Ms. Scanlon explained that the Company would accept Mr. Colton's recommendation for establishing the uncollectible percentage using a multi-year average for 2023/2024, which results in an offset of 7.4%.¹¹²⁹

I&E

I&E did not present testimony on the Company's proposed revision to the bad debt offset calculation.¹¹³⁰

CAUSE-PA

CAUSE-PA did not take a position on this issue.¹¹³¹

¹¹²⁷ *Id.* at 14.

¹¹²⁸ OCA St. 4 at 70-73.

¹¹²⁹ *Id.* at p. 16; Peoples Exh. No. CAS-5R; Peoples MB at 117-118.

¹¹³⁰ I&E MB at 57.

¹¹³¹ CAUSE-PA MB at 82.

RECOMMENDATION

I recommend that the Commission accept Peoples' proposal to set the threshold amount to trigger the bad debt offset calculation at a CAP enrollment in excess of 39,010.

36. LOW-INCOME CUSTOMER ISSUES

Customer Assistance Program

CAP Participation Levels

Peoples

Peoples notes that CAUSE-PA and OCA expressed concerns with the Company's CAP participation levels.¹¹³² OCA averred that Peoples "continues to substantially under-enroll low-income customers in its CAP."¹¹³³ CAUSE-PA claims that Peoples' CAP is "severely undersubscribed" considering that approximately 71% of Peoples' known Confirmed Low Income ("CLI") customers are not enrolled in CAP.¹¹³⁴

Peoples argues that it is important to understand the difference between a CLI customer and a customer enrolled in CAP in order to place CAUSE-PA's claim in the proper context. Peoples' known CLI numbers are based on self-reported income at any point in time when the income was collected. This information is not always up to

¹¹³² CAUSE-PA Statement 1 at 31, 73-74; OCA Statement 4 at 47.

¹¹³³ OCA Statement 4 at 47. OCA also recommends an adjustment to Peoples' credit and collection expenses, which is addressed in Section VI.W above.

¹¹³⁴ CAUSE-PA Statement 1 at 31.

date, as the collection of it is dependent on customer choice.¹¹³⁵ However, Peoples' CAP customers have verified their income as of the time of their application. Therefore, any comparison between Peoples' known CLI customers and actual CAP enrollment should be given the weight it deserves, knowing that the CLI customer number is more akin to an estimate than a verified number.

Contrary to the parties' assertions, Peoples maintains that its CAP enrollment levels are reasonable and demonstrate its commitment to increasing CAP enrollment, especially when taken together with Peoples' significant and comprehensive actions to enroll customers in CAP. The OCA and CAUSE-PA do not acknowledge Peoples' efforts to increase CAP enrollment. Peoples has in place a comprehensive Consumer Education and Outreach Plan ("CEOP") to ensure that eligible customers are aware of CAP, including Customer Service Representatives ("CSR") referring all potential income eligible customers to CAP, regular training for CSRs, provision of plain language CAP notices to reported low-income customers, bill inserts, email campaigns, advertising, and participation in local community events.¹¹³⁶ As a result of these efforts, Peoples increased its CAP participation by approximately 18% in 2025.¹¹³⁷ To further support enrollment of customers who have arrears following receipt of LIHEAP, Peoples has filed a Petition for auto-enrollment and recertification.¹¹³⁸

The Company acknowledges that there are certain elements to CAP enrollment which it cannot necessarily control. This includes the requirement that non-LIHEAP customers submit verified gross income information. Peoples avers that it does try to make this process as efficient as possible, though, as it will use income documentation which may have been provided for another purpose (e.g., EFSLR repair),

¹¹³⁵ Peoples St. 10-R at 11.

¹¹³⁶ Peoples Statement no. 10-R at 12; Peoples St. 18-R at 3.

¹¹³⁷ Peoples St. 10 at 6.

¹¹³⁸ See Docket Nos. P-2024-3052324; M-2018-3003177 and M-2020-3021343.

as proof of income for purposes of a CAP application.¹¹³⁹ Additionally, Peoples states that it may be quicker or easier for a customer to enter into a payment arrangement instead of submitting a CAP application, because this only requires the provision of income verbally.¹¹⁴⁰

I&E

I&E did not present testimony on the Company's customer assistance program.¹¹⁴¹

OCA

OCA argues that Peoples' position, that affordability is an issue to be addressed exclusively through targeted Customer Assistance Programs (CAP) or through state and federal social programs, would improperly narrow the Commission's ratemaking inquiry.¹¹⁴² OCA avers that despite Peoples' reliance on CAPs as the premier remedy for affordability concerns, the company persistently fails to achieve adequate participation, leaving its low-income customer base severely under-enrolled in its CAP.¹¹⁴³ As OCA witness Colton explained, CAPs do not reach every customer experiencing affordability problems.¹¹⁴⁴

¹¹³⁹ *Id.* at 13.

¹¹⁴⁰ Peoples MB at 118-120.

¹¹⁴¹ I&E MB at 57.

¹¹⁴² OCA St. 4SR at 3.

¹¹⁴³ OCA St. 4 at 49.

¹¹⁴⁴ *Id.*

Table 3. Estimated Low-Income, Confirmed Low-Income and CAP Participants				
		2022	2023	2024
Estimated Income ¹¹⁴⁵	Low-	146,971	145,831	144,472
Confirmed Income ¹¹⁴⁶	Low-	108,055	112,886	112,624
Pct confirmed		73.5%	77.4%	78.0%
CAP participants ¹¹⁴⁷		29,760	27,236	25,738
Pct CAP participants		27.5%	24.1%	22.9%

As seen in the Table above, in 2024, Peoples had an estimated low-income population of approximately 144,472 customers and had identified 112,624 customers as Confirmed Low-Income (CLI), yet only 25,738 customers participated in CAP, a participation rate of just 22.9 percent of Confirmed Low-Income customers.¹¹⁴⁸ Thus, even among customers whom Peoples has identified as low-income, the overwhelming majority are not receiving CAP assistance. Accordingly, OCA submits that the Commission should direct Peoples' to make a more concerted effort to increase CAP enrollment.

Effectiveness and Efficiency of Peoples' Credit and Collection Actions.

Section 523 of the Public Utility Code requires:

The commission shall consider, in addition to all other relevant evidence of record, the efficiency, effectiveness and adequacy of service of each utility when determining

¹¹⁴⁵ 2024 BCS Report at 7.

¹¹⁴⁶ 2024 BCS Report at 6. Percent Confirmed Low-Income is Confirmed Low-Income divided by the number of estimated low-income.

¹¹⁴⁷ 2024 BCS Report at 56. Percent CAP participation is CAP participants divided by the number of Confirmed Low-Income.

¹¹⁴⁸ *Id.* at 49-50.

just and reasonable rates under this title. On the basis of the commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate.¹¹⁴⁹

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

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

The percentage of Confirmed Low-Income customers in arrears for the last three years for which data is reported has consistently run two times higher than the percentage of residential accounts in arrears. The average level of arrears (of accounts in arrears) for Confirmed Low-Income customers has been from 40% (2023) to more than 50% (2022) higher than the average level of arrears for residential customers. The level of arrears at the time of disconnection for Confirmed Low-Income customers has been from 25% (2022, 2024) to 40% higher than residential customers in general.¹¹⁵⁰

...

In 2022, the disconnection rate for Confirmed Low-Income customers was lower than in other years (Residential = 2.6%; Confirmed Low-Income = 3.9%). However, in 2023 and in 2024, the disconnection rate for Confirmed Low-Income customers was three times higher than the disconnection rate for residential customers as a whole (2023: 3.5% vs. 10.5%; 2024: 3.5% vs. 10.2%).¹¹⁵¹

...

¹¹⁴⁹ 66 Pa. C.S. § 523.

¹¹⁵⁰ OCA St. 4 at 45.

¹¹⁵¹ *Id.* at 46.

One of the most problematic facts I found in a review of Peoples payment arrangements is that Peoples’ payment arrangements do not provide a reasonable opportunity for residential customers to retire their arrears. The Company provided aggregated three-year data for the years 2023 through 2025. This data demonstrates that 71.5% (55,172 of 71,162) of the residential payment arrangements newly entered into during that time, ended in default, while 83.7% (35,047 of 41,896) of the Confirmed Low-Income payment arrangements, ended in default.¹¹⁵² Even so, this percentage is very likely an under-count of the number of broken payment arrangements because payment arrangements entered into in more recent months will be included in the “new payment arrangement” numbers, but likely will not have reached the point of having defaulted.¹¹⁵³

OCA argues that despite poor payment and collection patterns, Peoples continues to substantially under-enroll low-income customers in its CAP.

OCA submits that enrollment in CAP is extremely important as Peoples’ data clearly shows that CAP payment patterns are significantly better than the payment patterns of the Company’s CLI customers.¹¹⁵⁴ OCA witness Colton provided:

In contrast to the arrearage and disconnection rates for Confirmed Low-Income customers discussed above, the Company’s CAP customers have a payment rate of 82.0% and 85.4% in 2024 and 2025 respectively. The “payment rates” reported to BCS are payments only by the customer. Additional payments made by LIHEAP are not included. In 2025, in other words, Peoples’ CAP customers paid 85.4% of their bill before receiving LIHEAP.¹¹⁵⁵

¹¹⁵² Peoples’ Response to OCA-IV-17.

¹¹⁵³ *Id.* at 46-47.

¹¹⁵⁴ *Id.* at 47.

¹¹⁵⁵ *Id.* at 47-48.

Based on the evidence provided by Mr. Colton regarding the inefficiency and ineffectiveness of Peoples credit and collection expenditures, and the Commission’s obligation “to mak[e] such adjustments to specific components of the utility’s claimed cost of service” when considering the “efficiency, effectiveness and adequacy” of such service under Section 523, the Commission should adopt Colton’s recommendation that Peoples’ credit and collection expenses be shared fifty-fifty rather than recovered entirely from ratepayers.¹¹⁵⁶

OSBA

The OSBA is not briefing this issue.¹¹⁵⁷

CAUSE-PA

CAUSE-PA notes that Chapter 15 of the Public Utility Code imposes crucial customer service standards on public utilities and requires Peoples to furnish and maintain adequate, efficient, safe, and reasonable service to its customers.¹¹⁵⁸ Universal service issues are fundamental customer service issues, the standards for which are enshrined in the Choice Act and developed through decades of Commission precedent. CAUSE-PA maintains that the Commission must ensure that Peoples’ universal service standards, regulations, and practices are just and reasonable to ensure the Company’s low-income customers can access and maintain adequate and reasonable service.¹¹⁵⁹ CAUSE-PA further notes that Peoples is statutorily required to maintain a portfolio of universal service programs that is appropriately funded and available to assist low-

¹¹⁵⁶ *Id.* at 50 (quoting 66 Pa. C.S. § 523).

¹¹⁵⁷ OSBA MB at 16.

¹¹⁵⁸ 66 Pa. C.S. § 1501 *et seq.*

¹¹⁵⁹ 66 Pa. C.S. § 1501.

income households to connect and maintain service to their home.¹¹⁶⁰ CAUSE-PA argues that Peoples’ universal service programs are undersubscribed, underfunded, and insufficiently available to meet the demonstrated need of the Company’s low-income customers for assistance to afford and maintain service their homes. In light of Peoples’ proposals in this case to substantially increase rates, CAUSE-PA maintains that the Commission must ensure that Peoples programs are meeting the needs of Peoples’ low-income customers and fulfilling all applicable statutory and regulatory requirements.

CAUSE-PA notes that while low-income programs are reviewed periodically through Universal Service and Energy Conservation Plan proceedings (USECPs), those proceedings are reviewed by the Commission through a comment proceeding. There is no opportunity provide a full evidentiary basis of review – nor do they allow for the Commission to account for changing and evolving circumstances which necessarily impact the reach and effectiveness of universal service and energy conservation programs.

CAUSE-PA further notes that the Commission has expressly concluded that universal service and energy conservation issues are a relevant and important area of inquiry in the context of determining whether a utility’s rates are just and reasonable and should not be exclusively relegated to a utility’s periodic USECP proceeding. For example, the Commission concluded in its recent Final-Form Rulemaking Order revising LIURP regulations that “rate case proceedings, for example, allow parties to, *inter alia*, consider the justness and reasonableness of the cost of a public utility’s universal service programs including its LIURP.”¹¹⁶¹ The Commission also set forth this conclusion in its

¹¹⁶⁰ 66 Pa. C.S. §§ 2202, 2203 (7)-(8).; 52 Pa. Code §§ 62.3, 62.4. *See* section I.B, above, for a full discussion of the applicable legal standards for universal service and energy conservation programs.

¹¹⁶¹ Initiative to Review and Revise the Existing Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1—58.18, Docket No. L-2016-2557886, Final Form Rulemaking Order at 123 (Entered Mar. 13, 2025).

Final Order in the Philadelphia Gas Works 2023 base rate proceeding (*PGW 2023*), stating:

...[W]e share the concerns raised by the Parties and acknowledged by the ALJs that tabling consideration of [universal service] issues until PGW's next USECP proceeding would result in denying low-income customer relief for an extended period. In our view, such a result is unreasonable and thwarts the purpose of universal service, which is to help low-income customers *maintain* their natural gas service. See, 66 Pa. C.S. § 2202. Further, we find CAUSE-PA/TURN's argument, that a base rate case proceeding provides a more formal review process than the USECP review process, to be persuasive. Accordingly, we find that the instant proceeding is the more appropriate forum to address these low-income customer service issues and we shall deny PGW's Exception No. 16.¹¹⁶²

In *PGW 2023*, the Commission pointed to its policy statement regarding ratemaking procedures specific to PGW, which requires the Commission to consider “the effect on universal service” when reviewing the justness and reasonableness of PGW's rates.¹¹⁶³ The Commission's conclusion that universal service issues are appropriately addressed in a base rate proceeding, however, is not cabined to PGW. In the 2025 base rate proceeding of Columbia Gas of Pennsylvania, Inc. (*Columbia 2025*), the Commission adopted by reference the Conclusions of Law set forth in the ALJ's Recommended Decision, including COL 73:

Universal service and energy conservation issues are a relevant and important area of inquiry in the context of determining whether a utility's rates are just and reasonable

¹¹⁶² *Pa. PUC v. PGW*, Opinion and Order, Docket No. R-2023-3037933, at 216 (Entered Nov. 9, 2023) (emphasis in original).

¹¹⁶³ *Id.* at 215.

and cannot be relegated to a utility's periodic Universal Service and Energy Conservation Plan proceeding.¹¹⁶⁴

Thus, full review of universal service programs in the context of a rate proceeding – where the justness and reasonableness of a utility's rates, programs, and terms and conditions are subject to searching review – is critically important. When examining a rate increase proposal, the Commission must examine whether existing programs are adequate to meet the needs of low-income customers to afford and maintain service to their home, in line with the statutory and regulatory requirements, including Chapter 15.¹¹⁶⁵

Limiting The Collection and Retention of Social Security Numbers

The Commission should direct Peoples to immediately limit its collection and retention of customers' Social Security Numbers (SSNs) and, within 12-months after a final order in this proceeding, develop and adopt an alternative means of verifying customer identity and assessing credit risk.¹¹⁶⁶ Peoples asks applicants for SSNs to “verify identity and check credit risk score,” and admits that it retains SSNs used to establish service indefinitely.¹¹⁶⁷ This practice unnecessarily exposes customers to the risks of identity theft without demonstrating that indefinite retention is necessary to provide utility service.

OCA witness Roger Colton testified:

The use of SSNs by private entities is one of the leading causes of identity theft. SSNs, along with a person's date of birth and name, are the three most sought-after pieces of

¹¹⁶⁴ *Pa. PUC v. Columbia Gas of Pa.*, Recommended Decision, Docket No. R-2025-3053499 at 678.

¹¹⁶⁵ CAUSE-PA MB at 83-86.

¹¹⁶⁶ Peoples' Response to OCA-IV-17 at 57.

¹¹⁶⁷ *Id.* (quoting Peoples' Response to OCA-V-6, 7).

personal information sought by identity thieves. According to the 2007 report of the Presidential Task Force on Identity Theft, a person's SSN is the single most important piece of personally identifiable information available to identity thieves. Unlike names and addresses, which can change over a person's lifetime, it is "virtually impossible" for a person to change his/her SSN.¹¹⁶⁸

Other federal agencies and organizations such as the federal Office of Management and Budget, the Federal Trade Commission, and the Association for Computing Machinery have similarly raised concerns about and advised against the use of SSNs when possible.¹¹⁶⁹

Therefore, Mr. Colton recommends that the Commission order Peoples to, within 12 months of a final decision in this proceeding, report to the Commission its plan to eliminate the collection and retention of customer SSNs and, at a minimum, "be directed to: (1) refrain from retaining SSNs from customers for more than 30-days after the customer establishes service; (2) refrain from providing a customer SSN to any entity outside of the Company; and (3) notify the customer, at the time the customer is asked to provide his/her/their SSN that, in the absence of the first two steps outlined above, that the SSN will be retained in perpetuity and that the SSN will be provided to a multi-national credit firm, to allow the customer to take such notice into account in deciding whether to provide their SSN."¹¹⁷⁰

¹¹⁶⁸ *Id.* at 58. Unlike a lost key, the social security number cannot be changed merely because it has been lost or stolen. "Identity Theft and Your Social Security Number," Social Security Administration, Pub. No. 05-10064, Oct. 2007, at 6, available at <http://www.ssa.gov/pubs/10064.pdf>. There must be evidence that (1) someone is in fact wrongfully using the number, and (2) that the individual to whom the number belongs is being disadvantaged by the wrongful use. *Id.*

¹¹⁶⁹ *See* OCA St. 4 at 59-62.

¹¹⁷⁰ *Id.* at 63-64; OCA MB at 121 – 125.

RECOMMENDATION

I note the arguments and testimony presented by OCA and CAUSE-PA, and Peoples is strongly encouraged to increase CAP participation levels, and to consider eliminating SSN data after 12 months.

37. LOW-INCOME USAGE REDUCTION PROGRAM

Peoples

Peoples maintains that its LIURP provides low-income customers with no-cost weatherization services. Annual funding for the Company's LIURP is set at \$3.5 million.¹¹⁷¹ In 2025, the Company's LIURP moved to a new program administrator, Peak Home IQ.¹¹⁷² This is a local business, and upon obtaining the new administrator, Peoples states that it saw improvements in choices of weatherization measures and is confident that Peak Home IQ will contribute to savings for its customers.¹¹⁷³

Peoples notes that the Task Force recommends that, should a rate increase be approved, the number of customers served annually by the Company's LIURP be increased by 75, or an increase in program funding of \$975,000, in order to "begin to meet the unmet need for LIURP services."¹¹⁷⁴ CAUSE-PA has indicated support for this recommendation.¹¹⁷⁵ This recommendation should not be approved as it is redundant. 2024 and 2025 were transitional years for the Company in terms of LIURP as the new program administrator was taking over. Through the middle of 2026, the first full year of

¹¹⁷¹ Peoples St. 10 at 17.

¹¹⁷² Peoples St. 10 at 6.

¹¹⁷³ *Id.*

¹¹⁷⁴ Task Force St. 1 at 7.

¹¹⁷⁵ CAUSE-PA St. 1-SR at 47-48.

administration by Peak Home IQ, Peoples has already seen 144 jobs completed and is on track to surpass the level of households that would be served through WPTF's recommendation.¹¹⁷⁶

I&E

I&E witness Okum did not oppose PWPTF witness Jennifer Warabak's recommendation that 75 additional customers should be served by the Company's LIURP, however, Ms. Okum disagreed with Ms. Warabak's assertion that an increase of 75 customers would require an increase in LIURP funding of \$975,000.¹¹⁷⁷ Both Ms. Warabak's and Ms. Okum's calculations for additional LIURP jobs were less than the Company's minimum annual LIURP budget of \$3,500,000 agreed to in the Low-Income Stipulation at Docket No. R-2023-3044549.¹¹⁷⁸ Additionally, I&E notes that the Company stated that all unspent funds are rolled into the budget for the following year and information provided by the Company in discovery showed that it did not spend its entire budget for the years 2023 through 2025.¹¹⁷⁹ Therefore, I&E recommends no increase to the Company's LIURP budget.¹¹⁸⁰

RECOMMENDATION

In light of the arguments and testimony submitted, I recommend that the Commission adopt the Task Force and I&E's recommendation of an increase of 75 customers, and I recommend that the Commission not grant an increase to the Company's LIURP budget.

¹¹⁷⁶ Peoples St. 10-R at 21.

¹¹⁷⁷ I&E St. 1-R at 3.

¹¹⁷⁸ I&E MB at 57.

¹¹⁷⁹ I&E St. 1-R at 4 (*citing* I&E Exh. No. 1-R, Sch. 1 and 2).

¹¹⁸⁰ I&E MB at 57-58.

38. Addition of a LIURP Compliance Specialist

Peoples is proposing that a new internal role for a LIURP Compliance Specialist. Peoples' LIURP is a growing and evolving program. Namely, the LIURP budget has grown from roughly \$700,000 to \$3.5 million annually over the past 15 years.¹¹⁸¹ The LIURP Compliance Specialist will provide oversight and support to LIURP, importantly working to oversee coordination of program benefits and proper implementation and adherence to changes such as tracking and reporting requirements pertaining to the recent LIURP rulemaking.¹¹⁸² This role is critical in order to ensure that Peoples continues to effectively serve its LIURP-eligible population.

I&E

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

I&E recommends no increase to the Company's LIURP budget.¹¹⁸³

RECOMMENDATION

I recommend that the Commission accept the Company's proposal for a LIURP Compliance Specialist, as it will only help to strengthen the LIURP program. Peoples noted that CAUSE-PA supports the addition of the LIURP Compliance Specialist role but recommends that the costs be recovered in base rates. I therefore

¹¹⁸¹ Peoples St. 10 at 17.

¹¹⁸² Peoples St. 10 at 9.

¹¹⁸³ I&E MB at 13.

recommend that the Commission adopt the proposal that costs for this Specialist be recovered in base rates.

39. HARDSHIP FUND

Peoples

Peoples states that its Hardship Fund provides grants of up to \$500 to customers with incomes up to 200% of the FPL. Customers with incomes between 151-200% of the FPL are referred to the Hardship Fund before CAP enrollment, in order to reduce their total balance.¹¹⁸⁴ The Task Force recommends that Peoples' contribution to its hardship fund be increased commensurate with the percentage increase in rate to the residential class resulting from the instant proceeding, and that the funding be distributed in accordance with the percentage of low-income customers in the counties served by the Company.¹¹⁸⁵

Peoples argues that the Task Force's recommendations are unsupported and should be denied. With respect to the increase in funding, Peoples notes that the Company's donation to the Hardship Fund does not come from ratepayer funds, but from shareholder dollars.¹¹⁸⁶ With respect to the recommendation regarding funding distribution, the Company disagrees that the most efficient and effective method of distribution is to align that distribution by county. The fact that the Hardship Fund is available on a first-come, first-served basis means that eligible customers in need will be able to receive support on an equal basis, regardless of their location. Peoples has experienced a similar situation in the past, where hardship funds were divided between

¹¹⁸⁴ Peoples St. 10 at 4.

¹¹⁸⁵ PWPTF St. 1 at 7.

¹¹⁸⁶ Peoples St. 10-R at 22.

Peoples Natural Gas and a former affiliate, and difficulties accessing funding for those in the smaller service territory were observed.¹¹⁸⁷

OSBA

The OSBA is not briefing this issue.¹¹⁸⁸

RECOMMENDATION

In light of the evidence of record, I recommend that the Commission accept the Company's Hardship Fund as proposed by Peoples.

40. CUSTOMER SERVICE ISSUES

Service Terminations

Peoples

Peoples notes that the OCA expressed concern that the level of disconnections for CLI customers is higher than that of residential customers as a whole.¹¹⁸⁹ Peoples argues that the increase in terminations in 2023 and 2024 must be understood in the context of the Company's expanded definition of CLI. The Company broadened the population of CLI customers by using the definition agreed to in its 2023 rate case, which includes customers who self-identify as low-income. With a larger

¹¹⁸⁷ Peoples St. 10-R at 22; Peoples MB at 121-123.

¹¹⁸⁸ OSBA MB at 16.

¹¹⁸⁹ OCA St. 4 at 45.

population of accounts meeting that definition, the Company would expect to see increases in reported collection activities for that group.¹¹⁹⁰

Further, Peoples argues that the data shows that Peoples performs well among its peers when considering the percentage of customers in debt and the arrears carried by those customers both as a percent of residential customers overall and as a percent of CLI customers.¹¹⁹¹ Peoples' submits that its termination rate aligns with the industry average, and its total in-debt customer percentage is lower than the industry average.¹¹⁹² Moreover, Peoples maintains that it is a peer leader in the restoration of service to its CLI customers following a disconnection, which is a testament to Peoples' commitment to assist customers with CAP enrollment or payment arrangements.¹¹⁹³

I&E

I&E did not present testimony on specific customer service and quality of service issues.¹¹⁹⁴

OCA

The OCA argues that the Commission should find that Peoples' nonpayment termination practices produce a substantial and unexplained disparate impact on Black households. The OCA further argues that the Company has not provided a sufficient legitimate, nondiscriminatory explanation for that disparity, and a comprehensive root cause analysis by an independent third party is still necessary to

¹¹⁹⁰ Peoples St. 18-RJ at 3-4.

¹¹⁹¹ Peoples St. 18-R at 4.

¹¹⁹² Peoples St. 10-RJ at 10.

¹¹⁹³ Peoples St. 10-R at 16.

¹¹⁹⁴ I&E MB at 13, 58.

determine whether those practices provide adequate and reasonable service under Section 1501 of the Public Utility Code and, if not, what corrective measures are required.

OCA notes that Section 1501 of the Public Utility Code requires every public utility to furnish and maintain “adequate, efficient, safe, and reasonable service and facilities.”¹¹⁹⁵ The term “service” is construed “in its broadest and most inclusive sense” and encompasses the practices and actions of a utility that affect its customers.¹¹⁹⁶ A utility’s termination procedures are a critical component of the utility’s service and adequate termination practices are important to ensuring that termination remains an action of last resort.¹¹⁹⁷

OCA argues that Peoples’ nonpayment termination practices result in substantially more terminations in portions of its service territory with higher concentrations of Black households, and the Company has not established why.¹¹⁹⁸ The OCA’s concern is regarding disparate impact: a facially neutral termination process is producing a materially different outcome in communities with greater concentrations of Black households.¹¹⁹⁹

The OCA submits that its evidence of disparate impact comes principally from the analysis of OCA witness Roger Colton.¹²⁰⁰ Mr. Colton did the following

¹¹⁹⁵ 66 Pa. C.S. § 1501.

¹¹⁹⁶ *PECO Energy Co. v. Twp. of Upper Dublin*, 922 A.2d 996, 1000 (Pa. Cmwlth. 2007) (*citing* 66 Pa. C.S. § 102).

¹¹⁹⁷ *See* 52 Pa. Code §§ 56.81-56.118 (Commission’s regulations regarding termination procedures); *see also Universal Service Programs & Collections Performance 2024 Report*, Pa. PUC, 11 (Jan. 2026) (“Termination of public utility service is the most serious consequence of customer nonpayment and is viewed as a last resort when customers fail to meet their payment obligations.”).

¹¹⁹⁸ OCA St. 4 at 53-54

¹¹⁹⁹ OCA St. 4SR at 26-27.

¹²⁰⁰ OCA St. 4 at 51-56.

examination of Peoples’ residential customer and nonpayment-disconnection data to support his conclusion that Peoples disproportionately disconnects service to its black customers:

I begin by identifying two ways to identify the Black population in Peoples’ service territory: (1) the number of households where the householder is Black alone;¹²⁰¹ and (2) the population by race (Black alone).¹²⁰² In both instances, I limit my population to Black/African-American customers alone (thus excluding multi-race households and population).

I work with zip code data which the Company provided identifying the number of residential customers by each zip code in its service territory.¹²⁰³ I matched those zip codes to Zip Code Tabulation Areas (“ZCTAs”) provided by the Census Bureau. According to the Census Bureau, ZCTAs are functionally equivalent to zip codes.¹²⁰⁴

I calculate the percentage of households identified as having Black householders, as well as the percentage of population identified as Black, for each zip code as well as for the Peoples service territory as a whole. I identify zip codes with a percentage of Black householders and/or Black population higher than the percentage for the service territory as a whole as “Above Average Black” zip codes.¹²⁰⁵ I also rank-ordered all zip codes from the lowest

¹²⁰¹ U.S. Census Bureau, *Table B25006: Race of Householder*, American Community Survey (5-year estimates), U.S. Census Bureau Data Portal (last visited Aug. 17, 2026).

¹²⁰² U.S. Census Bureau, *Table B02001: Race*, American Community Survey (5-year estimates), U.S. Census Bureau Data Portal (last visited Aug. 17, 2026).

¹²⁰³ Peoples’ Response to OCA-IV-4. Zip codes that did not have at least one (1) residential customer were excluded.

¹²⁰⁴ Hereafter, I will refer to this as “zip code” data.

¹²⁰⁵ For example, solely to illustrate, the Peoples service territory as a whole identifies 6.7% of its households as having Black householders. It identifies 7.2% of its total population as being Black. In comparison, zip code 15001 has 12.0% of its households identified as having a Black householder and 11.5% of its population as being Black. Zip code 15001 is thus identified as an “Above Average Black” zip code.

percentage to the highest percentage, and then divided that rank ordering into ten equal parts (each part of which is called a “decile”). The one-tenth of zip codes with the highest percentage Blacks (householders, population) is the “tenth decile” with the one-tenth of zip codes with the lowest percentage being the “first decile.”¹²⁰⁶

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

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

➤ While 30.07% of all residential customers¹²⁰⁷ live in Above-Average Black zip codes (householders), 42.97% of all residential nonpayment disconnections¹²⁰⁸ occur in those zip codes. Similarly, while 30.92% of all residential customers live in Above-Average Black zip codes (population), 43.80% of all residential nonpayment disconnections occur in those zip codes.

➤ The pattern does not change if the data is limited to Confirmed Low-Income customers (rather than extending to all residential customers). While 32.73% of all Confirmed Low-Income customers live in Above-Average Black zip codes (householders),¹²⁰⁹ 45.42% of all Confirmed Low-Income nonpayment disconnections occur in those zip codes. Similarly, while 33.40% of all Confirmed Low-Income customers live in Above-Average Black zip codes (population), 46.13% of all Confirmed

¹²⁰⁶ OCA St. 4 at 52-53.

¹²⁰⁷ Peoples’ Response to OCA-IV-4.

¹²⁰⁸ Peoples’ Response to OCA-IV-16.

¹²⁰⁹ Peoples’ Response to OCA-IV-4.

Low-Income nonpayment disconnections occur in those zip codes.

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

The same results are found when I examine the data based on deciles. For residential customers, I find that while 28.80% of all residential customers reside in the Tenth Decile of zip codes measured by Black householders, 41.34% of all residential nonpayment disconnections occur in those zip codes. A similar pattern presents itself when the deciles are based on Black population rather than on Black householders.¹²¹⁰

The OCA submits that these figures identify a consistent and substantial disparity across multiple measures of racial composition, across the residential customer population as a whole, and the confirmed low-income population. Most importantly, the disparity cannot simply be dismissed as a consequence of a greater concentration of low-income customers in predominantly Black ZIP codes.¹²¹¹ Mr. Colton's analysis specifically examined that possibility, and the disparity remained.¹²¹²

¹²¹⁰ OCA St. 4 at 53-55.

¹²¹¹ *Id.* at 55.

¹²¹² *Id.* at 54.

Mr. Colton therefore concluded that “[t]he distribution of nonpayment service disconnections is disproportionately weighed toward the Company’s Black population.”¹²¹³ He recommended that Peoples conduct an independent root cause analysis to determine what is driving the disproportionate level of utility disconnections in the 40 ZIP codes with the highest concentration of Black households.¹²¹⁴

OCA notes that Peoples witness Rita Black testified that Mr. Colton has not “proven that households disconnected were in fact households of color” because Peoples does not collect customer-level racial data and because the Census data used in his analysis are not specific to individual households.¹²¹⁵ She then recommended additional CAP outreach as the appropriate response to the ZIP codes disproportionately impacted as identified in Mr. Colton’s analysis.¹²¹⁶

Accordingly, OCA submits that the Commission should apply the two-part disparate-impact framework, which is well established in other contexts, in this proceeding. Under this two-part framework, the party challenging the practice must first establish a prima facie disparate impact.¹²¹⁷ Statistics may establish a prima facie disparate-impact case.¹²¹⁸ The showing does not require proof of discriminatory intent, either explicit or implicit.¹²¹⁹ Second, once the prima facie showing is made, the burden shifts to the proponent of the challenged practice to provide a legitimate,

¹²¹³ *Id.* at 51.

¹²¹⁴ *Id.* at 56; OCA St. 4SR at 30-31.

¹²¹⁵ Peoples St. 10-RJ at 11-12.

¹²¹⁶ *Id.*

¹²¹⁷ *Teal*, 457 U.S. at 446-47; *Girard Fin. Co.*, 52 A.3d at 534-35.

¹²¹⁸ *Girard Fin. Co.*, 52 A.3d at 534 n.10 (citing *International Brotherhood of Teamsters v. United States*, 431 U.S. 324 (1977)).

¹²¹⁹ *Teal*, 457 U.S. at 446; *Winn*, 484 A.2d at 401-03; *Girard Fin. Co.*, 52 A.3d at 534.

nondiscriminatory explanation for the disparate impact.¹²²⁰ Pennsylvania Courts have used this test under the Pennsylvania Human Relations Act (PHRA).¹²²¹ The Commonwealth Court and the Pennsylvania Supreme Court have also considered the showing required for a claim of disparate impact under the Free and Equal Elections and Uniformity Clauses of the Pennsylvania Constitution.¹²²²

It is particularly important that the Commission apply this two-step framework here, because the Commonwealth Court has made it clear that OCA’s presentation of the disparate-impact theory and the governing two-part test to the Commission was missing from the prior 2023 Peoples base rate proceeding.¹²²³ In the 2023 Peoples bas rate proceeding, the OCA raised the same disparate impact issues it raises here.¹²²⁴ The Court affirmed the Commission’s order, denying the OCA’s request for a root cause analysis on waiver grounds, because the OCA had not adequately presented the disparate-impact theory or the two-part test in front of the Commission, specifically stating:

Here, we are constrained to conclude that the OCA waived its disparate impact argument, as it never raised this issue before the Commission, but included the issue in its legal brief . . . in its appellate brief and at oral argument before this Court, the “OCA recognize[d] that the application of the disparate impact standard to terminations for nonpayment of public utility service is one of first

¹²²⁰ *Teal*, 457 U.S. at 446.

¹²²¹ See *Winn v. Trans World Airlines, Inc.*, 484 A.2d 392, 398-402 (Pa. 1984); *Allegheny Hous. Rehab. Corp. v. Pa. Human Relations Comm’n*, 532 A.2d 315, 319 (Pa. 1987).

¹²²² See *League of Women Voters v. Commonwealth*, 178 A.3d 737, 817 (Pa. 2018) (prohibiting disparate impact on a political partisan basis when designing voting districts); *Valley Forge Towers Apts. N, LP v. Upper Merion Area Sch. Dist. & Keystone Realty Advisors, LLC*, 163 A.3d 962, 979 (Pa. 2017) (prohibiting the intentional or systematic disparate treatment of particular sub-classifications of property).

¹²²³ *D. Lawrence v. Pa. PUC*, 358 A.3d 191 (Pa. Cmwlth. 2026).

¹²²⁴ *Id.* at 3-5.

impression.” (OCA’s Br., at 17) (emphasis added). The OCA likewise averred that “[d]isparate impact analyses have not been applied in the context of adequate and reasonable public utility service, specifically, but other areas of law provide a two part test[.]” (OCA’s Br., at 13) (emphasis added.) . . . Therefore, despite the admitted novelty of its disparate impact argument, the OCA failed to expressly raise it below, leaving the Commission without notice of the specifics of its claim within the context of its broader Section 1501 issue.¹²²⁵

The Commonwealth Court, however, did not decide that disparate impact cannot be considered under Section 1501. Rather, Senior Judge Leadbetter, in her dissent, did “not agree that OCA waived the issue of whether it had put on sufficient evidence to justify a root cause study to determine whether Peoples’ practices had a disparate impact on black households,” finding that the evidence presented in Mr. Colton’s testimony was “more than sufficient to preserve the issue.”¹²²⁶ The Court held only that the OCA had failed to preserve that legal theory by presenting it to the ALJ and the Commission in the first instance.¹²²⁷ The OCA is now expressly doing so.

The OCA submits that it has satisfied the first step. Mr. Colton’s analysis shows a substantial and consistent disparity between the percentage of Peoples’ customers living in above-average-Black ZIP codes and the percentage of nonpayment disconnections occurring in those ZIP codes.¹²²⁸ The disparity persists when the analysis is limited to confirmed low-income customers.¹²²⁹ Merely because the zip codes studied by Mr. Colton have been identified by Peoples as “vulnerable households to be targeted for increased CAP outreach” does not erase the fact that Mr. Colton’s analysis controls

¹²²⁵ *Id.* at 9-11.

¹²²⁶ *D. Lawrence*, 358 A.3d 191, Dissenting Opinion at 1, 3.

¹²²⁷ *D. Lawrence*, 358 A.3d 191, Opinion at 11-12.

¹²²⁸ OCA St. 4 at 53-55.

¹²²⁹ *Id.* at 54.

for the income levels of the studied zip codes.¹²³⁰ Peoples has not demonstrated that the OCA's statistical showing is erroneous, nor has it identified an alternative explanation that accounts for the racial disparity.

At the second step, OCA argues that Peoples' response—that the termination process is automated and does not consider race—does not satisfy its burden.¹²³¹ That explanation establishes only that the process is facially neutral and that Peoples does not intentionally target Black customers.¹²³² It does not explain why the process has the disparate effect identified by Mr. Colton or why Peoples' termination procedures were developed in this manner, rather than a manner that does not produce a discriminatory effect.

That distinction is dispositive. A facially neutral practice is precisely the type of practice to which disparate-impact analysis applies, i.e., a practice that falls more harshly on one group than another and cannot be justified by a valid, nondiscriminatory purpose.¹²³³ The relevant question is therefore not whether Peoples intentionally programmed race into its termination system. It is whether Peoples can identify a legitimate, nondiscriminatory basis for the termination procedures, and one that explains the system's demonstrated disparate effect. Peoples has not done so in this case.

OCA maintains that the absence of an identified cause is precisely why the Commission should order a root cause analysis. Section 1501 requires adequate and reasonable service, and Section 1505(a) authorizes the Commission to order a utility to alter its service when necessary to bring that service into compliance with the Code.¹²³⁴

¹²³⁰ Peoples St. 10-RJ at 12.

¹²³¹ OCA St. 4SR at 26.

¹²³² *Id.* at 26-27.

¹²³³ *Winn*, 484 A.2d at 401 (citing *Teamsters*, 431 U.S. at 335, n.15).

¹²³⁴ 66 Pa. C.S. §§ 1501, 1505(a).

Section 501(a), moreover, grants the Commission broad authority, and imposes upon it a duty, to enforce and carry out the provisions and purposes of the Public Utility Code.¹²³⁵

The OCA notes that the Commission has previously used investigations and root-cause-type analyses as remedies for identified service-quality problems. For example, in the Pennsylvania-American Water Company 2023 rate proceeding, the Commission found service-quality deficiencies and ordered an investigation into the quality-of-service problems and their causes, culminating in a root cause analysis report.¹²³⁶ Likewise, in the 2023 Philadelphia Gas Works rate proceeding, the Commission ordered measures requiring the utility to analyze adverse trends and develop processes for addressing identified service problems.¹²³⁷

OCA argues that a root cause analysis is a reasonable remedy that aims to determine why there is a disparate impact.¹²³⁸ It does not presume that Peoples intentionally discriminated. It does not require the Company to abandon automated termination procedures merely because a statistical disparity exists. And it does not dictate the ultimate cause of the disparity before that cause is known. Instead, it requires Peoples to undertake a systematic investigation into why its termination procedures produce the demonstrated disparity and what changes, if any, are necessary to eliminate

¹²³⁵ 66 Pa. C.S. § 501(a).

¹²³⁶ *Pa. PUC v. Pa.-American Water Co.*, Docket Nos. R-2023-3043189 et al., Opinion and Order (July 22, 2024).

¹²³⁷ *Pa. PUC v. Phila. Gas Works*, Docket Nos. R-2023-3037933 et al., Opinion and Order (Nov. 9, 2024).

¹²³⁸ For example, the OCA did not recommend that the Commission give effect to any findings regarding the existence of a disparate impact resulting from Peoples' termination procedures by making adjustments to Peoples' cost of service, such as through the disallowance of specific expense allowances or through the rejection of Peoples requested management performance adder to its return on equity, despite its clear opportunity to do so. 66 Pa. C.S. §§ 523(a), 526(a). Rather, the OCA's analysis determined that further investigation is required into the demonstrated disparate impact of Peoples' termination procedures, not a penalty to the Company.

an inadequate or unreasonable service condition. And the evidence presented by OCA witness Colton supports this remedy, and is sufficient to warrant the requested remedy in light of the limited nature of the remedy's scope and its overall reasonableness.

Therefore the OCA submits that the Commission should (1) find that the OCA has established a *prima facie* disparate impact case, (2) find that Peoples has not identified a sufficient explanation for the demonstrated disparity, and (3) order Peoples to conduct and submit a comprehensive root cause analysis of its nonpayment termination procedures.

RECOMMENDATION

In light of the arguments and evidence presented by OCA, I recommend that the Commission (1) find that the OCA has established a *prima facie* disparate impact case, (2) find that Peoples has not identified a sufficient explanation for the demonstrated disparity, and (3) order Peoples to conduct and submit a comprehensive root cause analysis of its nonpayment termination procedures. Such an order is necessary to determine whether Peoples is providing adequate and reasonable service as required by Section 1501, 66 Pa.C.S. § 1501, and, if not, what changes are necessary to bring its termination practices into compliance with the Public Utility Code.

41. Rebilling/Back-Billing Data Tracking

OCA witness Larkin-Connolly also reviewed Peoples' billing and operational performance, particularly examining rebilling and back-billing events since 2019.¹²³⁹ Due to a vendor printing error in 2024, Peoples experienced a significant delay in the printing and mailing of bills for one month, affecting approximately 25% of

¹²³⁹ OCA St. 5 at 18.

Peoples’ residential customer base.¹²⁴⁰ Peoples also experienced significant spikes in rebills and/or back-bills in March and October of 2024, which were not caused by the bill printing vendor disruption.¹²⁴¹ However, Peoples was unable to identify the rebill cause because it does not track the causes for such events.¹²⁴²

OCA witness Larkin-Connolly defined back-billing as “a make-up bill for service that was previously unbilled or underbilled because of a meter or meter-communication failure, a missed or estimated read later corrected by an actual read, or a billing-system or account error.”¹²⁴³ He defined rebilling as “the cancellation and reissuance of a bill to correct charges that were calculated incorrectly the first time.”¹²⁴⁴ Both terms are used to describe the Company’s request for a customer to pay non-current charges.¹²⁴⁵

Due to the significant number of rebills and back-bills issued in 2024 which the Company was not able to attribute to a particular cause, OCA witness Larkin- Connolly recommended that “Peoples maintain contemporaneous records of any back-billing or rebilling event affecting more than 100 customers from a common cause and be prepared to provide, in its next base rate case, complete information about the event, including the number of customers affected and the bill impact by customer, along with the dates and copies of any communications with Commission staff regarding the

¹²⁴⁰ OCA St. 5 at 20.

¹²⁴¹ OCA St. 5 at 22.

¹²⁴² OCA St. 5 at 22. Peoples claimed that the cause of the rebills during these periods may be related to encoder-receiver-transmitter meter-reading devices, though Mr. Larkin-Connolly found that the number of rebills issued due to the encoder-receiver-transmitter meter-reading devices error was too low to account for the significant number of rebills in 2024, comprising less than 2% of total rebills issued. OCA St. 5 at 23.

¹²⁴³ OCA St. 5 at 21.

¹²⁴⁴ OCA St. 5 at 21.

¹²⁴⁵ OCA St. 5 at 21.

event.”¹²⁴⁶ This recommendation is targeted to Mr. Larkin-Connolly’s concern that Peoples may treat back-billing or rebilling events “as operational blips rather than events warranting proactive attention and communication.”¹²⁴⁷ Improved internal data collection will enable Peoples, the Commission, the OCA, and other advocates to better understand and advise on rebilling or back-billing events that impact a significant number of customers. Absent adequate internal data collection, the OCA argues that Peoples will struggle to identify patterns to proactively target and address to ensure that its service remains compliant with the Public Utility Code.

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

Whenever the commission, after reasonable notice and hearing, upon its own motion or upon complaint, finds that the service or facilities of any public utility are unreasonable, unsafe, inadequate, insufficient, or unreasonably discriminatory, or otherwise in violation of this part, the commission shall determine and prescribe, by regulation or order, the reasonable, safe, adequate, sufficient, service or facilities to be observed, furnished, enforced, or employed, including all such repairs, changes, alterations, extensions, substitutions, or improvements in facilities as shall be reasonably necessary and proper for the safety, accommodation, and convenience of the public.¹²⁴⁸

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

¹²⁴⁶ OCA St. 5SR at 11.

¹²⁴⁷ OCA St. 5 at 24.

¹²⁴⁸ 66 Pa. C.S. § 1505(a).

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

Mailed Cost Summaries

OCA witness Larkin-Connolly further examined the engagement that Peoples customers have with their Peoples bills over time. Based on his review of the data, Mr. Larkin-Connolly recommends that the Commission consider periodic mailed cost summaries for residential customers, showing usage and total billed amounts over time, "to preserve baseline visibility into utility costs for customers across all billing and payment arrangements."¹²⁴⁹ While this recommendation is not specific to Peoples or an identification of a deficiency in Peoples' service, it is germane for the Commission to consider how utilities could improve customers' relationship with their utility bills by being better informed about bill and usage trends over time.

Specifically, Mr. Larkin-Connolly testified that:

A customer who receives a paper bill and pays it manually each month has a recurring prompt to look at what they are being charged. A customer enrolled in both electronic billing and automatic payment has, by design, removed those prompts: the bill arrives in an inbox that may go unopened, and the payment leaves the account without any action required. That is a convenience many customers reasonably choose. But the combination tends to reduce month-to-month attention to the size and movement of the bill, and that reduced engagement has consequences for how billing or cost problems come to light.¹²⁵⁰

¹²⁴⁹ OCA St. 5 at 43.

¹²⁵⁰ OCA St. 5 at 41-42.

Further, approximately 10% more non-CAP residential customers utilize both electronic billing and use AutoPay (11.1%) compared to CAP residential customers utilizing the same (1.3%).¹²⁵¹ Based on this data, OCA witness Larkin-Connolly concluded that bill engagement may be inversely related to income, as “a customer for whom the gas bill represents a larger share of household income has more reason to watch it closely each month.”¹²⁵² Due to higher levels of customer engagement with their monthly bills, CAP customers may be “the ones most likely to notice and report a billing or cost problem,” meaning that concerns over Peoples’ billing and service may “tend to be treated as affordability matters specific to that population rather than as early indicators of problems that may affect the broader customer base.”¹²⁵³

For these reasons, the OCA recommends that the Commission consider, on a non-utility-specific basis, whether additional mailed cost summaries to utility customers could provide greater transparency into usage and payment amounts for customers over time. Such mailed cost summaries would create an additional touch point between the utility and customer and may create greater awareness of billing concerns that are not affordability-related.¹²⁵⁴

OSBA

The OSBA is not briefing this issue.¹²⁵⁵

¹²⁵¹ OCA St. 5 at 41.

¹²⁵² OCA St. 5 at 42.

¹²⁵³ OCA St. 5 at 42.

¹²⁵⁴ OCA MB at 125-141.

¹²⁵⁵ OSBA MB at 16.

RECOMMENDATION

I do not find the arguments compelling to recommend that the Commission follow the proposals of OCA regarding back-billing and mail cost summaries and therefore do not recommend that the Commission adopt these proposals.

42. INFORMAL AND FORMAL COMPLAINTS

Peoples

As Peoples witness Black testified, the classifications of informal complaints are subjective based on BCS staff's attempt to place them in pre-defined categories. The Company avers that it elevates formal complaints where necessary and always ensures that each is given specific treatment, care, and due consideration.¹²⁵⁶

43. PAYMENT ARRANGEMENTS

Residential Payment Arrangements

Peoples

The Company maintains that it offers payment arrangements to provide customers with the opportunity to pay off their arrears over time. However, some customers choose to default on their payment arrangement for reasons outside of the Company's control.¹²⁵⁷

¹²⁵⁶ Peoples St. 10-R at 26-27.

¹²⁵⁷ Peoples St. 18-R at 5-6.

Payment Arrangements for SGS and MGS Customers

Peoples

Peoples notes that OSBA recommends that the Company add a “formal late payment plan to the SGS and MGS tariffs.”¹²⁵⁸ OSBA also recommends that the Company track interactions in small business customers related to financial difficulties.¹²⁵⁹

The Company avers that it does commit to working with all customers facing financial difficulties, and but it does already offer SGS and MGS customers temporary holds to allow for payment, as well as payment arrangements.¹²⁶⁰

Use Of Social Security Numbers (“SSN”)

Peoples argues that SSNs are an effective and consistent tool that the Company uses to identify its customers.¹²⁶¹ Company witness Parks explained that the Company uses SSNs to ensure that processes such as balance transfers, collection efforts, accounting, and bankruptcy administration are completed prudently and accurately.¹²⁶² While Peoples recognizes the importance of protecting customer information, the appropriate data protection practices must be balanced with the need for this information.

¹²⁵⁸ OSBA St. 2 at 3.

¹²⁵⁹ *Id.*

¹²⁶⁰ Peoples St. 18-R at 22.

¹²⁶¹ Peoples St. 18-R at 11-12.

¹²⁶² Peoples St. 18-R at 12.

Customer Service Performance

Peoples

Call Center Performance and Staffing

Peoples argues that the record supports Peoples' position that the Company is strong in its live customer service interactions, in categories such as call abandonment, speed of answer, wait time, and ability to reach a representative. Additionally, the Company actively and prudently manages its staffing needs in response to seasonal call volume increases as well as overall operational performance and customer service strategy.¹²⁶³

2024 Billing Events

Peoples

Peoples noted that OCA raised concerns with two separate billing events that occurred in 2024. The first is when the Company's bill print vendor abruptly closed, and certain files were missed in the transition to a new vendor, resulting in a delay in the printing and mailing of bills for some customers for one month ("Print Vendor Event").¹²⁶⁴ OCA's concern with the Print Vendor Event was the method by which it came to the Commission's attention: independent observation by BCS staff and a member of the Consumer Advisory Council, as well as whether Peoples was properly internally monitoring the situation and impacts to affected customers.¹²⁶⁵

¹²⁶³ Peoples St. 18-R at 14-15.

¹²⁶⁴ OCA St. 5 at 20.

¹²⁶⁵ OCA St. 5 at 23.

The Company explained that it did notify BCS upon identification of the issue.¹²⁶⁶ Peoples also took steps to protect its customers in light of this event that were not acknowledged by OCA, namely: removal of late payment charges or issuance of credits, posting of customer notifications in multiple locations, and the addition of messaging to the Company's IVR system.¹²⁶⁷ This isolated Print Vendor Event required a system-related mass adjustment, but not the rebilling of previously underbilled or unbilled service, and all customer accounts were made whole.

The Company maintains that it self-reports billing events consistent with regulatory obligations, and denies that it is lacking in control, records, or transparency regarding billing events.¹²⁶⁸ Billing events must be evaluated on a case-by-case basis as they vary in cause, scope, timing, impact, remediation, customer service and communication, and regulatory requirements.¹²⁶⁹ The requirement that separate records be maintained for each event affecting more than 100 customers would be a highly ineffective use of the Company's time and resources,¹²⁷⁰

Bill Engagement

Peoples

Peoples argues that this rate case is not the appropriate forum for the Commission to consider the broad issue of statewide bill engagement. Further, the recommendation is redundant because the Company already provides customers with

¹²⁶⁶ Peoples St. 16-R at 16-17.

¹²⁶⁷ Peoples St. 18-R at 16-17.

¹²⁶⁸ Peoples St. 18-RJ at 7.

¹²⁶⁹ *Id.*

¹²⁷⁰ *Id.*

their specific information, including account statements, as requested, and the information is readily available online.¹²⁷¹

I&E

I&E did not present testimony on specific customer service and quality of service issues.¹²⁷²

OSBA

The OSBA is not briefing this issue.¹²⁷³

CAUSE-PA

CAUSE-PA respectfully urges the Commission to adopt the recommendation of OCA witness Colton that Peoples be required to conduct an independent root cause analysis to determine what is driving the disproportionate level of utility disconnections within the Company's service territory.¹²⁷⁴ Mr. Colton recommended that, "Once this root cause analysis is conducted, Peoples should commit to taking steps to address the cause with the commitment of reducing the disproportionate level of disconnections. The extent to which Peoples mitigates the disproportionate disconnection of service for nonpayment in zip codes with high penetrations of Black households should be reviewed in Peoples next base rate case."¹²⁷⁵

¹²⁷¹ Peoples St. 18-R at 20-21; Peoples MB at 125-131.

¹²⁷² I&E MB at 58.

¹²⁷³ OSBA MB at 16.

¹²⁷⁴ OCA St. 4 at 4-5, 51-57.

¹²⁷⁵ *Id.* at 56.

Mr. Colton based this recommendation on a disparate impact test that determined that the nonpayment disconnections employed by Peoples have a disparate impact on Black and African- American populations.¹²⁷⁶ He found:

- While 30.07% of all residential customers live in Above-Average Black zip codes (householders), 42.97% of all residential nonpayment disconnections occur in those zip codes. Similarly, while 30.92% of all residential customers live in Above-Average Black zip codes (population), 43.80% of all residential nonpayment disconnections occur in those zip codes.¹²⁷⁷
- The pattern does not change if the data is limited to Confirmed Low-Income customers (rather than extending to all residential customers). While 32.73% of all Confirmed Low-Income customers live in Above-Average Black zip codes (householders), 45.42% of all Confirmed Low-Income nonpayment disconnections occur in those zip codes. Similarly, while 33.40% of all Confirmed Low-Income customers live in Above-Average Black zip codes (population), 46.13% of all Confirmed Low-Income nonpayment disconnections occur in those zip codes.¹²⁷⁸

He noted that these disparate impacts are not unique to peoples, pointing to an article in The Electricity Journal finding that neighborhoods with a greater concentration of people of color is associated with a meaningfully higher involuntary disconnection rate, even after controlling for economic and demographic factors.¹²⁷⁹

Mr. Colton noted that the disparate impact test was not a finding of intentional discrimination and that Peoples may not even be aware of the correlation.¹²⁸⁰

¹²⁷⁶ *Id.* at 51-55.

¹²⁷⁷ *Id.* at 54.

¹²⁷⁸ *Id.*

¹²⁷⁹ OCA St. 4 at 55.

¹²⁸⁰ *Id.* at 51.

However, he explained that the lack of intentionality, neither addresses nor remedies the fact that Peoples disproportionately disconnects service to Black households for nonpayment and that it is important to shed light on to this disparate impact to ensure that it can be remedied in the near term.¹²⁸¹ The lack of intentionality does not negate the need for Peoples and the Commission to take proactive steps toward fostering equity in the electric system through the principles of energy justice.¹²⁸²

In rebuttal, Peoples did not dispute that Peoples disproportionately disconnects service for nonpayment in communities with higher than average numbers of persons of color.¹²⁸³ Peoples witness Black provided heatmaps examining energy burdens and “risk of pipe freeze,” with the goal of noting where to promote universal service programs and identify at risk accounts due to high energy burdens for outreach.¹²⁸⁴ She argued that Peoples does not need to develop a root cause analysis of the cause for racially disproportionate nonpayment disconnections because Peoples “has already identified CAP eligible CLI populations in these geographical areas of concern.”¹²⁸⁵ However, as Mr. Colton points out, she seemingly concedes that the goals of the heat maps are not to identify racial disparities, to understand why those disparities exist, or to develop responses to redress those disparities.¹²⁸⁶

Further, Ms. Black does not explain why she believes improving energy burdens is the sole remedy to the disproportionate disconnection of service to communities of color, nor does she identify any relationship between the disproportionate disconnection of service to communities of color and the lack of CAP enrollment in those

¹²⁸¹ *Id.* at 51.

¹²⁸² *Id.* at 55-56.

¹²⁸³ OCA St. 4-SR at 19; Peoples St. 10-SR at 16-18.

¹²⁸⁴ Peoples St. 10-R at 17-18.

¹²⁸⁵ *Id.* at 18.

¹²⁸⁶ OCA St. 4-SR at 20.

communities.¹²⁸⁷ She also fails to explain how reviewing “results of our outreach activities, specifically as it pertains to the use of the heat maps,” would be expected to remedy the disconnection of service for nonpayment in communities of color.¹²⁸⁸ Thus, while the heatmaps may be a useful tool for general CAP outreach, they do not address the cause of the disproportionate nonpayment disconnections in communities of color identified in Mr. Colton’s direct.¹²⁸⁹

In rejoinder testimony, Ms. Black argues that Mr. Colton did not prove that the households disconnected were actually households of color, because he relied on census based zip-code data.¹²⁹⁰ She argues that Peoples cannot confirm how many households of color it terminates because the Company does not collect racial data about its customers.¹²⁹¹ However, Mr. Colton specifically explained that his analysis controlled for income status and other economic factors by comparing majority Black zip codes to all other zip codes.¹²⁹² Further, the findings of disproportionate impact were consistent both when based on the number of households where the householder is Black and when based on the percentage of Black population.¹²⁹³ The fact that Peoples does not collect racial data on the households it terminates does not excuse the Company from the obligation to address the disparate impacts identified in Mr. Colton’s direct testimony. Peoples should not be able to deny the existence of racial disparities simply because it does not collect data that would confirm the existence of those disparities.

Such data is likely a necessary component of the root cause analysis recommended by Mr. Colton. Peoples should be required to address the cause of, and

¹²⁸⁷ *Id.* at 19.

¹²⁸⁸ *Id.* at 20.

¹²⁸⁹ OCA St. 4-SR at 19.

¹²⁹⁰ Peoples St. 10-RJ at 12.

¹²⁹¹ *Id.*

¹²⁹² OCA St. 4 at 52-53.

¹²⁹³ *Id.*

potential mechanisms through which to redress, the disproportionate nonpayment disconnections in communities of color identified by Mr. Colton.¹²⁹⁴

RECOMMENDATION

For similar reasons discussed above regarding OCA's arguments on disparate impact and proposals to address it, I recommend that the Commission issue the Order as discussed above in light of CAUSE-PA's arguments.

44. PROPOSED TARIFF CHANGES

Rate Cap

Recreational Gas Use

Peoples

Peoples proposed to revise its tariff to provide that customers enrolled in CAP may not use natural gas for recreational purposes, such as pool heaters and/or hot tubs, recreational appliances, outdoor appliances, and heated outdoor buildings.¹²⁹⁵ Under this proposed revision, CAP customers who use natural gas for recreational purposes will be removed from CAP, and may re-enroll upon verification that the natural gas connection to the recreational appliance has been removed. This proposed revision would memorialize and clarify language that is already contained within the Company's USECP, prohibiting recreational natural gas use. Peoples maintains that this provision is

¹²⁹⁴ CAUSE-PA MB at 94-97.

¹²⁹⁵ Peoples St. 13 at 5; Peoples St. 10 at 8.

intended to protect non-CAP customers from bearing unnecessary costs by ensuring that natural gas used in this program is used appropriately.¹²⁹⁶

Peoples emphasizes that the prohibition of recreational natural gas use is an existing provision within the Company's Commission-approved USECP. Additionally, neither opposing party recognizes that Peoples already enforces this provision, and, indeed, the Company can be and has been penalized where it fails to identify recreational natural gas use.¹²⁹⁷

As explained in the rebuttal testimony of Company witness Black, in consideration of points raised by both CAUSE-PA and OCA, Peoples has agreed to revise its proposed tariff provision in order to remove certain appliances, such as gas grills, from the tariff language, and to remove the provision that customers will be billed for unjustified recreational gas usage. The proposed revisions also memorialize another practice of the Company, which is that customers may submit verification of a medical need in order to exempt an appliance from this provision.¹²⁹⁸

The Company's revisions to its proposed tariff language regarding recreational gas usage allows Peoples to meet its objective of memorializing long-standing USECP language within its tariff to promote transparency and clarity, while also addressing the concerns of CAUSE-PA and OCA. CAUSE-PA has indicated that Peoples' proposed revisions to this provision are reasonable and address its concerns.¹²⁹⁹

¹²⁹⁶ Peoples St. 10 at 10-11; Peoples MB at 132.

¹²⁹⁷ Peoples St. 10-R at 3-4.

¹²⁹⁸ *Id.*

¹²⁹⁹ CAUSE-PA St. 1-SR at 43; Peoples MB at 133.

I&E

I&E did not present testimony on specific issues regarding the Company's proposed tariff changes.¹³⁰⁰

OCA

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

OSBA

The OSBA is not briefing this issue.¹³⁰¹

CAUSE-PA

CAUSE-PA does not take a position on proposed tariff changes.¹³⁰²

RECOMMENDATION

I recommend that the Commission accept the Tariff changes proposed by Peoples, especially in light of its consideration of the other parties' positions and adoption of some of those positions.

¹³⁰⁰ I&E MB at 13, 58.
¹³⁰¹ OSBA MB at 16.
¹³⁰² CAUSE-PA MB at 97.

Nonliability/Limitation of Liability

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

The OCA recommends that the request to tighten this provision be denied because, as described *supra*, Peoples customers are increasingly submitting informal and formal complaints related to damage to their property associated with Peoples' construction activities.¹³⁰³ While liability limits are not inherently unreasonable, OCA witness Larkin-Connolly testified that the Company's current liability limits are sufficiently protective.¹³⁰⁴ Namely, the current tariff provisions "already protect the Company from open-ended liability exposure."¹³⁰⁵ For purposes of Section 1501 of the Public Utility Code, the proposed tariff revision is unreasonable and should be rejected as too restrictive, in light of the increasing number of damage-related complaints.¹³⁰⁶

Dishonored Payments

Peoples proposes language to the Billing and Payment section (Rule 10) of the Rules and Regulation of its retail tariff, that will allow the Company to require certified funds to prevent termination or restore service where the customer has a history

¹³⁰³ OCA St. 5 at 45.

¹³⁰⁴ OCA St. 5 at 45.

¹³⁰⁵ OCA St. 5 at 45.

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

of returned payments or has not demonstrated a good-faith effort to pay within the prior 12 months. It also proposes authority to remove a customer from eAccount or other online payment options if it detects “abuse” of those platforms, including repeated cancellations of online payments.

OCA witness Larkin-Connolly testified “that the proposed language reserves broad discretionary authority for the Company without establishing any criteria, notice requirements, or review process.”¹³⁰⁷ Specifically, the proposed tariff change:

[A]llows Peoples to require certified funds or the ability to remove a customer from electronic payment options based on its own assessment that the customer has a history of returned payments or has not demonstrated good-faith payment effort within the prior twelve months. There is no definition of what constitutes a history of returned payments, no minimum threshold before the restriction applies, no requirement that the Company notify the customer or BCS before acting, and no mechanism for the customer to contest the determination.¹³⁰⁸

Peoples’ proposed change is not proportionate to the burden placed on customers if they are not permitted to pay by check or online, meaning that they “must obtain a money order or cashier’s check, which adds cost and inconvenience that falls hardest on customers with limited banking access,” without imposing procedural guardrails to protect and adequately inform customers.¹³⁰⁹ While Peoples claims that notifying customers that a payment was returned is sufficient to notify customers that they are, going forward, prohibited from paying by check or eAccount, a returned payment notice is insufficient to inform a customer that they have a demonstrated pattern of returned

¹³⁰⁷ OCA St. 5 at 45.

¹³⁰⁸ OCA St. 5 at 45-46.

¹³⁰⁹ OCA St. 5 at 46.

payments which warrants fewer payment options.¹³¹⁰ As a result, the proposed tariff change is unreasonable, and the Commission should reject it.

Cap Restrictions on Recreational Gas Use

Peoples proposes to remove CAP customers from the program for engaging in “recreational gas use.”¹³¹¹ The proposal would permit re-enrollment only after verification that the recreational gas connection has been removed. The Commission should reject this proposal because Peoples has not demonstrated that the proposed restriction addresses a material problem or established an administratively reasonable method for enforcing it.¹³¹²

As Mr. Colton testified, the proposal is particularly problematic because Peoples has not adequately defined what constitutes recreational use.¹³¹³ Instead, Peoples provides a list which is ambiguously expanded through the use of the terms “such as, but not limited to.”¹³¹⁴ The Company does not explain how it would determine whether a particular appliance is being used for a prohibited purpose.¹³¹⁵ Nor does it explain how Peoples would determine the frequency or extent of the allegedly prohibited use for purposes of billing the customer for “unjustified usage.”¹³¹⁶

The proposal creates a significant risk of erroneous CAP termination without an adequate corresponding appeal mechanism concerning the amount of alleged

¹³¹⁰ OCA St. 5SR at 8.

¹³¹¹ Peoples St. 10 at 8.

¹³¹² OCA St. 4 at 65-66.

¹³¹³ *Id.* at 65.

¹³¹⁴ *Id.* (quoting Peoples St. 10 at 8).

¹³¹⁵ *Id.*

¹³¹⁶ *Id.* at 66.

“unjustified” usage.¹³¹⁷ OCA witness Colton explained enforcement would itself impose expenses which may exceed the cost for providing CAP credits for such an “unjustified use,” including the “cost of (1) policing CAP participants to determine whether, and to what extent, such use is occurring; (2) enforcing the ban through the removal of CAP participants and determining the appropriate amount to be billed for the ‘unjustified use;’ and (3) collecting that billing for the unjustified use.”¹³¹⁸

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

OCA witness Larkin-Connolly found that “Peoples has not established that recreational gas use by CAP customers is a material or widespread problem.”¹³¹⁹ In its rebuttal testimony, Peoples modified its initial proposal to eliminate the list of appliances it identified as recreational¹³²⁰ and only specify pool heaters, in addition to permitting a demonstration of medical necessity for the “recreational” appliance.¹³²¹ Though the OCA accepts Peoples’ addition of a medical-necessity certification option in its rebuttal

¹³¹⁷ *Id.*

¹³¹⁸ *Id.*

¹³¹⁹ OCA St. 5 at 46.

¹³²⁰ Including, “but not limited to, interior or exterior pool heaters and/or hot tubs, recreational appliances, outdoor appliances such as gas grills, fire pits/rings, fireplaces, gas lamps, heaters and other cooking appliances, and heated outdoor buildings such as a shed, shop or garage...” Peoples St. 10-R at 4-5.

¹³²¹ Peoples St. 10-R at 4-5.

testimony¹³²² as an improvement to the as-filed proposal, its underlying concerns are unaddressed. Neither proposal “includes any notice, review, or contestability process before a customer is removed from CAP.”¹³²³

As proposed, Peoples is vested with significant discretion to remove customers from CAP without providing notice to the customer of the potential for removal. Namely, Peoples uses usage statistics to “flag” customer accounts that the Company suspects of recreational usage.¹³²⁴ Once notified that the account’s enrollment in CAP has been suspended, the customer can “restore participation in CAP” if and only if they provide documentation that the appliance is medically necessary.¹³²⁵ The Company’s proposal does not consider (1) that its “flag” could be incorrect and there could be another reason for increased natural gas consumption or (2) that a customer would halt usage of a recreational compliance if they are made aware *ex ante* that they would be removed from CAP.¹³²⁶

RECOMMENDATION

I am in agreement with the proposals offered by Peoples and recommend that the Commission accept same.

¹³²² Peoples St. 10-R at 4-5.
¹³²³ OCA St. 5SR at 9.
¹³²⁴ Peoples St. 10-RJ at 8.
¹³²⁵ Peoples St. 10-RJ at 8.
¹³²⁶ OCA MB at 141-145.

45. Fraud

Peoples

Peoples proposed a tariff revision that would allow the Company to hold customers who fraudulently obtain CAP benefits accountable for the cost of those benefits.¹³²⁷ This provision is intended to protect non-CAP customers from bearing unnecessary costs by ensuring that only those individuals who are eligible for CAP benefits are receiving them.¹³²⁸ With respect to the dispute process, the Company handles each case of suspected fraud on a case-by-case basis. There is careful review, flexibility, and communication with the customer involved in each of these cases, and Peoples does not intend to apply this tariff provision in a careless or overreaching manner.¹³²⁹ OCA characterizes the level of fraudulent CAP use as *de minimums* but fails to acknowledge that each dollar identified through the implementation of this tariff provision is a dollar saved by Peoples' customers.¹³³⁰

OCA

The OCA asks the Commission to reject the Company's, as fraud is not clearly defined, and the term is too broad and does not encompass everything the Company intends for it to include.¹³³¹

¹³²⁷ Peoples St. 13 at 5; Peoples St. 10 at 8.

¹³²⁸ Peoples St. 10 at 10-11.

¹³²⁹ Peoples St. 10-R at 8.

¹³³⁰ OCA St. 4SR at 15-16; Peoples MB at 133-134.

¹³³¹ OCA MB at 145 -148.

CAUSE-PA

CAUSE-PA notes Peoples' proposed CAP fraud provision # 10 has a dangerous level of subjectivity that could lead to customers who are low-income customers being unjustifiably removed from CAP, leading to service termination.¹³³² Furthermore, there is no substantial evidence in the record to demonstrate that this process is necessary or that Peoples' existing policies are insufficient. CAUSE-PA is further concerned that this danger is even more pronounced considering that Peoples does not conduct its own income screening of CAP applicants, because that duty is performed by its CAP administrator, Dollar Energy Fund.¹³³³ This system adds another layer of uncertainty as to whether, if a customer is over income, whether that customer was mistaken or whether an error was made in the processing of the income documentation.¹³³⁴

CAUSE-PA notes that when asked how the Company intends to identify whether a customer "obtained benefits through fraudulent means," the Company indicates that:

CAUSE-PA maintains that these situations are typically identified through a review of high usage accounts. For example, upon review, if the Company identifies the high usage is due to a large residence with significant property value and if there is no history of applying for or receiving LIHEAP and if there is undocumented income such as completion of the zero income form or 'other' income form or an appearance of unreported income, the Company will investigate further to determine if there are

¹³³² CAUSE-PA St. 1 at 71.

¹³³³ *Id.*

¹³³⁴ CAUSE-PA St. 1 at 71.

publicly available indications of unreported income (i.e. owns their own business, etc.).¹³³⁵

This methodology is rife with subjectivity as to what the Company would allege to be CAP fraud based upon the “appearance of unreported income” and the indications of unreported income would include if a customer owned their own business.¹³³⁶ Mr. Cicero explained that “there are many situations where low-income customers could be classified as small business owners. Low-income customers are often subject to jobs that classify them as independent contractors, such as restaurants, salons, ride shares, and delivery applications, etc.”¹³³⁷ He further explained that there are many situations where owners of small businesses fall upon tough times and would qualify as low-income customers due to decreased revenues and increased expenses.¹³³⁸

CAUSE-PA submits that if Peoples were to implement its proposed CAP fraud provision, the process must be more clearly defined and objective. Peoples indicated that it has not developed a way for customers to dispute allegations of CAP fraud other than its existing dispute process and their ability to contact the Commission’s Bureau of Consumer Services.¹³³⁹

¹³³⁵ *Id.* at 71, Appendix B: Peoples’ Response to CAUSE-PA VI-002(b).

¹³³⁶ CAUSE-PA St. 1 at 71.

¹³³⁷ CAUSE-PA St. 1 at 71-72.

¹³³⁸ *Id.* at 72.

¹³³⁹ CAUSE-PA St. 1 at 72, Appendix B: Peoples’ Response to CAUSE-PA VI-002(c); CAUSE-PA MB at 86-87.

46. RIDER UNIVERSAL SERVICE

Costs Associated with CARES

Peoples

Peoples proposes to revise Rider USP to include outreach costs related to the Customer Assistance, Referral, and Evaluation Services (“CARES”) program.¹³⁴⁰ CARES is the only one of the Company’s Commission-required, core USECP programs which is not currently supported through Rider USP.¹³⁴¹ Specifically, Peoples is proposing the recovery of dedicated costs of outreach and consumer education discussed in its CEOP, which include the costs of the Peoples Energy Analytics (“PEA”) partnership, as well as communications costs related to LIHEAP and universal service program advertising. As a part of this proposal, Peoples is *not* proposing to include costs related to internal labor or employee expenses related to outreach events or CARES support of vulnerable customers.¹³⁴²

Independent Program Evaluation Costs

Peoples

Peoples proposed to include third party costs associated with the Independent Evaluation of its universal service programs in Rider USP, as is required by Peoples to comply with a BCS requirement to submit such evaluation on a recurrent basis.

¹³⁴⁰ Peoples St. 10 at 9.

¹³⁴¹ *Id.* at p. 12.

¹³⁴² Peoples MB at 135.

CAUSE-PA expressed concern with recovering these costs through the Rider and argued that the Company should continue to recover independent evaluation costs through base rates.¹³⁴³ CAUSE-PA again points to the Commission's decision rejecting Columbia's inclusion of staffing related costs in its universal services rider.

Peoples argues that the Commission's rationale for rejecting recovery of the costs through the rider in the Columbia case is not applicable here. Columbia's proposed costs pertained to the administration of Universal Services programs and energy assistance activities, and not expressly to independent evaluators.¹³⁴⁴ Additionally, Columbia's costs were related to additional workload and staffing, not to third party evaluation pursuant to a BCS requirement as is the case here. Again, the Commission's decision to reject Columbia's proposal was related to concerns over fluctuation in internal staffing,¹³⁴⁵ which has little to do with the inclusion of independent evaluator costs within Rider USP, as is proposed here.

Peoples submits that it is reasonable for the Company to include costs related to the independent evaluation of *universal service* programs within Rider Universal Service. CAUSE-PA's arguments are inapplicable to the facts of this case and should be rejected.

Other Changes to Rider USP

Peoples

Peoples proposed two other revisions to Rider USP. First, the Company proposed to remove the reference to the 'Community Partnership for Weatherization',

¹³⁴³ CAUSE-PA St. 1 at 75-76.

¹³⁴⁴ *Columbia 2025* at 335.

¹³⁴⁵ *Id.* at 337.

which is a program that was discontinued several years ago.¹³⁴⁶ Next, Peoples proposed to update the name of the Emergency Furnace Service Line Repair Program to maintain consistency with the USECP.

No party challenged these proposed revisions. Peoples submits that the revisions are reasonable and in the public interest and should be approved without modification.

RECOMMENDATION

As no party challenged the proposed revisions, I recommend that the Commission accept the revisions without modification.

47. NONLIABILITY OF COMPANY/LIMITATION OF LIABILITY

Peoples

Peoples proposed a revision to Rule 8 of its tariff regarding nonliability or limitation of liability. This proposed revision clarifies that a customer is responsible for their own property and to protect it from damage, regardless of the inhabited status of the property.¹³⁴⁷

Peoples maintains that the proposed tariff language represents a clarification rather than an additional limitation on liability. The first proposed revision, regarding inhabitation or vacancy of property, clarifies the fact that property-owning customers are liable for the maintenance of their own property, even if they leave that

¹³⁴⁶ Peoples St. 10 at 9.

¹³⁴⁷ Peoples St. 13 at 4.

property for a period of time. OCA argues that a plain reading of the language as proposed is that property damage is the responsibility of the customer where that property damage is not due to identifiable negligence on the part of Peoples.¹³⁴⁸ However, this is precisely the point of the revisions, as it is consistent with the long-standing theory that the Company is not liable for interruptions of service, absent negligence.¹³⁴⁹ The second revision, regarding types of damage, is also a mere clarification, being proposed for the purpose of transparency and clarity where damages are concerned. The first and second proposed revisions do not substantively change the meaning of Rule 8; rather, these revisions have the effect of clarifying existing provisions consistent with existing language, theory, and treatment of the provisions. Finally, to the third revision which concerns changes made to property after equipment is installed, this language is not inconsistent with that in other utilities' Commission-approved tariffs, and it is reasonable to include this language within the tariff that protects the Company from liability in the case of an unknown hazard or change made to property after the Company has installed its equipment.¹³⁵⁰

48. DISHONORED PAYMENTS

Peoples

Peoples proposed a revision to Rule 10 of its tariff regarding dishonored payments. This revision would reserve the Company's right to require a payment to prevent service termination or restore service if the customer has failed to demonstrate a good faith effort to make a payment within the preceding twelve-month period.¹³⁵¹ It

¹³⁴⁸ OCA St. 5SR at 8.
¹³⁴⁹ Peoples St. 13-R at 4.
¹³⁵⁰ Peoples St. 13-R at 4-5.
¹³⁵¹ Peoples St. 13 at 4-5.

would also provide Peoples with the right to remove a customer from using online payment methods if abuse of those platforms is detected.

Peoples argues that the proposed additions to Rule 10 protect the Company from operational burdens, increased collections costs, and prevent growing arrears.¹³⁵² Further, OCA avers that the language lacks a certain level of specificity, while ignoring the fact that the language is tailored to customers with a specific history of dishonored payments. Contrary to OCA's assertions, customers are noticed when payments are returned.

Further, it is not a new practice for Peoples to disallow checks after repeated instances of returned payments, which is consistent with the Commission's regulations at Section 56.94.¹³⁵³ Indeed, with respect to returned payment history, the Company's proposed tariff language is more limited than that in the regulations. The Rule 10 language requires a *history* of returned payments, where the regulations merely require a single returned or stopped payment to apply.¹³⁵⁴ Importantly, the additions proposed by the Company do not deprive customers of the ability to make payments. The additions allow the Company to exercise reasonable discretion in managing arrears and collection activities efficiently.

49. OTHER TARIFF REVISIONS

Peoples

Peoples proposed several other tariff revisions related to customer connection and extension of facilities, an update to the docket number and formula listed

¹³⁵² Peoples St. 13-R at 5.

¹³⁵³ 52 Pa. Code § 56.94.

¹³⁵⁴ *Id.*; Peoples St. 13-R at 6.

in the WNA section, and the Rate MLS right of first refusal. No party opposed these tariff revisions. The proposed tariff revisions are reasonable and in the public interest and should be approved without modification.¹³⁵⁵

RECOMMENDATION

I recommend that the Commission adopt the proposals as set forth by Peoples.

50. SAFETY

Damage Prevention

Peoples

Peoples notes that OCA Witness Gobrecht made several recommendations with respect to the Company's damage prevention.¹³⁵⁶ As Company witness Ravenstahl explained, the Company is generally willing to accept Mr. Gobrecht's recommendations but suggests modifying the recommendations to add further clarity in certain areas. For example, Mr. Gobrecht asks the Company to assess all first and second party damages, but the Company already performs a root cause analysis on every first and second party damage. Since Mr. Gobrecht expresses concerns over three specific causes of damages, the Company proposes to tailor the recommendations to address those three causes.

The Company's recommendations are as follows:¹³⁵⁷

¹³⁵⁵ Peoples MB at 136-141.

¹³⁵⁶ I&E St. 4 at 13-15.

¹³⁵⁷ Peoples St. 8-RJ at 4-5.

- 1) The Company agrees to continue performing root cause analyses of utility fault damages to determine areas of improvement;
- 2) The Company agrees that Peoples employees and contractors (as well as locator personnel) will receive additional training to address damage trends on Peoples system;
- 3) The Company agrees to create a QA/QC program to assess causes of damages related to (1) mapping errors, (2) lines not marked and (3) lines marked incorrectly to determine areas of improvements to reduce damages.

The Company also agrees to meet with I&E periodically to review its root cause analyses and the metrics related to the specific causes of damages.¹³⁵⁸

I&E

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

¹³⁵⁸ Peoples MB at 142.

I&E recommends that the Company implement a pilot program utilizing 500 to 1,000 Smart Remote Methane Detectors (“SRMDs”) to allow for a study of the devices’ effectiveness as well as the use of Advanced Metering Infrastructure (“AMI”) and LoRaWAN or other communication technologies for notification methodology utilized by these devices as part of its pilot program. I&E also recommends that Peoples use a risk-based approach to determine the location that best maximizes the effectiveness of the methane detector pilot program.¹³⁵⁹

OCA

The OCA did not present testimony regarding this issue.¹³⁶⁰

CAUSE-PA

CAUSE-PA did not take a position on this issue.¹³⁶¹

RECOMMENDATION

As Peoples has considered the other parties’ positions and incorporated them into its proposals, I recommend that the Commission accept Peoples’ proposals as follows:

- 1) The Company agrees to continue performing root cause analyses of utility fault damages to determine areas of improvement;
- 2) The Company agrees that Peoples employees and contractors (as well as locator personnel) will receive additional training to address damage trends on Peoples system;

¹³⁵⁹ I&E MB at 13-14, 58-59.

¹³⁶⁰ OCA MB at 150.

¹³⁶¹ CAUSE-PA MB at 99.

- 3) The Company agrees to create a QA/QC program to assess causes of damages related to (1) mapping errors, (2) lines not marked and (3) lines marked incorrectly to determine areas of improvements to reduce damages.
- 4) The Company also agrees to meet with I&E periodically to review its root cause analyses and the metrics related to the specific causes of damages.

51. **METHANE DETECTION**

Peoples

In surrebuttal testimony, Mr. Gobrecht recommends that Peoples implement a pilot program of methane detectors, whether smart or simply audible, to benefit overall public safety.¹³⁶²

The Company understands the importance of I&E's recommendation and agrees to explore the feasibility of methane detection across its territory so long as it is afforded the flexibility and time to evaluate the feasibility of methane detection prior to any mandated deployment of a specific methane detection technology. Currently, the Company does not have the network capability to centrally monitor smart methane detection equipment as Advanced Metering Infrastructure is not deployed across Peoples' territory. As such, the Company is agreeable to begin with an assessment of audible methane detection. Specifically, the Company is willing to implement a methane detection pilot which will include but is not limited to:¹³⁶³ (i) the evaluation of available methane detection technology equipment such as local audible alarm, (ii) the operational impacts and requirements associated with the methane detection equipment, (iii) the legal and regulatory implications of deploying methane detection across the Peoples' service territory, (iv) customer interest in methane detection; and the remote communication

¹³⁶² I&E St. 4-SR at 6.

¹³⁶³ Peoples St. 6-RJ at 3-4.

capabilities of that methane detection and Peoples' systems. As part of its pilot, the Company agrees to monitor related expenses. The Company will report on the results of its pilot in its next base rate proceeding.¹³⁶⁴

I&E

I&E notes that this issue was raised by I&E's Pipeline Safety Division in the direct testimony of I&E witness Gobrecht. Mr. Gobrecht highlighted the usefulness and safety benefits of methane detectors within structures and the ability of real-time smart reporting technology to simultaneously notify the customer and the emergency gas response officials to potentially hazardous situations.¹³⁶⁵ Mr. Gobrecht also opined that implementation of a methane detector pilot program would provide Peoples' customers with a safety tool that provides early warning alarms signaling a gas leak and a potentially hazardous situation.¹³⁶⁶ Implementing an early warning audible alarm will afford additional time to safely evacuate and notify the emergency response officials.¹³⁶⁷

I&E recommended that the Company implement a pilot program utilizing 500 to 1,000 Smart Remote Methane Detectors ("SRMDs") to allow for a study of the devices' effectiveness as well as the use of Advanced Metering Infrastructure ("AMI") and LoRaWAN or other communication technologies for notification methodology utilized by these devices as part of its pilot program.¹³⁶⁸ I&E also recommended that Peoples use a risk-based approach to determine the location that best maximizes the effectiveness of the methane detector pilot program.¹³⁶⁹

¹³⁶⁴ Peoples MB at 142-143.

¹³⁶⁵ I&E St. 4 at 16-19.

¹³⁶⁶ *Id.*

¹³⁶⁷ *Id.*

¹³⁶⁸ *Id.* at 20-21.

¹³⁶⁹ *Id.* at 21.

In consideration of all of the record evidence submitted by I&E witness Gobrecht, I&E continues to recommend Peoples implement a methane detector pilot program, using either audible detectors or SRMDs, to study its effectiveness and to monitor expenses.¹³⁷⁰

RECOMMENDATION

I recommend that the Commission accept the recommendations of I&E, as supported by its witness Gobrecht. I&E continues to recommend Peoples implement a methane detector pilot program, using either audible detectors or SRMDs, to study its effectiveness and to monitor expenses. I recommend that the Commission include these recommendations in its order.

52. PURCHASE OF RECEIVABLES PROGRAM

Peoples

Peoples avers that it maintains a POR program in which Natural Gas Suppliers (“suppliers” or “NGS”) can sell eligible customer commodity receivables to Peoples at a tariff-approved discount.¹³⁷¹ In exchange, Peoples assumes the responsibility of consolidated billing, collection, and the uncollectible account risk associated with the receivables. The Company maintains that it has administered its POR Program in accordance with the Commission’s regulations since the Program was introduced in its 2010 Rate Case at Docket No. R-2010-2201702.

¹³⁷⁰ I&E MB at 58-59.

¹³⁷¹ Peoples St. 21-R at 2.

In this proceeding, CAUSE-PA proposed that Peoples provide notice to suppliers participating in the POR Program, effective June 1, 2027, that it will no longer purchase receivables from those suppliers unless they provide at or below Peoples' default service price, or Price to Compare ("PTC").¹³⁷² CAUSE-PA argues that suppliers have little incentive to moderate the prices they charge because Peoples purchases the receivables under the POR Program, and that, overall, customers with suppliers pay significantly more than they would have if they remained on default service.¹³⁷³ CAUSE-PA also avers that shopping leads to higher gross write-offs.¹³⁷⁴ RESA opposes CAUSE-PA's recommendation.¹³⁷⁵

Peoples recognizes the important role that POR programs have played in fostering retail competition. However, the Commission's competitive framework was developed with the expectation that competition would provide benefits to customers.¹³⁷⁶ As explained in the rebuttal and surrebuttal testimony of Peoples witness Kolich, it is not clear that the POR program, when coupled with unrestricted supplier pricing, has actually led to a cumulative benefit for Peoples' customers.

Approximately 95.8% of residential shopping customers pay more than the PTC for commodity service, and the average supplier price is 82% above the PTC, with some supplier prices reaching as high as ten times the PTC.¹³⁷⁷ Peoples witness Kolich also presented a chart on page 4 of his surrebuttal testimony summarizing supplier prices

¹³⁷² CAUSE-PA St. 1 at 83, 88-89.

¹³⁷³ CAUSE-PA St. 1 at 84-85.

¹³⁷⁴ *Id.* at pp. 86-87.

¹³⁷⁵ RESA St. 1-R.

¹³⁷⁶ See Investigation into the Natural Gas Supply Market: Report on Stakeholder's Working Group, Docket No. I-00040103F0002 (Sept. 11, 2008); *Pa. PUC et. al v. PPL Electric Utilities Corporation*, 2010 Pa. PUC LEXIS 2001, *95 Docket No. R-2010-2161694 et. al (Order Entered Dec. 21, 2010). See also 52 Pa. Code § 62.221.

¹³⁷⁷ Peoples St. 21-R at 4-5.

as compared to the PTC dating back to 2023. Given this data, the Company is concerned about customers paying well above the PTC.

The Company believes that CAUSE-PA's recommendation could help customers save money on natural gas commodity costs.¹³⁷⁸ CAUSE-PA's recommendation would not eliminate the ability of customers to shop for suppliers, nor would it prohibit suppliers from offering products. The recommendation would merely place a condition on participation in an optional program, which is far removed from RESA's position that the recommendation would constitute "price regulation by another name."¹³⁷⁹

Peoples acknowledges RESA's concerns surrounding the efforts and costs associated with implementing CAUSE-PA's recommendation. However, because the POR Program is optional as set forth in the Commission's regulations,¹³⁸⁰ the Company does already have the capability for suppliers to operate both POR and non-POR pools, and therefore implementation costs and difficulties would likely be minimal.¹³⁸¹ If the Commission adopts CAUSE-PA's proposal, there would need to be clear rules for suppliers to guide entry and exit from the POR Program, as well as adequate customer notification.

Maintaining adequate protections for customers who choose an alternate supplier is an important issue that CAUSE-PA has brought to the forefront for consideration in this proceeding. Overall, the Company supports a balanced approach between promoting competition and protecting customers. Concerns regarding the impact

¹³⁷⁸ *Id.* at pp. 4-5.

¹³⁷⁹ RESA St. 1-SR at 5-6.

¹³⁸⁰ 52 Pa. Code § 62.224.

¹³⁸¹ Peoples St. 21-R at 5.

of supplier pricing is not necessarily limited to only suppliers in Peoples’ service territory.¹³⁸²

I&E

I&E did not present testimony on the purchase of receivables program.¹³⁸³

OCA

The OCA did not present testimony regarding this issue.¹³⁸⁴

CAUSE-PA

CAUSE-PA notes the purpose of competition of natural gas commodity space is to lower costs not increase them. CAUSE-PA argues that over a 28-month period, from January 2024 through April 2026, Peoples’ residential shopping customers were charged \$51.9 million more than they would have otherwise would have been charged for default service.¹³⁸⁵ \$7.4 million of that amount was attributable to confirmed low-income customers.¹³⁸⁶ These increases costs have a direct impact on Gross write offs: Over this same 28-month period, from January 2024 through April 2026, write offs for Peoples’ residential shopping customers were 484% higher than for residential default service customers – amounting to an average write-off of \$602.13 for residential shopping accounts, compared to \$124.31 for default service accounts.¹³⁸⁷ For low-income shopping customers, write offs are an astounding 853% higher than write offs for low-

¹³⁸² Peoples MB at 143-145.

¹³⁸³ I&E MB at 14, 60.

¹³⁸⁴ OCA MB at 150.

¹³⁸⁵ CAUSE-PA St. 1 at 85-86.

¹³⁸⁶ *Id.*

¹³⁸⁷ *Id.* at 87.

income default service customers – amounting to an average of \$978.89 per low-income shopping account, compared to \$114.75 for low-income default service accounts.¹³⁸⁸

In light of overwhelming evidence of excessive prices and increased collections costs associated with increased gross write offs caused by the competitive market, the Commission should require Peoples to cease its purchase of receivables (POR) from natural gas suppliers (NGSs) unless the NGS's price is at or below Peoples' default service price.¹³⁸⁹ CAUSE-PA submits that this is a reasonable and middle alternative to complete elimination of the POR for all suppliers.¹³⁹⁰

RESA

RESA submits that Peoples' Purchase of Receivables program is the mechanism through which Peoples bills customers for natural gas supply service as required by the Natural Gas Competition Act¹³⁹¹, while allowing customers served by a Natural Gas Supplier to receive a single, consolidated bill. Rather than merely sending a bill on the supplier's behalf, Peoples purchases the receivable created by the customer's billed usage at a discount that reflects Peoples' system-wide uncollectible rate — presently 2.20%, and, under Peoples' own proposal in this proceeding, falling to approximately 1.93%.¹³⁹² Peoples then remits the discounted amount to the supplier and undertakes the collection, and — where necessary — service-termination functions with respect to that receivable, just as it does for its own default-service customers.¹³⁹³

¹³⁸⁸ *Id.*

¹³⁸⁹ *Id.* at 83-89.

¹³⁹⁰ CAUSE-PA MB at 99-101.

¹³⁹¹ 66 Pa. C.S. § 2205(c); RESA St. 1-R at 3 (describing statutory billing obligation).

¹³⁹² RESA St. 1-R at 3-4; RESA St. 1-SR at 4 (“the uncollectible discount charged to suppliers would shrink from 2.20% to roughly 1.93% under Peoples' own rate proposal in this same case”).

¹³⁹³ RESA MB at 6-7.

The Natural Gas Choice and Competition Act, 66 Pa. C.S. § 2201 *et seq.*, places the choice of supplier in the customer’s hands¹³⁹⁴ and expressly guarantees that customers will be able to “choose among a variety of products including but not limited to different supply and pricing options.”¹³⁹⁵ Neither the Competition Act nor any other provision of the Public Utility Code authorizes the Commission or an NGDC to regulate the rates a licensed NGS charges its customers, and nothing in the Code establishes the Price to Compare as a rate ceiling or a competitive benchmark against which supplier pricing must be measured.¹³⁹⁶

Conditioning access to an essential billing service on whether a supplier’s price falls at or below the PTC is, in essence, unlawful price regulation. If Peoples or the Commission may deny a supplier access to POR because its price exceeds a Commission- or utility-set threshold, that is functionally identical to capping the supplier’s price, since a supplier priced above the line faces the loss of POR and the disruptive, duplicative, and customer-unfriendly implications that follow. As RESA’s witness explained, “[t]hat is the essence of rate regulation,” and neither the Commission nor any utility is authorized to regulate the prices an NGS charge so long as those prices are consistent with the customer’s agreement with the supplier.¹³⁹⁷

RESA argues that the proposal is also independently unlawful as discrimination in the provision of utility service. POR is a utility service, and a utility service “cannot be

¹³⁹⁴ 66 Pa. C.S. § 2204(a); RESA St. 1-R at 8.

¹³⁹⁵ 66 Pa. C.S. § 2203(2); RESA St. 1-SR at 3.

¹³⁹⁶ RESA St. 1-SR at 3 (“the Competition Act does not authorize... the Commission or NGDCs to regulate retail prices, nor does it establish the Price to Compare as a pricing cap or benchmark”).

¹³⁹⁷ RESA St. 1-R at 7; *Ronald Valentino v. Dominion Retail T/A Peoples Plus*, Docket No. C-20055447 (Final Order entered Jan. 17, 2006).

provided in a discriminatory manner.”¹³⁹⁸ Under the CAUSE-PA/Peoples proposal, Peoples would pick winners and losers among otherwise creditworthy, Commission-approved suppliers based solely on a price criterion that is itself unregulated — rather than treating all qualifying NGSs neutrally and providing equal access, as the nondiscrimination requirement demands.¹³⁹⁹

RECOMMENDATION

After considering the various positions of the parties, I recommend that the Commission adopt Peoples’ proposal, which incorporates recommendations of CAUSE-PA.

53. LOCAL PRODUCTION – GATHERING IN AND COST RECOVERY ISSUES

Peoples

As part of its filing, Peoples proposed to increase the fee that it charges to producers for gathering system costs through the existing Rate AGS for all conventional gas production delivered to Peoples’ system from \$0.24/Mcf to \$0.29/Mcf.¹⁴⁰⁰ Peoples submits that gathering systems move conventionally produced gas from the producer to the distributor. They benefit both producers and customers by functioning as what is often the sole means of delivery of gas for a producer and result in cost savings to customers. The proposed rate increase for Rate AGS represents a reasonable shared

¹³⁹⁸ 66 Pa. C.S. § 1502; RESA St. 1-R at 10.

¹³⁹⁹ RESA St. 1-R at 6, 10 (“it is not supposed to pick winners and losers based on arbitrary price ceilings”); RESA MB at 7-9.

¹⁴⁰⁰ Peoples St. 5 at 19.

contribution to cover increased operating and maintenance costs, as well as increased capital to upgrade gathering lines.¹⁴⁰¹

Peoples notes that PIOGA opposes Peoples' proposed increase to Rate AGS as unreasonable and unsupported.¹⁴⁰² PIOGA states that producers are already experiencing a low-price environment and declining production, and therefore an increase to Rate AGS would burden producers.

Peoples argues that the Commission should reject PIOGA's arguments and approve Peoples' proposed increase to Rate AGS. The increase of Rate AGS to \$0.29/Mcf would result in the collection of only approximately 25.7% of the gathering system cost of service from conventional producers.¹⁴⁰³ In comparison, the rates proposed in the Company's 2023 Base Rate Case were designed to recover approximately 28.4% of the gathering system cost of service.¹⁴⁰⁴

PIOGA argues that Peoples has not shown a producer-specific reason for the rate increase, but failed to acknowledge that conventional producers, under the new Rate AGS, will be paying for only approximately $\frac{1}{4}$ of the system they utilize. Peoples maintains that under PIOGA's strict cost-causation logic, the new Rate AGS should be almost four times higher than proposed. Further, the absence of a producer specific study does not make the proposed rate unreasonable. Gathering system costs are incurred to maintain facilities that are used in local production, and those costs are embedded in the continued operation of the gathering system.

¹⁴⁰¹ *Id.*

¹⁴⁰² PIOGA St. 1 at 5, 8; PIOGA St. 2 at 3; PIOGA St. 3 at 5.

¹⁴⁰³ Peoples St. 5-R at 3.

¹⁴⁰⁴ *Id.*

Peoples submits that it is reasonable for both producers and customers to share the costs of the gathering system, because it operates to the benefit of both producers and customers by providing a path to market to producers who may not otherwise have had the same, and as a lower cost alternative to interstate-delivered gas for customers. PIOGA argues against Peoples' selected methodology, but it fails to recognize that Peoples selected the methodology for calculating the rate which would *have the lowest impact on producers.*¹⁴⁰⁵

Peoples concludes that in determining Rate AGS, the Company evaluated the existing rate, the overall cost recover level, the practical limit on producer recovery given low market prices, and the need for both producers and customers to share costs. Peoples submits that its proposed increase to Rate AGS represents a reasonable and measured approach which maintains a shared contribution to the costs of the gathering system.

I&E

I&E did not present testimony on local production issues.¹⁴⁰⁶

OCA

The OCA did not present testimony regarding this issue.¹⁴⁰⁷

¹⁴⁰⁵

Id.

¹⁴⁰⁶

I&E MB at 14, 60.

¹⁴⁰⁷

OCA MB at 150.

CAUSE-PA

CAUSE-PA did not take a position on this issue.¹⁴⁰⁸

PIOGA

PIOGA submits that the relevant proposed rate is not an abstraction. It is an increase in the tariffed Rate AGS charge from \$0.24/Mcf to \$0.29/Mcf for conventional production. PIOGA agrees that local producers can derive value from access to the Peoples gathering system and that Peoples incurs costs to own, operate, maintain, inspect, repair, and safely manage that system. But those propositions do not resolve the statutory question. Under Sections 1301 and 315, Peoples must prove that the incremental charge it seeks to impose is just and reasonable on the evidentiary record.

PIGOA notes that Mr. Palombo testified that Peoples evaluated four alternatives: (1) full gathering-cost recovery from producers, producing \$1.506/Mcf; (2) retaining the 2023 producer contribution percentage, producing \$0.324/Mcf; (3) increasing the existing gathering rate by the Company's overall requested increase, producing \$0.285/Mcf and rounded to \$0.29/Mcf; and (4) recovering the same gathering revenue as in the 2023 case, producing \$0.30/Mcf. Peoples selected the third method. Peoples St. No. 5-R, at 6.

The decisive feature of that selection is not that the result is lower than three other figures. It is that the selected methodology begins with the Company's requested systemwide base rate percentage and attempts to apply it to the existing producer charge. It does not begin with an analysis of the producer service, current producer utilization, an allocation of gathering costs to that service, or a demonstrated

¹⁴⁰⁸ CAUSE-PA MB at 99-109.

change in the cost of providing that service. As Mr. Weaver explained, conventional producers are not retail distribution customers; they are suppliers who deliver local gas through a separate tariffed service. A producer charge must be evaluated in relation to the producer service, the costs properly assigned to that service, and the producer's practical ability to use it.¹⁴⁰⁹

RECOMMENDATION

After considering the evidence of record and arguments, I recommend that the Commission adopt the Company's proposal on this issue.

54. OPERATIONAL CONCERNS

Peoples

Peoples notes that PIOGA expresses several operational concerns, the first of which is related to the language of Rate AGS and the Master Interconnect and Measurement Agreements ("MIMA") executed by conventional producers. Specifically, PIOGA argues that the Rate AGS language "materially limits the value of the service from the producer's perspective because practical access to the system can be limited by line pressure and operational decisions."¹⁴¹⁰ Further, it indicates concern with line pressure and regulator set points, wherein a producer's gas may not flow if the line pressure is above a producer's set point. PIOGA also avers that Peoples' policies and MIMA terms are reducing the conventional gas flowing into Peoples' system." PIOGA recommends that the Commission require Peoples to use "reasonable efforts" to work with producers before operational changes result in lost flow or shut-in. PIOGA also

¹⁴⁰⁹ PIOGA St. No. 1-SR, at 3; PIOGA MB at 10-11.

¹⁴¹⁰ PIOGA St. 1 at 7.

recommends that the Commission consider the proposed Rate AGS increase and MIMA together, because the value of Rate AGS is controlled by the tariff language and MIMA.¹⁴¹¹

Peoples notes that the language of Rate AGS reflects Peoples' obligation to maintain safe and reliable service, and that modifications which would accommodate one conventional producer but may impair customer service, system integrity, or safety would violate that obligation. Peoples could not reasonably guarantee delivery for every individual producer under every operating condition. Next, where operationally feasible and where it would preserve the reliability and safety of the system, Peoples is willing to and does make reasonable efforts to acknowledge and accommodate operational concerns of producers, as testified to by PIOGA Witness Kriebel.¹⁴¹² Further, Peoples' maintains that its MIMA terms are not overly prescriptive, but are in place to allow Peoples to actively manage all assets, and to ensure that those assets are prudently and operationally justified. A failure to do so could result in outages or pipeline incidents and, importantly, the customer benefits associated with local gathering do not eliminate the operational responsibilities associated with that gathering. Finally, Rate AGS and the MIMA should not be considered together. The tariff reflects Peoples' obligation to operate and provide safe and reliable service, and to recover the cost of the gathering system, while the MIMA governs the requirements for delivering gas into the system.¹⁴¹³

Peoples submits that the Commission should not conflate these operational requirements with the establishment of a reasonable Rate AGS to recover costs associated with the system itself.¹⁴¹⁴

¹⁴¹¹ PIOGA St. 2 at 7.

¹⁴¹² PIOGA St. 3 at 3-4.

¹⁴¹³ Peoples St. 5-R at 12.

¹⁴¹⁴ *Id.*; Peoples MB at 145-148.

RECOMMENDATION

In consideration of the evidence and arguments, I recommend that the Commission accept the proposal from Peoples on this issue.

55. COMPETITIVE RATE DISCOUNTS

I&E

I&E recommends that Peoples be required to provide a competitive alternative analysis for any discount rate customers that have not had their competitive alternatives verified for longer than ten years at the time of the Company's next base rate case and justify the customers' discount rates as part of its filing in the next base rate case.¹⁴¹⁵ I&E also recommends that the Commission order the Company to provide a competitive alternative analysis for each discount rate customer that has not been verified within ten years of each of Peoples' prospective base rate cases in perpetuity.¹⁴¹⁶

According to I&E, Peoples stated that it is willing to accept I&E's recommendation on a going forward, prospective basis.¹⁴¹⁷ I&E asks the Commission to approve its recommendation.

¹⁴¹⁵ I&E St. 3 at 6.

¹⁴¹⁶ *Id.*

¹⁴¹⁷ I&E St. 3-SR at 3-4 (citing Peoples St. 8-R at 4-7).

Peoples

In its Reply Brief, Peoples clarifies its position as follows:

[T]he Company does not accept I&E's proposal to the extent that it could be interpreted as requiring the Company to engage 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.^[1418]

Peoples asserts that given that negotiated customers have already entered into legally binding agreements, a more appropriate solution would be to consider Mr. Cline's recommendation prospectively. As Peoples witness Ravenstahl explained, prior to entering into a negotiated rate agreement, the Company requires proof of the competitive alternative and conducts a cost analysis to ensure that the rate is justified. Peoples is also limiting any new contracts to term of ten years and verifying competitive alternatives prior to entering into a new contract.¹⁴¹⁹

OCA

OCA did not present testimony regarding this issue.¹⁴²⁰

¹⁴¹⁸ Peoples RB at 36 (citing Peoples MB at 148-149).

¹⁴¹⁹ Peoples St. 8-R at 4.

¹⁴²⁰ OCA MB at 150.

OSBA

OSBA is not briefing this issue.¹⁴²¹

CAUSE-PA

CAUSE-PA did not take a position on this issue.¹⁴²²

RECOMMENDATION

I recommend that I&E's recommendation for competitive alternative analysis be adopted prospectively. Specifically, I recommend that, for new competitive rate contracts that Peoples enters into going forward, the Commission require Peoples to provide a competitive alternative analysis (1) for any discount rate customers that have not had their competitive alternatives verified for longer than ten years at the time of the Company's next base rate case and justify the customers' discount rates as part of its filing in the next base rate case, and (2) for each discount rate customer that has not been verified within ten years of each of Peoples' prospective base rate cases in perpetuity. This requirement helps to address I&E's concern, Peoples agreed to it being applied on a prospective basis, and no party opposed.

¹⁴²¹ OSBA MB at 16.

¹⁴²² CAUSE-PA MB at 109.

56. MISCELLANEOUS/OTHER ISSUES

Merger of PNG Gathering into Peoples

Peoples

As discussed in the direct testimony of Mr. Wachter, as a result of the merger of PNG Gathering into Peoples approved at Docket No. A-2025-3056882, \$1.9 million of net plant remaining on the books of PNG Gathering is included in rate base and PNG Gathering-related revenue and expenses are included in this case.¹⁴²³ No party challenged the inclusion of these items.¹⁴²⁴

I&E

I&E did not present testimony on the merger of PNG Gathering LLC into Peoples.¹⁴²⁵

OCA

The OCA did not present testimony regarding this issue.¹⁴²⁶

¹⁴²³ Peoples St. 2 at 3-4.

¹⁴²⁴ Peoples MB at 149.

¹⁴²⁵ I&E MB at 15, 61.

¹⁴²⁶ OCA MB at 150.

OSBA

The OSBA requests that the Company add a formal late payment plan to the SGS and MGS tariffs.

In addition, the OSBA requests that Peoples should continue to track interactions in which small business customers report financial difficulties (*e.g.*, trouble paying heating bills on time), including both participation in the new formal payment plan and more informal complaints or inquiries.

The OSBA also requests that Peoples provide the OSBA's contact information and a description of the services the OSBA offers on the Company's website.¹⁴²⁷

CAUSE-PA

CAUSE-PA did not take a position on this issue.¹⁴²⁸

RECOMMENDATION

I recommend that, as no party opposed the proposal, the Commission adopt Peoples' proposal as stated, and that the OSBA's tracking concerns be incorporated into the Order.

¹⁴²⁷ OSBA MB at 16-17.

¹⁴²⁸ CAUSE-PA MB at 109.

57. FPFTY REPORTING

Peoples

Peoples notes that I&E witness Cline recommends that Peoples be required to provide an update that includes actual utility plant balances, actual plant additions, and actual retirements for the twelve months ending November 30, 2026 by June 1, 2027, and for the twelve months ending November 30, 2027, by June 1, 2028. Peoples agreed to I&E's request and indicated that it would submit a report comparable to Peoples Exhibit CAS-4R, which was submitted pursuant to the Company's settlement commitments in its last rate case. Peoples Exhibit CAS-4R shows that the Company exceeded its plant additions for the FPFTY in its last case.¹⁴²⁹

V. CONCLUSIONS OF LAW

1. Peoples Natural Gas Company LLC is a public utility as defined in Section 102 of the Public Utility Code.¹⁴³⁰

2. The Commission has jurisdiction over the parties and the subject matter of this proceeding.¹⁴³¹

3. The utility requesting the rate increase has the burden of establishing the justness and reasonableness of every element of its requested rate increase.¹⁴³²

¹⁴²⁹ Peoples MB at 149-150.

¹⁴³⁰ 66 Pa. C.S. § 102.

¹⁴³¹ 66 Pa. C.S. § 101, *et seq.*

¹⁴³² 66 Pa. C.S. §§ 315(a), 1301; *Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980).

4. Peoples has the burden of proving that every element of its proposed rates are just and reasonable.¹⁴³³

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

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

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

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

9. A utility which relies on the use of a fully projected future test year "in discharging its burden of proof," and must provide "appropriate data evidencing the

¹⁴³³ 66 Pa. C.S. §§ 315(a), 1301, and 1308(e).

accuracy of the estimates contained in the future test year or a fully projected future test year.”¹⁴³⁴

10. A public utility may obtain “a rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers[,] as well as a reasonable rate of return on its investment.”¹⁴³⁵

11. The Commission “has broad discretion in determining whether rates are reasonable” and “is vested with discretion to decide what factors it will consider in setting or evaluating a utility’s rates.”¹⁴³⁶

12. Given that a utility’s general rate increase request will substantially affect the interests of consumers, the Commission must “consistent with its other statutory responsibilities, take such action with due consideration to the interests of consumers.”¹⁴³⁷

13. If a utility’s service is found to be inadequate, then the Commission “shall give effect to this section by making such adjustments to specific components of the utility’s claimed cost of service as it may determine to be proper and appropriate” as supported by the evidence in the proceeding.¹⁴³⁸

14. Under Act 40 of 2016, codified at Section 1301.1 of the Code, regulated public utilities are required to used 50% of excess rates collected for the

¹⁴³⁴ 66 Pa. C.S. § 315(e).

¹⁴³⁵ *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002).

¹⁴³⁶ *Popowsky v. Pa. PUC*, 683 A.2d 958, 961 (Pa. Cmwlth. 1996) (*Popowsky 1996*).

¹⁴³⁷ 71 P.S. § 309-5.

¹⁴³⁸ *Id.*

purpose of paying income tax “to support reliability or infrastructure related to the rate-base eligible capital investment” and 50% for “general corporate purposes.”¹⁴³⁹

15. “A utility is entitled under the law to recover from the rate payers the original cost of construction of its depreciable plant.”¹⁴⁴⁰

16. The Pennsylvania Superior Court defined accrued depreciation (also referred to as accumulated depreciation) as follows: “[a]ccrued depreciation for rate purposes means ‘the actual depreciation of the utility’s property as it has accrued to the date that fair value is in issue.’”¹⁴⁴¹

17. The Commonwealth Court has stated that the Commission is not bound by any particular methodology or procedure in determining annual depreciation expense.¹⁴⁴²

18. The Superior Court stated “it is recognized that accrued depreciation is essentially a judgment figure, based on all the evidence, and the weight to be given any particular estimate is for the commission. The commission is not bound to accept any particular method of estimating accrued depreciation.”¹⁴⁴³

¹⁴³⁹ 66 Pa. C.S. § 1301.1.

¹⁴⁴⁰ Penn Sheraton at 627.

¹⁴⁴¹ Penn Sheraton at 624.

¹⁴⁴² *Pa. Power & Light Co. v. Pa. Pub. Util. Com.*, 311 A.2d 151, 158 (Pa. Cmwlth. 1973) (*Pa. Power*) (citing *Pittsburgh v. Pa. Pub. Util. Comm’n*, 222 A. 2d 395 (Pa. Super. 1966) (*Pittsburgh*) and *Philadelphia v. Pa. Pub. Util. Comm’n*, 102 A. 2d 428 (Pa. Super. 1954) (*Philadelphia*)).

¹⁴⁴³ *Pittsburgh* 222 A.2d at 401-402 (upholding a Commission decision to give less weight to a utility’s depreciation study as the Commission had considered all relevant factors in connection with accrued depreciation).

19. Merely because a utility used a depreciation procedure in the past is neither a justification nor a limitation for determining what constitutes just and reasonable rates in this proceeding.¹⁴⁴⁴

20. The Pennsylvania Superior Court has held that the capital structure of utilities that are wholly-owned subsidiaries may not be one which it would maintain if it were obliged to obtain its debt and equity financing on the open market rather than from a parent company.¹⁴⁴⁵

21. Cost of service is a forward-looking exercise which allocates to future beneficiaries their share of the costs incurred to provide them with service.¹⁴⁴⁶

22. The Commission is charged with balancing public policy considerations such as gradualism, incentivizing conservation, and ensuring that rates are affordable for all customers when allocating revenues between classes.¹⁴⁴⁷

23. “Rate design requires a careful balance of the competing interests of customer classes as well as prudent application of the principles of cost causation, gradualism, and overall fairness.”¹⁴⁴⁸

¹⁴⁴⁴ *Pa. Power* at 158.

¹⁴⁴⁵ *Riverton Consol. Water Co. v. Pa. PUC*, 140 A.2d 114, 121 (Pa. Super. 1958).

¹⁴⁴⁶ *Phila. Indus. and Comm. Gas Users Group v. Pa. PUC*, 342 A.3d 140 (Pa. Cmwlth. 2025) (*PICGUG*).

¹⁴⁴⁷ *PGW 2023* at 146; *PECO Gas 2020* at 247.

¹⁴⁴⁸ *PECO Gas 2020* at 274.

24. A customer charge should approximate customer-related costs directly attributable to a customer, or those “costs that change directly with its addition or subtraction of a customer.”¹⁴⁴⁹

25. The Commission has previously relied upon the direct cost method of determining customer charges based on the cost of service, where only the costs directly associated with the connection or removal of a customer from the system are considered in the customer charge.¹⁴⁵⁰

26. While the Commission has recognized that indirect customer costs, “such as employee benefits, local taxes and other general and administrative costs . . . may be considered for inclusion in the customer charge, [] such claims are subject to scrutiny on a case-by-case basis.”¹⁴⁵¹

27. In Pennsylvania, demand-related costs are recovered through volumetric rates, as are throughput-related costs, such as the costs associated with distribution mains.¹⁴⁵²

28. There is no set formula for determining proper ratios among the rates of different customer classes. What is reasonable under the circumstances, the proper difference among rate classes, is an administrative question for the Commission to decide.¹⁴⁵³

¹⁴⁴⁹ OCA St. 4 at 14.

¹⁴⁵⁰ *Pa. PUC v. PPL Gas Utilities Corporation*, Docket No. R-00061398, 2007 Pa. PUC LEXIS 2 at *210 (Order entered Feb. 8, 2007) (*PPL Gas 2007*).

¹⁴⁵¹ *Pa. PUC v. Aqua Pa., Inc.*, Docket No. R-00038805, 2004 Pa. PUC LEXIS 39 at *98 (Order entered July 23, 2004) (*Aqua 2004*).

¹⁴⁵² *PGW 2023* at 163.

¹⁴⁵³ *Peoples Nat. Gas Co. v. Pa. Pub. Util. Comm’n*, 409 A.2d 446, 456 (Pa. Cmwlth. 1979) (citations omitted).

29. The Commission has the authority to require other customer classes, not just the residential class, to contribute to the costs of universal service programs and that we do have an obligation to ensure that electric service is available to all customers on reasonable terms and conditions. We point to the Commission’s long-standing Policy Statement on Customer Assistance Programs at 52 Pa. Code §§ 69.261 – 69.267; specifically, 69.266 (relating to cost recovery) that declares “No rate class should be considered routinely exempt from CAP and other universal service obligations.”¹⁴⁵⁴

30. Contributions to utility universal service programs would not only help ameliorate the impact of rising energy prices for low-income universal service program participants but will also help all residential customers by relieving some of the cost burden of these programs, which are currently borne solely by residential electric customers.¹⁴⁵⁵

31. In rate cases, parties may raise the issue of recovery of CAP costs, whether specifically or as part of universal service program costs in general, from all ratepayer classes. No rate class should be considered routinely exempt from CAP and other universal service obligations.¹⁴⁵⁶

32. Utilities should be prepared to address recovery of CAP costs (and other universal service costs) from any ratepayer classes in their individual rate case filing.¹⁴⁵⁷

¹⁴⁵⁴ *Large Load Order* at 107.

¹⁴⁵⁵ *Id.*

¹⁴⁵⁶ 52 Pa. Code § 69.266; *2019 CAP Policy Amendments* at 97.

¹⁴⁵⁷ *2019 CAP Policy Amendments* at 80.

33. Peoples has not met its burden of proving the WNA will enhance the safety, security, reliability, or availability of utility infrastructure and is consistent with efficient consumption of utility service.¹⁴⁵⁸

34. Peoples should be required to revise its training materials to comply with all the applicable consumer protections and rights for residential customers facing termination of service to reflect the full range of customer rights associated with termination of service to provide adequate and reasonable service.

35. Rates set in this proceeding must be just and reasonable, which requires balancing the interests of all customers, including low-income residential consumers, with the interests of the Company.¹⁴⁵⁹

36. “Substantial evidence” is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion. More is required than a mere trace of evidence or a suspicion of the existence of a fact sought to be established.¹⁴⁶⁰

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

38. While the burden of proof remains with the public utility throughout the rate proceeding, the Commission has stated that where a party proposes an adjustment

¹⁴⁵⁸ 66 Pa.C.S. § 1330(a)(2).

¹⁴⁵⁹ *Pittsburgh v. Pa PUC*, 126 A.2d 777, 794-85 (Pa. Super. 1956).

¹⁴⁶⁰ *Norfolk & Western Ry. Co. v. Pa. P.U.C.*, 413 A.2d 1037 (Pa. 1980); *Erie Resistor Corp. v. Unemployment Comp. Bd. of Review*, 166 A.2d 96 (Pa. Super. 1961); *Murphy v. Comm., Dept. of Public Welfare, White Haven Center*, 480 A.2d 382 (Pa. Cmwlth. 1984).

to a ratemaking claim of a utility, the proposing party bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment. *Pa. Pub. Util. Comm. v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711 (Opinion and Order entered July 17, 2008).

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

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

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

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

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

44. The Public Utility Code “seeks to ensure that service remains available to all customers on reasonable terms and conditions.”¹⁴⁶¹

45. Natural gas distribution companies, specifically, are required to assist low-income customers with affording their natural gas service.¹⁴⁶²

46. LIURP budgets – as well as other critical universal service issues – are appropriate for consideration in a rate proceeding.¹⁴⁶³

¹⁴⁶¹ 66 Pa. C.S. § 1402(3).

¹⁴⁶² 66 Pa. C.S. § 2203(7).

¹⁴⁶³ CAUSE-PA St. 1-SR at 16; see Initiative to Review and Revise the Existing Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1—58.18, Final Form Rulemaking Order, Docket No. L-2016-2557886, at 50, 123 (order entered Mar. 13, 2025); see also Pa. PUC v. PGW, R-2023-3037933 at 215-216 (order entered Nov. 9, 2023).

VI. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. In the event the Commission determines that Peoples Natural Gas Company LLC has met its burden of proof regarding any particular rates, rules, and regulations, in the alternative, the rate increase and other proposals set forth in Original Tariff Gas – Pa. P.U.C. No. 49 and Original Tariff Gas – Pa. P.U.C. No. S-5 are approved as set forth in the following Ordering Paragraphs.

2. Peoples is authorized and directed to file tariffs, tariff supplements, and/or tariff revisions on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, et seq., and 53.101, designed to produce an annual revenue increase of approximately \$105,396,889 million, or 8.90%, to become effective for service rendered on and after December 26, 2026.

3. That the rate increase and other proposals set forth Original Tariff Gas – Pa. P.U.C. No. 49 and Original Tariff Gas – Pa. P.U.C. No. S-5 as identified in the following Ordering Paragraphs are hereby approved, to become effective for service rendered on or after December 26, 2026. All other rate increase and other proposals set forth in Original Tariff Gas – Pa. P.U.C. No. 49 and Original Tariff Gas – Pa. P.U.C. No. S-5 not specifically approved below, are denied.

4. Peoples Natural Gas Company LLC shall file detailed calculations with its tariff filing, which shall demonstrate to this Commission's satisfaction that the

filed rates comply with the proof of revenue, in the form and manner customarily filed in support of compliance tariffs, and consistent with the terms set forth in this Order.

5. The request of Peoples for a 65-year average for its Heating Degree Days is denied. The 20-year average is to be utilized as recommended by I&E.

6. The inflation adjustments requested by Peoples (Payment Processing and Advertising) are granted.

7. The labor vacancy expense adjustment as proposed by Peoples is approved as modified by I&E.

8. The incentive compensation program as proposed by Peoples is approved.

9. The employee benefits expense proposed by Peoples is approved as modified by I&E.

10. The corporate insurance claim as proposed by Peoples is approved as modified by I&E.

11. The employee expense claim as proposed by Peoples is approved.

12. The travel and entertainment expense claim as proposed by Peoples is approved.

13. The company memberships claim as proposed by Peoples is approved as modified by I&E.

14. The license and permit expense claim as proposed by Peoples is approved.

15. The utilities and fuel expense claim as proposed by Peoples is approved.

16. The advertising expense claim as proposed by Peoples is approved as modified by I&E.

17. The fleet expense claim as proposed by Peoples is approved as modified by I&E.

18. The materials and supplies expense claim as proposed by Peoples is approved as modified by I&E.

19. The rate base expense claim as proposed by Peoples is approved as modified by I&E.

20. The pension expense claim as proposed by Peoples is approved as modified by I&E.

21. The Outside Services – Contracted claim as proposed by Peoples is approved as modified by I&E.

22. The Outside Services – Administrative and General claim as proposed by Peoples is approved as modified by I&E.

23. The Outside Services – IT claim as proposed by Peoples is approved as modified by I&E.

24. The Natural Gas Hot Water Tank Rebate Pilot program claim as proposed by Peoples is approved.

25. The payment processing expense claim as proposed by Peoples is approved as modified by OCA.

26. The building leases claim as proposed by Peoples is approved as modified by I&E.

27. The universal service program rider claim as proposed by Peoples is approved as modified by I&E.

28. The public utility commission assessment claim as proposed by Peoples is approved as modified by OCA.

29. The residential collection expense claim as proposed by Peoples is approved as modified by OCA.

30. The interest synchronization claim as proposed by Peoples is approved by OCA.

31. The uncollectable accounts expense claim as proposed by Peoples is approved.

32. The depreciation expense claim as proposed by Peoples is approved.

33. The taxes expense claim as proposed by Peoples is approved with I&E's recommended adjustments related to labor/vacancy expense.

34. The capital structure as proposed by Peoples is approved,
35. The debt cost rate as proposed by Peoples is approved.
36. The proxy group proposed by I&E be adopted.
37. The cost of common equity proposed by I&E be adopted.
38. That Peoples' management effectiveness expense claim is denied in its entirety.
39. That the overall rate of return of 7.66% is adopted.
40. The Commission adopts a Peak & Average-only methodology to use for cost allocation in this proceeding.
41. The Commission adopts the COSS recommended by OCA, which allocates mains costs using Peoples-specific data.
42. The Commission utilize the OCA's recommended allocation of the allowed overall revenue increase among the classes.
43. The Commission find that the OCA's customer cost study provides a more reasonable basis for evaluating the customer-related costs of providing service.

44. The Commission grant an increase to the monthly residential customer charge of \$2.50, from \$16.80 to \$19.30.¹⁴⁶⁴
45. The Commission grant an increase of \$3.30 to the monthly SGS customer charge for customers using 0 to 499 Mcf annually, from \$22.00 to \$25.30.
46. The Commission grant an increase of \$6.60, from \$44.00 to \$50.60, for customers using 500 to 999 Mcf annually.
47. The actual SGS customer charges should be reduced to reflect the scale back as recommended in this decision.
48. For the residential and small general service classes, the residential customer charge of \$19.30, SGS customer charge for customers using 0 to 499 Mcf annually of \$25.30, and SGS customer charge for customers using 500 to 999 Mcf annually of \$50.60 should be scaled back proportionally with the respective usage rate increases to those classes.
49. For the remaining non-residential classes, their existing customer charges should be scaled back proportionally with the respective usage rate increases to those classes.
50. The Commission adopt Peoples' proposal regarding the Merchant Function Charge.
51. The Commission adopt OCA's flat-fee allocation.

¹⁴⁶⁴ [$\$21.98 - \$16.80 = \$5.18 \times 1/2 = \$2.59$]

52. The change to Peoples' billing systems be implemented with the effective date of new rates. To the extent the Company requires additional time for compliance, it can make an appropriate filing with the Commission.

53. Peoples shall be required to separate negotiated rate customers and the corresponding revenue into one or more separate classes in the cost of service study filed in its next base rate case. In that proceeding the parties can address whether that requirement should continue for future cost of service studies.

54. I&E's recommendation for competitive alternative analysis be adopted in part. Specifically, I recommend that, for new competitive rate contracts that Peoples enters into going forward, the Commission require Peoples to provide a competitive alternative analysis (1) for any discount rate customers that have not had their competitive alternatives verified for longer than ten years at the time of the Company's next base rate case and justify the customers' discount rates as part of its filing in the next base rate case, and (2) for each discount rate customer that has not been verified within ten years of each of Peoples' prospective base rate cases in perpetuity.

55. The request of Peoples Natural Gas Company LLC to implement, extend or continue a Weather Normalization Adjustment is denied. Peoples shall cease operation of its pilot WNA on the effective date of rates approved in this Order.

56. The effective date of rates as proposed by Peoples is approved.

57. The one-time credit adjustment expense claim as proposed by Peoples is approved.

58. The bad debt offset proposal by Peoples be accepted.

59. Peoples is encouraged to increase its CAP Participation Levels and consider eliminating SSN data after 12 months, if it does not impede its CAP program's success.

60. The Commission adopt the Task force and I&E's recommendation of an increase of 75 customers for the Low-Income Usage Reduction Program, and that the budget for LIURP is not increased.

61. The Commission accept Peoples' proposal for a LIURP Compliance Specialist.

62. The Commission accept the Hardship Fund as proposed by Peoples.

63. Regarding Service Terminations, that the Commission the Commission (1) find that the OCA has established a prima facie disparate impact case, (2) find that Peoples has not identified a sufficient explanation for the demonstrated disparity, and (3) order Peoples to conduct and submit a comprehensive root cause analysis of its nonpayment termination procedures.

64. The proposals of OCA regarding Rebilling/Back-Billing Data Tracking are rejected.

65. Peoples is ordered to conduct an independent root cause analysis to determine what is driving the disproportionate level of utility disconnections within the Company's service territory.

66. The Tariff changes proposed by Peoples are accepted.

67. The proposal by Peoples to remove CAP customers from the program for engaging in recreational gas use be accepted.
68. The provisions proposed by Peoples to its Universal Service Rider shall be accepted.
69. Peoples shall continue performing root cause analyses of utility fault damages to determine areas of improvement.
70. Peoples' employees and contractors (as well as locator personnel) shall receive additional training to address damage trends on Peoples system.
71. Peoples shall create a QA/QC program to assess causes of damages related to (1) mapping errors, (2) lines not marked and (3) lines marked incorrectly to determine areas of improvements to reduce damages.
72. Peoples shall meet with I&E periodically to review its root cause analyses and the metrics related to the specific causes of damages.
73. Peoples shall implement a methane detector pilot program, using either audible detectors or SRMDs, to study its effectiveness and to monitor expenses.
74. The Commission adopt CAUSE-PA's proposals regarding the Purchase of Receivables Program.
75. The Commission adopts Peoples' proposal regarding Local Production.

76. The Commission adopts Peoples' proposal regarding Operational Concerns.

77. The Commission adopts Peoples' proposal on Competitive Rate Discounts without modification.

78. The Commission adopts Peoples' proposal regarding the merger of PNG Gathering into Peoples, and incorporate the tracking concerns noted by OSBA into the Order.

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

80. The Complaint filed by the Office of Consumer Advocate filed at C-2026-3061455 is dismissed.

81. The Complaint filed by the Office of Small Business Advocate filed at C-2026-3061593 is dismissed.

82. The Complaint filed by The Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania filed at C-2026-3061685 is dismissed.

83. The above-captioned respective Complaints of Jonathan Visser filed at C-2026-3063372; Christopher Kelley filed at C-2026-3063787; and Ben B. Troyer Jr. filed at C-2025-3059337 are dismissed.

84. That, upon acceptance and approval by the Commission of the compliance tariff supplements filed by Peoples, the investigation at Docket No. R-2026-3060855, and the above-captioned complaint dockets be marked closed.

Date: October 2, 2026

/s/
Charece Z. Collins
Administrative Law Judge

TABLE I
People's Natural Gas Company LLC
INCOME SUMMARY
R-2026-3060855

	Pro Forma Present Rates \$ (1)	Company Adjustments \$ (2)	Pro Forma Present Rates \$ (3) = (1) + (2)	ALJ Adjustments \$ (4)	ALJ Pro Forma Present Rates \$ (5) = (3) + (4)	ALJ Revenue Increase \$ (6)	Total Allowable Revenues \$ (7) = (5) + (6)	
1. Operating Revenue	1,184,614,065	206,179	1,184,820,244	0	1,184,820,244	105,396,889	1,290,217,133	
2. Expenses:								
3. O & M Expense	725,264,536	953,013	726,217,549	(18,200,486)	708,017,063	2,031,066	710,048,129	
4. Depreciation	181,181,596	0	181,181,596	0	181,181,596	0	181,181,596	
5. Taxes, Other	13,759,055	0	13,759,055	(241,451)	13,517,603	0	13,517,603	
6. Income Taxes:								
7. State	0	0	0	0	0	0	0	
8. Federal	(80,556,297)	(156,835)	(80,713,132)	3,902,669	(76,810,463)	21,706,823	(55,103,640)	
9. Total Expenses	839,648,890	796,178	840,445,068	(14,539,268)	825,905,799	23,737,889	849,643,688	849,643,688
10. Net Inc. Available for Return	344,965,175	(589,998)	344,375,176	14,539,268	358,914,444	81,659,000	440,573,445	440,573,444
11. Rate Base	5,760,803,876	0	5,760,803,876	(6,769,370)	5,754,034,506		5,754,034,506	
12. Rate of Return	5.99%		5.98%				7.66%	
(1) Company Main Brief								
						81,659,000		

TABLE I(A)						
People's Natural Gas Company LLC						
RATE OF RETURN						
R-2026-3060855						
	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate	
	(1)	(2)	[(3) = (1) x (2)]	(4)	[(5) = (3) x (4)]	
1.	Total Cost of Debt		2.10%			
2.	Long-term Debt	45.53%	4.61%			2.10%
3.	Short-term Debt	0.00%	0.00%			
4.	Preferred Stock	0.00%	0.00%	0.790000		0.00%
5.	Common Equity	54.47%	10.20%	0.790000		7.03%
6.		100.00%	7.66%			9.13%
7.	Pre-Tax Interest Coverage	4.35				
8.	After-Tax Interest Coverage	3.64				

TABLE I(B)					
People's Natural Gas Company LLC					
REVENUE FACTOR					
R-2026-3060855					
1.	100%				1.00000000
	Less:				
2.	Uncollectible Accounts Factor (*)				0.01927065
3.	PUC, OCA, OSBA Assessment Factors (*)				0.00000000
4.	Gross Receipts Tax				0.00000000
5.	Other Tax Factors				0.00000000
6.					0.98072935
7.	State Income Tax Rate (*)				0.00000000
8.	Effective State Income Tax Rate				0.00000000
9.	Factor After Local and State Taxes				0.98072935
10.	Federal Income Tax Rate (*)				0.21000000
11.	Effective Federal Income Tax Rate				0.20595316
12.	Revenue Factor (100% - Effective Tax Rates)				0.77477619
	(*) Company Main Brief				

TABLE II People's Natural Gas Company LLC SUMMARY OF ADJUSTMENTS R-2026-3060855								
	Adjustments (1)	Rate Base (2)	Revenues (3)	Expenses (4)	Depreciation (5)	Taxes-Other (6)	State Income Tax (7)	Federal Income Tax (8)
		\$	\$	\$	\$	\$	\$	\$
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	(391)						
3.	Taxes (Table V)	22,567						
4.	O & M (Table VI)	(1,099,983)						
5.	Capitalized Labor	(4,250,657)						
6.	Capitalized Benefits	(1,100,335)						
7.	Capitalized Payroll Taxes	(340,571)						
8.	REVENUES:							
			0				0	0
10.	EXPENSES:							
11.	Labor/Vacancy Expense - I&E			(3,013,545)			0	632,844
12.	Incentive Compensation - Peoples			0			0	0
13.	Pension Expense - I&E			(835,288)			0	175,410
14.	Employee Benefits Expense - I&E			(869,594)			0	182,615
15.	Corporate Insurance - I&E			(1,402,736)			0	294,575
16.	Travel and Entertainment - Peoples			0			0	0
17.	Company Memberships - I&E			(157,918)			0	33,163
18.	License and Permits - Peoples			0			0	0
19.	Utilities and Fuel - Peoples			0			0	0
20.	Advertising Expense - I&E			(1,198,286)			0	251,640
21.	Fleet Expense - I&E			(90,469)			0	18,998
22.	Materials and Supplies Expense - I&E			(1,141,328)			0	239,679
23.	Rate Case Expense - I&E			(548,571)			0	115,200
24.	Outside Services - Contracted - I&E			(2,055,313)			0	431,616
25.	Outside Services - A&G - I&E			(926,459)			0	194,556
26.	Outside Services - IT - I&E			(286,705)			0	60,208
27.	Payment Processing Expense - OCA			(1,016,537)			0	213,473
28.	Residential Collection Expense - OCA			(3,834,000)			0	805,140
29.	Depreciation Expense - Peoples			0			0	0
30.	Employee Expense - Peoples			0			0	0
31.	Natural Gas Hot Water Tank Rebate Pilot - Peoples			0			0	0
32.	PUC Assessment - OCA			(823,737)			0	172,985
33.	Payroll Tax Expense					(241,451)	0	50,705
34.	TAXES:							
35.	Interest Synchronization (Table III)						0	29,862
36.	TOTALS	(6,769,370)	0	(18,200,486)	0	(241,451)	0	3,902,669

TABLE III		
People's Natural Gas Company LLC		
INTEREST SYNCHRONIZATION		
R-2026-3060855		
		Amount
		\$
	(1)	(2)
1.	Company Rate Base Claim	5,760,803,876
2.	ALJ Rate Base Adjustments (Table II)	(6,769,370)
3.	ALJ Rate Base (Line 1 - Line 2)	5,754,034,506
4.	Weighted Cost of Debt (Table IA)	2.10065995%
5.	ALJ Interest Expense (Line 3 x Line 4)	120,872,698
6.	Company Claim ⁽¹⁾	121,014,900
7.	Total ALJ Adjustment (Line 6 - Line 5)	142,201
8.	Company Adjustment ⁽¹⁾	
9.	Net ALJ Interest Adjustment (Line 7 - Line 8)	142,201
10.	State Income Tax Rate (Table IB)	0.00%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	0
12.	Net ALJ Interest Adjustment (Line 9)	142,201
13.	State Income Tax Adjustment (Line 11)	0
14.	Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)	142,201
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15)	29,862
	⁽¹⁾ Company Main Brief	

TABLE IV					
People's Natural Gas Company LLC					
CASH WORKING CAPITAL - Interest and Dividends					
R-2026-3060855					
Accrued Interest				Preferred Stock Dividends	
(1)	Long-Term Debt (2)	Short-Term Debt (3)	(4)	(5)	
1. Company Rate Base Claim	\$5,760,803,876	\$5,760,803,876	Company Rate Base Claim	\$5,760,803,876	
2. ALJ Rate Base Adjustments	(\$6,769,370)	(\$6,769,370)	ALJ Rate Base Adjustments	(\$6,769,370)	
3. ALJ Rate Base	\$5,754,034,506	\$5,754,034,506	ALJ Rate Base	\$5,754,034,506	
4. Weighted Cost of Debt	2.10065995%	0.00%	Weighted Cost Pref. Stock	0.00000000%	
5. ALJ Annual Interest Exp.	\$120,872,698	\$0	ALJ Preferred Dividends	\$0	
6. Average Revenue Lag Days	58.9	58.9	Average Revenue Lag Days	58.9	
7. Average Expense Lag Days	57.9	0.0	Average Expense Lag Days	0.0	
8. Net Lag Days	1.0	58.9	Net Lag Days	58.9	
9. Working Capital Adjustment					
10. ALJ Daily Interest Exp.	\$331,158	\$0	ALJ Daily Dividends	\$0	
11. Net Lag Days	1.0	58.9	Net Lag Days	58.9	
12. ALJ Working Capital	\$332,276	\$0		\$0	
13. Company Claim (1)	\$332,667	\$0	Company Claim (1)	\$0	
14. ALJ Adjustment	(\$391)	\$0		\$0	
15. Total Interest & Dividend Adj.	(\$391)				
(1) Company Main Brief.					

TABLE V
People's Natural Gas Company LLC
CASH WORKING CAPITAL -TAXES
R-2026-3060855

		Company Proforma Tax Expense Present	ALJ Adjustments	ALJ Pro forma Tax Expense Present	ALJ Allowance	ALJ Adjusted Taxes at Present	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
Description		Rates	(3)	Rates	(5)	Rates	(7)	(8)	(9)
(1)		(2)		(4)		(6)			
1.	PUC Assessment	\$3,858,847	(\$823,737)	\$3,035,110	\$0	\$3,035,110	\$8,315.37	-10.00	(\$83,149)
2.	Public Utility Realty	\$0	\$0	\$0		\$0	\$0.00	-10.00	\$0
3.	Capital Stock Tax	\$0	\$0	\$0		\$0	\$0.00	-10.00	\$0
4.	Property Tax	\$1,523,452	\$0	\$1,523,452		\$1,523,452	\$4,173.84	-10.00	(\$41,736)
5.	Payroll Tax	\$5,951,013	\$0	\$5,951,013		\$5,951,013	\$16,304.14	-10.00	(\$163,032)
6.	Other	\$2,425,743	\$0	\$2,425,743		\$2,425,743	\$6,645.87	-10.00	(\$66,455)
7.		\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
8.		\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
9.		\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
		\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
		\$0	\$0	\$0		\$0	\$0.00	0.00	\$0
10.	State Income Tax (2)	\$175,807	\$0	\$175,807	\$0	\$175,807	\$481.66	0.00	\$0
11.	Federal Income Tax (2)	(\$80,888,938)	\$3,902,669	(\$76,986,269)	\$21,706,823	(\$55,279,446)	(\$151,450.54)	0.00	\$0
12.		(\$66,954,077)	\$3,078,932	(\$63,875,145)	\$21,706,823	(\$42,168,322)			
13.							ALJ Allowance		(354,373)
14.							Company Claim (1)		(376,940)
15.							ALJ Adjustment		22,567
(1) Company Main Brief									
(2) No claim is being made for Cash Working Capital on income taxes									

TABLE VI					
People's Natural Gas Company LLC					
CASH WORKING CAPITAL -- O & M EXPENSE					
R-2026-3060855					
	Company Pro forma F.T.Y. Expense	ALJ	ALJ Pro forma Expenses	Lag Days	Lag Dollars
Description (1)	(2)	(3)	(4)	(5)	(6)
1. Service Company	\$0	\$0	\$0	0.00	\$0
2. Chemicals	\$0	\$0	\$0	0.00	\$0
3. Group Insurance	\$0	\$0	\$0	0.00	\$0
4. Insurance, Other	\$0	\$0	\$0	0.00	\$0
5. Labor	\$74,274,937	\$ (3,013,545.00)	\$71,261,392	15.66	\$1,116,170,965
6. Leased Equip./Rent	\$0	\$0	\$0	0.00	\$0
7. Leased Vehicles	\$0	\$0	\$0	0.00	\$0
8. Miscellaneous (2)	\$126,635,365	\$ (13,493,610.00)	\$113,141,755	42.87	\$4,849,898,503
9. Natural Gas	\$505,919,390	\$0	\$505,919,390	33.52	\$16,956,602,807
10. Power	\$0	\$0	\$0	0.00	\$0
11. Purchased Water	\$0	\$0	\$0	0.00	\$0
12. Telephone	\$0	\$0	\$0	0.00	\$0
13. Waste Disposal	\$0	\$0	\$0	0.00	\$0
14. Post Retirement Benefits	\$0	\$0	\$0	0.00	\$0
15. Pensions (3)	\$19,387,857	\$ (869,594.00)	\$18,518,263	-3.68	(\$68,147,208)
16.	<u>\$726,217,549</u>	<u>(\$17,376,749)</u>	<u>\$708,840,800</u>	<u>32.24</u>	<u>\$22,854,525,067</u>
17. ALJ Average Revenue Lag	58.9				
18. Less: ALJ Avg. Expense Lag	<u>32.2</u>				
19. Net Difference	26.7	Days			
20. ALJ Pro forma					
21. O & M Expense per Day	<u>\$1,942,030</u>				
22. ALJ CWC for O & M	\$51,819,128				
23. Less: Company Claim (1)	<u>\$52,919,111</u>				
24. ALJ Adjustment	<u>(\$1,099,983)</u>				
(1) Company Main Brief					
(2) Includes Pension					
(3) Represents Employee Benefits					