

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17120

PA Public Utility Commission, et al.
vs.
National Fuel Gas Distribution
Corporation

Public Meeting of October 22, 2026
3059428-OSA
Docket Nos. R-2025-3059428, et al.

STATEMENT OF VICE CHAIR KIMBERLY BARROW

Before us for consideration are the Exceptions of National Fuel Gas Distribution Corporation (NFGD or Company), the Commission's Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), and the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), filed on August 17, 2026, to the Recommended Decision (R.D.) of Administrative Law Judge (ALJ) Katrina L. Dunderdale, issued on July 31, 2026. Replies to Exceptions were filed by NFGD, I&E, the OCA, and CAUSE-PA on August 24, 2026.

When we suspended the initial filing for investigation, I issued a statement asking the parties to take a critical look at the Company's requested rate of return and return on equity (ROE) as well as NFGD's capital structure (*i.e.* its common equity ratio and debt capital) to ensure reasonableness. In that statement, I noted that deviations in each of these items translate into millions of dollars charged to customers of all rate classes. I also highlighted that the relationship between debt and ROE to cost of debt and capital is asserted as a general matter from basic economic principles alone, but that those relationships are not established empirically. As a result, I called for such empirical relationships to be periodically re-established.

Notably, I have always called for a careful and detailed review of utilities' claimed capital structure and ROE because on several occasions, regulated utilities have requested to be awarded common equity ratios and debt capital outside of the apparently reasonable capital structure made up of 50% equity and 50% debt, along with their requested ROE. As earlier noted, these deviations result in millions of dollars that go into the rates of utility customers, because a higher common-equity ratio results in higher rates for public utility services.

I applaud the Parties here for the extensive record built on these issues, the thoughtful analysis conducted by the Office of Administrative Law Judge (OALJ) in the R.D., and our Office of Special Assistants' fine work on this fully-litigated rate case.

NFGD proposed rate changes that would have increased its annual base rate gas distribution revenues by \$16,189,000, or by approximately 6.1%, over NFGD's current base rate gas distribution revenues based on a fully projected future test year (FPFTY) ending October 31, 2027. This is only NFG's third rate filing in the past twenty years.¹

¹ NFGD filed for a rate increase in 2006, 2022 and the current filing.

As I have stated in the past, it is my responsibility as a regulator to search out excessive ROEs that distort utility incentives and result in what we called “gold-plating” back in the day. Excessive returns combined with overbuilding rate base directly raises customer bills in a seemingly unending cycle. That is unsustainable from a consumer perspective and unacceptable to me as a regulator.

It is with these principles in mind that I would have proposed the following additional adjustments to NFGD’s rate request.

Annual Depreciation Expense

In the instant filing, NFGD’s annual depreciation expense claim is based upon its use of the straight-line average remaining life method using the equal life group (ELG) depreciation method. In contrast, the OCA proposed that the Company’s depreciation reserve be calculated using the average life group (ALG)/average service life (ASL) ALG/ASL procedure. According to the OCA, this would reduce NFG’s annual depreciation accrual by approximately \$4.67 million. The OCA argued, *inter alia*, that NFG’s ELG approach frontloads depreciation expense and places an excessive burden on current customers, especially during NFGD’s current period of significant infrastructure investment.²

It is time to evaluate areas in the ratemaking process that help to address current affordability issues for our ratepayers and the ALG/ASL approach proposed by the OCA in this proceeding presents an opportunity to do so.³

I believe that we stick with certain methodologies due to inertia. Similar to my prior comments on this issue, switching the depreciation methodology takes nothing from NFGD other than time. The Company recoups the money it spent, just not as quickly. But switching the depreciation methodology would give the ratepayers sorely needed time to absorb any rate increase. During this affordability crunch, this is what the public interest demands.

Capital Structure

In the instant filing, NFGD utilized an actual capital structure as of the end of the FPPTY, consisting of 56.40% common equity and 43.60% long-term debt. NFGD argues this capital structure helps the Company to prudently replace its aging infrastructure while also maintaining a financial profile that allows it to obtain the necessary financing for the work being done.⁴

I&E, on the other hand, recommended the use of a hypothetical capital structure of 55.00% common equity and 45.00% long-term debt as more appropriate in this case.⁵

² See OCA St. 2 at 22; OCA M.B. at 23-25; OCA St. 4 at 13-16, 26.

³ See, Statement of the Vice Chair re: *PA PUC, et al. v. Pennsylvania-American Water Company.*, Docket No. R-2025-3057983, *et.al.* (Order entered July 27, 2026).

⁴ NFGD M.B. at 55-62; NFGD R.B. at 27-28.

⁵ I&E M.B. at 27; I&E R.B. at 23-24.

The OCA recommended a hypothetical capital structure of 50.00% common equity and 50.00% long-term debt, arguing that the record evidence indicates that the Company's proposed common equity ratio of 56.4% is excessive, exceeds current industry practice, exceeds recent authorized equity ratios for regulated natural gas utilities, and would ultimately unnecessarily increase customer rates.⁶

CAUSE-PA, echoing the OCA's position on this issue, also recommended a hypothetical capital structure of 50.00% common equity and 50.00% long-term debt.⁷

The ALJ recommended that the Commission reject NFGD's proposal to apply its projected actual capital structure for the FPFTY of 56.40% common equity and 43.60% long-term debt capitalization, stating that the Company's claim is unjust and unreasonable because it would exceed industry norms and create increased costs for NFGD's customers. Rather, the ALJ recommended that the Commission adopt the OCA's proposed 50/50 capitalization.⁸

While it is my ultimate goal that utilities utilize the 50/50 capitalization so long as market conditions support this ratio as reasonable, based on the record in this proceeding and in the interest of gradualism, I advocate a hypothetical capital structure of 53.00% common equity and 47.00% long-term debt. This ratio falls in the mid-range of the capital structures of the companies in I&E's Proxy Group,⁹ where the most recent 5-year average range contains individual capital structure ratios ranging from 39.53% to 58.23% long-term debt and 36.62% to 60.47% equity, with an overall 5-year average of 50.40% long-term debt and 48.70% common equity. I&E M.B. at 27-28; I&E R.B. at 23-34. I believe this capitalization will result in just and reasonable rates because it allows sufficient equity for NFGD to attract capital and maintain its financial integrity while also limiting the total rate of return NFGD's customers must pay, thereby preventing unaffordable rates for the Company's customers.

Return on Equity

NFGD initially proposed an ROE of 11.00% but subsequently reduced it to 10.50%. According to NFGD, the reduction is the Company's response to broader and current concerns regarding affordability for its customers.¹⁰

⁶ OCA M.B. at 50-52; OCA R.B. at 32-36.

⁷ CAUSE-PA M.B. at 37-40; CAUSE-PA R.B. at 12-14.

⁸ R.D. at 220, Appendix A-Table I(A).

⁹ I&E proposed a proxy group of six companies (I&E Proxy Group), including five of the seven companies used by NFGD. I&E St. 2 at 9. See the Table below for the proxy groups proffered by each of the Company, I&E, and the OCA. NFGD St. 10 at 25; I&E M.B. at 31; OCA Sch. MLR-4.

NFGD	OCA	I&E
Atmos Energy Corp.	Atmos Energy Corp.	Atmos Energy Corp.
New Jersey Resources Corporation	New Jersey Resources Corporation	Chesapeake Utilities Corp.
NiSource Inc.	NiSource Inc.	New Jersey Resources Corp.
Northwest Natural Gas Co.	Northwest Natural Gas Co.	NiSource Inc.
ONE Gas, Inc.	ONE Gas, Inc.	Northwest Natural Gas Co.
Southwest Gas Holdings, Inc.	Southwest Gas Holdings, Inc.	ONE Gas, Inc.
Spire, Inc.	Spire, Inc.	

¹⁰ NFGD M.B. at 62-67; NFGD St. 10-R at 12.

I&E, on the other hand, proposed a 9.81% ROE.¹¹

The OCA recommended an ROE of 9.74%.¹²

The ALJ recommended the adoption of the OCA's methodology for determining NFGD's ROE of 9.74%, stating this ROE would more appropriately balance the needs of the Company and its ratepayers.¹³

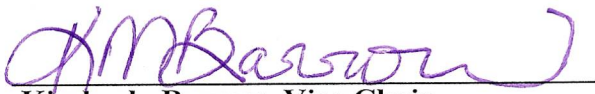
Based on analysis of the record evidence, Staff recommends an ROE of 9.86% based upon the use of: (1) I&E's DCF ROE result of 10.47%; and (2) I&E's composite CAPM result of 9.25% that was produced using the average of I&E's traditional CAPM result and its CAPM result calculated using Kroll's inputs. Taking the average of these results produces a final authorized ROE of 9.86%. $[(10.47\% + 9.25\%) \div 2 = 9.86\%]$. Although the capital structure used by Staff is different from the 53/47 capitalization I propose, I support the Staff recommended ROE of 9.86% as it appears to be reasonable.

Based on all of the above proposed adjustments, I believe an overall rate increase of \$5,241,398 is appropriate. This recommended rate increase would result in an overall revenue requirement of \$270,765,398.

It is important to note that the basis of my additional adjustments here centers on how the Company structures its cost of capital and the equity return the customers are asked to shoulder, because these inputs have an outsize impact on affordability. When unnecessarily high distribution rates are added to purchase gas prices that are currently trending above the already elevated inflation rate, the impact on affordability is compounded.

I will always allow our utilities to cover their prudent capital outlay and the **opportunity** to earn a reasonable return on their investments. However, during an era that is economically tough for ratepayers, the public interest demands that I, as a regulator, consider in my analysis of what is just and reasonable, the affordability of rates.

October 22, 2026


Kimberly Barrow, Vice Chair

¹¹ I&E M.B. at 27.

¹² OCA M.B. at 49, 53, 54, 59-60.

¹³ R.D. at 219-220, Appendix A-Table I(A). The ALJ also recommended adoption of I&E's proposed ROE of 9.81%. R.D. at 220-21.