PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Public Meeting held October 22, 2026

Commissioners Present:

Stephen M. DeFrank, Chairman
Kimberly Barrow, Vice Chair, Statement, Dissenting
John F. Coleman, Jr.
Ralph V. Yanora
Kathryn L. Zerfuss

Pennsylvania Public Utility Commission	R-2025-3059428
Office of Small Business Advocate	C-2026-3060292
Office of Consumer Advocate	C-2026-3060354
CAUSE-PA	C-2026-3060437

v.

National Fuel Gas Distribution Corporation

OPINION AND ORDER

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BY THE COMMISSION:

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition are the Exceptions of National Fuel Gas Distribution Corporation (NFGD or the Company), the 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,[1] to the Recommended Decision (R.D.) of Administrative Law Judge (ALJ) Katrina L. Dunderdale, issued on July 31, 2026, in the above-captioned proceeding. NFGD, I&E, the OCA, and CAUSE-PA filed Replies to Exceptions on August 24, 2026.

For the reasons stated, *infra*, we shall: (1) grant the Exceptions filed by CAUSE-PA; (2) grant, in part, and deny, in part, the Exceptions filed by NFGD and the OCA; (3) deny the Exceptions filed by I&E; and (4) adopt the Recommended Decision of ALJ Dunderdale, as modified, consistent with this Opinion and Order.

As discussed below, NFGD proposed base rate changes that would have increased its total annual natural gas distribution operating revenues by $16,189,000, or by approximately 6.1%, over revenues at present rates of $265,524,000, based on a Fully Projected Future Test Year (FPFTY) ending October 31, 2027. NFGD M.B. at 6, 21,

[1] The Office of Small Business Advocate (OSBA) submitted a letter on August 17, 2026, indicating that it would not be filing Exceptions.

Appendix D-Table I.[2,3] In this Opinion and Order, we shall approve an annual revenue increase of $10,448,826 to the Company's total revenues at present rates of $265,524,000, or by approximately 3.94%.

I. Introduction and Background

NFGD is a public utility and natural gas distribution company (NGDC) as those terms are defined in the Public Utility Code (Code), 66 Pa.C.S. §§ 102 and 2202. The Company is a wholly owned subsidiary of National Fuel Gas Company (NFG), a

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[2] In its initial filing, NFGD proposed base rate changes that would have increased its total annual natural gas distribution operating revenues by approximately $19,680,000. *See* NFGD Exh. A FPFTY, Schs. A-1 and D-1. During the rebuttal phase of this proceeding, NFGD revised its proposed annual revenue increase downward to approximately $18,475,000, in light of revisions to: (1) its claimed rate base to reflect adjustments to reduce its claimed amounts for cash working capital (CWC), customer advances, and contributions in aid of construction (CIAC); and (2) its return on equity (ROE), wherein it reduced its originally claimed ROE of 11.25% to 11.00% to remove its originally requested upward adjustment for its purported superior management performance. NFGD St. 2-R at 3-4. Moreover, in its Main Brief, the Company further revised its proposed annual revenue increase downward to approximately $16,189,000 to reflect an additional reduction of 50 basis points (*i.e.* 0.50%) to its ROE, or from 11.00% to 10.50% "to demonstrate its continuing . . . responsiveness to the broader concerns around affordability across the economy and the energy sector in particular." NFGD M.B. at 6, Appendix D-Table I.

[3] As discussed in Section X.E of this Opinion and Order, the Company also explained that the impact of any annual revenue increase granted in this proceeding will also be offset in the first-year rates are in effect, in light of NFGD's proposed reinstatement of an Other Post Employment Benefit (OPEB) surcredit, which would refund OPEB funds totaling approximately $6.2 million to all customers. According to NFGD, through this surcredit, customers will effectively experience a phase in of the rate increase over two years. Additionally, NFGD explained that the OPEB proposal will also provide a one-time bill credit of $30, totaling approximately $1.025 million, to approximately 34,000 Customer Assistance Program (CAP), Level 1, and Level 2 customers, representing more than 15% of residential accounts. NFGD represented that it will distribute this credit during the December 2026 billing period, in line with a recommendation from CAUSE-PA to increase the impact of the credit on customers by providing it during the winter heating season. NFGD M.B. at 6-7.

publicly traded holding company headquartered in Williamsville, New York. NFGD provides natural gas sales, transportation, and/or supplier of last resort services to approximately 215,000 customers throughout its Pennsylvania service territory, which includes all or portions of 14 counties located in the northwestern part of the state. NFGD maintains headquarters and a customer service call center in Erie, Pennsylvania, and operates approximately 4,900 miles of main and transmission natural gas pipelines and 13 service centers across northwest Pennsylvania. For the fiscal year ended September 30, 2025, the Company's total normalized throughput was approximately 45.5 billion cubic feet (Bcf), with the residential, commercial & public authority, and industrial customer classes making up 41%, 21%, and 38%, respectively, of the annual load. Nearly all of its 195,000 residential customers use natural gas for space heating purposes. NFGD M.B. at 1; NFGD St. 1 at 2-3. NFGD has provided natural gas service in Pennsylvania since 1902. I.D. at 11, FOF 13.

NFGD last filed for an increase in natural gas distribution rates in October of 2022, which the Commission addressed in *Pa. PUC, et al. v. National Fuel Gas Distribution Corporation*, Docket Nos. R-2022-3035730, *et al*. (Final Order entered June 15, 2023) (*NFGD 2023*). The rates the Commission approved in *NFGD 2023* took effect on July 27, 2023. *NFGD 2023* at 2. However, according to NFGD, its current rates are insufficient to support its current and planned operations. *NFGD* St. 1 at 7. Thus, NFGD filed the instant base rate case to: (1) allow it to earn a fair return on investments used and useful to continue to provide safe and reliable service to the public; (2) support its infrastructure replacement programs designed to enhance safety and reliability; (3) address increasing levels of operating costs, which are principally being influenced by broader macroeconomic trends; and (4) mitigate the adverse impacts of warmer weather trends on customer usage. NFGD Statement of Reasons at 2.

NFGD submitted that upgrading and modernizing its distribution system facilitates the provision of safe, reliable, and reasonable service to customers.

Accordingly, the Company explained that it is replacing its non-contemporary infrastructure at an accelerated pace, as described in its recently-filed Amended Long Term Infrastructure Improvement Plan (LTIIP), at Docket No. P-2022-3034957. The Company represented that its investment in net plant in service for the FPFTY ended October 31, 2027 is projected to be $637 million, compared to the Company's investment in net plant of approximately $496 million for the FPFTY ended July 31, 2024, which was the FPFTY utilized in its prior rate proceeding in *NFGD 2023*. According to NFGD, this $141 million increase in net plant has largely been the result of continued investments necessary to enhance and maintain the safety and reliability of the Company's distribution system, which include the replacement of aging gas plant infrastructure. NFGD represented that since 2016, the Company's Systematic Replacement Program has eliminated over 371 miles of leak-prone bare steel and wrought iron pipeline and 7,337 base steel services. NFGD Statement of Reasons at 3.

NFGD asserted that its residential heating customers have the lowest average total bills and delivery charges of all the major NGDCs in the Commonwealth and that this will continue to be the case even if the Company's requested increase is granted in full. NFGD insisted that its decades of disciplined financial management have allowed the Company to consistently provide its customers with this low-cost natural gas service while also maintaining prudent investments to modernize and enhance the reliability of its distribution system. NFGD M.B. at 1.

II. History of the Proceeding

The History of the Proceeding that follows is summarized from Pages 3 through 7 of the Recommended Decision.

On January 28, 2026, NFGD filed Supplement No. 294 (Supplement \No. 294) to Tariff Gas-Pa. P.U.C. No. 9 (Tariff Gas), with an effective date

of March 29, 2026. Therein, NFGD proposed to increase overall rates by approximately $19.7 million per year, or by 7.4%, over revenues at present rates.[4] NFGD also proposed to reinstate a tariff rider that would provide a refund of OPEB funds of approximately $6.2 million to all customers and provide a one-time bill credit of $30, totaling approximately $1.025 million, to confirmed CAP, Level 1 and Level 2 customers. Moreover, NFGD proposed two alternative rate mechanisms: (1) permanent approval of the Company's Weather Normalization Adjustment (WNA); and (2) approval of its proposed Energy Efficiency (EE) pilot program (EE Pilot or Pilot). R.D. at 3.

On February 2, 2026, I&E filed a Notice of Appearance. R.D. at 3.

Subsequently, Formal Complaints were filed on the following dates by the following Parties: (1) on February 4, 2026, by the OCA at Docket No. C-2026-3060292; (2) on February 9, 2026, by the OSBA at Docket No. C-2026-3060354; and (3) on February 10, 2026, by CAUSE-PA at Docket No. C-2026-3060437. In addition, on February 9, 2026, the Pennsylvania Weatherization Providers Task Force (Task Force) filed a Petition to Intervene, requesting permission to intervene in the proceeding as a party. The Formal Complaints and the Petition to Intervene were approved and/or

[4] As noted above, during the rebuttal phase of this proceeding, NFGD revised its proposed annual revenue increase downward to approximately $18,475,000 in light of revisions to: (1) its claimed rate base to reflect adjustments to reduce its claimed amounts for CWC, customer advances, and CIAC; and (2) its ROE, wherein it reduced its originally claimed ROE of 11.25% to 11.00% to remove its originally requested upward adjustment for its purported superior management performance. NFGD St. 2-R at 3-4. Moreover, in its Main Brief, the Company further revised its proposed annual revenue increase downward to approximately $16,189,000 to reflect an additional reduction of 50 basis points (*i.e.* 0.50%) to its ROE, or from 11.00% to 10.50%, "to demonstrate its continuing . . . responsiveness to the broader concerns around affordability across the economy and the energy sector in particular." NFGD M.B. at 6, Appendix D-Table I.

consolidated into the instant proceeding by ALJ Dunderdale in the Prehearing Order dated February 27, 2026. R.D. at 4.[5]

By Order entered on February 19, 2026 (*February 2026 Order*), the Commission suspended the implementation of Supplement No. 294 by operation of law, pursuant to 66 Pa.C.S. § 1308(d), until October 29, 2026, unless permitted by Commission Order to become effective at an earlier date, and instituted an investigation into the lawfulness, justness, and reasonableness of the rates, rules, and regulations proposed in Supplement No. 294. R.D. at 4.

On February 26, 2026, the ALJ conducted a call-in telephonic prehearing conference with the following Parties present and represented by counsel: NFGD, I&E, the OCA, the OSBA, CAUSE-PA and the Task Force. The Parties addressed procedural matters including the litigation schedule, public input hearings and discovery modifications. R.D. at 4.

On March 11, 2026, the Office of Administrative Law Judge (OALJ) issued an In-person and Telephonic Public Input Hearings Notice which scheduled two in-person public input hearings to be conducted on March 31, 2026, at the Bayfront Convention Center, Erie, Pennsylvania, and two telephonic public input hearings to be conducted on April 2, 2026. R.D. at 5.

On March 31, 2026, at 1:00 p.m., the ALJ conducted an in-person public input hearing at the Bayfront Convention Center, Erie, Pennsylvania, at which two witnesses testified. The ALJ conducted a second in-person public input hearing at 6:00 p.m. on March 31, 2026, at which no individual appeared to testify. R.D. at 5.

[5] We further note that on July 28, 2026, Governor Josh Shapiro filed comments opposing the Company's request to raise its rates.

On April 2, 2026, the Company filed proof of the publications concerning the public input hearings. R.D. at 6.

Also, on April 2, 2026, at 1:00 p.m., the ALJ conducted a telephonic public input hearing at which two witnesses testified. The ALJ conducted a second telephonic public input hearing at 6:00 p.m. on April 2, 2026, at which no individuals appeared to testify. R.D. at 6.

On April 16, 2026, written direct testimony was pre-served on the ALJ and the Parties by: I&E, the OCA, the OSBA, CAUSE-PA and the Task Force. R.D. at 6.

On May 12, 2026, written rebuttal testimony was pre-served on the ALJ and the Parties by: NFGD, I&E, the OCA, the OSBA, and CAUSE-PA. R.D. at 6.

On June 2, 2026, the ALJ conducted the in-person evidentiary hearing in Harrisburg, Pennsylvania, at which the following Parties appeared: NFGD, I&E, the OCA, the OSBA, CAUSE-PA, and the Task Force. Two witnesses testified and the hearing concluded at 3:24 p.m. R.D. at 6.

On June 22, 2026, Main Briefs were filed by NFGD, I&E, the OCA, the OSBA, and CAUSE-PA. R.D. at 7.

On July 1, 2026, Reply Briefs were filed by NFGD, I&E, the OCA, the OSBA, CAUSE-PA, and the Task Force. R.D. at 7.

The hearing record consists of 258 transcript pages and the above-referenced statements, exhibits, and documents. The ALJ closed the hearing record on July 15, 2026. R.D. at 7.

On July 31, 2026, the Commission issued the Recommended Decision of ALJ Dunderdale. Therein, the ALJ recommended that the Commission approve an increase in annual operating revenues in the amount of approximately $8,227,867, or approximately 3.1% over total revenues at present rates. R.D. at 2, 414, Recommended Ordering Paragraph No. 2.[6]

The ALJ also recommended, *inter alia*, that: (1) the Company's proposal to make the WNA permanent be denied; and (2) the Company's proposed Pilot be granted. R.D. at 3.

As previously noted, on August 17, 2026, NFGD, I&E, the OCA, and CAUSE-PA filed Exceptions to the Recommended Decision. On August 24, 2026, NFGD, I&E, the OCA, and CAUSE-PA filed Replies to Exceptions.

III. Public Input Hearings

As noted in the History of Proceeding, *supra*, several public input hearings were held for the purpose of allowing NFGD's customers to provide input regarding the Company's proposed natural gas rate increase. More specifically, two in-person hearings were held on March 31, 2026, and two telephonic hearings were held April 2, 2026. A total of four individuals testified. For a discussion and summary of the public input hearings, *see* pages 7 to 9 of the Recommended Decision.

[6] As noted in Section VI.D, *infra*, alternatively, the ALJ recommended that the Commission apply the revenue increase of $4.305 million advanced by the OCA in its Main Brief. The ALJ stated that "[t] his recommendation assumes the Commission will also approve OCA's recommendation for an overall rate of return of 7.66% and at its adjusted 50% equity and 50% debt capital structure." *See* R.D. at 85.

IV. Legal Standards

A. Legal Standards

At issue here is the Company's request for a general base rate increase, which is governed by Section 1308(d) of the Code, 66 Pa.C.S. § 1308(d). Section 1308(d) of the Code provides the procedures for changing base rates, the time limitations for the suspension of the new rates, and the time limitations on the Commission's actions. 66 Pa.C.S. § 1308(d).[7] "Under traditional ratemaking, utilities may not change rates charged to customers outside of a base rate case." *McCloskey v. Pa. PUC*, 127 A.3d 860, 863 n.2 (Pa. Cmwlth. 2015).

Section 1301(a) of the Code mandates that "[e]very rate made, demanded, or received by any public utility . . . shall be just and reasonable, and in conformity with [the] regulations or orders of the [C]ommission." 66 Pa.C.S. § 1301(a). Pursuant to the just and reasonable standard, a utility may obtain "a rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers[,] as well as a reasonable rate of return on its investment." *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002) (*City of Lancaster*). There is no single way to arrive at just and reasonable rates, and "[t]he [Commission] has broad discretion in determining whether rates are reasonable" and "is vested with discretion to decide what

[7] Among other things, Section 1308(d) of the Code requires the Commission to render a final decision granting or denying, in whole or in part, the general rate increase requested by a public utility, within a general time frame not to exceed seven months from the proposed effective date of the utility's proposed tariff supplement. *See* 66 Pa.C.S. § 1308(d); *see also* 52 Pa. Code § 53.31 (requiring a tariff proposing a rate increase to be effective upon sixty days' advance notice). Unless the utility voluntarily extends the suspension period, the Commission's non-action within this timeframe means, by operation of law, the utility's proposed general rate increase will go into effect, as proposed, at the end of such period. *See* 66 Pa.C.S. § 1308(d).

factors it will consider in setting or evaluating a utility's rates." *Popowsky v. Pa. PUC*, 683 A.2d 958, 961 (Pa. Cmwlth. 1996) (*Popowsky 1996*).

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 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

> 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.

The Commission is required to investigate all general rate increase filings. *Popowsky 1996*, 683 A.2d at 961. The burden of proof to establish the justness and reasonableness of every element of a public utility's rate increase request rests solely upon the public utility in all proceedings filed under Section 1308(d) of the Code. 66 Pa.C.S. § 315(a); *see also, Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980) (*Lower Frederick*); *see also Brockway Glass Co. v. Pa. PUC*, 437 A.2d 1067 (Pa. Cmwlth. 1981). Section 315(a) of the Code provides as follows:

> **Reasonableness of rates.** – In any proceeding upon the motion of the commission, involving any proposed or existing rate of any public utility, or in any proceedings upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.

66 Pa.C.S. § 315(a). The evidence necessary to meet that burden must be substantial. *Lower Frederick*, 409 A.2d at 507.

In general rate increase proceedings, the burden of proof does not shift to parties challenging a requested rate increase. Rather, the utility's burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one, and that burden remains with the public utility throughout the course of the rate

proceeding. There is no similar burden placed on parties to justify a proposed adjustment to the Company's filing. The Pennsylvania Supreme Court has held:

> [T]he appellants did not have the burden of proving that the plant additions were improper, unnecessary or too costly; on the contrary, that burden is, by statute, on the utility to demonstrate the reasonable necessity and cost of the installations, and that is the burden which the utility patently failed to carry.

Berner v. Pa. PUC, 116 A.2d 738, 744 (Pa. 1955).

However, in proving that its proposed rates are just and reasonable, a public utility need not affirmatively defend every claim it has made in its filing, even those which no other Party has questioned. As the Pennsylvania Commonwealth Court has held:

> While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.

Allegheny Center Assocs. v. Pa. PUC, 570 A.2d 149, 153 (Pa. Cmwlth. 1990) (citation omitted); *see also Pa. PUC v. Equitable Gas Co.*, 73 Pa. P.U.C. 301, 359-60 (1990).

Additionally, Section 315(a) of the Code cannot reasonably be read to place the burden of proof on the utility with respect to an issue the utility did not include in its general rate case filing and which, frequently, the utility would oppose. 66 Pa.C.S. § 315(a). The burden of proof must be on the party who proposes a rate increase beyond that sought by the utility. *Pa. PUC v. Metropolitan Edison Company*, Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5 (Opinion and Order entered January 11, 2007) (*Met-Ed. 2007*). The mere rejection of evidence contrary to that

presented by the public utility is not an impermissible shifting of the evidentiary burden. *United States Steel Corp. v. Pa. PUC*, 456 A.2d 686 (Pa. Cmwlth. 1983).

In the Recommended Decision, the ALJ made 238 Findings of Fact (FOFs) and reached 60 Conclusions of Law (COLs). R.D. at 9-48, 402-14. The Findings of Fact and Conclusions of Law are incorporated herein by reference and are adopted without comment unless they are either expressly or by necessary implication rejected or modified by this Opinion and Order.

Finally, any issue or Exception that we do not specifically address shall be deemed to have been duly considered and denied without further discussion. The Commission is not required to consider expressly or at length each contention or argument raised by the parties. *Consolidated Rail Corp. v. Pa. PUC*, 625 A.2d 741 (Pa. Cmwlth. 1993); *see also, generally, University of Pennsylvania v. Pa. PUC*, 485 A.2d 1217 (Pa. Cmwlth. 1984).

V. Rate Base

Rate base, also known as measure of value, is the depreciated original cost of a utility's investment in plant that the utility has in place to serve customers, plus other additions and deductions that the Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers. Rate base is one part of the revenue requirement equation, set forth in Section VI.D, *infra*, that is used by the Commission to determine the appropriate revenue that a utility is granted in a rate proceeding. I&E M.B. at 13-14.

As discussed above, NFGD initially requested that the Commission approve an increase in annual base rate revenues of approximately $19.7 million, based upon a FPFTY ending October 31, 2027. During the rebuttal phase of this proceeding,

NFGD reduced its originally requested increase to approximately $18.5 million. Moreover, in its Main Brief, NFGD further reduced its requested increase to approximately $16.2 million. The Company's final updated request reflects a proposed 10.5% return on common equity and an overall rate of return of 8.35%. NFGD M.B. at 1, 53-54, Appendix D-Table I(A); NFGD St. 2-R at 3-4; NFGD Exh. A-FPFTY (Rebuttal Update), Sch. A-1. According to NFGD, its updated rate base claim for the FPFTY is approximately $571.456 million,[8] as summarized in Table 1, below. The Company's rate base reflects net plant in service, CWC, gas inventory, materials and supplies, and deductions for accumulated deferred income taxes (ADIT), customer deposits, CIAC, and customer advances. NFGD M.B. at 12-16; NFGD Exh. A – FPFTY (Rebuttal Update), Schs. C-1, C-9. The Company's updated calculation reflects approximately $957.2 million of utility plant in service, less approximately $320.6 million of accumulated depreciation, resulting in approximately $636.7 million of net plant in service. NFGD M.B. at 13-14; NFGD Exh. A – FPFTY (Rebuttal Update), Sch. C-1.

[8] We note that Appendix D,-Table I, to NFGD's Main Brief identifies the Company's rate base as $571.431 million. NFGD M.B., Appendix D-Table I. This amount is $25,000 less than the $571.456 million rate base reflected in NFGD Exhibit A-FPFTY (Rebuttal Update), Schedule C-1. The $25,000 difference corresponds precisely to the Company's $25,000 deduction for CIAC, which was already incorporated into the Rebuttal Update. *See* NFGD M.B. at 15; NFGD St. 6-R at 2. Accordingly, the $571.431 million amount appears to reflect a clerical inconsistency. We further note that the $571.431 million figure is carried into NFGD M.B., Appendix D-Tables III and IV, concerning interest synchronization and CWC-related interest calculations, respectively. In the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall use the rate base amount identified in NFGD Exhibit A-FPFTY (Rebuttal Update), Schedule C-1 as the starting point for the adjustments we make to the Company's rate base.

Table 1: NFGD's FPFTY Rate Base Claim

	Company As - Filed Oct. 31, 2027 Ref. NFGD Exh. A - FPFTY, Sch. C-1	Adjustment Includes Adjustments to reduce CWC, Customer Advances and CIAC Amounts	Company Revised Claim Oct. 31, 2027 Ref. NFGD Exh. A - FPFTY (Rebuttal Update), Schs. C-1, C-9
Total Plant In Service	$957,237,000	$0	$957,237,000
Less: Accrued Depreciation	$320,571,000	$0	$320,571,000
Depreciated Plant In Service	$636,667,000	$0	$636,667,000
Working Capital	$6,755,000	($40,000)	$6,715,000
Gas Inventory	$5,664,000	$0	$5,664,000
ADIT	($73,925,000)	$0	($73,925,000)
Customer Deposits	($5,166,000)	$0	($5,166,000)
Materials and Supplies	$1,587,000	$0	$1,587,000
CIAC	$0	($25,000)	($25,000)
Customer Advances	$0	($61,000)	($61,000)
Original Cost Measure of Value	**$571,582,000**	**($126,000)**	**$571,456,000**

In addition to net plant in service, NFGD's claimed rate base includes approximately $6.7 million of working capital,[9] $5.7 million of gas inventory, and $1.6 million of materials and supplies. The Company's rate base is reduced by approximately $73.9 million of ADIT and $5.2 million of customer deposits. In rebuttal testimony, NFGD also updated its calculation to include deductions of approximately $25,000 for CIAC and $61,000 for customer advances. NFGD Exh. A – FPFTY (Rebuttal Update), Schs. C-1, C-9; NFGD M.B. at 15-16.

[9] Working capital is the difference between a utility's current assets and its current liabilities, and represents the funds available to meet day-to-day operational needs. Current assets include, *inter alia*, cash (*e.g.*, CWC), inventory (*e.g.*, materials and supplies), and prepaid expenses (*i.e.*, prepayments). Therefore, CWC, discussed in more detail in Sections V.G and VII.H.6, *infra*, is a subset of total working capital. *See Columbia Gas 2025* at 63-64, n.31 (citations omitted).

The depreciated original cost is determined by subtracting the book reserve, which represents the accumulation of prior annual depreciation expense, and other appropriate items from the original cost of the plant in service that is projected to be used and useful in the public service. The depreciated original cost of plant in service is determined by taking a "snapshot" of the depreciated original cost value of used and useful utility plant in service at the end of the FPFTY. I&E M.B. at 14.

Further, for utility plant to be included in rates, the plant must be used and useful in providing utility service to customers. Thus, only plant currently providing or capable of providing utility service, or plant projected to be completed and placed in service by the end of the FPFTY, is eligible to be reflected in rates. I&E M.B. at 14.

NFGD's claim for utility plant in service was approximately $957.2 million for the FPFTY. The Company developed its Future Test Year (FTY) and FPFTY plant additions from its five-year capital forecast. According to NFGD, its utility plant has increased since its prior base rate proceeding primarily as a result of investments in system modernization and leak-prone pipe (LPP) replacement pursuant to the Company's Amended LTIIP. NFGD M.B. at 13.

Several disputed adjustments affect the calculation of NFGD's claimed rate base and are addressed in greater detail below. First, although no Party challenged NFGD's FPFTY utility plant claim of approximately $957.2 million, I&E proposed additional reporting requirements to permit the Commission, I&E, and the OCA to compare the Company's projected capital expenditures, plant additions, and retirements with actual results for the FTY and FPFTY. I&E M.B. at 15-16. The ALJ recommended adoption of those reporting requirements, finding that the comparison of projected and actual investment would assist in evaluating the validity of NFGD's projections in future rate proceedings. R.D. at 68-69.

Second, rate base is affected by CWC and the corresponding adjustments that flow from the Commission's resolution of the disputed operating expense claims. The OCA initially proposed adjustments to NFGD's lead/lag study concerning, among other things, prepaid expenses and non-cash expenses that would reduce rate base by approximately $1.195 million. The OCA subsequently revised its CWC calculation in its Reply Brief, increasing its proposed CWC allowance and rate base by approximately $680,000 and thereby reducing its proposed downward adjustment to approximately $515,000. OCA R.B. at 5-7; OCA Exh. LKM-5A-SR (rev.). The ALJ rejected the OCA's proposed overall CWC adjustment and recognized that the final CWC allowance must be determined through the iterative process so that it reflects the expense adjustments ultimately adopted by the Commission. R.D. at 71.

Third, depreciation-related issues also affect rate base because accumulated depreciation is deducted from utility plant in determining net plant in service, and a lower accumulated depreciation reserve results in a higher rate base. R.D. at 66-68. In that regard, the OCA proposed replacing NFGD's Equal Life Group (ELG) procedure with the Average Service Life (ASL) procedure. Although the OCA's proposal would reduce annual depreciation expense in the near term, NFGD argued that the resulting reduction in accumulated depreciation would increase rate base and, ultimately, increase the overall cost to customers over time. NFGD M.B. at 14; R.D. at 66-68. The ALJ rejected the OCA's proposal and recommended continued use of the ELG procedure.

Finally, NFGD and the OCA disputed the appropriate deductions from rate base for CIAC and customer advances. NFGD used a 13-month average ending September 30, 2025, consistent with the methodology used to develop its other FPFTY balances, while the OCA relied upon a more recent 13-month average ending February 2026. R.D. at 70. The ALJ recommended adoption of NFGD's methodology and its deductions of approximately $25,000 for CIAC and $61,000 for customer advances. *Id.*

The following sections address these rate base adjustments, the Parties' competing positions, the ALJ's recommendations, and the resulting effect on the Company's claimed rate base.

A. Utility Plant in Service

1. Positions of the Parties

NFGD's claim for utility plant in service was approximately $957.2 million for the FPFTY ending October 31, 2027. The Company explained that its FTY and FPFTY plant additions were derived from its five-year capital forecast, with the projected plant additions and retirements reflected in NFGD Exhibit A-(Rebuttal Update), Schedule C-2. NFGD M.B. at 13; NFGD St. 6 at 4-6. According to NFGD, its utility plant has increased since its prior base rate proceeding in *NFGD 2023,* primarily because of investments in system modernization and LPP replacement pursuant to the Company's Amended LTIIP. NFGD M.B. at 13; NFGD St. 9 at 3-5. Because no Party proposed an adjustment to the Company's utility plant claim, NFGD submitted that its $957.2 million FPFTY utility plant balance should be approved without modification. NFGD M.B. at 13; NFGD R.B. at 5.

I&E did not propose an adjustment to NFGD's overall utility plant balance and otherwise took no position on the amount of utility plant to be included in rate base. I&E M.B. at 14. I&E did, however, propose additional reporting requirements concerning the plant additions projected to be placed in service during the FTY and FPFTY. Specifically, I&E's witness, Mr. Ethan H. Cline, proposed that NFGD provide I&E and the OCA with an update to NFGD Exhibit A – Revenue Requirement – FTY, Schedule C-2, by February 1, 2027, under this docket number. The update would include actual capital expenditures, plant additions, and retirements by month for the twelve months ending September 30, 2026. I&E further proposed that NFGD provide an update

to NFGD Exhibit A – Revenue Requirement – FPFTY, Schedule C-2, reflecting actual results through October 31, 2027, by February 1, 2028. I&E M.B. at 15; I&E St. 3 at 3-4; I&E St. 3-SR at 2. I&E reasoned that there is value in determining how closely NFGD's projected investments in plant correspond with the investments actually made by the end of the FTY and FPFTY. According to I&E, comparing projected and actual results would provide information useful to the Commission and the Parties in evaluating the validity of NFGD's projections in future rate proceedings. I&E M.B. at 15; I&E St. 3 at 4.

NFGD did not oppose I&E's proposed reporting requirements. In rebuttal testimony, NFGD's witness, Ms. Monika M. Duszenko, stated that, if directed by the Commission or otherwise required in this proceeding, the Company would provide updates of its actual plant balances for the FTY and FPFTY through October 31, 2027. NFGD St. 6-R at 5. I&E noted the Company's agreement in both its Main Brief and Reply Brief. I&E M.B. at 16; I&E R.B. at 12.

The OCA likewise did not propose an adjustment to NFGD's $957.2 million utility plant balance. The OCA's revised rate base schedule reflects the Company's $957.237 million utility plant claim without adjustment. OCA Exh. LKM-2A-SR at 1.

2. Recommended Decision

In her Recommended Decision, the ALJ recommended that NFGD's claim of approximately $957.2 million for utility plant in service for the FPFTY be approved without modification. The ALJ observed that the Company's utility plant had increased since its prior rate proceeding in *NFGD 2023* and that no Party had proposed an adjustment to NFGD's claimed utility plant balance. R.D. at 65.

The ALJ also recommended that the Commission adopt I&E's proposed FPFTY reporting requirements. In doing so, the ALJ agreed with I&E that there is value in determining how closely NFGD's projected plant investments align with the investments actually made through the end of the FTY and the FPFTY. The ALJ reasoned that comparing projected and actual results would provide information concerning the validity of the Company's projections and would assist the Commission and the Parties in future NFGD rate proceedings. R.D. at 67-68.

Accordingly, the ALJ recommended that NFGD be required to provide the Commission, I&E, and the OCA with an update to NFGD Exhibit A – FTY, Schedule C-2, by February 1, 2027, including actual capital expenditures, plant additions, and retirements by month for the twelve months ending September 30, 2026. The ALJ further recommended that NFGD provide an update to NFGD Exhibit A – FPFTY, Schedule C-2, reflecting actual results through October 31, 2027, by February 1, 2028. R.D. at 67-68. The ALJ found these reporting requirements to be reasonable and adequate, noting both their usefulness in assessing the relationship between NFGD's projected and actual plant investments and NFGD's agreement to provide the information if directed to do so. *Id.* at 68.

3. Disposition

No Party filed Exceptions to the ALJ's recommendation. Upon review, we find the recommendation to be reasonable and supported by substantial evidence in the record and shall adopt it. Accordingly, we approve NFGD's FPFTY utility plant balance of approximately $957.2 million and direct NFGD to provide the Commission, I&E, and the OCA with the FTY Schedule C-2 update by February 1, 2027, reflecting actual capital expenditures, plant additions, and retirements, by month, for the twelve months

ending September 30, 2026, and the FPFTY Schedule C-2 update by February 1, 2028, reflecting actual results through October 31, 2027. R.D. at 67-68.[10]

B. Depreciation Reserve

1. Positions of the Parties

NFGD's claimed depreciation reserve at the end of the FPFTY is approximately $320.6 million. The Company explained that its depreciation reserve was calculated by Gannett Fleming Valuation and Rate Consultants, LLC, generally using the straight-line remaining life method with the ELG procedure. NFGD further stated that its current accrued depreciation claim was developed on the same basis that it has used for decades. NFGD M.B. at 13-14; NFGD St. 8 at 4-5.

The principal dispute concerns the OCA's proposal to replace NFGD's ELG procedure with the ASL procedure, which is also referred to in the record as the Average Life Group (ALG) procedure. Under the ELG procedure, property within an account is divided into groups having equal service lives, with depreciation calculated for each equal life group based upon its expected life. By contrast, under the ASL procedure, depreciation expense for all property within an account is calculated based upon the average service life of the entire group. R.D. at 19-21; NFGD St. 8-R at 3-4, 7-8.

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[10] Finding of Fact No. 8 of the Recommended Decision stated that NFGD agreed to provide actual capital expenditures, plant additions, and retirements for the twelve months ending November 30, 2025. R.D. at 11. The record, however, reflects that I&E proposed, and NFGD agreed if directed, to provide such information for the twelve months ending September 30, 2026, by February 1, 2027, together with a subsequent update reflecting actuals through October 31, 2027, by February 1, 2028. I&E M.B. at 15-16; NFGD St. 6-R at 5. The ALJ's substantive recommendation, likewise, correctly identified September 30, 2026, as the applicable reporting-period end date. R.D. at 68-69. Accordingly, we treat the November 30, 2025 date appearing in Finding No. 8 as a clerical error and use September 30, 2026.

The OCA proposed a $4.67 million reduction to NFGD's annual depreciation expense resulting from its proposed use of the ALG/ASL procedure. Correspondingly, because accumulated depreciation is deducted from gross plant in determining net plant in service, the OCA proposed a $4.67 million downward adjustment to NFGD's accumulated depreciation reserve, which would increase rate base by the same amount. OCA St. 2 at 22.

In support of its proposal, the OCA maintained that the ELG procedure front-loads depreciation expense and places an excessive burden on current customers, particularly during NFGD's present period of substantial infrastructure investment. The OCA asserted that NFGD is in a higher-than-average investment cycle and that the discrepancy between the ELG and ALG procedures is amplified during such periods. According to the OCA's witness, Mr. Brian C. Andrews, the ALG procedure would permit NFGD to recover the full cost of its investments over the lives of the assets while producing a lower near-term depreciation expense and more affordable rates. OCA M.B. at 23-25; OCA St. 4 at 13-16, 26.

The OCA also argued that adoption of ALG would further the principle of intergenerational equity. According to the OCA, both ELG and ALG ultimately provide for full recovery of prudent investment, and the principal difference between the procedures is the timing of that recovery among generations of customers. The OCA maintained that NFGD's own long-range analysis showed that customers would experience lower revenue requirements under ALG for approximately eleven years before a projected crossover point. The OCA characterized that near-term benefit as tangible and measurable, while criticizing the projected longer-term benefits of ELG as dependent upon assumptions regarding future plant activity, retirements, and rates of return over approximately twenty-five years. OCA M.B. at 26-28; OCA St. 4-SR at 13-14.

Further, the OCA disputed NFGD's contention that ELG produces a more accurate allocation of depreciation expense. The OCA argued that ELG's asserted precision depends upon actual retirements occurring in accordance with the selected survivor curve. Using NFGD's Account 376.1 as an example, the OCA contended that the proposed survivor curve did not closely match actual retirement experience and, therefore, that ELG's purported precision did not necessarily translate into greater accuracy in practice. The OCA asserted that ALG, coupled with the remaining life technique, can account for over- or under-accumulations through subsequent depreciation studies. OCA M.B. at 29-34; OCA St. 4-SR at 5-6, 16-17.

The OCA acknowledged the Commission's recent rejection of an ASL proposal in *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499 (Opinion and Order entered December 9, 2025) (*Columbia Gas 2025*) but maintained that the record here is materially different. Specifically, the OCA asserted that, unlike the OCA evidence considered in the *Columbia Gas 2025* proceeding, the OCA's witness, Mr. Andrews, developed a reserve bringforward from September 30, 2025, through October 31, 2027, using the ALG methodology, thereby calculating annual depreciation expense and accumulated depreciation on what the OCA characterized as a reasonably consistent basis. OCA M.B. at 35-37; OCA St. 4-SR at 11. The OCA further argued that NFGD's recent base rate cases in 2006 and 2022 were settled and, therefore, the Commission had not evaluated NFGD's depreciation procedure in a contested base rate case for more than twenty years. OCA M.B. at 36-37.

NFGD opposed the OCA's proposal and urged continued use of the ELG procedure. The Company argued that the ELG procedure more closely matches recovery of an asset's cost with its actual consumption of service because the survivor curve divides property into equal life groups, whereas the ASL procedure applies the average service life to all property within an account. NFGD maintained that, in actual utility operations, only a small percentage of property will retire at the precise average service

life and that the ELG procedure therefore better reflects the dispersion of retirements within a property group. R.D. at 97-98; NFGD St. 8-R at 3-8.

NFGD further argued that the OCA's proposal focuses too narrowly on the short-term reduction in depreciation expense. According to the Company, its longstanding use of ELG has produced a greater accumulated depreciation reserve and, consequently, a lower rate base than would have resulted from use of ASL. NFGD asserted that switching to ASL would initially lower depreciation expense but would also reduce accumulated depreciation and ultimately produce a higher rate base and higher revenue requirements over time. To support this contention, the Company's witness, Mr. John J. Spanos, prepared an approximately twenty-five-year projection comparing continued use of the ELG procedure with conversion to the ASL procedure. NFGD contended that the projection demonstrated that ASL would produce higher customer rates over the longer term. R.D. at 99-100; NFGD St. 8-R at 16-17.

The Company also disputed the OCA's intergenerational equity argument. NFGD maintained that ELG better matches depreciation recovery to the periods during which assets provide service and that changing methods after decades of using ELG would confer a near-term benefit on current customers at the expense of future customers, who would bear the return associated with a higher rate base. NFGD R.B. at 18-20; NFGD St. 8-R at 12, 16-17, 20-21.

NFGD also rejected the OCA's contention that this case is materially distinguishable from the Commission's recent decision in *Columbia Gas 2025*. The Company argued that a complete conversion to ALG would require restating historical accumulated depreciation rather than merely recalculating the reserve bringforward for the FTY and FPFTY. NFGD further asserted that its ELG procedure has been reviewed through periodic service life studies and annual depreciation filings, including its 2023 service life study, and that the Commission's approval of those filings gives rise to the

rebuttable presumption concerning accrued depreciation contained in 52 Pa. Code § 73.9(c). NFGD R.B. at 16-18.

2. Recommended Decision

The ALJ recommended that the Commission approve NFGD's continued use of the ELG procedure and reject the OCA's proposed change to the ALG/ASL procedure. R.D. at 65.

In reaching this recommendation, the ALJ recognized that the Commission is not permanently bound to a utility's existing depreciation methodology. The ALJ cited 52 Pa. Code § 73.9(c), under which the most recent approved or deemed-approved annual depreciation report or service life study creates a rebuttable presumption regarding the reasonableness of accrued depreciation for ratemaking purposes, with the burden of demonstrating unreasonableness placed upon the challenging party. The ALJ further observed that the Commission is not bound by any particular depreciation procedure but must calculate accumulated depreciation and annual depreciation expense on a reasonably consistent basis. R.D. at 65-66.

The ALJ considered the OCA's argument that use of the ALG procedure would provide more reasonable rates because the ELG procedure operates as an accelerated form of depreciation that causes current customers to bear a greater share of depreciation expense. The ALJ also considered the Commission's recent treatment of the same competing depreciation procedures in the *Columbia Gas 2025* proceeding. In that case, the Commission explained that depreciation affects rates both through annual depreciation expense and through accumulated depreciation, which is deducted from rate base. Thus, the ALJ explained, while a switch to ASL may reduce depreciation expense

in the short term, the resulting lower accumulated depreciation reserve increases rate base and the return on rate base over time. R.D. at 66-67.

Ultimately, the ALJ found that the OCA had not presented sufficient evidence to justify requiring NFGD to depart from the ELG procedure. Although the ALJ characterized the OCA's argument as reasonable, the ALJ concluded that the OCA's evidence did not outweigh the contrary evidence presented by NFGD and therefore determined that NFGD was correct to continue using ELG. R.D. at 67.

Consistent with that determination, the ALJ recommended acceptance of NFGD's accumulated depreciation calculated under the ELG procedure and, consequently, the Company's resulting net plant in service of approximately $636.7 million. R.D. at 67.

3. OCA Exception No. 1 and Replies

In its Exception No. 1, the OCA excepts to the ALJ's recommendation that NFGD continue to use the ELG procedure and, correspondingly, to the acceptance of the Company's accumulated depreciation reserve calculated under that procedure. The OCA maintains that the ALJ correctly recognized that its proposal to adopt the ALG/ASL procedure was reasonable but erred in concluding that the OCA had not presented sufficient evidence to require a change from ELG. The OCA argues that continued use of ELG produces intergenerational inequity by accelerating depreciation recovery and placing a disproportionate burden on current customers, particularly because NFGD is presently undergoing a period of substantial capital investment that is expected to continue for approximately the next decade. OCA Exc. at 1-4.

With respect to accumulated depreciation and rate base specifically, the OCA challenges the ALJ's conclusion that the longer-term rate base consequences of

adopting ALG justify continued use of ELG. The OCA observes that NFGD's own analysis projects lower revenue requirements under ALG for approximately eleven years, with a crossover occurring around 2037. According to the OCA, the near-term benefits of ALG are known and measurable, whereas NFGD's projection of higher rate base and revenue requirements in later years depends upon assumptions concerning plant additions, retirements, and rates of return extending approximately twenty-five years into the future. The OCA emphasizes that both depreciation procedures provide full recovery of prudent plant investment and contends that the relevant issue is the timing of that recovery among generations of customers. OCA Exc. at 4-7.

The OCA also argues that the record in this proceeding resolves a concern that contributed to the Commission's rejection of a similar proposal in the *Columbia Gas 2025* proceeding. The OCA explains that, in *Columbia Gas 2025*, the proposed ASL calculation continued to rely upon accumulated depreciation reserve balances developed under ELG. Here, by contrast, the OCA asserts that its witness, Mr. Andrews, brought forward accumulated depreciation from September 30, 2025, through October 31, 2027, using the ALG methodology and claims that his recommended annual depreciation expense and accumulated depreciation were therefore calculated on a reasonably consistent basis. The OCA contends that this difference materially distinguishes the present record from *Columbia Gas 2025* and supports adoption of its proposed reserve adjustment. OCA Exc. at 7-8.

NFGD replies that the ALJ properly recommended that the OCA's proposal be rejected and that continued use of the ELG procedure produces a more accurate accumulated depreciation reserve and a lower rate base over time. NFGD emphasizes that its longstanding use of ELG has resulted in a larger accumulated depreciation reserve, and thus a lower rate base, than would have resulted had ASL historically been used. According to NFGD, changing procedures now would permit current customers to obtain both the benefit of the lower rate base created through decades of ELG

depreciation and the immediate benefit of reduced ASL depreciation expense. However, NFGD contends that, after approximately eleven years, the resulting slower accumulation of depreciation under ASL would produce a rate base that is approximately $50 million greater than under continued ELG treatment, thereby shifting higher return requirements to future customers. NFGD R. Exc. at 2-3.

NFGD further disputes the OCA's assertion that its reserve calculation sufficiently distinguishes this proceeding from *Columbia Gas 2025*. According to NFGD, bringing accumulated depreciation forward under ALG for the FTY and FPFTY addresses only part of the conversion issue identified in *Columbia Gas 2025*. NFGD argues that a complete change in depreciation procedures would require a restatement of the historical book reserve for the entire period during which ELG has been used, which the OCA did not perform and which, according to NFGD, would result in an even higher rate base at the beginning of the test period. NFGD also rejects the OCA's contention that the Commission has not meaningfully reviewed its ELG methodology, noting that its depreciation rates and reserve treatment have been reviewed through annual depreciation reports and service-life studies for nearly forty years. NFGD R. Exc. at 4-5. NFGD therefore requests that the Commission deny the OCA's Exception No. 1 and affirm the ALJ's recommendation to continue the ELG procedure. NFGD R. Exc. at 5-6.

4. Disposition

As previously indicated, the OCA's proposed adjustment to NFGD's depreciation reserve is directly attributable to its proposal to change the Company's depreciation procedure from the ELG procedure to the ALG/ASL procedure. Specifically, the OCA proposed a $4.67 million reduction to NFGD's accumulated depreciation reserve, which would result in a corresponding $4.67 million increase to the Company's rate base. OCA St. 2 at 22. The ALJ recommended the rejection of the

OCA's proposed change in depreciation procedure and recommended acceptance of NFGD's accumulated depreciation calculated using the ELG procedure. R.D. at 65-67.

The OCA challenges that determination in its Exception No. 1, contending that the record provides sufficient evidence to require NFGD to adopt ALG/ASL. OCA Exc. at 1-13. For the reasons discussed in our disposition of the corresponding depreciation expense issue in section VII.G, *infra*, we agree with the ALJ that the OCA has not demonstrated that NFGD should be required to abandon its existing ELG procedure in this proceeding. Accordingly, we reject the OCA's proposed $4.67 million reduction to accumulated depreciation and adopt the ALJ's recommendation to accept NFGD's depreciation reserve calculated using the ELG procedure.

Moreover, NFGD's accumulated depreciation calculated under ELG is supported by the rebuttable presumption recognized in 52 Pa. Code § 73.9(c). As discussed more fully in our disposition of depreciation expense in Section VII.G, *infra*, the OCA has not presented sufficient evidence to overcome that presumption or demonstrate that NFGD's existing ELG treatment produces an unreasonable accumulated depreciation reserve. *See* R.D. at 65-67. We also agree with the ALJ that annual depreciation expense and accumulated depreciation should be determined on a reasonably consistent basis.

Therefore, to the extent the OCA, in its Exception No. 1, challenges the depreciation reserve resulting from continued use of ELG, we shall deny the Exception.

C. Gas Inventory

1. Positions of the Parties

NFGD claimed approximately $5.7 million for gas inventory as an addition to rate base for the FPFTY. The Company argued that no Party challenged this amount and, therefore, requested that its gas inventory claim be approved, without modification. NFGD M.B. at 14; NFGD St. 6 at 11; NFGD Exh. A - FPFTY (Rebuttal Update), Sch. A-1.

The OCA did not propose an adjustment to NFGD's gas inventory balance. The OCA's updated rate base schedules retained the Company's gas inventory amount of $5.664 million without adjustment. OCA Exh. LKM-2A-SR at 1; OCA Exh. LKM-2B-SR at 1.

2. Recommended Decision

The ALJ recommended that the Commission approve NFGD's gas inventory claim of approximately $5.7 million, without modification. The ALJ noted that no Party challenged the Company's proposed addition to rate base for gas inventory and, on that basis, concluded that NFGD's claim should be accepted. R.D. at 69.

3. Disposition

No Party filed Exceptions to the ALJ's recommendation. Finding the ALJ's recommendation to be reasonable and supported by substantial evidence in the record, we shall adopt it without further comment.

D. ADIT

1. Positions of the Parties

NFGD included ADIT as a reduction to rate base. The Company's FPFTY rate base calculation reflects approximately $73.9 million of ADIT. NFGD noted that no Party challenged this amount and, therefore, requested that its ADIT deduction be approved without modification. NFGD M.B. at 14-15; NFGD St. 6 at 12; NFGD Exh. A – FPFTY (Rebuttal Update), Sch. C-6.

The OCA did not challenge NFGD's ADIT claim. The OCA's rate base schedules retain the Company's $73.925 million ADIT deduction without adjustment. OCA Exh. LKM-2A at 1; OCA Exh. LKM-2A-SR at 1.

No other Party proposed an adjustment to NFGD's claimed ADIT deduction.

2. Recommended Decision

The ALJ recommended that the Commission approve NFGD's ADIT deduction of approximately $73.9 million from rate base, without modification. The ALJ observed that no Party challenged the Company's treatment or amount of ADIT and concluded that the Commission should accept NFGD's proposal. R.D. at 69; NFGD St. 6 at 12; NFGD Exh. A – FPFTY (Rebuttal Update), Sch. C-6.

3. Disposition

No Party filed Exceptions to the ALJ's recommendation. Finding the ALJ's recommendation to be reasonable and supported by substantial evidence in the record, we shall adopt it without further comment.

E. Customer Deposits/CIAC/Customer Advances

1. Positions of the Parties

NFGD included customer deposits as a deduction from rate base because those deposits reduce the amount of capital the Company otherwise must provide to finance utility operations. According to NFGD, actual customer deposit balances were recorded on National Fuel Exhibit A – FPFTY (Rebuttal Update) Schedule C-7, and, for the FTY and FPFTY, the Company used the last known historical values for the respective months. NFGD's resulting customer deposit deduction claimed for the FPFTY was approximately $5.2 million. The Company stated that no Party challenged this amount and requested that the deduction be approved without modification. NFGD M.B. at 15; NFGD Exh. A - FPFTY (Rebuttal Update), Sch. C-7, line 17.

In rebuttal, NFGD updated its rate base calculation to recognize CIAC and customer advances for construction as deductions from rate base. The Company's updated calculation included a total deduction of approximately $86,000, consisting of $25,000 of CIAC and $61,000 of customer advances. NFGD calculated both amounts using a 13-month average ending September 30, 2025, which the Company contended is consistent with the methodology used to develop its other FPFTY balances. NFGD M.B. at 15-16; NFGD St. 6-R at 2; NFGD Exh. A - FPFTY (Rebuttal Update), Sch. C-9.

NFGD opposed the OCA's proposed balances for CIAC and customer advances. The Company asserted that the OCA used a 13-month average ending February 2026, rather than the September 2025 period used by NFGD, and argued that the OCA's methodology is inconsistent with the period used to develop the Company's other FPFTY amounts. Accordingly, NFGD requested adoption of its $25,000 CIAC deduction and $61,000 customer advances deduction. NFGD M.B. at 15-16; NFGD St. 6-R at 2.

The OCA agreed that CIAC and customer advances should be deducted from rate base, but disputed the balances used by NFGD. The OCA explained that CIAC represents funds or property provided to a utility for new or expanded service without a corresponding investment by the utility. Because such amounts constitute cost-free capital, the OCA argued that a utility should not earn a return on the portion of plant financed through CIAC. OCA M.B. at 12; OCA St. 2 at 11.

The OCA, similarly, contended that customer advances for construction constitute cost-free capital while held by the utility. According to the OCA, these advances fund construction costs that the utility otherwise would have to finance itself and, therefore, should be deducted from rate base so that the utility does not earn a return on investment funded by customers. OCA M.B. at 13; OCA St. 2 at 11.

Although the OCA initially calculated its adjustments based on the balances then reflected in NFGD's filing, NFGD, as noted above, subsequently incorporated CIAC and customer advances into its rebuttal rate base calculation. The remaining dispute therefore concerned the appropriate 13-month averaging period. The OCA argued that the most recent available 13-month average should be used because CIAC and customer advances are collected in connection with plant placed in service, and use of the more recent balances better matches those customer-funded amounts with plant already

included in plant in service for ratemaking purposes. OCA M.B. at 13; OCA St. 2SR at 9.

Using the 13 months ending February 2026, the OCA calculated an average CIAC balance of approximately $45,000 and an average customer advances balance of approximately $54,000. Because NFGD's rebuttal calculation already included deductions of $25,000 and $61,000, respectively, the OCA's final proposal produced an additional $20,000 deduction for CIAC and a $7,000 reduction in the Company's customer advances deduction, resulting in final deductions of $45,000 for CIAC and $54,000 for customer advances. OCA Exh. LKM-5A-SR. The OCA's updated rate base schedule reflects those adjustments. *See* OCA Exh. LKM-2A-SR at 1-2.

2. Recommended Decision

The ALJ recommended approval of NFGD's customer deposit deduction of approximately $5.2 million, without modification. The ALJ noted that no Party challenged the Company's treatment or amount of customer deposits and that NFGD used the last known historical values for the respective months of the FTY and FPFTY. R.D. at 69; NFGD Exh. A - FPFTY (Rebuttal Update), Sch. C-7, line 17.

With respect to CIAC and customer advances, the ALJ recognized that both NFGD and the OCA agreed that the balances should be deducted from rate base, but employed different averaging periods. NFGD used a 13-month average ending September 30, 2025, resulting in deductions of $25,000 for CIAC and $61,000 for customer advances. The OCA used a more recent 13-month average ending February 2026, which resulted in balances of $45,000 for CIAC and $54,000 for customer advances. R.D. at 70.

The ALJ recommended adoption of NFGD's methodology. The ALJ observed that NFGD's September 2025 averaging period was consistent with the methodology used by the Company to develop its other FPFTY amounts, whereas the OCA's use of a February 2026 ending date was inconsistent with the period underlying those other FPFTY balances. Accordingly, the ALJ concluded that the Commission should accept NFGD's deductions for customer deposits, CIAC, and customer advances, including the Company's $25,000 CIAC deduction and $61,000 customer advances deduction. R.D. at 70.

3. Disposition

No Party filed Exceptions to the ALJ's recommendation concerning customer deposits, CIAC, or customer advances. Upon review of the record, we find the ALJ's recommendation to be reasonable and supported by substantial evidence in the record and shall adopt it, approving NFGD's deductions from rate base for customer deposits, CIAC, and customer advances. Specifically, we approve the Company's rate base deductions of approximately: (1) $5.2 million for customer deposits, (2) $25,000 for CIAC deduction, and (3) $61,000 for customer advances. *See* R.D. at 69-70; NFGD Exh. A – FPFTY (Rebuttal Update), Schs. C-7 and C-9.

F. Materials & Supplies

1. Positions of the Parties

NFGD included approximately $1.6 million for materials and supplies as an addition to rate base for the FPFTY. The Company stated that no Party challenged this claim and, therefore, requested that the amount be approved, without modification. NFGD M.B. at 16; NFGD St. 6 at 11; NFGD Exh. A - FPFTY (Rebuttal Update), Sch. A-1.

The OCA did not propose an adjustment to NFGD's materials and supplies balance. The ALJ expressly noted that the OCA did not address this issue in its testimony. R.D. at 62. Consistent with that position, the OCA's updated rate base schedules retained NFGD's claimed materials and supplies amount of $1.587 million without adjustment. OCA Exh. LKM-2A-SR at 1; OCA Exh. LKM-2B-SR at 1.

No other Party proposed an adjustment to NFGD's materials and supplies claim.

2. Recommended Decision

The ALJ recommended that the Commission approve NFGD's materials and supplies claim, without modification. The ALJ noted that no Party challenged the Company's claim and concluded that NFGD's addition to rate base of approximately $1.6 million for materials and supplies should be accepted. R.D. at 70 (citing NFGD St. 6 at 11; NFGD Exh. A - FPFTY (Rebuttal Update), Sch. A-1).

3. Disposition

No Party filed Exceptions on this issue. Finding the ALJ's recommendation to be reasonable and supported by substantial evidence in the record, we shall adopt it without further comment.[11]

[11] Finding of Fact No. 78 of the Recommended Decision stated that NFGD initially claimed $1.6 million for materials and supplies and updated that claim in rebuttal to $6.7 million. R.D. at 22. This statement appears to be a drafting error. NFGD's materials and supplies claim remained approximately $1.6 million, while the approximately $6.7 million amount pertains to CWC. NFGD M.B. at 16; R.D. at 70-71. Accordingly, we do not adopt Finding of Fact No. 78 to the extent that it states that NFGD's materials and supplies claim was updated to $6.7 million.

G. CWC

1. Positions of the Parties

CWC represents the amount of funds necessary for a utility to operate during the interval between the rendition of utility service and receipt of revenues from customers, taking into account the timing of the utility's payment of expenses incurred in providing that service. NFGD calculated its CWC requirement through a lead/lag study, which measures the difference between the time the Company provides service and receives payment and the time between incurrence and payment of its operating expenses. NFGD M.B. at 16-17; NFGD St. 6 at 6-7; R.D. at 71.

As updated in rebuttal, NFGD claimed approximately $6.7 million of CWC as an addition to rate base. NFGD M.B. at 16; NFGD Exh. A - FPFTY (Rebuttal Update), Sch. C-4.[12] The Company accepted the OCA's position that non-cash expenses should be removed from the lead/lag study in determining the final CWC allowance, consistent with Commission precedent. NFGD explained that, for purposes of its claim, this required removal of incentive compensation expenses from the lead/lag study, while rate case expense and insurance remain cash expenses. NFGD M.B. at 16; OCA St. 2SR at 8; OCA Exh. LKM-4A-SR at 4.

NFGD otherwise opposed the CWC adjustments proposed by I&E and the OCA to the extent those adjustments flow from their respective proposed adjustments to

[12] As noted above, CWC is a subset of a utility's total working capital, which consists of Current assets, including, *inter alia*, cash (*e.g.*, CWC), inventory (*e.g.*, materials and supplies), and prepaid expenses (*i.e.*, prepayments). We note that this figure of $6.7 million, outlined in NFGD Exhibit A - FPFTY (Rebuttal Update), Schedule C-4 at 1, more properly sets the Company's *total* claim for working capital. Included in this claim of $6.7 million is a claim of approximately $1,080,000 for prepaid expenses. *See also* Table 5 in Section VII.H.6 of this Opinion and Order, *infra.*

Operating and Maintenance (O&M) expenses and capital structure. The Company argued that those CWC adjustments should be rejected for the same reasons that it opposed the underlying expense and capital structure adjustments, discussed in Sections VII and X.B, *infra*. NFGD M.B. at 16-17.

A further dispute concerned the treatment of prepaid expenses. NFGD argued that prepaid expenses properly constitute a component of working capital because they represent cash outlays made before the period in which the associated costs are recognized as an expense. According to the Company, this treatment is consistent with the methodology previously accepted by the Commission. In rebuttal, NFGD modified its lead/lag study to remove approximately $2.733 million of prepaid O&M expenses from the "Other Expenses" component of the study so that those amounts would not be reflected both as prepaid expenses in working capital and as expenses in the lead/lag calculation. NFGD M.B. at 17; NFGD St. 6-R at 3-4; NFGD Exh. A - FPFTY (Rebuttal Update), Sch. C-4 at 2.

NFGD contended that the OCA's subsequent adjustment does not correctly implement that approach. The Company explained that the OCA's witness, Mr. Lafayette K. Morgan, Jr., proposed increasing the prepaid expenses removed from the lead/lag study to approximately $9.455 million, representing the entire FPFTY O&M expense for certain categories, including insurance, PUC assessments, American Gas Association (AGA) dues, and information technology services. NFGD argued that only the prepaid portions of those expenses, approximately $2.733 million, should be removed. NFGD M.B. at 17-18; NFGD St. 6-R at 4.

NFGD also argued that the OCA's proposed $1.195 million downward adjustment is inconsistent with the OCA's stated acceptance of the Company's rebuttal approach of retaining prepaid expenses in rate base while removing the associated prepaid expenses from the lead/lag study. According to NFGD, OCA

Exhibit LKM-4A-SR does not include the Company's claimed prepaid expenses of approximately $1.080 million in the final CWC calculation. NFGD noted that the OCA's alternative calculation in Exhibit LKM-4B-SR, which does incorporate prepaid expenses, produces a substantially smaller downward adjustment. NFGD M.B. at 18; OCA Exhs. LKM-4A-SR and LKM-4B-SR.

I&E did not oppose NFGD's use of a lead/lag study to calculate CWC. I&E M.B. at 17; I&E St. 1 at 22. I&E proposed a CWC allowance of $6,643,822, which represented a $111,005 reduction from the Company amount used in I&E's calculation. I&E explained that its recommendation reflected its proposed adjustments to NFGD's O&M expenses as well as I&E's recommended 45% long-term debt ratio, discussed below in Sections VII and X.B, respectively. I&E M.B. at 17; I&E St. 1 at 23; I&E Exh. 1, Sch. 5 at 1; I&E Exh. 2, Sch. 1. I&E emphasized, however, that its CWC calculation was not a final proposal because CWC must be iterated to reflect the rate base, expense, and capital-related adjustments ultimately adopted in the Commission's Final Order. I&E M.B. at 17; I&E R.B. at 13.

The OCA similarly accepted the use of a lead/lag study but proposed several adjustments to NFGD's calculation. The OCA explained that working capital consists generally of the CWC allowance and prepayments and that a lead/lag study measures the timing difference between the Company's receipt of revenues and its payment of the costs associated with providing service. OCA M.B. at 10; OCA St. 2 at 8. The OCA's witness, Mr. Morgan, proposed adjustments to the lead/lag study to reflect the OCA's proposed operating expense adjustments and the interest expense effect of the OCA's rate base and capital structure proposals. The OCA also proposed the removal of amortizations and accrued expenses that do not require the expenditure of cash. OCA M.B. at 10-11; OCA St. 2 at 9.

Regarding prepaid expenses, the OCA initially proposed removing NFGD's prepaid expense allowance of approximately $1.080 million from rate base to prevent what it considered a double recovery where prepaid expenses were included in rate base while the related expenses were also reflected in the lead/lag study. Following NFGD's rebuttal update, however, the OCA accepted the Company's general methodology of retaining prepaid expenses in rate base while removing the prepaid portions of the associated expenses from the lead/lag study. OCA M.B. at 11-12; OCA St. 2SR at 8. The OCA nevertheless disagreed with NFGD's quantification of the prepaid expenses to be removed from the lead/lag study and continued to support its adjustments for non-cash expenses and its underlying O&M and interest expense adjustments. Based upon its surrebuttal position, the OCA calculated a reduction of approximately $1.195 million to NFGD's CWC claim. OCA M.B. at 12; OCA Exh. LKM-4A-SR.

In its Reply Brief, however, the OCA acknowledged that its surrebuttal calculation contained an error concerning the treatment of prepaid expenses. Specifically, the OCA accepted NFGD's contention that Mr. Morgan's surrebuttal CWC calculation was inconsistent with his stated acceptance of NFGD's approach of retaining prepaid expenses in rate base while removing prepaid expenses from the lead/lag study. The OCA therefore revised its schedules to correct the treatment of prepaid expenses. OCA R.B. at 6-7; OCA Exh. LKM-5A-SR (rev.). The OCA continued to maintain, however, that its adjustment to the amount of prepaid expenses removed from the lead/lag study was appropriate because NFGD had not removed all of the expenses that the OCA believed should be excluded. OCA R.B. at 7.

As a result of this correction, the OCA stated that its revised CWC calculation increased the Company's CWC allowance by $680,000 and increased rate base by the same amount relative to its prior calculation. OCA R.B. at 7; OCA Exh. LKM-5A-SR (rev.). Thus, the OCA's final position in its Reply Brief was not the proposed reduction of approximately $1.195 million reflected in its earlier

calculation. Rather, the OCA's correction reduced that proposed downward adjustment by $680,000, resulting in a proposed revised downward CWC adjustment of approximately $515,000, subject to further iteration to reflect the Commission's ultimate determinations concerning the underlying expense, rate base, and capital structure adjustments. OCA R.B. at 5-7; OCA Exh. LKM-5A-SR (rev.).

2. Recommended Decision

The ALJ recognized that CWC is determined through a lead/lag analysis measuring the difference between the timing of NFGD's receipt of revenues and the timing of its payment of expenses. The ALJ further recognized that the CWC calculation is affected by other adjustments to the Company's claims and, therefore, cannot be finalized until the Commission determines the rate base, operating expense, capital structure, and other components that affect the calculation. R.D. at 70-71.

Based upon the evidence presented, the ALJ recommended that the Commission allow NFGD's CWC claim, consistent with the other determinations contained in the Recommended Decision and the Commission's Final Order. The ALJ explained that the final CWC allowance must be determined through the process of iteration so that the calculation reflects the adjustments ultimately adopted by the Commission. R.D. at 71.

In addressing the OCA's proposed adjustment, however, the ALJ referred to the OCA's earlier recommendation to reduce NFGD's CWC and rate base by approximately $1.195 million and recommended that this adjustment not be allowed. R.D. at 71. As previously noted, the OCA had subsequently revised its CWC calculation in its Reply Brief after acknowledging an error in its treatment of prepaid expenses. Specifically, the OCA stated that its correction increased its proposed CWC allowance and rate base by approximately $680,000, relative to its prior calculation. OCA R.B.

at 6-7; OCA Exh. LKM-5A-SR (rev.). The resulting revised adjustment is a downward adjustment to CWC of approximately $515,000, rather than the reduction of approximately $1.195 million addressed by the ALJ.

Accordingly, although the ALJ correctly recognized that the ultimate CWC allowance must be determined through iteration based upon the Commission's resolution of the underlying rate base, expense, and capital structure issues, the ALJ, in her Recommended Decision, did not expressly address the OCA's revised CWC calculation presented in its Reply Brief. R.D. at 71; OCA R.B. at 6-7.

3. Exceptions and Replies

a. NFGD Exception No. 12 and Replies

In its Exception No. 12, NFGD identifies several aspects of the Recommended Decision that, in the Company's view, require clarification or correction before new rates can be implemented. As relevant to CWC, NFGD contends that Table VI of Appendix A in the Recommended Decision overstates the adjustment to the O&M Expense component of the Company's CWC claim because the table uses the CWC amount contained in NFGD's original filing, rather than the updated amount reflected in the Company's Main Brief. NFGD asserts that its updated claim for the O&M Expense component of its CWC is $7.130 million and requests that the Commission resolve this discrepancy that was set forth in the Recommended Decision. NFGD Exc. at 34-35.

In its Reply to NFGD's Exception No. 12, I&E does not separately analyze the CWC discrepancy identified by NFGD. Rather, I&E generally agrees that the Commission should use the Final Opinion and Order in this proceeding as an opportunity to clarify certain recommendations contained in the Recommended Decision.

I&E characterizes the Recommended Decision as properly reasoned but states that clarification of certain recommendations is appropriate. I&E R. Exc. at 15.

The OCA likewise agrees with NFGD that the Recommended Decision contains uncertainties that should be resolved by the Commission. With respect to CWC specifically, the OCA expressly agrees with NFGD that Table VI of Appendix A of the Recommended Decision uses the Company's originally filed claim of $7.195 million for the O&M expense component of the Company's CWC, rather than its purported updated claim of $7.130 million. Thus, although the OCA otherwise asks the Commission to deny NFGD's Exceptions and grant the OCA's Exceptions, the OCA agrees with the factual discrepancy identified by NFGD concerning the CWC amount used in Appendix A-Table VI of the Recommended Decision. OCA R. Exc. at 24-25.

CAUSE-PA addresses NFGD's Exception No. 12 but expressly limits its response to the first three uncertainties identified by the Company; those concerning the recommended ROE, the Residential customer charge, and customer payment transaction costs and discussed elsewhere in this Opinion and Order. CAUSE-PA argues that the Recommended Decision is sufficiently clear on those matters and urges the Commission to reject NFGD's Exception No. 12 and affirm the Recommended Decision. CAUSE-PA does not address NFGD's fourth asserted uncertainty concerning the CWC amount used in Appendix A-Table VI of the Recommended Decision. CAUSE-PA R. Exc. at 22-24.

b. OCA Exception No. 2 and Replies

In its Exception No. 2, the OCA argues that the ALJ erred by rejecting the OCA's adjustment to NFGD's CWC claim based on the OCA's original proposed reduction of $1.195 million, rather than considering the OCA's revised adjustment developed after NFGD filed rebuttal testimony. The OCA explains that its original CWC adjustment reflected, among other things, recommended adjustments to operating

expenses and interest expense, the removal of amortizations and accrued expenses that do not require the use of cash, and an adjustment to prepaid expenses. The OCA notes that NFGD agreed that non-cash expenses should be removed from the lead-lag study and that prepaid expenses should be removed from the O&M expense total used to calculate expense lag days, but disputed the OCA's treatment of prepaid expenses in the ultimate CWC calculation. OCA Exc. at 13-14.

The OCA further states that, after reviewing NFGD's rebuttal testimony, it modified its original $1.195 million downward CWC adjustment by $680,000, thereby reducing its proposed adjustment to approximately $515,000. According to the OCA, in the Recommended Decision, the ALJ, nevertheless focused on the original $1.195 million adjustment and rejected it, even while recognizing that CWC is not a final stand-alone determination because the various expense, rate base, and capital structure determinations must be brought together through the iterative process when determining the final CWC allowance. The OCA therefore contends that the ALJ should have recognized its revised adjustment and requests that the Commission adjust NFGD's CWC claim based on the OCA's final position, subject to iteration reflecting the Commission's ultimate determinations on the underlying adjustments. OCA Exc. at 14.

In reply, NFGD argues that the OCA, through its Exception No. 2, continues to overstate the appropriate CWC adjustment associated with prepaid expenses. NFGD explains that it agreed that prepaid expenses included within general expenses should be removed to avoid duplication, but contends that the OCA improperly removed the entirety of certain expense categories (approximately $9.455 million for insurance, Commission assessments, AGA dues, and information technology (IT) services) rather than removing only the portion of those expenses that was actually prepaid. NFGD asserts that the appropriate prepaid amount is approximately $2.733 million and that the OCA's use of the larger $9.455 million amount produced an overstated $1.195 million CWC reduction. NFGD R. Exc. at 6-7.

NFGD acknowledges that the OCA's Exception reduces its originally proposed $1.195 million adjustment by $680,000, resulting in a revised downward adjustment of approximately $515,000. Nevertheless, NFGD maintains that the Commission's final CWC determination should remove only the prepaid expenses identified by the Company, rather than adopt the OCA's broader treatment. NFGD therefore requests that the Commission reject the OCA's Exception No. 2 and determine the final CWC allowance using the Company's treatment of prepaid expenses, as reflected in NFGD Exhibit A-(Rebuttal Update), Schedule C-4. NFGD R. Exc. at 7.

4. Disposition

Upon review of the record, the Recommended Decision, the Exceptions, and the Replies thereto, we agree with the ALJ that NFGD's final CWC allowance cannot be determined as a fixed, stand-alone adjustment. Rather, CWC must be iterated to reflect the Commission's determinations concerning the operating expenses, rate base, capital structure, and other components that affect the lead/lag calculation. R.D. at 70-71. Accordingly, we shall adopt the ALJ's recommendation in this respect.

We first address the numerical discrepancy raised by NFGD in its Exception No. 12. NFGD asserts that Appendix A-Table VI of the Recommended Decision improperly contains the Company's originally filed claim of $7.195 million for the O&M expense component of CWC, rather than an updated claim of $7.130 million. NFGD Exc. at 34-35. The record supports NFGD's contention that the ALJ relied upon an outdated amount, but it does not support the $7.130 million figure identified in the Company's Exception No. 12.

NFGD's as-filed NFGD Exhibit A FPFTY, Schedule C-4 reflects $7.195 million of CWC for O&M Expenses, while its Rebuttal Update reflects $7.156 million for that component. After incorporating interest payments, the tax-payment lag

calculation, and prepaid expenses, NFGD's Rebuttal Update reflects a total Working Capital Requirement of approximately $6.715 million. NFGD Exh. A – FPFTY (As-Filed), Sch. C-4 at 1-2; NFGD Exh. A – FPFTY (Rebuttal Update), Sch. C-4 at 1-2. Thus, to the extent the Company, in its Exception No. 12, requests clarification that the Recommended Decision should not use the Company's originally filed claim of $7.195 million as the updated starting point for the O&M expense component of NFGD's CWC, we shall grant this Exception. However, we do not adopt the Company's assertion that its updated claim for the O&M expense component of its CWC is $7.130 million. Upon review, we find that this figure does not appear anywhere in NFGD's Main Brief, as the Company represents in its Exception No. 12. Rather, the record establishes that the Company's updated claim for the O&M Exponent of its CWC is $7.156 million, and that NFGD's Rebuttal Update reflects a total Working Capital Requirement of $6.715 million. For purposes of the final CWC calculation, the Schedule C-4 Rebuttal Update components, including the $6.715 million total working capital requirement before Commission-ordered adjustments and iteration, provide the appropriate starting point, subject to the adjustments adopted in this Opinion and Order.

We next address the OCA's Exception No. 2. We agree with the OCA that the ALJ did not account for the OCA's revised CWC calculation presented in its Reply Brief. The ALJ addressed the OCA's earlier proposed $1.195 million reduction, but the OCA subsequently acknowledged an error in its treatment of prepaid expenses and revised its calculation. The correction increased the OCA's CWC allowance and rate base by approximately $680,000 relative to its prior calculation, thereby reducing its proposed downward CWC adjustment from approximately $1.195 million to approximately $515,000. OCA R.B. at 6-7; OCA Exh. LKM-5A-SR (rev.); OCA Exc. at 13-14. The ALJ therefore should not be understood as having considered and rejected the OCA's final, revised CWC position merely because she rejected the earlier $1.195 million adjustment.

Nevertheless, we decline to adopt the OCA's revised adjustment of approximately $515,000 as a fixed reduction to rate base. As both the ALJ and the Parties recognized, portions of the OCA's CWC calculation depend upon underlying operating expense, rate base, interest expense, and capital structure adjustments that must conform to the determinations made elsewhere in this Opinion and Order. R.D. at 71; OCA Exc. at 14; I&E M.B. at 17; I&E R.B. at 13. The final CWC allowance therefore must be recalculated through iteration, rather than by mechanically applying either the OCA's $515,000 adjustment or the earlier $1.195 million adjustment.

We also agree with NFGD concerning the specific treatment of prepaid expenses in the lead/lag study. The Parties ultimately agree with the general methodology of retaining prepaid expenses as a separate component of working capital, while removing the corresponding prepaid amounts from the expenses used in the lead/lag calculation so that the same amounts are not reflected twice. NFGD M.B. at 17-18; OCA R.B. at 6-7. NFGD's Rebuttal Update removed approximately $2.733 million representing the prepaid portions of the affected O&M expenses. By contrast, the OCA's calculation removed approximately $9.455 million representing the entirety of several expense categories, including insurance, Commission assessments, AGA dues, and IT services. NFGD M.B. at 17-18; NFGD St. 6-R at 4; NFGD R. Exc. at 6-7. On this record, we find NFGD's treatment to be more consistent with the agreed-upon methodology because it removes from the lead/lag study the amounts actually treated as prepaid expenses, while retaining the separate prepaid expense component of working capital. We therefore reject the OCA's broader removal of the full expense categories for this purpose.

Accordingly, we shall grant the OCA's Exception No. 2 in part, to the extent the OCA correctly identifies that its revised Reply Brief calculation, rather than its earlier $1.195 million adjustment, should be recognized in describing its final litigated position. We shall otherwise deny the OCA's Exception No. 2, to the extent the OCA

seeks adoption of an approximately $515,000 fixed downward CWC adjustment. We shall also grant NFGD's Exception No. 12, in part, and deny it, in part, with respect to CWC. We grant the Exception to the extent NFGD contends that the originally filed amount should not serve as the updated basis for the CWC calculation; however, we deny the Exception to the extent NFGD asks us to recognize $7.130 million as its updated claimed amount for the O&M expense component of its CWC. As discussed above, NFGD's Rebuttal Update reflects $7.156 million of CWC for O&M Expenses and a total Working Capital Requirement of $6.715 million. The final CWC allowance shall therefore be determined through iteration using the components reflected in NFGD Exhibit A – FPFTY (Rebuttal Update), Schedule C-4, including the $6.715 million total Working Capital Requirement before Commission-ordered adjustments and iteration, and shall incorporate the treatment of prepaid expenses discussed above and all other rate base, expense, capital structure, and related determinations adopted in this Opinion and Order.

VI. Revenues, Revenue Increase, and Revenue Requirement

A. Customer Sales and Revenues

1. Positions of the Parties

NFGD's claim for base customer charge revenue in the FPFTY at present rates, inclusive of Distribution System Improvement Charge (DSIC) revenues, was $139.7 million. According to NFGD, because no party has opposed the Company's claim, it should be accepted. NFGD M.B. at 19; NFGD R.B. at 7.

2. Recommended Decision

The ALJ recommended that the Commission approve NFGD's unopposed claim of $139.7 million for base customer charge revenue in the FPFTY at present rates, inclusive of DSIC revenues. According to the ALJ, the Company met its burden of proof with regard to this claimed revenue amount. R.D. at 82.

3. Disposition

No Party filed Exceptions to the ALJ's recommendation. We find that the ALJ's recommendation is reasonable and based on sound record evidence. Accordingly, we shall adopt the ALJ's recommendation to approve NFGD's claim of $139.7 million for base customer charge revenues at present rates, inclusive of DSIC revenues.

B. Gas Supply Revenues

1. Positions of the Parties

The Company's claim for gas supply and cost adjustment revenues in the FPFTY at present rates was $124.6 million. NFGD asserted that because no Party challenged this claim, it should be approved without modification. NFGD M.B. at 19; NFGD R.B. at 7.

2. Recommended Decision

The ALJ found that NFGD met its burden of proof with regard to its claimed gas supply and cost adjustment revenues in the amount of $124.6 million. Therefore, the ALJ recommended that the Commission adopt the Company's unopposed claim. R.D. at 82.

3. Disposition

No Party filed Exceptions to the ALJ's recommendation. We find that the ALJ's recommendation is reasonable and based on sound record evidence. Accordingly, we shall adopt the ALJ's recommendation to approve NFGD's claim of $124.6 million for gas supply and cost adjustment revenues at present rates.

C. Other Revenues

NFGD claimed $1.3 million in "Other Revenues," which included, late payment charges (LPCs or forfeited discounts), Rent from Gas Property, and other gas revenues. NFGD M.B. at 19. NFGD explained that LPCs are included in Federal Energy Regulatory Commission (FERC) account 487 (forfeited discounts) and account for most of the Company's forecasted Other Operating Revenues. The Company continued that rent from gas property includes rents received for the use by others of land, buildings, and other property devoted to gas operations by the utility. Additionally, NFGD stated that other gas revenues include any revenues derived from gas operations that are not includible in any other revenue accounts – primarily capacity release revenues and marketer billing charges. *Id.* at 19-20, n.73. As discussed below, the OCA proposed adjustments to both the Company's claimed revenues for Rent from Gas Property and its revenues from forfeited discounts.

1. Positions of the Parties

a. Rent from Gas Property

The Company's claim for revenues at present rates for Rent from Gas Property was $100,000. According to NFGD, this projection aligns with the most recent intercompany rent amounts of $8,258 per month, or $99,096 per year, and should be

accepted. The Company added that the OCA's proposed adjustment to this revenue amount, discussed below, should be rejected. According to NFGD, there are no known or measurable changes to support an additional increase in Rent from Gas Property, as advocated by the OCA. NFGD M.B. at 20; NFGD R.B. at 7; NFGD St. 14-R at 3-4.

The OCA rebutted the Company's assertion that there are no known or measurable changes to support an additional increase in Rent from Gas Property. As such, the OCA submitted that NFGD's claimed revenues for Rent from Gas Property should be increased by $12,000. According to the OCA, although NFGD indicated that Rent from Gas Property was flat for the FTY and the FPFTY, the Company's own data reflects that in the three most recent years, the Company has experienced an average annual growth pattern of 6% for these revenues.[13] Thus, the OCA reasoned that this increase should be reflected in NFGD's projection of the revenues in this account for the FPFTY. OCA M.B. at 14-15; OCA R.B. at 8-9.

b. Forfeited Discounts

NFGD claimed $1,125,000 in revenues from forfeited discounts, which reflects the LPCs the Company anticipates collecting during the FPFTY at present rates. NFGD M.B. at 20; NFGD Exh. A-FPFTY (Rebuttal Update), Sch. D-5.

The OCA submitted that the Company's claim should be increased by $21,000 to account for the increased LPCs associated with a revenue increase. OCA R.B. at 8. The OCA calculated this adjustment by applying a forfeited discount ratio of 0.503%, based on a three-year average, to its proposed revenue increase of $4,305,000 set forth in its surrebuttal testimony. NFGD M.B. at 20 (citing OCA Exh. LKM-1A-SR

[13] We note that in arguing against this adjustment in its Main Brief, NFGD stated that the OCA's adjustment was based upon an average annual growth pattern of 6.03%. *See* NFGD M.B. at 20 (citing OCA St. No. 2 at 12; OCA St. No. 2SR at 5-6).

at 1; OCA Exh. LKM-6A-SR, line 15). The OCA reasoned that because the revenue increase to be decided in this proceeding will result in higher bills, the forfeited discount will increase as well since it is based on a percentage of the utility service bill. According to the OCA, the use of a three-year average is a standard methodology used by the Commission because it is recognized that no single year is representative to use for deriving the forfeited discounts factor. OCA M.B. at 13; OCA R.B. at 8.

NFGD countered that the Company's claim already reflects the LPCs the Company anticipates collecting during the FPFTY at present rates. NFGD added that if the Commission determines that an additional adjustment to revenues from forfeited discounts is appropriate, (1) the forfeited discount ratio should be based on a more accurate trailing 12-month weighted average; and (2) the adjustment should reflect the final revenue increase approved by the Commission in this proceeding. NFGD M.B. at 20-21; NFGD R.B. at 7.

2. Recommended Decision

Although the ALJ did not explicitly recommend the adoption of the Company's claimed revenues for Rent from Gas Property of $100,000, she also did not recommend that the Company's claim be adjusted. Therefore, the absence of any adjustment to the Company's claimed revenues for Rent from Gas Property in Appendix A-Table II of the Recommended Decision underscores the ALJ's recommended adoption of the Company's claim, without modification.

On the other hand, the ALJ agreed with the position of the OCA regarding the Company's claim for revenues from forfeited discounts. According to the ALJ, the OCA's proposed upward adjustment of $21,000 to the Company's claim is reasonable. Therefore, the ALJ recommended, *inter alia*, that: (1) the OCA's proposed adjustment be adopted; and (2) the Commission require that NFGD set its revenues from forfeited

discounts based upon the final revenue increase approved by the Commission in this proceeding. R.D. at 83-84, Appendix A-Table II. The effect of this recommendation would increase the Company's claim for revenues from forfeited discounts in the FPFTY by $21,000, or from $1,125,000 to $1,146,000.

3. Disposition

No Party filed Exceptions regarding the ALJ's recommendation on the Company's "Other Revenues" for: (1) Rent from Gas Property or (2) forfeited discounts. We find the ALJ's implicit recommendation to adopt the Company's proposed revenues at present rates of $100,000 for Rent from Gas Property to be reasonable and supported by substantial record evidence. Accordingly, we shall adopt this recommendation without further comment.

However, we disagree with the ALJ's recommendation that the Commission adjust the Company's claimed revenues at present rates for revenues from forfeited discounts upward by $21,000, or from $1,125,000 to $1,146,000. Upon closer review of the record, it is evident that the OCA did not apply this proposed adjustment to the Company's claimed revenues at present rates. Rather, the OCA's proposed adjustment was calculated by applying a forfeited discount ratio of 0.503% to the OCA's proposed revenue increase of $4,305,000,[14] set forth in its surrebuttal testimony, based upon a three-year average, as shown in Table 2, below.

[14] As discussed in Section VI.D, in its Reply Brief, the OCA revised its proposed final revenue increase to $4,370,000. OCA R.B. at Appendix C-Table I.

Table 2: OCA Calculation of Forfeited Discount Percentage ($ in Thousands)

Line No.		Description	Twelve Months Ended 9/30/2023	Twelve Months Ended 9/30/2024	Twelve Months Ended 9/30/2025
		Gas Service Revenue:			
1	480.0	Residential Sales	$ 200,708	$ 140,127	$ 163,839
2	481.1	Commercial Sales	31,557	20,092	25,583
3	481.2	Industrial Sales	2,745	1,460	2,054
4	481.3	Public Authority Sales	2,302	1,270	1,640
	489.3	Transportation -Dist. Facilities	36,160	41,530	45,231
5			$ 273,471	$ 204,478	$ 238,348
6					
7	487.0	Forfeited Discounts	1,373	1,077	1,146
8					
9		Forfeited Discounts Ratio	0.502%	0.527%	0.481%
10					
11		3-Year Average			0.503%
12					
13		Calculated Increase in Revenues			$ 4,305
14					
15		Increase in Forfeited Discount Related to Revenue Increase			$ 22

OCA Exh. LKM -6A-SR.[15]

Next, as shown below in Table 3, the OCA's adjustment of $21,000 was then included in the OCA's proposed revenue increase set forth in its surrebuttal testimony.

[15] Although represented as an adjustment of $21,000 to the Company's claim, this adjustment actually amounted to $21,654, which is rounded off to $22,000 in Table 2, *supra*, and Table 3, *infra*. [$4,305,000 x 0.503% = $21,654].

Table 3: The OCA's Proposed Revenue Increase as Set forth in its Surrebuttal Testimony ($ in Thousands)

Description	Company Amounts at Present Rates (1)	OCA Adjustments (2)	Amounts After OCA Adjustments (3)	Pro Forma Change in Revenues (4)	Amounts After Change in Revenues (5)
Total Operating Revenues					
Customer & Distribution Revenue	$ 139,680 1/	$ -	$ 139,680	$ -	$ 139,680
Gas Supply & Cost Adjustment Revenue	124,571 1/	12	124,583	-	124,583
Other Revenues	1,273 1/	-	1,273	22 5/	1,295
Increase in Service Revenue	-	-	-	4,283	4,283
Total Revenues	265,524	12	265,536	4,305 6/	269,841

OCA Exh. LKM-1A-SR at 1.[16] Therefore, the OCA made no proposed adjustment to the Company's "Other Revenues" at present rates associated with revenues from forfeited discounts. For this reason, we shall adopt the Company's claim of $1,125,000 for revenues at present rates from forfeited discounts.

Accordingly, while we find that it is appropriate to apply a forfeited discount ratio based upon a three-year average of 0.503% utilizing the OCA's methodology, as set forth in Table 2, *supra*, we shall modify the ALJ's recommendation and shall *not* apply any upward adjustment to the Company's claimed revenues at present rates for revenues from forfeited discounts.[17] Instead, we shall direct that the Company's final "Other Revenues" at proposed rates related to its revenues from forfeited discounts be adjusted using the OCA's forfeited discount ratio of 0.503%, and based on the Company's revenues at proposed rates that are approved by the Commission in Section VI.D of this Opinion and Order, below. As the OCA observed,

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[16] NFGD's actual total claimed revenues at present rates for "Other Revenues" was $1,273,000, rounded off to $1.3 million, *supra*. Additionally, as previously noted, the OCA updated its final proposed revenue increase to $4,370,000 in its Reply Brief.

[17] Further, while the ALJ found the OCA's proposed adjustment reasonable, she also recommended that "the Commission require [NFGD] to base the forfeited discount ratio on an accurate trailing 12-month weighted average." *See* R.D. at 83-84. Therefore, the ALJ appears to have simultaneously recommended the OCA's methodology and the Company's methodology. As we are adopting the OCA's methodology, we shall disregard this additional recommendation by the ALJ.

because the revenue increase to be decided in this proceeding will result in higher bills, the Company's revenues from forfeited discounts will also increase since it is based on a percentage of the utility service bill. OCA St. 2 at 12.

Therefore, in summary, we shall: (1) adopt the ALJ's recommendation to approve NFGD's claimed revenues at present rates of $100,000 for Rent from Gas Property; (2) reverse the ALJ's recommendation that the Company's claimed revenues at present rates for revenues from forfeited discounts be adjusted upward by $21,000; and (3) direct that the Company's final "Other Revenues" at proposed rates related to its revenues from forfeited discounts be adjusted using the OCA's forfeited discount ratio of 0.503%, and based upon the Company's revenues at proposed rates that we shall approve below, in Section VI.D of this Opinion and Order.

D. Revenue Increase and Revenue Requirement

A utility's revenue requirement represents "the total revenue that the utility needs to collect through the rates charged to the public to cover its cost of service." James H. Cawley & Norman J. Kennard, *A Guide to Utility Ratemaking* at 102 (2018 ed.) (*PUC Rate Case Handbook*). The formula to calculate the utility's revenue requirement is set forth, as follows:

$$RR=T+E+D+(RB \times ROR)$$

Where: RR=Revenue Requirement
T=Taxes
E=Operating Expense
D=Depreciation Expense
RB=Rate Base
ROR=Overall Rate of Return

I&E M.B. at 17-18. The central issue in a base rate case involves identifying the appropriate cost of service, or revenue requirement, for the utility, in this case NFGD.[18] *PUC Rate Case Handbook* at 102. In the above formula, the rate of return is expressed as a percentage. The calculation of that percentage is independent of the determination of the appropriate rate base value for ratemaking purposes. 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. I&E M.B. at 18.

1. Positions of the Parties

NFGD proposed a final revenue requirement of approximately $281,713,000, representing an increase of $16,189,000 over total claimed revenues at present rates of $265,524,000. NFGD M.B. at 6, 21, Appendix D-Table I; NFGD R.B. at 7.

I&E's total recommended revenue requirement for the Company was $276,603,000, representing an increase of $11,079,000 to the Company's claimed revenues at present rates of $265,524,000. I&E M.B. at 18, Appendix A-Table I; I&E R.B. at 14.

The OCA's primary position was that NFGD's requested rate increase should be denied in its entirety because it has failed to meet its burden of proof that its proposed increase in rates will produce rates that are just and reasonable, equitable among consumer groups, or in the public interest. However, the OCA also advanced an alternative position in the event that the Commission does not deny NFGD's requested increase in its entirety. OCA M.B. at 7. In this regard, the OCA's alternative

[18] We have discussed the Company's rate base, *supra*, and will discuss the remaining components of the Company's revenue requirement formula in the sections that follow.

recommended revenue requirement for the Company was $269,906,000, which represented a proposed revenue increase of $4,370,000 over revenues at present rates of $265,536,000. OCA R.B. at Appendix C-Table I.[19]

The OSBA proposed a revenue increase for the Company of $10,800,000. OSBA M.B. Appendix A at 1. The OSBA did not explicitly list any proposed changes to the Company's revenues at present rates. Thus, when applied to the Company's claimed revenues at present rates of $265,524,000, this results in a proposed revenue requirement by the OSBA of $276,324,000 in the FPFTY. [$265,524,000 + $10,800,000 = $276,324,000].

As previously noted, CAUSE-PA opposed any revenue increase for NFGD in this proceeding. However, CAUSE-PA explained that should the Commission determine that any increase is warranted, in balancing the interests of the Company and the public, the Commission should approve the lowest reasonable rate increase that allows NFGD the opportunity to earn a fair rate of return on its investment while ensuring that it can maintain safe and reliable service to the public. According to CAUSE-PA, this amount is no more than the revenue increase and revenue requirement

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[19] As noted above, the Company claimed total revenues at present rates of $265,524,000. Additionally, as discussed in Section VI.C, *supra,* the OCA proposed an increase of $12,000 to the Company's claimed revenues at present rates for Rent from Gas Property. This resulted in the OCA proposing total final revenues at present rates of $265,536,000 for NFGD in the FPFTY. [$265,524,000 + $12,000 = $265,536,000]. *See* OCA M.B. at Appendix A-Table II; OCA R.B. at Appendix C-Table II. Additionally, we note that the OCA's final proposed revenue increase of $4,370,000 reflects an update to the proposed revenue increase set forth in its Main Brief of $4,305,000. *See* OCA M.B. at 3, 7, Appendix A Table I. The OCA explained that this update was in light of an error that the OCA made in calculating its proposed adjustment to the Company's CWC. *See* OCA R.B. at 1, 5-7. Furthermore, as discussed in Section IX.D, *infra,* the OCA submitted that if the Commission adopts the Company's proposed actual capital structure, then the OCA's alternative proposed ROE of 9.06% should be adopted. The OCA explained that this would result in an alternative revenue increase of $4,205,000. *Id*. at 1.

recommended by the OCA. CAUSE-PA took the position that if the Commission were to grant an increase higher than that recommended by the OCA, this would unfavorably benefit the Company's shareholders at the expense of its customers. Thus, CAUSE-PA opined that the Commission should adopt the revenue increase and revenue requirement set forth by the OCA, combined with directing certain reforms to the Company's programs, policies, and procedures advanced by CAUSE-PA, to ensure that NFGD's low income and other vulnerable customers are able to access basic services that are necessary to their health, safety, and well-being. CAUSE-PA M.B. at 29-33; CAUSE-PA R.B. at 10.

2. Recommended Decision

As noted, *supra,* the ALJ recommended that the Commission apply an upward adjustment of $21,000 to the Company's claim for revenues at present rates from forfeited discounts. Thus, this results in an implicit recommendation from the ALJ that the Commission increase the Company's total claimed revenues at present rates by $21,000, or from $265,524,000 to $265,545,000.

The ALJ also found that NFGD failed to meet its burden of proving that it was entitled to its proposed revenue increase of $16,189,000, which would result in a proposed revenue requirement of $281,713,000. Rather, the ALJ recommended that the Commission "approve the adjustment of OCA, which recommended a revenue increase of $4.305 million." The ALJ explained that this recommendation assumes that the Commission will also approve the OCA's recommendation for an overall rate of return of 7.66%, utilizing the OCA's proposed capital structure of 50% common equity and 50% debt, as discussed in Section IX.B, *infra*. Applying this recommended increase to the ALJ's implicitly recommended revenues at present rates of $265,545,000, this would

result in a recommended revenue requirement of $269,850,000.[20] [$265,545,000 + $4,305,000 = $269,850,000].

However, elsewhere in this Opinion and Order, the ALJ recommended that the Commission adopt an annual revenue increase of $8,227,867, representing an increase of 3.1% over her implicitly recommended revenues at present rates of $265,545,000, based upon the various adjustments that she recommended the Commission adopt. R.D. at 2; 414, Recommended Ordering Paragraph No. 2. Applying the recommended increase of $8,227,867, as stated in certain portions of the Recommended Decision, to the recommended revenues at present rates of $265,545,000,

[20] We note that in making her recommendation to utilize the OCA's proposed revenue increase, the ALJ did not account for the OCA's updated proposed revenue increase of $4,370,000 that was set forth in the OCAs Reply Brief. We further note that recommending a final revenue increase in this amount would also have required that the ALJ recommend that the Commission adopt *all* of the OCA's proposed adjustments and inputs, while disregarding the adjustments and inputs set forth by all other Parties to this proceeding. However, as discussed elsewhere in this Opinion and Order, the ALJ recommended the adoption of *some*, but not *all* of the OCA's proposed adjustments. Thus, when all of the various adjustments the ALJ recommended be adopted are applied, this would result in a revenue increase of $8,206,352, as discussed further in our next footnote.

this would result in a final recommended revenue requirement of $273,772,867. [$265,545,000 + $8,227,867 = $273,772,867].[21]

3. Exceptions and Replies

As discussed elsewhere in this Opinion and Order, NFGD and the OCA each filed Exceptions to certain recommendations the ALJ made regarding the rate base, expenses, and/or rate of return components of NFGD's revenue requirement. Those respective Exceptions are discussed in Sections V, VII, and IX of this Opinion and Order.

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[21] We note that in Appendix A-Table I of the Recommended Decision, the amounts listed under Column (3)-Pro Forma Present Rates, which are the starting point upon which the ALJ's recommended adjustments were applied, are actually the amounts that result from the Company's revenues at proposed rates (*i.e.* its final proposed revenue requirement) of $281,713,000. The operating revenues of ($7,982,133) listed under Column (6)-ALJ Revenue Increase represent the difference between the amount of $273,751,867, listed under Column (7)-Total Allowable Revenues, and the summation of the Pro Forma Present Rate Revenues listed under Column (3) of $281,713,000 and the ALJ's Recommended upward adjustment to operating revenues of $21,000, listed under Column (4)-ALJ Adjustments.
[$273,751,867 - ($281,713,000 + $21,000) = ($7,982,133)]. The $8,227,867 increase recommended by the ALJ is the difference between the operating revenues listed in Column (7) of $273,751,867 and the Company's actual total proposed revenues at present rates of $265,524,000, listed in Column (1)-Pro Forma Present Rates.
[$273,751,867 - $265,524,000 = $8,227,867]. We further note that had the ALJ's recommended adjustments been made by applying them to the amounts listed under Column (1), including to the Company's actual final total proposed revenues at present rates of $265,524,000, this would have resulted in a recommended revenue increase of $8,206,352 and a recommended revenue requirement of $273,751,352, when applying this increase to the ALJ's recommended revenues at present rates of $265,545,000.
[$265,545,000 + $8,206,352 = $273,751,352]. As outlined in the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall make all of our adjustments to the Company's revenues and expenses at present rates, including its final claimed total revenues at present rates of $265,524,000.

4. Disposition

Initially, we note that because we have declined to adopt the ALJ's recommendation to increase the Company's revenues at present rates for forfeited discounts by $21,000, we shall likewise decline to adopt the ALJ's implicit recommendation to increase the Company's claimed total revenues at present rates by $21,000. As such, we shall adopt the Company's claimed total revenues at present rates of $265,524,000 and apply the revenue requirement that we award in this proceeding based upon these claimed revenues at present rates.

Based upon our findings regarding certain inputs to NFGD's rate base and total revenues at present rates, *supra*, and to the Company's expenses, cost of common equity, and overall rate of return, discussed, *infra*, we shall approve an overall revenue requirement of approximately $275,972,826, which will result in an overall distribution revenue increase of approximately $10,448,826, or 3.94%, on an annual basis. This is outlined in Table I of the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order. This approved revenue requirement is also summarized in Table 4, below, using the components of the revenue requirement formula, *supra*.

Table 4: Summary of the Approved Revenue Requirement for NFGD[22]

RR= T + E + D + (RB x ROR)		
	T	$3,304,478
+	**E**	$202,030,102
+	**D**	$25,302,000
		$230,636,580
	RB	$571,417,266
x	**ROR**	7.93%
		$45,336,246
	T+E+D	$230,636,580
+	**(RB x ROR)**	$45,336,246
	Total RR	**$275,972,826**

VII. Expenses

A. NFGD's Claimed O&M Expenses

NFGD noted that its *pro forma* expense claim reflects projected expenses for the FPFTY. According to NFGD, it fully described the basis for its forecasted O&M expenses in testimony sponsored through the Company's witnesses. NFGD M.B. at 21.

[22] We note that any differences in Table 4 are due to rounding. We further note that T (*i.e.*, Taxes expense) is calculated as the summation of the following tax expenses under the "Total Allowable Revenues" column in Table I of the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase: Taxes, Other expense of $2,383,819, State Income Taxes expense of $577,038, and Federal Income Taxes expense of $343,621. [$2,383,819 +$577,038 + $343,621 =$3,304,478].

B. Rate Case Expense

1. Positions of the Parties

NFGD anticipated rate case expenses of $1,032,000, normalized over a three-year period, such that one-third of the projected rate case expense is included in the O&M projection for the FTY and FPFTY. [$1,032,000 ÷ 3 years = $344,000]. NFGD stated that a three-year normalization period was used because "it aligns with the time between the Company's prior case and this case." NFGD St. 3 at 16; NFGD Exh. ATF-2, Sch. 10; NFGD Exh. A, Sch. D-6.

I&E disagreed with NFGD's claimed rate case expense and three-year recovery period. I&E argued that the Company's proposed three-year normalization period is not supported by its historic filing frequency. As such, I&E recommended that the Company's rate case expense be normalized over a five-year period, resulting in an annual expense of $206,400, or a reduction of $137,600 to the Company's claimed rate case expense for the FPFTY. [$1,032,000 ÷ 5 years = $206,400]; [$344,000 - $206,400 = $137,600]. I&E M.B. at 19-20 (citing I&E St. 1 at 5-6).

NFGD objected to I&E's proposed five-year recovery period. In this regard, the Company countered that its three-year normalization period is based on the necessity for filing rate cases more frequently in the future than it has in the past, due to continued inflationary pressures on labor and other operating expenses, coupled with accelerated infrastructure replacement and system modernization capital investments. Further, NFGD averred that its current Amended LTIIP demonstrates higher capital expenses in recent years and a plan to continue spending at accelerated levels. NFGD M.B. at 22 (citing NFGD St. 3-R at 9-10). Moreover, NFGD noted that in *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597 (Opinion and Order entered December 28, 2012) (*PPL 2012*), the Commission acknowledged and

approved the two-year normalization of rate case expense sought by PPL Electric Utilities Corporation (PPL), based on PPL's capital improvement program to address its aging infrastructure. Thus, NFGD submitted that history, while helpful, should not be the sole basis for determining the revenue requirement. NFGD M.B. at 22-23 (citing *PPL 2012* at 44-48).

2. Recommended Decision

The ALJ agreed with I&E that, under the circumstances and based upon NFGD's actual filing history, the Company's assertion that it plans to file rate cases more frequently does not carry as much weight as looking at its own history. Accordingly, the ALJ agreed with I&E's proposal to normalize rate case expense over five years. Specifically, the ALJ recommended an annual rate case expense of $206,400, or a reduction of $137,600 to the Company's claimed three-year normalized expense of $344,000. [($1,032,000 ÷ 5 years) = $206,400]; [$344,000 - $206,400 = $137,600]. R.D. at 144 (citing I&E St. 1 at 4-6; NFGD Exh. A, Sch. D-6).

3. NFGD Exception No. 10 and Replies

In its Exception No. 10, NFGD argues that the ALJ erred in normalizing its rate case expense over a five-year period. NFGD maintains that a three-year normalization period is appropriate because the Company anticipates the need to file rate cases more frequently than it has in the past due to continued inflationary pressures on labor and other operating expenses, coupled with accelerated infrastructure replacement and system modernization capital investments. Further, NFGD argues that I&E's proposal does not reflect the Company's current operating model because it includes two data points from more than twenty years ago. Moreover, NFGD reiterates its assertion that the Commission does not exclusively rely on historical data to determine rate case expense normalization and should not do so here, where a longer normalization period

does not reflect the Company's accelerated investments in the safety and reliability of its distribution system. Therefore, NFGD submits that the Commission should approve the Company's three-year normalization period for rate case expense. NFGD Exc. at 33 (citing NFGD M.B. at 22; *PPL 2012* at 44-45).

In reply, I&E avers that the ALJ properly normalized rate case expense over a five-year period. I&E maintains that the Company's claimed three-year recovery period is not supported by NFGD's historic filing frequency. Further, I&E concurs with the ALJ that NFGD's claim that it plans to file rate cases more frequently does not carry as much weight as looking at its own filing history. Moreover, I&E argues that the record evidence supports the ALJ's conclusion that a normalization period of five years is appropriate based on the Company's historical data. I&E R. Exc. at 14 (citing R.D. at 86, 106, 144).

4. Disposition

We agree with the ALJ and I&E that five years is a more appropriate and reasonable length of time for rate case normalization. As noted, *supra*, NFGD points to inflationary pressures, accelerated infrastructure replacement, capital investments in system modernization, and its Amended LTIIP to justify its position that the Company intends to file rate cases more frequently in the future. *See* NFGD M.B. at 22. However, we agree with the ALJ and I&E that, under the circumstances, NFGD's actual history of rate case filing frequency carries more weight than the Company's intentions. We are not persuaded by NFGD's position that its proposed rate case expense be based on a three-year normalization period. Accordingly, we shall deny NFGD's Exception No. 10. Therefore, we shall adopt the ALJ's recommendation to normalize rate case expense over

five years and reduce the Company's claimed rate case expense by $137,600 [$344,000 - $206,400 = $137,600], for a total allowance of $206,400.[23]

C. Incentive Compensation Expense

1. Positions of the Parties

NFGD posited that its incentive compensation program benefits ratepayers: (1) through employee retention in a competitive market; (2) by achieving financial goals that promote: (a) cost containment; (b) operational efficiency; and (c) access to cost-effective capital; and (3) because the program is reasonable, prudently incurred, and the amount is not excessive. However, NFGD asserted that its restricted stock-based incentives are focused on employee retention and are not tied to any financial goals. Further, NFGD noted that the Commission has previously: (1) reviewed and approved incentive compensation programs in several prior rate case proceedings; (2) reaffirmed that if the utility demonstrates that its incentive compensation programs are reasonable and provide a benefit to ratepayers, then the utility may recover the program costs in their entirety; and (3) rejected a proposal to disallow incentive compensation that included, in part, a financial metric. Accordingly, NFGD submitted that, essentially, the Company's incentive compensation program produces positive benefits and sustainable affordability for its ratepayers over the long-term. NFGD M.B. at 23-25 (citing NFGD St. 1-R at 12-14; NFGD St. 5-R at 10; *Pa. PUC v. Duquesne Light Co.*, 63 Pa. P.U.C. 337, 1987 Pa. PUC LEXIS 342 (Order dated March 10, 1987) (*Duquesne*); *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2008-2073938 (Order dated December 19, 2008) (*PGW 2008*); *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 (Opinion and Order entered May 16, 2022) (*Aqua 2022*) at 100; *Pa. PUC v. UGI Utilities, Inc. - Electric Division*, Docket No. R-2017-2640058 (Opinion and Order

[23] [$1,032,000 ÷ 5 years = $206,400].

entered October 25, 2018) *aff'd by McCloskey 2020* (*UGI Electric 2018*) at 73-74; *PPL 2012* at 26; *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711 (Opinion and Order entered July 31, 2008) (*Aqua 2008*) at 20-26; *Pa. PUC v. PPL Gas Utilities Corporation*, Docket No. R-00061398 (Opinion and Order entered February 8, 2007) (*PPL Gas 2007*); *Columbia Gas 2025*)).

a. Executive Cash Bonuses

NFGD posited that its executive cash bonus program provides significant ratepayer benefits through Company leadership incentives that can produce, *inter alia*: (1) financial performance; (2) safety; (3) reliability; (4) customer service; (5) emissions reduction; and (6) diversity and inclusion initiatives. Further, NFGD noted that financial goals are one of many aspects of the program because the Company must be able to access capital at reasonable costs to invest in and maintain infrastructure and attract the necessary workforce to safely and effectively operate that infrastructure. Therefore, NFGD submitted that financial performance goals benefit ratepayers because such goals are critical to maintaining cost-effective access to capital. NFGD M.B. at 26 (citing NFGD St. 5-R at 3).

I&E proposed a reduction of $379,731 to the Company's claimed expense for net labor of $40,592,056. I&E's witness, Mr. Christopher Keller, represented that NFGD's claimed net labor expense includes labor from the Company and its subsidiaries, primarily NFGD's New York Division (NFGD NY) and National Fuel Gas Supply Corporation (NFGD Supply). Mr. Keller recommended the removal of the portion of executive bonuses attributable to financial goals and targets that serve to benefit shareholders and do not assist in providing safe and reliable service to ratepayers. As such, Mr. Keller recommended an allowance of $40,212,325, or a downward adjustment of $379,731, for NFGD's claimed net labor expense.

[$40,592,056 – $379,731 = $40,212,325].[24] I&E St. 1 at 11, 13 (citing NFGD Exh. ATF-4, Sch. 1 at 2).

According to Mr. Keller, NFGD's claim that ratepayers benefit from the achievement of financial goals is speculative and unsupported because there are no measurable or quantifiable benefits that accrue for ratepayers and are specifically attributable to financial goals. Further, Mr. Keller contended that allowing this claim in rates would result in ratepayers experiencing higher rates, while NFGD's parent company, NFG, and shareholders would benefit from higher revenues at the expense of ratepayers. Moreover, Mr. Keller argued that it is not obvious how the portion of executive bonuses attributable to financial goals directly relates to providing safe and reliable service to ratepayers. Thus, I&E submitted that the portion of executive bonuses attributable to financial goals should not be funded by the ratepayers. Therefore, Mr. Keller submitted that all costs associated with executive bonuses related to financial goals should be paid for by shareholders and not by ratepayers. I&E St. 1-SR at 11-12.

b. Stock-based Compensation and Executive Performance Shares

NFGD provided that its claim for incentive compensation expense includes: (1) restricted stock for non-executives and executives of $182,075 and $290,746, respectively;[25] and (2) $957,138 in executive performance shares. NFGD posited that its claim for restricted stock-based compensation: (1) is necessary and effective to retain employees and promote longevity of the Company; (2) is vested over three equal annual

[24] As discussed in Section VII.D, *infra*, Mr. Keller also recommended an allowance of $2,376,894 for payroll taxes, or a reduction of $22,670, to NFGD's claim for payroll tax expense of $2,399,564, [$2,399,564 – $22,670 = $2,376,894], based on his proposed removal of the portion of executive bonuses related to financial goals and on the payroll tax rate applied to NFGD's claim. I&E St. 1 at 13-14.

[25] *See* NFGD M.B. at 26. [$182,075 + $290,746 = $472,821].

installments; (3) does not rely on achieving financial goals or performance conditions; (4) provides an incentive for recipients to render service to the Company for the requisite time; and (5) is designed to help: (a) retain top talent and ensure workforce stability; (b) secure the transfer of knowledge; and (c) individuals grow their expertise within the organization. Moreover, NFGD noted that attracting and retaining qualified employees remains a critical issue for the Company's ability to provide safe, efficient, and cost-effective service to its ratepayers. Therefore, NFGD represented that a competitive compensation package is critical to the Company's continuing success and beneficial to ratepayers. NFGD M.B. at 26-27 (citing NFGD St. 4 at 6, 14-15; NFGD St. 5 at 6-9).

NFGD further provided that its claimed incentive compensation expense for executive performance shares: (1) has a retention element and operates on a performance cycle of three years; (2) fosters long-term perspectives and performance from the Company's management and encourages significant personal investment; and (3) recognizes that financial successes are achieved through continued focus and commitment to, *inter alia*: (a) efficient investment in the utility's delivery system; (b) prudent business operations; and (c) providing safe, reliable, and affordable service to customers. Further, NFGD averred that maintaining affordable delivery rates is primarily achieved through: (1) the long-term management of utility costs and finances; (2) the requisite culture of cost containment; and (3) the establishment and reinforcement of a commitment to capital efficiency. Therefore, NFGD submitted that the long-term nature and underlying focus on financial responsibility of performance shares drive positive outcomes for ratepayers. NFGD M.B. at 28-29 (citing NFGD St. 4 at 16; NFGD St. 5-R at 10).

I&E represented that NFGD's claim for total incentive (stock-based) compensation expense of $1,429,959 is comprised of: (1) restricted stock for supervisory staff of $182,075; (2) restricted stock for officers of $290,746; and (3) performance

shares for officers of $957,138. [$182,075 + $290,746 + $957,138 = $1,429,959].[26] I&E St. 1 at 15. I&E's witness, Mr. Keller, noted the Company's statement that performance shares are based on financial results, with the exception of emission reduction targets which account for approximately 5% of performance shares issued. Further, Mr. Keller noted that the Commission recently adjusted a company's claim for incentive compensation based on the removal of incentive compensation related to financial goals. Moreover, Mr. Keller argued that NFGD's claim that ratepayers benefit from the achievement of financial goals or targets is speculative and unsupported because there are no measurable or quantifiable benefits accruing directly to ratepayers that are specifically attributable to performance shares. Therefore, Mr. Keller submitted that 95% of performance shares are based on financial goals that should not be funded by ratepayers, as financial goals do not assist in providing safe and reliable service to ratepayers. As such, I&E recommended an allowance of $520,678, or a reduction of $909,281 [$957,138 x 95% = $909,281] to NFGD's claim for stock-based compensation expense of $1,429,959, "with a focus on performance shares." [$1,429,959 – $909,281 = $520,678]. *Id*. at 15-17 (citing *Columbia Gas 2025* at 123).

The OCA proposed a downward adjustment of $1,430,000 to NFGD's claimed incentive compensation expense. In support, the OCA's witness, Mr. Morgan, noted that the Company, in its 2010 Equity Compensation Plan, stated that the purpose of the plan is to "advance the interests of the Company and its stockholders." Further, Mr. Morgan testified that NFGD, as an investor-owned utility company, depends on the Company: (1) remaining a going concern and operating based upon a "profit motive;" and (2) achieving earnings high enough to: (a) attract investors; (b) secure financing on good terms; and (c) improve shareholder value. Moreover, Mr. Morgan argued that such costs are not recoverable from ratepayers because: (1) the measures that achieve additional cost savings, increase revenue, or otherwise improve financial results should

[26] *See* NFGD Exh. MPW-1, Sch 2 at 13.

generate the necessary income to cover the incentive plan payments; (2) incentive plan payments are not tied to ratepayer benefits, including: (a) quality of service; (b) operational efficiency; and (c) conservation goals; and (3) the incentive to improve financial performance is more aligned with shareholders' interests because shareholder value has a correlation to earnings, meaning when earnings improve, shareholder value improves but rates will not go down. Accordingly, the OCA submitted that it is appropriate for shareholders, not ratepayers, to bear the costs for incentive compensation payments. OCA R.B. at 11; OCA St. 2 at 13-14 (citing OCA Exh. LKM-8A-SR; 2010 Equity Compensation Plan, Amended and Restated December 7, 2023, Section 1).

The OSBA argued that the Company's stock-based compensation incentives are primarily tied to financial performance metrics that benefit shareholders, not the provision of safe and reliable utility services. Accordingly, the OSBA proposed to remove the Company's claimed FPFTY stock-based compensation expense, less the 5% portion of the expense that NFGD identified as being issued historically from December 2022 through December 2024, based on Environmental, Social, and Governance (ESG) criteria.[27] OSBA St. 1 at 9-10.

2. Recommended Decision

The ALJ concluded that NFGD failed to provide sufficient evidence to meet its burden of proving its claimed expenses for executive compensation programs

[27] We note that the OSBA, in its direct testimony and its Main Brief, stated that its proposed "adjustment would reduce the Company's revenue requirement by $1,517,718 in FPFTY 2027." OSBA M.B. at 7; OSBA St. 1 at 9-10. However, the OSBA's Exhibit JBF-2 shows a proposed downward adjustment of $1,382,102 to NFGD's claimed expense for stock-based compensation. OSBA Exh. JPF-3 at 2. It is unclear why the proposed revenue requirement adjustment outlined in the body of the OSBA's Main Brief (*i.e.*, OSBA M.B. at 7) and in the OSBA's direct testimony (*i.e.*, OSBA St. 1 at 10) differs from the adjustment amount set forth in the OSBA's Exhibit (*i.e.*, OSBA Exh. JBF-2 at 2).

will benefit ratepayers or improve customer service, safety, or reliability. Further, the ALJ reasoned that allowing NFGD to claim expenses for executive performance compensation serves to highlight the benefit to stockholders while the ratepayers will pay to cover the costs for such programs. On the other hand, the ALJ found that NFGD met its burden of proof to establish its claim concerning restricted stock-based compensation. The ALJ reasoned that a program that is effective to retain employees and promote Company longevity is a program that will benefit the employees who provide services to ratepayers over time. R.D. at 147.

Accordingly, the ALJ agreed with I&E's proposal to disallow $379,731 for executive cash bonuses and $909,281 for executive performance shares.[28] At the same time, however, the ALJ agreed with NFGD's claim of $472,821 for restricted stock-based compensation.[29] R.D. at 147.

[28] Specifically, the ALJ "accept[ed] the recommendations of [I&E] and [the] OSBA to disallow $909,281 of the Executive Performance Shares." R.D. at 147. As noted, *supra*, I&E recommended a downward adjustment of $909,281 to NFGD's claimed stock-based compensation expense. I&E St. 1 at 17. However, as also noted earlier, the OSBA, in its direct testimony and its Main Brief, stated that its proposed "adjustment would reduce the revenue requirement by $1,517,718 in FPFTY 2027." OSBA M.B. at 7; OSBA St. 1 at 10. Additionally, the OSBA's Exhibit JBF-2 shows a proposed downward adjustment of $1,382,102 to NFGD's claimed stock-based compensation expense. OSBA Exh. JBF-3 at 2. Thus, we consider the ALJ's reference to the recommendation of "[the] OSBA to disallow $909,281 of the Executive Performance Shares" an inadvertent misstatement. *See* R.D. at 147.

[29] As noted, *supra*, NFGD provided that its claim for incentive compensation expense includes: (1) non-executive restricted stock of $182,075; and (2) executive restricted stock of $290,746. *See* NFGD M.B. at 26. [$182,075 + $290,746 = $472,821].

3. Exceptions and Replies

a. NFGD Exception No. 8 and Replies

In its Exception No. 8, NFGD disagrees with the ALJ's recommendation to disallow $909,281 related to executive performance shares.[30] NFGD is of the opinion that the ALJ did not consider the ratepayer benefits of executive performance shares. Further, NFGD restates its assertion that the Commission has: (1) reviewed and approved incentive compensation programs in several prior rate case proceedings; (2) reaffirmed that if the utility demonstrates, with credible evidence, that its incentive compensation programs are reasonable and provide a benefit to ratepayers, then the programs may be recovered in their entirety; and (3) rejected proposals to disallow incentive compensation that included, in part, a financial metric. Thus, NFGD posits that it met its burden of proving that its claim in allocated performance compensation expenses is fair and necessary, and that it pertains to providing safe, adequate, and reliable service to its customers. NFGD Exc. at 26-28 (citing R.D. at 147; *Pa. PUC, et al. v. Pennsylvania American Water Company*, Docket Nos. R-2025-3057983, *et al.* (Opinion and Order entered July 16, 2026) (*PAWC 2026*); *PPL 2012* at 26; *Duquesne*; *PGW 2008*; *Aqua 2008* at 20-26; *PPL Gas 2007*; *UGI Electric 2018* at 73-74).

NFGD argues that employee retention and long-term performance are key elements of the executive performance share plan that warrant recovery. NFGD notes that awards granted under the three-year performance cycle of its executive performance shares do not vest for three years, and unvested shares are forfeited due to an executive's employment termination for a reason other than death, retirement, disability, or divesture

[30] NFGD notes that it does not except to the entire recommended disallowance of executive compensation. NFGD Exc. at 27.

by the parent of a subsidiary. Thus, NFGD avers that ratepayers benefit from strong retention elements that promote longevity at the Company and reward experienced employees who provided services to ratepayers over time. Further, NFGD asserts that the Company's approach fosters long-term perspectives and decision-making from its management, recognizing that financial strength and sustainable rates are achieved through continued focus and commitment on, *inter alia*: (1) investing in the utility's delivery system; (2) prudently operating the business; and (3) providing safe, reliable, and affordable service to its customers. Moreover, NFGD argues that maintaining affordable delivery rates: (1) is primarily achieved through the disciplined management of utility costs and finances over the long term; and (2) requires a culture of cost containment and a commitment to capital efficiency that is set and continuously reinforced by skilled executive leadership. Therefore, NFGD submits that the ALJ's recommendation to disallow $909,281 of the Company's claimed incentive compensation expense related to executive performance shares should be rejected. NFGD Exc. at 28-29 (citing NFGD St. 5-R at 10-11; NFGD St. 4 at 16).

In reply, I&E defends the ALJ's conclusion that NFGD failed to provide sufficient proof that executive performance compensation, at the amount requested, will improve customer service, safety, or reliability. I&E maintains that its recommended disallowance of $909,281 in executive performance shares is because such costs are linked to shareholder benefits and, therefore, should be paid for by shareholders, not ratepayers. Thus, I&E concurs with the ALJ that if the claim is allowed, then the Company's ratepayers will pay to cover the costs for programs that bring benefits to the Company's stockholders, and not to the ratepayers. Accordingly, I&E submits that the Commission should reject NFGD's Exception No. 8. I&E R. Exc. at 13 (citing R.D. at 147).

In reply, the OCA agrees with the ALJ's recommendation to deny the Company's claim for executive cash bonuses and executive performance shares. In the

OCA's view, the ALJ correctly determined that NFGD failed to satisfy its burden to demonstrate that it is entitled to its claimed executive performance shares. OCA R. Exc. at 19-20 (citing R.D. at 147).

The OCA reiterates its assertion that the Company's incentive compensation plan specifically provides that the stated purpose of the plan is to "advance the interests of the Company and its stockholders." Further, the OCA argues that contrary to the Company's arguments otherwise, NFGD has not provided the requisite credible evidence and has failed to meet its burden of proving that its claim in allocated performance compensation expense is fair and necessary, or that it pertains to providing safe, adequate, and reliable service to customers. Moreover, the OCA objects to the Company's argument that employee retention and long-term performance warrant cost recovery. The OCA counters that NFGD has not demonstrated, with substantial evidence, that employee retention and long-term performance have, in fact, provided a benefit to ratepayers that is sufficient to warrant recovery of incentive compensation costs in rates. Accordingly, the OCA submits that the ALJ correctly recommended that the Commission deny the Company's claim for executive performance shares. OCA R. Exc. at 20-21 (citing NFGD Exc. at 28; OCA M.B. at 17; OCA St. 2 at 13-14; *PAWC 2026*).

In reply, CAUSE-PA supports the ALJ's recommendation that the Commission deny the Company's request to recover executive cash bonuses and performance shares through rates. In CAUSE-PA's view, the ALJ correctly explained that: (1) the Company failed to meet its burden to demonstrate that executive cash bonuses and executive performance shares will improve customer service, safety, or reliability; and (2) allowing cost recovery for such programs would mean that ratepayers

will pay to cover the costs for programs that bring benefits to stockholders but not ratepayers.[31] CAUSE-PA R. Exc. at 20 (citing R.D. at 147).

CAUSE-PA agrees with the OCA that, essentially, costs for executive performance shares are not appropriate for rate recovery because if the measure achieves cost savings, increases revenue, or improves financial results for the Company, then it should cover the costs to provide executive performance shares. Further, CAUSE-PA asserts that ratemaking, by design, rewards efficient and effective management, and executive performance shares are not tied to ratepayer benefits such as improved quality of service. Moreover, CAUSE-PA maintains that NFGD's low income customers are struggling to afford to maintain gas service, and the Company's proposal to recover the cost of executive performance shares through rates would unjustly and unreasonably force such customers to carry the burden of paying for stock incentives for Company executives. CAUSE-PA, therefore, urges the Commission to deny NFGD's Exception No. 8 and adopt the ALJ's recommendation to disallow recovery for executive performance shares and executive cash bonuses through rates. CAUSE-PA R. Exc. at 21 (citing R.D. at 147; OCA M.B. at 17-18).

b. OCA Exception No. 3 and Replies

In its Exception No. 3, the OCA objects to the ALJ's recommendation to accept NFGD's claim of $472,821 for restricted stock-based compensation.[32] The OCA

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[31] CAUSE-PA adds that for these same reasons, it supports the OCA's Exception No. 3, *infra,* wherein the OCA contends that the ALJ erred by not recommending the denial of NFGD's stock-based compensation plan. CAUSE-PA R. Exc. at 20.

[32] As discussed, *supra*, NFGD provided that its claim for incentive compensation expense includes restricted stock for non-executives and executives of $182,075 and $290,746, respectively. [$182,075 + $290,746 = $472,821]. *See* NFGD M.B. at 26.

contends that substantial record evidence supports adjusting NFGD's claimed incentive compensation expense. Further, the OCA argues that the Commission has previously disallowed portions of incentive compensation tied to shareholder earnings goals where metrics primarily advanced shareholder interests and lacked a sufficient link to ratepayer benefits. Moreover, the OCA repeats the recommendation of its witness, Mr. Morgan, to remove the 2010 Equity Compensation Plan expense from the cost of service based on the stated purpose of the plan: "to advance the interests of the Company and its stockholders." Furthermore, the OCA argues that the ALJ's reasoning for recommending the denial of NFGD's claims for executive cash bonuses and executive performance shares supports denying the Company's claim for restricted stock-based compensation. OCA Exc. at 15-16 (citing R.D. at 147; OCA M.B. at 16-17; OCA St. 2 at 13-14; OCA Exh. LKM-8A-SR; *Columbia Gas 2025*).

The OCA remains of the opinion that the interests of NFGD, an investor-owned utility company, and its stockholders depend on: (1) the Company remaining a going concern and operating based upon a "profit motive;" and (2) achieving earnings high enough to: (a) attract investors; (b) secure financing on good terms; and (c) improve shareholder value. Further, the OCA maintains its position that such goals are aimed at increasing shareholder value and are not consistent with the interests of the Company's ratepayers. Therefore, the OCA reiterates its claim that such costs are not recoverable from ratepayers because: (1) the measures that achieve additional cost savings, increase revenue, or otherwise improve financial results should generate the necessary income to cover the incentive plan payments; and (2) incentive plan payments are not tied to ratepayer benefits, including quality of service improvements. Accordingly, the OCA submits that the ALJ erred in failing to recommend the denial of NFGD's claim of $472,821 for the restricted stock-based compensation portion of its claimed incentive compensation expense. OCA Exc. at 16-17 (citing OCA M.B. at 17; OCA St. 2SR at 11; OCA St. 2 at 13-14).

In reply, NFGD contends that the record demonstrates that the Company met its burden of proving its claim that restricted stock-based compensation benefits ratepayers. Further, NFGD argues that the OCA fails to acknowledge recent Commission decisions where the Commission approved portions of incentive compensation plans it determined provided direct benefits to ratepayers and were not based on financial metrics. Moreover, NFGD challenges the OCA's position that the introductory paragraph of the Company's overall compensation plan demonstrates that the plan is more aligned with shareholder interests. NFGD counters that general language introducing the compensation plan cannot reasonably substitute review of the benefits of the plan's actual features. NFGD R. Exc. at 7-8 (citing NFGD Exc. at 28-29; R.D. at 147; *PAWC 2026* at 113-14; *Columbia Gas 2025* at 123).

NFGD maintains that the Company's restricted stock-based compensation plan: (1) contains no financial metrics and does not rely on achieving financial goals or performance conditions; (2) provides an incentive for recipients to render service to the Company for the requested time; (3) encourages employee retention; and (4) is designed to help: (a) retain top talent; (b) ensure stability within the workforce; (c) secure continued transfer of knowledge; and (d) allow individuals to grow their expertise within the organization. Moreover, NFGD reiterates its claim that ratepayers directly benefit from a skilled and experienced workforce. Accordingly, NFGD argues that the Commission should grant the Company's recovery of its restricted stock-based compensation and deny the OCA's Exception No. 3. NFGD R. Exc. at 8-9 (citing NFGD Exc. at 26-29; NFGD R.B. at 8-10; NFGD M.B. at 23-29; NFGD St. 4 at 6).

4. Disposition

As a preliminary matter, we note that no Party filed Exceptions to the ALJ's recommendation to adopt I&E's proposal to disallow $379,731 for executive cash

bonuses.[33] Finding the ALJ's recommendation to be reasonable and supported by substantial evidence in the record, we shall adopt it without further comment.[34]

Next, upon review, we shall: (1) deny NFGD's Exception No. 8; and (2) grant the OCA's Exception No. 3. We agree with the ALJ's conclusion that NFGD failed to provide sufficient evidence to meet its burden of proving its claim for executive compensation programs will benefit ratepayers. Thus, we agree with the ALJ's recommendation to adopt I&E's proposed $909,281 downward adjustment in reducing the executive performance shares portion of NFGD's claimed incentive compensation expense. However, we disagree with the ALJ's recommendation that the Commission adopt the Company's claimed expense for restricted stock-based compensation of $472,821. Rather, we agree with the OCA's argument in its Exception No. 3, that the ALJ's reasoning for the recommended denial of NFGD's claim for executive performance shares supports denying the Company's claim for restricted stock-based compensation. Accordingly, we shall further reduce NFGD's claimed incentive compensation expense by applying a downward adjustment of $472,821 to NFGD's claim for stock-based compensation. Additionally, we shall utilize I&E's methodology, *infra,* to reduce NFGD's related payroll taxes expense, applying a rate of 5.97% to our reduction of NFGD's claimed incentive compensation expense. *See* I&E St. 1 at 14.

We agree with the ALJ that NFGD failed to provide sufficient evidence to meet its burden of proving that the executive performance shares portion of its incentive compensation program will benefit ratepayers or improve customer service, safety or

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[33] As noted, *supra*, NFGD does not except to the ALJ's entire recommended disallowance of executive compensation. *See* NFGD Exc. at 27.

[34] As discussed in Section VII.D, *infra*, this results in an implicit recommendation from the ALJ that the Commission adopt I&E's concomitant proposed reduction to the Company's claimed payroll tax expense of $22,670. However, no adjustment for payroll tax expense appears in Appendix A-Table II of the Recommended Decision.

reliability. Indeed, as noted by the OCA, NFGD has not demonstrated, with substantial evidence, that employee retention and long-term performance have, in fact, provided a benefit to ratepayers that is sufficient to warrant recovery of incentive compensation costs in rates. *See* OCA R. Exc. at 20. Moreover, as noted by I&E's witness, Mr. Keller, NFGD's claim that ratepayers benefit from the achievement of financial goals or targets is speculative and unsupported, as there are no measurable or quantifiable benefits accruing directly to ratepayers that are attributable to performance shares. As Mr. Keller testified:

> Allowing [NFGD's] claim in rates would result in higher rates and revenues at the expense of ratepayers, while providing a benefit to the parent company and shareholders' financial goals. It is not obvious how the performance shares attributable to financial goals directly relates to providing safe and reliable service to ratepayers. Therefore, all costs associated with the performance shares that are related to financial goals should be paid for by shareholders, and not by ratepayers, as it is directly linked to the benefit of the shareholders.

I&E St. 1-SR at 15. We find Mr. Keller's argument that "financial goals do not assist in providing safe and reliable service to ratepayers" to be persuasive. *Id.*

In a similar fashion, we concur with the OCA's argument in its Exception No. 3, that the ALJ's reasoning for recommending the denial of NFGD's claims for executive performance shares and executive cash bonuses supports denying the Company's claim for restricted stock-based compensation. To the extent that NFGD contends that the record demonstrates that its stock-based compensation portion of its incentive compensation claim benefits ratepayers, we disagree.[35] We are persuaded by the argument presented by the OCA and its witness, Mr. Morgan. Specifically, Mr. Morgan testified that the interests of NFGD, as an investor-owned utility, and its

[35] *See* NFGD M.B. at 26. [$182,075 + $290,746 = $472,821].

stockholders primarily depend on the Company achieving earnings goals that are targeted towards increasing shareholder value and benefiting shareholders. Mr. Morgan continued:

> [T]he incentive to improve financial performance is not necessarily consistent with the interest of [NFGD's] ratepayers, but, instead, is more aligned with shareholders' interests. Shareholder value has a correlation to earnings, so when improved earnings are reported, shareholder value improves but rates do not go down. Thus, the beneficiaries of the improved earnings are the shareholders. Therefore, it is appropriate for shareholders, not ratepayers, to bear these costs.

OCA St. 2 at 13-14. Similarly, Mr. Keller testified that "the performance shares in the Company's stock-based compensation claim should not be funded by ratepayers." I&E St. 1-SR at 15. We concur with the testimonies of Mr. Keller and Mr. Morgan.

Moreover, as noted by I&E and the OCA, the Commission has previously disallowed portions of incentive compensation tied to shareholder earnings goals where a sufficient link to ratepayer benefits was absent.[36] In the Recommended Decision issued on October 3, 2025, in *Columbia Gas 2025* (*Columbia Gas 2025 Recommended Decision*), the presiding ALJs recommended disallowing the portion of incentive compensation associated with shareholder earnings goals. Specifically, the ALJs agreed with the position advanced by the OCA that a portion of incentive compensation tied to shareholder earnings be disallowed due to the absence of a direct connection between

[36] *See* OCA Exc. at 15, I&E St. 1 at 17-18 (citing *Columbia Gas 2025*).

shareholder interest and the alignment of shareholder growth and customer-oriented benefits. *Columbia Gas 2025 Recommended Decision* at 204-05.[37]

Here, as noted by the ALJ, I&E, and the OCA, ratepayers should not be required to fund the cost for performance compensation programs that bring benefits to stockholders, particularly given that NFGD did not establish that such programs provide benefits to customers, or that they pertain to providing safe, adequate, and reliable service to customers. *See* R.D. at 147; *see also* I&E R. Exc. at 13; *see also* OCA R. Exc. at 20. Despite NFGD's arguments to the contrary, we agree with the ALJ, I&E, and the OCA that NFGD failed to meet its burden of proof based on general claims of customer benefits. Therefore, NFGD's Exception No. 8 is denied. Accordingly, we shall adopt the ALJs' recommended downward adjustment of $909,281 to remove the executive performance shares portion of NFGD's claim for incentive compensation expense.

However, we disagree with the ALJ's recommendation that the Commission grant the Company's claimed expenses for restricted stock-based incentive compensation. We agree with the OCA's argument that the ALJ's reasoning for recommending the denial of NFGD's claim for executive performance shares supports also denying the Company's claim for restricted stock-based compensation. Indeed, as noted by the ALJ, if NFGD's claim is allowed, then the Company's ratepayers will pay to cover the costs for incentive compensation programs that benefit the Company's stockholders but will not benefit the ratepayers. *See* R.D. at 147. Therefore, the OCA's Exception No. 3 is granted. Accordingly, we shall modify the ALJ's recommendation

[37] Subsequently, the Commission adopted the ALJs' recommendation in that proceeding to reflect a downward adjustment to incentive compensation expense, given that only a portion of the claimed expense was related to operational safety, customer service, customer care and satisfaction, and other benefits to customers. *See Columbia Gas 2025* at 123.

and shall further reduce NFGD's claimed incentive compensation expense by $472,821 to remove the restricted stock-based portion.

Additionally, because the reduction to executive performance shares and stock-based compensation will result in a reduction to NFGD's claimed expenses for incentive compensation, the Company's claimed expenses for payroll taxes will also decrease since it is based on a percentage of compensation expense.[38] This will result in a related downward adjustment of $82,511 to NFGD's claim for payroll taxes expense, based on I&E's methodology of applying a payroll tax rate of 5.97%.[39] [($909,281 + $472,821) x 5.97% = $82,511].[40]

D. Payroll Expense and Related

1. Positions of the Parties

NFGD argued that the revenue requirement should be based on a full time employee (FTE) headcount of 450 employees because it: (1) reflects a vacancy adjustment of 9 FTEs based on the actual headcount being below the budgeted headcount in recent years; and (2) is based on a total headcount of 459 employees before the vacancy adjustment, comprised of an actual headcount of 436 FTEs as of

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[38] We note that in *PAWC 2026*, the Commission adopted downward adjustments to the company's claim for performance compensation expense and the related downward adjustments to the company's claim for payroll taxes expense. *See PAWC 2026* at 110-11.

[39] The payroll tax rate of 5.97% represents the sum of the Federal Insurance Contributions Act (FICA), Federal Unemployment Tax Act (FUTA), and State Unemployment Tax Act (SUTA) tax rates of 5.65%, 0.03%, and 0.29%, respectively. [5.65% + 0.03% + 0.29% = 5.97%]. *See* I&E St. 1 at 14.

[40] As discussed in Section VII.D, *infra*, this will reflect a total downward adjustment to NFGD's claimed expenses for payroll taxes of $105,181. [$22,670 + $82,511 = $105,181].

September 30, 2025, with 23 forecasted additions by the end of the FPFTY.[41] Further, NFGD noted that as of April 2026, its headcount is 451 FTEs, meaning that the Company has already reached a total headcount in excess of the proposed FPFTY headcount. Accordingly, NFGD submitted that the revenue requirement should be based on a headcount of 450 FTEs. NFGD M.B. at 29-30 (citing NFGD St. 3-R at 2-4).

I&E proposed an allowance of $2,376,894, or a downward adjustment of $22,670, to NFGD's claimed payroll tax expense of $2,399,564. [$2,399,564 – $22,670 = $2,376,894].[42] I&E's witness, Mr. Keller, recommended a downward adjustment to payroll tax expense based on his proposal to remove the portion of executive bonuses related to financial goals and on the payroll tax rate applied to NFGD's claim.[43] Specifically, as previously noted, Mr. Keller applied a payroll tax rate of 5.97% to his recommended downward adjustment of $379,731 to the Company's claimed net labor expense.[44] [$379,731 x 5.97% = $22,670]. I&E St. 1-SR at 12-13, I&E St. 1 at 13-14.

The OSBA proposed a downward adjustment of $525,364 to reflect the Company's staffing level for the most recent 12-month period for which data is available.

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41 [436 FTEs + 23 FTEs = 459 FTEs].

42 Mr. Keller testified that NFGD, in its filing, claimed payroll tax expense of $2,399,564, which includes Social Security and Medicare Taxes (together FICA, FUTA, and SUTA). I&E St. 1 at 13-14 (citing NFG Book V, Exh. A – FPFTY, Sch. D-9, column 5, lines 4-6).

43 As discussed in Section VII.C, *supra*, Mr. Keller also recommended an allowance of $40,212,325 for net labor expense, or a reduction of $379,731 to NFGD's claim for net labor expense of $40,592,056 [$40,592,056 - $379,731 = $40,212,325], based on his proposed removal of the portion of executive bonuses related to financial goals and on the payroll tax rate applied to NFGD's claim. I&E St. 1 at 11-13.

44 As noted above, the payroll tax rate of 5.97% represents the sum of the FICA, FUTA, and SUTA tax rates of 5.65%, 0.03%, and 0.29%, respectively. [5.65% + 0.03% + 0.29% = 5.97%]. *See* I&E St. 1 at 14.

In support, the OSBA contended that NFGD has consistently reported actual employee counts below its budgeted staffing levels. Further, the OSBA noted that during the last twelve (12) months for which data was provided, NFGD averaged 440.3 FTEs, or approximately ten (10) less FTEs than the Company requested to include in its revenue requirement. Moreover, the OSBA posited that its proposed adjustment maintains labor expenses to be recovered through customer rates at a realistic level. Accordingly, the OSBA submitted that customers should not be required to pay rates based on an employee count that exceeds NFGD's most recent actual data. OSBA M.B. at 8 (citing OSBA St. 1 at 6-8, 13).

2. Recommended Decision

As discussed in Section VII.C, *supra*, the ALJ recommended that the Commission adopt I&E's proposal to disallow $379,731 for the executive cash bonuses portion of the Company's claimed expenses for incentive compensation. R.D. at 147. Therefore, this results in an implicit recommendation from the ALJ that the Commission decrease the Company's total claimed expenses for payroll taxes by $22,670 based on I&E's methodology of applying a payroll tax rate of 5.97%.
[$379,731 x 5.97% = $22,670].[45]

The ALJ also found persuasive the OSBA's argument that its proposed $525,364 downward adjustment will bring more consistency and reduce charging ratepayers to pay for the Company's speculation. The ALJ agreed with the OSBA that historical data demonstrates what NFGD has done and is the best predictor of what the Company will do. Accordingly, the ALJ agreed with the OSBA's proposed downward adjustment of $525,364 to the overall revenue requirement. R.D. at 149.

[45] However, as also previously noted, no adjustment for payroll taxes expense appears in Appendix A-Table II of the Recommended Decision.

3. NFGD Exception No. 7 and Replies

In its Exception No. 7, NFGD disagrees with the ALJ's recommendation to adopt the OSBA's proposed adjustment to reduce the Company's headcount below the current number of FTEs. NFGD notes that its claim includes the hiring of three new employees to ensure that the Company is staffed to cover its current needs for its CAP and local call center. NFGD Exc. at 25, n.113 (citing R.D. at 149; NFGD St. 3-R at 3).

NFGD argues that the ALJ's reasoning is contradicted by the evidentiary record. Specifically, NFGD reiterates its claim that as of April 2026, the Company has already reached a total headcount of 451 FTEs, in excess of its proposed FPFTY headcount of 450 FTEs. Further, NFGD objects to the ALJ's concern regarding charging ratepayers based on "speculative thinking." NFGD counters that "[t]he recommended adjustment would include only 440.3 FTEs in the FPFTY and deny the Company recovery for nearly 10 [FTEs] who have already been hired." Moreover, NFGD argues that labor expenses are a primary driver of the Company's requested rate increase, and its FTE complement is appropriate to support safe and reliable operations. Accordingly, NFGD submits that because actual data supports its position, the ALJ's recommendation to reduce the Company's headcount below the current number of FTEs is unreasonable and should be rejected. NFGD Exc. at 25-26 (citing NFGD M.B. at 29-30) (emphasis omitted).

In reply, I&E states that although it did not argue regarding employee headcount, it agrees with the ALJ's conclusion that the OSBA's proposed adjustment will bring more consistency and reduce charging ratepayers for the Company's speculation. Moreover, I&E concurs with the ALJ and the OSBA that historical data demonstrates what the Company has done and is the best predictor of what the Company will do. Accordingly, I&E submits that the Commission should reject NFGD's Exception No. 7. I&E R. Exc. at 12 (citing R.D. at 139, 148-49).

4. Disposition

Initially, we note that because we have adopted the ALJ's recommendation to adopt I&E's proposal to disallow $379,731 for the executive cash bonuses portion of the Company's claimed expense for incentive compensation, we shall likewise adopt the ALJ's implicit recommendation to decrease NFGD's claimed total payroll expenses by $22,670, based on I&E's methodology of applying a payroll tax rate of 5.97%.[46] [$379,731 x 5.97% = $22,670].

Additionally, as discussed in Section VII.C, *supra*, because the reductions to executive performance shares and stock-based compensation of $909,281 and $472,821, respectively, will result in a reduction to the Company's claimed expenses for incentive compensation, the Company's claimed expenses for payroll taxes will also decrease since it is based on a percentage of compensation expense. Therefore, the combined reduction of $1,382,102 to NFGD's claimed expenses for executive performance shares and stock-based compensation[47] will result in a related downward adjustment of $82,511 to NFGD's claimed expenses for payroll taxes, based on I&E's methodology of applying a payroll tax rate of 5.97%. [$1,382,102 x 5.97% = $82,511].

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[46] We reinforce that the payroll tax rate of 5.97% represents the sum of the FICA, FUTA, and SUTA tax rates of 5.65%, 0.03%, and 0.29%, respectively. [5.65% + 0.03% + 0.29% = 5.97%]. *See* I&E St. 1 at 14.

[47] [$909,281 + $472,821 = $1,382,102].

Accordingly, this will result in a total downward adjustment to the Company's claimed expenses for payroll taxes of $105,181. [$22,670 + $82,511 = $105,181].[48]

Regarding NFGD's Exception No. 7, we agree with the ALJ's conclusion that NFGD's historical data is the best predictor of what the Company will do in the future. Accordingly, we shall: (1) deny NFGD's Exception No. 7; and (2) adopt the ALJ's recommendation to apply the OSBA's recommended downward adjustment of $525,364 to payroll expenses.

To the extent that NFGD argues that its position regarding employee headcount is supported by the evidentiary record, we find the OSBA's argument, and the testimony of its witness, Mr. Justin B. Farr, to be more compelling. Specifically, Mr. Farr testified that NFGD reported actual employee counts below its budgeted staffing levels. Mr. Farr further testified that his recommended downward adjustment of $525,364 is meant to reflect the staffing level for the most recent twelve-month period for which information was available. OSBA St. 1 at 6-7 (citing Standard Data Request, Question No. RR-20, Respondent: Formato). Mr. Farr continued:

> [M]y adjustment is intended solely to reflect an accurate level of employment for ratemaking purposes. I am not recommending a specific staffing level, nor am I suggesting that the Commission should micro-manage the Company's operations. [NFGD] remains responsible for managing its workforce to ensure efficient and safe operations. This adjustment simply maintains labor expense to be recovered

[48] As with all adjustments to Expenses that we shall make in Section VII of this Opinion and Order, this adjustment appears in Table II of the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase that are attached to this Opinion and Order. Furthermore, as discussed in Section VIII.B, *infra*, payroll taxes expense is included in the Company's total claim for Taxes Other than Income Taxes. Thus, our downward adjustment of $105,181 to the Company's claim for payroll taxes expense reduces the Company's total claim for Taxes Other than Income Taxes from $2,489,000 to $2,383,819.

> through customer rates at a realistic level. Customers should not be required to pay rates based on an employee count that exceeds the Company's most recent actual experience.

OSBA St. 1 at 8. We agree with the testimony of Mr. Farr. Indeed, as noted by the ALJ and I&E, historical data is the best predictor of future events, and the OSBA's proposed adjustment will reduce charging ratepayers based on the Company's speculation of future employment vacancies. *See* I&E R. Exc. at 12; R.D. at 149. Therefore, we shall deny NFGD's Exception No. 7. Accordingly, we shall adopt the ALJ's recommendation to apply a downward adjustment of $525,364 to NFGD's claimed payroll expense.

E. Membership Dues Expense

1. Positions of the Parties

NFGD anticipated $234,266 for the Company's costs for membership in certain organizations. According to NFGD, membership in such organizations will, *inter alia*: (1) directly benefit ratepayers by promoting strong and resilient communities within its service territory; (2) help retain and attract commercial and industrial use of natural gas through economic growth, thereby allowing fixed system costs to be spread out over greater usage and aiding to moderate upward pressure on rates; and (3) ensure energy infrastructure, safety, and reliability considerations are incorporated into local growth planning, thereby reducing long term system risks and costs. Accordingly, NFGD submitted that all stakeholders, including small businesses and the residents, will benefit from building stronger communities through economic stability and affordable, reliable service over the long term. NFGD M.B. at 30-31 (citing NFGD St. 3-R at 8; NFGD Exh. ATF-1, Sch 1).

I&E's witness, Mr. Keller, testified that NFGD's claimed membership dues expense of $234,266 includes payments to civic and community organizations and other

membership dues where NFGD did not provide sufficient support that membership in such organizations is necessary to provide safe and reliable service to ratepayers. Further, Mr. Keller noted that the Commission recently agreed with the OCA regarding the exclusion of membership dues in rates related to business network advocacy groups, fraternal, social service clubs, and chambers of commerce. Thus, Mr. Keller proposed a downward adjustment to NFGD's claimed membership dues expense. Specifically, Mr. Keller recommended an allowance for membership dues based on the exclusion of: (1) $12,500 for Erie Downtown Development Corporation (EDDC); (2) $2,813 for Penn-Northwest Development Corp. (PNDC); (3) $1,842 for Edison Electric Institute; (4) $1,250 for Common Ground Alliance; (5) $1,185 for Erie Club; (6) $693 for Independent Oil & Gas Association of New York; (7) $500 for Pittsburgh Region Clean Cities; (8) $500 for Clarion County Economic Development (CCED); (9) $500 for Shenango Valley Chamber of Commerce; and (10) $185 for Other. [$12,500 + $2,813 + $1,842 + $1,250 + $1,185 + $693 + $500 + $500 + $500 + $185 = $21,968]. Accordingly, I&E recommended an allowance of $212,298, or a downward adjustment of $21,968, to NFGD's claim for membership dues expense. [$234,266 - $21,968 = $212,298]. I&E St. 1-SR at 16-19; I&E St. 1 at 19-20 (citing I&E Exh. Sch. 4; NFGD Exh. ATF-1, Sch. 1; *Columbia Gas 2025* at 157-58).

The OCA proposed a downward adjustment of $17,000 to NFGD's claim for membership dues related to economic development organizations. The OCA's witness, Mr. Morgan, testified that he reviewed the websites for EDDC, PNDC, and the CCED. According to Mr. Morgan, these organizations: (1) are not focused on employee development; (2) are not related to utility operations; (3) have little to do with providing service to current ratepayers; and (4) are more closely aligned with building a corporate image. Mr. Morgan continued: "[E]conomic development is not a function of a public utility, so it is not appropriate to recover these costs from ratepayers." Further, Mr. Morgan argued that contrary to NFGD's argument otherwise, local governments perform economic growth and planning functions without the Company's membership in

such organizations because part of a utility's function is to stay abreast of local development initiatives in order to gain new customers. Accordingly, the OCA submitted that economic development fees are more related to charitable contributions than economic development and, therefore, the Company's inclusion of such costs in the cost of service should be rejected. OCA M.B. at 18-19 (citing OCA St. 2SR at 21-22; OCA St. 2 at 20-21; OCA Exh. LKM-15-A-SR; NFGD St. 3-R at 8).

The OSBA submitted that the Company's claim should be disallowed in its entirety. According to the OSBA, membership dues expenses do not directly contribute to the provision of safe, adequate, and reliable utility service. Further, the OSBA contended that membership in trade associations and industry organizations often provides benefits that are promotional, lobby-related, or otherwise primarily advantageous to the utility company and its shareholders. Moreover, the OSBA argued that small business consumers should not be required to fund costs that are not necessary for utility operations. Accordingly, the OSBA submitted that membership dues expense should be excluded from rates to ensure that customers pay only for costs that are prudent, reasonable, and directly related to providing utility service. OSBA M.B. at 8-9.

2. Recommended Decision

The ALJ was persuaded by the arguments of the opposing Parties that the Company's claim for membership dues does not benefit ratepayers or improve safety and reliability. The ALJ concluded that such expenses are a form of employee benefit that produces goodwill for the Company but does not provide a ratepayer benefit. Moreover, the ALJ found that civic and local organization membership dues do not benefit ratepayers or improve the safety and reliability of providing natural gas service, sufficient to justify requiring ratepayers to pay for such membership dues. Accordingly, the ALJ recommended that the Commission disallow all of the Company's claimed membership

dues expense.[49] Thus, as shown in Appendix A-Table II of the Recommended Decision, the ALJ recommended a reduction of $234,266. R.D. at 151.

3. NFGD Exception No. 6 and Replies

In its Exception No. 6, NFGD disputes the ALJ's recommended complete disallowance of the Company's claimed membership dues expense. NFGD notes that both I&E and the OCA proposed downward adjustments of $21,968 and $17,000, respectively. However, NFGD argues that the ALJ's recommendation is based on an adjustment proposed by the OSBA for the first time in its Main Brief and is not supported by substantial evidence. NFGD avers that, essentially, the OSBA waived its opportunity to challenge membership fees expense by not raising such a challenge prior to the briefing stage of the proceeding. NFGD Exc. at 23-24 (citing NFGD St. 3-R at 8; NFGD Exh. ATF-1, Sch 1; *Pa. PUC v. Pa. Power & Light Co.,* Docket Nos. R-822169, *et al.*, 57 Pa. PUC 559, 596-97 (Order entered August 19, 1983); *Hess v. Pa. PUC*, 107 A.3d 246, 266 (Pa. Cmwlth. 2014); *Shenandoah Suburban Bus Lines, Inc.*, 46 A.2d 26 (Pa. Super. 1946); *Mid-Atlantic Power Supply Ass'n v. PECO Energy Co.*, Docket Nos. P-00981615, *et al.*, 1999 Pa. PUC LEXIS 30, at *54-55 (Order entered May 19, 1999)).

NFGD also argues that it provided sufficient evidence rebutting the OCA's and I&E's proposed adjustments to membership fees expense. Further, NFGD contends that the OCA and I&E failed to account for the positive impacts that the Company's participation in community and development organizations have on the Company's customers and the communities it serves. Moreover, NFGD argues that the record in this case supports that membership fees expense enables the Company to operate more

[49] As discussed above, only the OSBA proposed a complete disallowance of NFGD's claimed membership dues expense. *See* OSBA M.B. at 8-9.

effectively in the communities it serves. Furthermore, NFGD avers that the Commission has previously allowed recovery of chamber of commerce dues in rates. Thus, NFGD submits that a complete disallowance of membership fees expense is improper. Additionally, NFGD submits that the adjustments proposed by I&E and the OCA should be rejected. NFGD Exc. at 24-25 (citing NFGD R.B. at 11-12; NFGD M.B. at 30-31; *Pa. PUC, et al. v. The Columbia Water Company*, Docket No. R-2008-2045157, *et al.* (Opinion and Order entered June 10, 2009) (*Columbia Water 2009*); *Pa PUC, et al. v. Pennsylvania-American Water Company*, Docket Nos. R-00943231, *et al.* (Opinion and Order entered July 24, 1995) (*PAWC 1995*)).

In reply, I&E defends the ALJ's finding that all membership dues expenses should be removed from rates. I&E reiterates its claim that NFGD has not provided adequate support that dues for membership in civic and other community organizations are necessary to provide safe and reliable service to the Company's ratepayers. Further, I&E argues that the Parties provided sufficient testimony for the disallowance of membership dues where NFGD, as the bearer of the burden of showing a benefit to the ratepayers, has failed to do so. Moreover, I&E contends that the record evidence supports the ALJ's recommendation to remove all membership dues from rates because NFGD did not meet its burden of proving otherwise. Accordingly, I&E submits that the Commission should reject NFGD's Exception No. 6. I&E R. Exc. at 10-12 (citing R.D. at 17, 150-51, FOF Nos. 46-50; I&E Exh. 1, Sch. 4 at 3).

In reply, the OCA agrees with the ALJ's determination that the record does not support the Company's claim that membership dues provide a benefit to ratepayers or improve safety and reliability. The OCA maintains that NFGD's claim for $17,000 related to membership in economic development organizations should be removed from the cost of service. Further, the OCA argues that the cases relied upon by NFGD in its Exceptions do not negate the fact that none of the organizations in which the Company seeks recovery of membership dues are focused on employee development or related to

utility operations. OCA R. Exc. at 17-18 (citing R.D. at 151; NFGD Exc. at 24-25; OCA M.B. at 18; *Columbia 2009*; *PAWC 1995*).

The OCA maintains that its witness, Mr. Morgan, testified that he reviewed the websites for the EDDC, the PNDC, and the CCED, and found that it is not appropriate to recover costs for membership in these organizations from ratepayers. Mr. Morgan testified that membership in these organizations "has very little to do with providing service to current ratepayers and is more closely aligned with corporate image building … [and] economic development is not a function of a public utility." Further, the OCA reiterates Mr. Morgan's assertion that local governments perform such functions without the Company's membership in these organizations, in part, because one function of a utility is to stay abreast of local development initiatives in order to gain new customers. Moreover, the OCA maintains its claim that NFGD's economic development fees are more related to charitable contributions than economic development. Thus, the OCA submits that the ALJ correctly recommended that the Company's claim for membership dues be denied because NFGD has not provided substantial evidence that membership dues are necessary for the provision of utility service. OCA R. Exc. at 18-19 (citing OCA R.B. at 11-12; OCA M.B. at 18-19; OCA St. 2SR at 21-22; OCA St. 2 at 21).

In reply, CAUSE-PA concurs with the ALJ's recommendation that the Commission disallow NFGD's request to recover membership dues for local chambers of commerce, economic development, corporations, and other member organizations. CAUSE-PA defends the ALJ's conclusion that paying membership dues: (1) does not benefit ratepayers; (2) does not improve reliability or safety; and (3) are a form of employee benefit that produces goodwill for the Company. Further, CAUSE-PA posits that any increase in rates will exacerbate energy insecurity across NFGD's service territory, as the Company's low income customers are struggling to afford gas service under existing rates. Moreover, CAUSE-PA echoes the OCA's position that membership

in economic development corporations is more aligned with corporate image building than providing service to current ratepayers. In CAUSE-PA's view, the ALJ properly recognized that NFGD is asking too much of its customers who already struggle to afford to maintain gas service. Therefore, CAUSE-PA urges the Commission to deny NFGD's Exception No. 6. CAUSE-PA R. Exc. at 19 (citing R.D. at 151; OCA M.B. at 18-19).

4. Disposition

We shall grant NFGD's Exception No. 6, in part, and deny it, in part. We agree with the ALJ, and the arguments articulated by I&E and the OCA in their testimonies and briefs, that the Company's claim regarding civic and economic development organization membership dues does not represent a benefit to ratepayers or improve the safety and reliability of ratepayers. R.D. at 151; I&E St. 1 at 19; OCA St. 2 at 20-21. However, we disagree with the ALJ's recommendation to disallow *all* of NFGD's claimed membership dues expense. We find that there is a lack of substantial evidence to support this recommendation. Therefore, we shall reject the ALJ's recommendation to completely disallow all of the Company's membership fees expense. However, NFGD's Exception No. 6, as it relates to the Company's contention that *all* of its claim for membership dues represents a direct benefit to ratepayers and ensure safe and reliable utility service to ratepayers, is denied.

To the extent that NFGD argues that all of its claim for membership fees represent a direct benefit to ratepayers and ensure safe and reliable utility service, we find the arguments of I&E and the OCA, as articulated in their briefs and the testimonies of their respective witnesses, Mr. Keller and Mr. Morgan, more compelling. Specifically, I&E's witness, Mr. Keller, testified that NFGD did not provide adequate support that its memberships related to several civic and community development organizations, including chambers of commerce, economic development, and chambers of business and industry, is necessary to provide safe and reliable service to ratepayers. I&E St. 1-SR at

18-19; I&E St. 1 at 19. Similarly, the OCA's witness, Mr. Morgan, testified that membership dues associated with economic development organizations: (1) are not focused on employee development or related public utility operations or functions; and (2) has very little to do with providing service to current ratepayers. OCA St. 2 at 20-21.

We concur with the testimonies of Mr. Morgan and Mr. Keller. To the extent that NFGD argues that it provided "ample evidence" to rebut I&E and the OCA's proposed adjustments to membership fees expense, we disagree. NFGD Exc. at 24. Indeed, absent testimony and evidence that there is any direct benefit to ratepayers, NFGD should not be permitted to recover costs for membership in civic and economic development organizations.

Furthermore, as noted by Mr. Keller, the Commission recently agreed with the OCA regarding the exclusion of membership dues in rates related to business network advocacy groups, fraternal, social service clubs, and chambers of commerce. I&E St. 1-SR at 18; I&E St. 1 at 20-21 (citing *Columbia Gas 2025* at 157-58). Therefore, consistent with this recent Commission decision and given our discussion above, we shall adopt I&E's recommended allowance for membership dues of $212,298. Thus, this results in a final downward adjustment of $21,968 to the Company's claim.[50] Accordingly, NFGD's Exception No. 6, as it relates to the Company's contention that all of its claim for membership dues represent a direct benefit to ratepayers and ensure safe and reliable utility service to ratepayers, is denied.

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[50] As discussed, *supra*, I&E proposed a downward adjustment for membership dues of $21,968, based on the exclusion of: (1) $12,500 for EDDC; (2) $2,813 for PNDC; (3) $1,842 for Edison Electric Institute; (4) $1,250 for Common Ground Alliance; (5) $1,185 for Erie Club; (6) $693 for Independent Oil & Gas Association of New York; (7) $500 for Pittsburgh Region Clean Cities; (8) $500 for CCED; (9) $500 for Shenango Valley Chamber of Commerce; and (10) $185 for Other. I&E St. 1-SR at 16-17 (citing I&E St. 1 at 18-20).
[$12,500 + $2,813 + $1,842 + $1,250 + $1,185 + $693 + $500 + $500 + $500 + $185 = $21,968].

As such, reflective of our granting, in part, and denial, in part, of NFGD's Exception No. 6, we shall adopt I&E's recommendation to apply a downward adjustment of $21,968 to NFGD's claimed expense for membership fees of $234,266, to reflect a total allowance for membership fees expense of $212,298 for NFGD in the FPFTY. [$234,266 – $21,968 = $212,298].

F. Customer Payment Transaction Costs

1. Positions of the Parties

The OCA's witness, Ms. LeeAnn Wise, opposed the requirement that residential customers pay an additional fee for commonly accepted payment methods of paying by credit or debit card, or making a payment over the phone. Ms. Wise argued that such fees "have a discriminatory impact" on customers who often need to make a last-minute payment to avoid service termination. OCA St. 5 at 15-16. Thus, Ms. Wise proposed that the Company transition to a fee-free payment system, thereby allowing customers to use a broad range of payment options without incurring a fee. Further, Ms. Wise testified that a more reasonable alternative to third party contracts for electronic payment processing is to require the Company to investigate lower cost payment processing options. Ms. Wise continued:

> Reasonable and practical payment processing costs, similar to how the handling cost for checks sent through the postal service are treated, should be included in the overall revenue requirement. It is also likely that eliminating payment fees will encourage more customers to adopt online payment methods. Increased use of electronic payments may improve the Company's cash flow because these payments are

> credited to customer accounts more quickly and require less processing than mailed checks handled by NFGD or its agent.

OCA St. 5 at 16-17. Accordingly, the OCA proposed an upward adjustment to operating expenses of $930,000, to reflect customer bill payment transaction fees that are absorbed by NFGD, for customers who pay their bills by credit card, debit card, Venmo, and PayPal.[51] OCA M.B. at 19 (citing OCA St. 2 at 21; OCA Exh. LKM-16-A).

NFGD contended that the OCA provided no data to support that its proposed $930,000 adjustment reflects an accurate forecast of the cost to transition to implement a fee-free payment structure. Further, NFGD noted that the OCA's proposed adjustment is slightly less than the processing fees paid by customers in 2025. Moreover, NFGD contended that whether the Company should absorb payment processing fees is at the discretion of Company management and requires: (1) negotiating a reasonable rate with the Company's third party vendor; (2) performing any system changes required to implement the change; and (3) anticipating any growth in the adoption of online payments by customers if fees are eliminated. NFGD M.B. at 31-32 (citing NFGD St. 17-R at 37-38; OCA St. 2 at 21; OCA St. 5 at 17; OCA Exh. LMW-3).

The OSBA argued that the Commission should disallow the recovery of customer payment transaction costs, to the extent that such costs arise from the methods of collecting payments and conducting its business expenses. Further, the OSBA contended that such expenses are administrative and discretionary in nature and, therefore, should be managed by the Company rather than passed on to ratepayers.

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[51] We note that the OCA's Exhibit LKM-16A-SR shows a proposed upward adjustment to operating expenses of $930,000 applied to customer payment transaction costs for the FPFTY. *See* OCA Exh. LKM-16A-SR. We further note that Appendix A-Table II of the OCA's Main Brief depicts a proposed upward adjustment of $930,000 to "Include Customer Payment Transaction Costs" applied to the OCA's total proposed expense adjustments. *See* OCA M.B. at Appendix A-Table II.

Moreover, the OSBA argued that allowing the recovery of such costs reduces the Company's incentive to control expenses and shifts ordinary business risks onto ratepayers. Accordingly, the OSBA submitted that customers should not be responsible for charges that are not essential for the provision of safe and reliable utility service at a time when small businesses are struggling with rising costs. OSBA M.B. at 9.

CAUSE-PA supported the OCA's recommendation that NFGD transition to a fee-free payment system that enables customers to pay their bills through a broad range of payment options, including online payments, without a payment fee. CAUSE-PA noted that NFGD customers that made payments by means other than mailing a check or automated payment from a checking account were required to pay additional fees totaling $815,559 and $930,384 in 2024 and 2025, respectively. Further, CAUSE-PA argued that such fees are burdensome for low income customers who often need to make last-minute payments to avoid service termination. Moreover, CAUSE-PA posited that eliminating such fees could lead to increased adoption of online payment methods, which, in turn, may yield operational benefits, including reduced costs for billing, improved payment timeliness, and lower collection-related expenses. Accordingly, CAUSE-PA submitted that the Commission should require NFGD to transition to a fee-free payment system, commencing with the effective date of rates in this proceeding. CAUSE-PA M.B. at 34-35 (citing OCA St. 5-SR at 13; OCA St. 5 at 16).

2. Recommended Decision

The ALJ was persuaded by the claims of the OCA, the OSBA, and CAUSE-PA. The ALJ recommended that the Commission disallow the recovery of

$930,000 in customer payment transaction costs.[52] Additionally, the ALJ recommended that the Commission require NFGD to transition to fee-free payments for residential customers within six months of the effective date of rates in this proceeding. R.D. at 153.

3. Exceptions and Replies

a. NFGD Exception No. 9 and Replies

In its Exception No. 9, NFGD objects to the ALJ's recommendation that the Company absorb customer payment transaction fees. NFGD states that the ALJ's finding requires corrections to match the record in this proceeding. Specifically, NFGD notes that: (1) it never requested recovery of customer payment transaction costs; (2) the OCA proposed: (a) that the Company transition to fee-free payments for its residential customers; (b) that the Company absorb those costs in base rates; and (c) a $930,000 increase to O&M expenses. Moreover, NFGD notes that the ALJ: (1) recommended the adoption of the OCA's proposal that the Company transition to fee-free payments; (2) recommended the denial of the Company's recovery of customer payment transaction costs; and (3) included the OCA's proposed $930,000 adjustment in the overall recommended revenue increase, as detailed in Appendix A-Tables I and II of the Recommended Decision, which contradicts the ALJ's findings. Thus, NFGD submits that it is unreasonable to require the Company to provide fee-free online payments, while simultaneously denying the recovery of those costs. NFGD Exc. at 29-30 (citing R.D. at 153; NFGD St. 17-R at 37; OCA St. 2 at 21).

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[52] We note that Table II in Appendix A of the Recommended Decision shows a total *upward* adjustment to customer payment transaction fees expense for the FPFTY of $930,000. *See* R.D. at Appendix A-Table II. As discussed in our disposition of this section, it is unclear why the ALJ explicitly recommended a "disallowance of $930,000" in the body of the Recommended Decision. *See* R.D. at 153.

NFGD maintains its position that the OCA: (1) failed to demonstrate that its proposed $930,000 upward adjustment reflects an accurate forecast of the cost to transition to and implement a fee-free payment structure; (2) proposed an adjustment that is slightly less than the $930,834 in processing fees paid by customers in 2025;[53] and (3) acknowledged that eliminating payment fees will encourage more customers to adopt online payment methods. Further, NFGD challenges the basis and reasonableness of the OCA's proposed adjustment. Moreover, NFGD remains of the opinion that developing an accurate sales forecast of the costs requires the consideration of: (1) negotiating a reasonable rate with the Company's third party vendor; (2) performing any system changes required to implement the change; and (3) anticipating any growth in the adoption of online payments by customers if fees are eliminated. NFGD Exc. at 30-31 (citing NFGD St. 17-R at 37-38; OCA St. 5 at 17; OCA Exh. LMW-3; *NRG Energy, Inc. v. Pa. PUC*, 233 A.3d 936, 950 (Pa. Cmwlth. 2020)).

NFGD also notes that in *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2023-3037933 (Opinion and Order entered November 9, 2023) (*PGW 2023*), the Commission found that: (1) no provision of the Code or the Commission's Regulations, Orders, or policies prohibited Philadelphia Gas Works (PGW) from collecting credit card processing fees; (2) the OCA failed to provide substantial evidence that credit card fees should be shared among all residential customers rather than the individual customers; and (3) PGW offered multiple fee-free payment options. NFGD argues that in the instant proceeding: (1) the OCA has not identified any authority prohibiting the Company from offering online payment options with third party processing fees; (2) the OCA has not provided sufficient support for its projected budget for credit card processing fees; and (3) the Company already offers multiple fee-free payment options, including: (a) two in-person payment drop boxes; (b) automatic online payments; and (c) one-time fee-free

[53] *See* NFGD Exc. at 30, n.134 (citing OCA Exh. LMW-3).

online payments. NFGD Exc. at 31-32 (citing NFGD St. 17-R at 36-37; OCA Exh. LMW-3; *PGW 2023* at 110).

NFGD also argues that if the Commission were to require the Company to absorb customer payment transaction fees, then the Company would have a right to seek rate recovery of all expenses reasonably necessary to provide service to its customers. Further, NFGD disagrees with the assertion of the OCA's witness, Ms. Wise, that online payment fees "have a discriminatory impact" on customers who often need to make a last-minute payment to avoid service termination. Moreover, NFGD contends that utilities are not prohibited from collecting credit card processing fees. Accordingly, NFGD submits that the ALJ's recommendations regarding customer payment transaction fees should be rejected. NFGD Exc. at 32 (citing *PGW 2023* at 110; *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)).

In reply, I&E notes that it took no position on the issue of customer payment transaction fees. However, I&E also notes that it does not oppose the ALJ's recommendation and the OCA's position. Thus, I&E posits that the Commission should reject NFGD's Exception No. 9. I&E R. Exc. at 13 (citing R.D. at 151).

In its Replies to Exceptions, the OCA defends the ALJ's recommendation: (1) that the Company absorb customer payment transaction fees; (2) that the Commission disallow $930,000 in recovery of customer payment transaction costs; and (3) that the Commission direct NFGD to eliminate customer payment transaction fees. The OCA states that the ALJ's recommendation is reasonable and supported by substantial record evidence. Further, the OCA notes that the recommended $930,000 disallowance is based on the actual transaction fees paid by the Company's customers in 2025, meaning that any other amount would not be based on the FPFTY. Moreover, the OCA opposes NFGD's argument challenging the accuracy of the OCA's forecast of the costs required

to transition to fee-free payments. The OCA counters that it is unreasonable and unnecessary for the OCA to provide an accurate forecast for purposes of the instant rate case, as the actual transaction fees paid by the Company's customers in 2025 are the basis for the OCA's recommendation. Furthermore, the OCA disagrees with NFGD's reliance on *PGW 2023* in support of its position. The OCA counters that in 2026, a significant concern for ratepayers is rate affordability and high inflation. OCA R. Exc. at 21-22 (citing NFGD Exc. at 30-31; R.D. at 153; OCA R.B. at 57-59; OCA M.B. at 106-07; OCA St. 5 at 16).

In its reply, CAUSE-PA defends the ALJ's recommendation that the Commission require the Company to transition to fee-free payments for residential customers. In CAUSE-PA's view, the ALJ properly concluded that requiring customers to pay fees for paying by electronic payment methods is unjust and unreasonable rate discrimination. Further, CAUSE-PA echoes the OCA's averment that requiring payment fees for online transactions has a discriminatory impact on lower income and fixed income customers who often need to make last-minute payments to maintain service. Moreover, CAUSE-PA states that the ALJ considered the record evidence and concluded that the Commission should require the Company to transition to fee-free payments for residential customers. Accordingly, CAUSE-PA contends that the Commission should adopt the ALJ's recommendation to require NFGD to transition to fee-free payments for residential customers within six months of the effective date of rates in this proceeding and should deny NFGD's Exception No. 9. CAUSE-PA R. Exc. at 22 (citing R.D. at 153, 413).

b. NFGD Exception No. 12 and Replies

In its Exception No. 12, NFGD requests that the Commission clarify or correct the Recommended Decision to the extent that the ALJ recommended the denial of the recovery of costs related to customer payment transactions but appears to have

included an upward adjustment to the Company's expenses for customer payment transactions in the recommended rate increase, as set forth in Appendix A-Tables I and II of the Recommended Decision. NFGD Exc. at 34-35 (citing R.D. at 153, 413, COL No. 59).

In reply, I&E requests that the Commission clarify certain recommendations. I&E R. Exc. at 15 (citing NFG Exc. at 34-35; R.D. at 220-21).

In its reply, the OCA maintains its agreement with the ALJ's recommendation to disallow $930,000 in recovery of customer payment transactions and to eliminate payment transaction fees. However, the OCA states that the ALJ failed to memorialize this recommendation in the recommended ordering paragraphs of the Recommended Decision. Further, the OCA agrees with NFGD that Appendix A of the Recommended Decision appears to contradict the ALJ's recommendation to disallow payment fees. Accordingly, the OCA submits that the Commission should issue ordering paragraphs, including the ALJ's recommendations that the Commission disallow $930,000 in recovery of customer payment transactions and that the Commission should further direct the Company to eliminate payment transaction fees. OCA R. Exc. at 25 (citing R.D. at 153, Appendix A; OCA M.B. at 106-07; OCA R.B. at 57-59).

c. OCA Exception No. 6 and Replies

In its Exception No. 6, the OCA, essentially, requests clarity on whether the ALJ accepted or rejected the OCA's proposal to eliminate payment fees for online and telephonic payments. As such, the OCA argues that the elimination of NFGD's payment fee for online and telephonic payments is necessitated by Conclusion of Law No. 59, which states as follows:

> 59. Requiring payment fees for customers to pay bills by electronic payment methods is unjust and unreasonable rate discrimination. 66 Pa.C.S. § 1304.

Additionally, the OCA reiterates its argument that customer bill payment fees have a discriminatory impact on fixed and lower income customers who often need to make a last minute payment to avoid service termination. Accordingly, the OCA submits that the Commission should adopt the elimination of customer payment transaction fees. OCA Exc. at 22-24 (citing R.D. at 377-79, 413; OCA R.B. at 58-59; OCA M.B. at 31-32, 106).

In reply, NFGD argues that the OCA is using its Exception No. 6 to adopt a new argument, claiming that failure to adopt its proposal would result in unjust and unreasonable rate discrimination. Specifically, NFGD points to the assertion of the OCA's witness, Ms. Wise, that payment transaction fees "have a discriminatory impact on fixed and lower income customers" who need to make last minute payments to avoid service termination. According to NFGD, Ms. Wise's assertion, essentially, does not support a finding that transaction fees for online payments are unreasonable or discriminatory. Moreover, NFGD restates its assertion that in *PGW 2023*, the Commission found that utilities are not prohibited from collecting credit card processing fees. Furthermore, NFGD argues that the Company does not require any customer to incur payment fees, and all customers who make payments using a fee-added payment method affirmatively select that option. Accordingly, NFGD submits that the Commission should reject the OCA's claim that customer transaction fees result in discriminatory service. NFGD R. Exc. at 14 (citing OCA Exc. at 22-24; OCA St. 5 at 16; *PGW 2023* at 110).

In reply, CAUSE-PA states that regardless of whether there is a specific adjustment to rates that accounts for customer payment transaction costs, the ALJ's recommendation is clear that the Commission order the Company to transition to fee-free

payment for residential customers within six months of the effective date of rates in this proceeding. As such, CAUSE-PA urges the Commission to adopt the ALJ's recommendation. CAUSE-PA R. Exc. at 24 (citing R.D. at 153).

4. Disposition

At the outset, we will address the claims of NFGD and the OCA regarding inconsistencies and ambiguities in the Recommended Decision. Therefore, we shall: (1) grant, in part, and deny, in part, NFGD's Exception No. 9; (2) grant the portion of NFGD's Exception No. 12 related to its arguments regarding customer payment transaction fees; and (3) grant the OCA's Exception No. 6, in part, and deny it, in part. As discussed earlier, the ALJ recommended that the Commission: (1) "disallow" the recovery of $930,000 in customer payment transaction costs; and (2) require NFGD to transition to fee-free payments for residential customers within six months of the effective date of rates in this proceeding. However, as noted, *supra*, a total *upward* adjustment to customer payment transaction fees expense of $930,000 is reflected in Appendix A-Table II of the Recommended Decision. It is unclear why the ALJ, in the body of the Recommended Decision, explicitly recommended a *disallowance* of $930,000 in customer payment transaction costs while, simultaneously, a total *upward* adjustment to customer payment transaction fees expense of $930,000 is reflected in Appendix A-Table II of the Recommended Decision. *See* R.D. at 153, Appendix A-Table II. Notwithstanding, as discussed in more detail below, we agree with the OCA's proposed *upward* adjustment of $930,000, set forth in its briefs and testimonies, to reflect customer bill payment transaction fees that are absorbed by NFGD.[54] Further,

[54] In its Replies to Exceptions, the OCA appears to have shifted its position such that it advocates disallowing the Company the ability to recover customer payment transaction costs that result from requiring NFGD to transition to fee-free payments for its residential customers. However, as noted, *supra*, the OCA, in its briefs and testimonies, proposed an *upward* adjustment to NFGD's operating expenses of $930,000, associated with the recovery of customer payment transaction costs.

to the extent that the ALJ recommended that NFGD transition to fee-free payments for residential customers within six months of the effective date of rates in this proceeding, we agree with the arguments articulated by the OCA and CAUSE-PA in their testimonies and briefs. R.D. at 153; OCA St. 5 at 16; CAUSE-PA M.B. at 35. *See* OCA Exc. at 22-24 (citing R.D. at 413).

To the extent that NFGD challenges the basis and reasonableness of the OCA's proposed $930,000 *upward* adjustment, we find the arguments of the OCA, as articulated in its briefs and testimonies, more compelling. The basis for the OCA's proposed adjustment of $930,000 to operating expenses is NFGD's actual customer payment transaction fees paid by customers in 2025. Specifically, as noted by the OCA's witness, Ms. Wise, customer payment transaction fees resulted in $930,384 in 2025 for the commonly accepted payment methods of credit or debit card or using the call center. Ms. Wise also testified that eliminating payment fees may encourage more customers to adopt online payment methods and improve the Company's cash flows through faster and more efficient processing. OCA St. 5 at 16-17 (citing OCA Exh. LMW-3). In surrebuttal, Ms. Wise continued as follows:

> The existence of alternative payment methods does not eliminate the burden imposed on customers who must use more immediate payment channels, particularly customers facing financial hardship or risk of service termination. Customers with limited banking access, transportation barriers, irregular work schedules, or urgent payment needs may not always be able to utilize [NFGD's] preferred fee-free methods. As a result, payment processing fees can operate as an additional financial burden on customers who are already struggling to maintain service. [NFGD] does not dispute that customers have collectively incurred substantial payment processing fees, nor does it argue that eliminating such fees could increase adoption of electronic payment methods. Increased electronic payment usage may also yield operational benefits, including reducing billing costs,

> improved payment timeliness, and lower collection-related expenses.
>
> Finally, [NFGD's] acknowledgement that eliminating fees could increase electronic payment participation further supports evaluation of a fee-free payment structure, particularly where such changes may enhance both customer experience and efficiency. For these reasons, the recommendation to evaluate payment processing fees remains reasonable and appropriate.

OCA St. 5-SR at 13-14. We concur with Ms. Wise's testimony and shall thereby grant the OCA's Exception No. 6, in part, and deny it, in part. Indeed, as noted by CAUSE-PA, eliminating such fees could lead to increased adoption of online payment methods, thereby reducing costs for billing, improving payment timeliness, and lowering collection-related expenses. Accordingly, we shall deny, in part, NFGD's Exception No. 9, to the extent that NFGD disputes the ALJ's recommended $930,000 *upward* adjustment to customer payment transaction fees expense. Therefore, we shall adopt the ALJ's recommended $930,000 *upward* adjustment to the Company's claimed customer payment transaction costs, as detailed in Appendix A-Table II of the Recommended Decision. In doing so, we shall grant NFGD's Exception No. 9, in part, and shall grant the portion of NFGD's Exception No. 12 related to its arguments regarding customer payment transaction fees by clarifying that an *upward* adjustment of $930,000 shall be made to the Company's total claimed O&M expenses, as opposed to disallowing the Company the opportunity to recover the costs associated with this expense.

G. Depreciation Expense

1. Positions of the Parties

The principal dispute surrounding NFGD's claimed depreciation expense concerned the depreciation procedure used to calculate the Company's annual

depreciation accruals. NFGD claimed approximately $25.3 million in depreciation expense for the FPFTY and calculated that expense using the straight-line remaining-life method with the ELG procedure, discussed in Section V.B, *supra*, which the Company has used for decades. Under ELG, the survivor curve determines the percentage of property within an account attributable to each equal life group, and depreciation is calculated based on the expected life of those respective groups. By comparison, under the ASL, also referred to as the ALG procedure, depreciation expense for all property in an account is calculated using the average service life of the entire account. R.D. at 19-20; NFGD St. 8-R at 7-8. As previously noted, the OCA proposed replacing ELG with ASL. The OCA's proposal would reduce NFGD's annual depreciation expense by approximately $4.67 million, from approximately $25.3 million to approximately $20.6 million. R.D. at 19-20; OCA St. 2 at 22; OCA St. 4 at 3.

The OCA's primary contention was that ELG accelerates or "front-loads" depreciation recovery relative to ASL, thereby requiring current customers to pay a greater portion of the cost of utility assets than the OCA considers appropriate. The OCA argued that both procedures ultimately permit recovery of the full cost of the assets, but differ materially in the timing of that recovery among generations of customers. Thus, according to the OCA, the lower depreciation expense produced by ASL would provide more reasonable rates to current customers and improve intergenerational equity by spreading recovery more evenly over the assets' service lives. The OCA also emphasized the significance of this issue during a period of substantial capital investment, when use of ELG can produce a higher annual depreciation expense. R.D. at 66-67; OCA St. 2SR at 2, 9.

NFGD disputed the premise that ASL provides a more equitable allocation of depreciation expense. Rather, the Company argued that ELG more accurately matches depreciation recovery with the actual consumption of utility assets because assets within an account do not all retire at the account's average service life. NFGD observed that, in

actual utility operations, only a small percentage of the property in a plant account will retire precisely at the average service life. According to NFGD, ELG recognizes this dispersion by grouping assets according to expected lives and allocating depreciation expense over the life of each equal life group, whereas ASL effectively treats all assets within the account as though they have the same service life. NFGD M.B., Appendix B at 19-20; NFGD St. 8-R at 7-8. NFGD therefore contended that ELG better matches cost recovery with the period in which the underlying assets are actually providing service and better ensures that customers using those assets bear the associated costs. R.D. at 20-21; NFGD St. 8-R at 4-5.

A related point of contention concerned the interaction between depreciation expense and rate base. While NFGD acknowledged that the ELG procedure produces a higher depreciation expense than ASL in the near term, the Company emphasized that accumulated depreciation is deducted from plant in service in calculating rate base. Consequently, NFGD highlighted, the lower annual depreciation expense produced by ASL would also cause accumulated depreciation to grow more slowly, thereby producing a higher rate base upon which NFGD earns a return. NFGD asserted that its longstanding use of ELG has therefore resulted in a lower rate base than would have existed had ASL historically been used. NFGD restated its assertion, *supra*, that switching to ASL now would allow current customers to obtain the short-term benefit of lower depreciation expense while also benefiting from the lower rate base produced by decades of ELG depreciation, with future customers eventually bearing the costs associated with the higher rate base produced under ASL. NFGD M.B., Appendix B at 20-21; NFGD St. 8-R at 16-17. NFGD supported this position with an approximately 25-year forecast comparing plant and depreciation reserve balances under continued ELG treatment and a conversion to ASL, which the Company maintained demonstrates that ASL ultimately results in higher customer rates and revenue requirements. R.D. at 98-100; NFGD St. 8-R at 16-17.

The Parties also disagreed over intergenerational equity. The OCA viewed the lower near-term depreciation expense under ASL as a more equitable allocation of costs between present and future customers because both ELG and ASL ultimately recover the same asset cost and differ primarily in the timing of recovery. R.D. at 20; OCA St. 2SR at 2, 9. NFGD took the opposite view, contending that a conversion after decades of ELG treatment would create an intergenerational subsidy to current customers because future customers would bear a greater return requirement associated with the higher rate base generated by slower depreciation. NFGD further argued that ELG appropriately charges customers for assets during the periods in which those assets are providing service, whereas ASL can defer recovery associated with shorter-lived assets beyond their actual service lives. NFGD R.B. at 18-19; NFGD St. 8-R at 16-17.

Finally, the Parties disputed the significance of the Commission's historical acceptance of ELG and its recent decision concerning the same issue in the *Columbia Gas 2025* proceeding. NFGD argued that the Commission has reviewed and accepted its ELG procedure for nearly forty years through periodic service-life studies and annual depreciation reports, including the Company's 2023 service-life study. NFGD argued that those approvals create the rebuttable presumption under 52 Pa. Code § 73.9(c) that its accrued depreciation is reasonable and that the OCA has not presented sufficient evidence to overcome that presumption. NFGD R.B. at 17-18; NFGD St. 8-R at 10-11. NFGD also relied heavily upon the Commission's decision in *Columbia Gas 2025*, rejecting a similar proposal to convert from ELG to ASL, particularly the Commission's conclusions that the apparent near-term benefit of ASL results from the transition between methods, that lower accumulated depreciation ultimately increases rate base, and that such a conversion can shift costs to future customers. NFGD R.B. at 18-19. The OCA, however, maintained that its evidence in this proceeding provides a sufficient basis to reconsider the continued use of ELG and that the Commission is not permanently bound to a previously accepted depreciation procedure. The resulting dispute, therefore, is not whether NFGD is entitled to recover

depreciation expense, but whether its depreciation expense claim of approximately $25.3 million should continue to be calculated under ELG or be reduced by approximately $4.67 million through adoption of the OCA's proposed ALG/ASL procedure. R.D. at 19-21.

2. Recommended Decision

The ALJ recommended rejecting the OCA's proposed $4.67 million reduction to NFGD's claimed depreciation expense and, instead, approving the Company's continued use of the straight-line remaining-life method with the ELG procedure. The ALJ recognized that NFGD's claimed depreciation expense totals approximately $25.3 million and that the principal dispute is whether annual depreciation accruals should continue to be calculated under ELG or be recomputed under the OCA's proposed ALG/ASL procedure. R.D. at 153-54; NFGD Exh. A - FPFTY (Rebuttal Update), Sch. B-2; OCA St. 4 at 3.

In addressing that dispute, the ALJ emphasized that the Commission is not permanently bound to any particular depreciation methodology. The ALJ cited 52 Pa. Code § 73.9(c), under which the most recent approved annual depreciation report or service-life study creates a rebuttable presumption as to the reasonableness of accrued depreciation, with the burden of demonstrating unreasonableness resting upon the challenging party. The ALJ further recognized that the Commission is not bound by a particular methodology in determining annual depreciation expense, but must calculate accumulated depreciation and annual depreciation expense on a reasonably consistent basis. R.D. at 65-66.

The ALJ considered the OCA's contention that the ELG procedure operates as a form of accelerated depreciation that places an excessive burden on current customers and that adoption of ALG would lower current depreciation expense while still

permitting NFGD to recover the full cost of its investment. In evaluating that argument, however, the ALJ relied substantially upon the Commission's recent treatment of the same ELG-versus-ASL issue in the *Columbia Gas 2025* proceeding. The ALJ observed that depreciation affects rates in two ways: (1) annual depreciation expense directly affects the revenue requirement; while (2) accumulated depreciation reduces rate base. Accordingly, the ALJ continued, although switching to ASL would lower depreciation expense in the near term, the lower accumulated depreciation resulting from that procedure would increase rate base and the associated return requirement over time. R.D. at 66-67.

The ALJ also accepted NFGD's argument concerning the longer-term and intergenerational consequences of changing depreciation procedures. Consistent with the Commission's *Columbia Gas 2025* analysis, the ALJ recognized that the short-term rate benefit associated with ASL results in significant part from changing procedures after years of using ELG. Because the existing accumulated depreciation reserve reflects longstanding ELG treatment, current customers would initially receive both the benefit of lower ASL depreciation expense and the benefit of the lower rate base produced by prior ELG depreciation. Over time, however, the slower accumulation of depreciation under ASL would produce a higher rate base and a higher overall cost to customers. The ALJ therefore recognized the potential for a change to ASL to operate as an intergenerational subsidy to current customers at the expense of future customers. R.D. at 66-67. Ultimately, the ALJ found NFGD's evidence more persuasive. Although the ALJ acknowledged that the OCA presented a reasonable argument for changing depreciation procedures, the ALJ concluded that the OCA had not presented sufficient evidence to overcome NFGD's contrary evidence or justify requiring the Company to depart from its longstanding ELG procedure. Accordingly, the ALJ concluded that NFGD was correct to continue using ELG and recommended against adoption of the OCA's ALG/ASL proposal. R.D. at 67.

The ALJ carried that conclusion directly into the operating expense determination. The ALJ stated that NFGD's calculation of annual depreciation expense and net salvage was prepared pursuant to procedures long accepted by the Commission and recommended allowing recovery of the unrecovered original cost of property over the life of the property as part of the cost of providing utility service. The ALJ expressly declined to adopt the OCA's proposed $4.67 million downward adjustment to depreciation expense, finding that the OCA had not supplied sufficient evidence to rebut NFGD's showing supporting continued use of ELG. R.D. at 153-54. Thus, read together, the ALJ's rate base and operating expense determinations recommended continued use of ELG, rejection of the OCA's $4.67 million ALG/ASL adjustment, and acceptance of NFGD's depreciation expense claim of approximately $25.3 million.

3. OCA Exception No. 1 and Replies

In its Exception No. 1, the OCA challenges the ALJ's recommended rejection of its proposed change from the ELG procedure to the ALG/ASL procedure and, consequently, the rejection of its downward adjustment of approximately $4.67 million to NFGD's annual depreciation expense. The OCA maintains that ELG front-loads depreciation recovery and requires current customers to bear unnecessarily high depreciation expense during the earlier years of an asset's service life. According to the OCA, this effect is particularly significant in the present proceeding because NFGD is in a period of elevated infrastructure investment that is expected to continue for at least the next decade. The OCA argues that adoption of the ALG procedure would reduce the immediate revenue requirement, while continuing to provide NFGD with full recovery of its prudent plant investment over the service lives of its assets. OCA Exc. at 1-4.

The OCA disputes the ALJ's reliance on the longer-term cost consequences asserted by NFGD. The OCA notes that NFGD's own analysis projects that customers would experience lower revenue requirements under ALG for approximately eleven years

before the projected crossover point in approximately 2037. The OCA characterizes eleven years of lower utility bills as a substantial benefit to customers, presently confronting affordability concerns, and contends that the ALJ placed too much weight on NFGD's longer-term projections, which depend upon assumptions concerning plant activity, retirements, and rates of return extending approximately twenty-five years into the future. In the OCA's view, the immediate reduction in depreciation expense is known and measurable, while the claimed future savings associated with ELG are inherently less certain. OCA Exc. at 4-7.

The OCA further argues that the ALJ gave insufficient weight to the time value of money and to the manner in which ELG allocates depreciation expense among generations of customers. The OCA maintains that the Remaining Life Technique used with ALG is self-correcting because over- or under-accumulations resulting from actual retirement experience are reflected in subsequent depreciation studies. The OCA also argues that the purported precision of ELG depends upon actual retirements occurring in accordance with the selected survivor curves and therefore does not eliminate intergenerational inequities. In addition, the OCA contends that NFGD's long-term comparison improperly treats future dollars as equivalent to current dollars and thereby understates the value to customers of receiving rate relief in the near term. OCA Exc. at 8-10.

Finally, the OCA argues that the prevalence of ALG in other jurisdictions provides persuasive support for its proposal. The OCA acknowledges that other jurisdictions' decisions are not controlling, but points to decisions from Indiana, Kentucky, and Arkansas that criticized the front-loaded effect of ELG, particularly during periods of increasing plant investment. The OCA also emphasizes that NFGD uses ALG in other jurisdictions in which it operates. Based upon these considerations, the OCA contends that the ALJ placed undue weight on a speculative long-term outcome and

requests that the Commission grant its Exception No. 1 and adopt the ALG/ASL procedure and the resulting depreciation expense adjustment. OCA Exc. at 11-13.

NFGD replies that the ALJ properly recommended the rejection of the OCA's proposed downward adjustment of approximately $4.67 million to the Company's depreciation expense and that continued use of ELG is consistent with the Commission's recent decisions in the *Columbia Gas 2025* and *PAWC 2026* proceedings. NFGD argues that the immediate reduction in depreciation expense advocated by the OCA results from changing depreciation procedures after decades of using ELG, rather than from any inherent superiority of ASL. According to NFGD, ELG more precisely matches depreciation recovery to the way utility assets are actually consumed and ensures that customers pay for plant while that plant is providing service. NFGD R. Exc. at 1-2.

NFGD further contends that the OCA focuses excessively on the immediate $4.67 million reduction in depreciation expense while disregarding the cumulative consequences of the proposed change. The Company asserts that, after approximately eleven years of lower depreciation expense, ASL would produce a rate base that is approximately $50 million greater than under ELG and would result in higher rates to future customers. NFGD also maintains that the OCA's proposal would reduce Company cash flow by approximately $4.7 million annually during a period of LPP replacement, requiring NFGD to obtain additional capital. In NFGD's view, these consequences demonstrate that the proposed immediate rate reduction would constitute an intergenerational subsidy to current customers, rather than a more equitable allocation of depreciation costs. NFGD R. Exc. at 3.

NFGD also rejects the OCA's arguments concerning the time value of money, Commission precedent, and practices in other jurisdictions. NFGD contends that the OCA's time value analysis considers the timing of depreciation recovery without recognizing the offsetting benefit customers receive from the lower rate base produced

through ELG. NFGD further argues that the Commission has reviewed and accepted the Company's use of ELG for nearly forty years through annual depreciation reports and periodic service-life studies. NFGD relies upon the Commission's recent *PAWC 2026* decision, in which the Commission declined to change depreciation procedures solely to achieve near-term rate mitigation where the record showed the change could increase long-term costs and shift responsibility to future customers. NFGD R. Exc. at 4-5. Finally, NFGD maintains that the use of ALG/ASL by other utilities or jurisdictions does not establish that the procedure should be adopted here, because other jurisdictions employ different depreciation parameters and regulatory approaches. Accordingly, NFGD requests that the OCA's Exception No. 1 be denied. NFGD R. Exc. at 5-6.

4. Disposition

Upon review of the record, the Recommended Decision, the OCA's Exception No. 1, and NFGD's Replies thereto, we agree with the ALJ that the record does not support requiring NFGD to change from its existing ELG procedure to the ALG/ASL procedure in this proceeding. Accordingly, we shall adopt the ALJ's recommendation and deny the OCA's proposed $4.67 million reduction to NFGD's depreciation expense. *See* R.D. at 153-54.

We recognize, as did the ALJ, that the OCA presented a reasonable argument in support of the ALG/ASL procedure. R.D. at 67. In particular, the OCA demonstrated that adopting ALG/ASL would reduce depreciation expense and the revenue requirement during the FPFTY and, according to NFGD's projection, would produce lower revenue requirements for approximately eleven years before a projected crossover point around 2037. OCA Exc. at 4-7. We are also mindful of the OCA's affordability concerns and its contention that the effect of ELG is amplified during NFGD's present period of substantial infrastructure investment. OCA Exc. at 2-4. These

considerations, however, do not establish that continued use of NFGD's existing ELG procedure produces unjust or unreasonable depreciation rates.

Depreciation must be evaluated based upon its effect on the revenue requirement as a whole. Depreciation expense is a direct component of the revenue requirement, but accumulated depreciation is also deducted from plant in service in determining rate base. Thus, reducing annual depreciation expense through a change to ALG/ASL also causes accumulated depreciation to grow more slowly and, consequently, produces a higher rate base upon which customers must provide a return. The record reflects that NFGD's longstanding use of ELG has produced a lower rate base than would have resulted had ASL historically been used. *See* NFGD R. Exc. at 2-3. As the Commission similarly recognized in the *Columbia Gas 2025* proceeding, the apparent near-term benefit of changing procedures must therefore be considered together with the corresponding effect on accumulated depreciation and rate base.

We are persuaded by NFGD's evidence that the immediate reduction advanced by the OCA results, at least in substantial part, from changing depreciation procedures after decades of using ELG. Current customers would initially receive the benefit of lower ALG/ASL depreciation accruals while simultaneously retaining the benefit of the lower rate base produced through NFGD's historical use of ELG. *See* NFGD R. Exc. at 2-3. On the other hand, NFGD's analysis further indicates that, after approximately eleven years, the slower accumulation of depreciation under ASL would result in a rate base that is approximately $50 million greater than under continued ELG treatment. NFGD R. Exc. at 3. We therefore agree with the ALJ that consideration of intergenerational equity cannot be limited to the immediate reduction in depreciation expense experienced by current customers; it must also account for the higher rate base and associated return requirements that would be borne by future customers. *See* R.D. at 66-67.

Next, we are not persuaded by the OCA's contention that this proceeding is sufficiently distinguishable from *Columbia Gas 2025* because its witness developed a reserve bringforward from September 30, 2025, through October 31, 2027, using the ALG methodology. OCA Exc. at 7-8. NFGD responds that this treatment addresses only the FTY and FPFTY portion of the conversion and does not restate the historical book reserves accumulated during the decades in which NFGD has used ELG. NFGD R. Exc. at 4. While we recognize that the OCA's reserve bringforward provides additional analysis which was not included in *Columbia Gas 2025*, we do not find that distinction sufficient to overcome the broader concerns regarding the interaction between annual depreciation expense, accumulated depreciation, rate base, and the allocation of costs between present and future customers.

Nor are we persuaded that the use of ALG/ASL in other jurisdictions requires a different result. The OCA acknowledges that those decisions are not binding but relies upon them as persuasive evidence that ALG/ASL is widely used and may be particularly appropriate during periods of significant infrastructure investment. *See* OCA Exc. at 11-12. NFGD responds that depreciation methodologies used in other jurisdictions may incorporate materially different parameters, including differences in whole-life versus remaining-life methodologies, net salvage treatment, and the nature of the underlying utility assets. NFGD R. Exc. at 5-6. Consistent with our treatment of this issue in *Columbia Gas 2025*, the prevalence of another procedure elsewhere does not, standing alone, establish that NFGD's existing ELG procedure is unreasonable or that the Commission should require a change on this record. The *Columbia Gas 2025* disposition likewise recognized the significance of differing depreciation parameters among jurisdictions.

We also recognize the OCA's emphasis on affordability and the time value of money. *See* OCA Exc. at 9-10. Those considerations are relevant to our evaluation, but they do not outweigh the evidence regarding the long-term rate base consequences of

changing depreciation procedures. Ratemaking necessarily requires consideration of both present customer impacts and the allocation of costs to future customers. We are not persuaded that a change in depreciation procedure is warranted principally because it would reduce the revenue requirement during the current test period and for a period thereafter where the record also demonstrates that the change would ultimately increase rate base and shift additional cost responsibility to future customers.

Finally, the record reflects that NFGD has used the ELG procedure for nearly forty years and that its depreciation rates have been subject to Commission review through annual depreciation reports and periodic service-life studies. NFGD R. Exc. at 5; NFGD St. 8-R at 10-11. Although historical use does not prevent the Commission from requiring a different depreciation procedure where supported by the record, it weighs against changing an established methodology, absent persuasive evidence that the existing procedure produces unreasonable results.

We further find that the regulatory framework governing depreciation supports continuation of NFGD's existing ELG procedure on this record. Pursuant to 52 Pa. Code § 73.9(c), the Company's most recent approved or deemed-approved depreciation report or service-life study gives rise to a rebuttable presumption concerning the reasonableness of accrued depreciation for ratemaking purposes. *See* R.D. at 65-66. NFGD's ELG procedure has been reflected in annual depreciation reports and periodic service-life studies reviewed by the Commission for nearly forty years, including the Company's 2023 service-life study. *See* NFGD R.B. at 17-18; NFGD St. 8-R at 10-11. Although this history does not foreclose the Commission from approving a different procedure upon an adequate evidentiary showing, we agree with the ALJ that the OCA has not demonstrated that NFGD's existing ELG procedure is unreasonable. The fact that ALG/ASL may also constitute a reasonable depreciation methodology does not, standing alone, establish that NFGD should be required to abandon its existing methodology.

We also consider it significant that annual depreciation expense and accumulated depreciation must be determined on a reasonably consistent basis. *See* R.D. at 65-66. While the OCA developed an ALG reserve bringforward for the FTY and FPFTY, NFGD explains that a complete conversion from ELG to ALG would require consideration of the historical book reserve accumulated during the period in which ELG has been used. NFGD R. Exc. at 4. Thus, although the OCA's analysis addresses one concern identified in the *Columbia Gas 2025* proceeding, it does not eliminate the broader ratemaking consequences associated with changing depreciation procedures after decades of ELG treatment.

Our conclusion is also consistent with the Commission's recent determination in the *PAWC 2026* proceeding that near-term affordability concerns, while important, do not warrant a change in depreciation procedure where the record demonstrates that the change may increase rate base, increase long-term costs, and shift cost responsibility to future customers. *PAWC 2026* at 165-66; NFGD R. Exc. at 5.

Therefore, based upon our review of the record, the Recommended Decision, the OCA's Exception No. 1, and the Company's Reply thereto, we agree with the ALJ that NFGD presented evidence outweighing the evidence presented by the OCA on this issue. We find that the record supports continued use of the ELG procedure as a reasonable means of matching depreciation recovery with the consumption of NFGD's utility assets, recognizes the corresponding effect of accumulated depreciation on rate base, and avoids shifting an undue portion of the costs associated with presently used assets to future customers. Accordingly, we shall adopt the ALJ's recommendation to reject the OCA's proposed change from the ELG procedure to the ALG/ASL procedure, deny the OCA's proposed $4.67 million reduction to NFGD's claimed depreciation expense, and deny the OCA's Exception No. 1.

H. Other Expense Adjustments

1. Charge Off Customer Accounts/Receivable Expense and Uncollectible Expense

a. Positions of the Parties

Initially, the OCA proposed removing NFGD's charge off customer accounts/receivable expense account from the cost of service to avoid costs that were duplicative of the costs included in the uncollectible expense account. In rebuttal, NFGD noted that there is no cross over between the Company's charge off customer accounts/receivable expense account and its uncollectible expense account. Consequently, the OCA withdrew its proposed adjustment to the Company's charge off customer accounts/receivable expense account. NFGD M.B. at 44; OCA St. 2SR at 12; OCA Exh. LKM-12A-SR.

Regarding uncollectible expense, the OCA recommended a downward adjustment of $73,000 based on the removal of a 0.02% management adjustment. OCA St. 2 at 18 (citing OCA Exh. LKM-13A). NFGD accepted the OCA's proposed adjustment, which resulted in a 1.53% uncollectible factor. NFGD M.B. at 48 (citing OCA St. 2 at 18).

b. Recommended Decision

The ALJ noted that the OCA withdrew its proposed adjustment concerning charge off customer accounts/receivable expenses based on NFGD's explanation in rebuttal that there is no cross over between this account and the Company's uncollectible expense account. Thus, the ALJ acknowledged that NFGD and the OCA agreed on the

OCA's proposal concerning charge off customer accounts/receivable expense and uncollectible expense. R.D. at 154, 159 (citing OCA St. 2 at 12).

c. Disposition

No Parties filed Exceptions to the ALJ's recommendation regarding charge off customer accounts/receivable expense and uncollectible expense. As the ALJ observed, the OCA withdrew its proposed adjustment concerning charge off customer accounts/receivable expenses based on NFGD's explanation in rebuttal that there is no cross over between this account and the Company's uncollectible expense account. Therefore, we shall note the agreement between NFGD and the OCA on this matter without further comment.

2. Inflation Adjustments

a. Office Employee Expense

(1) Positions of the Parties

NFGD claimed $2,000,000 in office employee expenses using a compound annual growth rate (CAGR) from Fiscal Year (FY) 2023 to FY 2025 of 3.67%. According to NFGD, office employee expenses include software, office equipment, and employee training/travel, all of which are subject to inflationary price increases. Further, NFGD noted that the actuals from the Historical Test Year (HTY) (*i.e.*, FY 2025) were the starting point for the O&M forecast used for both the FTY and the FPFTY, and the Company's approved budget for FY 2026 was a reference for known and measurable adjustments that were made for the FTY and FPFTY amounts. Moreover, NFGD averred that it will develop a budget for this expense using a zero-based budgeting approach at the appropriate time. Accordingly, NFGD submitted that

given the nature of its office employee expenses, actual recent price increases (*i.e.*, CAGR of 3.67%) were used to develop its projected office employee expense for the FPFTY. NFGD M.B. at 44-45 (citing NFGD St. 3-R at 3-5; NFGD Exh. ATF-2, Sch. 2).

The OCA objected to NFGD's proposal to increase office employee expenses by applying a CAGR of 3.67% to historical costs. The OCA's witness, Mr. Morgan, testified that NFGD's approach to increase in office employee expense: (1) is not consistent with the zero-based budgeting approach used by the Company for its operating budget; and (2) does not produce results that are representative of the cost that would be incurred in the FPFTY because there is no correlation of planned activities for the budget year and the underlying costs used to develop the budget. OCA St. 2 at 16. Further, Mr. Morgan disagreed with the Company's use of inflation escalation solely for projecting its FPFTY expenses. According to Mr. Morgan, the CAGR is not an inflation escalation rate because it: (1) captures the changes in expenses from two points in time; and (2) does not separate the change in the unit prices from changes in quantities. Moreover, Mr. Morgan contended that inflationary adjustments are not known and measurable because they are blanket cost increases. Furthermore, Mr. Morgan argued that if NFGD's intent was to capture inflation, then the annual inflation rate would have been more appropriate because it would capture changes each year rather than capturing changes from two points in time through the CAGR. Thus, Mr. Morgan submitted that costs should be based upon evidence or documentation that can be identified, supported, and calculated with certainty. Accordingly, the OCA proposed a downward adjustment to NFGD's claimed operating expenses of $64,000. OCA St. 2SR at 14-15; OCA Exh. LKM-10A-SR.

b. Postage Expense

(1) Positions of the Parties

NFGD claimed $1,500,000 in postage expense based on a three-year CAGR of 9.14% for postage rates for one ounce stamps that cost $0.60 and $0.78 between January 2023 and December 2025, respectively. NFGD noted that the United States Postal Service (USPS) continues to face financial challenges and warns of additional increases beyond July 2026. NFGD M.B. at 45 (citing NFGD St. 3-R at 6; NFGD ATF-2, Sch. 7).

The OCA proposed a downward adjustment of $175,000 to the Company's claimed postage expense, to remove the Company's application of the CAGR. The OCA argued that the Company's approach of using a CAGR for postage expense is speculative and "backward looking" during a period when the USPS implemented frequent rate increases that are not likely to be repeated. Further, the OCA's witness, Mr. Morgan, testified that, essentially, it would be inappropriate to use an escalation rate that is not known or certain. Thus, the OCA submitted that NFGD's claimed postage expense should be reduced by $175,000 to remove the CAGR. OCA St. 2SR at 15-16; OCA R.B. at 28 (citing OCA M.B. at 46; OCA St. 2 at 19; OCA Exh. LKM-14A-SR).

c. Recommended Decision

The ALJ concluded that NFGD failed to provide sufficient proof that its claims for Office Employees Expense and Postage Expense would lead to rates that are just and reasonable. Thus, the ALJ recommended the adoption of the OCA's proposed

downward adjustments of $64,000 in Office Employees Expense and $175,000 in Postage Expense, to remove the CAGR.[55] R.D. at 158-59.

d. NFGD Exception No. 11 and Replies

In its Exception No. 11, NFGD opposes the ALJ's recommendation and challenges the ALJ's reliance on the OCA's argument against the Company's use of a CAGR to project its Office Employee Expense and Postage Expense. NFGD reiterates its claim that office employee expense is primarily made up of software, office equipment, and employee training/travel, all of which are subject to inflationary price increases. Further, NFGD notes that its proposed CAGR adjustment is based on the actual price increases experienced between 2023 and 2025, and the OCA's proposed adjustment assumes that the prices will remain flat through the FPFTY. Moreover, NFGD contends that, essentially, the OCA's arguments regarding zero-based budgeting and the inclusion of certain items in the Company's adjustment are misrepresented. NFGD Exc. at 33-34, n.151 (citing R.D. at 158-59; NFGD R.B. at 22-23; NFGD M.B. at 45-46; NFGD St. 3-R at 5; OCA St. 1 at 10-13).

Regarding Postage Expense, NFGD maintains that its projection is based on the three-year CAGR of 9.14% for postage rates for one ounce stamps that cost $0.60 and $0.78 between January 2023 and December 2025, respectively. Further, NFGD argues that the OCA's proposed downward adjustment of $175,000 is unreasonable because it does not account for any increase to postage expenses after July 2026. Moreover, NFGD reiterates its claim that the USPS continues to face financial challenges and warns of additional increases beyond July 2026. Thus, NFGD

[55] We note that the ALJ's recommended adoption of the OCA's proposed downward adjustments of $175,000 in Postage Expense is reflected in Table II in Appendix A of the Recommended Decision. *See* R.D. at Appendix A-Table II.

submits that its use of CAGRs is appropriate and the ALJ's recommended disallowance should be rejected. NFGD Exc. at 34 (citing NFGD M.B. at 45-46).

In reply, I&E notes that it did not take a position other than to state that a utility is not entitled to recover expenses that are not reasonably or prudently incurred. Moreover, I&E contends that NFGD has the burden of showing that the expense requested is just and reasonable. Thus, I&E concurs with the ALJ that the Company failed to provide sufficient proof that such operating expenses would lead to rates that are just and reasonable. Accordingly, I&E submits that the Commission must reject NFGD's Exception No. 11. I&E R. Exc. at 14-15 (citing R.D. at 105-06).

In reply, the OCA defends the ALJ's recommendation to deny the Company's proposed adjustment to Office Employee Expense and Postage Expense. The OCA submits that the Commission should reject the Company's use of the CAGR because it is not a known and measurable approach. Further, the OCA reiterates its claim that NFGD's approach of applying a CAGR to historical costs: (1) is not consistent with the zero-based budgeting approach; and (2) does not produce results that are representative of the cost that would be incurred in the FPFTY because there is no correlation of planned activities for the budget year and the underlying costs used to develop the budget. Moreover, the OCA maintains that using an inflation escalation rate for projecting FPFTY expenses is inappropriate because: (1) a CAGR is not an inflation escalation rate and, if NFGD's intent was to capture inflation, then it should use the annual inflation rate; and (2) inflationary adjustments are not known and measurable because they are blanket cost increases. Thus, the OCA posits that costs should be based upon evidence or documentation that can be identified, supported, and calculated with certainty. Accordingly, the OCA submits that the ALJ correctly recommended the denial of the Company's claim and that the Commission must reject NFGD's Exception No. 11. OCA R. Exc. at 22-23 (citing NFGD Exc. at 34; OCA M.B. at 43; OCA St. 2SR at 14-15; OCA St. 2 at 16).

e. Disposition

We shall deny NFGD's Exception No. 11. As such, we agree with the ALJ's recommendation to prohibit NFGD from applying its claimed inflation adjustments to its expense claims for Office Employee Expense and Postage Expense for $64,000 and $175,000, respectively. We agree with the OCA that the Company did not provide evidence to demonstrate that its proposed inflation adjustments represent the costs which NFGD knows will be incurred. Stated differently, we find that NFGD did not demonstrate that making these adjustments, which are based on the application of the CAGR blanket inflation rates of 3.67% and 9.14% to Office Employee Expense and Postage Expense, respectively, directly relates to the actual costs expected to be incurred in each identified expense account in the FPFTY.

To the extent that NFGD contends that its proposed inflation adjustments meet the "known and measurable" standard for increasing the identified expense claims, we find the OCA's argument and the testimony of the OCA's witness, Mr. Morgan, to be more compelling. Specifically, Mr. Morgan summarized the importance of known and measurable cost adjustments in setting rates:

> [I]nflationary adjustments are not known and measurable because they are blanket cost increases. More importantly, for ratemaking purposes, the costs and cost increases included in the cost of service should be related to the specific activities, initiatives, and plans that the Company intends to undertake during the rate effective period. Those costs should be based upon evidence or documentation that can be identified, supported, and calculated with a degree of certainty. The inflation escalation does none of those things.

OCA St. 2SR at 14-15. Regarding postage expense, Mr. Morgan further testified, as follows:

> [I]t would be inappropriate to use an escalation rate that is not known or certain. It is also not appropriate to use historical price increases to forecast future postal increases because those rates were set to recover specific costs at the time they were increased. Therefore, past postage rate increases are not indicative of the level of future rate increases.

OCA St. 2SR at 15-16.

Further, the Commission has recently denied inflation adjustments because the utility did not meet its burden in demonstrating that its proposed blanket percentage inflation adjustment to expenses would meet the "known and measurable" standard for adjusting expense claims over time. *See Columbia Gas 2025* at 134-36; *Pa. PUC v. Wellsboro Electric Company*, Docket No. R-2019-3008208 (Opinion and Order entered April 29, 2020) (*Wellsboro 2020*) at 40; *Aqua 2022* at 116-17. Indeed, absent specific data to demonstrate that the inflation factors were calculated using factual or evidentiary data, we are unable to conclude that NFGD's proposed inflation adjustments meet the "known and measurable" standard established by Commission precedent. Accordingly, we shall deny NFGD's Exception No. 11 and adopt the ALJ's recommendation on this issue. Therefore, we shall adopt the ALJ's recommendation to reduce NFGD's proposed claimed office employee expense and postage expense by $64,000 and $175,000, respectively.

3. Line Hit Collections

a. Positions of the Parties

NFGD sought a $156,000 adjustment for projected reimbursements that it anticipates receiving in the FPFTY for line hit and pipeline damage. NFGD provided that its adjustment uses a three-year historic average to normalize higher than normal collections received in the HTY of $449,000. Further, NFGD noted that line hit

collections experience a significant lag, and recovery from third parties routinely crosses over fiscal years due to the amount of time it takes to resolve, *inter alia*, financial liability related to a repair. Moreover, NFGD noted that its internal labor: (1) is the primary cost associated with line hit; (2) was annualized in its projected FPFTY; and (3) does not reflect "any corresponding bump" related to higher line hit repair expense. NFGD M.B. at 46-47 (citing NFGD St. 3-R at 6-7; NFGD Exh. ATF-2, Sch. 4).

NFGD provided that in fiscal years 2023, 2024, and 2025, its line hit collections totaled $232,000, $199,000, and $449,000, respectively. NFGD submitted that because the HTY total (*i.e.*, fiscal year 2025) is an outlier, its proposed adjustment to line hit collections normalizes the impact of a comparatively abnormal year over a three-year normalization period. NFGD M.B. at 47 (citing NFGD Exh. ATF-2, Sch. 4).

The OCA objected to the Company's adjustment to line hit collections. The OCA's witness, Mr. Morgan, testified that line hit collections received are used to offset the expense incurred to repair damage to NFGD's gas lines. Mr. Morgan continued:

> If the line hit collections are unusually high in any one year, by extension, it means that line hit repairs expenses were high as well. Therefore, both components of the net cost to repair damaged lines should be normalized to fairly normalize the cost of repairs. In other words, if the cost offsetting component is being normalized, then it is also appropriate to normalize the expense incurred. If only the reimbursements (line hits collections) were normalized, it would result in higher expenses.

OCA St. 2 at 16-17 (citing OCA Exh. LKM-11A). Thus, Mr. Morgan posited that the Company is attempting to normalize reimbursements without normalizing the expenses. Moreover, Mr. Morgan argued that the probability that expenses recorded in the account could be higher than normal is supported by NFGD's claim that line hit collections

experience a significant lag such that recovery from third parties routinely crosses over fiscal years. Accordingly, the OCA recommended a downward adjustment to NFGD's claimed expense for line hit collections of $156,000. OCA St. 2SR at 19-20.

b. Recommended Decision

The ALJ concluded that NFGD failed to provide sufficient proof that its claim for line hit collections would lead to rates that are just and reasonable. Thus, the ALJ recommended the adoption of the OCA's proposed downward adjustment to line hit collections of $156,000, to reflect adjustments for reimbursements for gas line damage. R.D. at 158-59.

c. Disposition

No Party filed Exceptions to the ALJ's recommendation regarding line hit collections. We find the ALJ's recommendation to adopt the OCA's proposed downward adjustment of $156,000 to line hit collections to be reasonable and supported by substantial evidence in the record. Accordingly, we shall adopt this recommendation without further comment.

4. Insurance Settlement Proceeds

a. Positions of the Parties

The OCA's witness, Mr. Morgan, testified that NFGD has $798,079 in a regulatory liability account on its Balance Sheet.[56] According to Mr. Morgan, this amount represents environmental proceeds from an insurance settlement that were deferred as a regulatory asset because ratepayers paid for the premiums on the original policy. Accordingly, Mr. Morgan submitted that this liability should be returned to customers because the insurance costs were paid by customers. Specifically, Mr. Morgan proposed a downward adjustment of $266,000, to reflect a three-year flowback of insurance settlement funds to ratepayers.[57] OCA St. 2SR at 17, n.20; OCA Exh. LKM-9A-SR; OCA St. 2 at 15.

NFGD disagreed with the OCA's proposal to refund insurance settlement proceeds to ratepayers. NFGD argued that it is actively processing environmental expenses and, therefore, the balance in this account continues to be reduced. Further, NFGD contended that if a three-year pass-back were established, then a normalizing adjustment would be necessary to re-establish the O&M expense that ratepayers were shielded from because of this account. Moreover, NFGD argued that environmental expenses in the HTY would have been $144,486 higher if not for the regulatory liability account. Accordingly, NFGD submitted that it should be permitted to continue its historic practice of using insurance proceeds to offset new environmental expenses that would otherwise be recovered through rates. Alternatively, NFGD submitted that if the

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[56] Initially, Mr. Morgan presented $936,314 as the amount to flow back based on the HTY shown in NFGD's filing. Subsequently, Mr. Morgan noted that NFGD provided an updated flow back amount of $798,079. OCA St. 2SR at 17, n.20; *see* OCA Exh. LKM-9A-SR; *see also,* OCA Exh. LKM-9A.

[57] [$798,000 ÷ 3 years = $266,000]. *See* OCA Exh. LKM-9A-SR.

OCA's proposal is accepted, then both the current balance of the account and the normalizing adjustment for the HTY shielded expense need to be considered. NFGD St. 3-R at 10-11.

In response, Mr. Morgan argued that NFGD's assertion that the subject funds are used to pay for environmental claims is "vague as far as how long the Company may end up holding these funds." Mr. Morgan continued:

> As I understand the Commission's historical practice, I am unaware of a means by which ratepayers can receive the time value of the funds held by the Company. This means that the Company has use of these funds on a cost-free basis. If these funds are not returned to ratepayers by lowering their rates, ratepayers will end up paying higher rates, while the Company retains use of their funds on a cost-free basis. I believe that this is not a fair proposition for ratepayers.

OCA St. 2 at 15. Thus, Mr. Morgan submitted that if the Commission agrees with NFGD's approach to use the insurance settlement proceeds to offset future environmental expenses, then NFGD should be required to accrue carrying charges because it is unknown how long the Company will have use of these proceeds. OCA St. 2SR at 17-18.

b. Recommended Decision

The ALJ recommended the adoption of the OCA's proposal that the Company refund insurance settlement proceeds to ratepayers over three years.[58] R.D. at 158-59.

c. Disposition

No Party filed Exceptions to the ALJ's recommendation regarding insurance settlement proceeds. We find the ALJ's recommendation to adopt the OCA's proposal to direct NFGD to refund insurance settlement proceeds to ratepayers over three years to be reasonable and supported by substantial evidence in the record. As noted, *supra*, in surrebuttal testimony, the OCA proposed a downward adjustment of $266,000, to reflect the flowback of $798,000 to ratepayers over three years. [$798,000 ÷ 3 years = $266,000]. *See* OCA St. 2SR at 17, n.20; OCA Exh. LKM-9A-SR. Accordingly, we shall adopt the ALJ's recommendation. However, in adopting this recommendation, we shall correct Appendix A-Table II of the Recommended Decision by applying an explicit downward adjustment to insurance settlement proceeds expense

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[58] The ALJ recommended the adoption of the OCA's proposed adjustment to refund "the sum of $936,314 over a three-year period (at $312,000 per year)." R.D. at 159. As discussed, *supra*, the OCA initially presented $936,314 as the amount of insurance settlement proceeds to flow back to customers based on the HTY provided in NFGD's filing. However, subsequently, the OCA pointed out that NFGD provided an updated flow back amount of $798,079. Consequently, the OCA proposed a downward adjustment of $266,000, to reflect the flowback of $798,000 over three years. [$798,000 ÷ 3 years = $266,000]. OCA St. 2SR at 17, n.20; OCA Exh. LKM-9A-SR. Accordingly, we conclude that the ALJ, in referring to "the sum of $936,314 over a three-year period (at $312,000 per year)," made an inadvertent misstatement. Further, it is unclear why the ALJ's explicit recommendation to adopt the OCA's proposed adjustment to refund insurance settlement proceeds to ratepayers is not reflected in the rate tables accompanying the Recommended Decision (*i.e.*, in Appendix A-Table II of the Recommended Decision).

of $266,000 for the FPFTY. This is set forth in Table II of the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order.

5. Interest Synchronization

a. Positions of the Parties

NFGD's claim for income tax expense is based, in part, on an interest expense deduction calculated using NFGD's proposed rate base and weighted cost of debt. PAWC M.B. at Appendix D-Table III. The OCA proposed increasing NFGD's claimed interest expense by $2,153,000 to a total of $16,042,000. The OCA also proposed downward adjustments of $150,000 and $421,000, to state and federal income tax expense, respectively. OCA R.B. at 29 (citing OCA St. 2 at 23; OCA Exh. LKM-18A-SR).

b. Recommended Decision

As detailed in Appendix A-Table II of the Recommended Decision, the ALJ's recommended interest expense adjustment contained a concomitant interest synchronization adjustment as it relates to the ALJ's recommended adjustments to rate base and NFGD's weighted cost of debt. Based upon the totality of the adjustments she recommended be adopted, the ALJ recommended a downward adjustment to interest synchronization of $153,271. *See* Recommended Decision at Appendix A-Tables II and III.

c. Disposition

None of the Parties filed Exceptions regarding the issue of interest synchronization. We agree with the ALJ's recommendation that the tax deductible interest expense for ratemaking is properly matched with the rate base and weighted average cost of debt. Therefore, based upon the adjustments to rate base that we shall adopt in Sections V and VII.H.6 of this Opinion and Order, along with the weighted cost of debt we shall adopt in Section IX.B, thereto, there will be a concomitant interest synchronization adjustment. This is detailed in Table II and III of the rate tables that are set forth in the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order.

6. CWC

As discussed in Section V.G, *supra,* CWC includes the amount of funds necessary to operate a utility during the interim between the rendering of service, including the payment of related expenses, and the utility's receipt of revenue in payment of services rendered. I&E St. 2 at 21. A utility's CWC requirement also includes the funds the utility must have on hand to reflect the timing of the payment of interest on long-term and short-term debt and the payment of dividends on preferred stock. *PAWC 2026* at 147, n.74. A positive CWC allowance is considered to represent funds provided by investors; the utility is entitled to earn a return on those funds. Negative CWC represents funds supplied by ratepayers that should be recognized as a rate base offset to reflect funds advanced for operations by ratepayers. OCA St. 2 at 8-9.

NFGD calculated its CWC by using a lead/lag study. 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 time between the point when a utility has incurred an expense and the actual payment of the expense. Thus, a lead/lag study

measures how many days exist on average between the midpoint of the service period and the date the payment is made. I&E St. 1 at 21-22.

O&M expenses are an input to the calculation of NFGD's CWC. Therefore, adjustments to NFGD's O&M expenses, as set forth above, will result in adjustments to, and the recalculation of, the Company's CWC allowance.

a. Positions of the Parties

NFGD submitted that the Commission should accept the Company's CWC claim of $6.7 million,[59] with one adjustment to the lead-lag study. Namely, the Company accepted the OCA's position that non-cash expenses should be removed from the lead-lag study when determining the final CWC allowance approved in this proceeding, in line with Commission precedent. NFGD M.B. at 16; NFGD R.B. at 6; NFGD Exh A. FPFTY (Rebuttal Update), Sch C-4 at 1. Table 5 outlines a breakdown of NFGD's total final working capital claim.

[59] As discussed in Section V.G, *supra,* working capital is the difference between a utility's current assets and its current liabilities, and represents the funds available to meet day-to-day operational needs. Current assets include, *inter alia*, cash (*e.g.*, CWC), inventory (*e.g.*, materials and supplies), and prepaid expenses (*i.e.*, prepayments). CWC is a subset of total working capital. Thus, this figure of $6.7 million, outlined in NFGD Exhibit A - FPFTY (Rebuttal Update), Schedule C-4 at 1, more properly sets the Company's *total* claim for working capital. The Company's actual total CWC claim was $5,635,000, as explained in the next footnote.

Table 5: NFGD's Working Capital Claim ($ in Thousands)[60]

Description	Fully Projected Future Test Year October 31, 2027
Working Capital for O&M Expenses	$ 7,156
Interest Payments	(1,679)
Tax Payment Lag Calculations	158
Prepaid Expenses	1,080
Total Working Capital Requirements	$ 6,715

NFGD Exh A. FPFTY (Rebuttal Update), Sch C-4 at 1.

I&E and the OCA proposed adjustments to NFGD's claimed CWC based on their respective recommended adjustments to O&M expenses and recommended capital structures. I&E St. 1 at 23-24; OCA St. 2 at 9.

I&E recommended a CWC allowance of $6,643,822. However, I&E cautioned that it was unable to make a final recommendation regarding the appropriate CWC for the Company in this proceeding. In this regard, I&E explained that all adjustments to NFGD's claims for rate base, revenues, expenses, and taxes must be continually brought together when calculating a final CWC allowance for the Company in the ALJ's Recommended Decision, and again in the Commission's Final Opinion and Order in this proceeding. I&E continued that this process, known as iteration, effectively

[60] As Table 5 indicates, the Company's working capital claim consists of the Company's claims for CWC (*i.e.* CWC for O&M Expenses, Interest Payments, and Tax Payment Lag) and prepaid expenses. Thus, the Company's actual claim for CWC was $5,635,000, representing the difference between its total working capital claim of $6,715,000 and its claim for prepaid expenses of $1,080,000. [$6,715,000 - $1,080,000 = $5,635,000].

prevents the determination of a precise calculation until all adjustments have been made to the Company's claims. I&E M.B. at 17.

The OCA submitted that in addition to modifications to reflect adjustments related to operating expenses and the interest expense adjustments related to the OCA's adjustments to rate base and the OCA's recommended capital structure, NFGD's CWC should also be adjusted because there are a number of amortizations and accrued expenses that NFGD included in the lead/lag study operating expenses that do not require the use of cash. The OCA proposed a final downward adjustment of $515,000 to the Company's claimed CWC amount. OCA R.B. at 5-7, Appendix C-Table II.

b. Recommended Decision

Based upon her various recommended adjustments elsewhere in this Opinion and Order, the ALJ recommended a downward adjustment of $245,573 to the Company's claim for CWC for the payment of Interest and Dividends, and a downward adjustment of $119,916 to the Company's claim for CWC associated with O&M Expenses. This resulted in a total recommended downward adjustment of $365,489 to NFDC's claimed CWC. [$245,573 + $119,916 = $365,489].[61] R.D. at Appendix A-Table II. However, the ALJ echoed I&E that this recommended adjustment to CWC is not a final recommendation because all adjustments to the Company's claims must be brought continually together in the Commission's decisions in the process known as iteration. R.D. at 71.

[61] We note that Appendix A of the Recommended Decision did not include a table outlining any downward adjustments to the Company's claim for CWC associated with taxes.

c. Exceptions and Replies

As discussed in Section V.G above, in its Exception No. 12, NFGD submits that Appendix A-Table VI of the Recommended Decision overstates the adjustment to the O&M Expense portion of the Company's CWC claim because the ALJ stated the CWC amount contained in NFGD's original filing (*i.e.*, $7,195,000), rather than the updated amount reflected in the Company's Main Brief. NFGD asserts that its updated CWC claim is $7.130 million and requests that the Commission resolve this discrepancy contained in the Recommended Decision. NFGD Exc. at 34-35.

I&E and the OCA, in their respective Replies to Exceptions, concur with the Company that the Recommended Decision contains uncertainties that should be resolved by the Commission. I&E R. Exc. at 15; OCA R. Exc. at 24-25.

As also discussed in Section V.G of this Opinion and Order, *supra*, the OCA, in its Exception No. 2, submits, *inter alia,* that the ALJ erred in failing to adjust NFGD's CWC claim based on the OCA's final revised downward adjustment of $515,000, despite also appropriately finding that the OCA's adjustments are dependent on the adjustments ultimately decided by the Commission. OCA Exc. at 13-14.

In its Replies to Exceptions, the Company argues that the OCA has overstated the appropriate adjustment to remove prepaid expenses. NFGD asserts that while it agreed that the prepaid expenses included in general expenses should be removed, the OCA responded by removing $9,455,000 of all prepaid expenses for insurance, Commission assessments, AGA dues, and IT services. NFGD further observes that the OCA, in its Exception No. 2, notes that its original overall downward adjustment to CWC of $1,195,000 should be reduced by $680,000, to $515,000. Thus, according to the Company, the Commission's final CWC adjustment should remove

only the prepaid expenses identified by NFGD, as opposed to adopting the OCA's broader treatment. NFGD R. Exc. at 6-7.[62]

d. Disposition

As discussed in our disposition of Section V.G, *supra,* to the extent that NFGD, in its Exception No. 12, requests clarification that the ALJ should not have applied the Company's originally filed claim of $7.195 million as the starting point for the O&M Expense component of the Company's CWC, as set forth in Appendix A-Table VI of the Recommended Decision, we shall grant this portion of the Company's Exception No. 12. However, we shall not adopt the Company's assertion that its updated claim for the O&M Expense portion of its CWC is $7.130 million, as this figure appears nowhere in the Company's Main Brief or Reply Brief. Rather, for purposes of the final CWC calculation, the appropriate NFGD starting point for each of the components of the Company's CWC are the amounts reflected in NFGD Exhibit A-FPFTY (Rebuttal Update), Schedule C-4, as highlighted in Table 5, *supra,* subject to the adjustments adopted in this Opinion and Order. These are the final claimed CWC amounts on the record in this proceeding. Thus, the adjustments that we shall make to the O&M Expense component of NFGD's CWC, outlined in Tables II and VI of the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, are based off of the Company's claim of $7,156,000, set forth in its rebuttal testimony. *See* NFGD Exh A. FPFTY (Rebuttal Update), Sch C-4 at 1, Line 1.

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[62] As discussed in our disposition of Section V.G, *supra*, we concur with the Company as to the specific treatment of prepaid expenses in the lead/lag study. We find NFGD's treatment to be more consistent with the agreed-upon methodology because it removes from the lead/lag study the amounts actually treated as prepaid expenses, while retaining the separate prepaid-expense component of working capital. We therefore reject the OCA's broader removal of the full expense categories for this purpose.

Next, as also discussed above in our disposition of Section V.G, while we agree with the OCA that the ALJ did not account for the OCA's revised overall downward adjustment of $515,000 to the Company's claimed CWC, as set forth in the OCA's Reply Brief, we decline to adopt this revised adjustment as a fixed reduction to rate base. Rather, our final adjustment to NFGD's CWC claim is directly dependent upon underlying operating expense, rate base, interest expense, capital structure, and tax adjustments that must conform to the determinations made in Sections V, VII, VIII, and IX of this Opinion and Order.

Based on our above discussion of the adjustments to NFGD's individual O&M expense claims, we have approved a total downward adjustment to the Company's O&M expenses of $2,282,946. This is reflected in Columns (4) and (6) of Table II of the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase that are attached to this Opinion and Order.[63] It is our adjustments to the Company's claimed O&M expenses that flows to our downward adjustments to the portion of NFGD's claimed CWC associated with its O&M expenses that is set forth in Table VI of these same rate tables.

[63] The total downward adjustment of $2,282,946 is the summation of our total downward adjustments to O&M Expenses of $2,177,765 and our downward adjustment to Taxes Other than Income Taxes of $105,181 that results from our downward adjustments to the Company's claim for payroll taxes expense. [($2,177,765) + ($105,181) = ($2,282,946)]. We note that NFGD's claimed payroll taxes expense is included in the O&M Expense component of the Company's claimed CWC. *See* NFGD Exh. A-FPFTY (Rebuttal Update), Sch. C-4 at 2, Line 4.

Additionally, Table 6, below, summarizes our net adjustments to NFGD's total CWC claim, which consists of the summation of the Company's claimed CWC associated with its claimed: (1) funds needed to cover the payment of interest and dividends, (2) taxes, and (3) O&M expenses. As Table 6 indicates, these adjustments result in a net downward adjustment of $38,734 to the Company's total working capital claim, or a reduction from $6,715,000 to $6,676,266.

Table 6: Summary of Adjustments to NFGD's Total Working Capital Claim in this Proceeding[64]

	Commission Allowance	Less: Company Claim	Commission Adjustment	
CWC-Interest and Dividends	($1,733,178)	($1,679,000)	($54,178)	A
CWC-Taxes	$266,446	$158,000	$108,446	B
CWC-O&M Expenses	$7,062,998	$7,156,000	($93,002)	C
CWC Total	$5,596,266	$5,635,000	($38,734)	D=A+B+C
Prepaid Expenses	$1,080,000	$1,080,000	$0	E
WORKING CAPITAL TOTAL	$6,676,266	$6,715,000	**($38,734)**	F=D+E

We note that the information in Table 6 is summarized in greater detail in Tables II (Summary of Adjustments), IV (Cash Working Capital-Interest and Dividends), V (Cash Working Capital-Taxes), and VI (Cash Working Capital-O&M Expenses), in the rate tables set forth in the Commission Tables Calculating Allowed Revenue Increase, attached to this Opinion and Order.

[64] NFGD's claimed CWC amounts are set forth in Table 5, *supra.*

VIII. Taxes

A. Income Taxes

1. Positions of the Parties

NFGD proposed a Pennsylvania corporate income tax rate of 7.49%. Additionally, NFGD represented that ultimately, no Party proposed the disallowance of the Company's claimed Income Tax expense, other than as related to their respective other adjustments to rate base, expenses, and rate of return. NFGD M.B. at 48-49.

The OCA explained that because Pennsylvania recently passed legislation that instituted a multi-year phasedown of the corporate income tax rates from 9.99% in 2023 to 4.99% in 2031, it initially opposed NFGD's proposed Pennsylvania corporate income tax rate of 7.49%. In this regard, the OCA noted that for 2027, the corporate income tax rate will be 6.99%. However, the OCA ultimately accepted NFGD's proposed rate of 7.49% based upon the Company's explanation that because of NFGD's fiscal year, the Company will not be subject to the 2027 corporate income tax rate of 6.99% until December 1, 2027. Thus, the OCA explained that this issue is no longer in dispute. OCA M.B. at 47-48; OCA R.B. at 29.

2. Recommended Decision

The ALJ recommended that the Commission adopt NFGD's proposed use of a Pennsylvania corporate income tax rate of 7.49%. R.D. at 165.

3. Disposition

No Party filed Exceptions on this issue. We find the ALJ's recommendation, that the Commission adopt NFGD's proposed use of a Pennsylvania corporate income tax rate of 7.49%, to be reasonable and supported by substantial evidence in the record. Therefore, we shall adopt it without further comment.

B. Taxes Other than Income Taxes

1. Positions of the Parties

NFGD's FPFTY claim for Taxes Other Than Income Taxes was $2.5 million. NFGD M.B. at 49.[65]

Aside from its proposed adjustment to payroll taxes expense related to its proposed adjustments to the Company's claimed expenses for executive compensation packages, discussed in Section VII.D, *supra,* I&E took no position on this issue. I&E R.B. at 21.

NFGD maintained that I&E's proposed adjustments to labor and incentive compensation should be denied. Accordingly, the Company took the position that I&E's associated proposed payroll taxes expense adjustments also should be denied. NFGD M.B. at 49.

[65] The actual amount of the Company's claim was $2,489,000. NFGD Exh A. FPFTY (Rebuttal Update), Sch. D-1, Line 16.

2. Recommended Decision

The ALJ recommended that the Commission adopt NFGD's claim for Taxes Other Than Income Taxes of $2.5 million, as well as NFGD's "proposed handling of the Taxes Other Than Income Taxes." R.D. at 165. However, as discussed in Sections VII.C and VII.D of this Opinion and Order, *supra,* the ALJ also recommended that the Commission adopt I&E's proposal to disallow $379,731 for the executive cash bonuses portion of the Company's claimed expenses for incentive compensation. *Id*. at 147. Therefore, this results in an implicit recommendation from the ALJ that the Commission decrease the Company's total claimed expenses for payroll taxes by a concomitant $22,670, based on I&E's methodology of applying a payroll tax rate of 5.97%. [$379,731 x 5.97% = $22,670].[66]

3. Disposition

No party objected to the ALJ's recommendation regarding the Company's claim for Taxes other than Income Taxes. Nonetheless, consistent with the following discussion, we shall modify the ALJ's recommendation that the Commission adopt NFGD's claim for Taxes Other Than Income Taxes of $2.5 million, as well as NFGD's "proposed handling of the Taxes Other Than Income Taxes."

Included in the Company's claim for Taxes other than Income Taxes is its claim for payroll taxes expense. As discussed in Section VII.D, *supra,* we have applied the following downward adjustments to the Company's claim for payroll taxes expense, utilizing a payroll tax rate of 5.97%, consistent with our adoption of I&E's methodology: (1) a downward adjustment of $22,670 to payroll taxes expense associated with our

[66] However, as also previously noted in Sections VII.C and D, no adjustment for payroll taxes expense appears in Appendix A-Table II of the Recommended Decision.

downward adjustment of $379,731 to the executive cash bonuses portion of the Company's claimed expense for incentive compensation. [$379,731 x 5.97% = $22,670]; (2) a downward adjustment of $28,227 to payroll taxes expense associated with our downward adjustment of $472,821 to the stock-based compensation portion of the Company's claimed expense for incentive compensation. [$472,821 x 5.97% = $28,227]; and (3) a downward adjustment of $54,284 to payroll taxes expense associated with our downward adjustment of $909,281 to the executive performance shares portion of the Company's claimed expense for incentive compensation. [$909,281 x 5.97% = $54,284].

Thus, our downward adjustment of $105,181 to payroll taxes expense in Section VII.D, *supra,* reduces the Company's total claim for Taxes Other than Income Taxes from $2,489,000 to $2,383,819. [$2,489,000 – $105,181 = $2,383,819].

C. Tax and Amortization Issues

1. Positions of the Parties

NFGD's amortization of the regulatory liability established for the Medicare subsidy of $921,649 was not included in the revenue requirement calculation in *NFGD 2023*. The Company proposed amortizing the full regulatory liability balance over three years, which results in a decrease to the Company's revenue requirement of $307,216 annually over the three-year period. Additionally, NFGD proposed to amortize a regulatory asset for the over-refunded Tax Cuts and Jobs Act (TCJA) surcharge of $242,147. The Company explained that it over-refunded the TCJA surcredit to customers and has this regulatory asset remaining on its books. Thus, the Company proposed to amortize the full regulatory balance over three years, which results in an increase to the revenue requirement of $80,716 annually over the three-year period. NFGD submitted that because no Party has objected to these proposals, they should be approved. NFGD M.B. at 49-50; NFGD R.B. at 24.

2. Recommended Decision

The ALJ recommended that the Commission adopt: (1) NFGD's proposal related to its amortization of the regulatory liability established for the Medicare subsidy; and (2) the Company's proposal to amortize the full regulatory balance over three years related to its over-refunding of the TCJA surcredit. R.D. at 164, 165.

3. Disposition

No Party filed Exceptions on this issue. Finding the ALJ's recommendation regarding the Company's unopposed amortization proposals to be reasonable and supported by substantial evidence in the record, we shall adopt it without further comment.

IX. Fair Rate of Return

Rate of return is the amount of revenue an investment generates in the form of net income. As set forth in the revenue requirement formula, *supra*, a utility's rate of return is expressed as a percentage of the amount of the utility's asset base at a particular point in time, which, in base rate proceedings, is the utility's projected rate base balance at the end of the test year. The calculation of that percentage is independent of the determination of the appropriate rate base value for ratemaking purposes. As such, the appropriate total dollar return is dependent upon the proper computation of the rate of return and the proper valuation of the utility's rate base. A utility's rate of return allows payment to the utility's debt holders, with interest, and fair compensation to the utility's equity shareholders. In addition, a fair and reasonable overall rate of return is one that will allow the utility an opportunity to recover those costs prudently incurred by all classes of capital used to finance the authorized rate base during the prospective period in which the utility's rates will be in effect. The

Commission has the authority to determine the fair rate of return for a utility. It is important to note that although the utility has the *opportunity* to earn the rate of return authorized by the Commission, the utility is not *guaranteed* to earn this authorized rate of return. *PAWC 2026* at 166-67.

A. Proxy Groups

A proxy group is a set of companies that have similar traits as compared to the subject utility, in this case NFGD. This group of companies acts as a benchmark for determining the subject utility's rate of return in a base rate case. In this regard, a proxy group's cost of equity is used as a benchmark to satisfy the long-established guideline of utility regulation that seeks to provide the subject utility with the opportunity to earn a return similar to that of enterprises with corresponding risks and uncertainties. A proxy group is typically employed since the use of data exclusively from one company may be less reliable. This lower reliability occurs because the data for one company may be subject to events that can cause short-term anomalies in the marketplace. Thus, the rate of return on common equity for a single company could become distorted in these circumstances and would therefore not be representative of similarly situated companies. Accordingly, a proxy group has the effect of smoothing out potential anomalies associated with a single company. I&E M.B. at 31; I&E St. 2 at 8.

1. Positions of the Parties

NFGD explained that because ROE is a market-based concept and NFGD is not publicly traded, it is necessary to establish a group of companies that is both publicly traded and comparable to the Company. According to NFGD, the proxy group companies used in its ROE analyses possess a set of business and operating characteristics similar to the Company's natural gas utility operations, and thus provide a reasonable basis for estimating the Company's ROE. NFGD explained that it began

with the nine investor-owned domestic NGDCs covered by Value Line Investment Survey (*Value Line*) and then screened these companies according to the following criteria, to ensure that each proxy group company:

1. Consistently pays quarterly cash dividends;

2. Maintains an investment grade long-term issuer rating (BBB- or higher) from (Standard & Poor's) S&P;

3. Is covered by more than one equity analyst;

4. Has positive earnings growth rates published by at least two of the following sources: *Value Line*, S&P Capital IQ, and Zacks Investment Research (Zacks);

5. Regulated net operating income makes up more than 50 percent of the consolidated company's net operating income (based on a 3-year average from 2022-2024);

6. Regulated net operating income from regulated natural gas distribution makes up more than 60 percent of the consolidated company's regulated net operating income (based on a 3-year average from 2022-2024); and

7. The company is not involved in a merger or other transformative transaction.

NFGD St. 10 at 23, 24-25.

Based on the above screening criteria, along with financial information through fiscal year 2024, NFGD arrived at a proxy group consisting of seven companies (NFGD Proxy Group). NFGD submitted that the natural gas utilities in its proxy group are reasonably comparable to the financial and operational characteristics of NFGD. NFGD also acknowledged that one of the companies in its proxy group, Spire, Inc. (Spire) announced that it is acquiring the Piedmont Gas Tennessee business (Piedmont)

from Duke Energy (Duke). However, NFGD took the position that because the acquisition is not anticipated to have a transformative effect on the company, Spire will continue to be a predominantly natural gas utility company and will expand its natural gas utility operations through the acquisition. Further, NFGD asserted that since the announcement of this acquisition in July 2025, there has been no meaningful change in Spire's stock price performance relative to other utility companies. NFGD St. 10 at 25-26.

I&E proposed a proxy group of six companies (I&E Proxy Group), including five of the seven companies used by NFGD. In selecting its proxy group, I&E applied the following criteria:

1. 50% or more of the company's revenues were generated from the regulated natural gas industry;

2. The company's stock was publicly traded;

3. Investment information for the company was available from more than one source, including *Value Line*;

4. The company must not be currently involved in an announced merger or the target of an announced acquisition;

5. The company must have four consecutive years of historic earnings data; and

6. The company must be operating in a state that has a deregulated natural gas utility market.

I&E St. 2 at 9. I&E asserted that because its proxy group was determined by using its well-established criteria that it applies consistently in every base rate case, this proxy group should be adopted by the Commission. I&E R.B. at 28.

I&E disagreed with NFGD's proposed proxy group, based upon the Company's criterion number 5, *supra,* (*i.e.*, Regulated net operating income makes up more than 50% of the consolidated company's net operating income). In I&E's view, in accordance with recent Commission precedent, the percentage of a utility's revenues generated from the regulated natural gas industry is a more appropriate criterion to use in the development of a proxy group, than is NFGD's proposed use of the percentage of the utility's income generated from such operations. Therefore, I&E proposed to exclude Southwest Gas Holdings, Inc. (Southwest Gas) from the proxy group for use in this proceeding because Southwest Gas derives less than 50% of its revenues from its regulated natural gas operations. Conversely, unlike NFGD, I&E proposed to include Chesapeake Utilities Corp. (Chesapeake Utilities) in the proxy group used in this proceeding, on the basis that this utility meets I&E's criterion that 50% or more of the company's revenues must be generated from the regulated gas utility industry. I&E St. 2-SR at 9-12, 13-14. Finally, I&E disagreed with the Company's inclusion of Spire in the proxy group, noting that it is currently involved in a merger and that this inclusion violates both the Company's criterion number 7 and I&E's criterion number 4: the utility is not currently involved in a merger or transformative transaction. I&E dismissed the Company's assertion that there has been no meaningful change in Spire's stock price performance relative to other utility companies, highlighting, *inter alia*, that Spire's stock price has seen a significant increase since the announcement of the acquisition of Piedmont. I&E R.B. at 28; *Id.* at 12-13.

The OCA utilized the NFGD Proxy Group, arguing that each of the companies proposed by NFGD for inclusion meet reasonable criteria. The OCA also agreed with NFGD's assertion that since the announcement in July 2025 that Spire was acquiring Piedmont from Duke, there has been no meaningful change in Spire's stock price performance relative to other utility companies. OCA St. 3 at 28.

The OSBA observed that the Company's proposed NFGD Proxy Group and the natural gas proxy group utilized by the Bureau of Technical Utility Services (TUS) in its report on the quarterly earnings of jurisdictional natural gas companies are very similar. In this regard, the OSBA highlighted that the TUS proxy group includes all the companies used by NFGD in its proposed proxy group in this proceeding, plus Chesapeake Utilities. OSBA M.B. at 11.

Table 7, below, provides a summary of the companies each Party proposed to be used in their respective natural gas utility proxy groups.

Table 7: Summary of the Proposed Natural Gas Utility Proxy Groups in this Proceeding

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.	

NFGD St. 10 at 25; I&E M.B. at 31; OCA Sch. MLR-4.

2. Recommended Decision

The ALJ summarized the respective proxy groups advanced by NFGD and I&E, noting that the OCA accepted the use of the Company's proposed proxy group. However, the ALJ did not explicitly recommend the adoption of a specific proxy group for use in this proceeding. R.D. at 169-70, 181-82, 212-13.

3. Disposition

It is of paramount importance, when setting a utility's ROE in a rate proceeding, and by extension its overall rate of return, to choose the appropriate proxy group. No party filed Exceptions on this issue to request that the Commission clarify the appropriate proxy group to use in this proceeding. However, at the beginning of its Exception No. 1, where it takes issue with the ALJ's recommendation, *infra*, that the OCA's proposed hypothetical capital structure be adopted, NFGD highlights that the OCA accepted the Company's proposed proxy group. Thus, the Company posits that given that the ALJ recommended the adoption of the OCA's proposed hypothetical capital structure and the OCA's proposed ROE, discussed, *infra*, it is apparent that the ALJ also recommended the adoption of the NFGD Proxy Group. NFGD remains of the opinion that its NFGD Proxy Group should be adopted and maintains that the I&E Proxy Group: (1) improperly excludes Spire and Southwest Gas; and (2) improperly includes Chesapeake Utilities. NFGD Exc. at 5, n.13. Accordingly, before discussing the remaining rate of return issues below, as a threshold matter, we must first determine the appropriate proxy group to utilize in this proceeding.

As noted above, NFGD has proffered a proxy group consisting of seven natural gas companies. On the other hand, I&E has proffered a proxy group of six natural gas companies, five of which are also contained in NFGD's proxy group. Thus, our analysis turns on examining the companies that are not common to *both* the NFGD Proxy Group and the I&E Proxy Group: Southwest Gas, Chesapeake Utilities, and Spire.

In setting forth their respective proposed proxy groups, the Company and I&E disagreed on the appropriate criteria to examine in determining whether to include or exclude a company from the proxy group. Namely, these Parties disagreed as to whether this criteria should include consideration of: (1) the percentage of revenues that

a company generates from its regulated subject utility operations, or (2) the percentage of income that company generates from such operations. In resolving this issue, we note that there has been considerable precedent outlined in recent fully litigated base rate cases, wherein the Commission has based this criteria upon an examination of the percentage of revenues a utility generates from its regulated operations.

This Commission most recently reinforced this in the recent base rate proceeding in *Columbia Gas 2025,* wherein the Commission stated:

> A company's revenues represent the percentage of cash flow that company receives from each business line related to providing a good or service, and the generation of revenue is the first step that drives the company's net income and cash flow. On the other hand, a company's realization of net income depends upon various factors, including, *inter alia*, management, operational, and financial efficiency in the best use of the utility company's assets with available resources, O&M expense containment measures, and capital expenditure programs. Therefore, a utility's revenue composition is a more appropriate measure than is the utility's operating income or net income for establishing a proxy group, because this measure represents the percentage of cash flow a company receives from each business segment. While the financial community is more likely to rely on measures of income, rather than measures of revenue, when making credit assessments and investment decisions, the purpose of constructing a proxy group in a base rate proceeding is to compile a set of companies that have similar risks to the subject utility. We concur with I&E and the ALJs that if less than 50% of revenues for a company in a natural gas utility proxy group are derived from the regulated natural gas industry operations, then that company is not comparable to the subject utility, as it does not provide a similar level of regulated natural gas operations.

Columbia Gas 2025 at 204-05; *see also, Pa. PUC et al. v. Columbia Gas of Pa.*, Docket Nos. R-2020-3018835, *et al*. (Order entered February 19, 2021)

(*Columbia Gas 2021*) at 110; *Pa. PUC* v. *PECO Energy Company - Gas Division*, Docket No. R- 2020-3018929 (Order entered June 22, 2021) (*PECO 2021*) at 137-38; in *Pa. PUC v. Columbia Water Company*, Docket No. R-2023-3040258 (Opinion and Order entered January 18, 2024) (*Columbia Water 2024*) at 74-77; and *Pennsylvania-American Water Company*, Docket Nos. R-2023-3043189 and R-2023-3043190 (Opinion and Order entered July 22, 2024) (*PAWC 2024*) at 150-51.

In the instant proceeding, we find that the Company has failed to proffer a reason for us to deviate from the abundance of precedent in recent fully litigated rate cases, which dictates that we include or exclude a company in a proxy group based upon the percentage of revenues a company generates from its regulated subject utility operations, and not the percentage of income generated from such operations. Thus, we reinforce that calculating the percentage of utility operating income that comprises the total operating income of a company is not always a reliable way of determining if a business is primarily a regulated utility. For example, operating income includes items such as depreciation, where it is possible for the regulated utility segment of a company to predominately have assets that are fully depreciated, resulting in higher operating income. Although a utility may have assets that are significantly depreciated, this does not always indicate the level of business a company does. A utility's parent company may have most of its utility assets depreciated but still engage in less business as a regulated utility than it does in another business segment. Therefore, we remain of the opinion in this current proceeding that comparing the operating income of a gas utility segment to the total operating income of a company is not an appropriate criterion. *See* I&E St. 2-SR at 9-10.

The record indicates that as of fiscal year 2024, Southwest Gas generated just 48.42% of its revenue from its regulated natural gas utility operations. Because revenues represent the percentage of cash flow a company receives from each business line related to providing a good or service, we find that Southwest Gas is not comparable

to NFGD, as it generates less than 50% of its revenues from the regulated natural gas sector. As such, we shall exclude Southwest Gas from the proxy group that we shall use in this proceeding. *See* I&E St. 2-R at 12. On the other hand, we find that Chesapeake Utilities is properly included in the proxy group. In this regard, the record indicates that in fiscal year 2024, 82.59% of Chesapeake Utilities' operating revenue was generated from its regulated natural gas distribution operations. *See* I&E St. 2-SR at 13-14.

Next, we consider whether Spire is properly included in the proxy group. As discussed above, in criterion number 7 for determining the companies in the NFGD Proxy Group, the Company stated that the utility "must not be involved in a merger or other transformative transaction." Similarly, under criterion number 4 for determining the I&E Proxy Group companies, I&E stated that the utility must not be currently involved in an announced merger or be the target of an announced acquisition. Nonetheless, "NFGD included Spire in the NFGD Proxy Group despite acknowledging that Spire is involved in a significant transaction to acquire the Tennessee assets of Piedmont Natural Gas from Duke." The Company reasoned that the transaction did not have "material effect on Spire's stock price." NFGD St. 10-R at 35.

However, I&E provided evidence to the contrary to demonstrate that between the announcement of the transaction on July 29, 2025 and the formation of I&E's direct testimony on March 19, 2026, the stock prices for the other companies in the NFGD Proxy Group grew at an average of 16.36%, while Spire's stock price rose by 25.64%. Accordingly, Spire's stock price grew at a rate of 56.7% more than did the average of the other companies in the NFGD Proxy Group during this same time period. [((25.64% - 16.36%) ÷ 16.36%) = 56.7%]. I&E St. 2-SR at 13; I&E St. 2 at 13-14. I&E asserted that this is a significant amount. We agree. As I&E observed, a company's involvement in a major transaction, such as the transaction between Spire and Duke, can artificially and temporarily impact its financial metrics, which could influence the results of the proxy group. I&E St. 2 at 13. Furthermore, in setting forth

the positions of the parties in discussing the appropriate proxy group to utilize in the Commission's recent decision in *PAWC 2026,* the Commission noted the position of Pennsylvania-American Water Company (PAWC), in that proceeding, that "excluding entities involved in mergers is a "'standard screening criterion that has been relied upon by nearly all cost of capital experts, due to the fact that a merger can influence the assumptions used in cost of equity models.'" *PAWC 2026* at 168 (additional citations omitted). We find that this reasoning applies to this instant proceeding. Consequently, we shall exclude Spire from the proxy group that we utilize in setting the appropriate ROE and overall rate of return for NFGD.

Based on the above discussion, we disagree with NFGD's assertion, outlined in a footnote at the beginning of its Exception No. 1, that the NFGD Proxy Group should be utilized. Moreover, to the extent that the ALJ implicitly recommended the Commission utilize the NFGD Proxy Group in this proceeding, we shall reverse this recommendation. Accordingly, in setting the authorized ROE and overall rate of return for NFGD, we shall impose the usage of the I&E Proxy Group in this proceeding.

B. Capital Structure

A utility's capital structure represents how the utility has financed its rate base with different sources of funds. The primary funding sources are common equity and long-term debt. A capital structure may also include preferred stock and/or short-term debt. However, in NFGD's case, the Company's capital structure is comprised solely of common equity and long-term debt. Determining the appropriate capital structure for the subject utility, in this case NFGD, is crucial in developing the weighted average cost of capital (WACC), which, in turn, determines the overall authorized rate of return for the utility in the revenue requirement equation, *supra*. NFGD M.B. at Appendix D-Table I(A); I&E St. 2 at 14; *PAWC 2026* at 177.

1. Positions of the Parties

NFGD proposed to use its projected actual capital structure as of the end of the FPFTY, consisting of 56.40% common equity and 43.60% long-term debt. NFGD submitted that the Commission should disregard the hypothetical capital structures proposed by I&E, the OCA, and CAUSE-PA, *infra.* In this regard, the Company argued that 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. The Company asserted that it is acting prudently to replace aging plant to maintain reliable service and is maintaining a financial profile that will enable it to obtain the necessary financing to do so. According to NFGD, because this financial profile is within the range of capital structure ratios of the proxy groups presented in this proceeding, the Company's proposal to employ an actual capital structure should be approved. Thus, NFGD insisted that its actual capital structure is not atypical. NFGD M.B. at 55-62; NFGD R.B. at 27-28.

I&E recommended using a hypothetical capital structure of 55.00% common equity and 45.00% long-term debt. I&E opined that the Company's proposed capital structure is unreasonable for ratemaking purposes. I&E noted that the Company's proposed capital structure falls close to the highest end of the range of the capital structures of the companies in the I&E Proxy Group, where the most recent 5-year average range contains individual company capital structure ratios 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. Thus, I&E asserted that limiting a company's capital structure from becoming too equity heavy is reasonable and necessary for a fair ratemaking process. I&E added that while an optimal capital structure consists of 50.00% debt and 50.00% equity, applying such a hypothetical capital structure is not always possible because a balance must be struck between rewarding a company for carrying more equity, vis-à-vis reducing the costs that would

be passed on to that company's ratepayers. Thus, I&E contended that the equity component of a utility's capital structure should generally not exceed 55.00% equity. I&E M.B. at 27-28; I&E R.B. at 23-24.

The OCA, likewise, submitted that the Commission should impose a hypothetical capital structure upon the Company. The OCA reasoned that the purpose of establishing a ratemaking capital structure is not merely to replicate a utility's actual capitalization for ratemaking purposes, but rather to ensure that rates are just and reasonable. The OCA continued that equity is more expensive than debt because shareholders require higher returns than creditors and because dividends are not tax deductible. Consequently, the OCA asserted, excessive equity financing increases the overall cost of capital borne by ratepayers. As such, the OCA argued that the Commission has the discretion to adopt a hypothetical capital structure where the evidentiary record demonstrates that the proposed equity ratio is excessive. The OCA took the position that the specific record in this case demonstrates that NFGD's proposed 56.40% common equity ratio exceeds current industry practice, exceeds recent authorized equity ratios for regulated natural gas utilities, and would unnecessarily increase customer rates. Therefore, the OCA proposed that the Commission adopt a hypothetical capital structure of 50.00% common equity and 50.00% long-term debt. OCA M.B. at 50-52; OCA R.B. at 32-36.

CAUSE-PA also submitted that the Commission should impose a hypothetical capital structure of 50.00% common equity and 50.00% long-term debt. CAUSE-PA echoed the positions of I&E and the OCA that NFGD's proposed actual capital structure in the FPFTY is inequitable and distorted and would result in needlessly and unreasonably exacerbating rate unaffordability for NFGD's customers. CAUSE-PA asserted that the Commission has wide discretion to impute, for ratemaking purposes, a more equitable capital structure that is not so heavily skewed towards the equity side. CAUSE-PA M.B. at 37-40; CAUSE-PA R.B. at 12-14.

2. Recommended Decision

The ALJ concluded that the Company should not be permitted to utilize its proposed use of an actual capital structure of 56.40% common equity and 43.60% long-term debt. According to the ALJ, the Company's claim is unjust and unreasonable because it would exceed industry norms and impose additional unnecessary costs on NFGD's customers. The ALJ added that by using a higher equity ratio, NFGD will increase the total rate of return customers must pay. The ALJ continued that although NFGD must be allowed sufficient equity to maintain its financial integrity and attract capital, customers should not be required to fund equity capital that is unnecessarily too high. Therefore, the ALJ recommended that the Commission adopt the OCA's proposed hypothetical capital structure of 50.00% common equity and 50.00% long-term debt. R.D. at 220, Appendix A-Table I(A).

3. NFGD Exception No. 1 and Replies

In its Exception No. 1, NFGD objects to the ALJ's recommendation that the Commission impose the OCA's proposed hypothetical capital structure of 50.00% common equity and 50.00% long-term debt upon the Company. NFGD insists that such a recommendation runs contrary to Commission precedent, which dictates 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. More specifically, NFGD contends that in determining whether a utility's claimed capital structure is atypical, the Commission has examined whether the capital structure used by the utility is outside the range of that employed by the proxy group of companies considered in the rate of return analysis. NFGD submits that if a utility's capital structure is within a reasonable range of similar risk proxy group companies, the utility's capital structure should be used, and not a hypothetical capital structure. NFGD Exc. at 5-6.

Applying this Commission precedent to the instant proceeding, NFGD asserts that its proposed actual capital structure of 56.40% common equity and 43.60% long-term debt clearly lies within the range of common equity ratios of comparable natural gas utilities, regardless of whether the Commission applies the NFGD Proxy Group or the I&E Proxy Group. NFGD continues that no party offered evidence to support a conclusion that the Company's proposed capital structure is atypical, such that it would require the use of a hypothetical capital structure. Rather, NFGD contends that both I&E and the OCA took the position that the Company's proposed common equity ratio exceeds the average of their respective proxy groups. However, the Company asserts, this argument fails because the appropriate standard measures the Company's actual capital structure by the proxy group range, not the average proxy group capital structure. NFGD Exc. at 6-7.

Next, NFGD asserts that in recommending the use of the OCA's proposed hypothetical capital structure, the ALJ focused solely on the OCA's argument that customer costs should be the "central issue" in determining the equity ratio. In doing so, NFGD argues that the ALJ failed to account for the Company's need for equity to support its accelerated replacement program, consistent with its Commission-approved LTIIP. According to the Company, requiring NFGD to reduce its common equity ratio by 640 basis points (i.e. from 56.40% to 50.00%) would force the Company to make significant changes to how it capitalizes its rate base. NFGD claims that this would impermissibly interfere in the management discretion of the Company to determine the capital structure the Company believes is necessary, and could impact NFGD's ability to continue to retain earnings to finance pipeline replacements. NFGD Exc. at 7-9.

Furthermore, NFGD contends that in focusing on the OCA's proposed hypothetical capital structure, the ALJ failed to give any weight to the alternative hypothetical capital structure proposed by I&E of 55.00% common equity and

45.00% long-term debt. The Company asserts that "I&E's proposal is not unreasonable." NFGD Exc. at 10, 10 n.36.

In its Reply to NFGD's Exception No. 1, I&E argues that it proposed a capital structure of 55.00% common equity and 45.00% long-term debt because the Company's proposed capital structure is unreasonable for ratemaking purposes and falls closest to the highest end range of 2024 capital structures in the I&E Proxy Group. I&E explains that although it took the position that the Company's common equity ratio should not exceed 55.00%, it is also of the opinion that a capital structure of 50.00% equity and 50.00% debt is optimal. Accordingly, I&E notes its support for the ALJ's recommendation that the Commission adopt the hypothetical capital structure proposed by the OCA. I&E asserts that the record supports the ALJ's finding that customers should not be required to fund equity capital that is unnecessarily high, and that the Company did not meet its burden of proving that its actual capital structure should be used to set the rate of return in this proceeding. For these reasons, I&E submits that the Commission should deny NFGD's Exception No. 1. I&E R. Exc. at 4-5.

In its Reply to NFGD's Exception No. 1, the OCA likewise submits that the Company failed to demonstrate that applying an actual capital structure of 56.40% common equity and 43.60% long-term debt would be just and reasonable. The OCA claims that contrary to the Company's assertion, the ALJ did not recommend the use of the OCA's proposed hypothetical capital structure merely because it produces the lowest possible revenue requirement. Rather, the OCA contends, the record established in this proceeding demonstrates that NFGD's proposed equity ratio is unnecessarily equity-rich and would impose unnecessary additional costs on its ratepayers, such that imposing a hypothetical capital structure of 50.00% common equity and 50.00% long-term debt is appropriate. In the OCA's view, the purpose of a ratemaking capital structure is not simply to replicate a utility's actual capitalization, but to establish a capital structure that produces just and reasonable rates. Furthermore, the OCA argues that contrary to

NFGD's assertion that Commission precedent requires reliance on the subject utility's actual or projected capital structure whenever it falls within the range of those in the chosen proxy group, the Commission has the discretion in a rate proceeding to determine the capital structure that would result in just and reasonable rates, based on record evidence. Therefore, the OCA submits that the Commission should deny the Company's Exception No. 1 and apply the OCA's proposed hypothetical capital structure. OCA R. Exc. at 1-5.

In its Replies to Exceptions, CAUSE-PA echoes the assertion of I&E and the OCA that the Commission should adopt the ALJ's recommendation to impose a hypothetical capital structure of 50.00% common equity and 50.00% long-term debt. CAUSE-PA is of the same opinion as I&E and the OCA, as expressed in their Replies to Exceptions above, that using an imputed capital structure of 50.00% common equity and 50.00% long-term debt for ratemaking purposes would produce just and reasonable rates. According to CAUSE-PA, such a conclusion is well supported by substantial evidence in the record and appropriately balances the interests of NFGD, its ratepayers, and the public interest, in accordance with well-established principles of ratemaking. CAUSE-PA R. Exc. at 2-3. On the other hand, CAUSE-PA points to the testimony of the OCA's witness, Ms. Maureen Reno, that the Company's proposed capital structure exceeds both the average equity ratio approved by regulatory commissions in recent years and the NFGD Proxy Group average and median expected for 2026. *Id.* at 3 (citing CAUSE-PA M.B. at 37-38; CAUSE-PA R.B. at 12 (citing OCA St. 3 at 24)).

Thus, CAUSE-PA submits that in recommending that the OCA's proposed hypothetical capital structure be employed, the ALJ correctly determined that the Company's proposed capital structure is both atypical for the industry and weighted too heavily on the equity side. CAUSE-PA adds that the Company fails in its Exception No. 1 to point to any record evidence substantiating its claim that it would be unable to attract capital and maintain its credit under a 50.00% common equity ratio. CAUSE-PA

insists that under the constitutional framework established by *Hope Natural Gas* and *Bluefield*, *supra*, the capital structure and rate of return the Commission authorizes must be sufficient to allow NFGD to attract capital and maintain its credit rating, and must balance investor and consumer interests. According to CAUSE-PA, the ALJ's recommendation appropriately strikes this balance. CAUSE-PA R. Exc. at 4-5.

4. Disposition

On review of the record developed in this proceeding, we shall grant NFGD's Exception No. 1, in part, and deny it, in part, consistent with the discussion below.

It has been longstanding precedent in base rate cases before this Commission that "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. This actual capitalization forms the basis upon which the Company attracts capital." *Columbia Gas 2025* at 210-11; *see also, PPL 2012* at 68; *Columbia Gas 2021* at 116; *PECO 2021* at 144; *Columbia Water 2024* at 83; and *PAWC 2024* at 158. Therefore, this Commission has generally only exercised its discretion to impose a hypothetical capital structure if it determines that the subject utility's proposed actual capital structure is either atypical or too heavily weighted on either the debt or the equity side. *See PAWC 2026* at 184; *Columbia Gas 2025* at 212; *PAWC 2024* at 158; *see also PPL 2012* at 68; *Columbia Gas 2021* at 116-17; *PECO 2021* at 144-45; *Aqua 2022* at 139; and *Columbia Water 2024* at 84. However, in its recent decision in *PAWC 2026*, the Commission also established that for ratemaking purposes, it is sometimes appropriate to deviate from applying a utility's actual capital structure. *PAWC 2026* at 184-85.

Against this backdrop, we now examine the appropriate capital structure to apply in setting the overall rate of return in this instant proceeding. As discussed in Section IX.A, *supra*, we have found that the I&E Proxy Group is the one that most closely resembles the subject utility, NFGD. Table 8, below, provides information regarding the individual capital structures of the six companies that comprise the I&E Proxy Group.

Table 8: Capital Structures of the Companies in the I&E Proxy Group

Proxy Group Capital Structure

	2024		2023		2022		2021		2020		Average
Atmos Energy Corporation											
Long-term Debt	$ 8,085.015	39.94%	$ 6,833.663	38.60%	$ 5,944.948	38.69%	$ 5,124.950	39.33%	$ 4,732.850	41.07%	39.53%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	12,157.669	60.06%	10,870.064	61.40%	9,419.091	61.31%	7,906.889	60.67%	6,791.203	58.93%	60.47%
	20,242.684	100.00%	17,703.727	100.00%	15,364.039	100.00%	13,031.839	100.00%	11,524.053	100.00%	100.00%
Chesapeake Utilities Corp.											
Long-term Debt	1,270.400	47.75%	1,197.625	49.01%	590.780	41.50%	558.474	41.91%	518.371	42.65%	44.56%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	1,390.200	52.25%	1,246.104	50.99%	832.801	58.50%	774.130	58.09%	697.085	57.35%	55.44%
	2,660.600	100.00%	2,443.729	100.00%	1,423.581	100.00%	1,332.604	100.00%	1,215.456	100.00%	100.00%
New Jersey Resources Corporation											
Long-term Debt	3,038.767	58.00%	2,916.040	59.43%	2,623.784	59.08%	2,303.527	58.55%	2,354.496	56.07%	58.23%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	2,200.443	42.00%	1,990.735	40.57%	1,817.210	40.92%	1,630.862	41.45%	1,844.692	43.93%	41.77%
	5,239.210	100.00%	4,906.775	100.00%	4,440.994	100.00%	3,934.389	100.00%	4,199.188	100.00%	100.00%
NiSource Inc.											
Long-term Debt	12,092.700	58.20%	11,081.300	57.27%	9,555.500	55.78%	9,211.300	57.01%	9,249.700	61.66%	57.98%
Preferred Stock	-	0.00%	486.100	2.51%	1,546.500	9.03%	1,546.500	9.57%	880.000	5.87%	5.40%
Common Equity	8,684.200	41.80%	7,783.500	40.22%	6,028.900	35.19%	5,400.800	33.42%	4,872.200	32.48%	36.62%
	20,776.900	100.00%	19,350.900	100.00%	17,130.900	100.00%	16,158.600	100.00%	15,001.900	100.00%	100.00%
Northwest Natural Holding Company											
Long-term Debt	1,755.269	55.89%	1,502.602	53.93%	1,325.132	52.99%	1,124.055	54.59%	940.702	51.42%	53.76%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	1,385.371	44.11%	1,283.838	46.07%	1,175.441	47.01%	935.146	45.41%	888.733	48.58%	46.24%
	3,140.640	100.00%	2,786.440	100.00%	2,500.573	100.00%	2,059.201	100.00%	1,829.435	100.00%	100.00%
ONE Gas, Inc.											
Long-term Debt	2,396.686	43.57%	2,174.701	44.02%	2,679.143	50.90%	3,707.778	61.21%	1,613.228	41.94%	48.33%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	3,104.548	56.43%	2,765.877	55.98%	2,584.426	49.10%	2,349.532	38.79%	2,233.311	58.06%	51.67%
	5,501.234	100.00%	4,940.578	100.00%	5,263.569	100.00%	6,057.310	100.00%	3,846.539	100.00%	100.00%
Five-Year Average Capital Structure											
Long-term Debt	50.40%		Maximum	58.23%	Minimum	39.53%					
Preferred Stock	0.90%										
Common Equity	48.70%		Minimum	36.62%	Maximum	60.47%					
	100.00%										

I&E Exh. 2, Sch 4. As noted in Table 8, although the Company's proposed common equity ratio of 56.40% falls squarely within the range of common equity ratios of the companies in the I&E Proxy Group, it falls at the higher end of the range. This is true whether we examine: (1) the most recent five-year average range of the individual company capital structure ratios in the I&E Proxy Group, which range from 39.53% to 58.23% long-term debt and 36.62% to 60.47% common equity; or (2) if we consider only the most recently available year, 2024, where the capital structures ranged from 39.94% to 58.20% long-term debt and 41.80% to 60.06% common equity.

Thus, in comparing NFGD's proposed capital structure to the capital structures in the I&E Proxy Group, which we have determined is the proxy group that best approximates the Company, we find the Company's proposed capital structure to be weighed too heavily toward the equity side. Based upon *Value Line*'s projected 2027 capital structures for the companies in the I&E Proxy Group, which range from 40.00% to 55.50% long-term debt and 44.00% to 60.00% common equity, as set forth in Table 9, we note that this will continue to be the case in the FPFTY.

Table 9: Projected 2027 Capital Structures of the Companies in the I&E Proxy Group

Value Line 2027 Capital Structure Projections		
	Long-Term Debt Ratio	**Common Equity Ratio**
Atmos Energy Corp.	40.00%	60.00%
Chesapeake Utilities Corp.	48.00%	51.00%
New Jersey Resources Corp.	55.50%	44.00%
NiSource Inc.	55.00%	45.00%
Northwest Natural Gas Co.	55.00%	45.00%
ONE Gas, Inc.	44.00%	56.00%
	Minimum	**Maximum**
Common Equity Range	44.00%	60.00%
Long-Term Debt Range	40.00%	55.50%

I&E St. 2 at 18.

In our view, this equity heavy capital structure must be recognized when considering NFGD's financial risk, as a company which has a higher equity ratio generally corresponds with a company that experiences a lower financial risk, than does a company with a lower equity ratio. As such, based upon the total record developed in this proceeding, including the concerns raised by various Parties regarding affordability, we find that, for ratemaking purposes, NFGD's proposed capital structure is unreasonable. I&E St. 2 at 15, 18, 19. We note that based upon the Company having reduced its requested ROE, first through the elimination of its requested 25-basis point

management effectiveness adjustment, discussed below in Section IX.D.2, and then by an additional 50 basis points in its Main Brief, the Company is clearly aware of the current concerns regarding customer affordability. In our view, a reduction in the authorized equity percentage is appropriate, in light of customer affordability concerns. I&E St. 2-SR at 7. Accordingly, we shall reject the Company's argument in its Exception No. 1 that its projected actual capital structure should be adopted.

At the same time, however, we find that imposing a hypothetical capital structure of 50.00% common equity and 50.00% long-term debt on NFGD, as recommended by the ALJ, would, in and of itself, be atypical. In this regard, while we find that the Company's proposed actual capital structure is too equity heavy, as noted above, the Company's proposed common equity ratio still falls squarely within the range of common equity ratios in the I&E Proxy Group, as set forth in Table 8, and as projected in Table 9. For example, the Company's proposed common equity ratio of 56.40% is 366 basis points (*i.e.* 3.66%) below Atmos Energy Corporation's (Atmos) 2024 common equity ratio of 60.06%, and is 360 basis points (*i.e.* 3.60%) below Atmos' projected common equity ratio of 60.00% for 2027, according to *Value Line.* [60.06% - 56.40% = 3.66%]; [60.00% - 56.40% = 3.60%]. Moreover, we note that Table 8, above, indicates that between 2023 and 2024, the common equity ratios increased for four of the six companies in the I&E Proxy Group: Chesapeake, New Jersey Resources Corporation, NiSource Inc., and ONE Gas, Inc. As such, we shall grant the Company's Exception No. 1, in part, by declining to adopt the ALJ's recommended hypothetical capital structure. We note that in its recent decision in *PAWC 2026,* the Commission declined to impose a "50-50" hypothetical capital structure on similar grounds as what we have determined above. *See PAWC 2026* at 185.

Instead, based upon the record in this proceeding, we shall impose the hypothetical capital structure of 55.00% common equity and 45.00% long-term debt, as

advocated by I&E in its testimony and its briefs. In our view, imposing this capital structure, in lieu of either the Company's proposed actual capital structure or a "50-50" hypothetical capital structure, will best balance the interests of both NFGD and its ratepayers. *See* I&E St. 2 at 16; I&E St. 2-SR at 6-7. As discussed in Section X.D.3, *infra,* we shall award the Company an ROE of 9.86%. As shown below in Table 10, applying this ROE along with the final adjustments that we shall adopt in this proceeding, utilizing I&E's proposed hypothetical capital structure to set the overall rate of return, in lieu of the Company's proposed actual capital structure, will save the Company's ratepayers approximately $649,204, on an annual basis.

Table 10: Comparison of the Final Revenue Requirement Produced Using NFGD's Actual Capital Structure with the Final Revenue Requirement Produced Using I&E's Proposed Hypothetical Capital Structure

Applying NFGD's Proposed Actual Capital Structure					Applying I&E's Proposed Hypothetical Capital Structure				
Type of Capital	Ratio	Cost Rate	Weighted Cost		Type of Capital	Ratio	Cost Rate	Weighted Cost	
Long-Term Debt	43.60%	5.58%	2.43%		Long-Term Debt	45.00%	5.58%	2.51%	
Common Equity	56.40%	9.86%	5.56%		Common Equity	55.00%	9.86%	5.42%	
Total	100.00%		7.99%		Total	100.00%		7.93%	
RR = T + E + D + (RB x ROR)					RR = T + E + D + (RB x ROR)				
		T	$3,596,292				T	$3,304,478	
	+	E	$202,040,035			+	E	$202,030,102	
	+	D	$25,302,000			+	D	$25,302,000	
			$230,938,327					$230,636,580	
		RB	$571,480,614				RB	$571,417,266	
	x	ROR	7.99%			x	ROR	7.93%	
			$45,683,703					$45,336,246	
		T+E+D	$230,938,327				T+E+D	$230,636,580	
	+	(RB x ROR)	$45,683,703			+	(RB x ROR)	$45,336,246	
		Total RR	$276,622,030	A			Total RR	$275,972,826	B
Revenue Requirement Difference								($649,204)	C=B-A

C. Cost of Debt

1. Positions of the Parties

NFGD proposed an actual cost of long-term debt of 5.58%. NFGD represented that no party has challenged the Company's claimed cost rate for long-term debt. NFGD M.B. at 54, 62.

I&E and the OCA each confirmed that they took no issue with applying the Company's claimed long-term debt cost rate in determining the appropriate rate of return for the Company in this proceeding. I&E M.B. at 28-29; OCA M.B. at 53. The OCA added that expected market rates for Moody's Aaa-rated and Baa-rated corporate bonds remain consistent with NFGD's embedded debt cost and support the reasonableness of the Company's proposed debt component. OCA M.B. at 53.

2. Recommended Decision

The ALJ agreed with NFGD's proposed long-term debt cost rate of 5.58% and recommended its adoption. R.D. at 220.

3. Disposition

No Party filed Exceptions to the ALJ's recommendation on this issue. Finding the ALJ's recommendation to be reasonable and supported by substantial record evidence, we shall adopt it without further comment. Accordingly, we shall approve a long-term debt cost rate of 5.58% for NFGD in this proceeding.

D. Cost of Common Equity

1. Methods for Determining the Cost of Common Equity

In this rate proceeding, NFGD used three methods for calculating the cost of equity in presenting its position on a reasonable ROE: (1) the Discounted Cash Flow (DCF) model, (2) the Capital Asset Pricing Model (CAPM), and (3) the Bond Yield Risk Premium (RP) model. I&E and the OCA, likewise, utilized variations of the DCF and the CAPM models but disagreed with the Company that any variation of the Bond Yield RP model should be considered. Furthermore, I&E considered the national average of authorized ROEs awarded to NGDCs in regulatory jurisdictions across the United States for base rate cases decided between 2025 and March 11, 2026. These Parties' positions were generally developed through comparison groups' market data, costing models, and reflection or rejection of risk and leverage adjustments, as will be further addressed below.[67] Table 11, *infra*, summarizes the cost of common equity claims made, and the methodologies used by the Parties in this proceeding:

[67] Additionally, as discussed below in Section IX.D.2, the Company initially proposed the inclusion of a management effectiveness adjustment in setting its ROE. However, the Company withdrew this request in its rebuttal testimony.

Table 11: Summary of Cost of Equity Claims and Methodologies in this Proceeding[68]

Party	DCF	CAPM	RP	National Average of Recent Authorized NGDC ROEs	ROE
NFGD	10.65%-11.37%	11.47%-11.58%	10.44%		**10.50%**
I&E	10.47%	9.25%		9.70%	**9.81%**
OCA	9.74%	8.99%			**9.74%**
OCA Alternative Proposed ROE					**9.06%**

NFGD M.B. at 6; NFGD St. 10-R at 12; I&E M.B. at 27; OCA M.B. at 55, 60; OCA St. 3 at 55.

a. DCF

The DCF model, applied to a proxy group of similar utilities, has historically been the primary determinant utilized by the Commission in calculating a utility's cost of common equity. *Pa. PUC v. City of Lancaster – Bureau of Water*, Docket No. R-2010-2179103 (Order entered July 14, 2011) at 56; *Pa. PUC v. PPL Electric Utilities Corp*., Docket No. R-00049255 (Order entered December 22, 2004) (*PPL 2004*) at 59. The DCF model assumes that the market price of a stock is the present value of the future benefits of holding that stock. These benefits are the future cash flows of holding the stock, *i.e.*, the dividends paid and the proceeds from the ultimate sale of the stock. Because dollars received in the future are worth less than dollars received today, the cash flow must be "discounted" back to the present value at

[68] As discussed in Section IX.D.3, *infra*, the OCA submitted that if the Commission adopts the Company's proposed use of an actual capital structure, then it should approve an ROE for the Company of 9.06%. Additionally, CAUSE-PA submitted that the Commission should adopt the OCA's primary proposed ROE of 9.74%. Further, the OSBA proposed that the Commission award the Company an ROE of 9.75%. However, neither the OSBA nor CAUSE-PA proposed the use of a specific method for determining the cost of common equity.

the investor's rate of return. *Columbia Gas 2025* at 216; *PAWC 2026* at 190. The DCF model is considered a forward looking model to estimate the cost of common equity. I&E St. 2 at 22.

(1) Positions of the Parties

NFGD highlighted that the Commission has used the DCF model as the primary model for establishing the cost of equity. NFGD M.B. at 62. NFGD explained that in its most general form, the DCF model is expressed as follows:

$$P_0 = \frac{D_1}{(1+k)} + \frac{D_2}{(1+k)^2} + \ldots + \frac{D_\infty}{(1+k)^\infty}$$

Where P_0 represents the current stock price, D_1 … $D\infty$ are all of the expected future dividends, and k is the discount rate, or required ROE. The Company noted that this formula is a standard present value calculation, which can be simplified and rearranged to the Constant Growth form of the DCF model, expressed as the sum of the expected dividend yield and long-term growth rate, as follows:

$$k = \frac{D(1+g)}{P_0} + g$$

Where "k" equals the required return, "D" is the current dividend, "g" is the expected growth rate, and "P_0" represents the current stock price. When expressed in this form, NFGD explained, the cost of common equity is equal to the expected dividend yield plus the dividend growth rate. NFGD St. 10 at 28.

NFGD continued that the Constant Growth DCF model is based on the following assumptions: (1) a constant average growth rate for earnings and dividends;

(2) a stable dividend payout ratio; (3) a constant price-to-earnings multiple; and (4) a discount rate greater than the expected growth rate. NFGD adjusted the dividend yield to account for periodic growth in dividends and used the consensus analyst five-year growth estimates in earnings per share (EPS) from S&P Capital IQ and Zacks, as well as EPS growth rate estimates published by *Value Line*. Thus, the Company determined its DCF results for each of the NFGD Proxy Group companies using the following inputs: (1) average stock prices for the historical period, over 30-, 90-, and 180- trading days through March 31, 2026; (2) annualized dividends per share (DPS) as of November 28, 2025; and (3) company-specific earnings growth forecasts for the term "g." NFGD St. 10 at 29-32; NFGD St. 10-R at 11. According to the Company, use of the DCF model based upon current dividend yields and analysts' five-year 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. The Company further opined that the Commission's long-term primary reliance on the DCF using EPS growth has served the Commission and the Commonwealth well and should be utilized in this proceeding. NFGD M.B. at 62, 63-64. NFGD calculated a 10.65% median DCF result and an 11.37% mean DCF result based on analysts' projections of earnings. NFGD St. 10-R at 12.

I&E agreed that the DCF model "has the most widespread regulatory acceptance." Tr. at 199. I&E employed the standard DCF model, $k = D_1/P_0 + g$, where k is the cost of common equity, D_1 is the dividend expected during the year, P_0 is the current price of the stock, and g is the expected growth rate of dividends. Utilizing this DCF model, I&E calculated that the DCF methodology produces a cost of common equity of 10.47%. I&E explained that because forecasts for each company in the I&E proxy group were available from *Value Line*, no dividends were adjusted for the purpose of its analysis. I&E argued that a representative dividend yield must be calculated over a time frame that avoids problems of both short-term anomalies and stale data. I&E's dividend yield calculation placed equal emphasis on the most recent spot price and the

52-week average dividend yields, resulting in an average dividend yield of 3.22%. I&E used five-year EPS growth rate estimates from S&P, Zacks, and *Value Line*, resulting in an average forecasted earnings growth rate of 7.25%. Because I&E disagreed with the inclusion of Spire and Southwest Gas in the NFGD Proxy Group, I&E contended that the Company's DCF results were inflated. I&E St. 2 at 30-32, 39.

The OCA, likewise, acknowledged that the DCF model has been the predominant ROE model utilized by regulatory bodies across the United States, including by the Commission in Pennsylvania. The OCA utilized three DCF models in its analysis: (1) a Constant Growth DCF model using EPS growth, (2) a Constant Growth DCF model using EPS, DPS, and book value per share (BVPS) growth, and (3) a Sustainable Growth DCF model. The OCA's DCF analysis produced a range of 8.88% to 10.61%, with a midpoint of 9.74%. The OCA first calculated expected earnings growth using the average of analyst forecasts from three independent and widely recognized sources: *Value Line*, S&P Global Market Intelligence (S&P Global), and Zacks, which resulted in an average expected earnings growth rate of 7.92%, with median DCF results of 10.48% and 10.61%. The OCA reasoned that investors are not solely concerned with earnings growth, but also consider dividend and book value growth. The OCA also adjusted its DCF results by averaging *Value Line*'s DPS and BVPS estimates with the previously estimated growth rate result, weighted equally, which produced a growth rate of 5.45% with median DCF results of 8.88% and 9.03%. According to the OCA, including several different indicators will mitigate the risk that any single forecast will distort the resulting ROE estimate. OCA M.B. at 55, Table 3; OCA M.B. at 56; OCA St. 3 at 41.

The OCA explained that it also employed a sustainable growth approach, which measures the rate at which a company can grow over time through internally generated earnings while maintaining its existing capital structure and dividend payout practices. The OCA continued that rather than relying solely on external analyst

forecasts, the sustainable growth model derives growth from fundamental financial characteristics, such as earnings retention, dividend payout ratios, and expected returns on equity. The OCA submitted that because the Sustainable Growth DCF model is grounded in the company's underlying financial fundamentals, the sustainable growth approach provides an important check on potentially optimistic analyst earnings projections and helps ensure that growth assumptions remain economically realistic. According to the OCA, NFGD's primary reliance on only a Constant Growth DCF model using EPS produces an inflated ROE result. Thus, the OCA posited that the Commission should adopt the OCA's DCF analysis as the more reasonable and better-supported estimate of NFGD's cost of equity. OCA M.B. at 56-59.

NFGD countered that the OCA's DCF model should be rejected. First, the Company asserted that the Commission has not used DPS or BVPS in the growth component of the DCF because it is earnings that drive dividends and book value growth. NFGD added that the OCA's Constant Growth DCF results derived using its combined dividend, earnings, and book value growth assumptions produce ROE estimates that fall 12 to 27 basis points below the lowest authorized ROE for NGDCs since at least 2024. Second, the Company argued that the Commission has rejected the use of a sustainable growth rate DCF in determining the allowed ROE in prior rate proceedings and contended that the use of a Sustainable Growth DCF model requires the use of multiple assumptions which may lead to erroneous results. NFGD M.B. at 63; NFGD R.B. at 26; NFGD St. 10-R at 63-65.

b. CAPM

The CAPM uses the yield on a risk-free interest-bearing obligation (such as those issued by the United States Treasury) plus a rate of return premium that is proportional to the systematic risk of an investment. To compute the cost of equity with the CAPM, three components are necessary: a risk-free rate of return (R_f), the beta

measure of systematic risk (β), and the market risk premium (R_m-R_f) derived from the total return on the market of equities, reduced by the risk-free rate of return. The CAPM specifically accounts for differences in systematic risk (*i.e.*, market risk as measured by the beta) between an individual firm or group of firms and the entire market of equities. *Columbia Gas 2025* at 220.

NFGD, I&E, and the OCA each used the following standard CAPM formula:

$$k = R_f + \beta(R_m - R_f)$$

Where: k= the cost of equity and the remaining terms are as defined above.

NFGD St. 10 at 34; I&E St. 2 at 32-33; OCA St. 3 at 51.

(1) Positions of the Parties

NFGD asserted that the CAPM is a useful tool in setting a utility's ROE. NFGD M.B. at 65. The Company considered three estimates of the expected risk-free rate: (1) the current 30-day average yield on 30-year U.S. Treasury bonds of 4.66%; (2) the projected 30-year U.S. Treasury bond yield for Quarter 1 of 2026 through Quarter 1 of 2027 of 4.60%; and (3) the projected 30-year U.S. Treasury bond yield for 2027 through 2031 of 4.60%. NFGD argued that it is important to consider both current and projected bond yields and that using the 5-year forecast of bond yields helps alleviate any short-term market factors affecting the risk-free rate in the CAPM formula. NFGD further reasoned that because it is financing long-lived assets, the cost of capital should be forward looking to reflect that perspective. NFGD St. 10 at 35.

The Company utilized two measures of beta for the NFGD Proxy Group companies: (1) the reported beta coefficients from Bloomberg (which are calculated using ten years of weekly data against the S&P 500 Index); and (2) the reported beta coefficients from *Value Line* (which are calculated using five years of weekly data against the New York Stock Exchange Composite Index). In addition, in calculating the market risk premium, NFGD used the Constant Growth DCF model to estimate the market capitalization-weighted total market return for the S&P 500 Index, using projected earnings growth rates and dividend yields. The Company then applied FERC's more conservative convention to consider only a subset of S&P 500 companies with growth rates that are between 0% and 20%. NFGD St. 10 at 35-36. Based upon the above, NFGD calculated an 11.47% median CAPM result and an 11.58% mean CAPM result. NDGD St. 10-R at 12.

I&E, likewise, included a CAPM analysis in its ROE recommendation, noting that it has been recent Commission precedent to employ more than one ROE methodology. In setting its proposed ROE, I&E chose to use both the CAPM and the DCF, arguing that these models each include inputs that allow the results to be specific to the utility industry. I&E St. 2 at 25.

I&E disagreed with NFGD's use of the 30-year Treasury bond to determine the traditional CAPM risk-free rate and instead supported the use of the 10-year Treasury note. I&E also reasoned that although the yield on the short-term T-Bill is a more theoretically correct parameter to represent a risk-free rate of return, it can be extremely volatile and is directly influenced by Federal Reserve policy. Conversely, I&E continued, the 30-year Treasury bond exhibits more stability but has substantial maturity risk associated with market risk and the risk of unexpected inflation. Thus, I&E asserted that the yield on the 10-year Treasury note mitigates the shortcomings of the other two alternatives, and the Commission has historically recognized the 10-year Treasury note as the superior measure of the risk-free rate of

return. Namely, I&E utilized the projected yield on the 10-year Treasury note set forth in Blue Chip Financial Forecasts (*Blue Chip*) for its estimate of the risk-free rate of 4.20%. Next, I&E used a *Value Line* beta coefficient of 0.78. Further, to determine the market risk premium, I&E first determined the overall market return by averaging a forward looking *Value Line* median return estimate of 10.78% and the average return of the S&P 500 over the past 100 years of 12.35%. This produced an average market risk premium of 11.57%. [(10.78% + 12.35%)/2 = 11.57%]. I&E R.B. at 26; I&E St. 2 at 33-35. As shown in Table 12, this resulted in a traditional CAPM ROE result of 9.95%.

Table 12: Result of I&E's Traditional CAPM Calculation Using a Forecasted Market Return

K	$=$	R_f	$+$	$\beta (R_m - R_f)$
9.95%	=	4.20%	+	0.78 (11.57% - 4.20%)

I&E St. 2 at 35.

I&E also calculated a second CAPM-based ROE estimate, relying on Kroll's recommended U.S. Equity Risk Premium (ERP), and the 20-Year U.S. Treasury Bond yield as of January 30, 2026, of 5.00% and 4.65%, respectively. As shown in Table 13, this resulted in a proposed CAPM ROE of 8.55% using Kroll's inputs.

Table 13: I&E's CAPM Calculation Using Kroll's Inputs

K	$=$	R_f	$+$	β (ERP)
8.55%	=	4.65%	+	0.78 (5.00%)

Finally, I&E averaged its CAPM calculations to arrive at an overall proposed composite CAPM ROE of 9.25%. [(9.95% + 8.55%)/2 = 9.25%]. I&E St. 2 at 36-37.

NFGD argued that yields on U.S. Treasury bonds have increased since January 2026. Additionally, NFGD submitted that the Commission should not give any weight to I&E's use of Kroll's inputs in determining its CAPM ROE. According to the Company, these inputs result in a CAPM ROE that is understated, noting that the Kroll CAPM result is lower than any authorized ROE for an NGDC since at least 1980. NFGD R.B. at 25, 36; NFGD St 10-R at 47.

I&E countered that although the Kroll-based CAPM ROE result of 8.55% may be lower than previous authorized ROEs for NGDCs, it is not appropriate to ask the Commission to give it no consideration. Rather, I&E asserted that it used the Kroll ERP in its CAPM analysis to provide more information to the Commission, given that it has recently expressed increasing interest in the CAPM model. I&E stressed its position that Kroll is a trusted and publicly available source that bases its recommended ERP on current and forecasted economic and financial conditions. I&E added that using Kroll's methodology eliminates the potential bias of any involved parties, given that I&E used Kroll's recommended input of the 20-year Treasury yield in its analysis. I&E St. 2-SR at 18-20.

The OCA's CAPM results ranged from 7.43% to 10.55%, with a midpoint of 8.99%. The OCA explained that although its proposed ROE was not based upon the CAPM, it applied the CAPM to derive a total of three ROE estimates: the "CAPM historical large Stock ERP," the "CAPM supply-side ERP," and the "CAPM Kroll's recommended ERP," which, it stated, served as a check of the reasonableness of its DCF results. The OCA applied the 30-day average of 30-year Treasury yields as of February 27, 2026 of 4.76% in calculating the risk-free rate for both its CAPM Historical Large Stock ERP and its CAPM supply-side ERP. As to the CAPM Kroll's

recommended ERP, the OCA applied Kroll's normalized risk-free rate of 3.50%. Across its CAPM approaches, the OCA varies the market risk premium using Kroll estimates, resulting in ERPs of 7.37%, 6.31%, and 5.00% for the CAPM Historical Large Stock ERP, the CAPM supply-side ERP, and the CAPM Kroll's recommended ERP, respectively. Finally, the OCA relied upon the *Value Line* average beta coefficient of 0.79 for the NFGD Proxy Group companies for all three CAPM estimates. The OCA submitted that the Company's CAPM estimate was high due to inflated market returns, high EPS growth rates, and resulting high equity risk premiums. OCA St. 3 at 50-55.

In setting forth its alternative proposed ROE in the event the Commission adopts the Company's proposed actual capital structure, discussed in Section IX.B, *supra,* the OCA utilized the Hamada model which, it explained, links a firm's unlevered beta (*i.e.* business risk) to its levered beta (*i.e*,. equity risk after debt financing). In using its Hamada version of the CAPM model, the OCA used the 30-day average of yields on the 30-year Treasury bond of 4.76%, the NFGD Proxy Group's average beta coefficient of 0.79, and the average of its market risk premium of 6.23%. The OCA explained that if the Commission were to adopt the Company's actual capital structure, this would result in a Hamada CAPM ROE of 9.21%. OCA St. 3 at 63-65. The OCA added that it used the Hamada version of the CAPM for its reasonableness check because the DCF model does not directly incorporate the impact of the capital structure on ROE. OCA M.B. at 54.

NFGD argued that in calculating its CAPM analyses, the OCA did not appear to have considered whether any of its estimates are too low. The Company argued that if the OCA believes its estimates should be assessed for reasonableness, then it should also acknowledge where its results are unreasonably low. Namely, NFGD highlighted that the OCA's CAPM estimates, which were as low as 7.43%, are well below any returns authorized for NGDCs for at least the past 46 years. NFGD St. 10-R at 67.

c. Bond Yield RP

The Bond Yield RP model recognizes that equity is riskier than debt because equity investors bear the residual risk associated with ownership. Equity investors, therefore, require a greater return (i.e., a premium) than would a bondholder. The Bond Yield RP model estimates the cost of equity as the summation of the ERP and the yield on a particular class of bonds. Because the ERP is not directly observable, it is typically estimated using a variety of approaches, some of which incorporate forward-looking estimates of the cost of equity and others that consider historical estimates. The Bond Yield RP model uses the formula ROE = RP + Y, where RP = Risk Premium (the difference between the allowed ROE and the 30-Year Treasury Yield); and Y = the applicable bond yield. NFGD St. 10 at 37-38.

(1) Positions of the Parties

NFGD submitted that the Bond Yield RP method provides another perspective on investors' required return and should therefore be considered by the Commission in calculating the authorized ROE in this proceeding. More specifically, NFGD submitted that it is important to consider this ROE model because of its connection of interest rates and inflation through utility bond rates and because this model recognizes that risk premiums change inversely as interest rates change. In conducting its Bond Yield RP analysis, the Company relied upon authorized ROEs from a large sample size of NGDC rate cases between January 1, 1992, and November 28, 2025, as reported by Regulatory Research Associates. Conducting a regression analysis, NFGD asserted that the risk premium varies with the level of bond yield, and generally increases as the bond yields decrease, and vice versa. Next, in applying this relationship to current and expected bond yields, NFGD considered estimates of the 30-year Treasury yield, including the current 30-day average, a near-term *Blue Chip* consensus forecast for Quarter 1 2026 through Quarter 1 2027, and

a *Blue Chip* consensus forecast for 2027–2031. NFGD M.B. at 66; NFGD St. 10 at 38-39; NFGD St. 10-R at 72-76. Based upon this analysis, NFGD calculated a 10.44% median Bond Yield RP result and a 10.44% mean Bond Yield RP result. NFGD St. 10-R at 12.

I&E submitted that the Bond Yield RP method should not be used in determining an appropriate cost of equity in a base rate proceeding. I&E pointed out that the Bond Yield RP method is a simplified version of the CAPM model. However, I&E noted that while the CAPM model directly measures the systematic risk of the company through the use of a beta, the Bond Yield RP method does not measure the specific risk of the company. I&E St. 2-SR at 21.

The OCA likewise disagreed with the Company's use of the Bond Yield RP method. According to the OCA, NFGD's RP analysis is problematic because it assumes a simplified inverse relationship between Treasury bond yields and ERPs without adequate regard to differences in investment risk, changes in the market's perception of debt and equity risk, interest-rate volatility, and the effect of inflation on risk premiums. The OCA added that authorized ROEs are regulatory outcomes, not direct measures of investor behavior. According to the OCA, using multiple methodologies does not require accepting *every* methodology offered by the Company, particularly where the method is built on historical authorized ROEs rather than direct investor market behavior. OCA St. 3-SR at 22-23.

d. Recommended Decision

The ALJ summarized the three methods that the Company used to calculate its proposed ROE. Additionally, the ALJ summarized the ROEs proffered by each of I&E, the OCA, the OSBA, and CAUSE-PA. R.D. at 176-79, 184-85, 191-96, 199-201. 207-08, 216-18, and 221. Furthermore, as discussed below in Section IX.D.3,

the ALJ, at different portions of the Recommended Decision, recommended the adoption of both I&E's proposed ROE and that of the OCA. However, the ALJ did not explicitly recommend a specific methodology to apply in setting the appropriate ROE for NFGD in this proceeding.

e. Disposition

No Party filed Exceptions requesting that the Commission clarify the appropriate methodology to apply in arriving at the appropriate authorized ROE for NFGD in this proceeding. However, because choosing the appropriate methodology is part and parcel to arriving at the appropriate ROE, we shall provide this clarification on our own accord.

As each of NFGD, I&E, and the OCA noted, the DCF model has been the primary model relied upon by this Commission in setting the appropriate ROE to authorize a utility in a base rate proceeding. Thus, we first examine the specific DCF models utilized by each Party in this proceeding. On review of the record evidence, we shall utilize I&E's DCF results. We are of the opinion that I&E has correctly utilized a dividend yield calculation which places equal emphasis on the most recent spot price and the 52-week average dividend yields. Furthermore, I&E's use of 5-year EPS projected growth rate estimates from established forecasting entities is consistent with Commission precedent. *See* I&E St. 2 at 31; *PAWC 2026* at 191, 197. In our view, use of the DCF model based upon current dividend yields and analysts' five-year projected earnings provides a strong basis for determining the cost of equity. NFGD M.B. at 62.

We find the methods employed by I&E in reaching its DCF ROE of 10.47% to be preferable to the methods employed by either the Company or the OCA. First, as I&E pointed out, NFGD's inclusion of Spire and Southwest Gas in the NFGD Proxy Group has inflated the Company's DCF result. I&E further highlighted that if

NFGD had removed Spire and Southwest Gas from its proxy group, it would have arrived at a DCF result that is nearly identical to I&E's DCF result of 10.47%. As we have adopted the use of the I&E Proxy Group and have rejected the use of the NFGD Proxy Group, we concur with I&E.

Second, as the Company noted, the Commission has historically relied on DCF analyses that employ the EPS, and has not used the DPS or BVPS, as advocated by the OCA in reaching its DCF result. The record indicates that: (1) the only forward-looking growth rates that are available on a consensus basis are analysts' EPS growth rates, (2) that growth in dividends occurs primarily as a result of growth in earnings, and (3) investors base their investment decisions on analysts' expectations of growth in earnings. NFGD M.B. at 63-64; NFGD St. 10 at 32; NFGD St. 10-R at 62. Additionally, while the OCA utilized a Sustainable Growth DCF model, the Commission has declined to utilize a sustainable growth rate DCF in determining the allowed ROE in several recent base rate cases. NFGD M.B. at 63; *Columbia Gas 2025* at 219, 225; *Columbia Water 2024* at 90-91, *Aqua 2022* at 105, 145, 153-55. Furthermore, we note that in conducting its analysis, the OCA utilized the NFGD Proxy Group, which we have rejected.

Accordingly, we shall employ I&E's DCF result in our calculation of the Company's ROE in this proceeding and shall reject the DCF results proffered by NFGD and the OCA.

Next, as the Commission noted in its recent decision in *PAWC 2026*, "where evidence based on other methods suggests that the DCF-only results may produce an unreasonable ROE, we will consider those other methods, to some degree, in determining the appropriate range of reasonableness for our equity return determination." *PAWC 2026* at 197. As such, while the Commission has primarily relied upon the DCF method in setting a utility's ROE, it has also, in several recent base

rate proceedings, utilized the results of the CAPM model, finding that it is a useful tool. *See, e.g., Columbia 2025* at 226.

Thus, in *Aqua 2022*, *Columbia Water 2024*, *PAWC 2024,* and *Columbia Gas 2025*, the Commission determined the subject utility's ROE by using informed judgement based on I&E's DCF and CAPM methodologies. We note that in the aforementioned cases, the Commission determined that the CAPM methodology more accurately captured forward-looking changes in inflation. *See Aqua 2022* at 154-55; *Columbia Water 2024* at 105-08; *PAWC 2024* at 171, 194-95; *Columbia Gas 2025* at 225-26, 234-35. Further, as the Commission recently articulated in *PAWC 2026,* in light of the "current economic conditions, including increased inflation and the conflict in Iran, we see no reason to deviate from this recent precedent in this present proceeding." *PAWC 2026* at 197.

Examining the CAPM ROEs proffered in this instant proceeding, we again find that the CAPM calculation proffered by I&E is the most reasonable CAPM result to employ. As noted above, in setting the risk-free rate of return portion of the traditional CAPM, I&E utilized the projected yield from 10-year Treasury notes. I&E asserted that the use of the 10-year Treasury note mitigates the shortcomings of the short-term T-bill and the 30-year Treasury bond. I&E St. 2 at 34; I&E St. 2-SR at 16. We agree. As I&E highlighted, short-term T-bills are directly influenced by Federal Reserve policy. Conversely, although long-term Treasury bonds have less risk of being influenced by federal policies, they have substantial maturity risk associated with market risk. In addition, long-term Treasury bonds bear the risk of unexpected inflation. I&E St. 2 at 34; I&E St. 2-SR at 16-17. We further note that the use of the 10-year Treasury note in calculating the CAPM ROE is consistent with Commission precedent. *See PAWC 2026* at 197-98; *UGI Electric 2018* at 99.

Also consistent with recent Commission precedent is consideration of I&E's CAPM calculation using Kroll's inputs. *See PAWC 2026* at 209-10; *Columbia Gas 2025* at 235. The record indicates that Kroll is a trusted and publicly available source that bases their recommended ERP on current and forecasted economic and financial market conditions. I&E St. 2 at 37. Although the Company asserted, *supra,* that I&E's Kroll CAPM result is lower than any authorized ROE for an NGDC in the United States since at least 1980, we find that based upon the record, I&E's traditional CAPM result, standing alone, may be overstated. In this regard, similar to the Commission's finding in *PAWC 2026,* I&E's traditional CAPM implied ERP ($R_m - R_f$) of 7.37%[69] may be overstated when compared to the Kroll ERP of 5.00%. *PAWC 2026* at 210; *see also Columbia Gas 2025* at 235. Thus, we find it appropriate to utilize I&E's composite CAPM result. Accordingly, in setting the appropriate ROE for NFGD in this proceeding, we shall utilize the average of I&E's CAPM results and shall disregard the CAPM results proposed by the Company and the OCA.

Furthermore, as discussed in more detail in Section IX.D.3, *infra*, in outlining its final proposed ROE, I&E averaged the results of: (1) its DCF; (2) its composite CAPM result; and (3) the national average of recent authorized ROEs for NGDCs across all jurisdictions in the United States. For the reasons discussed in Section IX.D.3, we shall reject the use of a national average of authorized ROEs in setting the authorized ROE for the Company in this proceeding.

Finally, for the reasons articulated by I&E and the OCA, *supra,* we shall decline to consider the Company's ROE results reached using the Bond Yield RP model.

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[69] $R_m = 11.57\%$, $R_f = 4.20\%$, [11.57%-4.20% = 7.37%]. I&E St. 2 at 35.

Thus, in summary, we shall set the Company's authorized ROE using informed judgement based upon calculating the average of: (1) I&E's DCF result and (2) the composite result of I&E's traditional CAPM and Kroll CAPM methods.

2. Management Effectiveness Adjustment

a. Positions of the Parties

NFGD represented that its superior management performance has resulted in positive outcomes for ratepayers in a challenging environment. Therefore, the Company initially sought an upward adjustment of 25 basis points, or 0.25%, to its ROE. Subsequently, however, NFGD withdrew its request, consistent with its other, similar initiatives that, it asserted, demonstrate its recognition of the affordability concerns currently impacting its customers. NFGD M.B. at 66-67.

Acknowledging that the Company withdrew its request for a management effectiveness adjustment, I&E stressed its position that neither NFGD, nor any utility, should be awarded additional basis points for doing what they are required to do to provide adequate, efficient, safe, and reasonable service under Section 1501 of the Code, 66 Pa.C.S. §1501. Additionally, I&E remained of the opinion that if the Company is effective at controlling operating and maintenance costs, those savings should flow through to ratepayers and/or investors. I&E M.B. at 32-33; I&E R.B. at 29.

The OCA asserted that the Company's decision to withdraw its request for an upward adjustment to its ROE for its claimed superior management performance underscored the OCA's conclusion that no management performance premium is warranted in this case and reinforced the OCA's affordability concerns. OCA M.B. at 61.

The OSBA took the position that good management performance is not a separate risk factor warranting an upward adjustment to a utility's ROE, but rather, is the standard expectation embedded in the regulatory compact. OSBA M.B. at 13.

CAUSE-PA acknowledged the Company's decision to withdraw its request for a management performance adjustment to its ROE. CAUSE-PA asserted that awarding such a request would have been inappropriate given, *inter alia,* the dramatic under-enrollment of eligible customers in NFGD's CAP. According to CAUSE-PA, such under-enrollment amounts to a failure of the Company to provide its customers with the most advantageous rate available, thereby highlighting the fact that a management efficiency adder is inappropriate. CAUSE-PA M.B. at 32; CAUSE-PA R.B. at 14.

b. Recommended Decision

The ALJ noted NFGD's assertion that during the litigation process, the Company withdrew its request for an upward adjustment to its ROE for its purported superior management effectiveness. R.D. at 218.

c. Disposition

As noted above, the Company withdrew its request for an upward adjustment of 25 basis points to its ROE for its purported superior management performance. Therefore, we need not address the merits of this request in this proceeding, and no such upward adjustment will be applied to the Company's base ROE.

Before concluding this section, we further note that in its testimony, NFGD sought upward adjustments to its ROE for purported small-size risk, customer concentration risk, and regulatory framework and relative risk. However, the Company

did not seek a specific amount of basis points to be added to its ROE for these claimed risks. *See* NFGD St. 10 at 44-54. Further, the Company, in reducing its final proposed ROE to 10.50% in its Main Brief, NFGD made no mention of any claimed upward adjustments to its ROE for these risks. We find it important to reinforce that in setting the appropriate ROE for the Company in Section IX.D.3, *infra,* we grant no upward adjustment to the Company's ROE for small-size risk, customer concentration risk, or regulatory framework and relative risk.

3. Rate of Return on Common Equity

a. Positions of the Parties

As discussed in Section X.D.1, *supra,* three methods of determining the cost of equity were presented for inclusion in the record in this proceeding: (1) the DCF model; (2) the CAPM model; and (3) the Bond Yield RP model. NFGD relied upon each of these methods in determining its proposed ROE of 11.00%. NFGD M.B. at 62-67; NFGD St. 10-R at 12. However, as previously noted, in its Main Brief, the Company reduced its requested ROE to 10.50% "to demonstrate its continuing . . . responsiveness to the broader concerns around affordability across the economy and the energy sector in particular." NFGD M.B. at 6, Appendix D-Table I. Additionally, as discussed above in Section X.D.2, NFGD voluntarily withdrew its request for an upward adjustment to its ROE for its purported superior management performance. *Id.* at 66-67.

I&E submitted that the Commission should authorize the Company an ROE of 9.81%. As noted in our disposition of Section IX.D.1, *supra*, I&E calculated its proposed ROE by taking the average of: (1) the result of its DCF analysis; (2) a composite CAPM result calculated from the average of its traditional CAPM result and its CAPM result using Kroll's inputs; and (3) the national average of authorized ROEs awarded to NGDCs in jurisdictions across the United States for base rate cases decided

between 2025 and March 11, 2026, based upon data provided by S&P Global. I&E M.B. at 29; I&E St. 2 at 37; I&E Exh. 2, Sch. 7. I&E was of the opinion that an ROE of 9.81% will afford the Company and opportunity to earn a fair return, while also considering the overall cost to ratepayers. I&E R.B. at 26. I&E included a table in its Main Brief, reprinted as Table 14, below, to illustrate the calculation of its proposed ROE of 9.81%.

Table 14: I&E's Proposed ROE

DCF Result	10.47%
Average of I&E Calculated CAPM Result and Kroll CAPM Result	9.25%
National Average of Natural Gas Distribution Authorized ROEs from S&P Global	9.70%
Average*	**9.81%**

*(10.47% + 9.25% + 9.70%) / 3 = 9.81%

I&E M.B. at 27.

The OCA proposed an ROE of 9.74%, utilizing its DCF analysis, *supra,* as the primary basis for its ROE recommendation, and using the Hamada version of its CAPM analysis to check for reasonableness. The OCA asserted that such an ROE is firmly grounded in the long-established standards set forth in *Bluefield* and *Hope Natural Gas, supra.* In this regard, the OCA asserted that under each of those decisions, a utility is entitled to earn a return comparable to investments of similar risk and which is sufficient to maintain financial integrity and attract capital on reasonable terms. The OCA added that such an ROE is fully consistent with recent regulatory outcomes, noting that according to S&P Global, the average authorized ROE for natural gas utilities nationally in 2025 was 9.70%. Alternatively, the OCA submitted that if the Commission

applies the Company's proposed use of an actual capital structure, then it should approve an ROE for the Company of 9.06%. The OCA reasoned that the Company's proposed capital structure contains significantly more equity than the companies in the NFGD Proxy Group, such that its equity investors bear less leverage risk, making it appropriate to award a lower ROE. OCA M.B. at 49, 53, 54, 59, 60.

In its Main Brief, the OCA argued that the Company's final proposed ROE of 11.00%, as set forth in its testimony, was clearly excessive and that no other public utility in Pennsylvania has been awarded an ROE as high as 11.00%. OCA M.B. at 48. In its Reply Brief, the OCA added that NFGD's revised final requested ROE of 10.50%, set forth in the Company's Main Brief, underscores the weakness of its position throughout this proceeding and is akin to the Company having conceded that its final position in its testimony was unreasonable. Moreover, the OCA asserted that no Company witness testified that investors require even a 10.50% return, nor did any witness perform a DCF, CAPM, or other financial analysis supporting that figure. In the OCA's view, the Company's revised request in its Main Brief for an ROE of 10.50% constitutes precisely the type of unsworn attorney argument that this Commission has repeatedly held cannot be relied upon to support any factual determination. OCA R.B. at 37-38.

The OSBA asserted that NFGD's proposed ROE of 11.00% was high, when compared to the authorized ROEs from recent rate cases for the companies of similar risk included in the NFGD Proxy Group.[70] In this regard, the OSBA asserted that the median requested ROE for the companies in the NFGD Proxy Group was 10.85% and the median approved ROE for the proxy group was 9.75%. As such, the

[70] The OSBA addressed the Company's proposed ROE in its Main Brief but not in its Reply Brief. Therefore, at the time of the filing of its Main Brief, the OSBA was not aware of the Company's final updated proposed ROE of 10.50%, outlined in NFGD's Main Brief.

OSBA observed that the Company's proposed base ROE of 11.00% was 125 basis points above the median approved ROE for its proxy group. [11.00% - 9.75% = 1.25%, *i.e.* 125 basis points]. Thus, the OSBA submitted that the revenue requirement impact of setting NFGD's authorized ROE equal to 9.75%, the median ROE for the NFGD Proxy Group, would reduce the Company's revenue requirement by approximately $5,560,798, relative to the Company's originally requested revenue increase. OSBA M.B. at 11, 12.

CAUSE-PA took the position that the Commission should adopt the OCA's proposed ROE of 9.74%. CAUSE-PA stressed that any increase to NFGD's ROE directly increases how much its customers pay on their monthly bills. Thus, CAUSE-PA contended that if the Commission were to grant the Company any higher ROE than 9.74%, this would create a wealth transfer from NFGD's customers to its shareholders, would exacerbate the affordability challenges that NFGD's customers are already facing, and would needlessly enrich NFGD's shareholders at the expense of its customers. CAUSE-PA M.B. at 36-37, 40-42.

b. Recommended Decision

The ALJ recommended that the Commission adopt an ROE for the Company of 9.74%, as advanced by the OCA. The ALJ concluded that granting NFGD's claimed ROE of 11.00% would unfairly transfer the cost burden from ratepayers to shareholders, would exacerbate affordability issues, and would not be just and reasonable.[71] Conversely, the ALJ found that the OCA's proposed ROE of 9.74%

[71] As noted above, the Company, in its Main Brief, adjusted its final proposed ROE downward to 10.50%. Although the ALJ did not discuss the Company's updated final position in making her recommendation as to the ROE to award the Company, she noted the Company's updated final proposed ROE of 10.50% in discussing the positions of the Parties regarding the appropriate ROE to authorize. *See* R.D. at 168, 211, 218; *see also,* CAUSE-PA R. Exc. at 6, n.32.

would more appropriately balance the needs of NFGD with the needs of the Company's ratepayers. R.D. at 219-20, Appendix A-Table I(A).

However, elsewhere in the Recommended Decision, the ALJ recommended that the Commission adopt I&E's proposed ROE of 9.81%. R.D. at 220-21.

c. Exceptions and Replies

(1) NFGD Exception No. 2 and Replies

In its Exception No. 2, NFGD finds fault with the ALJ's recommendation that the Commission adopt the OCA's proposed ROE of 9.74%. More specifically, the Company asserts that the ALJ's sole basis for making this recommendation was that this proposed ROE was the lowest one on the record in this proceeding. According to NFGD, the OCA's ROE result is flawed because the OCA: (1) used methods to determine the DCF growth rate other than analysts' projections; (2) failed to identify a specific cost of equity under the CAPM; and (3) utilized the average allowed ROEs by other jurisdictions as a basis to set its proposed ROE.[72] NFGD Exc. at 11.

First, NFGD argues that the OCA's methods run contrary to the Commission's long-term use of the DCF method using analysts' projections of growth as the primary method to set the ROE. Second, NFGD submits that while the

[72] As previously noted, in its Main Brief, the OCA submitted that its proposed ROE of 9.74% is fully consistent with recent regulatory outcomes, including the recent national average of authorized ROEs of 9.70%, as calculated by S&P Global (and which I&E utilized in calculating its own proposed ROE of 9.81%, *supra*). The OCA highlighted that its recommended ROE is 4 basis points above this national average. *See* OCA M.B. at 59.

Commission, in recent rate proceedings, has also reviewed the results of the CAPM in determining the appropriate ROE for a utility, the OCA provided no specific CAPM rate. Third, the Company asserts that use of the average ROE allowances in other jurisdictions to determine the ROE to award an NGDC in Pennsylvania is improper because it is not a market-based determination, reflects conditions in other jurisdictions, and improperly "transfers the Commission's responsibility to set the required ROE to others." For example, the Company posits that the use of average ROE allowances fails to account for the recent rise in interest rates and changing economic conditions in the cost of capital. NFGD Exc. at 11-12.

NFGD insists that its own final proposed ROE of 10.50% is well within the range of reasonable ROEs calculated by the Parties using market-based methods, and that the ALJ offered no reasoning for recommending the OCA's proposed ROE over that of the Company. NFGD adds that the ALJ, in citing to the Company's proposed "ROE of 11.00%," failed to consider, or even acknowledge, that in its Main Brief, NFGD reduced its requested ROE to 10.50%. Furthermore, the Company asserts that the ALJ recommended contradictory ROEs, noting that elsewhere in the Recommended Decision, the ALJ recommended that the Commission adopt I&E's proposed ROE of 9.81%. NFGD M.B. at 11, 11 n.40, 12.

In its Replies to Exceptions, I&E states that it accepts the ALJ's finding that the OCA's proposed 9.74% ROE is fair and just. I&E agrees with the ALJ that the Company's proposed ROE is unreasonable and highlights that it is well above what the Commission has awarded to any other utility under its jurisdiction. Thus, I&E asserts that the Commission should reject NFGD's Exception No. 2 as it relates to the Company's claims of errors in analysis and unreasonableness. At the same time, however, I&E agrees with the Company that the ALJ's Recommended Decision requires clarification because it contains contradictory recommendations regarding the ROE to award to NFGD. Accordingly, I&E takes the position that, to the extent that the

Commission is inclined to grant NFGD a revenue increase, it should adopt an ROE of either 9.74%, as proposed by the OCA, or 9.81%, as proposed by I&E. I&E R. Exc. at 5-6.

In its Replies to Exceptions, the OCA submits that the ALJ properly concluded that NFGD failed to meet its burden of demonstrating that it faces materially greater financial risk than its peers or that it requires an ROE of 10.50%. According to the OCA, the Company's position that the ALJ recommended an ROE of 9.74% simply because it was the lowest ROE on the record is inapposite. Rather, the OCA insists that its own proposed ROE of 9.74% is the best-supported ROE on the record that results in just and reasonable rates. The OCA restates that its ROE is grounded primarily in its Constant Growth DCF analysis, wherein it considered multiple measures of long-term growth, including earnings, dividends, book value, and sustainable growth, and produced an ROE range of 8.88% to 10.61%, with a midpoint of 9.74%. The OCA adds that contrary to the Company's assertion, the OCA performed a CAPM analysis as a reasonableness check, and identified an ROE which produced a midpoint of 8.99%, further confirming that its recommended ROE of 9.74% is reasonable. OCA R. Exc. at 5-6, 7.

The OCA also restates its assertion that the Company's updated requested ROE of 10.50%, set forth in its Main Brief, demonstrates the weakness of its ROE position throughout this proceeding. More specifically, the OCA highlights that the Company initially requested an ROE of 11.25%, reduced that request to 11.00% in its rebuttal testimony after withdrawing its requested management effectiveness adjustment, and then further reduced its request to 10.50% in its Main Brief. The OCA asserts that because the Company updated its requested ROE at the briefing stage of this proceeding, there is no evidence on the record to support it. Furthermore, the OCA submits that NFGD cannot simultaneously recognize that affordability concerns warrant reducing its requested ROE, while arguing that those same concerns should have no bearing on the

Commission's determination of the appropriate ROE. Thus, the OCA contends, the Commission maintains the discretion to determine the appropriate ROE based on the evidence presented, and the ALJ correctly concluded that NFGD failed to present sufficient evidence "to justify its unreasonably high ROE." OCA R. Exc. at 7-9.

In its Reply to the Company's Exception No. 2, CAUSE-PA claims that there is substantial evidence on the record to demonstrate that the ALJ's recommendation establishing an ROE of 9.74% and applying an imputed capital structure of 50.00% common equity and 50.00% long-term debt is sufficient. According to CAUSE-PA, ALJ Dunderdale clearly considered NFGD's revised ROE proposal of 10.50% and concluded that, based on the record evidence, the Company's proposal – even as revised in its Main Brief – would unjustly and unreasonably exacerbate affordability challenges for the Company's ratepayers. CAUSE-PA insists that the record in this case makes clear that NFGD's rates are already unaffordable for thousands of low-income families, causing its service to be inaccessible to thousands of households and creating a cascade of negative consequences for individual families and the surrounding communities. On the other hand, CAUSE-PA asserts that an ROE of 9.74% will provide a reasonable return that balances the needs of NFGD with the needs of ratepayers. CAUSE-PA further asserts that the Company, in its Exception No. 2, makes no claim that it would be unable to maintain financial integrity and attract capital on reasonable terms with a 9.74% ROE, nor has it pointed to any record evidence to support such a finding. Thus, CAUSE-PA submits that the Commission should deny NFGD's Exception No. 2 and adopt the ALJ's recommendation. CAUSE-PA R. Exc. at 5-8.

(2) NFGD Exception No. 12 and Replies

In its Exception No. 12, NFGD submits that there are several inconsistencies in the Recommended Decision that require clarification or correction

before the Company can implement new rates. Specifically, with regard to the ALJ's recommended ROE, the Company reinforces its argument that at different points in the Recommended Decision, the ALJ recommended the adoption of both I&E's proposed ROE, and that of the OCA. NFGD Exc. at 34.

In its Replies to Exceptions, I&E acknowledges NFGD's argument that at different points in the Recommended Decision, the ALJ recommended the adoption of both I&E's proposed ROE and that of the OCA. Thus, I&E agrees with the Company that the Commission must clarify certain recommendations made in the Recommended Decision. I&E R. Exc. at 15.

In its Replies to Exceptions, the OCA, likewise, agrees with NFGD that there is uncertainty in the Recommended Decision as to the appropriate ROE to award the Company. The OCA submits that the Commission should resolve this inconsistent recommendation by adopting the ALJ's recommendation to award the Company an ROE of 9.74%, while disregarding her recommendation to adopt the position of I&E. OCA R. Exc. at 24.

In its Reply to the Company's Exception No. 12, CAUSE-PA argues that although there is a paragraph in the Recommended Decision, wherein the ALJ appears to have recommended the adoption of I&E's proposed ROE of 9.81%, it is clear from the discussion elsewhere in the Recommended Decision, and in the rate tables attached in Appendix A thereto, that the ALJ intended to recommend an ROE of 9.74%. CAUSE-PA remains of the opinion that an ROE of 9.74% should be the ROE awarded to the Company. CAUSE-PA R. Exc. at 22-23.

d. Disposition

On consideration of the record evidence, the Recommended Decision, and the Exceptions filed thereto, we shall grant NFGD's Exception No. 2 and the portion of NFGD's Exception No. 12 related to its claimed ROE, in part, and deny it, in part, consistent with the discussion below. The Company correctly notes in both of these Exceptions that at different points in her Recommended Decision, the ALJ recommended the application of two different ROEs. Namely, the ALJ recommended that the Commission adopt the ROE proffered by the OCA of 9.74%. *See* R.D. at 219-20, Appendix A-Table I(A). On the other hand, the ALJ also recommended that the Commission adopt I&E's proposed ROE of 9.81%. Accordingly, we concur with the Company's assertion, which is echoed by I&E and the OCA in their respective Replies to Exceptions, that the ALJ's recommendation requires clarification.

Notwithstanding our above finding, we shall reject the Company's argument in its Exception No. 2 that its proposed ROE of 10.50% should be adopted. Further, we shall decline to adopt either the OCA's proposed ROE of 9.74% or I&E's proposed ROE of 9.81%, each of which was recommended by the ALJ at different points of her Recommended Decision. As discussed in Section IX.D.1, *supra*, we have disregarded the results of both the Company and the OCA's DCF and CAPM ROE calculations. On the other hand, we have found that I&E's proposed DCF result and I&E's composite CAPM result, calculated using the average of its traditional CAPM result and its CAPM result using Kroll's inputs, should be utilized in setting the Company's ROE.

At the same time, however, we reject the third component utilized by I&E in setting its proposed ROE: *i.e.*, I&E's proposal that the national average of authorized ROEs awarded to NGDCs in jurisdictions across the United States for rate cases decided

between 2025 and March 11, 2026, be utilized.[73] We note that based upon the record developed in this proceeding, it is unclear what assumptions the regulatory bodies in these other jurisdictions applied in setting these authorized ROEs. Indeed, our review of the hearing transcript demonstrates why the national average of authorized ROEs for NGDCs across all jurisdictions in the United States should not be used in this proceeding to establish the authorized ROE for NFGD in Pennsylvania.

More specifically, our review of the hearing transcript reveals that the companies used in calculating the national average of authorized ROEs for NGDCs, as set forth in I&E Exhibit 2, Schedule 7, include companies that are not part of the I&E Proxy Group. The record indicates that I&E did not undertake any analysis to determine if these companies satisfied the criteria for inclusion in the I&E Proxy Group, such that they would be considered comparable to NFGD. Among these companies are Spire and Southwest Gas, each of which we have explicitly rejected including in the proxy group that we adopted in Section IX.A, *supra,* for use in setting the ROE for NFGD in this proceeding. Next, it is not clear from the record as to which authorized ROEs in I&E Exhibit 2, Schedule 7, if any, were set using a similar test year to that employed by NFGD in this proceeding. Additionally, I&E acknowledged that the authorized ROEs outlined in this exhibit included ROEs resulting from settlements. Furthermore, I&E undertook no analysis to determine if these ROEs were calculated using the same ROE methods, such as those discussed in Section IX.D.1, *supra.* Tr. at 201-07. Accordingly, on review of the record evidence, we find that I&E's proposed use of the recent national average of authorized ROEs for NGDCs across all jurisdictions in the United States is not a reliable factor to consider in setting the ROE for NFGD in this proceeding.

[73] Furthermore, to the extent that the OCA endorsed the use of this third component on page 59 of its Main Brief, discussed in the previous footnote above, we shall likewise reject this endorsement.

Therefore, as discussed in Section X.D.1, *supra,* we shall set the ROE that we shall authorize for NFGD 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%)÷2 = 9.86%]. In our view, based upon our informed judgement, which includes consideration of a variety of factors such as increasing inflation and the Iran conflict, establishing an ROE of 9.86% is reasonable and appropriate for NFGD in this proceeding. We note that our calculation of the ROE using this method is consistent with the approach used by the Commission in its recent decisions in *Columbia Gas 2025* and *PAWC 2026. Columbia 2025* at 235; *PAWC 2026* at 210.

For the foregoing reasons, NFGD's Exception No. 2 and the portion of NFGD's Exception. No. 12 related to its ROE are granted, in part, and denied, in part.

E. Overall Rate of Return

As previously noted, in base rate proceedings, a utility's overall rate of return is traditionally calculated using the WACC method. To calculate a utility's WACC, the utility's capital structure, as discussed in Section IX.B, above, must first be determined by comparing the percentage of each capitalization component, which has a financed rate base, to total capital. Next, the effective cost rate of each capital structure component, as discussed above in Sections IX.C, and IX.D, must be determined. The historical component of the cost rate of debt can be computed accurately, and any future debt issuances are based on estimates. The cost rate of common equity, *i.e.*, the utility's ROE, as discussed in Section IX.D, is not fixed and is more difficult to measure. Because of this difficulty, a proxy group is used, as discussed in Section X.A, *supra*. Finally, each capital structure component percentage is multiplied by its corresponding effective cost rate. The summation of these weighted costs produces the utility's

WACC, *i.e.*, the overall rate of return that the Commission has authorized the utility to earn. This overall rate of return is then multiplied by the utility's rate base to determine the return portion of the utility's revenue requirement, *supra*. *PAWC 2026* at 213-14.

1. Positions of the Parties

NFGD submitted that it should be afforded the opportunity to earn an overall rate of return of 8.35%. This proposed overall rate of return was comprised of a weighted average of a 5.58% rate of return on long-term debt and a 10.50% rate of return on common equity. This was, in turn, based off a projected actual capital structure for the FPFTY of 56.40% common equity and 43.60% long-term debt. NFGD M.B. at 54, Appendix D-Table I(A).

I&E submitted that the Commission should authorize an overall rate of return for the Company of 7.91%. This recommended overall rate of return was comprised of a weighted average of a 5.58% rate of return on long-term debt and a 9.81% rate of return on common equity, and was based off of a hypothetical capital structure of 55.00% common equity and 45.00% long-term debt. I&E M.B. at 26; I&E R.B. at 21, 29.

The OCA proposed an overall rate of return for NFGD of 7.66%. This was comprised of a weighted average of a 5.58% rate of return on long-term debt and a 9.74% rate of return on common equity, utilizing its proposed hypothetical capital structure of 50.00% common equity and 50.00% long-term debt. OCA M.B. at 49, 61-62; OCA R.B. at 30, 41.

CAUSE-PA submitted that there is substantial evidence on the record that supports the position of the OCA. Thus, CAUSE-PA submitted that the Commission

should adopt the OCA's position and award NFGD an overall rate of return of 7.66%. CAUSE-PA M.B. at 42-43; CAUSE-PA R.B. at 17.

2. Recommended Decision

The ALJ recommended that the Commission adopt an overall rate of return for NFGD of 7.66%, which was proposed by the OCA. R.D. at 219, Appendix A-Table I(A).

However, elsewhere in the Recommended Decision, the ALJ recommended that the Commission afford NFGD an opportunity to earn an overall rate of return of 7.91%, comprised of a weighted average of a 5.58% rate of return on long-term debt and an ROE of 9.81%, as proposed by I&E. R.D. at 220-21.

3. Exceptions and Replies

As outlined above, only NFGD filed Exceptions to the ALJ's recommendations regarding a fair rate of return for the Company. Namely, NFGD has objected to the ALJ's recommendations regarding the appropriate capital structure and the cost of common equity, *supra,* both of which are components used in arriving at the overall rate of return. Moreover, the Company has highlighted that the ALJ recommended the application of two different ROEs. Accordingly, by excepting to the ALJ's recommendation regarding these WACC components, the Company has also indirectly excepted to the ALJ's recommended overall rate of return.

4. Disposition

For the reasons discussed above, we have adopted the ALJ's recommendation as to the appropriate cost of debt for NFGD. However, we have

modified the ALJ's recommendations as to the appropriate proxy group, capital structure, and cost of common equity to apply in this proceeding. Table 15, below, summarizes our final determinations regarding NFGD's capital structure, cost of debt, and cost of common equity, as well as the resulting weighted costs. As this table indicates, we shall set an authorized overall rate of return for NFGD of 7.93%.

Table 15: NFGD Capital Structure – Authorized Overall Rate of Return

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	45.00%	5.58%	2.51%
Common Equity	55.00%	9.86%	5.42%
Total	100.00%		**7.93%**

X. Rate Design, Revenue Allocation, and Class Cost of Service

This section of the Opinion and Order addresses the ALJ's recommendations pertaining to allocated class cost of service, revenue allocation, and rate design. When a utility files for a rate increase and the proposed increase exceeds $1 million, the utility must include with its filing an allocated class cost-of-service study (ACOSS or ACOS Study) in which it assigns costs to the various customer classes based upon the costs incurred in providing service. 52 Pa. Code § 53.53; *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1015 (Pa. Cmwlth. 2006) (*Lloyd*). Cost allocation studies necessarily involve considerable judgement and have been described as more of an accounting and engineering art than an exact science. *Application of Metropolitan Edison Company*, Docket No. R-00974008 (Order entered June 30, 1998); *Pa. PUC v. Pennsylvania Power & Light Co.*, 1983 Pa. P.U.C. Lexis 22. Public utility rates should permit the utility to recover its cost of service while allocating those costs among customers through rates that are just, reasonable, and nondiscriminatory. 66 Pa.C.S. §§ 1301, 2804(10).

NFGD serves customers through several rate classifications that are separately evaluated in its ACOSS and revenue allocation analyses. For purposes of those analyses, the principal customer classes are as follows:

1. Residential Service;

2. Small Commercial and Public Authority Service ≤ 250 Mcf (1000 cubic feet) (SCPA-LL);

3. Small Commercial and Public Authority Service > 250 Mcf (SCPA-UL);

4. Large Commercial and Public Authority Service (LCPA);

5. Natural Gas Vehicle Service (NGV);

6. Small Volume Industrial Service (SVIS);

7. Intermediate Volume Industrial Service (IVIS);

8. Large Volume Industrial Service (LVIS);

9. Large Industrial Service (LIS);

10. LIS Negotiated.

See NFGD St. 19 at 11; NFGD Exhs. D (ACOSS) and E (Proof of Revenue).

NFGD explained that its proposed base rate design begins with the results of its ACOSS.[74] After determining the indicated cost responsibility of each class, the Company allocated its proposed revenue increase among the customer classes based upon their current rates of return and the goal of gradually moving each class toward full cost-of-service parity. Once the revenue increase was allocated among the classes, the Company developed the rates within each class by establishing the basic service charge, resetting applicable riders, and recovering the remaining allocated revenue through volumetric distribution charges. NFGD St. 14 at 15-16.

A. Allocated Cost of Service

An ACOSS provides a benchmark for evaluating the cost responsibility of individual customer classes and assists in the development of reasonable rates by identifying the capital and operating costs incurred by the utility and assigning or allocating those costs among the classes according to principles of cost causation. As explained by I&E's witness, Mr. Cline, an ACOSS is a formalized analysis that attempts

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[74] We note that NFGD's ACOSS employed a total system rate base of $571.582 million, rather than the $571.456 million reflected in the Company's final Rebuttal Update. *See* NFGD Exh. D; OCA Exh. MWD-6. NFGD Exhibit A - FPFTY (Rebuttal Update), Schedule C-1, as independently reproduced in the OCA's revised rate base schedule, reflected a Company rate base of $571.456 million. OCA Exh. LKM-2A-SR at 1. The record does not identify a substantive ratemaking adjustment accounting for the $126,000 difference. We therefore understand the $571.582 million ACOSS amount to reflect an earlier iteration of the Company's rate base calculation and do not treat it as NFGD's final claimed rate base. We also note that NFGD's ACOSS reflects an 8.78% overall rate of return and a total revenue requirement of $285.204 million. *See* OCA Exh. MWD-6. As discussed in Sections IX.D and IX.E, *supra*, NFGD subsequently revised its litigated position in its Main Brief to a claimed 10.50% return on common equity and an 8.35% overall rate of return, producing proposed FPFTY revenues of $281.713 million and a requested increase of $16.189 million. NFGD M.B., Appendix D-Tables I and I(A). Accordingly, we shall treat the $285.204 million revenue requirement and 8.78% rate of return embedded in the ACOSS as earlier analytical inputs and shall use the ACOSS principally as a guide to relative class cost responsibility, rather than as a statement of NFGD's final overall claimed revenue requirement.

to assign each customer or rate class its proportionate share of the utility's overall revenue requirement. The results can be used to identify the relative cost of serving each class, determine individual class revenue requirements, and compare each class's rate of return with the system average rate of return. I&E St. 3 at 7-8.

NFGD's ACOSS employed a three-step process. First, plant investment and expenses were functionalized according to the utility functions associated with the costs, including gas supply, transmission, distribution, and customer functions. Second, those functionalized costs were classified according to the principal factors giving rise to the costs, including customer-related, demand-related, and commodity-related costs. Finally, the classified costs were directly assigned to particular customers or customer classes, where possible, and otherwise allocated among the classes through allocation factors intended to reflect economic and engineering principles of cost causation. OCA St. 1 at 51 (citing NFGD St. 19 at 5-7).

NFGD prepared two ACOSS methodologies in this proceeding. The Company's principal ACOSS employed a Customer-Demand methodology for the allocation of distribution mains. Under that approach, NFGD classified approximately 61% of distribution mains investment as customer-related and 39% as demand-related. The customer-related portion, derived through a zero-intercept study (ZIS), was allocated based upon the number of customers in each class, while the demand-related portion was allocated based upon each class's contribution to peak-day demand. *See* I&E St. 3 at 9; OCA St. 1 at 51-52.

NFGD also prepared a Peak and Average (P&A) ACOSS for informational and comparative purposes. That study did not assign a customer component to distribution mains. Rather, it employed the methodology historically referred to as the Seaboard method, which allocates distribution mains using a 50% weighting of each class's contribution to peak demand and a 50% weighting of annual throughput.

NFGD St. 19-R at 7; I&E St. 3 at 9. According to NFGD, changing from its Customer-Demand methodology to the P&A methodology would materially shift cost responsibility among the classes: the P&A methodology would reduce the Residential class revenue requirement by approximately $17.5 million, or 13.9%, with corresponding increases to the commercial and industrial classes, particularly those classes having higher load factors and greater annual throughput. NFGD St. 19-R at 8.

The selection of the appropriate ACOSS methodology is a significant contested issue in this proceeding. NFGD supported its Customer-Demand ACOSS, contending that distribution mains are constructed both to connect customers to the distribution system and to meet peak demand and, therefore, that recognition of both a customer-related and demand-related component appropriately reflects cost causation. OCA St. 1 at 51-53; NFGD St. 19-R at 19-20. In contrast, I&E and the OCA opposed NFGD's Customer-Demand methodology and proposed use of a P&A methodology for allocating distribution mains. I&E argued that NFGD's proposal is inconsistent with Commission precedent, including the Commission's recent decision in *Columbia Gas 2025*, because mains investment is driven by the loads placed upon the distribution system rather than merely by the number of customers served. I&E St. 3 at 9-10.

The ACOSS determination also affects the subsequent revenue allocation and rate design issues. NFGD explained that the ACOSS serves as a guide, rather than mechanically dictating the ultimate allocation of revenues. No Party proposed to move every class to full cost-of-service parity in a single proceeding; instead, the competing proposals incorporate varying degrees of gradualism and rate impact mitigation. Accordingly, the dispute encompasses not only which ACOSS most appropriately measures class cost responsibility, but also how the Commission should use those results to allocate the approved revenue requirement among classes and design the individual rates within each class. NFGD St. 19-R at 6-7.

1. Positions of the Parties

As indicated above, NFGD performed two ACOS Studies in this proceeding. The Company's preferred ACOSS employed what NFGD referred to as the Customer-Demand methodology, under which distribution mains are classified as both customer-related and demand-related. Specifically, NFGD's ZIS classified approximately 61% of distribution mains investment as customer-related and 39% as demand-related. The customer-related portion was allocated among the classes based on the number of customers served, while the demand-related portion was allocated based on each class's contribution to peak-day demand under system design conditions. NFGD also prepared a second ACOSS using the P&A methodology, with no customer component, for informational and comparative purposes. NFGD M.B. at 67-68; I&E M.B. at 35; NFGD St. 19 at 12, 17.

NFGD argued that its Customer-Demand ACOSS best reflects the principles of cost causation and should be used to assign distribution main costs among the customer classes. The Company contended that distribution mains are constructed both to connect customers to the distribution system and to provide sufficient capacity to meet peak demand; therefore, according to NFGD, a reasonable allocation methodology must recognize both of those cost drivers. NFGD argued that its methodology does not allocate mains costs solely on customer count, but instead uses a composite customer-demand approach that recognizes customer-driven system expansion as well as demand-driven capacity requirements. NFGD St. 19-R at 13.

NFGD disputed the contention of I&E and the OCA that annual throughput is an appropriate cost driver for distribution mains. According to the Company, the distribution system is designed to provide sufficient capacity to connect customers and meet peak demands, while annual throughput is a consequence of the system's design rather than a cause of the investment. NFGD asserted that two customers having the

same peak demand impose the same mains-related capacity requirement even if their annual usage differs; therefore, a P&A methodology that allocates costs in part on annual throughput can assign different cost responsibility to customers that, in the Company's view, cause the same mains investment. NFGD St. 19-R at 13, 20.

NFGD further argued that the P&A methodology shifts a substantial amount of distribution main cost responsibility from the Residential class to higher-load-factor commercial and industrial classes. The Company calculated that use of the Seaboard version of the P&A methodology would reduce the Residential class revenue requirement by approximately $17.5 million, or 13.9%, with corresponding increases assigned to commercial and industrial classes having higher load factors and larger volumes of annual throughput. NFGD St. 19-R at 8. NFGD argued that this result reflects a flaw in the P&A methodology because it assigns higher costs based upon annual usage even where higher usage does not cause additional mains investment. NFGD St. 19-R at 20.

The Company acknowledged that the Commission has employed the P&A methodology in prior litigated proceedings, but maintained that the appropriate cost-allocation methodology must be determined on the specific record developed in each case. NFGD noted that its Customer-Demand methodology is the same general methodology it proposed in its prior base rate proceeding, although the allocation reached in that proceeding was resolved through a nonprecedential settlement. NFGD asserted that the record here provides a developed factual basis demonstrating that its customer-demand allocator more reasonably reflects how the distribution system is designed, constructed, and operated. NFGD St. 19-R at 20-21. In its Reply Brief, NFGD continued to maintain that the Customer-Demand study best describes how costs should be assigned to the classes, while acknowledging that the Commission has used the P&A study in prior litigated cases and, at times, considered both studies in determining class revenue allocations. NFGD R.B. at 29-30.

I&E opposed NFGD's Customer-Demand methodology and proposed that the Commission rely upon the P&A ACOSS. I&E explained that NFGD's Customer-Demand study allocates 61% of distribution mains on a customer basis and 39% on a demand basis, whereas NFGD's alternative P&A study contains no customer-related component. I&E M.B. at 35. I&E argued that NFGD's Customer-Demand methodology is inconsistent with longstanding Commission precedent, most recently reaffirmed in the *Columbia Gas 2025* proceeding, under which mains investment is driven by the load placed upon the distribution system rather than by the number of customers served. I&E M.B. at 35-36; I&E St. 3 at 9-10.

I&E favored the traditional Seaboard variant of the P&A methodology, under which distribution mains are allocated using a 50% weighting of each class's contribution to peak demand and a 50% weighting of annual throughput. I&E reasoned that distribution mains perform both a peak-demand and annual throughput function and that the P&A methodology better recognizes those separate functions and the diversity among high- and low-load-factor customer classes. I&E further argued that allocating any portion of distribution mains based upon customer count is unreasonable. Accordingly, I&E strongly opposed the hybrid methodology proposed in the rebuttal testimony of the OSBA's witness, Mr. Farr, because that methodology retains a customer-related component. I&E M.B. at 35-36; I&E St. 3-SR at 9-11.

Although I&E continued to recommend the 50/50 P&A methodology reflected in its own proposal, it did not oppose the alternative P&A methodology proposed by the OCA because the OCA's methodology likewise excluded a customer-related component from the allocation of distribution mains. I&E M.B. at 36. Thus, I&E's principal objection was to NFGD's inclusion of customer count as a cost-causation factor for distribution mains, rather than to the precise weighting of peak and annual demands within a P&A framework.

The OCA, likewise, proposed that the Commission reject NFGD's Customer-Demand ACOSS, but proposed a different version of the P&A methodology than I&E. The OCA identified two principal deficiencies in NFGD's study. First, the OCA contended that NFGD's ZIS is an empirically flawed methodology that attempted to derive a customer-related portion of mains investment through a hypothetical zero-diameter main. Second, the OCA argued that NFGD's treatment of the remaining demand-related portion of mains as entirely peak-demand-related overstates the influence of peak demand and fails to recognize that distribution mains are used to provide both peak and non-peak service throughout the year. OCA M.B. at 62-63; OCA St. 1 at 51-58.

The OCA argued that a ZIS lacks an adequate empirical foundation because the hypothetical zero-diameter distribution main upon which the methodology depends does not exist in actual utility operations. The OCA further contended that there is no strong statistical relationship between changes in the number of NFGD customers and the amount of distribution main investment. According to the OCA, distribution costs are influenced by numerous factors, including the geographical size and density of the service territory, and customer count alone does not adequately explain investment in distribution mains. OCA M.B. at 63-66; OCA St. 1 at 53-58.

The OCA also relied upon Commission precedent rejecting customer-based allocation of distribution mains and recognizing that both peak demand and annual throughput contribute to cost causation. The OCA argued that the Commission has repeatedly concluded that mains investment is driven by load rather than simply by the number of customers and that both annual and peak requirements should therefore be reflected in allocating distribution main costs. OCA M.B. at 62-69; OCA R.B. at 42-43. The OCA specifically cited the Commission's recent *Columbia Gas 2025* decision, in which the Commission concluded that the load placed upon the system determines mains investment and rejected allocation based upon either a customer-demand methodology or solely upon design peak-day demand. OCA R.B. at 42-43.

Rather than employing I&E's 50/50 Seaboard weighting, the OCA's witness, Mr. Michael Deupree, proposed a P&A methodology using weights derived from NFGD's test-year system load factor. Under that approach, the annual throughput component is weighted according to the system load factor, with the remainder allocated according to peak demand. OCA M.B. at 68-69; OCA St. 1R at 11. The OCA argued that this approach more closely reflects cost causation because natural gas distribution facilities are constructed to provide both peak and non-peak service and, therefore, both capacity and throughput are relevant causes of mains investment. OCA R.B. at 42-43; OCA St. 1SR at 12-14.

The OSBA's position developed over the course of the proceeding. In direct testimony, the OSBA's witness, Mr. Farr, supported NFGD's cost-allocation methodology, concluding that the Company's classification of distribution mains as 61% customer-related and 39% demand-related reasonably aligns with cost-causation principles and recommending no change to NFGD's methodology. OSBA St. 1 at 15-16. In rebuttal, however, Mr. Farr offered a hybrid methodology as a possible middle ground among the competing proposals. That alternative assigned 30.5% of distribution mains to customer-related costs, one-half of NFGD's 61% ZIS result, and allocated the remaining 69.5% using the OCA's P&A methodology. OSBA St. 1-R at 1-4.

Notwithstanding that rebuttal alternative, the OSBA's litigated position reflected in its Main Brief remained that NFGD's cost-allocation methods align with cost-causation principles and that no changes to the Company's cost-allocation methodology were necessary. R.D. at 251-52. The OCA, in its Reply Brief, characterized the OSBA as having effectively abandoned its hybrid proposal by returning in its Main Brief to support for NFGD's ACOSS. OCA R.B. at 44.

Accordingly, the central dispute was whether distribution main investment should be allocated under NFGD's Customer-Demand methodology, which recognized

both customer count and peak demand as cost drivers, or under a P&A methodology, which excluded a customer-related component and allocated costs based upon peak and annual system usage. NFGD and the OSBA ultimately supported the Company's Customer-Demand approach; I&E proposed a 50/50 P&A approach; and the OCA proposed a P&A approach weighted according to NFGD's test-year system load factor. The competing methodologies materially affect the relative cost responsibility assigned to the Residential and higher-load-factor commercial and industrial classes.

2. Recommended Decision

The ALJ recommended rejecting NFGD's Customer-Demand ACOSS and adopting a P&A approach for the allocation of distribution mains costs. The ALJ noted that NFGD's preferred methodology classifies distribution mains as 61% customer-related and 39% demand-related, while the Company's alternative P&A study contains no customer component. The ALJ also summarized I&E's position that the Customer-Demand methodology is inconsistent with longstanding Commission precedent, including the Commission's recent *Columbia Gas 2025* decision, and the OCA's position that NFGD's ZIS and peak-demand allocation improperly assign distribution mains costs because they fail to recognize both annual and peak demands as cost-causation factors. R.D. at 265-66.

In resolving those competing positions, the ALJ concluded that the record supported I&E and the OCA. The ALJ explained that an ACOSS is intended to assign each customer class its proportionate share of the total cost of service based on differences in how the classes use the system. Based on the record evidence and the arguments presented by the Parties, the ALJ found that the P&A methodology would lead to just and reasonable rates, whereas NFGD had not presented sufficient evidence to establish that its Customer-Demand allocation would do so. R.D. at 267.

Thus, the ALJ rejected NFGD's contention that customer count should be recognized as a separate cost driver for distribution mains through the ZIS-derived customer component. Instead, the ALJ accepted the basic premise advanced by I&E and the OCA that distribution mains should be allocated based on load-related factors reflected in a P&A framework rather than on the number of customers served. The ALJ therefore declined to recommend adoption of NFGD's 61% customer/39% demand allocation and also did not recommend adoption of the OSBA's hybrid approach, which retained a customer-related component. R.D. at 266-67; I&E M.B. at 35-36; OSBA St. 1-R at 3-4.

The ALJ's recommendation on ACOSS also directly informed the subsequent revenue-allocation determination. Having found that the P&A ACOSS, rather than the Customer-Demand ACOSS, would produce just and reasonable rates, the ALJ recommended adopting I&E's class revenue allocation, which was based on the P&A methodology. The ALJ noted that I&E's proposal would allocate 66.36% of the revenue increase to the Residential class, compared with 78.33% under NFGD's proposal, and would assign a greater share to the Large Commercial Service class. R.D. at 267-68.

3. Disposition

No Party filed Exceptions to the ALJ's recommendation on this issue. Finding the ALJ's recommendation to be reasonable and supported by substantial evidence in the record, we shall adopt it without further comment.

B. Revenue Allocation

1. Positions of the Parties

NFGD proposed to allocate its requested base rate increase among the customer classes using the results of its preferred Customer-Demand ACOSS as a guide, while also applying gradualism to avoid moving individual classes immediately to full cost-of-service parity. Under the Company's approach, classes whose revenues are below their indicated cost of service received somewhat above-average increases, while classes whose revenues exceed their indicated cost of service received below-average increases. NFGD argued that this approach moves class revenues toward cost-based parity in a measured manner while moderating customer bill impacts. NFGD St. 19-R at 4-5; NFGD M.B. at 67-69.

More specifically, as shown in Table 16 below, under the Company's original revenue allocation methodology, classes with revenue-to-cost parity ratios below 1.0 (Residential Service and NGV) received an increase equal to 1.10 times the system-average increase; classes with parity ratios above 1.0 but below 1.5 (SCPA-LL and SCPA-UL) received an increase equal to 0.90 times the system-average increase; and classes with parity ratios above 1.5 (LCPA, SVIS, IVIS, LVIS, and LIS) received an increase equal to approximately 0.67 times the system-average increase. This approach assigned above-average increases to the Residential and NGV classes, somewhat below-average increases to the SCPA-LL and SCPA-UL classes, and lower increases to the LCPA, SVIS, IVIS, LVIS, and LIS classes. OSBA St. 1 at 16-17 (describing NFGD's proposal); NFGD St. 19 at 20-23.

Table 16: NFGD's Proposed Revenue Distribution

Class	Present Rates	Proposed Rates	Increase	Percent Increase	Relative Rate of Return (Customer -Demand ACCOSS) Present Rates	Relative Rate of Return (Customer -Demand ACCOSS) Proposed Rates
Residential	$97,367,043	$112,770,579	$15,403,536	15.82%	0.50	0.68
SCPA-LL	$6,819,476	$7,702,169	$882,693	12.94%	1.23	1.16
SCPA-UL	$6,988,813	$7,893,424	$904,611	12.94%	1.39	1.22
LCPA	$13,907,542	$15,249,405	$1,341,863	9.65%	3.57	2.63
NGV	$131,245	$152,008	$20,763	15.82%	0.34	0.44
SVIS	$443,730	$486,542	$42,812	9.65%	3.53	2.67
IVIS	$5,876,220	$6,443,184	$566,964	9.65%	4.04	2.96
LVIS	$2,730,254	$2,993,681	$263,427	9.65%	5.55	4.01
LIS	$2,470,354	$2,708,705	$238,351	9.65%	4.10	2.98
LIS Negotiated	$2,945,197	$2,876,862	($68,335)	-2.32%		
Total	$139,679,870	$159,276,556	$19,596,685	14.03%	1.00	1.00

See NFGD Exh. D, Schs. 4, 5; NFGD Exh. E at 2 (Proof of Revenue Summary (Excluding PGC Revenue)); NFGD Exh. CTM-1, Schs. 2, 3; NFGD Exh. CTM-2, Sch. 2.[75]

NFGD disputed the revenue allocations proposed by I&E and the OCA principally because those proposals were derived from P&A ACOSS methodologies rather than the Company's preferred Customer-Demand ACOSS. NFGD argued that once costs and current revenues are assigned to the individual classes, the revenue increase should be allocated based upon the extent to which each class's present revenues differ from its assigned cost responsibility. NFGD M.B. at 68-69; NFGD St. 19-R at 5, 9-14. The Company's proposal allocated 78.33% of the overall increase to the Residential class. R.D. at 267-68.

NFGD acknowledged that the Commission has used P&A methodologies in prior litigated cases and has sometimes considered multiple cost-of-service studies when determining class revenue allocations. Nevertheless, the Company argued that the

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[75] We note that the present and proposed rates shown in Table 16 above exclude revenue associated with gas costs and Other Revenue. However, in addition to revenue generated from base rates, present rate revenue includes revenue generated from the DSIC, as well as Riders B, E, G, and H, and proposed rate revenue includes revenue generated from Riders G and H. NFGD Exh. CTM-1, Schs. 2, 3; NFGD Exh. CTM-2, Sch. 2.

We further note that NFGD Exhibits D and E were prepared using the Company's originally filed revenue requirement and proposed base rate increase, which were never updated comprehensively to the Company's final Main Brief position. *See* NFGD St. 14 at 3; I&E St. 3 at 2. As discussed previously, NFGD subsequently reduced its requested revenue increase during the course of this proceeding. In its Main Brief, the Company requested an annual increase of $16.189 million, producing proposed FPFTY revenues of $281.713 million. NFGD M.B. at 21, Appendix D-Table I. Accordingly, the absolute class cost-of-service, proposed revenue, and bill impact amounts reflected in NFGD Exhibits D and E are based upon the Company's earlier requested revenue requirement and should not be understood as reflecting NFGD's final $16.189 million litigated revenue increase request.

Customer-Demand ACOSS best reflects cost causation in this proceeding. In its Reply Brief, NFGD continued to rely upon the class allocation percentages shown in Table 1 of the rebuttal testimony of its witness, Mr. John D. Taylor, and applied those percentages to the Company's reduced $16.2 million Main Brief revenue increase request for purposes of its bill impact analysis. NFGD R.B. at 29-30; NFGD St. 19-R at 5.

I&E proposed that the Commission reject NFGD's proposed revenue allocation because it is based upon the Customer-Demand ACOSS that I&E considers inconsistent with Commission precedent. Instead, I&E proposed allocating the revenue increase using the P&A ACOSS. I&E M.B. at 36-37; I&E St. 3 at 11-13. I&E's proposed allocation is intended to move each rate class toward a relative rate of return of 1.0 while applying gradualism by limiting increases to no more than 1.5 times the system-average increase, or approximately 20% based upon the Company's originally requested system increase. I&E M.B. at 37; I&E St. 3 at 12.

Under I&E's proposal at the originally requested revenue level, the Residential class would receive an increase of approximately 13%, with greater increases assigned to several under-earning commercial and industrial classes. I&E's final revenue allocation schedule reflected, among other things, the following increases for NFGD's customer classes: increases of approximately 13% for Residential, 12% for SCPA-LL, 20% for SCPA-UL, 16% for LCPA, and 20% for NGV, IVIS, LVIS, and LIS. I&E R.B., Appendix A at 45. Expressed as a percentage of the overall class revenue increase, I&E's proposal assigned approximately 66.36% to the Residential class, compared with NFGD's 78.33%. R.D. at 267-68.

I&E submitted that its proposal appropriately balances cost-of-service considerations and gradualism. While the OCA criticized I&E's 1.5-times-system-average cap as allowing excessive movement toward cost of service, I&E responded that such a cap is consistent with its experience in applying gradualism.

I&E M.B. at 37-38; I&E St. 3-SR at 13. I&E further stated that, although it continued to favor its own P&A methodology and resulting allocation, it did not oppose the OCA's alternative ACOSS because that proposal is also based upon a P&A framework. I&E M.B. at 36.

The OCA likewise proposed rejecting NFGD's proposed revenue allocation, both because it is derived from what the OCA considered a flawed Customer-Demand/ZIS ACOSS and because the OCA believed NFGD's proposed degree of movement toward cost-of-service parity does not adequately account for gradualism and current affordability concerns. OCA M.B. at 69-75; OCA R.B. at 43-44. According to the OCA, NFGD's ACOSS overstated the costs attributable to large commercial and industrial customers and understated the relative cost responsibility of the Residential class, thereby distorting the resulting revenue allocation. OCA St. 1R at 10.

The OCA proposed that its alternative P&A ACOSS, using weights based upon NFGD's test-year system load factor, serve as the basis for revenue allocation. To temper movement toward full cost-of-service parity, the OCA's witness, Mr. Deupree, proposed that classes with relative cost-parity ratios below 0.95 receive an increase equal to 1.15 times the system-average increase, classes with parity ratios above 1.05 receive an increase equal to 0.85 times the system-average increase, and the remaining revenue increase be allocated among classes having parity ratios between 0.95 and 1.05. OCA M.B. at 81-82; OCA St. 1 at 82. The OCA argued that this approach provides a more gradual transition toward cost-based rates than I&E's 1.5-times-system-average cap and better protects customers from significant rate shock. OCA R.B. at 43-44.

Under the OCA's proposal, approximately 71.00% of the total revenue increase would be allocated to the Residential class, compared with 78.33% under NFGD's proposal and 66.36% under I&E's proposal. R.D. at 267-68. The OCA contended that its allocation more evenly distributes any authorized increase among the

classes and avoids placing an excessive burden upon Residential customers. OCA R.B. at 43-44.

The OSBA initially supported NFGD's revenue allocation methodology. The OSBA's witness, Mr. Farr, concluded that the Company's proposal reasonably balances movement toward cost causation with gradualism and falls within the range of reasonableness. OSBA St. 1 at 16-17. The OSBA further proposed that, if the Commission approves an overall revenue requirement lower than NFGD's request, the Company's revenue allocation should be used to establish each class's proportionate share of the final base revenue requirement, with each class's base rate revenue requirement reduced by an equal percentage. OSBA St. 1 at 17-18.

In rebuttal testimony, however, the OSBA's witness, Mr. Farr, also presented an alternative revenue allocation corresponding to his hybrid cost-of-service methodology. Under that alternative, classes modestly below parity would receive approximately 1.05 times the system-average increase, classes at or modestly above parity would receive approximately 95% of the system-average increase, classes significantly above parity would receive approximately 85% of the system-average increase, and no class would receive more than 1.5 times the system-average increase. OSBA St. 1-R at 7-8. The resulting hybrid allocation would assign a 15.10% increase to the Residential class at NFGD's originally requested revenue requirement, with differing increases for the remaining classes depending upon their resulting parity ratios. OSBA St. 1-R at 8, Table JBF-2-R. Nevertheless, as reflected in the Recommended Decision, in its Main Brief, the OSBA ultimately continued to support NFGD's revenue allocation as reasonably balancing cost causation and gradualism. R.D. at 252, 267-68.

CAUSE-PA opposed any increase in NFGD's revenues. However, if the Commission determines that a revenue increase is warranted, CAUSE-PA noted that it supports the OCA's proposed revenue allocation. CAUSE-PA agreed with the OCA that

strict movement to full cost-of-service levels can cause significant adverse impacts to under-earning classes and that revenue allocation should account for policy considerations, including fairness, gradualism, rate continuity, and affordability. R.D. at 254, 267-68.

Accordingly, the revenue allocation dispute turns principally on both the underlying ACOSS methodology and the degree of gradualism that should be applied in moving individual customer classes toward cost-of-service parity. NFGD proposed an allocation based upon its Customer-Demand ACOSS and assigned 78.33% of the increase to Residential customers; I&E relied upon the P&A ACOSS and assigned 66.36% to the Residential class, while generally limiting class increases to 1.5 times the system average; and the OCA's alternative P&A methodology assigned 71.00% to the Residential class, while limiting increases for materially under-earning classes to 1.15 times the system average. R.D. at 267-68.

2. Recommended Decision

The ALJ recommended rejecting NFGD's proposed revenue allocation because it was derived from the Company's Customer-Demand ACOSS, which the ALJ had already found would not produce just and reasonable rates. The ALJ instead relied on the P&A ACOSS and concluded that the class revenue allocation should be based on that methodology. In comparing the competing proposals, the ALJ noted that NFGD would allocate 78.33% of the total increase to the Residential class, while the OCA would allocate 71.00%, and I&E would allocate 66.36%, as illustrated in the following Table 17.

Table 17 – Comparison of Revenue Apportionment by Class Among Parties

Rate Classes	National Fuel	OCA	OSBA	I&E	Average OCA, OSBA, I&E
Residential Service	78.33%	71.00%	83.13%	66.36%	**73.50%**
Small Commercial & PA Service (LE 250)	4.49%	4.24%	4.15%	4.07%	**4.15%**
Small Commercial & PA Service (GT 250)	4.60%	5.88%	4.26%	7.12%	**5.75%**
Large Comm PA Service	6.82%	10.14%	4.57%	11.18%	**8.63%**
NGV	0.11%	0.11%	0.11%	0.13%	**0.12%**
SVIS	0.22%	0.28%	0.15%	0.00%	**0.14%**
IVIS	2.88%	4.29%	1.93%	5.85%	**4.02%**
LVIS	1.34%	1.99%	0.90%	2.75%	**1.88%**
LIS	1.21%	2.08%	0.81%	2.54%	**1.81%**
Total	100.00%	100.00%	100.00%	100.00%	**100.00%**

See NFGD M.B. at 69 (citing NFGD St. 19-R at 5).

The ALJ further recognized that both I&E and the OCA sought to move classes toward cost-of-service parity while applying gradualism, but that their specific proposals differed in the degree of movement permitted. R.D. at 267-68.

The ALJ ultimately recommended adopting I&E's proposed revenue allocation. The ALJ explained that I&E's proposal is based on the P&A ACOSS, moves each rate class toward a relative rate of return of 1.0, and applies gradualism by limiting any class increase to no more than 1.5 times the system-average increase.
R.D. at 267-68; I&E M.B. at 37; I&E St. 3 at 12.

In choosing I&E's proposal over the OCA's, the ALJ did not reject the OCA's use of a P&A framework; rather, the ALJ selected I&E's particular class allocation as the more appropriate implementation of the P&A methodology in this proceeding. The ALJ specifically observed that I&E's allocation would assign 66.36% of the revenue increase to the Residential class, compared with NFGD's 78.33%, and would

assign a markedly larger share to the Large Commercial Service class, 11.18% under I&E's proposal versus 6.82% under NFGD's proposal. R.D. at 268.

Accordingly, the ALJ's recommendation was to reject NFGD's Customer-Demand-based revenue allocation, decline to adopt the OCA's alternative allocation, and approve I&E's P&A-based allocation among the customer classes. The ALJ's conclusion rested on the determination that the P&A ACOSS provides the appropriate cost-of-service foundation and that I&E's proposed allocation reasonably balances movement toward cost parity with gradualism. R.D. at 267-68.

3. Disposition

No Party filed Exceptions to the ALJ's recommendation on this issue. Finding the ALJ's recommendation to be reasonable and supported by substantial evidence in the record, we shall adopt it without further comment.

C. Rate Design

1. Positions of the Parties

NFGD explained that, after the revenue increase assigned to each customer class is determined, rates must be designed to recover the class-specific revenue requirement. For most classes, the Company's proposed rate design consists of a fixed monthly basic service charge and a volumetric distribution charge. With respect to residential customers, NFGD proposed to increase the monthly basic service charge from $14.00 to $19.00, an increase of $5.00, or approximately 35.7%, with the remainder of the Residential class revenue requirement recovered through volumetric delivery rates. NFGD M.B. at 69-71; NFGD St. 19-R at 22-24.

NFGD asserted that the proposed residential customer charge is supported by its customer cost analysis, which identified costs incurred to connect and serve each residential customer, including costs associated with meters, service lines, billing, and other customer-related functions. The Company's analysis produced a monthly residential customer cost of approximately $27.17, substantially above both the existing $14.00 charge and the proposed $19.00 charge. NFGD therefore characterized the proposed $5.00 increase as a measured step toward recovering customer-related fixed costs rather than an immediate movement to the full indicated customer cost. NFGD M.B. at 69-70; NFGD R.B. at 31-32; NFGD St. 19-R at 22-24.

The Company disputed the contention of I&E and the OCA that the proposed customer charge is improperly dependent upon NFGD's Customer-Demand ACOSS. NFGD's witness, Mr. Taylor, argued that the distribution main costs that differ between the Customer-Demand and P&A ACOSS methodologies do not enter into the customer cost calculation used to determine the residential basic service charge. According to NFGD, the customer-classified costs used in the customer cost analysis therefore remain the same under either ACOSS methodology. NFGD R.B. at 31-32; NFGD St. 19-R at 23-24. The Company accordingly rejected I&E's argument that its $27.17 indicated customer cost should be disregarded merely because the Commission may ultimately use a P&A ACOSS for purposes of class cost allocation. NFGD R.B. at 32.

NFGD also argued that customer-related costs should be recovered through fixed charges because those costs do not vary with customer usage. The Company submitted that the existing $14.00 charge recovers only approximately one-half of the indicated monthly customer cost and that leaving additional fixed customer costs embedded in volumetric rates can itself disadvantage high-usage customers, including high-usage low income customers, particularly during the winter heating season. NFGD M.B. at 70-71; NFGD St. 19-R at 24-26.

In response to arguments that the increased customer charge would discourage conservation, NFGD asserted that even at the proposed $19.00 monthly charge, approximately 59% of distribution revenues would continue to be recovered through volumetric distribution rates. The Company therefore contended that customers would retain a meaningful ability to reduce both distribution and gas supply costs through conservation and reduced consumption. NFGD M.B. at 71; NFGD St. 19-R at 27. NFGD consequently requested approval of the $19.00 residential basic service charge. NFGD M.B. at 71.

I&E opposed NFGD's proposed residential basic service charge and proposed that the Commission limit increases in basic service charges to approximately the same percentage increase authorized for the applicable customer class, unless and until the charges are supported by an appropriate customer cost analysis. I&E M.B. at 38-39; I&E St. 3 at 13-15. I&E reasoned that NFGD's $27.17 indicated residential customer cost was developed using the customer classification underlying the Company's Customer-Demand ACOSS, whereas I&E proposed use of the P&A ACOSS. I&E contended that the Commission has consistently preferred the P&A methodology and therefore argued that a customer cost figure derived from the Customer-Demand ACOSS should not provide the basis for the proposed fixed charge. I&E M.B. at 38; I&E St. 3 at 13-14.

I&E further represented that it was unable to perform a customer cost analysis using the P&A methodology because the information necessary to do so was not available from the Company's filing. Accordingly, I&E proposed that the percentage increase in basic service charges be limited to approximately the corresponding class percentage increase. Based upon I&E's proposed class revenue allocation at NFGD's originally requested revenue increase, I&E would limit the Residential customer charge to approximately $15.80 per month, an increase of approximately 13% over the existing $14.00 charge. I&E M.B. at 38-39; I&E St. 3 at 14-15. I&E argued that this approach

balances movement toward cost-based rates with gradualism and customers' ability to conserve. I&E M.B. at 39.

I&E also proposed that any authorized customer charges be subject to the same scale-back principles applied to the remainder of the class rates. Thus, if the Commission authorizes an overall revenue increase below NFGD's request, I&E proposed that both customer charges and volumetric rates be scaled back proportionately based upon the cost-of-service study ultimately approved by the Commission. I&E M.B. at 39-40; I&E R.B. at 34-35. I&E stated that this treatment is consistent with the Commission's recent *Columbia Gas 2025* decision, in which the Commission reduced the proposed customer charge and subsequently subjected that charge to the overall rate scale-back. I&E M.B. at 39.

The OCA similarly proposed that the Commission reject NFGD's proposed increase in the Residential customer charge. The OCA argued that increasing the fixed monthly charge by 35.7% is inconsistent with cost causation, gradualism, conservation, affordability, and equity for low income and low-usage customers. OCA M.B. at 75-77. In the OCA's view, rate design should provide appropriate price signals to customers and preserve customers' ability to control their bills through changes in usage. Because a fixed customer charge cannot be avoided through reduced consumption, the OCA submitted that particular care should be exercised before increasing that component of residential rates. OCA M.B. at 76-77.

The OCA further disputed NFGD's contention that the $14.00 existing customer charge recovers only approximately one-half of the appropriate customer-related costs. In its Reply Brief, the OCA pointed to its witness, Mr. Deupree's, calculation of approximately $22.70 per residential customer per month in customer-related costs, under which the existing $14.00 charge recovers approximately 62% of those costs. OCA R.B. at 45; OCA St. 1SR at 18-19. The OCA also contended

that a substantially larger fixed charge would reduce the benefits customers can obtain from conservation and energy-efficiency measures and thereby conflict with the policy objectives underlying NFGD's proposed energy-efficiency program. OCA M.B. at 76; OCA R.B. at 45.

Although the OCA's primary position was that no rate increase is warranted, it proposed an alternative if the Commission authorizes an increase. Under that alternative, the percentage increase in the monthly customer charge would be limited to the percentage increase assigned to the Residential class. At NFGD's originally requested overall increase and under the OCA's proposed revenue allocation, this would produce a Residential class increase of approximately 14.34% and a customer charge of approximately $16.00 per month, rather than NFGD's proposed $19.00. The OCA further proposed that the customer charge be subject to subsequent scale-back to reflect the final class revenue requirement approved by the Commission. OCA M.B. at 81-82; OCA St. 1 at 83.

The OCA also objected more broadly to NFGD's proposed residential rate design because, under the Company's original proposal, the Residential class would receive a 15.82% base rate increase compared with a 14.38% system-average increase and approximately a 9.65% increase for non-residential customers. The OCA argued that its alternative rate design would distribute any authorized increase more evenly and avoid placing a disproportionate share of the increase on Residential customers. OCA M.B. at 77-78.

CAUSE-PA also opposed NFGD's proposed increase in the fixed Residential customer charge. CAUSE-PA noted that NFGD proposed to retain the existing two-part residential rate structure while increasing the volumetric charge from 34.064¢ to 38.233¢ per 100 cubic feet, or approximately 12.2%, and increasing the fixed monthly charge from $14.00 to $19.00, or approximately 35.7%. CAUSE-PA contended

that substantially increasing the fixed portion of the bill diminishes customers' ability to mitigate rate increases through energy efficiency, conservation, and reduced usage, with the greatest impact falling upon low income and low-usage customers. CAUSE-PA St. 1 at 50-52.

CAUSE-PA further argued that the proposed fixed charge increase would undermine the effectiveness of NFGD's Low Income Usage Reduction Program (LIURP) and its proposed EE Pilot because a larger portion of the customer's bill would become unavoidable regardless of reductions in usage. CAUSE-PA St. 1 at 52. CAUSE-PA therefore proposed that the Residential customer charge remain at its existing level. R.D. at 255-56 (summarizing CAUSE-PA's position). If the Commission nevertheless authorizes an increase in the customer charge, CAUSE-PA submitted that the charge should be subject to proportional scale-back based upon the cost-of-service methodology and revenue requirement ultimately approved. R.D. at 255.

Task Force raised similar concerns regarding the fixed monthly charge. Task Force argued that increasing the fixed charge diminishes customers' ability to lower their bills through conservation and reduced consumption and disproportionately affects low income households. OCA St. 1R at 1-2 (summarizing Task Force St. 1); Task Force St. 1 at 4. NFGD rejected the positions of both CAUSE-PA and Task Force, arguing that recovering fixed customer costs volumetrically may instead disadvantage high-usage low income customers and that a majority of distribution revenues would remain usage-sensitive even at the proposed $19.00 charge. NFGD M.B. at 70-71; NFGD St. 19-R at 25-27.

With respect to non-residential rate design, NFGD stated that there are no independent non-residential rate-design issues in dispute. NFGD M.B. at 71. The OCA, however, objected to the relative treatment of Residential and non-residential customers under the Company's overall proposal and recommended, if an increase is authorized,

that it be implemented more evenly among the classes. OCA M.B. at 77-78; R.D. at 270-71.

Accordingly, the principal rate design dispute concerned the appropriate level of the Residential basic service charge and the balance between recovery of fixed customer-related costs and the ratemaking considerations of gradualism, conservation, affordability, and customer bill control. NFGD sought a $19.00 monthly charge supported by its asserted $27.17 customer cost; I&E proposed limiting the customer charge increase to approximately the percentage increase assigned to the Residential class, which under I&E's original allocation would yield approximately $15.80; the OCA primarily opposed an increase but alternatively proposed approximately $16.00 at its original class allocation, subject to scale-back; and CAUSE-PA advocated retaining the existing $14.00 charge.

2. Recommended Decision

The ALJ recommended rejecting NFGD's proposed Residential rate design, insofar as it would increase the basic service charge from $14.00 to $19.00 per month, a 35.7% increase, while also increasing the volumetric usage charge by 12.2%. The ALJ instead recommended adoption of I&E's approach for Residential rate design, which would limit the percentage increase in the basic service charge to approximately the same percentage increase authorized for the Residential class generally. R.D. at 270-71.

In reaching that recommendation, the ALJ considered the competing arguments regarding cost causation, gradualism, conservation, and affordability. NFGD argued that its proposed $19.00 charge was justified because its customer-cost analysis indicated monthly residential customer costs of approximately $27.00 and because fixed customer-related costs should be recovered through fixed charges rather than volumetric rates. NFGD also submitted that, even with a $19.00 charge, 59% of distribution

revenues would remain volumetric and therefore subject to customer conservation. R.D. at 224-25.

I&E, by contrast, proposed that the basic service charge increase be limited to approximately the same percentage increase applied to the Residential class unless and until the charge is supported by an appropriate customer-cost analysis. Under I&E's proposed revenue allocation at the originally requested revenue level, this would have produced a residential customer charge of approximately $15.80, or about a 13% increase. I&E M.B. at 38-39; I&E St. 3 at 14-15. The ALJ accepted this approach and recommended that the Commission approve I&E's Residential rate design proposal. R.D. at 271.

The ALJ also considered the OCA's proposal to reject the $19.00 customer charge because it was inconsistent with cost causation, rate consistency, conservation, affordability, and equity for low-income customers. The OCA alternatively proposed that any increase in the customer charge be limited to the percentage increase assigned to the Residential class and be subject to scale-back. Under the OCA's proposed allocation at NFGD's originally requested increase, this would have yielded a customer charge of approximately $16.00. OCA M.B. at 81-82; OCA St. 1 at 83. Although the ALJ did not recommend adoption of the OCA's specific $16.00 proposal, the ALJ's acceptance of I&E's approach similarly rejected NFGD's attempt to raise the fixed charge substantially more than the overall percentage increase assigned to the Residential class.

The ALJ, likewise, considered CAUSE-PA's argument that the customer charge should remain at $14.00 because a larger fixed charge would reduce customers' ability to mitigate bills through conservation and efficiency and would particularly harm low-income customers. R.D. at 255-56. The ALJ did not recommend adoption of CAUSE-PA's proposal to freeze the charge at its current level, but the recommendation

to follow I&E's more limited increase reflected the ALJ's decision not to approve NFGD's full 35.7% increase.

With respect to non-residential rate design, the ALJ recommended adopting I&E's proposal as well. The ALJ noted that NFGD asserted there were no independent non-residential rate-design issues, while the OCA argued that any authorized increase should be implemented more evenly because NFGD's proposed increase for Residential customers was materially greater than that proposed for non-residential classes. R.D. at 270-71.

Accordingly, the ALJ's overall recommendation was to reject NFGD's proposed $19.00 Residential basic service charge and instead tie any increase in the basic service charge to approximately the same percentage increase ultimately authorized for the Residential class. The ALJ also recommended adoption of I&E's non-residential rate design proposal. Because the precise Residential class increase depends on the Commission's ultimate revenue requirement and class revenue allocation, the ALJ's recommendation is best understood as establishing a rate design methodology rather than fixing the final customer charge at the illustrative $15.80 level. R.D. at 270-71; I&E M.B. at 38-40.

3. Exceptions and Replies

a. NFGD Exception No. 4 and Replies

In its Exception No. 4, NFGD argues that the ALJ's treatment of the Residential customer charge is internally inconsistent and insufficiently grounded in cost-of service principles. NFGD first points out that, in the body of the Recommended Decision, the ALJ recommended adopting I&E's Residential rate design proposal, under which the percentage increase in the basic service charge would be limited to

approximately the same percentage increase authorized for the Residential class, and also recommended that customer charges be proportionally scaled back based upon the cost-of-service study ultimately approved by the Commission. NFGD contrasts those recommendations with recommended Ordering Paragraph No. 7, wherein the ALJ recommended that the Commission direct that the Residential fixed charge remain at its existing $14.00 per month. NFGD therefore maintains that the ALJ's Recommended Decision does not clearly identify the customer charge ultimately being recommended. NFGD Exc. at 17 (citing R.D. at 271-72, 415).

NFGD further argues that its proposed increase in the Residential customer charge from $14.00 to $19.00 per month should be approved because it is supported by the Company's customer cost study. According to NFGD, that study identifies fixed costs associated with connecting and serving Residential customers, including meters, service lines, and billing, and produces an indicated monthly Residential customer cost of $27.17. Thus, NFGD contends that its proposed $19.00 charge remains substantially below the customer-related cost indicated by the study. NFGD also disputes I&E's premise that the Company failed to provide a customer cost analysis corresponding to the P&A ACOSS. NFGD asserts that its rebuttal P&A ACOSS includes such an analysis and produces the same $27.17 Residential customer cost as the Customer-Demand ACOSS because distribution main costs are excluded from the customer-unit-cost calculation under both studies. NFGD Exc. at 18.

NFGD additionally maintains that customer-related costs should be recovered through fixed charges because those costs do not vary with usage. The Company reiterates its assertion that a $19.00 customer charge would still leave 59% of distribution revenues to be recovered volumetrically, thereby preserving customers' ability to reduce both distribution and gas supply charges through conservation. NFGD also argues that placing fixed costs in volumetric rates can disadvantage high-usage low-income customers, particularly during the winter heating season. Relying on

the Commission's decision in *UGI Electric 2018*, NFGD argues that gradualism should not override cost-of-service considerations where the record establishes an appropriate cost-based customer charge. Because, in NFGD's view, its customer cost studies are the only such studies in the record, NFGD requests that the Commission approve the $19.00 customer charge. Alternatively, NFGD requests that the Commission at least reject recommended Ordering Paragraph No. 7 and adopt the proportional customer charge increase described and recommended in the body of the Recommended Decision. NFGD Exc. at 19.

I&E replies that the ALJ's recommendation is substantively reasonable but should be clarified as to the precise Residential customer charge being adopted. More specifically, I&E notes that in the body of the Recommended Decision, the ALJ appears to have accepted I&E's proposal that the charge increase be limited to no more than approximately the Residential class percentage increase, which under I&E's proposal would have produced a customer charge of no more than $15.80. At the same time, I&E echoes the Company's observation that in recommended Ordering Paragraph No. 7, the ALJ recommended that the Commission direct that the existing $14.00 charge remain in effect. I&E explains that although it supported a charge of no more than $15.80 under its litigation position, it can accept the ALJ's ultimate conclusion maintaining the $14.00 charge. Accordingly, I&E does not support NFGD's proposed $19.00 charge, but asks the Commission to clarify which customer charge is actually being adopted. I&E R. Exc. at 9.

The OCA urges the Commission to deny NFGD's Exception No. 4 and affirm the ALJ's recommended rejection of the proposed $19.00 customer charge. The OCA interprets the Recommended Decision's Ordering Paragraphs as unambiguously recommending the denial of NFGD's proposed $5.00 increase, or 35.7%, to the customer charge and recommending that the Residential customer charge remain at $14.00. The OCA also rejects NFGD's contention that the Parties or the ALJ misunderstood the

Company's cost studies. According to the OCA, both it and I&E challenged the Company's Customer-Demand ACOSS and the underlying zero-intercept methodology, and I&E expressly recognized that NFGD had performed a second P&A ACOSS. The OCA emphasizes, however, I&E's testimony that NFGD had not supplied sufficient information to permit I&E to perform a complete customer cost analysis using the P&A approach. OCA R. Exc. at 11-13.

The OCA further argues that the Commission's precedent favoring the P&A methodology undermines NFGD's reliance on the $27.17 customer-cost figure. The OCA distinguishes the *UGI Electric 2018* decision relied upon by NFGD on the grounds that, in that case, the Commission based the customer charge on an ACOSS it had accepted, whereas here the ALJ recommended the rejection of NFGD's preferred ACOSS. The OCA therefore contends that NFGD cannot rely upon *UGI Electric 2018* to justify a 35.7% increase in the fixed charge. OCA R. Exc. at 13-14.

The OCA also rejects NFGD's contention that the ALJ's scale-back discussion creates confusion. It explains that both the OCA and I&E advocated applying any scale-back to customer charges if the Commission authorizes a revenue increase below the amount requested, while NFGD advocated retaining its full proposed customer charge increase even if the overall revenue requirement were reduced. According to the OCA, Commission precedent supports inclusion of customer charges in a rate scale-back. The OCA therefore concludes that the ALJ properly rejected NFGD's ACOSS as the basis for its proposed fixed charge, properly recommended the denial of the 35.7% increase to the customer charge, and properly recognized that any authorized customer charge increase should be scaled back if the Commission approves a lower overall revenue increase than that requested by NFGD. OCA R. Exc. at 14.

CAUSE-PA, likewise, supports denial of NFGD's Exception No. 4, but places particular emphasis on affordability, conservation, and the proportion of the total

bill represented by the fixed charge. CAUSE-PA argues that there is no contradiction between the ALJ's recommended adoption of I&E's proposal that any customer charge increase be limited to no more than the Residential class percentage increase (approximately $15.80 under I&E's proposal) and the recommended Ordering Paragraph maintaining the charge at $14.00. In CAUSE-PA's view, the former establishes an upper limit, while the latter reflects the ALJ's ultimate determination, after considering additional ratemaking factors, that no increase should be authorized. CAUSE-PA R. Exc. at 13-14.

CAUSE-PA further disputes NFGD's premise that customer cost alone should determine the fixed charge. It argues that the Commission must consider cost of service together with gradualism, affordability, quality of service, conservation, and customers' ability to control their bills. CAUSE-PA relies on the Commission's recent *Columbia Gas 2025* decision for the proposition that fixed charges comprising an unreasonably large share of the monthly bill can penalize customers who conserve and can impair affordability for low-income households. According to CAUSE-PA, NFGD's proposed $19.00 charge would constitute approximately 21% of an average customer's bill, exceeding the 20.7% proportion that the Commission rejected in *Columbia Gas 2025*, while even NFGD's existing $14.00 charge represents approximately 16.8% of the bill. CAUSE-PA notes that applying the 14.9% proportion approved in *Columbia Gas 2025* would actually yield a customer charge of approximately $13.45 for NFGD. CAUSE-PA R. Exc. at 14-15.

Finally, CAUSE-PA reiterates its assertion that the ALJ's recommendations can readily be reconciled: the $15.80 figure represents the maximum charge that could result under I&E's percentage limitation, while the ALJ ultimately recommended retaining the existing $14.00 charge. CAUSE-PA therefore maintains that NFGD mischaracterizes the Recommended Decision as contradictory and urges the Commission to affirm the ALJ's balancing of cost-of-service considerations against gradualism,

affordability, and conservation concerns and deny NFGD's Exception No. 4. CAUSE-PA R. Exc. at 16.

b. NFGD Exception No. 12 and Replies

With respect to the Residential customer charge, NFGD, in its Exception No. 12, identifies what the Company characterizes as an internal inconsistency in the Recommended Decision that must be resolved before new rates can be implemented. NFGD restates its assertion from its Exception No. 4 that in the body of the Recommended Decision, the ALJ recommended proportionally scaling back the revenue allocation and customer charges based upon the cost-of-service study ultimately approved by the Commission, while recommended Ordering Paragraph No. 7 contemplates that the Commission direct that the Residential fixed charge remain at $14.00 per month. NFGD therefore argues that the ALJ simultaneously recommended: (1) a proportional increase in the Residential customer charge and (2) the denial of any increase to the Residential fixed charge. Accordingly, the Company asks the Commission to clarify or correct this inconsistency. NFGD Exc. at 34-35.

I&E agrees that clarification is warranted. In its Reply Exceptions, I&E states that, although the Recommended Decision is properly reasoned, the Commission should take the opportunity to clarify certain recommendations contained in it. I&E does not provide additional substantive analysis of the Residential customer charge inconsistency in its discussion of the Company's Exception No. 12; rather, it relies on its earlier Reply to NFGD's Exception No. 4, where I&E explained that the body of the Recommended Decision appears to accept I&E's proposal of a Residential charge of no more than $15.80, while recommended Ordering Paragraph No. 7 reflects the existing $14.00 charge. I&E states there that it could accept the $14.00 result, but argues that the precise customer charge being adopted should be clarified. I&E R. Exc. at 9, 15.

The OCA, likewise, agrees that the Recommended Decision contains an ambiguity that the Commission should resolve, but disagrees with any interpretation that the ALJ intended to authorize a proportional increase in the Residential customer charge. The OCA acknowledges that the Recommended Decision states that revenue allocation and customer charges should be scaled back proportionally based upon the approved cost-of-service study. However, the OCA emphasizes that in recommended Ordering Paragraph Nos. 6 and 7, the ALJ expressly recommended that the Commission deny NFGD's proposed increase to $19.00 and direct that the Residential fixed charge remain at $14.00. In the OCA's view, those two ordering paragraphs clearly establish the ALJ's intended disposition, and the proportional scale-back language does not alter the determination that the Residential customer charge should not increase. The OCA therefore urges the Commission to clarify the Recommended Decision, consistent with maintaining the $14.00 fixed charge, rather than treating the proportional scale-back language as authorizing an increase. OCA R. Exc. at 24-25.

Thus, NFGD, I&E, and the OCA agree that the Recommended Decision should be clarified, but they differ as to the proper resolution. NFGD points to the proportional scale-back language as evidence that the ALJ contemplated some increase in the Residential customer charge, whereas the OCA reads the recommended Ordering Paragraphs as controlling and maintains that the charge should remain at $14.00. I&E does not take as firm a position in its reply to NFGD's Exception No. 12, but indicates that it can accept the $14.00 charge so long as the Commission clearly identifies the customer charge ultimately approved. NFGD Exc. at 34-35; I&E R. Exc. at 9, 15; OCA R. Exc. at 24-25.

4. Disposition

Upon review, we shall grant, in part, and deny, in part, NFGD's Exception No. 4 and the portion of the Company's Exception No. 12 related to the Residential

customer charge. We agree with NFGD, as well as I&E and the OCA, that the Recommended Decision contains an inconsistency concerning the Residential customer charge that requires clarification. We do not agree, however, with NFGD that the appropriate remedy is approval of its proposed $19.00 monthly customer charge. Rather, we conclude that the body of the Recommended Decision reflects the ALJ's substantive recommendation to adopt I&E's Residential rate design methodology, under which the percentage increase in the basic service charge is limited to approximately the same percentage increase ultimately authorized for the Residential class. Accordingly, we shall clarify the Recommended Decision consistent with that recommendation and strike recommended Ordering Paragraph No. 7 on page 415, which otherwise directs that the Residential fixed charge remain at $14.00 per month.

In its Exception No. 4, NFGD identifies the inconsistency between the ALJ's substantive discussion of Residential rate design and the recommended Ordering Paragraphs. In the body of the Recommended Decision, the ALJ recommended that the Commission adopt I&E's Residential rate design proposal and "limit the percent increase in basic service charges proposed by the Company to approximately the same class percent increase in rates generally." R.D. at 271. The ALJ further recommended that the Commission proportionally scale-back the revenue allocation and customer charges based upon the cost-of-service study ultimately approved by the Commission. R.D. at 272. In contrast, in recommended Ordering Paragraph No. 6, the ALJ recommended the denial of NFGD's proposed increase in the Residential fixed charge to $19.00, while recommended Ordering Paragraph No. 7 directed that the charge remain at $14.00. R.D. at 415. NFGD argues that these provisions cannot be reconciled and requests approval of its proposed $19.00 charge or, alternatively, rejection of recommended Ordering Paragraph No. 7 and implementation of the proportional increase recommended in the body of the Recommended Decision. NFGD Exc. at 17-19.

We agree with NFGD that the Recommended Decision should be clarified. The ALJ's substantive rate design analysis expressly adopted I&E's methodology, rather than a complete freeze of the Residential basic service charge. I&E had proposed that the Residential customer charge increase by no more than approximately the same percentage increase authorized for the Residential class. At the revenue allocation advocated by I&E during the litigation, this methodology would have resulted in a monthly customer charge of approximately $15.80, rather than either NFGD's proposed $19.00 charge or an unchanged $14.00 charge. R.D. at 269-71. The ALJ then separately recommended acceptance of the proposal that customer charges be included in any proportional scale-back necessitated by approval of a revenue requirement below that requested by NFGD. R.D. at 271-72.

I&E itself acknowledges this inconsistency. In its Reply Exceptions, I&E explains that in the body of the Recommended Decision, the ALJ appears to have accepted its proposal for a Residential charge of no more than $15.80, while Ordering Paragraph No. 7 maintains the existing $14.00 charge. Although I&E states that it could accept a $14.00 charge, it specifically requests clarification as to the customer charge actually being adopted. I&E R. Exc. at 9. I&E again agrees in response to NFGD's Exception No. 12 that the Commission should clarify the inconsistent recommendations contained in the Recommended Decision. *Id*. at 15.

The OCA also agrees that clarification is necessary, although it urges a different resolution. The OCA emphasizes that recommended Ordering Paragraph Nos. 6 and 7 expressly contemplate that the Commission deny the $19.00 proposal and maintain the $14.00 charge, and it therefore interprets those provisions as controlling over the proportional scale-back language in the body of the Recommended Decision. OCA R. Exc. at 24-25. We agree with the OCA that NFGD's proposed $19.00 charge should not be approved, but we do not adopt the OCA's conclusion that the $14.00 charge must remain unchanged. Doing so would render the ALJ's express adoption of I&E's

Residential rate design methodology and proportional scale-back recommendation largely without effect.

Instead, we find that the most reasonable reading of the substantive analysis in the Recommended Decision is that the ALJ intended to recommend the rejection of NFGD's proposed 35.7% increase in the monthly Residential customer charge, or from $14.00 to $19.00, while permitting a more moderate increase tied to the percentage increase ultimately authorized for the Residential class. The ALJ expressly identified NFGD's proposal to increase the customer charge by 35.7%, compared it with I&E's substantially more gradual approach, and then recommended adoption of I&E's methodology. R.D. at 269-71. The subsequent scale-back discussion likewise confirms that the ALJ contemplated that customer charges would change with the revenue requirement ultimately approved, rather than remain fixed at their existing levels irrespective of the authorized class increase. *Id*. at 271-72.

We therefore shall retain recommended Ordering Paragraph No. 6, wherein the ALJ recommended that the Commission deny NFGD's request to increase the Residential customer charge to $19.00, but shall strike recommended Ordering Paragraph No. 7. The elimination of recommended Ordering Paragraph No. 7 removes the inconsistency between the Recommended Decision's substantive analysis and its Ordering Paragraphs. NFGD shall instead calculate the Residential customer charge in its compliance filing in this proceeding by applying the percentage increase ultimately authorized for the Residential class to the existing $14.00 monthly charge, consistent with the ALJ's adoption of I&E's methodology and subject to the proportional scale-back resulting from the final revenue requirement and class revenue allocation approved in this Opinion and Order. This approach does not adopt the $15.80 figure as a predetermined charge because that amount reflected I&E's proposed Residential class increase at an earlier revenue requirement. Rather, the final customer charge must be calculated using

the Residential class percentage increase resulting from the Commission's final determinations in this proceeding.

We are not persuaded by NFGD's further contention that its customer cost study requires approval of the $19.00 charge. NFGD emphasizes that its study identifies an indicated Residential customer-related cost of $27.17 per month and that its P&A ACOSS produces the same customer-unit cost as its Customer-Demand ACOSS. NFGD Exc. at 18. NFGD additionally relies on cost-of-service principles and argues that fixed customer-related costs should be recovered through fixed charges. NFGD Exc. at 19. Those considerations support movement toward a more cost-based customer charge, but they do not establish that the entire proposed increase from $14.00 to $19.00 must occur in this proceeding. The ALJ reasonably selected I&E's more gradual methodology after considering the competing cost-causation, conservation, affordability, and rate-design evidence. R.D. at 269-71.

Our disposition of the portion of NFGD's Exception No. 12 related to its Residential customer charge is consistent with this clarification. In that Exception, NFGD again identifies the conflict between the Recommended Decision's proportional-increase recommendation and recommended Ordering Paragraph No. 7. NFGD Exc. at 34-35. We agree that this portion of the Recommended Decision requires correction before compliance rates can be calculated. Accordingly, NFGD's Exception No. 12, as it relates to the Company's Residential customer charge, is granted, to the extent that NFGD requests clarification of the Residential customer charge recommendation and the removal of the inconsistent language in recommended Ordering Paragraph No. 7.

Accordingly, NFGD's Exception No. 4 and the above portion of the Company's Exception No. 12 are granted, in part, to the extent that they identify an ambiguity in the Recommended Decision regarding the Residential basic service charge.

Recommended Ordering Paragraph No. 7 of the Recommended Decision shall be stricken. We clarify that NFGD's proposed $19.00 Residential basic service charge remains denied, consistent with our adoption of recommended Ordering Paragraph No. 6, but that the existing $14.00 charge shall be increased by approximately the same percentage increase ultimately authorized for the Residential class, subject to the proportional scale-back required by the Commission's final approved revenue requirement and revenue allocation. In all other respects, NFGD's Exception No. 4 and the above portion of the Company's Exception No. 12 concerning the Residential customer charge are denied.

D. Scale-Back of Rates

1. Positions of the Parties

NFGD agreed that a scale-back is necessary if the Commission authorizes a revenue increase below the amount requested by the Company, but it proposed that the scale-back operate differently with respect to class revenue increases and fixed customer charges. NFGD contended that each customer class's assigned increase should be reduced proportionately to reflect the authorized revenue requirement. With respect to rate design, however, NFGD proposed to retain the customer charges it developed for each class and recover the remainder of each class's authorized increase through the applicable volumetric rates. NFGD M.B. at 71-72. Thus, although NFGD would proportionately reduce the overall revenue increase assigned to each class, it would not proportionately reduce its proposed fixed customer charges as part of that scale-back. NFGD submitted that scaling back the customer charge merely because the Commission approves a lower overall revenue requirement would disconnect rate design from cost-causation principles and could result in under recovery of fixed customer-related costs. *See* NFGD St. 19-R at 24-25; I&E M.B. at 40.

I&E took a different approach and proposed that, if the Commission grants NFGD less than its requested revenue increase, the proposed rates, including the customer charges, be reduced proportionately based upon the ACOSS ultimately approved by the Commission. I&E M.B. at 39-40; I&E St. 3 at 16; I&E St. 3-SR at 15. I&E explained that including the customer charge in the scale-back appropriately balances movement toward cost-based rates with gradualism and customer conservation considerations. I&E M.B. at 39. I&E also relied on the Commission's recent *Columbia Gas 2025* proceeding, where the Commission reduced the utility's proposed customer charge and then subjected that reduced charge to the scale-back associated with the lower authorized revenue requirement. I&E M.B. at 39-40. Accordingly, I&E proposed that the percentage reduction associated with the Commission-approved revenue requirement be reflected not only in class revenues and volumetric rates, but also in the customer charges used to recover those revenues.

The OCA similarly proposed that NFGD's revenue allocation and customer charge proposals be scaled back proportionately if the Commission grants rate relief in an amount below that requested by NFGD. The OCA disagreed with NFGD's proposal to preserve the full proposed customer charge notwithstanding a lower revenue requirement, explaining that the customer-class cost responsibility itself will be lower when the Commission authorizes a lower overall revenue requirement than that underlying NFGD's customer cost calculations. The OCA further asserted that Commission precedent consistently includes customer charges in a scale-back when the authorized revenue requirement is less than the utility's request. OCA M.B. at 79. As part of its alternative rate design proposal, the OCA also proposed that any customer charge increase initially be limited to the percentage increase assigned to the corresponding class and thereafter be subject to scale-backs reflecting changes in the Commission-approved class revenue increases. *Id*. at 82.

The OSBA addressed scale-back principally through the allocation of the final authorized base revenue requirement among customer classes. The OSBA proposed that, if the Commission approves a revenue requirement below NFGD's request, NFGD's revenue allocation methodology be used to establish each class's percentage share of the final base revenue requirement and that each class's base rate revenue requirement then be adjusted by an equal percentage so that the resulting rates recover the final Commission-approved revenue requirement. OSBA St. 1 at 17-18. In this manner, the OSBA's proposal preserved the relative class allocation while proportionately reducing the revenue increase to the level ultimately authorized by the Commission.

CAUSE-PA opposed any increase in NFGD's Residential customer charge in the first instance. However, if the Commission authorizes an increase in that charge, CAUSE-PA supported the proposals of the OCA and I&E that the Residential customer charge be scaled back proportionately based upon the ACOSS ultimately approved by the Commission. R.D. at 255, 261-62, 271-72. CAUSE-PA therefore rejected NFGD's proposal to insulate an increased fixed customer charge from the scale-back while reducing other components of the Residential rate.

Accordingly, the principal disagreement among the Parties concerned whether the fixed customer charges should participate in the scale-back. NFGD would proportionately reduce each class's overall revenue increase while retaining its proposed customer charges and assigning the remaining revenue requirement to volumetric rates. NFGD M.B. at 71-72. I&E and the OCA, supported by CAUSE-PA with respect to the Residential charge, would instead proportionately scale-back both the revenue allocation and the customer charges in accordance with the ACOSS and revenue requirement ultimately approved by the Commission. I&E M.B. at 39-40; OCA M.B. at 79; R.D. at 271-72.

2. Recommended Decision

The ALJ recommended that, if the Commission authorizes a revenue increase lower than that requested by NFGD, the resulting scale-back should be applied proportionately to both the revenue allocation and the customer charges, based upon the ACOSS ultimately approved by the Commission. In reaching this recommendation, the ALJ recognized the principal dispute among the Parties. NFGD agreed that each class's overall revenue increase should be scaled back proportionately, but argued that its proposed fixed customer charges should be retained and that the balance of each class's authorized increase should instead be recovered through volumetric rates. By contrast, I&E and the OCA proposed that the customer charges themselves also be reduced as part of the scale-back, with the OCA emphasizing that the Commission has consistently included customer charges when scaling rates to a lower authorized revenue requirement; CAUSE-PA supported the I&E/OCA approach with respect to any authorized Residential customer charge increase. The ALJ resolved this dispute in favor of the I&E/OCA methodology, concluding, and therefore recommending, that both the class revenue allocation and customer charges should be scaled back proportionately to reflect the Commission-approved cost of service and final revenue requirement. R.D. at 271-72.

3. Disposition

We agree with the ALJ's recommendation that NFGD's revenue allocation and customer charges should be scaled back proportionately to reflect the ACOSS and revenue requirement ultimately approved by the Commission. R.D. at 271-72.[76] No Party filed an Exception specifically challenging the ALJ's scale-back recommendation, and we find the recommended methodology reasonable.

[76] As noted in Section VI.D, *supra*, we have approved a revenue increase of $10,448,826 and a revenue requirement of $275,972,826 for NFGD in this proceeding.

Our adoption of the ALJ's scale-back recommendation is consistent with our disposition of the portion of NFGD's Exception No. 12 related to its Residential customer charge. As discussed above, we granted this portion of NFGD's Exception No. 12, in part, to clarify the Recommended Decision and struck recommended Ordering Paragraph No. 7, while leaving intact the ALJ's recommended denial of NFGD's proposed $19.00 Residential customer charge. Accordingly, the Residential customer charge shall be determined, consistent with the rate design methodology adopted herein and shall be subject to the proportional scale-back necessary to reflect the final authorized Residential class revenue increase. Therefore, we shall adopt the ALJ's scale-back recommendation, as clarified by our disposition of the above portion of NFGD's Exception No. 12.

E. OPEB Credit

1. Positions of the Parties

NFGD proposed to return approximately $7.2 million[77] in remaining OPEB surcredit funds to customers during the FPFTY through its existing Rider I. The Company explained that approximately $1.025 million of those funds would be distributed through a one-time $30.00 bill credit to confirmed low income customers, including CAP customers and other customers for whom NFGD has verified income information at or below 250% of the federal poverty level. At the request of CAUSE-PA, NFGD agreed to distribute the one-time credit during the December 2026 billing period. The remaining amount of approximately $6.2 million would be returned to customers through Rider I, using the same class allocation employed in the 2021 OPEB proceedings

[77] In its Main Brief, the Company inadvertently identifies this amount as "$7.12 million." NFGD M.B. at 72. However, it is clear from the amounts identified below, as well as the amount identified in the Company's direct testimony that the amount of this surcredit is approximately $7.2 million." *See* NFGD St. 14 at 14.

at Docket Nos. R-2021-3027406 and C-2021-3028654 (*2021 OPEB Proceedings*). NFGD further stated that the Rider I surcredit will offset a portion of the rate increase authorized in this proceeding during the FPFTY, although the expiration of the surcredit will subsequently result in a step-up to the base rates established in this proceeding. NFGD M.B. at 72; NFGD St. 14 at 13-14.

The OCA did not oppose NFGD's proposed continuation of Rider I. The OCA explained that the Commission established Rider I in 2021 to return approximately $54 million in OPEB funds to customers through 2026, including through a prior one-time credit to low income customers and a volumetric surcredit. The existing volumetric surcredit is scheduled to end September 30, 2026, and NFGD now proposed to return the remaining approximately $7.2 million during the FPFTY through the $30.00 low income customer credit and continued Rider I surcredits. OCA M.B. at 79-80. Although the OCA did not oppose this treatment of the OPEB funds, it argued that the credits do little to offset the magnitude of the rate increases proposed by NFGD. The OCA therefore submitted its broader position that, because NFGD already possesses excess funds that must be returned to customers, the Commission should reject NFGD's requested rate increase in its entirety rather than view the OPEB credits as adequate mitigation of the proposed increase. OCA M.B. at 79-80.

CAUSE-PA was generally supportive of NFGD's proposal to provide the one-time $30.00 bill credit to CAP customers and other verified low- and moderate-income customers, but proposed additional requirements intended to maximize the effectiveness of the credit as rate relief. CAUSE-PA St. 1 at 68-69. CAUSE-PA proposed that the credit be distributed during a winter billing month, between December and March, when heating costs are greatest. NFGD agreed with that suggestion and committed to distribute the credit during the December 2026 billing cycle; accordingly, CAUSE-PA supported distribution in December 2026. CAUSE-PA St. 1 at 69; NFGD St. 14-R at 2.

CAUSE-PA also proposed that NFGD use distribution of the OPEB credit as an opportunity to identify and enroll eligible customers in the Company's universal service programs. Specifically, CAUSE-PA proposed that NFGD conduct affirmative outreach to customers receiving the credit by mail, email, telephone, and text message; provide information concerning CAP and other universal service programs; include a CAP application with mailed outreach and an online application link in electronic communications; and provide warm referrals to CAP administrators for customers contacted by telephone who express interest in assistance. CAUSE-PA contended that the OPEB credit provides an appropriate point of contact through which NFGD can improve participation in its universal service programs and better connect eligible low income customers with available assistance. CAUSE-PA St. 1 at 69.

2. Recommended Decision

The ALJ recommended approval of NFGD's proposal to return the remaining OPEB surcredit funds to customers, with the one-time $30.00 credit to eligible low income customers distributed during the December 2026 billing period. In addressing the Parties' positions, the ALJ noted that the OCA did not oppose continuation of Rider I, although it argued that the OPEB credits would provide only limited relief relative to NFGD's proposed rate increase, and that CAUSE-PA generally supported the $30.00 credit but urged that it be distributed during a winter month and accompanied by additional outreach concerning CAP and other universal service programs. R.D. at 272-73. The ALJ ultimately adopted NFGD's commitment to distribute the OPEB surcredit in December 2026, finding that approach consistent with the Commission's earlier 2021 treatment of the OPEB funds. R.D. at 273.

However, in making her above recommendation that the Commission approve NFGD's proposal, as outlined by the Company, the ALJ did not make a separate recommendation to adopt CAUSE-PA's additional proposed outreach and enrollment

requirements as part of the OPEB credit makeup. As noted, *supra,* CAUSE-PA had proposed affirmative outreach by mail, email, telephone, and text message, together with CAP applications, online enrollment links, and warm referrals, but the ALJ's express recommendation on this issue was limited to approval of the December 2026 distribution of the OPEB surcredit. CAUSE-PA St. 1 at 69; R.D. at 262-63, 273.

3. Disposition

No Party filed Exceptions to the ALJ's recommendation. We find the ALJ's recommendation, that the Commission adopt the Company's proposal, as outlined, to be reasonable. Accordingly, we shall adopt the Company's proposal to return approximately $7.2 million in remaining OPEB surcredit funds through: (1) returning an aggregate amount of approximately $1.025 million through the distribution of a one-time $30.00 bill credit during the December 2026 billing period to NFGD's confirmed low income customers, including CAP customers and other customers for whom NFGD has verified income information at or below 250% of the federal poverty level; and (2) returning an aggregate amount of $6.2 million to customers through Rider I, using the same class allocation that the Company employed in the *2021 OPEB proceedings*. [$1.025 million + $6.2 million = $7.225 million].

Finally, in adopting the Company's proposed method for returning the remaining OPEB surcredit, we shall decline to adopt CAUSE-PA's additional proposals that NFGD use distribution of the OPEB credit to conduct affirmative outreach by mail, email, telephone, and text message, provide CAP applications and online enrollment links, make warm referrals, and otherwise use the credit as an opportunity to increase universal service enrollment. The ALJ did not separately recommend adoption of those OPEB-specific requirements, and no Party filed an Exception challenging the ALJ's treatment of this issue. Our determination here does not alter any separate outreach or

recertification requirements adopted below in Section XIII of this Opinion and Order regarding Universal Services.

XI. Weather Normalization Adjustment

In this proceeding, NFGD requested that the Commission approve the current WNA mechanism, which is scheduled to expire in October 2028, as a permanent program. The Company explained that the WNA pilot was part of the Settlement Agreement approved in *NFGD 2023*. NFGD St. 19 at 23.

NFGD submitted that the WNA is a ratemaking mechanism, wherein the Company adjusts the delivery portion of customer bills so that they reflect usage under normal weather conditions, rather than actual temperatures experienced during the heating season (*i.e.*, from October through May). NFGD contended that the WNA provides for symmetrical customer charges and credits when weather deviates from the degree days used to set base rates. According to the Company, the primary purpose of the WNA is to moderate the bill impacts of unusually warm or cold weather, providing customers with greater stability, while aligning billed revenues more closely with the Commission-approved revenue requirement. NFGD St. 19 at 23.

Specifically, the current WNA mechanism functions as follows:

(1) It adjusts the usage in customer bills based on deviations from normal weather, as measured by Heating Degree Days (HDDs), by comparing actual HDDs (AHDDs) to normal HDDs (NHDDs) based on a 15-year weather history.

(2) It includes a 3% deadband, meaning no adjustment is made unless the weather deviates by more than ±3% from normal.

(3) It applies to all Pennsylvania Natural Gas Residential and Commercial/Public Authority customers served by [NFGD].

(4) It applies during the heating season (October through May).

NFGD St. 19 at 24-25.

In the Company's view, the deadband prevents minor weather variations from triggering bill changes and ensures that adjustments occur only when there are material deviations. NFGD further submitted that by excluding non-heating season usage and focusing on the weather-sensitive portion of consumption, the mechanism is carefully targeted and limited in scope. NFGD St. 19 at 24-25.

A. Positions of the Parties

As part of its rate filing, NFGD proposed two modifications to its pilot WNA. First, the Company updated its calculation of NHDDs based on ten years of National Oceanic and Atmospheric Administration (NOAA) weather data instead of its current method of using fifteen years. In NFGD's view, utilizing a more current normalization period would better reflect recent weather conditions, which over time would support a more balanced pattern of customer surcharges and credits depending on actual weather outcomes. NFGD M.B. at 74-75.[78]

Second, NFGD proposed continuing the WNA on a permanent basis contending that it serves the Company and its customers well. Alternatively, the

[78] The Company also modified its volumetric forecasting approach to use a 10-year average of HDD data published by NOAA, as observed at the Erie, Pennsylvania International Airport from 2015 to 2024. NFGD St. 1 at 17.

Company argued that, if the Commission authorizes the WNA on a pilot basis, the term should be extended to the end of its next base rate case. NFGD M.B. at 78.

I&E did not oppose the Company's proposal to calculate its NHDDs based on ten years of NOAA weather data, finding it to be reasonable because it more accurately reflects recent weather trends. Additionally, I&E asserted that the proposal is consistent with the Commission's determination in *Columbia Gas 2025*. However, I&E recommended that the WNA be modified as follows: the continuation of the WNA as a pilot extending through the end of NFGD's next base rate case; excluding the shoulder month of May from the calculation of the WNA; and increasing the deadband from 3% to 5%. I&E M.B. at 41-42; I&E R.B. at 35-37.

The OCA opposed NFGD's request to turn its WNA into a permanent mechanism, arguing that it lacks substantial evidence to support a determination that the WNA is equitable for the Company's customers or that it satisfies the Commission's policy factors regarding alternative ratemaking mechanisms. OCA M.B. at 82 (citing 52 Pa. Code § 69.3302(a)).[79] Alternatively, the OCA submitted that, if the Commission were to approve NFGD's proposed WNA, it should condition approval on the following modifications: (1) allow it to continue as a pilot for an additional three years instead of allowing it to become permanent; (2) increase the deadband from 3% to 5%; (3) eliminate the months of October and May from the Company's proposed WNA's effective period;

[79] As discussed below, Section 69.3301 of our Regulations sets forth a policy statement that "invite[s] the proposal, within a utility's base rate proceeding, of fixed utility distribution ratemaking mechanisms and rate designs that further . . . the objectives of 66 Pa.C.S. § 1330 (relating to alternative ratemaking for utilities)." 52 Pa. Code § 69.3301. Section 69.3302 of our Regulations sets forth fourteen policy factors that the Commission may consider "[i]n determining just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose and scope of this statement of policy and the objectives of 66 Pa.C.S. § 1330." *Id*. at § 69.3302. *See Fixed Utility Distribution Rates Policy Statement*, Docket No. M-2015-2518883 (Order entered July 18, 2019) (*2019 Statement of Policy*).

and (4) require NFGD to add three additional weather stations in calculating its AHDDs. OCA M.B. at 95-101.[80]

The OSBA stated that it would support the continuation of the Company's WNA as a pilot program. OSBA M.B. at 15.

CAUSE-PA argued that the Commission should reject the Company's proposal to make the pilot WNA permanent and should end the WNA with the effective date of rates in this proceeding. In CAUSE-PA's view, 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 customers, with residential customers paying surcharges of approximately $6.5 million. CAUSE-PA M.B. at 53.

CAUSE-PA proffered that the Company's WNA undermines energy efficiency and disproportionately burdens low income customers, raising deep concerns about fairness and equity. According to CAUSE-PA, the WNA proposal does not comply with the *2019 Statement of Policy*, undermines cost-of-service principles, needlessly drives up the costs of CAP and other universal service programs, is difficult to understand for consumers, and lacks any consumer protections. CAUSE-PA M.B. at 75.

Alternatively, CAUSE-PA recommended that if the Commission were to approve the Company's WNA, it should require the following five reforms. First, the WNA should remain as a pilot for only a limited period of no longer than three years.

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[80] As to the weather station modification, the OCA noted that NFDG uses Erie, PA as a proxy for weather conditions for its entire service territory. According to the OCA, weather in Erie is experienced by only 44% of NFDG's customers. The OCA asserted that to better reflect the actual weather experienced by ratepayers, the Company should include three additional weather stations in DuBois, Pittsburgh, and Bradford, PA to calculate the WNA. OCA M.B. at 100; OCA R.B. at 51-52.

Second, all customers enrolled in NFGD's CAP should be exempt from the WNA. Third, the WNA's months of operation should be limited to the period of December through March. Fourth, the WNA deadband should be increased from 3% to 5% to prevent the WNA from applying when only minor deviations from historical temperature occur. Fifth, NFGD should be required to use a rolling 10-year historical average that is updated annually to calculate any WNA charges, rather than a fixed period between 2015 to 2024. CAUSE-PA M.B. at 76-77.

B. Recommended Decision

The ALJ determined that the Commission should reject NFGD's request to make the WNA permanent, and should terminate the pilot WNA. In the event the Commission elects to continue the WNA, the ALJ recommended the Commission continue the WNA as a pilot to provide NFGD more time to collect data supporting the continuation of the WNA, finding that the Company did not provide sufficient evidence that the WNA produces rates that are just and reasonable. R.D. at 309.

The ALJ reasoned that the WNA transfers the risk of price volatility and weather variability from NFGD to the ratepayers. In support, the ALJ noted that over the three years of the pilot, NFGD passed more charges onto residential customers than paid credits to ratepayers. The ALJ added that during the three years of the pilot, residential customers were denied clear weather-related consumption and price signals. In the ALJ's view, the WNA shifted the risk of weather volatility to residential customers but did not provide a benefit to customers who are conserving energy. The ALJ found that the WNA, as applied, is unfair by design because it results in shifting the traditional risk of natural gas distribution service from NFGD to its customers by guaranteeing recovery of authorized revenues to the Company regardless of actual customer consumption. R.D. at 309.

Further, the ALJ determined that the manner of application of the WNA has resulted in unclear billing statements, which residential customers cannot verify for correctness because customers are unable to access the information that explains and verifies the charges each month. In addition, the ALJ stated that winter weather has been warming and is projected to continue to warm. According to the ALJ, as the weather warms, residential customers will continue to be charged more often at greater amounts, with fewer occasions when the customers will receive credits. For these reasons, the ALJ recommended that the Commission reject NFGD's proposal concerning the WNA and end the pilot program. R.D. at 310.

C. Exceptions and Replies

1. NFGD Exception No. 3 and Replies

In its third Exception, NFGD argues that the ALJ committed an error in recommending the discontinuation of the WNA. The Company contends that the ALJ did not provide a reasonable basis to terminate the WNA but instead relied on general policy-based arguments not specific to the proposal. In the Company's view, NFGD has presented substantial evidence that the WNA benefits the interests of both customers and the Company, noting that the Commission has not eliminated the WNA authorized for any other NGDC. NFGD Exc. at 13-14.

NFGD acknowledges that abnormal weather is outside of the Company's control and is one factor which can produce more charges to customers than credits. To address this concern, NFGD emphasizes its proposal to update the weather normalization benchmark from a 15-year average to a more current 10-year average to better reflect recent conditions. NFGD Exc. at 14.

The Company objects to the contentions of the ALJ and the opposing Parties that the WNA should be rejected because weather will continue to get warmer and colder temperatures will be unlikely. In NFGD's view, these assertions are contradicted by the recent winter experience in the Company's service territory. NFGD contends that the assertions regarding the elimination of the WNA should be rejected for four reasons. NFGD Exc. at 14-15.

First, NFGD asserts that if temperatures continue to become warmer, the Company will not recover its fixed costs without the WNA. In support, the Company notes that it recovers most of its fixed costs through volumetric rates and that the WNA adjusts the delivery billing determinant in a customer's bill to reflect usage under the normal weather conditions used to set rates. Eliminating the WNA, NFGD continues, would deny the Company the opportunity to recover the fixed costs embedded in its volumetric distribution rates, which may cause greater and more frequent increases in rates for customers. NFGD Exc. at 15.

Second, the Company proffers that removing the WNA would deny customers the opportunity to receive credits in periods when temperatures are colder than normal. For support, NFGD references the winter of 2026 in which customers received approximately $2.6 million in net WNA credits. NFGD Exc. at 15.

Third, NFGD contends that the Commission has permitted WNAs for other NGDCs and that the opposing Parties have not identified any flaws or differences warranting the WNA proposal in this proceeding. Moreover, the Company submits that the WNA is no more confusing than other tariffed riders that rely on objective inputs and that the WNA is transparently shown as a separate item on customer bills. NFGD also argues that customers experience savings on their bills when they reduce consumption, even with the WNA. NFGD Exc. at 15-16.

Fourth, the Company objects to the other adjustments proposed by the opposing Parties, if the Commission were to permit continuation of the WNA. The Company asserts that it presented a regression analysis showing that the Company's service territory experiences statistically significant heat load in October and May and that temperatures are colder and the cold days continue longer in the year as compared to other areas in the Commonwealth. The Company also proffers that expanding the deadband from 3% to 5% would limit the credits customers receive in colder than normal months and that a lower deadband enhances affordability by reducing volatility and increasing predictability of monthly bills for customers. NFGD Exc. at 15-16.

Regarding its objections to further modifications of the WNA, the Company argues that the OCA's proposal to require additional weather stations is fundamentally flawed because it would remove the connection between the WNA and the forecast used to set base rates. NFGD submits that the proposed stations are not indicative of the weather in the Company's service territory. In support, NFGD explains that one of the additional stations proposed is Pittsburgh, which is not in the Company's service territory and has significantly lower degree days than the stations in the Company's territory. Moreover, the Company notes that the proposed Bradford and Dubois stations have higher degree days than Erie but only represents 2.7% and 5.6% of the Company's customers respectively. NFGD Exc. at 16.

For these reasons, the Company contends that the WNA should be approved as proposed. Alternatively, NFGD requests that if the WNA is authorized on a pilot basis, the term should be extended to the end of the next base rate case. NFGD Exc. at 17.

In its Reply to NFGD Exception No. 3, I&E argues that based on the substantial evidence in the record, it supports the recommendations of the ALJ to discontinue the WNA. Essentially, I&E agrees with the arguments advanced by the OCA

in opposition to the WNA. However, I&E submits that if the Commission decides to extend the WNA, the I&E modifications to the Company's proposal should be adopted as well. I&E Exc. at 6-8.

The OCA replies to NFGD's Exception No. 3 by arguing that the ALJ correctly recommended rejecting the Company's request to make the WNA permanent and to terminate the WNA pilot. In support, the OCA asserts four principal arguments that the ALJ's recommendation was appropriate. OCA R. Exc. at 10-11.

First, the OCA contends that a system that can produce both charges and credits does not necessarily equate to equal risk. In the OCA's view, NFGD's data shows that its customers have borne more cost over the three years of the current pilot. Second, the OCA submits that the Company's data shows that even with the WNA revenue removed, NFGD has earned close to its authorized revenue, thus showing that discontinuing the WNA would not deny the Company a reasonable opportunity to earn its authorized revenue. OCA R. Exc. at 11.

Third, the OCA notes the Company's contention that the WNA produced $2.6 million in net WNA credits in the most recent heating season. However, the OCA counters that the purported net credit was prior to April 2026, a month which produced approximately $1 million in surcharges and did not include May 2026. Fourth, the OCA argues that the Commission is not required to approve NFGD's WNA merely because it has permitted other utilities to employ a WNA mechanism. According to the OCA, the Company bears the burden to prove that its specific proposal results in just and reasonable rates and has failed to carry its burden here. OCA R. Exc. at 11.

In its Reply to NFGD's Exception No. 3, CAUSE-PA asserts that the ALJ correctly recommended discontinuation of the WNA, arguing that the WNA pilot has unreasonably shifted business risks to consumers and has resulted in unjust rates.

CAUSE-PA proffers four arguments in opposition to NFGD's exception. CAUSE-PA R. Exc. at 9-12.

In its first argument, CAUSE-PA contends that the ALJ based her determination on substantial evidence in the record, concluding that NFGD failed to meet its burden that its WNA produces just and reasonable rates. Second, CAUSE-PA asserts that the ALJ based her conclusion on unrefuted evidence that Pennsylvania's weather is warming and that over time the WNA will more often result in net charges to customers at greater amounts. CAUSE-PA R. Exc. at 9-11.

Third, CAUSE-PA argues that the Commission should reject the Company's contention that its WNA proposal is proper because it has been approved for other NGDC's. According to CAUSE-PA, the proper legal standard is not whether a WNA has been authorized for other utilities, but whether NFGD has shown by substantial evidence in the record that its WNA produces just and reasonable rates. CAUSE-PA R. Exc. at 11.

Fourth, CAUSE-PA argues that the ALJ based her conclusion on record evidence in this proceeding to determine that NFGD did not carry its evidentiary burden. In CAUSE-PA's view, the ALJ's recommendation was not an indictment of the concept of the WNA in the abstract, but was a rejection of the unfairly designed mechanism that the Company proposed to permanently impose on its customers. CAUSE-PA R. Exc. at 12.

Alternatively, CAUSE-PA reiterates its prior recommendations that if the Commission were to approve the Company's WNA, it should require additional consumer protections. CAUSE-PA R. Exc. at 12-13.

2. OCA Exception No. 4 and Replies

In its fourth Exception, the OCA asserts that the ALJ appropriately recommended the termination of the Company's WNA because NFGD failed to present sufficient evidence showing that it produces just and reasonable rates. The OCA also takes the position that the ALJ correctly recommended, in the alternative, that any continuation of the WNA should be on a pilot basis. However, the OCA submits that the ALJ incorrectly failed to include the OCA's additional alternative recommendations in the event the Commission approves the continuation of the WNA. OCA Exc. at 17-18.

The OCA argues that its additional alternative recommendations – the inclusion of a 5% deadband, the removal of the months of October and May from the calculations, and the addition of weather stations for calculating HDDs in any continued pilot – should have been included in the Recommended Decision as needed protections for ratepayers. Regarding the increased deadband, the OCA contends that it would provide additional protection to ratepayers from minor deviations from normal weather. OCA Exc. at 18-19.

As to the proposed removal of the months of October and May, the OCA proffers that the inclusion of these months in the existing WNA inequitably shifts weather-related risk from the Company to its customers because of a high level of variability in HDDs during those months. The OCA adds that its proposal to utilize additional weather stations to calculate HDDs is necessary to provide an appropriate proxy of weather conditions for its entire service territory. In the OCA's view, the existing WNA only uses the weather conditions of Erie, PA, which is distinctive from the rest of Pennsylvania and only covers the weather for 60% of NFGD's customer base. OCA Exc. at 19-20.

In its Reply to the OCA's Exception No. 4, NFGD argues that the Commission should reject the OCA's proposed modifications. However, the Company submits that, if the Commission declines to permanently authorize the WNA, any pilot period should be extended to the end of NFGD's next base rate case rather than the three-year term proposed by the OCA. NFGD R. Exc. at 9-11.

In support, NFGD submits that it presented an undisputed analysis showing that its service territory experiences statistically significant heat load in October and May and that temperatures are colder and the cold days continue longer in the year as compared to other areas in the Commonwealth. The Company proffers that, unlike other NGDCs facing lower amounts of degree days in October and May which may create unreasonable charges, NGDC has not experienced such problems during such "shoulder" months. NFGD R. Exc. at 9-10.

The Company also argues that the 3% deadband provides greater protection for customers during cold weather and should not be changed. As an example, NFGD cites the recent winter of 2026, when actual degree days were greater than normal, and notes that a broader deadband of 5% would have reduced the actual customer credits received. NFGD R. Exc. at 10.

Regarding the OCA's proposal to require additional weather stations to calculate HDDs, the Company raises two objections. First, NFGD asserts that using different weather stations in the WNA without changing the weather data used in the Company's demand forecast removes the connection of the WNA to the forecast used to set base rates. Second, the Company proffers that the proposed additional weather stations are not indicative of the weather in the Company's service area. In NFGD's view, the OCA presented no analysis or data supporting its proposal that the three additional stations, which represent less than 9% of the Company's customer population, would increase the accuracy of the WNA. NFGD R. Exc. at 10-11.

D. Disposition

Upon review, we shall grant NFGD's Exception No. 3, in part, and deny it, in part. Additionally, we shall grant the OCA's Exception No. 4, in part, and deny it, in part. In doing so, we shall approve the continuation of the Company's WNA as a pilot program subject to the modifications set forth below.

The Company has completed the third year of a five-year pilot applying the WNA to customer bills. In NFGD's view, it has presented substantial evidence of the WNA benefiting the interests of both customers and the Company, such that the recommended termination of the program is unwarranted. We agree.

After three years of operation, the record indicates that the WNA is operating close to its designated purpose – that is, to help offset the harm or benefit from higher or lower bills that occur due to weather fluctuations which cannot be managed by either the Company or its ratepayers. Here, the WNA establishes credits or charges that offset higher or lower volumetric delivery charges on customer bills so that both the customer and the Company receive a moderate level of insulation from the impacts of weather on consumption. NFGD St. 19-R at 28.

As we recently explained in *Columbia Gas 2025*, a functioning WNA will produce both surcharges and credits based on the deviation from normal weather in any given period:

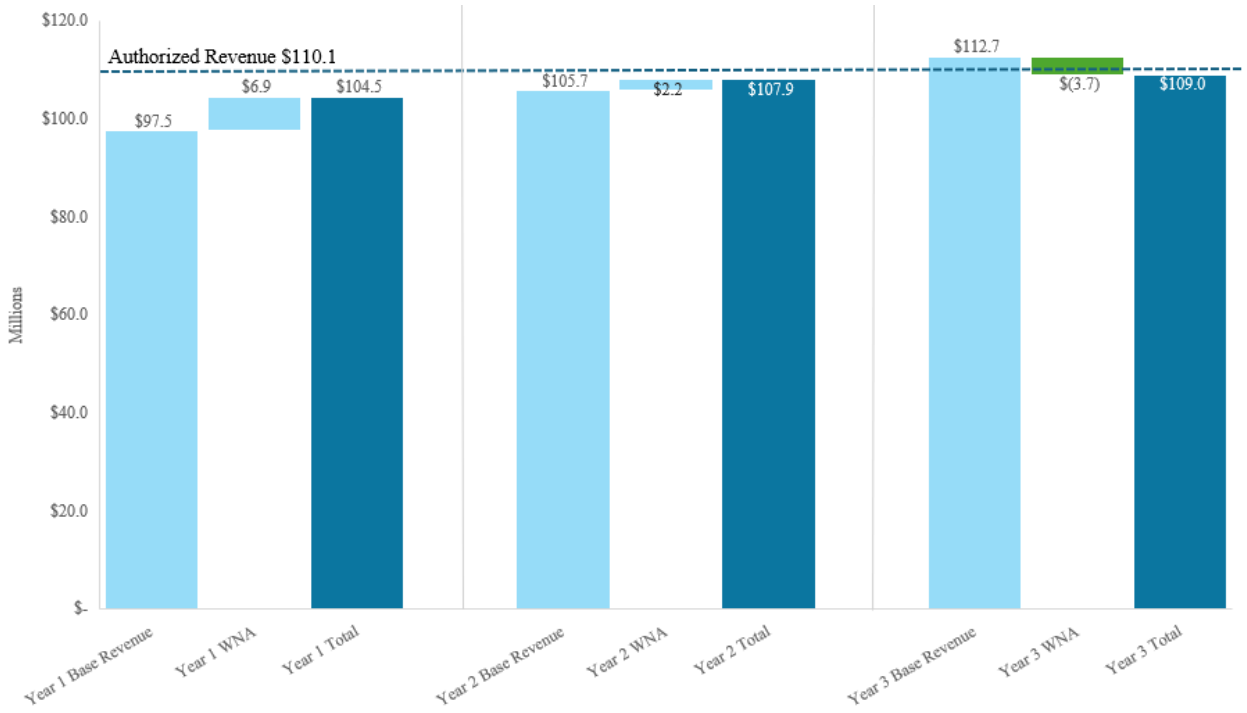
> In a rate case, the Commission approves a revenue number which produces customer rates that afford the utility the opportunity to earn the approved revenue amount. For a natural gas utility, a large portion of its revenue is based on home heating, but the cost of delivering gas is not weather-dependent. Weather that is colder or warmer than expected results in revenue that is higher or lower than that

> approved by the Commission. A WNA may be used to align revenue collected to that approved by the Commission. If temperatures are warmer than expected, the utility will add a surcharge to give it the opportunity to collect revenues up to the amount approved by the Commission. Conversely, if weather is colder than expected, customers receive a credit on their bills to limit the utility from collecting revenue above the Commission-approved amount.

Columbia Gas 2025 at 300.

Moreover, in *Columbia Gas 2025*, we measured the WNA adjustments against Columbia's authorized revenue requirement and ultimately determined that "[b]ased on the evidence presented, Columbia's WNA, which has been in place for ten years, has not enabled the Company to recover revenue outside of the Commission-authorized revenue requirement and has received very few complaints." *Columbia Gas 2025* at 301 (citations omitted).

In this proceeding, the Company has demonstrated that the WNA is necessary because a large portion of NFGD's fixed distribution costs are recovered through volumetric rates. NFGD St. 19 at 27. Further, the Company has established that over the last three years, the WNA has not guaranteed or resulted in overcollection of revenues for NFGD. The following chart compares the Company's authorized distribution revenues to the combination of base rate revenues and WNA adjustments for the twelve months ended July 31, 2024 (Year 1), the twelve months ended July 31, 2025 (Year 2), and the projected twelve months ending July 31, 2026 (Year 3):



NFGD St. 19-R at 31.

This data supports a determination that the WNA mechanism is operating as intended by providing the Company an opportunity to come closer to recovering its Commission-authorized distribution revenue requirement by reducing weather-driven volatility in margin recovery. In this regard, we agree with the position of NFGD that the WNA does not guarantee revenue or enable overcollection. NFGD St. 19-R at 30.

The Company also submitted that its WNA is a symmetrical mechanism, which balances weather-driven financial risk equally for both ratepayers and the Company. In NFGD's view, it is designed to recover or refund revenues that are lost or gained due to actual weather deviating from its normal historical average. To demonstrate the value to customers in colder than normal seasons, the Company cited to the following data, reprinted as Table 18 below, with the positive amounts representing recoveries by the Company and the negative amounts showing reductions to customer bills:

Table 18: Effects of NFGD's WNA Pilot

Table 1: Heating Season by year			
	2023-2024	2024-2025	2025-2026
OCT	$ 112,758	$ 347,315	$ 291,162
NOV	179,872	1,051,095	(298,215)
DEC	314,620	109,846	(1,198,284)
JAN	1,010,020	(240,353)	(464,332)
FEB	1,237,993	(310,213)	(2,015,891)
MAR	2,361,861	580,910	1,129,912
APR	702,191	608,196	1,381,702 *
MAY	1,078,972	48,505	Not Available
Adjustments	(78,094)	(8,520)	
Total by Season	$ 6,920,194	$ 2,186,781	$ (1,173,946)

*Estimated

NFGD St. 1-R at 7-9. Based on this data updated through April 2026, the Company's customers received approximately $2.6 million in net WNA credits during the 2025-2026 heating season. NFGD St. 19-R at 30.

Additionally, the Company acknowledged that during the first two years of the pilot, the WNA provided more charges than credits, but submitted that these differences were caused by warmer and colder weather. According to NFGD, the occurrences of more charges than credits in the first two years was the result of higher actual temperatures than those projected in setting the base rates in *NFGD 2023*, which used the average of 15 years of degree days. As a result, in this proceeding, NFGD proposed modifying the existing WNA by establishing normal HDDs using a 10-year weather pattern rather than a 15-year average to better reflect more recent weather patterns while retaining the stabilizing features of the mechanism. NFGD St. 19-R at 28.

The OCA and CAUSE-PA alleged that the WNA is a one-sided mechanism unfair to customers. However, the record evidence, particularly the net customer credits

provided during the 2025-2026 heating season, does not support this general allegation. Moreover, the proposed revision to the WNA to utilize a 10-year average with fewer HDDs than the currently used 15-year average will likely reduce the level of charges for customers going forward. NFGD St. 19-R at 35. In this regard, we find that the WNA as modified with the 10-year average proposal, and with the additional modifications approved below, will help to balance the charges and credits to customers in an even more symmetrical fashion.

We acknowledge that NFGD provided testimony explaining how its WNA proposal aligns with each of the fourteen factors in the Commission's *2019 Statement of Policy*, codified at 52 Pa. Code § 69.3302(a). NFGD St. 19 at 27-28; NFGD Exh. JDT-3 at 1-5. In contrast, both the OCA and CAUSE-PA argued that the Company's WNA harms or has no effect on the policy concerns captured in the fourteen factors. OCA M.B. at 90-95; CAUSE-PA M.B. at 60-74.

The *2019 Statement of Policy* did not establish a binding norm and, thus, we are not required to address the fourteen factors individually in our consideration of the WNA proposal. *See 2019 Statement of Policy* at 7; and *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2025-3053499, *et al.* (Opinion and Order entered February 19, 2026) (*2026 Columbia Gas Order*). Indeed, the language of Section 69.3302(a) makes clear that the Commission's consideration of the factors is entirely discretionary. 52 Pa. Code § 69.3302(a). Nonetheless, we agree with the Company that upon review of the relevant factors set forth in the *2019 Statement of Policy,* the WNA as proposed is a just and reasonable alternative distribution

ratemaking mechanism, as authorized under Section 1330 of the Code, 66 Pa.C.S. § 1330.[81]

In support of this determination, we shall address four of the main policy factor objections to the WNA. These pertain to cost causation, conservation and energy efficiency, rate stability, and customer understandability. *See* 52 Pa. Code §§ 69.3302(a)(1), (5), (6), (8), and (13).

[81] As referenced in the policy provision of Section 1330: "It is the policy of the Commonwealth that utility ratemaking should encourage and sustain investment through appropriate cost-recovery mechanisms to enhance the safety, security, reliability or availability of utility infrastructure and be consistent with the efficient consumption of utility service." 66 Pa.C.S. § 1330(a)(2).

Section 1330(b) of the Code, 66 Pa.C.S. § 1330(b), permits the Commission to approve various alternative ratemaking mechanisms, including decoupling mechanisms. A decoupling mechanism is defined as a rate mechanism: "that reconciles authorized distribution rates or revenues for [the] difference between the projected sales used to set rates and actual sales, which may include, but not be limited to, adjustments resulting from fluctuations in the market of customers served and other adjustments deemed appropriate by the commission." 66 Pa.C.S. § 1330(f). The Commission has identified WNAs as decoupling mechanisms. *See Alternative Ratemaking Methodologies*, Docket No. M-2015-2518883 (Tentative Order entered March 2, 2017) at 7.

Sections 69.3302(a)(1), (5), (6), (8), (13), and (14) of the *2019 Statement of Policy* provide:

> (a) In determining just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose and scope of this statement of policy and the objectives of 66 Pa.C.S. § 1330 (relating to alternative ratemaking for utilities), the Commission may consider, among other relevant factors, the following:
>
> (1) How the ratemaking mechanism and rate design align revenues with cost causation principles as to both fixed and variable costs.
>
> * * *
>
> (5) How the ratemaking mechanism and rate design limit or eliminate disincentives for the promotion of efficiency programs.
>
> (6) How the ratemaking mechanism and rate design impact customer incentives to employ efficiency measures and distributed energy resources.
>
> * * *
>
> (8) How the ratemaking mechanism and rate design impact customer rate stability principles.
>
> * * *
>
> (13) Whether the alternative ratemaking mechanism and rate design are understandable to consumers.

52 Pa. Code §§ 69.3302(a)(1), (5), (6), (8), and (13).

As to the first factor pertaining to cost causation, the OCA and CAUSE-PA argued that the WNA is not cost-based because it charges customers for gas not consumed and essentially guarantees rate recovery. OCA M.B. at 91; CAUSE-PA M.B.

at 61-62. In response, NFGD asserted that the Company recovers a significant portion of fixed costs, which do not vary with the amount of gas delivered to customers, through volumetric rates. Rather, the Company submitted, the costs are composed of fixed operation and maintenance expenses, administrative and general expenses, depreciation, certain taxes, a portion of working capital requirements, and return on investments. According to the Company, these costs also do not vary in the short-term with changes in temperature. NFGD argued that, in the absence of a rate design affording an opportunity to recover all fixed costs in a fixed monthly charge, the WNA mechanism better aligns distribution revenues with cost causation principles. NFGD Exh. JDT-3 at 1.

We agree with the Company's argument that the WNA is designed to recover distribution revenues to satisfy the cost of service requirements while mitigating the actual and projected distribution revenues due to weather. Moreover, with the additional modifications to the program set forth below, we believe that the WNA will serve to better align distribution revenues with cost causation principles.

Regarding the fifth and sixth factors addressing conservation and energy efficiency, the OCA and CAUSE-PA argued, in part, that the WNA interferes with price signals embedded in rates which should incentivize conservation and energy efficiency investments. They asserted that the WNA instead acts as a disincentive to reduce bills through conservation measures. See OCA M.B. at 91-92; CAUSE-PA M.B. at 64-65.

Addressing the conservation and energy efficiency factors, the Company contended that the WNA only addresses variations due to weather and does not affect customers' ability to pursue energy efficiency measures. NFGD submitted that it will continue to promote the use of energy efficiency measures and that customers retain strong incentives to reduce usage because the commodity and other charges remain volumetric. NFGD Exh. JDT-3 at 2.

We agree with the Company that the WNA mechanism, as proposed, and as modified below, does not appear to eliminate price signals. It is self-evident that lower usage results in lower bills and that additional savings may be achieved with conservation measures that reduce volumetric charges than if no conservation measures are undertaken. Moreover, NFGD has shown that the WNA is designed to adjust for deviations in weather and that it does not insulate the Company from permanent reductions in usage due to conservation and customer behavior which would be reflected in a future rate case. NFGD R.B. at 38. Accordingly, we find that the fifth and sixth factors weigh in favor of the Company's WNA proposal, as modified.

As to the eighth factor regarding the impact on rate stability, the OCA argued that the WNA harms rate stability and that customers would have better bill certainty through budget billing in which a customer has their total bill averaged out over 12 equal payments per month subject to reconciliation at the end of the period. OCA M.B. at 92-93. CAUSE-PA also objected to the Company's assertion that the WNA provides increased gradualism and more stable annual bills. In CAUSE-PA's view, the WNA further exacerbates bill affordability for low income customers. CAUSE-PA M.B. at 67-68.

Addressing the eighth factor, the Company submitted that the WNA mechanism provides customers with more stable annual bills and directly mitigates volatility in their monthly costs. NFGD Exh. JDT-3 at 3. NFGD also argued that budget billing does not accomplish the WNA's goals of stabilizing the effects of weather impacts on revenue. According to the Company, budget billing does not recover revenues lost due to warmer than normal weather and does not credit customers for higher bills resulting from colder than normal weather. NFGD R.B. at 40.

Upon review of the evidence as to the operation of the WNA over the past three years as discussed above, and recognizing the adjustments proposed by the

Company and directed below, we find that the WNA will help to balance the charges and credits to customers in a symmetrical fashion. That is, on an annual basis, the WNA mechanism will, in our view, help provide customers with more stable bills by mitigating overall volatility in costs due to weather impacts. Moreover, we agree with the Company that the WNA treats all customers the same based on their individual usage patterns and provides relief to all consumers subject to the provision including low income customers by reducing bills in colder than normal months when usage and bills are higher. Accordingly, we find that this factor supports the proposed WNA as modified.

Moving to the thirteenth factor involving customer understandability of the WNA, the OCA and CAUSE-PA argued that the mechanism is complex, citing the multivariate calculation which is not easily understood. OCA M.B. at 93-94; CAUSE-PA M.B. at 73-74. In contrast, the Company proffered that the WNA is not a new concept to the regulated utility industry and that its tariff provides detailed information on how it works and adjustments are displayed separately on bills. Additionally, NFGD submitted that its website has a frequently asked questions (FAQs) section on the WNA and that it provided customers with a WNA reminder and plain language insert in September 2025 ahead of the winter heating season. NFGD Exh. JDT-3 at 4.[82]

In evaluating the thirteenth factor, we recognize that the WNA calculation in this proceeding and in other WNA mechanisms approved for other NGDCs by the Commission appears complex on its face. Nonetheless, the Company has provided sufficient information to show that it provides transparent explanations of how the mechanism works and is applied to customer bills. Moreover, we find persuasive the absence of any customer complaints about the existing WNA pilot. Indeed, there have

[82] NFGD cited to its FAQs at Weather Normalization Adjustment (PA Home/Biz) | National Fuel Gas Company.

been no individual consumer complaints filed against NFGD about the WNA mechanism in this proceeding or other objections raised about it during the Public Input Hearings. Although the WNA is only in its third year as a pilot program, the lack of any filed objections is supportive of the argument that the program is operating as intended and in a transparent manner. Thus, we find that this factor weighs in support of the WNA.

In summary, upon review of the evidentiary record and after considering factors in the *2019 Statement of Policy*, we conclude that the WNA is just and reasonable and should be authorized to continue on a pilot basis, subject to the additional modifications discussed below.[83]

1. WNA Modifications

As indicated above, the ALJ recommended denying the Company's WNA proposal and ending the pilot program. Alternatively, the ALJ stated that if the Commission elects to approve the WNA proposal, then it should do so as a pilot to allow NFGD more time to collect information to justify the continuation of the WNA. R.D. at 309-10. However, the ALJ did not address the other proposed modifications to the WNA and thus we consider the alternative proposals to have been deemed denied in the Recommended Decision.

As set forth above, we find that the continuation of the WNA is in the public interest, subject to additional modifications. In summary, we shall approve some of the proposed modifications but deny others, as follows: (1) approve the adjustment to compare actual HDDs to NHDDs based on a 10-year weather history; (2) approve the

[83] Thus, we shall grant NFGD's Exception No. 3, in part, to the extent that we are approving the WNA as being in the public interest. To the extent that the Company, in this Exception, also objects to the proposed modifications to the WNA proposed by the other Parties, we shall discuss them below.

increase in the weather deviation deadband to 5%; (3) deny the removal of the shoulder months of October and May; (4) deny the addition of weather stations to calculate HDDs; and (5) approve the continuation of the WNA as a pilot program until the conclusion of the Company's next base rate case.

Regarding the approval of the 10-year weather history comparison, we note that the Company submitted this as part of its WNA proposal and no Party has objected to it. We agree that utilizing the more current normalization period of ten years better reflects recent weather conditions. Reducing the term from the current period of fifteen years will help to promote a more balanced pattern of customer surcharges and credits depending on weather conditions. Accordingly, we shall approve this proposed modification to the WNA.

Moving to the approval of a 5% deadband for calculating weather deviations, we find that this additional customer protection, as proposed by I&E, the OCA, and CAUSE-PA, is in the public interest. Recently, in *Columbia Gas 2025*, we approved a similar increase in the deadband, reasoning as follows:

> [I]f the goal of the WNA is to approve stability and customer bills and Company revenues, a 5% deadband adequately captures what could be considered normal weather fluctuations in Pennsylvania. It also places more of the burden for calculating and forecasting weather variations back onto the Company as a normal part of doing business.

Columbia Gas 2025 at 301.

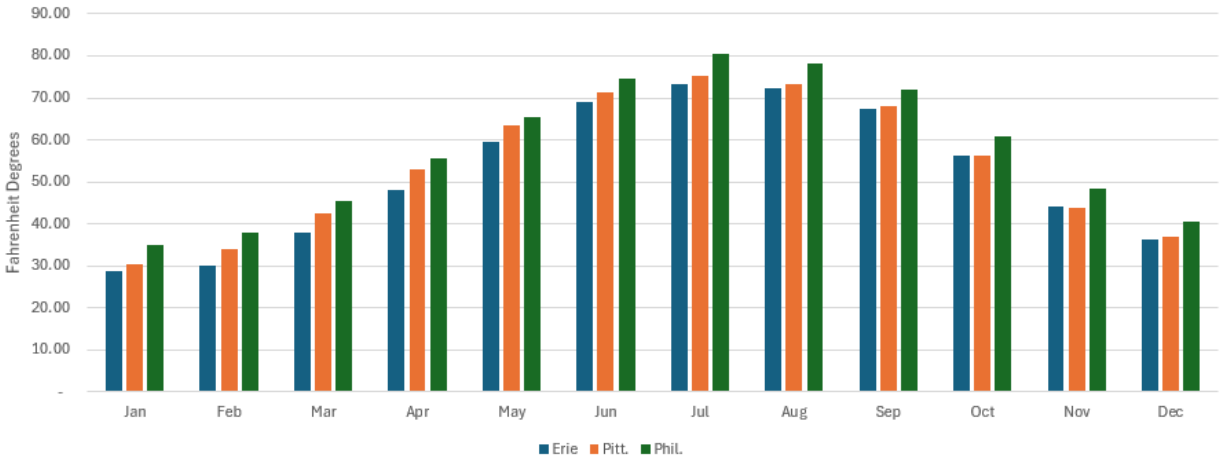
The Company submitted that its WNA is necessary to moderate the bill impacts of *unusually* warm or cold weather. NFGD St. 19 at 23. Consistent with our determination in *Columbia Gas 2025*, we believe that a 5% deadband better captures deviations for unusual weather and helps prevent the application of the WNA mechanism

when only minor deviations from historical temperatures occur. Thus, we shall approve the recommended expansion of the deadband to 5%. In doing so, we shall grant the OCA's Exception No. 4, in part, and shall deny NFGD's Exception No. 3, in part, as to this issue.

As to the requested removal of the shoulder months of October and May from the WNA calculation, we find that the Company has set forth substantial evidence to demonstrate that their removal is unwarranted at this time. In support, NFGD provided testimony that its service territory experiences statistically significant heat load in October and May. *See* NFGD St. 13 at 2; NFGD Exh. CEH-1.

Specifically, NFGD's witness, Mr. Taylor, explained that the Company's customers are concentrated in the northwest corner of Pennsylvania where weather conditions and corresponding HDDs tend to be more severe than in other areas of the Commonwealth. Mr. Taylor testified that, as a result, the shoulder months of October and May can reflect meaningful space heating requirements. In support, he presented the following data showing that the Company's service territory experienced lower average temperatures in October and May over the prior ten years than in other areas of Pennsylvania such as Philadelphia and Pittsburgh, indicating that heating needs can be material during those months:

2014-2025 Average Temperature



NFGD St. 19-R at 39-40.

In our view, the Company has established that temperatures are colder, and that cold days continue longer into the year, compared to other areas of the Commonwealth. Accordingly, we agree with NFGD that removing the shoulder months of October and May would reduce the customer protections of the WNA when customers in northwestern Pennsylvania may experience weather-related bill volatility.

We also consider it important to provide additional opportunity for the WNA to play out and for further data to be collected and examined in conjunction with the significant consumer protection modifications directed above – that is, the approval of the adjustment to compare actual HDDs to NHDDs based on a 10-year weather history and the approval to increase the weather deviation deadband to 5%. It would be premature and potentially detrimental to consumers to remove the months of October and May from the WNA mechanism at this moment given the significant heat load for customers in the Company's service territory during those shoulder months. Thus, we shall grant NFGD's Exception No. 3, in part, and shall deny the OCA's Exception No. 4, in part, as to this issue.

Regarding the OCA's request to add additional weather stations to calculate HDDs, we agree with the Company that such an adjustment to the existing WNA program is unjustified. NFGD has persuasively argued that the proposal to use different weather stations in the WNA without changing the weather data used in the Company's demand forecast removes the connection of the WNA to the forecast used to set base rates. The Company reasonably asserted that because the WNA acts as a reconciliation mechanism against the weather assumptions embedded in these base rates, the billing determinants must be the same for both the WNA and base rates for the WNA to function properly to help ensure alignment and improve accuracy. NFGD St. 13-RJ at 2-3.

Additionally, NFGD has established that the OCA's proposed weather stations are not indicative of the weather in the Company's service area. We agree with the Company that the OCA has failed to demonstrate that the proposed additional three weather stations – one of which is in Pittsburgh and outside of the Company's service territory, and the other two which represent less than 9% of the Company's customer population – would increase the accuracy of the WNA. *See* NFGD R. Exc. at 11; and NFGD St. 13-RJ at 3-4. Another significant consideration in rejecting the proposal is that several of the alternative weather stations have missing HDD data for certain months, whereas the Erie station provides a complete and continuous data record over the period analyzed. NFGD St. 13-RJ at 4.

Thus, we shall decline to adopt the OCA's recommendation to add three additional weather stations for the purpose of calculating the WNA. In doing so, we shall grant NFGD's Exception No. 3, in part, and shall deny the OCA's Exception No. 4, in part, as to this issue.

Lastly, we shall address the continuation period of the WNA program. Consistent with our recent determination in *Columbia Gas 2025*, we determine here that the WNA should be kept as a pilot to evaluate the impact of the customer protections.

Implementation of the customer protections listed above will help balance the risk of changing weather patterns between the Company and customers.

At issue, however, is the time frame of the pilot program. In its Exception No. 4, the OCA argues that if the Commission elects to continue the WNA, any pilot period should be limited to three years. OCA Exc. at 17. The Company objects to the three-year pilot proposal and instead requests that any pilot term should be extended to the end of its next base rate case. NFGD R. Exc. at 11.

As discussed in Section VII.B, *supra,* the Company has proposed a three-year normalization period for its rate case expense claim. According to NFGD, a three-year period is necessary because it anticipates the need for filing more frequent rate cases than in the past, due, in part, to expected increases in expenses and infrastructure replacements.[84] NFGD M.B. at 21-22. In light of this assertion, adopting either argument of the Parties would essentially limit the WNA pilot period to about three years.

Under the circumstances, we find it appropriate to authorize the Company to continue its WNA mechanism in the form of a pilot, as modified herein, until a final order is entered in NFGD's next rate case filed after the entry of this Opinion and Order. Doing so will facilitate the consideration of the available data and the potential impact of the authorized consumer protection provisions by all interested Parties within the context of a rate case proceeding. For informational purposes, the Company shall continue to maintain and provide all reports and data underlying NFGD's monthly WNA

[84] As discussed in our disposition of Section VII.B, we have adopted the ALJ's recommendation to apply a five-year normalization period for the Company's rate case expense claim, based on NFGD's historic rate case filing frequency. Nonetheless, this does not preclude the Company from filing rate cases with more frequency in the future.

computation, consistent with the Settlement Agreement approved in *NFGD 2023* and as modified by this Opinion and Order. All Parties shall reserve their respective rights to propose or oppose a WNA in a future base rate proceeding.

Accordingly, we shall deny the OCA's Exception No. 4, in part, and grant NFGD's Exception No. 3, in part, as to the issue of the WNA pilot period.

XII. Energy Efficiency Pilot

NFGD proposed implementing a residential EE Pilot over a five-year term beginning in October 2026. The Company described the Pilot as a targeted program providing rebates for residential customers to encourage the installation of high-efficiency natural gas appliances. It would include the following measures: (1) space heating rebates for high-efficiency furnaces and boilers; (2) incentives for upgrading to high-efficiency water heaters, including tankless models; and (3) incentives for ENERGY STAR® certified natural gas clothes dryers. NFGD St. 18 at 5.

In NFGD's view, the advantages of the EE Pilot include: (1) environmental benefits by reducing natural gas consumption and the direct lowering of greenhouse gas emissions and other air pollutants; (2) societal benefits by enhancing comfort and safety in homes through improved heating systems, water heating, and clothes drying; (3) economic development by incentivizing equipment upgrades and energy-saving installations and stimulating local economic activity; and (4) energy equity by ensuring access to energy efficiency measures across diverse customer segments, including renters and underserved communities. NFGD St. 18 at 10.

The proposed five-year budget for the Pilot is approximately $3.5 million, or about $700,000 annually. [$3.5 million ÷ 5 = $700,000]. NFGD anticipates recovering all reasonable and prudently incurred costs directly associated with program

administration, marketing, customer rebates, and evaluation activities costs of the EE Pilot through a dedicated rider applied to all residential customers.[85] The Company represented that Rider D will be reconciled annually to ensure accurate cost recovery and compliance with approved budgets. Any annual overspend or underspend would be carried forward throughout the five-year program. NFGD St. 18 at 6.

The proposed initial EE Pilot charge is set at $0.0389/Mcf for the residential customer class and was calculated by dividing the projected energy efficiency costs by the projected residential class usage and rounded to the fourth decimal. The net over or under collection of the EE Pilot charge would be reconciled at the end of the 5-year pilot. I&E St. 1 at 26-27 (citing Rider D).

NFGD calculated the savings and benefits of the proposed EE Pilot using the Commission's Total Resource Cost (TRC) test developed for Energy Efficiency & Conservation (EE&C) Plans under Act 129 of 2008 (Act 129). NFGD St. 18 at 8 (citing *2026 Total Resource Cost* (*TRC*) *Test*, Docket No. M-2024-3048998 (Final Order entered November 7, 2024) (*2026 TRC Test*)). The Company projected the following over the lifetime of the EE Pilot: participation of 10,000 customers, natural gas savings of 56,255 Mcf, energy savings of $497,300, net savings using the TRC test of $80,000, and

[85] The proposed rider is included in the NFGD Book VII, Exhibit F, Section 2 – Proposed Tariff at 160 (Rider D).

a TRC benefit-cost ratio of 1.02. NFGD St. 18 at 6-9.[86] According to the Company, no Party has disputed the EE Pilot's projected benefits. NFGD M.B. at 80.

The Company submitted that the EE Pilot would have no income restrictions, and all residential customers would be eligible to participate in the program. NFGD added that the Pilot would include referrals, as appropriate, to LIURP, the Emergency Repair and Replacement Program (ERRP), and other assistance programs to connect eligible customers to programs with deeper, no-cost weatherization services available. NFGD St. 18-R at 6-7.

A. Positions of the Parties

Although I&E does not oppose the EE Pilot, it recommended that the Company submit an annual report on the Pilot three months after the close of each program year. In I&E's view the annual report should include information about activity from the previous program year and progress towards the Company's goals for the remaining years of the EE Pilot. I&E M.B. at 43.

I&E asserted that the data to be tracked and reported should include information broken down for low income customers as well as the number of referrals

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[86] The [benefit/cost (B/C)] ratio (or TRC ratio) is the ratio of the discounted total benefits of the program to the discounted total costs over the expected useful life (up to a maximum of 15 years) of the energy efficiency measure, program, or portfolio. The B/C ratio gives an indication of the rate of return of this program to the utility and its ratepayers. A B/C ratio greater than one indicates that the program is beneficial to the utility and its ratepayers on a TRC basis.

2026 TRC Test at 7.

made to LIURP and ERRP and the number of referral customers who received LIURP services as a result of participating in the EE Pilot. I&E St. 1 at 27. Further, I&E asserted that it agreed with NFGD that any annual reporting requirements should not be burdensome, duplicative, or inconsistent with the purpose of the EE Pilot because the purpose of the annual reporting is to evaluate the EE Pilot's performance. I&E R.B. at 38.

The OCA, likewise, noted that it did not oppose the Company's proposed EE Pilot. However, the OCA argued that the Commission should deny NFGD's proposed EE Rider (*i.e.* Rider D) for failure of the Company to demonstrate that direct recovery of approximately $700,000 in projected costs over the five-year Pilot period would result in just and reasonable rates. According to the OCA, NFGD's proposal represents single issue rate making and the costs do not meet the criteria for reconcilable riders pursuant to Section 1307 of the Code, 66 Pa.C.S. § 1307. The OCA surmised that because the Pilot costs are not extraordinary, substantial, unexpected, or non-recurring, the Company has failed to demonstrate that approval of the rider would result in just and reasonable rates. OCA M.B. at 101 (*citing Popowsky v. Pa. PUC*, 869 A.2d 1144, 1151 (Pa. Cmwlth. 2005)).

The OCA also argued that the Company's proposed Rider D fails to meet any of the recommended criteria identified by the National Regulatory Research Institute (NRRI) for cost recovery mechanisms. OCA St. 1 at 40.[87] In the OCA's view, Rider D fails the criteria for cost recovery because the costs: (1) are within the control of NFGD; (2) are not projected to rise to a level of substantial or material costs justifying recovery through a rider; and (3) are projected to be relatively flat and not significantly volatile.

[87] In support, the OCA references a research paper published by NRRI, which supports the National Association of Regulatory Utility Commissioners (NARUC). OCA St. 1 at 40 (citing Costello, Ken (September 2009), "How Should Regulators View Cost Trackers?" NRRI, at 5 (*NRRI Paper*)).

Accordingly, the OCA concluded that the EE Pilot does not have the characteristics that are conducive for recovery through a cost tracker outside of base rates. OCA St. 1 at 42-43.

The OSBA argued that the EE Pilot should be expanded to include small business customers and be paid through shareholder funds. In support, the OSBA noted that NFGD's New York division has been running an EE program for over 17 years which includes both residential and non-residential programs. OSBA M.B. at 15-16.

According to the OSBA, small business customers should have access to the same energy efficiency programs available to residential customers because they face many of the same affordability challenges. Extending access to small business customers, in the OSBA's view, would help reduce monthly utility bills, improve competitiveness, and allow small businesses to devote more resources to employees, wages, and customer service. The OSBA added that NFGD's shareholders contribute to the Neighbor for Neighbor (NFN) residential hardship funds and requested that the Company's shareholders also contribute to programs to help small businesses. OSBA M.B. at 16-17.

CAUSE-PA contended that the Commission should reject the EE Pilot as designed because it would unreasonably require low income customers to contribute to the costs of the Pilot without the opportunity to derive any meaningful benefit. According to CAUSE-PA, the Company does not provide any equitable opportunities for its low income customers to receive energy efficiency and conservation measures beyond LIURP. CAUSE-PA M.B. at 79-82.

To remedy this alleged inequity, CAUSE-PA proposed the inclusion of a dedicated low income subprogram to ensure equitable opportunities to access efficiency measures beyond LIURP and of a budget for the low income subprogram to fit within the

Pilot's overall budget proportionally equivalent to usage by low income customers. CAUSE-PA also requested that the Commission direct the development of additional tracking, reporting, coordination, and outreach protocols. CAUSE-PA further advocated for the creation of outreach materials about the EE Pilot, including the proposed low income subprogram. CAUSE-PA M.B. at 82-84.

B. Recommended Decision

In the Recommended Decision, the ALJ determined that: (1) the EE Pilot should be approved and implemented; (2) the Pilot should not be expanded beyond residential customers, at this time; (3) NFGD must track and report to the Commission, within three months of the end of each program year, information about the participation of low income customers; and (4) the Commission should reject the Company's request to implement its proposed Rider D at this time. R.D. at 330.

Regarding CAUSE-PA's proposal to include no-cost service to low income eligible customers, the ALJ indicated that lower income customers may not have the resources to purchase and install the new equipment, before reimbursement through the Pilot program. However, the ALJ stated that other programs are available to assist these lower income customers. The ALJ reasoned that, to the extent funds through the other programs (*i.e.*, LIURP or ERRP) are not accessible to lower income customers, the Parties could challenge NFGD on these issues in its next rate case or universal service proceeding. R.D. at 330.

As to the OSBA's requested expansion of the Pilot to include non-residential customers, the ALJ expressed her agreement with the position of the OSBA. However, the ALJ determined that time for such an expansion would not be at the start of the Pilot. In the ALJ's view, after NFGD has had a few program years to determine the costs, participation, and effectiveness of the Pilot, the Commission should

consider expanding the program to include non-residential customers, especially smaller businesses with certain income eligibility requirements in place. R.D. at 330.

In the determination to recommend the rejection of NFGD's proposed Rider D, at this time, the ALJ noted that NFGD estimated the total cost of the Pilot over five years would be approximately $700,000 per year. As to these costs, the ALJ agreed with the OCA that the Pilot failed to meet any criteria for a cost-recovery mechanism because: (1) the costs are within the control of NFGD; (2) are not projected to rise to a level of substantial or material costs justifying recovery through a rider; and (3) projected costs for the EE Pilot, as presented, are relatively flat and not expected to be significantly volatile. Noting further that the Company projected participation by possibly 10,000 customers over five years, the ALJ was unconvinced by NFGD's position that the Pilot, as designed, would place a financial burden upon the Company prior to its next base rate case. Accordingly, the ALJ recommended that the Commission reject NFGD's request to implement Rider D. R.D. at 331.

C. NFGD Exception No. 5 and Replies

In its Exception No. 5, NFGD argues that the ALJ erred in recommending the approval of the EE Pilot, while simultaneously recommending that the Commission deny the recovery of its costs. The Company proffers that it proposed to recover the costs of its five-year Pilot through a dedicated rider, consistent with every other Commission-approved energy efficiency program. According to NFGD, the ALJ's recommended denial of the EE Pilot costs is entirely inconsistent with her recommended approval of the Pilot and should be reversed. NFGD Exc. at 20.

The Company contends that the ALJ's finding is flawed because it denies recovery based on the failure to adhere to three evaluation criteria set forth in the *NRRI Paper*. In NFGD's view, the NRRI guidance does not establish legal requirements,

mandatory tests, or enforceable standards and does not provide a valid basis to disallow the rider. NFGD Exc. at 20.

Addressing the objections to Rider D, NFGD asserts that its proposal meets the statutory requirement for a surcharge under Section 1307(a) of the Code,[88] 66 Pa.C.S. § 1307(a), and does not constitute "single-issue ratemaking."[89] The Company argues that the proposal meets the requirements of Section 1307(a), which permits utilities to establish a reconcilable rider to recover costs expressly authorized by the General Assembly, or where the expense is easily identifiable and beyond the utility's control. NFGD Exc. at 20-21 (citing *Popowsky 2011*, 13 A.3d at 591).

Regarding its compliance with Section 1307(a), the Company asserts that it has shown, and the OCA has conceded, that the costs associated with the EE Pilot are easily identifiable. NFGD Exc. at 21 (citing OCA M.B. at 103). NFGD also contends that the expenses are beyond its control because they depend on customers' actual participation, which is difficult to predict due to a variety of factors. According to the Company, the existence of projected budgets or participation levels does not bring customer participation under NFGD's control. NFGD Exc. at 21.

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[88] Section 1307 provides, in relevant part:

> **(a) General rule.**—Any public utility ... may establish a sliding scale of rates or such other method for the automatic adjustment of the rates of the public utility as shall provide a just and reasonable return on the rate base of such public utility, to be determined upon such equitable or reasonable basis as shall provide such fair return.

66 Pa.C.S. § 1307(a).

[89] "Single-issue ratemaking is similar to retroactive ratemaking and, in general, is prohibited if it impacts on a matter that is normally considered in a base rate case." *Popowsky v. Pa. PUC*, 13 A.3d 583, 593 (Pa. Cmwlth. 2011) (*Popowsky 2011*).

As to its assertion that the EE Pilot does not constitute single-issue ratemaking, the Company notes that the Commonwealth Court has long held that the prohibition does not apply to surcharges under Section 1307 of the Code. NFGD Exc. at 21 (*Popowsky 2011*, 13 A.3d at 593). The Company contends that proposed Rider D meets the requirements for a reconcilable surcharge under Section 1307 and, therefore, is not single-issue ratemaking. NFGD Exc. at 21.

NFGD asserts that the ALJ's findings result in three additional errors. First, the Company argues that the ALJ failed to recognize that the proposed use of a rider to recover energy efficiency program costs adheres to longstanding Commission practice. The Company submits that the ALJ provided no explanation of why Rider D should be denied, in light of the Commission's longstanding endorsement of Section 1307 surcharges for similar programs. NFGD Exc. at 20-21.[90]

Second, the Company contends that the ALJ erred in recommending the disallowance of the recovery of EE Pilot costs altogether when NFGD did not include the projected EE Pilot costs in its rate base claim in this case. The Company submits that if the Commission adopts the reasoning of the ALJ and denies recovery through a dedicated rider, then the Commission should authorize the recovery of EE Pilot program costs through base rates. NFGD Exc. at 22.

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[90] In support, NFGD cites to *Re: Voluntary Energy Efficiency and Conservation Program*, Docket No. M-2009-2142851 (Secretarial Letter issued December 23, 2009) (*EE&C Secretarial Letter*); *Columbia Gas 2025*; *Petition of Philadelphia Gas Works for Approval of Demand-Side Management Plan for FY 2024-2026*, Docket No. P-2014-2459362 (Recommended Decision issued March 29, 2024; Final Order entered April 25, 2024) (*PGW 2024*); and *Petition of UGI Utilities, Inc. – Gas Division for Approval of its Phase II Energy Efficiency and Conservation Plan*, Docket No. M-2024-3048418 (Recommended Decision issued June 20, 2025; Final Order entered July 24, 2025) (*UGI 2025*). NFGD Exc. at 21.

Third, the Company alleges that the ALJ erred in failing to make any findings that the EE Pilot costs are imprudent or excessive. NFGD contends that, in contrast, the ALJ acknowledged the undisputed benefits projected under the Pilot. NFGD Exc. at 22 (citing R.D. at 36; FOF Nos. 171-72).

In summary, the Company insists that the Commission should authorize the implementation of the EE Pilot and allow recovery of the costs through a dedicated, reconcilable rider. NFGD Exc. at 23.

In its Replies to NFGD Exception No. 5, I&E argues that the ALJ did not err by recommending that the Commission deny recovery of EE Pilot costs. I&E submits that the ALJ's recommendation to deny cost recovery for the Pilot is based solely on the lack of evidence that the program will place a financial burden on NFGD prior to its next base rate case. In I&E's view, the ALJ correctly determined that the Company did not meet its burden of proving the requested cost recovery and that the Commission should deny the Company's Exception No. 5. I&E R. Exc. at 10.

The OCA also asserts that the ALJ appropriately recommended the rejection of NFGD's proposal to implement Rider D to recover the Pilot costs, and that the Company's Exception No. 5 should be denied. In support, the OCA contends that NFGD failed to meet its burden of proof to satisfy the standard for Section 1307 reconcilable riders for two prime reasons. OCA R. Exc. at 14-15.

First, the OCA argues that the Company failed to fully address the actual standard for reconcilable riders, which does not merely require a showing that the costs are easily identifiable and beyond the utility's control. According to the OCA, the standard also requires a showing that the costs are extraordinary, substantial, unexpected or non-recurring, which the Company failed to address or even consider. OCA R. Exc. at 16 (citing *Aqua 2022*).

Second, the OCA argues that the Company improperly relied on the Commission's prior actions in other matters to support its cost recovery proposal in this proceeding. Regarding the Commission's *EE&C Secretarial Letter* requiring smaller electric distribution companies (EDCs) to propose a Section 1307 rider mechanism, the OCA submits the letter does not apply to NGDCs and does not relieve the Company of meeting its burden of proof for Section 1307 reconcilable riders. OCA R. Exc. at 16.

The OCA also argues that two other Commission decisions approving reconcilable riders for the recovery of EE program costs – *PGW 2024* and *UGI 2025* – are distinguishable because they were adopted through settlements, rather than through litigated proceedings such as this one. As to the Commission's recent approval of an EE Pilot in *Columbia Gas 2025*, the OCA asserts that the question of whether the utility had met its burden of proof regarding recovery of EE program costs through a Section 1307 reconcilable rider was not at issue in that case. Additionally, the OCA proffers that regardless of the other rulings, the Commission is required to consider NFGD's plan for recovery of costs within this proceeding. OCA R. Exc. at 16-17.

In its Reply to NFGD Exception No. 5, CAUSE-PA argues that the ALJ properly recommended the denial of the recovery of the EE Pilot costs because it is an inequitable rider requiring low income customers to pay program costs without realistically being able to benefit from the Pilot. CAUSE-PA proffers that if the Commission approves the Company's request to implement the EE Pilot, without requiring dedicated and proportionate low income programming, it should reject NFGD's request to recover its costs through Rider D. Alternatively, CAUSE-PA requests that the Commission disallow the Pilot in its entirety rather than force low income consumers to support it through rates. CAUSE-PA R. Exc. at 16-17.

D. Disposition

The Company has presented evidence that its EE Pilot will provide rebates for residential customers to encourage the installation of high-efficiency natural gas appliances, which is projected to produce significant gas and cost savings. NFGD St. 18 at 9-18. The ALJ acknowledged the benefits under the Pilot, finding that the Company used the *2026 TRC Test* to calculate the savings and benefits over five years, which NFGD projected to include 56,255 Mcf in natural gas savings, $497,300 in energy savings, and a TRC benefit-cost ratio of 1.02. R.D. at 36; FOF Nos. 171-72. No Party challenged the projected benefits of the Pilot or claimed that the design of the program is not cost-effective. Instead, CAUSE-PA and the OSBA requested that the proposed Pilot be expanded to include dedicated programs for low income and small business customers, respectively. Also, the OCA challenged the Company's proposed cost recovery mechanism, but not the Pilot itself.

As indicated above, the ALJ determined that: (1) the EE Pilot should be approved and implemented; (2) the Pilot should not be expanded beyond residential customers, at this time; (3) the Company must track and report to the Commission, within three months of the end of each program year, information about the participation of low income customers; and (4) the Company should not implement the cost recovery Rider D at this time. R.D. at 330.

We agree with the rationale of the ALJ to approve the EE Pilot, as proposed, and to deny the requested expansion of the program beyond residential customers. Additionally, we find the recommended approval of the information tracking and reporting mechanism to be beneficial and in the public interest. There being no Exceptions filed as to these issues, we shall adopt the Recommended Decision as to them, without modification. Accordingly, the issue remaining for disposition is the Company's Exception No. 5, challenging the denial of the Company's proposed cost recovery

mechanism. For the reasons discussed below, we shall approve the Company's proposed Rider D and grant NFGD's Exception No. 5.

Section 1307(a) of the Code, 66 Pa.C.S. § 1307(a), permits utilities to establish a reconcilable rider to recover costs where expressly authorized by the General Assembly, or where an expense is easily identifiable and beyond the utility's control. *Popowsky 2011*, 13 A.3d at 591. Here, the proposed recovery mechanism is not expressly authorized under Section 1307(a). However, the Company has established that the proposed expenses are easily identifiable and beyond its control.

First, as highlighted by NFGD, the OCA has conceded that the costs associated with the EE Pilot are easily identifiable. NFGD Exc. at 21 (citing OCA M.B. at 103). Second, the Company has persuasively argued that the expenses are beyond its control because they depend on customers' actual participation, which is difficult to predict. NFGD Exc. at 21. We agree that the existence of projected budgets or estimated participation levels does not bring customer participation under the Company's control.

The OCA also argues that the Company failed to fully satisfy the applicable requirements for reconcilable riders under Section 1307(a). In doing so, the OCA asserts that the Company only addressed the requirement set forth by the Commonwealth Court in *Popowsky 2011,* but not the Commission's standard set forth in *Aqua 2022*. In *Aqua 2022*, the Commission denied two proposed reconcilable surcharges – an Energy Cost Adjustment Mechanism (ECAM) and a Purchased Water Adjustment Clause (PWAC) – finding them to relate to the recovery of costs that are normal, ongoing costs of providing water service. The Commission rejected the ECAM and PWAC, stating:

> Therefore, because we find that the costs are not unique, unexpected, or non-recurring, we conclude that it would not be prudent to permit the Company to use the Section 1307(a) statute to justify its requests for the proposed riders because

> the Company has not persuaded us that it has experienced any extraordinary circumstances with regard to its purchased water and energy costs when compared to the other routine O&M costs it recovers through base rates.

Aqua 2022 at 292.

In our view, the Commission's language in *Aqua 2022* asserting that costs should be "unique, unexpected, or non-recurring" is consistent with the standard summarized by the Commonwealth Court in *Popowsky 2011*. That is, in establishing that the EE Pilot expenses are beyond the Company's control, NFGD has, in effect, shown that the costs are unique and unexpected. Moreover, we find *Aqua 2022* to be distinguishable from this proceeding, which involves a voluntary energy efficiency program. As discussed below, the Commission has consistently approved similar EE Pilot programs and their Section 1307 cost recovery surcharges without establishing that the utility proposing them has experienced any extraordinary circumstances. Accordingly, we find the OCA's argument that the Company has failed to satisfy the standards outlined in *Aqua 2022* as lacking merit.[91]

The Company's use of a rider to recover energy efficiency program costs is consistent with the Commission's practice of approving similar programs. Here, it is important to acknowledge that for Act 129 EDCs, the General Assembly has expressly authorized the use of a Section 1307 surcharge to recover EE&C program costs. *See* 66 Pa.C.S. § 2806.1(k). Further, as a policy matter, the Commission has authorized the use of a Section 1307 rider for voluntary EE programs, encouraging smaller EDCs to file voluntary EE&C plans and requiring them to use a Section 1307 rider for the recovery of costs. *EE&C Secretarial Letter* at 2.

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[91] We further decline to require compliance with the *NRRI Paper,* as recommended by the OCA.

Consistent with this policy, the Commission has similarly authorized Section 1307 surcharges for voluntary EE programs involving NGDCs. *See PGW 2024*, *UGI 2025*, and *Columbia Gas 2025*. Our recent approval of the EE Pilot in *Columbia Gas 2025* is noteworthy because, like this instant base rate case, it involved a fully litigated proceeding. The parties in *Columbia Gas 2025* did not oppose the proposed rider recovery mechanism and we approved the entire proposed EE plan as being in the public interest.

In this proceeding, we agree with the Company that continuing the Commission's practice of authorizing the recovery of costs through a rider mechanism for voluntary EE programs has several benefits. *See* NFGD R.B. at 48. First, a reconcilable mechanism prevents over or under recovery of program costs. Second, a surcharge increases transparency by allowing the Commission and stakeholders to track the costs of the program through annual reporting. Third, a surcharge enables accurate allocation of costs to the appropriate customer class. Fourth, a rider facilitates the evaluation of program costs and benefits, which is a core component of all EE plans. *Id*.

The EE Pilot here is designed to provide incentives for all the Company's residential customers to utilize high-efficiency appliances and upgrades to help control energy costs using the latest technology. NFGD provided substantial testimony that the costs of the Pilot are clearly defined, modest in scale relative to the Company's overall revenue requirement, and subject to reporting requirements and Commission review. NFGD St. 18-R at 13. We agree with the Company that the time-limited nature of the Pilot does not commit customers to ongoing costs beyond the program period and the reporting and review provisions preserve the Commission's ability to modify, expand, or

terminate the program based on actual experience to help ensure financial protections for customers. *Id*. at 14.[92]

Regarding data reporting and transparency concerns, we emphasize I&E's proposed tracking and reporting requirements. Specifically, I&E recommended that NFGD be required to file an annual EE Pilot report, due approximately three months after the end of each program year containing information on program savings (both Mcf and cost), customer participation, program spending, cost-effectiveness, portfolio highlights, and program delivery updates. I&E further recommended the reporting elements be disaggregated for low income customers and include tracking of referrals from the EE Pilot to the Company's LIURP and the outcome of those referrals. I&E St. 1 at 27.

The Company supported I&E's recommendations, noting that such reporting helps the Commission understand how the EE Pilot interacts with LIURP and related assistance programs and the ALJ found that they should be approved. NFGD St. 18-R at 9-10; R.D. at 330. Finding the ALJ's recommendation to approve I&E's reporting requirements to be reasonable and furthering the Commission's oversight during the Pilot period, we shall adopt it without modification.

Accordingly, we shall grant NFGD's Exception No. 5, consistent with this Opinion and Order.

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[92] We note that the proposed EE Pilot charge under Rider D is $0.0389/Mcf. In considering the typical residential customer usage of 80 hundred cubic feet (ccf) per month or 8 Mcf per month, the EE Pilot monthly charge would be approximately $0.31. [8 Mcf x $0.0389 = $0.3112].

XIII. Universal Service

A. Customer Assistance Program

1. Positions of the Parties

In its Main Brief, NFGD explained that CAUSE-PA proposed a number of prescriptive measures in an attempt to increase enrollment in the Company's CAP, including income screening, benchmarking, CAP recertification, leveraging Pennsylvania Department of Human Services (DHS), Low Income Home Energy Assistance Program (LIHEAP) data, and tracking and reporting. First, in response to CAUSE-PA's recommendation that the Company be required to implement a new income screening process for all non-emergency calls, NFGD contended, *inter alia*, that adopting this proposal would shift the administrative burden to other employees with existing duties. As an alternative, NFGD proposed that the Commission direct the Company to evaluate the proposal and work with its Universal Service Advisory Council (USAC) to develop a feasible plan for proactive income screening and a reasonable timeline for implementation. NFGD M.B. at 88-89.

Next, in response to CAUSE-PA's proposal that the Company be required to increase its total CAP population by 5% of its estimated low income population each year, NFGD explained that the Company is actively working to increase CAP enrollment. NFGD argued that CAUSE-PA failed to demonstrate that its 5% benchmark proposal is reasonable. NFGD argued that the success of the Company's CAP should not be measured by enrollment alone but by the ongoing efforts the Company is taking to improve the accessibility of the program, educate and connect with the customers who may be eligible, and increase staffing to administer the program in house. NFGD M.B. at 89-91.

NFGD argued against CAUSE-PA's proposal to expand the methods used to contact CAP customers due for recertification by stating that the Company already implements a majority of the CAUSE-PA recommendations, discussed, *infra*. NFGD contended that its current procedures for recertification are sufficient and largely meet CAUSE-PA's proposal. NFGD M.B. at 91-92.

NFGD agreed to accept CAUSE-PA's proposal to expand outreach to customers who may be eligible for CAP to include a phone call to inform them of the availability of the program based on their reported income, and to recertify all CAP customers based on DHS data, regardless of their renewal date. According to NFGD, by adopting some of CAUSE-PA's proposals, it strikes the appropriate balance between the Company's current practices and CAUSE-PA's proposal without requiring duplicative communications to customers. NFGD M.B. at 93.

Lastly, in response to CAUSE-PA's recommendation to track and report additional data related to CAP to its USAC, NFGD explained that the Company does not currently have systems in place to track and aggregate the data. Thus, NFGD requested until mid-2027 to implement these changes and present the data to its USAC. NFGD argued against CAUSE-PA's additional recommendation that the Commission audit the Company's collections and universal service programs, reasoning that the Company is already subject to comprehensive oversight and routine evaluation of its universal service programs and reporting through established Commission-approved processes. NFGD M.B. at 93-95.

CAUSE-PA stated that the Commission must require NFGD to implement program improvements to ensure that the Company is meeting its statutory obligation under the Natural Gas Choice and Competition Act (Choice Act), 66 Pa.C.S. §§ 2201 *et seq.*, to make its CAP appropriately available. First, CAUSE-PA proposed that the Commission require NFGD to establish benchmarking goals for increasing its

CAP enrollment based on the percentage of the Company's customers that are estimated to have low income. Next, CAUSE-PA proposed that the Commission should require NFGD to implement routine screening of applicants and customers to determine eligibility for CAP and other universal service programs. CAUSE-PA M.B. at 90-91.

In addition, CAUSE-PA recommended that the Commission require NFGD to expand and improve how it utilizes data obtained through DHS's LIHEAP Data Sharing Program to improve CAP enrollment and retention. CAUSE-PA M.B. at 93. CAUSE-PA also proposed that the Commission require NFGD to expand its communications to CAP customers who are due to recertify eligibility to remediate NFGD's high rate of CAP attrition due to non-response to recertification attempts. *Id.* at 96. Lastly, CAUSE-PA proposed that the Commission require NFGD to improve its CAP data tracking and reporting and should commence an audit of the Company's collections and universal service program reporting to assess the need for further corrective action. *Id.* at 97-98.

2. Recommended Decision

In the Recommended Decision, the ALJ stated that additional efforts are needed to reach more low income households in NFGD's service territory and to assist income-eligible ratepayers and applicants to access available services and resources. The ALJ noted that most of the proposals from CAUSE-PA are for the Company to take actions to train its employees and communicate with customers. The ALJ determined that NFGD has proven that it is actively engaged in training its employees how to identify customers who might benefit from referrals and/or encouragement to participate in programs currently available. The ALJ found that NFGD has proven that it has taken cost-effective means to improve communications with customers and increase participation. As such, ALJ Dunderdale recommended that the Commission reject the

proposals of CAUSE-PA, except for the following proposals that ALJ Dunderdale recommended should be approved:

> 1. Direct [NFGD] to evaluate the income screening proposal and work with its USAC to develop a feasible plan for proactive income screening and a reasonable timeline for implementation.
>
> 2. Direct [NFGD] to increase recertification outreach to include both email and mail for customers who have consented to receive electronic communications.
>
> 3. Direct [NFGD] to track and report additional CAP-related data to its USAC including: the number of applications and recertifications; the total number of CAP accounts with arrears; the total dollar amount in debt for CAP customers; and the average amount of debt for CAP customers, with implementation of changes and data reporting due to its USAC nine months after implementation of the rates in this proceeding.

R.D. at 369-70.

Additionally, related to CAUSE-PA's CAP proposals, the Recommended Decision's Conclusion of Law No. 54, states:

> It is not appropriate to consider proposals relating to a public utility's energy burdens, Customer Assistance Plan, and other universal service program issues within the context of a base rate proceeding, finding that such proposals are more properly considered in a public utility's Universal Service and Energy Conservation Plan (USECP) proceeding." *Pa. Pub. Util. Comm'n v. Aqua Pennsylvania, Inc.*, (2022 Aqua Order), Docket No. R-2021-3027386 (Order Entered May 16, 2022).

R.D. at 412-13.

3. CAUSE-PA Exception No. 1 and Replies

In its Exception No. 1, CAUSE-PA argues that the ALJ erred in concluding as a matter of law that it is not appropriate to consider proposals related to universal service and energy conservation issues in the context of a utility's base rate proceeding. CAUSE-PA Exc. at 3 (citing R.D. at 412; COL No. 54). CAUSE-PA explains 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 related to a utility's periodic USECP proceeding. Additionally, CAUSE-PA points out that 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 justness and reasonableness of the cost of a public utility's universal service programs including its LIURP." CAUSE-PA Exc. at 4 (citing *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, (Order entered March 13, 2025) at 123) (*LIURP Final-Form Rulemaking Order*).

CAUSE-PA cites to the Commission's decision in *PGW 2023* where the Commission referred to its policy statement requiring the Commission to consider "the effect on universal service" when reviewing the justness and reasonableness of PGW's rates. CAUSE-PA argues that the Commission's conclusion in *PGW 2023*, that universal service issues are appropriately addressed in a base rate proceeding, was echoed in *Columbia Gas 2025* when the Commission adopted by reference the presiding ALJ's COL No. 73, which stated:

> 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 cannot be relegated to a utility's periodic Universal Service and Energy Conservation Plan proceeding.

CAUSE-PA Exc. at 4 (citing *Columbia Gas 2025* at 16).

CAUSE-PA contends that the ALJ's citation to the Commission's Final Order in *Aqua 2022* is erroneous, as it does not support the conclusion that it is not appropriate to consider proposals regarding a utility's universal service programs in a base rate proceeding. CAUSE-PA explains that in *Aqua 2022,* the Commission clarified in response to a Petition for Reconsideration that it was merely rejecting one specific universal service proposal in its Final Order, not foreclosing the review of any universal service programs in the context of a base rate proceeding. CAUSE-PA Exc. at 5 (citing *Aqua 2022*, Final Order entered October 27, 2022). CAUSE-PA maintains that the Commission has affirmed in subsequent proceedings, including *PGW 2023* and *Columbia 2025*, that universal service program proposals may be considered within the context of base rate proceedings. CAUSE-PA Exc. at 5.

In reply, NFGD states that it takes no position on the substance of CAUSE-PA's arguments. NFGD acknowledges that universal service proposals are regularly raised and decided in both litigated and settled base rate cases, as they were in this proceeding. According to NFGD, the Commission's decision on whether an issue should be reserved for USECP proceedings is typically based on factors in the record before it, including the complexity of the issue raised and the timing of the utility's next USECP filing. NFGD R. Exc. at 17-18.

NFGD points out that the ALJ considered and resolved each of the several universal service issues raised by the parties and that the resolution of each of the contested issues was based on a review of the evidence in the record and no proposal was rejected on the basis that it could not be raised in a base rate case. NFGD explains that

any errors contained in COL No. 54 are harmless because they do not impact the outcome of any litigated issue in this proceeding and the Commission can strike those COLs. NFGD R. Exc. at 18.

4. Disposition

Upon review, we shall strike the Recommended Decision's Conclusion of Law No. 54. We disagree with the ALJ that it is inappropriate to consider a company's CAP and other universal service program issues within the context of a base rate proceeding. As discussed by both CAUSE-PA and NFGD, we have previously addressed such issues within base rate proceedings. *See PGW 2023; Columbia Gas 2025*. Therefore, we shall grant CAUSE-PA's Exception No. 1 and strike the Recommended Decision's Conclusion of Law No. 54.

B. LIURP

1. Positions of the Parties

At the outset, NFGD noted that its LIURP provides low income customers with no-cost weatherization services. NFGD explained that annual funding for the Company's LIURP is set at $1.4 million and that its current LIURP spending is sufficient. NFGD explained that the LIURP budget rolls forward each year, and in 2025, the Company had carryover dollars of $1,450,879.24, even after the Company saw an increase in LIURP participation that year. According to NFGD, it is unnecessary to increase the LIURP budget when the program's current funding levels and budget surplus are taken into consideration. NFGD M.B. at 95-96.

NFGD disagreed with CAUSE-PA's proposal to expand LIURP eligibility to mobile homes because there are limited opportunities for meaningful energy savings.

In addition, NFGD disagreed with CAUSE-PA's proposal to require the Company to prepare a comprehensive written plan to expend its full LIURP budget and expand the availability of usage reduction services, and file the plan at the Company's USECP docket within 90 days of entry of a final order in this proceeding. NFGD averred that this proposal should be rejected because it contemplates substantive programmatic changes of the Company's Commission-approved LIURP and it can be more appropriately addressed in the NFGD LIURP proceeding. NFGD M.B. at 96-97.

Lastly, NFGD disagreed with the Task Force's proposal, *infra,* that the Company consider reducing its consumption threshold for its LIURP program. NFGD explained that the Company is already addressing this proposal through its ongoing implementation of its Low Consumption LIURP pilot program. NFGD submitted that as this proposal is already being addressed, no further action is required at this time. NFGD M.B. at 97-98.

In its Main Brief, I&E argued that it is inappropriate to consider an increase in the LIURP budget in the instant proceeding, considering that the Company has been unable to exhaust its existing budget in 2022 through 2025. I&E explained that LIURP program costs are directly funded by ratepayers who do not receive assistance from low income programs. According to I&E, it is unreasonable to implement an increase to LIURP when the Company's ability to utilize these additional funds is not supported by past experience and is uncertain. I&E M.B. at 44.

CAUSE-PA made three LIURP proposals to address the unmet need for LIURP services in NFGD's service territory and to better offset the impact of any approved rate increase on the Company's low income households. First, CAUSE-PA recommended that the Commission require NFGD to set forth a written, detailed plan for fully expending its LIURP budget each year due to its substantial unmet need for usage reduction services among the Company's low income customers. CAUSE-PA M.B.

at 98. Next, CAUSE-PA proposed that the Commission require NFGD to end its exclusion of mobile homes from participating in the Company's LIURP. *Id.* at 101. Lastly, CAUSE-PA recommended that NFGD increase its budget for LIURP by a percentage equal to any approved increase in residential rates in an effort to offset the impact of any approved rate increase in this proceeding. *Id.* at 103.

Task Force made two proposals regarding NFGD's LIURP: (1) that the Company continue to improve its outreach and work to increase the number of LIURP contractors, and (2) that the Company consider reducing the energy consumption threshold requirement for its LIURP program. Task Force St. 1 at 6-7. In addition, in its Reply Brief, Task Force supported the positions taken by CAUSE-PA in its Main Brief. Task Force R.B. at 1.

2. Recommended Decision

In the Recommended Decision, ALJ Dunderdale agreed with CAUSE-PA that the Company should allow ratepayers residing in mobile homes to participate in NFGD's LIURP. However, the ALJ disagreed with the recommendations of CAUSE-PA and Task Force that the LIURP budget should be increased. According to the ALJ, the real problem with the Company's LIURP is that the funds are not being expended. R.D. at 372. Furthermore, the ALJ stated the following in COL No. 55:

> 55. A "LIURP budget can only be revised through a USECP proceeding initiated pursuant to the periodic USECP review process or in response to a petition to amend a USECP earlier than the periodic USECP review process." 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, p. 36 (Order Entered May 18, 2023).

R.D. at 413.

Lastly, the ALJ agreed with CAUSE-PA's proposal that the Commission should require NFGD to create a written, detailed plan on how NFGD will fully expend its LIURP budget each year. The ALJ explained that the plan should include action steps to guide NFGD to fully spend down the existing rolled over budget, as well as plans to ensure NFGD can fully expend its LIURP budget in each subsequent year. The ALJ stated that the plan should also coordinate with other energy efficiency programs and action steps to prioritize customers most in need of usage reduction services, while expanding the program to those currently unable to access LIURP service, as informed by NFGD's third party LIURP evaluation, with input and recommendations from members of NFGD's USAC. R.D. at 372-73.

3. CAUSE-PA Exception No. 2 and Replies

In its Exception No. 2, CAUSE-PA avers that the ALJ erred as a matter of law in concluding that a utility's LIURP budget can only be reviewed in a USECP proceeding. CAUSE-PA Exc. at 6 (citing R.D. at 413; COL No. 55). CAUSE-PA contends that the Commission's LIURP regulations explicitly allow for the review and revision of a utility's LIURP budget in a "Commission proceeding" and not exclusively in a USECP proceeding. CAUSE-PA Exc. at 6 (citing 52 Pa. Code § 58.4(a.1)(2); CAUSE-PA M.B. at 103; CAUSE-PA R.B. at 49). CAUSE-PA explains that the Commission's Notice of Proposed Rulemaking, cited in COL No. 55, was reversed by the Commission in its Final-Form Rulemaking Order in which it stated that revisions to a utility's LIURP budget "may be proposed through USECP proceedings and through

non-USECP proceedings, such as a base rate proceeding." CAUSE-PA Exc. at 6 (citing *LIURP Final-Form Rulemaking Order* at 50, 126).

In reply, NFGD states that it takes no position on the substance of CAUSE-PA's arguments. NFGD acknowledges that universal service proposals are regularly raised and decided in both litigated and settled base rate cases, as they were in this proceeding. According to NFGD, the Commission's decision on whether an issue should be reserved for USECP proceedings are typically based on factors in the record before it, including the complexity of the issue raised and the timing of the utility's next USECP filing. NFGD R. Exc. at 17-18.

NFGD points out that the ALJ considered and recommended a resolution to each of the several universal service issues raised by the parties and that the resolution of each of the contested issues was based on a review of the evidence in the record and no proposal was rejected on the basis that it could not be raised in a base rate case. NFGD explains that any errors contained in COL No 55 are harmless because they do not impact the outcome of any litigated issue in this proceeding and the Commission can strike those COLs. NFGD R. Exc. at 18.

4. Disposition

Upon review, we shall strike the Recommended Decision's Conclusion of Law No. 55. We disagree with the ALJ that a LIURP budget can only be revised through a USECP proceeding. In the *LIURP Final-Form Rulemaking Order*, we clearly stated that LIURP budgets "may be proposed through USECP proceedings and through non-USECP proceedings, *such as a base rate proceeding*." *LIURP Final-Form Rulemaking Order* at 50 (emphasis added). Accordingly, we shall grant CAUSE-PA's Exception No. 2 and strike the Recommended Decision's Conclusion of Law No. 55.

C. NFN Hardship Fund

1. Positions of the Parties

In its Main Brief, NFGD explained that its NFN Hardship Fund is facing a budget shortfall caused by an increase in the number of grants awarded, which more than doubled in 2025 as compared to 2023 and 2024. NFGD stated that in order to avoid suspending the program and address the immediate funding shortfall, the Company elected to release its 2026 annual shareholder contribution early. In addition, NFGD proposed changes to its NFN eligibility to extend the available funds while ensuring that the customers most in need of assistance continue to receive them. NFGD proposed limiting eligibility to current and former ratepayers of NFGD, making income a mandatory criterion for eligibility (meaning applicants need to meet both the income requirement and one other specified/current requirement to qualify), and providing flexibility in the grant amount based on program demand and available funding. NFGD M.B. at 98.

In response to CAUSE-PA's proposal that the Company voluntarily double its shareholder contributions level to $184,000 annually (*i.e.*, from $92,000 to $184,000), NFGD agreed to voluntarily increase its annual shareholder contribution by $30,000, from $92,000 annually to $122,000 annually. NFGD added that it will also do so retroactively, meaning the Company will contribute an additional $30,000 in 2026. According to the Company, this results in a funding per customer level of $0.62, which is in line with the average cited by CAUSE-PA. NFGD M.B. at 100.

The OSBA stated that while the Company's NFN Hardship Fund currently focuses on residential customers, many small businesses face similar financial hardships. The OSBA contended that if NFGD were to expand eligibility for its NFN Hardship Fund to include qualifying small businesses, it would provide critical assistance with overdue

utility bills and reconnection costs, helping businesses to restore service, remain operational, and continue serving their communities. According to the OSBA, including small businesses in the program would promote equitable access to assistance and recognize the important role these businesses place in supporting local economies and employment. OSBA M.B. at 18.

CAUSE-PA stated that the Commission should require NFGD to take affirmative steps to ensure appropriate funding for its NFN Hardship Fund and should not permit the Company to implement changes to restrict NFN Hardship Fund eligibility and reduce NFN Hardship Fund grant amounts. According to CAUSE-PA, NFGD's failure to adequately fund the NFN Hardship Fund to meet the need of its customers facing hardship contravenes the Choice Act's requirement that the Company's universal service programs be appropriately funded and available. CAUSE-PA M.B. at 105-06.

CAUSE-PA opposed NFGD's proposals to modify the NFN Hardship Fund because it did not include any of the proposals in its rate filing request and only introduced the proposed in rebuttal testimony. Furthermore, CAUSE-PA contended that the changes proposed by NFGD to restrict access to the NFN Hardship Fund contravenes the Choice Act's requirements that the Company's universal service programs, including the NFN Hardship Fund, be appropriately funded and available. CAUSE-PA M.B. at 107-09. Lastly, CAUSE-PA proposed that the Commission require NFGD to develop a fundraising plan to increase voluntary contributions to the NFN Hardship Fund to ensure it is appropriately available to customers in need of emergency assistance. *Id.* at 111.

In its Reply Brief, Task Force supported the positions taken by CAUSE-PA in its Main Brief. Task Force R.B. at 1.

2. Recommended Decision

In the Recommended Decision, the ALJ concluded that unlike NFGD's LIURP, the NFN Hardship Fund faces a serious funding crisis. The ALJ recommended that the Commission should require NFGD to take affirmative steps to ensure appropriate funds for its NFN Hardship Fund and reject the Company's proposal to implement changes to restrict eligibility and reduce grant amounts. In addition, the ALJ recommended that the Commission require NFGD to develop a fundraising plan prior to its next base rate proceeding to increase voluntary contributions to the NFN Hardship Fund to ensure its availability. R.D. at 374.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJ's recommendation to reject NFGD's proposals to implement changes to its NFN Hardship Fund. Given that the record reflects serious concerns regarding the funding of NFGD's NFN Hardship Fund, we shall adopt the ALJ's recommendation to require NFGD to take affirmative steps to ensure there are appropriate funds for its NFN Hardship Fund and to develop a fundraising plan to increase voluntary contributions to the NFN Hardship Fund prior to its next base rate proceeding.

XIV. Customer/Quality of Service Issues

A. Root Cause Analysis

1. Positions of the Parties

NFGD argued that the Commission should reject the OCA's recommendation, *infra*, that the Company should perform regular, thorough root cause

analyses of complaint trends for internal disputes and informal complaints filed with the Commission's Bureau of Consumer Services (BCS) to document infractions and confirmed violations. The Company stated that such analyses would be above and beyond its current process, and that it routinely reviews all customer complaints for compliance with Company policies and Commission Regulations and addresses the issues with all Company personnel involved. NFGD further argued that the OCA neither proved that the Company's existing process is insufficient to identify systemic issues nor provided any evidence to demonstrate that the process is inadequate or out of compliance with Commission Regulations or orders. Moreover, NFGD averred that the OCA's proposal ignores the proactive efforts already employed by the Company. NFGD M.B. at 100-01.

In support of its proposal that NFGD should perform a root cause analysis on complaints, the OCA argued that the Company's existing process is reactive, case specific, and only focused on whether individual policies or procedures were followed by internal personnel or contractors. Rather, the OCA asserted that a root cause analysis is proactive and designed to identify issues at their source that may not be apparent from existing, case-by-case investigations. OCA St. 5 at 5; OCA St. 5SR at 9.

CAUSE-PA supported the OCA's recommendation. CAUSE-PA M.B. at 113.

2. Recommended Decision

The ALJ recommended that the OCA proposal be rejected, finding it to be vague and unsupported, because it was not proven that the Company's existing efforts to identify trends and prevent future issues through training are deficient. R.D. at 382.

3. Disposition

Since none of the Parties excepted to this determination, and finding the ALJ's recommendation to be reasonable, appropriate, and in accordance with the record evidence, we agree with the ALJ's recommendation to reject the OCA's proposal for NFGD to perform a root cause analysis on complaints. Accordingly, we shall adopt this recommendation without further comment.

B. Payment Arrangement Tracking

1. Positions of the Parties

NFGD argued that the Commission should reject the OCA's below recommendation that the Company conduct an analysis and collect data on whether customers avoid a termination notice when a payment is made or a payment arrangement is entered. NFGD explained that it trains employees on reasonable payment agreement terms and relies on customer interaction, flexibility, and early intervention to manage arrearages. The Company further averred that it adequately monitors and evaluates customer payment behavior and payment arrangement outcomes through existing tracking and reporting requirements, and that recent metrics have shown that the number of accounts with arrears and customers actively enrolled in payment arrangements is growing. NFGD asserted that the OCA failed to demonstrate how tracking additional data would provide more meaningful insight or actionable information than what is gained through current tracking and reporting and arrearage management procedures. The Company contended that, without a clear benefit, the burden to track, analyze, and report this data does not warrant its adoption. NFGD M.B. at 101-02; NFGD St. 17-R at 33-36.

In support of its proposal for the Company to analyze and collect data on whether customers avoid a termination notice when they make a payment or enter into a payment arrangement, the OCA stated that NFGD does not currently collect this data, which makes it difficult to evaluate the effectiveness of existing customer assistance or payment arrangement options in preventing service termination. The OCA argued that this data should be evaluated and shared with the Parties within six months in order to inform future policy or program adjustments. OCA M.B. at 106; OCA St. 5SR at 10-12.

CAUSE-PA supported the OCA's recommendation. CAUSE-PA M.B. at 112-13.

2. Recommended Decision

The ALJ recommended that the OCA's proposal be rejected, finding that the OCA and CAUSE-PA failed to provide a sufficient explanation for the information to be collected, how it would be analyzed, and how it would benefit ratepayers. R.D. at 383.

3. OCA Exception No. 5 and Replies

In its Exception No. 5, the OCA argues that the ALJ erred by not recommending the collection of payment arrangement data, even though the ALJ recognized that such data may be helpful to determine the effectiveness of payment arrangements and that the Company experienced increased payment arrangement disputes from 2024 to 2025. The OCA avers that it showed that the Company does not collect data on termination notice avoidance when a payment arrangement is entered into, which makes it difficult to determine whether service terminations are prevented through customer assistance or payment arrangement options. The OCA further asserts that measuring termination avoidance would allow for evaluation of real-world program

effectiveness rather than reliance on performance assumptions. The OCA contends that its recommendation is reasonable and should be adopted because preventing disconnections is essential to providing safe and reliable service. OCA Exc. at 20-22.

In reply, NFGD states that the OCA's claims are based on projections rather than actual data and are unsupported by the record. The Company rebuts the OCA's claim that a slight projected increase in payment agreement requests demonstrates a deficiency in existing policies and procedures by arguing that NFGD has the lowest customer complaint rate of all major NGDCs, that no testimony was presented, that NFGD is experiencing increasing bad debt related to payment arrangements, and that even the OCA's witness, Ms. Wise, characterized the Company's payment agreement performance as typical. NFGD further avers that it provided substantial evidence regarding its extensive employee training on reasonable payment agreement terms and its focus on customer interaction, flexibility, and early intervention for arrearage management. Moreover, the Company asserts that it already monitors and evaluates customer payment behavior and payment arrangement outcomes through existing tracking and reporting requirements, which demonstrates that it is helping customers avoid termination by entering into payment agreements. NFGD states that the OCA failed to prove that tracking additional data will provide any more insight or information beyond that already gained through current tracking and reporting requirements and arrearage management procedures. The Company argues that the OCA's proposal is unsupported, and that the OCA's Exception No. 5 should be denied. NFGD R. Exc. at 12-14.

4. Disposition

Upon review, we agree with the ALJ that the OCA failed to adequately support its proposal that the Company should collect data and analyze termination avoidance when customers make a payment or enter into a payment arrangement. As the

ALJ stated, the OCA failed to sufficiently explain what information should be collected, how it would be analyzed, and how collecting and analyzing the data would benefit customers. Therefore, we will adopt the ALJ's recommendation to deny the OCA's proposal.

Initially, we note that the OCA's proposal on this issue relied on projections rather than actual data. Also, the OCA neither offered testimony to show that NFGD is experiencing increasing bad debt related to payment arrangements, nor did it characterize the Company's payment agreement performance as atypical. To the contrary, NFGD demonstrated that it trains its employees on reasonable payment agreement terms, flexibility, and early intervention of arrearage management. In addition, the Company evaluates customer payment behavior and payment arrangement outcomes through existing tracking and reporting requirements. Therefore, based on the record evidence, we agree that the OCA has not proven a need or benefit for more data tracking than what is currently being collected and monitored through existing data tracking and reporting procedures.

For these reasons, we will adopt the ALJ's recommendation to reject the OCA's proposal to require NFGD to collect data and conduct an analysis on termination avoidance when customers make a payment or enter into a payment arrangement. Accordingly, we shall deny the OCA's Exception No. 5.

C. Call Center Performance/Customer Service Metrics

1. Positions of the Parties

As discussed in Section X.D.2, *supra*, in its initial filing, NFGD included a request for a 25-basis point management efficiency adjustment (*i.e.*, 0.25%) to its ROE. In responding to the Company's request, other parties discussed the Company's call

center performance and other customer service metrics. Thereafter, NFGD withdrew its request for a management efficiency adjustment in rebuttal testimony, and it noted that no Party made any other recommended adjustments or proposals related to the Company's call center or other customer service metrics. R.D. at 377; NFGD M.B. at 102.

The OCA stated that it did not address NFGD's call center performance because the Company withdrew its claim for a 25-basis point management efficiency adder. The OCA further noted that NFGD's customer service metrics are generally in line with industry peers, with some indicators reflecting performance, both slightly above and below peer performance. OCA R.B. at 59.

2. Recommended Decision

The ALJ did not include any further discussion on call center performance and customer service metrics. R.D. at 383.

3. Disposition

As discussed, *supra*, we note that the Company withdrew its request for a 25-basis point management efficiency adjustment to the ROE in rebuttal testimony, and we grant no such request in this Opinion and Order. Further, no other Parties recommended additional adjustments or proposals regarding this matter. Inasmuch as the ALJ did not make any recommendations with respect to call center performance and customer service metrics, and since none of the Parties excepted to this issue, we, too, shall not make any findings or conclusions with respect to this topic.

D. Elimination of Payment Fees

1. Positions of the Parties

As previously discussed in Section VII.F of this Opinion and Order, NFGD argued that the Commission should reject the OCA's proposal to require the Company to transition to fee-free payments for its residential customers and absorb the $930,000 increase to its O&M expenses to reflect this recommendation. NFGD asserted that there is no data that supports the $930,000 adjustment as an accurate forecast of the cost to transition to and implement a fee-free payment structure. Furthermore, NFGD stated that absorbing payment process fees is a managerial decision that should be made by the Company because it requires the consideration of many factors, including negotiating a reasonable rate with a third party vendor, performing system changes to implement the change, and anticipating growth in adopting online payments by customers if fees are eliminated. NFGD M.B. at 31-32.

In support of its proposal, the OCA noted that NFGD currently charges customers a fee up to $2.95 for each online or telephonic payment, and that the Company encourages customers to make electronic payments, which are a popular payment method. The OCA averred that additional payment fees paid to NFGD totaled $815,559 in 2024 and $930,384 in 2025, and that these fees have a discriminatory impact on fixed and lower income customers who may need to make last-minute payments to avoid termination of service. Moreover, the OCA submitted that other NGDCs allow one-time credit or debit card payments online or by phone without a fee. In support of just and reasonable rates, the OCA argued that it is reasonable for the Company to investigate lower cost payment processing options. In addition, the OCA recommended that NFGD's O&M expenses should be adjusted by $930,000 to reflect customer bill payment transaction fees that are absorbed by the Company's customers who pay their bills by credit card, debit card, Venmo and PayPal. OCA M.B. at 19, 106-07.

The OSBA recommended that the recovery of customer payment transaction costs should be disallowed if it results from the Company's chosen methods of collecting payments and conducting business. The OSBA argued that such expenses are administrative and discretionary in nature, and that NFGD should manage the costs more efficiently rather than automatically pass them along to customers. The OSBA further stated that allowing recovery of these costs reduces the Company's incentive to control expenses and shifts ordinary business risks onto ratepayers. OSBA M.B. at 9.

CAUSE-PA also supported the OCA's recommendation. Similar to the OCA, CAUSE-PA argued that these fees are burdensome for low income customers needing to make last-minute payments to avoid service termination. CAUSE-PA stated that eliminating these fees may increase the use of online payments and lead to operational benefits, such as reduced billing costs, improved payment timeliness, and lower collection-related expenses. CAUSE-PA asserted that NFGD should be required to transition to a fee-free payment system with the effective date of rates in this proceeding. CAUSE-PA M.B. at 34-35.

2. Recommended Decision

The ALJ recommended that the Commission should disallow $930,000 in recovery of customer payment transaction costs.[93] In addition, the ALJ recommended that NFGD should be required to transition to fee-free payments for residential

[93] However, as discussed in Section VII.F of this Opinion and Order, *supra*, Table II in Appendix A of the Recommended Decision shows a total *upward* adjustment to customer payment transaction fees expense for the FPFTY of $930,000. *See* R.D. at Appendix A-Table II. As discussed in our disposition of Section VII.F and as discussed further below, it is unclear why the ALJ, simultaneously, explicitly recommended a "disallowance of $930,000" in the body of the Recommended Decision. *See* R.D. at 153.

customers within six months of the effective date of rates in this proceeding. R.D. at 153.

3. Exceptions and Replies

We have previously outlined and disposed of the Company's Exception No. 9 and the OCA's Exception No. 6 in Section VII.F, *supra*. However, we restate a summary of these Exceptions, and the Replies thereto, below.

a. NFGD Exception No. 9 and Replies

As previously discussed, in its Exception No. 9, NFGD argues that the ALJ's recommendation that the Commission disallow the recovery of $930,000 of customer payment transaction costs, while simultaneously recommending that the Company absorb those fees with no recourse for recovery, should be rejected. NFGD states that it never requested recovery of customer payment transaction costs in this proceeding, but, rather, the OCA proposed requiring the Company to transition to fee-free payments for residential customers and absorb those costs in base rates. NFGD asserts that requiring the Company to provide fee-free online payments and denying recovery of those costs is unreasonable. NFGD Exc. at 29-30.

NFGD avers that the OCA's proposal should be rejected because it failed to show that the $930,000 adjustment reflects an accurate forecast of the cost to transition to and implement a fee-free payment structure. NFGD states that the OCA has understated the actual cost of its proposal because the proposed adjustment is solely based on the transaction fees paid by the Company's customers in 2025, and this cursory calculation is insufficient since online transactions will grow if fees are eliminated. Furthermore, NFGD argues that the OCA's proposal fails to evaluate certain factors, including negotiating a reasonable rate with the Company's third party vendor, performing system

changes required to implement the change, and anticipating growth by adopting online payments by customers if fees are eliminated. NFGD Exc. at 30-31.

Furthermore, NFGD notes that the Commission rejected a similar proposal by the OCA in *PGW 2023*. NFGD contends that the Commission should reach the same conclusion here because the OCA did not identify any authority prohibiting the Company from offering online payment options with third party processing fees, and because the OCA did not provide sufficient support for its forecasted budget for the credit card processing fees. Also, NFGD states that it already offers multiple fee-free payment options, including two in-person payment drop boxes, automatic online payments using a checking or savings account, and one-time fee-free online payments using a checking or savings account. NFGD Exc. at 31-32.

Moreover, NFGD argues that, if the Commission required it to absorb customer payment transaction fees, then the Company would have a right to seek recovery of those funds. NFGD contends that it is entitled to rate recovery of all expenses reasonably necessary to provide service to its customers; therefore, costs incurred as a direct result of complying with a Commission directive to pay online transaction fees would be a prudently incurred expense to be included in rates. NFGD Exc. at 32.

Finally, NFGD asserts that there is no support in the record for the finding that requiring customers to pay online transaction fees constitutes discriminatory service. To the contrary, NFGD notes that the Commission's decision in *PGW 2023* specifically found that utilities are not prohibited from collecting credit card processing fees. NFGD Exc. at 32.

In reply to NFGD's Exception No. 9, I&E states that, while it took no position on this issue, it does not oppose the ALJ's Recommended Decision and the

OCA's position, and the Commission should reject NFGD's Exception No. 9. I&E R. Exc. at 13-14.

The OCA, in reply to NFGD's Exception No. 9, states that the ALJ's recommendation to disallow $930,000 in recovery of customer payment transactions and to eliminate payment transaction fees is reasonable and supported by substantial record evidence. The OCA argues that the $930,000 disallowance for 2025 is based on actual transaction fees paid by customers in 2025, and that any other amount would not be based on the FPFTY. The OCA further contends that NFGD's argument that the OCA's recommendation to eliminate transaction fees because the OCA has not developed an accurate forecast is unreasonable; rather, requiring an accurate forecasting of future costs that are not within the control of the OCA is both unreasonable and unnecessary for this rate case since the actual transaction fees paid by the Company's customers in 2025 is the basis for the OCA's recommendation and the disallowance to the Company's O&M expense. Furthermore, the OCA submits that NFGD's reliance on *PGW 2023* to prevent the elimination of the Company's transaction fees is improper for customers in 2026 since affordability of rates and high inflation is a significant concern for NFGD's ratepayers at this time. The OCA avers that eliminating payment fees will help to mitigate affordability concerns. OCA R. Exc. at 21-22.

b. OCA Exception No. 6 and Replies

In its Exception No. 6, the OCA states that the ALJ, in her Recommended Decision, correctly concluded that requiring payment fees for customers to pay bills by electronic payment methods is unjust and unreasonable rate discrimination, and that the Conclusion of Law regarding payment fees necessitates the elimination of NFGD's payment fee for online and telephonic payments. However, the OCA avers that the Recommended Decision is silent on either accepting or rejecting the OCA's recommendation on this issue because it failed to recommend the adoption of the OCA's

proposal on this issue in a recommended Ordering Paragraph. The OCA asserts that requiring a payment fee increases customer bills for online payments, and results in unjust and unreasonable rate discrimination. Furthermore, the OCA avers that NFGD neither disputed that customers have incurred substantial payment processing fees, nor argued that eliminating fees could increase the adoption of electronic and telephonic payment methods. OCA Exc. at 22-24.

In reply to the OCA's Exception No. 6, NFGD argues that the record does not support a finding that customer payment of online transaction fees constitutes unreasonable discrimination. NFGD avers that while the OCA is silent on whether the Company should be permitted to recover the cost of implementing its proposal, the OCA raises a new argument that failure to adopt its proposal would result in unjust and unreasonable rate discrimination. The Company states that a finding that requiring customers to pay payment transaction fees constitutes discriminatory rates has no support in the record and should be rejected. Furthermore, NFGD points to the Commission's decision in *PGW 2023*, where the Commission, in response to a proposal from the OCA, found that utilities are not prohibited from collecting credit card processing fees. The Company also notes that it does not require that any customer incur payment fees because all customers who make payments using fee-added payment methods affirmatively select that option. In addition, NFGD asserts that there are other payment-free options available to customers, including in-person payments and online payments connected to bank accounts. The Company submits that the OCA's proposal would require all residential customers to share in the payment of processing fees, regardless of whether they use the service or not. Therefore, NFGD contends that the OCA's Exception No. 6 should be denied, and the claim that customer transaction fees result in discriminatory service should be rejected. NFGD R. Exc. at 14-15.

4. Disposition

Consistent with our disposition of Section VII.F, *supra,* we shall: (1) grant, in part, and deny, in part, NFGD's Exception No. 9; and (2) grant the OCA's Exception No. 6, in part, and deny it, in part, consistent with the following discussion.

Although the ALJ, in the body of the Recommended Decision, recommended that "the Commission disallow $930,000 in recovery of customer payment transaction costs," Appendix A-Table II of the Recommended Decision contains a recommended *upward* adjustment to customer payment transaction fees expense of $930,000. *See* R.D. at 153, Appendix A, Table II. As we discussed in our disposition of Section VII.F, we agree with the OCA's proposed *upward* adjustment of $930,000, as set forth in its briefs and testimonies, to reflect customer bill payment transaction fees that are absorbed by NFGD.[94]

To the extent that NFGD challenges the basis and reasonableness of the OCA's proposed $930,000 *upward* adjustment, we find the arguments of the OCA, as articulated in its briefs and testimonies, more compelling. The basis for the OCA's proposed adjustment of $930,000 to operating expenses is NFGD's actual customer payment transaction fees paid by customers in 2025. In our disposition of Section VII.F, *supra*, we noted the observation of the OCA's witness, Ms. Wise, that customer payment transaction fees resulted in $930,384 in 2025 for the commonly accepted payment methods of credit or debit card or using the call center. Ms. Wise also testified that eliminating payment fees may encourage more customers to adopt online payment

[94] As previously noted, the OCA, in its Replies to Exceptions, appears to have shifted its position, such that it advocates disallowing the Company the ability to recover customer payment transaction costs that result from requiring NFGD to transition to fee-free payments for its residential customers. However, the OCA, in its briefs and testimonies, proposed an *upward* adjustment to NFGD's operating expenses of $930,000, associated with the recovery of customer payment transaction costs.

methods and improve the Company's cash flows through faster and more efficient processing. OCA St. 5 at 16-17.

Thus, we will adopt the ALJ's recommendation to require NFGD to transition to fee-free payments for residential customers within six months of the effective date of rates in this proceeding. As established in the record, NFGD encourages customers to make electronic payments, and electronic payments are a popular method of payment. Eliminating these payment fees will help to mitigate affordability concerns for residential customers, especially for fixed- and lower income customers needing to make payments to avoid service termination. Furthermore, fee-free payments are not uncommon, as other NGDCs in Pennsylvania allow credit or debit card payments online or by phone with no fee. Accordingly, we conclude that such lower or no cost payment processing options are reasonable and in the public interest. Indeed, as noted by CAUSE-PA, eliminating such fees could lead to increased adoption of online payment methods, thereby reducing costs for billing, improving payment timeliness, and lowering collection-related expenses. CAUSE-PA R. Exc. at 22.

Thus, we reinforce that we shall deny the Company's Exception No. 9 to the extent that NFGD disputes: (1) the ALJ's recommendation that it transition to fee-free payments for residential customers; and (2) the ALJ's associated recommended $930,000 *upward* adjustment to customer payment transaction fees expense, set forth in Appendix A-Table II of the Recommended Decision. Conversely, we shall grant the Company's Exception No. 9, in part, by permitting the Company to recover, through this $930,000 *upward* adjustment, the expense associated with requiring NFGD to transition to fee-free payments, as opposed to disallowing the Company the opportunity to recover the costs associated with this expense.

Regarding the OCA's Exception No. 6, we find that the ALJ inadvertently omitted memorializing her recommendation to require NFGD to transition to fee-free

payments for residential customers within six months of the effective dates of rates in this proceeding, in a recommended Ordering Paragraph. Therefore, for the reasons discussed above, we shall expressly direct NFGD, in the Ordering Paragraphs of this Opinion and Order, to transition to fee-free payments for residential customers within six (6) months of the effective date of rates in this proceeding. Accordingly, consistent with our disposition of Section VII.F above, we shall grant the OCA's Exception No. 6, in part, and deny it, in part.

XV. Miscellaneous/Other Issues

A. LTIIP and LPP Replacements

1. Positions of the Parties

NFGD claimed that it increased its capital expenditures for distribution and transmission plant since 2023, spending $129.5 million between 2023 and 2025 for the replacement of mains, services, and measurement and regulation stations. In addition, the Company stated that it eliminated 371 miles, or 31%, of its leak-prone bare steel and wrought iron pipelines, and 7,337 miles, or 34%, of its bare steel services, between 2016 and 2024. NFGD averred that its accelerated LPP replacement program targets replacement of all LPP by 2039. Under its Amended LTIIP, NFGD stated that it will increase capital spending, totaling approximately $253.4 million over the five-year period, reflecting the accelerated LPP replacement schedule, projected higher average distribution LPP replacement costs per mile, and projected higher average transmission and high-pressure steel pipeline replacement costs per diameter-inch mile. NFGD argued that I&E's concerns that the Company will not meet its 2039 LPP replacement target overlook the Company's Amended LTIIP projections for an accelerated LPP replacement rate of 57 miles per year starting in 2027. NFGD stressed that it is committed to meeting

its LPP replacement target and making necessary investments to enhance and maintain the safety and reliability of the Company's distribution system. NFGD M.B. at 103-04.

I&E contended that pipeline replacement should be based on NFGD's Distribution Integrity Management Plan (DIMP). I&E argued that its concerns are based on the Company's past average replacement schedule, which suggests that it will take 17 years to replace all remaining bare steel and wrought iron mains. I&E stated that this schedule may not meet the LTIIP target of complete replacement by 2039. I&E M.B. at 45-46.

2. Recommended Decision

The ALJ recommended that the Commission not change the schedule for NFGD's pipeline replacement efforts because the Company is on schedule to complete those efforts by 2039, and in compliance with meeting its target goals, at this time. R.D. at 397.

3. Disposition

Since none of the Parties excepted to this determination, and finding the ALJ's recommendation to be reasonable, appropriate, and in accordance with the record evidence, we agree with the ALJ's recommendation to not change the schedule for NFGD's pipeline replacement efforts. Accordingly, we shall adopt the ALJ's recommendation without further comment.

B. Restoration Costs

1. Positions of the Parties

NFGD argued that I&E's recommendation to require the Company to track and analyze replacement costs to identify and negotiate cost savings should be rejected because its current cost tracking methods provide insight into project costs and potential savings, and further tracking is not necessary at this time. NFGD stated that its pipeline replacement work is completed mostly by contractor crews selected through competitively bid contracts on a per project basis or by geographical region under which a breakdown of costs is not available because the costs are rolled into the unit price for each bid item. NFGD further asserted that it actively tracks replacement costs on an overall and project specific basis, analyzes costs drivers, identifies efficiencies, and negotiates cost savings. NFGD contended that the additional tracking is unnecessary and should be rejected because the Company is already identifying areas for cost savings in future projects. NFGD M.B. at 104-06.

As noted, *supra*, I&E raised concerns with increasing restoration costs associated with the infrastructure improvement capital costs. I&E recommended that NFGD be required to track and analyze replacement costs to identify and negotiate potential cost savings. I&E M.B. at 46.

2. Recommended Decision

The ALJ recommended that I&E's proposal to require NFGD to track and analyze replacement costs to identify and negotiate cost savings should be rejected at this time. R.D. at 398.

3. Disposition

Since none of the Parties excepted to this determination, and finding the ALJ's recommendation to be reasonable, appropriate, and in accordance with the record evidence, we agree with the ALJ's recommendation to not require NFGD to track and analyze replacement costs to identify and negotiate cost savings at this time. Accordingly, we shall adopt the ALJ's recommendation without further comment.

C. Tariff Rule 8

1. Positions of the Parties

NFGD proposed that its Tariff Rule 8[95] should be amended to clarify that "free access" means, not only that Company personnel may not be denied physical access to utility facilities, but that they also will not be subject to unsafe or hazardous conditions while performing their duties. NFGD asserted that this amendment would protect its personnel from health and safety risks by identifying conditions that prevent the free access to Company facilities, and it would make the tariff language consistent with current Company practices, because it would define certain specific safety conditions that prevent free access while reducing confusion, providing certainty to property owners, and promoting operational efficiency. The Company argued that the proposed amendment creates an objective standard for identifying dangerous conditions and is consistent with the Commission's Regulations. NFGD M.B. at 106-08.

[95] The Company's current Tariff Rule 8 is found in Tariff Gas at Original Page No. 19, Effective: October 30, 2001. *See also,* NFGD Exhibit F, which contains both the Company's current Tariff Rule 8 and its proposed revision thereto, as set forth in proposed First Revised Page No. 19.

CAUSE-PA argued that NFGD did not clarify how the proposed changes to Tariff Rule 8 would introduce subjective language into the tariff rule, which could result in customers having service refused or terminated based on subjective determinations related to perceived conditions which may not pose any threat to NFGD's employees, or on cultural and moral differences. CAUSE-PA also stated that NFGD did not clarify how the proposed revisions to Tariff Rule 8 would provide additional protection for its employees beyond its existing health and safety protocols, as well as for conditions which may be beyond the customer's control. Further, CAUSE-PA asserted that NFGD did not demonstrate that the proposed language is necessary to protect employees or customers. Accordingly, CAUSE-PA recommended that the Company's proposed revisions to Tariff Rule 8 be denied. In addition, CAUSE-PA recommended that NFGD should be ordered to track and report terminations, delays, and denials of service based on health and safety conditions, and the steps taken to help remediate such conditions. CAUSE-PA M.B. at 113-16.

2. Recommended Decision

The ALJ recommended that NFGD's proposal to revise Tariff Rule 8 should be rejected at this time because the Company did not present sufficient evidence to prove that the revisions are necessary, given the current protections in place already for NFGD's employees. Furthermore, the ALJ recommended that NFGD be required to track and report terminations, delays, and denials of service based on health and safety conditions, and the steps taken by the Company, through its Safety Gatekeeper Program or otherwise, to connect customers who have such conditions on their premises with remediation resources. The ALJ concluded that NFGD did not provide sufficient, convincing evidence that a present or historic reason exists to establish a defined set of conditions that might trigger termination of service. However, the ALJ further stated that "if NFG[D] tracks the times and conditions that trigger Tariff Rule 8 before the next base rate case, then NFG[D] may be able to meet its burden of proving that its employees need

additional protections and how often Tariff Rule 8 was utilized in terminations of services to customers." R.D. at 399-400.

3. Disposition

Since none of the Parties excepted to this determination, and finding the ALJ's recommendation to be reasonable, appropriate, and in accordance with the record evidence, we agree with the ALJ's recommendation to reject NFGD's proposal to amend Tariff Rule 8. Furthermore, we shall adopt the ALJ's recommendation to require NFGD to track and report terminations, delays, and denials of service based on health and safety conditions, and the steps taken by NFGD, through its Safety Gatekeeper Program or otherwise, to connect customers who have such conditions on their premises with remediation resources.

D. Methane Detector Pilot Program

1. Positions of the Parties

In its Main Brief, NFGD explained that I&E proposed that the Company implement a pilot methane detector installation program using Smart Remote Methane Detection (SRMD) in a geographic region and consider using Advanced Metering Infrastructure (AMI) technology and Long-Range Wide Area Network (LoRaWAN) or other communication network technology for the notification methodology in the proposed pilot. NFGD acknowledged that methane detection technologies may be beneficial and help mitigate risk but did not agree to conduct a methane detector pilot in Pennsylvania at this time. NFGD contended that a pilot is not necessary at this time because it is currently operating another methane detector pilot in its New York division. According to NFGD, the New York pilot overlaps with I&E's proposal in this proceeding. NFGD M.B. at 109.

NFGD raised its concern regarding the costs required to implement I&E's proposal. NFGD explained that a small-scale pilot would have limited effectiveness and value, while a broader program would not be feasible, considering it would require substantial investment in infrastructure, IT systems, and field hardware. NFGD submitted that although UGI Utilities Inc.-Gas Division and PGW have implemented methane detector pilots, they have done so through settlements that were approved by the Commission. NFGD contended that if the Commission were to direct the Company to design and implement a methane detector pilot, the Company would have the right to seek recovery of those funds. NFGD M.B. at 110-11.

I&E proposed that NFGD implement a pilot program utilizing SRMDs in a geographic region of the Company's choosing for the installation of 500 to 1000 SRMDs to allow NFGD to study the effectiveness of the SRMDs and monitor the related expenses. In addition, I&E proposed that the Commission require NFGD to consider using AMI technology and LoRaWAN or other communication network technology for the notification methodology utilized by these devises as part of its pilot program. According to I&E, the implementation of these detector programs is a valuable tool for early warning and accelerated actions to reduce the impacts of infrastructure integrity concerns going forward. I&E reasoned that as technology continues to evolve, the ability to remotely notify the operator of the presence of indoor gas readings is the next logical step for operators across Pennsylvania to drive down the probability of an explosion and the consequences, should an explosion occur. I&E M.B. at 47-48.

2. Recommended Decision

The ALJ recommended the rejection of I&E's Methane Detector Program because, at this time, the program is too costly and duplicative of the pilot program underway in New York. ALJ Dunderdale recommended that at the time of the next rate case filing by NFGD, the Company should provide information about the result of the

New York pilot, so the parties and the Commission can consider the costs, rules, applications and feasibility of initiating a pilot, with the benefit of the information gained in New York. R.D. at 401-02.

3. I&E Exception No. 1 and Replies

In its Exception No. 1, I&E disagrees with the ALJ's recommendation that the Commission reject I&E's Methane Detector Program. I&E argues that while the Company may gain knowledge regarding the actual costs related to the various SRMD technologies through its New York pilot program, NFGD will not gain any actual knowledge regarding any SRMD technology. According to I&E, the New York program is not duplicative of the I&E recommended SRMD program. I&E Exc. at 3-5.

In support of its proposal, I&E explains that SRMD devices would use communication technology to simultaneously notify the customer and the emergency gas response officials, not only allowing additional time for safe egress by those hearing the alarm, but by also providing advanced notice to reduce the response time of the emergency responders. I&E avers that NFGD has a substantial amount of bare steel and wrought iron pipe remaining in its system that are the subject of future replacement projects. I&E contends that the pipe still in the ground, during the period of replacement, will be prone to a greater number of leaks, and structures in the areas served by these pipes could benefit from the smart remote methane detectors. I&E asserts that the audible remote methane detectors (ARMDs) would be a lower cost option versus the more sophisticated smart remote detector systems. I&E Exc. at 5-6.

In Reply, NFGD contends that the ALJ properly determined that I&E's proposal be rejected. NFGD argues that as the New York pilot is still under way, requiring the Company to fund and administer a duplicative pilot is not necessary at this time, especially as there is no guarantee that a Pennsylvania pilot would yield materially

different or additional information. In addition, NFGD states that the ALJ's findings regarding costs required to implement I&E's proposal are supported in the record. NFGD notes that the ALJ's recommendation that the Company report the results of its New York pilot in its next base rate proceeding ensures that the Company will leverage the experience of its New York pilot to the benefit of its Pennsylvania ratepayers without incurring duplicative costs. NFGD R. Exc. at 15-17.

4. Disposition

Upon review of I&E's Exception No. 1, NFGD's Reply Exception, the record evidence, and the ALJ's Recommended Decision, we shall deny I&E's Exception on this issue and adopt the ALJ's recommendation rejecting I&E's Methane Detector Program. We find the ALJ's recommendation to require NFGD to provide information about the result of the New York pilot at the time of its next rate case filing to be reasonable. I&E has not demonstrated that the Methane Detector Program would result in different or additional information than that gained from the New York pilot. It would be imprudent for the Commission to require NFGD to undertake a pilot with significant costs without such information. Accordingly, we shall deny I&E's Exception No. 1 and adopt the ALJ's recommendation on this issue.

XVI. Conclusion

Based on our review of the record in this proceeding, we shall: (1) grant the Exceptions filed by CAUSE-PA; (2) grant, in part, and deny, in part, the Exceptions filed by NFGD and the OCA; (3) deny the Exceptions filed by I&E; (4) approve an annual revenue increase of $10,448,826 to the Company's total revenues at present rates of $265,524,000, representing an increase of 3.94%; and (5) adopt the Recommended Decision of ALJ Dunderdale, as modified, consistent with this Opinion and Order; **THEREFORE,**

IT IS ORDERED:

1. That the Exceptions filed by National Fuel Gas Distribution Corporation on August 17, 2026, to the Recommended Decision of Administrative Law Judge Katrina L. Dunderdale, issued on July 31, 2026, at the above-captioned docket, are granted, in part, and denied, in part, consistent with this Opinion and Order.

2. That the Exceptions filed by the Bureau of Investigation and Enforcement on August 17, 2026, to the Recommended Decision of Administrative Law Judge Katrina L. Dunderdale, issued on July 31, 2026, at the above captioned docket, are denied, consistent with this Opinion and Order.

3. That the Exceptions filed by the Office of Consumer Advocate on August 17, 2026, to the Recommended Decision of Administrative Law Judge Katrina L. Dunderdale, issued on July 31, 2026, at the above captioned docket, are granted, in part, and denied, in part, consistent with this Opinion and Order.

4. That the Exceptions filed by the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania on August 17, 2026, to the Recommended Decision of Administrative Law Judge Katrina L. Dunderdale, issued on July 31, 2026, at the above captioned docket, are granted, in part, and denied, in part, consistent with this Opinion and Order.

5. That the corrections and modifications directed by this Opinion and Order, reflected in the National Fuel Gas Distribution Corporation Docket No. R-2025-3059428: Commission Tables Calculating Allowed Revenue Increase, attached hereto, are adopted as being in the public interest.

6. That National Fuel Gas Distribution Corporation shall not place into effect the rates, rules, and regulations contained in Supplement No. 294 to Tariff Gas-Pa. P.U.C. No. 9, the same having been found to be unjust, unreasonable, and therefore unlawful.

7. That National Fuel Gas Distribution Corporation is authorized 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 annual operating revenues of approximately $275,972,826, representing an annual revenue increase of approximately $10,448,826, to become effective for service rendered on and after October 29, 2026.

8. That National Fuel Gas Distribution Corporation shall file detailed calculations with its tariff filings, which shall demonstrate to the Commission's satisfaction that the filed tariff adjustments comply with the provisions of this final Opinion and Order.

9. That National Fuel Gas Distribution Corporation shall file with the Commission's Secretary's Bureau at this docket and provide the Commission's Bureau of Technical Utility Services, Bureau of Investigation and Enforcement, and the Office of Consumer Advocate with: (1) an update to National Fuel Gas Distribution Corporation Exhibit A – FTY, Schedule C-2 by February 1, 2027, reflecting actual capital expenditures, plant additions, and retirements by month for the twelve months ending September 30, 2026; and (2) an update to National Fuel Gas Distribution Corporation Exhibit A – FPFTY, Schedule C-2, update by February 1, 2028, reflecting actual results through October 31, 2027.

10. That National Fuel Gas Distribution Corporation shall allocate the authorized increase in natural gas distribution operating revenues to each service, rate

schedule, and customer class, and rate schedule within each rate customer class, in the manner prescribed in this Opinion and Order.

11. That National Fuel Gas Distribution Corporation's adoption of the Equal Life Group procedure to calculate its depreciation rates is approved.

12. That National Fuel Gas Distribution Corporation shall comply with all directives and conclusions contained in this Opinion and Order that are not the subject of individual ordering paragraphs as if they were the subject of specific ordering paragraphs.

13. That the request of National Fuel Gas Distribution Company to implement, extend, or continue the Weather Normalization Adjustment approved in *Pa. PUC, et al. v. National Fuel Gas Distribution Corporation*, Docket Nos, R-2022-3035730, *et al.* (Final Order entered June 15, 2023) is granted, subject to the following additional requirements, consistent with this Opinion and Order:

a. National Fuel Gas Distribution Corporation is authorized to continue the Weather Normalization Adjustment mechanism as a pilot program until a final order is entered in the Company's first base rate case filed after the entry date of this Opinion and Order;

b. National Fuel Gas Distribution Corporation shall apply a 5% deadband, such that the Weather Normalization Adjustment will apply only if the Actual Heating Degree Days for the billing cycle are lower than 95% or higher than 105% of the weather-normalized heating degree days for the billing cycle; and

c. National Fuel Gas Distribution Corporation shall utilize the weather-normalized heating degree days for any given day based upon the 10-year average for the given day.

14. That National Fuel Gas Distribution Corporation's proposal to implement the five-year Energy Efficiency Pilot and its associated proposed Tariff Rider D: Energy Efficiency Program Cost Recovery – are granted, consistent with this Opinion and Order.

15. That National Fuel Gas Distribution Corporation shall file with the Commission an annual Energy Efficiency Pilot report, due approximately three months after the end of each program year containing information on program savings (both Mcf and cost), customer participation, program spending, cost-effectiveness, portfolio highlights, and program delivery updates. The Energy Efficiency Pilot report shall disaggregate low income customer data and include tracking of referrals from the Energy Efficiency Pilot to the National Fuel Gas Distribution Corporation's Low Income Usage Reduction Program, the Emergency Repair and Replacement Program, and related assistance programs and the outcome of those referrals. Copies of the report shall be served on the Parties to this proceeding.

16. That National Fuel Gas Distribution Corporation, shall extend eligibility for its Low Income Usage Reduction Program to customers residing in mobile homes.

17. That National Fuel Gas Distribution Corporation shall develop a detailed, written plan to fully expend its Low Income Usage Reduction Program budget each year, to be filed at its Universal Service and Energy Conservation Plan docket within 90 days of the effective date of rates in this proceeding.

18. That National Fuel Gas Distribution Corporation's proposed changes to its Neighbor for Neighbor Hardship Fund, regarding eligibility requirements and grant amounts, are denied, consistent with this Opinion and Order.

19. That National Fuel Gas Distribution Corporation shall develop a fundraising plan to increase voluntary contributions to the Neighbor for Neighbor Hardship Fund to be filed at the filing of its next base rate case.

20. That National Fuel Gas Distribution Corporation shall transition to fee-free payments for residential customers within six (6) months of the effective date of rates in this proceeding.

21. That National Fuel Gas Distribution Corporation's proposed amendment to Tariff Rule 8 is denied, consistent with this Opinion and Order.

22. That National Fuel Gas Distribution Corporation shall begin tracking and reporting terminations, delays, and denials of service based on health and safety conditions, and the steps taken by National Fuel Gas Distribution Corporation, through its Safety Gatekeeper Program, or otherwise, to connect customers who have such conditions on their premises with remediation sources.

23. That National Fuel Gas Distribution Corporation's proposal to distribute a one-time bill credit to refund $30 of Other Post Employment Benefits to low income customers in December 2026 is approved; and National Fuel Gas Distribution Corporation is further directed to conduct targeted outreach, to all customers receiving the one-time refund credit, to determine eligibility for the Company's universal service programs.

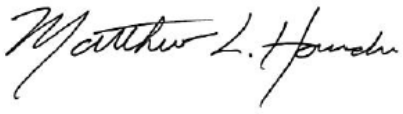
24. That upon the effective date of rates in this proceeding, National Fuel Gas Distribution Corporation shall begin tracking data regarding the total dollars and average dollars in debt carried by Customer Assistance Program customers.

25. That the Formal Complaint filed by the Office of Consumer Advocate at Docket No. C-2026-3060292 be dismissed and marked closed.

26. That the Formal Complaint filed by the Office of Small Business Advocate at Docket No. C-2026-3060354 be dismissed and marked closed.

27. That the Formal Complaint filed by the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania at Docket No. C-2026-3060437 be dismissed and marked closed.

BY THE COMMISSION,



Matthew L. Homsher
Secretary

(SEAL)

ORDER ADOPTED: October 22, 2026

ORDER ENTERED: October 22, 2026

XVII. List of Abbreviations

ACOSS	Allocated Cost of Service Study
ADIT	Accumulated Deferred Income Taxes
AGA	American Gas Association
AHDD	Actual Heating Degree Days
ALG	Average Life Group
ALJ	Administrative Law Judge
AMI	Advanced Metering Infrastructure
ARMD	Audible Remote Methane Detectors
ASL	Average Service Life
B/C	Benefit/Cost Ratio
Bcf	Billion Cubic Feet
BCS	Bureau of Consumer Services
BVPS	Book Value Per Share
CAGR	Compound Annual Growth Rate
CAP	Customer Assistance Program
CAPM	Capital Asset Pricing Model
CAUSE-PA	Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania
CCED	Clarion County Economic Development
ccf	Hundred Cubic Feet
CIAC	Contributions in Aid of Construction
COL	Conclusion of Law
CWC	Cash Working Capital
D	Depreciation Expense
DCF	Discounted Cash Flow
DHS	Department of Human Services
DIMP	Distribution Integrity Management Plan
DPS	Dividends Per Share
DSIC	Distribution System Improvement Charge
E	Operating Expense
ECAM	Energy Cost Adjustment Mechanism
EDC	Electric Distribution Company
EDDC	Erie Downtown Development Corporation
EE	Energy Efficiency
EE&C	Energy Efficiency & Conservation
ELG	Equal Life Group

EPS	Earnings Per Share
ERP	Equity Risk Premium
ERRP	Emergency Repair and Replacement Program
ESG	Environmental, Social, and Governance
FAQ	Frequently Asked Questions
FERC	Federal Energy Regulatory Commission
FICA	Federal Insurance Contributions Act
FOF	Finding of Fact
FPFTY	Fully Projected Future Test Year
FTE	Full Time Employee
FTY	Future Test Year
FUTA	Federal Unemployment Tax Act
FY	Fiscal Year
HDD	Heating Degree Days
HTY	Historical Test Year
I&E	Bureau of Investigation and Enforcement
IT	Information Technology
IVIS	Intermediate Volume Industrial Service
LCPA	Large Commercial and Public Authority Service
LIHEAP	Low Income Home Energy Assistance Program
LIS	Large Industrial Service
LIURP	Low Income Usage Reduction Program
LoRaWAN	Long-Range Wide Area Network
LPC	Late Payment Charge
LPP	Leak-Prone Pipe
LTIIP	Long Term Infrastructure Improvement Plan
LVIS	Large Volume Industrial Service
Mcf	Thousand Cubic Feet
NARUC	National Association of Regulatory Utility Commissioners
NFG	National Fuel Gas Company
NFGD	National Fuel Gas Distribution Corporation
NFN	Neighbor for Neighbor
NGDC	Natural Gas Distribution Company
NGV	Natural Gas Vehicle Service
NHDD	Normal Heating Degree Days
NOAA	National Oceanic and Atmospheric Administration
NRRI	National Regulatory Research Institute
O&M	Operating and Maintenance

OALJ	Office of Administrative Law Judge
OCA	Office of Consumer Advocate
OPEB	Other Post Employment Benefit
OSBA	Office of Small Business Advocate
P&A	Peak and Average
PAWC	Pennsylvania-American Water Company
PGW	Philadelphia Gas Works
PNDC	Penn-Northwest Development Corp.
PPL	PPL Electric Utilities Corporation
PWAC	Purchased Water Adjustment Clause
R.D.	Recommended Decision
RB	Rate Base
R_f	Risk-Free Rate of Return
ROE	Return on Equity
ROR	Rate of Return
RP	Risk Premium
RR	Revenue Requirement
S&P	Standard & Poor's
SCPA-LL	Small Commercial and Public Authority Service ≤ 250 Mcf
SCPA-UL	Small Commercial and Public Authority Service > 250 Mcf
SRMD	Smart Remote Methane Detection
SUTA	State Unemployment Tax Act
SVIS	Small Volume Industrial Service
T	Tax Expense
TCJA	Tax Cuts and Jobs Act
TRC	Total Resource Cost
TUS	Bureau of Technical Utility Services
USAC	Universal Service Advisory Council
USECP	Universal Service and Energy Conservation Plan
USPS	United States Postal Service
WACC	Weighted Average Cost of Capital
WNA	Weather Normalization Adjustment
ZIS	Zero-Intercept Study
β	Beta Measure of Systematic Risk

Pennsylvania Public Utility Commission

v.

National Fuel Gas Distribution Corporation
Docket No. R-2025-3059428

Commission Tables Calculating Allowed Revenue Increase

Table I	**Income Summary**
Table IA	**Rate of Return**
Table IB	**Revenue Factor**
Table II	**Adjustments**
Table III	**Interest Synchronization**
Table IV	**Cash Working Capital: Interest and Dividends**
Table V	**Cash Working Capital: Taxes**
Table VI	**Cash Working Capital: O&M Expense**
Table	**CWC O&M Elements**

Commission Final Allowance
TABLE I
National Fuel Gas Distribution Corporation
INCOME SUMMARY
R-2025-3059428

		Pro Forma Present Rates[1]	Company Adjustments[2]	Pro Forma Present Rates[3]	Commission Adjustments	Commission Pro Forma Present Rates	Commission Revenue Increase	Total Allowable Revenues
		$ (1)	$ (2)	$ (3) = (1) + (2)	$ (4)	$ (5) = (3) + (4)	$ (6)	$ (7) = (5) + (6)
1.	Operating Revenue	265,524,000	0	265,524,000	0	265,524,000	10,448,826	275,972,826
2.	Expenses:							
3.	O & M Expense	204,048,000	0	204,048,000	(2,177,765)	201,870,235	159,867	202,030,102
4.	Depreciation	25,302,000	0	25,302,000	0	25,302,000	0	25,302,000
5.	Taxes, Other	2,489,000	0	2,489,000	(105,181)	2,383,819	0	2,383,819
6.	Income Taxes:							
7.	State	(330,000)	0	(330,000)	136,395	(193,605)	770,643	577,038
8.	Federal	(2,010,000)	1,000	(2,009,000)	353,775	(1,655,225)	1,998,846	343,621
9.	Total Expenses	229,499,000	1,000	229,500,000	(1,792,776)	227,707,224	2,929,356	230,636,580
10.	Net Income Available for Return	36,025,000	(1,000)	36,024,000	1,792,776	37,816,776	7,519,469	45,336,246
11.	Rate Base	571,582,000	(126,000)	571,456,000	(38,734)	571,417,266		571,417,266
12.	Rate of Return	6.30%				6.62%		7.93%

Notes and Sources:
[1]NFGD Exhibit A FPFTY
[2]Difference between NFGD Exhibit A FPFTY and NFGD Exhibit A FPFTY (Rebuttal Update)
[3]NFGD Exhibit A FPFTY (Rebuttal Update)
[4]NFGD Main Brief

Revenue Change (%):	3.94%
Final Revenue Increase requested by Company[4]	16,189,000
% of requested Increase granted in this Opinion and Order	64.54%

Commission Final Allowance
TABLE I(A)
National Fuel Gas Distribution Corporation
RATE OF RETURN
R-2025-3059428

		Structure (1)	Cost (2)	After-Tax Weighted Cost [(3)=(1)x(2)]	Effective Tax Rate Complement (4)	Pre-Tax Weighted Cost Rate [(5)=(3)/(4)]
1.	Total Cost of Debt			2.5110%		
2.	Long-term Debt[(1)]	45.00%	5.58%	2.5110%		2.51%
3.	Short-term Debt	0.00%	0.00%	0.0000%		0.00%
4.	Preferred Stock	0.00%	0.00%	0.0000%	0.730829	0.00%
5.	Common Equity[(1)]	55.00%	9.86%	5.4230%	0.730829	7.42%
6.	Rate of Return[(1)]	100.00%		7.93%		9.9310%
7.	Pre-Tax Interest Coverage	3.95				
8.	After-Tax Interest Coverage	3.16				
9.	Tax Rate Complement[(2)] (1-(21%+(7.49% X (1-21%))	73.08290%				

Notes and Sources:

[(1)] *See* Section X of this Opinion and Order.

[(2)] *See* Section VIII.A of this Opinion and Order.

Commission Final Allowance
TABLE I(B)
National Fuel Gas Distribution Corporation
REVENUE FACTOR
R-2025-3059428

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor (*)	0.01530000
3.	PUC, OCA, OSBA Assessment Factors (*)	0.00000000
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98470000
7.	State Income Tax Rate (*)	0.07490000
8.	Effective State Income Tax Rate	0.07375403
9.	Factor After Local and State Taxes	0.91094597
10.	Federal Income Tax Rate (*)	0.21000000
11.	Effective Federal Income Tax Rate	0.19129865
12.	Revenue Factor (100% - Effective Tax Rates)	0.71964732

Notes and Sources:
(*)NFGD M.B.at Appendix D, Table I(B); *See also* Section VIII.A of this Opinion and Order

Commission Final Adjustments

TABLE II

National Fuel Gas Distribution Corporation

SUMMARY OF ADJUSTMENTS

R-2025-3059428

	Adjustments (1)	Rate Base (2) $	Revenues (3) $	Expenses (4) $	Depreciation (5) $	Taxes-Other (6) $	State Income Tax (7) $	Federal Income Tax (8) $
	RATE BASE:							
	Cash Working Capital:[1]							
1.	Int. & Div. (Table IV)	(54,178)						
2.	Taxes (Table V)	108,446						
3.	O & M (Table VI)	(93,002)						
	REVENUES:							
4.	Forfeited Discounts [2]		0				0	0
	O&M EXPENSES:							
							0	0
5.	Rate Case Expense[3]			(137,600)			10,306	26,732
6.	Payroll Expense[4]			(525,364)			39,350	102,063
7.	Membership Dues Expense[5]			(21,968)			1,645	4,268
8.	Customer Payment Transaction Costs[6]			930,000			(69,657)	(180,672)
9.	Office Employee Expenses[7]			(64,000)			4,794	12,433
10.	Postage Expense[8]			(175,000)			13,108	33,997
11.	Line Hit Collections Expense[9]			(156,000)			11,684	30,306
12.	Executive Cash Bonuses[10]			(379,731)			28,442	73,771
13.	Executive Performance Shares[11]			(909,281)			68,105	176,647
14.	Stock-based Compensation[12]			(472,821)			35,414	91,855
15.	Insurance Settlement Proceeds[13]			(266,000)			19,923	51,676
							0	0
							0	0
							0	0
							0	0
							0	0
							0	0
							0	0
							0	0
							0	0
	DEPRECIATION EXPENSE:							
16.							0	0
	TAXES:							
17.	Payroll Taxes Expense[14]					(105,181)	7,878	20,434
18.	Interest Synchronization[15] (Table III)						(34,597)	(89,735)
19.	TOTALS	(38,734)	0	(2,177,765)	0	(105,181)	136,395	353,775

Table II Notes and Sources:

[1]Adjustments to Cash Working Capital are discussed in Sections V.G and VII.H.6 of this Opinion and Order.

[2]Although we adopt the OCA's proposed methodology to apply a forfeited discount ratio of 0.053%, based upon a three-year average, this ratio is applied to the revenue increase granted in Section VI.D of this Opinion and Order, and not to the Company's revenues at present rates. Thus, no adjustment to revenues at present rates associated with foreign discounts is made. *See* Section VI.C of this Opinion and Order.

[3]Adopt I&E's proposed downward adjustment to NFGD's claimed Rate Case Expense. *See* Section VII.B of this Opinion and Order.

[4]Adopt the OSBA's proposed downward adjustment to NFGD's claimed Payroll Expense. *See* Section VII.D of this Opinion and Order.

[5]Grant NFGD's Exception No. 6, in part, and adopt I&E's proposed downward adjustment to the Company's claimed Membership Dues Expense, in lieu of adopting the ALJ's recommendation to apply the OSBA's proposed complete disallowance of this expense. *See* Section VII.E of this Opinion and Order.

[6]Adopt the OCA's proposed *upward* adjustment, as set forth in its testimonies and briefs, to account for Customer Payment Transaction Costs associated with directing the Company to transition to fee-free payments for its residential customers. *See* Section VII.F of this Opinion and Order.

[7]Adopt the OCA's proposed downward adjustment to remove NFGD's proposed inflation adjustment to its claim for Office Employee Expenses. *See* Section VII.H.2 of this Opinion and Order.

[8]Adopt the OCA's proposed downward adjustment to remove NFGD's proposed inflation adjustment to its claim for Postage Expense. *See* Section VII.H.2 of this Opinion and Order.

[9]Adopt the OCA's proposed downward adjustment to eliminate NFGD's proposed expense associated with projected reimbursements that it anticipates receiving in the FPFTY for line hit and pipeline damage (*i.e.* its claimed Line Hit Collections Expense). *See* Section VII.H.3 of this Opinion and Order.

[10]Adopt I&E's proposed downward adjustment to the Executive Cash Bonuses portion of the Company's claimed expense for incentive compensation. *See* Section VII.C of this Opinion and Order.

[11]Adopt I&E's proposed downward adjustment to the the Executive Performance Shares portion of the Company's claimed expense for Incentive Compensation. *See* Section VII.C of this Opinion and Order.

[12]Grant the OCA's Exception No. 3 and apply a downward adjustment to the Stock-Based Compensation portion of the Company's claimed expense for Incentive Compensation. This adjustment is made consistent with our treatment of applying downward adjustments to the Executive Cash Bonuses portion and the Executive Performance Shares portion of this same Incentive Compensation expense, as outlined above. *See* Section VII.C of this Opinion and Order.

[13]Adopt the OCA's proposed downward adjustment to NFGD's claimed expense for Insurance Settlement Proceeds. Although the ALJ recommended the adoption of this proposed adjustment, no adjustment appeared in Appendix A-Table II of the Recommended Decision. Thus, the Recommended Decision is modified accordingly by explicitly including this downward adjustment in our overall adjustment to the Company's claimed O&M expenses. *See* Section VII.H.4 of this Opinion and Order.

[14]Adopt I&E's proposed downward adjustments to NFGD's claim for payroll taxes expense, utilizing a payroll tax rate of 5.97%, consistent with our adoption of I&E's methodology. These downward adjustments are, as follows:

(1) a downward adjustment of $22,670 to payroll taxes expense associated with our downward adjustment of $379,731 to the executive cash bonuses portion of the Company's claimed expense for incentive compensation. [$379,731 x 5.97% = $22,670];

(2) a downward adjustment of $28,227 to payroll taxes expense associated with our downward adjustment of $472,821 to the stock-based compensation portion of the Company's claimed expense for incentive compensation. [$472,821 x 5.97% = $28,227]; and

(3) a downward adjustment of $54,284 to payroll taxes expense associated with our downward adjustment of $909,281 to the executive performance shares portion of the Company's claimed expense for incentive compensation. [$909,281 x 5.97% = $54,284].

This results in a total downward adjustment to the Company's claim for payroll taxes expense of $105,181. [$22,670 + $28,227 + $54,284 = $105,181]. *See* Sections VII.C,, VII.D., and VIII.B of this Opinion and Order. Furthermore, NFGD's claimed payroll taxes expense is included in the O&M Expense component of the Company's claimed Cash Working Capital. *See* NFGD Exh. A FPFTY (Rebuttal Update), Sch. C-4 at 2, Line 4; *See also* Section VII.H.6 of this Opinion and Order.

[15] *See* Section VII.H.5 of this Opinion and Order.

Commission Final Allowance
TABLE III
National Fuel Gas Distribution Corporation
INTEREST SYNCHRONIZATION
R-2025-3059428

		Amount $
1.	Company Rate Base Claim [1]	571,456,000
2.	Commission Rate Base Adjustments (From Table II)	(38,734)
3.	Commission Rate Base (Line 1 - Line 2)	571,417,266
4.	Weighted Cost of Debt (From Table IA)	2.51100000%
5.	Commission Interest Expense (Line 3 x Line 4)	14,348,288
6.	Company Claim [1],[2]	13,886,381
7.	Total Commission Adjustment (Line 6 - Line 5)	(461,907)
8.	Company Adjustment [2]	0
9.	Net Commission Interest Adjustment (Line 7 - Line 8)	(461,907)
10.	State Income Tax Rate (Table IB)	7.49%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	(34,597)
12.	Net Commission Interest Adjustment (Line 9)	(461,907)
13.	State Income Tax Adjustment (Line 11)	(34,597)
14.	Net Commission Adjustment for F.I.T. (Line 9 - Line 11)	(427,310)
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 12 x Line 13) (Flow to Table II)	(89,735)

Notes and Sources:
[1] NFGD Exhibit A FPFTY (Rebuttal Update)
[2] NFGD M.B. at Appendix D-Table III

Commission Final Allowance
TABLE IV
National Fuel Gas Distribution Corporation
CASH WORKING CAPITAL - Interest and Dividends
R-2025-3059428

		Accrued Interest			Preferred Stock Dividends	
		(1)	Long-Term Debt (2)	Short-Term Debt (3)	(4)	(5)
1.	Company Rate Base Claim	$571,456,000	$571,456,000		Company Rate Base Claim	$571,456,000
2.	Commission Rate Base Adjustments	($38,734)	($38,734)		Commission Rate Base Adjustments	($38,734)
3.	Commission Rate Base	$571,417,266	$571,417,266		Commission Rate Base	$571,417,266
4.	Weighted Cost of Debt	2.51100000%	0.00%		Weighted Cost Pref. Stock	0.00%
5.	Commission Annual Interest Exp.	$14,348,288	$0		Commission Preferred Dividends	$0
6.	Average Revenue Lag Days [1]	47.16	47.2		Average Revenue Lag Days [1]	47.2
7.	Average Expense Lag Days [1]	91.25	91.3		Average Expense Lag Days [1]	91.3
8.	Net Lag Days	-44.1	-44.1		Net Lag Days	-44.1
9.	Working Capital Adjustment					
10.	Commission Daily Interest Exp.	$39,310	$0		Commission Daily Dividends	$0
11.	Net Lag Days	-44.1	-44.1		Net Lag Days	-44.1
12.	Commission Working Capital	($1,733,178)	$0			$0
13.	Company Claim [1]	($1,679,000)	$0		Company Claim [1]	$0
14.	Commission Adjustment	($54,178)	$0			$0
15.	Total Interest & Dividend Adjustment	($54,178)				

Notes and Sources:
[1]NFGD Exhibit A FPFTY (Rebuttal Update) Schedule C-4 at 3

Commission Final Allowance
TABLE V
National Fuel Gas Distribution Corporation
CASH WORKING CAPITAL -TAXES
R-2025-3059428

	Description (1)	Company Proforma Tax Expense Present Rates (2)	Commission Adjustments (3)	Commission Pro forma Tax Expense Present Rates (4)	Commission Allowance (5)	Commission Adjusted Taxes at Present Rates (6)	Daily Expense (7)	Net Lead/ Lag Days[1] (8)	Accrued Tax Adjustment (9)
1.	PUC Assessment	$0	$0	$0	$0	$0	$0.00	0.00	$0
2.	Public Utility Realty[1]	$113,000	$0	$113,000		$113,000	$309.59	48.66	$15,065
3.	PA Property Tax[1]	$84,000	$0	$84,000		$84,000	$230.14	253.41	$58,320
4.		$0		$0		$0	$0.00	0.00	$0
5.		$0		$0		$0	$0.00	0.00	$0
6.		$0		$0		$0	$0.00	0.00	$0
7.		$0		$0		$0	$0.00	0.00	$0
8.		$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[1]	$529,000	$136,395	$665,395	$770,643	$1,436,038	$3,934.35	17.66	$69,481
11.	Federal Income Tax[1]	$2,199,000	$353,775	$2,552,775	$1,998,846	$4,551,621	$12,470.19	9.91	$123,580
12.		$2,925,000	$490,170	$3,415,170	$2,769,489	$6,184,659			$266,446

13.	Commission Allowance	266,446
14.	Company Claim [1]	158,000
15.	Commission Adjustment	108,446

Notes and Sources:
[1]NFGD Exhibit A FPFTY (Rebuttal Update) Schedule C-4 at 4

Commission Final Allowance
TABLE VI
National Fuel Gas Distribution Corporation
CASH WORKING CAPITAL -- O & M EXPENSE
R-2025-3059428

	Description (1)	Company Pro forma F.T.Y. Expense (2)	Commission[1] (3)	Commission Pro forma Expenses (4)	Lag Days[2] (5)	Lag Dollars (6)
1.	Purchased Gas Costs	$124,571,000	$0	$124,571,000	39.83	$4,961,662,930
2.	Other Expenses[2]	$33,016,000	($1,377,851)	$31,638,149	41.01	$1,297,480,473
3.	Payroll[2]	$40,592,000	($905,095)	$39,686,905	10.32	$409,568,860
4.		$0	$0	$0	0.00	$0
5.		$0	$0	$0	0.00	$0
6.		$0	$0	$0	0.00	$0
7.		$0	$0	$0	0.00	$0
8.		$0	$0	$0	0.00	$0
9.		$0	$0	$0	0.00	$0
10.		$0	$0	$0	0.00	$0
11.		$0	$0	$0	0.00	$0
12.		$0	$0	$0	0.00	$0
13.		$0	$0	$0	0.00	$0
14.		$0	$0	$0	0.00	$0
15.		$0	$0	$0	0.00	$0
16		$198,179,000	($2,282,946)	$195,896,054	34.00	$6,668,712,263

17.	Commission Average Revenue Lag	47.2	
18.	Less: Commission Avg. Expense Lag	34.0	
19.	Net Difference	13.2	Days
20.	Commission Pro forma		
21.	O & M Expense per Day	$536,702	
22.	Commission CWC for O & M	$7,062,998	
23.	Less: Company Claim[2]	$7,156,000	
24.	Commission Adjustment	($93,002)	

Notes and Sources:
[1]See Table-CWC O&M Elements
[2]NFGD Exhibit A FPFTY (Rebuttal Update), Schedule C-4 at 2

TABLE - CWC O&M Elements
National Fuel Gas Distribution Corporation
R-2025-3059428

Other Expenses	
Rate Case Expense[1]	($137,600)
Membership Dues Expense[2]	($21,968)
Customer Payment Transaction Costs[3]	$930,000
Office Employee Expenses[4]	($64,000)
Postage Expense[5]	($175,000)
Line Hit Collections Expense[6]	($156,000)
Insurance Settlement Proceeds[7]	($266,000)
Executive Performance Shares[8]	($909,281)
Stock-based Compensation[9]	($472,821)
Payroll Taxes Expense[10]	($105,181)
Total	**($1,377,851)**

Payroll Expenses	
Payroll Expense[11]	($525,364)
Executive Cash Bonus[12]	($379,731)
Total	**($905,095)**

Notes and Sources:

[1] *See* Table II, Note 3
[2] *See* Table II, Note 5
[3] *See* Table II, Note 6
[4] *See* Table II, Note 7
[5] *See* Table II, Note 8
[6] *See* Table II, Note 9
[7] *See* Table II, Note 13
[8] *See* Table II, Note 11
[9] *See* Table II, Note 12
[10] *See* Table II, Note 14. NFGD's claimed payroll taxes expense is included in the O&M Expense component of the Company's claimed Cash Working Capital. *See* NFGD Exhibit A FPFTY (Rebuttal Update), Schedule C-4 at 2, Line 4.
[11] *See* Table II, Note 4
[12] *See* Table II, Note 10