

**STATEMENT OF  
REASONS**

**PEOPLES NATURAL GAS COMPANY LLC**  
**2026 Base Rate Case**  
**Docket No. R-2026-3060855**

**STATEMENT OF REASONS**

**I. INTRODUCTION**

Peoples Natural Gas Company LLC (“Peoples” or “Company”) is filing Original Tariff Gas – PA PUC No. 49 (“Retail Tariff No. 49”) and Original Tariff Gas – PA PUC No. S-5 (“Supplier Tariff No. S-5”) with proposed effective dates of May 26, 2026.<sup>1</sup> The rates set forth in Retail Tariff No. 49, if approved by the Pennsylvania Public Utility Commission (“PUC” or the “Commission”), would increase the Company’s annual revenues by approximately \$163.2 million, or by 13.8%. In addition, Retail Tariff No. 49 and Supplier Tariff No. S-5 propose additional changes to tariff rates, riders, and tariff terms and conditions as described in the filing.

The following monthly bill impact analysis applies to Peoples’ customers. It assumes that the Company’s proposals for full rate relief are accepted.

- The total bill for a residential customer using 86 Mcf per year would increase from \$122.20 to \$138.23\* per month or by 13.1%.
- The total bill for a commercial customer using 250 Mcf per year would increase from \$271.47 to \$314.05 per month or by 15.7%.
- Rates for an industrial customer using 1,750 Mcf per year would increase from \$1,802.05 to \$2,010.68 per month or by 11.6%.

\*This amount excludes the Company’s proposed defined credit adjustment applicable to residential customers not enrolled in the Customer Assistance Program (CAP) that is expected to be provided to customers in the first quarter of both 2027 and 2028.

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<sup>1</sup> It is anticipated that the effective date of rates proposed in Retail Tariff No. 49 and Supplier Tariff No. S-5 will be suspended until December 26, 2026.

Peoples makes this tariff filing principally to allow it to earn a fair return on investments used and useful to continue to provide safe and reliable service to the public and to support its infrastructure modernization programs designed to enhance safety and reliability. Each of these reasons is discussed in more detail below and in the Company's testimony. As compared to current plant and base rate levels reflected in existing rates, Peoples projects an increase of approximately \$1.2 billion in gross plant through the Fully Projected Future Test Year ("FPFTY") ending December 31, 2027. Accordingly, this revenue increase is essential to attract the investments necessary to operate and maintain safe, reliable, and customer-focused natural gas distribution services.

## **II. REASONS FOR THE REQUESTED REVENUE INCREASE**

### **1. Fair return on investments used to serve the public**

The Company will not be able to earn a fair rate of return at present rate levels. As reflected in Peoples Exhibit No. 2, the Company's operations prior to a rate increase are projected to produce an overall return on rate base of 5.99%, which equates to a return on common equity of only 7.14% for the FPFTY. As explained by Company Witness Jennifer E. Nelson (Peoples Statement No. 15), those returns are not adequate based on an analysis of applicable financial market data and the risks confronted by the Company and are well below the rates of return generally afforded to public utilities. Unless Peoples receives the requested rate relief, the Company's returns will continue to erode and jeopardize its ability to attract the capital needed to make the reasonable and necessary investments in gas infrastructure and the workforce that is necessary to maintain and enhance the provision of safe and reliable natural gas service to its customers.

### **2. Support for the Company's accelerated infrastructure replacement program**

The primary driver for the requested rate relief in this proceeding is the Company's investment in replacing its aging infrastructure. Upgrading and modernizing the distribution system facilitates the provision of safe, reliable, and reasonable service to customers. Accordingly, the Company is replacing its aging infrastructure at an accelerated pace, as described in its most recent Long Term Infrastructure Improvement Plan ("LTIIIP").<sup>2</sup> The investment in net plant in-service for the FPFTY ended December 31, 2027 is projected to be \$5.5 billion. When the Company last requested a rate increase for the FPFTY ended September 30, 2025, the Company's investment in net plant was approximately \$4.1 billion million. The \$1.4 billion 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. In 2025, the Company's LTIIIP Program eliminated over 190 miles of leak-prone bare steel and wrought iron pipeline and 22,000 services. This represents a significant acceleration of investment and replacement over historical levels.

### **III. MANAGEMENT EFFECTIVENESS**

Peoples continues to provide safe and reliable service to its customers and has achieved success in many areas by: (1) focusing on affordability as a top priority; (2) improving its customer service; (3) enhancing safety through accelerated pipeline replacements and system modernization; (4) bringing jobs to its service territory; and (5) serving as a valuable corporate citizen. Peoples's management effectiveness is evidenced in the following areas:

#### Affordability and Operational Efficiencies

- Peoples has undertaken strategic corporate structure and tax strategies to drive efficiencies for its customers. Since 2010, the owners of Peoples have consolidated three of the four largest Southwestern Pennsylvania natural gas utilities, resulting in the consolidation of

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<sup>2</sup> Docket No. P-2025-3057167.

collective bargaining agreements, field operations locations, and gas procurement activities, as well as many other operational benefits.

- The Company has updated the definition of its unit of property under the IRS's tangible property regulations (also known as "Tax Repairs Deduction"). This allowed the Company to retroactively deduct, as an operating expense on its income tax returns, the costs of certain asset improvements that previously were capitalized and depreciated for tax purposes. Further, this increased the prospective deduction that could be taken by Peoples related to its ongoing capital programs. As such, significant benefits were passed on to customers. For example, in the last rate case the tax benefit associated with the Tax Repairs Deduction flowed to customers was over \$100 million annually. In this case, the amount is over \$130 million. Regarding the retroactive catch-up deduction, the Company has refunded over \$104 million to customers through December 31, 2025, and plans to refund an additional \$21 million by 2031.
- Peoples has also been able to maintain efficient project costs for its pipeline replacement work through focused efforts on cost containment, which include connecting customers while eliminating redundant facilities and coordinating restoration efforts with other utilities and municipalities. The Company's modernization of its facilities also reduces costs that would have been associated with operating and maintenance activities like leak repair.
- Additionally, Peoples' strategic location within the Marcellus Shale region has allowed customers to benefit from consistently lower gas supply costs as compared to the benchmark Henry Hub price.

#### Universal Services and Customer Payment Assistance

- Peoples is dedicated to meeting the needs of the Company's low-income customers through its customer assistance programs. The Company offers a suite of universal service programs to support low-income households. The Company invests in training its personnel regarding the eligibility for all customer programs and offerings. This includes promoting LIHEAP, not just during direct contact with the Company's contact center, but generally through a media campaign as well. Peoples' contact center agents can also mail LIHEAP applications directly to customers who are interested in applying. The applications are prefilled with the mailing address for the appropriate county in order to allow for easy submission by the customer. Additionally, Peoples partners with local social service agencies and legislative offices to share information about customer programs.
- The Company offers a budget billing program that allows customers to spread higher winter heating bills across the entire year, allowing for a more stable and predictable payment. If customers have past due amounts or arrears, they can enroll in a payment arrangement that, similar to budget billing, spreads the arrears out over a period of months, based on the level of income in the household, to provide a more affordable monthly payment while the customer works to reduce their arrears.
- Through the Hardship Fund, customers with incomes up to twice the poverty level can obtain grants to further reduce their account balances as well.
- Peoples expanded its Customer Assistance Program ("CAP") eligibility more than ten years ago to those whose income is between 151% and 200% of the federal poverty level, providing a participation opportunity that is not available in other utility's CAP programs.
- The Company offers weatherization and emergency furnace and service line repair

programs to help low-income households conserve natural gas usage and address emergency heating needs that these households could not otherwise afford to address on their own.

- The Company also waives connection fees, reconnection fees, and security deposits for customers who self-identify as low-income.

#### Quality Customer Service

- Peoples maintains high levels of customer service. For example, the Commission's most recent Annual Utility Consumer Report and Evaluation showed that Peoples' consumer complaint rate was lower than the average for Pennsylvania NGDCs. The Company's average response time to BCS residential customer complaints was substantially less than the industry average. Additionally, Peoples had one of the lowest justified payment arrangement request (PAR) rates as compared to its peers.

#### Safety Programs and Performance

- Peoples maintains a strong safety culture, which is evidenced by its success in reducing outstanding leaks on its system. The Company has reduced the outstanding leaks on its system by more than 90% since 2018.
- Peoples continues to make significant progress in the modernization of its system and the replacement of leak prone pipe. The Company plans to continue to accelerate its pipeline replacement program so that all remaining bare steel and wrought-iron mains and transmission lines will be removed by 2038.
- Damage Prevention is a key focus of Peoples. Since 2020, the Company has worked diligently to reduce its number of excavation damages. Peoples has successfully reduced its damage rates by 26% despite receiving more locate ticket requests year-over-year and marking more tickets year-over-year.
- In 2024, the Commission conducted 241 audits of field operations and associated records, finding no violations, fines or citations.
- Additionally, Peoples is installing Intelis meters for eligible customers. The Intelis Meter represents a significant advancement in utility safety and operational oversight, with the integration of pressure sensing technology into solid state gas meters serving as a cornerstone of this initiative. These meters are designed to provide real-time monitoring of gas pressure at the point of service, enabling early detection of anomalies that could indicate leaks, pressure drops, or other hazardous conditions. This capability greatly enhances the utility's ability to respond to potential safety issues, reducing the risk of incidents and improving overall system integrity.

#### Community Engagement and Impact on Local Economies

- Peoples and its employees are fully engaged in the Southwestern Pennsylvania community. The Company supports the communities it serves through charitable contributions and volunteer opportunities. In addition to these philanthropic endeavors, the Company makes a significant impact on the local economy in Southwestern Pennsylvania by investing capital and creating jobs to carry out the Company's modernization plans and retaining key talent. For example, in 2025, the Company's LTIP program required 80 different pipeline crews to complete its work.
- Further, Peoples continues to support and encourage local production of natural gas. The

Company's commitment to bring its customers gas supply from locally drilled gas wells has helped sustain jobs for local drilling companies and related activities.

The identified initiatives and efforts, as described by the Company's witnesses, demonstrate Peoples' commitment to providing safe, reliable, and high-quality distribution service to its customers. The Company believes that its management efforts, system investments, and continued provision of safe and reliable service at reasonable rates, as detailed in the testimony submitted in this case, all strongly support an upward adjustment of 25 basis points to the Company's rate of return on common equity. This upward adjustment is included in the 11.25% return on common equity requested by the Company and is discussed in the Direct Testimony of Jennifer Nelson (Peoples Statement No. 15).

#### IV. OVERVIEW OF FILING

Included with Peoples' filing is the supporting data required by the Commission's regulations. This information includes data for the Historic Test Year ("HTY") ended November 30, 2025, a Future Test Year ("FTY") ending November 30, 2026, and a FPFTY ending December 31, 2027. In accordance with permitted ratemaking procedures, the Company has elected to use the FPFTY as the basis for its proposed revenue change. Peoples has followed Commission ratemaking practice in preparing its claims for rate base, operating revenues and operating expenses.

**Rate Base.** Rate base was determined based on depreciated original cost values for projected plant in service at the end of the FTY and FPFTY, respectively. The Company's rate base claim also includes reasonable estimates for materials and supplies inventory and cash working capital, as well as standard deductions for accumulated depreciation, accumulated deferred income taxes, and customer deposits. The Company's rate base claim is shown in

summary form in Schedule 2 to Exhibit 8 (FPFTY) and is principally supported by the Direct Testimony of Nick Tufarolo (Peoples Statement No. 12).

**Operating Revenues.** Peoples' *pro forma* test year operating revenues were derived from its annual operating revenue forecast. As explained in the testimony of Dawn Folks (Peoples Statement No. 4) and other witnesses, operating revenues were annualized, normalized, and otherwise adjusted in accordance with standard ratemaking practice, as detailed in the schedules included within Exhibit 3 (FPFTY) and the exhibits attached to Ms. Folk's testimony.

**Operating Expenses.** Peoples' *pro forma* test year operating expenses were derived from evaluating the company's books and operating budget. As explained in the testimony of Andrew P. Wachter (Peoples Statement No. 2) certain operating expenses were annualized, normalized, and otherwise adjusted in accordance with standard ratemaking practice, as detailed in Schedule 1 of Exhibit 4 (FPFTY). The Company's claim for depreciation and amortization expense is supported by Exhibit 5C (Fully Projected) to the filing, and exhibits developed and supported by John J. Spanos of Gannett Fleming Valuation & Rate Consultants, LLC (Peoples Statement No. 16). Mr. Spanos's calculations are based on the straight-line, remaining life method previously approved for Peoples' operations by the Commission.

**Income Taxes.** Peoples' income tax expense was calculated using procedures previously accepted by the Commission. The Company's filing reflects the Net Operating Loss carryforward, the effects of Tax Repairs in this proceeding, and the impacts of the reduction to the Corporate Net Income tax rate on the Company's revenue requirement. The Company's tax claims are described

and supported in the Direct Testimony of Angela Jiang (Peoples Statement No. 7).

**Revenue Allocation and Class Cost of Service.** Peoples is proposing to allocate the revenue requirement to the customer classes based on the results of a cost of service study. The Company's proposed revenue allocation will move all rate classes toward the overall system average rate of return. Additional details regarding the Company's cost of service study and revenue allocation are provided in the Direct Testimony of John D. Taylor (Peoples Statement No. 17). Mr. Taylor also discusses the Company's proposal to continue its successful Weather Normalization Adjustment Mechanism (WNA) program and the Company's updated Heating Degree Day methodology in this case.

**Rate Design.** The Company's proposed rate design was developed in conjunction with Company Witness John D. Taylor's Allocated Cost of Service Study ("ACOSS"). The proposed revenue increases were allocated to the Company's service classes based on current rates of return for each class and the desire to move towards full parity. Full parity means the revenues collected from individual service classes are aligned with the cost of service associated with that service class. After allocating the revenue increase, the rate design process consists of setting the basic service charge, resetting riders, and allocating the remaining increase to the volumetric distribution charge. As part of this case, Peoples is proposing to increase the fixed monthly customer charges for the residential, certain commercial and large industrial classes. Details of the Company's rate design proposals are found in the Direct Testimony of John D. Taylor (Peoples Statement No. 17).

**Other Tariff Changes.** The Company's proposed changes to its tariff are discussed in the

testimony of Krista Snyder (Peoples Statement No. 13).

## V. CONCLUSION

The proposed revenue increase is necessary for the Company to continue providing safe and reliable service, to maintain the integrity of its financial ratings, to attract additional capital on reasonable terms, and to have a reasonable opportunity to earn a fair rate of return on property that is used and useful in providing natural gas service to the public within its service territory. The proposals contained in this filing will provide significant benefits to all stakeholders. Moreover, the Company's proposed revenue allocation and rate design are just and reasonable and non-discriminatory, as are the proposed changes made to the Company's general terms and conditions of service. Therefore, the rates, rules, and terms and conditions of service set forth in Retail Tariff No. 49 and Supplier Tariff No. S-5 should be permitted to become effective as filed.