

**PENNSYLVANIA  
PUBLIC UTILITY COMMISSION  
Harrisburg, PA 17120**

Public Meeting held July 11, 2024

Commissioners Present:

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

Petition of Peoples Natural Gas Company, LLC for  
Approval of a Major Modification to its Existing Long-  
Term Infrastructure Improvement Plan

Docket Numbers:  
P-2020-3021942  
P-2020-3022053

**OPINION AND ORDER**

**BY THE COMMISSION:**

Before the Pennsylvania Public Utility Commission (Commission) for consideration is the Petition for Approval of a Major Modification of the Existing Long-Term Infrastructure Improvement Plan (LTIIIP) of Peoples Natural Gas Company, LLC (Peoples, or Company). The Petition was filed on March 15, 2024, and was served on all parties of record to Peoples' current base rate proceeding at Docket No. R-2023-3044549.

No comments were received. For the reasons outlined in this Opinion and Order we will approve Peoples' Petition.

## BACKGROUND

Effective April 16, 2012, Act 11 of 2012, (Act 11) provides jurisdictional water and wastewater utilities, electric distribution companies (EDCs), and natural gas distribution companies (NGDCs) or a city natural gas distribution operation with the ability to implement a Distribution System Improvement Charge (DSIC) to recover reasonable and prudent costs incurred to repair, improve, or replace certain eligible distribution property that is part of the utility's distribution system. The eligible property for the utilities is defined in 66 Pa.C.S. §1351. Act 11 states that as a precondition to the implementation of a DSIC, a utility must file an LTIIP with the Commission consistent with 66 Pa.C.S. §1352.

The Commission promulgated regulations relating to LTIIPs at 52 Pa. Code §§ 121.1 – 121.8 that became effective December 20, 2014. In accordance with the regulations, DSIC-eligible utilities must include the following elements in its LTIIP:<sup>1</sup>

- (1) Types and age of eligible property;
- (2) Schedule for its planned repair and replacement;
- (3) Location of the eligible property;
- (4) Reasonable estimates of the quantity of property to be improved;
- (5) Projected annual expenditures and measures to ensure that the plan is cost effective;
- (6) Manner in which replacement of aging infrastructure will be accelerated and how repair, improvement or replacement will maintain safe and reliable service;
- (7) A workforce management and training program; and
- (8) A description of a utility's outreach and coordination activities with other utilities, PennDOT and local governments on planned

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<sup>1</sup> See 52 Pa. Code § 121.3.

maintenance/construction projects.

Peoples' LTIP addressed the required elements of an LTIP at the time it was approved. Therefore, we will only discuss the proposed changes to the LTIP that are outlined in the instant Petition.

## **PEOPLES' PETITION FOR APPROVAL OF MAJOR MODIFICATION**

Peoples is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania. Peoples is in the business of selling and distributing natural gas to retail customers within the Commonwealth and is therefore a "public utility" within the meaning of Section 102 of the Public Utility Code, 66 Pa. C.S. §§ 102, and, with respect to its provision of gas service, an NGDC as defined in 66 Pa. C.S. § 2201 and is subject to the regulatory jurisdiction of the Commission. Peoples provides natural gas service to approximately 700,000 residential, commercial, and industrial customers in all or portions of 18 Pennsylvania counties.<sup>2</sup>

Peoples' current LTIP was approved by the Commission on January 14, 2021.<sup>3</sup> Peoples' current LTIP is a five-year plan that spans the years 2021 through 2025 with a planned \$1.55 billion in DSIC-eligible spending, which significantly increased the Company's pipeline replacement goals and planned expenditures compared to its previous LTIP. Peoples' prior LTIP spanned the years 2017 through 2021 and planned for DSIC-eligible spending of \$920.1 million.<sup>4</sup>

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<sup>2</sup> Allegheny, Armstrong, Beaver, Blair, Butler, Cambria, Clarion, Clearfield, Fayette, Greene, Indiana, Jefferson, Lawrence, Mercer, Somerset, Venango, Washington, and Westmoreland Counties.

<sup>3</sup> See *Petition of Peoples Natural Gas Company, LLC and Peoples Gas Company, LLC for Approval of a Second Combined Long-Term Infrastructure Improvement Plan*, Order entered January 14, 2021 at Docket Nos. P-2020-3021942 and P-2020-3022053.

<sup>4</sup> See, *Petition of Peoples Natural Gas Company, LLC and Peoples Gas Company, LLC for Approval of a Combined Long-Term Infrastructure Improvement Plan*, at Docket Nos. P-2013-2344596, et. al.

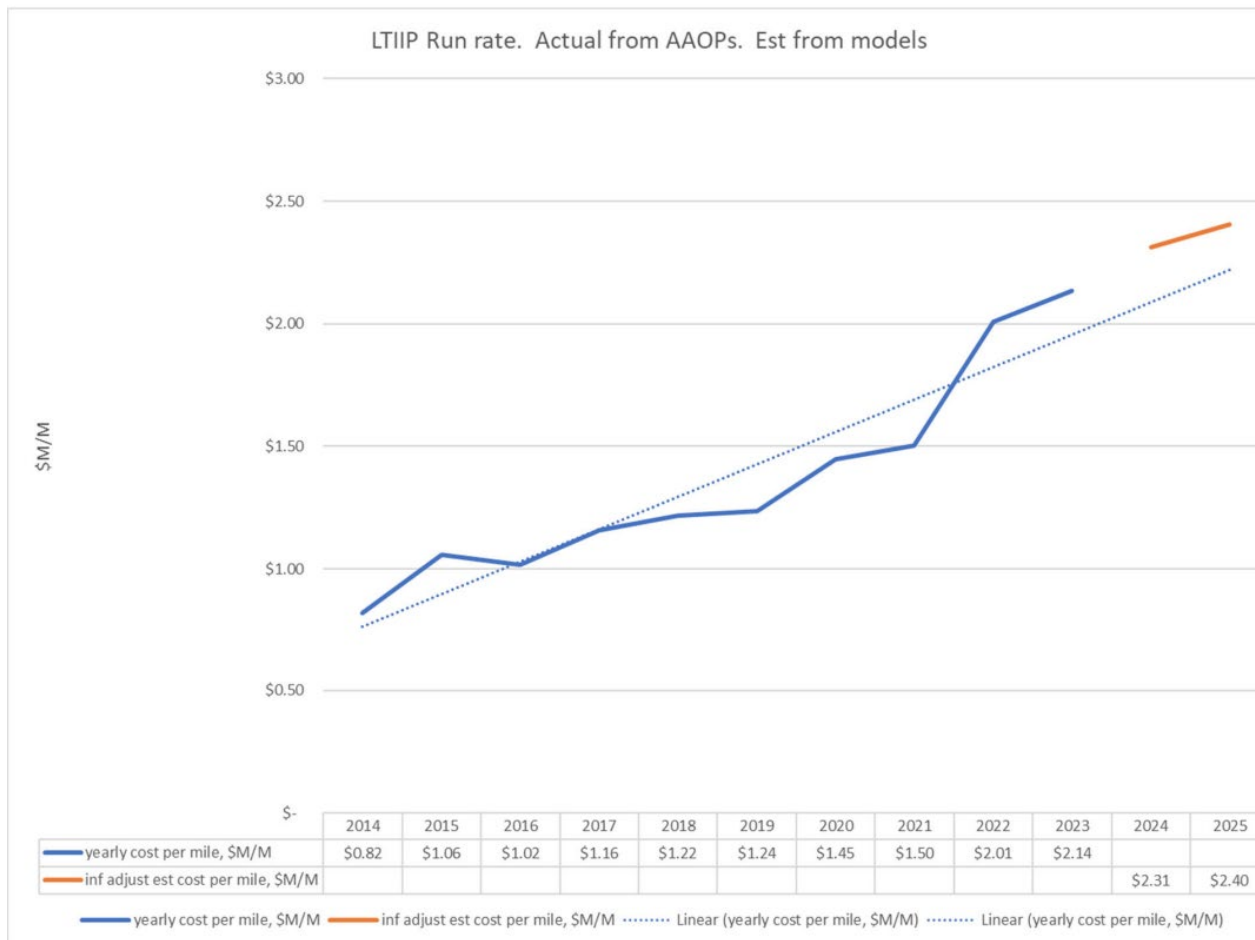
Peoples notes that the primary reason for its proposed major modification is the need for additional capital expenditures in order for Peoples to meet its infrastructure replacement goals. The instant Petition asks for a major modification of the current DSIC-eligible expenditure projections in order to accommodate additional expenditures. Peoples is proposing these changes to allow the Company to continue to meet its infrastructure replacement goals, despite rising costs. Peoples is not proposing any changes to its LTIP project categories. In 2022 and 2023, Peoples exceeded its planned DSIC-eligible expenditures by 32.9% and 19.3%, respectively. In order to meet its replacement goals, Peoples proposes to increase expenditures in 2024 and 2025 by 30.1% and 34.8%, respectively. This would result in total DSIC-eligible expenditures in the LTIP of \$1.94 billion, which is 24.5% more than originally planned. As this increase in costs represents more than 20% of the original planned expenditures over the course of the LTIP, Peoples was required to file for a Major Modification.<sup>5</sup>

Peoples explains that several factors have significantly increased its estimates of construction costs in its LTIP, including but not limited to rising labor costs, material costs, restoration and permitting costs, and inflationary increases stemming from the COVID-19 pandemic. Peoples notes that one major factor in particular is increased contractor unit pricing due to oil prices, labor costs, and general inflation. Specifically, Peoples points out that its primary urban-area contractor price contracts expired in 2021 and the bids received for 2022 came in much higher in costs. The Company explains that this increase when combined with higher restoration contract costs increased their costs in 2022 by approximately \$40 million. Peoples provided Figure 1, below, to illustrate the inflationary trend in its pipeline replacement costs.

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<sup>5</sup> See, 52 Pa. Code § 121.2 (relating to definitions) and § 121.5 (relating to modifications to and expiration of an LTIP).

**Figure 1: Peoples’ Historic Average Pipeline Replacement Cost 2014 through 2023 and Projected Cost 2024 through 2025 (\$Million/Mile)**



Peoples also explains that it began work on its anticipated large-diameter pipeline replacement projects in 2022 as part of its LTIIIP. Peoples completed replacement of 12 miles of large-diameter pipeline in 2022 and plans to continue to annually replace 12 miles or more of these pipelines in subsequent years. Peoples notes that these large-diameter pipelines typically cost two to five times the amount needed to execute an average, smaller-diameter project.

Table 1, below, shows the expected increase in Peoples’ LTIIIP expenditures in order to meet its pipeline replacement goals. As mentioned above, Peoples plans to spend a total of over \$1.9 billion over the course of its LTIIIP.

**Table 1: Comparison of Expenditures and Mileage in Current LTIIIP to Modified LTIIIP, Actual Values for 2021 through 2023, Projected 2024 through 2025**

<b>Year</b>	<b>Planned Expenditures in LTIIIP (\$M)</b>	<b>Planned Mileage in LTIIIP</b>	<b>Actual and Planned Expenditures in Modified LTIIIP (\$M)</b>	<b>Actual and Planned Mileage in Modified LTIIIP</b>	<b>Expenditure Increase (\$M)</b>	<b>Expenditure Increase (%)</b>
2021	\$258.1	159	\$262.0	167	\$3.9	1.5%
2022	\$256.2	159	\$340.4	159	\$84.2	32.9%
2023	\$346.6	181	\$413.6	185	\$67.0	19.3%
2024	\$347.3	186	\$451.9	186	\$104.6	30.1%
2025	\$347.5	186	\$468.5	186	\$121.0	34.8%
<b>Total</b>	<b>\$1,555.7</b>	<b>871</b>	<b>\$1,936.4</b>	<b>883</b>	<b>\$380.7</b>	<b>24.5%</b>

The Commission is aware of the upward pressure in costs that NGDCs have been experiencing for LTIIIPs and the numerous factors involved.<sup>6</sup> Increased restoration costs due to changes in municipal requirements for the utilities, in addition to the high inflationary pressure caused by the incidence of the COVID-19 pandemic, have caused substantial increases in construction costs for the NGDCs.

Despite these cost increases, the Commission believes it is imperative to remove at-risk pipelines from Peoples’ distribution system as expeditiously as possible to ensure public safety and reliability of service. Upon review of Peoples’ Petition, the Commission finds that the proposed major modifications to its LTIIIP and its associated expenditures are reasonable, cost-effective and are designed to maintain efficient, safe, adequate, reliable, and reasonable service to customers.

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<sup>6</sup> See, *Petition of Columbia Gas of Pennsylvania, Inc. for Approval of its Third Long-Term Infrastructure Improvement Plan*, Order entered April 20, 2023, at Docket No. P-2022-3037388. See also, *Petition of PECO Energy Company for Approval of its Second Long-Term Infrastructure Improvement Plan for its Natural Gas Operations*, Order entered December 8, 2022, at Docket No. P-2022-3034521.

The modified LTIP contained in Peoples' Petition was a red-lined version. In order for all interested parties to understand the eligible property and increased projected expenditures in Peoples's modified LTIP, we shall direct Peoples to file a "clean" version of its modified LTIP that incorporates all of the updated information contained in its red-lined version in its Petition.<sup>7</sup>

### **MODIFIED LTIP SUMMARY**

Commission review of an LTIP must determine if the LTIP:<sup>8</sup>

- Contains measures to ensure that the projected annual expenditures are cost-effective.
- Specifies the manner in which it accelerates or maintains an accelerated rate of infrastructure repair, improvement, or replacement.
- Is sufficient to ensure and maintain adequate, efficient, safe, reliable, and reasonable service.
- Meets the requirements of 52 Pa. Code § 121.3(a).

The utility has the burden of proof to demonstrate that its proposed LTIP and associated expenditures are reasonable, cost effective and designed to ensure and maintain efficient, safe, adequate, reliable, and reasonable service to consumers.<sup>9</sup>

The Commission has reviewed Peoples' modified LTIP. The Commission finds that Peoples has meet its burden of proof by demonstrating that its modified LTIP contains measures to ensure that the projected annual expenditures are cost-effective, specifies the manner in which it accelerates or maintains an accelerated rate of infrastructure repair, improvement, or replacement, is sufficient to ensure and maintain

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<sup>7</sup> See, Ordering Paragraph 2.

<sup>8</sup> See, 52 Pa. Code § 121.4(e).

<sup>9</sup> See, 52 Pa. Code § 121.4(d).

adequate, safe, reliable, and reasonable service, and meets the requirements of 52 Pa. Code § 121.3(a). Accordingly, Peoples' modified LTIIIP is approved.

The Commission finds Peoples' modified LTIIIP and manner in which it was filed conforms to the requirements of Act 11 and our Regulations. The plan, as approved herein, is designed to maintain safe, adequate, reliable, and reasonable service and, as such, Peoples shall be required to comply with the infrastructure replacement schedule and elements of that plan; **THEREFORE,**

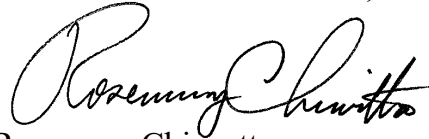
**IT IS ORDERED:**

1. That the Petition of Peoples Natural Gas Company, LLC for Approval of a Major Modification to its Existing Long-Term Infrastructure Improvement Plan is approved, consistent with this Opinion and Order.

2. That within thirty (30) days of the entry of this Opinion and Order, Peoples Natural Gas Company, LLC shall file at Docket Nos. P-2020-3021942 and P-2020-3022053 a clean version of its modified Long-Term Infrastructure Improvement Plan that includes all of the updated information contained in the red-lined version of its Long-Term Infrastructure Improvement Plan its Petition, and that the Commission's Bureau of Technical Utility services shall review the filing and prepare a Secretarial Letter upon determining its sufficiency.

3. That upon the issuance of the Secretarial Letter pursuant to Ordering Paragraph 2, the proceeding related to the Long-Term Infrastructure Improvement Plan at Docket Nos. P-2020-3021942 and P-2020-3022053 be marked closed.

**BY THE COMMISSION,**

A handwritten signature in black ink, appearing to read "Rosemary Chiavetta". The signature is written in a cursive, flowing style.

Rosemary Chiavetta  
Secretary

(SEAL)

ORDER ADOPTED: July 11, 2024

ORDER ENTERED: July 11, 2024