

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17120

PA Public Utility Commission, Et al.
vs.
Peoples Natural Gas Company LLC

Public Meeting of September 12, 2024
3044549-OSA
Docket No. R-2023-3044549 Et al.

STATEMENT OF VICE CHAIR KIMBERLY BARROW

Before us for consideration are the Exceptions of the Office of Consumer Advocate (OCA), filed on July 25, 2024, to the Recommended Decision of Administrative Law Judge Mary D. Long, issued on July 15, 2024, in the Peoples Natural Gas Company LLC (Peoples or Company) rate proceeding. Also before us is the Joint Petition for Non-Unanimous Settlement (Partial Settlement), filed on May 30, 2024, by Peoples, the Commission's Bureau of Investigation and Enforcement (I&E), the Office of Small Business Advocate, People's Industrial Intervenors, and the Pennsylvania Independent Oil & Gas Association (collectively, the Joint Petitioners).

Peoples proposed an overall annual increase of approximately \$156 million or 18.7%, and later amended to approximately \$154 million to recover its non-gas costs. In litigating this matter, I&E proposed an annual increase in operating revenue of approximately \$90 million (\$89,866,000). In the Partial Settlement, filed on May 30, 2024, the Joint Petitioners agreed on an increase of \$93 million annual operating revenue.

While I believe that the \$93 million arrived at by the Joint Petitioners is not unreasonable, I must underscore that it is the result of a blackbox settlement, which means that I am not privy to all information utilized by the Joint Petitioners to arrive at that dollar amount. I wish to note my disagreement with a few fundamental positions taken by the Joint Petitioners.

First, I believe that the original litigation position of I&E with regard to return on equity (ROE) was reasonable and supported by record evidence. In contrast to the Company's recommended ROE of 11.75%, I&E proposed a discounted cash flow analysis that resulted in a recommended return on equity of 9.96%. Additionally, I caution all parties to not co-mingle or misuse the quarterly earnings ROE figures for distribution system improvement charge (DSIC) released by the Commission as evidence to support their base rate ROE positions. The quarterly DSIC calculations are for the targeted and discrete purpose of the DSIC investment, not setting an overall return on equity for a company. The DSIC quarterly numbers are a solid proxy utilized to incent DSIC investment; however, they were not designed or meant to substitute the myriad of inputs submitted to the record during a litigated base rate proceeding. Notably, as highlighted by I&E, the DSIC rate establishes a benchmark that is meant to cap or curb utility overearnings. It is not meant to serve as a measurement for the cost of equity in a base rate case proceeding.¹

¹ I&E St. 2 at 67; see also *Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Supp. Implementation Order entered September 21, 2016) at 5-7.

Second, I also agree with the I&E's final proposed adjustments. I&E made a total adjustment of \$9,374,023 to the Company's total claimed expenses and \$393,256 total rate base adjustments.²

Finally, Peoples proposed a capital structure of 45.33% debt and 54.67% equity. I&E confirmed that the Company's equity ratio is well above the average, and near to the highest end of the Company's proxy group's equity ratios. I agree with the OCA's capital structure proposal of 50% debt and 50% equity. Not only does this capital structure comport with Commission precedent but, as I&E highlighted, it is optimal when trying to balance the financial integrity of a utility as well as trying to control costs to ratepayers.³ Importantly, going by the calculation put forth by I&E, adopting Peoples' capital structure, and maintaining the Company's claimed ROE, means ratepayers would pay approximately an additional \$17.9 million.⁴ Historically, this Commission has viewed capital structures hewing closer to 50/50 as reasonable.

September 12, 2024
Date


Kimberly Barrow, Vice Chair

² I&E Statement in Support at 10-12.

³ I&E St. 2 at 12.

⁴ I&E St. 2 at 13; OCA M.B. at 60.