

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

Public Meeting held September 12, 2024

Commissioners Present:

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

Securities certificate and affiliated interest
agreement of Peoples Natural Gas Company
LLC for authorization to issue tranches of debt
under an intercompany promissory note to its
parent, PNG Companies LLC, in an aggregate
principal amount not to exceed \$950 million.

S-2024-3049880
G-2024-3049928

ORDER

BY THE COMMISSION:

On July 2, 2024, Peoples Natural Gas Company LLC (“Peoples Natural” or the “Company”) filed for registration pursuant to Chapter 19 of the Public Utility Code, 66 Pa. C.S. §§ 1901, *et seq.*, the above-captioned securities certificate and approval of the associated Intercompany Promissory Note (PNG Promissory Note) to PNG Companies LLC (PNG) as an affiliated interest agreement pursuant to Chapter 21 of the Public Utility Code, 66 Pa. C.S. §§ 2101, *et seq.*

The filing was served via e-mail on the Office of Small Business Advocate, the Office of Consumer Advocate, and the Commission's Bureau of Investigation and Enforcement. No objections have been filed.

Peoples Natural, utility code 122250, is a limited liability company organized and existing under the laws of the Commonwealth of Pennsylvania and is located at 375 North Shore Drive, Pittsburgh, Pennsylvania, 15212. Peoples Natural is a natural gas distribution company, as defined in Sections 102 and 2202 of the Public Utility Code, 66 Pa. C.S. §§ 102, 2202, who provides natural gas services to approximately 700,000 customers in all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Blair, Butler, Cambria, Clarion, Clearfield, Fayette, Greene, Indiana, Jefferson, Lawrence, Mercer, Somerset, Venango, Washington, and Westmoreland.

Peoples Natural operates two divisions: Peoples Natural Gas Division and Peoples Gas Division. This structure was formed on January 1, 2023 after the Commission approved the merger of Peoples Gas Company LLC (Peoples Gas) with and into Peoples Natural at Docket Nos. A-2021-3029831 and A-2021-3029833, et al., on August 25, 2022. Effective October 1, 2022, the purchased gas cost rates of Peoples Natural and Peoples Gas were merged, with the exception of the Allegheny Valley Connector capacity charge.

Peoples Natural is a wholly owned subsidiary of PNG, who, in turn, is a wholly owned indirect subsidiary of Essential Utilities, Inc. (Essential). Essential acquired PNG effective March 16, 2020. By Final Order entered January 24, 2020, at Docket No. A-2018-3006061, et al., the Commission approved the transfer of indirect ownership of Peoples Natural to Aqua America, Inc., now Essential (Aqua Acquisition Proceeding).

The Company states that the purpose of the securities certificate registration and affiliated interest agreement filing is to seek registration and approval from the

Commission for Peoples Natural to issue up to \$950 million of new long-term financing to:

- Support Peoples Natural’s capital construction program;
- Refinance a portion of Peoples Natural’s short-term debt which has been borrowed to finance capital expenditures on a temporary basis;
- Rebalance Peoples Natural’s capital structure to be in line with other utilities; and,
- Refinance Peoples Natural’s debt maturing through 2026.

The Company states that the new long-term debt will be issued through a series of tranches to be issued under the PNG Promissory Note, with all of the debt expected to be issued on or before December 31, 2026.

The Company states that PNG will obtain the funds to be lent to Peoples Natural from Essential, pursuant to a Promissory Note between PNG and Essential (the Essential Promissory Note). The full terms and conditions of the Essential Promissory Note are expected to be similar to the form of the PNG Promissory Note. Essential will periodically issue the underlying debt supporting the tranches in the external debt markets at competitive market rates and prices. The Company avers that the interest rates and maturity dates of long-term debt issued by Essential shall form the basis for the interest rates and maturity dates under the Essential Promissory Note, which in turn will establish the interest rates and maturity dates for the PNG Promissory Note. Additionally, Essential will follow generally accepted debt placement procedures to ensure market-based interest rates and terms in the tranches to be issued pursuant to the Essential Promissory Note. Therefore, Peoples Natural asserts that the interest rates associated with the PNG Promissory Note will be reasonable because the rates will be based upon market coupon rates.¹

¹ A portion of the unamortized debt issuance expenses incurred by Essential will be allocated each time additional debt is allocated to Peoples Natural. The issuance costs that will be allocated to Peoples Natural are expected to be

As of March 31, 2024, Peoples Natural's capital structure was comprised of approximately 42% long-term debt and 58% equity. Peoples Natural avers that, consistent with the Commission approved Joint Petition for Settlement in the Aqua Acquisition Proceeding², the issuance of debt under the PNG Promissory Note will not result in Peoples Natural's capital structure exceeding 50% debt measured at an annual level.

Peoples Natural does not have a credit rating; however, its parent, PNG, has a credit rating of A- (Stable) by Standard & Poor's Rating Group.

The Commission has previously approved intercompany promissory notes between PNG and Peoples Natural; however, this is Peoples Natural's first request for the Commission to register a Securities Certificate for debt pursuant to Chapter 19 of the Code and approve the associated form of Intercompany Promissory since Peoples Gas and Peoples Natural were merged at Docket Nos. A-2021-3029831 and A-2021-3029833, et al. The most recent pre-merger Securities Certificate filings for debt by Peoples Gas and Peoples Natural, respectively, were docketed at Docket Nos. S-2021-3025759 and G-2021-3025760 (Peoples Gas) and Docket Nos. S-2021-3025756 and G-2021-3025757 (Peoples Natural Gas). The authorized term for issuing debt pursuant to each of those Securities Certificates expired December 31, 2023.

Compliance checks found that Peoples Natural is current with its annual, quarterly, and Security Planning and Readiness report filing requirements and has no outstanding fines, fees, or assessments due.

approximately 1% of the principal allocation amount and will not exceed 2% of the principal allocation. Peoples Natural is not, through this Securities Certificate Registration and approval of affiliated interest agreement, seeking to recover the costs associated with the PNG Promissory Note in rates.

² See Docket No. A-2018-3006061, et. al.

Having reviewed the instant filing, we have determined that Peoples Natural's proposal for the issuance of up to \$950 million of debt is necessary or proper for the present and probable future capital needs of the utility. We also find that the instant affiliated interest agreements concerning the borrowing transactions between the affiliated interests appears to be reasonable and consistent with the public interest under Section 2102(b) of the Public Utility Code; however, approval of the borrowing arrangement does not preclude the Commission from investigating during any formal proceeding the reasonableness of any charges under this arrangement; **THEREFORE,**

IT IS ORDERED:

1. That the securities certificate of Peoples Natural Gas Company LLC for the issuance of up to \$950 million in debt is hereby registered.

2. That the Affiliated Interest Agreement between Peoples Natural Gas Company LLC and PNG Companies LLC for an intercompany promissory note in an aggregate principal amount not to exceed \$950 million is hereby approved.

3. That within 60 days of the issuance of debt, Peoples Natural Gas Company LLC shall notify the Commission of such issuance, along with a summary of the type of debt, interest rate, maturity and call provisions, including a copy of the intercompany promissory note between Peoples Natural Gas Company LLC and PNG Companies LLC.

4. That the registration period of the debt issuance will end on December 31, 2026.

5. That a copy of this Order be served upon the Office of Small Business Advocate, the Office of Consumer Advocate, and the Commission's Bureau of Investigation and Enforcement.

6. That consistent with Section 1903(b) of the Public Utility Code, 66 Pa. C.S. §§ 1903(b), the registration of the subject securities certificate does not represent Commission approval of the proposed projects for rate recovery pursuant to 66 Pa. C.S. §§ 1301-1328.

7. That upon receipt of the final filing under Ordering Paragraph 3, above, this case shall be marked closed.

BY THE COMMISSION,

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

Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: September 12, 2024

ORDER ENTERED: September 12, 2024