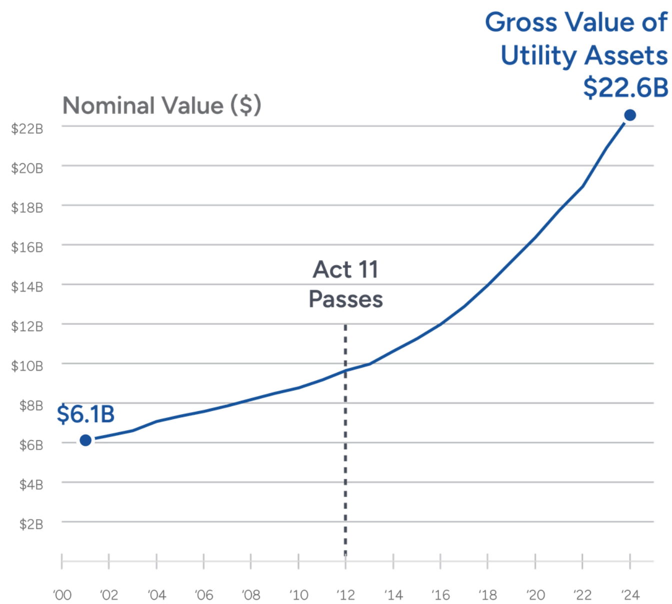
# Rate Reform

How Infrastructure Spending and
Rate Design Shape Pennsylvania Gas Bills

BUILDING DECARBONIZATION COALITION

The average year-round monthly bill in Pennsylvania **has increased 67% in the past decade**, with some bills increasing as much as 94%. Key drivers include accelerated gas infrastructure spending and high returns on equity (ROE) for investor-owned utilities. Quarterly Earnings Summary Reports published by the PUC show that gas utilities **typically earn between 10 and 15 percent ROE**, even though the Pennsylvania consumer advocate's office recommends a range closer to 8.5-9.5 percent.

One reason there has been little reform of these high rates of return is Pennsylvania's long-standing practice of **"black box" rate cases**. These settlements offer little transparency to the public, as they do not publicly disclose how components such as the ROE are determined. Nearly all gas rate cases in the past three decades have been resolved this way. This lack of insight leaves little room for accountability.




*Above: Utilities have entered an era of accelerated spending. A growing asset base means growing revenue requirements and higher bills.*

## The Top-Heavy Gas System

Act 11 (2012) allows gas utilities to accelerate the replacement of distribution infrastructure and begin to recover eligible costs between rate cases via the **Distribution System Improvement Charge (DSIC)**. The surcharge is generally capped at 5% of distribution rates, although the PUC can authorize a higher cap. When these capital investments in the distribution system are rolled into the rate base at the utility's next rate case, the DSIC resets, though customers continue paying for infrastructure through rates for decades.

**Rate design** also affects how high bills are, how much control customers have, and whether risk is tilted more towards utilities or customers. Across Pennsylvania's six largest gas utilities, fixed monthly customer charges currently range from $14 to $20.15, representing 13 to 17 percent of the average year-round monthly bill, depending on the utility.

These charges appear on bills regardless of gas consumption, providing utilities greater revenue stability while limiting the ability of customers to lower bills through conservation.

Certain revenue-stabilizing mechanisms can further weaken the connection between gas use and gas bills. **Weather normalization adjustments** allow utilities to adjust bills when usage differs from historical weather norms, while **revenue normalization adjustments** seek to recover a predetermined level of revenue regardless of actual gas sales. Although intended to reduce revenue volatility, these mechanisms can insulate utility revenues when customers use less gas and weaken incentives to conserve energy.

### The Numbers

- **10-15%:** average ROE for gas utilities
- **+67%:** average year-round monthly bill increase in the last decade
- **Two-thirds:** share of typical gas bill that pays for gas infrastructure like pipelines, while only one-third pays for gas itself
- **1 in 4** households struggle to pay energy bills
- **11%:** increase in the number of customers in debt from 2022 to 2024

## Rising Bills and Energy Insecurity

As gas infrastructure costs grow faster than demand, those costs are also spread across a relatively stagnant customer base, increasing affordability pressures for the customers who remain on the system.

Rising gas bills are particularly consequential for households already struggling with energy costs. Nearly one in four Pennsylvania households has difficulty paying their energy bills. Among residential gas customers, an estimated 25% are low-income, **5.6% were on payment arrangements, and nearly 9% owed money to their utility in 2024**.

Pennsylvania has strong protections against unsafe shutoffs and programs to support customers such as the Customer Assistance Program (CAP), Low Income Home Energy Assistance Program (LIHEAP), Low-Income Usage Reduction Program (LIURP), and hardship assistance. These protections help households remain connected to the gas system, but they largely address financial distress after bills become unaffordable rather than reducing the underlying costs driving those bills.

## Recommendations

- **Reform the DSIC:** Lower the surcharge cap over time, limit accelerated recovery to safety-critical investments, and establish an end date for Act 11 authority.
- **Bring transparency back to rate cases:** Limit black-box settlements and require disclosure of the return on equity, rate base, and key cost and investment assumptions underlying rate decisions.
- **Right-size investor profits:** Align return on equity with the market cost of equity through transparent, evidence-based financial modeling.
- **Scrutinize revenue-stabilizing adjustments:** Re-evaluate approved weather and revenue normalization mechanisms, and require demonstration of customer benefits and incentives to conserve energy without shifting excessive risk to customers.
- **Strengthen affordability protections:** Ensure customer assistance, arrearage support, and disconnection protections keep pace with rising rates and changing heating systems.
- **Put affordability into rate decisions:** Require utilities to assess long-term bill impacts and direct avoided gas-system costs toward bill relief, arrearage reduction, and affordable clean heat in high-burden communities.

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