

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

**Petition of Philadelphia Gas Works for  
Waiver of Provisions of Act 11 to Increase  
The Distribution System Improvement  
Charge CAP and to Permit Levelization  
of DISC Charges; and Office of Consumer  
Advocate v. Philadelphia Gas Works**

**Public Meeting – January 28, 2016  
2501500-OSA  
Docket No: P-2015-2501500  
C-2015-2504092**

**STATEMENT OF  
COMMISSIONER ROBERT F. POWELSON**

Before the Pennsylvania Public Utility Commission (Commission) for consideration is the “Petition for Waiver of Provisions of Act 11 to Increase the Distribution System Improvement Charge CAP and to Permit Levelization of DSIC Charges” filed by Philadelphia Gas Works (PGW) on September 1, 2015. In summary, the Petition requests that the Commission: (1) Increase the current Distribution System Improvement Charge (DSIC) cap of 5% of distribution revenues to 7.5% (and up to 10%, for reconciliation purposes); and (2) Permit PGW to use an annual, levelized charge as the basis for establishing a DSIC.

The proposed changes to PGW’s DSIC will allow the Company to accelerate its current level of spending on the replacement of at-risk gas mains by \$11 million. PGW is currently spending, under its existing DSIC, approximately \$22 million annually. PGW asserts that this increased spending will produce a 44% decrease in the projected timeline to replace at-risk mains, from 86 years to 48 years, based on its current Long-Term Infrastructure Improvement Plan (LTIP).<sup>1</sup>

There is no question that PGW needs to accelerate its main replacement program. The system is old and leaky and endangers the public safety. The sole issue is how to accelerate PGW’s main replacement and repair in such a manner that is fair to customers.

The Commission's concerns regarding the state of PGW’s mains are well documented and need not be repeated here. The draft order does a superior job of reviewing the absolute need to act. I agree that:

- The DSIC should be increased to 7.5% effective on January 1, 2015.
- DSIC recovery be levelized and annualized.
- Separate tracking of revenues should be required until a new LTIP filed.
- Quarterly reports of ongoing efforts should be filed.

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<sup>1</sup> The Company also expends internally generated funds to replace an additional 18 miles of mains annually.

Further, I believe that the reconciliation provision should also be approved. PGW has proposed that it be permitted to add *up to* an additional 2.5% to the 7.5% DSIC in the event of collections below the targeted revenue generation of \$33 million per year. This is reasonable under the circumstances.

- There is no good time to raise rates, but the need to do so in this case is compelling. Moreover, customers' overall rates have significantly decreased over the last few years as natural gas prices have deteriorated.
- We need to maintain the accelerated pace of replacement. Gas sales fluctuate from year to year, based most notably upon the weather. If the purpose here is to generate \$33 million per year, then some provision needs to be made for fluctuations in sales and revenue recovery, *if required*. The need to replace and repair is not affected by weather or collection rates.
- Other parties have pointed out that no other regulated gas company in PA has this type of catch-up provision, but neither is the relative magnitude of at-risk pipeline problem as dire as in the case of PGW. Moreover, the unique "cash flow" manner in which PGW is regulated, as well as their limited sources of investment capital, slows the rate of construction that could otherwise be undertaken were debt financing or additional equity available.
- Sufficient financial safeguards are put into place in the order to ensure that the incremental funds are used only for reconciliation. Moreover, it is reciprocal. In the event of an overcollection, PGW would be required to refund.

Approval of the revised DSIC will not completely resolve the infrastructure problems at PGW. It is only a part of the solution. Other suggestions for updating PGW's cost structure, work force and governance have been previously discussed both in our Bureau of Audits' Stratified Management and Operations Audit of PGW (Audit),<sup>2</sup> which we recently approved for public release, as well as the Staff Report of April 21, 2015.<sup>3</sup> Favorable outcomes of the Audit include PGW management's agreement to employ a greater number of outside contractors (Recommendation VII-9) and to reduce high-cost gas supply assets.

One issue of significant impact remains unresolved is the perennial recommendation to improve governance, a matter recognized both in the Audit (Recommendation IV-1) and the Staff Report (Opportunity No. 6). PGW is hampered with multiple layers of bureaucracy that is time consuming and expensive. Consistent with numerous other reports, (for example, those by Pew and PA Economy League), PGW should adopt a single independent governance board instead of the current two.

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<sup>2</sup> *Stratified Management and Operations Audit of Philadelphia Gas Works*, Docket No. D-2015-2468141 (Public Meeting of October 22, 2015).

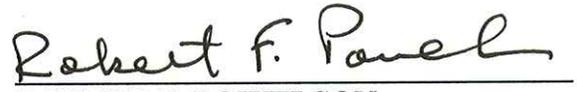
<sup>3</sup> *Inquiry into Philadelphia Gas Works Pipeline Replacement Program* (April 15, 2015).

The PUC Staff Report of April 21, 2015; also contains numerous other recommendations, which to date have not been addressed except on the limited record of this case, including:

- Opportunity No. 3 – Issue New Debt
- Opportunity No. 4 – Improve Cash Management
- Opportunity No. 5 – Request that the City of Philadelphia Waive All or a Portion of the \$18 Million Payment
- Opportunity No. 7 – Consolidate Facilities

PGW's response to some of these was to note that further study was necessary. PGW should provide an updated analysis of these items. Moreover, I urge Mayor Kenney's Administration to carefully monitor and collaborate with the Commission on these important recommendations.

Date: January 28, 2016

  
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ROBERT F. POWELSON  
COMMISSIONER