

April 15, 2013

Via Electronically Filing

Rosemary Chiavetta, Secretary
PA Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

Re: Petition of Philadelphia Gas Works for Approval of Distribution System Improvement Charge, Docket No. P-2012-2337737 – Compliance Filing, Response of PGW

Dear Secretary Chiavetta

Enclosed for electronic filing please find the Response of Philadelphia Gas Works to the April 4, 2013 Opinion and Order of the Public Utility Commission with regard to the above-referenced matter. Copies to be served in accordance with the attached Certificate of Service.

Very truly yours,



Daniel Clearfield

DC/lww
Enclosure

cc: Certificate of Service w/enc.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of PGW's Response to the Commission's Order of April 4, 2013 upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

VIA EMAIL AND FIRST CLASS MAIL

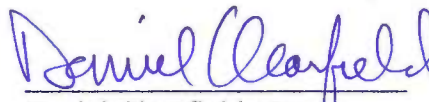
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Date: April 15, 2013



Daniel Clearfield, Esq.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PHILADELPHIA GAS :
WORKS FOR APPROVAL OF : Docket No. P-2012-2337737
DISTRIBUTION SYSTEM :
IMPROVEMENT CHARGE :

**RESPONSE OF PHILADELPHIA GAS WORKS
TO THE APRIL 4, 2013 OPINION AND ORDER OF
THE PUBLIC UTILITY COMMISSION**

Philadelphia Gas Works (“PGW”), hereby submits its Response to the Commission’s Opinion and Order issued on April 4, 2013 (“Order”) in the above-captioned proceeding.

I. INTRODUCTION

In its Order of April 4, 2013, the Commission found that establishing a DSIC for PGW was in the public interest but that the proposed tariff filed by PGW to effectuate the DSIC could not be approved at that time. The Commission found that the tariff did not appear to be in compliance with Act 11, the Final Implementation Order, and the Commission’s Model DSIC Tariff¹ and indicated that if PGW submitted a tariff that adhered to these guidelines, it would approve it and permit it to go into effect subject to hearings, if necessary. It also invited PGW to submit a response that explained why its original approach was reasonable and lawfully permissible.² In response to the Commission’s directives, PGW is submitting two alternative DSIC tariff supplements. While PGW is submitting a compliance tariff (“Compliance Tariff,” Exhibit “A”) that complies with the Commission’s April 4, 2013 Order, it is also submitting a

¹ *Petition of Philadelphia Gas Works for Approval of a Distribution System Improvement Charge*, Docket No. P-2012-2337737 (Order issued Apr. 4, 2013) (“PGW DSIC Order”) at 36.

² PGW DSIC Order at 36 (“PGW shall have ten (10) days to file a revised tariff or further support for its proposals.”)

PGW modified DSIC tariff (“PGW-Modified DSIC Tariff”, Exhibit “B”), that is virtually the same as that which PGW submitted in its original DSIC filing on January 18, 2013. Based on these alternatives, the Commission has the option of: (1) adopting the “PGW Modified DSIC Tariff,” subject to investigation and hearing to address any remaining issues (if necessary); (2) approve the “Compliance Tariff” ; or (3) direct PGW to file a modified tariff – different from either of the alternatives submitted by PGW – that reflects the Commission’s final decision on the issues raised in the April 4, 2013 Order. Whichever alternative the Commission chooses, it should direct its decision through Secretarial Letter or Order and permit PGW’s initial DSIC tariff, filed in compliance with the Commission’s directive, to become effective on one days’ notice. Accordingly, the alternative tariffs included with this filing as Exhibits A and B do not contain specific effective dates, but will be refiled on one day’s notice (assuming the PUC approves this process) after the Commission rules.

PGW respectfully submits that the Commission should exercise its discretion to waive or suspend the requirements of the statute, the regulations or related orders of the Commission in order to approve PGW’s Modified DSIC Tariff. The PUC has the legal authority to do so. Under Section 2212(c) of the Public Utility Code, “upon request of a city natural gas distribution operation, the commission may suspend or waive the application to a city natural gas distribution operation of any provision of this title, [*i.e.*, Title 66] including any provision of this chapter other than this section.”³ As described in more detail below, approving the PGW modified DSIC tariff pursuant to Section 2212(c) would deliver benefits to the Company and its customers and

³ 66 Pa. C.S. § 2212(c). Act 11 is now part of Title 66; *see* 66 Pa. C.S. §§ 1350 – 1360. The provisions of the Commission’s Final Implementation Order have their bases in Act 11. In prior proceedings, the Commission has waived statutory requirements in recognition of PGW’s unique character as a cash flow municipal utility. *See, Pennsylvania Public Utility Commission v. Philadelphia Gas Works*, Docket No. R-2008-2073938, 2008 Pa. PUC LEXIS 32 (Order issued December 19, 2008) (PUC waived provisions in Section 1308 of the Public Utility Code to allow for extraordinary rate relief requested by PGW).

meet the goals of Act 11 while recognizing the material differences between PGW, a municipally owned natural gas utility, and the other investor-owned utilities that are authorized to charge a DSIC. Again, while PGW submits that there are good reasons to permit PGW's DSIC to diverge from the general statutory and regulatory requirements, it is fully prepared to institute the Compliance Tariff if the Commission decides that it wishes to maintain uniformity in DSIC tariffs among utilities.

II. RESPONSE

In its Order, the Commission expressed concern with the following aspects of PGW's proposed DSIC tariff:

- 1) PGW's proposed method to recover an annualized amount of DSIC-eligible costs rather than recovering the cost of eligible property that has been placed in service during the prior three-month period appears to violate Section 1357;
- 2) PGW's proposal to recover the costs of eligible property placed in service in November 2012 in a DSIC charge established March 1, 2013 appears to violate Section 1357;
- 3) PGW's proposal to express the surcharge as a volumetric charge per Ccf carried to five decimal places does not appear to be consistent with the statutory requirement that the DSIC rate be expressed as a percentage;
- 4) PGW's proposals regarding quarterly updates and customer protections do not appear to be consistent with the Model Tariff; and
- 5) PGW's proposal regarding the filing schedule and effective date of its DSIC tariff do not appear to conform to Section 1358 (e)(2), and whether PGW has met the requirements for a Section 2212(c) waiver or suspension.⁴

In summary, PGW consciously diverged from the generally statutory and regulatory requirements in these areas because of several factors unique to PGW:

A. As permitted by Act 11, PGW is recovering the actual cost (not the annual carrying costs) of installing new mains, pursuant to the accelerated main replacement program,

⁴ PGW DSIC Order at 36.

approved in its Long Term Infrastructure Improvement Plan (“LTIIP”). This recovery method allows PGW to avoid the issuance of debt to finance the main replacement program thereby helping to improve its debt-to total capitalization ratio and is far less costly to ratepayers, over the life of the replacement program.⁵

B. PGW has proposed an aggressive main replacement program that anticipates to spend an annual amount that reflects fully 5% of its annual projected distribution revenues to replace cast iron mains and services. Other utilities’ main replacement programs do not produce amounts to be recovered in the DSIC that are so close to the 5% cap.

C. PGW is a “cash flow” ratemaking company, which means that its rates do not reflect in its rates a profit to shareholders (it has no shareholders) on a rate of return, rate base basis. As a cash flow company, delays in recovering the cost of its accelerated main replacement will have a negative effect on the Company’s cash flow position.

As explained below, these three factors were the primary drivers of the “PGW-Specific” DSIC Proposal. In the context of these “drivers,” the Company will address the issues raised by the Commission in its April 4, 2013 Order.

1. PGW’s proposal to recover an annualized amount of DSIC-eligible costs through a volumetric charge is designed to avoid persistent under collections that would harm the Company and its customers.

In its PGW DSIC Order, the Commission expressed a concern with two interrelated aspects of the Company’s DSIC – the use of an annualized amount of DSIC-eligible costs and

⁵ See, PUC v. PGW Revised Petition for Approval of Energy Conservation and Demand Side Management Plan, Docket Nos. R-2009-2139884 and P-2009-2097639 (Order issued June 18, 2010) (Credit rating agencies look favorably upon improvements to PGW’s debt to capitalization ratio); see also, Petition of PGW for a Statement of Policy on the Application of PGW’s Cash Flow Ratemaking Method, Docket No. P-2009-2136508 (Order issued April 19, 2010) (“Access to capital markets at reasonable costs is essential to finance the infrastructure projects needed to maintain reliable service.”).

the use of a volumetric DSIC instead of a percentage charge.⁶ The Company has proposed an alternative method of calculating its DSIC because of its unique circumstances, and the Commission has the discretion and authority to approve a different methodology for PGW pursuant to Section 2212(c) of the Public Utility Code.

First, as noted above, PGW has identified “recoverable costs,” as defined in the model tariff,⁷ based on its LTIP and its forecast that it will spend approximately \$22 million in incremental infrastructure improvements that it expects to recover through the DSIC. The amount of recoverable costs is divided by four to arrive at the maximum amount to be recovered by the Company through the DSIC in any given quarter. Using an annualized amount of costs as the basis for establishing a volumetric DSIC charge is reasonable for PGW because it is a cash flow utility, and the Company does not set rates based on a rate-base-rate-of-return model. In addition, this method of calculating the DSIC is designed to avoid the inevitable reduction in cash flow that would surely result if PGW could only recover the costs of plant placed in service in the prior quarter through a percentage charge. During slow construction periods, cash flow would be reduced, resulting in delays to the Company’s ability to recover its DSIC-eligible costs..

Further, adopting a DSIC based on a percentage of billed revenues to recover DSIC-eligible improvements placed in service in the prior quarter would result in volatility in the amount of recoverable costs and sizable under-collections and associated cash flow issues for PGW. The Company has prepared a chart, attached herewith as Exhibit C, that illustrates the

⁶ *Id.* See, items #1 and #3 on page 36 of the Order.

⁷ The Model Tariff defines recoverable costs for PGW as, “amounts reasonably expended or incurred to purchase and install eligible property and associated financing costs, if any, including debt service, debt service coverage, and issuance costs.” Model Tariff at 6.

adverse effects of utilizing a percentage method applied to an “as installed in the prior 90 days” method instead of using a volumetric charge and an annualized amount of DSIC-eligible costs as proposed by the Company. In Exhibit C, PGW has compared the cash flow implications of utilizing the methodology preferred by the Commission in situations where PGW’s actual sales fall short of “weather normalized” sales (a frequent occurrence in most of the last several years). That comparison tends to show that using the conventional method would result in larger under-collections that worsen with time. Using a simplifying assumption that the Company spends the projected \$22 million total in equal amounts (\$5.5 million) per quarter, and assuming further that it is only permitted to collect a percentage of its quarterly billings through the DSIC to cover these costs, PGW would start with an under collection of close to \$4 million that would balloon to more than \$10 million during certain quarters in the six-year comparison. *See*, Exhibit “C” page 1, hereto. This is so because, under the percentage method, PGW would be entitled to recover as much as 14.25% of its revenues to cover DSIC-eligible costs plus undercollections from prior periods (caused by lower than “normal” sales),⁸ but PGW will be limited to recovering only a portion of those costs under the statutory 5% cap. This persistent under-collection would eventually create cash flow issues for the Company, but could also prompt PGW to resort to financing its infrastructure improvements by the use of more costly long-term borrowing.

On the other hand, a volumetric charge to recover an annualized level of DSIC costs creates greater stability in the amount of recoverable costs and a consistent level of cash flow that ameliorates potential under-collections. Exhibit C page 2 also demonstrates that a volumetric charge as proposed by PGW would experience minor fluctuations for a monthly

⁸ See, Exhibit C.

charge of about \$0.41 at its lowest point to a charge of about \$0.61 at its highest. This compares favorably to the large swings in the amount of recoverable costs and the revenues associated with the charge when a percentage methodology is used. Most significantly, a volumetric charge does not create as large an under-collection and associated cash flow issues, in comparison to the Commission's preferred method of calculating the DSIC. Accordingly, PGW's volumetric charge is reasonable under the Company's unique circumstances, and it represents a methodology that accomplishes the objectives of Act 11 without creating issues for the Company or its customers.⁹

2. PGW's proposal to recover the costs of plant placed in service in the 120-day window preceding the effective date of the DSIC does not violate Section 1357 of Act 11.

In its Order, the Commission raised a concern with PGW's proposal to recover costs of plant placed in service in November of 2012 in a DSIC with an effective date of March 1, 2013.¹⁰ This apparent objection may be based on a misunderstanding of the Company's original proposal. PGW sought approval of a DSIC with an effective date of March 1, 2013 and included in its calculations of DSIC-eligible costs projects that were scheduled to be completed in November of 2012 in accordance with the statute. Section 1357(a)(1)(ii) provides that the DSIC

⁹ The Commission's concern with using an annualized amount of plant-in service appears to be related to an objection raised by the Office of Consumer Advocate that PGW's proposal may be a purported violation of the "used and useful" principle. *See*, OCA Answer. This objection is misguided, as this concept of utility ratemaking is not fitting or applicable to PGW. The so-called "used and useful" principle is ingrained in public utility ratemaking law because, traditionally, it has prevented investor-owned utilities from earning a return on plant additions that are added to rate base prior to providing service to customers. *See, e.g.*, 66 Pa. C.S. §102, (rate base defined as the "value of the whole or any part of a public utility which is used and useful in the public service"), 66 Pa. C.S. §1315 (electric facilities not used and useful in the public service cannot be added to rate base) and *Barasch v. Pennsylvania Public Utility Commission*, 532 A.2d 325, 334 (Pa. 1987), *aff'd*, 488 U.S. 299 (1989). This idea is not applicable to PGW because the Company does not earn a return on its rate base the way investor-owned utilities do. Generally, PGW recovers its actual costs of operation, including debt service and related expenses, including an amount for cash flow, and does not have a rate base and does not earn a rate of return. Moreover, under PGW's proposal, the Company's actual main replacement expenditures will be compared to its projected levels and any difference would be reconciled in the subsequent year.

¹⁰ *See*, PGW DSIC Order at 36, item #2.

must be calculated to recover the fixed costs of eligible property that has been placed in service “during the three-month period ending one month prior to the effective date of the [DSIC].”¹¹ The 120-day look-back period in the statute would have allowed PGW to recover costs related to projects completed in November 2012 *if* the effective date of the DSIC had been March 1, 2013, as originally proposed. However, since the filing, the Commission has decided to postpone approval of the March 1, 2013 effective date. The Commission’s disapproval of the Company’s proposed effective date of March 1, 2013 means that PGW cannot recover eligible costs for plant placed in service in November 2012 as originally planned. Upon the Commission’s decision regarding an effective date for PGW’s DSIC, the Company will “look back” 120 days, in accordance with the statute, and will seek to recover costs associated with projects placed into service in the ninety days ending 30 days prior to the effective date of the DSIC. PGW did not intend, and will not seek, to recover eligible plant additions costs that fall outside of the 120-day window in Act 11. The Commission should approve PGW’s proposal on the timing of cost recovery through the DSIC as it complies squarely with the requirements of the statute and the Commission’s Implementation Order.

3. PGW’s proposal to recover DSIC-eligible costs through a volumetric charge is reasonable under the circumstances and should be approved by the Commission pursuant to an authorized waiver of the relevant statutory provisions and the Commission’s Implementation Order.

As explained above, PGW has requested that the Commission exercise its discretion and authority to approve a DSIC that is calculated using a volumetric charge based on the annualized costs of DSIC-eligible projects because such an approach works better for PGW. However, at the present time, PGW lacks the billing systems capability to impose a percentage charge as a separate line item on customers’ bills as is done by some investor-owned utilities who have

¹¹ 66 Pa. C.S. §1357(a)(1)(ii).

DSICs, and even if the PUC directs a percentage charge, PGW should not be required to show the charge as a separate line item.

First, it should be noted that neither Act 11 nor the Implementation Order require that the DSIC charge be set forth as a separate item on the customer's bill. This has become standard practice with other utilities that have a DSIC, but it is not a firm requirement. In any event, PGW would not be able to immediately comply with such a directive; PGW would have to undertake a costly and time-consuming process to overhaul its billing system, which would likely require 12-18 months to complete.

If the Commission declines PGW's preferred, volumetric approach, the Company will be able to apply a percentage – but not as a line item on the bill. Instead, PGW would apply the percentage to each element of the bill (i.e., customer charge, volumetric charge) as part of its calculations of these charges for presentation on a customer's bill. This means that the customer charge would likely change on a quarterly basis. However, so long as PGW is permitted to calculate the percentage charge as explained above, PGW could comply with a requirement that the DSIC charge be applied as a percentage of billed distribution revenues.

4. PGW's proposals regarding quarterly updates and customer protections are consistent with Act 11 and should be approved.

In its Order, the Commission found that, under Section 1357(d), quarterly updates are required ten (10) days prior to the effective date of the update and, as a result, disapproved the Company's proposal to file quarterly updates at least one (1) day prior to the effective date.¹² PGW has no issue with submitting quarterly DSIC updates to the Commission and the parties ten (10) days prior to the effective date of the update. Therefore, upon the Commission's approval of the DSIC, the Company will submit the quarterly updates as directed and has modified its

¹² PGW DSIC Order at 30-31.

PGW-specific DSIC Tariff to reflect this. This issue should not be a bar to the Commission's approval of PGW's modified DSIC Tariff.

With regard to other consumer protections, the Commission found that PGW did not include a provision in its tariff that specifies that PGW will reduce or eliminate the DSIC Rider to any customer with competitive alternatives and customers having negotiated contracts.¹³ Only Interruptible Transportation (Rate IT) and Gas Transportation Service (Rate GTS) customers fall into this category of customers in PGW's tariff. The Company sought to comply with the Model Tariff's requirement by adding language regarding the applicability to the DSIC to all rate classes and leaving out this same language from the Rate IT and Rate GTS pages. However, in accordance with the Commission's Order, PGW will conform its Compliance Tariff to include specific provisions for IT and GTS customers to the effect that the Company will eliminate the DSIC Rider to any customers with competitive alternatives or negotiated contracts.

5. PGW's proposals regarding the filing schedule and the effective date of the Initial DSIC tariff are consistent with Act 11 and should be approved.

The Commission appears to have interpreted Section 1358(e)(2) to require PGW to recoup or refund over or under-collections under the DSIC commencing April 1 of each year and on a quarterly basis thereafter (on July 1, October 1 and January 1).¹⁴ Also, the Commission appears to have implicitly concluded that even an *initial* DSIC tariff may only have an effective date that coincides with one of those dates. PGW respectfully submits that adhering to the reconciliation dates proposed in the PGW modified DSIC Tariff (12 months ending August 31 with reconciliations on September 1, December 1, March 1 and June 1) would be reasonable for PGW. This would synchronize the DSIC reconciliations with PGW's Gas Cost Rate (PGC)

¹³ PGW DSIC Order at 31.

¹⁴ Id. at 32.

reconciliations, resulting in rate changes only four times a year (assuming no separate general rate changes) rather than eight times a year if the general timelines are imposed. Accordingly, while PGW is fully capable of adhering to the April 1/July 1/October 1/ and January 1 schedule, it believes that there is good reason to adopt PGW's preferred schedule.

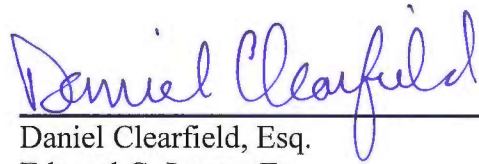
However, even if the Commission elects to adhere to the reconciliation periods set forth in Act 11 (which are set forth in the attached "Compliance Tariff," Exhibit A), the Company respectfully requests that the Commission reconsider its finding that PGW's *initial* DSIC filing must coincide with the quarterly filing schedule reserved for DSIC quarterly updates related to reconciliations. Simply put, the initial DSIC filing is *not* a reconciliation and it does not have to follow the calendar-year quarterly schedule for purposes of setting an effective date.¹⁵ Requiring that the effective date coincide with one of the dates established by the statute for reconciliation filings would delay the effective date of PGW's DSIC until July 1, and would result in an unreasonable delay in the commencement of recovery for DSIC-eligible projects. PGW urges the Commission to allow the DSIC to become effective upon one (1) days notice following the Commission's approval of PGW's DSIC tariff. PGW shall then file a reconciliation of its initial DSIC tariff on July 1 (or June 1 if the Commission permits PGW to adhere to the reconciliation dates it uses for its GCR). In that way, PGW will be able to expeditiously initiate its DSIC and still adhere to a regular reconciliation schedule for future filings.

¹⁵ Section 1358(e)(2) of the Act states that "reconciliations" must be filed on April 1, and quarterly thereafter.

III. CONCLUSION

Based on the foregoing, PGW respectfully requests that the Commission approve PGW's modified DSIC tariff (Exhibit B) and establish an effective date of one (1) day's notice subject to investigation, refund and recoupment. In the alternative, PGW requests that the Commission allow PGW's Compliance DSIC tariff (Exhibit A) to become effective on one day's notice. . PGW respectfully suggests that the Commission provide its decision via a Secretarial Letter , after providing other parties ten (10) days to respond to this filing

Respectfully submitted



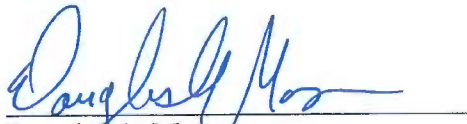
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April 15, 2013

VERIFICATION

I, Douglas A. Moser, hereby state that: (1) I am the Executive Vice President and Acting Chief Operating Officer for Philadelphia Gas Works; (2) the facts above set forth in the foregoing document are true and correct (or are true and correct to the best of my knowledge, information and belief); and (3) I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).



Douglas A. Moser
Executive Vice President and
Acting Chief Operating Office
Philadelphia Gas Works

Dated: April 15, 2013

Exhibit A

Compliance Tariff (Redlined)

PHILADELPHIA GAS WORKS

GAS SERVICE TARIFF



Issued by: Craig White
President and CEO

PHILADELPHIA GAS WORKS
800 West Montgomery Avenue
Philadelphia, PA 19122

List of Changes Made by this Tariff Supplement

GENERAL SERVICE – RATE GS (Page No. 83)

The Distribution System Improvement Charge has been added to the list of surcharges.

MUNICIPAL SERVICE – RATE MS (Page No. 87)

The Distribution System Improvement Charge has been added to the list of surcharges.

PHILADELPHIA HOUSING AUTHORITY SERVICE – RATE PHA (Page No. 90)

The Distribution System Improvement Charge has been added to the list of surcharges.

DEVELOPMENTAL NATURAL GAS VEHICLE SVC - RATE NGVS FIRM SERVICE (Page No. 135)

The Distribution System Improvement Charge has been added to the list of surcharges.

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (Page Nos. 151-152/153)

The Distribution System Improvement Charge has been added as a surcharge.

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GENERAL SERVICE - RATE GS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after ~~December~~March 1, 2012~~2013~~

AVAILABILITY

Available for any purpose where the Company's distribution mains adjacent to the proposed Gas Service location are, or can economically be made, suitable to supply the quantities of Gas or Transportation Services required.

RATES

CUSTOMER CHARGE (per Meter (except parallel meters)):

- \$ 12.00 per month for Residential and Public Housing Authority Customers.
- \$ 18.00 per month for Commercial Customers
- \$ 50.00 per month for Industrial Customers

(C)

Surcharge: Distribution System Improvement Charge.

Plus,

GCR (not applicable to GS Customers who transport gas through a qualified NGS):

- ~~\$ 0.573230.63991~~ per Ccf for Residential and Public Housing
- ~~\$ 0.573230.63991~~ per Ccf for Commercial Customers
- ~~\$ 0.573230.63991~~ per Ccf for Industrial Customers

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

- \$0.63863 per Ccf for Residential
- \$0.49820 per Ccf for Public Housing
- \$0.46530 per Ccf for Commercial and Municipal Customers
- \$0.45859 per Ccf for Industrial Customers

(B) Surcharges:

Universal Service and Energy Conservation Surcharge; Restructuring and Consumer Education Surcharge; Efficiency Cost Recovery Surcharge; Other Post Employment Benefit Surcharge and

(C)

PHILADELPHIA GAS WORKS

SUPPLEMENT NO. ~~58-61~~
Gas Service Tariff – Pa P.U.C. No.2
~~Fiftieth~~Fifty Third Revised Page No. 83
Canceling ~~Forty Ninth~~Fifty Second Revised Page
No. 83

Distribution System Improvement Charge.

(C) – Change

MUNICIPAL SERVICE - RATE MS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after ~~December~~ March 1, 2013.

AVAILABILITY

Available to properties owned or occupied by the City of Philadelphia or the Board of Education, or any of their respective agencies or instrumentalities, for any type of Gas Service, unless purchased for resale to others, and where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required; provided, however, that the rate shall not be available to Commercial Tenants of any such property.

RATES

CUSTOMER CHARGE (per Meter (except parallel meters):

\$ 18.00 per month

(C)

Surcharge: Distribution System Improvement Charge.

Plus,

GCR (not applicable to MS Customers who transport Gas through a qualified NGS):

\$0.57323 0.63991 per Ccf

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

\$0.34040 per Ccf

(B) Surcharges:

Universal Service and Energy Conservation Surcharge; and The Restructuring and Consumer Education Surcharge; the Efficiency Cost Recovery Surcharge; Other Post Employment Benefit Surcharge; and Distribution System Improvement Charge.

(C)

Also,

The following Riders may apply:

PHILADELPHIA GAS WORKS

SUPPLEMENT NO. ~~58 to~~ 61
Gas Tariff – Pa P.U.C. No. 2
~~Fiftieth~~ Fifty Third Revised Pg. No. 87
~~canceling Forty Ninth~~ Fifty Second Revised Pg.
No. 87

(C) – Change

Issued: ~~January 18~~ April 15, 2013

Effective: ~~March 1, 2013~~ _____

PHILADELPHIA HOUSING AUTHORITY SERVICE - RATE PHA

Rate: Applicable to all Retail Sales Service or Transportation Services rendered pursuant to this Rate Schedule on or after ~~December~~ March 1, 2012 2013

AVAILABILITY

Available for all Gas usage in multiple dwelling Residential buildings containing 10 or more dwelling units, owned and operated by the Philadelphia Housing Authority, where cooking shall be performed exclusively with Gas and where Gas Service shall be supplied through one or more single point metering arrangements at locations where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required.

This rate is also available for all Gas usage in single and multiple dwelling Residential buildings, containing less than 10 dwelling units, provided, and only so long as, Gas is used exclusively for cooking, water heating and space heating for all such Residential buildings owned and operated by the Philadelphia Housing Authority, except (a) buildings operated by the Philadelphia Housing Authority, prior to the original effective date of this rate (January 1, 1969), and (b) buildings for which, in the judgment of the Company, such Gas Service cannot be provided economically.

RATES

CUSTOMER

CHARGE (per Meter (except parallel meters);

\$18.00 per month

(C)

Surcharge: Distribution System Improvement Charge.

Plus,

GCR (not applicable to PHA customers who transport gas through a qualified NGS):

\$ ~~0.573230~~ 0.63991 per Ccf

Plus,

DISTRIBUTION CHARGE (consisting of item (A) and (B), below):

(A) Delivery Charge:

\$0.41480 per Ccf

(C)

(B) Surcharges:

Universal Service and Energy Conversation Surcharge; The Restructuring and Consumer Education

PHILADELPHIA GAS WORKS

SUPPLEMENT NO. ~~58 to~~61
Gas Service Tariff – Pa P.U.C. No. 2
~~Fiftieth~~Fifty Third Revised Page No. 90
Canceling ~~Forty Ninth~~Fifty Second Revised Page
No. 90

Surcharge; the Efficiency Cost Recovery Surcharge; Other Post Employment Benefit Surcharge; and
Distribution System Improvement Charge.

(C) – Change

**DEVELOPMENTAL NATURAL GAS VEHICLE SERVICE - RATE NGVS
FIRM SERVICE**

Rate: Applicable to all Retail Sales Service rendered pursuant to this Rate Schedule on or after
~~December~~ March 1, 2012 ~~2013~~

AVAILABILITY

This service is available to provide uncompressed Natural Gas to any Customer for the exclusive purpose of compressing such Gas for use as fuel for motor vehicles. The compression of the Natural Gas to the pressure required for use as a motor vehicle fuel will be conducted by the Customer, at the Customer's designated premises. Service shall only be available where the Company's distribution system is, or can economically be made available to supply the service. Each Customer will be required to execute a service agreement which will specify terms and conditions of service.

CHARACTER OF SERVICE

Service under this rate schedule is firm and shall only be interrupted in the case of operating emergencies experienced by the Company.

MONTHLY RATE

CUSTOMER CHARGE:

\$35.00 per month

Surcharge: Distribution System Improvement Charge.

(C)

Plus,

GCR (not applicable to PHA customers who transport gas through a qualified NGS):

\$ 0.573230.63991 per Ccf

Plus,

DISTRIBUTION CHARGE (consisting of item (A) and (B), below):

(A) Delivery Charge:

\$0.13212 per Ccf

(B) Surcharges:

Universal Service and Energy Conversation Surcharge; The Restructuring and Consumer Education Surcharge; and Distribution System Improvement Charge.

(C)

SUPPLEMENT NO. ~~58 to~~ 61

Gas Tariff – Pa P.U.C. No. 2

Twenty ~~Third~~ Sixth Revised Page No. 135

celing Twenty ~~Second~~ Fifth Revised Page No. 135

PHILADELPHIA GAS WORKS

(C) – Change

Issued: January ~~18~~ April 15, 2013

Effective: March ~~1~~, 2013 _____

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC)

(C)

In addition to the net charges provided for in this Tariff, a volumetric charge for each rate class as set forth in this tariff of up to 5% will apply consistent with the Commission Order dated _____ at Docket No. P-2012-2337737 approving the DSIC. ~~The volumetric charges for service rendered on or after March 1, 2013 are:~~

- ~~a) \$0.04540 per Ccf for Residential and Public Housing Customers on Rate GS;~~
- ~~b) \$0.03082 per Ccf for Commercial Customers on Rate GS;~~
- ~~c) \$0.03424 per Ccf for Industrial Customers on Rate GS;~~
- ~~d) \$0.02706 per Ccf for Municipal Customers on Rate MS; and~~
- ~~e) \$0.03263 per Ccf for The Philadelphia Housing Authority on Rate PHA.~~
- ~~f) \$0.03082 per Ccf for Firm Natural Gas Vehicle Service Customers on Rate NGVS.~~

1. General Description

A. Purpose: To recover the reasonable and prudent costs incurred to repair, improve, or replace eligible property which is completed and placed in service and recorded in the individual accounts, as noted below, between base rate cases and to provide the Utility with the resources to accelerate the replacement of aging infrastructure, to comply with evolving regulatory requirements. The costs of extending facilities to serve new customers are not recoverable through the DSIC.

B. Eligible Property: The DSIC-eligible property will consist of the following:

- Piping (account 376);
- Couplings (account 376);
- Gas services lines (account 380) and insulated and non-insulated fittings (account 378);
- Valves (account 376);
- Excess flow valves (account 376);
- Risers (account 376);
- Meter bars (account 382);
- Meters (account 381);
- Unreimbursed costs related to highway relocation projects where PGW a natural gas distribution company or city natural gas distribution operation must relocate its facilities;
and
- Other related capitalized costs.

C. Effective Date: The initial DSIC will become effective March upon one (1, 2013) day notice after submission of a compliance tariff in compliance with commission order.

2. Computation of the DSIC

A. Calculation: The initial DSIC shall be calculated to recover the costs of eligible plant additions that have not previously been reflected in the Utility's rates and have been placed in service during the three-month period ending one month prior to the effective date of the initial DSIC. The DSIC will be updated on July 1, 2013 and on a quarterly basis thereafter to reflect eligible plant additions that have not previously been reflected in the Utility's rates and will have been placed in service during the three-month period ending one month prior to the effective date of each DSIC update. Thus, changes in the DSIC rate will occur as follows:

(C)

<u>Effective Date of Change</u>	<u>Date to which DSIC-Eligible Plant Additions Reflected</u>
July 1	March 1 through May 31
October 1	June 1 through August 31
January 1	September 1 through November 30
April 1	December 1 through February 28*

* or February 29 in years when there are 29 days in February

B. Recoverable Costs: The recoverable costs shall be amounts reasonably expended or incurred to purchase and install eligible property and associated financing costs, if any, including debt service, debt service coverage, and issuance costs.

C. Application of DSIC: The DSIC will be expressed as a volumetric charge per cubic foot percentage carried to five decimal places and will be applied to the total amount billed to each customer usage or distribution service under the Utility's otherwise applicable rates and charges. To calculate the DSIC, the projected annual recoverable costs associated with all property eligible for cost recovery under the DSIC and placed in service during the three-month period ending one month prior to the effective date of the initial DSIC and, thereafter, the DSIC update of this amount will be divided by the Utility's projected sales volumes/revenues for distribution services for the annual (including all applicable clauses and riders) for the quarterly period during which the charge will be collected.

D. Formula: The formula for calculation of the DSIC is as follows:

$$\text{DSIC} = \frac{\text{DSI} + e}{\text{PQR}}$$

Where:

- DSI ≡ Recoverable costs (defined in Section B. directly above)
- e ≡ the amount calculated under the annual reconciliation feature or Commission audit, as described below.
- PQR ≡ Projected quarterly revenues for distribution service (including all applicable clauses and riders) including any revenue from existing customers plus netted revenue from any customers which will be gained or lost by the beginning of the applicable service period.

Revenues will be determined as one-fourth (1/4) of projected annual revenues.

3. Quarterly Updates: Supporting data for each quarterly update will be filed with the Commission and served upon the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

4. Customer Safeguards

A. Cap: The DSIC is capped at 5.0% of the amount billed to customers for distribution service (including all applicable clauses and riders) projected for the quarterly period during which the DSIC charge will be collected.

B. Audit/Reconciliation: The DSIC is subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any provision of 66 Pa C.S. §§ 1350, et seq., shall be credited to customer accounts. The DSIC is subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e), over a one-year period commencing on April 1 of each year. If DSIC revenues exceed DSIC-eligible costs for the reconciliation period, such over-collections will be refunded with interest. Interest on over-collections and credits will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101, et seq.) and will be refunded in the same manner as an over-collection.

(C)

C. New Base Rates: The DSIC will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the remaining costs (if any) that had previously been recovered under the DSIC. Thereafter, only the costs of new eligible plant additions that have not previously been reflected in the Utility's rates will be reflected in the quarterly updates of the DSIC.

D. Customer Notice: Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change. An explanatory bill insert shall also be included with the first billing.

E. All customer classes: The DSIC shall be applied equally to all customer classes, except that the Company may reduce or eliminate the DSIC to any customer with competitive alternatives or potential competitive alternatives and customers having negotiated contracts with the Company, if it is reasonably necessary to do so.

Exhibit A

Compliance Tariff (Clean)

PHILADELPHIA GAS WORKS
GAS SERVICE TARIFF



Issued by: Craig White
President and CEO

PHILADELPHIA GAS WORKS
800 West Montgomery Avenue
Philadelphia, PA 19122

List of Changes Made by this Tariff Supplement

GENERAL SERVICE – RATE GS (Page No. 83)

The Distribution System Improvement Charge has been added to the list of surcharges.

MUNICIPAL SERVICE – RATE MS (Page No. 87)

The Distribution System Improvement Charge has been added to the list of surcharges.

PHILADELPHIA HOUSING AUTHORITY SERVICE – RATE PHA (Page No. 90)

The Distribution System Improvement Charge has been added to the list of surcharges.

DEVELOPMENTAL NATURAL GAS VEHICLE SVC - RATE NGVS FIRM SERVICE (Page No. 135)

The Distribution System Improvement Charge has been added to the list of surcharges.

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (Page Nos. 151-153)

The Distribution System Improvement Charge has been added as a surcharge.

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GENERAL SERVICE - RATE GS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after March 1, 2013

AVAILABILITY

Available for any purpose where the Company's distribution mains adjacent to the proposed Gas Service location are, or can economically be made, suitable to supply the quantities of Gas or Transportation Services required.

RATES

CUSTOMER CHARGE (per Meter (except parallel meters)):

\$ 12.00 per month for Residential and Public Housing Authority Customers.
\$ 18.00 per month for Commercial Customers
\$ 50.00 per month for Industrial Customers

Surcharge: Distribution System Improvement Charge.

(C)

Plus,

GCR (not applicable to GS Customers who transport gas through a qualified NGS):

\$ 0.63991 per Ccf for Residential and Public Housing
\$ 0.63991 per Ccf for Commercial Customers
\$ 0.63991 per Ccf for Industrial Customers

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

\$0.63863 per Ccf for Residential
\$0.49820 per Ccf for Public Housing
\$0.46530 per Ccf for Commercial and Municipal Customers
\$0.45859 per Ccf for Industrial Customers

(B) Surcharges:

Universal Service and Energy Conservation Surcharge; Restructuring and Consumer Education Surcharge; Efficiency Cost Recovery Surcharge; Other Post Employment Benefit Surcharge and Distribution System Improvement Charge.

(C)

(C) – Change

MUNICIPAL SERVICE - RATE MS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after March 1, 2013.

AVAILABILITY

Available to properties owned or occupied by the City of Philadelphia or the Board of Education, or any of their respective agencies or instrumentalities, for any type of Gas Service, unless purchased for resale to others, and where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required; provided, however, that the rate shall not be available to Commercial Tenants of any such property.

RATES

CUSTOMER CHARGE (per Meter (except parallel meters):

\$ 18.00 per month

Surcharge: Distribution System Improvement Charge.

(C)

Plus,

GCR (not applicable to MS Customers who transport Gas through a qualified NGS):

\$ 0.63991 per Ccf

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

\$0.34040 per Ccf

(B) Surcharges:

Universal Service and Energy Conservation Surcharge; and The Restructuring and Consumer Education Surcharge; the Efficiency Cost Recovery Surcharge; Other Post Employment Benefit Surcharge; and Distribution System Improvement Charge.

(C)

Also,

The following Riders may apply:

(C) – Change

PHILADELPHIA HOUSING AUTHORITY SERVICE - RATE PHA

Rate: Applicable to all Retail Sales Service or Transportation Services rendered pursuant to this Rate Schedule on or after March 1, 2013

AVAILABILITY

Available for all Gas usage in multiple dwelling Residential buildings containing 10 or more dwelling units, owned and operated by the Philadelphia Housing Authority, where cooking shall be performed exclusively with Gas and where Gas Service shall be supplied through one or more single point metering arrangements at locations where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required.

This rate is also available for all Gas usage in single and multiple dwelling Residential buildings, containing less than 10 dwelling units, provided, and only so long as, Gas is used exclusively for cooking, water heating and space heating for all such Residential buildings owned and operated by the Philadelphia Housing Authority, except (a) buildings operated by the Philadelphia Housing Authority, prior to the original effective date of this rate (January 1, 1969), and (b) buildings for which, in the judgment of the Company, such Gas Service cannot be provided economically.

RATES

CUSTOMER CHARGE (per Meter (except parallel meters);

\$18.00 per month

Surcharge: Distribution System Improvement Charge.

(C)

Plus,

GCR (not applicable to PHA customers who transport gas through a qualified NGS):

\$ 0.63991 per Ccf

Plus,

DISTRIBUTION CHARGE (consisting of item (A) and (B), below):

(A) Delivery Charge:

\$0.41480 per Ccf

(B) Surcharges:

Universal Service and Energy Conversation Surcharge; The Restructuring and Consumer Education Surcharge; the Efficiency Cost Recovery Surcharge; Other Post Employment Benefit Surcharge; and Distribution System Improvement Charge.

(C)

(C) – Change

**DEVELOPMENTAL NATURAL GAS VEHICLE SERVICE - RATE NGVS
FIRM SERVICE**

Rate: Applicable to all Retail Sales Service rendered pursuant to this Rate Schedule on or after
March 1, 2013

AVAILABILITY

This service is available to provide uncompressed Natural Gas to any Customer for the exclusive purpose of compressing such Gas for use as fuel for motor vehicles. The compression of the Natural Gas to the pressure required for use as a motor vehicle fuel will be conducted by the Customer, at the Customer's designated premises. Service shall only be available where the Company's distribution system is, or can economically be made available to supply the service. Each Customer will be required to execute a service agreement which will specify terms and conditions of service.

CHARACTER OF SERVICE

Service under this rate schedule is firm and shall only be interrupted in the case of operating emergencies experienced by the Company.

MONTHLY RATE

CUSTOMER CHARGE:

\$35.00 per month

Surcharge: Distribution System Improvement Charge.

(C)

Plus,

GCR (not applicable to PHA customers who transport gas through a qualified NGS):

\$ 0.63991 per Ccf

Plus,

DISTRIBUTION CHARGE (consisting of item (A) and (B), below):

(A) Delivery Charge:

\$0.13212 per Ccf

(B) Surcharges:

Universal Service and Energy Conversation Surcharge; The Restructuring and Consumer Education Surcharge; and Distribution System Improvement Charge.

(C)

(C) – Change

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC)

(C)

In addition to the net charges provided for in this Tariff, a charge of up to 5% will apply consistent with the Commission Order dated _____ at Docket No. P-2012-2337737 approving the DSIC.

1. General Description

A. Purpose: To recover the reasonable and prudent costs incurred to repair, improve, or replace eligible property which is completed and placed in service and recorded in the individual accounts, as noted below, between base rate cases and to provide the Utility with the resources to accelerate the replacement of aging infrastructure, to comply with evolving regulatory requirements. The costs of extending facilities to serve new customers are not recoverable through the DSIC.

B. Eligible Property: The DSIC-eligible property will consist of the following:

- Piping (account 376);
- Couplings (account 376);
- Gas services lines (account 380) and insulated and non-insulated fittings (account 378);
- Valves (account 376);
- Excess flow valves (account 376);
- Risers (account 376);
- Meter bars (account 382);
- Meters (account 381);
- Unreimbursed costs related to highway relocation projects where a natural gas distribution company or city natural gas distribution operation must relocate its facilities; and
- Other related capitalized costs.

C. Effective Date: The initial DSIC will become effective upon one (1) day notice after submission of a compliance tariff in compliance with commission order.

2. Computation of the DSIC

A. Calculation: The initial DSIC shall be calculated to recover the costs of eligible plant additions that have not previously been reflected in the Utility's rates and have been placed in service during the three-month period ending one month prior to the effective date of the initial DSIC. The DSIC will be updated on July 1, 2013 and on a quarterly basis thereafter to reflect eligible plant additions that have not previously been reflected in the Utility's rates and will have been placed in service during the three-month period ending one month prior to the effective date of each DSIC update. Thus, changes in the DSIC rate will occur as follows:

(C)

Effective Date of Change	Date to which DSIC-Eligible Plant Additions Reflected
July 1	March 1 through May 31
October 1	June 1 through August 31
January 1	September 1 through November 30
April 1	December 1 through February 28*

* or February 29 in years when there are 29 days in February

B. Recoverable Costs: The recoverable costs shall be amounts reasonably expended or incurred to purchase and install eligible property and associated financing costs, if any, including debt service, debt service coverage, and issuance costs.

C. Application of DSIC: The DSIC will be expressed as a percentage carried to two decimal places and will be applied to the total amount billed to each customer or distribution service under the Utility's otherwise applicable rates and charges. To calculate the DSIC, the recoverable costs associated with all property eligible for cost recovery under the DSIC and placed in service during the three-month period ending one month prior to the effective date of the initial DSIC and, thereafter, the DSIC update of this amount will be divided by the Utility's projected revenues for distribution services (including all applicable clauses and riders) for the quarterly period during which the charge will be collected.

D. Formula: The formula for calculation of the DSIC is as follows:

$$DSIC = \frac{DSI + e}{PQR}$$

Where:

- DSI = Recoverable costs (defined in Section B. directly above)
- e = the amount calculated under the annual reconciliation feature or Commission audit, as described below.
- PQR = Projected quarterly revenues for distribution service (including all applicable clauses and riders) including any revenue from existing customers plus netted revenue from any customers which will be gained or lost by the beginning of the applicable service period.

Revenues will be determined as one-fourth (1/4) of projected annual revenues.

3. Quarterly Updates: Supporting data for each quarterly update will be filed with the Commission and served upon the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

4. Customer Safeguards

A. Cap: The DSIC is capped at 5.0% of the amount billed to customers for distribution service (including all applicable clauses and riders) projected for the quarterly period during which the DSIC charge will be collected.

B. Audit/Reconciliation: The DSIC is subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any provision of 66 Pa C.S. §§ 1350, *et seq.*, shall be credited to customer accounts. The DSIC is subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e), over a one-year period commencing on April 1 of each year. If DSIC revenues exceed DSIC-eligible costs for the reconciliation period, such over-collections will be refunded with interest. Interest on over-collections and credits will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101, *et seq.*) and will be refunded in the same manner as an over-collection. (C)

C. New Base Rates: The DSIC will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the remaining costs (if any) that had previously been recovered under the DSIC. Thereafter, only the costs of new eligible plant additions that have not previously been reflected in the Utility's rates will be reflected in the quarterly updates of the DSIC.

D. Customer Notice: Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change. An explanatory bill insert shall also be included with the first billing.

E. All customer classes: The DSIC shall be applied equally to all customer classes, except that the Company may reduce or eliminate the DSIC to any customer with competitive alternatives or potential competitive alternatives and customers having negotiated contracts with the Company, if it is reasonably necessary to do so.

Exhibit B

Modified DSIC Tariff (Redlined)

PHILADELPHIA GAS WORKS

GAS SERVICE TARIFF



Issued by: Craig White
President and CEO

PHILADELPHIA GAS WORKS
800 West Montgomery Avenue
Philadelphia, PA 19122

PHILADELPHIA GAS WORKS

List of Changes Made by this Tariff Supplement

GENERAL SERVICE – RATE GS (Page No. 83)

The Distribution System Improvement Charge has been added to the list of surcharges.

MUNICIPAL SERVICE – RATE MS (Page No. 87)

The Distribution System Improvement Charge has been added to the list of surcharges.

PHILADELPHIA HOUSING AUTHORITY SERVICE – RATE PHA (Page No. 90)

The Distribution System Improvement Charge has been added to the list of surcharges.

DEVELOPMENTAL NATURAL GAS VEHICLE SVC - RATE NGVS FIRM SERVICE (Page No. 135)

The Distribution System Improvement Charge has been added to the list of surcharges.

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (Page Nos. 151-152)

The Distribution System Improvement Charge has been added as a surcharge.

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GENERAL SERVICE - RATE GS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this
Rate Schedule on or after ~~December~~March 1, 20122013

AVAILABILITY

Available for any purpose where the Company's distribution mains adjacent to the proposed Gas Service location are, or can economically be made, suitable to supply the quantities of Gas or Transportation Services required.

RATES

CUSTOMER CHARGE (per Meter (except parallel meters)):

\$ 12.00 per month for Residential and Public Housing Authority Customers.
\$ 18.00 per month for Commercial Customers
\$ 50.00 per month for Industrial Customers

Surcharge: Distribution System Improvement Charge.

(C)

Plus,

GCR (not applicable to GS Customers who transport gas through a qualified NGS):

\$ ~~0.573230~~0.63991 per Ccf for Residential and Public Housing
\$ ~~0.573230~~0.63991 per Ccf for Commercial Customers
\$ ~~0.573230~~0.63991 per Ccf for Industrial Customers

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

\$0.63863 per Ccf for Residential
\$0.49820 per Ccf for Public Housing
\$0.46530 per Ccf for Commercial and Municipal Customers
\$0.45859 per Ccf for Industrial Customers

(B) Surcharges:

Universal Service and Energy Conservation Surcharge; Restructuring and Consumer Education Surcharge; Efficiency Cost Recovery Surcharge; Other Post Employment Benefit Surcharge and Distribution System Improvement Charge.

(C)

PHILADELPHIA GAS WORKS

SUPPLEMENT NO. ~~5861~~ to
Gas Service Tariff – Pa P.U.C. No.2
~~Fiftieth~~Fifty Third Revised Page No. 83
Canceling ~~Forty Ninth~~Fifty Second Revised Page
No. 83

(C) – Change

MUNICIPAL SERVICE - RATE MS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after ~~December~~March 1, 2012~~2013~~.

AVAILABILITY

Available to properties owned or occupied by the City of Philadelphia or the Board of Education, or any of their respective agencies or instrumentalities, for any type of Gas Service, unless purchased for resale to others, and where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required; provided, however, that the rate shall not be available to Commercial Tenants of any such property.

RATES

CUSTOMER

CHARGE (per Meter (except parallel meters):

\$ 18.00 per month

Surcharge: Distribution System Improvement Charge.

(C)

Plus,

GCR (not applicable to MS Customers who transport Gas through a qualified NGS):

~~\$0.57323~~ 0.63991 per Ccf

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

\$0.34040 per Ccf

(B) Surcharges:

Universal Service and Energy Conservation Surcharge; and The Restructuring and Consumer Education Surcharge; the Efficiency Cost Recovery Surcharge; Other Post Employment Benefit Surcharge; and Distribution System Improvement Charge.

(C)

Also,

PHILADELPHIA GAS WORKS

The following Riders may apply:

(C) – Change

PHILADELPHIA HOUSING AUTHORITY SERVICE - RATE PHA

Rate: Applicable to all Retail Sales Service or Transportation Services rendered pursuant to this Rate Schedule on or after ~~December~~ March 1, 2012 ~~2013~~

AVAILABILITY

Available for all Gas usage in multiple dwelling Residential buildings containing 10 or more dwelling units, owned and operated by the Philadelphia Housing Authority, where cooking shall be performed exclusively with Gas and where Gas Service shall be supplied through one or more single point metering arrangements at locations where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required.

This rate is also available for all Gas usage in single and multiple dwelling Residential buildings, containing less than 10 dwelling units, provided, and only so long as, Gas is used exclusively for cooking, water heating and space heating for all such Residential buildings owned and operated by the Philadelphia Housing Authority, except (a) buildings operated by the Philadelphia Housing Authority, prior to the original effective date of this rate (January 1, 1969), and (b) buildings for which, in the judgment of the Company, such Gas Service cannot be provided economically.

RATES

CUSTOMER

CHARGE (per Meter (except parallel meters);

\$18.00 per month

Surcharge: Distribution System Improvement Charge

(C)

Plus,

GCR (not applicable to PHA customers who transport gas through a qualified NGS):

\$ ~~0.573230~~ 0.63991 per Ccf

Plus

DISTRIBUTION CHARGE:
DISTRIBUTION CHARGE (consisting of item (A) and (B), below):

(A) Delivery Charge:

\$0.41480 per Ccf

(B) Surcharges:

Universal Service and Energy Conversation Surcharge; The Restructuring and Consumer Education

(C)

PHILADELPHIA GAS WORKS

SUPPLEMENT NO. 5861 to
Gas Service Tariff – Pa P.U.C. No.2
~~Fiftieth~~Fifty Third Revised Page No. 90
Canceling ~~Forty Ninth~~Fifty Second Revised Page
No. 90

Surcharge; the Efficiency Cost Recovery Surcharge; Other Post Employment Benefit Surcharge; and
Distribution System Improvement Charge.

(C) – Change

**DEVELOPMENTAL NATURAL GAS VEHICLE SERVICE - RATE NGVS
FIRM SERVICE**

Rate: Applicable to all Retail Sales Service rendered pursuant to this Rate Schedule on or after
~~December~~ March 1, 2012 ~~2013~~

AVAILABILITY

This service is available to provide uncompressed Natural Gas to any Customer for the exclusive purpose of compressing such Gas for use as fuel for motor vehicles. The compression of the Natural Gas to the pressure required for use as a motor vehicle fuel will be conducted by the Customer, at the Customer's designated premises. Service shall only be available where the Company's distribution system is, or can economically be made available to supply the service. Each Customer will be required to execute a service agreement which will specify terms and conditions of service.

CHARACTER OF SERVICE

Service under this rate schedule is firm and shall only be interrupted in the case of operating emergencies experienced by the Company.

MONTHLY RATE

CUSTOMER CHARGE:

\$35.00 per month

Surcharge: Distribution System Improvement Charge

(C)

Plus,

GCR (not applicable to PHA customers who transport gas through a qualified NGS):

~~\$ 0.573230~~ 0.63991 per Ccf

Plus

DISTRIBUTION CHARGE:

DISTRIBUTION CHARGE (consisting of item (A) and (B), below):

(A) Delivery Charge:

\$0.13212 per Ccf

(B) Surcharges:

(C)

Universal Service and Energy Conversation Surcharge; The Restructuring and Consumer Education Surcharge; and Distribution System Improvement Charge.

(C) – Change

PHILADELPHIA GAS WORKS

SUPPLEMENT NO. 5861 to
Gas Tariff – Pa P.U.C. No. 2
Twenty Third ~~Third~~ Sixth Revised Page No. 135
celing Twenty Second ~~Second~~ Fifth Revised Page No. 135

Issued: January 18 April 15, 2013

Effective: March 1, 2013 _____

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC)

(C)

In addition to the net charges provided for in this Tariff, a volumetric charge for each rate class as set forth in this tariff will apply consistent with the Commission Order dated _____ at Docket No. P-2012-2337737 approving the DSIC. The volumetric charges for service rendered on or after March 1, 2013 are:

- a) \$0.04540 per Ccf for Residential and Public Housing Customers on Rate GS;
- b) \$0.03082 per Ccf for Commercial Customers on Rate GS;
- c) \$0.03424 per Ccf for Industrial Customers on Rate GS;
- d) \$0.02706 per Ccf for Municipal Customers on Rate MS; and
- e) \$0.03263 per Ccf for The Philadelphia Housing Authority on Rate PHA.
- f) \$0.03082 per Ccf for Firm Natural Gas Vehicle Service Customers on Rate NGVS.

1. General Description

A. Purpose: To recover the reasonable and prudent costs incurred to repair, improve, or replace eligible property which is completed and placed in service and recorded in the individual accounts, as noted below, between base rate cases and to provide the Utility with the resources to accelerate the replacement of aging infrastructure, to comply with evolving regulatory requirements.

B. Eligible Property: The DSIC-eligible property will consist of the following:

- Piping (account 376);
- Couplings (account 376);
- Gas services lines (account 380) and insulated and non-insulated fittings (account 378);
- Valves (account 376);
- Excess flow valves (account 376);
- Risers (account 376);
- Meter bars (account 382);
- Meters (account 381);
- Unreimbursed costs related to highway relocation projects where PGW must relocate its facilities; and
- Other related capitalized costs.

C. Effective Date: The initial DSIC will become effective March upon one (1, 2013) day notice after submission of a compliance tariff in compliance with commission order.

2. Computation of the DSIC

A. Calculation: The initial DSIC, ~~effective March 1, 2013,~~ shall be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Utility's rates or rate base.

B. Recoverable Costs: The recoverable costs shall be amounts reasonably expended or incurred to purchase and install eligible property and associated financing costs, if any, including debt service, debt service coverage, and issuance costs.

PHILADELPHIA GAS WORKS

C. Application of DSIC: The DSIC will be expressed as a volumetric charge per ccf carried to five decimal places and will be applied to the total customer usage. To calculate the DSIC, the projected annual recoverable costs associated with all property eligible for cost recovery under the DSIC will be divided by the Utility's projected sales volumes for distribution services for the annual period during which the charge will be collected. (C)

D. Formula: The formula for calculation of the DSIC is as follows:

$$\text{DSIC} = \frac{\text{DSI} + e}{\text{PSV}}$$

Where:

DSI = Recoverable costs (defined in Section B. directly above)
e = the amount calculated under the annual reconciliation feature or Commission audit, as described below.
PSV = Projected sales volumes for distribution services for the annual period during which the charge will be collected.

3. Quarterly Updates: Supporting data for each quarterly update (March 1, June 1, September 1 and December 1) will be filed with the Commission and served upon the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ~~one~~ten (10) ~~day~~days prior to the effective date of the update.

4. Customer Safeguards

A. Cap: The DSIC is capped at 5.0% of the amount billed to customers for distribution service (including all applicable clauses and riders) as determined on an annualized basis in the Company's most recent base rate on a customer class basis.

B. Audit/Reconciliation: The DSIC is subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any provision of 66 Pa C.S. §§ 1350, *et seq.*, shall be credited to customer accounts. The DSIC is subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending August 31 of each year. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e), over a one-year period commencing on December 1 of each year. If DSIC revenues exceed DSIC-eligible costs for the reconciliation period, such over-collections will be refunded with interest. Interest on over-collections and credits will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101, *et seq.*) and will be refunded in the same manner as an over-collection.

C. New Base Rates: The DSIC will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the annual costs that had previously been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions that have not previously been reflected in the Utility's rates or rate base will be reflected in the quarterly updates of the DSIC.

D. Customer Notice: Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change. An explanatory bill insert shall also be included with the initial DSIC filing.

E. All customer classes: The DSIC shall be applied equally to all customer classes (as set forth in 4.A. above).

Exhibit B

Modified DSIC Tariff (Clean)

PHILADELPHIA GAS WORKS
GAS SERVICE TARIFF



Issued by: Craig White
President and CEO

PHILADELPHIA GAS WORKS
800 West Montgomery Avenue
Philadelphia, PA 19122

List of Changes Made by this Tariff Supplement

GENERAL SERVICE – RATE GS (Page No. 83)

The Distribution System Improvement Charge has been added to the list of surcharges.

MUNICIPAL SERVICE – RATE MS (Page No. 87)

The Distribution System Improvement Charge has been added to the list of surcharges.

PHILADELPHIA HOUSING AUTHORITY SERVICE – RATE PHA (Page No. 90)

The Distribution System Improvement Charge has been added to the list of surcharges.

DEVELOPMENTAL NATURAL GAS VEHICLE SVC - RATE NGVS FIRM SERVICE (Page No. 135)

The Distribution System Improvement Charge has been added to the list of surcharges.

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (Page Nos. 151-152)

The Distribution System Improvement Charge has been added as a surcharge.

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GENERAL SERVICE - RATE GS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after March 1, 2013

AVAILABILITY

Available for any purpose where the Company's distribution mains adjacent to the proposed Gas Service location are, or can economically be made, suitable to supply the quantities of Gas or Transportation Services required.

RATES

CUSTOMER CHARGE (per Meter (except parallel meters)):

\$ 12.00 per month for Residential and Public Housing Authority Customers.
\$ 18.00 per month for Commercial Customers
\$ 50.00 per month for Industrial Customers

Surcharge: Distribution System Improvement Charge.

(C)

Plus,

GCR (not applicable to GS Customers who transport gas through a qualified NGS):

\$ 0.63991 per Ccf for Residential and Public Housing
\$ 0.63991 per Ccf for Commercial Customers
\$ 0.63991 per Ccf for Industrial Customers

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

\$0.63863 per Ccf for Residential
\$0.49820 per Ccf for Public Housing
\$0.46530 per Ccf for Commercial and Municipal Customers
\$0.45859 per Ccf for Industrial Customers

(B) Surcharges:

Universal Service and Energy Conservation Surcharge; Restructuring and Consumer Education Surcharge; Efficiency Cost Recovery Surcharge; Other Post Employment Benefit Surcharge and Distribution System Improvement Charge.

(C)

(C) – Change

MUNICIPAL SERVICE - RATE MS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after March 1, 2013.

AVAILABILITY

Available to properties owned or occupied by the City of Philadelphia or the Board of Education, or any of their respective agencies or instrumentalities, for any type of Gas Service, unless purchased for resale to others, and where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required; provided, however, that the rate shall not be available to Commercial Tenants of any such property.

RATES

CUSTOMER CHARGE (per Meter (except parallel meters):

\$ 18.00 per month

Surcharge: Distribution System Improvement Charge. (C)

Plus,

GCR (not applicable to MS Customers who transport Gas through a qualified NGS):

\$ 0.63991 per Ccf

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

\$0.34040 per Ccf

(B) Surcharges:

Universal Service and Energy Conservation Surcharge; and The Restructuring and Consumer Education Surcharge; the Efficiency Cost Recovery Surcharge; Other Post Employment Benefit Surcharge; and Distribution System Improvement Charge. (C)

Also,

The following Riders may apply:

(C) – Change

PHILADELPHIA HOUSING AUTHORITY SERVICE - RATE PHA

Rate: Applicable to all Retail Sales Service or Transportation Services rendered pursuant to this Rate Schedule on or after March 1, 2013

AVAILABILITY

Available for all Gas usage in multiple dwelling Residential buildings containing 10 or more dwelling units, owned and operated by the Philadelphia Housing Authority, where cooking shall be performed exclusively with Gas and where Gas Service shall be supplied through one or more single point metering arrangements at locations where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required.

This rate is also available for all Gas usage in single and multiple dwelling Residential buildings, containing less than 10 dwelling units, provided, and only so long as, Gas is used exclusively for cooking, water heating and space heating for all such Residential buildings owned and operated by the Philadelphia Housing Authority, except (a) buildings operated by the Philadelphia Housing Authority, prior to the original effective date of this rate (January 1, 1969), and (b) buildings for which, in the judgment of the Company, such Gas Service cannot be provided economically.

RATES

CUSTOMER CHARGE (per Meter (except parallel meters);

\$18.00 per month

Surcharge: Distribution System Improvement Charge

(C)

Plus,

GCR (not applicable to PHA customers who transport gas through a qualified NGS):

\$ 0.63991 per Ccf

Plus

DISTRIBUTION CHARGE:

DISTRIBUTION CHARGE (consisting of item (A) and (B), below):

(A) Delivery Charge:

\$0.41480 per Ccf

(B) Surcharges:

Universal Service and Energy Conversation Surcharge; The Restructuring and Consumer Education Surcharge; the Efficiency Cost Recovery Surcharge; Other Post Employment Benefit Surcharge; and Distribution System Improvement Charge.

(C)

(C) – Change

**DEVELOPMENTAL NATURAL GAS VEHICLE SERVICE - RATE NGVS
FIRM SERVICE**

Rate: Applicable to all Retail Sales Service rendered pursuant to this Rate Schedule on or after
March 1, 2013

AVAILABILITY

This service is available to provide uncompressed Natural Gas to any Customer for the exclusive purpose of compressing such Gas for use as fuel for motor vehicles. The compression of the Natural Gas to the pressure required for use as a motor vehicle fuel will be conducted by the Customer, at the Customer's designated premises. Service shall only be available where the Company's distribution system is, or can economically be made available to supply the service. Each Customer will be required to execute a service agreement which will specify terms and conditions of service.

CHARACTER OF SERVICE

Service under this rate schedule is firm and shall only be interrupted in the case of operating emergencies experienced by the Company.

MONTHLY RATE

CUSTOMER CHARGE:

\$35.00 per month

Surcharge: Distribution System Improvement Charge

(C)

Plus,

GCR (not applicable to PHA customers who transport gas through a qualified NGS):

\$ 0.63991 per Ccf

Plus

DISTRIBUTION CHARGE:

DISTRIBUTION CHARGE (consisting of item (A) and (B), below):

(A) Delivery Charge:

\$0.13212 per Ccf

(B) Surcharges:

Universal Service and Energy Conversation Surcharge; The Restructuring and Consumer Education Surcharge; and Distribution System Improvement Charge.

(C)

(C) – Change

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC)

(C)

In addition to the net charges provided for in this Tariff, a volumetric charge for each rate class as set forth in this tariff will apply consistent with the Commission Order dated _____ at Docket No. P-2012-2337737 approving the DSIC. The volumetric charges for service rendered on or after March 1, 2013 are:

- a) \$0.04540 per Ccf for Residential and Public Housing Customers on Rate GS;
- b) \$0.03082 per Ccf for Commercial Customers on Rate GS;
- c) \$0.03424 per Ccf for Industrial Customers on Rate GS;
- d) \$0.02706 per Ccf for Municipal Customers on Rate MS; and
- e) \$0.03263 per Ccf for The Philadelphia Housing Authority on Rate PHA.
- f) \$0.03082 per Ccf for Firm Natural Gas Vehicle Service Customers on Rate NGVS.

1. General Description

A. Purpose: To recover the reasonable and prudent costs incurred to repair, improve, or replace eligible property which is completed and placed in service and recorded in the individual accounts, as noted below, between base rate cases and to provide the Utility with the resources to accelerate the replacement of aging infrastructure, to comply with evolving regulatory requirements.

B. Eligible Property: The DSIC-eligible property will consist of the following:

- Piping (account 376);
- Couplings (account 376);
- Gas services lines (account 380) and insulated and non-insulated fittings (account 378);
- Valves (account 376);
- Excess flow valves (account 376);
- Risers (account 376);
- Meter bars (account 382);
- Meters (account 381);
- Unreimbursed costs related to highway relocation projects where PGW must relocate its facilities; and
- Other related capitalized costs.

C. Effective Date: The initial DSIC will become effective upon one (1) day notice after submission of a compliance tariff in compliance with commission order.

2. Computation of the DSIC

A. Calculation: The initial DSIC shall be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Utility's rates or rate base.

B. Recoverable Costs: The recoverable costs shall be amounts reasonably expended or incurred to purchase and install eligible property and associated financing costs, if any, including debt service, debt service coverage, and issuance costs.

C. Application of DSIC: The DSIC will be expressed as a volumetric charge per ccf carried to five decimal places and will be applied to the total customer usage. To calculate the DSIC, the projected annual recoverable costs associated with all property eligible for cost recovery under the DSIC will be divided by the Utility's projected sales volumes for distribution services for the annual period during which the charge will be collected. (C)

D. Formula: The formula for calculation of the DSIC is as follows:

$$\text{DSIC} = \frac{\text{DSI} + e}{\text{PSV}}$$

Where:

DSI = Recoverable costs (defined in Section B. directly above)
e = the amount calculated under the annual reconciliation feature or Commission audit, as described below.
PSV = Projected sales volumes for distribution services for the annual period during which the charge will be collected.

3. Quarterly Updates: Supporting data for each quarterly update (March 1, June 1, September 1 and December 1) will be filed with the Commission and served upon the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

4. Customer Safeguards

A. Cap: The DSIC is capped at 5.0% of the amount billed to customers for distribution service (including all applicable clauses and riders) as determined on an annualized basis in the Company's most recent base rate on a customer class basis.

B. Audit/Reconciliation: The DSIC is subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any provision of 66 Pa C.S. §§ 1350, *et seq.*, shall be credited to customer accounts. The DSIC is subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending August 31 of each year. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e), over a one-year period commencing on December 1 of each year. If DSIC revenues exceed DSIC-eligible costs for the reconciliation period, such over-collections will be refunded with interest. Interest on over-collections and credits will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101, *et seq.*) and will be refunded in the same manner as an over-collection.

C. New Base Rates: The DSIC will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the annual costs that had previously been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions that have not previously been reflected in the Utility's rates or rate base will be reflected in the quarterly updates of the DSIC.

D. Customer Notice: Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change. An explanatory bill insert shall also be included with the initial DSIC filing.

E. All customer classes: The DSIC shall be applied equally to all customer classes (as set forth in 4.A. above).

Exhibit C

