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May 1, 2013

Via Electronic Filing

Rosemary Chiavetta, Secretary
PA Public Utility Commission
P. O. Box 3265
Harrisburg, PA 17105-3265

**Re: Petition of Philadelphia Gas Works for Approval of a Distribution System
Improvement Charge – Docket No. P-2012-2337737
Reply Comments of PGW**

Dear Secretary Chiavetta:

Enclosed please find the Reply Comments of Philadelphia Gas Works in response to the Comments of the Office of Consumer Advocate and the Philadelphia Industrial and Commercial Gas Users Group in the above-referenced matter.

Copies of this filing are to be served in accordance with the attached Certificate of Service.

Sincerely,

A handwritten signature in blue ink that reads "Dan Clearfield". The signature is written in a cursive, flowing style.

Daniel Clearfield

Enclosure

cc: Parties on Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of PGW's Reply Comments 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

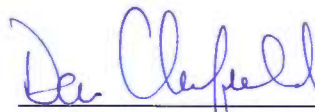
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Date: May 1, 2013



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 :

**REPLY COMMENTS OF
PHILADELPHIA GAS WORKS**

Philadelphia Gas Works (“PGW”), hereby submits these Reply Comments to the Comments of the Office of Consumer Advocate (“OCA”) and the Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”) filed on April 25, 2013 in connection with PGW’s comments made by the Company pursuant to the Commission’s Opinion and Order issued on April 4, 2013 (“Order”)¹ in the above-captioned proceeding.

I. INTRODUCTION

On April 25, 2013, the OCA and PICGUG filed comments in response to the filing of PGW in this matter. In their comments, the parties addressed a number of issues with regard to the “Compliance Tariff” and PGW’s “Modified DSIC Tariff”. In the Commission’s April 4 Order, it indicated that after PGW filed a revised DSIC tariff, or filed comments explaining its original submission, and after interested parties filed responsive comments, the Commission would make its decision after considering comments filed by PGW and the other parties.² These short comments are in response to this final reply comment opportunity set forth in the April 4 Order.

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

² Order at 36.

In several instances, PGW has accepted the revisions suggested by the OCA in its comments. Accordingly, PGW respectfully urges the Commission to issue a directive (either in the form of a secretarial letter or an entered order) permitting PGW to file a compliance tariff reflecting the tariff set forth in its Exhibit A, with the modifications that it has agreed to and which are fully explained below (and which are shown on the attached Attachment 1.)

II. REPLY TO COMMENTS OF THE OCA

In its Comments, the OCA argues that neither PGW's Modified DSIC Tariff nor its Compliance Tariff should be approved as filed as they allegedly differ from the Commission's Implementation Order.³ The Comments of the OCA relating to PGW's Modified DSIC Tariff have been addressed in the Company's filing of April 15, 2013 and will not be repeated here. These Reply Comments will focus on the OCA's Comments with regard to the Compliance Tariff (Exhibit "A") filed by PGW, and will only refer to the justifications for its Modified DSIC Tariff when necessary to further elaborate on the Company's position in this matter. Changes made to the Compliance Tariff to address comments of the OCA are reflected in the Revised Compliance Tariff, attached hereto as Attachment 1.⁴

1. PGW's DSIC should be approved now, and any hearings, if necessary, should be conducted after the DSIC becomes effective.

One of OCA's recommendations is that the Company's DSIC should not be approved absent evidentiary hearings showing that PGW's DSIC is consistent with Act 11 and the

³ *Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Order issued August 2, 2012).

⁴ A redlined version of the Revised Compliance Tariff showing the changes is attached hereto as Attachment 2.

Implementation Order,⁵ On the contrary, delaying the implementation of PGW's DSIC will delay its full accelerated main replacement program. Accordingly, the Commission should adopt OCA's alternative request⁶ and allow the DSIC to be placed into effect now so that PGW can fully initiate the infrastructure improvement commitments reflected in its LTIP. To the extent that any issues remain, the Commission should direct that, after issuing a directive permitting PGW to implement the Compliance Tariff (Exhibit A to its April 15, 2013 filing), as modified to accept OCA suggestions, it can direct that if any party wishes to continue to propose changes in PGW's DSIC it can ask for the matter to be assigned to the Office of Administrative Law Judge to conduct hearings and create a record. Again, such hearing process should occur only *after* the DSIC has gone into effect. The DSIC would still be subject to possible revision and refund after the Commission rules based upon the record created at hearing, so no party would be prejudiced by this process.

2. PGW will provide a specific percentage DSIC charge in its tariff to reflect eligible costs incurred for the applicable period.

In its Comments, the OCA objected to the language in page 151 of the Compliance Tariff where PGW states that "a charge of up to 5% will apply consistent with the Commission Order..."⁷ The OCA's position is that a specific percentage should be stated in this section of the Compliance Tariff.⁸

To address the issue raised by the OCA, PGW proposes to leave a blank where the percentage DSIC rate should be until such time as the percentage charge is calculated by PGW.

⁵ See, OCA Comments at 7, 13-14.

⁶ OCA Comments at 14.

⁷ Compliance Tariff at 151.

⁸ OCA Comments at 12.

Once the Company determines the costs associated with the plant placed in service for the applicable DSIC period, it can calculate the associated percentage charge and fill in the blank in a revised tariff page. This is the approach it utilizes today for its quarterly Gas Cost Rate (“GCR”) and other surcharge filings. Going forward, PGW will submit a revised tariff page on a quarterly basis reflecting the applicable percentage charge based on DSIC-eligible costs incurred in the prior quarter.

3. PGW will use “fixed costs” to calculate the initial DSIC.

In its Comments, the OCA indicates that on Section 2A, in page 151 of the Compliance Tariff, the word “fixed” is omitted from the description of costs to be recovered through the DSIC.⁹ To address this Comment, PGW will add the word “fixed” in Section 2A, so that the beginning of this section will read, “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 and have been placed in service during the three-month period ending one month prior to the effective date of the initial DSIC.”

4. PGW has corrected a typographical error on page 152 of its Compliance Tariff.

In its Comments, the OCA identifies a typographical error on page 152 of the Compliance Tariff. OCA correctly points out that in the first sentence of paragraph 2C, the word “or” should be replaced with “for” so the sentence reads, “applied to the total amount billed to each customer *for* distribution service.” (emphasis added). PGW will make this correction to the Compliance Tariff to address this comment.

⁹ OCA Comments at 12.

5. The OCA’s suggestion to have PGW used one fourth of annual costs to calculate its DSIC appears to be inapplicable to PGW.

The OCA proposes that PGW’s Compliance Tariff provide that to calculate the DSIC, PGW should use “one fourth of the annual recoverable costs associated with all property eligible for cost recovery under the DSIC.”¹⁰ In its Compliance Tariff, PGW uses “the recoverable costs associated with all property eligible for cost recovery under the DSIC.”¹¹ Using one fourth of annual recoverable costs to calculate the DSIC, as the OCA suggests, is incorrect because PGW will recover what it *actually* spends on eligible projects placed in service in the quarter 30 days prior to each DSIC update. PGW does not recover an annual rate of return (“ROR”) or annual depreciation as other investor-owned utilities do, so it makes no sense for PGW to use a quarter of an annualized expense amount.¹² Accordingly, PGW is not proposing to adopt this OCA suggestion.

6. PGW’s Revised Compliance Tariff reflects the Model Tariff on its description of the 5% DSIC cap.

In its Comments, the OCA points out the Paragraph 4A of the Company’s Compliance Tariff does not track the language in the Model Tariff verbatim with regard to the description of the 5% cap.¹³ PGW is revising Section 4A of its Compliance Tariff to mirror the language in the Model Tariff and to address the comment of the OCA on this issue.

¹⁰ OCA Comments at 12.

¹¹ *See*, Compliance Tariff, p. 152, Section 2C.

¹² In its Implementation Order, the Commission stated that “fixed costs” consist of depreciation and pretax return applicable to the eligible property placed into service during the three-month period. *Implementation Order* at 30. The annual depreciation or ROR rate components are absent from PGW’s rate calculations and they cannot be a basis for calculating the Company’s fixed costs or recoverable DSIC expense. Instead, PGW uses a pay-go methodology to account for infrastructure improvement costs and must use actual spent amounts to calculate its DSIC.

¹³ OCA Comments at 13.

7. PGW will reduce or eliminate the DSIC for customers with competitive alternatives and customers with negotiated contracts only.

The OCA has proposed that the Compliance Tariff at page 153, Paragraph 4E, refer only to customers with competitive alternatives and exclude customers with “potential” competitive alternatives.¹⁴ To address this objection by the OCA, PGW will limit the exclusion of the DSIC charge to customers with competitive alternatives and customers having negotiated contracts with the Company in accordance with the Implementation Order. Customers with potential competitive alternatives will not be included in Section 4E of the Compliance Tariff. These changes are reflected in the Revised Compliance Tariff attached hereto as Attachment 1.

III. REPLY COMMENTS TO ISSUES RAISED BY PICGUG

In its Comments, PICGUG objects to provisions of PGW’s Compliance Tariff. The issues raised by PICGUG that are associated with PGW’s alternative tariff approach (Exhibit B to its filing) have been addressed by PGW in prior filings. The following are PGW’s responses to relevant comments of PICGUG.

1. In its Compliance Tariff, PGW properly provides for the reduction or elimination of the DSIC for customers with competitive alternatives and customers with negotiated contracts.

As discussed above, PGW has included language in its Tariff that excludes customers with competitive alternatives and negotiated contracts from the application of the DSIC. PICGUG complains that this exclusion is discretionary and wants to see language that eliminates any discretion on the part of PGW to eliminate the charge for these two types of customers.¹⁵

¹⁴ OCA Comments at 13.

¹⁵ See, PICGUG Comments at 4-6.

PICGUG objects to the use of the word “may” and the phrase “if it is reasonably necessary to do so” in the context of Section 4E of the Compliance Tariff.

PICGUG’s suggestion to completely abandon any discretion by the Company to exclude customers with competitive alternative or negotiated contracts is inconsistent with the Implementation Order and should be rejected. As explained before, the Commission decided that “utilities should have the *flexibility* to *not* apply the DSIC surcharge to customers with competitive alternatives and customers having negotiated contracts from the utility.”¹⁶ The plain language of the Implementation Order militates against PICGUG’s proposal to abandon all flexibility with regard to excluding these certain customers from the DSIC charge. The language used by the Company in its Compliance Tariff, as revised above in these Reply Comments, is consistent with the PUC’s directive on this issue and, as such, should be approved.

2. PGW’s Compliance Tariff provides for a percentage DSIC charge as sought by PICGUG, so billing should not delay implementation of the DSIC.

In its Comments, PICGUG argues that the DSIC should be a percentage charge that should appear as a separate line item on the customer’s bill.¹⁷ Further, PICGUG argues that implementation of the DSIC should be forestalled until PGW has the capability to show the DSIC as a line item on the bill.¹⁸

¹⁶ *Implementation Order* at 46 (emphasis added).

¹⁷ PICGUG Comments at 6-10. To the same effect is OCA’s comments that PGW should be required to “prove” that its billing system will not accommodate a line item charge for the DSIC. Having hearings on this issue would appear to be a needless expenditure of time and resources since PGW has represented the factual circumstances to the Commission as accurately as it understands them. But if OCA wishes to pursue this issue it may do so, but only *after* the DSIC as proposed in the Compliance Filing (with the modifications agreed to here) is placed into effect.

¹⁸ *Id.* at 9.

On the first point, PGW's Compliance Tariff indeed utilizes a percentage DSIC in accordance with the April 4, 2013 Order, so this complaint is moot. However, PICGUG's suggestion that a separate line item on the bill should be required prior to the DSIC going into effect is completely inappropriate and should be rejected. As PGW has explained in its prior filing, a separate line item for the DSIC charge is not required by Act 11 or any Commission regulation or Order. In addition, PGW has made clear that, at present, it lacks the capability to implement such a billing change due to limitations to its billing system and that it would take over a one year to configure its billing system to be able to present such a charge on its bill. A delay of over one year in the implementation of the DSIC in order to implement a discretionary billing methodology is hardly reasonable. Moreover it should be noted that PGW has a variety of distribution system surcharges none of which are not shown separately on the customer's bill.¹⁹ The Commission should put the DSIC into effect as expeditiously as possible for PGW and should refer any remaining issues to an ALJ for resolution after the DSIC goes into effect. If PICGUG insists on a line item charge on the bill, even though such a charge is not required by law or the Commission, it can pursue such a claim in hearings after the DSIC is permitted to go into effect as proposed in PGW's Compliance Tariff.

3. PICGUG proposal for a “backstop” for collection of DSIC revenues is contrary to law and should be rejected.

PICGUG proposes that the Commission create a “backstop” for recovery of DSIC revenues to prevent PGW from recouping its eligible costs in “virtual perpetuity.”²⁰ PICGUG

¹⁹ Although the distribution rate reflects surcharges for Universal Service and Energy Conservation and Other Post Employment Benefits, PGW does not show any individual surcharges on the bill. PGW only has a customer charge, a distribution charge (delivery charge plus surcharges), a commodity charge, a Gas Adjustment Charge and the Weather Normalization Adjustment on the bill.

²⁰ PICGUG Comments at 12.

conjures the possibility that PGW could recover 5% of revenues for decades without filing a rate case.²¹ This outlandish proposal should be rejected as speculative and contrary to Act 11.

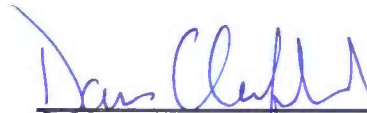
There is no justification for, or need to create, a so-called backstop to recovery. First, there is no such requirement in Act 11. Moreover, the statute already provides protection against the sort of eventuality that PICGUG imagines. Act 11 sets a limit to recovery in the form of a 5% cap. The cap not only limits the amount of recovery available to PGW, but also virtually eliminates the possibility that PGW will stay out indefinitely and not file for a rate case in decades, as feared by PICGUG. The statute allows for the recovery of a portion of the amount the Company spends as part of its overall infrastructure improvement program. Recovery of a modest amount of actual costs for incremental plant additions will not lead to a windfall so large that PGW will be able to forgo rate increases for any significant period of time. PGW's operational costs will continue to increase and the Company's ability to grow its customer base will continue to be limited. It will be impossible for PGW to avoid filing rate increases with the Commission in the foreseeable future. PICGUG's fears of unlimited recovery in perpetuity are unfounded, and therefore, the Commission should reject the proposal for an unnecessary backstop to the cost recovery mechanism authorized by Act 11.

²¹ *Id.* at 13.

IV. CONCLUSION

Based on the foregoing, PGW respectfully requests that the Commission approve PGW's Compliance Tariff, or its Modified DSIC Tariff, and establish an effective date as soon as possible subject to investigation, refund and recoupment.

Respectfully submitted



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May 1, 2013

Attachment 1

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 ____% 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 fixed 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 for 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) as determined on an annualized 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 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 and customers having negotiated contracts with the Company, if it is reasonably necessary to do so.

Attachment 2

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 fixed 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 for~~ 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~~ as determined on an annualized 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 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.

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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.