

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

Philadelphia Gas Works

**Public Meeting – October 22, 2015
2468141-AUD
Docket No. D-2015-2468141**

**STATEMENT OF
COMMISSIONER ROBERT F. POWELSON**

Before the Commission for consideration today is the Bureau of Audits' (Audits) recommendation to make public the Stratified Management and Operations Audit of Philadelphia Gas Works (PGW). The audit is insightful and I would like to highlight a few portions here this morning.

The issue of at-risk mains, both bare steel and cast iron, continues to be a top priority of PGW and this Commission. Our Staff's report of April 21, 2015, highlighted the problem of risky gas mains in exceptional detail. While recognizing the extensive amount of pipe that needs to be replaced, along with the high cost of urban pipe replacement,¹ Staff concluded that "[t]he other large NGDCs are replacing at-risk pipe in an aggressive time period, and PGW should be no different. Staff maintains that safety should not be compromised; therefore, PGW's objective should be to strive to replace its at-risk pipe at a rate closer to the average rate of the other Pennsylvania NGDCs."²

In the audit before us, Recommendation VII-7 urges PGW to accelerate high-risk main replacement, noting that the company has the highest leak rate among its peers. In response, PGW explains that it intends to increase main replacement spending to a projected \$50 million in 2016. I am confident that PGW understands the grave importance of this issue and the Commission will continue to monitor these efforts. PGW's agreement to employ a greater number of outside contractors for leak-related excavation work and, therefore, more aggressively and timely attack leaks in response to Recommendation VII-9 is a much needed improvement.

The subject of security, both physical and cyber, raises important and ongoing concerns in any organization. In an effort to address this, PGW has agreed to perform penetration testing and vulnerability assessments annually under Recommendation III-9.

There are also improvements for PGW to make in the area of consumer complaints and late billing under Recommendations VIII-6 and VIII-9. The audit reports that the level of customer complaints has been increasing at PGW. To address this, PGW agrees to undertake a root cause analysis to be completed by the end of 2016. Moreover, the audit recommends that

¹ In 2013, PGW's replacement cost per mile was \$1,464,734, while the statewide average was \$753,713.

² Staff Report of April 21, 2015 at 36.

PGW reduce back billing. Timely billing, particularly given the sensitivity surrounding PGW's legal authority to place liens on property, is of critical importance.

At a time when PGW has committed to increasing capital spending to address at-risk pipe, it is important to find every efficiency in order to alleviate upward pressure on rates. To that end, PGW agreed to reduce high-cost gas supply assets, such as storage, that are no longer necessary to meet peak demand and to increase reliance on low-cost, local supplies from the Appalachian basin under Recommendation VII-3. These reduced gas costs will help offset any increases to customers' distribution rates.

Finally, in closing, I note that PGW accepted, at least in part, every recommendation except for Recommendation IV-1, which deals with the perennial suggestion to improve PGW's governance. PGW does not disagree with the recommendation, but simply states that the issue is "beyond the capacity of PGW Management to address."³ I understand that PGW is not in a position to accept this recommendation. However, this is an important area that needs action and I will continue to urge Philadelphia's Mayor and City Council to address the inefficiencies and confusion of having two governing boards for PGW.

Date: October 22, 2015



ROBERT F. POWELSON
COMMISSIONER

³ PGW Implementation Plan at 45.