

Carl R. Shultz
717.255.3742
cshultz@eckertseamans.com

November 20, 2015

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 Waiver of Provisions of Act 11 to Increase the Distribution System Improvement Charge Cap and to Permit Levelization of DSIC Charges, Docket No. P-2015-2501500

Dear Secretary Chiavetta:

For clarity, and for the convenience of the Administrative Law Judges and the Public Utility Commission, enclosed for filing please find clean (Exhibit 1) and redlined (Exhibit 2) pages to Appendix A of Philadelphia Gas Works' ("PGW") Main Brief. These pages correct inadvertent errors in citations and do not change the substance of PGW's Proposed Findings of Fact. Copies of the above filing have been served in accordance with the attached Certificate of Service.

Sincerely,



Carl R. Shultz

CRS/lww
Enclosure

cc: Hon. Christopher P. Pell w/enc.
Hon. Marta Guhl, w/enc.
Cert. of Service w/enc.

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of the foregoing Letter and Exhibits upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

Via Email and/or First Class Mail

Darryl Lawrence, Esq.
Erin Gannon, Esq.
Ashley Everette
Valerie Hironimus
Office of Consumer Advocate
5th Floor, Forum Place Bldg.
555 Walnut Street
Harrisburg, PA 17101-1921
dlawrence@paoca.org
egannon@paoca.org
aeverette@paoca.org
vhironimus@paoca.org

Sharon Webb, Esq.
Office of Small Business Advocate
Commerce Building, Suite 202
300 North 2nd Street
Harrisburg, PA 17101
swebb@state.pa.us

Robert D. Knecht
Industrial Economics Inc.
2067 Massachusetts Ave.
Cambridge, MA 2140
rdk@indecon.com

Gina L. Lauffer, Esq.
Carrie Wright, Esq.
Bureau of Investigation & Enforcement
PA Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120
ginlauffer@pa.gov
carwright@pa.gov

Charis Mincavage, Esq.
Adelou Bakare, Esq.
Elizabeth Trinkle, Esq.
McNees Wallace & Nurick, LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166
cmincava@mwn.com
ABakare@mwn.com
etrinkle@mwn.com


John Finnigan, Esquire
Environmental Defense Fund
128 Winding Brook Lane
Terrace Park, OH 45174
jfinnigan@edf.org

Michael Panfil, Esquire
Environmental Defense Fund
1875 Connecticut Ave., N.W.
Washington, D.C. 20009
mpanfil@edf.org

Heather Langeland, Esquire
Environmental Defense Fund
200 First Ave., Suite 200
Pittsburgh, PA 15222
langeland@pennfuture.org

Joseph Otis Minott, Esq.
Ernest Logan Welde, Esq.
Clean Air Council
135 S. 19th St., Suite 300
Philadelphia, PA 19103
Joe_minott@cleanair.org
lwelde@cleanair.org

Dated: November 20, 2015



Carl R. Shultz, Esq.

Exhibit 1

Clean Pages

6. Act 11 establishes a cap on the DSIC of 5% of distribution revenues. 66 Pa. C. S. § 1358(a)(1).

7. Act 11 further provides that the Commission may upon petition grant a waiver of the 5% limit under this paragraph for a utility in order to ensure and maintain adequate, efficient, safe, reliable and reasonable service. 66 Pa. C. S. § 1358(a)(2) (emphasis added).

8. The provisions of Act 11 were codified in Chapter 13 of the Public Utility Code. 66 Pa. C.S. §§ 1350 to 1360.

PGW LTIIIP

9. PGW filed an LTIIIP with the Commission on December 3, 2012, which was approved on April 4, 2013. *Petition of Philadelphia Gas Works for Approval of its Long-Term Infrastructure Improvement Plan*, PUC Docket No. P-2012-2337737, Opinion and Order entered on April 4, 2013 (“LTIIIP DSIC Order”).

10. PGW’s Commission-approved LTIIIP describes the process of evaluating, improving, and replacing its distribution related facilities and equipment, the plans to continue accelerated investments under this process, and the categories and estimated cost of DSIC-eligible property that PGW expects to install over a five-year period (2013 to 2017). PGW Exh. DPM-1.

11. PGW’s LTIIIP proposed that it would advance the replacement of high risk, cast iron main by adding to its historical “18 mile” program. PGW Exh. DPM-1 at 6, 10-11.

12. PGW identified the following property in its LTIIIP for replacement in Phase 1 of its plan: (i) 12 inch and smaller high pressure main (High Pressure [HP] or 10-35 psig); (ii) 30

52. PGW is not in the financial position that it could comfortably finance its proposed increase in DSIC-funded main replacement from its present base rates without threatening its current financial health. PGW. St. 3-R at 2.

53. Funding DISC-eligible construction from internal generation would also reduce the Company's coverages in FY 2015 to just 1.59% (the minimum is 1.5%) and have a negative effect on its debt to total capitalization ratio. PGW St. 3-R at 5.

54. Funding DISC-eligible construction from short-term financing would seriously hamper PGW's short-term liquidity. PGW's short-term debt is limited to \$120 million. Tr. 76; PGW St. 3-R at 7-8.

55. Funding DISC-eligible construction from long-term financing would have a deleterious effect on PGW's debt to total capitalization ratios, and would be more expensive than other funding options. PGW St. 3-R at 2, 8-11.

Waiver of \$18 Million Payment By The City

56. Section 2212(f) of the Public Utility Code does not authorize the Commission to interfere with the payment of the \$18 million City fee by PGW, and requires it to be collected in rates from customers. 66 Pa. C.S. § 2212(f).

57. City is well aware of the suggestion in the PUC Staff Report, as well as similar suggestions made by the witnesses in this proceeding to grant back the City Fee, and has considered and rejected them under the present circumstances. Tr. 85; PGW St. 3-R at 10-12.

- a. As recently as the day before the hearing in this case, PGW asked the City to voluntarily agree to grant back the City Fee to pay for accelerated main replacement and the City rejected the request. Tr. 85.

62. The “placed in service in the last quarter rule” stems from the requirement that investor-owned utilities may only receive a return on property that is “used and useful” in providing public utility service. PGW St. 2 at 6-7.

63. As a cash flow company, PGW’s revenue requirement is not set on a rate of return/rate base basis, but on a “cash flow basis. PGW St. 2 at 9.

64. PGW’s cash flow ratemaking methodology is inconsistent with this “placed in service” requirement. PGW St. 2-R at 5-9.

65. PGW’s current DSIC structure has further resulted, and will continue to result in, PGW’s lowest DSIC being applied during the highest sales volume quarter. PGW St. 2 at 7. This leads to PGW billing less annual DSIC revenue than intended. PGW St. 2 at 8-9; PGW St. 2 at 7.

66. In some quarters, the value of facilities it places into service was in excess of the existing cap, requiring PGW to delay billing for main replacement expenditures actually expended. PGW St. 2 at 8; PGW St. 2 at 7. This means that in some quarters PGW’s billings to recover expenditures to replace cast iron main is lower – in some cases, far lower – than 5% of PGW’s distribution revenues. PGW St. 2 at 7.

67. Not only does this result in a DSIC that is difficult for customers to understand and for PGW to administer, but also means that PGW will not be able to fully bill at the cap level, whether 5% or 7.5%. PGW St. 2 at 7-8.

68. As a cash flow regulated utility with no rate base it would be more appropriate to levelize and annualize the DSIC charge so that PGW can bill customers at a uniform 7.5% level

Note that in the first year, the ‘annual’ reconciliation will have 16 months of recoverable costs due to this lag. PGW St. 2 at 12-13.

Quarterly Adjustments

74. PGW expects to adjust the DSIC levels for material differences to mitigate against a material over or under collection. Tr. 56-58; PGW St. 2 at 10; PGW St. 2-R at 8.

75. During a year, PGW may (a) make changes to the construction budget for the accelerated replacement program and (b) review the annualized DSIC percentage. PGW St. 2 at 10; PGW St. 2-R at 8. That process may lead to revisions and/or quarterly adjustments to the annualized DSIC percentage. Tr. 51-52; PGW St. 2-R at 8.

76. Revisions or adjustments would be made for the difference between projected and actual billed amounts, and to recognize changes to the construction budget during the year for the accelerated replacement. PGW St. 2 at 10; PGW St. 2-R at 8.

77. PGW expects that a material difference would be triggered by an increase or decrease in its projected DISC-eligible costs of \$200,000. Tr. 56, 61-64.

Audit and Reconciliation

78. PGW notes that the request for levelization and annualization will not impact the audit and reconciliation process. *See* PGW St. 2 at 11-13; PGW St. 2-R at 7-11. *See* 66 Pa. C.S. § 1358(e).

79. The PUC’s Division of Audits conducts audits on the DSIC periodically, and an annual reconciliation audit is conducted to ascertain any over or under-collections. PGW St. 2-R at 7; 66 Pa. C.S. § 1358(e).

86. If PGW's projected DSIC funded construction budget for a calendar year would be 7.5% of PGW's distribution revenue, then PGW would lack the ability to collect any under-collections in the next year, or it would have to reduce its DSIC-financed construction. Tr. 54; PGW St. 2 at 12.

PGW Budget Billing Program

87. PGW has had a budget billing offering since before it came under PUC jurisdiction. PGW St. 2-R at 8.

88. As of October 2015, it had over 42,000 customers in its (non-payment agreement) budget billing program and as far as it knows, the program meets all PUC regulatory requirements and is adequately serving all customers who wish to avail themselves of it. PGW St. 2-R at 8.

89. PGW customers take advantage of these programs based on eligibility and need/desire. In addition, virtually all payment agreement customers are required to enroll in budget billing and remit their monthly payment agreement amount in addition to its budget billing amount. PGW St. 2-R at 8-9.

90. Nothing in the record suggests that PGW's residential customers are not aware of PGW's budget billing program and/or a need to modify the budget billing program itself.

Projected Customer Impacts

91. Increasing petitioner's DSIC to 7.5% (exclusive of reconciliation) will cause the average residential customer's annual bill to increase by approximately \$19.80. That annual amount equals \$1.65 per month. PGW St. 2 at 6.

Exhibit 2

Redlined Pages

6. Act 11 establishes a cap on the DSIC of 5% of distribution revenues. 66 Pa. C. S. § 1358(a)(~~1~~2).

7. Act 11 further provides that the Commission may upon petition grant a waiver of the 5% limit under this paragraph for a utility in order to ensure and maintain adequate, efficient, safe, reliable and reasonable service. 66 Pa. C. S. § 1358(a)(2) (emphasis added).

8. The provisions of Act 11 were codified in Chapter 13 of the Public Utility Code. 66 Pa. C.S. §§ 1350 to 1360.

PGW LTIIIP

9. PGW filed an LTIIIP with the Commission on December 3, 2012, which was approved on April 4, 2013. *Petition of Philadelphia Gas Works for Approval of its Long-Term Infrastructure Improvement Plan*, PUC Docket No. P-2012-2337737, Opinion and Order entered on April 4, 2013 (“LTIIIP DSIC Order”).

10. PGW’s Commission-approved LTIIIP describes the process of evaluating, improving, and replacing its distribution related facilities and equipment, the plans to continue accelerated investments under this process, and the categories and estimated cost of DSIC-eligible property that PGW expects to install over a five-year period (2013 to 2017). PGW Exh. DPM-1.

11. PGW’s LTIIIP proposed that it would advance the replacement of high risk, cast iron main by adding to its historical “18 mile” program. PGW Exh. DPM-1 at 6, 10-11.

12. PGW identified the following property in its LTIIIP for replacement in Phase 1 of its plan: (i) 12 inch and smaller high pressure main (High Pressure [HP] or 10-35 psig); (ii) 30

52. PGW is not in the financial position that it could comfortably finance its proposed increase in DSIC-funded main replacement from its present base rates without threatening its current financial health. PGW. St. 3-R at 2.

53. Funding DISC-eligible construction from internal generation would also reduce the Company's coverages in FY 2015 to just 1.59% (the minimum is 1.5%) and have a negative effect on its debt to total capitalization ratio. PGW St. 3-R at 5.

54. Funding DISC-eligible construction from short-term financing would seriously hamper PGW's short-term liquidity. PGW's short-term debt is limited to \$120 million. Tr. 76; PGW St. 3-R at 7-8.

55. Funding DISC-eligible construction from long-term financing would have a deleterious effect on PGW's debt to total capitalization ratios, and would be more expensive than other funding options. PGW St. 3-R at 2, 8-11.

Waiver of \$18 Million Payment By The City

56. Section 2212(f) of the Public Utility Code does not authorize the Commission to interfere with the payment of the \$18 million City fee by PGW, and requires it to be collected in rates from customers. 66 Pa. C.S. § 2212(f).

57. City is well aware of the suggestion in the PUC Staff Report, as well as similar suggestions made by the witnesses in this proceeding to grant back the City Fee, and has considered and rejected them under the present circumstances. Tr. 85; PGW St. 3-R at 10-12.

- a. As recently as the day before the hearing in this case, PGW asked the City to voluntarily agree to grant back the City Fee to pay for accelerated main replacement and the City rejected the request. Tr. 85.

62. The “placed in service in the last quarter rule” stems from the requirement that investor-owned utilities may only receive a return on property that is “used and useful” in providing public utility service. PGW St. 2-R at 6-7.

63. As a cash flow company, PGW’s revenue requirement is not set on a rate of return/rate base basis, but on a “cash flow basis. PGW St. 2 at 9.

64. PGW’s cash flow ratemaking methodology is inconsistent with this “placed in service” requirement. PGW St. 2-R at 5-9.

65. PGW’s current DSIC structure has further resulted, and will continue to result in, PGW’s lowest DSIC being applied during the highest sales volume quarter. PGW St. 2 at 7. This leads to PGW billing less annual DSIC revenue than intended. PGW St. 2 at 8-9; PGW St. 2 at 7.

66. In some quarters, the value of facilities it places into service was in excess of the existing cap, requiring PGW to delay billing for main replacement expenditures actually expended. PGW St. 2 at 8; PGW St. 2 at 7. This means that in some quarters PGW’s billings to recover expenditures to replace cast iron main is lower – in some cases, far lower – than 5% of PGW’s distribution revenues. PGW St. 2 at 7.

67. Not only does this result in a DSIC that is difficult for customers to understand and for PGW to administer, but also means that PGW will not be able to fully bill at the cap level, whether 5% or 7.5%. PGW St. 2 at 7-8.

68. As a cash flow regulated utility with no rate base it would be more appropriate to levelize and annualize the DSIC charge so that PGW can bill customers at a uniform 7.5% level

Note that in the first year, the ‘annual’ reconciliation will have 16 months of recoverable costs due to this lag. PGW St. 2 at 12-13.

Quarterly Adjustments

74. PGW expects to adjust the DSIC levels for material differences to mitigate against a material over or under collection. Tr. 56-58; PGW St. 2 at 10; PGW St. 2-R at 8.

75. During a year, PGW may (a) make changes to the construction budget for the accelerated replacement program and (b) review the annualized DSIC percentage. PGW St. 2 at 10; PGW St. 2-R at 8. That process may lead to revisions and/or quarterly adjustments to the annualized DSIC percentage. Tr. 51-52; PGW St. 2-R at 8.

76. Revisions or adjustments would be made for the difference between projected and actual billed amounts, and to recognize changes to the construction budget during the year for the accelerated replacement. PGW St. 2 at 10; PGW St. 2-R at 8.

77. PGW expects that a material difference would be triggered by an increase or decrease in its projected DISC-eligible costs of \$200,000. Tr. 56, 61-64.

Audit and Reconciliation

78. PGW notes that the request for levelization and annualization will not impact the audit and reconciliation process. *See* PGW St. 2 at 11-13; PGW St. 2-R at 7-11. *See* 66 Pa. C.S. § 1358(e).

79. The PUC’s Division of Audits conducts audits on the DSIC periodically, and an annual reconciliation audit is conducted to ascertain any over or under-collections. PGW St. 2-R at 7; 66 Pa. C.S. § 1358(e).

86. If PGW's projected DSIC funded construction budget for a calendar year would be 7.5% of PGW's distribution revenue, then PGW would lack the ability to collect any under-collections in the next year, or it would have to reduce its DSIC-financed construction. Tr. 54; PGW St. 2 at 12.

PGW Budget Billing Program

87. PGW has had a budget billing offering since before it came under PUC jurisdiction. PGW St. 2-R at 8.

88. As of October 2015, it had over 42,000 customers in its (non-payment agreement) budget billing program and as far as it knows, the program meets all PUC regulatory requirements and is adequately serving all customers who wish to avail themselves of it. PGW St. 2-R at 8.

89. PGW customers take advantage of these programs based on eligibility and need/desire. In addition, virtually all payment agreement customers are required to enroll in budget billing and remit their monthly payment agreement amount in addition to its budget billing amount. PGW St. 2-R at 8-9.

90. Nothing in the record suggests that PGW's residential customers are not aware of PGW's budget billing program and/or a need to modify the budget billing program itself.

Projected Customer Impacts

91. Increasing petitioner's DSIC to 7.5% (exclusive of reconciliation) will cause the average residential customer's annual bill to increase by approximately \$19.80. That annual amount equals \$1.65 per month. PGW St. 2 at 6.