

Environmental Defense Fund
128 Winding Brook Lane
Terrace Park, Ohio 45174

January 4, 2016

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17015-3265

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:

Enclosed, please find an original copy of Environmental Defense Fund's Reply to
Exceptions of the Philadelphia Industrial and Commercial Gas Users Group in the above-
captioned matter.

Copies are being served in accordance with the attached Certificate of Service.

Sincerely,

/s/ John Finnigan

John Finnigan

cc: All Counsel of Record (w/ encl.)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of Philadelphia Gas Works for :
Waiver of Provisions of Act 11 to Increase :
the Distribution System Improvement : Docket No. P-2015-2501500
Charge Cap and to Permit Levelization :
of DSIC Charges :

**REPLY OF ENVIRONMENTAL DEFENSE FUND
TO EXCEPTIONS OF
PHILADELPHIA INDUSTRIAL AND COMMERCIAL
GAS USERS GROUP**

For its Reply to the Exceptions of the Philadelphia Industrial and Commercial Gas Users Group (PICGUG), the Environmental Defense Fund (EDF) states as follows:

I. PICGUG’S EXCEPTION NO. 1: THE ALJs ERRED IN FINDING THAT PGW MET ITS BURDEN OF PROOF OF PROVING AN INCREASE TO THE DSIC CAP TO BE NECESSARY (R.D., pp. 56-57).

PICGUG’s first exception to the ALJs’ decision is that the ALJs erred in finding that Philadelphia Gas Works (PGW) met its burden of proof to show that an increase to the DSIC charge was necessary. PICGUG offers two reasons why this finding was in error.

First, PICGUG argues that the DSIC increase was not necessary because PGW could have funded the pipe replacement from available cash on hand. This argument is without merit. The Commission Staff recommended that PGW seek an increase to its DSIC charge. The Staff is familiar with PGW’s financial condition and PGW’s need to replace its gas mains. The Staff’s recommendation supports the ALJs’ conclusion that the DSIC increase was necessary.

In addition to the Staff’s recommendation, Mr. Golden testified in support of the DSIC charge increase.

Mr. Golden testified that using available cash on hand would impair PGW’s financial condition and any available internal funding would not pay for a significant increase in PGW’s

pipeline replacement program. PGW's cash on hand is needed to meet ordinary operating expenses as well as any unplanned expenses that may arise during the course of the year. The cash on hand is reflected as an asset in PGW's balance sheet. If PGW used its cash on hand to pay for the pipeline replacement program, then PGW might not have enough cash on hand to pay for other budgeted expenses and unplanned expenses with might arise during the course of the year.

Moreover, using cash on hand to pay for the pipeline replacement program would significantly impair PGW's balance sheet. With an impaired balance sheet, the credit rating agencies could downgrade PGW's financial condition. This would make it more costly for PGW to borrow funds for ongoing operations. The higher borrowing costs would be passed on to customers in the form of higher utility rates. This certainly would not be in the customers' best interests. PGW necessarily had to increase its DSIC charge to pay for the main replacement program because using cash on hand to finance the program would ultimately cost customers more money than using a higher DSIC charge to finance the program.

Second, PICGUG argues that the DSIC charge increase was not necessary because PGW failed to request a waiver of its annual \$18 million payment to the City of Philadelphia. Actually, PICGUG admits that PGW made such a request, and PICGUG's real objection is that the request wasn't "vigorous" enough to suit PICGUG. This argument is without merit. PGW was not required to show that it repeated this request to the City on multiple occasions, or that the request was made by PGW's CEO directly to the Mayor. It is undisputed that PGW made this request to the City and PGW's request was denied.

Based on the foregoing, PICGUG's first exception should be overruled.

II. PICGUG'S EXCEPTION NO. 2: THE ALJS ERRED IN FINDING THAT PGW'S PROPOSAL TO ADD A SEPARATE 2.5% CAP FOR RECONCILIATION ADJUSTMENTS IS ACCEPTABLE, AS PGW'S PROPOSAL DOES NOT COMPORT WITH THE REQUIREMENTS OF ACT 129.

PICGUG claims that the ALJs' decision erred because it fails to explain why a separate 2.5% cap for reconciliation adjustments is reasonable, and this violates the requirements of Act 129. This argument is without merit. The ALJs explained this at page 79 of their recommended decision. As they discussed, the purpose of the 2.5% cap for reconciliation adjustments is to accommodate under-collections that may occur from one year to the next. PICGUG cites no statute or decision to support its contention that this violates Act 129. Based on the foregoing, PICGUG's second exception should be overruled.

For all the reasons explained above, EDF respectfully requests that the Commission overrule PICGUG's exceptions and approve PGW's application as recommended in the ALJs' proposed decision.

Date: January 4, 2016

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CERTIFICATE OF SERVICE

I hereby certify that on January 4, 2016, I served a true copy of the foregoing document upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), via email and first class mail, upon the persons listed below:

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