

# **PHILADELPHIA GAS WORKS**



**REPORT ON THE STATEMENTS OF  
GAS COST RATE  
FOR THE 12-MONTH PERIODS ENDED  
DECEMBER 31, 2016 AND DECEMBER 31, 2015**

**Pennsylvania Public Utility Commission  
Bureau of Audits  
June 4, 2020**

**Docket No. D-2018-3001214**

# PHILADELPHIA GAS WORKS

## Table of Contents

	<u>Page</u>
<b>BACKGROUND</b>	1
<b>FINANCIAL REVIEW</b>	
Independent Auditor's Report	2
Gas Cost Rate (GCR) Over/(Under) Collections (Section 1307(f)) for the 12 months ended December 31, 2016	4
Gas Cost Rate (GCR Over/(Under) Collections (Section 1307(e)) for the 12 months ended August 31, 2015	5
Notes to the Financial Statements	6
Disposition of Prior Finding	7
Current Audit Findings	7
<b>ACKNOWLEDGEMENT</b>	9

# PHILADELPHIA GAS WORKS

## Background

Philadelphia Gas Works (PGW) is the nation's largest municipally-owned gas utility and is owned by the City of Philadelphia (City). The City manages and oversees PGW's operations through a non-profit corporation, the Philadelphia Facilities Management Corporation (PFMC). According to PGW's annual reports filed with the Pennsylvania Public Utility Commission (PUC or Commission), for the years 2016 and 2015, PGW's total sales revenues from residential, commercial, industrial, and public authorities were \$532,393,177 and \$606,879,844; respectively.

PGW maintains a distribution system of approximately 3,000 miles of gas mains that provide gas service to approximately half a million residential, commercial and industrial customers in the City. PGW also owns and operates facilities for the liquefaction, storage, and vaporization of natural gas to supplement the gas supply it draws directly from interstate pipeline and storage companies. PGW has a diverse operation that includes firm service, interruptible service, and transportation service customers. PGW's revenue base is comprised primarily of firm service residential customers.

Prior to July 1, 2000, PGW was under the jurisdiction of the Philadelphia Gas Commission. Effective July 1, 2000, pursuant to the passage of the Pennsylvania Natural Gas Choice and Competition Act (Act), PGW came under the regulatory jurisdiction of both the Philadelphia Gas Commission and the PUC. Under the Act, notwithstanding any other provision of the Public Utility Code to the contrary, the PUC is required to follow the same ratemaking methodology and requirements previously applicable to PGW in determining PGW's operational revenue requirement and in approving overall rates and charges.

PGW is required to submit a filing under Section 1307(f) of the Public Utility Code to recover purchased gas costs. The Section 1307(f) procedures require that the company file legislatively mandated documentation six-months prior to the effective date of a new rate to allow for review and hearings by the PUC and affected stakeholders. PGW files its GCR tariff supplements quarterly on March 1<sup>st</sup>, June 1<sup>st</sup>, September 1<sup>st</sup>, and December 1<sup>st</sup> reflecting changes in purchased gas costs.



PENNSYLVANIA PUBLIC UTILITY COMMISSION  
COMMONWEALTH KEYSTONE BUILDING  
400 NORTH STREET, HARRISBURG, PA 17120

## **Independent Auditor's Report to the Pennsylvania Public Utility Commission**

### **Report on the Financial Statements**

We have audited Philadelphia Gas Work's Statements of Gas Cost Rate Over/Under Collections for the 12-month periods ended December 31, 2016 and December 31, 2015.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

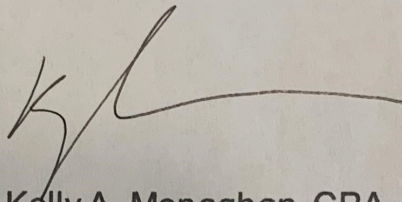
Our responsibility is to express an opinion on these statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether these statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in these statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of these statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of these statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of these statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the Statements referred to above, present fairly, in all material respects, the Gas Cost Rate revenue and expenses of Philadelphia Gas Works as of December 31, 2016 and December 31, 2015, in conformity with accounting principles generally accepted in the United States of America and the requirements of the Pennsylvania Public Utility Commission.

## Report on Other Legal and Regulatory Requirements

The accompanying statements were prepared for the purpose of complying with the rules and regulations of the Pennsylvania Public Utility Commission and are not intended to be a complete presentation of the Philadelphia Gas Work's revenue and expenses.



Kelly A. Monaghan, CPA, CGFM, CFE, CISA  
Director  
Bureau of Audits  
Harrisburg, PA  
June 4, 2020

**PHILADELPHIA GAS WORKS**

**Gas Cost Rate (GCR)<sup>1</sup>  
Over/(Under) Collections (Section 1307(f))  
for the 12 months ended December 31, 2016<sup>2</sup>**

<u>Month</u>	<u>GCR Revenue</u>	<u>GCR Expenses</u>	<u>Over /(Under) Collections</u>
	(1)	(2)	(3) = (1) - (2)
January 2016	\$ 25,579,847	\$ 26,541,391	\$ (961,544)
February	29,800,729	21,760,564	8,040,165
March	21,997,447	13,895,507	8,101,940
April	14,088,452	9,593,675	4,494,777
May	8,920,785	9,541,183	(620,398)
June	5,306,190	5,887,695	(581,505)
July	3,677,884	6,215,584	(2,537,700)
August	3,216,623	6,675,834	(3,459,211)
September	3,828,361	6,304,036	(2,475,675)
October	5,238,688	7,755,475	(2,516,787)
November	11,073,137	14,028,425	(2,955,288)
December	23,539,582	27,056,975	(3,517,393)
Total	<u>\$ 156,267,725</u>	<u>\$ 155,256,344</u>	<u>\$ 1,011,381</u>

<sup>1</sup> As reported to the Commission at Docket No. R-2017-2587526. Arithmetic differences are due to rounding.

<sup>2</sup> Notes to the Financial Statements are an integral part of this report.

## PHILADELPHIA GAS WORKS

### Gas Cost Rate (GCR)<sup>3</sup> Over/(Under) Collections (Section 1307(f)) for the 12 months ended December 31, 2015<sup>4</sup>

<u>Month</u>	<u>GCR Revenue</u> (1)	<u>GCR Expenses</u> (2)	<u>Over /(Under) Collections</u> (3) = (1) - (2)
January 2015	\$ 46,898,006	\$ 44,475,311	\$ 2,422,695
February	54,569,367	49,443,136	5,126,231
March	44,760,816	31,185,138	13,575,678
April	22,304,657	11,837,315	10,467,342
May	8,871,471	8,878,270	(6,799)
June	5,082,417	6,006,339	(923,922)
July	4,254,596	6,929,530	(2,674,934)
August	4,027,065	6,719,769	(2,692,704)
September	3,927,135	7,357,317	(3,430,182)
October	5,794,395	10,733,899	(4,939,504)
November	10,327,608	12,740,299	(2,412,692)
December	15,806,387	15,259,149	547,238
Total	<u>\$ 226,623,920</u>	<u>\$ 211,565,472</u>	<u>\$ 15,058,448</u>

<sup>3</sup> As reported to the Commission at Docket Number R-2016-2526700. Arithmetic differences are due to rounding.

<sup>4</sup> Notes to the Financial Statements are an integral part of this report.

# PHILADELPHIA GAS WORKS

## Notes to The Financial Statements

### **1 – Statements**

The Gas Cost Rate (GCR) Over/(Under) Collections presented in this report are condensed from the officially filed statements. The audit was conducted on PGW's officially filed 1307(f) statements submitted to the PUC in accordance with Section 1307(f)(3) of the Public Utility Code. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. R-2017-2587526 and R-2016-2526700.

### **2 – GCR Revenue**

GCR Revenue is derived by multiplying the sales volumes billed during the month by the C-Factor of the applicable GCR rate.

### **3 – GCR Expenses**

GCR Expenses represent the cost of purchased gas adjusted for the net change in gas inventory, and the cost of electricity used at PGW's Liquefied Natural Gas (LNG) plants, less the cost of gas used for interruptible service (Rates BPS, LBS, CG, GTS, and NGV) and utility operations. GCR Expenses are also reduced for the estimated margin on interruptible sales.

### **4 – Over/(Under) Collections**

The Over/(Under) Collection is the difference between the GCR Revenue and the GCR Expenses. The resulting amounts represent the portion of GCR Revenue refundable to or GCR Expenses recoverable from customers through subsequent GCR rates. Differences arise for two primary reasons:

- Variations between the actual volumes billed to customers and the estimates used to determine the GCR rates; and,
- Variations between the actual GCR expenses and the estimates used to determine the GCR rates.

## PHILADELPHIA GAS WORKS

### Disposition of Prior Finding

The prior audit of Philadelphia Gas Works Statements of Gas Cost Rate Over/(Under) Collections for the twelve-month periods ended December 31, 2013 and December 31, 2014 at Docket No. D-2015-2494862, included the following finding:

**Finding – The company failed to credit a pipeline refund to its 2014 GCR.**

#### **Recommendation:**

The Audit Staff recommended that PGW refund \$1,349.69, plus applicable interest, to its customers in a subsequent GCR Rate Filing.

#### **Disposition:**

PGW refunded \$1,349.69, plus applicable interest, to its customers in the GCR filing made February 28, 2017 at Docket No. M-2016-2526700.

---

### Current Findings

**Finding No. 1 – PGW failed to record and credit pipeline refunds to its 2015 and 2016 GCR.**

PGW failed to properly account for refunds received as payments from pipelines, which resulted in a failure to credit the refunds to its GCR filings. Refunds of \$6,159 and \$537 received as payments on 7/29/2015 and 10/27/2016, respectively, were inadvertently not recorded in its general ledger account and were not included in its applicable filed GCR statements.

#### **Recommendation:**

It is recommended that PGW refund the \$6,159 and \$537, plus applicable interest, to its customers in a subsequent GCR filing. We also recommend that PGW develop appropriate internal controls so that all future pipeline refunds are recorded and properly credited.

#### **Auditor's Note:**

PGW agrees with the recommendation and indicated that it will record the refunds and make the appropriate adjustments to correct the omissions and will implement proper recording and review procedures to ensure accuracy of its filed statements.

# PHILADELPHIA GAS WORKS

## Current Findings (continued)

**Finding No. 2** – PGW did not update its billing system with the approved NGVSF rates for the 2<sup>nd</sup> Quarter effective June 1, 2015 and erroneously charged customers the 1<sup>st</sup> Quarter rates.

PGW billing system did not implement the new NGVSF rates for the 2<sup>nd</sup> Quarter effective June 1, 2015 and as a result it overcharged its NGVSF customers by using the 1<sup>st</sup> Quarter rates effective March 1, 2015.

### **Recommendation:**

It is recommended that PGW analyze the affected accounts and make any adjustments necessary to the affected customer's accounts. It is also recommended that the company implement proper controls and review procedures for rate changes.

### **Disposition:**

PGW agrees with the recommendations and indicated that it will correct the affected customers accounts for the necessary adjustments. PGW also indicated that it will implement additional control and review procedures to prevent future occurrences.

---

**Finding No. 3** – PGW is utilizing a Fictitious Rate as a placeholder to temporarily capture usage for administrative purposes and the resulting usages cannot be reconciled back to re-billed customers.

PGW acknowledged that it uses the Fictitious Rate (PGFIC) to accomplish a "Soft Off", where it bills for usage when there is no longer a specific customer assigned to the metered location. This is done instead of physically shutting off the meters. It was stated that usage was subsequently re-billed when a customer was identified, but PGW was unable to provide requested documentation to confirm these re-billed usages to a customer of record.

### **Recommendation:**

It is recommended that PGW establish proper policies and procedures which ensures monitoring, tracking, and documentation of these usages and their disposition to customer of records.

### **Auditor's Note:**

PGW agrees with the recommendation and indicated that it will implement additional policies and procedures to properly track the specific usages and ensure maintenance of proper documentation as to the disposition of these usages.

# **PHILADELPHIA GAS WORKS**

## **Acknowledgement**

We wish to express our appreciation to the officers and staff of Philadelphia Gas Works for their cooperation and assistance. The audit was conducted by Gerville J. Brown, assisted by David G. Kennerly, CPA.