

PHILADELPHIA GAS WORKS



**REPORT ON THE STATEMENTS OF
OTHER POST EMPLOYMENT BENEFIT SURCHARGE
FOR THE 12-MONTH PERIODS ENDED
AUGUST 31, 2016 AND AUGUST 31, 2015**

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

Docket No. D-2018-3001216

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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 provides 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 the company's operational revenue requirement and in approving overall rates and charges.

By Order entered July 29, 2010, the PUC approved a Joint Petition for Settlement, at Docket No. R-2009-2139884, establishing new base rates effective September 1, 2010. In addition, PGW is allowed to collect an additional \$16 million annually to fund OPEB through an adjustment clause. PGW is required under the settlement to fund \$18.5 million annually of its Unfunded Actuarial Accrued Liability (UAAL) in each of the fiscal years 2011 through 2015.



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 Other Post Employment Benefit Surcharge Over/Under Collections for the 12-month periods ended August 31, 2016 and August 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 Other Post Employment Benefit Surcharge Statements, referred to above, present fairly, in all material respects, the Other Post Employment Benefit revenue and expenses of Philadelphia Gas Works as of August 31, 2016 and August 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

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Other Post Employment Benefit (OPEB) Surcharge¹ Over/(Under) Collections (Section 1307(f)) for the 12 months ended August 31, 2016²

Month	OPEB Volumes (1)	OPEB Surcharge (2)	OPEB Revenue (3) = (1) x (2)
September 2015	1,039,409	\$ 0.3041	\$ 316,032
October	1,539,123	0.3003	462,199
November	2,684,958	0.3003	806,293
December	4,288,966	0.3003	1,287,976
January 2016	7,063,874	0.3003	2,121,281
February	8,518,873	0.3003	2,558,218
March	6,269,646	0.3003	1,882,775
April	4,119,971	0.3003	1,237,227
May	2,615,289	0.3003	785,371
June	1,562,420	0.3003	469,195
July	1,094,573	0.3003	328,700
August	1,001,149	0.3003	300,645
Total	41,798,251		\$ 12,555,913
FY 2016 OPEB Revenues plus FY 2015 Over Collection			\$ 13,361,696
FY 2016 Permitted Recovery			16,000,000
Over/(Under) Collections			\$ (2,638,304)

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

² Notes to the Financial Statements are an integral part of this report.

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Other Post Employment Benefit (OPEB) Surcharge³ Over/(Under) Collections (Section 1307(f)) for the 12 months ended August 31, 2015⁴

Month	OPEB Volumes (1)	OPEB Surcharge (2)	OPEB Revenue (3) =(1)x(2)
September 2014	1,125,781	\$ 0.3280	\$ 369,256
October	1,418,404	0.3078	436,585
November	3,334,309	0.3078	1,026,300
December	6,948,587	0.3078	2,138,775
January 2015	8,865,059	0.3078	2,728,665
February	10,335,987	0.3078	3,181,417
March	9,516,263	0.3078	2,929,106
April	5,441,742	0.3078	1,674,968
May	2,202,057	0.3078	677,793
June	1,315,354	0.3078	404,866
July	1,130,846	0.3078	348,074
August	1,065,483	0.3078	327,956
Total	52,699,872		\$ 16,243,761
FY 2015 OPEB Revenues plus FY 2014 Over Collection			\$ 16,805,783
FY 2015 Permitted Recovery			16,000,000
Over/(Under) Collections			\$ 805,783

³ As reported to the Commission at Docket Number R-2016-2526700.

⁴ Notes to the Financial Statements are an integral part of this report.

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Notes to the Financial Statements

1 – Statements

The Other Post Employment Benefit (OPEB) Surcharge Over/(Under) Collections presented in this report are 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 on March 1, 2017 and March 1, 2016. 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 – OPEB Volumes

OPEB Volumes are the sales volumes in MCFs billed during the month. One MCF is equal to a thousand cubic feet of natural gas.

3 – OPEB Surcharge

The OPEB Surcharge is calculated by dividing the total costs approved for annual recovery (see Note 5) by the estimated applicable MCFs of throughput and applied to all firm sales and transportation volumes.

4 – OPEB Revenue

OPEB Revenue is derived by multiplying the sales volumes billed during the month by the applicable OPEB rate. The OPEB is applied to each MCF of firm sales and transportation volumes except for the Natural Gas Vehicle Service Firm customers.

5 – Permitted Recovery

On July 29, 2010, at Docket No. R-2009-2139884, the PUC approved the settlement of the base rate filing filed by PGW in December 2009, under which PGW was permitted to maintain virtually all of the \$60 million extraordinary rate increase granted by the PUC in 2008 that was effective as of January 1, 2009. In addition, PGW was allowed to collect an additional \$16 million annually to fund OPEB through an adjustment clause.

6 – Over/(Under) Recovery

The Over/(Under) Collections is the difference between the OPEB Revenue and the Permitted Recovery. The resulting amounts represent the portion of OPEB Revenue refundable to or Permitted Recovery from customers through subsequent OPEB rates. Differences arise due to variations between the actual sales volumes to customers and the estimates used to determine the OPEB rates.

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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.