

PHILADELPHIA GAS WORKS



**REPORT ON THE STATEMENT OF
RESTRUCTURING AND CONSUMER EDUCATION SURCHARGE
FOR THE 12 MONTHS ENDED AUGUST 31, 2016**

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

Docket No. D-2018-3001219

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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 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.

On July 1, 2002, at Docket No. M-00021612, PGW filed its Restructuring Plan, consistent with the Commission's filing requirements for PGW, to unbundle its rates and to initiate customer choice pursuant to the Act. The Final Restructuring Order, entered March 31, 2003, allowed PGW to establish an appropriate non-bypassable cost recovery mechanism to recover the costs of PUC approved non-gas restructuring and consumer education costs that have or will be incurred to meet the provisions of the Act and applicable PUC regulations, orders, and other regulatory requirements.



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 Statement of Restructuring and Consumer Education Surcharge Over/Under Collections for the 12 months ended August 31, 2016.

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 Restructuring and Consumer Education Surcharge Statement, referred to above, presents fairly, in all material respects, the Restructuring and Consumer Education revenue and expenses of Philadelphia Gas Works as of August 31, 2016, 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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**Restructuring and Consumer Education Surcharge (RCES)¹
Over/(Under) Collections (Section 1307(f))
for the 12 months ended August 31, 2016²**

<u>Month</u>	<u>RCES Volumes (mcf)</u> (1)	<u>RCES Surcharge</u> (2)	<u>RCES Revenue</u> (3) = (1) x (2)
September 2015	519,705	\$ 0.0061	\$ 3,170
October	1,539,123	0.0061	9,389
November	2,684,958	0.0061	16,378
December	4,288,966	0.0061	26,163
January 2016	7,063,874	0.0061	43,090
February	8,518,873	0.0061	51,965
March	6,269,646	0.0061	38,245
April	4,119,971	0.0061	25,132
May	2,615,289	0.0061	15,953
June	1,562,420	0.0061	9,531
July	1,094,573	0.0061	6,677
August	<u>1,001,149</u>	0.0061	<u>6,107</u>
Total	<u>41,278,547</u>		<u>\$ 251,799</u>
FY 2014 and FY 2015 Over/(Under) Recovery			\$ (116,080)
FY 2016 R&CE Expense			<u>395,343</u>
Over/(Under) Collections			\$ (259,624)

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

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

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Notes to the Financial Statement

1 – Statement

The Restructuring and Consumer Education Surcharge (RCES) Over/(Under) Collections presented in this report are from the officially filed statement. The audit was conducted on Philadelphia Gas Works' (PGW) officially filed 1307(f) statement submitted to the Pennsylvania Public Utility Commission (PUC or Commission) in accordance with Section 1307(f)(3) of the Public Utility Code on March 1, 2017. The statement is available on the PUC's website (<http://www.puc.pa.gov>) at Docket No. M-2017-2587526.

2 – RCES Volumes

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

3 – RCES Revenue

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

4 – RCES Expenses

The RCES Expenses are the Commission approved costs which the company has or will incur to meet the provisions of the Natural Gas Choice and Competition Act and applicable Commission regulations, orders and other regulatory requirements, other than costs pertaining to universal service and energy conservation programs.

5 – RCES Over/(Under) Collections

The Over/(Under) Collection is the difference between the RCES Revenue and the RCES Expenses. The resulting amount represents the portion of RCES Revenue refundable to or RCES Expenses recoverable from customers through subsequent RCES rates. Differences arise due to variations between the actual sales volumes to customers and the estimates used to determine the RCES rates.

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.