

PHILADELPHIA GAS WORKS



**REPORT ON THE STATEMENTS OF
EFFICIENCY COST RECOVERY 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-2018-3001220

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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 provisions previously applicable to PGW in determining PGW'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 (Settlement), at Docket No. R-2009-2139884, establishing new base rates effective September 1, 2010. In addition, the Settlement allowed for PGW to establish an automatic adjustment clause for the recovery of its Energy Conservation and Demand Side Management (DSM) Plan.



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 Efficiency Cost Recovery 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 Efficiency Cost Recovery Surcharge Statements, referred to above, present fairly, in all material respects, the Efficiency Cost Recovery 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 Monaghan

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

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Efficiency Cost Recovery (ECR)¹ Over/(Under) Collections (Section 1307(e)) for the 12 months ended August 31, 2016²

Customer Class	ECR Revenue	ECR Expenses	Over/(Under) Collections
	(1)	(2)	(3) = (1) - (2)
Residential	\$ 123,104	\$ 1,219,371	\$ (1,096,267)
Commercial	415,721	456,429	(40,707)
Industrial	<u>131,369</u>	<u>3,064</u>	<u>128,306</u>
Total	<u>\$ 670,195</u>	<u>\$ 1,678,863</u>	<u>\$ (1,008,668)</u>

¹ As reported to the Commission at Docket No. R-2016-2526700. Arithmetic differences are due to rounding.

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

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Efficiency Cost Recovery (ECR)³ Over/(Under) Collections (Section 1307(e)) for the 12 months ended August 31, 2015⁴

Customer Class	ECR Revenue	ECR Expenses	Over/Under Collections
	(1)	(2)	(3) = (1) - (2)
Residential	\$ (442,444)	\$ 1,656,071	\$ (2,098,515)
Commercial	(44,123)	784,627	(828,749)
Industrial	(112,821)	122,074	(234,895)
Total	\$ (599,388)	\$ 2,562,771	\$ (3,162,159)

³ As reported to the Commission at Docket Number R-2015-2465656.

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 Efficiency Cost Recovery (ECR) Over/(Under) Collections presented in this report are condensed from the officially filed statements. The audit was conducted on PGW's officially filed 1307(e) statements submitted to the PUC in accordance with Section 1307(e)(1) of the Public Utility Code. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2016-2526700 and M-2015-2465656.

2 – ECR Revenue

ECR Revenue is derived by multiplying the sales volumes billed during the month by the C-Factor of the applicable ECR rate. The ECR does not apply to the Developmental Natural Gas Vehicle Service (NGVS) or the interruptible customer classes.

3 – ECR Expenses

ECR Expenses include the program and administrative costs for the following: Residential Heating Equipment Rebates Program, Comprehensive Residential Heating Retrofit Incentive Program, Commercial and Industrial Retrofit Incentive Program, Commercial and Industrial Equipment Rebate Program, and the High-Efficiency Construction Incentive Program.

4 – Over/(Under) Collections

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

- Variations between the actual monthly volumes billed to customers and the estimates used to determine the ECR rates; and,
- Variations between the actual ECR Expenses and the estimates used to determine the ECR 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.