

PHILADELPHIA GAS WORKS



**REPORT ON THE STATEMENTS OF
GAS COST RATE
FOR THE 12-MONTH PERIODS ENDED
DECEMBER 31, 2019, DECEMBER 31, 2018
AND DECEMBER 31, 2017**

**Pennsylvania Public Utility Commission
Bureau of Audits
December 9, 2021**

Docket No. D-2020-3021001

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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 2019, 2018 and 2017, PGW's total sales revenues from residential, commercial, industrial, and public authorities were \$618,514,186, \$647,730,912 and \$582,594,906; respectively.

PGW maintains a distribution system of approximately 3,000 miles of gas mains that provide gas service to about 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 1st, June 1st, September 1st, and December 1st reflecting changes in purchased gas costs.



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
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Independent Auditor's Report to the Pennsylvania Public Utility Commission

Report on the Financial Statements

We have audited Philadelphia Gas Works' Statements of Gas Cost Rate Over/Under Collections for the 12-month periods ended December 31, 2019, December 31, 2018 and December 31, 2017.

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 Gas Cost Rate 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, 2019, December 31, 2018 and December 31, 2017, 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 Works' revenue and expenses.

Kelly Monaghan

Kelly A. Monaghan, CPA, CGFM, CFE, CISA
Director
Bureau of Audits
Harrisburg, PA
December 9, 2021

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Gas Cost Rate (GCR) ¹ Over/(Under) Collections (Section 1307(f)) for the 12 months ended December 31, 2019²

<u>Month</u>	<u>GCR Revenue</u> (1)	<u>Natural Gas Refunds</u> (2)	<u>GCR Costs</u> (3)	<u>Over/(Under) Collections</u> (4) = (1) + (2) - (3)
January 2019	\$ 36,678,905	\$ 0	\$ 34,238,287	\$ 2,440,618
February	38,964,148	0	25,796,063	13,168,085
March	32,924,286	0	23,390,285	9,534,001
April	18,346,665	0	12,274,022	6,072,643
May	8,495,897	425	9,844,343	(1,348,021)
June	5,631,103	0	9,698,951	(4,067,848)
July	4,204,717	3,582	8,841,227	(4,632,928)
August	3,805,209	350	8,830,067	(5,024,508)
September	4,468,212	0	8,797,006	(4,328,794)
October	5,343,234	1,115	11,152,594	(5,808,246)
November	14,988,896	0	18,933,824	(3,944,928)
December	28,846,441	65	23,348,293	5,498,213
Total	<u>\$ 202,697,712</u>	<u>\$ 5,537</u>	<u>\$ 195,144,962</u>	<u>\$ 7,558,287</u>

¹ As reported to the Commission at Docket No. R-2020-3017934. Arithmetic differences are due to rounding.

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

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Gas Cost Rate (GCR)³ Over/(Under) Collections (Section 1307(f)) for the 12 months ended December 31, 2018⁴

<u>Month</u>	<u>GCR Revenue</u> (1)	<u>Natural Gas Refunds</u> (2)	<u>GCR Costs</u> (3)	<u>Over/(Under) Collections</u> (4) = (1) + (2) - (3)
January 2018	\$ 48,894,514	\$ 0	\$ 33,708,079	\$ 15,186,435
February	33,740,059	0	22,699,166	11,040,893
March	26,045,287	0	23,436,643	2,608,644
April	21,434,264	0	14,299,108	7,135,156
May	8,698,306	0	8,990,555	(292,249)
June	4,312,045	0	7,387,676	(3,075,631)
July	3,485,280	0	7,433,255	(3,947,975)
August	3,211,718	0	8,289,071	(5,077,353)
September	3,766,708	0	6,806,335	(3,039,627)
October	5,279,622	2,638	11,894,412	(6,612,152)
November	15,472,568	210	22,789,491	(7,316,713)
December	28,556,371	0	31,738,145	(3,181,774)
Total	<u>\$ 202,896,743</u>	<u>\$ 2,848</u>	<u>\$ 199,471,936</u>	<u>\$ 3,427,655</u>

³ As reported to the Commission at Docket No. R-2019-3007636. Arithmetic differences are due to rounding.

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

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Gas Cost Rate (GCR)⁵ Over/(Under) Collections (Section 1307(f)) for the 12 months ended December 31, 2017⁶

<u>Month</u>	<u>GCR Revenue</u> (1)	<u>Natural Gas Refunds</u> (2)	<u>GCR Costs</u> (3)	<u>Over/(Under) Collections</u> (4) = (1) + (2) – (3)
January 2017	\$ 35,174,603	\$ 0	\$ 30,560,326	\$ 4,614,277
February	28,445,318	0	31,023,141	(2,577,823)
March	27,248,414	0	25,128,443	2,119,971
April	21,997,637	0	10,811,146	11,186,491
May	9,046,096	0	10,354,017	(1,307,921)
June	6,426,430	0	7,380,023	(953,593)
July	4,614,375	0	656,232	3,958,143
August	4,289,184	0	8,160,424	(3,871,240)
September	4,564,966	0	6,660,769	(2,095,803)
October	4,500,989	0	7,858,969	(3,357,980)
November	11,194,736	0	17,769,207	(6,574,471)
December	25,815,977	0	27,095,257	(1,279,280)
Total	<u>\$ 183,318,726</u>	<u>\$ 0</u>	<u>\$ 183,457,954</u>	<u>\$ (139,228)</u>

⁵ As reported to the Commission at Docket No. R-2018-2645938. Arithmetic differences are due to rounding.

⁶ Notes to the Financial Statements are an integral part of this report.

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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-2020-3017934, R-2019-3007636, and R-2018-2645938.

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 – Natural Gas Refunds

Natural Gas Refunds are the supplier refunds received prior to the end of the August billing period.

4 – 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.

5 – Total 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.

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Disposition of Prior Findings

Our previous audit of Philadelphia Gas Works for the 12-month periods ended December 31, 2016 and December 31, 2015 at Docket No. D-2018-3001214, included the following findings:

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

Recommendation:

It was recommended that PGW refund \$6,695, plus applicable interest, to its customers in a subsequent GCR rate filing. We also recommended that PGW develop appropriate internal controls so that all future pipeline refunds are recorded and properly credited.

Disposition:

PGW included the \$6,695, plus \$1,272 in interest, refund adjustment in its rate effective March 1, 2021 at Docket No. R-2020-3017934.

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

Recommendation:

It was 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 adjusted the affected customer's bills in July 2020 and revised its procedures for rate changes.

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Disposition of Prior Findings (continued)

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.

Recommendation:

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

Disposition:

PGW has implemented additional policies and procedures to properly track the specific usages and ensure maintenance of proper documentation as to the disposition of these usages.

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 David G. Kennerly, CPA, assisted by Danielle M. Gumby.