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July 27, 2023

Via Electronic Filing
Rosemary Chiavetta, Secretary
PA Public Utility Commission
400 North Street, 2nd Floor
Harrisburg, PA 17120

Re: PA Public Utility Commission, et al., v. Philadelphia Gas Works
2023 PGW Base Rate Case – Docket No. R-2023-3037933

Dear Secretary Chiavetta:

Enclosed for electronic filing please find the Philadelphia Gas Works' ("PGW") Main Brief with regard to the above-referenced matter. Copies to be served in accordance with the attached Certificate of Service.

Sincerely

Sarah C. Stoner

Sarah C. Stoner
Counsel for Philadelphia Gas Works

Enclosure

cc: Hon. Eranda Vero w/enc.
Hon. Arlene Ashton w/enc.
Cert. of Service w/enc.

#113315129v1

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of PGW's Main Brief, upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	R-2023-3037933
Office of Consumer Advocate	:	C-2023-3038846
Office of Small Business Advocate	:	C-2023-3038885
Philadelphia Industrial And Commercial Gas User Group	:	C-2023-3039059
Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc.	:	C-2023-3038727
James M. Williford	:	C-2023-3039130
	:	
v.	:	
	:	
Philadelphia Gas Works	:	

Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc.	:	
	:	
v.	:	C-2021-3029259
	:	
Philadelphia Gas Works	:	

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I. INTRODUCTION AND PROCEDURAL HISTORY

A. Introduction

Philadelphia Gas Works ("PGW") is a "city natural gas distribution operation" as that term is defined in the Public Utility Code.[1] The Natural Gas Choice and Competition Act[2] brought city owned natural gas operations, *i.e.*, PGW, under the Pennsylvania Public Utility Commission's ("PUC") jurisdiction.[3] PGW manages a distribution system of approximately 3,000 miles of gas mains and 476,000 service lines supplying approximately 500,000 customers in Pennsylvania.

In this proceeding, PGW requests PUC approval of a base rate increase of $85.2 million, or 10.1% on a total revenue basis, with a proposed effective date of April 28, 2023.[4] Consistent with its mandatory budget process, the base rate increase requested is based on a fully projected future test year ("FPFTY") starting on September 1, 2023. PGW has no shareholders and does not pay a dividend or a rate of return to its owners (PGW does remit a fixed annual payment to the City of Philadelphia) as permitted under 66 Pa.C.S. § 2212(h).

PGW's last base rate increase was filed on February 28, 2020. COVID-19 related disruptions in the U.S. began shortly after PGW filed its 2020 rate case and PGW settled that case for just one-half of its request and deferred through a three-step phase-in $25 million or 71% of the settled rate increase amount to attempt to assist with pandemic induced hardships faced by customers. Moreover, pursuant to PUC directives, PGW deferred collection of $32.5 million in a regulatory asset for proscribed COVID-19 related expenses. Since PGW is a cash flow utility, the phased in rates and deferred collection directly impacted PGW's cash balances.

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1 66 Pa.C.S. § 102 (definitions). PGW St. No. 1 at 2.
2 66 Pa.C.S. §§ 2201-2212.
3 66 Pa.C.S. § 2212(b); 52 Pa. Code § 69.2702 (a). There is presently only one "City Natural Gas Distribution Operation" – PGW.
4 PGW's original request –$85.8 million– was modified for a revision to PGW's requested COVID-19 expense recovery to credit that claim for a Pipeline and Hazardous Materials Safety Administration ("PHMSA") grant received by the Company after its original request was prepared. See PGW St. No. 2-R at 2; Exh. JFG-2R pg. 1.

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Since PGW's 2020 rate case, PGW has continued its aggressive capital improvement program and has focused on improving safety, increasing efficiency and enhancing customer service. But a number of factors, including materially increased expenses and capital expenditures, have reduced PGW's projected cash and liquidity; for example, since 2020, PGW's capital expenditures financed by internally generated funds have increased by $59.3 million, budgeted labor and employee costs are up $28.1 million, Information Services costs have increased $11.8 million, employee health insurance costs have gone up $7.2 million, and Risk Management costs are higher by $5.5 million. In addition, PGW will be issuing a $348 million bond at the end of FY 2024 (upon conclusion of the FPFTY) that will impose incremental debt service of approximately $22.7 million. None of these incremental costs – totaling some $134 million – are currently included in PGW's rates.

PGW's *pro forma* projections demonstrate that cash and other financial metrics are insufficient to cover these and other significant increases and obligations. Absent rate relief, PGW's financial metrics will fall to unacceptably low levels with attendant negative consequences. Rate relief will help PGW maintain its financial status and current favorable bond ratings while continuing with its significant efforts to improve the safety, efficiency and reliability of its distribution system. Rate relief will also allow the continued improvement of customer service and PGW's efforts to provide helpful assistance programs to PGW's low-income customers. A failure to recognize these significant rate needs will put PGW in a financially precarious position and threaten its current positive bond rating (that has taken years to attain). This will, in turn, seriously threaten PGW's ability to continue to make all the investments it needs to keep its distribution system safe and reliable and its customer service adequate and reasonable.

For the reasons explained below, and in its filing, PGW's proposed distribution rate increase is just and reasonable, and should be approved by the PUC.

B. Procedural History

On February 27, 2023, PGW filed proposed Supplement No. 159 to PGW's Gas Service Tariff –Pa P.U.C. No. 2 ("Supplement No. 159") and proposed Supplement No. 105 to PGW's Supplier Tariff – Pa P.U.C. No. 1 ("Supplement No. 105") to become effective April 28, 2023. PGW proposed to increase overall rates by approximately $85.8 million per year, or a 10.3% overall increase. Within the general rate increase filing, PGW filed a Petition seeking waiver of the application of the statutory definition of the FPFTY, so as to permit PGW to use a fully FPFTY beginning on September 1, 2023.[5] By Order entered April 20, 2023, proposed Supplement No. 159 and Supplement No. 105 were suspended by operation of law until November 28, 2023. The PUC's Bureau of Investigation and Enforcement ("I&E") filed a Notice of Appearance. Complaints against the proposed rate increase were each filed by the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), Philadelphia Industrial and Commercial Gas Users Group ("PICGUG"), Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. ("GFCP/VEPI"), and James Williford.[6] In addition, Petitions to Intervene were filed by PICGUG, the Coalition for Affordable Utility Service and Energy Efficiency in Pennsylvania ("CAUSE-PA"), Tenant Union Representative Network ("TURN") and POWER Interfaith ("POWER").[7]

In the direct testimony submitted with the base rate case, PGW witness Denise Adamucci (PGW St. No. 1), explained that due to an anomaly that had occurred calculating PGW's Weather Normalization Adjustment ("WNA") in May 2022 and in anticipation of filing a base rate case, PGW contracted the services of an independent, third-party consultant, Atrium Economics, LLC ("Atrium") to review PGW's WNA process and formula. However, because of the requirement that

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5 This date is consistent with PGW's fiscal years used for all financial filings both at the Commission and before municipal regulatory agencies. The Petition for Waiver was granted in the Prehearing Order dated May 10, 2023.

6 The complaints were docketed as follows: OCA – Docket No. C-2023-3038846; OSBA – Docket No. C-2023-3038885; PICGUG – Docket No. C-2023-3039059; GFCP/VEPI – Docket No. C-2023-3038727; and Mr. Williford – Docket No. C-2023-3039130.

7 The Petitions to Intervene were granted by the ALJs.

PGW, as a municipal entity, issue a request for proposals and the associated delays in securing a consultant, Ms. Adamucci explained that this review had not yet been completed. Therefore, she noted PGW's expectation to file supplemental testimony by April 3, 2023 and to make recommendations in its base rate case for revisions to PGW's WNA formula that should be implemented in future heating seasons. PGW served the supplemental direct testimony of Ms. Adamucci and Ronald J. Amen of Atrium on April 3, 2023.

At its April 20, 2023 public meeting, the PUC considered Exceptions filed by GFCP/VEPI on January 17, 2023, to the Initial Decision of ALJ Marta Guhl served on December 27, 2022, in a separate Formal Complaint proceeding initiated by GFCP/VEPI.[8] The Initial Decision dismissed GFCP/VEPI's complaint and ruled that PGW should assign GFCP/VEPI to an existing rate class under PGW's existing tariff. However, in its April 20, 2023 Order, the PUC granted, in part, and denied, in part, GFCP/VEPI's Exceptions. The PUC referred to this rate case proceeding the determination of the just and reasonable rate for the provision of gas transportation service by PGW to GFCP/VEPI, based upon actual cost of service and applicable rate class under Section 1301 of the Public Utility Code.[9] Accordingly, pursuant to the PUC's foregoing directive, PGW filed a direct supplement to its initial base rate filing that identified the proposed rate applicable to GFCP/VEPI along with testimony supporting the proposed rate.

PGW's rate case was assigned to Administrative Law Judges Arlene Ashton and Eranda Vero (collectively, the "ALJs"). A Prehearing Conference was scheduled and held on April 28, 2023, at which time a schedule for discovery, written testimony, hearings and briefs was established. Although OCA noted its concern regarding timing of PGW's supplemental direct testimony on the WNA, it accepted the procedural schedule negotiated by the parties. Various procedural items were

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8 *Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. v. Philadelphia Gas Works*, Docket No. C-2021-3029259 ("Complaint Case").

9 GFCP/VEPI Complaint Case, April 20, 2023 Order, Ordering Par. 3.

memorialized in the ALJs' Prehearing Order dated May 10, 2023, which was corrected on May 11, 2023.

Four public input hearings were held on May 23 and 24, 2023. A total of 22 customers gave sworn testimony at the public input hearings.

On May 23, 2023, OCA filed a Motion to Strike the supplemental direct testimony of PGW on the WNA. OCA argued that the testimony should not be considered in the context of the rate base and should be "stricken from the record."[10] In response, PGW argued that due process requires consideration of PGW's supplemental direct testimony and that OCA did not fulfill its burden of demonstrating that PGW's supplemental direct testimony should be excluded from the record. On June 6, 2023, the ALJs issued an Order Granting the Motion to Strike of OCA and directing that PGW's supplemental direct testimony filed on April 3, 2023 be stricken and not become part of the record.[11]

Extensive investigation of PGW's proposed rate request was conducted by the parties. PGW responded to over 1,300 discovery requests (counting subparts). Direct testimony in response to PGW's filing and testimony was served by BIE, OCA, OSBA, CAUSE-PA/TURN, and POWER on May 31, 2023. GFCP/VEPI and PICGUG served direct testimony on June 2, 2023. Rebuttal testimony was served on June 26, 2023 by all parties with the exception of BIE, POWER and CAUSE-PA/TURN. Surrebuttal testimony was served on July 7, 2023 by all parties. PGW served written rejoinder testimony on June 10, 2023.

The evidentiary hearings were held on July 11 and 12, 2023. A 100 page limit was established for the main briefs and a 75 page limit for the replies.[12]

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[10] The testimony had not actually been offered into evidence at that point.

[11] Order Granting the Motion to Strike of OCA at Ordering Para. 1-2.

[12] The page limit, which is unusual for a major rate case has caused PGW to have to extremely limit its explanation of its positions as well as its response to opposing parties. To the extent that the ALJs find that a point or claim is not sufficiently explained, PGW would respectfully request that additional briefs/memos be requested. Pursuant to the Briefing Order dated July 17, 2023, PGW's rate case tables are attached as Appendix C.

II. LEGAL STANDARDS

A. Burden of Proof

As the party requesting the rate increase, PGW has the burden of proving that its proposed rates are just and reasonable.[13] This burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one, which remains with the public utility throughout the course of the rate proceeding.[14] The public utility must satisfy its burden of proof by a preponderance of the evidence, which "means only that one party has presented evidence that is more convincing, by even the smallest amount, than the evidence presented by the other party."[15] However, a party proposing an adjustment to a ratemaking claim bears the burden of going forward with evidence to respond to the reasonableness of its proposed rates.[16]

Importantly, a party that offers a proposal that was not included in the Company's original filing bears the burden of proof for such proposal. As the proponent of a Commission order with respect to its proposals, the party must bear the burden of proof as to proposals that PGW did not include in its filing.[17] Section 315(a) of the Code[18] cannot reasonably be read to place the burden of proof on PGW with respect to an issue the utility did not include in its general rate case filing and which, frequently, the utility would oppose.[19] The statutory burden placed on a proponent of a rule or

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[13] 66 Pa.C.S. § 315(a). PGW need not affirmatively defend every claim it has made in its filing, even those which no other party has questioned absent prior notice that such action is to be challenged. *Allegheny Center Assocs. v. Pa. Pub. Util. Comm'n*, 570 A.2d 149, 153 (Pa. Commw. 1990)(citation omitted). *See also, Pa. Pub. Util. Comm'n v. Equitable Gas Co.*, 73 Pa. P.U.C. 310, 359-360 (1990).

[14] *PUC v. Appalachian Utilities, Inc.,* Docket No. R-2015-2478098, et al., Opinion and Order entered March 10, 2016 adopting the Recommended Decision dated February 19, 2016, at 19, 2016 Pa. PUC LEXIS 62.

[15] *NRG Energy, Inc. v. Pa. Pub. Util. Comm'n*, No. 58 C.D. 2019, 2020 Pa. Commw. LEXIS 420, at *29 (Pa. Commw. Ct. June 2, 2020) ("*NRG Energy, Inc.*") (citing *Energy Conservation Council of Pa. v. Pa. Pub. Util. Comm'n*, 995 A.2d 465, 478 (Pa. Commw. 2010)).

[16] *See, e.g., Pa. Pub. Util. Comm'n v. PECO*, Docket No. R-891364, et al., Opinion and Order entered May 16, 1990, 1990 Pa. PUC LEXIS 155; *Pa. Pub. Util. Comm'n v. Breezewood Telephone Company*, Docket No. R-901666, Opinion and Order entered January 31, 1991, 1991 Pa. PUC LEXIS 45.

[17] *See* Section 332(a) of the Code, 66 Pa.C.S. § 332(a), which provides that the party seeking a rule or order from the Commission has the burden of proof in that proceeding. See *NRG Energy, Inc.*

[18] 66 Pa.C.S. § 315(a).

[19] *Pa. Pub. Util. Comm'n v. Appalachian Utilities, Inc.*, Docket No. R-2015-2478098, Opinion and Order entered March 10, 2016 adopting the Recommended Decision dated February 19, 2016, at 20, 2016 Pa. PUC LEXIS 62.

order under Section 332(a) does not shift to the utility simply because such rule or order is proposed within the context of the utility's Section 1308(d) base rate proceeding.[20] Indeed, the Commission has concluded that "it would be improper burden shifting in a general rate proceeding to allow a party to bring forth an issue that does not challenge a proposed or existing rate, rule or regulation, and then require the utility to carry the burden of proof with respect to that issue."[21]

Accordingly, parties raising positions not in PGW's initial filing, and advocating for an order from the PUC directing PGW to take specified action bear a burden under Section 332(a) to present "some evidence or analysis" that convinces the PUC to enact the rule or order requested by that party.[22] On this basis, POWER bears the burden of proof for its proposals to require PGW to annually file comprehensive "pipeline replacement reports" with the Commission and to implement a "non-pipeline alternative ("NPA") pilot program." PGW did not present any such proposals as part of its filing regarding pipeline replacement reports or the implementation of an NPA pilot program. Since POWER is doing more than proposing adjustments to the Company's proposals, POWER is the proponent of a Commission order with respect to its proposals and must meet its burden of proof.

B. Just and Reasonable Rates

PGW's rates must meet the constitutional and statutory standard of being "just and reasonable."[23] Section 1301 of the Public Utility Code requires that "[e]very rate made, demanded, or received by any public utility … shall be just and reasonable, and in conformity with regulations or orders of the commission."[24] The Commission must set the rate *within* the zone of reasonableness to

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[20] *Pa. Pub. Util.Comm'n v. Philadelphia Gas Works*, Docket No. R-2017-2586783 ("*2017 PGW Base Rate Order*") (Order entered November 8, 2017, at 12-13).
[21] *2017 Base Rate Order* at 47.
[22] See *NRG Energy, Inc.*
[23] 40 Pa.B. at 2672; 52 Pa. Code § 69.2702(b). *PUC v. PGW*, Docket No. R-00006042 (Order entered October 4, 2001, at 25) ("*PGW 2001 Base Rate Order*"), *affirmed by, City of Philadelphia v. Pa. Pub. Util. Comm'n*, 829 A.2d 1241 (Pa. Commw. 2003) (The "just and reasonable" standard in Section 1301 is coextensive with the federal constitutional standard for determining utility rates).
[24] 66 Pa.C.S. § 1301.

be "just and reasonable."[25] Rates outside of that zone are confiscatory.[26] Setting rates below — instead of *within*—the normal zone of reasonableness would confiscate PGW's property and be unconstitutional.

The utility is held to a prudency standard in judging the incurrence of expenses and other costs. Utility management makes many daily decisions regarding operations, all of which have a cost impact. Consistent with this principle is that, as a general matter, utility management is in the hands of the utility and the Commission may not interfere with lawful management decisions, including decisions related to the necessity and propriety of operating expenses, unless based on record evidence, it finds an abuse of the utility's managerial discretion.[27]

As a city natural gas distribution operation,[28] just and reasonable rates for PGW are determined using the Cash Flow Method. PGW has no shareholders and does not pay a dividend or a rate of return to its owner.[29] Accordingly, all of the funds PGW needs to run the Company must come from ratepayers or from borrowing (the costs of which then must be paid by ratepayers).[30] Therefore, rather than having its revenue requirement determined on the basis of a fair rate of return on a used and useful rate base, PGW's rates are set by determining the appropriate levels of cash, debt service coverage and other financial metrics necessary to enable PGW to pay its bills and maintain access to the capital markets at reasonable rates.[31]

In 2010, the Commission issued a policy statement setting forth the criteria and the financial and other considerations that are to be examined in setting PGW's base rates at just and reasonable

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[25] *See FPC v. Conway*, 426 U.S. 271, 278 (1976) ("there is no single cost-recovering rate, but a zone of reasonableness").

[26] *Cf. Permian Basin Area Rate Cases*, 390 U.S. 747, 770 (1968) ("any rate selected … <u>from</u> the broad zone of reasonableness … cannot be attacked as confiscatory.") (emphasis added).

[27] *City of Philadelphia v. Pennsylvania Public Utility Commission*, 174 Pa. Superior Ct. 641, 102 A.2d 428 (1954). *Pittsburgh v. Pennsylvania Public Utility Commission*, 370 Pa. 305, 88 A.2d 59 (1952).

[28] 66 Pa.C.S. § 102 (definitions); PGW St. No. 1 at 2.

[29] PGW St. No. 1 at 2-3.

[30] PGW St. No. 1 at 3.

[31] 66 Pa.C.S. § 2212(e); 52 Pa. Code §§ 69.2701-2703; PGW St. No. 1 at 3.

levels.[32] In its Policy Statement, the Commission described the requirements of the Cash Flow Method as follows:[33]

> (b) The Commission is obligated under law to use the cash flow methodology to determine PGW's just and reasonable rates. Included in that requirement is the subsidiary obligation to provide revenue allowances from rates adequate to cover its reasonable and prudent operating expenses, depreciation allowances and debt service, as well as sufficient margins to meet bond coverage requirements and other internally generated funds over and above its bond coverage requirements, as the Commission deems appropriate and in the public interest for purposes such as capital improvements, retirement of debt and working capital.

The Commission also stated that, in determining just and reasonable rate levels for PGW it would consider, among other relevant factors, the following financial factors:[34]

- PGW's test year-end and (as a check) projected future levels of non-borrowed year-end cash.
- Available short term borrowing capacity and internal generation of funds to fund construction.
- Debt to equity ratios and financial performance of similarly situated utility enterprises.
- Level of financial performance needed to maintain or improve PGW's bond rating thereby permitting PGW to access the capital markets at the lowest reasonable costs to customers over time.

Since PGW's rates are established using an ongoing process of examining its projected actual cash balances and debt service coverages, any expenditures incurred by the Company or required by the Commission must ultimately be reflected in these calculations and included in PGW's revenue requirement.[35]

III. SUMMARY OF ARGUMENT

PGW has fulfilled its burden of proving that its proposed rates, which would produce $85.2 million in additional revenues, are just and reasonable. The proposed revenue level would provide the necessary financial support for the Company, as a cash flow municipal gas utility, to serve

[32] 52 Pa. Code §§ 69.2701-2703; PGW St. No. 1 at 2-3.
[33] 52 Pa. Code § 69.2702(b).
[34] 52 Pa. Code §§ 69.2703(a), (b).
[35] PGW St. No. 1 at 2-3; PGW St. No. 2 at 11-12.

~500,000 customers in the City of Philadelphia. Approval of PGW's proposed increase would further allow the Company to continue its aggressive capital improvement program and focus on improving safety, increasing efficiency and enhancing customer service.

It is also important for the Commission to refrain from imposing on PGW the additional costly duties raised by other parties when the Company is seeking to ensure the ability to meet all of its cash obligations in the FPFTY in a timely manner and meet the minimum debt service coverage in FY 2025. Even with sufficient rate relief to allow the Company to meet the minimum standards of financial adequacy required to maintain its bond rating, the simultaneous imposition of various modifications to customer service, universal service programs, and other areas of PGW's operations are not only legally unjustified, but would jeopardize the Company's ability to have the cash it needs to operate in a financially reasonable manner.

PGW also presented detailed proposals for:

- Allocation of the proposed rate increase, based on a Class Cost of Service Study;
- Customer charge increases, based on a customer cost study;
- A proposed new rate for GFCP/VEPI, again based on the cost of providing service to that customer and recognizing their unique operating needs and characteristics;
- A limited number of modifications to PGW's existing Retail and Supplier Tariffs to clarify operational rules.

All of these proposals were shown to be just and reasonable and should be adopted. Summaries of arguments on these and a wide variety of other issues are presented in this Main Brief.

IV. ARGUMENT

A. Revenue Requirement

1. Overall Need for Requested Rate Increase

PGW has met its burden of going forward with evidence demonstrating that it requires an annual rate increase of $85.161 million, consisting of: (i) a three-year amortization of expenditures and increased uncollectibles resulting from the COVID-19 Pandemic and the associated PUC orders responding to the Pandemic – $10.161 million for three years – and; (ii) a $75.0 million annual

increase.[36] PGW's rates and charges are set using the "Cash Flow" method, which determines the appropriate levels of cash, debt service coverage and other financial metrics necessary to enable the Company to pay its bills, meet its minimum bond ordinance requirements and maintain or improve its bond rating so as to maintain efficient access to the capital markets at reasonable rates. PGW continually works to try to keep costs down and operate as efficiently as possible.[37] However, a number of factors have worked to put PGW in a position where substantial base rate relief is absolutely necessary if the Company was going to continue to operate safely and effectively, among them:

> -- Roughly three years will have elapsed between rates being placed into effect in this case and the Commission's last ordered rate increase (November, 2020, implementation, January, 2021); and, even then,
>
> -- In its last base rate case, in recognition of the special circumstances brought on by the COVID Pandemic, PGW agreed to a settlement which awarded it just 50% of its request overall ($35 million), and deferred through a three-step phase-in $25 million or 71% of the settled rate increase.[38] Additionally, the Settlement contained additional customer assistance programs including a targeted COVID-19 relief grant program.[39]
>
> -- As a result of the Pandemic, PGW incurred over $32 million in COVID-related costs (i.e., additional uncollectibles and services and materials to respond to the Pandemic), none of which were included in PGW's prior rate relief. While PGW is making a claim to recover the nominal amount of these expenditures on an amortized basis over the next three years, that allowance does not include the negative effect these cash outlays have had – and will continue to have – on PGW's cash flow.
>
> -- Since PGW's last rate case, completely unprecedented price hikes and supply chain delays have increased expenses on a widespread basis, including: $59.3 million internally generated funds-financed construction; $28.1 million in budgeted labor and employee costs; $11.8 million increase in Information Services; $7.2 million increase in employee health insurance; $5.5 million increase in Risk Management ($3.3 million insurance and $2.2 million environmental remediation).[40]

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36 PGW Exh. JFG-2R; PGW St. No. 2-R at 37.

37 *See*, PGW St. No. 1 at 6-13. Among the steps taken include permanently closing PGW's five service centers in the Spring of 2022, resulting in savings of approximately $4.2 million, and establishing relationships with neighborhood energy centers which serve as "one-stop shops, for energy assistance and information." *Id*.

38 *PGW v. Pa. PUC*, Docket No. R-2020-3017206 (November 19, 2020). PGW agreed to increase its rates by $10 million on January 1, 2021, an additional $10 million on July 1, 2021 and a final $15 million for on or after January 1, 2022. Ordering ¶ 10, p. 97.

39 *Id*., pgs. 23-28.

40 PGW St. No. 1 at 5-6.

-- PGW needs to recover in rates the cost of a new, $348 million bond issuance in FY 2024; the annual debt service alone on this bond issuance is approximately $22.7 million.[41]

For these reasons, without sufficient rate relief, PGW will be unable to meet all of its cash obligations in the FPFTY in a timely manner[42] and will come close to violating its required 1.5x minimum debt service coverage in FY 2025, after accounting for the required City Payment.[43] In addition, at current rates, the Company would have just $30.8 million of year-end available cash in the FPFTY.[44] This projected level equates to just 16.9 days of expenses.[45] Those levels of financial performance would not meet the minimum standards of financial adequacy required to maintain its bond rating.[46] Looking one step forward, without rate relief, PGW's cash balances are projected to plunge and be negative in FY 2025.[47]

PGW's requested rate increase will address these deficiencies by allowing it to have the cash to cover its expenses and other costs; to assure that it will be able to meet its debt service coverage requirements both in the test year and in the next few years; to provide a minimum level of cash working capital from rates so that, along with its tax exempt commercial paper program, it will have adequate liquidity to meet its need for cash to fund construction and to deal with emergencies throughout the year; and to permit PGW to continue to reduce its dependence on expensive long term debt to fund capital improvements.[48]

If granted, PGW's requested rate increase will also serve to maintain PGW's current favorable bond rating. Bond ratings are crucially important for PGW since, as a municipal utility, it heavily relies on long term debt to fund much of its capital improvement program. PGW's financial consultant, James C. Lover of Public Financial Management ("PFM"), testified to the importance of

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41 PGW St. No. 3 at 22.
42 PGW St. No. 2 at 16.
43 PGW Exh. JFG-1 (debt service coverage w/City Payment, line 24).
44 *See* PGW Exh. JFG-1, which shows ending cash of $30.776 million.
45 PGW St. No. 2 at 14-15; PGW St. No. 2-R at 15.
46 PGW St. No. 2 at 21-22; St. 3 at 21-24.
47 PGW Exh. JFG-1 (cash flow, line 25).
48 PGW St. No. 2 at 22-23.

maintaining PGW's current favorable bond rating and the role that PGW's current rate request will play in that process. He explained that PGW's financial status had improved dramatically since the mid-2000's, when the repeated failure to gain necessary rate relief and the effects of the global recession had plunged PGW into financial crisis. After receiving extraordinary rate relief in 2008, which was made permanent in 2009, PGW was able to stave off a potential bond default. Since then, with the help of the Commission and its own efficiency efforts, PGW has slowly improved its financial performance and credit metrics to be consistent with its "A" rated municipal utility peers. [49]

Currently, the ratings of PGW's bonds stand at "A3" from Moody's Investor Services, "A" from S&P Global and "A-" from Fitch Ratings, all with "Stable" Outlooks. While its credit profile is lower than its peers,[50] the improvement of the Company's bond ratings and/or positive comments about the company reflect both the constructive support of the Commission and management's ability to implement its financial and operational plans.[51] Continued support for PGW's justified rate increase needs is therefore crucially important not only to ensure that it has the cash it needs to operate, but also to maintain its current bond rating, since a downgrade would impose millions of dollars of additional costs on PGW and its ratepayers literally for decades.[52]

PGW has based its claimed revenue requirement on the fully forecasted 12 months ending August 31, 2024,[53] referred to herein as the FPFTY. The Future Test Year ("FTY") is FY 2023 and the Historic Test Year ("HTY") is FY 2022. Those results are displayed on Exhibit JFG-1. The same financial results, assuming the proposed rate increase, are shown on Exhibit JFG-2R.[54] PGW's

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49 PGW St. No. 3 at 6-15.

50 PGW St. No. 4 at 19-20.

51 PGW St. No. 3 at 10; PGW St. No. 4 at 18-24.

52 PGW St. No. 3 at 21-23. Inadequate rate relief leading to a bond downgrade could drive up borrowing costs for currently projected bonds by $0.4 - $0.8 million *per year* for the next thirty years or so. Additional costs would inure to ratepayers as more bonds were issues.

53 PGW's fiscal year is the 12 months beginning September 1 and ending August 31.

54 Each page of Exhibit JFG (at present rates) and JFG-2R (at proposed rates) shows data for: (1) the HTY, the 12 months ended August 31, 2022 or FY 2022; (2) the FTY, the 12 months ended August 31, 2023 or FY 2023; and (3) the FPFTY, the 12 months ended August 31, 2024 or FY 2024. The Exhibit also shows projections for the Forecast Period. Page 1 of Exhibit JFG-1 displays operating revenues, operating expenses and net earnings

claimed *pro forma* results at present rates were directly derived from its Operating and Capital Budgets approved by the Philadelphia Gas Commission and Philadelphia City Council, respectively, updated to reflect more current data and to recognize a major bond issuance that is projected for the end of FY 2024.

2. PGW *Pro Forma* Revenues

PGW's *pro forma* revenues are a function of the projected gas demand per customer and the anticipated number of customers in each class for the projection periods. PGW's Marketing and Gas Planning departments calculated revenues and sales by class for the budget year/FPFTY and provided projections for the forecast years.[55] PGW calculates heating and non-heating load and weather normalized heating load. PGW's normalized heating load is based on "normal" weather, calculated using the twenty-year average of experienced degree days.[56] This process is fully described in the testimony of PGW witness Florian Teme.[57]

Only one Party challenged PGW's proposed *pro forma* revenues for the FPFTY, but that recommendation was subsequently withdrawn.[58]

3. PGW *Pro Forma* Expenses

PGW's FPFTY *pro forma* expense claim was directly derived from its approved Operating Budget process, using the FY 2023 Budget and Forecast (subsequent five years) as a starting point. Because the FY 2023 Budget and Forecast was prepared in late FY 2022, PGW first updated the FY 2024 Forecast to reflect more current information. Principally, PGW took into consideration more

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(Statement of Income); page 2 displays PGW's Cash Flow Statement, page 3 shows Debt Service Coverage; and page 4 shows PGW's Balance Sheet.

55 PGW St. No. 6 at 3-6.

56 *Id.*

57 PGW St. No. 6.

58 I&E witness Sakaya initially recommended that PGW's *pro forma* revenues be increased by some $7 million on the ground that PGW had understated its projected, FPFTY customer count. However, upon review of PGW's rebuttal, in which Mr. Teme demonstrated that, because of the PUC-mandated termination moratorium, the use of recent historic customer growth levels dramatically overstated likely FPFTY customer count levels, witness Sakaya commendably withdrew her recommendation in its entirety.

current levels of inflation and its impact on forecasting future expenses.[59] Notably, it did not make a "general inflation adjustment," but instead obtained input from subject matter experts and applied specific estimates of expense increases where that information was available and used a reasonable price increase estimate when specific information was not available.[60]

a) PGW *Pro Forma* Expense Adjustments

PGW made only one *pro forma* expense adjustment: it revised its updated Budget/Forecast data to account for a major change projected to occur at the end of the FPFTY. PGW is projecting that, at the end of FY 2024 it will issue additional long-term bonds in the amount of $348.0 million and therefore included a full year's debt service in its calculation of *pro forma* revenue requirement at present rates.[61] Importantly, except for this one *pro forma* adjustment (which was not challenged by any Party) PGW's *pro forma* FTY and FPFTY claims are an updated version of PGW's actual, approved Operating Budgets under which it is currently functioning.

4. PGW's *Pro Forma* Financial Metrics Demonstrate that its Proposed Rate Increase is Justified

a) Introduction

PGW is regulated on the basis of the "Cash Flow" method. In accordance with its Policy Statement, the Commission has established that determination of the justness and reasonableness of PGW's rates under the Cash Flow method requires the examination of a series of factors, the principal ones being: 1) debt service coverage[62]; 2) year-end non-borrowed cash[63]; 3) debt-to-total capitalization[64]; and 4) level of financial performance needed to maintain or improve PGW's bond

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[59] For example, historically PGW would assume a 2.5% increase in wages. The FY 2024 Budget reflects a 3.5% increase that was negotiated with the Union. While this is higher than the historical rate it is still less than the general rate of inflation. Also, the general increase projected for other categories of expenses, except where specific studies were available, was 4.63%; this too is higher than the historical 2.5% level utilized pre-pandemic.

[60] This is discussed in Section IV.B.6 (inflation adjustment) of this Brief.

[61] PGW St. No. 2 at 8-9.

[62] 52 Pa. Code § 69.2702(b).

[63] 52 Pa. Code § 69.2703(a)(1).

[64] 52 Pa. Code § 69.2703(a)(3).

rating.[65] PGW showed that its requested financial metrics are reasonable and crucially necessary in order to continue to maintain financial health, provide adequate and reliable service to its customers and maintain its present bond rating. The Policy Statement also directs that PGW's financial metrics be examined in relation to "similarly situated utility enterprises."[66] PGW – the only Party to produce comparable utility data – showed that the financial metrics produced by PGW's requested rate increase are fully justified, and in fact conservative, when compared to those of comparable utilities.

b) Debt Service Coverage

Debt service coverage is the fundamental way in which PGW receives the cash it needs to operate its business and have cash for contingencies. While PGW's bond ordinances require that, at a minimum, the Company maintain a debt service coverage of 1.5x, coverage above debt service requirements must be sufficient to produce sufficient additional revenues to pay for cash items that are not included in the debt service coverage calculation but for which PGW is committed or required to pay.[67] At present rates, PGW's debt service coverage for the FPFTY is 2.1x; accounting for the mandatory obligation of the City Payment, PGW's FPFTY debt service coverage falls below two: 1.94x.[68]

PGW demonstrated the inadequacy of these *pro forma* levels of debt service coverage in two different ways. First, and most importantly, PGW witness Joseph Golden (PGW St. No. 2) explained that PGW's debt service coverage needed to produce enough cash so that the Company was able to meet all its cash obligations. Mr. Golden set forth a list of these cash obligations, including the City Fee, pension fund contributions not on the income statement, DSIC costs, and the Other Post-Employment Benefits ("OPEB") surcharge.[69] In addition, he explained that, from the debt service coverage, PGW must fund the portion of its capital improvements funded by internally generated

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65 PGW St. No. 2 at 12-13; 52 Pa. Code § 69.2703(a)(5).
66 52 Pa. Code § 69.2703(a)(3).
67 PGW St. No. 2 at 15-17; 52 Pa. Code § 69.2702(b).
68 PGW Exh. JFG-1, Debt Service Coverage.
69 PGW St. No. 2 at 15-17.

funds and produce a reasonable amount of working capital to deal with revenue/expense timing differences.[70]

The Cash Needs as calculated by Mr. Golden is as follows:

Item	**Cash Requirement Not included in Debt Service Calculation ("000")**	**Cash Available over Debt Service FPFTY – Present Rates ("000")**
City Payment	$18,000	
OPEB	$18,500	
Pension	$3,455	
Retiree Benefits	$37,435	
IGF funded CapX	$53,207	
PHMSA Grant Cast Iron Main Replacement	$10,752	
GASB 87/96 Principal Payments	$1,968	
DSIC	$41,000	
Working Capital	$15,442	
Sub-Totals	**$199,759**	**$116,040[71]**
TOTAL ADDITIONAL CASH NEEDED	**$83,720[72]**	

Mr. Golden explained that this Cash Needs Analysis demonstrates that the *pro forma FPFTY* debt service coverage of a 2.10x is inadequate and a debt service coverage of at least 2.73x is required for PGW to be able to meet all its cash expenditures in the FPFTY.[73] A 2.73x debt service coverage level can only be achieved with an $85.1 million rate increase.[74] Importantly, while both the OCA and I&E took issue with the amount of cash PGW needed for one of the items on Mr. Golden's Cash Needs Analysis, neither they nor any other Party disputed the underlying premise of the analysis – that for PGW's rate increase to be adequate, it must produce enough cash to meet this array of cash needs. Moreover, neither OCA witnesses Mugrace or Griffing, nor I&E witness Patel

70 PGW St. No. 2 at 16-17.

71 PGW Exh. JFG-1, pg. 3, "Net Available after 1998 Debt Service ($126,873) less amortized Covid-19 expense (which is not included on JFG-1).

72 The requested rate increase is greater to account for the portion that is uncollectible ($3,433 million), offset by additional $1,320 million additional Late Payment Charges. PGW St. No. 2 at 16.

73 *Id.*

74 *Id.*

were able to come up with any rational and supportable basis for challenging Mr. Golden's claimed Cash Needs Analysis.[75]

PGW's proposed debt service coverage levels were also shown to be reasonable compared to those of comparable companies. Well regarded rate expert Harold Walker of Gannett Fleming analyzed the financial results for several groups of comparable utilities: 1) municipally owned utilities; 2) Pennsylvania investor-owned utilities; and 3) investor-owned utilities that operate outside of Pennsylvania. Using these comparables, Mr. Walker presented a host of data showing how PGW compared both historically and assuming the full, $85.1 million rate increase were to be granted. With respect to debt service coverage, Mr. Walker's comparables showed that PGW's historic and proposed debt service coverage ratios (using various measures because of differences in calculations) lagged behind those of its peers on average and in most years, and its proposed 2.73x debt service coverage is actually below the historical average debt service coverage for virtually every municipal utility peer examined.[76]

c) Days of Cash

For the FPFTY at present rates, PGW is projecting that it will end the year with just $30.78 million in cash. That level of cash equates to just 16.9 days of cash on hand ("DOC") – with the cash balances and days of cash projected as being negative starting in FY 2025 and continuing to be negative throughout the Forecast Period.[77]

As more fully explained by Mr. Lover, the bond rating agencies that closely follow PGW's financial performance have indicated that a cash balance of between 90 and 150 DOC should ideally be maintained for a utility with an "A" bond rating.[78] Therefore, a cash balance of only 17 days

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[75] See, Section C, *infra*.
[76] PGW St. No. 4 at 37; Exh. HW-1, Sch. 4, pgs. 11-14, Sch. 5.
[77] PGW St. No. 2 at 18; Exh. JFG-1, Cash Flow Statement. The FPFTY's balance of just 17 days cash on hand at fiscal year-end would result in a "low point" cash balance in November of $14.4 million (7.9 days of cash). This inadequate cash balance would leave little or no ability to respond to contingencies. *Id.*
[78] PGW St. No. 3 at 16.

would fail to provide sufficient cash for PGW to be able to meet all of its cash obligations, as shown by the Cash Needs Analysis, discussed above, would be extremely concerning to the rating agencies and would prompt a serious review of its bond rating.[79]

PGW's rate increase request would produce a year-end cash balance in the FPFTY of $113.8 million, which equates to 61.6 days of cash.[80] While this level of cash will provide sufficient cash for PGW's cash needs, it is still well below the 90-150 days that Mr. Lover testified is expected by the rating agencies on average, over time, for an "A" rated credit.

PGW's historically realized and proposed levels of DOC are also just above the lower limit of the DOC for all of Mr. Walker's peer groups, and the FPFTY proposed level – 62 days – is actually below the lowest level of DOC that PGW has experienced during Mr. Walker's study period.[81]

d) Debt to Total Capitalization

At present rates, PGW's debt to equity capitalization ratio in the FPFTY is 62.69%.[82] That percentage is below the level in the HTY (FY 2022), 64.11% and the level – 60.6% – projected for the FPFTY with the full rate increase.[83] PGW showed that a capitalization ratio of 60% or lower will permit PGW to continue its policy of attempting to balance its capital structure by funding approximately 50% of its annual capital spending from internally generated funds ("50%/50% policy") as well as reduce financial risk.[84] PGW's ability to generate IGF is specifically mentioned in the Policy Statement as one of the criteria for judging the reasonableness of PGW's rate request.[85]

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79 *See*, discussion of debt service coverage, *supra*.

80 The sum of lines 27 (cap fringe benefits, $10.717), 28 (capitalized admin charges, $31.571), and 38 (operating expenses, $703.766) of PGW Exh. JFG-2-R less line 26 (net depreciation, $72,141) is $673.923. That amount divided by 365 is 1,846. Dividing the ending cash, PGW Exh. JFG-2-R, line 25 (ending cash, $113.769) by 1,846 results in 61.6 days of cash. That result is slightly less 61.9 Days shown in PGW St. No. 2 at 23 and PGW St. No. 2-R at 24 due to the change in PGW Exh. JFG-2R.

81 PGW St. No. 4 at 37.

82 PGW Exh. JFG-1.

83 PGW Exh. JFG-1, 2R.

84 PGW St. No. 2 at 20-21.

85 52 Pa. Code § 69.2703(2).

The use of internally generated funds to finance a portion of PGW's capital improvement expenditures not only helps to maintain PGW's capital structure at reasonable levels, it is also cheaper for ratepayers. Mr. Golden demonstrated that, for PGW, debt financing is two to three times more expensive to ratepayers compared to financing capital expenditures with an equivalent amount of IGF. This is due principally to: 1) the need to recover both debt service and debt service coverage from rates; and 2) the compounding effect of having to continually issue long term debt in lieu of using funds from rates.[86]

While PGW's capitalization ratio has improved in recent years, thanks to its 50%- internally generated funds/50%-funds from debt,[87] as well as past reasonable and appropriate rate relief, its above 60% projected ratio remains materially higher than PGW's peers, as Mr. Walker explains in his testimony.[88]

Citing a 2015 PUC Staff Report ("Staff Report"), Mr. Patel for I&E testified that it would be reasonable for PGW's capitalization ratio to be as high as 70% and, on that basis recommended a rate increase that did not provide for any allowance for non-DSIC internally generated funds for construction, denying all $53 million of PGW's projection.[89] But the Staff Report never recommended that PGW be directed to establish its debt/capitalization ratio at 70%. In fact, eliminating IGF financing in order to increase PGW's debt/capitalization ratio would actually increase rates since, as Mr. Patel admitted, IGF-financed capital expenditures are actually cheaper for ratepayers.[90]

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86 PGW St. No. 2-R at 10-11. Mr. Patel agreed that IGF is actually cheaper to PGW ratepayers over time than long term debt financing. I&E St. No. 1-SR at 8.

87 PGW St. No. 2 at 20-21; PGW Filing Requirements, at II.A.4, Official Statement for the Gas Works Revenue Bonds Sixteenth Series dated October 21, 2020, p. 26. PGW did not have internally generated funds to fund any portion of its capital improvement program prior to FY 2009. *See PUC v. PGW*, Docket No. R-2008-2073938, Opinion and Order entered December 19, 2008, at 25.

88 PGW St. No. 4 at 31; PGW Exh. HW-1, Sch. 4, pg. 1.

89 I&E St. No. 1 at 8,29.

90 PGW St. No. 2R at 8-12.

Moreover, both Mr. Walker and Mr. Lover showed that either a 70% debt to total capitalization ratio or the 63% that Mr. Patel claims is produced by his rate increase recommendation would be significantly above PGW's peer utilities including most municipal utilities studied. The average debt to total capitalization ratio for Mr. Walker's peer municipal utility debt to total capitalization ratio was just 52% and Mr. Lover's studied group had a debt/capitalization ratio of 49%.[91] Plainly, there is no basis for concluding that PGW's proposed, FPFTY debt/capitalization ratio of 61% is too low; if anything, it is too high.

B.1. Expenses

PGW provided extensive documentation and explanation of the reasonableness of all of its expense claims.[92] The rationale for certain expense claims is summarized below. To the extent necessary, PGW will further respond to proposed adjustments to its expense claims in its Reply Brief.

1. CIS Spending; Contingency Costs

PGW's new Customer Information System ("CIS") was expected to go live in the FPFTY.[93] The total costs of CIS are anticipated to be $61,662,000. For the FPFTY, the remaining costs for the CIS include (but are not limited to) contingency costs of $7,119,731.[94] Those contingent/potential costs are known and measurable since they are based on the risks and the size of the project. Here, they are about 12% of the total project cost.[95]

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[91] PGW St. No. 4-R at 11; PGW St. No. 3-R at 10.
[92] The *pro forma* was developed as discussed above.
[93] PGW St. No. 1 at 12.
[94] OCA St. 2 at 14-15.
[95] $7,119,731 divided by $61,662,000 is 0.12 or 11.55%.

OCA's recommendation to disallow said contingency costs in their entirety[96] should be rejected because it is reasonable for PGW to include reasonable allowance for contingencies into the FPFTY for potential cost over-runs.[97]

2. Employee Count; Payroll Expenses; Payroll Taxes

PGW's claim for payroll expenses and taxes in the FPFTY is based on a headcount of 1,637 employees.[98] This was the basis for the employee-related amounts shown in Exhibits JFG-1 and JFG-2-A.[99] The employee head count is trending up, and PGW is adding new employees at a rate of roughly 5 per month.[100] PGW had 1,539 employees as of December 30, 2022.[101] As of June 30, 2023, PGW had 1,587 employees.[102] Therefore, PGW's projection that it will reach the assumed headcount level in the FPFTY is reasonable.[103]

OCA's recommendation to reduce PGW's employee count for the FPFTY to 1,588[104] should be rejected because that projection: (a) is only one employee more than PGW's actual full-time employee head count of 1,587 as of June 30, 2023[105] and (b) ignores the head count trend and need to hire more employees.

3. Lobbying Expenses

PGW's financial projections include lobbying expenses, since PGW fully expects to incur $100,000 in these expenses in the FPFTY. These expenses are reasonable and should be deemed a reasonable *pro forma* expense for PGW. PGW is a municipal utility and therefore has an obligation to maintain lines of communication with other parts of government. PGW's government relations

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96 OCA St. 2 at 14-15, 57; OCA St. 2-SR at 4.

97 It is unreasonable to require PGW to update CIS costs as well as the in-service date of the project to determine whether any cost over-runs exist, as recommended by OCA (OCA St. 1 at 15), since the record in this proceeding was closed before the CIS project will be concluded.

98 PGW St. No. 2-R at 28.

99 PGW St. No. 2-R at 28; PGW St. No. 2-RJ at 6.

100 PGW St. No. 2-R at 29.

101 PGW St. No. 2-RJ at 6.

102 PGW St. No. 2-RJ at 6.

103 PGW St. No. 2-R at 29; PGW St. No. 2-RJ at 6-7.

104 OCA St. 1-SR at 7; OCA Sch. DM-SR-20, line 36.

105 PGW St. No. 2-RJ at 6.

professionals assist in obtaining information and appropriate funding for state and federal programs such as LIHEAP. These efforts directly benefit customers. In fact, since PGW is a municipal utility, PGW's lobbying efforts accrue to the benefit of customers – not to shareholders.

The Commission must set rates to provide PGW with sufficient cash to pay all of its obligations during each fiscal year in full when they are due. Lobbying expense is a reasonable expense related to providing quality service to customers, as required by *Butler Township*.[106] To suggest that these activities are "imprudent" is inappropriately dismissive of the significant benefits PGW has been able to obtain for its customers. The Commission has clear statutory authority to exercise its discretion and recognize that customers directly benefit from these lobbying activities and expenses. It should exercise that discretion here to allow PGW to include all lobbying activities in its *pro forma* expenses.

To the extent that including lobbying expenses in pro forma operating expenses for PGW is deemed generally prohibited,[107] PGW requests that the Commission waive its application for the reasons stated above.

4. Rate Case Expenses

PGW proposed recovery of rate case expenses for this proceeding over a 5-year (60 month) timeframe.[108] There is adequate support for PGW's claim for rate case expenses in this proceeding.[109] PGW is still recovering rate case expenses of $177,000 from the 2020 base rate case via the same five-year amortization.[110] Note that PGW voluntarily adopted a 5-year amortization period not because it reflects the duration between rate cases (which is actually about 3 years) but because the

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[106] *Butler Township Water Co. v. PUC*, 473 A.2d 219, 221 (Pa.Cmwlth. 1984). *See also T.W. Phillips Gas and Oil Co. v. PUC*, 474 A.2d 355 (Pa.Cmwlth. 1984).

[107] PGW recognizes the Commission's traditional view that lobbying expenses such as these should not be included in *pro forma* expenses. PGW St. No. 2-R at 38; OCA St. 2 at 20.

[108] PGW St. No. 2-R at 33.

[109] PGW St. No. 2-R at 34.

[110] PGW St. No. 2-R at 33; I&E St. No. 2 at 9.

Philadelphia Gas Commission (which has oversight of PGW budgets) ordered that the expenses be amortized over this time period for PGW budget purposes.[111]

I&E recommended a reduction of $160,019 to PGW's claim based on normalizing over 53 months.[112] That recommendation should be rejected. Normalization is not reasonable since PGW fully supported its projected claim, I&E's proposed recovery period is inconsistent with PGW's budget planning period (5 years) and the projected duration between rate cases (about 3 years). Further, I&E's proposal to deny the full recovery of a legitimately incurred (and previously authorized) unamortized rate case expenses[113] is unreasonable[114] and is, in effect, an improper collateral attack on a prior Commission order.

5. COVID-19 Related Expenses

PGW is making a claim for incremental uncollectible and other expense incurred as a result of responding to the Commission's directives regarding the COVID-19 pandemic emergency.[115] PGW responded to those directives and deferred collection of about $32.5 million in a regulatory asset for proscribed COVID-19 related expenses.[116] PGW has not accrued additional expenses for the pandemic since February 2023 and has a total of $30.485 million accumulated of net COVID-19 related expenses.[117] That amount is net of all reimbursements from the Federal Emergency Management Agency ("FEMA").[118] PGW is proposing a three-year (36 month) recovery period for

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111 PGW St. No. 2-R at 34.
112 I&E St. No. 2-SR at 7-8.
113 PGW St. No. 2-R at 34.
114 PGW St. No. 2-R at 34.
115 PGW St. No. 2 at 9-11. *See* PUC's Emergency COVID Order, ratified on March 25, 2020, in Docket No. M-2020-3019244.
116 PGW St. No. 1 at 4. As a cash flow utility, the deferred collection directly impacted PGW' s budget. PGW St. No. 1 at 4.
117 PGW St. No. 2-R at 37.
118 PGW St. No. 2-R at 35, 37.

the COVID-19 related expenses,[119] which results in a COVID-19 related expense claim for the FPFTY of $10.162 million.[120]

Specifically, PGW is claiming two types of deferred COVID-19 related expenses. First, incremental uncollectible expenses. For these expenses, in FY 2021, PGW established ae deferred regulatory asset for outstanding delinquent account balances in anticipation that the Company could recover losses relating to the COVID-19 pandemic.[121] This claim has the following components: The losses associated with the Commission moratorium, beginning in March 2020, and ending in March 2021,[122] which occurred as a result of not shutting off gas services to customers who otherwise would be eligible for shutoff;[123]and the increase in the provision for uncollectible accounts due to the impact from the COVID-19 pandemic.[124] The detail of this claim is shown on Exhibit JFG-3. Second, PGW is claiming other incremental, extraordinary COVID-19 related expenses. PGW incurred approximately $4.1 million of COVID-19 incremental gross operating expenses and received reimbursements from FEMA to offset operating expenses related to the COVID-19 pandemic.[125] Gross operating expenses related to the COVID-19 pandemic mainly consisted of supplies/equipment and professional cleaning services.[126] The detail of this claim is shown on Exhibit JFG-4.[127] Other than a challenge to the amortization period, no party challenged PGW's revised COVID-19 incremental expense claim.[128]

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[119] PGW St. No. 2 at 11. PGW generally is projecting a three-year period between base rate cases; therefore, this amortization period is reasonable. PGW St. No. 2 at 11.

[120] PGW Exh. JFG-2R (income) at line 26 (pandemic expenses).

[121] PGW St. No. 2 at 10.

[122] PGW St. No. 2 at 10.

[123] PGW St. No. 2 at 10.

[124] PGW St. No. 2 at 10.

[125] PGW St. No. 2 at 10.

[126] PGW St. No. 2 at 10.

[127] PGW St. No. 2 at 10. The amount on PGW Exh. JFG-4 was reduced by $1,956,915 in PGW's Rebuttal to account for an additional reimbursement from FEMA. PGW St. No. 2 at 2-3, 34-37.

[128] *Id.*

The longer recovery periods recommended by I&E and OCA are unreasonable,[129] since PGW's clear recent and relevant history is filing cases about every 3 years (2017, 2020 and 2023).

6. Inflation Adjustment

PGW expects all expenses/costs to increase from the FTY to the FPFTY.[130] PGW's annual operating budget is reviewed and approved by the PGC.[131] PGW is required to track expenses, and to control costs.[132] Notwithstanding these efforts, budgeted non-commodity operating expenses and the cost of capital expenditures have gone up significantly almost across the board.[133]

Each of PGW's 43 operating departments was asked to identify their expenses/costs for the FPFTY.[134] If the department had specific data/information to use as an input for determining the specific level of increased expenses/costs, that data/information was used to determine the budget for the FPFTY. Only when PGW's subject matter experts (who developed the budget) were confident that the remaining expenses/costs were expected to increase in the future, but that the specific level of increase could not be separately and specifically determined, was a generic inflation adjustment of 4.63% used.[135] That inflation adjustment was used on just seven lines of the Income Statement,[136] approximately 20% of total operating expenses.[137]

The Commission allows targeted adjustments for higher prices. PGW's projections are not speculative – since the adjustments by PGW relate to the actual costs expected to be incurred in each expense account in the FPFTY. In addition, PGW's inflation adjustment was closely targeted and was applied only to those expenses/costs not otherwise specifically adjusted and only where subject

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129 Three-year amortization of a COVID-19 regulatory asset is consistent with the settlement term in UGI Utilities, Inc. – Electric Division, Docket No. R-2021-3023618, Opinion and Order entered October 28, 2021 at 17, 23-25, 31, 44-49.
130 PGW St. No. 2-R at 37.
131 PGW St. No. 2-R at 38.
132 PGW St. No. 2-R at 38.
133 PGW St. No. 1 at 4-5.
134 PGW St. No. 2-R at 37.
135 PGW St. No. 2-R at 37-38.
136 PGW St. No. 2-R at 38; PGW Exh. JFG-5.
137 PGW St. No. 2-R at 38.

matter experts determined that the general inflation adjustment to their department's expenses was reasonable. Given the continued Philadelphia Facilities Management Corporation (PGW's Board of Directors), PGC and City's oversight of PGW's including the use of an inflation adjustment when specific increase data is not available, such use does not incentivize PGW to be less accurate in its tracking of expenses or to use a less rigorous approach to controlling costs.

Here, it is unreasonable to summarily exclude an allowance for price increases in their entirety in selected O&M categories when the witnesses of I&E and OCA do not dispute that prices will be higher in the FPFTY. PGW adequately explained why it utilized a generic inflation adjustment for a selected group of expense categories and characterizing this use as "general inflation adjustment" is neither accurate nor reasonable.

7. Incentive Compensation

PGW has had incentive compensation expenses for a number of years. PGW has an incentive plan (called the "Contract and Retention bonus") for the CEO and the (Acting) CFO.[138] This plan is designed to promote the successful completion of annual corporate goals established by the Board of Directors of the Philadelphia Facilities Management Corporation (PGW's management company).[139] Exhibit JFG-8 is a table of PGW's corporate goals for the FPFTY. Those goals include continued improvement in customer satisfaction, revenue enhancement (from new business), increasing opportunities for minority, women, and disabled-owned businesses enterprises (M/W/DSBEs) to participate in PGW projects, and increasing job satisfaction/recognition scores.[140]

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[138] PGW St. No. 2-R at 42-43. PGW anticipates $65,000 for Contract and Retention bonus for the FPFTY. *Id.* OCA withdrew its challenges to PGW's two incentive plans for the non-bargaining employees. OCA St. 1-SR at 11-12. PGW's incentive plans for the non-bargaining employees are the Bypass Bonus Plan which provides a bonus to employees who report unauthorized users of gas. PGW St. No. 2-R at 42. PGW anticipates $32,000 for bypass bonus in the FPFTY. *Id.* PGW also has the Employee Recognition Award Plan which provides recognition and awards to employees whose accomplishment or contribution has had a substantial impact on the department, the company or the community. PGW St. No. 2-R at 42. PGW anticipates $32,000 for employee recognition in the FPFTY. *Id.*

[139] PGW St. No. 2-R at 42-43.

[140] PGW St. No. 2-R at 43.

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The OCA's recommendation[141] should be rejected since all of the corporate goals benefit ratepayers.

8. Advertising Expenses

There is adequate support for PGW's claim for advertising expenses. Advertising expenses include $779,000 for the Advanced Marketing Campaign to support customer communications. Such costs relate to: (a) Fueling the Future, an awareness campaign (launching in FY 2024) to inform PGW customers seeking increased energy efficiency and lower cost energy solutions; (b) Online Appointment Scheduling, an improved customer tool (launching in FY 2024); and (c) Main Replacement customer outreach, a customer communication campaign (launching in FY24) related to increased replacement work. Advertising expenses also include $78,000 for a Diversification campaign to support any customer communication regarding RNG customer opportunities and/or low-carbon products (launching in FY 2024). All of these campaigns were fully described and supported by PGW.[142]

The OCA's recommendations regarding advertising expenses should be rejected because PGW satisfied its burden of proof by describing the substance of the advertising.[143]

9. Pension Expense

PGW's funding requirement for pension expenses in the FPFTY, is $44.759 million and the cash outlay is $30.806 million.[144] The cash requirement is based on two mandates. PGW's Pension Plan (also known as the "Gas Works Plan"[145]) requires cash outlays for both (1) the actuarially determined contributions and (2) the additional amount determined by the Director of Finance (who is the chief financial officer of the City) to be appropriate to fund future benefit obligations with

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[141] OCA St. 1-SR at 11-12. Mr. Mugrace recommends a reduction of $10,333 for each of the corporate goals that he disagrees with.

[142] PGW St. No. 2-R at 51-52.

[143] PGW St. No. 2-R at 51-52. *See also* OCA St. 1 at 25, *citing* I&E RE-1-16 and PGW Exhibit III-A-25.

[144] PGW St. No. 2-R at 49; PGW Exh. JFG-2R (income), line 29 (pensions). Line 29 shows the funding requirement.

[145] PGW St. No. 2-R at 48; PGW Exh. JFG-10.

respect to such Pension Plan participants.[146] Beyond those two cash requirements, there is an additional (amortization, non-cash expense) requirement under Governmental Accounting Standards Board (GASB) that is dictated by PGW's actuarial report and combines with the cash requirements to produce the accounting expense shown on the income statement.[147] That pronouncement (GASB 68) creates the total funding requirement that is shown on PGW's income statement.[148]

The following chart is a breakdown of the above-described requirements:[149]

	(Dollars in Thousands)				
	Actual	Actual	Actual	FTY	FPFTY
Description	FY2020	FY2021	FY2022	FY2023	FY2024
Required Pension Cash Contribution	24,914	22,101	24,793	27,192	27,351
Additional Pension Cash Contribution (as required by Dir. Of Finance)	4,313	7,899	5,207	3,916	3,455
Total Cash Outlay - Pension	29,227	30,000	30,000	31,108	30,806
GASB 68 Amortization Expense	(9,751)	(33,146)	(9,325)	11,725	13,953
Total Pension Expense	19,476	(3,146)	20,675	42,833	44,759

The recommendation of OCA should be rejected because normalization of the total pension expense (using historic expenses) will deny PGW the opportunity to recover all of its known and measurable pension expenses in the FPFTY, the determination of which was dictated to PGW by others or required by GASB accounting rules.[150] Here, OCA's recommendation is not focused on the cash outlay itself, which has been relatively unchanged from the HTY to the FPFTY (ranging from $30 million in the HTY to $30.806 million in the FPFTY). OCA's recommendation is focused on the variability on line 29 of PGW's income statement due to GASB 68 amortization changes.[151] That measurement is determined through an actuarial valuation.[152] Certain components of the change in

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146 PGW St. No. 2-R at 48-49. The Director of Finance has directed PGW to contribute not less than $30.0 million to the Gas Works Plan. *Id.*

147 PGW St. No. 2-R at 49.

148 PGW St. No. 2-R at 49.

149 PGW St. No. 2-R at 49.

150 PGW St. No. 2-R at 49.

151 PGW St. No. 2-RJ at 7; PGW Exh. JFG-2R (income), line 29; OCA Schedule DM-SR-13; Filing Requirements, Volume 1 at II.a.1, Basic Financial Statements and Supplementary Information at p. 46.

152 For example, "Pension expense increased by $23.8 million to $20.7 million in FY 2022 as compared to FY 2021 due primarily to the increase of amortization of unfunded liability under GASB 68. The increase in the

the net pension liability are recognized immediately as pension expense in the income statement.[153] The change in the amortization comes from factors like differences between projected retirements and mortality and changes in fund earnings and do not justify normalization of the pension expense and/or the removal of $8 million from line 29 of PGW's income statement.[154]

10. OPEB Expense

For the FPFTY, PGW's cash outlay or funding requirement above the amount shown on the income statement for OPEBs is $58.019 million.[155] The cash outlay has the following components: (1) the OPEB Trust Cash Contribution of $18.5 million, which is funded by the Commission-approved, $16.5 million OPEB surcharge and an additional $2.5 million from PGW's IGF; (2) retiree benefit (health care and life insurance) payments; and, (3) PGW's accounting expense regarding OPEBs under GASB 75 that is shown on Exhibit JFG-2R (income) at line 31.[156]

The following chart is a breakdown of the PGW's OPEB requirements:[157]

	(Dollars in Thousands)				
	Actual	Actual	Actual	FTY	FPFTY
Description	FY2020	FY2021	FY2022	FY2023	FY2024
OPEB Trust Cash Contribution	18,500	18,500	18,500	18,500	18,500
Retiree Health Care Expense	26,944	26,655	21,970	26,450	27,724
Retiree Life Insurance	1,661	1,725	1,778	1,700	1,700
Total Cash Outlay - OPEB	47,105	46,880	42,248	46,650	47,924
less Total OPEB Expense	10,862	(902)	(1,242)	(13,699)	(10,095)
Total Cash Outlay - OPEB not seen on JFG-1/JFG-2	36,243	47,782	43,490	60,349	58,019

Here, OCA's recommendation is focused on the OPEB expense under GASB 75,[158] and not the total cash outlay. OCA's recommendation should be rejected because normalization of the accounting

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unfunded liability in FY 2022 was due primarily to lower than anticipated earnings experienced during the respective period. Pension expense decreased by $22.6 million to ($3.1) million in FY 2021 as compared to FY 2020 due primarily to higher than anticipated earnings experienced during the period, which was slightly offset by changes in the assumed discount rate, demographics, and in the optional form actuarial equivalence conversion factors." Filing Requirements, Volume 1 at II.a.1, Basic Financial Statements and Supplementary Information at 7.

153 Filing Requirements, Volume 1 at II.a.1, Basic Financial Statements and Supplementary Information at 46.

154 PGW St. No. 2-RJ at 7.

155 PGW St. No. 2-R at 50-51.

156 PGW St. No. 2-R at 50-51.

157 PGW St. No. 2-R at 50-51.

158 OCA St. No. 2-SR at 15; OCA Sch. DM-SR-15.

expense, line 31 on Exhibit JFG-2R, (using historic accounting expenses) will deny PGW the opportunity to recover all of its known and measurable OPEB expenses in the FPFTY which, like Pension expense, is dictated by accounting rules over which PGW has no control.

11. Health Insurance Expense

PGW's healthcare cost trend is moving higher.[159] For the HTY (FY 2022), health insurance was $23.064 million.[160] For the FTY (2023), health insurance is on track for totaling $25.740 million (about a 10% increase from the HTY).[161] For the FPFTY (2024), health insurance is anticipated to be $27.715 million (about a 7.5% increase from the FTY).[162] That anticipated increase was projected by an independent consultant, Brown & Brown – not PGW – and reflects PGW's market and plan demographics.[163]

The OCA's recommendation should be rejected because PGW's projected level of health insurance expense was derived from an independent third party. Further Mr. Mugrace's own data, shown on Schedule DM-SR-10 displays average annual growth from FY 2020 to FY 2022 HTY that are actually greater than his recommended 5.7% adjustment.[164]

12. Normalization Adjustments

As noted above, PGW's pro forma expense claim is based on its actual, budgeted levels of expenses, as approved by the Philadelphia Gas Commission and Philadelphia's City Council (the Capital Budget), only updated for more recent information (and one adjustment to reflect a full year of its planned, FY 2024 bond issuance).[165] Both OCA and I&E, however, rejected many of these budgeted amounts and instead insisted that PGW's test year levels should be based on historic averages, characterized as "normalized" amounts.[166] The Commission should reject extensive

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159 PGW St. No. 2-R at 52.
160 PGW St. No. 2-R at 52.
161 PGW St. No. 2-R at 52.
162 PGW St. No. 2-R at 52.
163 PGW St. No. 2-R at 52. PGW Exhibit JFG-12 is an excerpt from the Brown & Brown Report.
164 PGW St. No. 2-SR at 8-9. The average of 10.44%, 1.55%, 11.60% and 7.67% is 7.82%.
165 *See* Section IV.A.2 and A.3, *infra,* as well as Section IV.B.1.6.
166 OCA St. 1 and 1-SR; I&E St. Nos. 2 at 7-14 and 2-SR at 8.

reliance on historic costs and historic averages when making recommendations for future rates based on a fully forecasted test year. Historic costs and averages may be useful in evaluating spending levels between fiscal years. They are not useful in setting future rates.[167] Setting future rates requires looking at the anticipated actions and expenses in the future year. Extensive reliance on historic averages denies PGW the opportunity to recover all of its known and measurable expenses – if the projected expenses exceed the historic average – and essentially transforms the "fully forecasted" test year into something different – merely a restatement of past experience.

"Looking backwards" to set future expenses assumes that the spending at the historic or average level is sufficient for the future. Nothing indicates that this assumption always holds true. The failure to account for higher future expenses in setting future rates would likely lead to more frequent rate cases and revenue deficiencies. This is especially problematic where the historic data being used frequently included years that were substantially affected by the COVID-19 Pandemic.[168] The evidence shows that virtually every aspect of PGW's operations were affected in some way by the Pandemic. Assuming that expense levels incurred during those periods can be a basis for projecting expense levels for FY 2024 is fatally flawed.

In addition, it is particularly inappropriate to employ "normalization adjustments" for a company regulated on a Cash Flow basis. The very definition of cash flow regulation is that the utility's revenue requirement should be set to ensure that it will have cash to cover its projected expenditures in the test year. Allowing only a "normal" amount – whether the amount is more or less than the projected levels – is wrong because it is simply not consistent with the Cash Flow method of ratemaking. Accordingly, all of the OCA "normalization adjustments" should be rejected.

B.2. Overall Revenue Requirement Recommendation

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[167] Prior years do not have a tendency to show data or estimates contained in the FPFTY are not accurate. *See* 66 Pa.C.S. § 315(e), requiring the utility to provide "appropriate data evidencing the accuracy of the estimates contained in the … fully projected future test year."

[168] Some of the impacts of COVID-19 on PGW are described in PGW St. No. 1 at 4, 10; PGW St. No. 2 at 3, 8; PGW St. No. 2-R at 25-30, 45-47.

The following reflects the various recommendations of the Parties on an overall, rate increase and key metrics basis:

Recommended Revenue Requirement (Dollars in Thousands)				
FPFTY	**PGW**[169]	**I&E**[170]	**OCA**[171]	**OSBA,** [172] **PICGUG, CAUSE-TURN, POWER, GFCP-VEPI**
Revenue Requirement[173] (Projected Rates)	$915,434	$866,364	$849,658	No recommendation was made by the Parties in this column
Recommended Rate Inc.	$85.1M	$33M	$16M	

Debt Service Coverage Ratio				
FPFTY	**PGW**[174]	**I&E**[175]	**OCA**[176]	**OSBA, PICGUG, CAUSE-TURN, POWER, GFCP-VEPI**
Combined Liens	2.73x	2.46x	2.40x	No direct recommendation was made by the Parties in this column
Combined Liens with $18 million City Fee	2.58x	2.30x	2.24x	

Year-End Cash; Days Cash on Hand (Dollars in Thousands)				
FPFTY	**PGW**[177]	**I&E**[178]	**OCA**[179]	**OSBA, PICGUG, CAUSE-TURN, POWER, GFCP-VEPI**
Proposed Rates ($)	$113,423	$71,702	$101,824	No recommendation was made by the Parties in this column
Proposed Rates (Days)	61.6 Days	39.8 Days	57.32 Days	

169 PGW Exh. JFG-2R (income) at line 13.
170 I&E St. No. 1-SR at 21; I&E Exh. 1-SR, Sch. 2, p.3.
171 OCA Sch. DM-SR-1 at line 1.
172 OSBA witness Knecht opined that PGW's cost estimates are not reliable (accurate) and recommended that PGW's O&M cost claim for the FPFTY be reduced by $95 million. OSBA St. No. 1 at 3, 4-5, 12-15. PGW challenged that opinion in rebuttal explaining that the three years reviewed by Mr. Knecht are not representative of normal operations because they were the years impacted by the pandemic; that the recommendation does not have a solid foundation since Mr. Knecht, by his own admission, did not undertake a detailed analysis of the FPFTY; and, that the major increases were fully explained by PGW. PGW St. No. 2-R at 45-47. PGW also explained that the overall increase in PGW's claimed FPFTY O&M expenses is 21.8%, which is similar to the overall increase in inflation since PGW's last base rate case in 2020. PGW St. No. 2-R at 47. Mr. Knecht did not respond. *See* OSBA St. No. 1-SR.
173 This row includes total revenues, including revenues under the gas cost rate.
174 PGW Exh. JFG-2R (debt service), lines 23 and 24.
175 I&E St. No. 1 at 27.
176 OCA St. 1-SR at 4; OCA Schedule DM-SR-19.
177 PGW St. No. 2-R at 24; PGW Exh. JFG-2R (cash) at line 25.
178 I&E Exh. 1-SR, Sch. 2, p. 1.
179 OCA Sch. DM-SR-18, line 36.

Both the OCA and the I&E recommended revenue requirement, rate increase and key metrics are demonstrably inadequate. First, both the OCA and the I&E debt service coverage and DOC calculation assume that PGW's FPFTY levels of expenses will actually be at the "normalized" or modified levels, rather than at the levels that PGW's approved Operating and Capital Budgets establish. If expense levels were inputted at the amounts actually budgeted, the financial metrics produced by the OCA and I&E recommendations would be far lower.

Second, despite their claims to the contrary, both the OCA and the I&E recommendations would put PGW in jeopardy of losing its existing bond rating levels,[180] and would result in DOC levels that are well below PGW's peer utilities.[181]

Moreover, even those inadequate DOC recommendations are actually artificially high because they are calculated assuming substantial adjustments to cash allowed for internally generated funds. The OCA witness Griffing simply denied some $32 million (reduced to $25 million in surrebuttal)[182] in allowed IGF, and I&E witness Patel recommended denial of $53 million (apparently reduced to $32 million in surrebuttal) in allowed IGF.[183] Mr. Golden showed that both witnesses' arbitrary disallowances were completely unsupportable and would reverse a long-term PGW policy of attempting to fund 50% of its capital budget through IGF. This policy has reduced costs to ratepayers because PGW's IGF funding is actually cheaper for ratepayers – a fact that no Party disputed – and has the effect of reducing its debt to total capitalization ratio, which also reduces financial risk.[184] Neither witness made any real attempt to explain their arbitrary adjustments.[185] If

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[180] *See* PGW St. No. 3-R at 2-11.

[181] *See* PGW St. No. 4-R at 11.

[182] OCA St. 1 at 8, 57-58; OCA St. 3 at 11-13; OCA St. 2-SR at 4, OCA Schedule MFG-SR-2.

[183] I&E St. No. 1 at 28-29; I&E St. No. 1-SR at 14.; I&E Exh. No. 1-SR, Schedule 2.

[184] PGW St. No. 2-R at 10-11.

[185] Witness Griffing claimed that, rather than needing $53 million in internally generated funds to finance construction, his analysis of historical data led him to believe that PGW would only actually expend some $35.9 million of IGF-financed capital expenditures in the FPFTY. OCA St. 2SR at 4-5. But Griffing's new assertion (he actually changed his rationale between his direct and surrebuttal testimony and reduced his disallowance from $25 million) was based entirely on examining PGW's recent historical construction expenditures from FY 2018 through FY 2022 and then assuming that this year over year growth rate would be what PGW will experience in the FPFTY. But Mr. Golden explained that several of those years were affected by Covid related delays and supply chain issues.

those single adjustments are reversed, both the OCA and the I&E level of rate increase to meet PGW's cash needs increases dramatically. For example, I&E's recommended rate increase would go from $33 million to $65 million (not including COVID-19 expense amortization).[186] PGW clearly demonstrated that the OCA and I&E positions are neither credible nor reasonable and should be rejected.

C. Rate Structure

1. Cost Of Service

When a utility files for a rate increase and the proposed increase exceeds $1 million, the utility must include with its filing an allocated class cost-of-service study ("CCOSS") in which it assigns to each customer class a portion of the proposed rate increase, based upon operating costs that it incurred in providing that service.[187] While cost of service studies are the touchstone for reasonable allocations of revenue responsibility among rate classes,[188] the Commission has often stated that cost of service and revenue allocation analyses require a considerable amount of judgment and are more of an accounting/engineering art rather than science.[189] For that reason, Pennsylvania appellate courts have repeatedly held that the Commission, in crafting a reasonable rate structure, is "invested with a flexible limit of judgment" and may establish just, reasonable and non-discriminatory rates within a "range of reasonableness."[190]

PGW St. No. 2-RJ at 2-3. Other witnesses in the case rejected the use of Covid-affected periods as predictors of levels of expenditures or operation in FY 2024. *See* PGW St. No. 9-R at 34. His claim also simply assumes that these tainted historical average growth rates are applicable to the FPFTY without any analysis of the types and sizes of projects actually planned for that year.

Similarly, the only way that I&E witness Patel could claim that I&E's debt service coverage recommendation produced adequate cash was to simply declare that PGW should no longer finance its construction activities through internally generated funds, unless it was funds derived from PGW's DSIC, thus denying any IGF from base rates. Mr. Patel was never able to explain why he was singling out PGW's IGF derived from base rates while at the same time admitting that IGF-financed construction is actually cheaper for ratepayers than financing through a series of long-term bond issuances and that he was not disputing that it was prudent for PGW to fund a portion of its capital replacement through IGF.

[186] PGW St. No. 2-RJ at 6.

[187] 52 Pa. Code § 53.53.

[188] *Lloyd v. Pa. PUC*, 904 A.2d. 1019-21 (Pa. Cmwlth. 2006).

[189] *Application of Metropolitan Edison Co.*, Docket No. R-00974008 (Order entered June 30, 1998); *Pa. PUC v. Pennsylvania Power & Light Co.*, 1983 Pa. PUC Lexis 22.

[190] *U.S. Steel Corp. v. Pa. PUC*, 390 A.2d 865, 874 (Pa. Commw. Ct. 1978).

a) PGW's Class Cost of Service Study

PGW presented the testimony of Constance E. Heppenstall from Gannett Fleming Valuation and Rate Consultants and Rate Consultants, LLC,[191] who sponsored the Company's CCOSS.[192] The purpose of the CCOSS was to allocate PGW's full revenue requirement or total cost of service to the various customer classes. Customers under contract or non-tariff rates were excluded from the allocation of costs as this is a base rate proceeding. The revenues from the contract customers were included as a source of revenue to reduce the overall cost of service to be allocated to the other classes.[193]

In the CCOSS, PGW witness Heppenstall used the "Average and Extra Demand Method" (or "Average/Excess" or "A&E") as that term is defined in the text "Gas Rate Fundamentals", published by the American Gas Association's Rate Committee.[194] The A&E method is a weighted average of an "average demand" allocation factor and an "excess demand" allocation factor.[195] As Ms. Heppenstall testified, the Commission has recently found that the A&E method is reasonable for use by a natural gas utility because it aligns with cost causation principles.[196] Further, PGW's distribution system is designed to meet customers' design day demands, warranting treatment of the cost of excess capacity as a primary cost driver rather than as an incremental cost. Ms. Heppenstall also noted that this method was approved in PGW's last fully litigated case.[197] She further explained that the weighting of these factors was based on the PUC precedent of allocating 50% on average daily usage and 50% to excess above average daily usage.[198] Finally, she testified that the IT class average and excess usage was included in the calculation as these customers have only been interrupted once

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191 PGW St. No. 5; PGW St. No. 5-SD.
192 PGW Exh. CEH-1; PGW Exh. CEH-1S.
193 PGW St. No. 5 at 3; PGW Exh. CEH-1.
194 PGW St. No. 5-R at 2.
195 OSBA St. No. 1 at 24.
196 PGW St. No. 5-R at 2-3; *Pa. Public Utility Commission v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929 (Order entered June 17, 2021 at 227-230).
197 PGW St. No. 5-R at 3; *Pa. Public Utility Commission v. Philadelphia Gas Works* Docket No. R-00061931 (Order entered September 28, 2007, at 120-124) ("*2007 PGW Base Rate Order*").
198 PGW St. No. 5 at 5.

(in 2004) in almost 20 years and cannot be truly considered as interruptible for cost allocation purposes.[199]

The results of the CCOSS are set forth in Schedule A of PGW Exh. CEH-1 and are based on the projected costs for the FPFTY. The proposed increases in revenue under proposed rates and the precent increase are shown in columns 8 and 9 of Schedule A.[200] Schedule B of PGW Exh. CEH-1 shows the rate of return by customer class under present rates and Schedule C shows the rate of return by customer class under proposed rates. Ms. Heppenstall also produced Schedule A-1, which is included with PGW Exh. CEH-1, for comparison purposes. Schedule A-1 shows the effect on the individual class increases if revenues were brought to each class's full cost of service. For example, Ms. Heppenstall explained that the IT class would require an increase of over 160% to bring revenues equal to the cost of service. However, applying the concept of gradualism, PGW opted not to move all classes fully to their cost of service.[201]

b) Other Parties' Positions Regarding PGW's CCOSS

i. <u>Methodology</u>

Mr. Watkins, testifying for OCA, expressed the view that the Peak and Average ("P&A") methodology is the preferred approach over the A&E methodology. However, he also noted that the relative rates of return at current rates are consistent under various cost allocation methods. Therefore, he did not take issue with PGW's use of the A&E method in this case.[202]

On behalf of OSBA, Mr. Knecht recommended the use of a customer-demand ("CD") method due to economies of scale and industry practice.[203] Similarly, PICGUG witness LaConte recommended using the CD methodology for allocating costs of mains.[204] Ms. Heppenstall

[199] PGW St. No. 5 at 5-6.
[200] PGW St. No. 5 at 6-7.
[201] PGW St. No. 5 at 4.
[202] OCA St. 3 at 12-17.
[203] OSBA St. No. 1 at 26-29.
[204] PICGUG St. No. 1 at 16-20.

explained, however, that although she technically agrees that a certain portion of the costs of mains could be allocated to the customer cost function, the Commission has previously rejected such an approach for PGW.[205] Additionally, Ms. Heppenstall noted that Mr. Knecht had relied on an outdated classification percentage split of 25 percent and 75 percent demand developed for PGW in 2007 to determine the percentage of mains costs to be allocated to customer costs in this proceeding.[206] Likewise, Ms. LaConte performed a simple calculation to determine the portion of mains which should be allocated to customer costs and then reduced the calculation to 20 percent to be conservative.[207] As explained by Ms. Heppenstall, a more robust analysis would be required if PGW were to allocate a portion of the cost of mains to the customer cost function.[208] Accordingly, both the OSBA's and PICGUG's proposals should be rejected.

ii. <u>Allocation of Mains to IT Classes</u>

OCA witness Watkins, utilizing the P&A Method, allocated costs of mains to the IT customer classes only based on their average usage, excluding any component related to peak or excess usage. His theory was that the IT customers are not guaranteed supply during peak periods, although he conceded that "PGW's customers are not realistically subject to curtailment."[209] Importantly, PGW witness Heppenstall testified that these customers have not been interrupted since 2004 and "should be treated as firm customers who are supplied natural gas during peak periods and should be allocated costs accordingly."[210] Moreover, even with a revised allocation of costs related to mains, the IT classes' revenue under proposed rates is still much less than Mr. Watkins' calculated cost of service. Of note, Mr. Watkins recommended implementing PGW's rate increase for this

[205] PGW St. No. 5-R at 5-6, 14; *2007 Base Rate Case Order*.
[206] PGW St. No. 5-R at 5-6.
[207] PICGUG St. No. 1 at 21.
[208] PGW St. No. 5-R at 14.
[209] OCA St. 3 at 14-15.
[210] PGW St. No. 5-R at 4; PGW St. No. 5 at 5-6.

class.[211] Therefore, whether main costs are allocated to the IT classes or not in the CCOSS, using Mr. Watkin's approach makes no difference in the revenue allocation phase.

Testifying for PICGUG, Ms. LaConte recommended that the IT classes' excess demand be set to zero since they are technically interruptible.[212] PGW witness Heppenstall rejected that recommendation because in reality, their gas supply has not been interrupted for nearly 20 years. As Ms. Heppenstall explained, even though PGW does not include interruptible load in calculating its peak design day demand, "PGW does provide gas during the period of Interruptible classes' peak day demand. Therefore, the cost allocation should reflect that service."[213] OSBA witness Knecht agreed with PGW's approach.[214] As PGW's proposal to treat IT customers as firm customers for purposes of allocating mains costs is reasonably based on the nature of the service these customers receive from PGW, the Company's proposal should be approved.

iii. Design Day Peak Demands

OSBA witness Knecht testified that peak demand in a gas utility's cost allocation study should reflect the design day demand which the distribution system is sized to serve, noting that gas utilities usually use historical monthly data to estimate design day demands by rate class.[215] Similarly, PICGUG witness Billie LaConte recommended that PGW use design day for peak demands rather than actual peak demands. While Mr. Knecht proposed the use of his statistical estimate of design day load factors for each rate class in this proceeding,[216] Ms. LaConte recommended that PGW use design day for peak demands rather than actual peak demands.[217]

Although PGW witness Heppenstall agreed with Mr. Knecht and LaConte in concept, she explained that PGW does not have the data to determine the design day peak demands by customer

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211 PGW St. No. 5 at 4.
212 PICGUG St. No. 1 at 12-13.
213 PGW St. No. 5-R at 13.
214 OSBA St. No. 1 at 29.
215 OSBA St. No. 1 at 30-31.
216 OSBA St. No. 1 at 30-31.
217 PICGUG St. No. 1 at 15-16.

class, which is why historic peak usage was used.[218] Until such time as this data is available, this issue warrants no further review.

iv. Customer Records and Collection

OSBA witness Knecht recommended allocating costs in Account 903, Customer Records and Allocation, based on an analysis performed two rate cases ago.[219] Ms. Heppenstall did not agree with this recommendation since using a factor from the 2017 rate case does not reflect recent data. Therefore, she recommended that PGW allocate these costs purely based on number of customers as they are costs related to customer records and collection.[220] In surrebuttal testimony, Mr. Knecht appears to have withdrawn his proposal[221] and therefore OSBA's recommendation should be rejected.

v. Allocation of Universal Service Program Costs

While opining that universal service costs should be assigned only to residential customers since that is the only class that is eligible for the benefits, OSBA accepted PGW's long-standing and Commission-approved practice of recovering universal service costs from non-residential customers through the Universal Service and Energy Conservation ("USEC") charge. However, OSBA witness Knecht contended that the current method is not equitable because it imposes a flat per-mcf charge on the classes that are subject to imposition of the costs. Instead of continuing to use this approach – which is also a long-standing and Commission approved practice – Mr. Knecht recommended that the costs be allocated and recovered on a percentage of base rates basis, similar to the DSIC mechanism.[222]

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[218] PGW St. No. 5-R at 14.
[219] OSBA St. No. 1 at 36; *Pa. Pub. Util.Comm'n v. Philadelphia Gas Works*, Docket No. R-2017-2586783 (Order entered November 8, 2017).
[220] PGW St. No. 5-R at 7.
[221] OSBA St. No. 1-SR at 2.
[222] OSBA St. No. 1 at 32-34.

In responding to OSBA's proposal, PGW witness Teme testified that the entire USEC surcharge methodology, as consistently approved over many years by the Commission, should not change.[223] Additionally, PGW witness Gil Peach set forth the various rulings of the PUC over the past 20 years endorsing the current practice of recovering universal service costs from all non-residential customers excluding IT through this surcharge.[224]

In surrebuttal testimony, Mr. Knecht appears to have withdrawn this recommendation. While he continued to contend that the Company's approach is inequitable, he recognized that from a practical perspective, this may not be the appropriate time for significant modifications to PGW's long-standing approach for the recovery of universal service costs.[225] Therefore, the Commission should reject OSBA's proposal and approve PGW's current cost allocation method.

2. Revenue Allocation

The purpose of revenue allocation is to establish the responsibility of each customer class for a portion of the revenue requirements that are approved by the Commission. A key factor in determining the appropriate portion of the revenue requirements that is allocated to each class is the CCOSS.[226]

a) PGW's Proposed Revenue Allocation

In proposing its revenue allocation, the Company's primary goal was to allocate the increase to each class in a way that moves the various rate classes closer to their full cost of service while avoiding applying an unreasonably large portion of the increases to any one of the customer classes. In addition, PGW sought to recognize the principle of gradualism in proposing increases for some classes despite the costs incurred to serve those classes.[227]

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[223] PGW St. No. 6-R at 27.

[224] PGW St. No. 9-R at 35. Mr. Peach testified that only rate IT customers should be left out of the USEC surcharge and that GFCP/VEPI should be responsible for some part of the surcharge regardless of whether their service ends up being labeled interruptible or firm. *Id.*

[225] OSBA St. No. 1-SR at 12-13.

[226] PGW St. No. 6 at 6-10.

[227] PGW St. No. 6 at 6.

PGW's proposed revenue allocation was initially set forth in the direct testimony of Company witness Teme and is shown in the table below designated as "Revenue Allocation" in the columns labeled "Original Increase (000$)" and "Original Percent Increase." Mr. Teme then revised the proposed revenue allocation in his supplemental direct testimony to reflect proposed revenues from GFCP/VEPI under the new service class called "GS-XLT."[228] This revision produced the proposed increases by class that are shown in the columns labeled "Revised Increase (000$)" and "Revised Percent Increase." The last column labeled "Share of Increase" represents each class's share of the overall revenue allocation at proposed rates, after the Rate GS-XLT proposed revenues were factored into the proposal.

Revenue Allocation						
Service Classification	**Original Increase (000$)**	**Original Percent Increase**	**Revenue From GFCP/VEPI**	**Revised Increase (000$)**	**Revised Percent Increase**	**Share of Increase**
Residential	68,090	16.23%	3,442	64,648	15.41%	75.33%
Commercial	10,857	14.94%	549	10,308	14.19%	12.01%
Industrial	960	16.33%	49	912	15.51%	1.06%
Municipal	1,427	22.65%	72	1,355	21.50%	1.58%
PHA - GS	358	17.83%	18	340	16.93%	0.40%
PHA - Rate 8	377	12.62%	19	358	11.98%	0.42%
NGVS	8	22.94%	0	8	21.78%	0.01%
Interruptible	3,743	22.66%	0	3,743	22.66%	4.36%
GS-XLT	N/A	0.00%	(4,150)	4,150	367.53%	4.84%
Total	**85,820**	**16.28%**		**85,820**	**16.28%**	**100.00%**

Of note, the percent increase shown for GS-XLT in the table above is not an increase over present base rates since prior to this rate case, GFCP/VEPI has been served under a contract that went into effect in 1996, with prices remaining the same during that time. Prior to the supplemental direct testimony, PGW had only included GFCP/VEPI's historic test year revenues as part of the rate case. Therefore, this percent increase is based on that amount.[229] As Mr. Teme explained, although

[228] PGW St. No. 6 at 9, Table 3; PGW St. No. 6-SD at 1-3; PGW Exh. FT-5.
[229] PGW St. No. 6 at 11.

the proposed rate for GS-XLT is higher than that established in 1996 for GFCP/VEPI, it is still well below the $10,237,000 cost of service level in PGW's CCOSS.[230]

Mr. Teme testified that the original allocations of the proposed rate increase constituted a reasonable application of the revenue allocation guidelines PGW followed.[231] Schedule B of PGW Exh. CEH-1 shows the rate of return by customer class under present rates and Schedule C shows the rate of return by customer class under proposed rates. Schedule G of the same exhibit shows the calculation of customer costs by class, showing both the results of a fully allocated customer cost of service and a direct customer cost analysis.[232] As PGW witness Heppenstall testified, these schedules show that PGW is moving toward unity in its proposed rate design.[233]

In offering the revised revenue allocation proposal, after development of Rate GS-XLT, Mr. Teme explained that although PGW did not change the proposed revenue requirements, the overall rate increase request or the CCOSS, the inclusion of proposed revenues from Rate GS-XLT resulted in reductions to the proposed rate increases for all classes other than IT. As Mr. Teme testified, the originally proposed IT customer class rate increase did not bring the class to cost under PGW's CCOSS, and therefore, allocating a portion of the additional revenue from Rate GS-XLT to the Rate IT class would not be appropriate.[234]

b) Other Parties' Proposed Revenue Allocations

OCA witness Watkins found that PGW's proposed revenue allocations were by and large reasonable. Nonetheless, he expressed a concern about the residential class rate of return being higher than the commercial class, while PGW proposed a smaller percentage increase to the commercial class than the residential class. Mr. Watkins therefore recommended equal percentage

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230 PGW St. No. 6-SD at 2.
231 PGW St. No. 6 at 10.
232 PGW St. No. 5 at 7; PGW Exh. CEH-1.
233 PGW St. No. 5 at 7.
234 PGW St. No. 6-SD at 2-3.

increases to the residential and commercial classes.[235] In direct testimony on behalf of OSBA, Mr. Knecht proposed alternative revenue allocations based on his two cost of service study options.[236] He then altered these proposals in surrebuttal testimony.[237]

Testifying for PICGUG, Ms. LaConte recommended that any additional revenues that PGW receives from GFCP/VEPI should be treated as other revenues and allocated as a reduction to all of PGW's other rate classes, including Rate IT.[238] Based on her proposed changes to the CCOSS, witness LaConte testified that if PGW is granted its full rate increase, no increase should be imposed on Rate IT.[239] If PGW's CCOSS is approved, Ms. LaConte recommended that the increase to Rate IT should not exceed the approved system average increase.[240] Under either approach, Ms. LaConte did not provide a full revenue allocation proposal showing which classes would absorb the portion of the increase that is not contributed by Rate IT.

With respect to Rate IT, based on PGW's CCOSS, the class is being served at below cost and should be allocated 4.0% of the proposed rate increase.[241] Mr. Teme explained why Rate IT service is effectively firm service – as Rate IT customers have not been interrupted in over 20 years.[242] PICGUG disagreed.[243] PICGUG claims that the Rate IT class is due a rate reduction, and advocates for no increase to the Rate IT class if PGW is granted its full rate increase request.[244] PGW's appropriate treatment of Rate IT is supported by the historic nature of the service provided to Rate IT customers and PGW's CCOSS.[245] PGW's proposals related to Rate IT are just and reasonable, and should be approved by the Commission.

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235 OCA St. 3 at 20.
236 OSBA St. No. 1 at 44-45.
237 OSBA St. No. 1-SR at 17-18.
238 PICGUG St. No. 1 at 25, 29.
239 PICGUG St. No. 1 at 29.
240 PICGUG St. No. 1 at 30.
241 PGW St. No. 6-R at 36.
242 PGW St. No. 6-R at 35.
243 PICGUG St. No. 1 at 9.
244 PICGUG St. No. 1 at 29.
245 PGW St. No. 6-R at 35-36.

None of the other parties' alternative approaches should be adopted. As Mr. Teme testified, PGW witness Heppenstall addressed the concerns raised about the CCOSS, upon which the other parties' revenue allocation proposals are based.[246] Further, PGW's revenue allocation proposal is consistent with the Company's CCOSS and aligns with the goals of moving classes closer to the cost of service, while considering the principle of gradualism. Therefore, the Commission should adopt the revenue allocation presented by PGW.

c) Scale Back of Rates

If the Commission approves an amount that is less than PGW's request, I&E witness Cline recommended that the first $7.0 million of a scale back should be allocated to the residential class. The implementation of this approach would result in a lower percentage increase for the residential class than for the commercial class. Further, Mr. Cline recommended that the rate increase not be scaled back for the GS-XLT class since it has a negative rate of return.[247] OCA witness Watkins proposed a proportional scale back approach, excluding the Rate GS-XLT class.[248] PICGUG witness LaConte proposed that if the Commission approves a rate increase lower proposed by PGW, the first $1 million of that reduction should be allocated to Rate IT. After the reduction is allocated to Rate IT, Ms. LaConte suggested that the decrease be applied proportionately to each rate class.[249]

In response, Mr. Teme disagreed with Ms. LaConte's scale back proposal as there is no justification for departing from the standard proportional scale back for Rate IT and noted that her proposal was based on a flawed cost of service analysis.[250] Responding to the recommendations of Mr. Cline and Mr. Watkins, PGW witness Teme recommended that if the Commission approves a lower revenue increase than PGW is requesting, the traditional proportional scale back approach (excluding the Rate GS-XLT class) should be used. However, he testified that if the residential rate

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[246] PGW St. No. 6-R at 16-17.
[247] I&E St. No. 3 at 9-10.
[248] OCA St. 3 at 22.
[249] PICGUG St. No. 1 at 29-30.
[250] PGW St. No. 6-R at 26.

class is above unity after application of this approach, the scale back should be modified to maintain the residential rate class at or below unity because that was the intent of PGW's original proposal.[251]

3. Rate Design

PGW presented its proposed rate design in the direct testimony of Mr. Teme.[252] PGW is requesting an increase in the delivery charge as well as the customer charge for most customer classes.[253] As described by Ms. Heppenstall, and as demonstrated in PGW's Cost of Service Study, PGW is moving toward unity in its proposed rate design.[254]

PGW's proposed rate design should be approved, as the rates are designed to produce just and reasonable rates. PGW's proposed customer charges and the specific recommendations raised by other parties with respect to the design of residential and commercial customer charges are discussed below.

a) Customer Charge

Ms. Heppenstall's CCOSS provided "customer cost" results that determined the actual fixed customer cost per customer by class.[255] Those results show the level of monthly customer charge that would be required if PGW were to recover 100% of its fixed customer related costs in a monthly customer charge.[256] PGW's objective is to move the customer charge for each customer class closer to the full cost of service to more properly align rates with costs and provide more revenue stability.[257] PGW's proposed increase in customer charges are supported by Ms. Heppenstall's cost analysis and are consistent with the principle of gradualism.[258]

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[251] PGW St. No. 6-R at 18-19.
[252] PGW St. No. 6.
[253] PGW St. No. 1 at 13.
[254] PGW St. No. 5 at 7.
[255] PGW St. No. 6 at 7; PGW Exhibit CEH-1.
[256] PGW St. No. 6 at 7.
[257] PGW St. No. 6 at 7.
[258] PGW St. No. 6-R at 11.

PGW proposes a residential customer charge of $19.50 per month, as compared to the current charge of $14.90 per month.[259] PGW's proposed residential customer charge will better reflect the direct customer costs per customer as calculated by Ms. Heppenstall.[260] In the interest of gradualism, PGW proposed a residential customer charge of $19.50, not the full amount that could be supported under PGW's cost of service study.[261]

Significantly, I&E witness Cline did not recommend any change to PGW's proposed customer charges because they are supported by PGW's customer cost analysis.[262] Witnesses for OCA, CAUSE-PA/TURN and POWER challenged PGW's proposed residential customer charge. As explained below, these parties' recommendations should be rejected.

Mr. Teme rebutted POWER's claim that PGW's proposed residential customer charge is inconsistent with gradualism.[263] As observed by Mr. Teme, POWER failed to evaluate the total bill impact. POWER's unsupported assertion of rate shock should be ignored.[264]

Ms. Adamucci, Mr. Teme and Mr. Peach address claims that the proposed increase to the residential customer charge will impede energy conservation efforts.[265] As explained by Mr. Teme, the concern that the proposed increase in customer charge will impede energy conservation efforts is without merit. PGW's proposal provides the necessary price signals and does not impede energy conservation. In calculating the impact of PGW's proposal on a typical residential customer, under PGW's proposal, the total annual bill for the customer would be $1,652.81. Of that, approximately $234 (14.16%) represents the fixed customer charge.[266] As detailed by Mr. Peach, if the requested

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[259] PGW St. No. 6 at 8.
[260] PGW St. No. 1 at 13.
[261] PGW St. No. 6-R at 13.
[262] I&E St. No. 3 at 7.
[263] PGW St. No. 6-R at 12.
[264] PGW. St. No. 6-R at 12-13.
[265] PGW St. Nos. 1-R at 7-9; 6-R at 13; 9-R at 11-13.
[266] PGW St. No. 6-R at 13.

residential customer charge increase of $4.60 per month was recovered through the variable charge, it would be virtually unnoticeable and not act as a disincentive for energy efficiency.[267]

The PUC has recognized that it is appropriate to set a customer charge that ensures the recovery of fixed costs that are "clearly more customer-related than usage-related, while still allowing some revenue to be recovered through usage-based charges."[268] The PUC observed that an increase to the customer charge is reasonable when usage-based charges still comprise a greater portion of the total bill so that customers will still have a clear opportunity to reduce their total bills through conservation.[269] PGW's proposal is in line with the PUC's guidance, as PGW's proposed residential customer charge is below the customer-based cost, and the charge will still be only a small percentage of the typical customer's bill.[270]

With respect to concerns raised regarding the impact of the residential customer charge on low-income customers, Mr. Colton and Mr. Geller ignore the fact that PGW has several robust programs that provide assistance to low-income customers. Customers that are enrolled in PGW's Customer Responsibility Program have their maximum energy burden set by the PUC and will not be affected by any increase in the customer charge. PGW also offers numerous energy efficiency programs that customer may participate in.[271]

Other parties claimed that PGW's proposed customer charges are out of sync with those of other natural gas distribution companies in Pennsylvania.[272] Mr. Teme explained that it is unrealistic to expect all natural gas utilities in the Commonwealth to have the same customer charges. In addition, it is appropriate for customer charges to accurately reflect a utility's fixed costs.[273] Mr.

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[267] PGW St. No. 9-R at 12.

[268] *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597, 2012 Pa. PUC LEXIS 1757 (October 19, 2010 R.D.; Order entered December 28, 2012) (rejecting I&E's and OCA's position of "no increase" to the customer charge because it was not based on a proper cost analysis) citing *Pa. Publ. Util. Comm'n v. Aqua Pennsylvania, Inc.*, Docket No. R-00038805, 2004 Pa. PUC LEXIS 39, 236 P.U.R.4th 218 (August 5, 2004).

[269] *Id.*

[270] PGW St. No. 6 at 8; PGW St. No. 6-R at 13.

[271] PGW St. No. 1-R at 8; PGW St. No. 9-R at 10.

[272] PGW St. No. 6-R at 13-14.

[273] PGW St. No. 6-R at 14.

Peach demonstrated that PGW's recovery of the additional fixed customer costs is consistent with past regulatory practice in Pennsylvania.[274] Accounting for inflation alone, the value of PGW's $12.00 residential customer charge in 2003 is equal to $21.57 in April of 2023. As the Commission authorized the equivalent of $21.57 in current dollars in 2003, PGW's current requested residential customer charge ($19.50) is inherently reasonable.[275] Moreover, PGW's proposed customer charges are consistent with PGW's cost analysis and, in the interest of gradualism, are lower than the full amounts that could be supported.[276]

I&E asks that the proposed customer charges be included in any scaleback of rates.[277] OSBA claims that if the overall revenue requirement is scaled back, that the proposed increase to the commercial customer charge should also be scaled back.[278] Both requests should be denied. As explained by Mr. Teme, scaling back the proposed customer charges if less than the full rate request is granted would move customer charges further away from customer costs.[279]

OSBA expressed that PGW's proposed commercial class customer charge is "at the edge of what would be reasonable, if the entire proposed rate increase were to be granted."[280] OSBA witness Knecht suggested that PGW establish different customer charges within the commercial class, differentiated by size, to mitigate intra-class cross-subsidization.[281] OSBA primarily relied on customer costs for the residential class to determine costs for the commercial class so as not to require smaller commercial customers to pay for meters and services required of larger commercial customers. Mr. Teme refuted OSBA's recommendation, as it is not reasonable or appropriate to

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274 PGW St. No. 6-R at 6.
275 PGW St. No. 6-R at 6.
276 PGW St. No. 6-R at 14.
277 I&E St. No. 3 at 7-9.
278 OSBA St. No. 1 at 49.
279 PGW St. No. 6-R at 14.
280 OSBA St. No. 1 at 49.
281 OSBA St. No. 1 at 48.

utilize customer costs for the residential class to determine costs for the commercial class.[282] For this reason, OSBA's proposals regarding the commercial customer charge should be rejected.

PGW's customer charge proposals are just and reasonable. PGW recognizes the need to strike a balance between gradually increasing fixed charges and moving toward the cost to serve customers. In the spirit of gradualism, PGW's proposed customer charges are lower than the results produced by its cost of service study. PGW's proposed customer charges represent reasonable movement toward recovering the customer costs of service and should be approved.

b) Other Tariff Changes

A complete list of PGW's proposed revisions to its gas service tariff and gas supplier tariff are provided in the List of Changes Made by this Tariff Supplement section in Supplement No. 159 provided in Exhibit FT-1 and the corresponding section in Supplement No. 105 provided in Exhibit FT-2. Aside from proposed rate schedule changes, PGW proposes that language be added to Section 5.7 of PGW's Gas Service Tariff, page 32, to clarify that PGW will accrue interest on customer deposits made in conjunction with receiving temporary heating service, consistent with PGW's current practice.[283] In addition, PGW proposes modification of its Air Conditioning Rider to more clearly detail how the rider is calculated and replace references to outdated rate schedules and terms.[284]

PGW is also seeking changes to its Gas Supplier and Gas Service Tariffs to clearly permit the interconnection of facilities that would seek to provide renewable natural gas ("RNG") onto PGW's distribution system.[285] The proposed changes will provide PGW the flexibility to accommodate new business involving RNG while maintaining gas quality on PGW's distribution system.[286]

282 PGW St. No. 6-R at 10.
283 PGW St. No. 6 at 12.
284 PGW St. No. 6 at 12-13.
285 PGW St. No. 6 at 13-15.
286 PGW St. No. 6 at 2, 14.

The tariff changes specified in this Section IV.C.3.b. are unopposed. The specified tariff changes are reasonable and in the public interest, as described in the Direct Testimony of PGW witness Teme.[287] Thus, the proposed tariff changes should be approved.

D. GFCP/VEPI - Class GS-XLT

1. Rate History and Summary of Rate Proposals

In 1996, when the Grays Ferry Cogeneration facility and the Philadelphia steam loop sought to supplement the consumption of fuel oil in their boilers with natural gas, the owners of these facilities and the City of Philadelphia entered into 25-year contracts for gas transportation and supply, which expired at the end of last year. The terms were negotiated by the parties and adopted without review into PGW's tariffs when the Commission approved PGW's restructuring plan in 2003. As a result of the PUC's decision in the Complaint Case,[288] this proceeding has been designated as the forum in which to set rates that, for the first time, comply with Chapter 13 of the Public Utility Code.

Toward that end, PGW has proposed that GFCP/VEPI be served under their own separate tariff – Rate GS-XLT. PGW Exhibit FT-6. The primary services that PGW has historically provided to GFCP/VEPI – transportation service and Alternative Receipt Service ("ARS")[289] – have been incorporated into the proposed tariff and are individually discussed below.

The parties have advocated that rates from GFCP/VEPI should produce revenues in the following amounts (which include surcharges, if recommended):[290]

Current Revenues: $ 1,129,040

Proposed Revenues:

PGW $ 7,685,993 ($3,620,361 excluding surcharges)

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[287] PGW St. No. 6 at 12-15.

[288] *See*, fn. 8, *supra*.

[289] Sales service is also offered but is rarely used and was not the subject of any controversy in this case. GFCP/VEPI have requested that the summer release program in the 1996 contract be discontinued and PGW has not included this service in the proposed tariff.

[290] PGW St. No. 6-RJ at 2; PGW Exhibit FT-14.

OSBA	$ 7,871,000 - $8,201,000 (no surcharges)[291]
BI&E	$ 28,065,252
OCA	$ 31,866,336
GFCP/VEPI	$ 911,623 (no surcharges)

Excluding the surcharges, PGW is proposing base revenues of $3,620,361, by far the lowest proposed by the parties, excepting GFCP/VEPI.[292] The OSBA and GFCP/VEPI figures include no surcharges. All non-GFCP/VEPI parties agree that an increase is required to bring GFCP/VEPI's rates into compliance with the Public Utility Code. In stark contrast, GFCP/VEPI proposes an overall revenue reduction of approximately 21% below the rate established 25 years ago.

2. Firm vs Interruptible Transportation Service

Consistent with GFCP/VEPI's prior positions regarding the quality of service, Rate GS-XLT offers firm transportation service and interruptible ARS service. The fact that GFCP/VEPI previously requested firm transportation service is understandable.

- Grays Ferry sells the electricity generated from gas into the PJM market as a "Capacity Performance Resource," meaning that PJM can call on its generation no matter the temperature conditions or energy feedstock supply problems. It is a "no-excuses" promise to deliver electricity under all circumstances which carries huge penalties if not fulfilled.[293]
- For its part, Vicinity is a steam utility serving Philadelphia with a Section 1501 responsibility to provide "adequate, efficient, safe, and reasonable service." Its consumers include those characterized as "essential humans needs," such as residences, hospitals and nursing homes.[294]

For these reasons, GFCP/VEPI previously insisted that they would not accept interruptible transportation service, even if backed up by firm standby service, as offered by PGW previously.

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291 Figures derived from modifications made by Mr. Knecht during cross examination and follow-up calculations produced by OSBA marked as PGW Hearing Exh. 23.
292 PGW Exhibit FT-14.
293 For example, penalties under PJM's Open Access Transmission Tariff for being offline during Winter Storm Elliott, the large winter storm that passed through the PJM Region on December 23-24, 2022, has amassed $1.8 billion in penalties for Capacity Performance Resources falling short of their obligations, threatening bankruptcies of these generators. See, for example, *Coalition of PJM Capacity Resources v. PJM Interconnection, L.L.C.*, FERC Docket No. EL23-55-000 and related dockets. *See also* PGW St. No. 6-R at 22
294 Tr. 494-495.

Such a proposal made by PGW was "onerous and inadequate for Vicinity's required service."[295] Interruptible service is "not practical" and "unacceptable" they stated.[296]

However, in this proceeding, without much explanation, GFCP/VEPI have decided that interruptible transportation service *is preferable*, broadly claiming, with little facts and no supporting documentation, to have adequate oil storage as an alternative fuel should natural gas service be interrupted. Yet, GFCP/VEPI have not recently added any storage capacity, particularly not since 2021 when they made the assertions in the Complaint Case that interruptible service was totally unacceptable.[297]

Moreover, the Grays Ferry turbines run *solely on natural gas* and have *no back up fuel*.[298] Placing this load on interruptible status is contrary to PGW's tariff requirement that the interruptible customer must have installed alternative fuel capability or "demonstrate to the Company's sole satisfaction the ability to manage its business without the use of Gas during periods of curtailment or interruption."[299] Mr. Crist's unclear reference to "insurance instruments and risk management instruments," first stated on cross examination, is too vague to have any probative value.[300]

This sudden GFCP/VEPI change of position seems rather cavalier. When asked to provide correspondence, memorandums, emails or other documents, both internal and external, related to their "ability to withstand interruption of transportation service" in order to gauge the risk analysis undertaken," GFCP/VEPI responded that "Vicinity is unaware of any responsive documents."[301]

Thus, PGW is reluctant to place GFCP/VEPI on an interruptible service schedule without more detailed assurances that GFCP/VEPI can fully operate without adverse consequence in such eventuality. The terms of interruptible service are clear: "Customers are subject to curtailment or

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[295] PGW St. No. 6-R at 20-21 (quoting GFCP/VEPI Complaint Case testimony).
[296] *Id.*
[297] PGW St. No. 6-R at 22-23; Tr. 527.
[298] Tr. 496 ("If natural gas service were disrupted to the combust turbine, they would shut down for that period of time.").
[299] PGW St. No. 6-R at 24.
[300] Tr. 523.
[301] PGW St. No. 6-R at 22; PGW Exhibit FT-10.

interruption <u>at any time</u>."[302] "The Company may curtail (reduce) or interrupt deliveries to the Customer whenever, at the Company's sole discretion, it determines that the available capacity in all or a portion of its system is projected to be insufficient to meet the requirements of all Customers …."[303] In order to be consistent across all interruptible customers, these terms would be incorporated into Rate GS-XLT transportation service were the Commission to adopt GFCP/VEPI's position.

Notwithstanding, if GFCP/VEPI wants its service to be interruptible, which means that PGW could interrupt at any time, including for economic reasons, PGW will not object so long as the rate levels and application of surcharges does not change. Neither the transportation cost of service nor the rate would be affected. As Ms. Heppenstall testified, a change in GFCP/VEPI's transportation service status to interruptible would not change the results of her cost of service study.[304]

3. The Transportation Rate

All cost of service experts in this case, except Mr. Crist, have agreed that the transportation rate of $0.1054 per Mcf ($0.11067 per Dth) proposed by PGW is reasonable and should be adopted.[305] Indeed, the OSBA witness' final calculations result in a higher cost-based transportation rate of between $0.139 and 0.166 per Mcf.[306]

This proposed transportation rate is a modest 22% above the current rate; an annual increase of less than 1% above the current rate established by contract negotiations in 1996. On the other hand, GFCP/VEPI's proposed new rate of $0.0415/Mcf ($0.0397/Dth) is a full 50% below the existing rate of $.0833/Mcf contractually set twenty-five years ago.[307]

The following discusses the rate setting methods employed to create the transportation rate.

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302 Rate IT, PGW Gas Tariff Pa P.U.C. No. 2 at Page 111.
303 *Id.* at Page 112.
304 PGW St. No. 5-R at 12-13.
305 PGW St. No. 6-SD at 3; PGW Exhibit FT-14.
306 PGW Hearing Exh. 23 at 3.
307 GFCP/VEPI St. JC-1 at 17 and 19.

a) Recovery of Capital Costs, Plant in Service

The PGW-owned line connecting the TETCO interstate pipeline and GFCP/VEPI's points of consumption is commonly referred to as the "Four Mile Line." Under the 1996 contract, GFCP/VEPI's predecessors made a substantial contribution in aid of construction toward the cost of constructing the Four Mile Line and, therefore, all parties agree that there are no capital costs (i.e., depreciation) to recover associated with the line itself and none have been included in any party's cost of service calculation.

The capital cost included in the rate, therefore, are limited. The gate station investment associated with PGW's Gate Station 060 interconnection with TETCO, which directly serves GFCP/VEPI, is recognized in the cost calculation.[308] No party disputed this assignment.

The meters that register the deliveries to GFCP/VEPI are included in the monthly customer charge. New meters were set in 2018, the capital cost of which was $640,031 with an ongoing maintenance/operating cost of $64,003.07.[309] These costs are not included in the transportation rate itself. Rather, PGW has proposed to recover *a portion* of these costs via a customer charge that would generate $26,400 annually ($1,100 per meter per month times two meters). PGW believes that, although not fully compensatory, this is reasonable.

No other capital (plant in service) accounts were allocated or assigned to the transportation rate - only those facilities that are part of the GFCP/VEPI delivery path.[310]

b) Recovery of Common Overhead Expenses

The Four Mile Line is actually two lines: one that runs from Gate Station 060 to PGW's Passyunk plant, and another that interconnects there to take gas from Passyunk to GFCP/VEPI's meters. Both are owned by PGW, are a part of PGW's distribution system and classified as such

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308 "GFCP/VEPI clearly rely upon PGW's measuring and regulating station equipment for the delivery of their gas supplies." PGW St. No. 8-SR at 1.

309 PGW St. No. 6-R at 28-29.

310 PGW St. No. 5-R, Schedule E, page 3 of 6.

under PGW's chart of account as prescribed by the Commission. PGW is a natural gas distribution company operating a gas distribution system, and its operating costs are classified in categories of expense labeled as "distribution expense" when related to distribution system costs.[311] PGW witness Ryan Reeves explained that: "When accounting for costs to the distribution system, PGW does not split up costs to different distribution systems. For accounting purposes, all distribution related expenses are booked to the distribution accounts for the whole distribution system. GFCP/VEPI are customers on PGW's distribution system. Expenses incurred for GFCP/VEPI are entered into accounts set up to record PGW's distribution expenses."[312]

These are joint and common overheads, not attributable to any single customer, required to operate the Company. Clearly, GFCP/VEPI's transportation service benefits from the incurrence of these expenses. PGW designed the Rate GS-XLT transportation rate (and all other rates) to recover an allocated share of PGW's overheads based upon standard and accepted allocation techniques that it applied to the rate classes. Except for GFCP/VEPI, all the other cost of service studies allocate joint and common overhead to all customer classes, and all parties, except for GFCP/VEPI have agreed that *their* rates should contain an allocated potion of these expenses.

As Ms. Heppenstall explained: "The purpose of the cost of service study is to equitably assign costs across all customer classes. The ideal scenario would be to directly assign costs to each customer based on the costs to serve that individual customer. These expenses, as they are joint and common costs needed to operate the system, cannot be directly assigned and must be allocated equitably across customer classes based on generally accepted methods of cost allocation."[313]

In direct contravention of these Commission-accepted cost allocation methods and the other experts' acceptance of allocated costs, Mr. Crist refused to accept any such allocation, shifting recovery to all other customers.

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311 PGW St. No. 5-R, Schedule E, page 2 of 6.
312 PGW St. No. 8-RJ at 1.
313 PGW St. No. 5-R at 10-11.

The rationale for this results-oriented approach is that overheads are all "low pressure distribution costs" and PGW could not "prove" that any particular expense was incurred for GFCP/VEPI solely and specifically. This is a fiction. There is no separate "high pressure system" accounting category. Costs are tracked as simply "distribution expenses" under the Commission's accounting rules. As explained above, these are general distribution system overheads and not incurred for or attributable to any particular customer class.

A few examples might help. The single biggest distribution expense that Mr. Crist excluded is in the distribution expense category of "Metering & Regulator Stations" (Accounts 875, 877, 889 and 891).[314] As Mr. Reeves testified for the Company: "PGW owns and operates a total of nine gate stations – four on TETCO and five on Transco. One of those, TETCO 060, is used by GFCP/VEPI to physically obtain its gas supplies. Also, GFCP/VEPI have a vested interest in another (TETCO [034]) which is where the displacement ARS volumes are delivered."[315] In Ms. Heppenstall's study, GFCP/VEPI were allocated 8.9% of all metering and regulator station costs, based on throughput, and only 0.79% of all distribution expenses.[316]

By rejecting even this modest amount, GFCP/VEPI are shifting all of the operating costs of the city gate stations that serves them to all other customers despite their clear use of these facilities. Mr. Knecht for the OSBA, who had initially agreed with Mr. Crist's exclusion, subsequently agreed that GFCP/VEPI should accept these allocated costs when informed that the Metering & Regulator Stations (in Accounts 376, 875, 877, 889 and 891) included Gate Station 060.[317]

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314 Mr. Crist stated that: "Charges of $438,000 were assessed for *metering & regulator stations in general and city gate and maintenance of measuring stations* yet these were not based on Vicinity's meters (for which Vicinity already pays a separate charge." GFCP/VEPI St. JC-1 at 17. However, the meters of other customers were not allocated to GFCP/VEPI. Tr. 556. As noted above, the proposed Rate GS-XLT customer charge is based only on the two GFCP/VEPI meters and does not fully recover that cost.

315 PGW St. No. 8-RJ at 2.

316 PGW St. No. 5-R at 11. Ironically, Mr. Crist did not dispute recovery of the capital costs of PGW's pipeline gate stations (Depreciation, Account 376), but excluded the costs of operating them. Tr. 580.

317 Tr. 417; PGW Hearing Exh. 23.

Also, the category of Load Dispatch (Account 871) contains expenses, including labor, incurred in dispatching and controlling the supply and flow of gas through the distribution system.[318] As Mr. Reeves testified, these efforts benefit GFCP/VEPI:

> PGW personnel have to procure the gas, schedule the nominations for the gas, monitor the gas flow on interstate pipeline (and makes adjustments if needed), and then account for the gas at the end of the month. PGW is also a recipient of gas which requires PGW personnel to monitor the incoming gas supply, and account for all the gas to make sure the volumes appropriately match.[319]

The allocation of these expenses to GFCP/VEPI was also only 8.9% (based upon class daily throughput and maximum day demand) compared to all other customers that will pay the remaining 91%.[320] Again, their opposition to paying a fair, allocated share would, if approved, raise the revenue requirement of all other classes of service.

In short, the "low pressure" construct is an artificial results-oriented construct manufactured by witness Crist designed to set GFCP/VEPI apart from all other customers. It is designed to set up a false narrative that attributes all expenses to the "low pressure" system customers, unless records are kept to track time spent specifically on GFCP/VEPI because "separate tracking is not possible where, as in [the Dispatch Department], the employees work on the entire PGW system, maintaining an overall system balance of supply and demand, including transactions to accommodate GFCP/VEPI…"[321]

Mr. Crist's refusal to accept any allocations of distribution expenses and his insistence on direct assignment only, introduces an "us vs. them" confrontational element that is not part of the cost of service exercise. Under this theory, all of PGW's costs are the responsibility of the other customer classes, unless it can be proved by job description or time logs that it was clearly and undeniably incurred solely for GFCP/VEPI's benefit. This is unworkable. If all customers imposed

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[318] Yet, Mr. Crist accepted the pensions and benefits (Account 926) of PGW employees, which would include employees in the Dispatch Department. PGW Exh. CEH-1S, Schedule E, Page 3 of 6.
[319] PGW St. No. 8-R at 3.
[320] PGW St. No. 5-R at Schedule F, page 5 of 16.
[321] PGW St. No. 8-R at 2-3.

similar barriers, PGW undeniably would be left with stranded costs that benefit the delivery of service overall but cannot be forensically traced to any particular customer class.

Nor is there any intellectual consistency to Mr. Crist's approach. He did not apply this same low pressure/high pressure test to any other category of expenses. For example, Administrative and General Salaries (Account 920) includes the compensation (salaries, bonuses, and other consideration for services) of officers, executives, and other employees of the utility that oversee the operation of PGW's distribution system. These are the personnel that supervise the employees in the distribution accounts (including Load Dispatch, for example) that he excluded. Yet, Mr. Crist performed no inquiry into what portion of executive time was spent on GFCP/VEPI particularly. The same is true of: Office Supplies in Account 921, Outside Services in account 923, Employee Pensions and Benefits (Account 926) and other expense outside of the distribution category.[322]

The reason for the failure to follow through and apply the same (overly) rigorous test to all other expenses is quite clear. By focusing solely on distribution category expense, Mr. Crist's proposed rate ($0.0397 per Dth) was already 50% below the existing rate for transportation ($0.08 per Dth) set twenty-five years ago. Had he continued to the logical conclusion of his "direct assignment only" method, the recommended transport rate would be at or near zero, a ridiculous and unjustifiable approach and end result.

PGW's proposed transportation rate should be approved. The transportation rate calculated by Ms. Heppenstall of $0.11067 per Dth ($0.1054 per Mcf) follows bedrock cost of service techniques acknowledged by every other expert to this case and is a reasonable outcome. Indeed, Mr. Knecht's rate is higher. When Mr. Crist included all allocated joint and common costs in the cost of service calculated in the Complaint Case, the resulting rate was $0.212 per Dth.[323]

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322 Tr. 565 ("I did not do that with the overhead and administrative expenses. That's correct.").
323 PGW St. No. 5-R at 11-12; Tr. 568.

c) **Surcharges**

There are four applicable surcharges contained in PGW's tariff that fund various programs and recover various costs: the Universal Service and Energy Conservation ("USEC") Surcharge; the Efficiency Cost Recovery ("ECR") Surcharge; Other Post Employment Benefit ("OPEB") Surcharge; and the Distribution System Improvement Charge ("DSIC"). These are non-base rate revenue that do not impact the revenue requirement in this case but do affect the revenues collected from each customer class and should affect those for GFCP/VEPI. PGW has proposed that they would apply to GFCP/VEPI.

- The USEC surcharge mainly funds programs for low-income customers to provide assistance in paying their gas bills, and to fund the senior discount, and PGW's Low Income Usage Reduction Program ("LIURP"). PGW firm rate residential, commercial and industrial customers all pay this surcharge.[324] In rebuttal testimony, PGW agreed to a reform that lowered the recovery of this program to $290,000 as proposed by OSBA.[325] The testimony of Mr. Gil Peach describes PGW's rationale for collecting the USEC surcharge from GFCP/VEPI as "reasonable public policy to require a large customer to contribute to helping to cover the costs of PGW's low-income programs regardless of the specific status of their service."[326] He further testified that this surcharge should be applied to GFCP/VEPI regardless of whether they take firm or interruptible transportation service.[327]
- The ECR surcharge recovers energy efficiency and conservation program costs, which provides subsidies to program participants to adopt energy efficiency improvements. "PGW believes that it is reasonable to recover these program costs from Rate GS-[XLT] for the same reason as the USEC."[328]
- The OPEB surcharge is applied to all firm customers and should be applied to Rate GS-XLT transportation service as well.[329]
- The DSIC surcharge is also appropriate. "Replacement of aged distribution mains has long been a priority of PGW and this Commission. As distribution service customers, GFCP/VEPI should pay their proportionate share."[330]

Importantly, failure to apply these surcharges to GFCP/VEPI means that other customers will unfairly continue to bear a disproportionate share of these substantial costs.

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[324] PGW St. No. 6-R at 26.
[325] PGW St. No. 6-R at 26-27.
[326] PGW St. No. 9-R at 36.
[327] *Id.*
[328] PGW St. No. 6-R at 28.
[329] PGW St. No. 6-R at 28.
[330] PGW St. No. 6-R at 28.

4. Alternative Receipt Service

a) ARS Described

ARS is a unique service that GFCP/VEPI's predecessors and the City of Philadelphia agreed to twenty-five years ago under the now-expired contract at an annual fee of $54,000. The service was designed to allow GFCP/VEPI to overcome the fact that they lack sufficient upstream delivery capacity on TETCO (at the 060 Gate station intersection of the Philadelphia Lateral and the Four Mile Line that serves them) to receive all of the volumes that they need during the winter months to maintain operations. GFCP/VEPI are only capable of receiving service at TETCO Gate Station 060 and it is the only gate on which they hold capacity rights. The gap between GFCP/VEPI's peak demand and need is 21,000 Dth.[331]

Distilled to its essence, PGW agrees to accept deliveries of GFCP/VEPI gas volumes on a different portion of its distribution system using pipeline capacity supplied by GFCP/VEPI, and then PGW uses its own (GCR customer paid) capacity that directly ties to the Four Mile Line to deliver gas supplies to GFCP/VEPI. The alternative delivery point used by GFCP/VEPI under this arrangement is at PGW's Gate Station 034 located on the Skippack Lateral.[332]

The arrangement is purely designed to accommodate GFCP/VEPI's under-contracted capacity position on TETCO. "PGW and its other customers do not need additional deliveries at a different gate. PGW's capacity and supply arrangements are sufficient to meet the demand requirements of its system. There is no benefit gained by PGW or its customers."[333] The ARS service is not a simple "swap;" it is a mutually beneficial exchange arrangement that is only possible because of the existence of PGW's gas distribution system and load dispersed throughout that system. ARS is an accommodation to GFCP/VEPI by "displacement" of PGW's normal deliveries for the sole benefit of GFCP/VEPI. Under ARS, PGW has allowed GFCP/VEPI to "avoid[] the consequences of

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[331] *Id.*
[332] PGW St. No. 8 at 2-4.
[333] PGW St. No. 8-R at 7.

their capacity shortfall and the cost of securing the additional TETCO capacity that it needs, but has not secured, at Gate Station 060."[334]

GFCP/VEPI have stated that they desire ARS to continue. But "ARS is just a business decision to be made by GFCP/VEPI. If ARS meets their business needs, then they can opt into the service, if not, then there are other options,"[335] including burning fuel oil and biofuels; demand reduction electrification; and bidding for additional TETCO capacity in the secondary capacity market.[336] GFCP/VEPI have not disclosed the costs of these alternatives,[337] and, in the case of capacity release, does not participate at all. This is their choice.

It is PGW's position that ARS should be priced in a way that is fair to its other customers and adequately compensates them for the use of PGW's gas distribution system that their rates are used to maintain, not so that GFCP/VEPI can keep energy costs low as a matter of corporate self-interest.

b) Cost and Pricing of ARS

ARS engages *both* PGW's distribution system and its gas contracts. First is the use of PGW's distribution system. "ARS uses the Skippack lateral and the connected distribution network to accommodate the displaced gas volumes and ARS would not work without that capability."[338] Stated another way, only because there is a customer demand and a distribution system in another portion of PGW's system can PGW agree to send displacement volumes to GFCP/VEPI at another point on that system. As Ms. Heppenstall explained: "This swap or alternate delivery program would not be available without PGW's extensive distribution system. Therefore, it is reasonable that GFCP/VEPI be allocated costs related to this system."[339]

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334 PGW St. No. 8-R at 7.

335 As Mr. Crist agreed: "Grays Ferry and Vicinity are interested in ARS to the extent they can obtain a price per BTU that is favorable compared to those other alternatives." Tr. 530.

336 PGW St. No. 8-R at 8.

337 For example, Mr. Crist: "I did not testify to thermal storage. Therefore, I am not able to respond to your inquiry." Tr.530. This same answer was given for all ARS alternatives.

338 PGW St. No. 8-R at 7.

339 PGW St. No. 5-R at 9; PGW St. No. 8-R at 4-5.

Secondly, ARS uses PGW's contracted TETCO capacity to Gate Station 060, which is paid for by its GCR customers, to cover GFCP/VEPI's delivery shortfall and accomplish ARS displacement. PGW maintains up to 21,000 Dth of TETCO capacity to provide ARS when and in the amounts demanded by GFCP/VEPI. PGW pays TETCO $0.61/Dth for the 21,000 Dth of capacity that supports ARS service; costs recovered from PGW customers through the GCR.[340] The cost of $0.61 per Dth cost is the same amount that PGW has proposed as the minimum rate for ARS service.

Thus, there have developed two views in this case of how to price ARS. First, there is the distribution allocation of cost approach. In Supplemental Direct, Ms. Heppenstall unbundled transportation service and ARS, calculating the cost of each separately. In her study, she concluded that the base rate cost of ARS' use of PGW's distribution system is $8,941,824 or $2.373 per Mcf.[341] Both the OCA and I&E witnesses have concurred that allocation of a portion of PGW's distribution system to ARS is appropriate.[342]

The second resolution to ARS pricing, and PGW's preferred solution, is to focus on the pipeline capacity used and set rates on that basis. PGW has proposed that ARS service be priced to reflect the greater of: (1) as a cap, the average revenue per Dth received by the Company from all releases of recallable capacity on TETCO during the prior fiscal year (estimated at $1.05/Dth); and (2) as a minimum rate, the maximum TETCO tariff rate (currently $0.61/Dth).[343] "PGW's average capacity release figure reflects actual transactions in the market, so that it will be more likely to track market trends, while at the same time, the minimum ensures that the rate will not fall below TETCO's tariffed rate . . . Parenthetically, this is the rate that GFCP/VEPI has offered to PGW for capacity release in its pending [now concluded] GCR proceeding."[344] Under PGW's proposal,

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340 PGW St. No. 8-RJ at 2.
341 PGW St. No. 5-SD at 6.
342 OCA St. 3 at 21; I&E St. 3 at 5-18.
343 PGW St. No. 8 at 6.
344 PGW St. No. 8 at 7.

GFCP/VEPI would be billed $2.3 million at the minimum rate and, potentially, $4.0 million at the maximum rate.[345]

Both OSBA and OCA have advocated that the price for ARS should be based on the valuation offered by GFCP/VEPI in the GCR Case.[346] As Mr. Knecht explains, "in the GCR proceeding, GFCP/VEPI offered $0.80 per Dth for the capacity. While that value was ostensibly based on the anticipated full tariff cost for the capacity on the Philadelphia Lateral, it obviously reflected the customer's willingness to pay for the capacity."[347] Similarly, Mr. Watkins for the OCA also supports affirmation of the $6.1 million that GFCP/VEPI offered in GCR case and thinks GFCP/VEPI should accept PGW's proposed ARS tariff: "…it is my understanding that Vicinity is (or was) agreeable in the pending GCR case to total charges of about $6.1 million per year. As such, PGW's proposed base rate charges (and revenues) to GFCP of $5.279 million appear to be reasonable and acceptable to GFCP."[348]

However, GFCP/VEPI's response has been to recant their prior valuation from the $0.80/Dth offered in the GCR case to a mere $0.10 per Dth, arguing that they should be allowed to carve PGW's capacity right into a narrow sliver and pay just for that portion at a price not determined in a competitive market, but by a single customer in one isolated transaction last year on the Philadelphia Lateral. The resulting ARS revenues are a paltry $395,716 per year.

The $0.10/Dth claim comes from a rate paid by Paulsboro Refinery for a single winter release last year; it is obviously not a competitively determined rate. As Mr. Reeves explained: "There is currently no competitive market for the Philadelphia Lateral…there are only two potential customers in the market for Philadelphia Lateral specific releases of capacity – GFCP/VEPI and Paulsboro Refining. Since GFCP/VEPI do not bid on capacity, it is impossible to determine a market-based

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345 PGW Exhs. FT-4 and FT-14.
346 OSBA St. No. 1 at 46-47; OCA St. 3 at 5.
347 OSBA St. No. 1 at 46-47.
348 OCA St. 3 at 21.

rate. One customer's bid does not set the market. By refusing to bid, GFCP/VEPI have prevented a competitive market price from emerging."[349] For this reason, setting the rate on this single bid would be grossly unreasonable. For this reason, PGW has suggested that the maximum ARS price should be set at the market price for *all* TETCO releases, not just the Philadelphia Lateral.[350]

Also, under PGW's approach, GFCP/VEPI will not pay for the full 21,000 Dth of TETCO capacity that supports ARS. Instead, PGW is proposing to use *actual* ARS volumes as the billing units so that GFCP/VEPI only pay for the level of ARS volumes actually consumed (3,768,722 Mcf under the test year) rather than the full 7,665,000 Dth of annual capacity needed to meet their peak needs (a daily volume of 21,000 Dth x 365 days) as was suggested by Mr. Crist in the GCR Case and by the OCA and OSBA here.[351] Instead, GFCP/VEPI will pay only $2.3 million at the minimum rate and, potentially, $4.0 million at the maximum rate.[352] This rate design feature of PGW's proposed ARS generates a $2.2 to 4.1 million annual benefit to GFCP/VEPI over their GCR proposal.

In summary, PGW's proposal is fair to all parties.

- GFCP/VEPI pay, at minimum, PGW's cost to obtain the TETCO capacity they need at the pipeline's tariffed rate but only for the volumes that they use. GFCP/VEPI can continue to avoid the secondary market and do not have to burn more expensive oil to fire Vicinity's boilers. They do not have to pursue demand management or other techniques to control their natural gas usage. The price is substantially less than GFCP/VEPI was prepared to pay in the GCR case.
- PGW's other customers are assured that PGW will recover the cost of the TETCO capacity used and will not be forced to subsidize GFCP/VEPI. And they have the advantage of potentially receiving more if the competitive markets are willing to pay a higher price.

The ARS provisions of Rate GS-XLT should be approved.

c) Sharing of ARS Revenues

PGW proposes that all revenues from ARS be credited to base rates and not the GCR. As Mr. Reeves explained: "This is not a capacity release in the traditional sense as it is not done on an

[349] PGW St. No. 8-R at 13.
[350] PGW St. No. 8 at 7.
[351] PGW St. No. 8-R at 14-15.
[352] PGW Exhs. FT-4 and FT-14.

opportunity basis based on the market price at the time of the sale."[353] Further, allocating the margin to the GCR would not recognize the role that PGW's distribution system plays in making ARS possible. Whether characterized as a swap or a displacement sale, the fact remains that it would not be possible without the existence of PGW's distribution system.

5. Response to Commission Identified Issues

In its Order entered April 20, 2023 in the Complaint Case, the Commission raised four issues that have been addressed on the record of this case. Ordering Para. 6 at 52. PGW's responses are listed below:

> a) The proper rate class for Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc., including, if necessary, whether a special rate class is appropriate.
>
> **Response:** PGW has proposed Rate GS-XLT as a special rate class for GFCP/VEPI.
>
> b) The appropriate methodology and evidence necessary to apply the methodology, to determine Philadelphia Gas Works' actual cost of service for Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc.
>
> **Response:** Ms. Heppenstall's Exhibit CEH-1 established the overall cost of service to the Rate GS-XLT class as $10,237,000, which costs include an allocated portion of the distribution system used to provide ARS. The follow-up study CEH-1S then "unbundled" that into two sets of costs: 1) a transportation rate of $0.1054 per Mcf that recovers the $1,295,176 of direct and allocated costs associated with the Four Mile Line; and 2) an ARS set of costs for use of other distribution assets. The ARS costs of $8,941,824 (or $2.373 per Mcf) is based upon the fact that ARS service employs other portions of the distribution system beyond the Four Mile Line to provide the displacement service of ARS.[354]
>
> c) Consideration and resolution of the question of whether and, if so, to what extent Philadelphia Gas Works' transportation service to Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc., utilizes PGW's low pressure distribution system, and if so, what impact does such use have upon the Philadelphia Gas Works' actual cost of service and the resulting "just and reasonable" rate for Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc.
>
> **Response:** See answer to (b) above for costing results. PGW's proposed rate design for ARS does not seek to recover the base rate cost of service of $8.9 million. Rather, PGW has proposed to set the floor price for ARS at the cost of the underlying capacity used to provide ARS which produces annual revenues of $2.3 million.[355] The pricing model also establishes a cap for ARS based upon competitive market prices set for TETCO capacity in the secondary

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353 PGW St. No. 8-R at 15.
354 PGW St. 5-SD at 5-6.
355 PGW Exhs. FT-4 and FT-14.

market which might create revenues of up to $4.0 million.[356] In this way, GCR customers, who pay the cost of the capacity are made whole for what GFCP/VEPI use and, potentially, will enjoy some upside revenue opportunity should the competitive market price exceed the TETCO tariff rate.

d) Consideration and resolution of the question whether Philadelphia Gas Works should be held to its prior position in base rate proceedings that Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc., do not utilize Philadelphia Gas Works' distribution system.

Response: This issue is moot as PGW proposes an ARS rate based upon the cost of the underlying TETCO capacity as stated in response to (c) above and *not* the base rate cost of service. However, had PGW sought to recover distribution costs from ARS this is not inconsistent with prior rate cases. Prior cost of service studies did not address ARS-related costs as these costs were not recognized at the time. "This is not a change in cost of service methodology, but rather ARS is now being recognized, for the first time, as a separate service and allocated the related appropriate costs."[357] Nor was such recognition required inasmuch as GFCP/VEPI were under special contract at that time with "no opportunity for a rate revision at least as PGW perceived the situation. The change in circumstances is that, now, the contract has expired and the opportunity for the establishment of new cost based rates is presented."[358]

E. Customer Service Issues

PGW has not proposed any changes to its customer service practices as part of this proceeding. However, through their testimony, OCA and CAUSE-PA/TURN have made recommendations relating to the Company's customer service. PGW submits that these proposals are not necessary or supported, and are not required by the Commission's regulations, as discussed in detail in testimony.[359]

1. Call Center Performance

OCA witness Barbara Alexander originally recommended that, by its next base rate case, PGW should improve its call center performance so that its call abandonment rate matches that of other NGDCs.[360] After PGW presented evidence that it had already made significant improvements

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356 *Id.*
357 PGW St. No. 5-SD at 4.
358 *Id.*
359 *See* PGW. St. Nos. 1-R, 1-RJ, and 9-R.
360 OCA St. 5 at 4.

to its call center performance that rendered this recommendation unnecessary,[361] Ms. Alexander recognized that "[a]s a result of this improved performance in 2023, I recommend that the Commission require PGW to meet this level of performance in the rate effective year should any rate increase be approved in this proceeding."[362] She also vaguely recommends that the Commission "address call center performance during months in which termination of service is allowed…"[363]

OCA's position remains unsupported and unnecessary. As Ms. Adamucci explained, during the time OCA originally focused on, PGW experienced difficulty retaining adequate call center staff – as many businesses have during this post-pandemic period. The call center's performance, however, has already returned to pre-pandemic standards.[364] OCA has not pointed to any PUC regulation or standard that PGW's call center is not meeting. PGW has already corrected the performance issues experienced in 2021-2022 of its own initiative and it is unnecessary for the Commission to order the Company to maintain this level of performance.

2. Complaint Analysis

OCA asserts that PGW be required to conduct regular evaluations of customer disputes, complaints, and BCS findings to identify the root cause and take steps to responding to the conclusions of this analysis.[365] OCA's recommendation here is unnecessary. PGW already reviews consumer complaints as necessary to identify and address trends.[366] OCA has not pointed to any PUC regulation, order, or other requirement that PGW have a more formal process or policy regarding the review of consumer complaints. OCA's position is unsupported and must be rejected.

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361 *See* PGW St. No. 1-R at 34.
362 OCA St. 5SR at 2.
363 *Id.*
364 PGW St. No. 1-R at 34.
365 OCA St. 5 at 4-5.
366 PGW St. No. 1-R at 35.

3. Payment Arrangements

OCA argues that PGW's approach to payment plans does not comply with Chapter 56 of the Commission's regulations. OCA states that, because customer service representatives enter a customer's information into a computer to calculate the payment plan, the representatives do not have sufficient leeway to offer different payment plans based on individualized situations.[367] OCA's argument incorrectly applies the Commission's regulation at 52 Pa. Code § 56.97(b) and misunderstands the purpose of PGW's current process.

Section 56.97(b) requires that a utility "exercise good faith and fair judgment in attempting to enter a reasonable payment arrangement . . . Factors to be taken into account when attempting to enter into a reasonable payment arrangement include the size of the unpaid balance, the ability of the customer to pay, the payment history of the customer and the length of time over which the bill accumulated."[368] First, Section 56.97(b) specifically applies to "[p]rocedures upon customer or occupant contact prior to termination." Further, this section only requires "good faith and fair judgment" in reaching a "reasonable" payment arrangement. It does not specify exactly how the utility is to accomplish this, and therefore the process used is within the utility's discretion.

As PGW witness Adamucci explained, "PGW's current practice does take into account various factors that are specific to each customer and uses a standard process to calculate a reasonable payment arrangement based on that information. Without this standard process, it would be up to each customer service representative to determine a reasonable payment arrangement, which could vary widely from one representative to another. This could result in unfair differences in payment arrangements offered to customers and costs to other ratepayers."[369] PGW's process provides a reasonable, good faith effort to provide fair payment arrangements regardless of which

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367 OCA St. 5 at 9-10.
368 52 Pa. Code § 56.97(b).
369 PGW St. No. 1-R at 36.

customer service representative a customer happens to work with. The current practice is fair, reasonable and in compliance with Chapter 56. Therefore, OCA's argument must be rejected.

4. District Offices

OCA and CAUSE-PA/TURN have argued (or at least suggested) that PGW should reopen its district offices. These claims are unsupported and must be rejected.

As PGW witness Adamucci explained, PGW closed its five customer service centers in March of 2020 due to the COVID-19 pandemic, and later permanently closed those centers in early 2022.[370] PGW conducted a detailed analysis prior to closing these offices and determined that the closures would provide valuable cost savings, as the average annual cost to operate these offices was approximately $5.5 million.[371] However, customers still have in-person options available through Neighborhood Energy Centers ("NECs") that are spread throughout PGW's service territory, and which are located in neighborhoods where PGW's customers reside. Due to the specific locations and the greater number of NECs, these are more accessible than the district offices were and can provide many of the same services.

OCA and CAUSE-PA/TURN have not pointed to any statue, regulation, Commission order, or any other requirement that PGW have physical customer service centers. Even without the district offices, the Company has continued to provide a variety of means for customers to contact PGW and receive valuable assistance.[372] Therefore, the OCA and CAUSE-PA/TURN arguments must be rejected.

5. Bill Payment Fees

PGW provides residential customers with a variety of options for bill payment. Many payment methods do not include any processing fees – such as monthly autopay, in-person cash or

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370 PGW St. No. 1-R at 20, 36.
371 PGW St. No. 1-R at 20; PGW Exhibit DA-1.
372 PGW St. No. 1-R at 20-21, 36-37.

mailed personal check.[373] One-time credit card payments have an associated transaction fee. These processing fees are imposed by the credit card companies, not by PGW. PGW does not add any additional fees or earn commissions on them, but they must be paid to the credit card companies.[374] Nonetheless, OCA argues that PGW should phase out these credit card fees within 12 months of the final order in this proceeding and instead "absorb" such fees into the Company's overall revenue requirement.[375] This argument is groundless and would result in PGW's customers being unfairly forced to cover millions of dollars in credit card fees so customers could elect to make a one-time credit card payment without a fee.

First, the credit card fees are significant. OCA appears to have willfully ignored the cost of its proposal the impact on PGW's revenue (and on PGW customers who ultimately would pay these fees) is not addressed in testimony. The transaction fees incurred by residential customers in 2022 were approximately $3.1 million.[376] Further, if these fees are not charged directly to customers electing to make a one-time credit card payment, the number of these one-time payments would likely increase significantly. Customers may elect to make one-time credit card payments more frequently since someone else would be paying the fee, and costs would likely increase well beyond the previous $3.1 million per year and by an amount that cannot be accurately predicted.[377] Notably, OCA failed to account for this phase-out of fees in its revenue requirement recommendations.

Second, customers can choose to use another payment option that does not include a transaction fee. For example, in addition to monthly autopay or paying by mail, customers can pay cash in person at hundreds of locations, including many big box stores throughout Philadelphia – including CVS, 7-Eleven, Dollar General, Speedway, Family Dollar, and Walmart locations – for no additional fee. This option is particularly beneficial for customers who are unbanked (in contrast with

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373 PGW St. No. 1-R at 37.
374 *Id.*
375 OCA St. 5 at 5, 10-12.
376 PGW St. No. 1-RJ at 2.
377 *Id.*

those electing to make a one-time credit card payment, who have bank accounts).[378] While PGW does incur some costs for cash transactions at these retail locations, these costs amounted to $60,376.60 in 2022.[379] The credit card transaction fees in 2022 were significantly greater than these charges paid by PGW to its billing vendor.

Finally, it is fundamentally unfair to require other PGW customers to absorb fees charged by credit card companies, particularly when there are fee-free options available. OCA has pointed to no statute, regulation, Commission order, or other requirement that would necessitate that PGW and its ratepayers "absorb" these transactions fees. As such, OCA's argument is baseless and must be rejected.

6. Customer Identification Requirements

CAUSE-PA/TURN argue that PGW should implement less stringent identification requirements for applicants for residential service, as well as for victims of domestic violence.[380] CAUSE-PA/TURN have submitted a lengthy list of documents and claimed that any one of those documents should be sufficient to establish identity (rather than two forms of identification as PGW requires).[381] CAUSE-PA/TURN also argues that victims of domestic violence should not be required to submit any photo identification, and that only a copy of a Protection from Abuse ("PFA") or other court order should be sufficient to access protections available to victims under the Public Utility Code and PUC regulations.[382]

PGW's current identification requirements are appropriate and necessary to confirm a customer's identity and their eligibility to receive service and/or certain protections under the Commission's regulations.[383] These requirements prevent identify theft and protect other PGW

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[378] PGW St. No. 1-R at 37.
[379] *See* OCA St. 5SR at 5.
[380] CAUSE-PA/TURN St. 1 at 19-23.
[381] *Id.* at 22-23.
[382] CAUSE-PA/TURN St. 1 at 22-23.
[383] PGW St. No. 1-R at 39.

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customers from costs associated with unauthorized service. Some forms of identification that CAUSE-PA/TURN argue PGW should accept can be obtained without any verification of a person's identity (such as a City ID).[384] Therefore, these documents do not confirm the applicant's identity and are not appropriate for the purpose of establishing service from PGW.[385] Similarly, for victims of domestic violence, the Commission's regulations provide additional rights and protections to such customers, and it is reasonable for PGW to confirm the customer's identity.[386]

CAUSE-PA/TURN have not substantiated that PGW's identification requirements violate any statute, regulation, or Commission order. PGW's identification requirements are reasonable to establish service and/or access additional protections. Therefore, CAUSE-PA/TURN's argument must be rejected.

F. Low-Income Customer Service Issues

PGW has not proposed any changes to its low-income assistance programs or policies as part of this proceeding. However, through their testimony, OCA, CAUSE-PA/TURN and POWER have made numerous claims outlining proposals regarding service to low-income customers. PGW submits that these proposals are not necessary or supported, and are not required by the Commission's regulations or orders, as discussed in detail in testimony.[387] While PGW has addressed many of these issues herein, the Company will also respond to these and any other issues as necessary in its Reply Brief.

In general, PGW submits that issues affecting its low-income programming are better addressed in other, more focused proceedings, not in a base rate case. The Commission has previously recognized that certain complex issues involving universal service are "better reviewed in

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[384] *Id.*
[385] *Id.*
[386] *Id.*
[387] *See* PGW. St. Nos. 1-R, 1-RJ, and 9-R.

a universal service stakeholder process…"[388] like the periodic process for review and approval of PGW's USECP. Additionally, the Commission is currently undertaking a review of universal service programs that would address many issues raised by the parties, the outcome of which would be applied to Pennsylvania regulated utilities on a statewide basis.[389] Such issues are better addressed in the context of these universal service-specific proceedings rather than in this rate case.

1. Identifying and Enrolling Low-Income Customers

a) Coordination and Data Sharing

OCA claims that PGW should coordinate with a variety of Philadelphia City offices to enter into data sharing agreements and use the data provided to enroll eligible customers in CRP.[390] There are a number of problems with OCA's position. First and foremost, OCA has pointed to no statute, regulation, Commission order, or any other basis for requiring PGW to enter into such data sharing agreements. Second, OCA has failed to show that the data that these offices possess is relevant to PGW's programs, or that this data is valid, accurate, and/or more complete or legitimate than PGW's data, or even that those offices verify income data.[391] PGW cannot rely on data from organizations developed for entirely different purposes for the purpose of enrolling customers in CRP.[392] OCA also

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388 *Pa. PUC v. Aqua Pennsylvania, Inc.,* Docket No. R-2021-3027385 *et al.*, Opinion and Order (entered May 16, 2022), at 331; *see also id.* at 332-333 (recognizing prior orders finding that proposals involving CAP or other universal service issues "are more properly considered in a public utility's [USECP] proceeding."); *see, e.g., Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835, Opinion and Order (entered Feb. 19, 2021), at 160 (finding that "issues related to Columbia's energy burden levels are more properly considered in the context of the Company's next USECP filing.").

389 Docket No. M-2023-3038944.

390 Specifically, OCA argues that PGW should (1) enter into a data sharing agreement with the City Department of Revenue to allow identification of Owner-Occupied Payment Agreement ("OOPA") Tier 4 and Tier 5 customers as confirmed low-income, and/or to be enrolled in CRP; (2) enter into a data sharing agreement with the data from City's Office of Integrated Data for Evidence and Action to identify customers as confirmed low-income, and/or to enroll them in CRP if eligible; (3) enter into a data sharing agreement to allow for automatic cross-enrollment of customers from Philadelphia Water Department's Tiered Assistance Program into CRP; (4) partner with the City's Community Resource Corps to identify confirmed low-income customers and enroll them in CRP; (5) partner with the City's "Philly Counts" outreach program to identify confirmed low-income customers and enroll them in CRP; and (6) enter into a data sharing agreement with the Commonwealth to provide for cross-enrollment of LIHEAP recipients into CRP. OCA St. 4 at 43-50. OCA also argues that PGW should use these agreements to minimize default removals from CRP for failure to recertify. OCA St. 4 at 50.

391 PGW St. No. 1-R at 15.

392 *Id.*

ignores the cost associated with these recommendations – both in terms of administrative and technology costs, as well as resulting costs if this cross-enrollment resulted in large numbers of customers being enrolled in CRP, and particularly if large numbers of *ineligible* customers enroll.[393] PGW's non-CRP customers will have to bear these costs.

Similarly, CAUSE-PA/TURN argue that PGW should develop an auto-enrollment process for CRP utilizing LIHEAP data when it becomes available through DHS beginning in Fall 2024.[394] As PGW witness Adamucci explained, there are also a variety of issues with this proposal, regarding both logistics and costs.[395] Again, CAUSE-PA/TURN have failed to address either the costs of this proposal – which could be significant – or the financial impacts on other PGW ratepayers, many of whom are low or near low-income.[396] Importantly, CAUSE-PA/TURN have not pointed to any statute, regulation, Commission order, or other requirement that would justify requiring PGW to auto-enroll customers in CRP in this way.

For these reasons, the OCA and CAUSE-PA/TURN arguments must be rejected. Further, PGW submits that these coordination issues are better addressed on a statewide basis. The Commission is currently reviewing universal service programs, including coordination issues, and these topics are better addressed through this comprehensive, statewide proceeding.[397]

b) Technology

OCA argues that PGW should use generic "technology" to identify, enroll and retain low-income customers in CRP. To do this, OCA demands that PGW be required to investigate through its USAC the types of technology that could be used to address these issues, present a report to BCS

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393 PGW St. No. 1-R at 16.
394 CAUSE-PA/TURN St. 1 at 18.
395 PGW St. No. 1-R at 17.
396 *Id.*
397 Docket No. M-2023-3038944.

within 18 months of a final order in this proceeding, and include a section in its next USECP describing what technology it has or will adopt.[398]

OCA's claim here must be rejected. The recommendation to use "technology" is vague and unsupported. It is unclear what technology OCA believes PGW should use, if specific programs or platforms currently exist, or what the cost would be to implement any such programs.[399] OCA has not explained why such technology would provide benefits that justify the costs to PGW's ratepayers, or why it believes the USAC has special knowledge of technology such that it should be consulted on this topic.[400] OCA has cited no basis that would justify requiring PGW to undertake this process, and therefore this argument must be rejected.

c) Documentation, Outreach and Screening

In order to identify more low-income customers, OCA claims that PGW should accept documentation of any municipal, state or federal means-tested public assistance benefits as documentation of low-income status for the purpose of identifying a customer as confirmed low-income or eligible for means-tested winter shutoff protections as long as the documentation includes actual income or has a maximum income eligibility level of 150% FPL or below.[401] OCA's argument is based on an incorrect reading of the Commission's regulations and therefore must be rejected.

OCA points to 52 Pa. Code § 62.2 to claim that PGW's method of identifying low-income customers is too "stringent." However, this regulation does not require that utilities accept all forms of identification that OCA would require. Rather, Section 62.2 provides a definition of "confirmed low-income residential account" that simply provides that the customer is considered low-income if the Company has "information that would reasonably place the customer in a low-income

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398 OCA St. 4 at 51-53.
399 PGW St. No. 1-R at 18.
400 *Id.*
401 OCA St. 4 at 53-55.

designation."[402] The regulation further provides that "[t]his information may include receipt of LIHEAP funds (Low-Income Home Energy Assistance Program), self-certification by the customer, income source or information obtained in § 56.97(b) (relating to procedures upon rate-payer or occupant contact prior to termination)."[403]

PGW currently uses the information sources outlined in the regulation.[404] As explained by Ms. Adamucci, "PGW's current approach is reasonable and strikes an appropriate balance between accepting various forms of identification while preventing ineligible customers from enrolling (and thus protecting non-CRP customers from unjustified costs)."[405] OCA's overly expansive reading of the regulation must be rejected.

CAUSE-PA/TURN also claims that PGW should screen customers repeatedly to determine if they are low-income, including on any non-emergency call, when starting new service or moving, or when establishing an online account and annually thereafter. This argument also should be rejected. As Ms. Adamucci testified, "[i]n my experience, customers do not want to be repeatedly asked about their income in every interaction with the Company, particularly since over 70% of PGW's customers are not low-income."[406] PGW's current screening practices are reasonable and should be maintained.

2. Undeliverable Mail

OCA argues that PGW should take a number of steps when a customer's mail is returned as undeliverable, including placing a collection hold or a hold on removal from CRP, adopting a procedure to contact customers and update their information, and providing reports on undeliverable mail and use email, phone calls or test message to notify a customer of undeliverable mail.[407]

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402 52 Pa. Code § 62.2.
403 *Id.*
404 PGW St. No. 1-R at 19-20.
405 PGW St. No. 1-R at 19.
406 PGW St. No. 1-R at 22.
407 OCA St. 4 at 64-70.

OCA has not pointed to any statute, regulation, Commission order or other requirement to support its proposals. PGW already makes an effort to update a customer's contact information, including obtaining any mail forwarding information through its billing vendor and USPS, and/or calling the customer to update their contact information.[408] OCA's position would also come with significant administrative expense which it has not considered, given that PGW would have to implement new systems to track this information, and would require significant staff time by customer service representatives.[409] OCA's claim is unnecessary and unsupported, and therefore must be rejected.

3. LIURP

a) Budget

OCA and CAUSE-PA/TURN argue that PGW should increase its LIURP budgets. Specifically, OCA's position is that PGW should increase its LIURP budget to serve an additional 425 homes per year (at an estimated budget of $1.8 million).[410] Similarly, CAUSE-PA/TURN argues that PGW should increase its LIURP budget by an amount necessary to serve 3,000 households per year, requiring a total budget of $8,925,000.[411] These claims must be rejected.

First, in recent years, PGW has had both the highest total universal service spending and the highest LIURP spending as a percentage of residential sales, as compared to other Pennsylvania electric and natural gas utilities.[412] In 2021, PGW spent approximately $76.1 million on universal service programs, as compared to the NGDC with the next highest spending, which was Columbia Gas with approximately $27.9 million.[413] In its most recent fiscal year 2022, PGW customers spent

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[408] PGW St. No. 1-R at 24.
[409] *Id.*
[410] OCA St. 4 at 55-58.
[411] CAUSE-PA/TURN St. 1 at 28.
[412] PGW St. No. 1-R at 26-27; *see also* the Commission's 2021 Universal Service Report at 39, 55, and 84, *available at* https://www.puc.pa.gov/media/2188/2021_universal_service_report_rev122722.pdf ("PUC 2021 Universal Service Report").
[413] PUC 2021 Universal Service Report at 84.

over $84 million on universal service programs, including LIURP.[414] Regarding LIURP specifically, PGW's LIURP spending is significantly higher than any other natural gas or electric utility as a percentage of residential sales. In 2021, PGW spent $9,188,284 on LIURP.[415] Based on PGW's total of $521,228,457 in residential sales,[416] LIURP spending accounted for 1.76% of PGW's residential revenue. The average for all Pennsylvania natural gas and electric utilities was 0.80% of residential sales, less than half of PGW's proportional spending.[417]

Additionally, it is inappropriate to set the LIURP budget based on the number of homes to be served. As PGW witness Adamucci explained, "[t]hinking about the LIURP budget in terms of the number of homes to be served disincentivizes full weatherization, and instead encourages small projects at a large number of homes rather than full weatherization of a smaller number of homes. This is inconsistent with best practices. PGW is limited by the conditions within a house as to whether the house can be fully weatherized, but the goal should be full weatherization if possible."[418]

The OCA and CAUSE-PA/TURN arguments also do not account for inflation or related cost increases. As inflation increases and costs increase, the cost per home served increases and fewer homes are able to be served. It is simply not feasible to serve the number of homes identified under the recommended budgets.[419] Therefore, the arguments by OCA and CAUSE-PA/TURN must be rejected.

Additionally, POWER argues that PGW should increase its LIURP budget at least "proportional" to any approved rate increase, such that the approved percentage increase for residential customers should also be applied to the LIURP budget.[420] POWER witness Dr. Seavey has provided no analysis of the cost impact of this recommendation, or even a rough estimate of the

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414 PGW St. No. 1-R at 26.
415 PUC 2021 Universal Service Report at 55.
416 *Id.* at 39.
417 *See also* 52 Pa. Code § 58.4(a), which requires natural gas utilities to provide annual funding for LIURP of at least 0.2% of jurisdictional revenues. PGW's LIURP spending far exceeds this requirement.
418 PGW St. No. 1-R at 27.
419 PGW St. No. 1-R at 28.
420 POWER St. 2 at 27-30.

increase. POWER has presented no rational link between the proposed increase, and has not even attempted to explain or analyze its position. POWER's argument is baseless and must also be rejected.

b) Special Needs Criterion

CAUSE-PA/TURN argues that PGW should be required to convene a meeting of its USAC within 90 days of the effective date of rates to develop a "special needs" criterion for potential Home Comfort prioritization.[421] Under this proposal, CAUSE-PA/TURN would have PGW expand its LIURP program to include customers between 150% to 200% of FPL, which is not considered "low-income" for purposes of this program. As Ms. Adamucci explained, "PGW has many low-income customers who still [need] to be served under LIURP, such that it would take many years to complete them all. PGW does not need to expand LIURP to non-low-income customers; the program already has plenty of customers to be served."[422] CAUSE-PA/TURN's argument should be rejected, as it is unsupported and would undermine PGW's ability to provide LIURP services to low-income customers, which is the specific focus of LIURP.

4. Data Tracking and Reporting

OCA argues that PGW should collect monthly data by zip code on "critical elements" of non-payment and make this data publicly available.[423] OCA has failed to support this position and therefore it should be rejected.

This data tracking and reporting recommendation is neither necessary nor required. OCA has not pointed to any statute, regulation, or Commission order that would support this requirement. Additionally, OCA has failed considered the cost of this recommendation. PGW does not currently track this data and it would have to implement additional systems to do so.[424] It is unclear what

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421 CAUSE-PA/TURN St. 1 at 27, 28
422 PGW St. No. 1-R at 28-29.
423 OCA St. 4 at 59-64.
424 PGW St. No. 1-R at 30.

purpose this data tracking and reporting would serve or whether it would provide any meaningful benefit to customers that would justify the cost.[425] OCA has failed to provide any support for this proposal, and therefore it must be rejected.

5. CRP Cost Recovery Offset

Through Mr. Colton's testimony, OCA argues that PGW should institute an automatic surcharge that would adjust what Mr. Colton believes is PGW's bad debt expense recovery to prevent what he has misleadingly named a "double recovery" of credits and arrearage forgiveness provided through PGW's CRP.[426] OCA's argument is seriously flawed and must be rejected. The claim that PGW is somehow "double recovering" is wrong, and OCA has presented no actual evidence to support this claim. PGW, on the other hand, has clearly explained that there is no "double recovery" occurring.[427]

OCA incorrectly believes that, for customers enrolled in CRP, PGW recovers bad debt expense twice – once through the USEC and once through the Company's overall bad debt expense recovery. In actuality, bad debt is not recovered through the USEC. PGW recovers CRP credits and arrearage forgiveness through the USEC – there is no "bad debt expense" line item in the USEC.[428] Further, non-CRP customers do not pay 100% of their surcharges, as OCA appears to believe. Non-CRP customers contribute to bad debt expense when they fail to pay their bills (which include the USEC surcharge); therefore, CRP costs recovered through the USEC are not collected at a rate of 100% as OCA argues.[429] Finally, OCA also incorrectly believes that customers participating in CRP pay 100% of their bills and receive forgiveness for all pre-program arrears.[430] These beliefs do not

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[425] *Id.*

[426] Specifically, OCA asserts that: (1) CRP credits should be offset by 12.1% rather than the current 5.75%; (2) the offset should be applied to all customers who are participating in the CRP percentage of income payment plan above the participation number as of September 30, 2023; and (3) the offset should be applied to arrearage forgiveness granted to all CRP participants receiving arrearage forgiveness in excess of those receiving forgiveness as of September 30, 2023. OCA St. 4 at 71-72.

[427] PGW St. No. 1-R at 30-33; PGW St. No. 1-RJ at 2-4.

[428] PGW St. No. 1-RJ at 3.

[429] PGW St. No. 1-RJ at 3.

[430] PGW St. No. 9-R at 28.

support a claim of double recovery. OCA's arguments appear to be based on a different issue OCA has with rate recovery.

OCA's underlying concern appears to be whether PGW is recovering more bad debt expense than originally forecasted in the FPFTY. However, CRP enrollment is just one of many factors that PGW uses to forecast the bad debt percentage in a rate case.[431] In fact, all expenses and revenues in the FPFTY are forecast, and these forecasts are based on a host of factors including historical data and revenue and expense trends. Actual expenses may be higher or lower than what was forecasted. OCA believes bad debt should have an automatic adjustment in between rate cases based on CRP participation. OCA is inappropriately singling out one type of expense and only proposing a reconciliation if CRP participation is higher than a baseline participation level that Mr. Colton arbitrarily defined himself.[432] OCA is silent on what should occur if CRP participation is lower than forecasted.

Bad debt has many drivers, but PGW has shown that CRP participation is not a significant one. One of OCA's fundamental assumptions is that, as the number of enrollees in PGW's CRP goes up, PGW's uncollectible expense goes down. PGW witness H. Gil Peach analyzed this claim and found that the *exact opposite* is true – the larger the number of CRP participants, the larger the percentage of bad debt.[433] This entirely extinguishes the claims made by OCA witness Colton who has, once again, not provided any evidence whatsoever of his incorrect claim.[434]

PGW will provide a further response to OCA on this topic if necessary in its Reply Brief.

G. Pipeline Replacement/Alternatives

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[431] PGW St. No. 1-RJ at 3.

[432] PGW St. No. 1-RJ at 3-4.

[433] PGW St. No. 9-R at 29-34.

[434] This analysis was not presented in the past. In contrast to Mr. Colton's argument, as unemployment and poverty increase, more households experience bad debt and more decide to enroll in CRP. As unemployment and poverty decrease, percentage bad debt moves down, and some households leave CRP. PGW St. No. 9-R at 32.

1. Introduction

PGW's infrastructure planning and main replacement is governed by its Commission-approved Long Term Infrastructure Improvement Program ("LTIIP") and Distribution Integrity Management Program ("DIMP").[435] PGW's third LTIIP, which covers FY 2023-2027, was approved by the Commission on August 25, 2022.[436] This program represents all cast iron main replacement mileage for FY 2023-2027, including miles funded through base rates and funded through the accelerated LTIIP by PGW's DSIC. PGW must comply with its LTIIP, which defines the scope of PGW's infrastructure planning and replacement.[437]

PGW witness Robert Smith explained that PGW's PUC-approved LTIIP "is driven by safety and reliability concerns and the need to remove leak prone cast iron pipe from PGW's system."[438] He also testified that PGW has made significant strides with proven results in reducing both leaks and open repairs.[439] The Commission has approved the accelerated replacement of at-risk cast iron as a focus of PGW's infrastructure planning[440] and PHMSA has awarded PGW grants towards PGW's accelerated efforts.[441] Both the LTIIP and the DIMP are carefully monitored by the Commission's Gas Safety Division.[442]

Notwithstanding the Commission's extensive oversight of PGW's pipeline replacement program, POWER intervened in this proceeding – for its own reasons, wholly unrelated to safety and reliability – and recommended that PGW's rate increase be conditioned upon: 1) the integration of Non-Pipeline Alternatives ("NPAs") into the Company's capital and infrastructure planning; 2) the initiation of an "NPA pilot program," whereby a working group of interested parties will meet,

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435 PGW St. No. 7-R at 2.
436 *See*, *Petition of Philadelphia Gas Works for Approval of its Third Long-Term Infrastructure Improvement Plan*, Docket No. P-2022-3032303, Opinion and Order (Order entered August 25, 2022).
437 PGW St. No. 7-R at 3.
438 PGW St. No. 7-R at 5.
439 PGW St. No. 7 at 3-8.
440 *Id.*
441 PGW St. No. 7-R at 24-25.
442 PGW St. No. 10-R at 10-11.

oversee and ultimately require PGW to implement at least ten NPA deployment opportunities within 12 months (along with the imposition of reporting requirements); and 3) the filing of an annual pipeline replacement and spending information with the Commission in POWER's preferred "Comprehensive Annual Pipeline Spending Report" format.[443]

The Commission should outright reject POWER's recommendations. Regulatory requirements that the PUC already has in place pursuant to Section 1501 and Chapter 13 of the Public Utility Code ensure that PGW provides safe, adequate and reliable service to its customers at just and reasonable rates. The PUC carefully and extensively regulates PGW's efforts to replace its at risk and other facilities and those safety efforts should not be abandoned or delayed in order to advance POWER's social agenda. POWER has not shown how any particular portion of PGW's rate increase proposal or its existing rates or service to customers is unjust, unreasonable or inadequate. POWER's claims amount to a demand that PGW change its operations to its liking; but it is well established that the PUC is not a super board of directors and may not dictate management policies or actions unless it specifically finds that the utility's service is inadequate or unreasonable.[444]

While allegedly advancing proposals on the basis of cost effectiveness and/or transparency, the real world and expressly stated objective of POWER in this proceeding is the total electrification of Philadelphia, regardless of any safety or reliability consequences, or costs to PGW customers.[445] As explained by PGW witness Elliott Gold, a document posted on POWER's website in June 2023 advocates for a move away from "dirty energy" to "affordable renewable energy" and for "transforming PGW into a utility that provides both affordable heating and cooling without the use of fossil fuels."[446] PGW witness Gold urged the PUC to "not permit POWER to use this regulatory rate

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443 POWER St. No. 1 at 31-34.

444 *Metropolitan Edison Company v. Pa. P.U.C.*, 437 A.2d 76 (Pa. Cmwlth. 1981).

445 PGW St. No. 10-R at 3. *See* https://powerinterfaith.org/campaigns/climate-justice/; *see also* https://powerinterfaith.org/pgw-just-transition/; *see also* POWER 2023 Climate Justice Platform for Philadelphia (Updated) (powerinterfaith.org).

446 PGW St. No. 10-R at 3.

proceeding to advance its own environmental agenda above current statutory and regulatory realities by requiring PGW ratepayers to pay for additional, half-baked programs that are neither required nor allowable under current law or policy."[447] Insofar as POWER's proposals in this proceeding are allegedly for the sake of affordability, they are ineffective, ill-conceived, and unsafe approaches for addressing that objective. POWER's proposed integration of NPAs into PGW's infrastructure planning represents a transformational shift away from PGW's current safety-driven main replacement program.

POWER's agenda has no bearing on the Commission's approval of PGW's base rates, and POWER's requests to modify PGW's capital and infrastructure planning and pipeline replacement reporting should be denied. The Commission considered and rejected consideration of similar environmental proposals in PGW's last rate case and determined that it does not set environmental policies.[448] The same result must occur here, particularly where safety is at issue.

2. Capital and Infrastructure Planning

Through the testimony of Mark D. Kleinginna, POWER recommended that PGW fundamentally alter the focus of its infrastructure planning, and thereby its PUC-approved LTIIP, to consider "alternatives" to meeting the current demands on its system. Mr. Kleinginna testified that PGW should be pursuing "least cost alternatives" as opposed to its current safety and reliability focused planning.[449] This recommendation should be rejected.

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447 PGW St. No. 10-R at 4.

448 In the PUC's Opinion and Order in *Pennsylvania Public Utility Commission et. al. v. Philadelphia Gas Works* at Docket No. R-2020-3017206 et al., entered November 19, 2020 at 94, the Commission stated:

> We accept PGW's argument that it is unadvisable for the Commission to make new policy or establish new filing requirements via individual rate cases. We agree with PGW that it would be unfair to impose an undefined filing requirement upon it of the kind recommended by the ALJs in the absence of statutory, regulatory or other legal order or requirement that directs the creation and submission of information that is essentially a climate change plan.

We want to be clear in stating here that we are not departing from our broad jurisdiction to regulate rates and determine the justness and reasonableness of same, including expense and revenue claims driven by weather patterns and customer usage. In fact, we encourage all parties in rate case proceedings to file appropriate information and supporting documentation for the establishment of rates and appropriate adjustments thereto. We simply find that, at this time, mandating a Climate Business Plan is beyond our primary jurisdiction.

449 POWER St. No. 1 at 5-6.

a) Lack of Legal Authority

It is axiomatic that the Commission has only the power and jurisdiction expressly conferred or necessarily implied to it by the Legislature.[450] The Commission must act within, and cannot exceed, that jurisdiction.[451] Subject matter jurisdiction is a prerequisite to the exercise of power to decide a controversy, and jurisdiction cannot be conferred where none exists.[452]

Importantly, POWER's witness ignored the fact that there is no Pennsylvania law which requires PGW to incorporate NPAs into its capital planning. To adopt POWER's position that PGW should alter its capital and infrastructure planning to include NPAs and force drastic reductions in customer demand or electrification on PGW's customers, the Commission must answer the key question of whether it has the legal authority to direct PGW to do so. POWER has offered no basis under the law today upon which to conclude that the PUC has jurisdiction to make these determinations. While the Commission has statutory authority over a utility's facilities and service,[453] the Commonwealth Court has made it clear that those requirements are in the context of providing utility ***service***.[454] It logically follows that without express legislative authority, the Commission also does not have jurisdiction to require PGW to alter its capital planning from its current safety focus to

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450 *See City of Phila. v. Phila. Elec. Co.*, 473 A.2d 997, 999-1000 (Pa. 1984) ("We begin our inquiry by recognizing that the authority of the Commission must arise from the express words of the pertinent statutes or by strong and necessary implication therefrom…It is axiomatic that the Commission's power is statutory; and the legislative grant of power in any particular case must be clear."); *see also Feingold v. Bell Tel. Co. of Pa*., 383 A.2d 791, 795 (Pa. 1977); *Tod and Lisa Shedlosky v. Pennsylvania Electric Co.*, Docket No. C-20066937 (Order entered May 28, 2008).

451 *City of Pittsburgh v. Pa. Pub. Util. Comm'n*, 43 A.2d 348 (Pa. Super. 1945).

452 *Hughes v. Pennsylvania State Police,* 619 A.2d 390 (Pa. Commw. 1992), *appeal denied*, 637 A.2d 293 (Pa. 1993); *Roberts v. Martorano*, 235 A.2d 602 (Pa. 1967).

453 66 Pa.C.S. §§ 1501, 1505.

454 *Rovin, D.D.S. v. Pa. Pub. Util. Comm'n*, 502 A.2d 785 (Pa. Commw. 1986) ("*Rovin*") (Enforcement of environmental statutes is specifically vested in the Department of Environmental Protection and the Federal Environmental Protection Agency.); *Pickford v. PUC*, 4 A.3d 707 (Pa. Commw. 2010) ("*Pickford*") (customer complaints related to the conversion of water treatment plants from chlorinated water to chloraminated water were obvious challenges to the health effects of chloramines under permits issued by the Department of Environmental Protection and, thus, outside the Commission's jurisdiction); *Country Place Waste Treatment Company, Inc. v. Pa. Pa. Pub. Util. Comm'n*, 654 A.2d 72 (Pa. Commw. 1995) ("*Country Place Waste Treatment Company*") (Commission lacks authority to regulate air quality where sewage treatment plant caused odor).

implement POWER's proposed non-gas NPAs which *could, may* or *might* reduce customer demand and/or force customers to convert away from natural gas service to other energy sources.

The only other basis on which POWER's position could be sustained would be if the PUC were to conclude that PGW's failure to engage in NPA planning somehow made its present or proposed rates unjust and unreasonable or that PGW was somehow providing inadequate or unreasonable service.[455] But, other than simply asserting general concerns for PGW's capital and operating expenses under PGW's accelerated pipeline replacement program[456] and general concerns that PGW's rates may not reflect a "least cost alternative" consideration,[457] POWER's presentation makes no effort to show how PGW's present rates are unreasonable or how its present service is inadequate. Even if POWER had tried to make such a claim it would have been unsuccessful because POWER can point to no minimum standards or requirements with which PGW is failing comply[458] and has not explained how PGW could be out of compliance with PUC requirements when it was unable to show that any other Pennsylvania gas utility engages in such practices.[459]

The only examples provided by POWER of utility planning incorporating NPAs and the ultimate sunsetting of natural gas distribution service comes from other states, in particular New York and Colorado.[460] While POWER's witness states he simply relied on these cases as "illustrations" and left legal considerations for briefing, it is important to examine those "illustrations" in light of the laws of those states, and importantly, the lack of legislative authority in Pennsylvania for the Commission to require PGW to overhaul its capital and infrastructure planning.[461]

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455 *See* 66 Pa. C.S. §§ 1301, 1501.
456 POWER St. No. 1 at 4:3-9.
457 POWER St. No. 1 at 5:15-19.
458 PGW St. No. 10-R at 5:11-21.
459 PGW St. No. 10-R at 11:23-26; *see also* POWER St. No. 1 at 9:16-18 (asking that PGW "lead on deployment of NPA programs").
460 POWER St. No. 1-SR at 4; *see also* POWER St. No. 1 at 14.
461 POWER St. No. 1-SR at 4.

As discussed by Mr. Gold, the New York illustrative examples used by POWER are based on the New York Public Service Commission's ("NYPSC") Gas Planning Order, precipitated by New York's recently enacted Climate Leadership and Community Protection Act which created emission reduction requirements for gas distribution systems. In the Gas Planning Order, the NYPSC explicitly through a regulatory rulemaking proceeding required New York gas utilities to change their gas planning procedures requiring gas utilities to propose NPA screening criteria along with cost recovery of NPA projects and shareholder incentives for utilities to pursue these initiatives.[462] The Colorado illustrative example is much the same – whereby the Colorado Public Utility Commission instituted a rulemaking proceeding on a statewide basis in response to statutory changes and additions adopted through Colorado Senate Bill 21-264 and House Bill 21-1238.[463] Both of the illustrative examples relied on by POWER are the result of legislative and statutory changes in the law regulating gas utilities in those states.

No such legislation exists in Pennsylvania. In contrast, the law as it exists today in Pennsylvania requires that PGW continue to provide safe, adequate, and reasonable natural gas service, and that its infrastructure replacement (through the LTIIP) and capital planning must comply with the provisions of the Public Utility Code. Further, even without express authority from the legislature, the PUC has not itself pursued any regulatory changes to natural gas utility capital planning (to the extent permissible under current law). Moreover, it is imprudent to implement such wide-ranging policy changes, as POWER seeks for PGW's infrastructure planning in this base rate proceeding. Such policy changes should be left for notice and comment rulemaking proceedings to engage all stakeholders (both utilities and customers) throughout the Commonwealth to create equally applicable industry standards.[464]

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[462] Case 20-G-0131, Proceeding on Motion of the Commission in Regard to Gas Planning Procedures, Order Adopting Gas System Planning Process (issued May 12, 2022) (Gas Planning Order).

[463] PGW St. No. 10-R at 13-14.

[464] Changes in applicable industry standards are required to be vetted through the rulemaking process pursuant to the Regulatory Review Act. Act of June 25, 1982, P.L. 633, *as amended*, 71 P.S. §§ 745.1-745.15.

b) Deferral or Avoidance of Investment

POWER's proposal is envisioned as a way to ultimately eliminate PGW's natural gas utility service from the City. Under the guise of requiring PGW to implement NPAs, they claim that PGW *may*[465] simply "defer," remove the need for, or "avoid" capital spending and infrastructure investments.[466] To accomplish this objective, POWER proposes that PGW be required to radically alter its capital planning and infrastructure replacement program approved by the Commission through PGW's LTIIP. However, as PGW witness Smith testified, POWER offered no case studies supporting the conclusion that PGW should be required to implement NPAs either in place of or in conjunction with PGW's LTIIP. POWER also offered no studies to support its assertion that savings would be realized by implementing NPAs.[467]

As proposed by POWER, when at-risk or other pipeline inventory is scheduled to be replaced, PGW must rather look at alternatives to replacing the at-risk infrastructure as scheduled. POWER proposed that PGW be required to assess and, if feasible, deploy NPAs to achieve customer demand reduction, energy conservation and/or forced fuel switching measures to justify reducing replacement mains' diameter or even abandoning existing natural gas service to those customers all together. While POWER's witness claimed he does not question PGW's safety and reliability focused LTIIP,[468] his proposal nonetheless argued that PGW should defer or avoid capital investments through the implementation of NPAs on the basis that NPAs *could*, *may*[469] or *might*[470] allow PGW to defer and avoid capital investments, reduce pipeline diameters, and reduce system loads.

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465 POWER St. No. 1 at 7:13-17; POWER St. No. 1-SR at 13:5-6.
466 POWER St. No. 1-SR at 6, 7, 27, 32.
467 PGW St. No. 7-R at 5.
468 POWER St. No. 1-SR at 13.
469 POWER St. No. 1 at 7:13-17 ("…NPAs function by identifying ways in which spending a smaller amount of money can save a larger amount of money that would otherwise go to traditional capital spending. ***It may be that***, in some instances, energy efficiency or demand response incentives targeted to C&I customers ***could*** allow deferral or avoidance of capital investments that would result in future savings for all rate classes.") (emphasis added).
470 POWER St. No. 1-SR at 13:5-6 ("In fact, my analysis actually focuses on how PGW ***might*** more reliably and safely serve its load.") (emphasis added).

Deferring the replacement of "at risk" cast iron mains would be enormously risky, as the evidence in this record shows that they are at high risk of breaking and causing a serious incident without warning (thus making it impossible to just "fix the leak"). As POWER acknowledges PGW's LTIIP is driven by safety and reliability, avoiding infrastructure investment suggests abandoning instead of replacing at-risk mains. Their proposal to employ NPAs to allow for main abandonments is based on the impractical assumption that energy efficiency measures can eliminate the need for gas service which POWER did not prove in the record. If POWER is in fact not advocating the slowing or stopping of PGW's main replacement efforts, PGW's ratepayers would not only be required to pay for PGW's at-risk main replacement as funded through its DSIC over the next 37.8 years,[471] but *also* foot the bill for the proposed NPAs, which exacerbates rather than addresses POWER's purported affordability intent. These NPAs could include the electrification of other customers to defer or avoid infrastructure replacements – a massive ratepayer-funded energy efficiency program (which could cost tens of millions of dollars)– on the speculative basis that those expenditures by PGW *could, may,* or *might* lead to future capital investment savings or "Cost of Energy Saved."

c) Energy Savings

Under no Pennsylvania ratemaking procedure or the Commission's policy statement on cash-flow utility ratemaking is there consideration of POWER's "costs of energy saved" or other "capital recovery factors," and POWER has not explained how these novel concepts can be incorporated into PGW's ratemaking process, let alone how the *speculation* of savings involved is incorporated into setting PGW's rates. As PGW witness Gold testified, POWER's proposed alternative infrastructure planning and investment methodology is based on the flawed idea that PGW should plan its capital and infrastructure investments based on *potential* future load reductions from NPAs, such as massive

[471] PGW St. No. 7 at 2.

energy efficiency programs, which may or may not be realized, and can only truly occur if customers are abandoned or service is curtailed if those *potential* future loads are not met.[472]

PGW must plan for its system to meet current demand and design day requirements, and PGW cannot be required to implement NPAs with the goal of arbitrarily reducing PGW's main size on the simple *possibility* that such NPAs could theoretically reduce future customer demands. As Mr. Smith states, this is not prudent utility planning, and cannot form the basis for PGW to be required to modify its infrastructure planning and Commission approved LTIIP.[473] Additionally, PGW's modeling and planning is based on PGW's design day and customer demands, as PGW must plan its system to reliably meet a "worst case scenario." Planning for purely theoretical and unquantifiable reductions in demand from NPAs is not prudent utility planning.[474]

Reducing PGW's existing distribution system and the ability of PGW to physically deliver gas to its customers based on theoretical future energy savings leaves open the very real possibility that PGW would be unable to meet future demand and ensuing service curtailments if, for example, the energy efficiency measures did not work as intended or new owners did not continue to follow energy efficiency measures (like smart thermostats). If the speculative system-wide demand reductions are not fully achieved by NPAs as POWER proposes, it is a very real possibility that service curtailments could be necessary for not just interruptible customers but firm customers as well on the coldest days and hours of the year. Since PGW has a legal obligation under the Public Utility Code to supply the amount of natural gas that a customer demands, modifying the gas distribution system as demanded by POWER would put PGW in the position of not being able to comply with its fundamental obligation to provide safe and adequate natural gas service to its customers.

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472 PGW St. No. 10-RJ at 3.
473 PGW St. No. 7-RJ at 4.
474 PGW St. No. 10-RJ at 8.

If POWER really was looking to reduce customer costs, the normal analysis would examine steps like increasing gas throughput by adding customers or otherwise expanding load.[475] As Mr. Smith stated, the only way to see any actual savings from POWER's speculative demand reductions would be to require every customer of PGW to reduce demand in separatable "islands" of the city, which itself is not feasible given PGW cannot force customers to electrify their homes. Mr. Gold highlighted the inherent difficulty with implementation of POWER's proposed NPA – customer voluntary participation – which is one of the hardest barriers PGW experiences in administering its efficiency programs today.[476] If just one customer still wants PGW's natural gas service, PGW must maintain its infrastructure to reliably and safely provide that service.[477] In other words, there can be no opt-out option for customers.[478] If even one customer elects to stay with gas service in a project area, POWER's proposed NPA Pilot would only add costs to PGW's rate payers, not reduce them.[479] Given that POWER's witness claimed that he is not advocating any forced conversions or energy reductions,[480] their proposals are simply a non-starter.

And even if PGW or the PUC could force customers to take energy efficiency or to convert to electricity (which, of course, they cannot) POWER's fundamental misunderstanding of the pipeline diameters PGW actually installs today (73% of which are 6-inch or smaller pipe) shows that the entire goal of POWER's proposal to reduce pipeline diameters and thereby costs, is invalid. PGW witness Gold testified that reducing pipe from 6" to 4" would only save 4% of the installation and materials costs, but lead to reduced capacity of the main by 50% creating real, and devastating system reliability issues which would hinder PGW's ability to provide safe and reliable service to the public.[481]

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475 PGW St. No. 10-RJ at 1.
476 PGW St. No. 10-RJ at 3.
477 PGW St. No. 7-RJ at 2-3.
478 PGW St. No. 10-RJ at 4.
479 PGW St. No. 10-RJ at 5.
480 POWER St. No. 1-SR at 3:12-13.
481 PGW St. No. 7-RJ at 3.

d) Duplicative Programs

As explained by PGW witness Mr. Gold, and admitted by POWER's witness Kleinginna,[482] PGW has already implemented many of POWER's proposals when they are consistent with PGW's obligation to provide its customers safe, adequate, reliable and reasonably priced natural gas service. For example, through its Commission approved energy efficiency programs – PGW's DSM (EnergySense) that PGW voluntarily proposed and maintains, and PGW's PUC-mandated LIURP (PGW's "Home Comfort" program),[483] PGW helps customers conserve energy and reduce costs through measured, verified and PUC-approved programs.

PGW also already takes into account changes in customer demand within planning distribution system improvements and replacements, and does reduce and abandon mains when demand reductions are known, permanent, and when PGW is still in a position to meet future demand.[484] However, POWER's proposals go much further claiming that PGW must consider inducing customers to drastically reduce their gas demand to permit PGW to reduce the size of the replaced main, thereby allegedly reducing the cost of the replacement. That PGW be required to implement NPAs on local scales or entire sections of the city (or even city wide), simply cannot work to meaningfully reduce capital investments and planning. From an infrastructure planning perspective, Mr. Smith explained that while there are areas of PGW's system where smaller diameter pipes can be implemented upon balancing many factors, arbitrary reductions to demand on one block of the City does not necessarily mean PGW can reduce the size of its mains on that block. Doing so would directly affect reliability for customers on those blocks who may choose not to implement NPAs or electrify their property, as well as other upstream customers on PGW's integrated system.[485]

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482 POWER St. No. 1 at 12:12-14; POWER St. No. 1-SR at 1.
483 PGW St. No. 10-R at 6-8.
484 PGW St. No. 7-RJ at 4:9-14.
485 PGW St. No. 7-RJ at 2.

PGW's highly integrated distribution system planning requires looking far beyond individual blocks or streets (i.e. the local approach to NPAs which POWER advances).

e) Cost Recovery

Importantly, POWER has proposed no adjustments to PGW's rates to incorporate the costs of POWER's proposed NPAs or their rate class allocations aside from a speculative reference to recovery factors.[486] Funding of the proposed NPAs would not be trivial – in order to address POWER's goal of reducing system-wide design day, it would include the mandatory deployment of massive energy efficiency programming and conversion of certain customers to electric service which may include all in-home work such as electric system upgrades, duct work, and electric HVAC. PGW would need to retrofit almost 600,000 homes to achieve the level of POWER's projected necessary design day demand reductions despite the fact that as of May 2023, PGW has only 489,279 residential customers.[487] This is simply not reasonable. POWER's proposal is entirely lacking anything close to the level of detail and due diligence needed to impose the (undocumented) NPA costs on PGW's customers based on POWER's novel and unvetted "costs of energy saved" methodology.

If POWER proposes to continue PGW's LTIIP for safety and reliability, the real costs of POWER's NPAs would be <u>additive</u> to PGW's current rates, as PGW must continue to accelerate its main replacement under its current Commission approved LTIIP. To the extent that POWER is requesting that the Commission reverse its prior orders and modify PGW's LTIIP to incorporate POWER's proposed NPAs in lieu of the necessary main replacement activities, this base rate proceeding is not the proper proceeding for POWER or the Commission to entertain such sweeping transformations to PGW's safety-driven infrastructure planning. PGW's Commission approved LTIIP cannot be collaterally attacked in this proceeding based on POWER's publicly expressed

[486] PGW St. No. 10-R at 15:1-5; PGW St. No. 10-RJ at 10:7-11:12.
[487] PGW St. No. 10-RJ at 6-8.

agenda which seeks that PGW ratepayers pay for electrification of the City and PGW ultimately cease all natural gas distribution.

3. NPA Pilot Program and Working Group

The POWER witness recommended that the Commission require PGW to initiate a NPA Pilot Program and working group to assess eight specific factors or "parameters" so that interested parties can decide and require PGW to implement NPA projects on the basis of their "cost-effectiveness."[488] At the conclusion of POWER's proposed process, POWER recommends that PGW be required to identify at least ten NPA projects which will culminate in two public meetings being held to "solicit community views."[489] The overall goal of POWER's proposed NPA Pilot Program and working group is to "maximize learning for both PGW and non-utility market participants that can then be applied to future NPA deployment."[490]

For the reasons described above, this pilot proposal is inconsistent with current Commonwealth-wide PUC-administered laws and regulations, and with PGW's PUC-approved plans across a range of dockets. Furthermore, the proposed pilot is an impractical approach to capital planning, which is already addressed within PGW's current PUC-approved programs, as it seeks to establish POWER and other members of the public as a new regulator of PGW, which the Commission lacks the authority to permit.

POWER also asks the Commission to order PGW to develop an NPA Pilot program "working group" to include interested stakeholders and the community at large to determine what specific NPA projects PGW would be required to develop under POWER's proposed NPA Pilot Program.[491] Their working group proposal includes significant meeting and reporting requirements and an explicit relinquishment of PUC authority to permit community stakeholders to direct how

488 POWER St. No. 1 at 28-29.
489 POWER St. No. 1 at 28.
490 POWER St. No. 1 at 28.
491 POWER St. No. 1 at 32.

PGW will deploy POWER's proposed NPA Pilot. The use of a working group to implement an NPA Pilot is unsupported, unwarranted, and outside the Commission's jurisdiction to order and should be rejected. As a fundamental matter, POWER has not demonstrated the need for the working group based on inadequate service, or inadequate oversight of PGW by the Commission, and has provided no funding mechanisms for its implementation. Moreover, the working group proposal raises serious concerns regarding proposed oversight of PGW's capital planning and infrastructure replacement programs.

As discussed by Mr. Gold, while the NPA pilot itself is an impractical approach to pipeline cost-savings or modifying PGW's infrastructure planning, the working group proposal seeks to establish management and directive oversight by POWER and other members of the public as new super-regulators of PGW, which the Commission lacks authority to permit, that would decide PGW's capital planning, what NPA projects PGW must implement, and what constitutes safe operations.[492] As a municipal public gas utility PGW already has significant regulatory oversight, including regulation by the PUC, City Council, the PGC, and other State and Federal entities – all of which have their own open processes for public comment and engagement where appropriate. Moreover, the Commission itself in its 2022 audit concluded that PGW's current governance oversight is "inefficient and creates burdensome operations and management processes."[493] No justification, such as inadequacy of service, has been offered to expand oversight of PGW.

To add oversight by POWER and the community at large for PGW's capital planning and infrastructure replacement initiatives is simply not in the public interest and is not a prudent use of ratepayer's funds. As discussed above, the PUC has primary jurisdiction over PGW's capital planning and pipeline replacement programs through its LTIIP and Chapter 13 of the Public Utility

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[492] PGW St. No. 10-R at 27-28.

[493] PGW's Management and Operations Audit, Docket No. D-2022-3030321, *available at* https://www.puc.pa.gov/pcdocs/1775875.pdf.

Code. There is no legal basis on which the PUC could delegate this duty to POWER and community stakeholders as proposed in the Working Group, even if the PUC were inclined to do so.

4. Pipeline Replacement Reporting

Through witness Dr. Seavey, POWER asked the Commission to order PGW to file an annual "Comprehensive Annual Pipeline Spending Report" in a format POWER prefers, which would either supplement or replace the Commission's current reporting requirements for PGW's pipeline replacement activities in its LTIIP. Dr. Seavey claimed that POWER is "concerned about the significant expense" and continued acceleration of PGW's Pipeline Replacement Program under its LTIIP[494] where PGW's Commission approved capital investment project carries "significant implications for rates and energy affordability over at least the next three decades."[495] Dr. Seavey asserted that PGW's LTIIP and statutory reporting requirements, with which PGW currently complies, are not satisfactory as the "formal scope [of the LTIIP and statute] is limited to the accelerated portion of the cast iron main replacement."[496] In short, the POWER witness argued that the Commission is not adequately determining today "whether delivery rate levels are just, reasonable, and prudent" in light of PGW's at-risk cast iron main replacement and that more transparency, measurement, cost-effectiveness analysis, and long-term gas planning is needed in order to protect PGW's ratepayers.[497]

As Mr. Smith testified, Dr. Seavey's criticism of PGW's current pipeline replacement reporting is misplaced. Her request for an "integrated" report containing seven elements (most of which are duplicative of what is filed today) is unjustified in view of the LTIIP and AAOP that PGW submits in compliance with the Commission's rules and regulations.[498] Mr. Smith demonstrated that POWER's allegations that PGW's LTIIP and AAOP only includes the accelerated portion of PGW's

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494 POWER St. No. 2 at 2:10
495 POWER St. No. 2 at 4.
496 POWER St. No. 2 at 23.
497 POWER St. No. 2 at 24-26.
498 PGW St. No. 7-R at 22-23

pipeline replacement is in fact incorrect.[499] Simply put, and as publicly available at those dockets, PGW's LTIIP includes reporting on both the accelerated portion of PGW's main replacement funded through PGW's DSIC and the 18 miles/year of replacement funded through base rates.[500] Mr. Smith further described what PGW reports to the Commission through its AAOP and to the PGC in its capital budget filing and forecast. Despite POWER's claim that the data is not available, PGW's capital budget filing and forecast provides raw and burdened spending for PGW's main and service replacement program by budget category including the raw cost breakdown of labor, materials, contract, and other expenses, other than major enforced relocations which are only budgeted for if a major enforced relocation project has been identified and estimated, and DISC, which is budgeted for based on projected annual DSIC revenue for both footage and expenditures reported on PGW's AAOP.[501] Ultimately PGW's expenses and replacement costs are reviewed quarterly and annually by the PUC under PGW's DSIC and AAOP, and POWER has made no claim that PGW has violated any law or regulation in its reporting responsibilities, or that the PUC or any other regulator has found that PGW's pipeline replacement and expenditure reporting has been insufficient. The record of this proceeding provides no basis for finding that PGW's current reporting is inadequate or unreasonable and thus POWER's request to change PGW's reporting requirements must be denied.

Additionally, Mr. Smith dismissed Dr. Seavey's claims about filings capturing different points in time different regulatory reporting requirements.[502] Mr. Smith also refuted POWER's inaccurate calculations, and perceived errors in PGW's reports in detail.[503] The fact that different reports reflect different numbers due to their regulatory purpose does not support POWER's claim that additional "integrated" reporting requirements (in POWER's preferred format) are necessary.

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499 PGW St. No. 7-R at 11.
500 PGW St. No. 7-R at 11.
501 PGW St. No. 7-R at 12-15.
502 PGW St. No. 7-R at 15.
503 PGW St. No. 7-R at 15-21.

In summary, Mr. Smith explained how each of the proposed seven elements of POWER's reporting requirements are unnecessary, duplicative, or have no benefit to PGW's ratepayers or regulators.[504] The entirety of POWER's argument for its "Comprehensive Annual Pipeline Spending Report" can be summarized by a simple review of POWER's witness' own testimony. The issue is not that the information is unavailable to her, but rather that her data collection and analysis "would require copying and pasting at least two figures (burdened cost and footage) for as many as six capital account categories for each of the seven years making up the period (2015-2021). The resulting spreadsheet would contain up to 84 data points that would then require careful aggregation."[505] In light of the current reporting and PUC oversight described above, it would be an imprudent use of PGW's ratepayer resources to require PGW to change its currently compliant reporting to the Commission through its AAOP simply to alleviate the potential workload for intervening parties like POWER. The Commission, not POWER, is PGW's regulator in this proceeding and approves PGW's pipeline replacement activity and spending. The PUC has the power and the authority to request from PGW this or any other data if and when it determines that it is necessary.[506] As a result, the Commission should conclude that POWER has not met its burden to show that its proposed reporting formats are necessary for the Commission to continue its regulatory oversight, or that any present data provided by PGW has been deemed insufficient by the Commission.

H. Miscellaneous Issues

No miscellaneous issues were identified by PGW. PGW will respond to any miscellaneous issues raised by any other party in PGW's Reply Brief.

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504 PGW St. No. 7-R at 23-24.
505 POWER St. No. 2-SR at 5.
506 66 Pa. C.S. § 505.

V. CONCLUSION

For all the foregoing reasons, PGW respectfully requests that Administrative Law Judges Eranda Vero and Arlene Ashton and the Commission approve the rate increase and other proposals set forth in Supplement No. 159 to PGW's Gas Service Tariff and Supplement No. 105 to PGW's Supplier Tariff consistent with this Brief, the Proposed Findings of Fact (Appendix A) and the Proposed Conclusions of Law (Appendix B).

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APPENDIX A
PROPOSED FINDINGS OF FACT

1. PGW is the nation's largest municipally-owned gas utility. PGW St. No. 4 at 5.

2. PGW has no shareholders and does not pay a dividend or a rate of return to its owners. PGW St. No. 1 at 2-3.

3. The City owns PGW as well as the "service centers" used by PGW. PGW St. No. 4 at 5; PGW St. No. 2-R at 56. *See* 66 Pa. C.S. § 102 (definition of "City natural gas distribution operation").

4. PGW is regulated by the Public Utility Commission as a city natural gas distribution company pursuant to 66 Pa. C.S. §§ 102 and 2212. PGW St. No. 1 at 2.

5. PGW manages a distribution system of approximately 3,000 miles of gas mains and 476,000 service lines supplying approximately 500,000 customers in the City of Philadelphia. PGW St. No. 4 at 5.

6. PGW provides gas sales and transportation services. PGW Exh. CEH-1.

7. In this base rate case, PGW originally requested an overall rate increase of $85.8 million per year. PGW St. No. 1 at 2; PGW St. No. 2 at 2; PGW Exh. JFG-2.

8. PGW adjusted its FPFTY. PGW St. No. 2-R at 2-3; PGW Exh. JFG-2R.

9. PGW is requesting an annual rate increase of $85.161 million, consisting of a three-year amortization of expenditures and increased uncollectibles resulting from the COVID-19 pandemic and the associated PUC orders responding the pandemic – $10.161 million for three years– and a $75.0 million annual increase. PGW Exh. JFG-2R; PGW St. No. 2-R at 37.

10. PGW's requested rate increase is based on a fully projected future test year starting September 1, 2023. PGW St. No. 2 at 6.

11. PGW needs to recover in rates the cost of a new, $348 million bond issuance in FY 2024; the annual debt service alone on this bond issuance is approximately $22.7 million. PGW St. No. 3 at 22.

12. Absent rate relief, PGW's financial metrics will fall to unacceptably low levels, threatening its continued financial stability and infrastructure modernization plans.

13. Rate relief will help PGW maintain its financial status and current favorable bond ratings while continuing with its significant efforts to improve safety, efficiency and reliability of its distribution system and continue to improve customer service.

14. PGW's rates and charges are set using the "Cash Flow" Method, which determines the appropriate levels of cash, debt service coverage and other financial metrics necessary to

enable the Company to pay its bills, meet its minimum bond ordinance requirements and maintain or improve its bond rating so as to maintain efficient access to the capital markets at reasonable rates. PGW St. No. 2; PGW St. No. 2-R; 52 Pa. Code §§ 69.2701-69.2703.

15. PGW's fiscal year ("FY") is from September 1 to August 31. PGW St. No. 2 at 6.

16. PGW must satisfy its PGW's bond ordinance covenants to remain financially viable. PGW St. No. 2 at 14-15.

17. Without sufficient rate relief, PGW will be on the edge of not being able to meet its debt service coverage requirements in the FPFTY – after accounting for the required City Payment – and will be without needed cash to meet all of its cash obligations in the FPFTY in a timely manner. PGW St. No. 2 at 16; PGW Exh. JFG-1 (debt service coverage w/City Payment, line 24).

18. Specifically, without sufficient rate relief, at current rates, the Company would have just $30.8 million of year-end available cash in the FPFTY. *See* PGW Exh. JFG-1, which shows ending cash of $30.776 million. This projected level equates to just 16.9 days of expenses. PGW St. No. 2 at 14-15; PGW St. No. 2-R at 15. Those levels of financial performance would <u>not</u> meet the minimum standards of financial adequacy required to maintain its bond rating. PGW St. No. 2 at 21-22; PGW St. No. 3 at 21-24.

19. Without sufficient rate relief, PGW's cash balances are projected to plunge and be <u>negative</u> in FY 2025. PGW Exh. JFG-1 (cash flow, line 25).

20. Only I&E challenged PGW's proposed *pro forma* revenues for the FPFTY, but that recommendation was subsequently withdrawn. I&E St. No. 4; I&E St. No. 4-SR; PGW St. No. 2-R.

21. PGW provided extensive documentation and explanation of the reasonableness of all of its expense claims. PGW St. No. 2; PGW St. No. 2-R; PGW St. No. 2-SR; PGW St. No. 2-RJ.

22. PGW's pro forma expense claim is based on its actual, budgeted levels of expenses, as approved by the Philadelphia Gas Commission and City Council, only updated for more recent information (and one adjustment to reflect a full year of its planned, FY 2024 bond issuance). PGW St. No. 2 at 5-15; PGW Exh. JFG-1; PGW Exh. JFG-2R.

23. PGW updated its Budget/Forecast data to account for issuance in the FPFTY of additional long-term bonds in the amount of $348.0 million and therefore included a full year's debt service in its calculation of *pro forma* revenue requirement at present rates. PGW St. No. 2 at 8-9.

24. PGW Exhibit JFG-2R updates PGW's original FPFTY (PGW Exh. JFG-2) to account for the receipt of an additional reimbursement amount from the Federal Emergency Management Agency (FEMA). PGW St. No. 2 at 2-3, 34-37.

25. The Commission's Policy Statement requires the examination of a series of factors, the principal ones being: 1) debt service coverage; 2) year-end non-borrowed cash; 3) debt-to-total capitalization; and 4) level of financial performance needed to maintain or improve PGW's bond rating. 52 Pa. Code § 69.2702(b); 52 Pa. Code § 69.2703(a)(1); 52 Pa. Code § 69.2703(a)(3); PGW St. No. 2 at 12-13.

26. The Policy Statement also directs that PGW's financial metrics be examined in relation to "similarly situated utility enterprises." 52 Pa. Code § 69.2703(a)(3).

27. PGW showed that the financial metrics produced by PGW's requested rate increase are fully justified, and in fact conservative, when compared to those of comparable utilities. PGW St. Nos. 2, 2-R and 2-RJ; PGW St. Nos. 3, 3-R and 3-RJ; PGW St. No. 4.

28. Debt service coverage is the fundamental way in which PGW receives the cash it needs to operate its business and have cash for contingencies. PGW St. No. 2 at 15-17.

29. PGW's bond ordinances require that, at a minimum, the Company maintain a debt service coverage of 1.5x; coverage above debt service requirements must be sufficient to produce sufficient additional revenues to pay for cash items that are not included in the debt service coverage calculation but for which PGW is committed or required to pay. PGW St. No. 2 at 15-17; 52 Pa. Code § 69.2702(b).

30. At present rates, PGW's debt service coverage for the FPFTY is 2.1x; accounting for the mandatory obligation of the City Payment, PGW's FPFTY debt service coverage falls below two: 1.94x. PGW Exh. JFG-1, Debt Service Coverage; PGW St. No. 2 at 15-17; PGW Exh. JFG-1, Debt Service Coverage.

31. From the debt service coverage, PGW must fund the portion of its capital improvements funded by internally generated funds and produce a reasonable amount of working capital to deal with revenue/expense timing. PGW St. No. 2 at 14-15.

32. The specific list of cash items required to be funded from debt service coverage (as well as PGW's cash needs for each item) are shown in the following table:

Cash Requirements Beyond Existing Debt Service (Dollars in Thousands)	
FPFTY	**PGW Proposed**
City Payment	$18,000
OPEB	$18,500
Pension	$3,455
Retiree Benefits	$37,435
Capital Spending (IGF)	$53,207
PHMSA Grant Cast Iron Main Replacement	$10,752
GASB 87/96 Principal Payments	$1,968
DSIC	$41,000
Working Capital	$15,442
TOTAL, as proposed	**$199,759**

PGW St. No. 2 at 16.

33. PGW's debt service coverage needed to produce enough cash so that the Company was able to meet all its cash obligations. The list of these cash obligations includes the City Fee, pension fund contributions not on the income statement, DSIC costs, and the Other Post-Employment Benefits ("OPEB") surcharge. PGW St. No. 2 at 14-17; PGW St. No. 2-R at 14-17.

34. The Cash Needs Analysis demonstrates that the *pro forma* FPFTY debt service coverage of 2.10x is inadequate and a debt service coverage of at least 2.73x is required for PGW to be able to meet all its cash expenditures in the FPFTY. PGW St. No. 2 at 16-17.

35. A 2.73x debt service coverage level can only be achieved with an $85.1 million rate increase. PGW St. No. 2 at 16-17.

36. PGW's proposed debt service coverage levels were also shown to be reasonable compared to those of comparable companies. PGW St. No. 4 at 37; Exh. HW-1, Sch. 4, pgs. 11-14, Sch. 5.

37. The bond rating agencies that closely follow PGW's financial performance have indicated that a cash balance of between 90 and 150 DOC should ideally be maintained for a utility with an "A" bond rating. PGW St. No. 3 at 16.

38. A cash balance of only 17 days would fail to provide sufficient cash for PGW to be able to meet all of its cash obligations, as shown by the "Cash Requirements Analysis," discussed above, and it would be extremely concerning to the rating agencies and prompt a serious review of its bond rating. PGW St. No. 2 at 18-19.

39. PGW's rate increase request would produce a year-end cash balance in the FPFTY of $113.8 million, which equates to 61.6 days of cash. PGW Exh. JFG-2R (cash), line 25.[1]

40. PGW's FPFTY proposed level – 62 days – is actually below the lowest level of DOC that PGW has experienced during Mr. Walker's study period. PGW St. No. 4 at 37.

41. That level of cash is still well below the 90-150 days that Mr. Lover testified is expected by the rating agencies for an "A" rated credit such as PGW. PGW St. No. 4 at 17.

42. PGW's historically realized and proposed levels of DOC are also just above the lower limit of the DOC for all of Mr. Walker's peer groups. PGW St. No. 4 at 17.

43. PGW's goal is to lower its debt to capitalization ratio below 60%. PGW St. No. 2 at 15, 19-21; PGW St. No. 2-R at 9.

44. PGW is targeting a 50% ratio of financing in this proceeding, consistent with PGW's policy of attempting to balance its capital structure by funding approximately 50% of its annual capital spending from internally generated funds. PGW St. No. 2 at 19. This policy reduces the debt to capitalization ratio. *Id.*

45. The financing policy is well established. PGW did not have internally generated funds to fund any portion of its capital improvement program prior to FY 2009. *See PUC v. PGW*, Docket No. R-2008-2073938, Opinion and Order entered December 19, 2008 at 25. Page 47 of the 2015 Staff Report[2] explains that, at that time, PGW estimated that 56 percent of capital projects would be financed with internally generated funds, and 44 percent of this funding will be financed with debt.

46. That goal and target are reasonable in comparison with PGW's municipal peer group. PGW St. No. 4-R at 10. The debt to capitalization ratio of that municipal peer group reviewed by Mr. Walker averages 52%. *Id.* Mr. Lover's studied group had a debt/capitalization ratio of 49%. PGW St. No. 4-R at 11; PGW St. No. 3-R at 10.

47. Investor-owned utilities typically operate with a debt to capital ratio of 45 to 50 percent. OSBA St. No. 1 at 12.

48. In the HTY, PGW's debt to capitalization ratio was 64.11%. PGW Exh. JFG-1; PGW Exh. JFG-2R.

49. In the FPFTY, at present rates, PGW's debt to capitalization ratio would be 62.69%. PGW Exh. JFG-1.

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[1] The sum of lines 27 (cap fringe benefits, $10.717), 28 (capitalized admin charges, $31.571), and 38 (operating expenses, $703.766) of PGW Exh. JFG-2-R less line 26 (net depreciation, $72,141) is $673.923. That amount divided by 365 is 1,846. Dividing the ending cash, PGW Exh. JFG-2-R, line 25 (ending cash, $113.769) by 1,846 results in 61.6 days of cash.

[2] https://www.puc.pa.gov/NaturalGas/pdf/PGW_Staff_Report_042115.pdf.

50. In the FPFTY, at projected rates, PGW's debt to capitalization ratio would be 60.6%. PGW Exh. JFG-2R.

51. I&E recommends that PGW should evaluate a higher debt to total capitalization goal. I&E St. No. 1 at 8-9. Citing a 2015 PUC Staff Report, Mr. Patel for I&E testified that it would be reasonable for PGW's capitalization ratio to be as high as 70%. *Id.*

52. I&E's recommended debt to capitalization ratio would be significantly above PGW's peer utilities, including most municipal utilities studied. PGW St. No. 4-R at 10; PGW St. No. 4-R at 11; PGW St. No. 3-R at 10.

53. PGW's new Customer Information System ("CIS") is expected to go live in the FPFTY. PGW St. No. 1 at 12. The total costs of the CIS are anticipated to be $61,662,000. *Id.*

54. For the FPFTY, the remaining costs for the CIS include (but are not limited to) contingency costs of $7,119,731. OCA St. 2 at 14-15. Those contingent/potential costs are known and measurable since they are based on the risks and the size of the project. Here, they are about 12% of the total project cost.

55. It is reasonable for PGW to include reasonable allowance for contingencies into the FPFTY for potential cost over-runs. PGW St. No. 2-R at 11-16.

56. OCA recommends disallowance of contingency costs in their entirety. OCA St. 2 at 14-15, 57; OCA St. 2-SR at 4.

57. It is unreasonable to require PGW to update CIS costs as well as the in-service date of the project to determine whether any cost over-runs exist, as recommended by OCA (OCA St. 1 at 15), since the record in this proceeding was closed before the CIS project is concluded.

58. PGW's claim for payroll expenses and taxes is based on a headcount of 1,637 employees. PGW St. No. 2-R at 28. This was the basis for the employee-related amounts shown in Exhibits JFG-1 and JFG-2-R. PGW St. No. 2-R at 28; PGW St. No. 2-RJ at 6.

59. PGW's employee head count is trending up, and PGW is adding new employees at a rate of roughly 5 per month. PGW St. No. 2-R at 29. PGW had 1,539 employees as of December 30, 2022. PGW St. No. 2-RJ at 6. As of June 30, 2023, PGW had 1,587 employees. PGW St. No. 2-RJ at 6.

60. PGW projects that it will reach the assumed headcount level in the FPFTY. PGW St. No. 2-R at 29; PGW St. No. 2-RJ at 6-7.

61. OCA recommends reducing PGW's employee count for the FPFTY to 1,588. OCA St. 1-SR at 7; OCA Sch. DM-SR-20, line 36.

62. PGW's financial projections include lobbying expenses, since PGW fully expects to incur $100,000 in these expenses in the FPFTY. These expenses are reasonable and should be deemed a reasonable *pro forma* expense for PGW. PGW St. No. 2-R at 31-33.

63. PGW is a municipal utility and therefore has an obligation to maintain lines of communication with other parts of government. PGW's government relations professionals assist in obtaining information and appropriate funding for state and federal programs such as LIHEAP. PGW St. No. 2-R at 31-32.

64. These efforts directly benefit customers. In fact, since PGW is a municipal utility, PGW's lobbying efforts accrue to the benefit of customers – not to shareholders. PGW St. No. 2-R at 31-32.

65. The Commission must set rates to provide PGW with sufficient cash to pay all of its obligations during each fiscal year in full when they are due. PGW St. No. 2-R at 17, 20-21; 52 Pa. Code §§ 69.2701-69.2703.

66. Lobbying expense is a reasonable expense related to providing quality service to customers. PGW St. No. 2-R at 31-33.

67. I&E, OCA and POWER recommend disallowance of lobbying expenses in their entirety. I&E St. No. 2 at 2, 6-7; OCA St. 1 at 26-27; OCA Schedule DM-9; POWER St. No. 1 at 29-31.

68. POWER also recommends that the portion of American Gas Association ("AGA") dues ($16,615) allocable to lobbying be disallowed. POWER St. No. 1 at 30-31. POWER did not produce any specific lobbying data regarding the AGA. PGW St. No. 2-R at 32-33.

69. PGW's customers benefit both directly and indirectly from the full cost of the membership dues to trade groups and organizations, such as the AGA. PGW St. No. 2-R at 32-33. For example, the AGA provides PGW with current information on new technology, improved operating techniques, funding sources, and other operations saving tools. The AGA also provides information to federal and state government agencies regarding the nation's aging infrastructure and the need for state and federal funding to replace that infrastructure. PGW St. No. 2-R at 32-33.

70. The AGA has a *de minimis* effect for ratemaking purposes herein and should be disregarded. PGW St. No. 2-R at 32-33.

71. There is adequate support for PGW's claim for rate case expenses in this proceeding. PGW St. No. 2-R at 34.

72. PGW proposed recovery of rate case expenses for this proceeding over a 5-year (60 month) timeframe. PGW St. No. 2-R at 33. Note that PGW voluntarily adopted a 5-year amortization period not because it reflects the duration between rate cases (which is actually about 3 years) but because the PGC ordered that the expenses be amortized over this time period for PGW budget purposes. PGW St. No. 2-R at 34.

73. PGW is still recovering rate case expenses of $177,000 from the 2020 base rate case via the same five-year amortization. PGW St. No. 2-R at 33; I&E St. No. 2 at 9.

74. I&E recommends that PGW's claim be normalized and recovered over a 53-month period. I&E St. No. 2 at 11-14.

75. I&E's proposed recovery period is inconsistent with PGW's budget planning period (5 years) and the projected duration between rate cases (about 3 years).

76. I&E recommends that PGW be precluded from continued recovery of rate case expenses from the 2020 base rate case. PGW St. No. 2-R at 34.

77. PGW is making a claim for incremental uncollectible and other expenses incurred as a result of responding to the Commission's directives regarding the COVID-19 pandemic emergency. PGW St. No. 2 at 9-11. *See* PUC's Emergency COVID Order, ratified on March 25, 2020, in Docket No. M-2020-3019244.

78. Specifically, PGW is claiming two types of deferred COVID-19 related expenses: First, Incremental uncollectible expenses. For these expenses, in FY 2021, PGW established the deferred regulatory asset for outstanding delinquent account balances in anticipation that the Company could recover losses relating to the COVID-19 pandemic. PGW St. No. 2 at 10.

79. This claim has the following components: The losses associated with the Commission moratorium, beginning in March 2020, and ending in March 2021, which occurred as a result of not shutting off gas services to customers who otherwise would be eligible for shutoff; and the increase in the provision for uncollectible accounts due to the impact from the COVID-19 pandemic. PGW St. No. 2 at 10. The detail of this claim is shown on Exhibit JFG-3. PGW St. No. 2 at 10. Second, PGW is claiming other incremental, extraordinary COVID-19 related expenses. PGW incurred approximately $4.1 million of COVID-19 incremental gross operating expenses and received reimbursements from FEMA to offset operating expenses related to the COVID-19 pandemic. Gross operating expenses related to the COVID-19 pandemic mainly consisted of supplies/equipment and professional cleaning services. PGW St. No. 2 at 10. The detail of this claim is shown on Exhibit JFG-4. PGW St. No. 2 at 10.

80. PGW responded to those directives and deferred collection of about $32.5 million in a regulatory asset for proscribed COVID-19 related expenses.[3] PGW St. No. 1 at 4. PGW has not accrued additional expenses for the pandemic since February 2023 and has a total of $30.485 million accumulated of net COVID-19 related expenses. PGW St. No. 2-R at 37. That amount is net of all reimbursements from FEMA. PGW St. No. 2-R at 35, 37.

81. PGW is proposing a three-year (36 month) recovery period for the COVID-19 related expenses, which results in a COVID-19 related expense claim for the FPFTY of $10.162 million. PGW St. No. 2 at 11; PGW Exh. JFG-2R (income) at line 26 (pandemic expenses).

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[3] As a cash flow utility, the deferred collection directly impacted PGW' s budget. PGW St. No. 1 at 4.

82. Other than a challenge to the amortization period, no party challenged PGW's revised COVID-19 incremental expense claim. PGW St. Nos. 2-R, 2-RJ; I&E St. Nos. 1, 1-SR; OCA St. 1, 1-SR.

83. I&E and OCA recommended longer recovery periods. I&E St. Nos. 1, 1-SR; OCA St. 1, 1-SR.

84. Longer recovery periods are inconsistent with PGW's clear recent and relevant history of filing cases about every 3 years (2017, 2020 and 2023). PGW St. No. 2-R at 24, 36.

85. Three-year amortization of a COVID-19 regulatory asset is consistent with the settlement term in UGI Utilities, Inc. – Electric Division, Docket No. R-2021-3023618, Opinion and Order entered October 28, 2021 at 17, 23-25, 31, 44-49.

86. PGW expects all expenses/costs to increase from the FTY to the FPFTY. PGW St. No. 2-R at 37. PGW's annual operating budget is reviewed and approved by the PGC. PGW St. No. 2-R at 38. PGW is required to track expenses, and to control costs. PGW St. No. 2-R at 38.

87. Notwithstanding these efforts, budgeted non-commodity operating expenses and the cost of capital expenditures have gone up significantly almost across the board. PGW St. No. 1 at 4-5.

88. Given the continued Philadelphia Facilities Management Corporation (PGW's Board of Directors), PGC and City oversight of PGW's use of an inflation adjustment when specific increase data is not available, such use does not incentivize PGW to be less accurate in its tracking of expenses or to use a less rigorous approach to controlling costs. PGW St. No. 2-R at 40.

89. The 4.63% inflation adjustment is supported by the Company's historical experience, specific indicators of cost increases for the FPFTY, and the development of its pro forma FY 2024 budget. PGW St. No. 2-R at 37-41.

90. The 4.63% inflation adjustment was applied to just seven lines of the Income Statement. PGW St. No. 2-R at 38; PGW Exh. JFG-5.

91. Each of PGW's 43 operating departments was asked to identify their expenses/costs for the FPFTY. PGW St. No. 2-R at 37. If the department had specific data/information to use as an input for determining the specific level of increased expenses/costs, that data/information was used to determine the budget for the FPFTY. Only when PGW's subject matter experts (who developed the budget) were confident that the remaining expenses/costs were expected to increase in the future but that the specific level of increase could not be separately and specifically determined was a generic inflation adjustment of 4.63% was used. PGW St. No. 2-R at 37-38. That inflation adjustment was used on just seven lines of the Income Statement. PGW St. No. 2-R at 38; PGW Exh. JFG-5. So, it was applied to less than 20% of total operating expenses. PGW St. No. 2-R at 38.

92. The 4.63% inflation adjustment is not speculative – since the adjustments by PGW relate to the actual costs expected to be incurred in each expense account in the FPFTY. PGW St. No. 2 at 8; PGW St. No. 2-R at 38-41.

93. I&E and OCA recommend disallowance of an inflation factor in its entirety. I&E St. Nos. 2, 2-SR; OCA St. 1, 1-SR.

94. However, the witnesses of I&E and OCA do not dispute that prices will be higher in the FPFTY. I&E St. Nos. 2, 2-SR; OCA St. 1, 1-SR.

95. The Commission has consistently accepted general price adjustment factors applied to expenses not separately adjusted, where the utility has demonstrated the adjustments are adequately supported and relatively conservative. *See, e.g.*, *Pa. PUC v. Philadelphia Suburban Water Company*, Docket No. R-00016750, 2002 Pa. PUC LEXIS 55, at *53-55 (Order entered July 8, 2002) (accepting Philadelphia Suburban's proposed general inflation adjustment, as modified and revised, and explaining the Commission has "consistently accepted inflation adjustments where supported by historic data demonstrating that the utility has experienced cost increases that exceed the claimed inflation increases."); *Pa. PUC v. United Water Pennsylvania, Inc*., Docket Nos. R-00973947, et al., 1998 Pa. PUC LEXIS 6, at *29-32 (Order entered Jan. 30, 1998); *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.,* Docket Nos. R-891468, et al., 1990 Pa.PUC LEXIS 162, at *37-44 (Order dated Sept. 20, 1990); *Pa. PUC v. Pennsylvania-American Water Company*, Docket Nos. R-880916, et al., 1988 Pa. PUC LEXIS, at *53-56 (Order dated Oct. 21, 1998).

96. PGW adequately explained why it utilized a generic inflation adjustment for a selected group of expense categories and characterizing this use as a "general inflation adjustment" is neither accurate nor reasonable. PGW St. No. 2 at 8; PGW St. No. 2-R at 38-41.

97. PGW has had incentive compensation expenses for a number of years. PGW St. No. 2-R at 41-43.

98. OCA withdrew its challenges to PGW's two incentive plans for the non-bargaining employees. OCA St. 1-SR at 11-12. PGW's incentive plans for the non-bargaining employees are: (1) the Bypass Bonus Plan which provides a bonus to employees who report unauthorized users of gas. PGW St. No. 2-R at 42. PGW anticipates $32,000 for bypass bonus in the FPFTY. *Id.;* and (2) the Employee Recognition Award Plan which provides recognition and awards to employees whose accomplishment or contribution has had a substantial impact on the department, the company or the community. PGW St. No. 2-R at 42. PGW anticipates $32,000 for employee recognition in the FPFTY. *Id.*

99. PGW has an incentive plan (called the "Contract and Retention bonus") for the CEO and the (Acting) CFO. PGW St. No. 2-R at 42-43. This plan is designed to promote the successful completion of annual corporate goals established by the Board of Directors of the Philadelphia Facilities Management Corporation (PGW's Board of Directors). PGW St. No. 2-R at 42-43.

100. Exhibit JFG-8 is a table of PGW's corporate goals for the FPFTY. Those goals include continued improvement in customer satisfaction, revenue enhancement (from new business), increasing opportunities for minority, women, and disabled-owned businesses enterprises (M/W/DSBEs) to participate in PGW projects, and increasing job satisfaction/recognition scores. PGW St. No. 2-R at 43.

101. All of the corporate goals benefit ratepayers. PGW St. No. 2-R at 41-43; PGW Exh. JFG-8.

102. PGW anticipates $65,000 for Contract and Retention bonus for the FPFTY. PGW St. No. 2-R at 42-43.

103. OCA recommends disallowance of a portion of the Contract and Retention bonus. OCA St. 1 at 58-60; OCA St. 1-SR at 11-12. Mr. Mugrace recommends a reduction of $10,333 for each of the corporate goals that he disagrees with. OCA St. 1-SR at 11-12.

104. Advertising expenses include $779,000 for the Advanced Marketing Campaign to support customer communications. Such costs relate to: (a) Fueling the Future, an awareness campaign (launching in FY 2024) to inform PGW customers seeking increased energy efficiency and lower cost energy solutions; (b) Online Appointment Scheduling, an improved customer tool (launching in FY 2024); and (c) Main Replacement customer outreach, a customer communication campaign (launching in FY24) related to increased replacement work. Advertising expenses also include $78,000 for Diversification campaign to support any customer communication regarding RNG customer opportunities and/or low-carbon products (launching in FY 2024). OCA St. 1 at 25-26.

105. All of these campaigns were fully described and supported by PGW. PGW St. No. 2-R at 51-52.

106. The OCA recommends a reduction to the advertising expense claim. OCA St. 1-SR at 16. Mr. Mugrace opines that these claims are not supported by examples of the advertising to be used in the FPFTY. OCA St. 1-SR at 16.

107. PGW's funding requirement for pension expenses, in the FPFTY, is $44.759 million and the cash outlay is $30.806 million.[4] The cash requirements are based on two mandates. PGW's Pension Plan (also known as the "Gas Works Plan") requires cash outlays for both (1) the actuarially determined contributions and (2) the additional amount determined by the Director of Finance (who is the chief financial officer of the City) to be appropriate to fund future benefit obligations with respect to such Participants. PGW St. No. 2-R at 48; PGW Exh. JFG-10; PGW St. No. 2-R at 48-49. The Director of Finance has directed PGW to contribute not less than $30.0 million to the Gas Works Plan. PGW St. No. 2-R at 48-49.

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[4] PGW St. No. 2-R at 49; PGW Exh. JFG-2R (income), line 29 (pensions). Line 29 shows the funding requirement.

108. Beyond those two cash requirements, there is an additional (amortization, non-cash expense) requirement under the Governmental Accounting Standards Board (GASB) that is dictated by PGW's actuarial report and combines with the cash requirements to produce the funding requirement. PGW St. No. 2-R at 49. That pronouncement (GASB 68) creates the total funding requirement that is shown on PGW's income statement. PGW St. No. 2-R at 49.

109. GASB 68 requires PGW to report in its financial statements a net pension liability (asset) determined as of a date (measurement date). Filing Requirements, Volume 1 at II.a.1, Basic Financial Statements and Supplementary Information at p. 46. That measurement is determined through an actuarial valuation. Filing Requirements, Volume 1 at II.a.1, Basic Financial Statements and Supplementary Information at 7. Certain components of the change in the net pension liability are recognized immediately as pension expense in the income statement. Filing Requirements, Volume 1 at II.a.1, Basic Financial Statements and Supplementary Information at p. 46.

110. The following chart is a breakdown of the above-described requirements:

	(Dollars in Thousands)				
	Actual	Actual	Actual	FTY	FPFTY
Description	FY2020	FY2021	FY2022	FY2023	FY2024
Required Pension Cash Contribution	24,914	22,101	24,793	27,192	27,351
Additional Pension Cash Contribution (as required by Dir. Of Finance)	4,313	7,899	5,207	3,916	3,455
Total Cash Outlay - Pension	29,227	30,000	30,000	31,108	30,806
GASB 68 Amortization Expense	(9,751)	(33,146)	(9,325)	11,725	13,953
Total Pension Expense	19,476	(3,146)	20,675	42,833	44,759

PGW St. No. 2-R at 49.

111. OCA recommends normalizing PGW's pension expenses based upon the three-year period (2022-2024), since the expense changes over time. OCA St. 2-SR at 14; OCA Sch. DM-SR-13.

112. This would result in a $8,669,958 reduction to PGW's pension expenses in the FPFTY. OCA St. 2-SR at 14; OCA Sch. DM-SR-13.

113. Normalization (using historic expenses) will deny PGW the opportunity to recover all of its known and measurable pension expenses in the FPFTY, the determination of which was dictated to PGW by others or required by accounting rules. PGW St. No. 2-R.

114. For the FPFTY, PGW's cash outlay or funding requirement for OPEBs is $58.019 million. PGW St. No. 2-R at 50-51. The cash outlay has the following components: (1) the OPEB Trust Cash Contribution of $18.5 million, which is funded by the Commission-approved OPEB surcharge; (2) retiree benefit (health care and life insurance) payments;

and, (3) PGW's accounting expense regarding OPEBs under GASB 75 that is shown on Exhibit JFG-2R (income) at line 31. PGW St. No. 2-R at 50-51.

115. The following chart is a breakdown of the PGW's OPEB requirements:

	(Dollars in Thousands)				
	Actual	Actual	Actual	FTY	FPFTY
Description	FY2020	FY2021	FY2022	FY2023	FY2024
OPEB Trust Cash Contribution	18,500	18,500	18,500	18,500	18,500
Retiree Health Care Expense	26,944	26,655	21,970	26,450	27,724
Retiree Life Insurance	1,661	1,725	1,778	1,700	1,700
Total Cash Outlay - OPEB	47,105	46,880	42,248	46,650	47,924
less Total OPEB Expense	10,862	(902)	(1,242)	(13,699)	(10,095)
Total Cash Outlay - OPEB not seen on JFG-1/JFG-2	36,243	47,782	43,490	60,349	58,019

PGW St. No. 2-R at 50-51.

116. For the FPFTY, PGW's cash outlay or funding requirement for OPEBs is $58.019 million. PGW St. No. 2-R at 50-51. The cash outlay has the following components: (1) the OPEB Trust Cash Contribution of $18.5 million, which is funded by the Commission-approved OPEB surcharge; (2) retiree benefit (health care and life insurance) payments of $37.5 million; and, (3) PGW's accounting expense regarding OPEBs under GASB 75 that is shown on Exhibit JFG-2R (income) at line 31, which is negative $10.095 million for the FPFTY. PGW St. No. 2-R at 50-51.

117. OCA recommends normalizing PGW's OPEB accounting expenses based upon the three-year period (2022-2024), since the expense changes over time. OCA St. 2-SR at 15; OCA Sch. DM-SR-15.

118. That recommendation would reduce the accounting related to GASB 75 (line 31 of Exhibit JFG-2-R) from negative $10.095 million to negative $8,345,449. OCA Sch. DM-SR-15.

119. Normalization (using historic expenses) will deny PGW the opportunity to recover all of its known and measurable pension expenses in the FPFTY, the determination of which was dictated to PGW by others or required by accounting rules. PGW St. No. 2-R.

120. PGW's healthcare cost trend is moving higher. PGW St. No. 2-R at 52. For the HTY (FY 2022), health insurance was $23.064 million. PGW St. No. 2-R at 52. For the FTY (2023), health insurance is on track for totaling $25.740 million (about a 10% increase from the HTY). PGW St. No. 2-R at 52. For the FPFTY (2024), health insurance is anticipated to be $27.715 million (about a 7.5% increase from the FTY). PGW St. No. 2-R at 52.

121. PGW's projection for the FPFTY is based upon sound, industry-approved methodologies and reflect reasoned judgment of an independent consultant, Brown & Brown. PGW St. No. 2-R at 52. Exhibit JFG-12 is an excerpt from the Brown & Brown Report. *Id.*

122. That projection reflects the PGW's market and plan demographics. PGW St. No. 2-R at 52.

123. OCA witness Mugrace recommends that PGW's claim be reduced. Mr. Mugrace agrees that health Insurance is expected to increase. OCA St. 1-SR at 17. But he believes that PGW's health insurance costs will increase consistent with the national average for private health insurance (5.7%) as shown in the CMS.gov website. OCA St. 1-SR at 17.

124. Mr. Mugrace's belief is contradicted by PGW's experience. The figures in Mr. Mugrace's Schedule DM-SR-10 illustrate average annual growth from FY 2020 to FY 2022 HTY greater than his recommended 5.7% adjustment.[5] PGW St. No. 2-SR at 8-9.

125. Mr. Mugrace disregarded historical trends and PGW's expert (Brown & Brown) to instead pivot to applying a national growth index, after previously expressing an aversion to applying national growth indices. PGW St. No. 2-SR at 8-9; OCA St. 1 at 16.

126. OCA's recommendation will deny PGW the opportunity to recover all of its known and measurable health insurance expenses in the FPFTY, the determination of which was reached by an independent consultant. PGW St. No. 2-R.

127. Normalization is a ratemaking concept that describes the transformation of an operating expense that recurs at irregular intervals and in irregular amounts into a "normal." PGW St. No. 2-R at 36.

128. The OCA recommends "normalization" adjustments for numerous categories of expenses. PGW St. No. 2-R at 44. The categories are listed in footnote 104 (page 44) of PGW St. No. 2-R. For each category, the recommended adjustment is based on a three-year historical average. PGW St. No. 2-R at 44; OCA St. 2.

129. Historic costs and averages may be useful in evaluating spending levels between fiscal years. They are not useful in setting future rates. PGW St. No. 2-R.

130. Prior years do not have a tendency to show that data or estimates contained in the fully projected future test year are not accurate. See 66 Pa. C.S. § 315(e), requiring the utility to provide "appropriate data evidencing the accuracy of the estimates contained in the … fully projected future test year."

131. Setting future rates requires looking at the anticipated actions and expenses in the future year. PGW St. No. 2-R.

132. Extensive reliance on historic averages denies PGW the opportunity to recover all of its known and measurable expenses – if the projected expenses exceed the historic average – and essentially transforms the "fully forecasted" test year into simply a restatement of past experience. PGW St. No. 2-R.

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[5] The average of 10.44%, 1.55%, 11.60% and 7.67% is 7.82%.

133. "Looking backwards" to set future expenses assumes that the spending at the historic or average level is sufficient for the future. Nothing indicates that this assumption always holds true. The failure to account for higher future expenses in setting future rates would likely lead to more frequent rate cases and revenue deficiencies. PGW St. No. 2-R.

134. Reliance on historical data is especially problematic where the historic data being used frequently included years that were substantially affected by the COVID-19 pandemic. The evidence shows that virtually every aspect of PGW's operations were affected in some way by the pandemic. Assuming that expense levels incurred during those periods can be a basis for projecting expense levels for FY 2024 is fatally flawed. PGW St. No. 2-R.

135. It is particularly inappropriate to employ "normalization adjustments" for a company regulated on a Cash Flow basis. The very definition of cash flow regulation is that the utility's revenue requirement should be set to ensure that it will have cash to cover its projected expenditures in the test year. Allowing only a "normal" amount – whether the amount is more or less than the projected levels – is wrong because it is simply not consistent with the Cash Flow method of ratemaking. PGW St. No. 2-R.

136. The recommendations of OCA and I&E assume that PGW's FPFTY levels of expenses will actually be at the "normalized" or modified levels, rather than at the levels that PGW's approved Operating and Capital Budgets establish.

137. The OCA or the I&E recommendations would put PGW in jeopardy of losing its existing A- bond rating. *See*, PGW St. No. 2-R; PGW St. No. 3-R; PGW St. No. 4-R.

138. Even without the rejection of the OCA/ I&E expense adjustments (as they should be), the only way either the OCA or the I&E recommendations can claim to be even remotely adequate is by simply denying between $17.1 and $53 million in capital expenditures that PGW is projecting it will finance through internally generated funds and thus for which it needs cash in its rates. OCA St. 1 at 8, 57-58; OCA St. 3 at 11-13; OCA St. 2-SR at 4, OCA Schedule MFG-SR-2; I&E St. No. 1 at 28-29; I&E St. No. 1-SR at 14.

139. Mr. Golden showed that both witness's arbitrary disallowances were completely unsupportable and would reverse a long-term policy of attempting to fund 50% of its capital budget through IGF. This policy has reduced costs to ratepayers – because PGW's IGF funding is actually cheaper for ratepayers and has the effect of reducing its debt to total capitalization ratio, reducing risk. PGW St. No. 2-R at 10-11.

140. Neither witness made any real attempt to explain their arbitrary adjustments. If those single adjustments are reversed, both the OCA and the I&E level of rate increase to meet PGW's cash needs increases dramatically. For example, I&E's recommended rate increase would go from $33 million to $65 million. PGW St. No. 2-RJ at 6.

141. Mr. Griffing claimed that, rather than needing $53 million in internally generated funds to finance construction, his analysis of historical data led him to believe that PGW would only actually expend some $35.9 million of IGF-financed capital expenditures in the FPFTY. OCA St. 2SR at 4-5.

142. But Mr. Griffing's new assertion (he actually changed his rationale between his direct and surrebuttal testimony and reduced his disallowance from $25 million) was based entirely on examining PGW's recent historical construction expenditures from FY 2018 through FY 2022 and then assuming that PGW's the historical year over year growth rate would be what PGW will experience in the FPFTY.

143. But Mr. Golden explained that several of those years were affected by COVID-19 related delays and supply chain issues. PGW St. No. 2-RJ at 2-3. Other witnesses in the case rejected the use of COVID-affected periods as predictors of levels of expenditures or operation in FY 2024. *See*, PGW St. No. 9-R at 34. His claim also simply assumes that these tainted historical average growth rates are applicable to the FPFTY without any analysis of the types and sizes of projects planned for that year that would make a historical growth rate an inaccurate predictor of FPFTY expenditures.

144. Similarly, the only way that I&E witness Patel could claim that I&E's debt service coverage recommendation produced adequate cash was to simply declare that PGW should no longer finance a significant portion – $32 million of its capital budget – through internally generated funds. PGW St. No. 2-RJ at 5-6.

145. Mr. Patel was never able to explain why he was singling out PGW's IGF derived from base rates while at the same time admitting that IGF-financed construction is actually cheaper for ratepayers than financing through a series of long-term bond issuances and that he was not disputing that it was prudent for PGW to fund a portion of its capital replacement through IGF. *Id.*

146. Mr. Patel also did not identify any specific capital projects that PGW should not engage in. *Id.*

147. PGW presented a CCOSS to allocate PGW's full revenue requirement or total cost of service to the various customer classes. PGW St. No. 5 at 3; PGW Exh. CEH-1.

148. In the CCOSS, PGW used the "Average and Extra Demand Method" (or "Average/Excess" or "A&E") as that term is defined in the text "Gas Rate Fundamentals," published by the American Gas Association's Rate Committee. PGW St. No. 5-R at 2.

149. The A&E method is a weighted average of an "average demand" allocation factor and an "excess demand" allocation factor. OSBA St. No. 1 at 24.

150. PGW's distribution system is designed to meet customers' design day demands, warranting treatment of the cost of excess capacity as a primary cost driver rather than as an incremental cost. PGW St. No. 5-R at 2-3.

151. The IT class average and excess usage was included in the calculation as these customers have only been interrupted once (in 2004) in almost 20 years and cannot be truly considered as interruptible for cost allocation purposes. PGW St. No. 5 at 5-6.

152. PGW's customers are not realistically subject to curtailment. OCA St. 3 at 14-15.

153. IT customers should be treated as firm customers who are supplied natural gas during peak periods and should be allocated costs accordingly. PGW St. No. 5-R at 4; OSBA St. No. 1 at 29.

154. Even with proposing a different cost allocation method for IT customers than PGW had recommended, OCA's witness recommended implementing PGW's rate increase for this class. PGW St. No. 5-R at 4.

155. The results of the CCOSS are based on the projected costs for the FPFTY. Schedule A of PGW Exh. CEH-1.

156. The IT class would require an increase of over 160% to bring revenues equal to the cost of service. PGW St. No. 5 at 4.

157. The relative rates of return at current are consistent under various cost allocation methods. OCA St. 3 at 12-17.

158. In recommending use of a customer-demand ("CD") method of cost allocation, the OSBA's witness relied on an outdated classification percentage split of 25 percent and 75 percent developed for PGW in 2007 to determine the percentage of mains costs to be allocated to customer costs in this proceeding. PGW St. No. 5-R at 5-6.

159. The witness for PICGUG performed a simple calculation to determine the portion of mains that should be allocated to customer costs. PICGUG St. No. 1 at 121.

160. A more robust analysis would be required, than either the OSBA or PICGUG witness performed, if PGW were to allocate a portion of the cost of mains to the customer cost function. PGW St. No. 5-R at 14.

161. Since PGW does not have the data to determine the design day peak periods by customer class, it is reasonable for the Company to use historic peak usage data. PGW St. No. 5-R at 14.

162. OSBA's recommendation to allocate costs in Account 903, Customer Records and Allocation was based on analysis performed two rate cases ago and does not reflect recent data. PGW St. No. 5-R at 7.

163. The allocation of universal service costs to non-residential customers based on a flat per-mcf charge on the classes that are subject to imposition of the costs is a long-standing Commission approved practice. PGW St. No. 6-R at 27; PGW St. No. 9-R at 35.

164. PGW's CCOSS is reasonable.

165. The purpose of revenue allocation is to establish the responsibility of each customer class for a portion of the revenue requirements that are approved by the Commission. PGW St. No. 6 at 6-10.

166. In proposing its revenue allocation, the Company's primary goal was to allocate the increase to each class in a way that moves the various rate classes closer to their full cost of service while avoiding applying an unreasonably large portion of the increases to any one of the customer classes. PGW St. No. 6 at 6.

167. In addition, PGW sought to recognize the principle of gradualism in proposing increases for some classes despite the costs incurred to serve those classes. PGW St. No. 6 at 6.

168. PGW's proposal for allocating the full revenue requirement to the customer classes is as follows:

Revenue Allocation						
Service Classification	**Original Increase (000$)**	**Original Percent Increase**	**Revenue From GFCP/VEPI**	**Revised Increase (000$)**	**Revised Percent Increase**	**Share of Increase**
Residential	68,090	16.23%	3,442	64,648	15.41%	75.33%
Commercial	10,857	14.94%	549	10,308	14.19%	12.01%
Industrial	960	16.33%	49	912	15.51%	1.06%
Municipal	1,427	22.65%	72	1,355	21.50%	1.58%
PHA - GS	358	17.83%	18	340	16.93%	0.40%
PHA - Rate 8	377	12.62%	19	358	11.98%	0.42%
NGVS	8	22.94%	0	8	21.78%	0.01%
Interruptible	3,743	22.66%	0	3,743	22.66%	4.36%
GS-XLT	N/A	0.00%	(4,150)	4,150	367.53%	4.84%
Total	**85,820**	**16.28%**		**85,820**	**16.28%**	**100.00%**

169. PGW's proposed revenue allocation is reasonable in that PGW is moving toward unity for all customer classes. PGW St. No. 6 at 10; PGW St. No. 5 at 7; PGW Exh. CEH-1.

170. PGW is requesting an increase in the delivery charge as well as the customer charge for most customer classes. PGW St. No. 1 at 13.

171. PGW is moving toward unity in its proposed rate design. PGW St. No. 5 at 7.

172. Ms. Heppenstall's CCOSS provided "customer cost" results that determined the actual fixed customer cost per customer by class. PGW St. No. 6 at 7; Exhibit CEH-1.

173. PGW's CCOSS results show the level of monthly customer charge that would be required if PGW were to recover 100% of its fixed customer related costs in a monthly customer charge. PGW St. No. 6 at 7.

174. PGW's proposed increase in customer charges are supported by Ms. Heppenstall's cost analysis and are consistent with the principle of gradualism. PGW St. No. 6-R at 11.

175. PGW proposed a residential customer charge of $19.50 per month, as compared to the current charge of $14.90 per month. PGW St. No. 6 at 8.

176. I&E witness Cline did not recommend any change to PGW's proposed customer charges because they are supported by PGW's customer cost analysis. I&E St. No. 3 at 7.

177. PGW's proposed customer charges provide the necessary price signals and do not impede energy conservation. PGW St. No. 6-R at 13.

178. Under PGW's proposal, for a typical residential customer, the total annual bill for the customer would be $1,652.81. Of that, approximately $234 (14.16%) represents the fixed customer charge. PGW St. No. 6-R at 13.

179. PGW's proposed residential customer charge is below the customer-based cost, and the charge will still be only a small percentage of the typical customer's bill. PGW St. No. 6 at 8; PGW St. No. 6-R at 13.

180. It is appropriate for customer charges to accurately reflect a utility's fixed costs. PGW St. No. 6-R at 14.

181. Accounting for inflation alone, the value of PGW's $12.00 residential customer charge in 2003 is equal to $21.57 in April of 2023. PGW St. No. 6-R at 6.

182. Scaling back the proposed customer charges if less than the full rate request is granted would move customer charges further away from customer costs. PGW St. No. 6-R at 14.

183. It is not reasonable or appropriate to utilize customer costs for the residential class to determine costs for the commercial class. PGW St. No. 6-R at 10.

184. PGW has proposed that language be added to section 5.7 of PGW's Gas Service Tariff, page 32, to clarify that PGW will accrue interest on customer deposits made in conjunction with receiving temporary heating service, consistent with PGW's current practice. PGW St. No. 6 at 12.

185. PGW has proposed modification of its Air Conditioning Rider to more clearly detail how the rider is calculated and replace references to outdated rate schedules and terms. PGW St. No. 6 at 12-13.

186. PGW is seeking changes to its Gas Supplier and Gas Service Tariffs to clearly permit the interconnection of facilities that would seek to provide renewable natural gas onto PGW's distribution system. PGW St. No. 6 at 13-15. The proposed changes will provide PGW the flexibility to accommodate new business involving RNG while maintaining gas quality on PGW's distribution system. PGW St. No. 6 at 2, 14.

187. The current rates, terms and conditions of service for GFCP/VEPI were negotiated by their predecessors and the City of Philadelphia in 1996 and adopted without review into PGW's tariffs when the Commission approved PGW's restructuring plan in 2003. The

purpose of this proceeding is to set rates that, for the first time, comply with Chapter 13 of the Public Utility Code and Commission precedent.

188. PGW has proposed that GFCP/VEPI be served under their own separate tariff – Rate GS-XLT. The primary services that PGW has historically provided to GFCP/VEPI are transportation service and Alternative Receipt Service ("ARS"), as well as sales service, have been incorporated into the proposed tariff. PGW Exh. FT-6.

189. In end result, the parties have advocated that revenues should be derived from service to GFCP/VEPI in the following amounts (which include surcharges):

Current Revenues:	$ 1,129,040
Proposed Revenues:	
PGW	$ 7,685,993 ($3,620,361 excluding surcharges)
OSBA	$ 7,871,000 - $8,201,000 (no surcharges)
BI&E	$ 28,065,252
OCA	$ 31,866,336
GFCP/VEPI	$ 911,623 (no surcharges)

PGW St. No. 6-RJ at 2; PGW Exh. FT-14; PGW Hearing Exh. 23.

190. Excluding the surcharges, PGW is proposing base revenues of $3,620,361, the lowest proposed by the parties, excepting GFCP/VEPI. PGW Exh. FT-14.

191. GFCP/VEPI stated, during the complaint proceeding, that they would not accept interruptible transportation service, even if backed up by firm standby service, as was offered by PGW. PGW St. No. 6-R at 20-21. Consistent with GFCP/VEPI's prior positions regarding the quality of service, Rate GS-XLT offers firm transportation service and interruptible ARS service.

192. Grays Ferry sells the electricity generated from gas into the PJM market as a "Capacity Performance Resource," meaning that PJM can call on its generation no matter the temperature conditions or energy feedstock supply problems. It is a "no-excuses" promise to deliver electricity under all circumstances which carries huge penalties if not fulfilled. PGW St. No. 6-R at 22.

193. Vicinity is a steam utility serving Philadelphia with a Section 1501 responsibility to provide "adequate, efficient, safe, and reasonable service." Its consumers include those characterized as "essential humans needs," such as residences, hospitals and nursing homes. Tr. 494-495.

194. GFCP/VEPI's claim to have adequate oil storage as an alternative fuel should natural gas service be interrupted is not supported by its witness. GFCP/VEPI have not added any storage capacity since the time when they made the above assertions in the Complaint Case. PGW St. No. 6-R at 22-23; Tr. 527.

195. The Grays Ferry turbines do not have the capacity to run on oil and rely solely on natural gas. "If natural gas service were disrupted to the combust turbine, they would shut down

for that period of time." Tr. 496. Mr. Crist's reference to "insurance instruments and risk management instruments," first stated on cross examination, is too vague to have any probative value. Tr. 523.

196. Placing GFCP/VEPI on interruptible status is contrary to PGW's tariff requirement that the interruptible customer must have installed replacement alternative fuel equipment or "demonstrate to the Company's sole satisfaction the ability to manage its business without the use of Gas during periods of curtailment or interruption." PGW St. No. 6-R at 24.

197. When asked to provide correspondence, memorandums, emails or other documents, both internal and external, related to this change of position in order to gauge the risk analysis undertaken, GFCP/VEPI responded that "Vicinity is unaware of any responsive documents." PGW St. No. 6-R at 22; PGW Exh. FT-10.

198. The terms of interruptible service specify that: "Customers are subject to curtailment or interruption at any time." Rate IT, PGW Gas Tariff Pa P.U.C. No. 2 at Page 111. "The Company may curtail (reduce) or interrupt deliveries to the Customer whenever, at the Company's sole discretion, it determines that the available capacity in all or a portion of its system is projected to be insufficient to meet the requirements of all Customers …." *Id.* at Page 112. In order to be consistent across all interruptible customers, these terms would be incorporated into Rate GS-XLT transportation service were the Commission to adopt GFCP/VEPI's position.

199. The transportation rate is unaffected by classification of the service as firm or interruptible, as Ms. Heppenstall testified. PGW St. No. 5-R at 12-13.

200. Rate GS-XLT transportation service should not be placed on interruptible status.

201. ARS has always been interruptible. PGW's standard terms as set forth for other interruptible customers (Rate IT) should apply.

202. The transportation rate proposed by PGW of $0.1054 per Mcf ($0.11067 per Dth) reflects accepted cost of service principles, is reasonable and should be adopted. PGW St. No. 6-SD at 3; PGW Exh. FT-14.

203. PGW's proposed transportation cost of service rate represents an annual increase of less than 1% above the current rate established by contract negotiations in 1996 and is consistent with the principle of gradualism.

204. The Four Mile Line is a part of PGW's distribution system and classified as such under PGW's chart of account as prescribed by the Commission. PGW properly designed the Rate GS-XLT transportation rate to recover an allocated share of PGW's joint and common overheads based upon standard and accepted allocation techniques that it applied to all classes.

205. When Mr. Crist included all allocated joint and common costs in the cost of service calculated in the Complaint Case, the resulting rate was $0.212 per Dth. PGW St. No. 5-R at 11-12; Tr. 568.

206. GFCP/VEPI's proposed new rate of $0.0415/Mcf ($0.0397/Dth) is a 50% below the existing rate of $0.0833/Mcf contractually set twenty-five years ago. GFCP/VEPI St. JC-1 at 17 and 19.

207. There is no separate "high pressure system" accounting category. Costs are tracked as simply "distribution expenses" under the Commission's accounting rules. These are general distribution system overheads and not incurred for or attributable to any particular customer class. PGW St. No. 8-RJ at 1; PGW St. No. 5-R at 10-11.

208. GFCP/VEPI benefit from the incurrence of these joint and common expenses booked to the distribution account category. The single biggest distribution expense that Mr. Crist excluded is in the distribution expense category of "Metering & Regulator Stations" (Accounts 875, 877, 889 and 891), which recover the cost of PGW's connections with the interstate pipelines. PGW St. No. 8-RJ at 2. TETCO Gate Station 060 is used by GFCP/VEPI to physically obtain its gas supplies. PGW St. No. 8-R at 3, PGW St. No. 8-RJ at 2.

209. Mr. Crist did not consistently apply this same low pressure/high pressure test to any other expenses. Tr. 565.

210. GFCP/VEPI's proposed transportation rate is not consistent with accepted cost of service principles.

211. There are four applicable surcharges contained in PGW's tariff that fund various programs and recover various costs: the Universal Service and Energy Conservation ("USEC") Surcharge; the Efficiency Cost Recovery ("ECR") Surcharge; Other Post Employment Benefit ("OPEB") Surcharge; and the Distribution System Improvement Charge ("DSIC"). These should be applied to GFCP/VEPI's transportation service. PGW St. No. 6-R at 26-28; PGW St. No. 9-R at 36.

212. ARS is a unique service that GFCP/VEPI's predecessors and the City of Philadelphia agreed to twenty-five years ago under the now-expired contract at an annual fee of $54,000. The service was designed to allow GFCP/VEPI to overcome the fact that they lack sufficient upstream delivery capacity on TETCO (at the 060 Gate station intersection of the Philadelphia Lateral and the Four Mile Line that serves them) to receive all of the volumes that they need during the winter months to maintain operations.

213. GFCP/VEPI are only capable of receiving service at TETCO Gate Station 060 and it is the only gate on which they hold capacity rights. PGW St. No. 8 at 2. The gap between GFCP/VEPI's peak demand and need is 21,000 Dth. *Id.*

214. Under ARS, PGW agrees to accept deliveries of GFCP/VEPI gas volumes on a different portion of its distribution system using pipeline capacity supplied by GFCP/VEPI, and then PGW uses its own (GCR customer paid) capacity that directly ties to the Four Mile Line to deliver gas supplies to GFCP/VEPI.

215. PGW and its other customers do not need additional deliveries at a different gate. PGW's capacity and supply arrangements are sufficient to meet the demand requirements of its system. There is no benefit gained by PGW or its customers. PGW St. No. 8-R at 7.

216. ARS is an accommodation to GFCP/VEPI – "displacement" of PGW's normal deliveries for the sole benefit of GFCP/VEPI. Under ARS, GFCP/VEPI are able to avoid their capacity shortfall on TETCO and the cost of securing the additional TETCO capacity at Gate Station 060. PGW St. No. 8-R at 7.

217. GFCP/VEPI have requested that ARS continue and PGW has included ARS in Rate GS-XLT.

218. GFCP/VEPI have alternatives to ARS including burning fuel oil and biofuels; demand reduction electrification; and bidding for additional TETCO capacity in the secondary capacity market. PGW St. No. 8-R at 8. GFCP/VEPI have not disclosed the costs of these alternatives, and, in the case of capacity release, does not participate at all.

219. ARS engages PGW's distribution system. ARS uses the Skippack lateral and the connected distribution network to accommodate the displaced gas volumes and ARS would not work without that capability. PGW St. No. 8-R at 7. Therefore, it is reasonable that GFCP/VEPI be allocated costs related to the distribution system. PGW St. No. 5-R at 9; PGW St. No. 8-R at 4-5.

220. PGW Exhibit CEH-1 established the overall cost of service to the Rate GS-XLT class as $10,237,000, which costs include an allocated portion of the distribution system used to provide ARS. The follow-up study CEH-1S then "unbundles" that into two sets of costs: 1) a transportation rate of $0.1054 per Mcf that recovers the $1,295,176 of direct and allocated costs associated with the Four Mile Line; and 2) an ARS set of costs for use of other distribution assets.

221. The base rate ARS costs of $8,941,824 (or $2.373 per Mcf) is based upon the fact that ARS service employs other portions of the distribution system beyond the Four Mile Line to provide the displacement service of ARS. PGW St. No. 5-SD at 5-6.

222. Prior cost of service studies did not address ARS-related costs, as these costs were not recognized at the time. ARS costs were not studied previously. Recognition now is not inconsistent with prior analysis. PGW St. No. 5-SD at 4. Previously, GFCP/VEPI were under a special contract that was still effective. The fact that the contract has now expired is a changed circumstance. *Id*.

223. ARS allows GFCP/VEPI to use PGW contracted TETCO capacity of 21,000 Dth per day to Gate Station 060 to accomplish ARS displacement. PGW has proposed that that the ARS service be priced to reflect the cost of the capacity and not based upon the allocated costs of the distribution system.

224. PGW has proposed to set the floor price for ARS at the cost of the underlying capacity used to provide ARS which produces annual revenues of $2.3 million. PGW St. No. 8 at 6; PGW Exhs. FT-4 and FT-14. The pricing model also establishes a cap for ARS based upon competitive market prices set for TETCO capacity in the secondary market which might create revenues of up to $4.0 million. *Id*.

225. The ARS floor proposed by PGW is reasonable. PGW pays TETCO $0.61/Dth for the 21,000 Dth of capacity that supports ARS service. Unless paid by GFCP/VEPI, these costs are recovered from PGW's other customers through the GCR. PGW St. No. 8-RJ at 2.

226. The ARS ceiling rate is also reasonable since it reflects the cost of all TETCO capacity released by PGW into the secondary competitive market. PGW St. No. 8 at 7.

227. Under PGW's proposed ARS rate, GFCP/VEPI will pay no less than $2.3 million at the minimum rate and, potentially, $4.0 million at the maximum rate. PGW Exhs. FT-4 and FT-14.

228. Both OSBA and OCA have taken the position that the price for ARS should be based on the $6.1 million value previously identified by GFCP/VEPI in the GCR case. OSBA St. No. 1 at 46-47; OCA St. 3 at 5.

229. GFCP/VEPI's proposal of $0.10 per Dth, resulting in revenues of $395,716 per year for ARS volumes is not reasonable. The $0.10/Dth paid by Paulsboro Refinery for a single winter release last year is not a "market-based rate" and should not be approved.

230. PGW's proposed rate for ARS is fair to GFCP/VEPI. GFCP/VEPI pay, at minimum, PGW's cost to obtain the TETCO capacity they need at the pipeline's tariffed rate but only for the volumes that they use. GFCP/VEPI can continue to avoid the secondary market and do not have to burn more expensive oil to fire Vicinity's boilers. They do not have to pursue demand management or other techniques to control their natural gas usage. The price is less than GFCP/VEPI were prepared to pay in the GCR case.

231. The ARS pricing proposed by PGW is fair to other customers as they are assured that PGW will recover the cost of the TETCO capacity used and will not be forced to subsidize GFCP/VEPI. They have the advantage of potentially receiving more if the competitive markets are willing to pay a higher price.

232. PGW has not proposed any changes to its customer service practices as part of this proceeding.

233. Since August 2022, PGW's call center performance has returned to pre-pandemic levels. PGW St. No. 1-R at 34.

234. PGW currently reviews consumer complaints as necessary to identify and address trends. PGW St. No. 1-R at 35.

235. PGW's current practice for determining payment arrangements takes into account various factors that are specific to each customer and uses a standard process to calculate a reasonable payment arrangement based on that information. PGW St. No. 1-R at 36.

236. Without PGW's standard process for setting payment arrangements, it would be up to each customer service representative to determine a reasonable payment arrangement, which could vary widely from one representative to another, resulting in unfair differences in payment arrangements offered to customers and costs to other ratepayers. PGW St. No. 1-R at 36.

237. PGW closed its five customer service centers in March of 2020 due to the COVID-19 pandemic, and later permanently closed those centers in early 2022. PGW St. No. 1-R at 20, 36.

238. Prior to closing its district offices, PGW conducted a detailed analysis and determined that the closures would provide valuable cost savings, as the average annual cost to operate these offices was approximately $5.5 million. PGW St. No. 1-R at 20; PGW Exh. DA-1.

239. PGW customers can receive in-person assistance through Neighborhood Energy Centers ("NECs") that are spread throughout PGW's service territory, and which are located in neighborhoods where PGW's customers reside. PGW St. No. 1-R at 20-21.

240. PGW provides residential customers with a variety of options for bill payment, many of which do not include any processing fees – such as monthly autopay, in-person cash or mailed personal check. PGW St. No. 1-R at 37.

241. One-time credit card payments have associated transaction fees which are imposed by the credit card companies, not by PGW. PGW St. No. 1-R at 37.

242. The transaction fees for one-time credit card payments incurred by residential customers in 2022 were approximately $3.1 million. PGW St. No. 1-RJ at 2.

243. If credit card fees are not charged directly to customers electing to make a one-time credit card payment, the number of these one-time payments would likely increase significantly, and costs would likely increase well beyond the previous $3.1 million per year. PGW St. No. 1-RJ at 2.

244. Customers do not have to pay a transaction fee when paying their PGW bill using monthly autopay, paying by mail, or paying cash in person at hundreds of locations, including many big box stores throughout Philadelphia – including CVS, 7-Eleven,

Dollar General, Speedway, Family Dollar, and Walmart locations. PGW St. No. 1-R at 37.

245. The in-person cash payment option is particularly beneficial for customers who are unbanked. PGW St. No. 1-R at 37.

246. PGW's current identification requirements are necessary for PGW to confirm a customer's identity and their eligibility to receive service and/or certain protections under the Commission's regulations. PGW St. No. 1-R at 39.

247. PGW's customer identification requirements prevent identify theft and protect other PGW customers from costs associated with unauthorized service. PGW St. No. 1-R at 39.

248. PGW has not proposed any changes to its low-income assistance programs or policies as part of this proceeding.

249. The Commission is currently undertaking a review of universal service programs, the outcome of which would be applied to Pennsylvania regulated utilities on a statewide basis. *See* Docket No. M-2023-3038944.

250. PGW cannot rely on data from organizations developed for entirely different purposes for the purpose of enrolling customers in CRP. PGW St. No. 1-R at 15.

251. PGW uses the information sources outlined in 52 Pa. Code § 62.2 to determine if a customer is "confirmed low-income." PGW St. No. 1-R at 19-20.

252. When a customer's mail is returned as undeliverable, PGW makes an effort to update a customer's contact information, including obtaining any mail forwarding information through its billing vendor and USPS, and/or calling the customer to update their contact information. PGW St. No. 1-R at 24.

253. In recent years, PGW has had both the highest total universal service spending and the highest LIURP spending as a percentage of residential sales, as compared to other Pennsylvania electric and natural gas utilities. PGW St. No. 1-R at 26-27; *see also* the Commission's 2021 Universal Service Report at 39, 55, and 84, *available at* https://www.puc.pa.gov/media/2188/2021_universal_service_report_rev122722.pdf ("2021 Universal Service Report").

254. In 2021, PGW spent approximately $76.1 million on universal service programs, as compared to the NGDC with the next highest spending, which was Columbia Gas with approximately $27.9 million. PUC 2021 Universal Service Report at 84.

255. In its most recent fiscal year 2022, PGW customers spent over $84 million on universal service programs, including LIURP. PGW St. No. 1-R at 26.

256. PGW's LIURP spending is significantly higher than any other natural gas or electric utility as a percentage of residential sales.

257. In 2021, PGW spent $9,188,284 on LIURP. PUC 2021 Universal Service Report at 55.

258. Based on PGW's total of $521,228,457 in residential sales, LIURP spending accounted for 1.76% of PGW's residential revenue. The average for all Pennsylvania natural gas and electric utilities was 0.80% of residential sales, less than half of PGW's proportional spending. *See* PUC 2021 Universal Service Report at 39, 55.

259. Setting the LIURP budget based on the number of homes to be served disincentivizes full weatherization, and instead encourages small projects at a large number of homes rather than full weatherization of a smaller number of homes. This is inconsistent with best practices. PGW St. No. 1-R at 27.

260. As inflation increases and costs increase, the cost per home served under LIURP increases and fewer homes are able to be served. PGW St. No. 1-R at 28.

261. PGW's LIURP program does not include customers between 150% to 200% of FPL, as those customers are not considered "low-income" for purposes of this program. PGW St. No. 1-R at 28-29.

262. PGW does not currently track monthly data by zip code on "critical elements" of non-payment and it would have to implement additional systems to do so. PGW St. No. 1-R at 30.

263. PGW is not "double recovering" credits and arrearage forgiveness provided through CRP. PGW St. No. 1-R at 30-33; PGW St. No. 1-RJ at 2-4.

264. PGW recovers CRP credits and arrearage forgiveness through the USEC, and there is no "bad debt expense" line item in the USEC. PGW St. No. 1-RJ at 3.

265. Non-CRP customers do not pay 100% of their surcharges; these customers contribute to bad debt expense when they fail to pay their bills (which include the USEC surcharge), and therefore, CRP costs recovered through the USEC are not collected at a rate of 100%. PGW St. No. 1-RJ at 3.

266. Customers participating in CRP do not pay 100% of their bills and receive forgiveness for all pre-program arrears. PGW St. No. 9-R at 28.

267. CRP enrollment is just one of many factors that PGW uses to forecast the bad debt percentage in a rate case. PGW St. No. 1-RJ at 3.

268. All expenses and revenues in the FPFTY are forecast, and these forecasts are based on a host of factors including historical data and revenue and expense trends. Actual expenses may be higher or lower than what was forecasted. PGW St. No. 1-RJ at 3-4.

269. CRP participation is not a significant driver of bad debt. The larger the number of CRP participants, the larger the percentage of bad debt. PGW St. No. 9-R at 29-34.

270. As unemployment and poverty increase, more households experience bad debt and more decide to enroll in CRP. As unemployment and poverty decrease, percentage bad debt moves down, and some households leave CRP. PGW St. No. 9-R at 32.

271. PGW is required to furnish and maintain adequate, efficient, safe, and reasonable service and facilities for the distribution of PGW's natural gas service. PGW St. No. 10-R at 4:4-9.

272. POWER Interfaith ("POWER") has not alleged that PGW fails to provide safe, adequate, efficient safe and reasonable service to its customers.

273. PGW did not propose any capital and infrastructure plan modifications in this proceeding.

274. PGW's infrastructure improvement plan was proposed and approved by the Commission through PGW's Long Term Infrastructure Improvement Plan ("LTIIP"). PGW St. No. 7-R at 5:3-21.

275. PGW's LTIIP focuses on system safety and reliability, and the Commission has encouraged PGW to further accelerate its at-risk infrastructure replacement. PGW St. No. 7-R at 5:3-21; PGW St. No. 10-R at 8-9.

276. PGW is obligated meet its current Commission approved LTIIP, and failure to do so would create an unacceptable safety and reliability risk to PGW's customers.

277. PGW's LTIIP and spending is monitored by the Commission through PGW's LTIIP and AAOP filings.

278. Each LTIIP replacement project is scrutinized by PGW to ensure proper pressures and flow are maintained to supply customers with adequate, safe, and reliable service while assessing opportunities to reduce pipe sizes and reduce costs to customers. PGW St. No. 7-R at 6:7-12.

279. Each capital project PGW undertakes looks at many factors under PGW's Distribution Integrity Management Program, which includes a relative risk ranking model to best increase the safety and reliability of PGW's infrastructure. PGW St. No. 10-R at 16-17.

280. PGW has operated its Commission-approved, voluntary Demand Side Management Plan for many years. This program offers a suite of rebates for high-efficiency, natural gas equipment to residential, commercial, and multifamily customers to save energy and money. PGW St. No. 10-R at 6:3-18.

281. PGW's PUC-mandated Low Income Usage Reduction Program ("LIURP") provides significant energy efficiency measures for PGW's participating low-income customers. PGW St. No. 10-R at 6:19-8:9.

282. PGW's current energy efficiency programs through LIURP and EnergySense are voluntary. PGW cannot force customers to implement EnergySense initiatives in their homes. PGW cannot geotarget specific areas as its programs are open to all qualifying customers. PGW St. No. 10-R at 8:1-9.

283. PGW takes significant steps to reduce infrastructure replacement costs. PGW St. No. 7-R at 6:12-7:12

284. Replacing facilities that are most at risk of leaking and using a sophisticated main replacement prioritization model not only makes PGW's system safer and more reliable, but also results in the reduction of gas leaks. PGW St. No. 7 at 2-8.

285. PGW's advanced leak repair and monitoring uses advanced technology and state of the art equipment along with vehicle survey crews using open path infrared technology to detect leaks in strict adherence to guidelines and best practices put forth by PHMSA, the PUC, and industry experts. PGW St. No. 7-R at 8-9.

286. POWER proposes that PGW fundamentally alter the focus of its infrastructure planning to consider NPAs to meet system demands. POWER St. No. 1 at 5:2-5.

287. POWER acknowledged that PGW is already engaged in NPA-related initiatives, including PGW's Low Income Weatherization program, its voluntary Demand Side Management program and its Universal Service and Energy Conservation Plan. POWER St. No. 1 at 22:12-17.

288. POWER admits that PGW's NPA-related initiatives "have delivered positive results for customers in terms of savings." POWER St. No. 1 at 25:11-12.

289. POWER claims that the fragmentation of various aspects of NPA initiatives into separate dockets does not allow for the type of full integration of NPAs into capital planning which POWER has proposed. POWER St. No. 1 at 25:17-26:8.

290. One of POWER's admitted goals is to "transform PGW" by moving PGW "away from 'dirty energy' and into affordable renewable energy…" by having PGW "… rapidly phas[e] out the use of natural gas to heat buildings and transforming PGW into a utility that provides both affordable heating and cooling without the use of fossil fuels." PGW St. No. 1-R at 3:11-4:16.

291. POWER asserts that PGW could lower its design day requirements and build, maintain, and replace PGW's infrastructure with smaller diameter pipes. POWER St. No. 5:8-14.

292. POWER's proposed NPA Pilot Program would require PGW to drastically reduce the amount of natural gas that would be delivered to customers or have PGW stop delivering natural gas altogether. PGW St. No. 10-RJ at 1:12-15.

293. POWER's NPA Pilot Program is not actually based on lowering costs for customers, as doing so would normally examine steps like increasing the base over which fixed costs are recovered, thus lowering the cost per customer or per Mcf. PGW St. No. 10-RJ at 15-17.

294. POWER admits that it is difficult to estimate and measure any actual savings produced by implementing NPAs or quantify other potential system benefits. POWER St. No. 1 at 14:21.

295. It is the PUC's responsibility to make sure that all customers in PGW's service territory continue to have access to safe, reliable, and reasonable natural gas service from PGW in compliance with the existing laws and regulations under the Commission's jurisdiction. PGW St. No. 10-R at 4:9-12; 66 Pa. C.S. § 1501.

296. In 2015, the Commission's Staff, in an extensive report, explored ways to accelerate PGW's pipeline replacement. *Pennsylvania Public Utility Commission Staff Report: Inquiry into Philadelphia Gas Works' Pipeline Replacement Program,* April 21, 2015.

297. The Commission stated that "PGW's aging gas distribution infrastructure poses significant safety and reliability issues…." *Petition of Philadelphia Gas Works for Waiver of Provisions of Act 11 to Increase the Distribution System Improvement Charge CAP and to Permit Levelization of DSIC Charges*, P-2015-2501500, Opinion and Order entered January 28, 2016 at 41.

298. POWER proposed that the Commission direct PGW to implement an NPA Pilot Program and create a Working Group of community stakeholders to oversee the implementation of POWER's pilot, modifications to PGW's capital and infrastructure investment planning, and overall NPA deployment. POWER St. No. 1 at 31:20-34:5.

299. The goal of POWER's proposed NPA Pilot Program is for PGW to fund and implement non-gas service ways to meet customer energy needs to allow PGW to "defer" or "avoid" capital spending and infrastructure investments. POWER St. No. 1-SR at 6, 7, 27, 32.

300. POWER's NPA Pilot Program is not actually based on lowering costs for customers, as doing so would normally examine steps like increasing the base over which fixed costs are recovered, thus lowering the cost per customer or per Mcf. PGW St. No. 10-RJ at 15-17.

301. POWER's NPA Pilot Program would require PGW to assess implementing NPAs for all local customers for all segments of pipe to be replaced under PGW's LTIIP. POWER proposes that, if feasible, PGW must deploy NPAs along with smaller sized replacement mains, or even abandon natural gas service to those customers all together to employ the

"least cost alternative" to meet system and customer energy demands. POWER St. No. 1 at 5-6.

302. Unless fully abandoning natural gas service, customers cannot conserve to zero usage by implementing NPAs or energy efficiency measures. PGW St. No. 10-RJ at 2:18-19.

303. POWER's proposed infrastructure replacement methods and planning suggestions are fundamentally flawed. PGW St. No. 7-R at 9:14-10:16.

304. PGW has an interconnected low-pressure distribution system which makes POWER's local area downsizing of pipe diameter unfeasible, if not impossible, from a distribution system perspective. PGW St. No. 7-R at 10:5-15.

305. The overall system capacity of PGW's interconnected, low-pressure system, requires careful planning and consideration to avoid jeopardizing the minimum pressures needed for customer equipment to operate safely. PGW St. No. 10-R at 19:20-23.

306. PGW's distribution system must be designed to meet a realistic "worst case scenario" utilizing PGW's current "Design Day" of zero degrees Fahrenheit which is evaluated in PGW's annual Gas Cost Rate proceeding. PGW St. No. 7-R at 11-15.

307. PGW's forecasting for system demands and associated natural gas costs are evaluated in PGW's annual Gas Cost Rate proceeding which sets the mechanism for adjusting rates for realized natural gas expense, forecasting, and over/under-collections in pursuit of least cost fuel procurement, while setting various surcharges for PGW's programs, including its Universal Service and Energy Conservation Surcharge. PGW St. No. 10-R at 9:3-15.

308. Each capital project evaluates historical and short-term forecasting to determine the size of pipes for each replacement to meet PGW's Design Day requirements. PGW St. No. 10-R at 17.

309. Altering PGW's planning based on its current "Design Day" for consideration of *potential* future load reductions from NPAs, which may or may not be realized, is extremely risky for PGW's infrastructure planning. PGW St. No. 10-RJ at 3:7-13.

310. While a portion of PGW's load forecasting is done on the basis of infrastructure planning, PGW's primary driver of capital investment and infrastructure replacement is safety and reliability. PGW St. No. 10-R at 16:6-10.

311. When planning infrastructure replacements, PGW looks at actual reduction impacts experience from historical energy efficiency work and installations realized within current usage data, and PGW's energy efficiency programs and their impact are already captured within load forecasting methodology. PGW St. No. 10-R at 16:6-14.

312. POWER ignores the purpose of PGW's main replacement program – it is not to *add* peak load, PGW's LTIIP is to increase safety and reliability. PGW St. No. 10-R at 19:3-5.

313. POWER's witness Mark Kleinginna's assertion that PGW could simply reduce the diameter of its pipes if some customer's individual demand was reduced is not supported, and the "savings *possible* from the reduction in diameter of pipeline" (POWER St. No. 1-SR at 15) is not feasible, and would seek PGW to plan its pipe sizing with consideration of purely theoretical load reductions from NPAs which may or may not occur. PGW St. No. 7-RJ at 1:21-2:3.

314. PGW already implements smaller diameter pipes where feasible in each main replacement project. PGW St. No. 7-RJ at 2:7-9.

315. Despite POWER witness Mark Kleinginna's misunderstanding, the vast majority of PGW's pipeline replacement today uses 6-inch or smaller pipe, and reducing pipes to the next lower size (e.g. 4-inches for a 6-inch main) arbitrarily across the entire system would drastically reduce reliability while leading to minimal cost savings. PGW St. No. 7-RJ at 3:6-10.

316. POWER's proposal to reduce PGW's main diameter during replacement would only lead to a 4% cost savings for installation and materials costs when reducing pipe sizes from 6" to 4" while then reducing the capacity of the main by over 50%. PGW St. No. 10-R at 20; PGW St. No. 7-RJ at 10-12.

317. POWER's example which leads to a 50% reduction in capacity and system reliability for a 4% cost savings makes no economic or operational sense, and could only occur if all customers reduced their demand by that amount. PGW St. No. 7-RJ at 3:12-16.

318. A clear example of PGW's implementation of smaller diameter pipes occurs when PGW is replacing pipes in end of line situations like cul-de-sacs or dead ends. PGW St. No. 7-RJ at 2:9-11. For each such example, PGW looks at known, quantifiable demand data to determine if PGW can reliably and safely reduce the diameter of pipes serving those dead-end customers. PGW St. No. 7-RJ at 2:11-13.

319. Due to PGW's highly integrated distribution system, PGW does not look at individual blocks or streets alone when planning infrastructure and main replacements; rather PGW looks at its advance modeling as a whole on a larger scale. PGW St. No. 2 at 2:13-16.

320. Changing small local areas (*i.e.* arbitrary reductions in diameter of pipe based on *potential* NPA load reductions for local customers), as POWER suggests, will not mean that PGW can simply reduce the size of its mains on that block. PGW St. No. 7-RJ at 2:15-21.

321. POWER has not demonstrated that the cost savings for pipeline diameter reductions would reduce ratepayers' rates. PGW St. No. 7-RJ at 3:17-18.

322. Arbitrarily reducing pipe diameters based on NPAs as POWER suggests would directly and negatively affect reliability for customers choosing not to implement NPAs, as well as other upstream customers on PGW's integrated system. PGW St. No. 7-RJ at 2:15-21.

323. Without system-wide demand reductions as a whole, POWER's piecemeal NPA Pilot Program approach will not change PGW's infrastructure planning as PGW's highly integrated distribution system does not allow PGW to arbitrarily reduce pipe diameters for local projects. PGW St. No. 7-RJ at 2:23-3:4.

324. POWER's NPA Pilot Program would require every PGW customer to reduce demand in entire areas of PGW's system, or entire separatable "islands" of PGW service territory, which is not feasible. PGW St. No. 7-RJ at 3:3-4.

325. PGW's current infrastructure planning takes into account changes in demand and design day, but those are based on known and quantifiable historic data. In contrast, POWER's NPA Pilot Project and its potential demand and design day reductions are purely forward looking and speculative, and would require PGW to arbitrarily reduce its quantifiable customer demand based on the *possibility* that NPAs will reduce future natural gas demand. PGW St. No. 7-RJ at 4:9-14.

326. PGW cannot simply chose certain city blocks within its territory to deploy NPAs with related pipeline diameter reductions proposed by POWER, as doing so would lead to a cobbled together system of pipes with different diameters on a localized basis and would be detrimental to the safety and reliability of PGW's system. PGW St. No. 10-R at 24:4-10.

327. POWER's NPA Pilot is not prudent utility planning, and would be detrimental to PGW maintaining safe and reliable service to the public. PGW St. No. 7-RJ at 4:14-16.

328. POWER's analysis is flawed in that it combines the impacts of three separate PGW energy efficiency programs to calculate a theoretical impact of combining all three of PGW's programs. PGW St. No. 10-R at 20:18-21.

329. POWER's analysis relied on forecasting cumulative impacts where every single property on a PGW gas main is forced to accept a theoretical combination of PGW's three separate PGW energy efficiency programs to support a claim that reduction of PGW's mains could occur. PGW St. No. 10-R at 20-22.

330. POWER's NPA proposal would require customers to switch entirely away from natural gas to a combination of NPAs such as geothermal and/or other electrification not currently supported by any Pennsylvania law or regulation. PGW St. No. 10-R at 22-23.

331. PGW has no authority under current law to force customers to abandon their natural gas service and electrify their homes. PGW St. No. 10-R at 23.

332. POWER's NPA proposal would force PGW customers to pay to electrify other customers' homes which is not part of PGW's public utility service. PGW St. No. 10-R at 23:7-20.

333. POWER has failed to present any funding source for its NPA proposals or adjustments to the current rates proposed by PGW to account for POWER's NPA proposals. PGW St. No. 10-R at 24.

334. The PUC has found that PGW's "overlapping governance oversight [by City Council or the PGC] and duties are inefficient and create burdensome operations and management processes for the governed entity." PGW's Management and Operations Audit, Docket No. D-2022-3030321; PGW St. No. 10-R at 28.

335. The Philadelphia Gas Commission ("PGC") is responsible for review and/or approval of various PGW financial and business transactions, and approves PGW's annual operating budgets as well as making recommendations to City Council. PGW St. No. 10-R at 9-10.

336. The PUC is PGW's primary regulator and directs the rates and utility services that PGW provides to residents and businesses and ensures that PGW provides safe and reliable natural gas service pursuant to 66 Pa. C.S. § 101 *et seq*. PGW St. No. 10-R at 10.

337. POWER did not point to any Pennsylvania law, regulation, order or other Pennsylvania NGDC program to support the recommendation to force PGW to implement NPAs. PGW St. No. 10-R at 11:23-26.

338. The only examples or case studies POWER provided to support the proposed NPA Pilot Program were from New York and Colorado where both states had legislative changes allowing NGDCs to implement NPAs including screening criteria, cost recovery for the utilities, and shareholder incentives. PGW St. No. 10-R at 12-14.

339. POWER's request that PGW be required to implement NPAs would create sweeping changes to how capital planning and gas safety works for PGW. PGW St. No. 10-R at 14:12-15.

340. No law exists today establishing cost recovery of any of the NPA proposals, and the PUC has not issued guidance on accounting for changes to plant-in-service and other rate making matters. PGW St. No. 10-R at 15.

341. POWER's proposal would virtually force electrification in PGW's service territory and would result in the de facto abandonment of PGW's utility operations, infrastructure, and assets, despite no law or mandate to do so. PGW St. No. 10-R at 15.

342. POWER proposed that PGW be required to implement a NPA Pilot Program working group to address eight factors for NPA deployment, solicit community input for PGW's capital planning, and ultimately implement ten NPA projects within 12 months on the working groups' recommendation. PGW St. No. 10-R at 27.

343. The working group is an impractical and costly proposal seeking to establish POWER and other members of the public as a new regulator of PGW. PGW St. No. 10-R at 27-28.

344. The working group would be a duplicative and wasteful use of ratepayer resources and would trample on the oversight of PGW existing regulators. PGW St. No. 10-R at 28.

345. POWER's proposal that PGW be ordered to file an annual "Comprehensive Annual Pipeline Spending Report" in a format POWER prefers is impractical and would either supplement or replace the Commission's current reporting requirements for PGW's pipeline replacement activities under its LTIIP. POWER St. No. 2.

346. PGW's witness Mr. Smith demonstrated that POWER's "integrated" report containing seven elements (most of which are duplicative or what is filed today) is unjustified in view of the LTIIP and AAOP that PGW submits in compliance with the Commission's rules and regulations. PGW St. No. 7-R at 22-23.

347. PGW's LTIIP includes reporting on both the accelerated portion of PGW's main replacement funded through PGW's DSIC and the 18 miles/year of replacement funded through base rates. PGW St. No. 7-R at 11.

348. PGW's AAOP filed with the Commission and PGW's capital budget filing and forecast filed with the PGC provides the raw and burdened spending for PGW's main replacement and service replacement by category, and includes raw cost breakdown of labor, materials, contract, and other expenses other than major enforced relocations. PGW St. No. 7-R at 12-15.

349. The Commission reviews PGW's LTIIP, DSIC, and AAOP filings, and POWER has made no claim that PGW has violated any law or regulation in its reporting requirements in these filings.

350. POWER put forth no evidence that the PUC or any other regulator has found that PGW's pipeline replacement and expenditures reporting is insufficient or not in compliance with the law.

351. POWER has not shown that PGW's current reporting is inadequate or unreasonable.

352. POWER's claims that reports and data presented conflicting data is unfounded and reflects those filings capturing information at different points in time and the reports themselves meeting different regulatory requirements. PGW St. No. 7-R at 15.

353. POWER's calculations and perceived errors in PGW's reports are refuted in detail by PGW. PGW St. No. 7-R at 15-21.

354. POWER's witness admitted that the pipeline replacement reporting concerns it advanced issue were not that the data was unavailable to the public, it was that data collection and

analysis by entities like POWER may be burdensome and "would require copying and pasting at least two figures (burdened cost and footage) for as many as six capital account categories for each of the seven years making up the period (2015-2021). The resulting spreadsheet would contain up to 84 data points that would then require careful aggregation." POWER St. No. 2-SR at 5.

355. It would be imprudent to require PGW to file additional reports at the request of a third-party intervenor in this rate case simply to alleviate potential workload for intervening parties like POWER where PGW's current reports are in compliance with the law.

APPENDIX B
PROPOSED CONCLUSIONS OF LAW

1. PGW is a "city natural gas distribution operation" as defined in Section 102 of the Public Utility Code, 66 Pa. C.S. § 102.

2. The Commission has jurisdiction over the parties and subject matter in this proceeding. 66 Pa. C.S. § 1308(d).

3. As the party requesting the rate increase, the public utility has the burden of proving that its proposed rates are just and reasonable. 66 Pa. C.S. § 315(a).

4. The burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one, which remains with the public utility throughout the course of the rate proceeding. *PUC v. Appalachian Utilities, Inc.,* Docket No. R-2015-2478098, et al., Opinion and Order entered March 10, 2016 adopting the Recommended Decision dated February 19, 2016, at 19, 2016 Pa. PUC LEXIS 62.

5. The public utility must satisfy its burden of proof by a preponderance of the evidence, which "means only that one party has presented evidence that is more convincing, by even the smallest amount, than the evidence presented by the other party." *NRG Energy, Inc. v. Pa. Pub. Util. Comm'n*, No. 58 C.D. 2019, 2020 Pa. Commw. LEXIS 420, at *29 (Pa. Commw. Ct. June 2, 2020) (citing *Energy Conservation Council of Pa. v. Pa. Pub. Util. Comm'n*, 995 A.2d 465, 478 (Pa. Commw. 2010)).

6. Public utilities are not, however, required to affirmatively defend claims that have gone unchallenged. *See Allegheny Ctr. Assoc.'s v. PUC*, 570 A.2d 149, 153 (Pa. Cmwlth. 1990).

7. A party proposing an adjustment to a ratemaking claim bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment. *See, e.g*., *PUC v. PECO Energy Co.*, Docket No. R-891364, et al., 1990 Pa. PUC LEXIS 155 (Order entered May 16, 1990); *PUC v. Breezewood Telephone Co.*, Docket No. R-901666, 1991 Pa. PUC LEXIS 45 (Order entered January 31, 1991).

8. A party that raises an issue that is not included in a public utility's general rate case filing bears the burden of proof regarding that issue. Section 332(a) of the Code, 66 Pa. C.S. § 332(a) (provides that the party seeking a rule or order from the Commission has the burden of proof in that proceeding); *NRG Energy, Inc. v. Pennsylvania Pub. Util. Comm'n*, No. 58 C.D. 2019, 2020 WL 2843488, at *29-30 (Pa. Commw. Ct. June 2, 2020).

9. Section 315(a) of the Public Utility Code cannot reasonably be read to place the burden of proof on PGW with respect to an issue the utility did not include in its general rate case filing and which, frequently, the utility would oppose. *PUC v. Appalachian Utilities, Inc.,* Docket No. R-2015-2478098, et al., Opinion and Order entered March 10,

2016 adopting the Recommended Decision dated February 19, 2016, at 19, 2016 Pa. PUC LEXIS 62.

10. The statutory burden placed on a proponent of a rule or order under Section 332(a) does not shift to the utility simply because such rule or order is proposed within the context of the utility's 1308(d) base rate proceeding. *Pa. Pub. Util. Comm'n v. Philadelphia Gas Works*, Docket No. R-2017-2586783 (Order entered November 8, 2017, at 12-13).

11. The Company has sustained its burden of proving that it should be granted an increase in rates. 66 Pa. C.S. § 1308(d).

12. The rates, terms and conditions contained in the Philadelphia Gas Works' base rate increase filing are just, reasonable and in the public interest and are in accord with the rules and Regulations of the Commission and the provisions of the Public Utility Code. See 66 Pa. C.S. § 315(a); 52 Pa. Code §§ 69.2703(a), (b).

13. POWER Interfaith ("POWER") has not met its burden of proving the need for directives requiring PGW to integrate Non-Pipeline Alternatives ("NPA") into its capital planning, implement a NPA Pilot or enhance its reporting of pipeline replacement to the Commission.

14. The Office of Consumer Advocate ("OCA") and the Coalition for Affordable Utility Service and Energy Efficiency in Pennsylvania ("CAUSE-PA") have not met their burden of proving the need for enhancements to PGW's customer service or the Company's universal service and low income customer programs.

15. PGW's rates must meet the constitutional and statutory standard of being "just and reasonable." 52 Pa. Code § 69.2702(b); *PUC v. PGW*, Docket No. R-00006042, Opinion and Order entered October 4, 2001 at 25, *affirmed by, City of Philadelphia v. PUC*, 829 A.2d 1241 (Pa. Cmwlth. 2003) (The "just and reasonable" standard in Section 1301 is coextensive with the federal constitutional standard for determining utility rates).

16. Section 1301 of the Public Utility Code requires that "[e]very rate made, demanded, or received by any public utility … shall be just and reasonable, and in conformity with regulations or orders of the commission. 66 Pa. C.S. § 1301.

17. For rates to meet the just and reasonable standard, they must remain within a zone of reasonableness. *See FPC v. Conway*, 426 U.S. 271, 278 (1976) ("there is no single cost-recovering rate, but a zone of reasonableness").

18. Rates outside of that zone are confiscatory. *Permian Basin Area Rate Cases*, 390 U.S. 747, 770 (1968) ("any rate selected…from the broad zone of reasonableness…cannot be attached as confiscatory").

19. As a general matter, utility management is in the hands of the utility and the Commission may not interfere with lawful management decisions, including decisions related to the necessity and propriety of operating expenses, unless based on record evidence, it finds an abuse of the utility's managerial discretion. *City of Philadelphia v. Pennsylvania*

Public Utility Commission, 174 Pa. Superior Ct. 641, 102 A.2d 428 (1954); *Pittsburgh v. Pennsylvania Public Utility Commission*, 370 Pa. 305, 88 A.2d 59 (1952).

20. As a city natural gas distribution operation, just and reasonable rates for PGW are determined using the Cash Flow Method. 52 Pa. Code §§ 69.2901-69.2703.

21. The rates proposed by PGW in Supplement No. 159 are just and reasonable.

22. The Company has sustained its burden of proving that it should be granted an increase in rates. 66 Pa. C.S. § 1308(d).

23. The Company has sustained its burden of proving that a distribution rate increase of $85.161 million is just, reasonable and in accordance with law.

24. Ratemaking is prospective, and the goal of ratemaking is to reasonably reflect future conditions when new rates are in effect. *See, e.g*., *Columbia Gas v. Pa. PUC*, 613 A.2d 74, 76 (Pa. Cmwlth. 1992), aff'd, 636 A.2d 627 (Pa. 1994).

25. The language of Act 11 fully supports use of end of test year balances. 66 Pa. C.S. § 315(e).

26. The Company's proposed expenses are reasonably necessary to provide service to its Customers. *Butler Township Water Co. v. Pa. PUC*, 81 Pa. Cmwlth. 40, 43-44, 473 A.2d 219, 221 (1984) ("*Butler Township*"). *See also T.W. Phillips Gas and Oil Co. v. Pa. PUC*, 81 Pa. Cmwlth. 205, 474 A.2d 355 (1984).

27. Public utilities are entitled to recover all reasonable expenses incurred to provide service to customers. The relevant question in a base rate proceeding is whether the expense is reasonable and appropriate for the furnishing of service to customers. *Butler Township Water Co. v. Pa. PUC*, 473 A.2d 219, 221 (Pa. Cmwlth. 1984).

28. Tariff provisions previously approved by the Commission are deemed just and reasonable and, therefore, a party challenging a previously-approved tariff provision bears the burden to demonstrate that the Commission's prior approval is no longer justified. *See, e.g., Pa. PUC v. Philadelphia Gas Works*, Docket Nos. R-00061931, et al., 2007 Pa. PUC LEXIS 45, at *165-68 (Order entered Sept. 28, 2007).

29. PGW has sustained its burden of coming forward with sufficient evidence in support of its revenue and expense claims.

30. The Commission has the authority to modify the requirements of the Public Utility Code as necessary to accommodate PGW's unique status as a municipal utility regulated under a special version of the "cash flow" ratemaking method. 66 Pa. C.S. § 2212(c).

31. The Commission has the authority to modify the requirements of its Regulations as necessary to accommodate PGW's unique status as a municipal utility regulated under a special version of the "cash flow" ratemaking method.

32. The Commission may modify such requirements when found to be in the public interest and when the result satisfies the "just and reasonable" rate standard of the Code.

33. The Commission should reject extensive reliance on historic costs and historic averages when making recommendations for future rates based on a fully forecasted test year.

34. The rates, terms and conditions contained in PGW's base rate increase filing, as modified by PGW, are just, reasonable and in the public interest and are in accord with the rules and Regulations of the Commission and the provisions of the Public Utility Code.

35. The proposals of the Commission's Bureau of Investigation and Enforcement are denied.

36. The proposals of the Office of Consumer Advocate are denied.

37. The proposals of the Office of Small Business Advocate are denied.

38. When a utility files for a rate increase and the proposed increase exceeds $1 million, the utility must include with its filing an allocated class cost-of-service study ("CCOSS") in which it assigns to each customer class a portion of the proposed rate increase, based upon operating costs that it incurred in providing that service. 52 Pa. Code § 53.53.

39. Cost of service studies are the touchstone for reasonable allocations of revenue responsibility among rate classes. *Lloyd v. Pa. PUC*, 904 A.2d. 1019-21 (Pa. Cmwlth. 2006).

40. Cost of service and revenue allocation analyses require a considerable amount of judgment and are more of an accounting/engineering art rather than science. *Application of Metropolitan Edison Co.*, Docket No. R-00974008 (Order entered June 30, 1998); *Pa. PUC v. Pennsylvania Power & Light Co.*, 1983 Pa. PUC Lexis 22.

41. The Commission, in crafting a reasonable rate structure, is "invested with a flexible limit of judgment" and may establish just, reasonable and non-discriminatory rates within a "range of reasonableness." *U.S. Steel Corp. v. Pa. PUC*, 390 A.2d 865, 874 (Pa. Commw. Ct. 1978).

42. An Average /Excess ("A&E") methodology is reasonable for use by a natural gas utility because it aligns with cost causation principles. *Pa. Public Utility Commission v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929 (Order entered June 17, 2021 at 227-230); PGW St. No. 5-R at 3; *Pa. Public Utility Commission v. Philadelphia Gas Works* Docket No. R-00061931 (Order entered September 28, 2007, at 120-124).

43. The Commission has rejected the use of a cost allocation method for allocating costs of mains that uses a customer-demand component. PGW St. No. 5-R at 3; *Pa. Public Utility Commission v. Philadelphia Gas Works* Docket No. R-00061931 (Order entered September 28, 2007, at 120-124).

44. PGW's CCOSS, proposed revenue allocation method, and proposed customer charges are just and reasonable and are adopted.

45. The other parties' proposed changes to the CCOSS, the proposed revenue allocation method and proposed customer charges are denied.

46. The PUC has recognized that it is appropriate to set a customer charge that ensures the recovery of fixed costs that are "clearly more customer-related than usage-related, while still allowing some revenue to be recovered through usage-based charges." *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597, 2012 Pa. PUC LEXIS 1757 (October 19, 2010 R.D.; Order entered December 28, 2012) (rejecting I&E's and OCA's position of "no increase" to the customer charge because it was not based on a proper cost analysis) *citing Pa. Publ. Util. Comm'n v. Aqua Pennsylvania, Inc.*, Docket No. R-00038805, 2004 Pa. PUC LEXIS 39, 236 P.U.R.4th 218 (August 5, 2004).

47. The PUC has observed that an increase to the customer charge is reasonable when usage-based charges still comprise a greater portion of the total bill so that customers will still have a clear opportunity to reduce their total bills through conservation. *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597, 2012 Pa. PUC LEXIS 1757 (October 19, 2010 R.D.; Order entered December 28, 2012).

48. PGW's customer charge proposals are just and reasonable.

49. PGW's proposed customer charges represent reasonable movement toward recovering the customer costs of service and should be approved

50. PGW's proposed tariff changes are just, reasonable and in the public interest and should be approved.

51. GFCP/VEPI's transportation load does not qualify for interruptible service and, therefore, should remain firm.

52. The transportation rate proposed by PGW for Rate GS-XLT is just and reasonable.

53. The ARS provision of Rate GS-XLT proposed by PGW is just and reasonable.

54. Rate GS-XLT rates, terms and conditions proposed by PGW are just and reasonable and should be approved.

55. OCA and CAUSE-PA/TURN have not met their burden of proving the need or requirement for enhancements to PGW's customer service programs.

56. Section 56.97(b) of the Commission's only requires "good faith and fair judgment" in reaching a "reasonable" payment arrangement. It does not specify exactly how the utility is to accomplish this, and therefore the process used is within the utility's discretion. 52 Pa. Code § 56.97(b).

57. OCA, CAUSE-PA/TURN and POWER have not met their burden of proving the need or requirement for enhancements to the Company's universal service programs.

58. Issues affecting PGW's low-income programming are better addressed in other proceedings such as PGW's USECP and the Commission's current statewide review of universal service programs, not in a base rate case. *See Pa. PUC v. Aqua Pennsylvania, Inc.,* Docket No. R-2021-3027385 *et al.*, Opinion and Order (entered May 16, 2022), at 331-333; *see also Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835, Opinion and Order (entered Feb. 19, 2021), at 160.

59. POWER has not met its burden of showing that PGW's rate increase request should be conditioned on approval of POWER's proposed NPA Pilot Program or filing of a Comprehensive Annual Pipeline Spending Report.

60. POWER has not demonstrated that PGW fails to provide safe, adequate, efficient safe and reasonable service to its customers.

61. PGW has not proposed any capital and infrastructure plan modifications and the record evidence in this proceeding is inadequate to permit the Commission to do so.

62. The Commission lacks legal authority to direct PGW to undertake POWER's proposed NPA Pilot Program and require PGW customers to convert away from natural gas and permanently alter PGW's Commission approved pipeline replacement initiatives.

63. Neither the Public Utility Code or the Commission's regulations provide legal authority to require PGW to implement NPAs to theoretically defer or avoid capital planning investments and costs.

64. The Commission has encouraged PGW to accelerate its at-risk pipeline replacement activities, and has approved PGW's Long Term Infrastructure Improvement Plan, currently effective through FY 2027. *Petition of Philadelphia Gas Works for Approval of its Third Long-Term Infrastructure Improvement Plan,* Docket No. P-2022-3032303, Opinion and Order (Order entered August 25, 2022).

65. The Commission cannot delegate oversight of PGW's capital planning to a community-based working group to act as a super board of directors over PGW. *Metropolitan Edison Company v. Pa. P.U.C.*, 437 A.2d 76 (Pa. Cmwlth. 191).

66. POWER has not met its burden to show that PGW's current pipeline replacement reports submitted and reviewed by the Commission are inadequate, unreasonable, or otherwise found to be non-compliant by the Commission.

67. The proposals of the POWER Interfaith are denied.

TABLE I

Philadelphia Gas Works

STATEMENT OF INCOME

R-2023-3037933

(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Adjustments	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	PGW Expense Adjustments	PGW Proposed Rates FPFTY FY 2024	PGW Revenue Adjustments	PGW Total Allowable Revenues FPFTY FY 2024
		A	B	C = (A +B)	D	E = (C + D)	F	G = (E + F)
		$	$	$	$	$	$	$
	OPERATING REVENUES							
1.	Non-Heating	31,493	$ -	31,493		31,493	-	31,493
2.	Gas Transport Service	75,685	-	75,685		75,685	-	75,685
3.	Heating	727,583	-	727,583		727,583	-	727,583
4.	Revenue Enhancement / Cost Reduction FY 2024	-	85,162	85,162		85,162	-	85,162
5.	Revenue Enhancement / Cost Reduction FY 2028	-	-	-		0	-	0
6.	Weather Normalization Adjustment	-	-	-		0	-	0
7.	Appropriation for Uncollectible Reserve	(33,485)	(3,407)	(36,892)		(36,892)	-	(36,892)
8.	Unbilled Adjustment	(763)	-	(763)		(763)	-	(763)
9.	Total Gas Revenues	800,513	81,755	882,268		882,268		882,268
10.	Appliance Repair & Other Revenues	7,807	-	7,807		7,807	-	7,807
		-	-			0	-	0
11.	Other Operating Revenues	24,050	1,309	25,359		25,359	-	25,359
12.	Total Other Operating Revenues	31,857	1,309	33,166		33,166		33,166
13.	**Total Operating Revenues**	832,370	83,064	915,434		915,434		915,434
	OPERATING EXPENSES							
14.	Natural Gas	323,502	-	323,502	-	323,502		323,502
15.	Other Raw Material	31	-	31	-	31		31
16.	Sub-Total Fuel	323,533	-	323,533		323,533		323,533
17.	**CONTRIBUTION MARGINS**	**508,837**	83,064	**591,901**		**591,901**		**591,901**
18.	Gas Processing	23,890	-	23,890	-	23,890		23,890
19.	Field Operations	98,811	-	98,811	-	98,811		98,811
20.	Collection	5,087	-	5,087	-	5,087		5,087
21.	Customer Service	21,278	-	21,278	-	21,278		21,278
22.	Account Management	10,515	-	10,515	-	10,515		10,515
23.	Marketing	4,657	-	4,657	-	4,657		4,657
24.	Administrative and General	102,881	-	102,881	-	102,881		102,881
25.	Health Insurance	27,715	-	27,715	-	27,715		27,715
26.	Pandemic Expenses	-	10,162	10,162	-	10,162		10,162
27.	Capitalized Fringe Benefits	(10,717)	-	(10,717)	-	(10,717)		(10,717)
28.	Capitalized Administrative Charges	(31,571)	-	(31,571)	-	(31,571)		(31,571)
29.	Pensions	44,759	-	44,759	-	44,759		44,759
30.	Taxes	10,434	-	10,434	-	10,434		10,434
31.	Other Post-Employment Benefits	(10,095)	-	(10,095)	-	(10,095)		(10,095)
32.	Retirement Payout /Labor Savings	296	-	296	-	296		296
33.	Sub-Total Other Operating & Maintenance	297,940	10,162	308,102		308,102		308,102
34.	Depreciation	65,412	-	65,412	-	65,412		65,412
35.	Cost of Removal	6,729	-	6,729	-	6,729		6,729
		-	-	-	-	0		0
36.	Net Depreciation	72,141	-	72,141		72,141		72,141
37.	**Sub-Total Other Operating Expenses**	370,081	10,162	380,243		380,243		380,243
38.	**TOTAL OPERATING EXPENSES**	693,614	10,162	703,776		703,776		703,776
39.	OPERATING INCOME	138,756	72,902	211,658		211,658		211,658
40.	**Interest Gain / (Loss) and Other Income**	7,211	-	7,211	-	7,211		7,211
41.	INCOME BEFORE INTEREST	145,967	72,902	218,869		218,869		218,869
42.	**INTEREST**							
43.	Long-Term Debt	62,738	-	62,738	-	62,738		62,738
44.	Other	(1,776)	-	(1,776)	-	(1,776)		(1,776)
		-	-	-	-	0		0
45.	Loss From Extinguishment of Debt	3,348	-	3,348	-	3,348		3,348
46.	**Total Interest**	64,310	-	64,310		64,310		64,310
	NON-OPERATING REVENUE							
47.	Federal Grant Revenue (PHMSA)	10,752	-	10,752		10,752		10,752
48.	**NET INCOME**	**92,409**	72,902	**165,311**		**165,311**		**165,311**
49.	City Payment	18,000	-	18,000	-	18,000		18,000
50.	**NET EARNINGS**	**$ 74,409**	**$ 72,902**	**$ 147,311**		**$ 147,311**		**$ 147,311**

(1) PGW Exhibit JFG-1 (Present Rates)

(2) PGW Exhibit JFG-2-R (Proposed Rates)

Table II Adjustments To Be Shown On Other Tables

Adjustments from Table II

TABLE I(A)

DEBT SERVICE COVERAGE
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	PGW Adjustments	PGW Total Allowable Revenues FPFTY FY 2024
		$	$	$	$
	FUNDS PROVIDED				
1.	Total Gas Revenues [Table I, Line 9]	800,513	882,268		882,268
2.	Other Operating Revenues [Table I, Line 12]	31,857	33,166		25,359
3.	Total Operating Revenues [Table I, Line 13]	832,370	915,434		915,434
4.	Other Income Incr. / (Decr.) Restricted Funds [Table I, Line 40 Plus Table IB, Line 3]	2,877	2,877		2,877
5.	Non-Operating Income [Table I, Line 47]	10,752	10,752		10,752
6.	AFUDC (Interest) [Table I, Line 13]	-	-		-
7.	TOTAL FUNDS PROVIDED	845,999	929,063		929,063
	FUNDS APPLIED				
8.	Fuel Costs [Table I, Line 16]	323,533	323,533		323,533
9.	Other Operating Costs	370,081	380,243		380,243
10.	Total Operating Expenses [Table I, Line 38]	693,614	703,776		703,776
11.	Less: Non-Cash Expenses	89,718	89,718	-	89,718
12.	TOTAL FUNDS APPLIED	603,896	614,058		614,058
13.	Funds Available to Cover Debt Service	242,103	315,005		315,005
14.	Net Available after Prior Debt Service [Line 13]	242,103	315,005		315,005
15.	Equipment Leasing Debt Service	-	-	-	-
16.	Net Available after Prior Capital Leases	242,103	315,005		315,005
17.	1998 Ordinance Bonds Debt Service	115,230	115,230	-	115,230
18.	1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	-	-	-	-
19.	Total 1998 Ordinance Debt Service	115,230	115,230		115,230
20.	**Debt Service Coverage 1998 Bonds**	**2.10**	**2.73**		**2.73**
21.	Net Available after 1998 Debt Service	126,873	199,775		199,775
22.	Aggregate Debt Service [Line 19]	115,230	115,230		115,230
23.	Debt Service Coverage (Combined liens)	2.10	2.73		2.73
24.	Debt Service Coverage (Combined liens w/$18.0 City Fee)	**1.94**	**2.58**		**2.58**

(1) PGW Exhibit JFG-1 (Present Rates)
(2) PGW Exhibit JFG-2-R (Proposed Rates)
Table II Adjustments To Be Shown On Other Tables
Adjustments from Table II

TABLE I(B)
Philadelphia Gas Works
CASH FLOW STATEMENT
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	PGW Adjustments	PGW Total Allowable Revenues FPFTY FY 2024
		$	$	$	$
	SOURCES				
1.	Net Income [Table I, Line 48]	92,409	165,311		165,311
2.	Depreciation & Amortization	62,947	62,947	-	62,947
3.	Earnings on Restricted Funds Withdrawal/(No Withdrawal)	(4,334)	(4,334)	-	(4,334)
4.	Federal Infrastructure Grant	-	-	-	
5.	Proceeds from Bond Refunding to Pay Cost of Issuance	3,480	3,480	-	3,480
6.	Increased/(Decreased) Other Assets/Liabilities	(45,717)	(35,521)	-	(35,521)
7.	Available From Operations	108,785	191,883		191,883
8.	Drawdown of Bond Proceeds	102,000	102,000	-	102,000
9.	Release of Restricted Fund Asset	-	-	-	-
10.	Release of Bond Proceeds to Pay Temporary Financing	-	-	-	-
11.	Temporary Financing	-	-	-	-
12.	TOTAL SOURCES	**$ 210,785**	**$ 293,883**		**$ 293,883**
	USES				
13.	Net Construction Expenditures	206,959	206,959	-	206,959
14.	Revenue Bonds	60,795	60,795	-	60,795
15.	Temporary Financing Repayment	-	-	-	-
16.	GASB 87 Lease Principal Payments	1,968	1,968	-	
17.	Changes in City Equity	-	-	-	-
18.	Distribution of Earnings [Table I, Line 49]	18,000	18,000		18,000
19.	Non-Cash Working Capital	8,615	8,720	-	8,720
20.	Cash Needs	296,337	296,442		294,474
21.	Cash Surplus (Shortfall)	(85,552)	(2,559)		(591)
22.	TOTAL USES	**$ 210,785**	**$ 293,883**		**$ 293,883**
23.	Cash - Beginning of Period	116,328	116,328	-	116,328
24.	Cash - Surplus (Shortfall) [Line No. 21]	(85,552)	(2,559)	-	(2,559)
25.	**ENDING CASH**	**$ 30,775**	**$ 113,769**		**$ 113,769**
26.	**Outstanding Commercial Paper**	-	-	-	-
27.	**Outstanding Commercial Paper - Capital**	-	-	-	-
28.	**DSIC Spending**	41,000	41,000	-	41,000
29.	**Internally Generated Funds**	63,959	63,959	-	63,959
30.	**TOTAL IGF + Incremental DSIC Spending**	**$ 104,959**	**$ 104,959**		**$ 104,959**

(1) PGW Exhibit JFG-1 (Present Rates)
(2) PGW Exhibit JFG-2-R (Proposed Rates)
Table II Adjustments To Be Shown On Other Tables
Adjustments from Table II

TABLE II
Philadelphia Gas Works
SUMMARY OF ADJUSTMENTS
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Adjustments	PGW Reference
		$	
TABLE I	**STATEMENT OF INCOME**		
	OPERATING REVENUES		
1.	Non-Heating	-	
2.	Gas Transport Service	-	
3.	Heating	-	
4.	Revenue Enhancement / Cost Reduction FY 2024	-	
5.	Revenue Enhancement / Cost Reduction FY 2028	-	
6.	Weather Normalization Adjustment	-	
7.	Appropriation for Uncollectible Reserve	-	
8.	Unbilled Adjustment	-	
10.	Appliance Repair & Other Revenues	-	
12.	Other Operating Revenues	-	
	OPERATING EXPENSES		
14.	Natural Gas	-	
15.	Other Raw Material	-	
18.	Gas Processing	-	
19.	Field Operations	-	
20.	Collection	-	
21.	Customer Service	-	
22.	Account Management	-	
23.	Marketing	-	
24.	Administrative and General	-	
25.	Health Insurance	-	
26.	Pandemic Expenses	-	
27.	Capitalized Fringe Benefits	-	
28.	Capitalized Administrative Charges	-	
29.	Pensions	-	
30.	Taxes	-	
31.	Other Post-Employment Benefits	-	
32.	Retirement Payout /Labor Savings	-	
34.	Depreciation	-	
35.	Cost of Removal	-	
41.	To Clearing Accounts	-	
40.	**Interest Gain / (Loss) and Other Income**	-	
43.	Long-Term Debt	-	
44.	Other	-	
51.	AFUDC	-	
45.	Loss From Extinguishment of Debt	-	
55.	City Payment	-	
TABLE I(A)	**DEBT SERVICE COVERAGE**		
11.	Less: Non-Cash Expenses	-	
15.	Equipment Leasing Debt Service	-	
17.	1998 Ordinance Bonds Debt Service	-	
18.	1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	-	
TABLE I(B)	**CASH FLOW STATEMENT**		
	SOURCES		
2.	Depreciation & Amortization	-	
3.	Earnings on Restricted Funds Withdrawal/(No Withdrawal)	-	
4.	Federal Infrastructure Grant	-	
5.	Proceeds from Bond Refunding to Pay Cost of Issuance	-	
6.	Increased/(Decreased) Other Assets/Liabilities	-	
8.	Drawdown of Bond Proceeds	-	
9.	Release of Restricted Fund Asset	-	
10.	Release of Bond Proceeds to Pay Temporary Financing	-	
11.	Temporary Financing	-	
	USES		

13.	Net Construction Expenditures	-
14.	Revenue Bonds	-
15.	Temporary Financing Repayment	-
16.	GASB 87 Lease Principal Payments	-
17.	Changes in City Equity	-
19.	Non-Cash Working Capital	-
23.	Cash - Beginning of Period	-
24.	Cash - Surplus (Shortfall) [Line No. 19]	-
26.	**Outstanding Commercial Paper**	-
27.	**Outstanding Commercial Paper - Capital**	-
28.	**DSIC Spending**	-
29.	**Internally Generated Funds**	-
TABLE III	**BALANCE SHEET**	
	ASSETS	
1.	Utility Plant Net	-
2.	Sinking Fund Reserve	-
3.	Capital Improvement Fund - Current	-
4.	Capital Improvement Fund - Long Term	-
	Workers' Compensation Fund - & Health Insurance Escrow	
6.	Cash	-
8.	Gas	-
9.	Other	-
10.	Accrued Gas Revenues	-
11.	Reserve for Uncollectible	-
13.	Materials & Supplies	-
14.	Other Current Assets	-
15.	Deferred Debits	-
16.	Unamortized Bond Issuance Expense	-
17.	Unamortized Loss on Reacquired Debt	-
18.	Deferred Environmental	-
19.	Deferred Pension Outflows	-
20.	Deferred OPEB Outflows	-
21.	Other Assets	-
	EQUITY & LIABILITIES	
23.	City Equity	-
24.	Revenue Bonds	-
25.	Unamortized Discount	-
26.	Unamortized Premium	-
28.	Lease Obligations	-
29.	Notes Payable	-
30.	Accounts Payable	-
31.	Customer Deposits	-
32.	Other Current Liabilities	-
33.	Pension Liability	-
34.	OPEB Liability	-
35.	Deferred Credits	-
36.	Deferred Pension Inflows	-
37.	Deferred OPEB Inflows	-
38.	Accrued Interest	-
39.	Accrued Taxes & Wages	-
40.	Accrued Distribution to City	-
41.	Other Liabilities	-
	Plant in Service	-
	Accumulated Depreciation	-
	(1) PGW Exhibit JFG-1 (Present Rates)	
	(2) PGW Exhibit JFG-2-R (Proposed Rates)	
	Table II Adjustments To Be Shown On Other Tables	
	Adjustments from Table II	

TABLE III
Philadelphia Gas Works
BALANCE SHEET
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	PGW Adjustments	PGW Total FPFTY FY 2024
		$	$	$	$
	ASSETS				
1.	Utility Plant Net	1,980,842	1,980,842	-	1,980,842
2.	Sinking Fund Reserve	135,159	135,159	-	135,159
3.	Capital Improvement Fund - Current	220,527	220,527	-	220,527
4.	Capital Improvement Fund - Long Term	2,686	2,686	-	2,686
	Workers' Compensation Fund & Health Insurance Escrow				
6.	Cash	30,775	113,769	-	113,769
7.	**Accounts Receivable:**				
8.	Gas	190,252	189,813	-	189,813
9.	Other	4,474	4,474	-	4,474
10.	Accrued Gas Revenues	7,372	7,372	-	7,372
11.	Reserve for Uncollectible	(95,611)	(95,068)	-	(95,068)
12.	Total Accounts Receivable:	106,487	106,591		106,591
13.	Materials & Supplies	92,810	92,810	-	92,810
14.	Other Current Assets	4,909	4,909	-	4,909
15.	Deferred Debits	5,453	5,453	-	5,453
16.	Unamortized Bond Issuance Expense	933	933	-	933
17.	Unamortized Loss on Reacquired Debt	16,358	16,358	-	16,358
18.	Deferred Environmental	27,226	27,226	-	27,226
19.	Deferred Pension Outflows	59,055	59,055	-	59,055
20.	Deferred OPEB Outflows	36,251	36,251	-	36,251
21.	Other Assets	38,015	27,819	-	27,819
22.	**TOTAL ASSETS**	2,757,487	2,830,389		2,830,387
	EQUITY & LIABILITIES				
23.	City Equity	790,579	863,481	-	863,481
24.	Revenue Bonds	1,222,398	1,222,398	-	1,222,398
				-	0
25.	Unamortized Discount	(40)	(40)	-	(40)
26.	Unamortized Premium	105,867	105,867	-	105,867
27.	Long Term Debt	1,328,225	1,328,225		1,328,225
28.	Lease Obligations	57,613	57,613	-	57,613
29.	Notes Payable			-	0
30.	Accounts Payable	104,435	104,435	-	104,435
31.	Customer Deposits	2,081	2,081	-	2,081
32.	Other Current Liabilities	1,848	1,848	-	1,848
33.	Pension Liability	257,698	257,698	-	257,698
34.	OPEB Liability	84,529	84,529	-	84,529
35.	Deferred Credits	1,852	1,852	-	1,852
36.	Deferred Pension Inflows	25,865	25,865	-	25,865
37.	Deferred OPEB Inflows	22,616	22,616	-	22,616
38.	Accrued Interest	16,246	16,246	-	16,246
39.	Accrued Taxes & Wages	5,337	5,337	-	5,337
40.	Accrued Distribution to City	3,000	3,000	-	3,000
41.	Other Liabilities	55,562	55,562	-	55,562
42.	**TOTAL EQUITY & LIABILITIES**	2,757,487	2,830,389		2,830,388
	CAPITALIZATION				
43.	Total Capitalization	2,118,804	2,191,706		2,191,706
44.	Total Long Term Debt	1,328,225	1,328,225		1,328,225
45.	Debt to Equity Ratio	62.69%	60.60%		60.60%
46.	Capitalization Ratio	1.68	1.54		1.54
	Total Capitalization Excluding Leases	2,118,804	2,191,706		2,191,706
	Total Long Term Debt Excluding Leases	1,328,225	1,328,225		1,328,225
	Debt to Total Capital Ratio	0.627	0.606		0.606

(1) PGW Exhibit JFG-1 (Present Rates)
(2) PGW Exhibit JFG-2-R (Proposed Rates)
Table II Adjustments To Be Shown On Other Tables
Adjustments from Table II