COMMONWEALTH OF PENNSYLVANIA

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July 27, 2023

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works
Docket No. R-2023-3037933

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Main Brief in the above-referenced proceeding.

Copies have been served on the parties as indicated on the enclosed Certificate of Service.

Respectfully submitted,

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CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2023-3037933
	:	
Philadelphia Gas Works	:	

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's Main Brief, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 27th day of July 2023.

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2023-3037933
Philadelphia Gas Works	:	

MAIN BRIEF OF THE
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I. INTRODUCTION AND PROCEDURAL HISTORY

A. Introduction

In Supplement No. 159, Philadelphia Gas Works (PGW) proposed an increase in annual distribution revenues of $85.8 million to become effective April 28, 2023, for a fully projected future test year (FPFTY) starting on September 1, 2023. PGW has also proposed increasing the residential monthly customer charge from $14.90 per month to $19.50 per month, or by approximately 30%. As part of this request, the Company's proposal sought to allocate approximately $68.09 million, or 79% of the increase to the residential class. This request was based on a proposed bond debt service coverage ratio of at least 2.73 in the FPFTY, a proposed 50/50 debt to equity ratio, and a debt to capitalization target of 60%. This request was also based on proposed increases to PGW's depreciation expense, labor expense, information services expense, employee expense, risk management expense, and deferred COVID expenses. Under this proposal the total average monthly bill of a residential customer using 71 thousand cubic feet (Mcf) of gas per year would increase by $12.35, from $125.38/month to $137.73/month, or by 9.9%.

PGW has not filed this case at a time when it is at risk of imminent downgrading of its bonds or subject to any operational crisis. PGW's bond coverages currently meet all coverage requirements and its net funds from operation are sufficient to fund its current expenses. As discussed in detail throughout this Main Brief, PGW's proposed revenue requirement and its proposed financial metrics are overstated and unnecessary. PGW's proposed large revenue increase is driven primarily by its goal of significantly reducing its debt-to-equity ratio, and its aspiration to receive a bond upgrade.

As the record shows, however, there is no urgent need to significantly change PGW's capital structure in this proceeding and any potential bond upgrade is purely speculative. What is certain, if a large increase is approved for PGW it will create a significant financial burden for PGW's customer base and particularly for its low-income customers. The Office of Consumer Advocate's (OCA) recommended adjustments to PGW's filing result in a reasonable revenue increase that is less burdensome for PGW's customers, while still enabling PGW to maintain sufficient funds and bond ratings so that it may continue to operate in a stable financial condition for the near-term future.

B. Procedural History

On February 23, 2023, PGW filed Supplement No. 159 to PGW's Gas Service Tariff-Pa. PUC No. 2 (Supplement No. 159). On February 28, 2023, the Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance. On March 3, 2023, Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. (collectively, GFCP) filed a Joint Complaint. On March 7, 2023, the OCA filed a Formal Complaint and Public Statement. On March 9, 2023, the Office of Small Business Advocate (OSBA) filed a Formal Complaint. On March 17, 2023, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG) filed a Formal Complaint. On April 3, 2023, PGW filed supplemental direct testimony Statement No. 1-SD of Denise Adamucci and Statement No. 8-SD of Ronald Amen regarding PGW's Weather Normalization Adjustment (WNA). On April 12, 2023, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) filed a Petition to Intervene.

On April 20, 2023, the Pennsylvania Public Utility Commission (Commission) issued an order suspending the filing by operation of law until November 28, 2023, unless permitted by the Commission to become effective at an earlier date. This filing was assigned to Administrative Law Judge Eranda Vero and Administrative Law Judge Arlene Ashton (ALJs) for the scheduling of hearings and investigation into the lawfulness, justness, and reasonableness of the proposed rates and tariff changes. Also on April 20, 2023, the ALJs issued a Prehearing Conference Notice, setting the date for a Prehearing Conference to be held on April 28, 2023. On April 24, 2023, the Tenant Union Representative Network (TURN) and POWER Interfaith (POWER) each filed a Petition to Intervene in this proceeding. On April 28, 2023, a Prehearing Conference was held where a procedural schedule and certain modifications to the Commission's discovery regulations were agreed to. On May 1, the ALJs granted PGW's Motion for Protective Order.

On May 5, 2023, PGW filed supplemental direct testimony and a Tariff page regarding gas service provided by PGW to GFCP. Prior to this base rate proceeding, PGW's contract for a lower than cost-of-service rate with GFCP expired and PGW and GFCP had been involved in a separate complaint case proceeding in front of the Commission (*GFCP/VEPI v. PGW*, C-2021-3029259) to determine what rate would be appropriate for PGW to charge GFCP going forward. In that complaint case the Commission ultimately ordered that this base rate proceeding was the appropriate forum to make that determination. *GFCP/VEPI v. PGW*, C-2021-3029259, Opinion and Order (entered Apr. 20, 2023). In PGW's supplemental filing on the GFCP rate-setting issue, PGW proposed that GFCP be classified in a new tariff rate class called "General Service – Extra Large Transportation" (GS-XLT) and that PGW be allowed to collect rates from GFCP that produce an overall revenue of $5.279 million, which is $4.250 million more than PGW was allowed to collect from GFCP under the contracted rates, but still well below the $10.237 million revenue that would equal GFCP's cost of service level according to PGW. These supplemental filings by PGW have become a part of the record in this proceeding and will be addressed in this Main Brief.

On May 23, 2023, the OCA filed a Motion to Strike PGW's Statement No. 1-SD of Denise Adamucci and Statement No. 8-SD of Ronald Amen from the record as the Commission had found in a different ongoing proceeding (*Pa. PUC v. Philadelphia Gas Works*, R-2022-3034229) that the other proceeding was the appropriate forum in which to address PGW's WNA issues. On June 6, 2023, the ALJs granted the OCA's Motion to Strike. Thus, PGW's April 3 supplemental direct testimonies and anything pertaining to the WNA mechanism are not being considered as part of the record in this proceeding.

There were four public input hearings held in this proceeding at which 22 customers testified. Two public input hearings were held in person in Philadelphia on May 23, 2023, at 10:00 a.m. and 6:00 p.m., and two were held telephonically on May 24, 2023, at 10:00 a.m. and 6:00 p.m. On May 31, 2023, the non-company parties filed Direct Testimony. The OCA filed OCA Statement 1, the Direct Testimony of Dante Mugrace[1]; OCA Statement 2, the Direct Testimony of Marlon Griffing[2]; OCA Statement 3, the Direct Testimony of Glenn A. Watkins[3]; OCA Statement 4, the Direct Testimony of Roger D. Colton[4]; and OCA Statement 5, the Direct Testimony of

[1] Mr. Mugrace is a Senior Consultant at PCMG and Associates LLC, a regulatory consulting group of experts in economics, accounting, finance, and utility regulation. Mr. Mugrace has 35 years of experience in all aspects of regulatory accounting and policy including processing, analyzing, and evaluating utility rate case petitions before Public Service Commissions. Mr. Mugrace has been involved in rate and related proceedings in Hawaii, Massachusetts, Pennsylvania, Georgia, Maine, Maryland, New Jersey, New York, North Dakota, Ohio, and Wyoming. A complete description of Mr. Mugrace's qualifications is provided in his Direct Testimony as Appendix A.

[2] Dr. Griffing is a Senior Consultant at PCMG and Associates LLC. Dr. Griffing holds bachelors, masters, and doctoral degrees in economics and has 23 years of experience as an expert witness and consultant, primarily addressing the cost of capital and capital structures for electric, natural gas, and water utilities. Dr. Griffing has appeared more than 60 times in cost of capital dockets and other matters before the regulatory agencies of Arkansas, California, Hawaii, Maine, Maryland, Minnesota, Nebraska, New Jersey, New Mexico, North Dakota, Oklahoma, Pennsylvania, and South Dakota. A complete description of Dr. Griffing's qualifications is attached to his Direct Testimony as Schedule MFG-1.

[3] Mr. Watkins is a President and Senior Economist with Technical Associates, Inc., an economics and financial consulting firm. Mr. Watkins conducts marginal and embedded cost of service, rate design, cost of capital, revenue requirement, and load forecasting studies involving numerous electric, gas, water/wastewater, and telephone utilities, and provided expert testimony in Alabama, Arizona, Delaware, Georgia, Illinois, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Vermont, Virginia, South Carolina, Washington, and West Virginia. Mr. Watkins obtained his B.S. in economics and M.B.A. from the Virginia Commonwealth University in 1982 and 1988, respectively. A complete description of Mr. Watkins' qualifications is provided in his Direct Testimony (OCA St. 3) as Schedule GAW-1.

[4] Mr. Colton is a Principal of Fisher Sheehan & Colton, Public Finance and General Economics in Belmont, Massachusetts. He provides technical assistance to public utilities and primarily works on low-income utility issues.

Barbara R. Alexander.[5] Direct Testimony was also filed by OSBA, I&E, CAUSE-PA, GFCP, PICGUG, and POWER. The OCA also served OCA Statement 6, the Direct Testimony of Ron Nelson on May 31, 2023. Mr. Nelson's testimony only dealt with the WNA issue. Consistent with the Commission's order in *Pa. PUC v. Philadelphia Gas Works*, R-2022-3034229, and pursuant to the ALJ's Order granting the OCA's Motion to Strike PGW's WNA testimony from this proceeding, the OCA did not submit OCA Statement 6 into the record of this proceeding as no WNA issues are being addressed in this Main Brief.

On June 26, 2023, Rebuttal Testimony was filed by OCA witness Glenn A. Watkins, OCA Statement 3R. Rebuttal Testimony was also filed by PGW, GFCP, PICGUG, and OSBA. On July 7, 2023, Surrebuttal testimony was filed by the OCA, GFCP, I&E, POWER, and PGW. CAUSE-PA and TURN filed Surrebuttal Testimony jointly. On July 10, 2023, PGW submitted written Rejoinder. Evidentiary Hearings were held on July 11 and July 12, 2023. In accordance with the procedural schedule established in this proceeding, the OCA now files this Main Brief in support of its position.

Mr. Colton has devoted his professional career to helping public utilities, community-based organizations and state and local governments design, implement and evaluate energy assistance programs to help low-income households better afford their home energy bills. He has been involved with the development of the vast majority of ratepayer-funded affordability programs in the nation. A more complete description of Mr. Colton's education and experience is provided in OCA Statement 4, Appendix RDC-A.

[5] Ms. Alexander is a Consumer Affairs Consultant who runs her own consulting practice, Barbara Alexander Consulting LLC. She received her Bachelor of Arts degree from the University of Michigan and her J.D. from the University Of Maine School Of Law. Ms. Alexander has appeared in over 30 U.S. and Canadian jurisdictions as an expert witness on behalf of state utility consumer advocates and non-profit organizations. Ms. Alexander's professional experiences and qualifications are attached as Exhibit BA-1 to OCA Statement 5.

II. LEGAL STANDARDS

A. Burden of Proof

The Company bears the burden of proof to establish the justness and reasonableness of every element of its requested rate increase. In this regard, Section 315(a) of the Public Utility Code, 66 Pa. C.S. § 315 (a), provides as follows:

> Reasonableness of rates – In any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceedings upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.

66 Pa. C.S. § 315 (a). The Commonwealth Court has interpreted this principle in stating that:

> Section 315(a) of the Public Utility Code, 66 Pa. C.S. § 315(a), places the burden of proving the justness and reasonableness of a proposed rate hike squarely on the utility. It is well-established that the evidence adduced by a utility to meet this burden must be substantial.

Lower Frederick Twp. v. Pa. Pub. Util. Comm'n, 409 A.2d 505, 507 (Pa. Commw. Ct. 1980) (citations omitted); *see also Brockway Glass v. Pa. Pub. Util. Comm'n*¸437 A.2d 1067 (Pa. Commw. Ct. 1981).

The "term 'burden of proof' is comprised of two distinct burdens, the burden of production and the burden of persuasion." *Hurley v. Hurley*, 754 A.2d 1283, 1285 (Pa. Super. 2000) (*Hurley*). The burden of production dictates which party has the duty to introduce enough evidence to support a cause of action. *Id.*, at 1286. The burden of persuasion determines which party has the duty to convince the finder-of-fact that a fact has been established. *Id.* "The burden of persuasion never leaves the party on whom it is originally cast." *Hurley* at 1286.

The Pennsylvania Supreme Court has stated that the party with the burden of proof has a formidable task to show that the Commission may lawfully adopt its position. Even where a party has established a prima facie case, the party with the burden must establish "the elements of that cause of action to prevail, precluding all reasonable inferences to the contrary." *Burleson v. Pa.*

Pub. Util. Comm'n, 461 A.2d 1234, 1236 (Pa. 1983). Thus, a utility has an affirmative burden to establish the justness and reasonableness of every component of its rate request.

The OCA notes that Pennsylvania law is clear that there is no similar burden for a party proposing an adjustment to a utility base rate filing. *See e.g.*, *Berner v. Pa. Pub. Util. Comm'n*, 116 A.2d 738, 744 (Pa. 1955) (*Berner*). In *Berner*, the Pennsylvania Supreme Court stated:

> [T]he appellants did not have the burden of proving that the plant additions were improper, unnecessary or too costly; on the contrary, that burden is, by statute, on the utility to demonstrate the reasonable necessity and cost of the installations, and that is the burden which the utility patently failed to carry.

Id., at 744. The Commission recognizes this standard in rate determinations. *Equitable Gas 1983*, 1983 Pa. PUC LEXIS 33 at *126-127 (Pa. PUC 1983). Thus, it is unnecessary for the OCA, or any challenger, to prove that the Company's proposed rates are unjust, unreasonable, or not in the public interest. To prevail in its challenge, Pennsylvania law requires only that the OCA show how the Company failed to meet its burden of proof.

Therefore, the Company must affirmatively establish the reasonableness of every element of its claims and demonstrate that its proposed rates are just, reasonable, and in the public interest. In this Main Brief, the OCA will show that the Company has failed to satisfy its statutory burden in the manner set forth below.

B. Just and Reasonable Rates

The Natural Gas Choice Act brought PGW under the jurisdiction of the Commission and provides that PGW is, with certain exceptions, "subject to regulation and control by the commission with the same force as if the service were rendered by a public utility." 66 Pa. C.S. § 2212(b). Under Section 2212(e) of the Act, the Commission is charged with establishing the overall rates and charges for PGW. 66 Pa. C.S. § 2212(e). Section 2212(e), in part provides:

> [I]n determining the city natural gas operation's revenue requirement and approving overall rates and charges, the commission shall follow the same ratemaking methodology and requirements that were applicable to the city natural gas distribution operation prior to the assumption of jurisdiction by the commission...

66 Pa. C.S. § 2212(e).

The task for the Commission is to harmonize and to reconcile the Public Utility Code with the ratemaking methodologies in place for PGW. It is critical to note that the fundamental principle of the Public Utility Code, which is also the fundamental principle applicable to PGW's ratemaking methodology, is that rates must be just and reasonable. 66 Pa. C.S. § 1301; *Pa. PUC v. PGW,* R-00006042 (Order entered Oct. 4, 2001), (*PGW 2001*); *Public Advocate v. Philadelphia Gas Commission*, 674 A.2d 1056 (1996) (*Public Advocate*). Indeed, the just and reasonable standard has been applied to PGW even at the time it was regulated by the Philadelphia Gas Commission. In *Public Advocate*, the Court stated that: "[w]hen examining the 1991-92 rates for PGW, this Court is mindful that no applicable constitutional requirement is more exacting than the requirement of 'just and reasonable' rates." *Id*. at 1061. The Pennsylvania Supreme Court went on to hold as follows, "(w)e hold today that the United States Supreme Court guidelines for determining the constitutionality of a rate are also applicable to examining rate disputes involving municipal utilities." *Id.* at 1062.

In 2010, the Commission also issued a Policy Statement to provide guidance on the application of the cash flow method to PGW. *Petition of Philadelphia Gas Works*, Dock. No. P-2009-2136508 at 15 (Order entered Apr. 19, 2010) (*Policy Statement Order*). In relevant part, the *Policy Statement Order p*rovides:

> **§ 69.2703. Ratemaking procedures and considerations.**
> (a) In determining just and reasonable rate levels for PGW, the Commission will consider, among other relevant factors:

(1) PGW's test year end and (as a check) projected future levels of non-borrowed yearend cash.
(2) Available short term borrowing capacity and internal generation of funds to fund construction.
(3) Debt to equity ratios and financial performance of similarly situated utility enterprises.
(4) Level of operating and other expenses in comparison to similarly situated utility enterprises.
(5) 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.
(6) PGW's management quality, efficiency and effectiveness.
(7) Service quality and reliability.
(8) Effect on universal service.

> (b) The Commission is obligated to establish rate levels adequate to permit PGW to satisfy its bond ordinance covenants, consistent with the requirements of Section 2212(e) of the Act, 66 Pa. C.S. § 2212(e) (relating to securities of city natural gas distribution operations).
>
> (c) These financial measures will be considered by the Commission in determining just and reasonable rates for PGW under the Public Utility Code and are consistent with the PGW Management Agreement Ordinance.

52 Pa. Code § 69.2703. In issuing the Policy Statement, the Commission also provided the following as to the legal effect of the issuance, as follows:

> As explained in our December Order, a policy statement is intended to provide guidance regarding the policy the agency intends to implement in future adjudications. And, unlike a regulation, it is not enforceable and has no binding effect on the agency, or on anyone else. The Pennsylvania Supreme Court in *Pa. Human Relations Comm'n v. Norristown Area School District*, 473 Pa. 334, 374 A.2d 671 (1977) *("Norristown")*, distinguished the effect of a policy statement from a rule or regulation by adopting the "binding norm" test from federal law:
>
>> An agency may establish binding policy through rulemaking procedures by which it promulgates substantive rules, or through adjudications which constitute binding precedents. A general statement of policy is the outcome of neither a rulemaking nor an adjudication; it is neither a rule nor a precedent but is merely an announcement to the public of the policy which the agency hopes to implement in future rulemakings or adjudications. A general statement of policy, like a press release, presages an upcoming rulemaking or announces the course which the agency intends to follow in future adjudications. …

> The critical distinction between a substantive rule and a general statement of policy is the different practical effect that these two types of pronouncements have in subsequent administrative proceedings. . . . A properly adopted substantive rule establishes a standard of conduct which has the force of law. . . . The underlying policy embodied in the rule is not generally subject to challenge before the agency.
>
> A general statement of policy, on the other hand, does not establish a 'binding norm'. . . . A policy statement announces the agency's tentative intentions for the future. *When the agency applies the policy in a particular situation, it must be prepared to support the policy just as if the policy statement had never been issued.*

Policy Statement Order at 9-10 (citations omitted). The Policy Statement can serve as a guide, however, it has neither the force nor the effect of law. The primary consideration here is that any rates that result from this matter are legally required to meet the just and reasonable standard.

Based on these legal standards, the OCA recommends rate relief in the form of a $16.5 million increase in the annual revenue requirement for PGW. The OCA's recommendation adheres to the fundamentals of the ratemaking methodology employed by the Commission, properly recognizes the obligations and responsibilities of the owner of PGW and balances the interests of the company and its ratepayers.

III. SUMMARY OF ARGUMENT

PGW's proposed revenue increase of $85.8 million and its proposed Debt Service Coverage (DSC) ratio of 2.73 are unreasonable and beyond what the record evidence in this case supports. These numbers are primarily driven by PGW's speculative level of projected expenses for the Fully Projected Future Test Year (FPFTY), its proposed large increase to construction expenditures, its stated goals of reducing its debt-to-equity ratios and its speculative assertions as to a potential bond upgrade. OCA witnesses Mr. Mugrace and Dr. Griffing have both provided substantial evidence to show that PGW's projected expenses are overstated, there is no compelling reason to change PGW's existing capital structure, and the alleged benefits of a bond upgrade are illusory. The OCA's recommended revenue increase of $16.5 million, and the corresponding 2.40 DSC ratio are reasonable, supported by the record evidence, and should be accepted.

In the area of rate structure, OCA witness Watkins has provided several class cost of service studies (CCOSS) that show PGW's proposed CCOSS is reasonable, conforms to decades of Commission precedent, and should be accepted. Mr. Watkins has also thoroughly analyzed the CCOSS presented by the other Parties, specifically the customer demand (CD) CCOSS sponsored by PICGUG and the OSBA. These CD studies allocate a portion of distribution mains costs based on the number of customers served – a method that the Commission has repeatedly rejected for gas utilities. As such, these CD studies should be given little to no weight in this case.

As to revenue allocation, OCA witness Watkins found that PGW's proposed allocation to the various classes, including GFCP, follows its CCOSS and is generally reasonable. After conducting four separate CCOSS, however, Mr. Watkins found that slight adjustments to PGW's allocations were needed to more appropriately move all classes toward their cost of service. Mr. Watkins also reviewed the allocations proposed by PICGUG and the OSBA based on their respective CD studies. Mr. Watkins testified that the allocations that flow from these CD studies do not accurately represent cost causation principles and should be rejected. The OCA's proposed revenue allocation is reasonable, moves all classes toward their individual costs to serve, and should be accepted.

PGW's proposal to increase the residential customer charge from $14.90 to $19.50 should be rejected. OCA witnesses Watkins and Roger Colton both provided substantial evidence on this issue. Mr. Colton testified as to how a customer charge increase of this magnitude will definitively harm PGW's customers, especially its low-income customers. In rebuttal, PGW's witnesses provided only vague assertions and generalized notions in response to the OCA testimonies on this issue. PGW has failed to carry its burden of proof for its proposal, and the customer charge should remain unchanged at this time.

OCA witness Barbara Alexander thoroughly reviewed PGW's current customer service performance, considering the recent permanent closure of PGW's service centers. Ms. Alexander found that in some areas, PGW's current performance is satisfactory. Other areas, specifically call handling and payment agreement procedures, are in need of substantial improvement. Ms. Alexander provided numerous recommendations as to how these areas could be improved. The Commission should consider these deficiencies in arriving at a reasonable revenue increase for PGW and should also include Ms. Alexander's recommendations in any final order in this case.

As to PGW's current level of service to its low-income customers, OCA witness Mr. Colton found numerous areas that require serious improvement. Among the greatest areas of concern are PGW's ability to identify its low-income customers, enroll those customers in its Customer Responsibility Program (CRP), retain those customers in CRP, and actively negotiate payment agreements. Mr. Colton provided a series of recommendations that PGW could use to improve its performance in these areas. The Commission should consider these serious deficiencies in PGW's management effectiveness and quality of service in arriving at a reasonable revenue increase for PGW and should also include Mr. Colton's recommendations in any final order in this case.

IV. ARGUMENT

A. Revenue Requirement

1. The OCA's Recommended Revenue Increase is Reasonable.

PGW filed this case seeking a revenue increase of $85.8 million. After careful analysis of PGW's filing and review of the Company's responses to the extensive discovery requests in this proceeding, the OCA is recommending an increase in revenue of $16.502 million. OCA St. 1SR at 1. This increase represents a combination of the recommendations of OCA witnesses Mugrace and Griffing. As will be described below, Mr. Mugrace recommends substantial reductions to PGW's claimed operating expenses. Dr. Griffing recommends a Debt Service Coverage ratio of 2.40 as compared to PGW's proposed 2.73. OCA St. 2SR at 15. It is Dr. Griffing's view that a revenue requirement set to produce a 2.40 Debt Coverage ratio will provide PGW with financial stability while not overburdening its customers with unnecessarily high rates.

2. Debt Service Coverage

PGW requested that it be allowed to operate with a DSC ratio of 2.73 in the FPFTY of September 1, 2023, through August 31, 2024. PGW St. 2 at 16. As a municipally owned public utility, PGW does not have any shareholders or pay a rate of return to any owner in a traditional sense; instead, PGW pays the City of Philadelphia $18 million annually (City Fee). This payment is in effect a dividend payment. OCA St. 2 at 2. This fee is not part of the Company's debt service, but it does have equal standing with debt service payments in order of claims. If the City Fee is included in PGW's debt service coverage calculation, PGW's proposed ratio would become 2.58. In the OCA's testimony and in this Main Brief, the OCA refers to the ratio in which the coverage of the $18 million city fee is included as the Fixed-Charge Coverage Ratio (FCC). Thus, PGW has requested a DSC Ratio of 2.73, and an FCC Ratio (accounting for the $18 million City Fee) of 2.58.

OCA Witness Marlon Griffing analyzed the Company's financial metrics and as a result, recommends the revenue requirement be set at a level that generates a 2.40 debt service coverage ratio for the FPFTY of 2023-2024. OCA St. 2 at 3. A DSC ratio is an important input into determining the revenue requirement for cash flow utilities such as PGW. A DSC ratio is appropriate when 1) it meets its legal requirements, such as bond covenants, and; 2) it exceeds the required bond covenant ratio by large enough margin such that a company is equipped for predictable events, such as revenue variations from billing cycles, and unpredictable events, such as recessions or other events that severely impact an organization's revenues (and ability to pay debt service). OCA St. 2 at 5.

The OCA's recommended DSC ratio of 2.40 meets PGW's legal requirements under its bond covenant and exceeds the required bond covenant ratio of 1.5x by a sufficiently large margin to keep PGW financially stable throughout future events, while requiring a lesser revenue increase than that requested by PGW. OCA St. 2 at 3. PGW already charges above-average retail rates as compared to similar companies, and PGW has a particularly large low-income customer base. OCA St. 2 at 5. The median household income for PGW customers is 73% of the national average, according to Fitch and S&P Global, and consequently PGW customers' ability to pay is below the national average. OCA St. 2 at 6. As such, PGW should not be permitted a DSC ratio that would require an overly burdensome rate increase, when a smaller DSC ratio such as that recommended by the OCA will be sufficient to satisfy PGW's cash flow and other financial needs for the FPFTY and beyond.

Further, the OCA's recommended DSC ratio is more in line with projected cost increases than PGW's proposed ratio. The inflation rate is down from the January 2022 and January 2023 year-over-year inflation rates, and the present inflation rate is less than the Company's requested percentage increase in rates.[6] OCA St. 2 at 6. PGW's revenue increase, if granted, would drive its already above-average rates even higher for a cash flow utility whose costs will not increase as much as projects due to moderating inflation. In rebuttal testimony, PGW witness Golden argued that it is inappropriate to judge a utility's rate request against recently experienced inflation rates, as a utility has the right to recover all prudently incurred costs that are used and useful in the provision of service regardless of inflation. PGW St. 2R at 23. While this is true, utility rates should also reflect the utility's best estimate of what each input to providing its service will cost, not simply what it has cost in the past. As OCA witness Griffing explained:

> "Utility rates should be forward-looking. That is, they should reflect what the utility's best estimate is of what each input to providing its service will cost, not what it has cost. Recent actual prices and trends in those prices for labor, materials, computers, and so forth should inform the projections of those costs, but not determine them. Thus, rates of inflation are a valid consideration when setting forward-looking utility rates. Recent inflation rates and trends in those rates should be factored into the estimates of what a utility's input costs will be. For example, if inflation rates have been declining, then it is possible that increases in the costs of utility inputs should be smaller than they otherwise would be. The opposite would hold true if rates of inflation were rising."

OCA St. 2SR at 6-7. Thus, it is appropriate to compare PGW's proposed rate increase to the annual inflation rate for the purpose of discerning whether the rate increase appropriately captures the likely future expenses that PGW will incur and collect the funding for from its customers.

The OCA's recommended DSC ratio of 2.40 is reasonable under the current economic conditions. A DSC ratio for such a utility should exceed 1.5 as required by the Bond Ordinance that governs PGW's bonds. Based on PGW's past performance, OCA witness Griffing's recommended DSC ratio of 2.40 will enable the Company to exceed this bond ratio. Even if the

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[6] Bureau of Labor Statistics, U.S. Department of Labor, *The Economics Daily*, *Consumer prices up 4.9 percent from April 2022 to April 2023.* At https://www.bls.gov/opub/ted/2023/consumer-prices-up-4-9-percent-from-april-2022-to-april-2023.htm.

$18 million City Fee is included in the OCA's DSC calculations, the ratio would become only 2.24, which is well above the 1.5 bond ratio requirement.

PGW claims its requested DSC ratio will promote its goal of achieving a higher bond rating because the DSC ratio is one of the three financial metrics that the major credit ratings agencies consider when they assign bond ratings to organizations. PGW St. 4 at 49. Currently, PGW has an A- rating from Fitch, an A rating from Standard & Poor's (S&P Global), and an A3 by Moody's. Together these ratings indicate that PGW averages a bit better than an A- rating at its current DSC.

As Dr. Griffing described, however, PGW's DSC ratio does not need to be at 2.73 for PGW to maintain or increase its bond rating:

> "The PGW DSC ratio average was 2.46 from 2017 through 2021. There was, however, significant variation in that span. The 2017 DSC ratio was 2.71 and the 2021 DSC ratio was 2.70. However, in the three years in between those end years, the ratio values were 2.35, 2.33, and 2.20. This series of DSC ratio values did not stop Fitch from upgrading the PGW credit rating to A- in February 2022. At the same time, Moody's and S&P Global kept their ratings for PGW at A3 (A-equivalent) and A, respectively. The fact is the DSC ratios in the 2017-2021 period did not impair PGW's ability to receive a bond rating increase, even though three of the years were significantly less than 2.73 and less than my recommended DSC ratio of 2.40."

OCA St. 2 at 6-7. Although PGW witness Joseph F. Golden Jr. claimed that the credit ratings have stated that PGW needs to improve its DSC, the historical evidence of PGW's ratings and the most recent reports from the credit ratings agencies indicate that PGW has no need to improve its DSC ratio. PGW St. 2 at 14.

PGW witness Golden's and PGW witness Lover's assertions that an improved bond rating will benefit customers by allowing PGW to issue debt at lower interest rates also do not accurately capture the fact that any such benefits will be counteracted by the harms that will come to ratepayers due to increased costs from such a ratio. OCA St. 2 at 7; PGW St. 2 at 14; PGW St. 3 at 20. PGW attempts to justify its $85.3 million requested revenue increase by claiming it needs to improve its DSC ratio, days of cash on hand, and debt-to-capitalization ratio, as these are the most important indicators that credit ratings agencies follow. PGW St. 4 at 49. However, PGW's witnesses only provide speculation about what the consequences would be should PGW fail to make these improvements, because credit ratings statements make primarily general statements about what leads to upgrades or downgrades in credit ratings. OCA St. 2 at 8. Other factors that the agencies indicate could lead to bond ratings changes include weakening demographics, material reduction, notable expansion of customer base, and a less supportive rate regulatory environment. *Id*. The three indicators that PGW chose to prioritize are not solely indicative of bond ratings improvements or downgrades, and it cannot be concluded from the credit ratings agency reports that PGW must receive its full requested rate increase to improve its bond ratings.

PGW predicts that its requested DSC ratio will enable its bond rating to increase, perhaps by two notches. PGW witness Lover predicts that such an increase would save PGW $13.9 million over the life of a long-term PGW bond. OCA St. 2 at 10. OCA witness Griffing described how the cost to ratepayers of higher rates to attain an increase in PGW's bond rating outweighs the benefits as follows:

> Mr. Lover found the savings to be $13.9 million for a two-notch difference over the life of a long-term PGW bond. I assume that the difference for a one-notch difference would be half of that amount, or about $7.0 million. The cost to PGW ratepayers in higher rates to attain a one-notch increase in the Company's bond rating is some large part of the $85.33 million increase requested by PGW. As a conservative estimate, I will assume it is $5 million. PGW ratepayers will pay that much more annually for the life of the bonds to maintain that bond rating. Thus, the cost to the ratepayers quickly dwarfs the benefit.

OCA St. 2 at 10. Clearly, the cost to ratepayers negates the potential benefit to PGW for the DSC ratio increase, particularly when there is no indication that PGW needs its requested increase to maintain sufficient bond ratings.

3. Construction Expenditures

PGW proposed nearly $207 million in Net Construction Expenditures in FPFTY 2023-2024. OCA St. 2 at 11. In the HTY from 2021-2022, PGW spent approximately $151 million on such projects, and in the FTY it plans to spend approximately $170 million. Thus, PGW's proposed FPFTY spending amounts to an increase of $36 million, or 21% more than that spent in the year prior. This percentage increase is significantly higher than the inflation rate for April 2023 (4.9%), the January 2022 annual inflation rate (7.5%) and the January 2023 annual inflation rate (6.4%). OCA St. 2 at 11. Prior to the COVID-19 pandemic, PGW's Net Construction Expenditures were significantly less, with PGW having spent $123.4 million in fiscal year 2017-2018, $100.5 million in the fiscal year 2018-2019, and $119.7 million in the fiscal year 2019-2020. OCA St. 2, Sch. MFG-3, Sch. MFG-4.

In Direct Testimony, the OCA recommended that PGW should reduce its proposed FPFTY Net Construction Expenditures by $25 million, in addition to the $7 million reduction to those expenditures identified by OCA witness Mugrace. OCA St. 2 at 11; OCA St. 1 at 8. As OCA witness Griffing explained, "[a reduction in PGW's proposed construction expenditures,] When combined with a $7 million reduction on those expenditures identified by OCA witness Mugrace, that leaves PGW with nearly $175 million for new expenditures. That total is more in line with the trend in annual spending on such projects by the Company, including in the years before COVID-19." OCA St. 2 at 11. In Rebuttal Testimony, PGW witness Golden argued that the OCA's recommended reduction to Net Construction Expense should not be considered because it was not tied to the cancellation of specific construction projections. PGW St. 2R at 8.

However, as OCA witness Griffing explained, that argument does not account for how PGW has overestimated its projected construction expenditures in the last three years of 2020, 2021, and 2022 by between $15 and $23.3 million dollars each year. As explained by OCA witness Griffing:

> Please note that for its 2020 rate case PGW projected net construction expenditures for fiscal years 2020, 2021, and 2022, the FTY and FPFTY, and a Forecast Year. There are entries in those three years, among others, in the actual net construction expenditures row. For the respective years the actual PGW expenditures are less by $20.4 million, $15.6 million, and $23.3 million than the projected amounts submitted by PGW. By spending less in those years, did PGW make the construction projects not built because of the reduced spending disappear? Of course not. Rather, PGW staff or advisors with experience in construction planning, construction and assessing the effect of the projects on the safety and reliability of the PGW distribution system evaluated the set of projects proposed by PGW, then made the decisions to build some projects and not build others. The unbuilt projects may have been deferred or cancelled, but they did not disappear.

OCA St. 2SR at 4-5, Sch. MFG-SR-2. Based on Dr. Griffing's analysis, in Surrebuttal Testimony the OCA revised its recommended reduction to Net Construction Expenditures to be $17.108 million, to allow PGW a net construction expenditure amount of $189.851 million. OCA witness Griffing provided the following additional context for how he arrived at this amount:

> This amount reflects an increase of $19,361,000 over the amount presented by PGW for the future test year (FTY) of 2022-2023. It is equal to the increase from the historic test year (HTY) of 2021-2022 to the FTY…. The consecutive years of $19.4 million increases for PGW represent growth rates of 12.8 percent and 11.4 percent. Taken together, the absolute increase of $38.7 million over the two years is an increase of 25.6 percent. Thus, the two-year growth for PGW is smooth, yet substantial. Further, it is consistent with values for PGW of a 2.40 debt service coverage (DSC) ratio.

OCA St. 2SR at 2.

The OCA's recommended reduction to Net Construction Expenditures of $17.108 million is based on an analysis of the *actual* amounts spent by PGW in the fiscal years from 2018 to 2022. OCA St. 2R, Sch. MFG-SR-3. PGW's net construction expenditures increased from $151.1 million in the historical test year of 2021-2022 to $207.0 million two years later in the FPFTY of 2023-2024. The increase for the two years totals 36.9 percent, or $55.8 million. As such, OCA witness

Griffing identified $17.1 million as a reduction that PGW could make that was consistent with the OCA's recommended debt service coverage ratio of 2.40 percent (2.24 percent with PGW's annual $18 million payment to the City of Philadelphia included). The recommended $17.1 million reduction addresses PGW's cash flow needs and recognized that PGW has a history of projecting the need for more construction-related cash flow than it actually spends. OCA St. 2SR at 4-5.

PGW witness Walker argued that the OCA ignored large changes to the cost to construct gas utility plant in its recommended decrease to net construction expense. PGW St. 4R at 7-8. Specifically, Mr. Walker notes that there were 24% and 22% increases to this cost in recent years. *Id*. While the OCA did not cite the same specific increases as Mr. Walker in its direct testimony, the OCA's proposed increases to net construction expenditures in the FTY and FPFTY amount to a 25.6% increase from the HTY, which would help to address any such cost increases discussed by Mr. Walker. OCA St. 2SR at 8. Further, rising input prices are a problem that all organizations face from time to time. This may mean that an organization must defer or cancel some programs or projects because its resources do not increase at the same rate as the costs. OCA St. 2SR at 8. PGW is responsible for managing such situations in the same way that any organization would, and the OCA's proposed net construction expenditure increase is sufficient to provide PGW with the capability to do so. Dr. Griffing's proposed construction expenditures are well supported and in accord with PGW's recent actual construction expenses and should be approved. *See* OCA Schedule MFC-SR-1.

4. Days Cash on Hand

PGW witness Golden states that if PGW receives its proposed revenue increase, its days of cash on hand will be 61.8 days. PGW St. 2 at 23. The OCA's recommended DSC ratio and net cash expenditures for PGW would result in PGW having approximately 57.41 days cash on hand.

OCA St. 2SR at 2. As explained below, the OCA's lower recommended days cash on hand is more appropriate, as it will be less burdensome for customers while still allowing PGW sufficient funds to address any financial difficulties that may arise, and to maintain its current bond ratings from credit agencies.

PGW witness Lover asserted that PGW's claimed days of cash on hand amount is based in part on the fact that PGW's customer base is lower income than average. Specifically, Mr. Lover asserted that because PGW's customer base has a median household income that is 73% of the national median, PGW needs to have more cash on hand in the case of any market shocks. PGW St. 3R at 2-3. Otherwise, Mr. Lover argues that PGW's credit ratings could be impacted negatively. *Id*. OCA witness Griffing responded to this argument from Mr. Lover as follows:

> Turning to the particulars mentioned by Mr. Lover, the low MHI is well known. For example, Fitch stated in its August 8, 2016, Fitch Ratings for PGW that the PGW MHI was about 70 percent of the national average. Therefore, the risk of high rates of delinquencies among PGW customers already should be built into PGW's rates. No adjustment needs to be made to the PGW rates to adjust days of cash on hand for this factor. Thus, the appropriate response to the chance of increased delinquency because of the relatively low median household incomes for PGW customers is to bolster its Customer Responsibility Program (CRP) that is targeted to low-income households. Please see the testimony of OCA witness Roger Colton for more about the CRP.

OCA St. 2SR at 10 (citation omitted). Mr. Lover's argument also fails to acknowledge that if a recession were to occur, businesses (such as PGW) tend to slow purchasing and reduce capital expenditure spending, thus reducing their cash needs. OCA St. 2SR at 10. Additionally, the increase that PGW recommended in its filing will negatively impact PGW's customers' abilities to pay their bills, in the same way that a recession would. *Id*. If PGW is concerned about its customers' abilities to pay in the event of a recession due to its customer bases' low median household income, then PGW should seek to bolster its CRP enrollment so that its low-income customers have mechanisms to deal with financial difficulties.

Mr. Lover argues that investing in a rate increase that will support upgrades to PGW's total credit ratings would be worth it for PGW's customers. PGW St. 3R at 2. Mr. Lover's argument is vague and unsupported by the record in this case. Mr. Lover performs no calculations to find the savings that he claims customers would incur from a higher credit rating. OCA St. 2SR at 14. As explained by OCA witness Griffing:

> Mr. Lover analyzes six factors. He calculates savings for two of the six factors. The amount for one of those two factors cannot be verified. The savings for the other is $400,000 annually for a $348.9 million bond issue… Mr. Lover has not shown what the savings are from avoided higher costs. Thus, there is no way the costs to higher rates for PGW customers can be meaningfully compared with the benefits to ratepayers. Mr. Lover's unequivocal assertion is not proven.

OCA St. 2SR at 14-15.

Since Mr. Lover has not shown what savings will occur for customers if PGW were to have a higher credit rating, those savings cannot be compared against the cost of the rate increase proposed by PGW. On the other hand, the OCA has demonstrated that its proposed DSC ratio and days cash on hand are sufficient for PGW to maintain its credit ratings. PGW's proposed days of cash on hand amount is unsupported and should not be approved by the Commission. The OCA's more conservative estimate is sufficient and will not cause as heavy a rate burden for customers as that proposed by PGW, thus, it should be approved.

5. <u>Conclusion</u>

To the extent that achieving a higher bond rating requires having a higher DSC ratio, it also entails needing a higher revenue requirement. This higher revenue requirement means that PGW customers will have to pay higher rates for essential utility service. There is a balance between ensuring a sufficient DSC that attracts capital at rates that benefit ratepayers, but not too high such that rates are excessive. The OCA's proposed adjustments to PGW's DSC ratio, Net Cash Expenditures, and Days Cash on Hand will allow PGW to maintain its credit ratings and continue to operate effectively in the near-term future without being an overly burdensome rate increase for PGW's customers. Thus, the OCA's adjustments should be accepted. *See* Schedule DM-SR-18.

B. Expenses

1. Inflation Adjustment

PGW witness Golden explained the process by which the Company goes about budgeting and projecting future costs for the FPFTY. According to Mr. Golden, each of PGW's 43 operating departments is asked to identify their expenses going forward. If a department has specific data or information related to anticipated cost increases in the FPFTY, it is expected to use that information in developing its budget for the FPFTY. If, however, a department has certain costs that it is confident will rise in the future but the specific level of increase cannot be separately and specifically determined, it will apply a general inflation adjustment percentage to those costs for the purpose of determining the FPFTY budget. PGW St. 2-R at 37-38. Mr. Golden maintains that this inflation adjustment is targeted to only certain expenses expected to be incurred in each expense account in the FPFTY. He notes that for these types of expenses, PGW applied an inflation adjustment percentage of 4.63%. Mr. Golden further noted that this adjustment was applied to less than 20% of total operating expenses. Hence only $62.5 million of a total of $308 million in expected operating expenses were calculated using the general inflation adjustment. PGW St. 2-R at 38.

OCA witness Mugrace accepted Mr. Golden's representation that a general inflation adjustment was applied to only $62.5 million of projected FPFTY operating expenses. However, he recommended that the full amount of that adjustment ($62.5 million x 4.63% = $2.89 million) be removed from PGW's FPFTY revenue requirement. OCA St. 1SR at 10. Mr. Mugrace noted that the Company provided no further breakdown or specific information or cost adjustments related to the $62.5 million figure. OCA St. 1SR at 10. Mr. Mugrace stated that when setting rates for utility service, costs should be prudently incurred, and documentation should be provided to reflect the proposed cost adjustments. He observed that general measures of inflation do not provide a true picture of cost changes (increases or decreases). Generalized measures of inflation typically represent a general basket of goods and services that may or may not relate to costs incurred by PGW. Inflationary costs cannot be precisely determined and there is no way to pinpoint whether a particular cost is or will be subject to inflation. Mr. Mugrace emphasizes that regardless of the rate methodology being used to set rates for service (Rate Base/Rate of Return or Cash Flow Method), the costs relied upon in setting such rates must be valid and supported with appropriate data in order to substantiate their use in the rate-setting process. OCA St. 1SR at 10.

The Commission has repeatedly required specificity by the utility when using an inflation factor, and the Commission has disallowed inflation factors that are too speculative in nature. *Pa. PUC. v. Philadelphia Elec. Co.*, 58 Pa. P.U.C. 7 (1983) (*PECO 1983*); *National Fuel Gas Dist. Corp. v. Pa. PUC.*, 677 A.2d 861 (Pa. Cmwlth. 1986) (*NFG 1986*). In the 2021 Aqua Water Base Rate Case, the Commission stated, "allowing Aqua to apply a general inflation adjustment to a block of expenses could incentivize less accurate tracking of expenses and a less rigorous approach to controlling costs for those expenses." *Pa. PUC v Aqua Pa. Water Co.*, 2022 Pa. PUC LEXIS 161, *50-51. (Order entered May 16, 2022). Additionally, the Commission found that Aqua's "application of a General Price Adjustment to 22% of expenses is neither targeted nor specific." *Id.* at *51. For these reasons, Mr. Mugrace recommended that the $2.89 million of increased operating expenses For these reasons, Mr. Mugrace recommended that the $2.89 million of increased operating expenses reflecting the application of a generalized inflation adjustment factor be denied. The Commission should adopt Mr. Mugrace's recommendation. OCA Sch. DM-SR-2.

2. COVID-19 Expenses

In this proceeding, PGW has made a claim for two types of deferred COVID-19-related expenses. The first expense category represents incremental uncollectible account expenses incurred as a result of the pandemic. These expenses arose as a result of the Commission's March 2020 Order calling for a moratorium on shutoffs. In a subsequent Secretarial Letter issued in May 2020, the Commission authorized public utilities to create a regulatory asset for incremental uncollectible expenses above those that were embedded in rates, beginning with the March 2020 Order, for potential recovery in rates. PGW is seeking $27.840 million for these incremental expenses. PGW St. 2 at 10.

The second expense category for which PGW is making a claim relates to incremental professional cleaning services as well as additional supplies and equipment that were necessitated by the pandemic. PGW's claim for this category is $4.044 million. PGW proposed to recover its total Covid-19 expenses over a three-year period in the amount of $10.627 million per year. PGW St. 2 at 10-11.

Upon review of these expenses, OCA witness Mugrace accepted the $27.840 million in incremental uncollectible accounts expense, but he maintained that the $4.044 million expense should be reduced by the nearly $2.0 million PGW received from the Federal Emergency Management Agency (FEMA) as partial reimbursement of these expenses. OCA St. 1 at 53. In Rebuttal Testimony, PGW agreed with this reduction. PGW St. 2-R at 35. The balance of this claim was then approximately $2.1 million. In addition, Mr. Mugrace recommended recovery of these expenses over a five-year period rather than the three-year period that PGW proposed. He did so in order to match the five-year period over which PGW proposed to recover its rate case expenses. OCA St. 1 at 53. Mr. Mugrace also noted that because the Commission authorized creation of a regulatory asset for pandemic-related expenses, there is no uncertainty as to recovery and PGW will be able to fully recover these costs. In addition, the longer recovery period benefits customers as a lower amount will be collected each year. OCA St. 1SR at 9. Taking account of the FEMA reimbursement and the extended recovery period of five years rather than three, Mr. Mugrace proposed an annual recovery of COVID-related expenses equal to $5.985 million, a reduction of $4.642 million from PGW's proposed $10.627 million per year. OCA Sch. DM-SR-11. Mr. Mugrace's proposed recovery period should be adopted.

3. Advertising Expenses

PGW has proposed advertising expenses of $3.132 million for the FPFTY. PGW Exh. III-A-25. OCA witness Mugrace took exception to two components of that expense: the $779,000 Advanced Marketing Campaign and the $78,000 Diversification of New Revenue Opportunities campaign. OCA St. 1 at 25. Initially, Mr. Mugrace stated that PGW had not provided any detail regarding the Advanced Marketing Campaign so it was difficult to determine whether this campaign would provide any benefit to customers. OCA St. 1 at 26. As for the New Revenue Opportunities program, Mr. Mugrace noted that the campaign appeared to be related to new business opportunities and decisions with risks attached to outcomes. He observed that the campaign may or may not benefit customers. *Id.* Accordingly, he requested further information about the two campaigns.

PGW witness Golden responded to Mr. Mugrace by pointing out that the Company had modified a prior discovery response with further information about the campaigns and that the additional information fully supports both programs. PGW St. 2-R at 52. In response to Mr. Golden, Mr. Mugrace stated that the modified discovery response did not fully support the need for the full cost of either advertising program. OCA St. 1SR at 16.

The Commission has held that it is not possible to judge the reasonableness of a marketing plan that has not been initiated because of the uncertainness of the content. *Pa. PUC v. UGI Utilities, Inc*., 1994 Pa. PUC LEXIS 137*, 105-06 (Order July 27, 1994). Regarding the Advanced Marketing Campaign, the cost relates to three initiatives: Fueling the Future (to launch in 2024); Online Appointment Scheduling; and Main Replacement customer outreach. Mr. Mugrace noted that of these initiatives, only Fueling the Future had advertising examples available. None were available for the Diversification of New Revenue Opportunities campaign. OCA St. 1SR at 16. Given the lack of availability of advertising materials for certain of these programs, Mr. Mugrace said it is impossible to determine whether the costs are reasonable and provide benefits to customers. He therefore recommended that 50% of the Advanced Marketing Campaign costs be disallowed and that the full amount of the Diversification and New Revenue Opportunities campaign costs be disallowed. This amounts to a reduction in PGW's proposed Advertising expense of $389,500 (50% of $779,000) plus $78,000 for a total of $467,500. *Id*, OCA Sch. DM-SR-9.

As Mr. Mugrace has observed, the inability to assess whether or to what extent these proposed advertising campaigns will provide benefit to PGW's customers, supports the disallowances he has proposed. They should be adopted.

4. Lobbying Expense

PGW has included $100,000 of lobbying expense in its revenue requirement proposal. I&E RE-1-30. OCA witness Mugrace recommended that this expense be disallowed. OCA St. 1 at 27. This would be consistent with Section 1316 of the Public Utility Code (66 Pa. C.S. Section 1316) which prohibits utilities from recovering from customers the cost of "political advertising." Section 1316's definition of "political advertising" includes "money spent for lobbying."

PGW witness Golden responded by acknowledging the Commission's general rule regarding lobbying expenses but feels these expenses should be allowed for PGW. He stated that as a municipal utility PGW has an obligation to maintain lines of communication with other parts of government. Further, he observed that PGW's government relations professionals assist in obtaining information and appropriate funding for federal programs such as LIHEAP, which benefit customers. Mr. Golden stated that because PGW has no shareholders, all of PGW's lobbying efforts accrue to the benefit of customers. He said that the normal treatment of lobbying expenses by the Commission is not appropriate for PGW and that he has been informed by counsel that the PUC can waive provisions of the Public Utility Code if such a waiver would be reasonable considering PGW's special circumstances. He further acknowledged that the amount in question would have a *de minimis* effect on PGW's cash flow. PGW St. 2-R at 31-32.

In response, OCA witness Mugrace noted that PGW provided no breakdown of the lobbying expense amount. He reiterated his position that the full amount of the expense should be denied and noted that his position is reinforced by the fact that denial would have a *de minimis* effect on cash flow. He maintained that there is no "special circumstance" surrounding PGW's ratemaking scenario. OCA St. 1SR at 8.

The Commission has ruled that lobbying expenses do not have a direct ratepayer benefit and as such cannot be included in rates. *Pa. PUC. v. Pennsylvania-American Water Co.,* 79 Pa. P.U.C. 25, 66 (1993) (disallowing a portion of membership dues which related to legislative advocacy functions and lobbying); *Pa. PUC. v. National Fuel Gas Distribution Corp.*, 84 Pa. P.U.C. 134, 196 (1995) (disallowed expenditures of the Governmental Affairs Department that related to lobbying); *Pa. PUC. v. Metropolitan Edison Co.*, 60 Pa. P.U.C. 349, 382 (1985) (eliminating percentage of dues for the usage towards lobbying and legislative activities expenses).

Additionally, the Commission has historically rejected PGW's inclusion of lobbying expenses in past base rate cases. *Pa. PUC v. Philadelphia Gas Works*, 2001 Pa. PUC LEXIS 686* (R.D. May 17, 2001) (removing lobbying expense claimed by PGW); *Pa. PUC v. Philadelphia Gas Works*, 2007 Pa. LEXIS 45, *89 (Order September 13, 2007) (*PGW 2007)* (excluding the lobbying claim from recovery within base rates). Addressing a possible waiver to Section 1316 the *PGW 2007* Commission Order explicitly stated "the Company has failed to present compelling reasons to grant a waiver under Section 2212(c) of the Code to change the treatment of this type of expense claim from the Commission's prior treatment, which is to exclude the claim from recovery within base rates." *Id*.

PGW's request for an exception to Section 1316 and its overly broad claim that the Commission can waive provisions of the Public Utility Code when it deems such a waiver reasonable should be rejected. Recovery of PGW's lobbying expenses should be denied. OCA Sch. DM-SR-9.

5. Operating Expenses and Normalization

In his Direct Testimony, OCA witness Mugrace provided a detailed explanation of how he approached the review of PGW's numerous claimed operating expense categories. He testified that:

> I reviewed each of PGW's 15-line items and the Natural Gas expense (Fuel), that make up PGW's Operating Expense accounts. I also reviewed the data responses submitted by PGW to OCA… as well as PGW's Index to the Rate Filing Requirement (Volume I parts 1-3). I reviewed the I&E's data sets as well as other Intervenor data sets. I analyzed and reviewed PGW's adjustments beginning with the HTY period, through the FPFTY period, and noted and evaluated any adjustments that might be escalation costs in nature, unusual or large variations from prior historical periods, one-time expense items, and whether such costs included in the FTY and through the FPFTY periods were abnormal adjustments or anomalies as compared to prior years adjustments. I set a baseline variance of 25% or greater in determining my adjustments across the FTY periods in each of the operating expenses to make adjustments from PGW's FPFTY 2024 period. I

determined the 25% baseline variance adjustment based upon the basic accounting principle that a material variance of at least 15% is considered a major variance and requires explanations as to the reasoning for the variance. Variances are useful to determine whether the expected or forecasted costs are in line with actual costs that have been incurred. I included a buffer of 10% over the 15%, or 25%, to make adjustments to PGW's costs (favorable and unfavorable or increases and decreases) from the HTY 2022 through the FY 2023 and FY 2024. In my review, and in certain instances, I utilized three-year normalizations in areas where PGW had incurred cost increases or cost decreases in what was projected or budgeted over that which were incurred in prior years, and reviewed whether those cost increases or decreases were reasonable in nature. The use of a three-year normalization is a reasonable approach in developing cost adjustments, on a budgeted and projected basis prospectively. Operating costs incurred from prior years typically show a trend that can be utilized to set costs in the future.

OCA St. 1 at 17-18. (Emphasis added).

Applying this method of analysis to his review of PGW's various expense categories, Mr. Mugrace found numerous instances of variances of 25% or more and accordingly recommended that the expense in each such category be normalized over the three-year period, 2022 to 2024.

Following is a list of the expense items that Mr. Mugrace proposed be normalized and the dollar impact of that normalization on PGW's revenue requirement:

Expense Category	**Adjustment Amount**	**Effect on PGW Rev. Req.**	**Record Reference**
Gas Processing Expense	$ 30,298	Decrease	OCA Sch. DM-SR-3
Field Operations	$ 2,000	Decrease	OCA Sch. DM-SR-4
Collections	$ 23,667	Increase	OCA Sch. DM-SR-5
Customer Service	$1,428,000	Decrease	OCA Sch. DM-SR-6
Account Management	$ 132,333	Decrease	OCA Sch. DM-SR-7
Marketing	$ 73,333	Decrease	OCA Sch. DM-SR-8

Under the expense category Administrative & General, Mr. Mugrace identified twenty-four separate expenses, each with significant variations from year to year for which he recommended using a three-year normalization. These items and their effect on PGW's revenue requirement are listed below:

Administrative & General Expenses

Sub Expense Category	Adjustment Amount	Effect on PGW Rev.Req.	Record Reference
1. Accounting and Reporting	$ 20,042	Increase	OCA Sch. DM-SR-9
2. CFO	$ 2,038	Increase	OCA Sch. DM-SR-9
3. Chemical Services	$ 49,333	Decrease	OCA Sch. DM-SR-9
4.Corporate Communications	$ 98,667	Decrease	OCA Sch. DM-SR-9
5. Corporate Planning	$ 41,667	Increase	OCA Sch. DM-SR-9
6. Customer Review Unit	$ 39,269	Decrease	OCA Sch. DM-SR-9
7. Data Analytics	$123,000	Decrease	OCA Sch. DM-SR-9
8. Gas Control and Acquisitions	$ 53,334	Decrease	OCA Sch. DM-SR-9
9. Gas Planning and Rates	$ 15,333	Decrease	OCA Sch. DM-SR-9
10. Human Resources	$191,333	Decrease	OCA Sch. DM-SR-9
11. Internal Audit	$ 67,319	Decrease	OCA Sch. DM-SR-9
12. Labor Relations	$ 1,667	Increase	OCA Sch. DM-SR-9
13. Legal	$143,786	Increase	OCA Sch. DM-SR-9
14. Organizational Development	$250,667	Decrease	OCA Sch. DM-SR-9
15.President and CEO	$ 3,379	Decrease	OCA Sch. DM-SR-9
16. Risk Management	$ 8,667	Increase	OCA Sch. DM-SR-9
17. Security and Loss Prevention	$ 70,326	Increase	OCA Sch. DM-SR-9
18.SVPGas Management	$ 15,667	Increase	OCA Sch. DM-SR-9
19. SVP Operations and Supply Chain	$ 2,786	Decrease	OCA Sch. DM-SR-9
20. Treasury	$ 12,069	Decrease	OCA Sch. DM-SR-9
21. VP Budget and StrategicDevelopment	$ 6,510	Increase	OCA Sch. DM-SR-9
22. VP Marketing	$ 6,903	Increase	OCA Sch. DM-SR-9

23. VP Regulatory Compliance & Customer Programs	$1,206,276	Decrease	OCA Sch. DM-SR-9
24.Special Legal Services	$ 791,550	Decrease	OCA Sch. DM-SR-9

Accumulating the pluses and minuses of Mr. Mugrace's recommended adjustments (based on normalization) in the Administrative and General category produces a recommended decrease in PGW's revenue requirement of $2,587,042. Combining that amount with the normalization adjustments he proposed for Gas Processing, Field Operations, Collections, Customer Service, Account Management and Marketing, Mr. Mugrace is recommending an overall reduction of the PGW revenue requirement of $4,276,673.

In order to understand Mr. Mugrace's rationale for recommending these normalization adjustments, it would be helpful to provide some examples of the wide variation in year-to-year expenditures that Mr. Mugrace observed in several of these expense categories. The first example is Customer Service Expense. PGW has included $21.278 million for Customer Service in its revenue requirement. PGW Exh. JFG-2, line 21. It should be noted that each of these expense categories is broken down into multiple subcategories. Using his 25% variance metric, Mr. Mugrace identified three subaccounts under Customer Service that met his criterion – Purchased Services, Information Services and Facilities Management. OCA St. 1 at 22. Taking each in turn, Mr. Mugrace noted that for Purchased Services, PGW spent $193,000 in 2020 and $204,000 in 2021. In HTY 2022, PGW spent $781,000, and for FTY 2023, it has projected an expense of $3.967million, an increase of 407% over the HTY. For the FPFTY, PGW projects an expense of $2.774 million. Mr. Mugrace normalized the Purchased Services subaccount expenses for the period 2022 through 2024 and determined a normalized level of $2,507,333 which is a downward adjustment of $266,667 from PGW's projected FPFTY level. OCA St. 1 at 22. With regard to the Information Services subaccount under the Customer Service category, PGW spent $4.754 million in HTY 2022. For 2023, it is projecting a decrease to $4.365 million followed by an increase in the FPFTY to $5.938 million. Mr. Mugrace normalized expenditures in this subaccount over 2022 through 2024 and arrived at a normalized expense level of $5.019 million, which represents a $919,000 downward adjustment from PGW's projected FPFTY expense level. OCA St. 1 at 22. Finally, with respect to the Facilities Management subaccount, PGW spent $1.246 million in HTY 2022. The Company is projecting an expenditure of $1.697 million in 2023, and an expenditure of $1.835 million in the FPFTY. As with the other subaccounts, Mr. Mugrace normalized the expenditures over the period 2022 through 2024 and determined a normalized expense level to be $1,592,667. This is a $242,333 adjustment to PGW's FPFTY projection. OCA St. 1 at 22. Summing the normalization adjustments Mr. Mugrace has proposed to the three Customer Service subaccounts produces an overall adjustment to the Customer Service category of $1.428 million. OCA St. 1 at 22.

A second example is the Human Resources category under Administrative and General Expenses. PGW proposed including $4.139 million in its revenue requirement for this expense. I&E RE-1-23. Mr. Mugrace found two subaccounts under Human Resources that exceeded his 25% variance threshold – Facilities Management and Information Services. OCA St. 1 at 36. Under Facilities Management, PGW incurred an expense of $658,087 in 2022 and projects expenses in this subaccount of $1.089 million in 2023 and $1.240 million in 2024, an 88% increase from 2022. Mr. Mugrace normalized this expense over 2022-2024 for a subaccount balance of $995,667. This is a reduction of $244,333 from PGW's proposed $1.24 million. OCA St. 1 at 36. Similarly, Mr. Mugrace normalized the Information Services subaccount for which PGW spent $994,156 in 2022 but is projecting expenditures of $749,000 in 2023 and $792,000 in 2024. His normalization resulted in a balance of $845,000, a $53,000 increase over PGW's projected $792,000 expense for

2024. OCA St. 1 at 36-37. Netting Mr. Mugrace's adjustments in the Human Resources category produces an overall reduction of $191,333 in this expense category.

A third example is the Special Legal Services category under Administrative and General Expenses. Mr. Mugrace identified one subaccount that met his 25% variance criterion – Purchased Services. In 2022, PGW spent $1.097 million in this subaccount. PGW projects that it will spend $1.802 million in 2023 and $2.637 million in 2024, an increase of 140% over the 2022 level. I&E RE-1-23. Mr. Mugrace normalized this over 2022 through 2024, resulting in a subaccount balance of $1,845,450 for 2024. This is a reduction in the Purchased Services subcategory and, in turn, the Special Legal Services category of $791,550 from PGW's proposed expense of $2.637 million. OCA St. 1 at 49.

Each of these examples provides evidence of how PGW's expenditures can vary substantially from year to year, including in both positive and negative directions, and it is this variability that led Mr. Mugrace to propose his normalization adjustments.

PGW witness Golden objected to Mr. Mugrace's use of normalization adjustments in general. He stated that using expense levels that included the pandemic years would seriously skew the results. Mr. Golden pointed out that 2020 was an atypical year and that data from that year should not be considered valid, comparative data when determining normalized amounts. PGW St. 2-R at 44. Mr. Mugrace responded by noting that none of his normalization adjustments included 2020 data. All of the expenses that Mr. Mugrace "normalized" were done over the period from 2022 (HTY) through 2024 (FPFTY). Mr. Mugrace stated that, "My normalization adjustments take into consideration the actual costs incurred by PGW (2022) and what PGW has anticipated (not actually incurred) in future years." OCA St. 1SR at 12.

Mr. Golden also maintained that normalization "is a path towards inadequate performance and operations since [it] deprives PGW of any reasonable chance of recovering its anticipated costs in the FPFTY." PGW St. 2-R at 44. He stated that normalization is backward-looking and does not provide for the possibility of expenses being higher than the average of prior years. Mr. Golden said that as a cash-flow entity, PGW has no cushion (such as a return on equity) to fall back on to fund its operating budget other than the revenue received from rates. He said that this makes it difficult for PGW to pay for the additional costs when they are due. PGW St. 2-R at 44-45.

In response, OCA witness Mugrace pointed to some fundamental principles of ratemaking. He noted that the objective of the ratemaking process, whether using a Cash Flow or Rate Base/Rate of Return method, is to provide a utility with the *opportunity* to recover the costs it prudently incurs in the provision of its utility service. It is not intended to *guarantee* total cost recovery. OCA St. 1SR at 12-13. Mr. Mugrace maintained that reviewing historical data in the development of going-forward rates is a reasonable approach given that historical trends are a good indicator of future costs. He said that this determines whether costs are recurring in nature, and whether the cost expense proposed is realistic and a necessary part of PGW's day to day operations. Mr. Mugrace noted that the rationale for normalizing costs is to prevent overcollection of expenses in future periods in the event the costs are not realized by a utility. *Id.* at 13. He stated that recovery of all of a utility's anticipated costs without known and measurable costs being identified, or their prudency being assessed, creates an undue hardship on customers. Mr. Mugrace contends that PGW should not have unfettered access to customers' money without its costs being justified, prudent and used and useful in nature. *Id*.

In *Pa. PUC v. Total Environmental Solutions, Inc. – Treasure Lake Water Division*, 2008 Pa. PUC LEXIS 1227 *100 (*TESI*), the Commission referred to the ALJ's explanation of the purpose of normalization. The ALJ described normalization as "a ratemaking technique used to smooth out the effects of an expense item that occurs at regular intervals, but in irregular amounts. Normalization is the proper adjustment to make the test year expense representative of normal operations." *TESI* at 72.

Indeed, in *Pa. PUC et al. v. PECO Energy – Gas Division*, 2021 Pa. PUC LEXIS 241 at *56, 59 (*PECO Gas*) the Commission adopted the recommendation of the OCA to normalize expenses in two categories (Other Postretirement Benefits and Injuries and Damages) where there were wide fluctuations in year-to-year spending. In both instances, the normalized amount was calculated over a three-year period. *PECO Gas* at *56, 59. On reconsideration, the Commission rejected PECO's argument that normalizing OPEB expenses would unfairly skew recovery of those expenses. *PECO Gas*, R-2020-3018929, (Order entered Aug. 26, 2021). The OCA submits that the principles followed by the Commission in *PECO Gas* to normalize expenses prone to wide variability should be similarly employed in the instant case.

6. Salary and Wages

PGW made a claim for Salary and Wages for the FPFTY of $121,523,000. OCA III-11. OCA witness Mugrace testified that this amount should be reduced to reflect the number of employees projected to be employed in the FPFTY. OCA St. 1 at 59. Mr. Mugrace prepared an analysis of the actual number of employees employed by PGW in 2020 through 2022. He then factored in the expected number of employees for the years 2023 and 2024 and compared it to the actual number of employees in each of the prior historical periods. *Id.* This analysis showed that employee levels varied in each of these years. Given that PGW experiences vacancies throughout any given year, he stated that it is appropriate to take these vacancies into consideration when setting labor costs. *Id.*

To adjust for this, Mr. Mugrace calculated a vacancy rate ratio. He used a three-year average ratio utilizing the actual employee level in 2022 and the projected levels for 2023 and 2024. *Id.* Accounting for a revised employee headcount presented as part of PGW's Rebuttal Testimony, Mr. Mugrace used a vacancy ratio of 2.95%. OCA St. 1SR at 7. He also responded to several of PGW's arguments against utilizing a vacancy ratio. PGW witness Golden testified that PGW was currently hiring at a pace of five employees per month and that at that rate, PGW would have no difficulty reaching its projected complement of 1,637 in the FPFTY. PGW St. 2-R at 29. Mr. Mugrace noted that the Company had not provided any evidence regarding the five employee per month increase. *Id.* OCA St. 1SR at 7. Mr. Golden also stated that the pandemic years of 2020 and 2021 should not be relied upon to calculate employee headcount as PGW had difficulty hiring during those years. PGW St. 2-R at 29-30. Mr. Mugrace responded that his vacancy rate calculation averaged the years 2022 through 2024 and did not include the pandemic years. OCA St. 1SR at 7. Applying the 2.95% vacancy ratio to PGW's projected salary expense of $121,523,000 results in a reduction to payroll expense of $3,582,144. *Id.*, OCA Sch. DM-SR-20.

In the absence of further evidence regarding the pace of PGW's hiring, Mr. Mugrace's approach is a reasonable means of establishing the employee headcount for the FPFTY and his Salary and Benefits adjustment should be adopted. The OCA would note that in *Pa. PUC v. Columbia Gas of Pa., Inc.*, R-2020-3018835 (Order entered Feb. 19, 2021), the Commission adopted a similar OCA adjustment related to a varying employee headcount.

7. <u>Incentive Compensation</u>

For the FPFTY, PGW identified bonus pay for senior management in the overall amount of $129,000. This consists of $32,000 for bypass bonus, $32,000 for employee recognition and $65,000 for contract and retention bonus. PGW St. 2-R at 41-42.

Of this amount, OCA witness Mugrace has recommended that $21,666 of the $129,000 total be disallowed. OCA St. 1SR at 11. In his testimony, Mr. Mugrace said that he accepted the amounts claimed for the bypass bonus and the employee recognition payments as these expenditures reasonably could be said to inure to the benefit of PGW's customers. *Id.* Regarding the $65,000 contract and retention bonus, Mr. Mugrace reviewed the six corporate goals identified by PGW that will be used in determining incentive compensation for the PGW's CEO and Acting CFO in the FPFTY. Mr. Mugrace noted that of those six goals, four are related to customers, efficiency, and workforce satisfaction, while two goals are related to revenue enhancement and supplier diversity. Mr. Mugrace stated that incentive compensation paid to achieve the latter two goals, financial performance and supplier diversity, should not be charged to customers as they are not likely to provide benefit to customers. *Id.* at 11-12. To determine the amount of the disallowance he recommends, he assigned 1/6th of the $65,000 to be spent on the contract and retention bonuses to each corporate goal, or $10,333 per goal. *Id.*

Where an incentive compensation plan is reasonable, prudently incurred, not excessive, and there is a benefit to ratepayers, a Company may recover the expense of that program. *Pa. PUC. v. PPL Elec. Util. Corp.*, R-2012-2290597 (Order entered Dec. 28, 2012) (*PPL 2012*). In *PPL 2012* the Commission allowed incentive compensation expense because it was consistent with the Commission's "prior decisions approving incentive compensation programs that are focused on improving operational effectiveness." *PPL 2012* at 26 (citing *Pa. PUC v. Aqua Pa., Inc.*, 2008 Pa. PUC LEXIS 50, *24; *Pa. PUC v. Duquesne Light Co.*, 1987 Pa. PUC LEXIS 342 at *99-100). In *Pa. PUC v Aqua Pa. Water Co.*, 2022 Pa. PUC LEXIS 161 * (Order entered May 16, 2022) (*Aqua 2021*), the Commission found that Aqua's stock based compensation was linked to performance objectives that benefit consumers, denying a party's exception to allowance of certain stock based compensation. In this case, PGW's incentive compensation goals are related to revenue enhancement and supplier diversity are distinguished from *Aqua 2021* because these two PGW objectives do not provide benefit to customers. Because Mr. Mugrace is recommending that spending on two of the goals be disallowed, he provides for a reduction in this expense category of $21,666. OCA Sch. DM-SR-20. Mr. Mugrace's recommendation should be adopted.

8. Pension Expense

PGW proposed a Pension Expense of $44.759 million for the FPFTY. PGW Exh. JFG-2, line 29. OCA witness Mugrace noted that PGW's pension expense in the HTY (2022) was $20.675 million and that the increase to $44.759 million represents an increase of 117% in the course of two years. OCA St. 1 at 54. In discovery, PGW furnished its pension expenditures for the fiscal years 2018 through 2022. Over those five years, the expenses ranged from a high of $43.158 million in 2018 to an actual credit of $3.146 million in 2021. I&E RE-2-38. Given this wide variability in Pension Expense, Mr. Mugrace recommended that this expenditure be normalized over a three-year period, 2022 through 2024, incorporating the actual expense of $20.675 million for 2022, and the projected expenditures of $42.833 million for 2023 and $44.759 million for 2024. The average of these figures equals $36.089 million. Utilizing this figure for Pension Expense in the FPFTY would represent an $8.670 million reduction from the Company's projected expense of $44.759 million. OCA St. 1 at 55, OCA Sch. DM-SR-13.

PGW witness Golden disagreed with Mr. Mugrace's normalization approach. He noted that PGW's Pension Expense trend is moving higher and that the increase from 2022 to 2024 is due to a change in the Governmental Accounting Standards Board (GASB) 68 Amortization Expense. He stated that because the GASB Amortization Expense for 2024 is relatively small, the Pension Expense for that year would rise by 5% from 2023. PGW St. 2-R at 49. Mr. Golden maintained that adopting Mr. Mugrace's $8.670 million adjustment would yield a Pension Expense amount that would be insufficient to meet the FPFTY pension obligation and would not allow PGW to comply with the GASB standards. *Id.* at 49-50.

In response, OCA's witness Mugrace reiterated the need to utilize a normalized amount for Pension Expense. He again pointed to the disparity in contributions between 2022 and 2024, and stated as follows:

> While I understand that PGW based its contributions on the recommendation of the Director of Finance, and that compliance with GASB 68 is required, prior contributions and the variability of the year-to-year contributions should be taken into consideration. Solely relying on one source to set the contribution rate may result in contributions being too high or too low for the [FPFTY] when new rates are set for gas service. Costs change over time, but not always proportionately. As such, normalizing such costs is appropriate. While the Commission can consider PGW's process of calculating the amount of pension costs to be included in a pension plan, it does not have to accept PGW's level of pension costs to be included in the setting of rates. Rather it can determine, based upon its own information, what level of pension costs should be included.

OCA St. 1SR at 14. In *Butler Twp. Water Co. v. Pa PUC*, 473 A. 2d 219, (*Butler Twp.*) the Commonwealth Court observed that normalization of an expense is "the adjustment of an item of recurring expense where the amount of the expense incurred in the test year is greater or less than that which a public utility may be expected to incur annually during an estimated life of new rates." *Butler Twp.* at 222. *See also Pa. PUC v. Total Environmental Solutions, Inc. – Treasure Lake Water Division*, 2008 Pa. PUC LEXIS 1227 *100; *Pa. PUC et al. v. PECO Energy – Gas Division*, 2021 Pa. PUC LEXIS 241 at *56, 59. The OCA submits that Mr. Mugrace's normalization approach is the proper way to reflect the Pension Expense item because it has demonstrated such wide variability. This approach should be adopted.

9. Other Post-Retirement Benefits (OPEB) Expense

PGW proposed a balance for OPEBs in the FPFTY of negative $10.095 million. PGW Exh. JFG-2, line 31. PGW's balance for the Historic Test Year 2022 was a negative $1.242 million and its projected balance for 2023 is a negative $13.699 million. The decrease between the 2022 and 2024 levels amounts to a 712% reduction. OCA St. 1 at 56. In 2018, PGW's OPEB balance was a positive $32.889 million. *Id.* at 56-57. In the face of such substantially varying amounts, OCA witness Mugrace recommended a three-year normalization of the OPEB Expense amounts over the years 2022 to 2024. Doing so resulted in a balance of negative $8.345 million, an increase of $1.750 million over the negative $10.095 million that PGW proposed. *Id.* at 57; OCA Sch. DR-SM-15.

In his Rebuttal Testimony, PGW witness Golden objected to Mr. Mugrace's normalization approach. The figures used above for the years 2022 – 2024 came from PGW Exh. JFG-2, line 31. Mr. Golden stated that normalization of OPEBS based on the amounts on line 31 is inappropriate because those amounts do not reflect PGWs cash outlay or funding requirement for OPEBs. Further, PGW implemented GASB 75 in 2018 and that changed how OPEB expense is shown on line 31. The amount shown there is only the accounting expense as dictated by GASB 75. Mr. Golden explained that actual cash outlays for OPEBs are not reflected in the income statement (Exh. JFG-2) due to the implementation of GASB 75. PGW St. 2-R at 50. He stated that because PGW uses the cash flow ratemaking methodology, only cash outlays can be considered for establishing OPEB funding. He presented a chart showing the OPEB accounting expense (the line 31 figures) and also a forecast of PGW's OPEB cash outlay for the FPFTY, which amounted to $58.019 million. *Id.* at 50-51. Mr. Golden argued that using a three-year average for OPEBs is not reasonable since averaging would deny PGW the opportunity to recover its mandated OPEB expenses for the FPFTY. *Id.* at 51.

In response to Mr. Golden, OCA witness Mugrace continued to recommend a normalization of the OPEB balances. Mr. Mugrace stated that while PGW makes its OPEB contributions based on the recommendation of its actuaries and while it must comply with GASB 75 and its reporting requirements, the variability of year-to-year balances should be taken into account. OCA St. 1SR at 15. As he did with Pension Expense, Mr. Mugrace argued that in setting rates, the Commission does not have to set OPEB expense at the level proposed by PGW. Rather, it can determine, based on its own evaluation of the record, the appropriate level of OPEB expenses to be included in rates. *Id.*[7]

Mr. Mugrace observes that the result of his normalization reduces the credit offset by $1.750 million, which provides additional cash that can be used in PGW operations. Given the sizable differences in OPEBs balances from year to year, Mr. Mugrace's normalization approach is reasonable and should be adopted. *Id.*

10. <u>Health Insurance</u>

For the FPFTY, PGW proposed an expense for health insurance of $27.715 million. PGW Exh. JFG-2, line 25. This compares with the Company's expense for the HTY 2022 of $20.064 million. PGW Exh. III.21.f. Thus, between the HTY and the FPFTY, PGW is projecting an increase in health insurance expense of 20.15%. OCA St. 1 at 50. In PGW Exh. JFG-2 and in responses to discovery, PGW provided both historical and projected health insurance expenditures. Based on those figures, the increase from 2020 to 2021 was 10.44%, from 2021 to 2022, 1.54%, from 2022 to 2023, 11.6% and from 2023 to 2024, 7.67%. *Id.* OCA witness Mugrace stated that in light of these varied increases, it would be speculative to grant PGW the amount it proposed for the FPFTY. *Id.* Instead, Mr. Mugrace suggested relying on information published by the Center for Medicare

[7] *See TESI, Butler Twp.* and *PECO Gas infra* at 36-41.

and Medicaid Services (CMS), which found that the annual growth in national health spending for the years 2021 through 2030 is expected to be 5.1%. *Id.* Based on that, Mr. Mugrace increased the 2022 expenditure of $23.064 million by 5.1% to arrive at a projected figure for the FPFTY of $24.240 million. This would result in a reduction of health insurance expense in the FPFTY of $3.475 million. *Id.* at 50-51.

PGW witness Golden took issue with Mr. Mugrace's use of the CMS information. He stated that it is not reasonable to utilize a national projection for Medicare and Medicaid and ignore the specifics of PGW's situation. PGW St.2-R at 53. Mr. Golden noted that PGW's health insurance costs are based on actuarial projections as well as PGW's actual circumstances and are determined by an independent expert. *Id.* He also stated that Mr. Mugrace had not done a study of the relationship between PGW's health insurance expense and national health spending. *Id.* Mr. Golden said that he does not agree with utilizing national averages when PGW has data and projections specific to its situation that show that PGW's expenses will rise by more than the national average. *Id.* Despite his disagreement with using national averages, Mr. Golden pointed out that Mr. Mugrace used the incorrect percentage from the CMS report. He said that Mr. Mugrace should have used the CMS projection for private health insurance of 5.7%. *Id.* at 54.

Responding to Mr. Golden, Mr. Mugrace again cited the varied percentage changes in health insurance expense between 2020 and 2024 and stated that PGW's forecasted expenses for 2023 and 2024 are only projections. OCA St. 1SR at 17. He mentioned that though Mr. Golden made reference to data and projections specific to PGW's situation, he did not provide any further information related to those specifics. *Id.* Mr. Mugrace stated that while he agrees that health insurance expenses will rise in the future, he does not think PGW's increase will exceed the national average and he does not think the Company's FPFTY expense will reach the level proposed by PGW. *Id.* Regarding Mr. Mugrace's recommended adjustment to health insurance expense, Mr. Mugrace accepted Mr. Golden's suggestion that a 5.7% increase should be applied rather than a 5.1% increase. Applying this higher factor produced an FPFTY expense of $24.378 million. This is $3.337 million less than PGW's claimed expense of $27.715 million. *Id.* OCA Sch. DM-SR-10. Given the variability of health insurance expense over the years and the lack of specifics provided by PGW, reliance on a reputable source of national averages for future health care spending is a reasonable approach for estimating PGW's FPFTY expenditure and should be adopted.

11. Taxes

PGW indicates that its tax expense for the FPFTY is $10.434 million. PGW Exh. JFG-2, line 30. OCA witness Mugrace recommended adjustments to this tax expense to correspond with his proposed reduction in Salary and Benefits (due to his use of a vacancy ratio) and his reduction to incentive compensation. OCA St. 1 at 55. Specifically, he proposes that the reductions be made to PGW's payroll tax expense. As noted earlier, Mr. Mugrace recommends disallowing $21,666 of incentive compensation expense. He also recommended that a vacancy rate of 2.95% be applied to the FPFTY Salary and Benefits expense. Making the related adjustments to payroll taxes reduces that tax expenditure by $278,935, which results in an overall tax expenditure of $10.155 million. OCA Sch. DM-SR-14. This is compared to the $10.434 million proposed by PGW. OCA Sch. DM-SR-14. The OCA submits that just as Mr. Mugrace's recommendations related to Salary and Benefits and incentive compensation should be adopted, so too should his recommendation regarding tax expense.

12. Depreciation

PGW proposed a Depreciation balance of $65.412 million for the FPFTY. PGW Exh. JFG-2. OCA witness Mugrace has proposed two adjustments to this balance. OCA St. 1 at 57. The first of his adjustments relates to PGW's expenditures for its new Customer Information System (CIS). Through discovery, the OCA determined that the total cost for the new CIS is expected to be $61.662 million. OCA St. 1 at 14. Of that amount, PGW has factored in contingency costs of $7,119,731. *Id.* at 15. Mr. Mugrace maintains that these costs should not be eligible for recovery as they are, by nature, estimates and are not known and measurable. They are costs that *may or may not* occur. *Id.* As Mr. Mugrace states, "These costs are typically included in a budget to represent uncertainty and compensate for the unpredictability of risk exposure." OCA St. 1 at 57. Removing the contingency costs from the CIS project results in a downward depreciation adjustment of $325,571. *Id.*

Mr. Mugrace's second adjustment relates to OCA witness Griffing's recommended reduction ($17.1 million) in PGW's new construction expenditures. OCA St. 2SR, Sch. MFG-SR-2 This proposed reduction would produce a $522,527 downward adjustment in depreciation expense. Taken together, Mr. Mugrace's two adjustments would reduce Depreciation expense by $848,098. OCA St. 1 at 58; OCA Sch. DM-SR-16. Mr. Mugrace's argument regarding the nature of contingency costs and whether it is proper to allow their recovery was a matter considered by the Commission in *Pa. PUC v. Pennsylvania Power and Light Co.* 1995 Pa. PUC LEXIS 189 at *115-117 (*PPL*). There, the Commission rejected PPL's claim for contingency costs related to its nuclear decommissioning plan. The Commission stated:

> …the parties have correctly cited our precedent for the proposition that speculative estimates, based on estimated totals of future costs, are not a preferred method for handling future expenses. In our view, the changes encompassed within PP&L's contingency factor can … be reflected in periodic cost updates based on what is actually occurring to these costs. That way, a

> more certain measure of those costs can be attained…. [I]n this case, unlike many engineering cost scenarios, these contingencies are little more than estimates of what may occur in estimates of decommissioning cost claims…. We see no reason to conclude, for all time, that speculative future costs necessitate a large contingency factor which rests, in itself, on total estimated costs which are themselves far from certain.

PPL at *115-117. The Commission's rationale for denying PPL its nuclear decommissioning contingency costs is equally applicable to PGW's claim for contingency costs in connection with its construction program and the same should be denied in this proceeding.

13. Sale of Service Centers

In an effort to reduce costs, PGW permanently closed its five customer service centers in the spring of 2022. PGW St. 1 at 8. PGW has estimated that these closings resulted in a savings of approximately $4.2 million consisting of $1.8 million in Facilities Savings, $2.1 million in Attrition Savings and $300,000 in Service Center Operating Savings. *Id.* OCA witness Mugrace raised concerns about how PGW's savings were accounted for in its records and about the accuracy of the Attrition Savings estimate since the Company's employee headcount has increased since 2022. OCA St. 1 at 13-14. Nevertheless, Mr. Mugrace's overall concern has to do with the crediting of the proceeds of the sale of the service centers when that occurs. Mr. Mugrace maintains that the proceeds should be returned to PGW and should not go to the City. *Id.* at 14.

PGW witness Golden responded to Mr. Mugrace's concern by observing that PGW does not own the service centers, they are owned by the City. As such, revenue from the sale would not be PGW's money. He stated that if PGW received the proceeds, it would be used to offset future capital expenditures, not operating costs. PGW St. 2-R at 56.

Mr. Mugrace replied that the service center assets provided utility service to the customers of PGW when they were in service, that ratepayer money was used to fund the service centers, and that the service centers were used and useful in the provision of gas utility service. On that basis, Mr. Mugrace opined that proceeds from the sale should go back to PGW. OCA St. 1SR at 19. He observed it was PGW, not the City, that provided gas service to the customers. As such, sales proceeds should be returned to PGW. Mr. Mugrace stated that at the very least, proceeds from the sale should be used to offset PGW's $18 million annual payment to the City. *Id.* at 19-20. On the current record, Mr. Golden's statement that the service centers are owned by the City is the only evidence on that matter. As Mr. Mugrace has pointed out, the service centers provided public utility service to customers while in operation and customers supported their operation and maintenance through rates. What is not known is whether PGW included depreciation charges for the service centers in their rates. If so, the OCA would cite to *Pa. PUC et al. v. Western PA Water Company*, 1988 Pa. PUC LEXIS 422, *59-60 for the proposition that when depreciable assets are disposed of by a utility, ratepayers should receive any gains and be liable for any losses attendant to such transactions. Therefore, if applicable, it may be the case that proceeds from the sale of the service centers should not only be returned to PGW, as Mr. Mugrace recommends, but they may also have to be returned to customers.

14. <u>Uncollectible Reserve Balance</u>

PGW carries an Uncollectible Reserve Balance on its books. The amount included in this Reserve represents the amount of the Company's receivables it does expect to collect. On PGW's Income Statement, the Uncollectible Reserve appears as a reduction to its Operating Revenues.

In this proceeding, PGW has proposed an Uncollectible Reserve balance of $36,919,000. PGW Exh. JFG-2, line 7. PGW calculated this balance by taking its projected 2024 Billed Gas Revenues of $922,967,000 and multiplying this amount by 4.0% to arrive at a balance of $36,919,000. OCA St. 1 at 12. For budgeting purposes, PGW assumes a 4.0% bad debt ratio. *Id.*

PGW's 2024 Billed Revenues includes the full amount ($85.8 million) of the revenue requirement PGW is seeking in this case.

Based on its method for calculating its Uncollectible Reserve balance and because OCA witness Mugrace is recommending an overall increase of $16.502 million, it is necessary to reduce the size of the Uncollectible Reserve balance to conform to his recommended overall revenue requirement increase. To calculate his adjustment, Mr. Mugrace determined PGW's Uncollectible balance at present rates to be $33,390,440. OCA St. 1 at 12. To that amount he added the Uncollectible amount on his proposed revenue requirement increase, an amount that equaled $628,466. *Id.* Mr Mugrace's proposed Uncollectible Reserve balance therefore totals $34,018,906, a reduction from what PGW has proposed of $2,900,094. OCA Sch. DM-SR-2. As this adjustment represents a change that corresponds to Mr. Mugrace's overall revenue requirement recommendation, the OCA submits that it should be adopted.

C. <u>Rate Structure</u>

OCA witness Glenn Watkins performed four separate class cost of service studies (CCOSS) in this proceeding. Comparing the results of these studies to PGW's proposed CCOSS, Mr. Watkins found very little difference in how costs were being allocated to the various classes. Accordingly, the OCA is not challenging PGW's CCOSS. As to revenue allocation, Mr. Watkins' made several slight adjustments to PGW's proposed revenue allocation in order to more reasonably move all classes toward their respective cost of service. Regarding PGW's proposed increase in the residential customer charge from $14.90 to $19.50, Mr. Watkins found that PGW's current charge is commensurate with other PA NGDCs and should remain unchanged.

1. <u>Cost Of Service</u>

a. <u>The Results of PGW's CCOSS are Reasonable and should be Accepted</u>.

The assignment of costs to the various rate classes for an NGDC like PGW is generally heavily contested as to how the cost of distribution mains are allocated. OCA witness Watkins testified as to the importance of this step, as follows:

> For virtually every natural gas NGDC, the largest single rate base item (account) is Distribution Mains. Furthermore, several other rate base and operating income accounts are typically allocated to classes based on the previous assignment of Distribution Mains. As such, the methods and approaches used to allocate Distribution Mains to classes are usually by far the most important (in terms of class rate of return [“ROR”] results) and tend to be the most controversial.

OCA St. 3 at 7. Mr. Watkins went on to explain that the general allocation method approved by the Commission is well settled:

> For many years (more than three decades), this Commission has consistently ruled that the allocation of Distribution Mains should reflect only a consideration of peak demands and annual throughput. As a result, this Commission has approved both the Average & Excess (“A&E”) and Peak & Average (“P&A”) methods. While these two methods are conceptually different, both consider peak day demands and annual throughput (average day demands).

OCA St. 3 at 7-8 (footnote omitted). As Mr. Watkins testified, this Commission supports the allocation of mains costs based only on annual throughput and peak demands.

In this proceeding, PGW witness Heppenstall proposed the use of an Average and Extra demand method. OCA St. 3 at 10. Mr. Watkins testified that this method is a variation of the Average and Excess (A&E) method.[8] *Id*. PGW also allocated costs to the IT class similar to other firm customers:

> With regard to Distribution Mains, Compression Station and General Measuring and Regulating equipment, Ms. Heppenstall treated Interruptible the same as firm customers. In this regard, Ms. Heppenstall states on pages 5 and 6 of her direct testimony that “these customers have only been interrupted once (in 2004) in almost 20 years and cannot be truly considered as interruptible for cost allocation purposes.”

[8] Mr. Watkins explained that the Average and Extra method used by PGW is a variation of the A&E method as PGW witness Heppenstall chose to use a 50/50 weighting of the factors as opposed to using the actual coincident peak. OCA St. 3 at 11, fn. 13.

OCA St. 3 at 11. Based on PGW's application of its CCOSS, OCA witness Watkins' Table 3 provides these results:

TABLE 3

A&E CCOSS Results At Current & PGW Proposed Rates

	ROR on Rate Base		Indexed ROR	
Class	Current Rates	PGW Supplemental Proposed Rates	Current Rates	PGW Supplemental Proposed Rates
Residential	9.49%	13.65%	123%	115%
Commercial	8.16%	11.83%	105%	99%
Industrial	8.73%	13.12%	113%	110%
Municipal	4.55%	9.84%	59%	83%
PHA-GS	7.33%	12.30%	95%	103%
PHA-R8	8.77%	11.72%	113%	98%
NGVS	-0.02%	3.24%	0%	27%
Interruptible	-3.43%	-0.66%	-44%	-6%
Grays Ferry	-16.61%	-3.60%	-214%	-30%
Total	7.75%	11.90%	100%	100%

OCA St. 3 at 12 (footnotes omitted).

After studying the results of PGW's CCOSS, Mr. Watkins created several different CCOSS to test the reasonableness of these results. As Mr. Watkins testified:

> I have conducted several CCOSS analyses. Given the complexities and controversy surrounding how costs should be assigned to GFCP, and in addition to allocating costs to GFCP, I have conducted studies that do not directly assign costs to GFCP, but rather, credit this customer's revenues to all other rate classes. This approach is similar to the approach often used for special contract customers, and in fact, is the same approach Ms. Heppenstall utilized for PGW's other special contract customers. In this way, I was able to evaluate the relative performance (profitability) of each traditional full tariff rate schedule.
>
> In addition, I conducted analyses utilizing the P&A method which has also been accepted by this Commission (with and without costs allocated to GFCP). In this regard, it is my opinion that the P&A approach is preferred over Ms. Heppenstall's variant of the A&E method, but it is not the purpose of this testimony to debate the merits of these two methodological approaches, but rather, to serve as a point of comparison to Ms. Heppenstall's cost allocation approach and results.

OCA St. 3 at 13. As Mr. Watkins explained, various scenarios were tested in order to gauge the reasonableness of PGW's CCOSS results.[9] Mr. Watkins also conducted his own Peak and Average (P&A) CCOSS, as he testified:

> The P&A method considers both peak day demands and annual throughput (average day demand). In this regard, equal weight is given to peak day and average day demands; i.e., 50% weight to peak day and 50% weight to average day demands. As noted earlier in my testimony, Ms. Heppenstall treated Interruptible customers the same as firm customers in that her "excess" demands reflect Interruptible peak day demands as if they were firm customers. While I agree with Ms. Heppenstall that PGW's customers are not realistically subject to curtailment, I have considered the fact that there is a remote possibility of interruption within my P&A analysis. Specifically, and with respect to Interruptible customers, I have incorporated these customers' average day demands but have treated the peak component as zero. In this way, Interruptible customers are assigned some cost responsibility but not treated the same as firm customers in that they are not assigned any of the 50% weight given to peak day demands. … As such, for all intents and purposes, GFCP is treated as an interruptible customer within my P&A analysis.
>
> Furthermore, and similar to my evaluation of Ms. Heppenstall's A&E CCOSS, I have conducted my P&A studies in two ways: with costs allocated to GFCP; and, no costs assigned to GFCP wherein this customer's revenue is credited to all full tariff customers.

OCA St. 3 at 14-15.[10] OCA witness Watkins also provided a summary table showing the results of all four of his CCOSS in Table 7:

[9] Table 4 shows the results of Mr. Watkins' A&E study where GFCP is not directly assigned costs, but rather revenue from GFCP is assigned back to the other classes. OCA St. 3 at 14.

[10] Mr. Watkins' P&A study results where GFCP is directly allocated costs is shown in Table 5. OCA St. 3 at 15. Table 6 shows the results of Mr. Watkins' P&A study where GFCP is not directly allocated costs, but rather GFCP revenue is credited back to the other classes. OCA St. 3 at 16.

TABLE 7
Summary of OCA Cost Allocation Studies
Indexed RORs

	Current Rates				PGW Proposed Rates			
	A&E		P&A		A&E		P&A	
Class	w/ GFCP	w/o GFCP	w/ GFCP	w/o GFCP	w/ GFCP	w/o GFCP	w/ GFCP	w/o GFCP
Residential	123%	117%	116%	111%	115%	113%	110%	108%
Commercial	105%	98%	93%	86%	99%	96%	90%	87%
Industrial	113%	105%	101%	94%	110%	106%	101%	98%
Municipal	59%	53%	51%	46%	83%	80%	76%	74%
PHA-GS	95%	91%	90%	87%	103%	95%	92%	91%
PHA-R8	113%	106%	104%	97%	98%	95%	92%	89%
NGVS	0%	-24%	-44%	-51%	27%	12%	-6%	-10%
Interruptible	-44%	-49%	14%	3%	-6%	-8%	43%	36%
Grays Ferry	-214%	--	-216%	--	-30%	--	-28%	--
Total	100%	100%	100%	100%	100%	100%	100%	100%

> As can be seen above, the relative (indexed) RORs at current rates are consistent across all cost allocation methods and approaches utilized. Under current rates, the Residential class is consistently above parity (indexed ROR greater than 100%), the Commercial, Industrial, PHA-GS, and PHA-R8 classes are consistently close to parity, while the Municipal, NGVS, and Interruptible classes are well below parity. Furthermore, and with minor exceptions, PGW's proposed class revenue increases provide modest movements towards parity.

OCA St. 3 at 17.

As shown by Mr. Watkins' various CCOSS, PGW's proposed CCOSS provides results that are very similar to traditional A&E and P&A studies. PGW's proposed method also generally aligns with decades of Commission precedent that support the allocation of mains costs by only using peak demands and annual throughput. As such, the OCA is not challenging the results of PGW's CCOSS as it relates to the allocation of costs.

b. <u>The other Parties' CD Studies should not be considered as a reasonable guide for cost or revenue allocation</u>.

In response to PGW's CCOSS, OSBA witness Robert Knecht and PICGUG witness Billie LaConte both provided alternative CCOSS in their respective direct testimonies. OSBA St. 1 at

26-40; PICGUG St. 1 at 6-25. In his Rebuttal testimony, Mr. Watkins described the two alternative CCOSS, as follows:

> Mr. Knecht conducted two alternative CCOSS in which he: (1) modified PGW's Average & Excess ("A&E") study by incorporating his calculation of design day demands instead of PGW's calculation of peak day demands; and, (2) conducted a Customer/Demand ("CD") study in which Distribution Mains are classified and allocated 25% on number of customers and 75% on peak demand.
>
> In a similar vein, Ms. LaConte modified the Company's A&E method wherein Distribution Mains were classified as 20% customer-related and 80% demand-related. Moreover, Ms. LaConte eliminated the peak demands associated with Interruptible customers in her study.

OCA St. 3R at 1-2 (footnotes omitted).[11] Mr. Watkins then went on to explain how Mr. Knecht arrived at the 25% customer component of his CD study.

> As indicated on pages 27 and 28 of his direct testimony, Mr. Knecht was not able to conduct a Zero-Intercept study due to data limitations such that he calculated a customer component utilizing the Minimum-System approach. Mr. Knecht's Minimum-System analysis indicated a customer percentage of 64.96%. However, he considered this percentage to be excessive. As such, Mr. Knecht utilized a customer component of 25% which is the customer percentage recommended by Company witness Gorman in PGW's 2007 base rate case (Docket No. R-0061931).

OCA St. 3R at 3.

As referenced by Mr. Watkins, the 2007 case was PGW's last fully-litigated rate case and formed the basis for Mr. Knecht's 25% customer component in his CD study. Mr. Watkins testified as to the results of that 2007 case, and whether the Commission accepted a customer component for the allocation of mains costs, as follows:

> No. In fact, the Commission explicitly rejected any consideration of number of customers within the allocation of Distribution Mains. The following is the Administrative Law Judge's Recommended Decision on this issue:
>
>> PGW's proposal to allocate 75% of the costs of distribution mains investment based on purely peak demands should be rejected. Mr. Galligan's Peak and Average COSS accurately allocates such costs

[11] It should be noted that Mr. Knecht's A&E study produced results that are substantially similar to PGW's CCOSS. *See*, OSBA St. 1 at 39.

> based on the way PGW actually incurs costs to serve its customers, as the principle of cost-causality requires. The OCA submits that Mr. Galligan's COSS more accurately depicts and describes the way that PGW actually incurs costs to serve its customers, and therefore should be used as a guide in this proceeding.
>
> The OCA and OTS arguments relating to distribution mains are persuasive. PGW has not presented evidence to show that it is correctly classifying and allocating the cost of distribution mains.

> The following is the Commission's Opinion and Order in Docket No. R-00061931 relating to the classification and allocation of Distribution Mains:
>
> > We find the ALJs' recommendation to be reasonable and that PGW's proposal to allocate a percentage of the cost of distribution mains as a customer cost not to be acceptable. PGW has not presented evidence to show that it is correctly classifying and allocating the cost of the distribution mains. Reviewing the record, we find that the allocation of distribution mains investment costs should be done using both annual and peak demands.

OCA St. 3R at 4 (footnotes omitted). As shown, the Commission soundly rejected the theory that the allocation of mains costs should include a customer component.

Turning to PICGUG witness LaConte's CCOSS, which also includes a customer component, Mr. Watkins explained that:

> Similar to Mr. Knecht, Ms. LaConte first conducted a Minimum-Size approach wherein she used 6″ plastic pipe as her "minimum size" pipe and determined a customer component of 36%. Then, as indicated on page 21 of her direct testimony, Ms. LaConte reduced the customer percentage to 20% based on her colleague's (Jeffry Pollock) analysis in PGW's 2020 base rate case (Docket No. R-2020-3017206).

OCA St. 3R at 4-5. Mr. Watkins testified as to whether a customer component of mains should be considered by the Commission in this proceeding, specifically:

> No. For more than 30 years, this Commission has consistently rejected such proposals to classify and allocate Distribution Mains partially on number of customers. Furthermore, Mr. Knecht's recommendation is based on a PGW study that was flatly rejected by the Commission while Ms. LaConte's recommendation is based on a colleague's recommendation from a prior case that was settled and not based on any analysis specific to this case.

OCA St. 3R at 5. In addition to the 2007 PGW case as referenced by Mr. Watkins, the Commission has recently once again affirmed that mains costs should be allocated based on peak demands and annual throughput. *Pa. PUC v. Columbia Gas*, R-2020-3018835 at 186-218 (Order entered Feb. 19, 2021) (*2021 Columbia*). In the *2021 Columbia* case the Commission rejected the theory that mains costs should include a customer component, specifically:

> … we remain of the opinion that although mains serve customers, it is the throughput that determines the type of main investment because it is the load that determines the main investment, not the number of customers served. The existence of one customer, five customers, or ten customers does not determine the amount of mains investment. Mains investment is driven by the loads placed upon it, not by the number of customers served.
>
> Furthermore, distribution mains exist and are related to both annual demands and peak demands. Both annual and peak demands must be recognized in the allocation of distribution mains cost if the allocation is to be in accord with the principle of cost-causality.

2021 Columbia at 217.

In Surrebuttal testimony, and primarily in response to the rebuttal testimonies of PICGUG witness LaConte, OSBA witness Knecht and GFCP witness Christ as to the various CCOSS, Mr. Watkins provided a chart to show the results of the various CCOSS:

TABLE 1

	ROR @ Current Rates								
	PGW A&E	OCA A&E	OCA A&E w/o GF	OCA P&A w/ GF	OCA P&A w/o GF	OSBA A&E	OSBA CD	PICGUG A&E	PICGUG CD
Residential	9.50%	9.49%	9.10%	9.00%	8.63%	9.4%	8.3%	6.91%	6.71%
Commercial	8.16%	8.16%	7.61%	7.18%	6.68%	6.3%	7.9%	6.51%	7.15%
Industrial	8.73%	8.73%	8.13%	7.83%	7.29%	8.1%	10.8%	6.66%	7.63%
Municipal	4.55%	4.55%	4.09%	3.97%	3.55%	2.3%	3.3%	2.78%	3.16%
PHA-GS	7.34%	7.33%	7.03%	6.99%	6.71%	8.5%	7.8%	5.81%	5.73%
PGA-8	7.86%	8.77%	8.21%	8.05%	7.54%	8.5%	10.4%	6.55%	7.30%
NGVS	-0.07%	-0.02%	-1.89%	-3.39%	-3.94%	-1.1%	3.4%	3.21%	3.61%
Interruptible	-3.46%	-3.43%	-3.79%	1.05%	0.24%	-3.4%	-0.5%	14.50%	17.76%
GFCP	-16.65%	-16.61%	--	-16.71%	--	-14.0%	-14.0%	--	--
Total	7.74%	7.75%	7.75%	7.75%	7.75%	7.7%	7.7%	6.97%	7.04%

OCA St. 3SR at 2 (footnotes omitted). A review of the various CCOSS show that all of the results are fairly similar, with the exception of the PICGUG CCOSS that attempt to show the IT class as being well above its cost to serve. As Mr. Watkins testified, "all other studies sponsored by PGW, OSBA, and OCA indicate the exact opposite; i.e., the Interruptible class is significantly deficient." OCA St. 3SR at 2-3.

In rebuttal, witness LaConte questions the validity of the P&A method as an apparent means to show why a customer component should be included in allocating the cost of mains. OCA St. 3SR at 3-4. As Mr. Watkins explained, however, the P&A method has been routinely accepted by numerous jurisdictions, with no customer component, and has specifically been accepted by NARUC. OCA St. 3SR at 4-5. Further, as Mr. Watkins testified:

> In [Pennsylvania], the Commission has consistently rejected any proposals to classify or allocate distribution mains based on number of customers for decades and has consistently approved methods that recognize both peak demand and annual usage, most recently in the Columbia Gas of Pennsylvania, Inc. ("Columbia") Docket No. R-2020-3018835.[12] There are numerous NGDCs under the Pennsylvania PUC jurisdiction including: Columbia Gas, UGI Utilities, PECO, National Fuel Gas Distribution Corporation, Peoples Natural Gas, Pike County Light & Power, Philadelphia Gas Works, and Valley Energy.

OCA St. 3SR at 5; fn. 13.

c. Conclusion

Neither OSBA nor PICGUG have presented any new or compelling evidence why this Commission should upend decades of precedent based on the facts of this case. Accordingly, the CCOSS that include a customer component of mains costs should not be given any weight in this case.

[12] Other cases where the Commission has rejected proposals to classify or allocate mains based on number of customers or approved methods that recognize peak demand and annual usage include *Pa. P.U.C. v. National Fuel Gas Distribution Co*., 83 Pa. PUC 262 (1994). See also, *Pa. P.U.C. v. National Fuel Gas Distribution Co*., 73 Pa. PUC 552 (1990); *Pa. P.U.C. v. Equitable Gas Co*., 73 Pa. PUC 301 (1990); *Pa. P.U.C. v. National Fuel Gas Distribution Corp*. 72 Pa. PUC 1 (1989); *Pa. P.U.C. v. Peoples Gas Co.*, 69 Pa. PUC 138 (1989).

2. Revenue Allocation

a. The OCA's recommended revenue allocation is consistent with its CCOSS, reasonable, and should be accepted.

PGW proposes to allocate its base distribution charge increase, including Merchant Function Charges (MFC) and Gas Procurement Charges (GPC) as set out in Mr. Watkins' Table 10:

TABLE 10
PGW Proposed Total Non-Gas Class Revenue Allocation
(Including MFC & GPC)
($000)

Class	Current	PGW Proposed	Change	% Change
Residential	$351,526	$416,161	$64,636	18.39%
Commercial	$61,799	$72,106	$10,307	16.68%
Industrial	$4,920	$5,832	$912	18.53%
Municipal/MS	$4,873	$6,227	$1,355	27.80%
PHA/GS	$1,648	$2,021	$373	22.61%
PHA Rate 8	$2,614	$2,953	$338	12.94%
NGV	$27	$35	$8	28.77%
Grays Ferry	$1,118	$5,279	$4,160	372.04%
IT	$12,784	$16,527	$3,743	29.28%
BUS	$173	$173	$0	0.00%
TED	$63	$63	$0	0.00%
NGS	$68	$68	$0	0.00%
LNG Sales Margin	$76	$76	$0	0.00%
Total	$441,690	$527,521	$85,831	19.43%

OCA St. 3 at 19. As previously discussed, OCA witness Watkins had completed four separate CCOSS in order to test the reasonableness of PGW's proposed CCOSS. Mr. Watkin's Table 11 shows a comparison of the OCA's A&E and P&A studies with PGW's proposal:

TABLE 11
Comparison of Indexed RORs and PGW Proposed
Base Distribution Rate Revenue Increases
(Excluding MFC & GPC)

	Indexed RORs @ Current Rates				PGW Percent Increase	
	A&E		P&A			
Class	w/ GFCP	w/o GFCP	w/ GFCP	w/o GFCP	%	% of Average
Residential	123%	117%	116%	111%	17.75%	94%
Commercial	105%	98%	93%	86%	16.46%	87%
Industrial	113%	105%	101%	94%	18.69%	99%
Municipal	59%	53%	51%	46%	28.01%	148%
PHA-GS	95%	91%	90%	87%	22.05%	116%
PHA-R8	113%	106%	104%	97%	13.02%	69%
NGVS	0%	-24%	-44%	-51%	28.85%	152%
Interruptible	-44%	-49%	14%	3%	29.28%	155%
Grays Ferry	-214%	--	-216%	--	372.04%	1964%
Total	100%	100%	100%	100%	18.94%	100%

OCA St. 3 at 20. After analyzing and comparing the various allocation scenarios, Mr. Watkins addressed whether PGW's proposed allocation is reasonable, as follows:

> By and large, yes. The only concern I have is that all cost studies indicate that the Residential class's ROR's are higher than the Commercial class under every CCOSS evaluated. However, PGW proposes a smaller percentage increase to the Commercial class (16.46%) than the Residential class (17.75%). While it could be argued that the Residential class should receive a somewhat smaller percentage increase than the Commercial class, a reasonable compromise is to have equal percentage increases to both the Residential and Commercial classes. In this regard, it should be noted that the Residential and Commercial classes combined represent 94% of PGW's base distribution revenues (excluding MFC and GPC).
>
> With respect to GFCP, given the unique and complex circumstances surrounding the services provided to this customer by PGW, traditional embedded cost allocation results may be of limited value in evaluating the revenue responsibility that should be assigned to GFCP. In view of this, and as stated earlier in my testimony, 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.

OCA St. 3 at 20-21.

As Mr. Watkins testified, PGW's proposed allocation should be adjusted based on the various CCOSS so that the Residential and Commercial classes receive an equal percentage increase. Mr. Watkins' Table 12 provides the OCA's recommended revenue allocation based on the Company's full request:

TABLE 12
OCA Proposed Base Rate Distribution Charge Revenue
@ $81.498 Million Increase
($000)

	Customer Plus Delivery Charge Revenue			
Class	Current	OCA Proposed	Change	% Change
Residential	$341,351	$401,926	$59,911	17.55%
Commercial	$61,065	$71,119	$10,718	17.55%
Industrial	$4,888	$5,802	$914	18.69%
Municipal/MS	$4,836	$6,191	$1,355	28.01%
PHA/GS	$1,596	$1,948	$352	22.05%
PHA Rate 8	$2,598	$2,936	$338	13.02%
NGV	$27	$35	$8	28.85%
Grays Ferry	$1,118	$5,279	$4,160	372.04%
IT	$12,784	$16,527	$3,743	29.28%
BUS	$173	$173	$0	0.00%
TED	$61	$61	$0	0.00%
NGS	$66	$66	$0	0.00%
LNG Sales Margin	$76	$76	$0	0.00%
Total	$430,638	$512,136	$81,498	18.92%

OCA St. 3 at 21. As discussed in Mr. Watkins' testimony, PGW's proposed revenue allocation was not unreasonable but the results of the A&E and P&A COSS conducted by Mr. Watkins showed that slight adjustments are needed as represented in Table 12.

OCA witness Watkins also supplied specific testimony as to how any potential scaleback should work in the event PGW is awarded less than its total requested increase. Mr. Watkins testified that:

> First, given the controversy and long litigation surrounding GFCP's rates, the Commission should first determine the appropriate rates and revenues to be collected from GFCP. This increase to GFCP should then be subtracted from the

overall authorized increase to PGW's base distribution rates. Then, the traditional full tariff classes revenue increases should be scaled back proportionately to those provided in my Table 12.

OCA St. 3 at 22. The OCA submits that its revenue allocation and scaleback proposals are reasonable, supported by the record, and should be accepted in this proceeding.

b. OSBA's proposal in direct testimony to change how universal service costs are collected is unsupported, no longer relevant, and should be rejected.

In Mr. Watkins' Rebuttal testimony he addresses the revenue allocation scenarios that OSBA witness Knecht included in his Direct testimony, noting that Mr. Knecht does not actually propose any specific revenue allocation but rather he provided simulations that provide a range of possible allocations. OCA St. 3R at 7. Nevertheless, Mr. Watkins was able to derive Mr. Knecht's base distribution allocation, and included the same in the following chart:

Comparison of PGW, OCA, and OSBA
Class Revenue Increases to Base Distribution & MFC Charges
Utilizing A $85.8 Million Increase
($000)

	PGW	OCA	OSBA CD	OSBA A&E
Residential	$64,636	$63,326	$61,656	$58,155
Commercial	$10,307	$11,820	$18,311	$21,430
Industrial	$912	$924	$1,240	$1,490
Municipal/MS	$1,355	$1,145	$2,203	$2,203
PHA/GS	$373	$323	$337	$337
PHA Rate 8	$338	$492	$608	$739
NGV	$8	$8	$38	$41
IT	$3,743	$3,632	$916	$916
Grays Ferry	$4,160	$4,160	$512	$512
Total	$85,831	$85,831	$85,822	$85,822

OCA St. 3R at 8. Revenue allocation proposals from the various parties generally flow from the CCOSS proposed by that party. This is consistent with the theory of cost causation. A review of the preceding chart, however, shows that for the Commercial class this is not the case.

In his Direct testimony Mr. Knecht explains that he is attempting to find a reasonable way for GFCP to be included in those classes that pay for universal service (USEC) costs, but is not willing to agree with PGW's apparent proposal that GFCP be allocated \$19.2 million in USEC costs. OSBA St. 1 at 33-34. In order to reasonably charge GFCP, in Mr. Knecht's view, a completely unprecedented process should be established whereby GFCP would be charged a flat rate for USEC costs similar to how the DSIC is charged. *Id*. Mr. Knecht then goes on to postulate that if such a mechanism could be created for GFCP, it could also be applied to all the other classes. *Id*. The results of this "simulation" are shown in the preceding chart, as apparently Mr. Knecht is theorizing that the Commercial class pay a much larger percentage of the proposed base rate increase in exchange for paying less in USEC costs. *Id*. As Mr. Knecht readily admits, this simulation would result in much higher USEC costs being paid by the residential class. *Id*. at 34.

In his Surrebuttal testimony, Mr. Knecht discusses his simulation of changing how USEC costs are assigned and how PGW did not adequately respond to his assertions that another method should be used for USEC charges to GFCP, and also asserted that no witness addressed his recommendation to change how USEC costs are charged to all classes. OSBA St. 1-SR at 12. PGW witness Teme, however, did respond in her Rebuttal testimony, as follows:

> However, I would concede that applying the rate per Mcf allocation methodology to Rate GS-XLT would result in Rate GS-XLT making a disproportionally large contribution to USEC costs because of the class's unusually high volumes. *PGW does not believe that the entire USEC surcharge funding methodology, as consistently approved over many years by the Commission, should change.* However, given the unusual volumes of this class, PGW submits that it could support, as reasonable, an allocation of USEC program costs to GFCP/VEPI on a percentage of base rates basis with a credit to the revenues to the USEC surcharge, calculating a per mcf rate for the other rate classes as PGW has traditionally done. Mr. Knecht calculated the Rate GS-XLS surcharge at \$290,000. OSBA St. 1 at 45. This revenue would be credited to the USEC surcharge.

PGW St. 6-R at 27 (emphasis added). It is clear from the passage set out here that PGW is opposed to changing how the USEC cost is charged to all classes. The OCA agrees. There is insufficient evidence in this proceeding to make a change of the magnitude suggested by Mr. Knecht as to how PGW's large USEC program costs are charged to all of the various classes. That said, the apparent change from PGW's initial position, the $19.2 million USEC charge to GFCP, to its rebuttal position appears to accept Mr. Knecht's $290,000 figure. In PGW's Rejoinder testimony, Ms. Teme confirmed that PGW's revised USEC charge to GFCP is $290,000. PGW St. 6-RJ at 3. The OCA is not opposed to this allocation of USEC costs to GFCP as a practical assessment of costs to this unique rate class with a unique fact pattern presented in this case where cost of service-based rates are being assessed to GGCP for the first time, but does not accept Mr. Knecht's unprecedented allocation method as applied to all rate classes.

In sum, Mr. Knecht's simulations as to how a reasonable USEC cost could be charged to GFCP are no longer relevant as PGW has accepted Mr. Knecht's proposed $290,000. In his Surrebuttal testimony Mr. Knecht provided an updated revenue allocation proposal including only base distribution and MFC charges. OSBA St. 1-SR at 18. As shown in OSBA's revenue allocation proposal, the large differences between OCA, PGW and OSBA result from the fact that Mr. Knecht assigns $0 of the proposed distribution increase to GFCP. *Id*.

Consistent with PGW's and OCA's CCOSS, assigning a $0 increase to GFCP is unsupported and unreasonable. Accordingly, Mr. Knecht's Surrebuttal revenue allocation proposal should be given little to no weight in this matter.

c. Conclusion

The OCA's suggested revenue allocation is consistent with its CCOSS results, is substantially similar to PGW's proposal, moves all classes closer to their cost of service and should be accepted. OSBA's and PICGUG's CD studies that both contain customer components for the allocation of mains costs do not provide a basis to accept their respective revenue allocation proposals that flow from those CCOSS. Further, OSBA's simulations regarding how USEC costs could be changed are unsupported and should be rejected.

3. Rate Design

a. Customer Charge

i. PGW's proposed customer charge increase should be rejected.

PGW proposed to increase its residential customer charge from $14.90 to $19.50, an almost 31% increase.[13] OCA St. 3 at 22. OCA witnesses Watkins and Colton both provided testimony on the negative impacts that a customer charge increase would have on PGW's customers. Mr. Watkins testified as to how reasonable or appropriate such an increase would be, in part as follows:

> First, and as set forth on page 14 of PGW witness Denise Adamucci's direct testimony, under the Company's proposal, PGW would have by far the highest Residential customer charge in Pennsylvania. The following table provides a comparison of the Residential customer charges of other natural gas utilities in Pennsylvania:

TABLE 14
Natural Gas Residential Customer Charges in Pennsylvania

Company	Customer Charge	Difference from PGW Proposed
PGW Proposed	$19.50	--
PGW Current	$14.90	$4.60
Columbia	$16.75	$2.75
Peoples Natural Gas Co. (Peoples Division)	$15.75	$3.75
UGI Utilities	$15.00	$4.50
Peoples Natural Gas Co.	$14.50	$5.00
PECO	$14.25	$5.25
National Fuel Gas	$12.00	$7.50

[13] The OCA is only addressing the customer charge issue as it relates to residential customers.

OCA St. 3 at 23. As shown, PGW's proposed customer charge is an outlier among the customer charges of other PA NGDCs. Further, Mr. Watkins testified that customer charge increases such as the one proposed by PGW send the wrong price signals to customers, in relevant part:

> PGW's Residential rate structure is comprised of a fixed monthly customer charge and a volumetric distribution usage charge. If more revenue is collected from fixed monthly customer charges, then less revenue will be collected from volumetric charges. As a result, these lower than appropriate volumetric charges do not provide an appropriate incentive to conserve natural gas usage.

OCA St. 3 at 23.

In his Direct Testimony, OCA witness Roger Colton provided some actual dollar impacts to low-income customers based on PGW's proposed customer charge increase. In part, Mr. Colton testified that "the proposed increase in the customer charge imposes an additional charge of $10,372,135 on PGW's low-income customers", and further testified that "the proposed increase in the unavoidable monthly residential customer charge, standing alone, will have the same effect as reducing the LIHEAP dollars received by PGW's low-income customers by between 50% (2022-2023) and 70% (2019-2020) a year." OCA St. 4 at 33-34.

Mr. Colton further testified that:

> Low-income households, particularly vulnerable low-income households (e.g., elderly, disabled, families with children), will take actions to try to reduce their bills to more affordable levels, frequently involving substantial household deprivation or the undertaking of substantial safety and health risks. These actions can be dangerous, such as when a low-income household uses its natural gas stove or oven as a supplemental heating source in order to reduce the heating usage in the home as a whole. Adding insult to injury, having a low-income household close off part of their home, or reduce the temperature in their home to unsafe or unhealthy levels, will not meaningfully impact their bill if PGW increases the portion of the bill that is a fixed monthly charge that cannot be avoided through a reduction in usage.

OCA St. 4 at 36. As Mr. Colton testified, an increase in the fixed customer charge is unavoidable and can lead customers to take actions that are potentially dangerous.

Mr. Colton provided substantial testimony to show how a large increase in the customer charge will harm low-income customers. Mr. Colton concluded that:

> The low-income customers of PGW have difficulty in paying their natural gas bills. Increasing the fixed monthly customer charge will increase the difficulties which those low-income customers will face. Not only will the increased customer charge take a higher proportion of household resources out of incomes that fall substantially short of allowing the customers to be financially self-sufficient to begin with, but it will also make it more difficult for low-income customers to control their exposure to unaffordable bills through the implementation of energy efficiency measures. In addition, the actions that low-income customers are forced to take as efforts to control their bills (e.g., keeping their homes too hot or too cold, shutting off their home but for a limited space) will have less of an impact on reducing their bills to more affordable levels.

OCA St. 4 at 42.

Consistent with Mr. Colton's testimony as to the harms associated with higher customer charges, Mr. Watkins recommended that:

> Given PGW's current high customer charge, I recommend no increase to the current rate of $14.90 per month. However, should the Commission decide that some increase to this fixed monthly charge is warranted, I recommend that the Residential fixed monthly charge be increased by no more than the overall percentage increase authorized to total Residential distribution revenues.

OCA St. 3 at 24. Based on the testimonies of OCA witnesses Colton and Watkins, the OCA submits that PGW's current residential customer charge should not be increased at this time.

ii. <u>PGW's rebuttal to OCA witnesses fails to establish any need for the proposed customer charge increase</u>.

In rebuttal, PGW witness Adamucci testified that low-income customers enrolled in CRP will not be affected by the proposed customer charge increase. PGW St. 1-R at 8. In his Surrebuttal testimony, Mr. Colton testified that his Direct testimony established that PGW only enrolls a fraction of its low-income population in CRP. OCA St. 4SR at 6. Accordingly, the vast majority of PGW's low-income customers will be harmed by the proposed customer charge increase. *Id*.

Witness Adamucci also argues that customers can participate in energy efficiency programs offered by PGW. PGW St. 1-R at 8. In response, Mr. Colton testified that:

> In its most recent Universal Service and Energy Conservation Plan (USECP), PGW projects that it will serve 2,597 low-income households through LIURP each year. (PGW USECP, at 35). PGW stated in its USECP that it estimates that it has 197,855 low-income customers. (Id., at 34). At the rate of 2,597, it would, in other words, take more than 76 years for PGW to serve all of its low-income customers (197,855 / 2,597 = 76.2). Even if one were to narrow the population to those 44,168 low-income customers which PGW says "needs" efficiency investments (Id., at 10), it would take nearly 20 years to treat all of those customers. LIURP investments, in other words, cannot protect the vast majority of low-income customers from the harms of PGW's increased residential customer charge.

OCA St. 4SR at 7 (footnotes omitted). While energy efficiency programs are certainly worthwhile, PGW's current rate of supplying these programs will not counteract the harmful effects of a large customer charge increase as Mr. Colton has documented.

PGW witness Dr. Peach also provided rebuttal testimony on the customer charge issue. Dr. Peach alleged that increasing the customer charge would provide an assurance of collections. PGW St. 9-R at 8. In his Surrebuttal testimony, Mr. Colton testified that increasing the customer charge only increases the billed amount and could have no impact on the collection of that amount, in fact, the increase could in fact work to harm collections. OCA St. 4SR at 23-24. Specifically, Mr. Colton testified that:

> As PGW's own evaluation of its low-income Customer Responsibility Program (CRP) found, when low-income customers were faced with an unaffordable burden, they paid only 72% of their bill. In contrast, when they were provided an affordable bill, they paid 92% of their bill.

OCA St. 4SR at 24. Dr. Peach's argument on this point is misplaced.

Dr. Peach goes on to question whether the proposed increase of $4.60, or $55.20 on an annual basis really amounts to harm and also should not be a disincentive for customers to invest in energy efficiency measures. PGW St. 9-R at 12-13. Mr. Colton testified that:

> Contrary to Dr. Peach's assertion, however, when the response of PGW's low-income customers to unaffordable bills is to reduce their food intake, and/or to reduce or avoid taking medicines, and to avoid heating their entire homes, because they cannot afford to pay their PGW bill and pay for these other household necessities, (OCA St. 4, at 22 – 23), those customers may disagree with Dr. Peach's conclusion that the increase in the unavoidable fixed customer charge is not much of a harm.

OCA St. 4SR at 25.

iii. Conclusion

OCA witness Colton and OCA witness Watkins have provided substantial testimony on the potential harms to customers, particularly low-income customers, if PGW's large customer charge increase is approved. PGW's responses have shown that the Company has failed to carry its burden of proof as to the residential customer charge issue. Accordingly, the OCA's recommendations on this issue should be accepted.

b. Other Tariff Changes

The OCA provided no testimony on this issue.

D. GFCP/VEPI – Class GS-XLT

The central question to be answered in this proceeding, as it pertains to GFCP, is what part of PGW's proposed base rate increase should be allocated to GFCP? As set out in OCA witness Glenn Watkins' testimony and discussed in this Main Brief (Section IV. C. 2.), the OCA agrees with PGW that $4,160,000 of the $81,498,000 base rate increase should be allocated to GFCP. OCA St. 3 at 21.

The ALJs' Briefing Order referenced the Commission's questions to be answered in this base rate case, as follows:

> That all briefs must address the issues raised by the Commission's Opinion and Order of April 20, 2023, in Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia Inc. v. Philadelphia Gas Works, Docket No. C-2021-3029259 (April 20, 2023 Order)

Pa. PUC v. PGW Briefing Order, R-2023-3037933, (entered July 17, 2023). In accord with the Briefing Order, the OCA provides the following responses to the Commission's questions.

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.

The OCA agrees that a separate rate schedule for Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. is appropriate. No party to this base rate proceeding objects to GFCP/Vicinity having a separate rate schedule.

b) the appropriate methodology to determine Philadelphia Gas Works' actual cost of service for Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc.

Given the unique and complex circumstances surrounding the services provided to this customer (GFCP/Vicinity) by PGW, traditional embedded cost allocation results may be of limited value in evaluating the revenue responsibility that should be assigned to GFCP (OCA Statement 3, page 21, lines 1-4).

c) 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 Work's actual cost of service and the resulting "just and reasonable" rate for Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc.

The OCA did not directly address this issue, however, GFCP is (or was) agreeable in the pending GCR case to total charges of about $6.1 million per year and this amount represents a reasonable assessment of costs to be allocated, thus supporting the actual PGW allocation amount of $4,160,000. (OCA Statement 3, page 21, lines 4-6).

d) 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.

No. The facts of this case must be decided based on the record of this case. The record of this case demonstrates that Grays Ferry utilizes at least a portion of PGW's distribution system, particularly as it relates to the refurbishment of the two-mile PGW Naphtha Line as well as the new high pressure main from the LNG facility to GFCP's cogeneration plant (OCA Statement 3, page 3, lines 12-15). With regard to other aspects of PGW's distribution system, there is much disagreement between PGW and GFCP as to what distribution assets are and are not utilized by GFCP (OCA Statement 3, page 4, line 11 through page 5, line 2). The OCA did not investigate the details surrounding GFCP's utilization of PGW's distribution system beyond the two-mile Naphtha Line and new high-pressure main that serves GFCP.

Any other issues relating to GFCP have been discussed in Section IV. C. of this Main Brief.

E. Customer Service

1. PGW's Call Center performance and handling of Customer Complaints needs to Improve.

OCA witness Barbara Alexander reviewed PGW's customer call center performance and concluded that it should be improved to significantly lower the abandonment rate to the average of other NGDCs (and maintain the current service level of more than 80%), particularly during those months in which PGW residential customers are subject to termination of service. OCA St. 5SR at 1. Based on the historical results for 2019, 2020, and 2021, PGW typically answers over 85% of its customer calls within 30 seconds, a rate that is average compared with other Pennsylvania natural gas distribution companies (NGDC). OCA St. 5 at 6. However, its abandonment rate (the rate that customers drop off the call prior to being answered by a customer service representative) was 9% in 2021, the highest rate of all Pennsylvania NGDCs. *Id.* Call center performance significantly deteriorated during the September 2021-August 2022 period with a call answering result of 76% and an abandonment rate of 24%. *Id.* Moreover, PGW has experienced staffing challenges that occurred following the closure of its district offices and the movement of its call center to an in-house operation. *Id.*

OCA witness Alexander noted that "a pattern has arisen indicating that handling customer calls during months in which credit and collection and disconnections occur is below average but that the call center performs adequately during the disconnection moratorium periods." OCA St. 5 at 6. The most recent monthly data from August 2022 through March 2023 shows that the percent of calls answered within 30 seconds significantly improved to over 80% but the call abandonment rate remained high in the fall period (9.7% in September, 10.6% in October). *Id.* Ms. Alexander testified that this pattern is not acceptable because customers who are being threatened with disconnection and failed payment plans need access to PGW with a reasonable level of call center performance. *Id.* at 6-7. OCA

In rebuttal testimony, PGW witness Adamucci rejected the OCA's recommendation that customer call center performance should be improved to significantly lower the abandonment rate to the average of other NGDCs OCA St. 5SR at 1. PGW witness Adamucci states that the 2022 performance has improved and that "performance has returned to pre-pandemic performance and no further action is necessary." PGW St. 1R at 34.

In response, and based on PGW's recent improved call center performance (*see* Exhibit BA-3), OCA witness Alexander made the following recommendation:

> As 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. My recommendation reflects the need to link recent improvements to future performance to avoid the potential of lowering expenses associated with the call center once a rate increase is approved. I continue to recommend that the Commission address call center performance during months in which termination of service is allowed, particularly because there are no in person offices available to PGW customers to discuss their

> account and negotiate a payment agreement due to the closure of the PGW service center offices. As I noted in my direct testimony, PGW's in person offices were all closed due to the pandemic and permanently closed soon thereafter.

OCA St. 5SR at 2.

Ms. Alexander also testified that public utilities should conduct regular reviews of internal disputes and informal complaints and compliance related responses from BCS to identify "red flags" and indicators that suggest the need for revision of internal training or the development of new policies and programs to ensure compliance with Chapter 56. OCA St. 5 at 9. OCA witness Alexander attempted to review how PGW conducts any analysis of its customer complaints and documented infractions from BCS, however, she found that PGW does not conduct evaluations of complaints and complaint trends. OCA St. 5 at 9. OCA witness Alexander then testified that "[t]his is a significant defect in PGW's customer service program in my opinion." OCA St. 5 at 9.

In response to OCA witness Alexander's recommendation, PGW witness Adamucci stated that PGW already reviews customer complaints and that any review of BCS findings of "justified complaints" is of "limited value" because these findings reflect a "subjective determination." PGW St. 1R at 34. PGW witness Adamucci further downplays BCS Staff determinations by claiming that they are "not the result of litigation or other formal process." *Id.* OCA witness Alexander responded as follows:

> I am troubled by this response. PGW has not documented that the pattern of high percentages of justified complaints and verified infractions I identified in my Direct Testimony should be ignored or that my recommendation that PGW conduct a more in depth evaluation of the trends and patterns that might be identified in a proper review and analysis is inappropriate or unreasonable. Based on the responses to OCA-XV-3 and XV-4, PGW's "review" of customer complaints and BCS findings is to evaluate individual complaints and results. There is no evidence of any evaluation of a pattern or practice of complaints over a reasonable period. I attach as Exhibit BA-4 PGW's response to OCA-XV-3 as confirmation of the lack of review of pattern or practice over a reasonable period and the apparent emphasis on review of individual complaints as they occur. PGW's policy to emphasize individual complaint reviews and findings does not reflect a policy that is designed

> to determine trends. It would seem to be a standard practice to evaluate and determine the root cause of customer complaints, particularly when those complaints have resulted in findings of potential infractions and improper application of policy by the BCS. I continue to recommend that the Commission require PGW to routinely conduct a root cause analysis of complaints trends and BCS findings to identify underlying trends and take actions to prevent repeated patterns that can, if resolved, lower complaints, improve compliance with essential Chapter 56 requirements, and increase customer satisfaction.

OCA St. 5SR at 2-3. BCS determinations form a reasonable basis for OCA witness Alexander's recommendations that PGW's call center performance should be improved, particularly during those months in which PGW residential customers are subject to termination of service, and that PGW should institute a root cause analysis process for customer complaints. OCA witness Alexander's recommendations are a reasonable approach to PGW's customer service issues.

2. <u>Failure to Negotiate Payment Plans that Conform to Chapter 56</u>

PGW does not negotiate payment plans that conform to Chapter 56. OCA witness Alexander found that PGW has programmed its computer to guide customer service representatives to gather household income data and offer predetermined payment options. OCA St. 5S at 9. The representatives are not allowed to offer payment plans that differ from these computerized calculations or that are based on the individual circumstances of the customer. OCA St. 5S at 9.

In response, PGW witness Adamucci testified that PGW's policy is to accept individual customer information, enter that information into its computer, and offer the payment arrangement calculated by its software program. OCA St. 5SR at 3. PGW witness Adamucci claims that her understanding of 52 Pa. Code Section 56.97(b) "directs utilities to exercise good faith and fair judgment in entering into a reasonable payment arrangement when contacted prior to termination without specifying how that is to be achieved." OCA St. 5SR at 4. 52 Pa. Code Section 56.97(b), however, clearly states:

> (b) The public utility shall exercise good faith and fair judgment in attempting to enter a reasonable payment arrangement or otherwise equitably resolve the matter. **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. Payment arrangements for heating customers shall be based upon budget billing as determined under § 56.12(8) (relating to meter reading; estimated billing; customer readings).

52 Pa. Code §56.97(b) (emphasis added).

PGW's policy conflicts with Chapter 56 and may be the reason for the significant increase in payment arrangement complaints that require BCS investigation. OCA St. 5 at 9. Rather than making the required individualized determination required by regulation, PGW outsources its responsibility to an algorithm that produces formulaic results that bear no reasonable relationship to what a family can actually afford. The ability of the customer to pay must be a part of the payment arrangement determination made by the utility.[14] There is no evidence to support the determination that the algorithm used by PGW's software program takes into account individual circumstances. OCA St. 5SR at 4. OCA witness Alexander noted that there are no procedures for the call center representative to take into account the customers' ability to pay. OCA St. 5SR at 4. OCA witness Alexander recommended as follows:

> PGW should inquire as to whether the customer can meet the offered terms and offer to negotiate a reasonable payment plan that is likely to be affordable and successful to avoid further expensive collection actions when there are reasonable grounds to do so. Furthermore, such a policy is likely to avoid payment arrangement disputes filed with the BCS. Specific internal policies can be developed to allow the representative to consult with a manager to deviate from computerized options.

[14] PGW closed its five customer service centers in April/May 2022. OCA St. 5 at 10. As a result, customers can only interact with PGW via the call center and the PGW web portal. *Id.* PGW has also engaged with Neighborhood Energy Centers (NEC) to provide information about PGW programs and associated low-income assistance programs. *Id.* However, the NEC staff are not utility employees and cannot offer payment arrangements, enroll the customer in PGW programs, create a new customer account, etc. *Id.*

OCA St. 5SR at 4-5. OCA witness Alexander's recommendation is supported by the plain language of the Public Utility Code, is reasonable, and should be adopted.

3. Fee Free Payment System

The OCA recommends that PGW move to a fee free payment system to encourage customers to use a wide variety of payment options to pay their natural gas bill. OCA St. 5 at 11. Currently, in addition to the mailing of a personal check to PGW, customers can pay by cash with no additional fee at many retail establishments or enroll in autopay via the web portal using the customer's checking account. *Id.* at 10. However, other electronic payment options, such as credit card, debit card, and one time bank payments, require a fee of $2.95. *Id.* A total of 1,055,440 payments were made by residential customers with credit cards, debit cards, and interactive voice menu payments for a total of $3,113,548 in fees that were added to the applicable PGW bill amount. OCA St. 5 at 10-11. More than 50% of PGW customers paid a fee to make a payment on their PGW bill. *Id.* OCA witness Alexander noted that the prevalence of one-time payments suggests that PGW customers are relying on these more expensive methods to make a bill payment to avoid a disconnection event or potential failure to meet a payment arrangement. *Id.*

PGW witness Adamucci rejected OCA witness Alexander's recommendation to phase out fees to make payments on the grounds that these fees are not under PGW's control, reflect fees charged by credit card companies, and that customers have options that do not include payment fees. OCA witness Alexander responded to these concerns as follows:

> I do not agree with these reasons. First, it is a decision by the creditor to include the credit card processing fees in the price of their goods and services, a policy that is the most common approach by the tens of thousands of businesses that accept credit card payments at stores, restaurants, etc. Second, any form of payment incurs fees to process the payment. In fact, processing cash payments incurs expenses to handle the cash, allocate the payment to the correct account, and deposit the cash into PGW's accounts. In fact, even though PGW does not charge a fee to the customer for the receipt of cash payments at commercial outlets, PGW incurs costs

> for the payment of these fees which, in 2022, totaled $60,376.60. I recognize that credit card processing fees may be more expensive than other forms of payment processing costs, but this payment option is commonly used by PGW customers as documented in my testimony. However, whether to charge the fee to customers in the form of a socialized cost of doing business or to incur a separate fee on certain customers is entirely within PGW's control. Third, Ms. Adamucci's statement that customers have options to avoid the fees associated with credit card payments is not supported by any evidence or analysis or why or under what conditions PGW's [customers] use a credit or debit card for payment of their PGW bill. Such an analysis would document whether there is a significant percentage of customers who are using credit card payments (even with large fees) to avoid the threat of termination of service because they are unable to pay in cash or without funds in their checking account.

OCA St. 5SR at 6.

The OCA's recommendation to move to a fee free payment system is in line with a growing trend among Pennsylvania utilities to eliminate payment fees and reflects the expectation of most customers to use online payment methods. OCA St. 5 at 11. In the last several years, Pittsburgh Water and Sewer Authority, York Water, and Pennsylvania American Water have eliminated credit card and debit card payment fees for their Pennsylvania utility customers. *Id.* The reasonable and prudent costs that PGW incurs should be socialized as all of its current payment processing costs are accounted for.

4. <u>Conclusion</u>

OCA witness Alexander recommended the following in relation to PGW's customer service:

> - PGW's call center performance should be improved by the next base rate case to significantly lower the abandonment rate to the average of other NGDCs (and maintain the current service level of more than 80%), particularly during those months in which PGW residential customers are subject to termination of service.
>
> - PGW should conduct a more routine analysis of customer disputes, complaints, and BCS findings to identify the root cause of these complaints and document steps taken to respond to the findings of this analysis. PGW should initiate this routine process within six months of a final order in this base rate proceeding with an objective to significantly reduce the number and type of justified complaints and verified infractions.

- PGW should amend its payment arrangement policies and training programs to emphasize the need to engage in an individualized negotiation of a reasonable payment plan considering the criteria set forth in Chapter 56. This reform and updated training should be documented within six months after a final order in this base rate proceeding.

- PGW should phase out the reliance on additional fees to make payments of the PGW bill in all venues and modalities within 12 months of the final order in this proceeding.

OCA St. 5 at 4-5. Ms. Alexanders' recommendations are consistent with the evidence in this case, are reasonable, and should be adopted.

F. Low-Income Customer Service

1. Introduction

In the PUC's Policy Statement regarding PGW ratemaking, certain factors are discussed as "relevant factors" in determining just and reasonable rates;

Ratemaking procedures and considerations.

> In determining just and reasonable rate levels for PGW, the Commission will *consider*, among other relevant factors:
>
> (6) PGW's management quality, efficiency and effectiveness.
>
> (7) Service quality and reliability.
>
> (8) Effect on universal service.

OCA St. 4 at 9-10 (emphasis added). The Commission should consider PGW's performance in these areas, as testified to by OCA witnesses Alexander and Colton, in arriving at any revenue increase determination for PGW.

2. PGW's Recent History of Low-Income and Residential Natural Gas Heating Bills

As OCA witness Roger Colton testified, the Commission's annual "Rate Comparison Report"[15] section reviewing natural gas heating bills for Section 1307(f) companies for the seven years 2017 through 2023 indicates that PGW had the highest monthly bill of the natural gas companies for which data was provided. OCA St. 4 at 11. Solely in 2023, did PGW gas heating bills fall below those of Columbia Gas, and even then by less than $10. *Id.* In the seven years from 2017 through 2023, the average PGW monthly heating bill (15 MCF) reported by the PUC increased from $204.90 (2017) to $293.27 (2023), an increase of 43% ($293.27 / $204.90 = 1.431). OCA St. 4 at 11.[16]

PGW witness Adamucci testified that it is "difficult and not particularly useful to compare PGW's rates to the rates of other NGDCs in Pennsylvania." PGW St. 1R at 5. However, according to PUC Chair Gladys Brown Dutrieuille, in her letter to the General Assembly in delivering the 2023 Rate Comparison Report (April 15, 2023), "The Report compares all categories of ratepayers for all electric and gas public utilities <u>*so that a reasonably accurate comparison of rates can be made*</u> between similar ratepayers receiving services in different service areas of the Commonwealth.". OCA St. 4SR at 4-5, (emphasis added).

OCA witness Colton further noted that PGW management chooses not to avail itself of actions that could reasonably address the payment difficulties of low-income customers. OCA St. 4SR at 28. OCA witness Colton adopted the reasoning of the PUC's Management Audit of PGW, as that Audit concluded that the trend in long-term receivables "is not unique to PGW. However,

[15] Pennsylvania PUC, Rate Comparison Report (annual), prepared by the Bureau of Technical Utility Services, https://www.puc.pa.gov/filing-resources/reports/rate-comparison-reports/

[16] PGW's bills escalated well above the rate of inflation during that time period. OCA St. 4 at 11-12. Had PGW bills escalated at the rate of inflation, the 2023 bill would have been $254.20. OCA St. 4 at 12.

while not caused by the company, its effects must be addressed by PGW." OCA St. 4SR at 30. In 2022 and 2023, PGW's residential heating bills have seen particularly high increases, including an increase of nearly $40 monthly from 2021 to 2022 ($261.71 - $223.80), and an additional increase of nearly $32 from 2022 to 2023 ($293.27 - $261.71). *Id.*

OCA witness Colton examined zip-code specific data from six of PGW's zip code service areas and observed the following:

> - The average Q1 incomes for these selected PGW zip codes are consistently extraordinarily low. In none of the six zip codes examined does the average Q1 income exceed $7,000 in an of the five years considered. In five of the six zip codes, the average Q1 income is at or below $5,000.
> - While PGW's residential heating bills reported by the PUC show a distinct upward trend from 2017 through 2023, the same cannot be said about the incomes of PGW's low-income customers. Indeed, as the Chart below demonstrates, there are years in which the average annual incomes of the lowest income (i.e., First Quintile) households <u>*decrease*</u> rather than increase. For example, the decreasing Q1 incomes over the five year period can be seen in particular in zip code 19133 and zip code 19139.
> - Some years can see particularly low-incomes for households in PGW's lowest income zip codes. For example, in three zip codes (19121, 19133, 19140), 2017 revealed average incomes at roughly $1,000 or lower.

OCA St. 4 at 14.[17]

OCA witness Colton concluded that "the data for PGW residential heating bills and the average Q1 incomes for PGW's lowest income zip codes clearly demonstrates the mismatch between the trend in PGW residential heating bills and the incomes for low-income households over time." OCA St. 4 at 15. Table 1 sets forth the dollars of household income at three selected ranges of Federal Poverty Level (50%, 100%, 150%) on an annual and monthly basis for households with from one to four persons:

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[17] Regarding Mr. Colton's data set, it is important to remember that the data utilized does not reflect "a few" PGW customers. Instead, the data is comprised of the First Quintile of households in PGW's service territory, which constitutes 20% of all PGW households. OCA St. 4 at 15.

Table 1.Dollars of Poverty Level at Selected Ranges of Federal Poverty Level (FPL) (1 – 4 person households) (2023)						
HH size	50% FPL		100% FPL		150% FPL	
	Per Year	Per Month	Per Year	Per Month	Per Year	Per Month
1	$7,290	$608	$14,580	$1,215	$21,870	$1,823
2	$9,860	$822	$19,720	$1,643	$29,580	$2,465
3	$12,430	$1,036	$24,860	$2,072	$37,290	$3,108
4	$15,000	$1,250	$20,000	$2,500	$45,000	$3,750

OCA St. 4 at 17 (footnote omitted). The average PGW gas heating bills as a percentage of income for all PGW zip codes are set forth in Table 2:

Table 2. PGW Residential Gas Heating Burdens at Current and Proposed Rates		
Federal Poverty Level	Current Rates	Proposed Rates
< 50% FPL	17.7%	19.5%
50 – 100% FPL	9.4%	10.4%
100 – 150% FPL	5.7%	6.2%

OCA St. 4 at 18. OCA witness Colton examined three ranges to examine affordability by absolute dollars of income: (1) below $10,000; (2) $10,000 to $15,000; and (3) $15,000 to $20,000. OCA St. 4 at 18. As shown in Table 3 below, PGW burdens for the lowest income range (below $10,000) will be more than 30% of income:

Table 3. PGW Residential Gas Heating Burdens at Selected Income Ranges (<$10,000; $10,000 - $15,000, $15,000 - $20,000)			
	Mid-Points of Selected Income Ranges		
	$5,000	$12,500	$17,500
Existing rates	30.1%	12.0%	8.6%
Proposed rates	33.1%	13.2%	9.4%

OCA St. 4 at 18-19. After paying the monthly PGW bill at PGW's proposed rates, a household with income less than $10,000 would have monthly income of $279 for all other household expenses. OCA St. 4 at 19. After paying the PGW bill at proposed rates, a household with income between $10,000 and $15,000 would have a monthly income of $904 remaining for all other household expenses, while a household with income between $15,000 and $20,000 would have monthly income of $1,321 remaining for all other household expenses. *Id.*

Recent Census data (2021) shows there are a significant number of households within PGW's service territory who live at these income levels: 69,299 households with annual income less than $10,000; 41,404 households with income between $10,000 and $15,000; and 33,706 households with income between $15,000 and $20,000. OCA St. 4 at 19. The Census reports that, in 2021, 462,775 of the 646,608 households in Philadelphia (72%) heat with natural gas. *Id.* A revenue increase of the magnitude sought by PGW would be particularly harmful to these groups.

3. Payment Difficulties for PGW's Low-Income Customers

PGW's increasing affordability issues contribute to the increasing payment difficulties faced by PGW's low-income customers. OCA witness Colton examined the payment difficulties of low-income customers for the time period 2017 through 2021, the last year for which the Pennsylvania PUC has published data. OCA St. 4 at 20. Table 4 below shows the escalation in Confirmed Low-Income (CLI) arrears from 2017 through 2021:

Table 4. Payment Difficulties of Confirmed Low-Income (CLI) Customers:
PGW (2017 – 2021)
(BCS Annual Report on Universal Service Programs and Collections Performance)

	2017	2018	2019	2020	2021
Average CLI arrears	$560.59	$566.02	$568.14	$708.63	$932.75
Pct of CLI $s of arrears not on agrmnt	19.6%	22.8%	27.3%	60.8%	43.4%
Avg arrears: CLI not on agrmnt	$360.17	$731.07	$766.24	$1,004.40	$1,028.73

OCA St. 4 at 20-21. As shown above, arrears have nearly doubled over the five-year period. OCA St. 4 at 20.[18] The number of PGW payment agreements with CLI customers has dropped from a

[18] OCA witness Colton noted that the percentage of CLI dollars of arrears that are not subject to agreement (i.e., a deferred payment plan) has more than doubled, from roughly 20% to more than 43%) over the five-year period. OCA

high of more than 61,000 in 2017 and 2018 to only 12,253 in 2021. *Id.*[19] Moreover, that the rate of disconnections (i.e., defined to be the number of disconnections per 100 customers) remains two times higher for CLI customers than for residential customers as a whole. OCA St. 4 at 22.

PGW witness Adamucci, however, denies that PGW's low-income customers face unaffordable bills. OCA St. 4SR at 4. She states that "I do not agree that PGW has an affordability problem." PGW St. 1R at 6. Moreover, she asserts that "the higher level of arrears that PGW is currently experiencing are primarily related to the termination moratorium put in place by the Commission during the COVID-19 pandemic." *Id.* OCA witness Colton responded as follows:

- She does not explain why, if the increase in low-income arrears was caused by the COVID-19 shutoff moratorium;
- The number of Confirmed Low-Income nonpayment disconnections increased from 17,567 in 2018 to 19,724 in 2019, the years before COVID-19;
- The number of Confirmed Low-Income customers in arrears subject to a payment arrangement dropped from 61,532 in 2018 to 48,912 in 2019, the years before COVID-19;
- The number of "payment troubled" PGW customers increased from 29,373 in 2018 to 38,342 in 2019, the years before COVID-19.

OCA St. 4SR at 4. OCA witness Colton's recommendations in this proceeding, as discussed herein, should be adopted as a means to address PGW's affordability issues.

4. Identifying Low-Income Customers and Enrolling them in CRP

OCA witness Colton compared the number of PGW's "confirmed low-income customers" to the number of PGW's "estimated" low-income customers by year for the years 2017 through 2021 utilizing BCS's annual report on Universal Service Programs and Collections Performance.

St. 4 at 20. The percentage of total dollars of CLI arrears not subject to agreement has more than doubled, the average dollars of arrears (for a CLI account) that is not subject to agreement has increased by nearly 300% (from an average of $360 to an average of $1,029). *Id.*

[19] While there has been a downtick in the percentage of "payment-troubled" customers that are CLI customers in 2021, that percentage indicates that nearly three-of-four of PGW's "payment-troubled" customers are Confirmed Low-Income. Id. "Payment troubled," refers to customers who have defaulted on at least one payment agreement in the preceding twelve months. See 52 Pa. Code § 62.2.

OCA St. 4 at 28. Table 5 shows the deterioration of PGW performance in this respect in that five-year period:

Table 5. PGW Estimated Low-Income and Confirmed Low-Income Customers (2017 – 2021)			
	Estimated Low-Income	Confirmed Low-Income	Percent Confirmed of Estimated Low-Income
2021	187,901	110,634	58.9%
2020	195,215	133,785	68.5%
2019	197,855	147,014	74.3%
2018	206,533	149,217	72.2%
2017	172,885	146,488	84.7%

OCA St. 4 at 29. The importance of confirming the low-income status of PGW customers extends far beyond whether those customers are enrolled in CRP. PUC regulations require that:

> Notwithstanding subsection (a), a public utility may not require a cash deposit from an applicant who is, based upon household income, confirmed to be eligible for a customer assistance program. An applicant is confirmed to be eligible for a customer assistance program by the public utility if the applicant provides income documents or other information attesting to his or her eligibility for state benefits based on household income eligibility requirement that are consistent with those of the public utility's Customer Assistance Program.

52 Pa. Code § 56.32(e).[20]

While PGW modestly increased its CRP participation rate in 2020 and 2021 the utility continues to enroll fewer than half of its Confirmed Low-Income customers in CRP. OCA St. 4 at 30. Participation in PGW's CRP is affected by the number of program participants being removed

[20] Aside from being applicable to "applicants," the Commission has further extended this prohibition to existing customers as well. 52 Pa. Code § 56.41(B)(4). Moreover, aside from deposits, PGW customers with income at or below 150% of Poverty are protected from the involuntary disconnection of service for nonpayment during cold weather months. 66 Pa. C.S. § 1406(e).

from the program as well as by the number of customers who have been confirmed as "low-income" and subsequently enrolled in the program. OCA St. 4 at 31. While the CRP default rate substantially declined during 2020 and 2021 when PGW was not removing CRP participants due to a failure to recertify, beginning in 2021, when that PGW non-removal policy was changed, the default rate began to increase back to historic levels. OCA St. 4 at 32. The default rates reported above are limited to customers who are removed from CRP due to non-compliance. *Id.*

In rebuttal, PGW witness Adamucci argued that since the PUC is currently reviewing its universal service programs in a statewide proceeding, the issues which OCA witness Colton testified to "are more appropriately addressed at that docket rather than in this rate case." PGW St. 1R at 10. Ms. Adamucci further argues that the number of estimated low-income PGW customers is less than the PUC reports and that PGW does an adequate job of identifying its low-income customers and enrolling them in CRP. *Id.* at 12-13.

OCA witness Colton responded as follows:

> As with Dr. Peach, Ms. Adamucci argues that PGW's CRP participation rate is higher than the participation rate of other Pennsylvania utilities. In addition, as with Dr. Peach, Ms. Adamucci fails to explain ***why*** PGW's CRP participation rate (which she defines to be the number of CRP participants divided by the number of Confirmed Low-Income customers) is as high as it is. Rather than identifying its low-income customers, and then seeking to enroll those customer in CRP, PGW looks at the number of customers enrolled in CRP and receiving LIHEAP and then labels those populations as Confirmed Low-Income.
>
> Nor does PGW's data support the testimony of PGW witness Adamucci. For example, PGW reports that, in 2022, it had 82,780 customers who received LIHEAP cash grants, and 7,822 customers who received LIHEAP crisis grants. (OCA-V-20). While there may be ***some*** overlap between those two populations, the overlap would not be complete. In contrast, PGW reports that it had 69,626 confirmed low-income customers. (OCA-V-2). PGW, in other words, has identified only three-of-four of its LIHEAP recipients (69,626 / 90,602 = 0.76) as being Confirmed Low-Income. That does not even take into account the 53,466 customers which PGW reports as being CAP recipients. Again, while there may be some overlap between CRP participation and the receipt of LIHEAP, that overlap would

> not be 100%. Ms. Adamucci's testimony that PGW does a good job of identifying its Confirmed Low-Income customers should be given little credibility.

OCA St. 4SR at 9.[21]

Additionally, PGW witness Peach argued in rebuttal that PGW does an adequate job of enrolling customers into its CRP. OCA St. 4SR at 26. Moreover, PGW witness Peach asserts that enrollment of 48.4% of its confirmed low-income customers is "well above the average" (he does not identify what "average" he is referring to). OCA S. 4SR at 25-26. OCA witness Colton noted that PGW has no metrics and does not collect any data on its outreach to identify low-income customers and blames customers by arguing that CRP enrollment requires voluntary action from the customer. OCA St. 4SR at 25-27. The PUC's Bureau of Consumer Services' most recent data reports that while the number of estimated low-income customers on the PGW system has increased from 2017 to 2021 (172,885 in 2017 to 187,901 in 2021), the number of Confirmed Low-Income customers has decreased in that same time period (from 146,488 in 2017 to 110,634 in 2021). OCA St. 4 at 53.[22] PGW employs a process for confirming low-income status that is more stringent than the PUC regulations allow:

> For "confirmed low-income", PGW uses CRP participation, receipt of a LIHEAP Cash or Crisis grant, and participation on a low-income payment agreement, in the past 2 years. Note that income status is not verified for participants on a low-income payment agreement; instead PGW accepts the customer's oral representation with respect to income.

OCA St. 4 at 54.

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[21] Ms. Adamucci asserts further that its Confirmed Low-Income population includes a customer who has "had a low-income payment arrangement." (PGW St. 1-R, at 12). That testimony, however, is in direct conflict with PGW's discovery response in this proceeding that says "Confirmed Low-Income means that a customer's income has been verified. *This means they are currently on CRP, or have received a LIHEAP Cash or Crisis grant within the most recent program year*.") (OCA-V-3) (emphasis added). Those conflicting statements have not been reconciled by PGW.

[22] While in 2017 PGW confirmed the low-income status of 84.7% of its estimated low-income population, in 2021, it confirmed the low-income status of only 58.9% of its estimated low-income population (see, Table 7, supra). OCA St. 4 at 53.

This process for confirming low-income customers is not in full compliance with the Commission's regulations governing Confirmed Low-Income customers for natural gas utilities. The PUC's regulations define "Confirmed Low-Income customers" as:

> Accounts where the [Natural Gas Distribution Company] has obtained information that would reasonably place the customer in a low-income designation. This 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].

52 Pa. Code § 62.2. Nothing in the PUC regulations otherwise requires a customer to be participating in one of the three identified programs (LIHEAP, CRP, low-income payment agreement) in order to be identified as a Confirmed Low-Income customer. OCA St. 4 at 54. As such, OCA witness Colton recommended that PGW accept documentation of participation in any municipal, state or federal means-tested program as adequate documentation to identify a customer as a Confirmed Low-Income customer and/or to establish eligibility for the means-tested winter disconnection moratorium. OCA St. 4 at 9.

In response to OCA witness Colton's recommendation, Ms. Adamucci argued that 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." OCA St. 4SR at 16. OCA witness Colton responded:

> That argument has two flaws. First, I did not propose to use the information which I identified as the basis for enrolling in CRP. Second, Ms. Adamucci did not (and could not reasonably) argue that the documented receipt of a municipal, state or federal means-tested benefit, when the program providing that benefit has a maximum income eligibility of 150% FPL or below, would not "reasonably place the customer in a low-income designation" as the PUC's regulations require. PUC protections for Confirmed Low-Income customers extend beyond enrollment of those low-income customers in CRP. By not accepting information that would "reasonably place the customer in a low-income designation," as the PUC regulations require, PGW is denying PUC -prescribed protections to customers who are entitled to them.

OCA St. 4SR at 16. OCA witness Colton concluded that "there is substantial room for improvement in PGW's performance with respect to: (1) identifying its low-income customers; (2) enrolling its low-income customers in its CRP; and (3) retaining its CRP participants once enrolled." OCA St. 4 at 32. The recommendation that PGW accept documentation of participation in any municipal, state or federal means-tested program as adequate documentation to identify a customer as a Confirmed Low-Income customer and/or to establish eligibility for the means-tested winter disconnection moratorium is a reasonable approach for identifying low-income designation and should be adopted.

5. Recommended Remedies to Protect Universal Service in Light of PGW's Rate Proposals

OCA witness Colton recommended that PGW be directed to undertake steps available to it as Philadelphia's municipal natural gas utility to improve its identification of Confirmed Low-Income customers and to increase its enrollment of CRP participants. OCA St. 4 at 43. The City of Philadelphia's Department of Revenue reported that it entered Owner Occupied Payment Agreement (OOPA) agreements with 8,260 "Tier 4" households (income at or below 30% of the Area Median Income) and 1,736 "Tier 5" households (income at or below 15% of Area Median Income. The data demonstrates that the maximum income eligibility for Tier 4 and Tier 5 would qualify OOPA participants for CRP and would certainly confirm the status of such households as "low-income" pursuant to PUC regulations. OCA St. 4 at 45. The Department of Revenue has experience in auto-enrolling households in other City programs. OCA St. 4 at 45.

OCA witness Colton's second recommendation is that PGW should work to cross-enroll PGW customers using data from the City's Office of Integrated Data for Evidence and Action (IDEA). OCA St. 4 at 45. OCA witness Colton recommended that PGW exercise the same or similar “data-matching” through the City of Philadelphia’s IDEA to identify and enroll its low-income customers as CRP participants and/or to confirm the low-income status of PGW customers. OCA St. 4 at 46.

OCA witness Colton also recommended that PGW collaborate with other Philadelphia municipal entities, including the Philadelphia Water Department (PWD), to establish a data-sharing arrangement with the Pennsylvania Department of Human Services (DHS) to confirm the low-income status of PGW customers and/or to enroll those customers in CRP. OCA St. 4 at 46. PWD and DHS have already finalized a data-sharing agreement to share data for use in enrolling customers in PWD’s percentage of income program (called TAP). OCA St. 4 at 46.

OCA witness Colton further recommended that PGW should access a partnership with the City of Philadelphia’s Community Resource Corps (CRC), an organization out of the Philadelphia Mayor’s Office of Civic Engagement and Volunteer Service both to identify Confirmed Low-Income customers and to enroll customers in PGW’s CRP. OCA St. 4 at 47. PWD uses this part of Philadelphia’s City government to identify low-income customers and to promote enrollment in its low-income discount. OCA St. 4 at 47. OCA witness Colton additionally recommended that PGW should partner with the City of Philadelphia’s “Philly Counts” outreach efforts. OCA St. 4 at 48. PWD partnered with Philly Counts and attempted phone contact with 1,900 customers, had 260 conversations and generated 187 customer assistance payment applications. OCA St. 4 at 48.

Lastly, OCA witness Colton recommended that PGW enter into a data-sharing agreement with PWD to confirm the low-income status of PGW customers and/or to cross-enroll customers from PWD’s TAP into PGW’s CRP. OCA St. 4 at 48. Commission policy has long been that the state’s regulated natural gas and electric utilities should collaborate to allow cross-enrollment of low-income customers who live in an area served by both utilities. OCA St. 4 at 48.

PGW fails to adequately maintain customers who have enrolled in PGW's CRP. PGW has a high "default" rate, which includes in substantial part those customers who are removed from the CRP due to a failure to recertify. OCA St. 4 at 50. As such, OCA witness Colton recommended that (1) PGW engage in partnerships with the five City of Philadelphia initiatives with which PWD collaborates in the City's response to customers who would otherwise be removed from CRP due to their failure to recertify, and; (2) PGW place a hold on the removal of any CRP customers whose bills and/or communications with PGW are returned to PGW as UAA. OCA St. 4 at 50.

In response, PGW witness Adamucci opposed the reasonable recommendations discussed above and argued that OCA witness Colton did not identify whether the municipal agencies discussed above "will, or even can, enter into his proposed data sharing agreements." PGW St. 1R at 15. OCA witness Colton responded as follows:

> This assertion, of course, is in direct conflict with the fact that Philadelphia's municipal *water* utility has done precisely that. Ms. Adamucci does not identify, or even suggest, why these Philadelphia municipal agencies "will and can" enter into agreements with Philadelphia's municipal water utility but would not, or could not, do so with Philadelphia's municipally owned gas utility.

OCA St. 4SR at 10.

OCA witness Colton further noted that Ms. Adamucci argues that there would be "likely significant costs of administration" even though she had been apprised of the fact that the Philadelphia Water Department pursues each of Mr. Colton's recommendations without needing to include any adjustment to its rates in its 2023 rate case for its cooperation with other city agencies. OCA St. 4SR at 11.

Ms. Adamucci argues that Mr. Colton did not "provide any examples of other regulated utilities that undertake this type of 'data sharing.'" PGW St. 1R at 15. However, while PWD is not regulated by the state PUC, the 2023 Rate Determination for PWD by the Philadelphia Water, Sewer and Stormwater Rate Board, found that participation in PWD's low-income discount "is likely to increase" because of the increased collaboration between PWD and other Philadelphia municipal entities. OCA St. 4SR at 11-12.

Lastly, Ms. Adamucci argues that the type of cooperation recommended with municipal agencies should be addressed on a statewide basis "so that they are addressed consistently across regulated utilities rather than in an individual rate case." OCA St. 4SR at 12. OCA witness Colton responded that she did not explain why this is the case as municipal utilities cooperate while PGW seems unwilling to pursue cooperation. OCA St. 4SR at 12-13. Cooperation between municipal entities is a reasonable approach which should be adopted by PGW in the instant rate proceeding.

6. Increasing Low-Income Homes Treated Through LIURP

Without additional investments through external programs such as PGW's Low-Income Usage Reduction Program (LIURP), PGW's current rate case will have a serious adverse effect on low-income customers and, therefore, on universal service. As such, OCA witness Colton recommended that PGW increase its LIURP budget to serve an additional 425 homes per year.[23] OCA St. 4 at 56.

This increase in LIURP funding would not be collected through base rates but would instead be recovered through PGW's Universal Service Rider. OCA St. 4 at 56. As more than 60% of PGW's LIURP participants are also CRP participants, every dollar of reduced bills to a CRP participant would be a dollar of reduced costs to be collected through the Universal Service Rider. OCA St. 4 at 56. In addition, PGW reports that its LIURP investments result in reduced annual

[23] OCA witness Colton provided the following explanation for his recommendation: "I base this number on PGW's historical capacity to treat homes. I first calculate the average number of homes served over the past five years (excluding the COVID year of 2020 as an outlier). (CAUSE-1-1). I then subtract the most recent year's production (2022: 1,894). This yields a difference between the five-year average and the most recent production of 421.4, which I round up to 425. Using an average per job cost over the past three years ($4,238), I estimate a total budget to serve the additional 425 homes of $1,801,180 ($425 x $4238)." OCA S. 4 at 56.

arrears for low-income program participants. OCA St. 4 at 56.[24] As such, OCA witness Colton recommended an expansion of LIURP funding to help offset the adverse impacts of the rates and rate structure that PGW proposes in this proceeding. OCA St. 4 at 57. PGW's LIURP budget has been constant, at $7,988,818 per year, for the years 2018 through 2022. OCA St. 4 at 57. Moreover, PGW proposes to keep its LIURP spending constant (at $7,988,818) per year for the next three years (2023 through 2025). OCA St. 4 at 57. Except for the COVID years, PGW's actual LIURP spending has equaled or exceeded its LIURP budget. OCA St. 4 at 57.

The inadequacy of PGW's current LIURP budget is evident. PGW estimates that it has 44,168 confirmed low-income homes in need of LIURP services. OCA St. 4 at 57. At the three-year average production rate from 2017 through 2020, it would take 17 years to treat all homes in need. OCA St. 4 at 57. PGW's LIURP production in 2022, however, was noticeably lower. OCA St. 4 at 57.

In rebuttal, Ms. Adamucci opposed increasing LIURP spending. OCA St. 4SR at 18-19. However, she does not dispute that at PGW's current rate of LIURP spending, it will take more than 75 years for PGW to treat its entire population of low-income customers nor does she dispute that PGW's increased rates as proposed in this proceeding will exacerbate rate unaffordability to customers who are not participating in CRP. OCA St. 4SR at 19. She only argues that the harms of high natural gas rates are not the fault of PGW. OCA St. 4SR at 19. Ms. Adamucci also opposes "setting the LIURP budget on the number of homes to be served." PGW St. 1-R, at 27. Instead, she argues that the goal should be to "maximize the savings on each job." *Id.* She does not explain why there is a conflict between those two goals as no such conflict exists. OCA St. 4SR at 19.

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[24] In addition to reduced CRP credits there would also be a reduction in arrearage forgiveness credits. OCA St. 4 at 56.

Simply put, PGW serves an inadequate number of low-income homes through LIURP. OCA St. 4SR at 19. It is unrebutted that the need for LIURP investment will increase as a result of both the proposed increased level of rates in this proceeding, and the proposed increased residential customer charge in this proceeding. OCA St. 4SR at 19. Increasing LIURP spending is a reasonable remedy to offset some of the harms that would be created by a large rate increase in this case.

7. Improved Tracking of Data on Low-Income Payment Patterns

PGW does not have information that allows it to track payment difficulties, let alone to determine whether there are clusters of difficulties and potential geo-targeted responses. OCA St. 4 at 59. PGW states that it is "unable to provide" either the numbers of accounts in arrears, or the dollars of arrears, by zip code, either for residential customers as a whole or for Confirmed Low-Income customers. OCA St. 4 at 59.[25] PGW said it could not even "opine" on whether it was reasonable to calculate an average (mean) arrears by dividing the total dollars of residential arrears by the total number of residential accounts in arrears. OCA St. 4 at 59.

PGW fails to track fundamental information that would allow it to identify and respond to bill payment difficulties associated with unaffordable bills.[26] For example, PGW said that it "does

[25] PGW could not provide either the mean or the median arrears by zip code, either for residential customers as a whole or for Confirmed Low-Income customers. OCA St. 4 at 59.

[26] OCA witness Colton also testified to the fact that any of the problems facing PGW today with respect to enrolling low-income customers in CRP, and preventing them from being dropped due to a failure to recertify, are similar to the problems facing other health and human service programs. OCA St. 4 at 51. As such, OCA witness Colton recommended that PGW be directed to pursue prescribed types of technology to advance the identification of Confirmed Low-Income customers and their enrollment into CRP, as well as improving the retention of CRP customers by decreasing the extent to which PGW loses CRP participants to defaults attributable to the failure to recertify. OCA St. 4 at 51. OCA witness Colton specifically recommended as follows:

> (1) PGW be directed to present the question of what technology might address the three-part problem (identification, enrollment, maintaining enrollment)) to its universal service advisory committee for deliberation and to provide a report to the Commission's BCS outlining the results of that deliberation no later than 18 months after a final order in this proceeding; and (2) PGW be directed to include, beginning with its next-filed Universal Service and Energy Conservation Plan

not track" information on: (1) the mean or median bill for all residential accounts; (2) the mean or median bill for all residential accounts in arrears; (3) the mean or median arrears of accounts in arrears; or (4) the average arrears of all residential accounts that were disconnected for nonpayment in a month. OCA St. 4 at 59-60.

Given PGW's extensive residential payment difficulties, OCA witness Colton recommended that PGW be directed to collect, and make publicly available, monthly data by zip code on critical elements of nonpayment. OCA St. 4 at 60. This data should include the data set forth in Table 14. *See* OCA St. 4 at 61. OCA St. 4 at 61. In addition to the zip code level data, this monthly reporting should include PGW totals as well. OCA St. 4 at 60.

8. Disconnection of Service after Undeliverable Bills

PGW stated that "PGW does not track the number of correspondences that were marked as undeliverable as addressed. *It is the customer's responsibility to give PGW their correct address*." OCA St. 4 at 65. As such, PGW assigns complete responsibility to the customer for having mail returned to PGW as being undeliverable. OCA St. 4 at 65. Since PGW does not engage in any tracking of its bills, or of its disconnection notices, that are returned as undeliverable, it does not engage in any tracking of such returns by zip code. OCA St. 4 at 65.

(USECP) a specific section of the USECP that presents a workplan on what technology tools has adopted, or that it intends to adopt in the near-term, mid-term, and long-term, to address the three-part problem. Expenses that are associated exclusively with the implementation of technology tools directed exclusively to universal service should be subject to recovery through PGW's Universal Service Rider.

OCA St. 4 at 53.

While OCA witness Colton did not constrain PGW to any specific technology, he recommended that (1) PGW submit the question of how technology might improve the delivery of universal service programs to its Universal Service Advisory Committee; and (2) when PGW submits its next USECP, it be required to include a specific discussion of how it might deploy technology to improve the delivery of PGW's universal service programs. OCA St. 4SR at 15. These recommendations are reasonable and should be adopted.

It is unreasonable for PGW to attribute mail that is returned as undeliverable to customers as a failure to give a correct address. OCA St. 4 at 65-66. Returned mail to the USPS is referred to as "Undeliverable As Addressed" (UAA). OCA St. 4 at 66. According to the USPS procedures manual, there are nearly 20 reasons why mail may be UAA. OCA St. 4 at 66. Having an "insufficient address" is a relatively small portion of UAA mail each month at approximately 8% of the total UAA. OCA St. 4 at 66.

The reasons for UAA may have nothing to do with factors within the control of a PGW customer.[27] Since the utility industry is a major mass mailer, utilities are one of the industries for which data is separately reported as shown in Table 16:

Table 6. Undeliverable As Addressed (UAA) Class Volume (selected UAA Reasons) (by Industry) (Utilities)[28]

UAA Reason Description	Utilities FY22 QTR4	FY23 QTR1	FY23 QTR2
Attempted no known	12.19%	12.39%	13.47%
Insufficient address	8.98%	9.58%	9.93%
Illegible	0.05%	0.06%	0.08%
No mail receptacle	4.06%	4.06%	3.80%
No such number	2.97%	3.02%	2.93%
No such street	1.02%	1.07%	1.04%

OCA St. 4 at 68. The only party to the transaction who would know that something is awry would be PGW, who receives the returned UAA mail. OCA St. 4 at 68. Under federal law, states must

[27] Having no mail receptacle, for example, often occurs at rental units where the property owner, not the occupant, has failed to maintain a usable mailbox. OCA St. 4 at 66. An "insufficient address" often occurs when an apartment or unit number is placed in the "primary" address line (along with the street address) rather than in the "secondary" address line of the mailing address. OCA St. 4 at 66. The UAA error "attempted not known" often occurs when numbers in the address get inadvertently transposed, a circumstance also often yielding an "insufficient address" UAA error. OCA St. 4 at 67. Indeed, a 2015 "Management Advisory Report" by the Office of the Inspector General for the USPS reported that "the Postal Service itself is responsible for about 23 percent due to sorting errors or failed deliveries." OCA St. 4 at 67.

[28] https://postalpro.usps.com/address-quality-solutions/undeliverable-addressed-uaa-mail (data files: Quarterly UAA Statistics by Mailing Industry)

take all reasonable measures to ensure that individuals who are eligible for both Medicaid and the federal Children's Health Insurance Program (CHIP) remain enrolled as long as they meet eligibility criteria. OCA St. 4 at 69.[29]

On December 29, 2022, the Consolidated Appropriations Act, 2023 (P.L. 117-328) (CAA, 2023) was enacted.[30] Pursuant to the new law, Section 5131 added a new subsection (f) to section 6008 of the Families First Coronavirus Response Act (FFCRA). States seeking additional federal Medicaid funding must, among other things, meet certain new conditions under section 6008(f) of the FFCRA. Those "new conditions" include "undertak[ing] a good-faith effort to contact an individual *using more than one modality prior to terminating their enrollment on the basis of returned mail*." OCA St. 4 at 70.

OCA witness Colton recommended as follows:

> [T]hat PGW be directed to place a collection hold on all accounts for which bills and/or disconnection notices are returned UAA.
>
> I further recommend that PGW be directed to adopt a procedure that creates an exception if multiple pieces of mail are returned as undeliverable within a certain time period for a customer service representative to follow up with the customer to update their contact information; enable reports on undeliverable mail; generate an email (if an email address is attached to the account), phone call or text to advise of undelivered mail and encourage the customer to log in online to verify and update their information or if they do not have an online account, ask that they contact the Customer Service Center.
>
> I finally recommend that this same procedure be applied to notices regarding requirements to maintain participation in CRP (e.g., the need to periodically recertify).

OCA St. 4 at 70.

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[29] This includes both (1) maintaining regular communication with beneficiaries, and (2) attempting to locate beneficiaries when mail is returned. OCA St. 4 at 69.

[30] https://www.congress.gov/117/bills/hr2617/BILLS-117hr2617enr.pdf

In rebuttal, PGW witness Adamucci opposed Mr. Colton's recommendation and repeats the policy that PGW stated in response to discovery that "the customer is responsible for providing their current contact information." OCA St. 4SR at 17. Essentially, Ms. Adamucci testifies that it would cost PGW too much for it to investigate the reason why the Company's written communications are being returned as undeliverable. PGW St. 1R at 24. However, she offers no testimony on what that cost would be if implemented. This process by a regulated utility offering an essential service in Pennsylvania should be rejected by the Commission.

9. <u>CRP Cost Recovery Offset</u>

The current cost offset for PGW's CRP was established in the Settlement of PGW's most recent rate proceeding. That Settlement provided:

> PGW shall implement a 5.75% Bad Debt Offset which will offset CRP credit amounts (i.e., reported as "CRP Discount" in PGW's quarterly filings) related to average annual CRP participants exceeding 80,000 customers. The offset will be calculated as follows: (1) average annual CRP credit amount; multiplied by (2) average annual number of CRP participants exceeding 80,000 customers; multiplied by (3) 5.75%. The offset will only be effective during the effective period of the distribution base rates established in this proceeding and, unless extended by a subsequent PUC order, shall terminate upon new base rates becoming effective. In the next base rate case, all parties reserve their rights to argue their positions as to the offset.

Pa. PUC v. PGW, R-2020-3017206, Order at 37 (entered Nov. 19, 2020). While the current offset was established in the Settlement of that proceeding, that Settlement was consistent with the litigated outcome of PGW's 2007 rate case. *Pa. PUC v. Philadelphia Gas Works*, R-0006193, (Order entered Sept. 28, 2007) (*PGW 2007*). In *PGW 2007*, the Commission found that:

> We find the ALJs recommendation to be supported by the record as well as Section 1408 of the Code. Accordingly, we find OCA's argument to be convincing. Double recovery of uncollectible accounts expense is a possibility and can be alleviated by implementing a mechanism for reconciliation.

PGW 2007 at 39, 42.[31] OCA witness Colton recommended the following three modifications to the current offset:

> First, I recommend that CRP credits be offset by 12.1% rather than by 5.75%. Second, I recommend that the offset be applied to all customers who are participating in the percentage of income program component of CRP above the participation number as of September 30, 2023. Third, I recommend that this offset be applied to arrearage forgiveness credits granted to *all* CRP participants receiving arrearage forgiveness in excess of those receiving forgiveness as of September 30, 2023.

OCA St. 4 at 72. A change in the level of the offset applied is necessary because, when PGW provides a CRP credit, including arrearage forgiveness credits, it then collects those credits through the Universal Service Rider as though 100% of those dollars would have been collected in the absence of the CRP. OCA St. 4 at 72. Low-income customers who enter CRP, and thus receive CRP credits (including arrearage forgiveness) will have substantial dollars that would not be collected irrespective of the existence of CRP. OCA St. 4 at 72.

The three-year average gross write-off ratio is 12.1%. OCA St. 4 at 72. The gross write-off ratio shows that, even in the absence of CRP, PGW would expect to fail to collect 12.1% (using the 3-year average) of the dollars billed to its low-income customer base. OCA St. 4 at 72. These gross write-offs do not include CRP customers. OCA St. 4 at 72. These low-income write-offs, therefore, are already included in PGW rates. OCA St. 4 at 72. To also include 100% of these CRP credits (including arrearage forgiveness) in the Universal Service surcharge would be to include these dollars twice in rates: (1) first, in base rates as a component of PGW's uncollectibles, and

[31] The Commission decision on CRP cost recovery offsets was affirmed by the Commonwealth Court in an unpublished decision. *Phila. Gas Works v. Pa. PUC*, No. 1914 C.D. 2007, 2009 Pa. Commw. Unpub. LEXIS 797, at *20-24 (Commw. Ct. Feb. 4, 2009). In accord with 210 Pa. Code § 69.414(a) (an unpublished memorandum opinion, although not binding precedent, may be cited for its persuasive value in accordance with Section 414(a) of this Court's Internal Operating Procedures).

(2) second, in the universal service surcharge as a component of PGW's arrearage forgiveness. OCA St. 4 at 72.

In response to OCA witness Colton's Direct Testimony, PGW witness Peach argued that "public policy should incentivize utilities to undertake robust universal service programs to advantage low-income customers." OCA St. 4SR at 32. OCA witness Colton responded:

> Whether or not this is true, it is not applicable to this situation. As PGW repeatedly argues in other contexts, it is a cash flow municipal utility. There are no investors that earn a profit from PGW operations. There is no "incentive" provided to anyone by allowing a double recovery of universal service costs. Indeed, as PGW Peach acknowledges, "it would be inappropriate to double collect on an expense." (PGW St. 9-R, at 29).

OCA St. 4SR at 32.

It does not matter how PGW labels these uncollected dollars as PGW budgets for the amount of billed gas revenue that it does not expect to collect. OCA St. 4 at 73. To the extent that the billed gas revenue is not collected, that collection shortfall is already built into PGW's financial planning and PGW adjusts the rates it charges upwards in order to generate the case it needs. OCA St. 4 at 74. Despite having already recognized that it will not collect 100% of its billed gas revenue, however, with CRP, PGW proposes to collect 100% of the CRP credits (including arrearage forgiveness) through the Universal Service Rider as though it were collecting 100% of those dollars in the absence of CRP. OCA St. 4 at 74. In doing so, PGW is, in effect, proposing to collect those dollars twice. OCA St. 4 at 74. As such, OCA witness Colton recommended a minor adjustment to the offset agreed to in 2021 to update the collection offset. OCA St. 4 at 74.

OCA witness Colton's second recommendation regarding the offset is to apply the proposed offset to the number of CRP participants receiving CRP credits that exceeds the number of CRP participants receiving CRP credits as of September 31, 2023. OCA St. 4 at 75. OCA witness Colton testified as follows:

> In this recommendation, there are two substantive changes from the prior offset. First, I propose that the estimated number of CRP participants be set at a specific known number as of a date certain.
>
> …
>
> I recommend that the Commission adopt for PGW what has been adopted for UGI's CAP offsets. UGI Gas, for example, included the following language in its "Rider F" (i.e., its universal service rider): "The average monthly number of participants receiving CAP credits exceeding the number of CAP enrollees *as of September 30, 2020* will be multiplied by the average annual CAP credit granted per participant and then multiplied by 0.0920 in order to determine the amount of the CAP Credits which will not be recovered through Rider USP." (UGI Gas, Rider F, Third Revised Page 59) (emphasis added). Adoption of the UGI approach eliminates the uncertainty of anyone's procedure for estimating or projecting future program participants. It eliminates the reality that was experienced by PGW when its estimate in its last base rate case over-projected "expected" CRP participation by between 20,000 and 30,000 customers.

OCA St. 4 at 75-76 (citations omitted).

The arguments advanced by Dr. Peach in his Rebuttal Testimony are the same arguments which PGW advanced when the Commission first approved an offset to CRP credits to prevent double recovery. There, too, rather than addressing whether there is a double recovery, PGW offered any number of reasons about why overall bad debt might fluctuate. In reviewing the ALJ opinion in that proceeding, the Commission noted:

> The ALJs also found that PGW never addressed whether double recovery is or is not possible when participation exceeds projections in CRP. Rather, PGW makes generalities of other reasons for increases in the CRP expense. The ALJs believe that the OCA made a convincing argument that double recovery is a possibility and can be alleviated by implementing a mechanism for reconciliation and that PGW did not provide a persuasive argument that the current practice guards against double recovery.

PGW 2007 at 39., The current proceeding presents the exact same circumstances and the Commission's decision should be the same.

OCA witness Colton's third recommendation regarding the PGW offset is to ensure that the CRP offset be applied only to CRP customers who are receiving CRP credits. OCA St. 4 at 76. PGW has adopted a component to its CRP that allows low-income customers to participate in CRP in order to achieve arrearage forgiveness even if the natural gas burdens experienced by those low-income customers do not exceed the percentage of income target. OCA St. 4 at 76. These customers would receive arrearage forgiveness credits but would not receive CRP credits. OCA St. 4 at 76. The customers who are participating in this component of CRP should be excluded, both from the calculation of the average CRP credit (since they would factor in as a $0 credit thus bringing the average down) and because there is no CRP credit to which the offset should be applied. OCA St. 4 at 76.

This recommendation is administrative in nature, it simply reflects the change in the structure of the PGW CRP. OCA St. 4 at 77. Rather than applying the offset when the total CRP population exceeds a prescribed number, which total would include CRP participants not receiving a CRP credit, it would apply when the number of CRP participants receiving credits exceeds the identified number. OCA St. 4 at 77.

10. Conclusion

PGW's low-income customer service is in need of serious improvement. OCA witness Roger Colton provided a series of recommendations that would help PGW improve in this important area. Mr. Colton's recommendations are reasonable and should be accepted in any final order in this case.

G. Pipeline Replacement Alternatives

The OCA provided no testimony on these issues.

H. Miscellaneous Issues

The OCA has no miscellaneous issues to address.

V. CONCLUSION

The Office of Consumer Advocate respectfully requests the Commission to accept the recommended revenue increase of $16.5 million for PGW, and the corresponding 2.40 DSC ratio, based on the record evidence, OCA testimonies, and the contents of this Main Brief.

Respectfully submitted,

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OCA Main Brief Exhibit 1:
Findings of Fact, Conclusions of Law

Findings of Fact

1. PGW filed this case seeking a revenue increase of $85.8 million. OCA St. 1 at 5.

2. After careful analysis of PGW's filing and review of the Company's responses to the extensive discovery requests in this proceeding, the OCA is recommending an increase in revenue of $16.502 million. OCA St. 1SR at 1.

3. Dr. Griffing recommends a Debt Service Coverage ratio of 2.40 as compared to PGW's proposed 2.73. OCA St. 2SR at 15.

4. PGW requested that it be allowed to operate with a DSC ratio of 2.73 in the FPFTY of September 1, 2023, through August 31, 2024. PGW St. 2 at 16.

5. As a municipally owned public utility, PGW does not have any shareholders or pay a rate of return to any owner in a traditional sense; instead, PGW pays the City of Philadelphia $18 million annually (City Fee). This payment is in effect a dividend payment. OCA St. 2 at 2.

6. A DSC ratio is appropriate when 1) it meets its legal requirements, such as bond covenants, and; 2) it exceeds the required bond covenant ratio by a large enough margin such that a company is equipped for predictable events, such as revenue variations from billing cycles. OCA St. 2 at 5.

7. PGW already charges above-average retail rates as compared to similar companies, and PGW has a particularly large low-income customer base. OCA St. 2 at 5.

8. The median household income for PGW customers is 73% of the national average, according to Fitch and S&P Global, and consequently PGW customers' ability to pay is below the national average. OCA St. 2 at 6.

9. The inflation rate is down from the January 2022 and January 2023 year-over-year inflation rates, and the present inflation rate is less than the Company's requested percentage increase in rates. OCA St. 2 at 6.

10. The historical evidence of PGW's ratings and the most recent reports from the credit ratings agencies indicate that PGW has no need to improve its DSC ratio. OCA St. 2 at 10-11.

11. PGW witness Golden's and PGW witness Lover's assertions that an improved bond rating will benefit customers by allowing PGW to issue debt at lower interest rates also do not accurately capture the fact that any such benefits will be counteracted by the harms that will come to ratepayers due to increased costs from such a ratio. OCA St. 2 at 7; PGW St. 2 at 14; PGW St. 3 at 20.

12. PGW's witnesses only provide speculation about what the consequences would be should PGW fail to make these improvements, because credit ratings statements make primarily general statements about what leads to upgrades or downgrades in credit ratings. OCA St. 2 at 8.

13. Other factors that the agencies indicate could lead to bond ratings changes include weakening demographics, material reduction, notable expansion of customer base, and a less supportive rate regulatory environment. OCA St. 2 at 8.

14. PGW proposed nearly $207 million in Net Construction Expenditures in FPFTY 2023-2024. OCA St. 2 at 11.

15. PGW's proposed FPFTY construction spending amounts to an increase of $36 million, or 21% more than that spent in the year prior. This percentage increase is significantly higher than the inflation rate for April 2023 (4.9%), the January 2022 annual inflation rate (7.5%) and the January 2023 annual inflation rate (6.4%). OCA St. 2 at 11.

16. Prior to the COVID-19 pandemic, PGW's Net Construction Expenditures were significantly less, with PGW having spent $123.4 million in fiscal year 2017-2018, $100.5 million in the fiscal year 2018-2019, and $119.7 million in the fiscal year 2019-2020. OCA St. 2, Sch. MFG-3, Sch. MFG-4.

17. The OCA recommended that PGW should reduce its proposed FPFTY Net Construction Expenditures by $25 million, in addition to the $7 million reduction to those expenditures identified by OCA witness Mugrace. OCA St. 2 at 11; OCA St. 1 at 8.

18. A reduction in PGW's proposed construction expenditures, when combined with a $7 million reduction on those expenditures identified by OCA witness Mugrace, leaves PGW with nearly $175 million for new expenditures. That total is more in line with the trend in annual spending on such projects by the Company, including in the years before COVID-19. OCA St. 2 at 11.

19. The OCA's recommended reduction to Net Construction Expenditures of $17.108 million is based on an analysis of the actual amounts spent by PGW in the fiscal years from 2018 to 2022. OCA St. 2R, Sch. MFG-SR-3.

20. OCA witness Griffing identified $17.1 million as a reduction that PGW could make that was consistent with the OCA's recommended debt service coverage ratio of 2.40 percent (2.24 percent with PGW's annual $18 million payment to the City of Philadelphia included). The recommended $17.1 million reduction addresses PGW's cash flow needs and recognized that PGW has a history of projecting the need for more construction-related cash flow than it actually spends. OCA St. 2SR at 4-5.

21. The OCA's proposed increases to net construction expenditures in the FTY and FPFTY amount to a 25.6% increase from the HTY. OCA St. 2SR at 8.

22. If PGW receives its proposed revenue increase, its days of cash on hand will be 61.8 days. PGW St. 2 at 23.

23. The OCA's recommended DSC ratio and net cash expenditures for PGW would result in PGW having approximately 57.41 days cash on hand. OCA St. 2SR at 2.

24. If a recession were to occur, businesses (such as PGW) tend to slow purchasing and reduce capital expenditure spending, thus reducing their cash needs. OCA St. 2SR at 10.

25. The increase that PGW recommended in its filing will negatively impact PGW's customers' abilities to pay their bills, in the same way that a recession would. OCA St. 2SR at 10.

26. Mr. Lover performs no calculations to find the savings that he claims customers would incur from a higher credit rating. OCA St. 2SR at 14.

27. OCA witness Mugrace accepted Mr. Golden's representation that a general inflation adjustment was applied to only $62.5 million of projected FPFTY operating expenses. OCA St. 1SR at 10.

28. OCA witness Mugrace recommended that the full amount of that adjustment ($62.5 million x 4.63% = $2.89 million) be removed from PGW's FPFTY revenue requirement. OCA St. 1 at 10.

29. Inflationary costs cannot be precisely determined and there is no way to pinpoint whether a particular cost is or will be subject to inflation. OCA St. 1SR at 10.

30. Regardless of the rate methodology being used to set rates for service (Rate Base/Rate of Return or Cash Flow Method), the costs relied upon in setting such rates must be valid and supported with appropriate data in order to substantiate their use in the rate-setting process. OCA St. 1SR at 10.

31. Mr. Mugrace recommended that the $2.89 million of increased operating expenses reflecting the application of a generalized inflation adjustment factor be denied. OCA St. 1SR at 10.

32. The Company provided no further breakdown or specific information or cost adjustments related to the $62.5 million figure. OCA St. 1SR at 10.

33. OCA witness Mugrace accepted the $27.840 million in incremental uncollectible accounts expense related to COVID-19, but he maintained that the $4.044 million expense should be reduced by the nearly $2.0 million PGW received from the Federal Emergency Management Agency (FEMA) as partial reimbursement of these expenses. OCA St. 1 at 53.

34. Mugrace recommended recovery of these expenses over a five-year period rather than the three-year period that PGW proposed in order to match the five-year period over which PGW proposed to recover its rate case expenses. OCA St. 1 at 53.

35. Mugrace also noted that because the Commission authorized creation of a regulatory asset for pandemic-related expenses, there is no uncertainty as to recovery and PGW will be able to fully recover these costs and the longer recovery period benefits customers as a lower amount will be collected each year. OCA St. 1SR at 9.

36. Taking account of the FEMA reimbursement and the extended recovery period of five years rather than three, Mr. Mugrace proposed an annual recovery of COVID-related expenses equal to $5.985 million, a reduction of $4.642 million from PGW's proposed $10.627 million per year. OCA Sch. DM-SR-11.

37. OCA witness Mugrace took exception to two components of PGW's advertising expense: the $779,000 Advanced Marketing Campaign and the $78,000 Diversification of New Revenue Opportunities campaign. OCA St. 1 at 25.

38. Regarding the Advanced Marketing Campaign, the cost relates to three initiatives: Fueling the Future (to launch in 2024); Online Appointment Scheduling; and Main Replacement customer outreach. Mr. Mugrace noted that of these initiatives, only Fueling the Future had advertising examples available and none were available for the Diversification of New Revenue Opportunities campaign. OCA St. 1SR at 16.

39. OCA witness Mugrace recommended that 50% of the Advanced Marketing Campaign costs be disallowed and that the full amount of the Diversification and New Revenue Opportunities campaign costs be disallowed. OCA St. 1SR at 16.

40. This amounts to a reduction in PGW's proposed Advertising expense of $389,500 (50% of $779,000) plus $78,000 for a total of $467,500. OCA St. 1SR at 16; OCA Sch. DM-SR-9.

41. PGW has included $100,000 of lobbying expense in its revenue requirement proposal. OCA St. 1 at 26.

42. PGW provided no breakdown of the lobbying expense amount. OCA St. 1SR at 8.

43. OCA witness Mugrace recommended that PGW's lobbying expense be disallowed. OCA St. 1 at 27.

44. Combining that amount with the normalization adjustments he proposed for Gas Processing, Field Operations, Collections, Customer Service, Account Management and Marketing, Mr. Mugrace is recommending an overall reduction of the PGW revenue requirement of $4,276,673.

45. In HTY 2022, PGW spent $781,000, and for FTY 2023, it has projected an expense of $3.967million, an increase of 407% over the HTY. For the FPFTY, PGW projects an expense of $2.774 million. OCA St. 1 at 22.

46. Mr. Mugrace normalized the Purchased Services subaccount expenses for the period 2022 through 2024 and determined a normalized level of $2,507,333 which is a downward adjustment of $266,667 from PGW's projected FPFTY level. OCA St. 1 at 22.

47. With regard to the Information Services subaccount under the Customer Service category, PGW spent $4.754 million in HTY 2022. OCA St. 1 at 22.

48. For 2023, it is projecting a decrease to $4.365 million followed by an increase in the FPFTY to $5.938 million. OCA St. 1 at 22.

49. With respect to the Facilities Management subaccount, PGW spent $1.246 million in HTY 2022. OCA St. 1 at 22.

50. The Company is projecting an expenditure of $1.697 million in 2023, and an expenditure of $1.835 million in the FPFTY. OCA St. 1 at 22.

51. As with the other subaccounts, Mr. Mugrace normalized the expenditures over the period 2022 through 2024 and determined a normalized expense level to be $1,592,667. OCA St. 1 at 22.

52. This is a $242,333 adjustment to PGW's FPFTY projection. OCA St. 1 at 22.

53. Summing the normalization adjustments Mr. Mugrace has proposed to the three Customer Service subaccounts produces an overall adjustment to the Customer Service category of $1.428 million. OCA St. 1 at 22.

54. PGW proposed including $4.139 million in its revenue requirement for this expense. OCA St. 1 at 36.

55. Mr. Mugrace found two subaccounts under Human Resources that exceeded his 25% variance threshold – Facilities Management and Information Services. OCA St. 1 at 36.

56. Mr. Mugrace normalized expenditures in this subaccount over 2022 through 2024 and arrived at a normalized expense level of $5.019 million, which represents a $919,000 downward adjustment from PGW's projected FPFTY expense level. OCA St. 1 at 22.

57. Under Facilities Management, PGW incurred an expense of $658,087 in 2022 and projects expenses in this subaccount of $1.089 million in 2023 and $1.240 million in 2024, an 88% increase from 2022. OCA St. 1 at 36.

58. Mr. Mugrace normalized PGW's Facilities Management expense over 2022-2024 for a subaccount balance of $995,667. This is a reduction of $244,333 from PGW's proposed $1.24 million. OCA St. 1 at 36.

59. Mr. Mugrace normalized the Information Services subaccount for which PGW spent $994,156 in 2022 but is projecting expenditures of $749,000 in 2023 and $792,000 in 2024. OCA St. 1 at 36-37.

60. Mr. Mugrace's normalization resulted in a balance of $845,000, a $53,000 increase over PGW's projected $792,000 expense for 2024. OCA St. 1 at 36-37.

61. Netting Mr. Mugrace's adjustments in the Human Resources category produces an overall reduction of $191,333 in this expense category. OCA St. 1 at 37.

62. In 2022, PGW spent $1.097 million in this subaccount. PGW projects that it will spend $1.802 million in 2023 and $2.637 million in 2024, an increase of 140% over the 2022 level. OCA St. 1 at 49.

63. Mr. Mugrace normalized this over 2022 through 2024, resulting in a subaccount balance of $1,845,450 for 2024. OCA St. 1 at 49.

64. This is a reduction in the Purchased Services subcategory and, in turn, the Special Legal Services category of $791,550 from PGW's proposed expense of $2.637 million. OCA St. 1 at 49.

65. PGW made a claim for Salary and Wages for the FPFTY of $121,523,000. OCA St. 1 at 59.

66. The Company had not provided any evidence regarding the five employee per month increase. OCA St. 1SR at 7.

67. Applying the 2.95% vacancy ratio to PGW's projected salary expense of $121,523,000 results in a reduction to payroll expense of $3,582,144. OCA St. 1SR at 7; OCA Sch. DM-SR-20.

68. For the FPFTY, PGW identified bonus pay for senior management in the overall amount of $129,000. OCA St. 1SR at 11.

69. This consists of $32,000 for bypass bonus, $32,000 for employee recognition and $65,000 for contract and retention bonus. OCA St. 1SR at 11.

70. OCA witness Mugrace has recommended that $21,666 of the $129,000 total be disallowed. OCA St. 1SR at 11.

71. Mr. Mugrace said that he accepted the amounts claimed for the bypass bonus and the employee recognition payments as these expenditures reasonably could be said to inure to the benefit of PGW's customers. OCA St. 1SR at 11.

72. Mr. Mugrace stated that incentive compensation paid to achieve the latter two goals, financial performance and supplier diversity, should not be charged to customers as they are not likely to provide benefit to customers. OCA St. 1SR at 11-12.

73. To determine the amount of the disallowance OCA witness Mugrace recommended, he assigned 1/6th of the $65,000 to be spent on the contract and retention bonuses to each corporate goal, or $10,333 per goal. OCA St. 1SR at 11-12.

74. As OCA witness Mugrace recommended that spending on two of the goals be disallowed, he provides for a reduction in this expense category of $21,666. OCA St. 1SR at 11-12; OCA Sch. DM-SR-20.

75. PGW proposed a Pension Expense of $44.759 million for the FPFTY. OCA St. 1 at 54.

76. OCA witness Mugrace noted that PGW's pension expense in the HTY (2022) was $20.675 million and that the increase to $44.759 million represents an increase of 117% in the course of two years. OCA St. 1 at 54.

77. Over those five years, the expenses ranged from a high of $43.158 million in 2018 to an actual credit of $3.146 million in 2021. OCA St. 1 at 54-55.

78. Mr. Mugrace recommended that this expenditure be normalized over a three-year period, 2022 through 2024, incorporating the actual expense of $20.675 million for 2022, and the projected expenditures of $42.833 million for 2023 and $44.759 million for 2024. OCA St. 1 at 55.

79. The average of these figures equals $36.089 million. OCA St. 1 at 55.

80. Utilizing this figure for Pension Expense in the FPFTY would represent an $8.670 million reduction from the Company's projected expense of $44.759 million. OCA St. 1 at 55, OCA Sch. DM-SR-13.

81. PGW proposed a balance for OPEBs in the FPFTY of negative $10.095 million. OCA St. 1 at 56.

82. PGW's balance for the Historic Test Year 2022 was a negative $1.242 million and its projected balance for 2023 is a negative $13.699 million. OCA St. 1 at 56.

83. The decrease between the 2022 and 2024 levels amounts to a 712% reduction. OCA St. 1 at 56.

84. In 2018, PGW's OPEB balance was a positive $32.889 million. OCA St. 1 at 56-57.

85. OCA witness Mugrace recommended a three-year normalization of the OPEB Expense amounts over the years 2022 to 2024. OCA St. 1 at 57.

86. Doing so resulted in a balance of negative $8.345 million, an increase of $1.750 million over the negative $10.095 million that PGW proposed. OCA St. 1 at 57; OCA Sch. DR-SM-15.

87. For the FPFTY, PGW proposed an expense for health insurance of $27.715 million. OCA St. 1 at 50.

88. Between the HTY and the FPFTY, PGW is projecting an increase in health insurance expense of 20.15%. OCA St. 1 at 50.

89. The increase from 2020 to 2021 was 10.44%, from 2021 to 2022, 1.54%, from 2022 to 2023, 11.6% and from 2023 to 2024, 7.67%. OCA St. 1 at 50.

90. Information published by the Center for Medicare and Medicaid Services (CMS), found that the annual growth in national health spending for the years 2021 through 2030 is expected to be 5.1%. OCA St. 1 at 50.

91. Mr. Mugrace accepted Mr. Golden's suggestion that a 5.7% increase should be applied rather than a 5.1% increase. OCA St. 1SR at 17.

92. This adjustment produced an FPFTY expense of $24.378 million. OCA St. 1SR at 17.

93. This adjustment is $3.337 million less than PGW's claimed expense of $27.715 million. OCA St. 1SR at 17; OCA Sch. DM-SR-10.

94. PGW indicates that its tax expense for the FPFTY is $10.434 million. OCA St. 1 at 55.

95. OCA witness Mugrace recommended adjustments to this tax expense to correspond with his proposed reduction in Salary and Benefits (due to his use of a vacancy ratio) and his reduction to incentive compensation. OCA St. 1 at 55.

96. Specifically, OCA witness Mugrace proposed that the reductions be made to PGW's payroll tax expense. OCA St. 1 at 55.

97. This is compared to the $10.434 million proposed by PGW. OCA Sch. DM-SR-14.

98. Making the related adjustments to payroll taxes reduces that tax expenditure by $278,935, which results in an overall tax expenditure of $10.155 million. OCA Sch. DM-SR-14.

99. PGW proposed a Depreciation balance of $65.412 million for the FPFTY. OCA St. 1 at 57.

100. The total cost for the new Customer Information System is expected to be $61.662 million. OCA St. 1 at 14.

101. Of that amount, PGW has factored in contingency costs of $7,119,731. OCA St. 1 at 15.

102. OCA witness Mugrace removed the $7,119,731 of costs related to contingency costs for the Customer Information Service as they were unsupported. OCA St. 1-SR at 4.

103. Removing the contingency costs from the CIS project results in a downward depreciation adjustment of $325,571. OCA St. 1 at 15.

104. Mr. Mugrace's second adjustment relates to OCA witness Griffing's recommended reduction ($17.1 million) in PGW's new construction expenditures. Sch. MFG-SR-2.

105. This proposed reduction would produce a $522,527 downward adjustment in depreciation expense. OCA St. 1 at 58.

106. Mr. Mugrace's two adjustments would reduce Depreciation expense by $848,098. OCA St. 1 at 58.

107. PGW permanently closed its five customer service centers in the spring of 2022. OCA St. 1 at 12.

108. PGW has estimated that these closings resulted in a savings of approximately $4.2 million consisting of $1.8 million in Facilities Savings, $2.1 million in Attrition Savings and $300,000 in Service Center Operating Savings. OCA St. 1 at 12-13.

109. OCA witness Mugrace raised concerns about how PGW's savings were accounted for in its records and about the accuracy of the Attrition Savings estimate since the Company's employee headcount has increased since 2022. OCA St. 1 at 13-14.

110. OCA witness Mugrace observed that it was PGW, not the City, that provided gas service to the customers. OCA St. 1SR at 19-20.

111. PGW has proposed an Uncollectible Reserve balance of $36,919,000. OCA St. 1 at 12.

112. PGW calculated this balance by taking its projected 2024 Billed Gas Revenues of $922,967,000 and multiplying this amount by 4.0% to arrive at a balance of $36,919,000. OCA St. 1 at 12.

113. For budgeting purposes, PGW assumes a 4.0% bad debt ratio. OCA St. 1 at 12.

114. PGW's 2024 Billed Revenues includes the full amount ($85.8 million) of the revenue requirement PGW is seeking in this case. OCA St. 1 at 12.

115. Based on PGW's method for calculating its Uncollectible Reserve balance and because OCA witness Mugrace is recommending an overall increase of $16.502 million, it is

necessary to reduce the size of the Uncollectible Reserve balance to conform to his recommended overall revenue requirement increase. OCA St. 1 at 12.

116. To calculate his adjustment, Mr. Mugrace determined PGW's Uncollectible balance at present rates to be $33,390,440. OCA St. 1 at 12.

117. To that amount he added the Uncollectible amount on his proposed revenue requirement increase, an amount that equaled $628,466. OCA St. 1 at 12.

118. Mr Mugrace's proposed Uncollectible Reserve balance totals $34,018,906, a reduction from what PGW has proposed of $2,900,094. OCA Sch. DM-SR-2.

119. For virtually every NGDC, the largest single rate base item is Distribution Mains. OCA St. 3 at 7.

120. PGW witness Heppenstall proposed the use of an Average and Extra demand method. OCA St. 3 at 10.

121. OSBA witness Robert Knecht and PICGUG witness Billie LaConte both provided alternative CCOSS in their respective direct testimonies. OSBA St. 1 at 26-40; PICGUG St. 1 at 6-25.

122. Mr. Knecht does not actually propose any specific revenue allocation but rather he provided simulations that provide a range of possible allocations. OCA St. 3R at 7.

123. Mr. Knecht's simulation would result in much higher USEC costs being paid by the residential class. OSBA St. 1 at 34.

124. PGW proposed to increase its residential customer charge from $14.90 to $19.50, an almost 31% increase. OCA St. 3 at 22.

125. PGW's proposed customer charge is an outlier among the customer charges of other PA NGDCs. OCA St. 3 at 23.

126. The proposed increase in the unavoidable monthly residential customer charge, standing alone, will have the same effect as reducing the LIHEAP dollars received by PGW's low-income customers by between 50% (2022-2023) and 70% (2019-2020) a year. OCA St. 4 at 33-34.

127. An increase in the fixed customer charge is unavoidable and can lead customers to take actions that are potentially dangerous. OCA St. 4 at 36.

128. The OCA recommends that PGW's current residential customer charge should not be increased at this time. OCA St. 3 at 24.

129. PGW only enrolls a fraction of its low-income population in CRP. OCA St. 4SR at 6.

130. The OCA agrees with PGW that $4,160,000 of the $81,498,000 base rate increase should be allocated to GFCP. OCA St. 3 at 21.

131. Based on the historical results for 2019, 2020, and 2021, PGW typically answers over 85% of its customer calls within 30 seconds, a rate that is average compared with other Pennsylvania natural gas distribution companies (NGDC). OCA St. 5 at 6.

132. PGW's abandonment rate (the rate that customers drop off the call prior to being answered by a customer service representative) was 9% in 2021, the highest rate of all Pennsylvania NGDCs. OCA St. 5 at 6.

133. Call center performance significantly deteriorated during the September 2021-August 2022 period with a call answering result of 76% and an abandonment rate of 24%. OCA St. 5 at 6.

134. PGW has experienced staffing challenges that occurred following the closure of its district offices and the movement of its call center to an in-house operation. OCA St. 5 at 6.

135. The most recent monthly data from August 2022 through March 2023 shows that the percent of calls answered within 30 seconds significantly improved to over 80% but the call abandonment rate remained high in the fall period (9.7% in September, 10.6% in October). OCA St. 5 at 6.

136. PGW does not conduct evaluations of complaints and complaint trends. OCA St. 5 at 9.

137. PGW has programmed its computer to guide customer service representatives to gather household income data and offer predetermined payment options. OCA St. 5S at 9.

138. PGW representatives are not allowed to offer payment plans that differ from these computerized calculations or that are based on the individual circumstances of the customer. OCA St. 5S at 9.

139. There is no evidence to support the determination that the algorithm used by PGW's software program takes into account individual circumstances. OCA St. 5SR at 4.

140. There are no procedures for the call center representative to take into account the customers' ability to pay. OCA St. 5SR at 4.

141. The OCA recommended that PGW move to a fee free payment system to encourage customers to use a wide variety of payment options to pay their natural gas bill. OCA St. 5 at 11.

142. Currently, in addition to the mailing of a personal check to PGW, customers can pay by cash with no additional fee at many retail establishments or enroll in autopay via the web portal using the customer's checking account. OCA St. 5 at 10.

143. Other electronic payment options, such as credit card, debit card, and one time bank payments, require a fee of $2.95. OCA St. 5 at 10.

144. A total of 1,055,440 payments were made by residential customers with credit cards, debit cards, and interactive voice menu payments for a total of $3,113,548 in fees that were added to the applicable PGW bill amount. OCA St. 5 at 10-11.

145. More than 50% of PGW customers paid a fee to make a payment on their PGW bill. OCA St. 5 at 10-11.

146. In the last several years, Pittsburgh Water and Sewer Authority, York Water, and Pennsylvania American Water have eliminated credit card and debit card payment fees for their Pennsylvania utility customers. OCA St. 5 at 11.

147. The Commission's annual "Rate Comparison Report" section reviewing natural gas heating bills for Section 1307(f) companies for the seven years 2017 through 2023 indicates that PGW had the highest monthly bill of the natural gas companies for which data was provided. OCA St. 4 at 11; Pennsylvania PUC, Rate Comparison Report (annual), prepared by the Bureau of Technical Utility Services, https://www.puc.pa.gov/filing-resources/reports/rate-comparison-reports/.

148. Solely in 2023, did PGW gas heating bills fall below those of Columbia Gas, and even then by less than $10. *Id.* In the seven years from 2017 through 2023, the average PGW monthly heating bill (15 MCF) reported by the PUC increased from $204.90 (2017) to $293.27 (2023), an increase of 43% ($293.27 / $204.90 = 1.431). OCA St. 4 at 11.

149. The PUC's Management Audit of PGW concluded that the trend in long-term receivables "is not unique to PGW. However, while not caused by the company, its effects must be addressed by PGW." OCA St. 4SR at 30.

150. In 2022 and 2023, PGW's residential heating bills have seen particularly high increases, including an increase of nearly $40 monthly from 2021 to 2022 ($261.71 - $223.80), and

an additional increase of nearly $32 from 2022 to 2023 ($293.27 - $261.71). OCA St. 4SR at 30.

151. After paying the monthly PGW bill at PGW's proposed rates, a household with income less than $10,000 would have monthly income of $279 for all other household expenses. OCA St. 4 at 19.

152. After paying the PGW bill at proposed rates, a household with income between $10,000 and $15,000 would have a monthly income of $904 remaining for all other household expenses, while a household with income between $15,000 and $20,000 would have monthly income of $1,321 remaining for all other household expenses. OCA St. 4 at 19.

153. Recent Census data (2021) shows there are a significant number of households within PGW's service territory who live at these income levels: 69,299 households with annual income less than $10,000; 41,404 households with income between $10,000 and $15,000; and 33,706 households with income between $15,000 and $20,000. OCA St. 4 at 19.

154. The Census reports that, in 2021, 462,775 of the 646,608 households in Philadelphia (72%) heat with natural gas. OCA St. 4 at 19.

155. Confirmed Low Income customer arrears have nearly doubled over the five-year period. OCA St. 4 at 20.

156. The number of PGW payment agreements with CLI customers has dropped from a high of more than 61,000 in 2017 and 2018 to only 12,253 in 2021. OCA St. 4 at 20.

157. Participation in PGW's CRP is affected by the number of program participants being removed from the program as well as by the number of customers who have been confirmed as "low-income" and subsequently enrolled in the program. OCA St. 4 at 31.

158. While the CRP default rate substantially declined during 2020 and 2021 when PGW was not removing CRP participants due to a failure to recertify, beginning in 2021, when that PGW non-removal policy was changed, the default rate began to increase back to historic levels. OCA St. 4 at 32.

159. PGW has no metrics and does not collect any data on its outreach to identify low-income customers. OCA St. 4SR at 25-27.

160. The PUC's Bureau of Consumer Services' most recent data reports that while the number of estimated low-income customers on the PGW system has increased from 2017 to 2021 (172,885 in 2017 to 187,901 in 2021), the number of Confirmed Low-Income customers has decreased in that same time period (from 146,488 in 2017 to 110,634 in 2021). OCA St. 4 at 53.

161. Nothing in the PUC regulations otherwise requires a customer to be participating in one of the three identified programs (LIHEAP, CRP, low-income payment agreement) in order to be identified as a Confirmed Low-Income customer. OCA St. 4 at 54.

162. The OCA recommended that PGW accept documentation of participation in any municipal, state or federal means-tested program as adequate documentation to identify a customer as a Confirmed Low-Income customer and/or to establish eligibility for the means-tested winter disconnection moratorium. OCA St. 4 at 9.

163. OCA witness Colton recommended that PGW be directed to undertake steps available to it as Philadelphia's municipal natural gas utility to improve its identification of Confirmed Low-Income customers and to increase its enrollment of CRP participants. OCA St. 4 at 43.

164. The City of Philadelphia's Department of Revenue reported that it entered Owner Occupied Payment Agreement (OOPA) agreements with 8,260 "Tier 4" households (income at or below 30% of the Area Median Income) and 1,736 "Tier 5" households (income at or below 15% of Area Median Income. OCA St. 4 at 45.

165. The data demonstrates that the maximum income eligibility for Tier 4 and Tier 5 would qualify OOPA participants for CRP and would certainly confirm the status of such households as "low-income" pursuant to PUC regulations. OCA St. 4 at 45.

166. The Department of Revenue has experience in auto-enrolling households in other City programs. OCA St. 4 at 45.

167. OCA witness Colton's second recommendation is that PGW should work to cross-enroll PGW customers using data from the City's Office of Integrated Data for Evidence and Action (IDEA). OCA St. 4 at 45.

168. OCA witness Colton recommended that PGW exercise the same or similar "data-matching" through the City of Philadelphia's IDEA to identify and enroll its low-income customers as CRP participants and/or to confirm the low-income status of PGW customers. OCA St. 4 at 46.

169. OCA witness Colton also recommended that PGW collaborate with other Philadelphia municipal entities, including the Philadelphia Water Department (PWD), to establish a data-sharing arrangement with the Pennsylvania Department of Human Services (DHS) to confirm the low-income status of PGW customers and/or to enroll those customers in CRP. OCA St. 4 at 46.

170. PWD and DHS have already finalized a data-sharing agreement to share data for use in enrolling customers in PWD's percentage of income program (called TAP). OCA St. 4 at 46.

171. OCA witness Colton further recommended that PGW should access a partnership with the City of Philadelphia's Community Resource Corps (CRC), an organization out of the Philadelphia Mayor's Office of Civic Engagement and Volunteer Service both to identify Confirmed Low-Income customers and to enroll customers in PGW's CRP. OCA St. 4 at 47.

172. PWD uses this part of Philadelphia's City government to identify low-income customers and to promote enrollment in its low-income discount. OCA St. 4 at 47.

173. OCA witness Colton additionally recommended that PGW should partner with the City of Philadelphia's "Philly Counts" outreach efforts. OCA St. 4 at 48.

174. PWD partnered with Philly Counts and attempted phone contact with 1,900 customers, had 260 conversations and generated 187 customer assistance payment applications. OCA St. 4 at 48.

175. OCA witness Colton recommended that PGW enter into a data-sharing agreement with PWD to confirm the low-income status of PGW customers and/or to cross-enroll customers from PWD's TAP into PGW's CRP. OCA St. 4 at 48.

176. Commission policy has long been that the state's regulated natural gas and electric utilities should collaborate to allow cross-enrollment of low-income customers who live in an area served by both utilities. OCA St. 4 at 48.

177. PGW has a high "default" rate, which includes in substantial part those customers who are removed from the CRP due to a failure to recertify. OCA St. 4 at 50.

178. OCA witness Colton recommended that (1) PGW engage in partnerships with the five City of Philadelphia initiatives with which PWD collaborates in the City's response to customers who would otherwise be removed from CRP due to their failure to recertify, and; (2) PGW place a hold on the removal of any CRP customers whose bills and/or communications with PGW are returned to PGW as UAA. OCA St. 4 at 50.

179. While PWD is not regulated by the state PUC, the 2023 Rate Determination for PWD by the Philadelphia Water, Sewer and Stormwater Rate Board, found that participation in PWD's low-income discount "is likely to increase" because of the increased collaboration between PWD and other Philadelphia municipal entities. OCA St. 4SR at 11-12.

180. OCA witness Colton recommended that PGW increase its LIURP budget to serve an additional 425 homes per year. OCA St. 4 at 56.

181. An increase in LIURP funding would not be collected through base rates but would instead be recovered through PGW's Universal Service Rider. OCA St. 4 at 56.

182. As more than 60% of PGW's LIURP participants are also CRP participants, every dollar of reduced bills to a CRP participant would be a dollar of reduced costs to be collected through the Universal Service Rider. OCA St. 4 at 56.

183. PGW reports that its LIURP investments result in reduced annual arrears for low-income program participants. OCA St. 4 at 56.

184. PGW's LIURP budget has been constant, at $7,988,818 per year, for the years 2018 through 2022. OCA St. 4 at 57.

185. Moreover, PGW proposes to keep its LIURP spending constant (at $7,988,818) per year for the next three years (2023 through 2025). OCA St. 4 at 57.

186. Except for the COVID years, PGW's actual LIURP spending has equaled or exceeded its LIURP budget. OCA St. 4 at 57.

187. PGW estimates that it has 44,168 confirmed low-income homes in need of LIURP services. OCA St. 4 at 57.

188. At the three-year average production rate from 2017 through 2020, it would take 17 years to treat all homes in need. OCA St. 4 at 57.

189. PGW does not have information that allows it to track payment difficulties, let alone to determine whether there are clusters of difficulties and potential geo-targeted responses. OCA St. 4 at 59.

190. PGW states that it is "unable to provide" either the numbers of accounts in arrears, or the dollars of arrears, by zip code, either for residential customers as a whole or for Confirmed Low-Income customers. OCA St. 4 at 59.

191. PGW said it could not even "opine" on whether it was reasonable to calculate an average (mean) arrears by dividing the total dollars of residential arrears by the total number of residential accounts in arrears. OCA St. 4 at 59.

192. PGW could not provide either the mean or the median arrears by zip code, either for residential customers as a whole or for Confirmed Low-Income customers. OCA St. 4 at 59.

193. PGW said that it "does not track" information on: (1) the mean or median bill for all residential accounts; (2) the mean or median bill for all residential accounts in arrears; (3) the mean or median arrears of accounts in arrears; or (4) the average arrears of all residential accounts that were disconnected for nonpayment in a month. OCA St. 4 at 59-60.

194. Given PGW's extensive residential payment difficulties, OCA witness Colton recommended that PGW be directed to collect, and make publicly available, monthly data by zip code on critical elements of nonpayment. OCA St. 4 at 60.

195. PGW stated that "PGW does not track the number of correspondences that were marked as undeliverable as addressed. It is the customer's responsibility to give PGW their correct address." OCA St. 4 at 65.

196. PGW assigns complete responsibility to the customer for having mail returned to PGW as being undeliverable. OCA St. 4 at 65.

197. Since PGW does not engage in any tracking of its bills, or of its disconnection notices, that are returned as undeliverable, it does not engage in any tracking of such returns by zip code. OCA St. 4 at 65.

198. Returned mail to the USPS is referred to as "Undeliverable As Addressed" (UAA). OCA St. 4 at 66.

199. According to the USPS procedures manual, there are nearly 20 reasons why mail may be UAA. OCA St. 4 at 66.

200. Having an "insufficient address" is a relatively small portion of UAA mail each month at approximately 8% of the total UAA. OCA St. 4 at 66.

201. The only party to the transaction who would know that something is awry would be PGW, who receives the returned UAA mail. OCA St. 4 at 68.

202. OCA witness Colton recommended the following three modifications to the current CRP offset: CRP credits be offset by 12.1% rather than by 5.75%. Second, he offset should be applied to all customers who are participating in the percentage of income program component of CRP above the participation number as of September 30, 2023. Third, the

offset be applied to arrearage forgiveness credits granted to all CRP participants receiving arrearage forgiveness in excess of those receiving forgiveness as of September 30, 2023. OCA St. 4 at 72.

203. Low-income customers who enter CRP, and thus receive CRP credits (including arrearage forgiveness) will have substantial dollars that would not be collected irrespective of the existence of CRP. OCA St. 4 at 72.

204. The three-year average gross write-off ratio is 12.1%. OCA St. 4 at 72.

205. These gross write-offs do not include CRP customers. OCA St. 4 at 72.

206. These low-income write-offs, therefore, are already included in PGW rates. OCA St. 4 at 72.

207. To the extent that the billed gas revenue is not collected, that collection shortfall is already built into PGW's financial planning and PGW adjusts the rates it charges upwards in order to generate the case it needs. OCA St. 4 at 74.

208. Despite having already recognized that it will not collect 100% of its billed gas revenue, however, with CRP, PGW proposes to collect 100% of the CRP credits (including arrearage forgiveness) through the Universal Service Rider as though it were collecting 100% of those dollars in the absence of CRP. OCA St. 4 at 74.

209. PGW has adopted a component to its CRP that allows low-income customers to participate in CRP in order to achieve arrearage forgiveness even if the natural gas burdens experienced by those low-income customers do not exceed the percentage of income target. OCA St. 4 at 76.

210. These customers would receive arrearage forgiveness credits but would not receive CRP credits. OCA St. 4 at 76.

Conclusions of Law

1. Reasonableness of rates – In any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceedings upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility. 66 Pa. C.S. § 315 (a).

2. Section 315(a) of the Public Utility Code, 66 Pa. C.S. § 315(a), places the burden of proving the justness and reasonableness of a proposed rate hike squarely on the utility. It is well-established that the evidence adduced by a utility to meet this burden must be substantial. *Lower Frederick Twp. V. Pa. Pub. Util. Comm'n*, 409 A.2d 505, 507 (Pa. Commw. Ct. 1980) (citations omitted); *see also Brockway Glass v. Pa. Pub. Util. Comm'n¸*437 A.2d 1067 (Pa. Commw. Ct. 1981).

3. The "term 'burden of proof' is comprised of two distinct burdens, the burden of production and the burden of persuasion." *Hurley v. Hurley*, 754 A.2d 1283, 1285 (Pa. Super. 2000). The burden of production dictates which party has the duty to introduce enough evidence to support a cause of action. *Id*., at 1286. The burden of persuasion determines which party has the duty to convince the finder-of-fact that a fact has been established. *Id.* "The burden of persuasion never leaves the party on whom it is originally cast." *Hurley* at 1286.

4. The Pennsylvania Supreme Court has stated that the party with the burden of proof has a formidable task to show that the Commission may lawfully adopt its position. Even where a party has established a prima facie case, the party with the burden must establish "the elements of that cause of action to prevail, precluding all reasonable inferences to the contrary." *Burleson v. Pa. Pub. Util. Comm'n*, 461 A.2d 1234, 1236 (Pa. 1983).

5. Pennsylvania law is clear that there is no similar burden for a party proposing an adjustment to a utility base rate filing. *See e.g.*, *Berner v. Pa. Pub. Util. Comm'n*, 116 A.2d 738, 744 (Pa. 1955) (*Berner*).

6. The Commission recognizes this standard in rate determinations. *Equitable Gas 1983*, 1983 Pa. PUC LEXIS 33 at *126-127 (Pa. PUC 1983).

7. PGW has failed to satisfy its statutory burden of proof. *Burleson v. Pa. Pub. Util. Comm'n*, 461 A.2d 1234, 1236 (Pa. 1983).

8. The Natural Gas Choice Act brought PGW under the jurisdiction of the Commission and provides that PGW is, with certain exceptions, "subject to regulation and control by the commission with the same force as if the service were rendered by a public utility." 66 Pa. C.S. § 2212(b).

9. Under Section 2212(e) of the Act, the Commission is charged with establishing the overall rates and charges for PGW. 66 Pa. C.S. § 2212(e).

10. Rates must be just and reasonable. 66 Pa. C.S. § 1301; *Pa. PUC v. PGW,* R-00006042 (Order entered Oct. 4, 2001); *Public Advocate v. Philadelphia Gas Commission*, 674 A.2d 1056 (1996).

11. Utilities are prohibited from recovering from customers the cost of "political advertising." 66 Pa.C.S. § 1316.

12. Section 1316's definition of "political advertising" includes "money spent for lobbying." 66 Pa.C.S. § 1316.

13. In *Pa. PUC v. Total Environmental Solutions, Inc. – Treasure Lake Water Division*, 2008 Pa. PUC LEXIS 1227 at *100 (*TESI*), the Commission referred to the ALJ's explanation of the purpose of normalization. The ALJ described normalization as "a ratemaking

technique used to smooth out the effects of an expense item that occurs at regular intervals, but in irregular amounts. Normalization is the proper adjustment to make the test year expense representative of normal operations.” *TESI* at 72.

14. In *Pa. PUC et al. v. PECO Energy – Gas Division*, 2021 Pa. PUC LEXIS 241 at *56, *59 (*PECO Gas*) the Commission adopted the recommendation of the OCA to normalize expenses in two categories (Other Postretirement Benefits and Injuries and Damages) where there were wide fluctuations in year-to-year spending. In both instances, the normalized amount was calculated over a three-year period. *PECO Gas* at *56, *59. On reconsideration, the Commission rejected PECO’s argument that normalizing OPEB expenses would unfairly skew recovery of those expenses. *PECO Gas*, R-2020-3018929, (Order Entered Aug. 26, 2021).

15. The Commission rejected PPL’s claim for contingency costs related to its nuclear decommissioning plan:

> …the parties have correctly cited our precedent for the proposition that speculative estimates, based on estimated totals of future costs, are not a preferred method for handling future expenses. In our view, the changes encompassed within PP&L's contingency factor can … be reflected in periodic cost updates based on what is actually occurring to these costs. That way, a more certain measure of those costs can be attained…. [I]n this case, unlike many engineering cost scenarios, these contingencies are little more than estimates of what may occur in estimates of decommissioning cost claims…. We see no reason to conclude, for all time, that speculative future costs necessitate a large contingency factor which rests, in itself, on total estimated costs which are themselves far from certain.

Pa. PUC v. Pennsylvania Power and Light Co. 1995 Pa. PUC LEXIS 189 at *115-*117 (*PPL*).

16. In 2010, the Commission issued a Policy Statement to provide guidance on the application of the cash flow method to PGW. *Petition of Philadelphia Gas Works*, Dock. No. P-2009-2136508 at 15 (Order entered Apr. 19, 2010).

17. The Commission has recently once again affirmed that mains costs should be allocated based on peak demands and annual throughput. *Pa. PUC v. Columbia Gas*, R-2020-3018835 at 186-218 (Order entered Feb. 19, 2021).

18. (b) The public utility shall exercise good faith and fair judgment in attempting to enter a reasonable payment arrangement or otherwise equitably resolve the matter. **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. Payment arrangements for heating customers shall be based upon budget billing as determined under § 56.12(8) (relating to meter reading; estimated billing; customer readings). 52 Pa. Code §56.97(b).

19. The PUC's regulations define "Confirmed Low-Income customers" as: Accounts where the [Natural Gas Distribution Company] has obtained information that would reasonably place the customer in a low-income designation. This 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]. 52 Pa. Code § 62.2.

20. Double recovery of uncollectible accounts expense is a possibility and can be alleviated by implementing a mechanism for reconciliation. *Pa. PUC v. Philadelphia Gas Works*, R-0006193, (Order entered Sept. 28, 2007).

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OCA Main Brief Exhibit 2:
Rate Case Tables

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)	OCA Adjustments	OCA Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	ALJ Expense Adjustments	ALJ Proposed Rates FPFTY FY 2024	ALJ Revenue Adjustments	ALJ 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	-	16,502	16,502		16,502	-	16,502
5.	Revenue Enhancement / Cost Reduction FY 2028	-	-	-		0	-	0
6.	Weather Normalization Adjustment	-	-	-		0	-	0
7.	Appropriation for Uncollectible Reserve	(33,485)	(533)	(34,018)		(34,018)	-	(34,018)
8.	Unbilled Adjustment	(763)	-	(763)		(763)	-	(763)
9.	Total Gas Revenues	800,513	15,969	816,482		816,482		816,482
10.	Appliance Repair & Other Revenues	7,807	-	7,807		7,807	-	7,807
		-	-			0	-	0
11.	Other Operating Revenues	24,050	1,320	25,370		25,370	-	25,370
12.	Total Other Operating Revenues	31,857	1,320	33,177		33,177		33,177
13.	**Total Operating Revenues**	832,370	17,289	849,659		849,659		849,659
	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**	17,289	**526,126**		**526,126**		**526,126**
18.	Gas Processing	23,890	(30)	23,860	-	23,860		23,860
19.	Field Operations	98,811	(2)	98,809	-	98,809		98,809
20.	Collection	5,087	24	5,111	-	5,111		5,111
21.	Customer Service	21,278	(1,428)	19,850	-	19,850		19,850
22.	Account Management	10,515	(132)	10,383	-	10,383		10,383
23.	Marketing	4,657	(73)	4,584	-	4,584		4,584

24.	Administrative and General	102,881	(3,622)	99,259	-	99,259	99,259
25.	Health Insurance	27,715	(3,337)	24,378	-	24,378	24,378
26.	Pandemic Expenses	-	5,985	5,985	-	5,985	5,985
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	(8,670)	36,089	-	36,089	36,089
30.	Taxes	10,434	(279)	10,155	-	10,155	10,155
31.	Other Post-Employment Benefits	(10,095)	1,750	(8,345)	-	(8,345)	(8,345)
32.	Retirement Payout /Labor Savings	296	-	296	-	296	296
	Salary and Wage Adjustment			(3,603)			
	Inflation Factors			(2,893)			
	Adjustment for rounding			(2)			
33.	Sub-Total Other Operating & Maintenance	297,940	(16,312)	281,628		288,126	288,126
34.	Depreciation	65,412	(849)	64,563	-	64,563	64,563
35.	Cost of Removal	6,729	-	6,729	-	6,729	6,729
		-	-	-	-	0	0
36.	Net Depreciation	72,141	(849)	71,292		71,292	71,292
37.	**Sub-Total Other Operating Expenses**	370,081	(17,161)	352,920		359,418	359,418
38.	**TOTAL OPERATING EXPENSES**	693,614	(17,161)	676,453		682,951	682,951
39.	OPERATING INCOME	138,756	34,450	173,206		166,708	166,708
40.	**Interest Gain / (Loss) and Other Income**	7,211	-	7,211	-	7,211	7,211
41.	INCOME BEFORE INTEREST	145,967	34,450	180,417		173,919	173,919
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**	34,450	**126,859**		**120,361**	**120,361**
49.	City Payment	18,000	-	18,000	-	18,000	18,000
50.	**NET EARNINGS**	**$ 74,409**	**$ 34,450**	**$ 108,859**		**$ 102,361**	**$ 102,361**
	(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)	OCA Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	ALJ Adjustments	ALJ Total Allowable Revenues FPFTY FY 2024
		$	$	$	$
	FUNDS PROVIDED				
1.	Total Gas Revenues [Table I, Line 9]	800,513	816,482		816,482
2.	Other Operating Revenues [Table I, Line 12]	31,857	33,177		25,370
3.	Total Operating Revenues [Table I, Line 13]	832,370	849,659		849,659
	Other Income Incr. / (Decr.) Restricted Funds				
4.	[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	863,288		863,288
	FUNDS APPLIED				
8.	Fuel Costs [Table I, Line 16]	323,533	323,533		323,533
9.	Other Operating Costs	370,081	352,920		359,418
10.	Total Operating Expenses [Table I, Line 38]	693,614	676,453		682,951
11.	Less: Non-Cash Expenses	89,718	89,718	-	89,718
12.	TOTAL FUNDS APPLIED	603,896	586,735		593,233
13.	Funds Available to Cover Debt Service	242,103	276,553		270,055
14.	Net Available after Prior Debt Service [Line 13]	242,103	276,553		270,055

15.	Equipment Leasing Debt Service	-	-	-	-
16.	Net Available after Prior Capital Leases	242,103	276,553		270,055
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**	**2.40**		**2.34**
21.	Net Available after 1998 Debt Service	126,873	161,323		154,825
22.	Aggregate Debt Service [Line 19]	115,230	115,230		115,230
23.	Debt Service Coverage (Combined liens)	2.10	2.40		2.34
24.	Debt Service Coverage (Combined liens w/$18.0 City Fee)	**1.94**	**2.24**		**2.19**

(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)	OCA Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	ALJ Adjustments	ALJ Total Allowable Revenues FPFTY FY 2024
			$	$	$	$
	SOURCES					
1.	Net Income	[Table I, Line 48]	92,409	126,859		120,361
2.	Depreciation & Amortization		62,947	64,564	-	64,564
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)	(34,850)	-	(34,850)
7.	Available From Operations		108,785	155,719		149,221
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**	**$ 257,719**		**$ 251,221**
	USES					
13.	Net Construction Expenditures		206,959	182,731	-	182,731
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	272,214		270,246
21.	Cash Surplus (Shortfall)	(85,552)	(14,495)		(19,025)
22.	TOTAL USES	**$ 210,785**	**$ 257,719**		**$ 251,221**
23.	Cash - Beginning of Period	116,328	116,328	-	116,328
24.	Cash - Surplus (Shortfall) [Line No. 21]	(85,552)	(14,495)	-	(14,495)
25.	**ENDING CASH**	**$ 30,775**	**$ 101,833**		**$ 101,833**
26.	**Outstanding Commercial Paper**	-	-	-	-
27.	**Outstanding Commercial Paper - Capital**	-	-	-	-
28.	**DSIC Spending**	41,000	41,000	-	41,000
29.	**Internally Generated Funds**	63,959	46,851	-	46,851
30.	**TOTAL IGF + Incremental DSIC Spending**	**$ 104,959**	**$ 87,851**		**$ 87,851**

(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

LINE NO.	TABLE II Philadelphia Gas Works SUMMARY OF ADJUSTMENTS R-2023-3037933 (Dollars in Thousands)	ALJ Adjustments	ALJ 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)	OCA Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	ALJ Adjustments	ALJ 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