July 27, 2023

Via Electronic Filing
Secretary Rosemary Chiavetta
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

Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. v.
Philadelphia Gas Works
Docket No. C-2021-3029259
I&E Main Brief

Dear Secretary Chiavetta:

Enclosed for electronic filing please find the **Main Brief of the Bureau of Investigation and Enforcement** (I&E) for the above-captioned proceeding.

Copies are being served on parties per the attached Certificate of Service. Should you have any questions, please do not hesitate to contact me.

Sincerely,

Allison C. Kaster

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ACK/jfm
Enclosure

cc: Hon. Eranda Vero, Administrative Law Judge, OALJ *(via e-mail only)*
Hon. Arlene D. Ashton, OALJ
Pamela McNeal, Legal Assistant OALJ *(via e-mail only)*
Per Certificate of Service

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, *et al.*	:	
	:	
v.	:	Docket No. R-2023-3037933, *et al.*
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Philadelphia Gas Works	:	
Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc.	:	
	:	
v.	:	Docket No. C-2021-3029259
	:	
Philadelphia Gas Works	:	

MAIN BRIEF OF THE BUREAU OF INVESTIGATION & ENFORCEMENT

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Dated: July 27, 2023

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I. INTRODUCTION AND PROCEDURAL HISTORY

A. Introduction

The Bureau of Investigation and Enforcement (I&E) hereby submits this brief in support of its recommended rate increase for Philadelphia Gas Works (PGW). For the reasons discussed more fully below, PGW's $85.8 million rate increase should be denied and I&E's recommended $44,827,000[1] rate increase should be approved without modification.

B. Procedural History

On February 27, 2023, PGW filed with the Pennsylvania Public Utility Commission (PUC or Commission) proposed Supplement No. 105 to PGW Gas Supplier Tariff Pa. P.U.C. No. 1 and proposed Supplement No. 159 to PGW Gas Service Tariff Pa. P.U.C. No. 2 to become effective April 28, 2023. The filing contains proposed changes in rates, rules, and regulations calculated to produce $85.8 million (10.3%) in additional annual revenues. This request would increase an average residential customer's bills using 71 Mcf/year to from $125.38 to $137.73/month (9.9%).

By order entered on April 20, 2023, the Commission suspended the proposed Tariffs until November 28, 2023. The Commission ordered an investigation into the lawfulness, justness, and reasonableness of the rates, rules, and regulations contained in the proposed Tariffs.

On October 22, 2021, Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. (GFCP/VEPI) filed a Formal Complaint against PGW pursuant to 66 Pa. C.S. § 701. In the Complaint, GFCP/VEPI alleged that PGW is demanding unjust and unreasonable rates from it, that the demand to provide service under a variable rate is unreasonable, and that

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1 As discussed in the revenue requirement section of this brief and shown on the Explanation Table, the spreadsheet that I&E used to develop the revenue requirement recommendations presented in direct and surrebuttal testimony erroneously excluded several expense claims at proposed rates. This error has been corrected in the attached tables, which flowed through and impacted I&E's recommended increase from $33.9 million in surrebuttal testimony to the corrected $44.8 million.

PGW is providing unreasonable and discriminatory services. By order entered April 20, 2023, the Commission directed that the Section 1301 question of the "just and reasonable" rate and rate class applicable to PGW's service to GFCP/VEPI be examined under cost of service principles in this base rate proceeding.[2]

The parties to this base rate proceeding are PGW, I&E, Office of Consumer Advocate (OCA), Office of Small Business Advocate (OSBA), GFCP/VEPI, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG), Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), Tenant Union representative Network (TURN), POWER Interfaith (POWER), and James M. Williford.

The matter was assigned to the Office of Administrative Law Judge, with Administrative Law Judges Eranda Vero and Arlene Ashton (the ALJs) presiding, for the prompt scheduling of hearings to culminate in the issuance of a Recommended Decision. A Telephonic Prehearing Conference was held on April 28, 2023 at 1:30 p.m. at which time the litigation schedule, public input hearings and discovery modifications were discussed.

In-person public input hearings were held in Philadelphia on May 23, 2020 at 10:00 a.m. at the Betsy Ross Conference Center and 6:00 p.m.at George Washington High School, with six customers providing testimony in the morning session and three customers providing testimony in the evening session. In addition, telephonic public input hearings were held on May 24, 2023 at 10:00 a.m. and 6:00 p.m., with nine customers providing sworn testimony in the morning session and four customers testifying in the evening session.

Pursuant to the established litigation schedule, I&E served the following pieces of direct and surrebuttal testimony on May 31, 2023 and July 7, 2023, respectively:

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2 *Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. v. Philadelphia Gas Works*, Docket No. C-2021-3029259, pp. 38-40 (Order entered April 20, 2023).

Direct Testimony

- I&E Statement No. 1 and I&E Exhibit No. 1:
  Direct Testimony and Direct Exhibit of D.C. Patel
- I&E Statement No. 2 and I&E Exhibit No. 2:
  Direct Testimony and Direct Exhibit of Zachari Walker
- I&E Statement No. 3 and I&E Exhibit No. 3:
  Direct Testimony and Direct Exhibit of Ethan Cline
- I&E Statement No. 4 and I&E Exhibit No. 4:
  Direct Testimony and Direct Exhibit of Esyan Sakaya

Surrebuttal Testimony

- I&E Statement No. 1-SR and I&E Exhibit No. 1-SR:
  Surrebuttal Testimony and Surrebuttal Exhibit of D.C. Patel
- I&E Statement No. 2-SR and I&E Exhibit No. 2-SR:
  Surrebuttal Testimony and Surrebuttal Exhibit of Zachari Walker
- I&E Statement No. 3-SR:
  Surrebuttal Testimony of Ethan Cline
- I&E Statement No. 4-SR:
  Surrebuttal Testimony of Esyan Sakaya

Evidentiary hearings were held on July 11-12, 2023. The parties appeared telephonically before the ALJs for the evidentiary hearings. At those hearings, cross-examination of I&E witnesses was waived by the other parties and the I&E testimony and exhibits identified above were moved into evidence.

I&E now submits this timely Main Brief in support of the arguments made by the I&E witnesses in the record-evidence presented.

II. LEGAL STANDARDS

A. Burden of Proof

The Public Utility Code (Code) mandates that "[e]very rate made, demanded, or received by any public utility . . . shall be just and reasonable, and in conformity with regulations or orders of the commission."[3] As set forth in Section 315(a) of the Code, PGW has the burden of

3 66 Pa. C.S. § 1301.

proving that its rates are just and reasonable in this proceeding:

> (a) **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 proceeding 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.[4]

The Commonwealth Court has interpreted this principle as follows:

> 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.[5]

The Commission and the Courts have held that the burden of proof does not shift to the party challenging a requested rate increase. While the burden going forward may shift back and forth between parties, the ultimate burden of establishing the justness and reasonableness of every component of a requested rate increase remains on the utility. In contrast, there is no similar burden placed on an intervener to justify a proposed adjustment to the company's filing.[6] The Commission has aptly summarized this burden as follows:

> There is no presumption of reasonableness, which attaches to a utility's claims, at least none which survives the raising of credible issues regarding a utility's claims. A utility's burden is to affirmatively establish the reasonableness of its claim. It is not the burden of another party to disprove the reasonableness of a utility's claims.[7]

I&E asserts that PGW has failed to meet its burden with respect to a number of its ratemaking claims. Therefore, I&E respectfully requests that the Administrative Law Judges and the Commission adopt the adjustments and the overall revenue requirement set forth in the

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[4] 66 Pa. C.S. § 315(a).
[5] *Lower Frederick Township v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980). *See also*, *Brockway Glass v. Pa. PUC*, 437 A.2d 1067 (Pa. Cmwlth. 1981).
[6] *Berner v. Pa. PUC*, 382 Pa. 622, 116 A.2d 738 (1955)
[7] *Pa. PUC v. Equitable Gas Co.*, 57 Pa. PUC 423, 444 n.37 (1983).

evidence presented by I&E as summarized in this Main Brief.

B. Just and Reasonable Rates

Pursuant to Section 2212(e),[8] the Commission is charged with establishing overall rates and charges for PGW and the Code recognizes that PGW is "subject to regulation and control by the Commission with the same force as if the service were rendered by a public utility."[9] One of the fundamental tenants of utility regulation is that rates must be just and reasonable;[10] therefore, this fundamental principle applies to PGW as it does to all other Commission regulated entities.[11]

In its determination of just and reasonable rates, Section 2212(e) directs the Commission as follows:

> Notwithstanding any provision of this title to the contrary, in determining the city natural gas distribution 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, and such obligation shall continue until the date on which all approved bonds have been retired, redeemed, advance refunded or otherwise defeased.[12]

PGW utilized the cash flow method prior to coming under Commission jurisdiction; therefore, it is well settled that the cash flow method remains the appropriate method to set PGW's rates. Utilizing this method, a revenue requirement must be developed that allows PGW to cover reasonable and prudent operating expenses, depreciation allowances and debt service, and sufficient margins to meet its bond coverage requirements and other internally generated funds above its bond coverage requirements as appropriate.

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8 66 Pa. C.S. § 2212(e).
9 66 Pa. C.S. § 2212(b).
10 66 Pa. C.S. § 1301.
11 *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-00006042 (Order entered October 4, 2001); *Public Advocate v. Philadelphia Gas Commission*, 544 Pa. 129, 674 A.2d 1056 (1996).
12 66 Pa. C.S.§ 2212(e).

III. SUMMARY OF ARGUMENT

PGW failed to satisfy its burden of proof in support of its proposed $85.8 million revenue increase. PGW's request is based on the need to modernize its infrastructure, make its system safer and more efficient, and improve customer service; however, the record evidence presented by I&E demonstrates that PGW should receive a revenue increase of no more than $44.8 million. I&E's recommended rate increase is consistent with sound ratemaking principles and is in the public interest as it balances the needs of both PGW and its customers.

PGW's requested revenue requirement is designed to allow it to set rates to recover its minimum debt service coverage requirements and produce sufficient additional revenues for cash obligations that are not included in the debt service coverage calculation. PGW's Bond Ordinance has a mandatory debt service coverage requirement of 1.5x; however, its revenue requirement provides a debt service coverage ratio of 2.73 to recover these additional cash items. This request significantly overstates PGW's cash needs. I&E's primary source of concern is PGW's request to recover approximately $53.2 million of internally generated funds to finance capital improvement projects. Seeking to recover this level of funds for capital improvements entirely through rates, rather than through debt, disproportionately burdens PGW ratepayers. Additionally, PGW's ratemaking request ignores PGW's $120 million commercial paper program, which is available for working capital needs and capital projects. Accordingly, I&E removed PGW's claimed $53.2 million of internally generated funds, resulting in I&E's recommend debt service coverage of 2.45x. I&E submits that this recommendation ensures that PGW will have sufficient cash to satisfy its bond requirements and cover its other obligations, but appropriately moderates the increase to ensure that rates are just and reasonable for PGW customers.

Additionally, I&E identified multiple claimed operating expenses that are wholly inconsistent with sound ratemaking principles. First, I&E removed PGW's $100,000 lobbying expense claim as it violates Section 1316 of the Code, which prohibits rate recovery of expenses for political advertising. Second, PGW's proposal to amortize its $300,000 of current rate case expense and recover $177,000 of unamortized expenses from its prior base rate proceeding must be rejected as rate case expense is traditionally normalized, not amortized, for ratemaking purposes. Third, I&E disagrees with PGW's proposal to amortize its total COVID-19 claim of $30,484,000 over 36-months. Instead, this expense should be amortized over 53-months as it is consistent with PGW's historic rate case filing frequency, resulting in a recommended allowance of $6,902,038.[13] Finally, I&E recommended that PGW's 4.63% blanket inflation adjustment to its unadjusted O&M expense claims of $62.5 million be disallowed, resulting in a reduction of $2,741,050.[14]

I&E agrees with PGW's cost of service study, revenue allocation and rate design recommendations. However, I&E made specific scale back recommendations if the Commission grants less than the full increase.

For the reasons discussed more fully below, the record evidence presented by PGW does not substantiate a revenue increase of $85.8 million. Instead, the Commission should grant PGW the I&E recommended revenue increase of $44.8 million. This recommendation is based upon the adjustments offered by I&E, as set forth more fully herein; in I&E's testimony and exhibits; and summarized in the I&E Tables collectively attached hereto.

IV. ARGUMENT

A. Revenue Requirement

It is well-settled that PGW's rates are determined by the cash-flow method pursuant to Section 2212(e).[15] As such, PGW's rates must cover reasonable and prudent operating expenses,

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[13] I&E St. No. 2-SR, pp. 8-12.
[14] I&E St. No. 2-SR, pp. 12-14.
[15] 66 Pa. C.S. § 2212(e).

debt service, and provide a margin sufficient to enable PGW to attract capital on reasonable terms. While all parties agree that PGW's rates are set using the cash flow method, it is also clear that the Commission "has the discretion to determine the prudent and reasonable levels of PGW's various categories of expenses and revenues, including PGW's cash requirements."[16] I&E submits that PGW has failed to demonstrate that its requested $85.8 million revenue increase driven by a goal to reduce its long-term debt and instead rely on ratepayer funded capital expenditures is prudent and reasonable.

PGW utilized the following financial metrics in the cash flow method to determine its requested revenue requirement: (1) debt service coverage ratio; (2) days of cash on hand; (3) debt to equity ratio; and (4) bond rating agency requirements.[17] As discussed below, I&E reviewed the same metrics and determined that its rate request is significantly overstated. Instead, based on these various ratemaking components, I&E determined that the appropriate revenue increase for PGW is $44,827,000.

1. I&E Corrected Revenue Requirement

When compiling the rate case tables for this Main Brief, I&E discovered that the internal spreadsheet it uses to develop its overall revenue requirement recommendation presented in direct and surrebuttal testimony failed to include the following expenses at proposed rates: pandemic expense ($10,162,000), uncollectible expense claim (-$3,407,000), and other operating revenue ($1,309,000). Excluding these expenses from I&E's spreadsheet was in error, which is now rectified as they are now appropriately included in the briefing tables.

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16 *Pa. PUC v. PGW*, Docket No. R-00006042, p. 26 (Order entered October 4, 2001).

17 PGW St. No. 2, p. 13; PGW Exhs. JFG-1, JFG2.

These spreadsheet errors have a flow through impact on other components of I&E's recommendations:

	I&E Surrebuttal Recommendation	I&E Main Brief Correction
Revenue Requirement	$33,994,000	$44,827,000
Debt Service Coverage	2.46	2.45
Days Cash on Hand	39.80	39.20

To be clear, the fundamental basis for the recommendations made in I&E's testimony has not changed; however, the spreadsheets must be corrected to ensure that PGW's ratemaking claims and I&E's recommended adjustments are properly reflected. I&E will use the corrected numbers in this brief as presented in the attached Tables I, I(A), I(B), II, and III.

2. Debt Service Coverage Ratio

I&E's proposed increase satisfies PGW's debt service requirements. Under the Bond Ordinance, PGW has a mandatory debt service coverage requirement of 1.5x.[18] However, PGW's rate increase results in a significantly higher debt service coverage ratio of 2.73x to cover all items that are not included in the debt service coverage calculation (i.e., $18 million City payment, pensions, OPEBs, and capital expenditures from internally generated funds) and 2.58x after the $18 million payment to the City.[19] This coverage requirement is significantly overstated and results in unjust and unreasonable rates for PGW customers.

The rating agencies recognize PGW's need to satisfy its debt service coverage ratio at 1.5x; however, there is no indication that the coverage must be significantly higher to the level requested by PGW. Moody's sets the following ranges for debt service coverage for each of the ratings, which highlights that PGW's requested 2.73x debt service coverage is grossly inflated:[20]

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18 PGW St. No. 2, p. 15.
19 PGW St. No. 2, p. 16; PGW Exh. JFG-2, Debt Service Coverage, lines 23-24.
20 I&E St. No. 1, p. 25.

Aaa	Greater than 2.00x
Aa	Greater than 1.70x but less than or equal to 2.00x
A	Greater than 1.25x but less than or equal to 1.70x
Baa	Greater than 1.00x but less than or equal to 1.25x
Ba	Greater than 0.70x but less than or equal to 1.00x
B and Below	Equal to or less than 0.70x

I&E witness Patel testified that the rating agencies have made it clear that debt service coverage ratios above the mandated 1.5x is satisfactory and strong enough to maintain PGW's current credit ratings. Specifically, he noted that:

> Moody's opines that the FY 2023 budget should result in financial metrics (debt service coverage ratio) remaining at least above 1.8 times, which is what Moody's expect generally going forward as PGW continues to maintain the balance between future revenue rate increases, debt issuances for capital and operating cost growth (I&E Exhibit No. 1, Schedule 3, p. 15).[21]

Similarly, witness Patel testified that recent reports from S&P Global and Fitch note that one of PGW's credit strengths is that it has an extremely strong coverage of fixed costs, robust liquidity and reserves (totaling $236 million comprised of $115 million in unrestricted cash and $120 million of commercial paper) and a historically stable financial profile due to rate increases and budget adjustments.[22] In short, PGW's claimed coverage of 2.73 is unreasonable given that there is no indication that these rating agencies are concerned about PGW's current or future ability to service its debt.

I&E recommends a coverage ratio of 2.45x before the $18 million City payment and 2.30x after the City payment.[23] As shown in the chart above, these ratios fall within Moody's highest credit quality rating levels and will allow PGW to maintain its credit rating. I&E's

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21 I&E St. No. 1, pp. 24-25.
22 I&E St. No. 1, pp. 25-26.
23 I&E St. No. 1, p. 27; Table IA.

recommendation provides PGW coverage for additional obligations, such as its pension fund, retiree health care, DSIC, and working capital.[24] The main difference between the two recommendations is I&E's recommended disallowance of approximately $53.2 million of internally generated funds (IGF), referred to by PGW as the Pay-go Fund, that PGW intends to use to finance capital improvement projects.[25]

I&E recommends that the IGF $53.2 million claim be rejected for several reasons. First, I&E's debt service recommendation provides approximately $41 million of DSIC revenue to accelerate infrastructure investment, and these funds must be used for specific, DSIC eligible projects. The same level of accountability does not exist with the IGF spending as there is no oversight or restrictions over the IGF funds.[26] Second, capital expenditures outside the DSIC should be tied to identified projects in the FPFTY in order to be included in rates. The requested $53.2 million Pay-go Fund has no restrictions. Third, as will be discussed more fully below, PGW can and should fund these long-term capital expenditures through debt financing rather than internally generated funds.

I&E's recommended debt service coverage ensures that PGW will have sufficient cash to cover all of its obligations and maintain its stable credit rating; however, removal of this IGF claim from the debt service calculation is necessary to ensure that rates are just and reasonable for PGW's customers.

3. Days of Cash on Hand

PGW projects the FPFTY days of cash on hand at present rates to be 16.9 days, which would increase to 61.9 days in the FPFTY at PGW's proposed rates.[27] I&E's recommendation

[24] I&E St. No. 1, p. 27.
[25] I&E St. No. 1, p. 29.
[26] I&E St. No. 1, p. 29.
[27] PGW St. No. 2, pp. 18, 23.

results in approximately 39.20 days cash on hand for the FPFTY.[28]

Moody's sets the following ranges for days cash on hand requirement:[29]

Aaa	Greater than 250 days
Aa	Greater than 150 days but less than or equal to 250 days
A	Greater than 35 days but less than or equal to 150 days
Baa	Greater than 15 days but less than or equal to 35 days
Ba	Greater than 7 days but less than or equal to 15 days
B and Below	Equal to or less than 7 days

Both PGW and I&E's days of cash on hand fall within the range for Moody's A rating category. This is especially true when one considers that the number of days of cash on hand proposed by PGW fails to account for PGW's $120 million of commercial paper that is fully available to meet its working capital requirements.[30] The rating agencies give PGW credit for available letters/lines of credit or capacity in a short-term debt program and PGW indicates that it can "issue short-term notes to address working capital requirements, capital projects, and other project costs" at a maximum level of $120 million in 2022.[31] PGW correctly recognizes that this $120 million commercial paper program "provides a significant boost (80-90 days) to the cash and liquidity metric for PGW with all of the rating agencies, helping to maintain a solid credit rating."[32]

I&E recognizes that the overall average days of cash on hand will decline as PGW uses cash on capital expenditures; however, I&E's 39.2 days of cash on hand in no way poses a credit risk.[33] First, I&E witness Patel testified that days of cash on hand has a 15% weight factor out of

[28] I&E St. No. 1-SR, p. 21; Explanation Table. As noted above, I&E's cash on hand changed from 39.8 days to 39.2 days as a result of the corrections made to the rate case tables.
[29] I&E St. No. 1, p. 21.
[30] I&E St. No. 1-SR, p. 17.
[31] PGW St. No. 3-R, p. 5.
[32] PGW St. No. 3-R, p. 5.
[33] I&E St. No. 1, p. 23.

100% for Moody's rating criteria; therefore, reducing the days of cash on hand does not trigger an immediate downgrade.[34] Second, PGW correctly summarized the dynamic relationship of how these financial metrics work together:

> When viewing the three key financial metrics [debt ratio, days cash on hand, and debt service coverage] it is important to understand the metrics are not isolated metrics, rather they work in tandem with one another so that the sum of their implications (risk) must offset one another if investment risk is to remain unchanged.[35]

Accordingly, PGW's 61.9 days of cash on hand is unnecessary and will result in unjust and unreasonable rates for PGW customers.

4. Debt to Total Capitalization

PGW's financing strategy for capital spending is comprised of 50% of funds from internally generated funds and 50% from debt.[36] I&E understands PGW's desire to reduce its reliance on long term debt to finance infrastructure improvements; however, this financing strategy is burdensome for ratepayers and contrary to sound ratemaking principles. Accordingly, I&E maintains that PGW should evaluate a higher debt to total capitalization goal.

There are many reasons why evaluating a higher debt ratio is warranted. First, financing capital improvements with long-term debt, rather than cash, better matches the recovery of the expenditure with the useful life of the asset.[37] This is important as it spreads the cost recovery out over the life of the asset and causes all ratepayers who benefit from improvement to be responsible for its financing, not just the ratepayers at the time the assets are placed into service.[38]

Second, the Commission investigated PGW's pipeline replacement program in 2015 and released a Staff Report indicating that, "As a municipally owned utility, it is Staff's opinion that

[34] I&E St. No. 1-SR, p. 17.
[35] PGW St. No 4-R, p. 12.
[36] PGW St. No. 2, p. 20.
[37] I&E St. No. 1, pp. 7-8.
[38] I&E St. No. 1, p. 8.

PGW can operate with a longer-term debt-to-capital ratio perhaps as high as 70%."[39] The Staff Report discusses PGW's opportunity to issue new debt because PGW's long-term debt was projected to fall from 67.6% in 2015 to 56.4% in 2020. Currently, PGW's debt ratio continues to trend much lower than 70% at both present and proposed rates.[40] Even with no rate increase, PGW's level of debt slowly trends downward from the FPFTY of 62.69% through fiscal year 2026-27 at 53.26%.[41] While the Staff Report was released in the context of accelerating PGW's main replacement program, it demonstrates that the Commission has recommended issuing debt is an appropriate option to finance capital expenditures rather than rate recovery.

Finally, PGW's rate request in its 2006 base rate proceeding sought a similar 50%/50% structure, which was not persuasive to the ALJ or the Commission. Although the Commission's order did not directly address PGW's financing strategy, the $25 million rate increase authorized by the Commission failed to ameliorate PGW's amount of debt.[42]

I&E is mindful that PGW should not be overleveraged and risk a potential credit downgrade that would result in higher debt costs.[43] However, it is a balancing act that should be revaluated regularly to ensure that PGW's credit remains sound and that ratepayers are not overburdened. PGW's financing strategy does not appropriately consider the impact to ratepayers.

5. Bond Rating Agency Requirements

Given PGW's debt service coverage, liquidity and long-term debt discussed above, the record evidence demonstrates that PGW credit rating is stable. Moody's rated PGW A3 with a stable outlook, which is an upper-medium grade obligation with lower credit risk.[44] S&P gave

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39 Pennsylvania Public Utility Commission Staff Report: Inquiry into Philadelphia Gas Works' Pipeline Replacement Program, April 21, 2015, p. 6.
40 PGW Exhibit JFG-1- Balance Sheet, line 45; JFG-2- Balance Sheet, line 45.
41 PGW Exhibit JFG-1- Balance Sheet, line 45.
42 *Pa. PUC v. PGW*, Docket No. R-00061931, p. 72 (Order entered September 28, 2007).
43 I&E St. No. 1, p. 9.
44 I&E St. No. 1, p. 17.

PGW an A rating with a stable outlook, which is an investment grade and represents a strong capacity to meet financial obligations.[45] Fitch has awarded PGW's bond an investment grade rating of A- with a stable outlook, which represents expectations of low default risk and strong capacity for payment of financial commitments.[46] Overall, OCA noted that "The Moody's rating is equivalent to an A- rating in the systems of the other two agencies. Thus, PGW averages a bit better than an A- rating."[47]

PGW recognizes that the rating agencies find the supportive regulatory environment, strong financial risk profile, coverage metrics, liquidity and reserves, debt service coverage, main pipeline replacement program, strong revenue source, and lower leverage ratio to be a positive credit attribute.[48] Conversely, PGW noted that possible negative credit attributes for PGW's weak demographics, vulnerable debt and liabilities position, low-income customer base and modest customers growth, regulatory constraint for full cost recovery, and the potential lag in revenue recovery limiting overall financial flexibility.[49]

OCA and I&E reviewed the recent reports from the rating agencies and found no evidence that PGW needs to improve its credit rating or is at risk for downgrade.[50] Just the opposite is true as I&E's total capital ratio, strong debt service coverage, days of cash on hand support PGW's current stable credit ratings.

B. Expenses

1. Lobbying Expense

I&E recommended that PGW's $100,000 lobbying expense claim be disallowed.[51] PGW disagrees with this recommendation and argues that PGW's lobbying expense claim should be

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45 I&E St. No. 1, p. 17.
46 I&E St. No. 1, p. 17.
47 OCA St. No. 2, p. 5.
48 PGW St. No. 4, pp. 21-22.
49 PGW St. No. 4, pp. 22-24.
50 I&E St. No. 1, pp 19-20; OCA St. No. 2, p. 7.
51 I&E St. No. 2, pp. 5-7; I&E St. No. 2-SR, pp. 5-6.

included in rates due to its municipal utility status and that these expenses promote obtaining information and funding for programs such as LIHEAP.[52]

PGW's position violates Section 1316 of the Code, which prohibits public utilities from recovering expenses for political advertising in rates.[53] This section defines political advertising as money spent for lobbying unless it is spent for appearances before regulatory or other governmental bodies in connection with a public utility's existing or proposed operations.[54]

Moreover, the Commission previously disallowed PGW recovery of its claimed lobbying expenses in the 2001 and 2006 base rate proceedings. In *PGW 2001*, the ALJ noted the Commission's longstanding history of disallowing this expense because "lobbying expenses do not have a direct ratepayer benefit and as such cannot be included in rates."[55] Additionally, the Commission expressly rejected the argument PGW's status as a municipal utility should permit it to recover lobbying expenses and concluded that "we do not view the recovery of lobbying expense as being required by Section 2212's mandate that the Commission adheres to the prior ratemaking method. Rather, we are free to examine both the reasonableness of the amount and the category of O&M expense being claimed by PGW."[56] The Commission similarly disallowed PGW recovery of its lobbying expense claim in its 2006 base rate case given Section 1316's prohibition and the Commission's longstanding exclusion of lobbying expenses from base rate recovery.[57]

The Commission found recovery of PGW's lobbying expense claims to be unreasonable in its prior base rate proceedings and should similarly disallow recovery in this proceeding.

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52 PGW St. No. 2-R, pp. 31-33.
53 66 Pa. C.S. § 1316.
54 66 Pa. C.S. § 1316(d).
55 *Pa. PUC v. PGW*, Docket No. R-00006042, p. 64 (Order entered October 4, 2001).
56 *Pa. PUC v. PGW*, Docket No. R-00006042, p. 66 (Order entered October 4, 2001).
57 *Pa. PUC v. PGW*, Docket No. R-00061931, p. 56 (Order entered September 28, 2007).

2. Rate Case Expense

PGW's annual rate case expense of $477,000 is comprised of two components, which it proposes to amortize over five years: (1) $300,000 for current rate case expense and (2) $177,000 for the unrecovered expenses related to its 2020 base rate proceeding.[58] I&E recommended an allowance of $316,981, which is a reduction of $160,019 ($477,000 - $316,981) to PGW's claim.[59] This recommendation is based on normalizing the total rate case expense over the average historic filing frequency of 53 months and removing the $177,000 unamortized PGW's 2020 base rate case legal expenses.

It is undisputed that PGW is permitted to recover reasonable and prudent rate case expense in rates. The individual expenditures that comprise a utility's allowable claim for rate case expense include legal fees for outside counsel, fees to outside consultants, and the cost of printing, document assembly, and postage. It is similarly well-settled that rate case expense is normalized, not amortized, for ratemaking purposes. Therefore, PGW's request to amortize its current rate case expense and recover the $177,000 unamortized expense from its 2020 base rate proceeding should be denied.

As explained by I&E witness Walker, operating expenses that recur at irregular intervals are normalized for ratemaking purposes in order to determine a "normal" annual test year allowance.[60] In contrast, expenses that are non-recurring or infrequently recurring are traditionally amortized for ratemaking purposes, which is an accounting procedure that writes off a non-recurring or infrequently recurring expense over a reasonable period of years by expensing a pro rata share based on the selected amortization period.[61] This distinction in the ratemaking treatment is important because unrecovered normalized expense would be disallowed in a

58 I&E St. No. 2, p. 9.
59 I&E St. No. 2, p. 11.
60 I&E St. No. 2, pp. 8-9.
61 I&E St. No. 2, p. 8.

subsequent base rate case while an amortized expense allowance could be claimed in a later rate case if there is a remaining unamortized balance.

In *PGW 2001*, the Commission correctly determined that PGW's rate case expense should be normalized.[62] This expense should similarly be normalized in this proceeding, finding otherwise would upend longstanding Commission precedent. In its decision in *Pa. PUC v. PECO*, the Commission discussed its policy regarding rate case expense, stating:

> Current rate case expense is not to be viewed as an expense to be recovered, but merely as a guide in determining a reasonable expense allowance for the future. If a particular utility should decide to expend more or less than its allowance, for whatever reason it may choose, that is a management decision for it to make. Our decision in this and every case is to determine the reasonable annual expense allowance to be charged to ratepayers.[63]

The Commission concluded that "[o]ur present policy also is to allow for a *normalized* amount for current rate case expense; we do not amortize current rate case expense."[64] Similarly, in its decision in *Pa. PUC v. West Penn Power Co.*, the Commission agreed with the OTS's proposed normalization of the company's rate case expense, stating that "[w]e agree with the OTS that normalization is the proper treatment for [rate case expense]."[65] Finally, in its decision in *Pa. PUC v. Lemont Water Co.*, the Commission agreed with the ALJ's recommendation of a two-year normalization period of rate case expense as opposed to the company's requested two-year amortization, stating that "[o]n review of this issue, we support the ALJ's adoption of the principle of normalization rather than amortization of rate case expense."[66] Therefore, it is clear that PGW's current rate case expense should be normalized for ratemaking purposes and its claim for the unamortized amount of $177,000 from its 2020 base rate proceeding should be disallowed.

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62 *Pa. PUC v. PGW*, Docket No. R-00006042, pp. 51-53 (Order entered October 4, 2001).
63 *Pa. PUC v. PECO*, 56 PA PUC 155, 176 (1982) (citing *Pa. PUC v. NFG Dist. Corp.*, 54 PA PUC 188 (1980)).
64 *Id.* (citing *Pa. PUC v. Butler Twp. Water Co.*, 54 PA PUC 571 (1980)).
65 *Pa. PUC v. West Penn Power Co.*, 73 PA PUC 454, 492 (1990).
66 *Pa. PUC v. Lemont Water Co.*, 81 PA PUC 392, 404 (1994).

I&E looked to PGW's historic filing frequency to determine the appropriate normalization period. PGW claimed a recovery period of 60 months; however, its actual filing frequency is 53 months based on its three most recent rate filing intervals.[67] I&E's recommendation benefits PGW as it allows for quicker recovery of its current rate case expense and is supported by Commission precedent. For example, *Emporium Water Company, City of DuBois, Columbia Gas* and *PECO Energy Company – Gas Division*, the Commission adopted I&E's recommended normalization periods that relied on the respective utility's average historic filing frequency.[68]

I&E's recommendation to normalize current rate case expense, disallow unamortized prior rate case expenses and reliance on PGW's historic filing frequency to determine the appropriate normalization period are consistent with Commission precedent. PGW's rate case expense recovery should not be treated differently for ratemaking purposes than other Commission regulated entities; therefore, in consideration of the above, I&E recommends that its rate case expense allowance of $316,981 should be approved without modification.

3. Covid-19 Expenses

I&E agrees with PGW's total COVID-19 claim of $30,484,000 but disagrees with its proposed 36-month amortization period. Instead, I&E recommends that this expense be amortized over 53-months, resulting in a recommended allowance of $6,902,038.[69]

I&E does not dispute the amount of PGW's COVID-19 expense claim, which includes deferrals for excess uncollectible accounts and incremental operating expenses due to the

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67 I&E St. No. 2, p. 12.

68 *Pa. PUC v. Emporium Water Company,* Docket No. R-2014-2402324, pp. 47-50 (Order entered January 28, 2015); *Pa. PUC v. City of DuBois – Bureau of Water,* Docket No. R-2016-2554150, pp. 65-66 (Order entered March 28, 2017); *Pa. PUC v. City of DuBois – Bureau of Water,* Docket No. R-2016-2554150, p. 13 (Order entered May 18, 2017); *Pa. PUC v. Columbia Gas,* Docket No. R-2020-3018835, pp. 78-79 (Order entered February 19, 2021); *Pa. PUC v. PECO Energy Company – Gas Division,* Docket No. R-2020-3018929, pp. 117-119 (Order entered June 22, 2021).

69 I&E St. No. 2-SR, pp. 8-12.

COVID-19 pandemic. However, I&E disputes PGW's request to amortize this expense over three years based on its projection of a three-year period between base rate filings.[70] This request is unsupported by PGW's claimed 60-month recovery period for rate case expense and its actual 53-month historic filing frequency. Accordingly, I&E recommends that this expense be amortized over 53-months based on PGW's historic filing frequency.

As discussed above, the Commission looks to a company's historic filing frequency to determine the appropriate time period to normalize and amortize the utility's ratemaking claims. In *Columbia Gas of Pennsylvania, Inc.,* the Commission recently affirmed that the normalization period should align with the historic data rather than Columbia's intent to file its next rate case.[71] The Commission affirmed this decision and accepted I&E's recommended five-year normalization period in the recent *PECO Energy Company – Gas Division* case, stating:

> As the Commission found in the recent *Columbia Gas* case, a normalization period based on the actual historic filing frequency is more reliable than future speculation or the stated intention to file a rate case.[72]

The record shows that PGW's most recent three rate case filing intervals result in a 53-month filing frequency. I&E witness Walker explained that PGW's three most recent rate cases were filed on December 18, 2009, February 27, 2017, and February 28, 2020; therefore, including the current rate case, filed on February 27, 2023, the average historic filing frequency is 53 months [(86 months + 36 months + 36 months) ÷ 3].[73] Accordingly, this 53 month period is the appropriate time over which to amortize the Covid-19 expense.

Additionally, I&E recommended that PGW not be permitted to continue tracking additional COVID-19 related expenses and that any proposed incremental expenses related to

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70 PGW St. No. 2, p. 11.
71 *Pa. PUC v. Columbia Gas,* Docket No. R-2020-3018835, pp. 78-79 (Order entered February 19, 2021).
72 *Pa. PUC v. PECO Energy Company – Gas Division,* Docket No. R-2020-3018929, pp. 117-119 (Order entered June 22, 2021).
73 I&E St. No. 2, p. 12.

COVID-19 after the date of filing for the instant proceeding be reflected in PGW's future routine expense budget.[74] In rebuttal testimony, PGW agreed with this recommendation and indicated that it will cease tracking COVID-19 related expenses as of the filing of the instant proceeding and that the amount incurred and claimed since that time be disallowed.[75]

4. Inflation Adjustment

I&E recommended disallowance of a 4.63% blanket inflation adjustment to PGW's FPFTY unadjusted O&M expense claims of $62.5 million, resulting in a reduction of $2,741,050.[76]

PGW applied the inflation adjustment to certain O&M expenses for which no specific level of increase could be ascertained.[77] Thes expenses were identified as gas processing ($7,882,000), field operations ($18,144,000), collection ($1,628,000), customer service ($189,000), account management ($5,898,000), marketing ($75,000), and administrative and general ($28,704).[78] The requested blanket inflation adjustment should be disallowed as it is not supported by the record or prudently recovered in rates.

It is well settled that a utility is entitled to recover its reasonably and prudently incurred expenses.[79] In its decision in *Pa. PUC v. Wellsboro Electric Co.*, the Commission discussed the standard regarding a utility's entitlement to recover operating expenses in rates. The Commission stated:

> The general rule is that utilities are permitted to set rates which will recover those operating expenses reasonably necessary to provide service to customers, while earning a fair rate of return on the investment in plant used and useful in providing adequate utility service. The objective evaluation of reasonableness is whether the record provides sufficient detail to objectively determine whether

74 I&E St. No. 2, p. 17.
75 PGW St. No. 2-R, pp. 36-37.
76 I&E St. No. 2-SR, p. 12-14.
77 PGW St. No. 2-R, p. 38.
78 PGW St. No. 2-R, p. 40.
79 *UGI Corp. v. Pa. P.U.C.*, 410 A.2d 923, 932 (Pa. Commw. 1980).

> the expense is prudently incurred. With respect to operating and maintenance expenses, those expenses, if properly incurred, are allowed as part of the overall rate computation. To the extent that expenses are not incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable through rates.[80]

In *Wellsboro*, the Commission also agreed with the ALJs' recommendation to deny Wellsboro's request to apply a blanket three percent inflation adjustment to all of its O&M accounts in its FTY to reach its FPFTY projection, stating:

> We agree with the ALJs that the Company did not meet its burden in demonstrating that its proposed blanket three percent inflation adjustment to all expenses would meet the "known and measurable" standard for increasing each FTY expense claim in the FPFTY. To state it another way, the Company did not demonstrate that making this blanket adjustment to each expense claim directly relates to the actual costs expected to be incurred in each expense account in the FPFTY.[81]

In its decision in *Pa. PUC v. Aqua Pennsylvania Inc.*, the Commission agreed with the ALJ's recommendation to deny Aqua's proposed General Price Adjustment to approximately 22% of its O&M expenses, stating:

> We agree with the ALJ that Aqua has not justified the use of a general price level adjustment to expenses "not specifically adjusted in this case or not subject to inflation." We also agree that 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.[82]

OCA witness Mugrace aptly summarized why apply utilizing inflation adjustments should not be used for ratemaking purposes:

> Inflationary type increases do not provide a good index of cost increases, but rather are overall broad blanket-type economic adjustments that are typically applied to all goods and services that

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80 *Pa. PUC v. Wellsboro Electric Co.*, Docket No. R-2019-3008208, p. 12 (Order entered April 29, 2020) (citing *Western Pa. Water Co. v. Pa. PUC*, 422 A.2d 906 (Pa. Cmwlth. 1980); *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1153-54 (Pa. Cmwlth. 1996)).

81 *Id.* at 38.

82 *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-2021-3027385, p. 117 (Order entered May 16, 2022).

> may not be directly related to costs incurred by PGW. Inflation adjustments do not address any particular or individual expense category. It is simply a forecast or prediction of cost adjustments. As costs of goods and services fluctuate over time, applying escalation factors to adjust costs is not a proper approach that should be utilized in setting rates for utility service.[83]

Accordingly, I&E's recommended $2,741,050 inflation adjustment should be adopted in this proceeding.

C. Rate Structure

1. Cost of Service

I&E did not propose any modifications to PGW's cost of service study.

2. Revenue Allocation

I&E did not propose any modifications to PGW's revenue allocation.

3. Rate Design

a. Customer Charge

PGW is proposing between a 31% and 34% increase to the customer charges for all rate classes.[84] I&E reviewed PGW's proposed customer charges and acknowledged that the 31-34% increases are significant; however, it determined that the increases are supported by the customer cost analysis.[85] Accordingly, I&E did not recommend an adjustment to PGW's proposed customer charges.

However, if the Commission grant less than the full $85.8 million increase, I&E accepted PGW's modified scale back recommendation, which recommended that rates first be scaled back proportionately.[86] Next, if the residential class remains above unity after the scale back, the scale back should be modified in order to maintain the residential class at or below unity.[87]

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83 OCA St. No. 1, p. 16.
84 PGW St. No. 6, p. 8, Table 2.
85 I&E St. No. 3, p. 7.
86 I&E St. No. 3-SR, p. 9.
87 PGW St. No. 6-R, pp. 18-19.

The scale back is warranted because a properly designed rate structure will not unduly burden one class of ratepayers to the benefit of another. Under the Public Utility Code, "[n]o public utility shall … make or grant any unreasonable preference to any person, corporation … No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service."[88] Generally "public utility rates should enable the utility to recover its cost of providing service and should allocate this cost among the utility's customers in a just, reasonable and nondiscriminatory manner."[89] This scale back proposal is appropriate because the relative rate of return for the residential class is 1.15, which is higher than any other rate class.[90] This means that the residential class is paying more than its cost to serve. Bringing the relative rate of return of any class closer 1.0 through the scale back is neither unfair nor biased.

Conversely, I&E recommended that the GS-XLT class be excluded from the scale back because, based on PGW's cost of service study, it will be recovering approximately $4.96 million less revenue than its cost to serve and has a negative relative rate of return.[91] Under PGW's cost of service study, the GS-XLT rate class is the furthest from its cost to serve.[92] Accordingly, it is reasonable to exclude the GS-XLT class from the rate scale back.

b. Other Tariff Changes

I&E did not recommend any adjustments to other tariff provisions.

D. GFCP/VEPI- Class GS-XLT

GFCP / VEPI is a large industrial customer that had a contract rate with PGW from 1996 to December 2022. PGW proposed to increase the rates paid by GFCP / VEPI and the customer

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[88] 66 Pa. C.S. § 1304.
[89] *See generally Pa. PUC v. West Penn Power*, 73 Pa. P.U.C. 454, 510, 199 PUR 4th 110 (1990).
[90] I&E St. No. 3, p. 9.
[91] I&E St. No. 3, pp. 9-10.
[92] I&E Exh. No. 3, Sch. 4.

filed a complaint with the Commission at docket C-2021-3029259. By Order entered April 20, 2023, the Commission found that the determination of just and reasonable cost based rates of the GFCP / VEPI should occur in the present proceeding.[93]

PGW proposed to create a new tariff class General Service – Extra Large Transportation (GS-XLT).[94] According to PGW witness Teme, the total cost to serve the GS-XLT class is $10.237 million. PGW's proposed rate will produce overall revenues of $5.279 million, which leaves $4.958 million of the total cost to serve the GS-XLT class to be subsidized by the other rate classes.[95] I&E witness Cline testified that PGW's proposed GS-XLT rate appears to be a reasonable initial step to move the rates paid by GFCP / VEPI towards cost of service based rates.[96] Therefore, I&E did not propose any modifications to PGW's GS-XLT rate proposal.

E. Customer Service Issues

I&E did not make any recommendations concerning customer service.

F. Low-Income Customer Service Issues

I&E did not make any recommendations concerning low-income customer service.

G. Pipeline Replacement/Alternatives

I&E did not make any recommendations concerning pipeline replacement.

H. Miscellaneous Issues

I&E did not make any recommendations concerning miscellaneous issues.

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[93] *Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. v. Philadelphia Gas Works*, Docket No. C-2021-3029529, pp. 36-38 (Order entered April 20, 2023).

[94] PGW St. No. 6-SD, pp. 2-3.

[95] PGW St. No. 6-SD, p. 2.

[96] I&E St. No. 3, pp. 5-6.

V. CONCLUSION

For the reasons presented in this Main Brief, the Bureau of Investigation and Enforcement respectfully requests that the Commission reject PGW's requested increase of $85.8 million and instead authorize PGW to implement a $44.8 million increase in revenues.

Respectfully submitted,

Allison C. Kaster
Deputy Chief Prosecutor
Bureau of Investigation & Enforcement
PA Attorney ID No. 93176

Dated: July 27, 2023

TABLE I
Philadelphia Gas Works
STATEMENT OF INCOME
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Adjustments	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)		I&E Expense Adjustments	I&E Proposed Rates FPFTY FY 2024	I&E Revenue Adjustments	I&E Total Allowable Revenues FPFTY FY 2024
		A	**B**	**C = (A +B)**		**D**	**E = (C + D)**	**F**	**G = (E + F)**
		$	$	$		$	$	$	$
	OPERATING REVENUES								
1.	Non-Heating	31,493	$ -	31,493			31,493	-	31,493
2.	Gas Transport Service	75,685	-	75,685			75,685	-	75,685
3.	Heating	727,583	-	727,583			727,583	-	727,583
4.	Revenue Enhancement / Cost Reduction FY 2024	-	85,162	85,162			85,162	(40,335)	44,827
5.	Revenue Enhancement / Cost Reduction FY 2028	-	-	-			0	-	0
6.	Weather Normalization Adjustment	-	-	-			0	-	0
7.	Appropriation for Uncollectible Reserve	(33,485)	(3,407)	(36,892)			(36,892)	1,793	(35,099)
8.	Unbilled Adjustment	(763)	-	(763)			(763)	-	(763)
9.	Total Gas Revenues	800,513	81,755	882,268			882,268	(38,542)	843,726
10	Appliance Repair & Other Revenues	7,807	-	7,807			7,807	-	7,807
		-	-				0	-	0
11	Other Operating Revenues	24,050	1,309	25,359			25,359	-	25,359
12	Total Other Operating Revenues	31,857	1,309	33,166			33,166	-	33,166
13	**Total Operating Revenues**	832,370	83,064	915,434			915,434	(38,542)	876,892
	OPERATING EXPENSES								
14	Natural Gas	323,502	-	323,502		-	323,502		323,502
15	Other Raw Material	31	-	31		-	31		31
16	Sub-Total Fuel	323,533	-	323,533			323,533		323,533
17	**CONTRIBUTION MARGINS**	**508,837**	83,064	**591,901**			**591,901**		**553,359**
18	Gas Processing	23,890	-	23,890		(349)	23,541		23,541
19	Field Operations	98,811	-	98,811		(803)	98,008		98,008
20	Collection	5,087	-	5,087		(72)	5,015		5,015
21	Customer Service	21,278	-	21,278		(8)	21,270		21,270
22	Account Management	10,515	-	10,515		(261)	10,254		10,254
23	Marketing	4,657	-	4,657		(3)	4,654		4,654
24	Administrative and General	102,881	-	102,881		(1,505)	101,376		101,376
25	Health Insurance	27,715	-	27,715		-	27,715		27,715
26	Pandemic Expenses	-	10,162	10,162	(3)	(3,260)	6,902		6,902
27	Capitalized Fringe Benefits	(10,717)	-	(10,717)		-	(10,717)		(10,717)
28	Capitalized Administrative Charges	(31,571)	-	(31,571)		-	(31,571)		(31,571)
29	Pensions	44,759	-	44,759		-	44,759		44,759
30	Taxes	10,434	-	10,434		-	10,434		10,434
31	Other Post-Employment Benefits	(10,095)	-	(10,095)		-	(10,095)		(10,095)
32	Retirement Payout /Labor Savings	296	-	296		-	296		296
33	Sub-Total Other Operating & Maintenance	297,940	10,162	308,102		(6,261)	301,841		301,841
34	Depreciation	65,412	-	65,412		-	65,412		65,412
35	Cost of Removal	6,729	-	6,729		-	6,729		6,729
		-	-	-		-	0		0
36	Net Depreciation	72,141	-	72,141			72,141		72,141
37	**Sub-Total Other Operating Expenses**	370,081	10,162	380,243			373,982		373,982
38	**TOTAL OPERATING EXPENSES**	693,614	10,162	703,776			697,515		697,515

TABLE I (continued)
Philadelphia Gas Works
STATEMENT OF INCOME
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Adjustments	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	I&E Expense Adjustments	I&E Proposed Rates FPFTY FY 2024	I&E Revenue Adjustments	I&E Total Allowable Revenues FPFTY FY 2024
		A	**B**	**C = (A +B)**	**D**	**E = (C + D)**	**F**	**G = (E + F)**
		$	$	$	$	$	$	$
39	OPERATING INCOME	138,756	72,902	211,658		217,919		179,377
40	**Interest Gain / (Loss) and Other Income**	7,211	-	7,211	-	7,211		7,211
41	INCOME BEFORE INTEREST	145,967	72,902	218,869		225,130		186,588
42	**INTEREST**							
43	Long-Term Debt	62,738	-	62,738	-	62,738		62,738
44	Other	(1,776)	-	(1,776)	-	(1,776)		(1,776)
		-	-	-	-	0		0
45	Loss From Extinguishment of Debt	3,348	-	3,348	-	3,348		3,348
46	**Total Interest**	64,310	-	64,310		64,310		64,310
	NON-OPERATING REVENUE							
47	Federal Grant Revenue (PHMSA)	10,752	-	10,752		10,752		10,752
48	**NET INCOME**	**92,409**	72,902	**165,311**		**171,572**		**133,030**
49	City Payment	18,000	-	18,000	-	18,000		18,000
50	**NET EARNINGS**	**$ 74,409**	**$ 72,902**	**$ 147,311**		**$ 153,572**		**$ 115,030**

(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
(3) I&E's surrebuttal position at present rate calculation did not reflect any pandemic expense, which is now corrected in this table.

TABLE I(A)
DEBT SERVICE COVERAGE
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	I&E Adjustments	I&E Total Allowable Revenues FPFTY FY 2024
		$	$	$	$
	FUNDS PROVIDED				
1.	Total Gas Revenues [Table I, Line 9]	800,513	882,268		843,726
2.	Other Operating Revenues [Table I, Line 12]	31,857	33,166		25,359
3.	Total Operating Revenues [Table I, Line 13]	832,370	915,434		876,892
4.	Other Income Incr. / (Decr.) Restricted Funds [Table I, Line 40 Plus Table IB, Line 3]	2,877	2,877		2,877
5.	Non-Operating Income [Table I, Line 47]	10,752	10,752		10,752
6.	AFUDC (Interest) [Table I, Line 13]	-	-		-
7.	TOTAL FUNDS PROVIDED	845,999	929,063		890,521
	FUNDS APPLIED				
8.	Fuel Costs [Table I, Line 16]	323,533	323,533		323,533
9.	Other Operating Costs	370,081	380,243		373,982
10.	Total Operating Expenses [Table I, Line 38]	693,614	703,776		697,515
11.	Less: Non-Cash Expenses	89,718	89,718	-	89,718
12.	TOTAL FUNDS APPLIED	603,896	614,058		607,797
13.	Funds Available to Cover Debt Service	242,103	315,005		282,724
14.	Net Available after Prior Debt Service [Line 13]	242,103	315,005		282,724
15.	Equipment Leasing Debt Service	-	-	-	-
16.	Net Available after Prior Capital Leases	242,103	315,005		282,724
17.	1998 Ordinance Bonds Debt Service	115,230	115,230	-	115,230
18.	1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	-	-	-	-
19.	Total 1998 Ordinance Debt Service	115,230	115,230		115,230
20.	**Debt Service Coverage 1998 Bonds**	**2.10**	**2.73**		**2.45**
21.	Net Available after 1998 Debt Service	126,873	199,775		167,494
22.	Aggregate Debt Service [Line 19]	115,230	115,230		115,230
23.	Debt Service Coverage (Combined liens)	2.10	2.73		2.45
24.	Debt Service Coverage (Combined liens w/$18.0 City Fee)	**1.94**	**2.58**		**2.30**

(1) PGW Exhibit JFG-1 (Present Rates)
(2) PGW Exhibit JFG-2-R (Proposed Rates)
Table II Adjustments To Be Shown On Other Tables
Adjustments from Table II

TABLE I(B)
Philadelphia Gas Works
CASH FLOW STATEMENT
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	I&E Adjustments	I&E Total Allowable Revenues FPFTY FY 2024
		$	$	$	$
	SOURCES				
1.	Net Income [Table I, Line 48]	92,409	165,311		133,030
2.	Depreciation & Amortization	62,947	62,947	-	62,947
3.	Earnings on Restricted Funds Withdrawal/(No Withdrawal)	(4,334)	(4,334)	-	(4,334)
4.	Federal Infrastructure Grant	-	-	-	
5.	Proceeds from Bond Refunding to Pay Cost of Issuance	3,480	3,480	-	3,480
6.	Increased/(Decreased) Other Assets/Liabilities	(45,717)	(35,521)	-	(35,521)
7.	Available From Operations	108,785	191,883		159,602
8.	Drawdown of Bond Proceeds	102,000	102,000	-	102,000
9.	Release of Restricted Fund Asset	-	-	-	-
10.	Release of Bond Proceeds to Pay Temporary Financing	-	-	-	-
11.	Temporary Financing	-	-	-	-
12.	TOTAL SOURCES	**$ 210,785**	**$ 293,883**		**$ 261,602**
	USES				
13.	Net Construction Expenditures	206,959	206,959	-	206,959
14.	Revenue Bonds	60,795	60,795	-	60,795
15.	Temporary Financing Repayment	-	-	-	-
16.	GASB 87 Lease Principal Payments	1,968	1,968	-	
17.	Changes in City Equity	-	-	-	-
18.	Distribution of Earnings [Table I, Line 49]	18,000	18,000		18,000
19.	Non-Cash Working Capital	8,615	8,720	-	8,720
20.	Cash Needs	296,337	296,442		294,474
21.	Cash Surplus (Shortfall)	(85,552)	(2,559)		(32,872)
22.	TOTAL USES	**$ 210,785**	**$ 293,883**		**$ 261,602**

TABLE I(B) - Continued
Philadelphia Gas Works
CASH FLOW STATEMENT
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	I&E Adjustments	I&E Total Allowable Revenues FPFTY FY 2024
		$	$	$	$
23.	Cash - Beginning of Period	116,328	116,328	-	116,328
24.	Cash - Surplus (Shortfall) [Line No. 21]	(85,552)	(2,559)	-	(2,559)
25.	**ENDING CASH**	**$ 30,775**	**$ 113,769**		**$ 113,769**
26.	**Outstanding Commercial Paper**	-	-	-	-
27.	**Outstanding Commercial Paper - Capital**	-	-	-	-
28.	**DSIC Spending**	41,000	41,000	-	41,000
29.	**Internally Generated Funds**	63,959	63,959	(53,207)	10,752
30.	**TOTAL IGF + Incremental DSIC Spending**	**$ 104,959**	**$ 104,959**		**$ 51,752**

(1) PGW Exhibit JFG-1 (Present Rates)
(2) PGW Exhibit JFG-2-R (Proposed Rates)
Table II Adjustments To Be Shown On Other Tables
Adjustments from Table II

TABLE II
Philadelphia Gas Works
SUMMARY OF ADJUSTMENTS
R-2023-3037933
(Dollars in Thousands)

LINE NO.		I&E Adjustments	I&E Reference
		$	
TABLE I	**STATEMENT OF INCOME**		
	OPERATING REVENUES		
1.	Non-Heating	-	
2.	Gas Transport Service	-	
3.	Heating	-	
4.	Revenue Enhancement / Cost Reduction FY 2024	(40,335)	See explanation tab
5.	Revenue Enhancement / Cost Reduction FY 2028	-	
6.	Weather Normalization Adjustment	-	
7.	Appropriation for Uncollectible Reserve	1,793	See explanation tab
8.	Unbilled Adjustment	-	
10.	Appliance Repair & Other Revenues	-	
12.	Other Operating Revenues	-	
	OPERATING EXPENSES		
14.	Natural Gas	-	
15.	Other Raw Material	-	
18.	Gas Processing	(349)	General Increase Adjustment
19.	Field Operations	(803)	General Increase Adjustment
20.	Collection	(72)	General Increase Adjustment
21.	Customer Service	(8)	General Increase Adjustment
22.	Account Management	(261)	General Increase Adjustment
23.	Marketing	(3)	General Increase Adjustment
24.	Administrative and General	(1,505)	Lobbying ($100k); Rate Case Exp ($160k); Genl. Increase Adj. $1,245k
25.	Health Insurance	-	
26.	Pandemic Expenses	(3,260)	See explanation tab
27.	Capitalized Fringe Benefits	-	
28.	Capitalized Administrative Charges	-	
29.	Pensions	-	
30.	Taxes	-	
31.	Other Post-Employment Benefits	-	
32.	Retirement Payout /Labor Savings	-	
		(6,261)	
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 II - Continued
Philadelphia Gas Works
SUMMARY OF ADJUSTMENTS
R-2023-3037933
(Dollars in Thousands)

LINE NO.		I&E Adjustments	I&E Reference
		$	
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**	(53,207)	

TABLE II - Continued
Philadelphia Gas Works
SUMMARY OF ADJUSTMENTS
R-2023-3037933
(Dollars in Thousands)

LINE NO.		I&E Adjustments	I&E Reference
		$	
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	-	
		-	

TABLE II - Continued
Philadelphia Gas Works
SUMMARY OF ADJUSTMENTS
R-2023-3037933
(Dollars in Thousands)

LINE NO.		I&E Adjustments	I&E Reference
		$	
41.	Other Liabilities		
	Plant in Service	-	
	Accumulated Depreciation	-	

(1) PGW Exhibit JFG-1 (Present Rates)
(2) PGW Exhibit JFG-2-R (Proposed Rates)
Table II Adjustments To Be Shown On Other Tables
Adjustments from Table II

TABLE III
Philadelphia Gas Works
BALANCE SHEET
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	I&E Adjustments	I&E 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

TABLE III - Continued
Philadelphia Gas Works
BALANCE SHEET
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	I&E Adjustments	I&E Total FPFTY FY 2024
		$	$	$	$
23.	City Equity	790,579	863,481	-	863,481
24.	Revenue Bonds	1,222,398	1,222,398	-	22,398
				-	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

TABLE III - Continued
Philadelphia Gas Works
BALANCE SHEET
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	I&E Adjustments	I&E Total FPFTY FY 2024
		$	$	$	$
	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

I&E Explanation Note for Changes:

(Dollars in Thousands)

	PGW Rebuttal Claim	I&E Surrebuttal Allowance	I&E Revised Allowance	Comments
Income Statememt (Tab I):	**$**	**$**	**$**	
Revenue Enhancement / Cost Reduction FY 2024	85,162	33,994	44,827	I&E revenue increase number is revised due to the following three line items.
Appropriation for Uncollectible Reserve	(3,407)	-	1,793	I&E calculation did not reflect PGW's uncollectible expense adjustment (at proposed rate).
Other Operating Revenues	1,309	-	1,309	I&E calculation did not reflect PGW's other operating revenue adjustment (at proposed rate).
Pandemic Expenses	10,162	-	6,902	(1) I&E overall revenue requirement calculation did not reflect PGW's Pandemic Expense claim (at proposed rate); and (2) a change was necessary to reflect PGW's updated claim in its briefing tables. PGW's claim in its briefing tables is $10,162,000, thereby making Zachari Walker's recommended adjustment $3,260,000, producing a recommended allowance of $6,902,000.
Fall out changes in DSCR (Tab IA)				
Debt Service Coverage 1998 Bonds		2.46	2.45	Slight change, was 2.46 in surrebuttal position.
Debt Service Coverage (Combined liens w/$18.0 City Fee)		2.30	2.30	No change
Fall out change in I&E - Days Cash on Hand		39.80	39.20	

Appendix A

PROPOSED FINDINGS OF FACT

Revenue Requirement

1. Under the Bond Ordinance, PGW has a mandatory debt service coverage requirement of 1.5x. PGW St. No. 2, p. 15.

2. Moody's debt service coverage range for the Aa rating is greater than 1.70x but less than or equal to 2.00x and Aaa rating is greater than 2.00x. I&E St. No. 1, p. 25.

3. I&E's recommended revenue increase provides a debt service coverage of 2.45x.

4. Moody's days cash on hand range for the Aa rating is greater than 150 days but less than or equal to 250 days and A rating is greater than 35 days but less than or equal to 150 days. I&E St. No. 1, p. 21.

5. When evaluating days of cash on hand, rating agencies give credit for available letters/lines of credit or capacity in a short-term debt program. I&E St. No. 1-SR, p. 17.

6. PGW's $120 million commercial paper program is fully available to meet its working capital requirements. PGW St. No. 3-R, p. 5.

7. PGW's $120 million commercial paper program significantly boosts (80-90 days) its cash and liquidity metric with all of the rating agencies. PGW St. No. 3-R, p. 5.

8. Financing capital improvements with long-term debt matches the recovery of the expenditure with the useful life of the asset and spreads the cost recovery out over the life of the asset. I&E St. No. 1, pp. 7-8.

9. The Commission investigated PGW's pipeline replacement program in 2015 and released a Staff Report indicating that PGW can operate with a longer-term debt-to-capital ratio perhaps as high as 70%. Pennsylvania Public Utility Commission Staff Report: Inquiry into Philadelphia Gas Works' Pipeline Replacement Program, April 21, 2015, p. 6.

10. Even with no rate increase, PGW's level of debt trends downward from the FPFTY of 62.69% through fiscal year 2026-27 at 53.26%. PGW Exhibit JFG-1-Balance Sheet, line 45.

11. Moody's rated PGW A3 with a stable outlook, which is an upper-medium grade obligation with lower credit risk. I&E St. No. 1, p. 17.

12. S&P gave PGW an A rating with a stable outlook, which is an investment grade and represents a strong capacity to meet financial obligations. I&E St. No. 1, p. 17.

13. Fitch has awarded PGW's bond an investment grade rating of A- with a stable outlook, which represents expectations of low default risk and strong capacity for payment of financial commitments. I&E St. No. 1, p. 17.

Expenses

14. PGW's annual rate case expense of $477,000 is comprised of $300,000 for current rate case expense and $177,000 for the unrecovered expenses related to its 2020 base rate proceeding, which it proposes to amortize over five years. I&E St. 2, p. 9.

15. PGW's three most recent rate cases were filed on December 18, 2009, February 27, 2017, and February 28, 2020; therefore, including the current rate case, filed on February 27, 2023, the average historic filing frequency is 53 months [(86 months + 36 months + 36 months) ÷ 3]. I&E St. No. 2, p. 12.

16. I&E accepted PGW's total COVID-19 claim of $30,484,000 but its proposed 36-month amortization period is not supported by its historic 53-month rate case filing frequency. I&E St. No. 2-SR, pp. 8-12.

17. PGW accepted I&E's recommendation that it will cease tracking COVID-19 related expenses as of the filing of the instant proceeding and that the amount incurred and claimed since that time be disallowed. I&E St. No. 2, p. 17; PGW St. No. 2-R, pp. 36-37.

18. PGW applied a 4.63% inflation adjustment to certain O&M expenses: gas processing ($7,882,000), field operations ($18,144,000), collection ($1,628,000), customer service ($189,000), account management ($5,898,000), marketing ($75,000), and administrative and general ($28,704). PGW St. No. 2-R, p. 40.

Rate Structure

19. PGW is proposing between a 31% and 34% increase to the customer charges for all rate classes. PGW St. No. 6, p. 8, Table 2.

20. I&E accepted PGW's proposed customer charges as it determined that the increases are supported by PGW's customer cost analysis. I&E St. No. 3, p. 7.

21. I&E accepted PGW's modified scale back recommendation, which recommended that rates first be scaled back proportionately if the Commission grant less than the full $85.8 million increase. Next, if the residential class remains above unity after the scale back, the scale back should be modified in order to maintain the residential class at or below unity. PGW St. No. 6-R, pp. 18-19; I&E St. No. 3-SR, p. 9.

22. The relative rate of return for the residential class is 1.15, which is higher than any other rate class. I&E St. No. 3, p. 9.

23. I&E excluded the GS-XLT class from the scale back because, based on PGW's cost of service study, it will be recovering approximately $4.96 million less revenue than its cost to serve and has a negative relative rate of return. I&E St. No. 3, pp. 9-10.

24. PGW estimates that the total cost to serve the GS-XLT class is $10.237 million and its proposed rate will produce overall revenues of $5.279 million, which leaves $4.958 million of the total cost to serve the GS-XLT class to be subsidized by the other rate classes. PGW St. No. 6-SD, p. 2.

25. I&E accepted PGW's proposed GS-XLT rate as a reasonable initial step to move the rates paid by GFCP / VEPI towards cost of service based rates. I&E St. No. 3, pp. 5-6.

Appendix B

PROPOSED CONCLUSIONS OF LAW

Burden of Proof

1. PGW carries the burden of proof to show its rate proposal is just and reasonable. 66 Pa.C.S. § 315(a).

2. The burden of proof does not shift to parties challenging a requested rate increase. *Pa. P.U.C. v. PPL Electric Utilities Corporation,* 2012 WL 6758304 (Pa. P.U.C. 2012)*; Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, 2004 WL 2314523 (Pa. P.U.C. 2004).

3. The Commission has affirmed the utility's burden to establish the justness and reasonableness of every component of its rate request, it is not the burden of other parties to disprove the reasonableness of those claims. *Pa. PUC v. Equitable Gas Co.,* 57 Pa. PUC 423, 444 n.37 (1983).

Revenue Requirement

4. Every rate made, demanded, or received by any public utility must be just and reasonable, and in conformity with regulations or orders of the commission. 66 Pa.C.S. § 1301.

5. PGW is 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).

6. PGW's rates must be just and reasonable. 66 Pa.C.S. § 1301; *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-00006042 (Order entered October 4, 2001); *Public Advocate v. Philadelphia Gas Commission*, 544 Pa. 129, 674 A.2d 1056 (1996).

7. 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).

8. PGW's rates are determined by the cash-flow method. 66 Pa. C. S.§ 2212(e).

9. The Commission has the discretion to determine the prudent and reasonable levels of PGW's various categories of expenses and revenues, including PGW's cash requirements. *Pa. PUC v. PGW*, Docket No. R-00006042, p. 26 (Order entered October 4, 2001).

Expenses

10. A utility is entitled to recover its reasonably and prudently incurred expenses. *UGI Corp. v. Pa. P.U.C.*, 410 A.2d 923, 932 (Pa. Commw. 1980); *Pa. PUC v. Wellsboro Electric Co.*, Docket No. R-2019-3008208, p. 12 (Order entered April 29, 2020) (citing *Western Pa. Water Co. v. Pa. PUC*, 422 A.2d 906 (Pa. Cmwlth. 1980); *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1153-54 (Pa. Cmwlth. 1996)).

11. Section 1316 of the Code prohibits public utilities from recovering expenses for political advertising in rates. 66 Pa.C.S. § 1316(a).

12. Political advertising is defined as money spent for lobbying unless it is spent for appearances before regulatory or other governmental bodies in connection with a public utility's existing or proposed operations. 66 Pa.C.S. § 1316(d).

13. The Commission characterizes rate case expense as a normal operating expense that should be normalized, not amortized. *Pa. PUC v. PECO*, 56 PA PUC 155, 176 (1982) (citing *Pa. PUC v. Butler Twp. Water Co.*, 54 PA PUC 571 (1980); *Pa. PUC v. West Penn Power Co.*, 73 PA PUC 454, 492 (1990); *Pa. PUC v. Lemont Water Co.*, 81 PA PUC 392, 404 (1994).

14. To determine the length of rate case expense normalization, the Commission looks to the average number of months between a company's rate case filings. *Pa. PUC v. Emporium Water Company*, Docket No. R-2014-2402324, pp. 47-50 (Order entered January 28, 2015); *Pa. PUC v. City of DuBois – Bureau of Water*, Docket No. R-2016-2554150, pp. 65-66 (Order entered March 28, 2017); *Pa. PUC v. City of DuBois – Bureau of Water*, Docket No. R-2016-2554150, p. 13 (Order entered May 18, 2017); *Pa. PUC v. Columbia Gas*, Docket No. R-2020-3018835, pp. 78-79 (Order entered February 19, 2021); *Pa. PUC v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929, pp. 117-119 (Order entered June 22, 2021).

15. The normalization period for operating expenses should align with the historic data rather than a utility's intent to file its next rate case. *Pa. PUC v. Columbia Gas,* Docket No. R-2020-3018835, pp. 78-79 (Order entered February 19, 2021); *Pa. PUC v. PECO Energy Company – Gas Division,* Docket No. R-2020-3018929, pp. 117-119 (Order entered June 22, 2021).

16. The Commission has disallowed inflation adjustments. *Pa. PUC v. Wellsboro Electric Co.*, Docket No. R-2019-3008208, p. 38 (Order entered April 29, 2020); *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-2021-3027385, p. 117 (Order entered May 16, 2022).

Rate Structure

17. A utility's rate structure cannot either advantage of disadvantage a class or contain an unreasonable difference in rates. 66 Pa.C.S. §1304.

18. Rates should enable the utility to recover its cost of providing service and should allocate this cost among the utility's customers in a just, reasonable and nondiscriminatory manner. *Pa. P.U.C. v. West Penn Power*, 73 Pa. P.U.C. 454, 510, 199 PUR 4th 110 (1990).

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, *et al.*	:	
	:	
v.	:	Docket No. R-2023-3037933, *et al.*
	:	
Philadelphia Gas Works	:	
Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc.	:	
	:	
v.	:	Docket No. C-2021-3029259
	:	
Philadelphia Gas Works	:	

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Main Brief** dated July 27, 2023, in the manner and upon the persons listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party):

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