

COMMONWEALTH OF PENNSYLVANIA



PATRICK M. CICERO
Consumer Advocate

OFFICE OF CONSUMER ADVOCATE
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
(800) 684-6560

@pa_oca
 /pennoca
FAX (717) 783-7152
consumer@paoca.org
www.oca.pa.gov

August 7, 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 Reply Brief in the above-referenced proceeding.

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

Respectfully submitted,

/s/ Darryl A. Lawrence
Darryl A. Lawrence
Senior Assistant Consumer Advocate
PA Attorney I.D. # 93682
DLawrence@paoca.org

Enclosures:

cc: The Honorable Arlene Ashton (**email only**)
The Honorable Eranda Vero (**email only**)
Office of Special Assistants (**email only**: ra-OSA@pa.gov)
Certificate of Service

*350040

CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2023-3037933
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I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's Reply 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 7th day of August 2023.

SERVICE BY E-MAIL ONLY

Allison Kaster, Esquire
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120
akaster@pa.gov
Counsel for I&E

Sharon E. Webb, Esquire
Office of Small Business Advocate
555 Walnut Street
1st Floor, Forum Place
Harrisburg, PA 17101-1923
swebb@pa.gov
Counsel for OSBA

Daniel Clearfield, Esquire
Sarah Stoner, Esquire
Norman J. Kennard, Esquire
Karen O. Moury, Esquire
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
dclearfield@eckertseamans.com
sstoner@eckertseamans.com
nkennard@eckertseamans.com
kmoury@eckertseamans.com
Counsel for PGW

SERVICE BY E-MAIL ONLY (continued)

Charis Mincavage, Esquire
Adeolu A. Bakare, Esquire
McNees Wallace & Nurick LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166
cmincavage@mcneeslaw.com
abakare@mcneeslaw.com
Counsel for "PICGUG"

John W. Sweet, Esquire
Elizabeth R. Marx, Esquire
Ria M. Pereira, Esquire
Lauren N. Berman, Esquire
Pennsylvania Utility Law Project
118 Locust Street
Harrisburg, PA 17101
pulp@pautilitylawproject.org
Counsel for CAUSE-PA

Robert W. Ballenger, Esquire
Joline R. Price, Esquire
Daniela E. Rakhlina-Powsner, Esquire
Community Legal Services, Inc.
1424 Chestnut Street
Philadelphia, PA 19102
rballenger@clsphila.org
jprice@clsphila.org
drakhlinapowsner@clsphila.org
Counsel for TURN

Lauren M. Burge, Esquire
Eckert Seamans Cherin & Mellott, LLC
600 Grant Street
44th Floor
Pittsburgh, PA 15219
lburge@eckertseamans.com
Counsel for PGW

Dennis A. Whitaker, Esquire
Kevin J. McKeon, Esquire
Todd S. Stewart, Esquire
Hawke McKeon & Sniscak LLP
100 North 10th Street
Harrisburg, PA 17101
dawhitaker@hmslegal.com
kjmckeon@hmslegal.com
tsstewart@hmslegal.com
*Counsel for Grays Ferry Cogeneration
Partnership & Vicinity Energy Philadelphia, Inc.*

Devin McDougall, Esquire
Clean Energy Program
Earthjustice
1617 John F. Kennedy Blvd.
Suite 2020
Philadelphia, PA 19103
dmcdougall@earthjustice.org
Counsel for POWER Interfaith

Rebecca Barker, Esquire
Earthjustice
311 S. Wacker Drive
Suite 1400
Chicago, IL 60606
rbarker@earthjustice.org
Counsel for POWER Interfaith

SERVICE BY USPS ONLY, POSTAGE PREPAID

James M. Williford
2730 W. Allegheny Avenue
Philadelphia, PA 19132

/s/ Darryl A. Lawrence
Darryl A. Lawrence
Senior Assistant Consumer Advocate
PA Attorney I.D. # 93682
DLawrence@paoca.org

Harrison W. Breitman
Assistant Consumer Advocate
PA Attorney I.D. # 320580
HBreitman@paoca.org

David T. Evrard
Assistant Consumer Advocate
PA Attorney I.D. # 33870
DEvrard@paoca.org

Counsel for:
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Dated: August 7, 2023
*350041

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY BRIEF OF THE
OFFICE OF CONSUMER ADVOCATE

Darryl A. Lawrence
Senior Assistant Consumer Advocate
PA Attorney I.D. # 93682

David T. Evrard
Assistant Consumer Advocate
PA Attorney I.D. # 33870

Harrison W. Breitman
Assistant Consumer Advocate
PA Attorney I.D. # 320580

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152
Dated: August 7, 2023

Counsel for:
Patrick M. Cicero
Consumer Advocate

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I. INTRODUCTION

On July 27, 2023, Main Briefs were submitted in this case by Philadelphia Gas Works (PGW), the Bureau of Investigation and Enforcement (I&E), Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. (collectively, GFCP), the Office of Small Business Advocate (OSBA), the Philadelphia Industrial and Commercial Gas Users Group (PICGUG), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) and the Tenant Union Representative Network (TURN) (Joint Brief), POWER Interfaith (POWER) and the Office of Consumer Advocate (OCA).

The OCA submits this Reply Brief in response to the Main Briefs of the other Parties. The OCA's Main Brief contains a comprehensive discussion of the evidence and its position on all issues; thus, the OCA will respond here to those matters raised by the other Parties in their Main Briefs that were not previously addressed or that require clarification. Nevertheless, the OCA does not waive its position on contested issues because it does not repeat arguments here. Accordingly, the OCA incorporates the arguments and analysis contained in its Main Brief herein by reference.

II. SUMMARY OF REPLY ARGUMENT

The OCA's recommended revenue increase for PGW of \$16.5 million is reasonable and based on the facts of this case. The OCA has recommended a series of expense adjustments that are reflective of PGW's average spending in these areas, permit PGW to have sufficient cash flow to safely and reliably operate its system while meeting its debt and other legal obligations and are consistent with the Commission's legal precedent. Contrary to many of PGW's assertions, any revenue increase that is authorized in this case need only be sufficient for PGW to maintain its financial integrity through the FPFTY. If PGW's financial situation unexpectedly changes during this time, PGW can file another base rate case as its financial situation may require. There is no

basis in the record of this proceeding or the law of the Commonwealth to allow PGW to charge higher rates and collect additional revenue based on the speculative predictions presented by PGW.

PGW's current rate case is built around the premise that it needs a large revenue increase, and in turn it may "stay out" of rates for several years. In the OCA's view, this is not a reasonable way forward for several reasons. For one, OCA witnesses Alexander and Colton have documented that PGW's level of performance in the areas of customer service, particularly service to its low-income customers needs substantial improvement. The Commission's Policy Statement on the Cash Flow Method, at 52 Pa. Code Section 69.2703, specifically lists management effectiveness, service quality and universal service as relevant factors that will be considered in arriving at any potential revenue increase. The record evidence here indicates that a large revenue increase for PGW is not supported. OCA witnesses have provided numerous recommendations as to how these service areas can be improved. A moderate revenue increase, as the OCA has recommended will allow PGW to meet all its financial needs through the near-term future and will allow the Commission and all stakeholders to review PGW's management effectiveness and service quality in the next rate case.

III. ARGUMENT

A. Revenue Requirement

1. The Commission Should Only Approve a Moderate Revenue Increase for PGW, Consistent With the OCA's Recommendations.

PGW contends at various places in its Main Brief that without any revenue increase it will be in a precarious financial situation in the FPFTY. PGW M.B. at 15-20. PGW also contends that the only path to assure its financial health is for the Commission to grant its full requested revenue increase of \$85.1 million. *Id.* PGW's plea is not supported by the record. The OCA submits that the reasonable way forward supported by the record is for the Commission to grant a moderate

revenue increase of no more than \$16.5 million reflecting realistic expense and construction spending as the OCA has recommended and is supported by the record.

PGW provides that “At present rates, PGW’s debt service coverage for the FPFTY is 2.1x; accounting for the mandatory obligation of the City Payment, PGW’s FPFTY debt service coverage falls below two: 1.94x.” PGW M.B. at 16. These debt service coverage (DSC) ratios are at present rates for the FPFTY, with no revenue increase, and are still well above the required 1.5x DSC ratio. Thus, arguably, without *any* revenue increase PGW would still be meeting its legal obligations to debt holders. PGW also provides “For the FPFTY at present rates, PGW is projecting that it will end the year with just \$30.78 million in cash. That level of cash equates to just 16.9 days of cash on hand ...”. PGW M.B. at 18. As shown, year-end cash and days of cash, without any increase, are dropping. At PGW’s full request of \$85.1 million, “PGW’s rate increase request would produce a year-end cash balance in the FPFTY of \$113.8 million, which equates to 61.6 days of cash.” PGW M.B. at 19.¹ The OCA’s recommendations in this case are far more reasonable and, are as follows:

My recommended updated revenue requirement increase is **\$16,502,426**. This is based upon Dr. Griffing’s recommended DSC ratio of **2.40**. My recommended Year End Cash balance calculates to an ending balance of **\$101,831,633**, which results in **57.41** days of cash on hand.

OCA St. 1SR at 3 (emphasis added).

As shown, PGW’s year-end cash is \$113.8 million and OCA’s year-end cash is \$101.8 million. PGW’s days of cash is 61.6, whereas OCA’s days of cash is 57.41. These numbers are very comparable, even though PGW is requesting an increase of \$85.1 million, and the OCA’s recommended increase is approximately \$16.5 million. The reason for this apparent paradox is found in two places: (1) PGW’s proposed level of expenses, and (2) PGW’s proposed level of

¹ PGW’s requested DSC ratio is 2.73 x. PGW M.B. at 17.

construction spending. The OCA's recommended adjustments to PGW's proposed expenses are discussed in the OCA's Main Brief (pgs. 23-49) and will be discussed further in Section III. B. of this Reply Brief. The OCA's recommended adjustments to PGW's proposed level of construction spending are discussed in the OCA's Main Brief (pgs. 18-21) and will be discussed further in the next section of this Reply Brief.

The OCA submits that PGW's proposed expense and construction spending levels are unreasonable and significantly overstated. Adopting the OCA's recommended adjustments in these two areas will allow PGW to remain financially stable through the FPFTY. The OCA's adjustments are reasonable, based on the facts, consistent with past Commission decisions and should be accepted in this case.

2. The OCA's Proposed Construction Expenditures Are Based on the Record Evidence, Consistent with Historical Spending and Should be Accepted.

PGW proposed nearly \$207 million in Net Construction Expenditures in the 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 approximately \$36 million, or 21% more than that spent in the year prior. OCA

St. 2 at 11. OCA witness Dr. Griffing testified that PGW's proposed spend should be reduced by \$25 million. *Id.* After further study and review of rebuttal testimony, in Dr. Griffing's Surrebuttal Testimony he revised the recommended reduction to Net Construction Expenditures to \$17.108 million. OCA St. 2SR at 2.

PGW argued that both witnesses' (Dr. Griffing and I&E witness Patel have similar adjustments) adjustments were "arbitrary" and "unsupportable". PGW M.B. at 34. PGW also

argued that “Neither witness made any real attempt to explain their arbitrary adjustments.” *Id.* PGW is wrong on the facts.

Dr. Griffing started his analysis of PGW’s construction spending by reviewing the years before the Covid-19 pandemic. As Dr. Griffing testified:

Actual New Construction Expenditures were \$123.4 million in fiscal year 2017-2018, \$100.5 million in fiscal year 2018-2019, and \$119.7 million in fiscal year 2019-2020. COVID’s onset was in the last half of FY 2019-2020. These amounts are much less than the those proposed by PGW in this docket.

OCA St. 2 at 11 (footnote omitted). The review of these actual numbers, and Dr. Griffing’s review of PGW’s proposed spending for the FTY and FPFTY resulted in his initial recommendation to reduce the FPFTY amount by \$25 million. *Id.* In response to PGW rebuttal that the adjustment was unsupported, Dr. Griffing testified that:

My actual observation about the trend in PGW’s Net Construction Expenditures was that the HTY amount is about \$151 million and the FTY amount is roughly \$170 million. I then noted that the FY 2024 (FPFTY) requested amount is almost \$207 million and that this increase is about 21 percent. My revised recommendation relies on expanded, more detailed analysis of the growth requested by PGW.

OCA St. 2SR at 3. Referring to his Schedule MFG-SR-2, Dr. Griffing explained that:

This schedule shows fiscal year actual, requested, and projected Net Construction Expenditures amounts presented by Mr. Golden in PGW St. No. 2, Schedule JFG-2 in his PGW 2020 Rate Case Direct Testimony and the current PGW 2023 Rate Case Direct Testimony. I supplemented Mr. Golden’s amounts with actual amounts spent by PGW in certain fiscal years. The sources for these supplementary amounts are reports concerning the audits of PGW prepared by KPMG, LLC. One of the reports covered fiscal years 2018 and 2019, while the other covered fiscal years 2021 and 2022. The schedule also includes debt service coverage ratios, actual and proposed, for PGW.

The schedule shows net construction expenditures percentage changes year over year for amounts associated with the current PGW 2023 rate case. It also shows amounts and year over year percentage changes for net construction expenditures for the PGW 2020 rate case. Returning to the 2023 rate case data, please note that 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. As noted above, the increase for the two years is 36.9 percent and \$55.8 million in absolute terms. Subsequently, I identified \$25.0 million (since revised to \$17.1 million) as a reduction that PGW could make that was consistent with my 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). Therefore, while the \$25.0 million was not tied to any specific projects, it was not arbitrary. It addressed PGW's cash flow and recognized, as outlined more fully below, that PGW has a history of projecting the need for more construction-related cash flow than it actually spends.

OCA St. 2SR at 3-4 (footnote omitted). As discussed by Dr. Griffing, his initial \$25 million reduction to PGW's proposed construction spending is neither arbitrary nor unsupported. Further, Dr. Griffing provided evidence in his Schedule MFG-SR-2 to show that PGW has a history of over projecting its construction expenditures, as follows:

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.

OCA St. 2SR at 4-5.

As Dr. Griffing's testimony shows, the OCA's adjustment to PGW's proposed level of construction spending is based on the facts of this case and PGW's actual previous years' spending. PGW's assertions that this adjustment is "arbitrary" or "unsupported" are without merit. PGW also asserted in its Main Brief that "Mr. Golden showed that both witnesses' arbitrary disallowances [of construction spending] were completely unsupportable and would reverse a long-term *PGW* policy of attempting to fund 50% of its capital budget through IGF." PGW M.B. at 34. As PGW spends only one paragraph and one footnote in its Main Brief discussing the entire construction spend issue, some further clarity is called for. *Id.* (emphasis added).

As stated in its Main Brief, PGW has an aspirational policy of attempting to use internally generated funds (IGF) to pay for 50% of its capital budget. It is important to be clear that PGW's

IGF is cash from rate payers. As Dr. Griffing showed in his testimony, this level of IGF for construction purposes is based on an overstated level of spending as compared to prior periods. OCA St. 2SR at 4-5. The inclusion of this level of IGF also leads to a significant overstatement of PGW's actual cash needs, and thus leads to a proposed revenue increase that is much higher than needed. Thus, PGW's overstatement of spending compared to actual spending in prior years results in a proposal by PGW that seeks to charge customers more in rates to generate funds that PGW is not reasonably likely to need or use. This is confiscatory policy at its worst.

Further, PGW fails to adequately account for the existence of its \$120 million Commercial Paper Program as a source of short-term funding for capital projects. Although, PGW witnesses testified that the Company can "issue short-term notes to address working capital requirements, capital projects, and other project costs" PGW St. 3R at 5. PGW witnesses have also testified that the 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." *Id*; see also, I&E M.B. at 11-15. As I&E witness Patel testified, PGW's full \$120 million Commercial Paper is fully available to PGW to supplement its cash needs or for financing capital projects as may be required. I&E St. 1-SR at 17-18.

3. Conclusion

The OCA's recommended DSC ratio of 2.40 is more than sufficient for PGW, considering the year end cash and days of cash on hand as testified to by OCA witnesses Griffing and Mugrace. PGW's projected levels of expenses are unsupported, and the appropriate adjustments recommended by the OCA in its Main Brief and the following section should be adopted. PGW's aspirational policy of using ratepayer funds as IGF to fund its bloated construction spend is not reasonable and should be rejected particularly in light of the fact that PGW has a Commercial Paper program that is available to smooth any cash flow needs for capital projects that cannot be

funded with IGF in the short term. The adoption of the OCA's recommended \$16.5 million increase, along with the other OCA recommendations will allow PGW to remain financially stable through at least the FPFTY. Should PGW's financial situation unexpectedly change, the Company can always file another rate case at such time as its business situation may require.²

B. Expenses

1. PGW's Proposed CIS Contingency Costs Should be Disallowed as These Costs are Speculative in Nature and are Not Known or Measurable.

The OCA has proposed disallowing the \$7,119,731 of contingency costs PGW has included in its expenditures for its new Customer Information System (CIS), which has a total cost of \$61.662 million. OCA M.B. at 45. OCA witness Mugrace testified that these costs should not be recovered because they are, by nature, estimates and are not known and measurable. He characterized them as costs typically included in a budget to represent uncertainty and compensate for the unpredictability of risk exposure. OCA St. 1 at 57. In its M.B., PGW argues that the contingency costs should be allowed because it is reasonable for PGW to include a reasonable allowance for contingencies in the FPFTY to account for potential cost over-runs. PGW M.B. at 21-22. PGW's argument is tantamount to saying that PGW should be able to recover the costs because it should be able to ensure that *any* uncertainty, risk of cost overrun, or unknown is planned for even if not foreseeable or likely to occur. This is inconsistent with case law and sound ratemaking policy.

In its M.B., the OCA cited and quoted from *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

² The OCA notes that in the separate WNA proceeding, ALJ Marta Guhl issued a Recommended Decision that provides PGW's WNA mechanism should continue in its present form, with the only correction being that the month of May should be excluded from the WNA. *Pa. PUC v. PGW*, R-2022-3034229, P-2022-3034264 (RD July 19, 2023). PGW has consistently argued that the WNA is a revenue stabilizing device, and as such, the continuation of the WNA provides yet another reason why a moderate revenue increase as recommended by the OCA should be accepted in this case.

contingency costs related to its nuclear decommissioning plan. OCA M.B. at 45-46. The OCA also draws the Commission's attention to its decision in *Joint Petition of Metropolitan Edison Company, et al. for Consolidation of Proceedings and Approval of Energy Efficiency and Conservation Plans*, 2009 Pa. PUC LEXIS 2255 (Order Oct. 28, 2009) (*Met-Ed*) where it ruled against a contingency reserve the utilities proposed in connection with implementation of their Energy Efficiency and Conservation plans. There the Commission stated:

We realize that the vast majority of all administrative and common costs are estimated. However, we do not agree with assessing ratepayers for contingencies that the Companies have characterized as unforeseen. It is our considered opinion that the inclusion of unmeasurable, unforeseen costs within rates to be recovered from ratepayers is unjust and unreasonable...Accordingly, we will disallow the proposed contingency reserve and order the Companies to revise their Plans, and the accompanying cost recovery mechanism, to remove the contingency reserve from the estimated cost of the Plans and the calculation of the recovery rate developed herein.

Met-Ed at 141-142.

While PGW seems to imply that contingency costs should be recoverable as a matter of routine, it is clear that the Commission has closely scrutinized such claims in the past and the OCA urges it to do so here. The OCA's recommendation that these costs be denied should be adopted. PGW has made no showing that these costs are anything other than a speculative buffer against uncertainty, which is not a recognized category of costs for ratemaking purposes. Accepting the OCA's adjustment would result in an expense adjustment of \$7,119,732. *See* Sch. DM-SR-18.³

2. PGW Has Failed to Carry its Burden of Proof as to its Projected Employee Levels for the FPFTY.

PGW's claim for Salary and Wages for the FPFTY is \$121,523,000. OCA St. 1 at 58. The OCA recommended that this amount should be reduced to reflect the number of employees reasonably projected to be employed in the FPFTY. OCA M.B. at 36-37. This recommendation

³ The contingency adjustment is included in the Net Construction Expenditures on line 18.

was based on OCA witness Mugrace's determination that a vacancy ratio should be applied to PGW's employee headcount and, in turn, to PGW's Salary and Wages expense. As explained in OCA Statement 1 at 59 and OCA Statement 1SR at 7, Mr. Mugrace used a vacancy ratio of 2.95% to calculate his proposed adjustment (\$3.582 million) to Salary and Wages. In its M.B. PGW argues against any such adjustment. PGW maintains that its employee head count is trending up and that it is adding new employees at the rate of roughly 5 per month. PGW states that its headcount on June 30, 2023, was 1,587 and that its projection of achieving a headcount of 1,637 employees in the FPFTY is reasonable. PGW M.B. at 22.

In response, the OCA noted in its M.B. that PGW had not provided any evidence to back up its assertion that its hiring rate was roughly five employees per month. OCA M.B. at 37. Moreover, the OCA would observe that for businesses the size of PGW, it is inevitable that vacancies will occur throughout any given year, whether due to retirement, medical leaves of absence, parental leave, voluntary or involuntary separations or other reasons. It is therefore appropriate to utilize a vacancy ratio because at any given time, a company such as PGW will always have a level of unfilled employee vacancies. This is inherent to the business environment. The OCA also points the Commission to its recent 2021 Columbia rate case decision. *Pa. PUC v. Columbia Gas of Pa., Inc.*, R-2020-3018835 (Order Feb. 19, 2021) (*Columbia 2021*). In *Columbia 2021* the Commission agreed with the OCA's proposed employee complement adjustment based on uncertain and varying employee counts. *Columbia 2021* at 67-71. Accordingly, the OCA submits that it is appropriate to utilize a vacancy ratio, as recommended by the OCA, when establishing Salary and Wages expense for ratemaking purposes. Accepting the OCA's adjustment would result in an expense adjustment of \$ \$3,582,144, saving ratepayers from paying for vacancies that are not likely to be filled. *See* Sch. DM-SR-20, ln. 19.

3. PGW's Claim for Lobbying Expense Should be Disallowed.

The OCA has recommended disallowing PGW's \$100,000 claim for lobbying expenses. OCA St. 1SR at 8; OCA M.B. at 27-29. In its Main Brief, the OCA argues that including lobbying expenses in rates violates Section 1316 of the Public Utility Code (66 Pa. C.S. § 1316). OCA M.B. at 27. In its Main Brief, PGW repeats the arguments made in its Rebuttal Testimony for including these expenses in rates. Essentially PGW maintains that as a municipal utility it is obligated to maintain lines of communication with other parts of government and that its government relations efforts assist in obtaining information and appropriate funding for consumer programs such as LIHEAP. PGW states that its lobbying activities directly benefit customers. PGW M.B. at 22-23. PGW asserts that the Commission has discretion to determine that where customers directly benefit from lobbying activities, the expenses associated with those activities should be included in rates. *Id.* at 23.

In its M.B., the OCA cited several cases in which the Commission ruled against the inclusion of lobbying expenses in rates. *See* OCA M.B. at 28-29. Importantly, among the cases cited, were two previous PGW rate cases in which the Commission denied lobbying expense recovery. *Pa. PUC v. Philadelphia Gas Works*, No. R-00006042 at 65-66 (Order Oct. 4, 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). In the latter, the Commission rejected PGW's argument that the Commission should exercise its discretion to grant a waiver of Section 1316 and allow PGW to collect lobbying expenses pursuant to Section 2212(c) of the Code (66 Pa. C.S. § 2212(c)). The Commission found that PGW had failed to present compelling reasons to grant such a waiver and thereby change its prior denial of including lobbying expenses in rates. *Id.*

In the face of a clear statutory provision against including lobbying expenses in rates and applicable Commission precedent which rejected arguments made by PGW that were similar or identical to those made in the instant case, the Commission should disallow PGW's \$100,000 claim for lobbying expenses. *See* Sch. DM-SR-9, ln. 96.

4. Rate Case Expenses

The OCA is not contesting PGW's proposed recovery of its rate case expenses.

5. As PGW is Guaranteed Full Recovery of its COVID-19 Expenses, a Five-Year Recovery Period is Reasonable.

The OCA recommended that PGW's COVID-related expenses be amortized over a five-year period rather than the three-year period proposed by PGW. OCA M.B. at 25-26. In its M.B., PGW states simply that the OCA's longer amortization period is unreasonable, and it ties its three-year amortization to the frequency of its rate filings. PGW M.B. at 26. PGW's Brief explained that it proposed a five-year recovery for rate case expense in this proceeding only because it was required to do so by a ruling of the Philadelphia Gas Commission that expenses be amortized over five years for PGW budgeting purposes. PGW M.B. at 23-24. Nevertheless, that is what the Company has proposed, and it is in reliance on that proposal that OCA witness Mugrace based his recommendation for a five-year amortization period for COVID-related costs. OCA St. 1 at 53; OCA St. 1SR at 9. Despite PGW's characterization of a five-year amortization period as unreasonable, Mr. Mugrace explained the rationale of his proposal, as follows:

I am continuing to recommend recovery of COVID-19 costs over a five-year period mirroring the recovery of rate case expenses over the same five-year period. Given that the Commission has authorized the creation of a regulatory asset for COVID-19 related expenses, PGW will be able to recover these costs in totality, but over a longer period of time. A longer recovery of these costs benefits ratepayers through reduced rates while allowing PGW to totally recover these costs, just over a longer period of time. Given that these costs were extraordinary (unusual in nature and infrequent in occurrence), PGW will not have additional COVID-19 costs accrued prospectively and will not have a significant impact on its operations or cash on hand.

OCA St. 1SR at 9. The OCA submits that its approach is not only reasonable but is in the best interest of customers. PGW will be allowed to fully collect deferred COVID costs, it is just a matter of whether they collect over 36 months at a higher cost to ratepayers over the next 3 years or over 60 months at a lower cost to ratepayers over the next 5 years. *See* Sch. DM-SR-11.

6. PGW's Inflation Adjustment is Unsupported and Should be Denied.

As explained in PGW's M.B., as part of its budgeting process, PGW asks each of its departments 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, but the specific level of increase cannot be separately and specifically determined, it applies a general inflation adjustment of 4.63% to those costs for the purpose of determining the FPFTY budget. PGW M.B. at 26. According to PGW witness Golden, the general inflation adjustment was applied to \$62.5 million of projected operating expenses. PGW St. 2-R at 38. This resulted in an inflation adjustment as to these expenses of \$2.89 million, which the OCA recommended be disallowed. OCA St. 1SR at 10.

In its M.B., PGW asserts that the Commission allows targeted adjustments to reflect higher prices.⁴ PGW states that its adjustments are not speculative because they relate to actual costs expected to be incurred in each affected expense account in the FPFTY. PGW M.B. at 26. Notably, PGW refers to its adjustment as a "generic inflation adjustment." *Id.*

OCA witness Mugrace cautioned against using such generic inflation factors in setting rates. He testified that:

Inflationary costs do not provide a true picture of cost adjustments (increases or decreases) because they are applied to a general basket of goods and services that

⁴ PGW cites no legal authority for this bald assertion.

may or may not be incurred by PGW. Inflationary costs cannot be precisely determined because there is no way to pinpoint a particular cost and determine whether that particular cost has been affected by the use of an inflation factor.

OCA St. 1SR at 10.

In its Main Brief, the OCA cited several cases for the proposition that the Commission requires specificity by the utility when using an inflation factor and that it has disallowed inflation factors that are too speculative. OCA M.B. at 24. The OCA also cited *Pa. PUC v. Aqua Pa. Water Co.*, 2022 Pa. PUC LEXIS 161, *62-63 (Order May 16, 2022) (*Aqua 2022*) in which Aqua proposed using a “General Price Level Adjustment” to reflect the anticipated effect of inflation on approximately 22% of its operating expenses that were not specifically adjusted, very similar to what PGW has proposed here. In that case, the OCA argued that Aqua’s adjustment was a blanket inflation adjustment that did not use a targeted approach and recommended its disallowance. In the Recommended Decision in the case, the ALJ agreed with the OCA and removed the full amount of the inflation adjustment from Aqua’s revenue requirement. The ALJ stated that:

While it may be simpler for Aqua to simply use a general inflation factor for a block of expenses, its simplicity belies the fact that Commission precedent requires specificity if an inflation factor is utilized. To permit a large, sophisticated utility like Aqua in this modern age to use a general inflation factor on a group of expenses as proposed here would incentivize less accurate tracking of expenses and would disincentivize Aqua from controlling its costs.

Aqua 2022, R-2021-3027385 R.D. at 70. (Issued Feb. 18, 2022). In its Order in the case, the Commission adopted the ALJ’s reasoning and result and held that Aqua’s application of a General Price Adjustment to 22% of expenses is neither targeted nor specific. *Aqua 2022* at *63. The Commission also said that it agreed with the ALJ that Aqua had not justified the use of a general price level adjustment to expenses that had not been specifically adjusted in this case or were not subject to inflation. *Id.*

In its decision in *Aqua 2022*, the Commission cited to *Pa. PUC et al. v. Wellsboro Electric Company*, R-2019-3008208 (Order April 29, 2020) (*Wellsboro 2020*). There, the Commission also agreed with the ALJs' recommendation to deny the Company's request to apply a blanket three percent inflation factor to all of its operating and maintenance expenses in the FTY as a basis for determining its FPFTY projection. The Commission stated:

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. [Citation omitted] In our view, the ALJs' recommendation to reject Wellsboro's position is reasonable and consistent with applicable law.

Wellsboro 2020 at 40.⁵

In keeping with these well-reasoned precedents, the OCA submits that the Commission should deny PGW the \$2.89 million generic inflation adjustment it has proposed in the instant case. *See* Sch. DM-SR-2, ln. 43.

7. The OCA's Adjustment to PGW's Incentive Compensation Claims is Well Supported and Consistent with Commission Precedent.

At issue is the \$65,000 claim PGW has made in connection with its Contract and Retention Bonus incentive program for its CEO and Acting CFO. The OCA has proposed that \$21,666 of the total be disallowed. In PGW Exh. JFG-8, PGW identified the six goals applicable to the Contract and Retention Bonus program. OCA witness Mugrace reviewed these goals and found that of the six goals, four are related to customer satisfaction, efficiency, workforce satisfaction

⁵ The Commission has only allowed inflation adjustments where the utility has demonstrated that the adjustments are adequately supported and relatively conservative. *Pa. PUC v. Philadelphia Suburban Water Company*, 2002 Pa. PUC LEXIS 55, at *53-55 (Order July 8, 2002); *Pa. PUC v. United Water Pennsylvania, Inc.*, 1998 Pa. PUC LEXIS 6, at *29-32 (Order Jan. 30, 1998); *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, 1990 Pa. PUC LEXIS 162, at *37-44 (Order Sept. 20, 1990); *Pa. PUC v. Pennsylvania-American Water Company*, 1988 Pa. PUC LEXIS, at *53-56 (Order Oct. 21, 1998).

and PGW's role in transitioning to a clean energy future. As such, Mr. Mugrace stated, they are likely to yield benefits to customers. The remaining two goals – generating increased revenue and increasing the diversity of PGW suppliers – Mr. Mugrace described as not likely to benefit customers. He testified:

I believe [these] 2 goals should be disallowed because they are related to financial performance and business decisions that accrue to PGW and may not benefit the ratepayers. I don't believe that ratepayers should be required to pay for costs that relate to increasing revenue streams and enhancing PGW's business image. With respect to supplier diversity, I believe this is a business decision that may or may not benefit ratepayers in the provision of natural gas service.

OCA St. 1SR at 11-12. In its Main Brief, PGW opined that all of the goals benefit ratepayers. PGW M.B. at 28.

The Commission has found that to be included in rates, incentive compensation plans must be reasonable, prudently incurred and not excessive in amount. In addition, they should be focused on improving operational effectiveness and provide a benefit to customers. *Pa. PUC v. PPL Elec. Util. Corp.*, R-2012-2290597 (Order Dec. 28, 2012) (*PPL 2012*), *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 this case, PGW has not provided sufficient evidence to determine whether the incentive compensation goals related to revenue enhancement and supplier diversity will benefit customers.

As explained in the OCA's Main Brief, Mr. Mugrace assigned 1/6th of the total \$65,000 to each of the six goals arriving at amount equal to \$10,833 per goal. Because he found two of the goals lacking in sufficient evidence regarding benefit to customers, he recommended that \$21,666 be disallowed. The OCA recommends that the Commission adopt this reduction to PGW's revenue requirement. *See* Sch. DM-SR-20, ln 4.

8. PGW's Advertising Expense Claim is Unsupported and Should be Denied.

In its Main Brief, the OCA recommended disallowance of two components of PGW's proposed advertising expenses for the FPFTY totaling \$467,500. OCA M.B. at 26. The OCA proposed disallowing 50% of the Advanced Marketing Campaign expense of \$779,000 or \$389,500, and the entire \$78,000 expense related to the Diversification of New Revenue campaign, which PGW indicates will support customer communication related to Renewable Natural Gas and low carbon product opportunities for customers. *Id.* at 27.

In its Main Brief, PGW maintains that it has met its burden of proof by fully describing and supporting these advertising efforts in the record. Accordingly, PGW opposes any disallowance of these expenses. PGW M.B. at 28.

As described in the OCA's Main Brief, the Advanced Marketing Campaign consists of three initiatives: Fueling the Future; Online Appointment Scheduling; and Main Replacement customer outreach. OCA M.B. at 27. OCA witness Mugrace noted that of these initiatives, PGW provided advertising examples for only the Fueling the Future program. For the Online Appointment Scheduling and Main Replacement programs, which will launch in 2024, PGW provided no advertising examples. The same was true for the Diversification of New Revenue campaign. *Id.* Under these circumstances, Mr. Mugrace testified that "it is impossible to determine whether the costs are reasonable and provide benefits to ratepayers." OCA St. 1SR at 16. Mr. Mugrace also noted with respect to the Advanced Marketing Campaign, that there was no way to determine how much each of the three initiatives costs individually. *Id.* Lacking that information and recognizing that PGW supplied advertising examples for Fueling the Future, Mr. Mugrace recommended that 50% of the Advanced Marketing Campaign be approved and 50% be denied.

As noted above, he also recommended that the full cost of the Diversification of New Revenue program be denied.

In recommending these denials, the OCA refers to Section 1316(c) of the Public Utility Code (66 Pa. C.S. § 1316(c)) which requires a public utility seeking a rate increase to file a listing of each type of advertising to be prepared, distributed and presented by the utility during the test year, and a listing of each type of advertising prepared, distributed or presented by the public utility during the year immediately preceding the test year, as well as an accounting of the expenditures by the utility for such advertising. The OCA submits that contrary to PGW's position, PGW has not met its burden of proof as it has not supplied sufficient information with regard to the Online Appointment Scheduling, Main Replacement or Diversification of New Revenue programs to determine whether these programs will provide a direct benefit to ratepayers as required by Section 1316(a)(5). 66 Pa. C.S. § 1316(a)(5). The OCA also points to *Pa. PUC v. UGI Utilities, Inc.*, 1994 Pa. PUC LEXIS 137, *111-112 (Order July 27, 1994) (*UGI*), where the Commission disallowed certain advertising expenses because their actual expenditure was uncertain and because the utility's claim lacked supporting evidence of the content of the advertising. *UGI* at *111. Here, lacking sufficient content to adequately review two components of the Advanced Marketing Campaign and the Diversification of New Revenue program and determine whether they will provide benefits to customers, the OCA submits that its recommended disallowance should be adopted. See Sch. DM-SR-9, ln. 9.

9. The OCA's Pension Expense Adjustment is Well Supported, Consistent with Commission Precedent, and Should be Accepted.

In its Main Brief the OCA proposed that recovery of PGW's pension expense in this proceeding be normalized over a three-year period using the expenses levels from 2022 through 2024. OCA St. 1 at 55; OCA M.B. at 39. Normalizing this expense would result in a reduction of

the Company's pension expense of \$8.670 million. *Id.* PGW maintains that normalizing this expense will deny PGW the opportunity to recover all its known and measurable pension expenses in the FPFTY. PGW M.B. at 29. PGW argues that in making its recommendation to normalize, the OCA has focused not on the cash outlay, from year- to-year, which has remained relatively stable, but on the variability of the GASB 68 amortization changes. PGW states that this amortization is based on an actuarial valuation. *Id.*

Nevertheless, while there has been greater variability in the GASB 68 amount, PGW's claim for pension expense includes *both* the cash outlay and the GASB 68 amortization amount, and as OCA witness Mugrace pointed out, PGW's pension expense in the HTY 2022 was \$20,675,127 and its proposed expenditure in the FPFTY is \$44.759 million, which represents an increase of 117.05% over a two-year period. OCA St. 1 at 54. Mr. Mugrace also cited information PGW provided in discovery that showed its pension expense for the years 2018 through 2022. In those years, the Company's pension expenses were \$43.2 million (2018), \$30.3 million (2019), \$19.5 million (2020), a credit of \$3.1 million (2021) and \$20.7 million (2022). OCA St. 1 at 54-55, *citing* I&E RE-2-38. Thus, there can be little doubt that the full amount of PGW's pension expense, the amount customers are asked to pay, has experienced wide fluctuations over the years. Accordingly, the need for the expense to be normalized so that ratepayers are not paying artificially high or artificially low rates to recover these expenses.

In Surrebuttal testimony, Mr. Mugrace stated that while he understands that PGW bases its pension contributions on the recommendation of the City's Director of Finance and that it must comply with GASB 68, there should also be consideration given to prior contributions and the variability of the contributions from year-to-year. OCA St. 1SR at 14. In its Main Brief, the OCA cited *Pa. PUC v. Total Environmental Solutions, Inc. – Treasure Lake Water Division*, 2008 Pa.

PUC LEXIS 1227 *100 (*TESI*), where the Commission referred to the ALJ's explanation of the purpose of 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. The OCA submits that the evidence in this case strongly demonstrates that PGW's pension expense, though regularly occurring, fluctuates significantly from year-to-year and that normalization of this expense is appropriate and consistent with sound ratemaking principles. The OCA's recommendation for a three-year normalization should be adopted. *See* Sch. DM-SR-13, ln. 1.

10. PGW's OPEB Expenses Vary Widely and Consistent with Proper Ratemaking Should be Normalized.

As it did with pension expense, the OCA argued in its Main Brief for normalization of PGW's expense for OPEBs over a three-year period using the expenses levels from 2022 through 2024. OCA M.B. at 41-42. The OCA's recommendation was based on the amounts shown in PGW's income statement for OPEBs. OCA St. 1 at 56. 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 both rebuttal testimony and in its Main Brief, PGW maintains that the amount shown on the income statement for OPEBs does not represent PGW's cash outlay or funding requirement

for OPEBs. PGW St. 2-R at 50; PGW M.B. at 30. PGW says that as a cash flow utility, only its cash outlays for OPEBs should be considered for ratemaking purposes. PGW St. 2-R at 50. PGW includes a table that shows the Company's actual cash outlay for 2022 as \$43.490 million, and projections for 2023 and 2024 of \$60.349 million and \$58.019 million respectively. PGW's table also shows the cash outlays for 2020 and 2021 -- \$36.243 million and \$47.782 million respectively. PGW M.B. at 30. The OCA observes that the increase in cash outlay between 2022 and 2023 amounts to 38.7%, followed by a decrease of 3.8% from 2023 to 2024.

The OCA submits that even if one considers the amount of the yearly cash outlay for OPEBs, as PGW says is appropriate, the fluctuations in the amounts from year-to-year, as is the case with pension expenses, make a strong case for normalizing OPEBs. Further, in *Butler Twp. Water Co. v. Pa PUC*, 473 A. 2d 219 (Pa. Commw. Ct. 1980) (*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. Here, PGW's numbers vary widely. In accord with *Butler Twp.*, PGW's OPEB expense should be normalized over a three-year period as recommended by OCA witness Mugrace. See OCA Sch. DR-SM-15, ln. 8.

11. The OCA's Health Insurance Expense Adjustment is Based on Actual Numbers and Should be Accepted.

Observing the variation in the actual and projected rate of change in health insurance expense for the years 2021 through 2024, the OCA maintained that it would be speculative to grant PGW the amount (\$27.715 million) it projected for the FPFTY. OCA M.B. at 42-44. Instead, OCA witness Mugrace recommended utilizing information published by the Center for Medicare and Medicaid Services (CMS) to set the amount of health insurance expense for the FPFTY. OCA St.

1 at 50-51; OCA M.B. at 42-44. The CMS report found that the annual growth in national spending for private health insurance for the years 2021 through 2030 is expected to be 5.7%. *Id.* Mr. Mugrace used that percentage to determine PGW's health insurance expense for the FPFTY.

In its Main Brief, PGW repeats the arguments it raised against Mr. Mugrace's approach in its rebuttal testimony. PGW M.B. at 31; PGW St. 2-R at 52-54. In essence, PGW asserts that it is inappropriate to utilize a national projection or average regarding Medicare and Medicaid when the information PGW used to project its FTY and FPFTY health insurance expense was supplied by an independent actuarial consultant and reflects market and demographic data that are specific to PGW's situation and therefore more appropriate than national data. PGW M.B. at 31.

Mr. Mugrace testified that although PGW referred to relying on data and market information specific to PGW's situation, the Company provided no additional information related to those specifics. OCA St. 1SR at 17. OCA witness Mugrace justified his position, as follows:

Health Insurance has fluctuated greatly over the years especially during the COVID-19 pandemic. As shown in response to I&E RE-1-24 these costs have increased from a high increase of 10.44% from 2021 to 2022, and 11.60% in 2023, to a low of 1.54% in 2022 and 7.67% in 2024. (Schedule DM-SR-10). My adjustment starts with PGWs actual health insurance costs of \$23,063,835. The projected costs for health insurance in FY 2023 and FY 2024 as identified by PGW are just projections. PGW's specifics do not justify the fact that all entities and companies face changes in health care insurance. Mr. Golden did not provide any other information regarding PGW's specifics or situation. While I agree that Health Insurance is expected to increase over time, I do not believe that PGW's health insurance will rise to levels greater than the national average, nor to the level that Mr. Golden has testified to. I note that Mr. Golden has indicated that private health insurance as shown in the CMS.Gov website shows a 5.7% increase for private insurance. I will adjust my 2022 PGW balance for Health Insurance by 5.7% to arrive at an adjustment of \$24,378,474, an increase of \$138,383 from my direct testimony balance of \$24,240,091 (Schedule DM-SR-10).

OCA St.1SR at 17.

As noted in the OCA's Main Brief, Mr. Mugrace is of the opinion that PGW's increase in health insurance expense will not exceed the national average nor does he think the Company's

expense for the FPFTY will reach the level projected. OCA St. 1SR at 17; OCA M.B. at 43-44. In view of the variability of health insurance expense over the years and the fact that PGW has not provided further detailed information related to its projections, the OCA again submits that using a reputable source of national averages for future health care spending is a reasonable means of projecting PGW's FPFTY expenditure and, accordingly, the OCA's method and adjustment should be adopted. *See* Sch. DM-SR-10, ln. 1.

12. The OCA's Proposed Normalization of Various PGW Expense Categories is Reasonable Based on the Significant Variations in Those Expenses as Detailed in the Record.

The OCA's Main Brief provided detailed information regarding its proposed adjustments to PGW's expenditures in a number of expense categories, most notably, PGW's Administrative and General expenses. OCA M.B. at 29-36. In each instance, those adjustments were based on the OCA's recommendation that the expenses be normalized over a three-year period. As the OCA explained, it recommended normalization only where there was significant variation in the level of an item of expense from year-to-year. In its Main Brief, the OCA offered specific examples of the type of expense items for which it recommended normalization. OCA M.B. at 32-34. Each example showed how PGW's expenditures can vary substantially from year to year, including in both positive and negative directions. This variability is the basis of OCA witness Mugrace's recommended normalizations. OCA St. 1 at 17. It is important to note that in every instance, Mr. Mugrace's three-year normalization adjustment was calculated over the period 2022 through 2024. *Id.*; OCA M.B. at 30. The recommended normalizations thus included actual expense for the 2022 HTY and PGW's projected expenditures for the FTY and FPFTY. OCA St. 1 at 17.

In its Main Brief, PGW characterizes the normalization adjustments as being based on historic averages, and it cautions against the use of such averages when setting rates for a future

test year. PGW M.B. at 31-32. PGW further characterizes normalization as “looking backwards” to set expense levels for the future. *Id.* at 32.

This criticism is misplaced. As noted, Mr. Mugrace relied on only one year of historic data in calculating his adjustments. For the second and third year he relied upon PGW’s own projections. OCA St. 1SR at 12-13.

As for the appropriateness of the Commission employing normalization adjustments in the first place, the OCA cited *TESI* in which the Commission referred to the ALJ’s explanation of the purpose of 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 *100. OCA M.B. 35-36. The OCA also cited *Pa. PUC et al. v. PECO Energy – Gas Division*, 2021 Pa. PUC LEXIS 241 at *56, 59 (*PECO Gas*) to provide a concrete example of a case where the Commission adopted the recommendations 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. *Id.* at 36.

The OCA submits that the normalization adjustments it has proposed in this proceeding are reasonable, appropriate and serve the purpose of normalization as articulated in *TESI*. As shown in detail in the OCA’s Main Brief at pages 31-32, the OCA is not recommending a total disallowance of these costs, but rather employing sound ratemaking principles to adjust PGW’s proposed expense levels. PGW’s expenses in these categories represent wide variations from year to year. As such, normalization is the proper treatment. Accordingly, the OCA’s recommended adjustments should be accepted. *See* Sch. DM-SR-9; OCA M.B. at 30-31.

C. Rate Structure

1. Cost of Service

- a. PICGUG's and OSBA's Customer Demand Studies do not Reflect Proper Cost Causation Principles for PGW and Should be Rejected.

OCA witness Glenn Watkins reviewed PGW's proposed A&E CCOSS in this matter and after creating several other CCOSS models, concluded that the results of PGW's CCOSS produced reasonable results. OCA St. 3 at 2. Accordingly, the OCA is not challenging PGW's A&E CCOSS in this case.⁶ Other Parties, specifically PICGUG and OSBA argue for the use of a CCOSS that includes a customer demand (CD) component for the allocation of Distribution mains costs. PICGUG M.B. at 7; OSBA M.B. at 16. These CD studies are inconsistent with decades of Commission precedent, fail to follow principles of cost causation for natural gas distribution companies (NGDCs) like PGW and should be given no weight in this case. OCA M.B. at 52-56.

OSBA argues that the Commission has approved numerous CCOSS methods for NGDCs, including some reflection of a customer component, and concludes that "precedent provides little value for evaluating this debate."⁷ OSBA M.B. at 15. PICGUG argues that not including a customer component in allocating the cost of distribution mains "is contrary to both cost causation principles and accepted practice." PICGUG M.B. at 17.

⁶ Mr. Watkins did note in his testimony that the Peak & Average (P&A) method is generally preferred for NGDCs like PGW. OCA St. 3 at 13. Based on the similarity of results for all of the CCOSS that Mr. Watkins created, however, the OCA is not going to argue the merits of using the P&A method as opposed to the A&E method in this particular case.

⁷ The OCA notes that in making this statement OSBA relies on Mr. Knecht's direct testimony where he attempts to rely on the settlement of the 2022 Columbia Gas case to make the argument that the Commission has at least implicitly accepted the use of a customer component for the allocation of mains costs. OSBA St. No. 1 at 24, *citing Pa. PUC v. Columbia Gas of Pennsylvania, Inc.* R-2022-3031211 (Order Dec. 8, 2022). The Commission should strongly reject OSBA's assertions that somehow a settled case accepted any particular CCOSS method. The Commission has repeatedly stated that settlements should not be used as legal precedent. In *Hiko* the Commission stated "vigorously, and without equivocation, reject[s] considering a settlement as precedent, as to any subsequent issue, in any proceeding." *HIKO Energy, LLC v. Pa. PUC*, 209 A.3d 246, 265 (Pa. 2019).

OSBA's and PICGUG's general arguments for some inclusion of a customer component for distribution mains have been thoroughly rejected by the Commission in numerous cases. OCAM.B. at 53-56. Further, OSBA's statement about the value of "precedent" and PICGUG's statements about "accepted practice" are misleading, unsupported by the facts and should be rejected. It is particularly telling that neither OSBA nor PICGUG cite *any* case law in support of their respective CD studies.

OCA witness Watkins responded to both PICGUG's and OSBA's arguments as to the theoretical basis for including the nuM.B.er of customers as a component for assigning the cost of distribution mains, in relevant part as follows:

I am aware of two rationales, or arguments, used to advocate for the allocation of natural gas Mains based partially on nuM.B.er of customers.

The first argument is that, because every customer (regardless of size) must be physically connected to the utility's distribution network, there is some minimum level of investment required to simply connect customers to the distribution system; i.e., a "ready-to-serve" cost component. It is certainly true that, unless natural gas is delivered in a portable tank or cylinder, some form of a physical "pluM.B.ing" is required to deliver natural gas to each and every end-user. Indeed, this is the very purpose of the transmission and distribution systems. However, no customer connects to a natural gas system simply to be connected but never utilize natural gas, nor do utilities haphazardly install natural gas Mains where no usage is present or anticipated. Because there is no economic utility (benefit) derived from simply being connected to a system, there is no economic (or cost causative) basis for assigning some value of natural gas Distribution Mains required to simply connect customers.

The second rationale used to consider nuM.B.er of customers within the allocation of Mains relates to customer densities and differences in the mix of customers (by class) throughout a utility's service area. To illustrate, consider two different utilities: a rural electric utility with urban, suburban, and rural service areas and another utility with only urban and suburban customers. With respect to the electric utility with a rural service area, many miles of conductors and associated plant must be installed in order to serve the demands of relatively few customers. Conversely, many more customers are served on a per mile basis for the urban/suburban utility. With respect to the utility with a rural service area, such an allocation based only on usage or demand may be unfair if some classes are located mainly in urban or suburban areas, while other classes of customers are

located in urban, suburban, and rural areas. As a result, some cost studies classify distribution plant as partially demand-related and partially customer-related.

While these conceptual arguments have no economic or practical logic in my opinion, the second rationale may produce reasonable results in some instances but is rarely applicable to local natural gas utilities.

OCA St. 3R at 2-3. It is a fact that PGW serves a densely populated urban area. No Party in this case disputes that fact. Neither OSBA nor PICGUG make the argument or provide any evidence that PGW's physical distribution system has somehow changed since its last fully-litigated rate case in 2007 such that any CD CCOSS should be entertained in this proceeding.

As further evidence of the shortcomings of attempting to apply a CD CCOSS to any NGDC, including PGW, Mr. Watkins explained that:

Although the concepts are the same between electric and natural gas distribution facilities (e.g., conductors are synonymous with Mains), electric utilities are required to serve rural (sparsely populated) areas. Such requirements, however, are not in place for natural gas utilities. Moreover, electric utilities are required to connect all consumers regardless of density or usage. Such is not the case for natural gas utilities, as their tariffs allow the utility to connect only those customers in areas with sufficient customer densities and usage.

OCA St. 3R at 3. As Mr. Watkins testified, PGW only connects customers to its distribution system where the addition of that customer is economically beneficial to the system as a whole consistent with its tariff. *Id.* In those cases where the addition of a customer may involve costs that could potentially not be economically recovered from that customer, PGW will impose additional charges to ensure that connecting that customer to the system will not create a revenue shortfall that could burden other customers.⁸

There are no additional uneconomic distribution mains costs from simply connecting customers to any NGDC's distribution system, including PGW's, as this Commission has

⁸ See PGW's Current Gas Service Tariff at pages 50-51, available at: https://www.pgworks.com/uploads/pdfs/PGW_Gas_Service_Tariff_Through_Supplement_164.pdf

repeatedly held. *See* OCA M.B. at 53-56. Neither OSBA nor PICGUG have introduced any new or novel arguments as to why this Commission should upend decades of precedent that have repeatedly held there is no customer component of distribution mains. Accordingly, PGW's A&E CCROSS should be accepted in this case.

b. Based on the Record Evidence, Rate IT Customers Should be Treated as Receiving Firm Service for Purposes of Cost Allocation.

PGW proposes to allocate distribution mains costs to the rate IT class as if they were receiving firm service, since it is a fact that the IT class has not been interrupted for nearly 20 years. PGW M.B. at 38-39. PICGUG argues that treating IT customers as firm is unreasonable, as IT customers must still retain the ability to operate if interrupted according to PGW's tariff provisions. PICGUG M.B. at 8-15. The OCA agrees with PGW, as Mr. Watkins testified in response to PICGUG witness LaConte:

Ms. LaConte is of the opinion that because PGW's Distribution Mains are not designed to meet Interruptible loads, these customers should not be responsible for any peak responsibility associated with Mains. As discussed in my direct testimony, this results in a significant under-assignment of cost responsibility to Interruptible customers as these customers utilize and rely upon PGW's distribution system each and every day of the year and have not been interrupted or curtailed for many years. To put Ms. LaConte's argument in perspective, the Interruptible class's annual throughput is the second largest class in the PGW system wherein these customers use 11.63 million MCF per year. These customers enjoy PGW's distribution system for its natural gas energy needs each and every day of the year, yet Ms. LaConte's theory is that these customers should not be responsible for costs relating to peak demand.

OCA St. 3R at 6 (footnotes omitted).

In analyzing the various CCROSS, Mr. Watkins first provided PGW's results from its A&E study:

TABLE 3
A&E CCOSS Results At Current & PGW Proposed Rates

Class	ROR on Rate Base		Indexed ROR	
	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 (footnote omitted). As shown, based on PGW's A&E CCOSS Rate IT is substantially underpaying its cost to serve at present rates. Mr. Watkins created a CCOSS using the P&A method, as he described:

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.

OCA St. 3 at 14-15. Mr. Watkins' P&A study treats the rate IT class as being interruptible by not assigning any peak costs to that class. The results of Mr. Watkins' P&A study are shown in Table 5:

TABLE 5
P&A CCOSS Results At Current & PGW Proposed Rates

Class	ROR on Rate Base		Indexed ROR	
	Current Rates	PGW Supplemental Proposed Rates	Current Rates	PGW Supplemental Proposed Rates
Residential	9.00%	13.06%	116%	110%
Commercial	7.18%	10.68%	93%	90%
Industrial	7.83%	12.04%	101%	101%
Municipal	3.97%	9.07%	51%	76%
PHA-GS	6.99%	10.99%	90%	92%
PHA-R8	8.05%	10.90%	104%	92%
NGVS	-3.39%	-0.75%	-44%	-6%
Interruptible	1.05%	5.14%	14%	43%
Grays Ferry	-16.71%	-3.37%	-216%	-28%
Total	7.75%	11.90%	100%	100%

OCA St. 3 at 15.

Comparing Tables 3 and 5, even under Mr. Watkins' P&A study where the IT class is excluded from any peak costs, that class is still substantially underpaying its cost to serve. Considering the fact that the IT class has not been interrupted in almost 20 years, that class is using PGW's distribution system during peak periods. PGW's A&E CCOSS where the IT class is treated as receiving firm service is more closely aligned to cost causation. Based on the facts of this case, the OCA submits that PGW's proposal to treat the IT class as receiving firm service is justified and should be accepted.

c. OSBA's Proposal to Change the Recovery Method for Universal Service and Energy Conservation Charges Should be Rejected.

OSBA argues that universal service and energy conservation (USEC) charges should be recovered on a flat rate basis, similar to how the distribution system improvement charge (DSIC) operates. OSBA M.B. at 23. PGW and the OCA oppose the OSBA's recommendation. PGW M.B. at 40-41; OCA M.B. at 60-62. OSBA's proposal on this issue would represent a sea change in how USEC costs have continuously been recovered from before the time that PGW came under the

Commission's jurisdiction. The OCA submits that OSBA's proposal is incomplete, lacks sufficient evidentiary support and should be rejected.

As discussed in the OCA's Main Brief, OSBA witness Knecht did not present a specific revenue allocation proposal in his Direct Testimony, but rather he presented some "simulations" that not only included base rates but also included USEC costs under his proposed allocation and recovery theory. OCA M.B. at 60-62. Yet, in his surrebuttal testimony, Mr. Knecht presented a CCOSS based on the A&E method, which included a proposed revenue allocation but did not include any USEC costs. OSBA St. 1-SR at 18. As evidenced by OSBA's Main Brief, however, it appears that the OSBA no longer supports that A&E study. OSBA M.B. at 16.

OSBA now argues that the Commission should accept Mr. Knecht's CD CCOSS for allocating the costs of distribution mains in this proceeding. OSBA M.B. at 16. As to the USEC proposal, OSBA presents Table RDK-6 to show the proposed revenue allocations. OSBA M.B. at 26-27. The OSBA's USEC proposal relies on its CD CCOSS, as this is the only study that OSBA is briefing. OSBA M.B. at 16, 26-27.

OSBA's CD CCOSS should be rejected for all the reasons previously discussed in Section C. 1. a. of this Reply Brief. As shown in OSBA's Main Brief, Table RDK-6 as provided cannot reasonably be compared to the other CCOSS in this proceeding submitted by PGW and the OCA. Thus, it is not entirely possible to understand or reconcile the amounts of USEC costs to be allocated to each rate class and how that allocation affects the distribution charges. For this reason alone, the Commission should reject the OSBA's USEC proposal.

Further, as discussed in the OCA's and PGW's Main Briefs, between direct and surrebuttal testimonies, it appeared that Mr. Knecht had abandoned the USEC proposal and instead provided an A&E CCOSS and revenue allocations based on that study. OCA M.B. at 60-62; PGW M.B. at

41. As PGW argues, its witnesses Teme and Peach both rebutted Mr. Knecht's USEC proposal as set out in his direct testimony, specifically:

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

PGW M.B. at 41.

OSBA's position is unreasonable, and it has failed to put on sufficient evidence that the Commission should consider a radical change in how USEC costs are allocated and recovered in this proceeding. Accordingly, OSBA's USEC proposal should be denied.

2. Revenue Allocation

Four Parties submitted testimony on revenue allocation, OSBA, PICGUG, PGW and the OCA. As discussed in the previous sections, OSBA is recommending the use of its CD CCOSS for cost allocation and revenue allocation in this proceeding. OSBA M.B. at 16, 26-27. For all the reasons discussed in Section C. 1. a. *supra*, OSBA's CD study should not be used as a guide to allocate revenues in this proceeding. Further, the allocation set out in OSBA Table RDK-6 contains proposed combined distribution and USEC charges and cannot be reasonably interpreted or compared to the CCOSS submitted by PGW and the OCA.⁹

PICGUG argues that any revenue allocation approved in this case should assign no increase to the IT class. PICGUG M.B. at 29-30. PICGUG witness LaConte, however, provided no specific revenue allocation proposal. As such, PICGUG provides no direction as to where the revenue

⁹ The OCA notes that Table RDK-6 also contains the results of Mr. Knecht's A&E study, which includes USEC costs. It could be possible to compare the results in Table RDK-6 with the A&E study that Mr. Knecht submitted in his surrebuttal testimony, which does not include USEC costs. That said, however, the OSBA made clear in its Main Brief that it is advocating for its CD study to be adopted. OSBA M.B. at 16.

allocated to the IT class by either PGW or the OCA should be assigned in order for the IT class to get a zero increase. PGW M.B. at 44. PICGUG is supporting a CD CCOSS and is now relying on that study to argue that the IT class should be held harmless as to any revenue increase in this proceeding but has not sponsored a specific revenue allocation. PICGUG M.B. at 29-30. This is an untenable position. For all the reasons discussed earlier as to the shortcomings of CD studies, PICGUG's general proposals as to revenue allocation are unsupported and should be given no weight here.

PGW argues that its revenue allocation proposal follows its A&E CCOSS, provides reasonable movement for all classes towards cost of service and should be accepted. PGW M.B. at 45. OCA witness Watkins reproduced PGW's proposed revenue allocation in his Direct Testimony. OCA St. 3 at 18. As shown in Table 8, PGW proposes to increase the Residential class by 17.75%, and proposes an increase to the Commercial class of 16.46%. As compiled by Mr. Watkins, here are the rate of returns at present rates for all classes under every CCOSS submitted in this case:

TABLE 1

	ROR @ Current Rates								
			OCA	OCA	OCA				
	PGW	OCA	A&E	P&A	P&A	OSBA	OSBA	PICGUG	PICGUG
	A&E	A&E	w/o GF	w/ GF	w/o GF	A&E	CD	A&E	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). As shown here, the Residential class is well above its cost to serve in every study except for the PICGUG studies. The Commercial class is barely over or slightly below its cost to serve. Yet, as Mr. Watkins testified, PGW proposes to assign a larger percentage increase to the Residential class. OCA St. 3 at 20. Accordingly, Mr. Watkins proposed the following revenue allocation:

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

Class	Customer Plus Delivery Charge Revenue			% Change
	Current	OCA Proposed	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.

The OCA's recommended revenue allocation closely follows PGW's CCOSS, which the OCA accepts, only slightly changing the allocation to correct the inequity between the Residential and Commercial class allocations as proposed by PGW. The OCA's recommended revenue allocation reasonably moves all classes toward cost of service, follows an accepted CCOSS method, and should be accepted in this case.

a. The OCA's Scale Back Proposal Should be Accepted.

PGW recommends that if the Commission authorizes a revenue increase less than its full request that a proportional scale back, excluding rate GS-XLT, and if after the scale back the Residential class is still above unity then the scale back should be modified to ensure that class is below unity. PGW M.B. at 45-46. I&E agrees with PGW's proposal. I&E M.B. at 23-24.¹⁰

OCA witness Glenn Watkins proposed a slightly different scale back approach, as follows:

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 is not opposed to PGW's scale back approach, although Mr. Watkins' recommendation is likely easier to implement and make the scale back process simpler. For its part, PICGUG argues that the first \$1 million of any reduction should be allocated to Rate IT to bring that class closer to its cost of service as under PICGUG's CCOSS that class is above its cost of service. PICGUG M.B. at 30. After the \$1 million is applied to Rate IT, the remainder of the decrease should be proportionally scaled back. *Id.* PICGUG's suggested \$1 million scale back

¹⁰ The OSBA did not present a scale back proposal in its Main Brief.

proposal is unreasonable and should be rejected as it is based on its CCROSS, which the OCA has shown as a clear outlier and should not form any basis for either revenue allocation or a scale back proposal. The OCA submits that its proposed scale back should be accepted.

3. Rate Design

a. Customer Charge

PGW proposes to increase its residential customer charge in this proceeding from \$14.90 to \$19.50. PGW M.B. at 47. The OCA is opposed to any increase in PGW's residential customer charge. As Mr. Watkins testified:

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. OCA witness Roger Colton submitted substantial testimony on the negative impacts that a large customer charge increase would have on PGW's low-income ratepayers. OCA St. 4 at 33-42; OCA M.B. at 64-68. Witnesses for CAUSE-PA/TURN and POWER also testified against the proposed increase. CAUSE-PA/TURN M.B. at 13-16; POWER M.B. at 15-25.

PGW's proposed increase to \$19.50 would make it far and away the highest NGDC residential customer charge in Pennsylvania. OCA St. 3 at 23. PGW's current charge is comparable with other Pennsylvania NGDCs. *Id.* The OCA submits that the nearly 31% proposed increase violates the principles of gradualism and avoidance of rate shock and should be denied.

In its Main Brief, PGW argues that the other parties' arguments as to gradualism and the disincentive to energy conservation are without merit and have been rebutted by PGW witnesses. PGW M.B. at 47-49. PGW notes that customers enrolled in CRP will be unaffected by the increase. *Id.* PGW also argues that in the event the full revenue request is not granted, the proposed \$19.50 customer charge should not be scaled back. *Id.* at 49.

OCA witness Colton testified that increased customer charges are particularly impactful to low-income customers, as follows:

Part of the problem of maintaining bill affordability is associated with the rate increase as a whole, no matter which portion of the bill is affected. However, the problems associated with an increased customer charge are more significant because there is nothing that a household can do to avoid this monthly fee. Even if low-income customers could reduce their usage, they would not be able to avoid any part of the proposed increase in the fixed monthly customer charge.

OCA St. 4 at 36; OCA M.B. at 64-68. As Mr. Colton testified, the fixed monthly charge is unavoidable and can't be controlled through usage reduction and is also a barrier to investments in energy efficiency measures, as Mr. Colton explained:

Increasing the unavoidable fixed monthly charge impedes low-income ability to pursue energy efficiency and/or weatherization as a mechanism to reduce bills. This is not simply a matter of changing "price signals." Increasing the fixed monthly customer charge impedes energy efficiency directly.

Allow me to illustrate. PGW states that its typical residential heating bill at existing rates is \$1,504.55 per year. Its typical residential heating bill at its proposed rates will be \$1,652.81 per year. (OCA-V-47(c)). The proposed increase, in other words, yields an increase to the low-income bill of \$12.35 per month (OCA-V-47(c)). If I assume a 20% reduction in the monthly consumption, that reduction will reduce the increase to the low-income bill of only \$10.87 per month. Under PGW's proposed rates, in other words, a 20% usage reduction results in a bill savings of \$1.48 per month (or less than \$18 per year).

OCA St. 4 at 37. Mr. Colton has also thoroughly addressed PGW's arguments that CRP customers will not be impacted by the proposed customer charge increase. Throughout Mr. Colton's Direct Testimony in this case, he has shown that PGW (1) does a poor job of correctly identifying its entire low-income customer base; (2) does a poor job of enrolling qualified low-income customers in CRP; and (3) does a poor job of retaining those customers in CRP. *See generally* OCA St. 4. As OCA witness Colton testified further on the CRP issue:

If a low-income customer is *not* enrolled in CRP, they *will* be affected by the increased customer charge. As I discussed in detail in my Direct Testimony, PGW enrolls only a fraction of its income eligible customers in CRP. While CRP protects

a relatively small population, a much larger population of low-income customers not participating in CRP will be harmed by PGW's increased customer charge.

OCA St. 4 SR at 6. PGW's arguments in favor of its large customer charge increase are unpersuasive and have been thoroughly rebutted by OCA witnesses.¹¹

PGW also seeks to rely on *PPL 2012* as support for its customer charge increase. PGW M.B. at 48. In *PPL 2012*, the argument over increased customer charges was largely centered on how the Company conducted its customer charge costs analysis, an issue the OCA has not raised here. *PPL 2012* at 124-131. The more relevant precedent here is the *Columbia 2021* case.

In *Columbia 2021*, the Company proposed to increase the residential customer charge from \$16.50 to \$23.00 (an approximate 39% increase). *Columbia 2021* at 262. In its Order, the Commission cited the ALJ's conclusion on this issue as follows:

The ALJ reasoned that the proposed increase to the residential customer charge violates the principle of gradualism. The ALJ noted that Columbia's assertion that CAP will protect the low-income customers from feeling the impact of the increased customer charge is not supported by the evidence. The ALJ provided that CAP serves less than 23% of Columbia's low-income population. Further, the ALJ determined that the proposed increase is contrary to the Commission's goal of encouraging customers to conserve energy. The ALJ recommended that the Commission deny Columbia's request to increase the monthly customer charge.

Id. at 264. The Commission affirmed the ALJ's recommendation without further comment. *Id.* at 265.

Many of the same factors in the *2021 Columbia* case are present in this matter, a large increase (approximately 31%), the fact that PGW only enrolls a fraction of its low-income customers in CRP,¹² and the obvious disincentive to conserve energy. The Commission should

¹¹ Mr. Colton provided a series of recommendations for PGW to consider that could help it to improve its performance as to low-income service issues. OCA St. 4 at 43-64. In rebuttal, PGW dismissed these recommendations. PGW St. 1-R.

¹² See OCA St. 4 at 28-32.

follow the *2021 Columbia* decision in this case and deny PGW's proposed residential customer charge increase. To the extent that any customer charge increase is granted, then the OCA submits that any increase granted should be no more than the percentage increase to distribution revenues assigned to the Residential class. *See* OCA St. 3 at 24.

b. Other Tariff Changes

The OCA provided no testimony in this area.

D. GFCP/VEPI - Class GS-XLT

The OCA's positions are set out in its Main Brief and has nothing further to add here.

E. Customer Service Issues

1. PGW's Call Center Performance Needs to Improve.

PGW rejects OCA witness Alexander's recommendation that, by its next base rate case, PGW should improve its call center performance so that its call abandonment rate matches that of other NGDCs. PGW M.B. at 67 *citing* OCA St. 5 at 4. OCA witness Alexander, however, 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.

PGW also argues that the OCA's position is unsupported and unnecessary as the call center's performance has returned to pre-pandemic standards. PGW M.B. at 68. 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. 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.*

Customers who are being threatened with disconnection and failed payment plans need to be able to obtain access to PGW with a reasonable level of call center performance. OCA St. 5 at 6-7. 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.

OCA St. 5SR at 2.

The OCA's recommendation is necessary due to PGW's erratic call center performance and should be adopted in this proceeding.

2. PGW Needs to Institute a Formal Complaint Analysis Process.

OCA witness Alexander recommended that PGW 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 M.B. at 69-72. OCA witness Alexander made this recommendation as PGW does not conduct evaluations of complaints and complaint trends. *Id.*

PGW argues that the OCA's recommendation is unnecessary as PGW already reviews consumer complaints "as necessary to identify issues and address trends." PGW M.B. at 68. Moreover, according to PGW, "OCA has not pointed to any PUC regulation, order, or other

requirement that PGW have a more formal process or policy regarding the review of consumer complaints” and that “OCA’s position is unsupported and must be rejected.” PGW M.B. at 68.

To the contrary, OCA witness Alexander evaluated PGW’s complaint process to ensure compliance with Chapter 56. *See* OCA M.B. at 71. Additionally, OCA witness Alexander testified to the fact that there is no evidence of any evaluation of a pattern or practice of complaints over a reasonable period. OCA St. 5SR at 2-3. OCA witness Alexander further noted that 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. *Id.* As such, OCA witness Alexander continued 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. *Id.* OCA witness Alexander’s recommendations are a reasonable approach to PGW’s customer service issues and should be adopted in any final order in this case.

3. PGW’s Process for the Creation of Payment Arrangements Fails to Comply with Chapter 56 Requirements.

PGW claims that its approach to payment plans complies with Chapter 56 of the Commission’s regulations. PGW M.B. at 69-70. OCA witness Alexander, however, found that PGW has programmed its computer to guide customer service representatives to gather household income data and offer predetermined payment options. OCA St. 5SR at 9. There is no evidence to support the determination that the algorithm used by PGW’s software program takes into account individual circumstances. *Id.*

PGW claims that 52 Pa. Code Section 56.97(b) specifically applies to customers or occupant contact prior to termination and only requires good faith and fair judgment in reaching a reasonable payment arrangement. PGW M.B. at 69. However, 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, including in the event that customers or occupants are contacted prior to termination. OCA St. 5SR at 9. 52 Pa. Code Section 56.97(b) 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). The ability of the customer to pay must be a part of the payment arrangement determination made by the utility.

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. PGW claims that its payment arrangement policy is a "reasonable, good faith effort to provide fair payment arrangements regardless of which customer service representative a customer happens to work with." PGW M.B. at 69-70. PGW, however, does not take into account the customer's ability to pay as specifically required by 52 Pa. Code §56.97(b). PGW's argument essentially excuses a lack of compliance with Chapter 56 by arguing that allowing individualized analysis of ability to pay could result in unfair differences in payment arrangements offered by different customer service representatives. *See* PGW M.B. at 69-70. Rather than making the required individualized determination required by Commission regulation, PGW outsources its responsibility to an algorithm that produces formulaic results that bear no reasonable relationship to what a family can

actually afford. OCA M.B. at 73. 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.

PGW's current practice is clearly not in compliance with Commission regulation. As a result, 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.

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

4. District Offices

PGW claims that "OCA and CAUSE-PA/TURN have argued (or at least suggested) that PGW should reopen its district offices." PGW M.B. at 70. The OCA made no such argument or suggestion. OCA witness Alexander testified that PGW has experienced staffing challenges since the closure of PGW's district offices. OCA St. 5 at 6; OCA M.B. at 69-70. OCA witness Mugrace questioned the sale of the "service centers" as to whether PGW ratepayers should see some benefit as to any gains realized from those sales. OCA St. 1 at 13-14; OCA St. 1SR at 19-20; OCA M.B. at 46-47. The OCA did not recommend, implicitly or otherwise, that PGW should reopen the district offices.

5. PGW Should Work to Implement a Fee Free Payment System.

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. In response, PGW argues that credit card fees are significant and that "OCA appears to have

willfully ignored” the cost of PGW moving to a fee free payment system for its customers. PGW M.B. at 71.

The OCA’s Main Brief and testimony specifically noted that “[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 M.B. at 71 *citing* OCA St. 5 at 10-11. OCA witness Alexander testified as follows:

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.

OCA St. 5SR at 6; OCA M.B. at 74-75. The OCA has not “willfully ignored” the cost of PGW moving to a fee free payment system.

Next, PGW argues that customers can choose to use another payment option that does not include a transaction fee. PGW M.B. at 71. More than 50% of PGW customers, however, paid a fee to make a payment on their PGW bill. OCA St. 5 at 10-11. Electronic payment options, such as credit card, debit card, and one time bank payments, require a fee of \$2.95. *Id.* at 10. 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.*

Lastly, PGW argues that it is “fundamentally unfair” to require other PGW customers to absorb fees charged by credit card companies when fee-free options are available. PGW M.B. at 72. 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 M.B. at 75. 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 to implement a fee free payment system should be included in rates as are the costs for all other means of payment processing.

F. Low-Income Customer Service

1. The Commission Must Consider PGW’s Low-Income Customer Service Performance in Deciding on any Revenue Increase in this Case.

PGW has not proposed any changes to its low-income assistance programs or policies in this proceeding and argues that low-income issues are better addressed in other proceedings. PGW M.B. at 73. Under 66 Pa C.S. Section 1501,¹³ however, every public utility shall provide adequate and reasonable service and make all changes and improvements to such service as necessary or proper for the accommodation and convenience of its patrons and the public. Section 69.2703(a)(7) of the Commission’s regulations, the Commission’s Policy Statement regarding PGW ratemaking, identifies the importance of quality of service issues in assessing PGW’s rate request. *See* 52 Pa. Code § 69.2703(a)(7). Quality of service is always reviewed in a base rate case and ultimately has some bearing on the amount of the rate increase eventually granted. *See PA P.U.C. et al. v.*

¹³ “Every public utility shall furnish and maintain adequate, efficient, safe, and reasonable service and facilities, and shall make all such repairs, changes, alterations, substitutions, extensions, and improvements in or to such service and facilities as shall be necessary or proper for the accommodation, convenience, and safety of its patrons, employees, and the public...” 66 Pa C.S. Section 1501.

Pennsylvania Gas and Water Company, 1993 Pa. PUC LEXIS 61 at *23 (June 23, 1993). If the Commission concludes that the service rendered by the public utility is inadequate in that it fails to meet either quantity of service or quality of service, the Commission may reject, in whole or in part, the request of the public utility to increase rates. *See* 66 Pa C.S. § 526.

2. Identifying and Enrolling Low-Income Customers

- a. The OCA's Recommendation that PGW Engage in Coordination and Data Sharing With Other Philadelphia City Offices to Assist in Enrolling Customers in CRP is Well Supported in the Record and Should be Required of PGW.

PGW argues that it should not coordinate with a variety of Philadelphia City offices to enter into data sharing agreements and use the data provided to enroll eligible customers in CRP. PGW M.B. at 74-75. PGW argues that there is no legal requirement for it to undertake such a venture. PGW M.B. at 74. PGW also argues that the OCA has not provided evidence to show that any of the data it could acquire is either relevant, accurate, or even more complete than the data PGW already has. *Id.* PGW also alleges that the OCA has ignored the costs of attempting the level of coordination that the OCA recommends. PGW M.B. at 74-75.

As discussed extensively in the OCA's Main Brief, 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 46; OCA M.B. at 86-89. Mr. Colton's recommendations are set out in detail in the OCA's Main Brief and Mr. Colton's Direct and Surrebuttal Testimonies in this case and will not be repeated here.

The key points as to this discussion are PGW's current performance as to identifying and enrolling customers in CRP is poor, as discussed in Mr. Colton's Direct Testimony. OCA St. 4 at 28-33; see also OCA St. 4SR at 8-17. Mr. Colton has provided a series of potential avenues that

PGW could explore to improve its CRP enrollment. *Id.* PGW makes clear in its Main Brief, however, that it is completely unwilling to even start a conversation in this area. PGW M.B. at 74-75. PGW does not explain why Philadelphia’s other non-PUC regulated municipal utilities cooperate in data sharing while PGW seems completely unwilling to pursue cooperation. OCA M.B. at 89. Cooperation between municipal entities is a reasonable approach which should be adopted by PGW in the instant rate proceeding.

b. PGW Should be Directed to Explore Technologies With its Universal Service Advisory Board that Could Improve CRP Results.

OCA witness Colton recommended that PGW be directed to pursue 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 witness Colton specifically recommended the following:

(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 (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 52-53.

PGW criticizes OCA’s recommendation that the Company use technology as “vague and unsupported.” PGW M.B. at 76. PGW goes on to argue that it is unclear what technology the OCA believes it should pursue, or what the costs or benefits would be. *Id.*

Mr. Colton recommended that PGW take these questions to its Universal Service Advisory Committee (USAC) for *discussion*. The results of that discussion may prove fruitful, or they may not. It is a fact of record in this proceeding, however, that PGW needs serious improvement in the areas of CRP identification, enrollment and retention. The OCA's recommendation is for PGW to start a conversation with its USAC that may result in beneficial outcomes for both PGW and its customers, as OCA witness Colton explained.

OCA witness Colton testified that improved use of technology can help applicants and recipients in "actions like applying, submitting documents, or getting information about their case – allow clients to better obtain information and receive benefits more quickly. They also help agencies get the information they need to conduct eligibility determinations and improve performance and outcomes." OCA St. 4 at 52. OCA witness Colton provided specific examples of technologies that have helped streamline processes. OCA St. 4 at 52; OCA St. 4 at App. B. Instead of investigating the use of technology, PGW expresses a lack of innovation and apparent disinterest in improving outcomes for its low-income customers. OCA St. 4SR at 33. The OCA's recommendations are reasonable and should be adopted.

c. PGW's Process for Confirming Low-Income Customers is Not in Full Compliance With the Commission's Regulations.

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 as long as the program has a maximum income eligibility level of 150% FPL or below. OCA St. 4SR at 15-16. PGW claims that regulation does not require that utilities accept these forms of identification. PGW M.B. at 76.

52 Pa. C.S. Section 62.2 clearly states as follows:

Confirmed low-income residential account—Accounts where the NGDC 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 (emphasis added). The above definition encompasses documentation of participation in any municipal, state or federal means-tested program.

Moreover, the definition of low-income customer is as follows:

Low-income customer—A residential utility customer whose gross household income is at or below 150% of the Federal poverty guidelines. Gross household income does not include the value of food stamps or other noncash income.

52 Pa. Code § 62.2.

PGW argued that its current approach of not accepting documentation provided by the government “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).” PGW M.B. at 77. This is a mischaracterization of OCA’s testimony. OCA witness Colton noted that he did not propose to use low-income identification documentation from the government as the basis for enrolling in CRP. OCA St. 4SR at 16; OCA M.B. at 81-86.

PGW essentially argues 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. PGW M.B. at 76-77. 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.

Additionally, OCA witness Colton noted the discrepancies in PGW data regarding how it designates a customer as a Confirmed Low-Income customer. OCA St. 4SR at 16. OCA witness Colton testified as follows:

PGW states that it designates anyone who has received either a LIHEAP cash grant or a LIHEAP crisis grant, as well as anyone who has enrolled in CRP, as being a Confirmed Low-Income Customer. In 2022, however, PGW had 82,780 customers who received LIHEAP cash grants, and 7,822 customers who received LIHEAP crisis grants. In addition, PGW had 53,466 CAP recipients. As I note above, while there may be some overlap between CRP participation and the receipt of LIHEAP, that overlap would not be 100%. Despite these numbers, PGW reports that it has 69,626 Confirmed Low-Income customers. PGW's process for identifying Confirmed Low-Income customers should be given significant scrutiny.

OCA St. 4SR at 16-17 (internal citations omitted).

PGW's opposition to accepting governmental documents proving that a customer is low-income is not in compliance with 52 Pa. C.S. Section 62.2. Receipt of documentation indicating participation in a means-tested municipal, state, or federal public assistance program at 150% FPL or lower is a reasonable form of documentation to identify a low-income customer and the OCA's recommendation that PGW accept this form of documentation should be adopted.

3. PGW Needs to Implement a Process to Follow Up on Returned Mail.

PGW assigns complete responsibility to the customer for having mail returned to PGW as being undeliverable. PGW M.B. at 77-78. 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 (emphasis added); OCA M.B. at 92. 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. *Id.* As such, 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; OCA M.B. at 94.

Moreover, PGW claims that “the OCA’s position would also come with significant administrative expense which it has not considered.” PGW M.B. at 78, Essentially, PGW argues 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, however, offered no testimony on what the administrative cost would be. OCA M.B. at 95.

PGW claims that “OCA has not pointed to any statute, regulation, Commission order or other requirement to support its proposals.” PGW M.B. at 78. As discussed extensively in the OCA’s testimony and Main Brief, under federal law, states must 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 M.B. at 93-94; OCA St. 4 at 69.¹⁴ Additionally, On December 29, 2022, the Consolidated Appropriations

¹⁴ This includes both (1) maintaining regular communication with beneficiaries, and (2) attempting to locate beneficiaries when mail is returned. OCA St. 4 at 69.

Act, 2023 (P.L. 117-328) (CAA, 2023) was enacted.¹⁵ 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. OCA M.B. at 94; OCA St. 4 at 70. 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.*” *Id.* (emphasis added).

It is unreasonable for PGW to attribute mail that is returned as undeliverable to customers as failure to give a correct address. While PGW does not track mail returned to it as undeliverable, the U.S. Postal Service (USPS) keeps detailed statistics. OCA St. 4 at 66.¹⁶ 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, as shown in Table 15:

Table 1. Undeliverable As Addressed (UAA) Class Volume (selected UAA Reasons) ¹⁷				
UAA Reason	February 2023	March 2023	April 2023	
Description				
Insufficient address	8.14%	8.21%	8.22%	
Illegible	0.08%	0.07%	0.07%	
No mail receptacle	2.56%	2.83%	2.87%	
No such number	2.69%	2.86%	2.81%	
No such street	1.07%	1.06%	1.07%	

OCA St. 4 at 66.

¹⁵ <https://www.congress.gov/117/bills/hr2617/BILLS-117hr2617enr.pdf>

¹⁶ Returned mail to the USPS is referred to be the technical term “Undeliverable As Addressed” (UAA). OCA St. 4 at 66.

¹⁷ <https://postalpro.usps.com/address-quality-solutions/undeliverable-addressed-uaa-mail> (data files: Monthly UAA Statistics by UAA Reason)

The reasons identified above may have nothing to do with factors within the control of a PGW customer. 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. *Id.* 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. 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.” *Id.*

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 2. Undeliverable As Addressed (UAA) Class Volume (selected UAA Reasons) (by Industry) (Utilities) ¹⁸				
UAA	Reason	Utilities		
Description		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; OCA M.B. at 93.

Simply put, when a customer goes without receiving a bill, they would have no reason to wonder why they did not receive a disconnection notice. OCA St. 4 at 68. The only party to the

¹⁸ <https://postalpro.usps.com/address-quality-solutions/undeliverable-addressed-uaa-mail> (data files: Quarterly UAA Statistics by Mailing Industry)

transaction who would know that something is awry would be PGW, who receives the returned UAA mail. *Id.*

The clear policy of the Commonwealth of Pennsylvania is that utility customers should not have essential utility service disconnected for nonpayment without first receiving timely and adequate pre-termination notice. PGW's policy with respect to residential bills and/or residential notices of a pending disconnection that are returned to the utility UAA are not tracked or responded to. OCA St. 4 at 70. The hands-off PGW policy that "it is the customer's responsibility to give PGW their correct address" does not respond to the multiple reasons that might underlie mail returned UAA. OCA St. 4 at 70. PGW's current practice regarding undelivered mail as a regulated utility offering an essential service in Pennsylvania should be rejected by the Commission.

4. PGW Should be Directed to Increase its LIURP Budget as a Condition of any Revenue Increase in this Case.

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. OCA St. 4 at 56; OCA M.B. at 89.

PGW opposed increasing LIURP spending. PGW M.B. at 78-80. PGW argues that it has the highest universal service spending and LIURP spending as a percentage of residential sales compared to other Pennsylvania electric and natural gas utilities. PGW M.B. at 78. The inadequacy of PGW's current LIURP budget, however, is evident. OCA St. 4 at 57. PGW estimates that it has 44,168 confirmed low-income homes in need of LIURP services. *Id.* At the three-year average production rate from 2017 through 2020, it would take 17 years to treat all homes in need. *Id.* PGW's LIURP production in 2022, however, was noticeably lower. *Id.*

Even before considering the adverse impact from a rate increase, PGW's LIURP budget does not meet the immediate needs of its low-income customers. OCA St. 4 at 58. OCA witness Colton testified as follows:

PGW identified 15,683 low-income customers that meet its treatment criteria for immediate treatment. (CAUSE-2-12). That list, however, is compiled only from customers who are on CRP or who have received LIHEAP or UESF funding for their gas bills. (CAUSE-2-7, CAUSE-2-8). Indeed, of the 15,683 from the most recent case selections, 9,604 (61%) were CRP participants. (CAUSE-2-12). I have discussed in detail above the small percentage of PGW's estimated low-income customer base that is enrolled in CRP. In contrast to this 15,683 low-income customers identified in its most recent case selection, in the past three years, PGW has provided LIURP services to: (1) 1,657 homes in 2020; (2) 2,060 homes in 2021; and (3) 1,894 homes in 2022. (CAUSE-2-1). In the past three years, in other words, PGW has treated only 36% of the immediate need of the limited population from which it selects.

OCA St. 4 at 58.

PGW also argues that it is inappropriate to set the LIURP budget based on the number of homes to be served. PGW M.B. at 79. PGW does not dispute, however, 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. OCA St. 4SR at 19. Simply put, PGW currently serves an inadequate number of low-income homes through LIURP. OCA M.B. at 91.

Lastly, PGW argues that the OCA did not account for inflation or related cost increases. PGW M.B. at 79. PGW's LIURP budget, however, 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.

OCA witness Colton testified to the fact that 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. It is important to note that 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 bill 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 arrears for low-income program participants. OCA St. 4 at 56. As such, in addition to reduced CRP credits there would also be a reduction in arrearage forgiveness credits. OCA St. 4 at 56.

The need for LIURP investment will increase as a result of both the increased level of rates in this proceeding, and the increased residential customer charge in this proceeding. OCA St. 4SR at 19. It is unrebutted that the need for LIURP investment will increase due to both the proposed increased level of rates and the proposed increased residential customer charge in this proceeding. Increasing LIURP spending as one remedy to offset the additional harms that PGW itself, is imposing on low-income customers is not an unreasonable response to PGW's request in this proceeding.

5. PGW Should be Directed to Implement a Data Tracking and Reporting Process.

PGW argues that it is neither necessary nor required to track critical data related to its customers. PGW M.B. at 80. PGW argues that "PGW does not currently track this data and it would have to implement additional systems to do so." PGW M.B. at 80. Indeed, PGW does not have information that allows it to track payment difficulties or to determine whether there are clusters of difficulties and potential geo-targeted responses. OCA St. 4 at 59; OCA M.B. at 91. PGW stated 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. *Id.* PGW further stated that it was unable to provide data on either the issuance of disconnect notices or the actual disconnection of service by zip code. OCA St. 4 at 59. 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. *Id.*

PGW claims that it is unclear what the purpose of data tracking and reporting would serve or whether it would provide a meaningful benefit to customers. PGW M.B. at 80-81. OCA witness Colton, however, testified as follows:

A final critical component of adequately responding to PGW’s unaffordability problems, including assessing and responding to the multiple ways in which this rate proceeding will adversely affect universal service, is to adequately track information. An important aspect of tracking information is not simply to identify the individual accounts that may be having problems, but also to identify and track whether there are clusters of accounts having payment difficulties. By tracking such clusters, to the extent they exist, PGW can engage in the further analysis of whether there may be opportunities to reasonably geo-target universal service responses.

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.

OCA witness Colton further testified that, while other Pennsylvania utilities are not required to report this data, PGW presents circumstances that differ from other Pennsylvania utilities, as Mr. Colton testified:

I have not proposed that any other regulated Pennsylvania gas distribution utility report the same data that I have recommended be reported above. PGW, however, presents circumstances that differ from other Pennsylvania utilities. First, the PUC’s 2023 “Management and Operations Audit” noted that “[a]lthough PGW’s multifaceted efforts have been commendable, the company’s over 90-day customer receivables continue to reflect substantially higher balances than those experienced prior to the pandemic.” (PUC Audit, at 62). The Audit concluded that this trend “is not unique to PGW. However, while not caused by the company, its effects must be addressed by PGW.” (*Id.*) (emphasis added). Collecting and reporting the geo-

targeted data I identify above is essential to adequately addressing the problem raised in the PUC Audit.

Moreover, as the Audit notes, PGW's "CIS has reached its end of life and needs to be replaced for both customer operations and information technology reasons." (PUC Audit, at 65). It states that "PGW is now targeting September 2023 for the new CIS to go live. The new CIS will. . .allow PGW to take advantage of other new technologies that address future customer expectations." (Id.) Given that PGW has a new CIS coming on line this year, it is the ideal time for the utility to implement new data collection and reporting.

OCA St. 4 at 61.

PGW fails to track fundamental information that would allow it to identify and respond to bill payment difficulties associated with unaffordable bills. OCA St. 4 at 59-60.¹⁹ 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. *Id.* At 60. This data should include the data set forth in Table 14. *See* OCA M.B. at 92 *citing* OCA St. 4 at 61. OCA witness Colton recommended that, in addition to the zip code level data, this monthly reporting should include PGW totals as well. OCA St. 4 at 60. OCA witness Colton's recommendation is reasonable given PGW's unique circumstances.

6. The OCA's CRP Recovery Offset Proposal is Well Supported and Consistent With Prior Case Law as to PGW.

PGW claims that OCA presented no evidence to support the claim that PGW is double recovering its uncollectible accounts expense. PGW M.B. at 81. OCA witness Colton, however, testified to the fact that, despite having already recognized that it will not collect 100% of its billed gas revenue 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

¹⁹ For example, 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 M.B. at 91-92.

dollars in the absence of CRP. OCA St. 4 at 74; OCAM.B. at 95-99. PGW includes the entire difference between what would have been billed to CRP customers at standard residential rates and what is billed to CRP participants under the CRP program. OCA St. 4SR at 33. This cost recovery is inappropriate given that PGW has already included a portion of what CRP participants would have been billed at standard rates in adjusting its billings to reflect actual collections. Including the entire CRP credit in the Universal Service Rider includes a proportion of those CRP credits twice, first when PGW adjusts its overall billings to receipts in setting overall rates, and again when PGW includes the total CRP credit in the Universal Service Rider. OCA St. 4SR at 33.

OCA witness Colton further testified that the dollars representing a new participant's CRP credits will be included in rates through a universal service surcharge as "new" CRP credits. OCA St. 4SR at 33. Since the surcharge is reconcilable, a net increase in CRP participation will result in an increase in the universal service surcharge to reflect these "new" credits. *Id.* However, not all of these CRP credits are "new" expenses. OCA St. 4SR at 33-34. Some portion of these dollars of billing that will not be collected from the customer have simply been moved from the non-CRP participant population to the CRP participant population. *Id.* Those dollars are non-incremental CRP costs. OCA St. 4SR at 34.

OCA witness Colton testified to the fact that a double recovery of the uncollectible expense occurs when additional customers enter CRP. OCA St. 4SR at 34. When those low-income customers move into CRP, the CRP credits shortfall associated with their account will now be collected through the universal service program. *Id.* As CRP increases, the Company continues to collect its entire uncollectible expense as though no net addition of CRP participants had occurred. *Id.* Since the universal surcharge is reconcilable, however, as CRP participation increases, the Company collects the increased CRP shortfall associated with this increased participation as

though that additional shortfall is a “new” expense. *Id.* Even though CRP participants and non-CRP participants are mutually exclusive groups of customers, in other words, for ratemaking purposes, the costs of the new CRP participant are included both in base rates and in the universal service surcharge. *Id.*

Low-income customers often are unable to pay their entire bills. OCA St. 4SR at 34. According to the most recent Bureau of Consumer Services (BCS) annual report on Universal Service Programs and Collections Performance, the average arrears of confirmed low-income customers in 2021 was \$932.75. OCA St. 4 at 34. Moreover, 29.7% of the total gross PGW write-offs comes from confirmed low-income customers. OCA St. 4 at 35.

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. For example, the gross write-off ratios for Confirmed Low-Income customers for the immediately preceding three years reported were: (1) 21.8% in 2019; (2) 8.2% in 2020, and 6.3% in 2021. OCA St. 4 at 72-73. The three-year average gross write-off ratio is thus 12.1%. OCA M.B. at 96. The gross write-off ratio tells us that, even in the absence of CRP, PGW would expect to fail to collection 12.1% (using the 3-year average) of the dollars billed to its low-income customer base. OCA St. 4 at 73. As Mr. Colton testified:

These gross write-offs do not include CRP customers. BCS expressly notes in its annual report that the gross write-offs figures do not include CAP credits or arrearage forgiveness.” These low-income write-offs, therefore, are already included in PGW rates. 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 (2) second, in the universal service surcharge as a component of PGW’s arrearage forgiveness.

OCA St. 4 at 73 (internal citations omitted).

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. To the extent that PGW does not collect 100% of its billed gas revenue, it separately, and explicitly, includes those dollars in its base rates. OCA St. 4 at 74.

PGW is, in effect, proposing to collect those dollars twice. OCA M.B. at 97. As such, OCA witness Colton recommended a minor adjustment to the offset agreed to in 2021 to update the collection offset. *Id.* 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.

The issue of double recovery is not new to PGW. OCA M.B. at 95-96. In PGW's 2007 base rate case, 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.

As PGW is a cash flow utility, it is not the amount of dollars which it bills that is important, it is the amount of dollars that it actually collects that matters. OCA St. 4SR at 33. If PGW sets rates based on an assumption that it collects 100% of what it bills, it would generate insufficient

cash to cover its expenses. *Id.* Instead, the extent to which PGW does not collect the entire revenue which it bills must thus be accounted for in setting rates. *Id.*

PGW claims that the OCA incorrectly believes that it recovers bad debt expenses twice and is collecting more bad debt expense than originally forecasted in the FPFTY. PGW M.B. at 81-82. PGW's arguments regarding bad debt are a red herring as bad debt has no relationship to whether PGW's rates already account for the extent to which some portion of bills to low-income customers would remain unpaid even in the absence of CRP. OCA St. 4SR at 35. PGW's arguments related to factors driving the overall level of bad debt do not relate to or disprove OCA witness Colton's conclusion that an adjustment is necessary to prevent a double recovery. OCA St. 4SR at 35,

The arguments advanced by PGW 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. As the current proceeding presents the same circumstances, the Commission's decision here should be the same.

G. Pipeline Replacement/Alternatives

The OCA provided no testimony on this issue.

H. Miscellaneous Issues

The OCA has no miscellaneous issues to address.

IV. CONCLUSION

PGW's proposed large revenue increase as driven by its aspirations for a bond upgrade, reducing the amount of debt in its capital structure and funding 50% of its proposed capital projects using IGF would impose unreasonable and unjust rate increases on the backs of ratepayers. The Office of Consumer Advocate has shown that PGW's projected expenses and projected capital spending fail to comport with the reality of what PGW has actually incurred as to expenses or actually spent on capital projects. Further, as the record shows, PGW's current performance in the areas of management effectiveness, customer service and particularly service to its low-income customers needs substantial improvement. PGW is currently financially stable, and a moderate revenue increase as recommended herein, coupled with efficient spending will enable PGW to remain financially stable through the FPFTY.

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 the OCA Main Brief and this Reply Brief.

Respectfully submitted,

/s/ Darryl A. Lawrence

Darryl A. Lawrence

Senior Assistant Consumer Advocate

PA Attorney I.D. # 93682

David T. Evrard
Assistant Consumer Advocate
PA Attorney I.D. # 33870

Harrison W. Breitman
Assistant Consumer Advocate
PA Attorney I.D. # 320580

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Dated: August 7, 2023

Counsel for:
Patrick M. Cicero
Consumer Advocate