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August 7, 2023

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

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

Dear Secretary Chiavetta:

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

Sincerely

Sarah C. Stoner

Sarah C. Stoner
Counsel for Philadelphia Gas Works

Enclosure

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

CERTIFICATE OF SERVICE

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

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

Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc.	:	
v.	:	C-2021-3029259
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TABLE OF CONTENTS

I. SUMMARY OF REPLY ARGUMENT 1

II. LEGAL STANDARDS 2

A. Burden of Proof 2

B. Just and Reasonable Rates 3

III. ARGUMENT 4

A. Revenue Requirement 4

1. The I&E and OCA Revenue Requirement Recommendations Are Demonstrably Inadequate 4

B. Expenses 21

1. Rate Case Expense 21

2. Lobbying Expense 22

3. COVID-19 Expense 22

4. Inflation Adjustment 22

5. Normalization 23

6. Employee Count; Payroll Expenses; Payroll Taxes 24

7. Incentive Compensation 24

8. Pension Expense 24

9. OPEB Expense 25

10. Health Insurance Expense 25

11. Advertising Expenses 26

12. CIS Spending; Depreciation 26

13. Uncollectible Reserve Balance 26

14. Sale of Real Estate (Service Centers) By The City 27

C. Rate Structure 28

1. Cost of Service 28

2. Revenue Allocation 33

3. Rate Design 34

D. GFCP/VEPI – Class GS-XLT 39

1. Summary of Position 39

2. Interruptibility and Penalties 40

3. Rates 42

4. Customer Charge 43

5. Transportation Rate 43

6. Alternative Receipt Service Rate 46
7. Bypass 47
8. Final Tariff 51
E. Customer Service Issues 52
1. Call Center Performance 53
2. Complaint Analysis 54
3. Payment Arrangements 54
4. Bill Payment Fees 55
5. Customer Identification Requirements 57
F. Low-Income Customer Service Issues 57
1. PUC Policy Statement Factors 58
2. Low-Income and Residential Natural Gas Heating Bills 58
3. Affordability for PGW's Low-Income Customers 59
4. CRP Enrollment 60
5. Coordination and Data Sharing 62
6. LIURP 63
7. Data Tracking and Reporting 64
8. Undeliverable Mail 65
9. CRP Cost Recovery Offset 66
G. Pipeline Replacement/Alternatives 68
1. Delegation of the Commission's Authority To a Working Group 68
2. Speculated "Cost of Energy Saving" 71
3. Pipeline Replacement Spending and Reporting 72
H. Miscellaneous Issues 74
IV. CONCLUSION 75

#113462875v2

TABLE OF AUTHORITIES

Cases **Page(s)**

Board of Public Commissioners v. New York Telephone Co.,
271 U.S. 23 (1926) 27

Lloyd v. Pa. P.U.C.,
904 A.2d 1010 (Pa. Commw. Ct. 2006) 31

Metropolitan Edison Company v. Pa. P.U.C.,
437 A.2d 76 (Pa. Cmwlth. 1981) 69

NRG Energy, Inc. v. Pa. Pub. Util. Comm'n,
233 A.3d 936 (2020) 2

Philadelphia Suburban Water Co. v. PUC,
427 A.2d 1244 (Pa.Cmwlth. 1981) 27

Public Advocate v. Phila. Gas Comm'n,
674 A.2d 1056 (Pa. 1996) 28

Vertis Group, Inc. v. Duquesne Light Co.,
2003 WL 1605744, Docket No. C-00003643 (Order entered Feb. 24, 2003), *aff'd*, 840 A.2d 390 (Pa. Cmwlth. 2003), *appeal denied,* 859 A.2d 770 (Pa. 2004) 71

Administrative Cases

2023 Review of All Jurisdictional Fixed Utilities' Universal Service Programs,
Docket No. M-2023-3038944 58

Initiative to Review and Revise the Existing Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1—58.18,
Docket No. L-2016-2557886 69

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Docket No. R-2020-3018920 (Order entered June 22, 2021), 2021 WL 2645922 (Pa. P.U.C.) 4

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Docket No. R-2019-3010958 (Order entered March 26, 2020) 4

Pa. Pub. Util. Comm'n v. Philadelphia Gas Works,
Docket No. R-2017-2586783 (Order entered November 8, 2017) 2, 3

Pa. Pub. Util. Comm'n v. Breezewood Telephone Company,
Docket No. R-901666 (Order entered January 31, 1991) 1991 Pa. PUC LEXIS 45 2

Pa. Pub. Util. Comm'n v. PECO,
Docket No. R-891364, et al. (Order entered May 16, 1990) 1990 Pa. PUC LEXIS 155 2

Pa. Pub. Util. Comm'n v. Aqua Pennsylvania, Inc.,
Docket No. R-00038805, 2004 Pa. PUC LEXIS 39, 236 P.U.R.4th 218 (August 5, 2004) 35

Pa. PUC v. Columbia Gas of Pa.,
Docket Nos. R-2022-3031211 *et al*. (Order entered Dec. 8, 2022) 35

Administrative Cases (continued) **Page(s)**

Pa. PUC v. PGW,
Docket No. R-0006193 (Order entered Sept. 28, 2007) 68

Pa. PUC v. Pittsburgh Water and Sewer Authority,
Docket Nos. R-2020-3017951 (water) and R-2020-3017970 (wastewater)
(Order entered Dec. 3, 2020) 56

Pa. PUC v. PPL Electric Utilities Corporation,
Docket No. R-2012-2290597, 2012 Pa. PUC LEXIS 1757
(Order entered December 28, 2012) 35

PUC v. PGW, Docket No. R-00061931
(Order entered Sept. 28, 2007) 2007 Pa. PUC LEXIS 45 20

PUC v. PGW, Docket No. R-2008-2073938
(Order entered Dec. 19, 2008) 20

PUC v. PGW,
Docket No. R-2009-2139884 20

Texas Eastern Transmission Corporation,
Docket No. CP95-2-000, 71 FERC ¶ 61,203 (May 23, 1995) 48

Texas Eastern Transmission Corporation,
Docket No. CP95-2-000, 71 FERC 61,020 (Apr. 5, 1995), *vacated by*
75 FERC 61,236 (May 31, 1996) 47, 48

Statutes

35 P. S. § 2141 70

66 Pa. C.S. § 102 .... 27, 28

66 Pa. C.S. § 315 2

66 Pa. C.S. § 332 2

66 Pa. C.S. § 1308 2

66 Pa. C.S. § 1501 59

66 Pa. C.S. § 2212 28

Regulations

52 Pa. Code § 56.97 .... 54, 55, 60

52 Pa. Code §§ 58.1—58.18 69

52 Pa. Code §§ 69.2702-69.2703 72

52 Pa. Code § 69.2703 .... 9, 11, 14

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I. SUMMARY OF REPLY ARGUMENT

Adoption of the rate increases proposed by opposing parties in this proceeding would deprive PGW of the opportunity to recover the revenues that are needed to: (1) adequately cover the mandatory debt service coverage requirement; (2) meet all of PGW's cash needs in the Fully Projected Future Test Year; (3) produce sufficient Days of Cash on hand; and (4) maintain PGW's bond rating – all of which are requirements of the Cash Flow Ratemaking Method. Significantly, the proposals advanced by other parties fail to recognize the need for internally generated funds for capital spending. By proposing to reduce the level of cash that PGW seeks to generate, the parties would delay the implementation of important capital improvement projects that are critical to PGW's safe and adequate provision of natural gas utility service to the City of Philadelphia. Through a rejection by the PUC of this single proposed adjustment, even if all other expense adjustments are accepted (which would be unreasonable), it is clear that the bare minimum that PGW needs from this rate increase proceeding is in the range of $55 to $77 million.

Importantly, other proposals advanced by parties in this case would require PGW to incur further expenses but not recover them in rates. These costs would directly impact PGW's available cash, since PGW does not have shareholders, with the result forcing PGW to again seek rate relief from the PUC in the near future. It is crucial therefore that the PUC refrain from such a result. On the remaining issues, PGW has: (1) properly applied long-standing cost methods, and closely aligned its rate design with those costs; (2) thoroughly addressed various issues regarding the incurrence of expenses; (3) fairly created a new rate class to address the needs of extra-large transportation customers –GFCP/VEPI; (4) established that its customer service and handling of low income customer issues are consistent with the PUC's regulations; and (5) demonstrated that its pipeline replacement program adequately implements the Commission's requirements.

Therefore, the Commission should reject the proposed adjustments and new programs advanced by the other parties and approve PGW's proposed rate increase, as filed.

II. LEGAL STANDARDS

A. Burden of Proof

While PGW acknowledged in its Main Brief that it bears the burden of proof in connection with proving the justness and reasonableness of its proposed rates, the Company noted that parties proposing an adjustment to a ratemaking claim bear the burden of going forward with evidence to respond to the reasonableness of its proposed rates.[1] In its Main Brief, OCA contended that parties proposing adjustments to a utility base rate filing carry no burden similar to that of the utility.[2] Given the PUC's prior pronouncements to the contrary, however, it was incumbent upon OCA to present substantial evidence in support of each and every proposed adjustment showing that PGW's proposed rates are unjust and unreasonable.

Further, a party that offers a proposal that was not included in the Company's original filing bears the burden of proof for such proposal. As the proponent of a Commission order, the party must bear the burden of proof as to proposals that PGW did not include in its filing.[3] However, in their Main Briefs, OCA, CAUSE-PA/TURN and POWER ignore their burdens and seek to shift this duty to PGW merely because this is a base rate case filed under Section 1308(d) of the Public Utility Code ("Code").[4] In failing to recognize their obligations to carry the burden of proof for new proposals, they relied on the language of Code Section 315(a).[5] These arguments should be rejected.

The Commission has made clear that the statutory burden placed on a proponent of a rule or order under Code Section 332(a) does <u>not</u> shift to the utility simply because such rule or order is proposed within the context of the utility's Code Section 1308(d) base rate proceeding.[6] As the PUC has found, "it would be improper burden shifting in a general rate proceeding to allow a party to

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[1] PGW MB at 6. *See, e.g., Pa. Pub. Util. Comm'n v. PECO*, Docket No. R-891364, et al., Opinion and Order entered May 16, 1990, 1990 Pa. PUC LEXIS 155; *Pa. Pub. Util. Comm'n v. Breezewood Telephone Company*, Docket No. R-901666, Opinion and Order entered January 31, 1991, 1991 Pa. PUC LEXIS 45.
[2] OCA MB at 6-7.
[3] PGW MB at 6-7. *See* Section 332(a) of the Public Utility Code, 66 Pa. C.S. § 332(a), which provides that the party seeking a rule or order from the Commission has the burden of proof in that proceeding. *NRG Energy, Inc. v. Pa. Pub. Util. Comm'n*, 233 A.3d 936, 950 (2020).
[4] 66 Pa. C.S. § 1308(d).
[5] 66 Pa. C.S. § 315(a). OCA MB at 6-7; CAUSE-PA/TURN MB at 4; POWER MB at 7.
[6] *Pa. Pub. Util. Comm'n v. Philadelphia Gas Works*, Docket No. R-2017-2586783 ("*2017 PGW Base Rate Order*") (Order entered November 8, 2017, at 12-13); PGW MB at 6-7.

bring forth an issue that does not challenge a proposed or existing rate, rule or regulation, and then require the utility to carry the burden of proof with respect to that issue."[7] Accordingly, since PGW did not propose any changes to its customer service practices or its low-income assistance programs or policies as part of this proceeding, the burden of proof for the proposals presented in these areas by OCA, CAUSE-PA/TURN and POWER rests squarely with those parties. Similarly, because PGW did not propose any infrastructure planning changes in this proceeding, POWER was obligated to carry the burden of proof for its proposals concerning: modifications to PGW's capital and infrastructure planning to incorporate "non-pipeline alternatives" ("NPAs"); that additional pipeline replacement reports are necessary; and that PGW's rates should be based on novel principles of "cost of energy savings" and whether rates "advance affordability in the long term." Contrary to POWER's descriptions of these proposals as "adjustments"[8] to PGW's filing, they go well beyond typical ratemaking adjustments as they represent proposals for the implementation of new programs and reporting requirements for which no authority or justification has been proven.[9]

B. Just and Reasonable Rates

The Company's rates must meet the constitutional and statutory standard of being "just and reasonable."[10] Further, these rates are required to be set within the zone of reasonableness, since rates outside that zone are confiscatory.[11] In addition, just and reasonable rates for PGW are determined using the Cash Flow Method since all of the funds PGW needs to run the Company must come from ratepayers.[12] In its Main Brief, POWER erroneously placed "affordability" of rates on par with the standards of "just and reasonable" rates and recommended that the Commission hold PGW's proposed rate increase hostage unless the Company is directed to implement its NPA proposals.[13] This approach has been rejected by the Commission in prior proceedings.

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[7] *2017 PGW Base Rate Order* at 47.
[8] POWER MB at 1, 4.
[9] PGW MB at 8.
[10] PGW MB at 7.
[11] PGW MB at 7-8.
[12] PGW MB at 7-9.
[13] POWER MB at 1-4, 8-10.

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PGW recognizes that the PUC has acknowledged that affordability is a factor that is considered in setting just and reasonable rates along with quality of service and gradualism, even though it is not a principle that is established or even mentioned by the Public Utility Code.[14] However, in the *PECO* case cited by POWER, the Commission rejected the notion that the entire requested rate increase should be denied based on affordability due to the pandemic's impact on customers. In doing so, the PUC recognized that the utility continued to incur expenses and base rate investments in the FPFTY, which required the Commission to consider the traditional ratemaking methodologies.[15] Similarly, here, POWER's claims regarding affordability of rates may not be relied upon to trump the evidence that has been produced by PGW to demonstrate the need for rate relief. Conditioning rate relief on the recommendations of a single party for PGW to implement new NPA initiatives would run contrary to the traditional ratemaking methodologies governing the Commission's decision-making process and should be rejected.

III. ARGUMENT

A. Revenue Requirement

1. The I&E and OCA Revenue Requirement Recommendations Are Demonstrably Inadequate

Both I&E and OCA have recommended[16] rate increases that are far below PGW's requested rate increase. They have also both claimed that the rate increases that they have recommended would, nonetheless, produce financial metrics that are adequate and would permit PGW to maintain its current bond rating.[17] In summary, here is what they are advocating, compared to PGW's proposal:

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[14] *Pa. P.U.C. v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018920 (Order entered June 22, 2021), 2021 WL 2645922 (Pa. P.U.C.) at *19-22.

[15] *Id.* at *23-24. Of note, in the other case cited by POWER, the PUC considered "affordability" only as a factor in the overall determination of cost of equity, which is inapplicable to PGW whose rates are set on the basis of the Cash Flow Method and the Company does not have shareholders. *See Pa. P.U.C. v. Twin Lakes Util., Inc.*, Docket No. R-2019-3010958 (Order entered March 26, 2020, at 80).

[16] No recommendation was made by OSBA, PICGUG, CAUSE-PA/TURN, POWER or GFCP-VEPI.

[17] *See* I&E MB at 6-15; OCA MB at10-23.

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Table 1: Recommended Revenue Requirement and Financial Metrics			
FPFTY	**PGW**[18]	**I&E**[19]	**OCA**[20]
Revenue Requirement[21] (Projected Rates)	$915.434 M	$876.892 M	$849.658 M
Recommended Rate Increase	$85.162 M	$44.827 M	$16.502 M
Debt Service Coverage Ratio: Combined Liens	2.73x	2.45x	2.40x
Combined Liens with $18 million City Payment	2.58x	2.30x	2.24x
Days of Cash on Hand ("DOC")	61.6 days	62.2 days	57.41 days

In offering these proposals, the Introduction in OCA's Main Brief overly simplifies the financial issues presented in this proceeding and misstates PGW's goals in seeking the proposed level of rate relief,[22] which PGW addresses in detail below. Similarly, I&E tries to minimize the need for PGW's rate relief based on the mandatory debt service coverage requirement, and challenges PGW's request to recover approximately $53.2 million of internally generated funds to finance capital improvement projects that are critical to its safe and adequate provision of natural gas utility service to the City of Philadelphia.[23] The evidence shows that, for several reasons, these arguments and the associated recommendations are demonstrably inadequate and unreasonable.[24]

First, and most importantly, neither the I&E nor the OCA recommendation provides enough funds for PGW to meet all its cash needs in the FPFTY. An easy way to see the inadequacy of the

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[18] PGW MB at 10-21, 32-35.
[19] I&E MB at 8-9; I&E St. No. 1-SR-Revised at 21-22; I&E Exhibit No. 1-SR-Revised, Schedule 1, at 1.
[20] OCA MB at 13-23; OCA Schedules DM-SR-1, -18, and -19.
[21] This row includes total revenues, including revenues under the gas cost rate. OSBA witness Knecht described impacts beyond the increase in base rates. OSBA MB at 6. In doing so, he noted that the DSIC is not reset to zero. But PGW's DSIC is not designed to be reset. The Commission Order dated May 9, 2013, at Docket No. P-2012-2337737 approved PGW's use of levelized DSIC charges. The Commission-approved use of levelization waived the statutory requirement to zero out the DSIC rate. That being said, it should be clear that the DSIC's levelized percentage (cap) is not changing. The change results from the application of the Commission-approved percentage to a higher billed amount (due to any authorized rate increase), and is shown on PGW Exh. JFG-2R (cash flow), line 28.
[22] OCA MB at 1-2.
[23] I&E MB at 6.
[24] OSBA witness Knecht recommended keeping PGW's rates "to the bare minimum necessary to avoid a financial crisis." OSBA MB at 6; OSBA St. No. 1 at 10. This proposal must be rejected. Any such "policy" would be inconsistent with the PUC's Policy Statement on Cash Flow ratemaking. PGW St. No. 2-R at 6. Those standards, if actually implemented, will maintain PGW as a financially healthy utility, able to provide safe, adequate and efficient public utility service. *Id.* Keeping PGW's rates at the "bare minimum" will not. Moreover, keeping rates at a "bare minimum to avoid financial crisis" would seriously flirt with the real potential that the PUC would erroneously peg rates below the "bare minimum" setting off a chain reaction of emergency rate requests, bond downgrades and potential reductions in service levels, reliability and safety. Mr. Knecht's idea is emphatically neither a good nor responsible one. PGW St. No. 2-R at 6.

recommendations is the fact that, as PGW showed in unrebutted testimony, PGW's expenses have increased by some $134 million since its last rate increase, including some $22.7 million in additional debt service (interest) expense that it will begin to incur in the FPFTY. Yet neither party has recommended an increase that would cover these additional expenses, and OCA's recommendation would not even cover PGW's additional debt service expense.

Second, ignoring these significant increases in PGW's expenses, I&E and OCA claimed that a debt service coverage of 2.40x (OCA) and 2.45x (I&E) and a year-end cash level of between 57.41 days (OCA) and 62.20 days (I&E) were allegedly produced by their recommendations, were reasonable and would satisfy PGW's cash needs. This is demonstrably untrue.

Because PGW is a cash flow regulated company, a crucial finding in any rate case is the level of cash that the Company needs in the test year to pay all of its obligations and have sufficient working capital. The debt service coverage calculation and the associated Cash Needs analysis performed by PGW shows this level. PGW must have an amount over its debt service in order to bill revenues that produce sufficient cash to pay its expenses and other cash items.[25] Importantly, however, as Mr. Golden explained, the debt service coverage calculation does not take account of certain cash obligations that are not in the operating expense section of the income statement, including the City Payment,[26] capital funding, and certain pension and OPEB obligations, all of which must be paid out of the cash that is part of the "coverage" in excess of the debt service that require PGW to outlay cash but are not included on the income statement.[27] While OCA and I&E have recognized these cash requirements, they have failed to factor them into their recommendations.

When the opposing recommended claims are compared with PGW's cash needs, it is clear how deficient their recommendations are:

[25] PGW MB at 16-18.
[26] No change to the $18 million City Payment has been proposed. OSBA expressed concern that PGW's stakeholders will "extract additional rents from PGW." OSBA MB at 6. That concern is not supported by the record. All of the dollars requested are used to cover expenses or fund construction or debt service.
[27] PGW St. No. 2 at 16; PGW MB at 16-18.

Table 2: Cash Requirements Beyond Existing Debt Service (Dollars in Thousands)			
FPFTY	**PGW**[28]	**I&E**[29]	**OCA**[30]
City Payment	$18,000	$18,000	$18,000
OPEB	$18,500	$18,500	$18,500
Pension	$3,455	$3,455	$3,455
Retiree Benefits	$37,435	$37,435	$37,435
Capital Spending (IGF)	$53,207	*$20,942*[31]	*$14,770*[32]
PHMSA Grant Cast Iron Main Replacement	$10,752	$10,752	$10,752
GASB 87/96 Principal Payments	$1,968	$1,968	$1,968
Distribution System Improvement Charge (DSIC)	$41,000	$41,000	$41,000
Working Capital	$15,442	$15,442	$15,442
TOTAL, as proposed	**$199,759**	**$167,494**	**$161,322**
Additional Cash Needed to Meet IGF Needs for Capital Projects	$0	$32,265[33]	$38,437[34]
Total Resulting Rate Increase to Fully Fund Cash Needs	$85,162	$77,095[35]	$54,939[36]

The Cash Needs analysis together with the next two rows shows that if the PUC rejects just one proposed adjustment — specifically, these parties' recommendation to substantially cut PGW's IGF for capital projects[37] — and even if all the rest of I&E's and OCA's expense adjustments were accepted (which PGW believes would be incorrect and unreasonable), PGW nevertheless has justified a rate increase of <u>at least</u> $54.939 million to $77.095 million, as shown in the last row in the I&E and OCA columns. However, since the OCA and I&E IGF adjustments are clearly unsupported and unreasonable, the amounts to fully fund PGW's cash needs reflecting a proper amount of IGF represent the minimum that the Commission can and should award.

[28] PGW St. No. 2 at 16; PGW MB at 17; PGW Exh. JFG-2R (debt service), line 21. PGW's amount of IGF for capital projects is the difference between $199,759,000 and the sum of the other cash need items in the table ($146,552).

[29] I&E St. No. 1 at 27; I&E only challenges the amount of IGF. *See* I&E St. No. 1-SR-Revised at 14-15.

[30] OCA did not respond to the Cash Need Analysis.

[31] The amount of IGF for capital projects or $20,942,000 is the difference between $167,494,000 (from I&E Table I(A), line 21) and the sum of the other cash need items in the table ($146,552). That amount is smaller than I&E's stated reduction of $53.2 million, (*see* I&E MB at 11), and the amount available under Mr. Patel's surrebuttal ($21,247,000). I&E St. No. 1-SR-Revised at 14-16. That amount is also different from the amount of IGF ($10,752) shown on I&E's revised schedules. I&E Exh. No. 1-SR-Revised, Schedule 2. PGW submits that the actual amount of IGF allowed by I&E is shown in Table 2, which creates a deficit of $32,265,000 in capital funding. PGW submits that the actual amount of IGF allowed by I&E is shown in Table 2.

[32] The amount of IGF for capital projects or $14,770,000 is the difference between $161,322,000 (from OCA Schedule DM-SR-19, line 15) and the sum of the other cash need items in the table ($146,552). That amount is smaller than OCA's stated reduction of $17.1 million. *See* OCA MB at 18-10.

[33] $199,759,000 less $167,494,000.

[34] $199,759,000 less $161,322.

[35] $44,827,000 plus $32,265,000.

[36] $16,502,000 plus $38,437,000.

[37] Neither I&E nor OCA challenged the Cash Needs Analysis, except for disputing the levels of cash allowance for IGF, which PGW will address below.

Third, the I&E and OCA debt service coverage and DOC calculations both assume the PUC's adoption of certain adjustments to "normalize" certain PGW expense categories[38] or the total denial of a specific amount because PGW allegedly did not meet its burden of showing its reasonableness.[39] While those adjustments might be appropriate for conventional rate of return/rate base regulation, they are clearly wrong for a cash flow regulated company. PGW's rates need to reflect the cash that it will need to pay its expenses in the test year, not some "normalized" average of prior years. Certainly, it is unreasonable to totally deny expense levels on the ground that, for example, PGW allegedly failed to sufficiently prove that it will incur a certain amount of price increases. Neither I&E nor OCA dispute that PGW will indeed experience price increases in the FPFTY. Pretending as if price increases will not occur is inconsistent with the regulatory requirement under the Cash Flow method to allow PGW a level of cash that it will need to pay its bills.

Here are the results of PGW's key financials if the PUC adopts the increases recommended by the opposing parties and PGW does in fact incur the pro forma expenses, revenues and capital expenditures it has projected rather than the "normalized" or reduced amounts claimed by OCA/I&E:

[38] I&E MB at 17-19; OCA MB at 29-36, 39-42.
[39] I&E MB at 21-23; OCA MB 23-47.

Table 3: Calculated Metrics at Recommended Rate Increases Without Recommended Adjustments to Pro Forma Expenses			
	PGW[40]	**I&E**	**OCA**
Recommended Rate Increase	$85,162,000	$44,827,000	$16,502,426
Debt Service Coverage Ratio: Combined Liens	2.73x	2.29x[41]	2.14x[42]
Combined Liens with $18 million City Payment	2.58x	2.13x[43]	1.98x[44]
Days of Cash on Hand ("DOC")	61.6[45]	39[46]	24[47]

These actual results of their proposals are clearly inadequate, would seriously threaten PGW's existing bond rating[48] and put it at serious risk of not having sufficient cash to pay its bills in the test year. Note that if PGW's expense levels are lower than the amounts it has projected for the FPFTY these funds do not go to shareholders, of which PGW has none;[49] they would simply be added to PGW's cash balance thereby mitigating future rate increases.[50]

Fourth, even if the I&E and OCA recommendations are taken at face value, they nonetheless completely fail to consider how, if adopted, they would negatively affect PGW's bond rating or how they measure up compared to their peers, both of which are required to be considered by the PUC Policy Statement.[51] Mr. Lover for PGW explained that acceptance of the low DOC on hand recommendations advanced by I&E and OCA would seriously threaten the ability of PGW to

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[40] PGW MB at 10-21, 32-35. For purposes of calculating the debt service coverage ratios of I&E and OCA, PGW calculated the starting point for net cash available – line 14 on Exh. JFG-2R (debt service) by using the amount ($315,005,000) and subtracting PGW's rate increase of ($85,162,000) the results in $229,843,000.

[41] Net cash available without any rate increase ($229,843,000) plus the I&E recommended rate increase equals $263,837,000. That amount divided by debt service of $115,230,000 equals 2.29.

[42] Net cash available without any rate increase ($229,843,000) plus the OCA recommended rate increase equals $246,345,000. That amount divided by debt service of $115,230,000 equals 2.14.

[43] Net cash available without any rate increase ($229,843,000) plus I&E recommended rate increase less the City Payment equals $245,837,000. That amount divided by debt service of $115,230,000 equals 2.13.

[44] Net cash available without any rate increase ($229,843,000) plus the OCA recommended rate increase less the City Payment equals $228,345,000. That amount divided by debt service of $115,230,000 equals 1.98.

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

[46] Adding I&E's recommended rate increase ($44,827,000) to PGW's ending cash (without a rate increase, $28,607,00) equals $73,434,000. Dividing that amount of ending cash by 1,846 (calculated above) equals 39.7.

[47] Adding OCA's recommended rate increase ($16,502,426) to PGW's ending cash (without a rate increase, $28,607,00) equals $45,109,426. Dividing that amount of ending cash by 1,846 (calculated above) equals 39.7. Ending cash of $45,109,000 divided by 1,846 is 24.4.

[48] S&P has stated that it "could lower [PGW's] rating if the approved rate increase is substantially lower than requested, … resulting in materially weaker financial performance." OCA Schedule MFG-6 at 5.

[49] PGW MB, Appendix A, FOF 2.

[50] PGW St. No. 2 at 20-21.

[51] *See* 52 Pa. Code § 69.2703(a)(3)-(4) (comparisons to similarly situated utility enterprises); 52 Pa. Code § 69.2703(a)(5), (b) (bond ratings).

maintain its current bond rating. He showed that, of the major municipal utilities rated "A" or better by the rating agencies, only one had a DOC even close to PGW's proposed DOC (61.6 days). Excluding that outlier, the average DOC for the other "A" or better rated municipal utilities was 188.75 DOC, three times higher than the claimed days of cash and far higher than the I&E/OCA recommendations.[52] Mr. Lover concluded: "Clearly, PGW falls well short of all but one of its peers in this area and the adoption of a lower days cash target would further delineate PGW as an "outlier."[53]

Mr. Lover had indicated that the rating agencies are looking for a 90 to 150 DOC to maintain a credit rating at the "A" level.[54] He explained that PGW has been able to maintain its "A" rating despite anemic DOC levels because it also has available capacity in a short-term debt program that bolsters to some extent its inadequate DOC.[55] PGW's short term borrowing program is available as a bridge loan for capital expenditures (between bond issuances) and in emergencies.[56] But he cautioned that a combination of an unreasonably low DOC *and* the use of PGW's short term borrowing could be seen as an "event of default" with significant negative consequences.[57] This is exactly what the Commission risks if it adopts the inadequate I&E or OCA proposed rate increase levels.

Finally, the I&E and OCA recommendations are totally inconsistent with the testimony in the record that shows that PGW's peer municipal utilities have both debt service coverage and days of cash many times higher than those recommendations would produce. For example, PGW witness Walker testified that from 2017 to 2021, the MUNI Group's debt service coverage averaged 2.85x, close to PGW's requested 2.79x coverage. Therefore, the MUNI Group's five-year average debt service coverage was 19% higher than the OCA witness Griffing's recommended debt service coverage (2.40x) and 16% higher than I&E's recommended 2.45x debt service coverage. Over the

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[52] PGW St. No. 3-R at 4-5.
[53] PGW St. No. 3-R at 4-5.
[54] PGW St. No. 3 at 16.
[55] PGW St. No. 3-R at 5.
[56] PGW St. No. 2-RJ at 21-22.
[57] PGW St. No. 3-R at 6.

last two years, 2020 and 2021, the MUNI Group's debt service coverage averaged 3.33x, or 39% higher than Dr. Griffing's and 36% higher than Mr. Patel's recommended debt service coverage.

Similarly, from 2017 to 2021, Mr. Walker's MUNI Group of peer companies' days cash averaged 211 days.[58] This is more than 3.5 times higher than the OCA recommendation of 57.41 days and more than 3.3 times higher than the I&E's artificially high recommendation of 62.2 days. It is notable that the only evidence showing the financial performance of comparable companies was presented by Mr. Walker for PGW. In light of the Policy Statement's directive that PGW's revenue requirement should be determined, in part by "[d]ebt to equity ratios and financial performance of similarly situated utility enterprises,"[59] Mr. Walker's virtually unrebutted testimony should require that the inadequate I&E and OCA DOC and debt service coverage recommendations be rejected as not consistent with the "financial performance of [PGW to] similarly situated utility enterprises."[60]

PGW has proven the need for and should be awarded its full or substantially all of the rate increase it has requested. While this admittedly would be an unusual result for a base rate case, it is wholly consistent with the Cash Flow method requirements of PGW. PGW has shown that it needs this level of cash in order to continue to operate as a financially sound company and provide safe and reliable service. Additional details about each of these topics are set forth below.

a) Debt Service Coverage Ratio

PGW must have a debt service coverage ratio higher than the mandated minimum of 1.5x to produce sufficient additional revenues to pay for cash items for which PGW is committed or required

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[58] PGW St. No. 4 at 37.
[59] 52 Pa. Code § 69.2703(a)(3).
[60] 52 Pa. Code § 69.2703(a)(3). The only response that Mr. Walker's testimony actually elicited was from I&E witness Patel who rejected the whole analysis based on his view that no other utility enterprise was similar to PGW, pointing to differences in the debt to total capitalization ratios of the various companies in Mr. Walker's peer groups. I&E St. No. 1 at 14-15. But Mr. Walker pointed out that he actually used 21 different factors to analyze and compare to PGW. To compensate for the fact that PGW is a municipal utility that is regulated by a public utility commission, Mr. Walker used three different groups comprised of municipal utilities, investor-owned utilities and Pennsylvania utilities. PGW St. No. 4-R at 4-5. Mr. Walker showed that in key metrics PGW lagged behind the average results for all the groups as well as the municipal groups. *See* PGW St. No. 4 at 19-24; PGW St. No. 4-R at 8-12. These various factors smoothed out any possible comparability issues, especially in light of the fact that no other party saw fit to submit any comparisons.

to pay.[61] Although the recommendations by I&E and OCA are above the mandated minimum, they do not provide enough cash for PGW to meet all its cash needs in the FPFTY.

First, the debt service coverages recommended by I&E and OCA are misleading and do not actually produce the 2.45x (I&E) or 2.4x (OCA) alleged by these parties. When the myriad of "normalizing" adjustments that are wrong and do not attempt to predict what PGW will actually experience in the FPFTY – are correctly rejected, their recommended debt service coverages are really 2.29x (I&E) or 2.14x (OCA) as shown in Table 3 herein. In prior years, lower debt service coverage may have been reasonable because those levels of coverage provided sufficient cash to meet all of PGW's cash needs. However, that is not the case here. Both parties' rate increase proposals require significant reductions in capital spending that are unreasonable and unjustified.

The recommendations to adjust PGW's IGF for capital projects[62] are likewise unreasonable and should be rejected. Using IGF is a reasonable and well-established financing strategy. Since the use of IGF creates less risk and is cheaper for ratepayers. OCA's cursory recommendation to reduce the use of IGF for capital spending (by $17.1 million) has no basis.[63] That proposed adjustment is entirely based on looking at past levels of IGF used for capital projects.[64] Those years, as Mr. Golden explained, were affected by Covid related delays and supply chain issues.[65] Importantly, OCA did not give any consideration to the types and sizes of projects actually planned for the FPFTY, or present any evidence to justify the delay or elimination of any project in the FPFTY.[66] No evidence in this record demonstrates that PGW's planned projects could be deferred without harming system safety or system reliability.

I&E went further and recommended that IGF funding for capital spending be ended in its entirety in favor of using DSIC funds. That recommendation is also unworkable because the projects

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[61] PGW MB at 15-18.
[62] Neither I&E nor OCA challenged the Cash Needs Analysis, except for disputing the levels of cash allowance for a few items, which PGW will address below. With respect to this Cash Needs analysis, the parties only directly disputed one item – PGW's allowance for IGF-financed capital spending, which PGW will discuss below. That dispute is without merit.
[63] OCA MB at 18-10. Table 2 herein calculates a smaller reduction in IGF.
[64] PGW MB at 34, fn. 185.
[65] PGW St. No. 2-RJ at 2-3.
[66] PGW St. No. 2-R at 13-14.

eligible for DSIC are limited to distribution plant improvements; so, without IGF, other necessary projects could never be funded in this way. In addition, since the DSIC is held to a percentage cap, which does not change, PGW would (moving forward) be forced to do fewer projects with the same DSIC funds. The impact of I&E's recommendation is further discussed under part c below, since it would change the financing strategy from 50% IGF/50% long-term debt to 80%/20%.[67] Mr. Patel, like OCA, did not present any evidence to justify the delay or elimination of any project. Importantly, neither OCA nor I&E recommended that PGW issue additional debt (or make an allowance for additional debt service expenses) to maintain the level of capital projects planned for the FPFTY. This means that their respective recommendations, if adopted, would just take money away from PGW's capital projects without any consideration of the potential impacts on system safety or system reliability.

Nevertheless, OCA and I&E have persisted in arguing that their debt service coverage recommendations (that include reduced use of IGF for capital spending and other adjustments) are reasonable. The OCA asserts that its recommended debt service coverage is reasonable because it is "well above" the minimum (of 1.5x).[68] That assertion is wrong because it fails to give any consideration to PGW's Cash Needs (Table 2 herein) and the fact that PGW is facing $134 million in additional costs in the FPFTY.[69] I&E emphasizes that its recommended debt service coverage is well within the range for PGW's rating level.[70] Specifically, under Mr. Patel's interpretation of the rating criteria, any level of coverage above 1.8x is reasonable.[71] But this fails to give any consideration to PGW's Cash Needs (Table 2) and the undisputed additional costs in the FPFTY. Without consideration of the Cash Needs, the Moody's range for debt service coverage provides little to no guidance to the Commission because each of the recommendations is above 2.0x, which is the

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[67] Total IGF funding of $104,959,000 (PGW Exh. JFG-2R, line 30) divided by net construction expenditures of $206,959,000 (PGW Exh. JFG-2R (cash), line 13) equals 50.71%. DSIC spending of $41,000,000 (PGW Exh. JFG-2R, line 28) divided by net construction expenditures equals 19.81%.

[68] OCA MB at 15-16. To support that assertion, OCA notes that PGW has had debt service coverages below 2.4x and PGW was just fine from rating agency standpoint.

[69] PGW MB at 11-12.

[70] I&E MB at 9-10.

[71] I&E MB at 9-10; I&E St. No. 1 at 24-25.

highest level in Moody's range. On its face, and without consideration of PGW's actual cash needs, this means that each recommendation would be sufficient only for Moody's rating agency purposes.

To support its debt service coverage recommendation, the OCA further mischaracterizes the need for the rate increase.[72] The introduction to OCA's Main Brief states that PGW's proposed revenue increase is driven primarily by its goal of significantly reducing its debt-to-equity ratio, and its aspiration to receive a bond upgrade.[73] That characterization overlooks the fact that PGW is facing $134 million in additional costs which shows that this rate increase is for PGW to obtain the cash it needs to operate. Adoption of the other parties' completely inadequate recommendations would have very real negative consequences for PGW's bond rating. Mr. Lover, PGW's financial advisor who deals with the bond rating agencies every day, explained how a bond downgrade is a significant event. Beyond the downgrade costs examined by Dr. Griffing, Mr. Lover explained that there are other, long-lasting impacts.[74] Taken together, all of the impacts of a downgrade would be more costly for ratepayers.

The OCA further claims that PGW should have a lower debt service coverage ratio to lessen the burden on low-income residential customers.[75] PGW serves a large base of low-income customers. This means that PGW faces more risks than similarly situated companies, and PGW's debt service coverage ratio (available cash) should be more robust.[76] Simply put, given the low-income population served by PGW, reducing PGW's cash levels as recommended by OCA would

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[72] OCA MB at 1, 17. OCA also mischaracterizes the need for the rate increase by comparing the requested relief to the "present" inflation rate. OCA MB at 14-15. (In doing so, the OCA references a national inflation number not in the record. That being said, there is no testimony in the record explaining how the national levels of inflation affect Philadelphia or PGW.) But, the reasonableness of overall rates are not measured by whether they stay in pace with the rate of inflation and at the time of the rate case decision. *See* 52 Pa. Code § 69.2703. When looking at inflation one needs to look at cumulative inflation and not year-over-year inflation. PGW St. No. 4-R at 7-8. The record does show that year-over-year actual inflation is more than 4.9% (OCA MB at 18, *citing* OCA St. 2 at 11), and that inflation over the 3-year period since PGW's last rate increase was 19%. PGW St. No. 4-R at 7. So, PGW's requested increase is less than the cumulative inflation.
[73] OCA MB at 1, 17. To support these statements, OCA emphasizes Dr. Griffing's opinion that the cost to ratepayers of higher rates outweighs the benefits of maintaining or improving PGW's bond rating. *See* OCA MB at 17.
[74] PGW St. No. 3-R at 8-9.
[75] OCA MB at 14.
[76] PGW St. No. 3-R at 2-3.

provide little margin for error if PGW would have to either absorb these additional costs or quickly make up a revenue shortfall with cash on hand.[77]

b) Days of Cash

Days of cash on hand is an indicator of a system's financial flexibility and ability to swiftly address unforeseen financial requirements.[78] A higher DOC indicates more cash available to pay for operating expenses, hence a lower risk profile.[79] PGW's DOC metric has consistently been lower than the MUNI Group's metric and would remain so under PGW's proposed level of rate relief.[80] Adopting the recommendation either of I&E or OCA would place PGW further behind the peer municipal group.

The OCA asserts that its recommended days of cash is reasonable,[81] but does so only by mischaracterizing Mr. Lover's testimony. Specifically, OCA suggests that Mr. Lover's DOC recommendation provides no benefits to PGW's customers – especially given the median household income of PGW's customer base. On the contrary, Mr. Lover argued that approval of a rate increase that will support upgrades to PGW's total credit ratings would be worth it for PGW's customers.[82] Mr. Lover further explained that PGW faces more risks than similarly situated companies.[83] Such risks justify having cash on hand to absorb additional or emergency costs or to make up a revenue shortfall.[84] Having more of a cushion is just a cost of having a large low-income population,[85] which has to be borne by other customers just like cost of Universal Services. If PGW ran out of cash due to an emergency, the adverse results to PGW and all of its customers would be quite costly.[86]

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[77] PGW St. No. 3-R at 2-3.
[78] PGW St. Nos. 3 and 4.
[79] PGW St. No. 4 at 36.
[80] PGW St. No. 4 at 36-37.
[81] OCA MB at 20-22.
[82] PGW St. No. 3-R at 2.
[83] PGW St. No. 3-R at 2-3.
[84] PGW St. No. 3-R at 2-3.
[85] PGW has taken significant steps to assist low-income customers in affording their bills. PGW St. No. 2 at 4. For example, low income residential customers who are enrolled in CRP are protected from rate increases because their Percentage of Income Payment Plan ("PIPP") caps their bill based on their respective energy burdens (e.g., 4%, 6%, or $25 minimum). PGW St. No. 1 at 16.
[86] PGW St. No. 3-R at 8-9.

I&E also asserted that its recommended days of cash (39) is reasonable, especially given Moody's criteria and PGW's commercial paper program. Under Mr. Patel's interpretation of the rating criteria, any level of days of cash above 35 is reasonable.[87] That is plainly wrong. When considering the adequacy of PGW's days of cash in terms of ratings, the rating agencies compare PGW to PGW's peers.[88] PGW's days of cash is significantly lower than its peers,[89] and adopting I&E's or OCA's recommendations would place PGW further behind its peers.[90] Using Table 3 herein, I&E's recommendation would place PGW near the bottom of the range and OCA's recommendation would drop PGW into a lower ratings category.

I&E appears to argue that PGW's low DOC compared to its peers is nonetheless acceptable because PGW has a line of credit/commercial paper program. But the commercial paper program is not a substitute for cash.[91] The program can only be used for a construction "bridge" loan or emergencies.[92] The availability of commercial paper provides a boost to PGW's metrics, but it is not the same as non-borrowed year-end cash.[93] In fact, disclosure requirements could delay the issuance of commercial paper – so commercial paper may not be available when needed (as explained by Mr. Lover).[94] Ultimately, using short-term borrowing will not change PGW's revenue requirement for the FPFTY.[95]

In addition, it should be kept in mind that being at the lower end of Moody's range for days of cash could trigger a downgrade because PGW would not be able to maintain a level of cash

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[87] I&E MB at 11-13; I&E St. No. 1 at 24-25.
[88] PGW St. No. 3-R at 3-6.
[89] PGW St. No. 3-R at 4.
[90] PGW St. No. 3-R at 3-6.
[91] I&E MB at 12. OCA's Main Brief does not mention PGW's commercial paper program.
[92] PGW St. No. 3 at 6, 16-19; PGW St. No. 2-R at 21-22.
[93] PGW St. No. 2-R at 21-22. Disclosure requirements could also delay the issuance of commercial paper so that it would not be available when needed to pay a certain obligation, as explained by Mr. Lover. PGW St. No. 3-R at 5-6. It is no substitute for non-borrowed cash – it is an emergency safety net.
[94] PGW St. No. 3-R at 5-6.
[95] PGW St. No. 2-R at 21-22. Commercial paper is a form of short-term borrowing and is not the same as non-borrowed year-end cash. *Id.* Using short-term borrowing would decrease liquidity <u>as calculated by the rating agencies</u>. The availability, as opposed to the use, of commercial paper provides a significant boost (80-90 days) to the cash and liquidity metric for PGW with all of the rating agencies, helping to maintain its existing credit rating. PGW St. No. 3 at 5. Use of the commercial paper program would lower that metric as calculated by the rating agencies since liquidity (from commercial paper) would be lower. That has the potential to lower PGW's ratings.

throughout the fiscal year that would be above the "A" range.[96] PGW's cash balance changes throughout the fiscal year and is at a low point in the middle of the fiscal year. Maintaining a DOC balance of 41 days (or less) at August 31st will be followed by a lower balance in the middle of PGW's fiscal year.[97] This means that the low point value of days cash on hand would be below the Moody's "A" rating category range.[98] It also means that the FPFTY's balance of just 41 (or fewer) days cash on hand at fiscal year-end would result in zero or close to zero balances in January and February, leaving very little ability to respond to contingencies such as lower than pro forma sales or unanticipated expenditures.[99]

c) Debt To Total Capitalization

As another of the metrics supporting PGW's requested rate increase, PGW showed that its debt to total capitalization ratio was moving in the right direction, going from 62.69% at current rates to 60.60% with the proposed rate increase.[100] PGW testified that a debt to total capital ratio of below 60% would reduce PGW's riskiness as well as its reliance on long-term debt, which, in turn, reduces costs to ratepayers. Accordingly, PGW has followed a policy of funding its incremental capital expenditures equally (50/50) from long term debt and internally generated funds (rates).[101]

I&E takes the position that PGW's existing debt percentage in its capital structure is too low and that PGW "should evaluate and work towards" a far higher debt percentage – 70%, claiming that this level was recommended by a 2015 PUC Staff Report.[102] Apparently on the basis of this suggestion I&E recommended a rate increase that substantially reduces the cash allowance for IGF. I&E witness Mr. Patel proposed[103] that all of PGW's non-DSIC IGF be denied.[104]

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[96] PGW St. No. 2-R at 25.
[97] PGW St. No. 2-R at 25.
[98] PGW St. No. 2-R at 25.
[99] PGW St. No. 2-R at 25.
[100] *Compare* PGW Exh. JFG-1, pg. 4 with Exh. JFG-2R, pg. 4.
[101] PGW MB at 19-21; PGW St. No. 2 at 20-21; PGW St. No. 3 at 14.
[102] I&E MB at 13-14.
[103] PGW St. No. 2-RJ at 6.
[104] I&E MB at 13-14; I&E St. No. 1 at 28-29. In Mr. Patel's surrebuttal testimony his revised revenue requirement allowance would deny some $32 million in IGF. *See* I&E St. No. 1-SR-Revised at 14-16.; I&E Exh. No. 1-SR-Revised, Schedule 2. The testimony provides $21,247,000 for part of the capital program. That creates a gap of $32,712,000 ($53,959,000 less $21,247.000). That amount is different than the amount of IGF ($10,752) shown on I&E's revised schedules. PGW submits that the actual amount of IGF allowed by I&E is shown in Table 2.

I&E's suggestion that PGW's rate relief should be designed to increase its debt to total capitalization ratio (by denying all or the majority of any cash allowance for non-DSIC IGF) is unreasonable and contrary to the evidence. The I&E position appears to be based substantially on a 2015 Staff Report dealing with the need to and ways in which PGW could expedite its replacement of at risk cast iron and other main.[105] But, as PGW witness Golden pointed out: 1) the Staff Report's reference to 70% is not supported by any analysis or study; it appears to be simply the opinion of the Staff authors, which opinion has never been subject to a due process hearing or adopted by the Commission.[106] 2) the specific recommendation was not to increase the debt portion of PGW's capital structure, but to "issue more debt."[107] Since that time, PGW has continued to issue debt to fund a large portion of its main replacement program and other capital improvements. In fact, since 2015, PGW has issued over $365.7 million in additional long-term debt, and PGW is planning to issue an additional $348.0 million in long-term debt in the FPFTY.[108] At the same time, PGW has implemented a policy of funding its capital improvement program more or less equally between long term debt and internally generated funds in rates. 3) the Staff Report at this point is approximately eight years old and does not reflect current economic conditions generally or PGW's existing financial status. There is no reasonable basis for the Commission to find that PGW should "work towards" a debt to total capitalization of 70%.

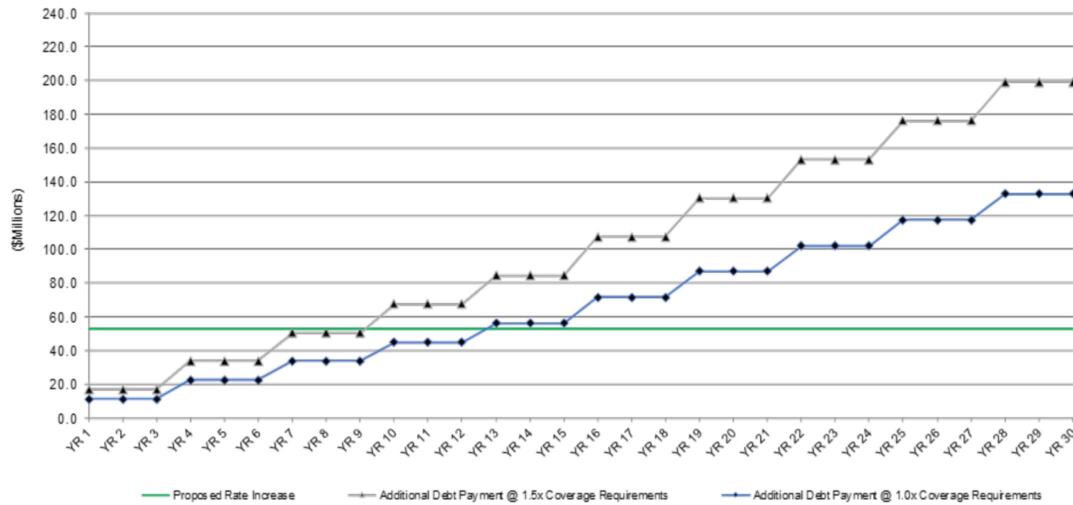
Moreover, working towards a capital structure of 70% would require PGW to abandon its policy of trying to fund its capital program equally between IGF and debt. Doing so would be wrong and unreasonable for several reasons.

- All healthy companies have IGF; IGF funding for PGW reduces its financial risk and helps it to maintain the profile of an "A" rated company.[109] IGF is part of the liquidity metric examined by the rating agencies.[110] The recommendations to eliminate (I&E) or significantly reduce IGF for capital projects (OCA) would be imprudent and viewed negatively by the rating agencies.[111] Adopting either of those recommendations would materially impact the

[105] PGW St. No. 2-R at 7-8.
[106] PGW St. No. 2-R at 8-9.
[107] PGW St. No. 2-R at 8.
[108] PGW St. No. 2-R at 8.
[109] PGW St. No. 3-R at 11; PGW St. No. 4 at 27-28, 36; PGW Exhibit HW-1, Schedule 4.
[110] *Id. See also* I&E Exhibit No. 1, Schedule 3 at 3, 15-16, 40.
[111] PGW St. No. 3-R at 11. Moody's has indicated that it is important for PGW to maintain "sufficient available liquidity" and that a "material decline in liquidity" could lead to a downgrade. OCA Schedule MFG-7 at 3.

funding of non-DSIC, IGF projects. Without funding, the non-DSIC, IGF maintenance and upgrade projects would need to be delayed.[112] Delays could impact the safety and reliability of PGW's system.[113]

- Abandoning PGW's 50/50 financing policy would mean that ratepayers would pay more. PGW demonstrated that funding capital expenditures with IGF actually reduces costs to ratepayers. For a cash-flow company, funding through IGF avoids the need to fund debt service and debt service coverage, the level of which continues to grow. This is illustrated on the following graph:



- To replace $100.0 million in IGF, for example, PGW must issue successive revenue bonds approximately every three years, so that the debt service, for these additional bonds, will continue to increase until the "replacement" debt service exceeds the cost of financing the capital expenditures with IGF, and the annual debt service requirement on the successive bond issuances will keep growing until it is up to three times greater than the comparable IGF financing. Thus, forcing PGW to increase its reliance on long term debt is actually harmful to ratepayers. [114]

- Mr. Patel, for I&E, actually agreed that IGF financing was cheaper than bond funding but claimed that 100% use of IGF would be unfair to current customers and would make them pay for assets that provide benefits for decades.[115] First, PGW in not proposing that 100% of its capital improvements be financed by IGF – only approximately one-half. Second, Mr. Patel's generational inequity argument failed to take account of the fact that PGW makes these IGF expenditures every year, so that future ratepayers will also be paying rates for assets that will benefit future customers, and so on.[116] Importantly, Mr. Lover indicated that

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[112] PGW St. No. 2 at 12-15.

[113] PGW St. No. 3-R at 11.

[114] PGW St. No. 2-R at 9-11.

[115] I&E St. No. 1-SR-Revised at 8.

[116] Mr. Patel also contended that eliminating PGW's non-DSIC IGF funding was appropriate because only a portion of PGW's capital budget is reviewed by the PUC – the portion included in its LTIIP. First, PGW's Capital Budget is actually reviewed every year by outside entities: the Philadelphia Gas Commission and Philadelphia City Council. Moreover, PGW's Capital Budget for the FPFTY is at issue in every rate case. It was discussed and presented in this case. *See* PGW St. No. 2 at 6-8; PGW St. No. 2-R at 12; POWER Exh. MDK-4. Finally, whether PGW's capital budget is reviewed by the Commission is a separate issue from whether it is best for the Company and ratepayers if PGW funds a portion of its capital improvement program with IGF. The change from funding from IGF to funding

any PUC order that would force PGW into 100% debt financing "would be a red line for investors."[117]

- Moving PGW's debt to total capitalization ratio to 70% would also make PGW's capital structure even more at odds with its peer utilities. Importantly, PGW's projected FPFTY capital structure at proposed rates – 60.6 % – is well above the capital structures of PGW's peer utilities. I&E's proposed debt ratio is 17% higher than the peer group of Municipal utilities studied by PGW witness Walker, whose debt to capital ratio averaged 52%.[118] Similarly, PGW witness Lover showed that another group of municipal utilities, all of which had a comparable bond rating to PGW, had an average debt/capital ratio 49.25%. Mr. Patel did not dispute this testimony.

- The rating agencies have made clear that PGW's reduced level of debt to total capitalization was a contributing factor in its bond rating being improved and forcing PGW to move back to higher levels will be viewed negatively by the rating agencies.[119]

In its Brief, I&E raises some additional points, none of which are persuasive. For example, I&E erroneously claims that the 2006 rate proceeding supports abandoning the 50%/50% policy.[120] Part of PGW's rate request in the 2006 base rate proceeding sought cash working capital and to reduce PGW's reliance on long term debt to finance construction.[121] But the Commission's order did not directly address those issues and instead authorized a rate increase that reflected only a small portion of PGW's request – and had no discussion of internally generated funds[122] Not coincidentally, later, in 2008, PGW required extraordinary rate relief to maintain PGW's access to external funding in part because the previous rate increase was inadequate.[123] With that relief (which was made permanent[124]), PGW started to actually have IGF to fund capital projects.[125] Since that time (~15 years), and given the availability of IGF,[126] PGW has used the 50%/50% policy to balance

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by debt does not change the level of review by this Commission, since the Commission only reviews the DSIC funded projects.

[117] PGW St. No. 3-R at 11.

[118] PGW St. No. 4-R at 11.

[119] *See* OCA Schedule MFG-5 (Fitch), at 2 ("The upgrade to 'A-' reflects a consistent trend of lower leverage over the past few years, … and a stable debt profile."); OCA Schedule MFG-6 (S&P) (S&P expects that the leverage will improve); OCA Schedule MFG-7 (Moody's) at 3 (factors that could lead to a downgrade include: a "less credit supportive rate regulatory environment" and "Increased leverage without sufficient cost recovery or a material decline in liquidity.").

[120] I&E MB at 14.

[121] *PUC v. PGW,* Docket No. R-00061931, Opinion and Order entered Sept. 28, 2007; 2007 Pa. PUC LEXIS 45.

[122] The PUC authorized a $25 million rate increase, as opposed to the $100 million sought by PGW. *Id.*

[123] *PUC v. PGW*, Docket No. R-2008-2073938, Opinion and Order entered Dec. 19, 2008.

[124] *PUC v. PGW*, Docket No. R-2009-2139884. After receiving extraordinary rate relief in 2008, which was made permanent in 2009, PGW was able to stave off a potential bond default. PGW MB at 13.

[125] PGW MB at 20.

[126] PGW MB at 20, *citing* PGW Filing Requirements, at II.A.4, Official Statement for the Gas Works Revenue Bonds Sixteenth Series dated October 21, 2020, p. 26.

its financing strategy with cheaper pay-go financing and to reduce reliance on long term debt.[127] Eliminating IGF funding, as recommended by I&E, would increase PGW's reliance on external funding and places PGW at risk if it cannot maintain access to that funding (as was the case in 2008).

B. Expenses

Of the scores of projections and calculations that make up PGW's FPFTY, only a handful were challenged in any way by the Parties.[128] They are discussed in the following subparts as well as in Section IV.B1 of PGW's Main Brief.

1. Rate Case Expense

PGW's claim for rate case expenses should be accepted,[129] and the recommendations by I&E should be rejected.[130] PGW proposed to recovery over a 60 month period.[131] I&E's period of recovery is unreasonable because it (a) would conflict with the accounting presentation required by the Philadelphia Gas Commission; (b) does not correspond to PGW's relevant history of filing base rate cases every 3 years (2017, 2020 and 2023); and, (c) would not enable PGW to recover these expenses before filing its next base rate case if the Commission prevents the full recovery of legitimately incurred (and previously authorized) rate case expenses by a future rate case.[132]

I&E also recommended that PGW be prevented from recovering the remaining amounts from the 2020 base rate case, since it filed the current case before the rate case expenses from the last proceeding were fully recovered.[133] That is an unreasonable collateral attack on a prior Commission

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[127] Moody's has noted that approximately half of the current capital plan will be financed with debt while the other half will be directly funded from internally generated funds provided in large part by the collection of the DSIC in rates. OCA Schedule MFG-7 at 6.
[128] OSBA did not directly challenge PGW's expenses. OSBA does, however, make observations. OSBA MB at 6-7. First, OSBA says that PGW's forecasts are unreliable. PGW disagrees with OSBA's position on the reliability of its forecasts, as indicated in PGWs Main Brief at fn. 172. Second, OSBA says that the Commission should "re-think its policy of allowing PGW to continue to [add] book equity on the backs of its ratepayers." That observation is unreasonable and unsupported by any evidence. PGW is a stand-alone enterprise and ratepayers pay for PGW's capital projects by way of "pay-go" (IGF), DSIC or borrowing. PGW Exh. JFG-2R (cash flow). PGW is spending dollars to modernize and keep its distribution system safe and reliable, not to add equity. PGW has no reason to try to "add equity" and OSBA provided none. That being said, it is difficult to conceive of how the capital improvements over time (to PGW's aging/older system) do not benefit ratepayers, or what "other parties" would be benefiting, under OSBA's implication.
[129] PGW MB at 23-24.
[130] I&E MB at 17-19.
[131] PGW MB at 23-24; PGW St. No. 2-R at 34.
[132] PGW MB at 23-24.
[133] I&E MB at 17-19.

order.[134] PGW's position is that the Commission must allow the full recovery of a legitimately incurred (and previously authorized) rate case expenses.[135] PGW normally has multiple rates cases being amortized concurrently and will continue to do so as long as the 5-year amortization schedule is used.[136]

2. Lobbying Expense

PGW's projected lobbying expenses are reasonable and should be deemed a reasonable *pro forma* expense for PGW.[137] I&E, OCA and POWER disagree.[138] To the extent that including lobbying expenses in pro forma operating expenses for PGW is deemed generally prohibited,[139] PGW requests that the Commission waive its application for the reasons stated in PGW's Main Brief.

3. COVID-19 Expense

PGW proposed recovery of its incurred expenses over a 36 month period.[140] The longer recovery periods recommended by I&E and OCA are unreasonable,[141] since PGW has been filing base rate cases every 3 years (2017, 2020 and 2023),[142] and particularly inappropriate for a cash flow regulated company that used cash it would have used for other purposes in order to properly comply with the PUC's goals of trying to minimize the adverse effects of the pandemic on ratepayers.

4. Inflation Adjustment

The Commission allows targeted adjustments for higher prices.[143] PGW expects all expenses/costs to increase from the FTY to the FPFTY. For the majority of its expenses, PGW used price increases that were provided by the department or responsible group managing the activity,[144] but for some 20% of its expense categories it used a generic inflation rate because the subject matter

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[134] PGW MB at 23-24; PGW St. No. 2-R at 34.
[135] PGW St. No. 2-R at 34.
[136] PGW St. No. 2-R at 34.
[137] PGW MB at 22-23.
[138] I&E MB at 15-16; OCA MB at 27-29; POWER MB at 59-60.
[139] PGW recognizes the Commission's traditional view that lobbying expenses such as these should not be included in *pro forma* expenses. PGW St. No. 2-R at 38; OCA St. 2 at 20.
[140] PGW MB at 24-26.
[141] I&E MB at 19-21; OCA MB at 25-26.
[142] PGW MB at 24-26; PGW St. No. 2-R at 34.
[143] PGW MB, Appendix A, at FOF 95 and 96.
[144] PGW MB at 26-27. Each of PGW's 43 operating departments was asked to identify their expenses/costs for the FPFTY. *Id.*; *see also* PGW MB, Appendix A, at FOF 91.

expert did not have a specific recommendation.[145] For those seven lines on the income statement, PGW applied a generic inflation adjustment of 4.63% .[146] That is a reasonable level, given that the actual inflation rate in the FTY is higher.[147] The OCA described the "actual" inflation rates as follows: the "inflation rate for April 2023 (4.9%), the January 2022 annual inflation rate (7.5%) and the January 2023 annual inflation rate (6.4%).[148] PGW's expenses have increased too.[149]

Neither I&E nor OCA dispute that PGW will indeed experience price increases in the FPFTY. But they both arbitrarily claim that the entire adjustment for increased prices for these categories of expense be rejected essentially because the Commission has, in a few prior cases rejected a wholesale application of a "general" inflation rate to a utility's fully projected test year claim.[150] But an examination of those cases shows that the opposing Parties have misapplied these cases. First and foremost, PGW did not use a "general inflation adjustment" as the utilities employed in those cases. Instead, PGW used a reasonable projection of how prices will increase in the FPFTY for just a handful of expense items where a more targeted specific level was not available. In other words, PGW's subject matter experts affirmed that they expected prices to go up in their area but did not have a specific level to recommend. That is entirely different than just applying a generic price hike to all expenses. Thus, PGW's use of generic inflation adjustment is not speculative, unlike the examples cited by I&E and OCA.[151]

5. Normalization

OCA recommends various "normalization" adjustments that reduce PGW's expenses by $4,276,673.[152] The Commission should reject the OCA's extensive reliance on historic costs and

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[145] PGW MB, Appendix A, at FOF 91.
[146] PGW MB at 26-27; PGW St. No. 2-R at 37-38.
[147] OCA MB at 18.
[148] OCA MB at 18, *citing* OCA St. 2 at 11.
[149] PGW MB at 11-12, which describes $134 million in additional costs in the FPFTY, including (but not limited to) increased annual debt service of approximately $22.7 million.
[150] I&E recommends an adjustment of $2,741,050. I&E MB at 21-23; I&E St. No. 2-SR at 13-14. OCA recommends an adjustment of $2.89 million. OCA MB at 23-23; OCA St. 1-SR at 10; OCA Sch. DM-SR-2.
[151] PGW St. No. 2-R at 38-39.
[152] OCA MB at 29-36.

historic averages when making recommendations for future rates for the reasons expressed in Section 4.B.1(12) of PGW's Main Brief.

6. Employee Count; Payroll Expenses; Payroll Taxes

PGW's headcount of 1,637 employees should be accepted, and the OCA's recommendation of a headcount of 1,588 employees should be rejected. OCA's Main Brief explains how it calculated the reduction in employees. In doing so, OCA only looked backwards and ignored the need to hire more employees to return to normal levels in the wake of COVID-19, the actual current hiring trend (of adding about 5 employees per month), and the fact that OCA's headcount would provide only one employee more than PGW's actual full-time employee count as of June 2023.[153]

7. Incentive Compensation

PGW's claim for incentive compensation should be accepted,[154] and the OCA's disagreement with two of the corporate goals[155] should not be used to reduce this expense claim and should be rejected. All of the corporate goals benefit ratepayers. Benefits accruing to "PGW" also benefit ratepayers (who are in the City) since PGW is owned by the City. Both increased revenues from new business (which will allocate costs over a wide-base) and diversity in the supply chain[156] benefit ratepayers and incentives to try to achieve them are a legitimate, reasonable expense for any utility.

8. Pension Expense

PGW's claim for pension expense should be accepted,[157] and OCA's recommendation[158] should be rejected. As explained in PGW's Main Brief,[159] OCA seeks to normalize the GASB 68 amortization shown on line 29 of the income statement. Normalization of GASB 68 entries is not reasonable since they are determined by actuarial valuation.[160] The OCA has not justified a change in

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[153] PGW MB at 22.
[154] PGW MB at 23-28.
[155] OCA MB at 37-39.
[156] *See*, 52 Pa. Code §§ 69.801-809.
[157] PGW MB at 23-28.
[158] OCA MB at 39-40.
[159] PGW MB at 28-30.
[160] PGW MB at 28-30.

the underlying GASB 68 amortization and/or the removal of $8 million in cash outlay for pensions.[161]

9. OPEB Expense

PGW's claim for OPEB expense should be accepted,[162] and OCA's recommendation[163] should be rejected. As explained in PGW's Main Brief,[164] the OCA is focused on the OPEB expense under GASB 75, and not the total cash outlay. Normalization of the GASB 75 entries is not reasonable since they are dictated by accounting rules over which PGW has no control. OCA has not challenged the application of the underlying accounting to the FPFTY and has not justified a reduction in OPEB expenses.

10. Health Insurance Expense

PGW's claim for health insurance expense should be accepted,[165] and OCA's recommendation[166] should be rejected. OCA witness Mugrace recommended that PGW's claim be reduced substantially. Yet, even though Mr. Mugrace agreed that health insurance costs are expected to increase[167] he insisted, without evidence, that PGW's health insurance costs will increase consistent with the national average for private health insurance (5.7%) as shown in the CMS.Gov website.[168] That speculation is contradicted by PGW's actual experience. The figures in Mr. Mugrace's Schedule DM-SR-10 illustrate average annual growth from FY 2020 to FY 2022 HTY greater than his recommended 5.7% adjustment.[169] This means that Mr. Mugrace disregarded historical trends and PGW's expert (Brown & Brown) to instead pivot to applying a national growth index,[170] after previously expressing an aversion to applying national growth indices.[171] This adjustment clearly is without a legitimate basis and should be rejected.

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[161] PGW MB at 28-30.
[162] PGW MB at 30-31.
[163] OCA MB at 41-42.
[164] PGW MB at 30-31.
[165] PGW MB at 31.
[166] OCA MB at 42-44.
[167] OCA St. 1-SR at 17.
[168] OCA St. 1-SR at 17.
[169] PGW St. No. 2-SR at 8-9. The average of 10.44%, 1.55%, 11.60% and 7.67% is 7.82%.
[170] PGW St. No. 2-SR at 8-9.
[171] OCA St. 1 at 16.

11. Advertising Expenses

PGW's advertising expense claim should be accepted,[172] and OCA's recommendation[173] should be rejected. PGW satisfied its burden of proof by describing the substance of the advertising, as described in PGW's Main Brief. The descriptions provided by PGW show the customer beneficial nature of this advertising. It is unreasonable for Mr. Mugrace to mandate examples of all of those materials that will be used, since the above-described campaigns will not be commenced until the FPFTY. Creating this as the required level of proof is just a way of insuring that most advertising expenses for a future period will be denied.

12. CIS Spending; Depreciation

PGW's projected contingency for the Customer Information System (CIS) should be accepted,[174] and OCA's recommendation[175] to reduce PGW's depreciation should be rejected. The contingency is reasonable, as explained in PGW's Main Brief. Unlike PPL's situation discussed by OCA, the total contract price for CIS is known and the contingency is a reasonable amount of the total cost. PGW also disagrees with OCA's application of depreciation expenses to PGW because depreciation expense is not really a cash flow concept.[176] It is a recovery concept for an investor-owned utility.[177] Modifying PGW's depreciation expense will have no impact on its cash needs.[178]

13. Uncollectible Reserve Balance

Line 7 of PGW Exhibit JFG-2 (Income Statement) is labeled "appropriation for uncollectible reserve." If the Commission does not accept PGW's recommended rate increase, line 7 would need to be adjusted. So, the OCA recommends a conforming change that matches OCA's recommended rate increase.[179] The OCA's recommendation for line 7 should be rejected, since OCA's

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[172] PGW MB at 28.
[173] OCA MB at 26-27.
[174] PGW MB at 21-22.
[175] OCA MB at 45-46.
[176] PGW St. No. 2-R at 14.
[177] PGW St. No. 2-R at 14.
[178] PGW St. No. 2-R at 14.
[179] OCA MB at 47-48.

recommended rate increase is unreasonable (as discussed herein and in PGW's Main Brief). This adjustment needs to be made upon the PUC's determination of PGW's allowed rate increase.

14. Sale of Real Estate (Service Centers) By The City

The City owns PGW[180] as well as the "service centers" used by PGW.[181] PGW reduced its costs by permanently closing five service centers in the Spring of 2022.[182] At a point in the future, the City may sell the now-closed service centers.[183] If and when sold, the proceeds from the sale of those properties would go to their owner, the City.[184]

The OCA's recommendations regarding the sale of the service centers[185] should be rejected for the following reasons: First, nothing indicates that a sale will occur in the FPFTY (and PGW is not claiming any costs or expenses in the FPFTY). Second, the record does not indicate if the City will experience a gain or a loss if the service centers are sold. Third, the record contains no data or estimate on the size of the gain (or loss) that the City would experience upon the sale. Fourth, OCA's recommendation ignores general real estate ownership law. Therefore, there is no foundation for OCA witness Mugrace's statements that the sale of service center locations could create "savings or some return of capital" for PGW.[186]

Despite the lack of foundation, Mr. Mugrace opined that the proceeds from the sale should go to PGW, not the City.[187] There is no legal or regulatory support for that opinion either.[188] PGW is not

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[180] PGW St. No. 4 at 5; *see* 66 Pa. C.S. § 102 (definition of "City natural gas distribution operation").

[181] PGW St. No. 2-R at 56.

[182] PGW St. No. 1 at 8. PGW estimated that the closings resulted in savings. PGW St. No. 1 at 8-9. The 2022 closures do not directly impact FY 2024, the FPFTY. *See* PGW St. No. 2-R at 54-55. Mr. Mugrace suggested that the savings (from FY 2022) should be used as an offset for expenses in FY 2024, the FPFTY. OCA St. 1-SR at 18. But this demand shows that Mr. Mugrace does not understand how Cash Flow ratemaking works. PGW has no place other than its cash accounts to reflect expense savings (or additional costs). PGW does not have any "below the line" activities, in contrast to investor-owned utilities. Therefore, 100% of savings were flowed through to ratepayers (and Mr. Mugrace never refuted this assertion). His concern that PGW is not adequately giving ratepayers credit for these cost savings is misplaced. PGW St. No. 2-R at 54-55.

[183] PGW St. No. 2-RJ at 9.

[184] PGW St. No. 2-R at 56; PGW St. No. 2-RJ at 9. Proceeds (income) from the sale cannot be imputed to PGW since there is no data/information in the record on either the timing or amount of the future real estate sales.

[185] OCA MB at 46-47.

[186] OCA St. 1 at 14.

[187] OCA St. 1-SR at 19-20.

[188] Ratepayers (customers) do not acquire an interest in property by virtue of paying rates for utility service. *See Philadelphia Suburban Water Co. v. PUC*, 427 A.2d 1244 (Pa.Cmwlth. 1981), *citing Board of Public Commissioners v. New York Telephone Co.*, 271 U.S. 23 (1926) (wherein the United States Supreme Court held that ratepayers pay only for the use of utility assets properly used to provide public service, while the ownership of utility assets resides in the shareholders of the company.).

entitled to the proceeds from the sale of real estate that was occupied (and not owned) by PGW.[189] Nor can the Commission order the City to provide proceeds from the sale of City-owned properties to PGW.[190] Mr. Mugrace implicitly recognizes this last point, since he suggests that PGW could determine the amount of proceeds from the sale and deduct (offset) that amount from PGW's annual $18.0 million payment to the City.[191] There is no legal support for that offset suggestion.[192] The annual $18.0 million payment to the City is authorized by the Public Utility Code[193] and is required by a 1972 City Ordinance.[194] Nothing in those provisions allows the PUC to offset the $18.0 million with other amounts owed by the City to PGW.

C. Rate Structure

1. Cost of Service

a) Cost of Service Method

In sponsoring the Class Cost of Service Study ("CCOSS"), PGW witness Constance Heppenstall used the "Average and Extra Demand Method" (or "Average/Excess or "A&E") for allocating the costs of distribution mains to customer classes. Her rationale for using this approach was that the Commission has recently found that the A&E method is reasonable for use by a natural gas utility because it aligns with cost causation principles. Further, PGW's distribution system is designed to meet customers' design day demands, warranting treatment of the cost of excess capacity as a primary cost driver rather than as an incremental cost. In addition, this method was approved in PGW's last fully litigated case.[195]

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[189] PGW expressed the opinion that if proceeds from the sale were to be received by PGW, PGW would advocate to have the City permit it to use those funds to offset future capital expenditures, not operating expenses (PGW St. No. 2-R at 56), but any such determination is premature.
[190] The Commission regulates PGW (as a city natural gas distribution operation), not the City itself. *See* 66 Pa. C.S. §§ 102 (definition of "City natural gas distribution operation"), 2212 (City natural gas distribution operations).
[191] OCA St. 1-SR at 19-20. Mr. Mugrace did not raise the "offset" issue in his direct testimony and does not provide any authority for his offset recommendation. PGW St. No. 2-RJ at 9.
[192] *See* PGW St. No. 2-RJ at 9.
[193] 66 Pa. C.S. § 2212(f).
[194] *See Public Advocate v. Phila. Gas Comm'n*, 674 A.2d 1056 (Pa. 1996) where the Pennsylvania Supreme Court ruled that annual payment from PGW to the City required under the 1972 ordinance was constitutional and a reasonable return on equity.
[195] PGW MB at 36.

Both I&E and OCA accepted the results of PGW's CCOSS.[196] Indeed, OCA indicated that the A&E method produced reasonable results and also "generally aligns with decades of Commission precedent that support the allocation of main costs by only using peak demands and annual throughput."[197] However, OSBA and PICGUG advocate for the use of a customer demand ("CD") method.[198] The CD studies performed by witnesses for OSBA and PICGUG should not be relied upon by the Commission as a guide for cost allocation in this case.

Given PGW's adherence to prior PUC directives regarding the use of the A&E method and the PUC's express prior rejection of the CD method for use by PGW, the Commission should approve the use of the A&E method by PGW for the allocation of distribution mains costs. The parties advocating for the CD method have not justified a departure from the A&E method, other than to arrive at an outcome that is more favorable to the specific classes on which they are focused in this proceeding.[199] Moreover, the weightings proposed by OSBA and PICGUG for use with the CD method have not been fully developed if PGW were to allocate a portion of the cost of mains to the customer cost function. Since a more robust analysis would be required than either witness has performed, their proposals should be rejected.[200]

b) Allocation of Mains Costs to Rate IT Classes

The primary issue in dispute regarding PGW's approach to cost allocation relates to the manner in which the Company allocated the costs of distribution mains to the Rate IT class. Since the IT customers have not been interrupted since 2004, PGW witness Heppenstall concluded that they "should be treated as firm customers who are supplied natural gas during peak periods and should be allocated costs accordingly."[201]

OSBA witness Robert Knecht agreed with PGW's approach.[202] Nonetheless, in its Main Brief, OSBA recommended "that the Commission direct PGW to undertake a detailed evaluation of

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196 I&E MB at 23; OCA MB at 48-52.
197 OCA MB at 52.
198 OSBA MB at 15-17; PICGUG MB at 17-21.
199 PGW MB at 37-38.
200 PGW MB at 38.
201 PGW St. No. 5-R at 4; PGW St. No. 5 at 5-6.
202 OSBA St. No. 1 at 29; OSBA MB at 16-17.

any avoided costs associated with the interruptibility of Rate IT customers for the next base rates case."[203] Further, OSBA proposed that if no avoided costs benefits are identified, "PGW should begin transitioning these customers to firm service."[204] Notably, these recommendations appeared for the first time in OSBA's Main Brief and were not described by OSBA witness Knecht in his testimony.[205] As OSBA failed to include this proposal in testimony, PGW has had no opportunity to respond to the recommendations or offer evidence concerning the resources that would be required to undertake a "detailed evaluation" of any such avoided costs or to begin shifting these customers to firm service. Moreover, with a general reference in OSBA's Main Brief to a "detailed evaluation" and no description of the level of detail PGW would be expected to consider, it would be unreasonable for the PUC to impose this requirement on the Company for the next base rate case.

PICGUG contends that PGW should be required to modify its CCOSS to treat the Rate IT customers as interruptible since they receive an interruptible form of service.[206] PICGUG also advocates for an adjustment to PGW's CCOSS so that no peak-related costs are allocated to the Rate IT class.[207] In support of their arguments, PICGUG refer to various provisions in PGW's Tariff that establish the obligations of Rate IT customers to maintain the ability to be interrupted. Of note, however, PICGUG has not provided evidence quantifying any costs it incurs to preserve its interruptibility. Therefore, no basis exists upon which to modify PGW's proposed approach.

Additionally, in making this argument, PICGUG has not recognized the value it has enjoyed and would continue to enjoy (under PGW's proposal) of paying distribution rates on Rate IT that are far lower than PGW's firm service rates. For example at current rates under Rate GS, industrial customers pay a distribution charge of $0.51668 per Ccf,[208] while Rate IT customers pay less than half of that charge, with some interruptible classes paying only a fraction of it.[209] Therefore, Rate IT

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[203] OSBA MB at 8.
[204] OSBA MB at 17.
[205] OSBA St. No. 1 at 29; OSBA St. No. 1-SR at 7-9.
[206] PICGUG MB at 8-10.
[207] PICGUG MB at 10.
[208] PGW Exhibit FT-1, Page No. 83. Under proposed rates, this charge would increase to $0.61095 per Ccf.
[209] PGW Exhibit FT-1, Page No. 115. The range of current rates for the IT classes is $1.1739 to $2.7299 per Mcf. Under proposed rates, the distribution charges for the IT classes would range from $1.1353 to $3.4988, still far below the distribution charges for industrial customers.

customers are getting the advantage they bargained for when they incurred the costs of being interruptible, but that does not mean they should be excluded for cost allocation purposes from being treated as the firm service customers they practically are. It follows that these customers, who are receiving tremendous benefits from their lower cost distribution system, should be responsible during the allocation phase for the costs incurred by PGW to make those benefits possible.

Moreover, PICGUG's proposed approach is entirely inconsistent with cost causation principles since PGW has not interrupted Rate IT customers in nearly twenty years. As the OCA witness observed, "PGW's customers are not realistically subject to curtailment."[210] PGW's witness also explained that even though PGW does not include interruptible load in calculating its peak design day demand, "PGW does provide gas during the period of Interruptible classes' peak day demand. Therefore, the cost allocation should reflect that service."[211]

PICGUG further refers to cost of service as the "polestar" of utility ratemaking and argued that PGW's CCOSS, which does not account for the possibility of Rate IT customers being interrupted, is not consistent with cost causation principles.[212] Notably, PICGUG's argument is not based on a contention that PGW failed to allocate revenues in accordance with the results of the CCOSS, which was the context of the Commonwealth Court's reference to cost of service.[213] Rather, PICGUG is taking issue with the underlying allocation of costs but has not shown that the treatment of Rate IT customers as firm customers for purposes of cost allocation is unreasonable. Indeed, as PGW witness Heppenstall made clear, the Rate IT customers "cannot be truly considered as interruptible for cost allocation purposes."[214] Accordingly, PICGUG's proposed approach of setting Rate IT's extra demand to zero should be rejected.

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210 OCA St. 3 at 14-15.
211 PGW St. No. 5-R at 13.
212 PICGUG MB at 10.
213 *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010, 1020 (Pa. Commw. Ct. 2006) (Court rejected Commission's use of the principle of gradualism to trump all other ratemaking concerns, especially the cost of providing service).
214 PGW St. No. 5 at 5-6.

c) Allocation of Universal Service Program Costs

Consistent with PGW's long-standing Commission-approved practice, the Company allocated universal service program costs to residential and non-residential customers through the Universal Service and Energy Conservation Charge ("USEC").[215] While OSBA witness Knecht opined that universal service costs should be assigned only to residential customers, he accepted PGW's proposal to recover costs from non-residential customers in this proceeding. However, he initially recommended a modification in his direct testimony for the allocation and recovery of these costs on a percentage of base rates basis, similar to the DSIC mechanism.[216] Then, in surrebuttal testimony, Mr. Knecht recognized that from a practical perspective, this may not be the appropriate time for significant modifications to PGW's long-standing approach for the recovery of universal service costs, suggesting that he was withdrawing his recommendation.[217]

In its Main Brief, OSBA resurrected Mr. Knecht's original proposal, arguing that it "is not reasonable to recover the costs of these programs from non-residential customers because non-residential customers are ineligible to participate in the universal service programs."[218] In addition, OSBA cited to a litany of non-PGW cases in which the PUC has declined to allocate universal service costs to non-residential customers.[219] Yet, on the other hand, OSBA stated that it "is not proposing to modify the Commission's long-standing policy of allocating universal service costs to non-residential customers in this proceeding."[220] Then, ignoring the testimony of its witness that this may not be the appropriate time for revisiting the entire USEC methodology, the Main Brief continues to propose that "universal service costs be allocated and recovered on a percentage of base rates basis, similar to the DSIC mechanism."[221] The Commission should not endorse OSBA's "moving target" approach to the litigation of this issue within a complex base rate proceeding.

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[215] PGW MB at 40-41.
[216] PGW MB at 40; OSBA St. No. 1 at 32-34.
[217] PGW MB at 41; OSBA St. No. 1-SR at 12-13.
[218] OSBA MB at 18-19.
[219] OSBA MB at 19, fn. 28.
[220] OSBA MB at 21.
[221] OSBA MB at 23.

In any event, PGW witness Gil Peach adequately addressed in his rebuttal testimony why Mr. Knecht's proposed modification to the USEC methodology should not be adopted.[222] Specifically, Mr. Peach described the lengthy history of this issue, noting that in 2017, the PUC determined that PGW's long and continuous approach to the recovery of universal service costs should be permitted to continue.[223] As Mr. Knecht correctly suspected in his surrebuttal testimony, an overhaul of that cost recovery method is not warranted here. PGW urges the Commission to approve the continued use of the USEC for the recovery of these costs, without modification.

2. Revenue Allocation

PGW's proposed revenue allocation among the customer classes sought to move the various rate classes closer to their full cost of service while avoiding applying an unreasonably large portion of the increases to any one of the customer classes. Additionally, PGW recognized the principle of gradualism in proposing lower increases for some classes despite the higher costs incurred by the Company to serve those classes.[224] As explained by PGW witness Teme, PGW's proposal for allocating revenues among customer classes constitutes a reasonable application of the CCOSS results.[225] Further, PGW witness Heppenstall testified that various schedules presented with the CCOSS show that PGW is moving toward unity in its proposed rate design.[226]

OSBA presents the proposed revenue allocation of Mr. Knecht,[227] while PICGUG argues for a revenue allocation approach that maintains the Rate IT rates at their current levels.[228] However, because the OSBA proposal reflects the results both of his proposed reassignment of USEC costs and the allocation of the base rate increase, it is not possible to do a meaningful side-by-side comparison with PGW's revenue allocation approach. Additionally, PICGUG has presented no alternative revenue allocation proposal to show which classes would absorb the portion of the revenue increase that is not contributed by Rate IT. Finally, since the revenue allocation proposals of OSBA and

[222] PGW MB at 40.
[223] PGW St. No. 9-R at 35.
[224] PGW MB at 41-43.
[225] PGW MB at 43; PGW St. No. 6 at 10.
[226] PGW MB at 43; PGW St. No. 5 at 7.
[227] OSBA MB at 26-27.
[228] PICGUG MB at 28-31.

PICGUG are based on the results of flawed cost of service studies performed by their witnesses, these approaches should be rejected.[229] Accordingly, the Commission should adopt the revenue allocation approach proposed by PGW as it is closely aligned with the results of the CCOSS, which was performed in a manner that is consistent with prior PUC directives to the Company.

3. Rate Design

PGW's proposed rate design is presented in the direct testimony of Mr. Teme.[230] As shown, PGW is moving toward unity in its proposed rate design.[231] Therefore, PGW's proposed rate design should be approved, as the rates are designed to produce just and reasonable rates.

OSBA claims that PGW's proposed rate design will result in relatively larger rate increases for smaller commercial customers compared to larger commercial customers.[232] The small commercial customers and larger commercial customers that OSBA refers to are served in the same rate class – Rate GS-Commercial.[233] PGW has proposed that the customer charge for the Rate GS-Commercial class increase from $25.35 per month to $34.00 per month and that the delivery charge increase from 5.1908($/MCF) to 5.9702 ($/MCF).[234] PGW's proposed rate design properly treats customers within Rate GS-Commercial consistently. Therefore, OSBA's claim should be rejected.

a) Customer Charge

PGW's proposed customer charges should be approved as they are: (1) wholly supported by Ms. Heppenstall's cost analysis;[235] (2) consistent with the principle of gradualism; and (3) designed to provide more rate stability.[236] PGW's proposed residential customer charge is in line with PUC precedent, as PGW's proposed residential customer charge is below the customer-based cost, and the

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[229] PGW St. No. 5-R at 6-8, 13-14.
[230] PGW St. No. 6.
[231] PGW St. No. 5 at 7.
[232] OSBA MB at 28.
[233] PGW St. No. 6-R at 10.
[234] PGW St. No. 6 at 8.
[235] PGW MB at 46; PGW St. No. 6-R at 11. PGW's proposed residential charge reflects that PGW is requesting *more* of the fixed costs be recovered through the customer charge. If PGW's requested residential customer charge is approved, the charge will still not recover 100% of the customer-related fixed costs as determined by PGW's cost of service study. PGW St. No. 9-R at 8.
[236] PGW St. No. 6 at 6-8.

charge will still be only a small percentage of the typical customer's bill.[237] I&E determined that PGW's proposed customer charge increases are supported by the customer cost analysis.[238] As such, I&E recommended no adjustments to any of PGW's proposed customer charges.[239]

i. Residential Customer Charge

POWER and OCA compare PGW's proposed residential customer charge to the current residential customer charges of other natural gas distribution companies ("NGDCs").[240] While PGW's proposed residential customer charge of $19.50 is higher than other residential customer natural gas charges currently in place in Pennsylvania, POWER and OCA erroneously claim that PGW is an outlier.[241] PGW witness Peach demonstrated that recent residential customer charges proposed by other NGDCs range from $18.60 to $23.00, with an average request of $20.16.[242] PGW's request is squarely within the range of recent proposals. NGDCs, required to follow sound cost of service study methodology, are essentially performing the same analysis and arriving at the same conclusion regarding customer charges.[243] Notwithstanding the foregoing, a utility's rates relative to other companies is not a basis on which to determine just and reasonable rates.[244]

PGW has demonstrated that its requested residential customer charge is reasonable and consistent with PGW's cost analysis.[245] Of note, the PUC previously approved a higher residential customer charge for PGW. PGW's residential customer charge in effect in 2003 was $12.00. Accounting for inflation alone, the value of PGW's $12.00 residential customer charge in 2003 is

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[237] *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597, 2012 Pa. PUC LEXIS 1757 (October 19, 2010 R.D.; Order entered December 28, 2012) (rejecting I&E's and OCA's position of "no increase" to the customer charge because it was not based on a proper cost analysis), *citing Pa. Publ. Util. Comm'n v. Aqua Pennsylvania, Inc*., Docket No. R-00038805, 2004 Pa. PUC LEXIS 39, 236 P.U.R.4th 218 (August 5, 2004). PGW St. No. 6 at 8; PGW St. No. 6-R at 13.
[238] I&E MB at 23; I&E St. No. 3 at 7.
[239] I&E MB at 23.
[240] POWER MB at 15-16, 18; OCA MB at 63-64.
[241] POWER MB at 16-17; OCA MB at 64.
[242] PGW St. No. 9-R at 7.
[243] PGW St. No. 9-R at 7-8.
[244] *See Pa. PUC v. Columbia Gas of Pa.*, Docket Nos. R-2022-3031211 *et al*., Opinion and Order (entered Dec. 8, 2022) , at 72 ("…we have previously rejected arguments seeking to compare rates among utilities operating in Pennsylvania, finding that because each public utility has different problems of supply, production, distribution, competition, and geographic conditions, there need not be, and cannot be, absolute equality and uniformity of rates between utilities or between classes of service within the same utility." (citations omitted)).
[245] PGW St. No. 9-R at 3, 14.

equivalent in April of 2023 to a charge that is higher than what PGW proposed in this proceeding.[246] As such, PGW's requested residential customer charge of $19.50 should be approved.

ii. Impact on Low-Income Customers

PGW has taken significant steps to assist low-income customers in affording their bills.[247] PGW's low-income customers can participate in PGW's Customer Responsibility Program ("CRP"), which ensures that they avoid any customer charge increase.[248] PGW customers may also benefit from PGW's Low Income Usage Reduction Programs ("LIURP"), a free low-income smart thermostat installation program, and an increased rebate incentive for gas equipment.[249] Claims of OCA, CAUSE-PA/TURN and POWER that PGW's requested increase in the customer charge "harms" low-income customers[250] are unsubstantiated and should be disregarded.

OCA and CAUSE-PA/TURN cite their preferences for an increase to the volumetric portion of a residential bill rather than the fixed customer charge.[251] Their preferred approaches should be rejected as they are inconsistent with the goal in ratemaking that the rate reflect cost causation.[252] PGW witness Peach estimated the possible savings to low-income customers of placing PGW's requested $4.60 per month in the variable charge portion of the monthly bill instead of in the residential customer charge, as very little.[253] His assessment was based, in part, on the fact that a low-income customer can completely avoid the customer charge by enrolling in the CRP.[254]

iii. Impact on Energy Efficiency and Conservation

Claims of OCA, CAUSE-PA/TURN and POWER that an increase to the residential customer charge will impede consumers' energy efficiency and conservation efforts should be disregarded.[255] Under PGW's proposal, the proposed customer charge increase of $4.60 a month will still be only a

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[246] PGW St. No. 9-R at 3, Figure 1.
[247] PGW St. No. 1-R at 4.
[248] PGW St. No. 9-R at 10.
[249] PGW St. No. 1-R at 8-9; PGW St. No. 9-R at 13.
[250] OCA MB at 65; CAUSE-PA/TURN MB at 12; POWER MB at 20-22.
[251] OCA MB at 64; CAUSE-PA/TURN MB at 16.
[252] PGW St. No. 9-R at 8.
[253] PGW St. No. 9-R at 12.
[254] PGW St. No. 9-R at 12-13. The large number of customer households served through CRP and other PGW assistance programs, including LIURP, creates costs that are imposed on the other roughly 80% of residential customers who do not receive subsidies. PGW St. No. 9-R at 13-14.
[255] OCA MB at 64-66; CAUSE-PA/TURN MB at 13-16; POWER MB at 22-25.

small percentage of the total proposed rate increase and provides customers with an opportunity to save money by lowering energy usage.[256] For a typical residential customer, under PGW's proposal, only 14.16% of the customer's total annual bill will represent the fixed customer charge.[257]

Contrary to CAUSE-PA/TURN's assertion,[258] bill savings through energy efficiency will not be eroded. Given that the existing customer charge is $14.90 and the proposed charge is $19.50, it is an error or exaggeration to imagine that a difference in $4.60 a month will have any detectable influence on customer decisions to conserve energy.[259] As recognized in CAUSE-PA/TURN's Main Brief, low-income households "often lack the ability to reasonably control usage due to poor housing stock and older, less efficient appliances…."[260] It should also be considered that most customers will not reduce their energy use.[261] Customers that do reduce their energy use through energy efficiency may create savings of merely 2% or 3%, which would be less than $2.00 per year. This difference, in real terms, does not provide a meaningful incentive for energy efficiency.[262]

Increasing only the volumetric portion of the bill, as CAUSE-PA/TURN suggests[263], would run contrary to the premise that a customer charge should accurately reflect a utility's fixed costs. As PGW's proposed residential customer charge is consistent with PGW's cost analysis and, in the interest of gradualism, is lower than the full amount that could be supported, PGW's residential customer charge should be approved.[264]

iv. Rate GS-Commercial Customer Charge

OSBA suggests that PGW should establish different customer charges within the Rate GS-Commercial class, differentiated by size, in order to mitigate intra-class cross-subsidization.[265] OSBA assessed PGW's proposed customer charge for the Rate GS-Commercial class based on the

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[256] PGW St. No. 6-R at 13.
[257] PGW MB at 47; PGW St. No. 6-R at 13.
[258] CAUSE-PA/TURN MB at 14-15.
[259] PGW St. No. 9-R at 12.
[260] CAUSE-PA/TURN MB at 15; CAUSE-PA/TURN St. 1 at 31.
[261] PGW St. No. 9-R at 13.
[262] PGW St. No. 9-R at 12.
[263] CAUSE-PA/TURN MB at 16 ("If the Commission decides to grant any residential rate increase in this case, the increase should be solely to the volumetric portion of the bill.").
[264] PGW St. No. 6-R at 14.
[265] OSBA MB at 28.

customer-related costs for serving the residential class.[266] As explained by PGW witness Teme, it is not reasonable or appropriate to utilize customer costs for the residential class to determine costs for the commercial class.[267] OSBA's proposed treatment of customers in the same class in a distinct manner should be rejected.[268] Notwithstanding OSBA's proposed treatment of the commercial class, OSBA ultimately recommended in its Main Brief that PGW's customer charge for the Rate GS-Commercial class be accepted.[269]

OSBA finds that PGW's proposed increase to the GS-Commercial customer charge from $25.35 per month to $34.00 is "reasonably consistent with allocated customer costs for small customers within the GS-Commercial class…."[270] While OSBA asserted that PGW's proposed GS-Commercial customer charge should be accepted, OSBA requested that the customer charge be "scaled back to reflect any reduction in the overall approved revenue requirement."[271] Particularly since OSBA supports the proposed GS-Commercial customer charge as being reasonable, OSBA's requested scale back should be denied. As explained by PGW witness Teme, scaling back the proposed customer charge for the GS-Commercial class if less than the full rate request is granted would move customer charges further away from customer costs.[272]

b) Other Tariff Changes

The other parties did not take any position on the tariff changes addressed in this section of PGW's Main Brief.[273] The specified tariff changes described in the Direct Testimony of PGW witness Teme and in PGW's Main Brief are reasonable and in the public interest.[274] Thus, the proposed tariff changes should be approved.

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[266] OSBA MB at 28.
[267] PGW St. No. 6-R at 10.
[268] PGW St. No. 6-R at 10.
[269] OSBA MB at 11.
[270] OSBA MB at 11.
[271] OSBA MB at 11.
[272] PGW St. No. 6-R at 14.
[273] PGW MB at 50-51.
[274] PGW MB at 50-51; PGW St. No. 6 at 12-15.

D. GFCP/VEPI – Class GS-XLT

1. Summary of Position

PGW has accommodated GFCP/VEPI in numerous ways, most fundamentally, by creating a new rate class that unbundles transportation service and Alternative Receipt Service ("ARS") into two separate rate components. The rates it proposes are the lowest among the parties (excepting GFCP/VEPI). However, at the same time, PGW is committed to ensuring that its rate structure is fair to all of its customers and that no customer class unduly subsidizes another.

In setting the transportation rate, PGW has followed established cost of service principles, which GFCP/VEPI claim to want. The proposed price of $0.1054 per Mcf for transport is vastly lower than the next closest tariffed rate of $0.8858 per Mcf. PGW has offered transportation service as firm, which GFCP/VEPI previously claimed to require. PGW has dramatically reduced the effect of the surcharges that apply to all other firm transportation customers by modifying the historic USEC calculation to provide relief to GFCP/VEPI.

PGW has agreed to set the price for ARS service based upon the underlying TETCO capacity costs, which GFCP/VEPI have also previously requested, and which continues to be advocated by OSBA and OCA – at a price *lower* than GFCP/VEPI previously stated was reasonable.[275] PGW also proposes to charge on the basis of usage and not demand, thus, further lowering the cost.

GFCP/VEPI state that PGW has held them "hostage through the ARS."[276] However, as described in PGW's Main Brief, PGW is not forcing anything on GFCP/VEPI.[277] There is no advantage to PGW or its other customers to this displacement transaction. ARS is offered because GFCP/VEPI have requested that it continue. ARS is only one of many options that GFCP/VEPI could pursue, but historically have not, including bidding on TETCO capacity in the secondary capacity market, using oil capacity to fire the boilers, pursuing demand management or other

[275] PGW MB at 66.
[276] GFCP/VEPI MB at 5.
[277] PGW MB at 62.

techniques to control their natural gas usage. Whether they avail themselves of ARS is entirely GFCP/VEPI's choice – a business decision to be made.

Repeatedly, GFCP/VEPI warn that, if the rates are not set according to their wishes, they will pursue bypass. This bell rings hollow. TETCO has not agreed to interconnect with the line were it to be built. GFCP/VEPI also concede that there are critical property rights that they have failed to obtain. And the economics make no sense. GFCP/VEPI claim that they would construct a $25 million pipeline simply to avoid PGW's transportation rate of $1.3 million per year. This estimate is only a partial statement of the capital cost of a new pipeline and ignores ongoing operating costs.

GFCP/VEPI, as PGW's largest customers, are being placed on a separate tariff because they requested it – a desire that PGW has agreed to accommodate. The unique circumstances justifying a special rate are size of the customers' demand and the fact that GFCP/VEPI are served from the Four Mile Line, both of which are fully recognized in PGW's cost of service rate. No one, including the Commission, has stated that the reason is "competitive options."

PGW has proposed a Rate GS-XLT that is just and reasonable and which accommodates GFCP/VEPI's claimed needs while being fair to the other customers. It should be adopted as filed.

2. Interruptibility and Penalties

Under the 1996 contracts, transportation service is firm, and ARS is interruptible.[278] GFCP/VEPI claim that *all* of their services are interruptible, but, in fact, only ARS is currently subject to interruption.[279] PGW has proposed that ARS be placed under the same rules of interruption as all other interruptible customers.[280] PGW has previously explained its reluctance to convert GFCP/VEPI's transportation service to interruptible,[281] but if that occurs, then the same set of rules for interruption should also apply to that service as well. PGW does not want to administer two sets of rules for interruption. Nor does it think that this would be fair to other interruptible customers.

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[278] PGW St. No. 6-R at 21.
[279] "Vicinity is willing and able to accept interruptibility on terms comparable to the contract under which it has been interruptible for the past 25 years." GFCP/VEPI MB, Appendix A, FOF 39.
[280] PGW St. No. 6-R at 23.
[281] PGW MB at 52-54.

However, "GFCP/VEPI are not willing to accept the same terms and conditions of interruptibility as is required of PGW's other customers."[282] While ARS service may currently be limited to 15 days per year and only when temperatures are 25 degrees Fahrenheit or less, GFCP/VEPI nowhere state that they operationally require these limitations. Indeed, their Main Brief expansively states that they can withstand 30 days of winter interruption and more in the summer.[283] This means that there is no reason to create a special set of rules for interrupting GFCP/VEPI as the Commission harmonizes the 1996 contract with PGW's existing tariff rules.

The most significant change suggested by GFCP/VEPI is to alter the penalty for excess consumption during an interruption (called an operational flow order or "OFO") and, actually, create an incentive to ignore an order to interrupt. PGW's proposed language provides that a failure to comply with an OFO will result in a penalty charge of seventy-five dollars ($75.00) per Dth plus all incremental costs incurred by the Company as a result of the failure to comply with the OFO.[284] Mr. Crist's draft tariff reduces the penalty to $5.00 per Dth, without justification.

As Mr. Teme explained for PGW, $5.00 per Dth "is insufficient to deter the continued use of gas by GFCP/VEPI during an interruption."[285] During the winter months, spot purchases of gas are expensive and replacing volumes were GFCP/VEPI to refuse to interrupt can be very costly to the Gas Cost Rate ("GCR") customers. Last winter the daily market index as published in Gas Daily was as high as $32.45 per dekatherm.[286] Clearly a five dollar penalty for refusing to interrupt is inadequate. Indeed, a penalty for failing to interrupt as promised to PGW and its ratepayers should be harsh.

Elsewhere, Mr. Crist retains the firm transportation service guarantee offered by PGW that service will only be "in cases of operating emergencies experienced by the Company or instances of

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[282] PGW St. No. 6-R at 23.
[283] GFCP/VEPI MB at 17, *citing* Vicinity St. No. 1-SR at 11 ("Vicinity has oil storage and is capable of operating its facility for 70 days in the summer, 30 days in the winter, and 20 days at peak, and that is without replenishment of its oil stores.")
[284] PGW Exhibit FT-6 (Proposed Rate GS-XLT), Tariff Page No. 121.
[285] PGW St. No. 6-R at 23.
[286] Tr. 572-573.

Force Majeure,"[287] while now classifying the service as interruptible. Again, there is no justification for this special treatment. GFCP/VEPI appear to want interruptible service in name only.

3. Rates

PGW has followed a consistent approach to ARS and transportation cost of service methodology in the complaint case and the current proceeding. GFCP/VEPI misunderstand how the two studies compare.[288] As Ms. Heppenstall testified, the methodology used in this proceeding "is the same methodology used in Docket No. C-2021-3029259."[289]

The difference is that, in this case, the cost of service result was separated ("unbundled") into two components and in the complaint case, it was not.[290] As Ms. Heppenstall explained: "The purpose of the supplemental cost of service study, Exhibit CEH-1S, is to determine how much of the costs in the original cost of service study were related to Transportation versus ARS costs. This analysis was an isolation of costs, not a 'shift' of the costs."[291]

It is not appropriate to compare just the unbundled transportation rate in this case with the $0.65 per Mcf fully bundled rate from the complaint case. Here, the total cost of service equates to $0.833 per mcf. There is no "reduction in [PGW's] base rate request in the complaint case from $0.65/Dth to $0.1054/Dth" as asserted by GFCP/VEPI. GFCP/VEPI's claim that this constitutes "dramatic evidence that indeed, PGW's goal was that Vicinity be charged rates far in excess of what its service costs"[292] is pure hyperbole.

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[287] GFCP/VEPI Exh. JC-7 at Tariff Page No. 118; PGW St. No. 6-R at 29.
[288] "In this case, PGW appears to have changed its approach and Ms. Heppenstall (who did the allocation in the Complaint case) now agrees … that direct allocation is the appropriate method for Vicinity and the rate produced by her CCOSS in this case is just over $0.10 /Dth. It is clear that PGW's demand in the Complaint case was clearly wrong." GFCP/VEPI MB at 11.
[289] PGW St. No. 5-SD at 4.
[290] PGW St. No. 5-SD at 5. In the complaint case, the overall cost of service to provide service to GFCP/VEPI was treated as a single rate that included *both* transportation service and ARS. The *overall rate for both* transport and ARS equaled $0.65 per Mcf. In this case, the "overall cost of service to GFCP/VEPI remains the same … but is now unbundled into two components." The cost of service, for basic transportation delivery service is $0.1054 per Mcf. The balance of costs were assigned to GFCP/VEPI's ARS program, for a cost of $2.373 per Mcf." The overall, total cost equates to $0.833 per mcf."). The higher rate in this case ($0.833 vs. $0.61 per Mcf) reflects a different test year and current costs. The complaint case calculation employed the results from PGW's prior rate case.
[291] PGW St. No. 5-R at 12.
[292] GFCP/VEPI MB at 33-34.

What is dramatic is that PGW has proposed to price ARS, not at its base rate cost ($2.373 per Mcf) as it did in the Complaint Case, but instead based upon the capacity costs underlying ARS service at a minimum rate of $0.61 per Dth. The ARS component of the COSS is background only at this point. PGW seeks to minimally recover the capacity costs that it pays to TETCO, and which are otherwise paid by GCR customers.

4. Customer Charge

GFCP/VEPI propose to add language to Rate GS-XLT copied from Rate IT to the effect that "parallel meters" should be treated as one meter.[293] This issue was introduced on the day of the hearing where Mr. Crist testified that "I am testifying they're parallel. I actually have a photograph I'd be happy to share with you."[294] While the photograph was distributed, GFCP/VEPI never moved for its admission.[295]

Now, GFCP/VEPI appear to have recanted Mr. Crist's testimony: "While Vicinity's meters currently serve two separate corporate entities and thus do not qualify as parallel meters, if that would change in the future Vicinity should receive non-discriminatory treatment that is consistent with all other PGW tariffs."[296] There are also other reasons that GFCP/VEPI's meters are not in parallel, including the fact that they service separate loads. GFCP/VEPI fail to explain the likelihood of such a change in meter configuration and PGW cannot conceive how this might happen. There is no reason to make this tariff change and PGW opposes it.

5. Transportation Rate

PGW expended a considerable portion of its Main Brief in explaining why there is no "low pressure" accounting category and that the allocation of joint and common overheads to GFCP/VEPI's transportation rate is appropriate after direct assignment takes place.[297] This is standard practice. The AGA's *Gas Rate Fundamentals* states that a COSS includes a two-step

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[293] GFCP/VEPI Exhibit JC-7 (Revised).
[294] Tr. 484-485.
[295] Post Hearing Order On PGW's Motion To Exclude Grays Ferry/Vicinity's Hearing Exhibit 1 From The Record (July 24, 2023).
[296] GFCP/VEPI MB at 17.
[297] PGW MB at 55-59.

combination of direct assignment where possible and then an allocation of the remaining unassigned costs among the classes.[298] This is similarly explained in the Commission's *Ratemaking Guide.*[299] The venerable James Bonbright *Principles of Public Utility Rates* concurs that, after direct assignment, the next step is to allocate the remaining costs among all customer classes.[300]

This is exactly what PGW did here. As far as physical plant is concerned, no investment in distribution plant beyond the gate stations ("Measuring and Regulating Equipment – A/C 378) was assigned to Rate GS-XLT. GFCP/VEPI were given full credit for their 1996 contribution in aid of construction and no costs of the Four Mile Line were included.[301] But the costs associated with operating PGW's gate stations were allocated, because they are joint and common overheads that benefit GFCP/VEPI.

All other parties agree with PGW's methodology:

- "I&E witness Cline testified that PGW's proposed GS-XLT rate appears to be a reasonable initial step to move the rates paid by GFCP/VEPI towards cost of service based rates. Therefore, I&E did not propose any modifications to PGW's GS-XLT rate proposal."[302]
- As to revenue allocation, OCA witness Watkins found that PGW's proposed allocation to the various classes, including GFCP, follows its CCOSS and is generally reasonable.[303] "[T]he OCA agrees with PGW that $4,160,000 of the $81,498,000 base rate increase should be allocated to GFCP."[304]
- OSBA also agrees. "Base rates tariff charges should reasonably reflect the cost of providing service to GFCP/VEPI, excluding any mains plant costs, but *including metering, appropriate system regulation,* O&M costs associated with the dedicated facilities, and A&G costs. Rate GS-XLT should contribute to USEC costs, based on the percentage of base rates charges

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[298] *Gas Rate Fundamentals* (American Gas Association, 1987), at 132 and 135 (If each dollar of expense and investment could be specifically assigned to a single customer group, there would be no need for the allocation process of a cost-of-service study. Most utility investments, however, serve many different groups of customers. Thus, it is virtually impossible for a utility to attribute specific cost responsibility for these "common costs." …. Some plant items can be designated as specific and are readily assignable to a customer within a class of service….The remaining costs, which represent the bulk of the utility's investment … must be allocated to the classes of service by the application of allocation factors.").
[299] *A Guide to Utility Ratemaking* (PAPUC, 2018 edition), at 144, *available at* https://www.puc.pa.gov/filing-resources/ ("Costs exclusively incurred on behalf of one customer or class of customers should be directly assigned to that customer or class. Class ratios must be developed to allocate the remaining costs.").
[300] *Principles of Public Utility Rates*, James Bonbright (Public Utility Reports, 1988 Edition) at 485.
[301] PGW St. No. 5-SD at 5 ("For transportation cost, identified as Local Transportation Service in PGW's proposed Rate GS-XLT, I removed all non-high pressure distribution plant costs and overheads, so that only the cost of maintaining the Four Mile line and some overheads are included.").
[302] I&E MB at 25.
[303] OCA MB at 11.
[304] OCA MB at 67; OCA MB Exh. 1 at FOF 130.

proposed by OSBA."[305] In calculating its own cost based transportation rate, the OSBA result is higher -- \$0.139 - 0.166 per Mcf.[306]

Mr. Crist rejects the second step, refusing any distribution expense allocations whatsoever. GFCP/VEPI argue that "it is not appropriate to allocate maintenance of a gate station that serves multiple customers on a volumetric basis because cost causation is not volume based. Mr. Crist's \$0.0397/Dth distribution rate appropriately allocates the direct costs of service to Vicinity."[307] To be a little more precise – *Mr. Crist did not allow any gate station expenses whatsoever*.

Yet, GFCP/VEPI *exclusively use* one of the nine interstate pipeline interconnections that PGW maintains (060) and has a "vested interest" in a second station (030).[308] The volumetric factor used by Ms. Heppenstall resulted in an allocation of 8.9%.[309] Were the allocation performed on the basis of gate stations used, the allocator to Rate GS-XLT would be 11.1%.[310] In GFCP/VEPI's version, any gate station costs that PGW cannot forensically demonstrate were incurred solely and specifically for GFCP/VEPI should be denied.[311] Mr. Crist's zero allocator is simply a refusal to be responsible for any costs whatsoever no matter how obviously beneficial.

One way to demonstrate the dramatic impact of PGW's methodology and the concessions made to GFCP/VEPI is to compare the proposed Rate GS-XLT transportation rate with those of other industrial customers whose transport rates have been allocated full distribution costs, including distribution plant in service:[312]

Rate GS-XLT (PGW Proposed)	\$0.1054 per Mcf
Rate IT (Large Interruptible)	\$0.8858 per Mcf
Rate GS (Industrial Firm)	\$5.1668 per Mcf

305 OSBA MB at 10, 32 (emphasis added).
306 PGW Hearing Exh. 23 at 3.
307 GFCP/VEPI MB at 19.
308 PGW MB at 57; PGW St. No. 8-RJ at 2.
309 PGW MB at 58; PGW St. No. 5-R at Schedule F, page 5 of 16.
310 9/100 = 11.1%.
311 GFCP/VEPI MB at 26, *citing* Tr. 560-561.
312 PGW Exh. FT-1.

6. Imposition of Surcharges on the Transportation Rate

As to the surcharges, GFCP/VEPI claim that they should not pay because of their "competitive circumstances such as bypass."[313] As noted *infra* GFCP/VEPI have not demonstrated that bypass is either physically or economically feasible.

Moreover, contrary to GFCP/VEPI's uncited assertion, this is not the first time that PGW has proposed that surcharges should apply to them.[314] PGW's Main Brief in the Complaint Case clearly stated that: "… all applicable rates, terms, and conditions regarding surcharges, balancing and unaccounted-for-gas should be applicable to GFCP/VEPI."[315] GFCP/VEPI acknowledged this and vigorously replied ("untenable") in its Reply Brief.[316] There should be no surprise here.

7. Alternative Receipt Service Rate

The parties agree that the ARS pricing discussion should be focused on the capacity costs that enable ARS to stop gap GFCP/VEPI's capacity shortfall on the TETCO system. The parties concur that PGW does not propose to recover the distribution costs allocated to ARS in the COSS.[317] The concept of using the TETCO tariff rate as the minimum to compensate the GCR customers that otherwise pay these capacity costs and a maximum set at the secondary market value of all TETCO capacity releases has been thoroughly explained in PGW's Main Brief.[318]

GFCP/VEPI seek to argue that they only need a limited portion of PGW's capacity rights and should only pay $0.10 per Dth for it.[319] Again, GFCP/VEPI have shifted position. As Mr. Reeves for PGW stated: "Mr. Crist's own calculation of the value of capacity release in the GCR Case employed

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[313] GFCP/VEPI MB at 15; *see also Id*. at 13 ("Perhaps the most critical reason for not applying the surcharges is that doing so would cause Vicinity to bypass PGW.").
[314] GFCP/VEPI MB at 15 ("For the first time in their mutual history, PGW now proposes assessing four surcharges on Vicinity."); GFCP/VEPI MB at 4 ("…would for the first time include surcharges…."); and GFCP/VEPI MB at 14 ("…including (for the first time) the application of surcharges.").
[315] PGW MB (Complaint Case) at 61.
[316] GFCP/VEPI RB (Complaint Case) at 13-14, 21.
[317] PGW MB at 19.
[318] PGW MB at 62-65.
[319] GFCP/VEPI St. JC-1 at 8 ("The small segment of pipe that comes off of the TETCO mainline and goes southeast just west of Philadelphia is the Philadelphia Lateral and that is the section of pipe that delivers gas to the interconnection at meter 73060 with the four-mile line that serves Vicinity.").

the rate for the full route from West Louisiana to the Philadelphia lateral. In other words, Mr. Crist and GFCP/VEPI asked for one thing in the GCR case but have decided to change their request."[320]

Cherry picking only that portion of the capacity that they supposedly "need" "is self-serving and imposes risks on our other customers."[321] "All of PGW's pipelines contracts are long haul contracts that begin at the supply areas to market areas on Texas Eastern, principally Louisiana and Texas and end at metered connections with PGW. PGW cannot use capacity that ends at Eagle, since the particular TETCO facility does not connect with PGW's system."[322]

In other words, GFCP/VEPI are asking that PGW break up one or more of its long haul contracts to serve GFCP/VEPI, in order to only use the most valuable segment. PGW's customers pay for the underlying capacity costs of these contracts through the GCR at the TETCO rate of $0.61 per Dth. Mr. Reeves summarized the arrangement thusly: "By offering $0.10 per DTH to use the most valuable portion of our TETCO capacity contract, GFCP/VEPI's proposal leaves our customers on the hook for making up the difference."[323]

In end result, PGW's proposed ARS rate design is lower than any other party, except GFCP/VEPI. GFCP/VEPI would be billed $2.3 million at the minimum rate and, potentially, $4.0 million at the maximum rate.[324] The OSBA and OCA have both argued that the ARS rate should be fixed to recover $6.1 million – the amount offered by GFCP/VEPI in the GCR case.[325] GFCP/VEPI are offering a paltry $395,716 per year.

8. Bypass

GFCP/VEPI's Main Brief continually and insistently raises the specter that they will bypass the PGW system with their own separate pipeline as a means to justify their proposed below cost rates and special operating conditions.[326] "The record is unambiguous that Vicinity is prepared to

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[320] PGW St. No. 8-R at 10.
[321] PGW St. No. 8-R at 13.
[322] PGW St. No. 8-R at 13-14.
[323] PGW St. No. 8-R at 14.
[324] PGW Exhs. FT-4 and FT-14.
[325] PGW MB at 64.
[326] In 1996, the GFCP/VEPI steam operations were being converted from oil to natural gas. The 1996 contracts were a matter of obtaining a new customer, not bypass by an existing one. The 1995 FERC determination actually did not

bypass PGW if it is forced to bear unreasonable rates and/or surcharges."[327] The tone is assertive: "Make no mistake, if the rates are what PGW has proposed, Vicinity will bypass."[328] The capability to bypass is "immediate."[329] The consequences will be dire, they claim.[330]

This is complete hyperbole. The prospect of a bypass line is completely unproved. Instead of providing information upon which a special bypass rate could be designed, bypass is raised merely as a generalized and unsubstantiated threat. As Mr. Florian Teme, Vice President, Marketing, Sales and Energy Planning at PGW stated: "PGW does not offer [lower] rates . . . merely because the customer claims to have another cost-effective alternative – the entity needs to provide some level of proof to show that the claim is bona fide."[331] OSBA witness Mr. Knecht agreed that "customers with a credible ability to physically bypass the distribution utility generally have negotiated flex rates, which should reflect the cost the customer would incur to bypass."[332] Specifics are required.

Without knowing the total cost and likelihood of bypass, it would be pure guesswork to design a below cost "bypass rate." PGW and the Commission are left to speculate about what a matching "special" rate might be. GFCP/VEPI have not demonstrated that a bypass line is physically possible, let alone economically justified at PGW's proposed rates.

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involve bypass because Grays Ferry had never previously received natural gas service. *See Texas Eastern Transmission Corporation,* Docket No. CP95-2-000, 71 FERC 61,020, 61,085 (Apr. 5, 1995), *vacated by* 75 FERC 61,236 (May 31, 1996) ("[W]hile Trigen is located in the service area of [PGW], a customer of Texas Eastern, [PGW] has never provided Trigen with gas service in the past."); *Texas Eastern Transmission Corporation*, Docket No. CP95-2-000, 71 FERC ¶ 61,203 (May 23, 1995). The fact that a pipeline from TETCO to Grays Ferry was "planned and permitted by the FERC" in 1996 is a matter of only historic interest over twenty-five years later. If a new application were pursued, GFCP/VEPI would have to start all over.

[327] GFCP/VEPI MB at 7.

[328] GFCP/VEPI MB at 7 ("The record is unambiguous that Vicinity is prepared to bypass PGW if it is forced to bear unreasonable rates and/or surcharges. If that happens, PGW will be left with no revenue from the four-mile line…."); *Id.* at 32 ("If the rates approved for Vicinity in this case are not reasonable, Vicinity will bypass PGW, that is a fact.").

[329] GFCP/VEPI MB at 32 ("immediate ability to bypass"); *Id.* at 32 ("they have done just about everything that needs to be done except give the command to begin construction…").

[330] GFCP/VEPI MB, Appendix A, FOF 22 ("If Vicinity bypasses PGW, PGW will lose all the revenue associated with Vicinity, including distribution revenue, ARS and release capacity revenue and other fees. The loss would be close to $ 4 million per year."). Interestingly, GFCP/VEPI use PGW's total proposed rates (both transport and ARS) to calculate the loss.

[331] PGW Exh. FT-9 at 8.

[332] OSBA Exh. RDK-4 at 7).

First, there has been no showing by GFCP/VEPI that the pipeline is physically feasible. Numerous physical pieces are unknown as Mr. Teme explained in detail.[333] These are gaping and formidable holes and, in Mr. Teme's opinion: "GFCP/VEPI have no realistic bona fide opportunity for bypass."[334] Mr. Knecht for the OSBA concurred in the Complaint Case: "I agree [with PGW] that GFCP has not presented any evidence that it does have such an opportunity, even over the longer term."[335]

Second, a complete financial picture, beyond the capital cost of construction, is not presented. GFCP/VEPI have presented an unfinished economic assessment. Mr. Teme for PGW explained these gaps also.[336] "Mr. Crist uses only a partial valuation of the cost of the pipeline, namely a portion of the construction costs, and fails to factor in any other costs, such as operations and the cost of rights of way, regulatory and litigation costs and property agreements."[337]

On the basis of this incomplete economic evaluation, Mr. Crist argues that bypass would result in savings of $10,237,000 per year and a two and one-half year ("no brainer") payback period.[338] This is a wild exaggeration. First, the $10 million figure is Ms. Heppenstall's cost of service and not the actual proposed rate. Second, GFCP/VEPI state that, even were the bypass to occur ARS would still be needed.[339] Thus, the only costs avoided under PGW's proposed rates would be the transportation and customer charge components; the equivalent of $1.3 million per year.[340]

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[333] GFCP/VEPI St. JC-1 at 32. ("Any attempt to construct a new natural gas pipeline, especially in an urban environment, would face substantial challenges and opposition. Numerous state and local permits are required, public and private rights of way must be conveyed, and a new point of interconnection negotiated with TETCO. GFCP/VEPI nowhere address these fundamental obstacles to construction. In discovery, GFCP/VEPI conceded that discussions with HILCO Partners, a property owner, have been only "preliminary" regarding interconnecting of the bypass line with TETCO." Mr. Crist['s] testimony is completely silent on whether TETCO is even willing to interconnect with GFCP/VEPI.").
[334] GFCP/VEPI St. JC-1 at 32.
[335] GFCP/VEPI St. JC-1 at 32, *citing* OSBA St. No. 1-S (Complaint Case), at 4.
[336] PGW St. No. 6-R at 30 ("As I testified in the Complaint Case, not only is the capital cost important but also the ongoing cost of operations. The cost of construction does not represent a complete statement of the cost or likelihood of obtaining public permits or the public and regulatory processes involved. In discovery, GFCP/VEPI have stated they have not formulated a budget for operation of the bypass pipeline. Also in discovery, they stated that the cost of land acquisition has not been established.').
[337] PGW St. No. 6-R at 31.
[338] GFCP/VEPI St. JC-1 at 17.
[339] GFCP/VEPI St. JC-1 at 28-29 (In the event of bypass: "The ARS gas swap arrangement would still function as it does now. Vicinity would deliver gas for use by PGW's customers to Skippack and PGW would deliver gas to the new Vicinity bypass line."); PGW St.No. 6-R at 31 ("Even with bypass, Mr. Crist testifies that GFCP/VEPI would need ARS and would require that PGW deliver those volumes to the bypass line.").
[340] PGW Exh. FT-14. Plus surcharges, if ordered by the Commission.

Even without factoring in the other unknown costs, the payback period for construction alone would be 20 years. Mr. Teme concluded that: "Corrected for these obvious misrepresentations, the bypass line makes no sense financially. The cost of construction plus property acquisition plus operating costs plus all other costs would result in a very poor payback period merely to avoid transportation service charges.[341]

Third, GFCP/VEPI have promised to eliminate their use of natural gas to achieve a "Net Zero Carbon by 2050." In various documents, presentations to state environmental officials, GFCP/VEPI have reported that they are "aggressively pursuing innovative technologies to achieve *net zero carbon emissions by 2050 or sooner*."[342] The effort in under way. During the 2022-2030 period, GFCP/VEPI will convert operations to electrically generated steam (replacing natural gas fired steam) and the use of industrial heat pumps to preheat water. Most recently, in an April 2023 presentation to DEP Secretary Negrin, GFCP/VEPI reported that they are "electrifying…now" with the addition of 50 MW electric boilers, 10 MW of heat pumps and 1000 MWh of thermal storage.[343]

These efforts will reduce GFCP/VEPI's natural gas demand and negatively affect the bypass line's economics. Mr. Teme explained that, as GFCP/VEPI convert to electricity, their use of natural gas will diminish and "limit the useful life of the [bypass] asset to a very short time frame, well before it would have been depreciated. Building a new gas pipeline for service is totally inconsistent with a zero carbon pledge."[344]

It is unrealistic, therefore, to believe that GFCP/VEPI would expend a substantial amount of money on construction and maintenance of a natural gas pipeline through an urban and heavily trafficked area, assuming that TETCO and HILCO might agree, when they have pledged to be "carbon free" and are planning additional capital expenditures to reduce their gas use by electrifying their steam boilers. This is a recipe for the creation of a stranded asset.

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[341] PGW St. No. 6-R at 32.
[342] PGW Hearing Exhs. 21 and 22 (emphasis in original). Mr. Crist stated that he was only generally aware of GFCP/VEPI's plans but did not know any particulars. Tr. 533-535.
[343] PGW Hearing Exh. 21.
[344] PGW St. No. 6-R at 33.

In the absence of any demonstration that bypass is anything other than an empty threat, cost of service principles should apply, and the Commission should ignore GFCP/VEPI's attempts to circumvent a cost based rate.

9. Final Tariff

Mr. Crist proposed several other edits to PGW's proposed tariff for Rate GS-XLT.[345] Several of these proposed changes have never been addressed, let alone justified.

On the matter of minimum and maximum ARS volumes, the GFCP/VEPI witness:

- Increased PGW's ARS delivery obligation from 50,000 Dth per day to 60,000 "without explanation"; and
- Removed GFCP/VEPI's minimum ARS volume requirement of 5,000 Dth per day, "also without describing why."[346]

Mr. Crist never responded to PGW's request to explain the changes and, lacking any rationale, they should be denied. Minimum take rates and maximum delivery obligations are a standard component of gas tariffs.[347] As Mr. Teme testified: "The minimum volumes are appropriate and should be retained for PGW gas planning purposes."[348]

Mr. Crist also deleted the prospective application of standard banking and balancing provisions, as well as lost and unaccounted ("LAUF") rules that apply "to all other transportation customers."[349] PGW witness Reeves agreed that these provisions would have no current application because "*at the present time*, GFCP/VEPI is the only customer served off of the Four Mile Line" and, therefore, "PGW's tariff proposal … does not propose to impose costs on GFCP/VEPI for balancing or line loss/unaccounted for gas at the present time."[350] So long as there is no comingling of gas with other customers, these rules would not apply under the express terms of Rate GS-XLT.

"However, "PGW is in discussions with new customers that may require PGW to use the 060 gate station to meet those customers' needs" and, in this eventuality, "PGW will be required to

[345] GFCP/VEPI MB, Appendix A, FOF 34; GFCP/VEPI St. JC-1 at 30; GFCP/VEPI Exh. JC-7.
[346] PGW St. No. 6-R at 29.
[347] *See, e.g.*, Rate IT; PGW Gas Service Tariff, Pa P.U.C. No. 2 at 113 ("An Applicant for service under this rate shall be required to execute a service agreement in which maximum and minimum quantities of Gas to be delivered shall be defined.")
[348] PGW St. No. 6-R at 29.
[349] GFCP/VEPI St. JC-1 at 10; PGW St. No. 8-R at 4.
[350] PGW St. No. 8-R at 4.

balance the gas supply and usage of GCFP/VEPI just like PGW does with other customers on its distribution system."[351]

Mr. Crist conceded that these concerns are "valid" and agreed that the application of banking/balancing and LAUF rules to GFCP/VEPI would be appropriate when new customers are added.[352] He did not criticize the proposed rules. Nevertheless, he opposed them for one reason alone – "given the contentious history of the PGW-Vicinity relationship *I am not comfortable "trusting" PGW* into the future on this point."[353] He recommended that the language be deleted and the two parties "work it out" when new customers come online.

PGW opposes deferring these banking/balancing and LAUF rules into the future. Discussions with potential new customers is active and ongoing, as Mr. Reeves stated. When those customers are added, PGW will have no rules to apply and would be forced to seek a change in tariff, while being unable to manage gas supplies in the interim.

Mistrust is no reason to reject the application of a specific rule written in the same form and substance for all other customers and which PGW has applied without controversy. Indeed, if GFCP/VEPI feel this way, it is an excellent reason to establish a rule now to avoid future controversy.

In summary. the tariff rates, terms, and conditions of Rate GS-XLT as proposed by PGW are just, reasonable, and fair, and should be adopted by the Commission. Those proposed by GFCP/VEPI are not and should be rejected.

E. Customer Service Issues

PGW did not propose any changes to its customer service practices as part of this proceeding. However, OCA and CAUSE-PA/TURN have made a significant number of recommendations relating to the Company's customer service practices and performance. PGW discussed many of

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[351] PGW St. No. 8-R at 5-6 ("Balancing customers' gas supply and gas usage is nothing new for PGW and PGW already has PUC approved language in its tariff that is appropriate for this situation in case PGW needs to balance multiple customers at Gate Station 060.").
[352] GFCP/VEPI St. No. 1-SR at 21.
[353] GFCP/VEPI St. No. 1-SR at 21 (emphasis added).

these items in its Main Brief,[354] and provides further responses as necessary herein. The parties' recommendations are not necessary or supported and are not required by the Commission's regulations. OCA and CAUSE-PA/TURN have failed to meet their burden of proving that their recommendations should be adopted, and therefore their arguments must be rejected.

1. Call Center Performance

OCA argues that the Commission should require PGW to meet its current level of call center performance in the rate effective year due to "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."[355] OCA also argues that the Commission should "address call center performance during months in which termination of service is allowed…"[356]

OCA's position is unsupported and unnecessary. While PGW acknowledged that it had difficulty retaining adequate call center staff during the post-pandemic period of September 2021-August 2022, its staffing and performance have returned to pre-pandemic levels (and OCA acknowledges this significant improvement).[357] PGW made these corrections on its own initiative. Therefore, no mandate from the PUC is necessary; there is no need to "link recent improvements to future performance" as OCA argues.[358] OCA has not pointed to any statute or regulation that it claims PGW is violating. In addition, there is no regulation requiring enhanced quality of service during months in which non-payment termination occurs. There is no evidence on the record that PGW is planning on "lowering expenses associated with the call center" after a final order in this proceeding, as OCA alleges.[359] OCA also seems to imply that there was some connection between PGW's decision to close its district offices and the call center staffing challenges[360] – again, there is no evidence on the record to support this claim. OCA's position is unfounded and must be rejected.

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[354] PGW MB at 67-73.
[355] OCA MB at 70, *quoting* OCA St. 5SR at 2.
[356] *Id.*
[357] *See* OCA MB at 70.
[358] OCA MB at 70.
[359] *Id.*
[360] *Id.*

2. Complaint Analysis

OCA argues that PGW should institute a "root cause analysis" for analyzing consumer complaints.[361] PGW already reviews consumer complaints as necessary to identify and address trends.[362] 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. PGW's current handling of consumer complaints is adequate and OCA has provided no basis for the Commission requiring PGW to institute a certain review process, or even exactly what such a process would entail. OCA's argument remains unsupported and must be rejected.

3. Payment Arrangements

OCA argues that PGW's process for entering into payment arrangements does not comply with Section 56.97(b) of the Commission's regulations.[363] However, OCA's reading of Section 56.97(b) is incorrect and must be rejected.

Section 56.97(b) requires that a utility "exercise good faith and fair judgment in attempting to enter a reasonable payment arrangement . . . Factors to be taken into account when attempting to enter into a reasonable payment arrangement include the size of the unpaid balance, the ability of the customer to pay, the payment history of the customer and the length of time over which the bill accumulated."[364] Under PGW's current process for determining a customer's payment arrangement, a customer service representatives enters a customer's information into a computer to calculate the payment plan.[365] PGW's process takes into account the factors identified in Section 56.97(b), and is reasonable and compliant with the regulation.

OCA argues that PGW's process does not comply with Section 56.97(b) because it does not account for the "ability of the customer to pay."[366] OCA incorrectly reads this provision as requiring an "individualized determination" that can only be determined by a customer service representative

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361 OCA MB at 71-72.
362 *Id.*; PGW St. No. 1-R at 35.
363 52 Pa. Code § 56.97(b); OCA MB at 72-74.
364 52 Pa. Code § 56.97(b).
365 PGW MB at 69; PGW St. No. 1-R at 36.
366 OCA MB at 73.

and could not be determined by an "algorithm."[367] OCA's interpretation of the regulation and PGW's current process is wrong. PGW's process does, in fact, consider the customer's income and ability to afford the payment arrangement. The regulation does not require an "individualized determination" by a customer service representative as OCA argues. Rather, the utility must "exercise good faith and fair judgement" when entering into a "reasonable" payment arrangement considering the necessary factors. How the utility accomplishes this is within PGW's discretion.

As PGW witness Adamucci explained, there is an important and reasonable purpose underlying PGW's process. "PGW's current practice does take into account various factors that are specific to each customer and uses a standard process to calculate a reasonable payment arrangement based on that information. Without this standard process, it would be up to each customer service representative to determine a reasonable payment arrangement, which could vary widely from one representative to another. This could result in unfair differences in payment arrangements offered to customers and costs to other ratepayers."[368] PGW's current process provides a reasonable, good faith effort to provide fair payment arrangements regardless of which customer service representative a customer happens to work with. The Company even offers two payment arrangements with the ability to pay a "catch up" on broken payment arrangements – which is above and beyond what the regulations require.[369] The current practice is fair, reasonable and in compliance with Chapter 56. OCA misinterprets Section 56.97(b); therefore, OCA's argument must be rejected.

4. Bill Payment Fees

OCA argues that PGW should be required to "move to a fee free payment system to encourage customers to use a wide variety of payment options to pay their natural gas bill."[370] OCA's argument is groundless and would result in PGW's customers being unfairly forced to cover millions of dollars in credit card fees so that some customers could elect to make a one-time credit card payment without a direct fee.

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[367] *See* OCA MB at 73.
[368] PGW St. No. 1-R at 36.
[369] PGW St. No. 1-R at 36.
[370] OCA MB at 74.

Calling OCA's proposal "fee free" is a misnomer. These one-time payments would in no way be "free" – rather, this proposal would force PGW and all of its ratepayers to pay these charges, which are imposed by credit card companies on credit card users and are outside PGW's control. In fact, OCA has ignored the significant cost of this proposal, which it did not factor into its revenue requirement recommendation.[371] The transaction fees incurred by residential customers in 2022 were approximately $3.1 million.[372] If these fees are not charged directly to those customers electing to make a one-time credit card payment, the number of these one-time payments would likely increase significantly. This may result in customers choosing to make these one-time payments even more frequently since someone else would be paying the fee, and costs would likely increase well beyond the previous $3.1 million per year, and by an amount that cannot be accurately predicted.[373] This is particularly unreasonable when PGW offers many other payment options that do not include a transaction fee (including the ability to make a cash payment at hundreds of retail stores throughout Philadelphia, such as CVS, 7-Eleven, Dollar General, Speedway, Family Dollar, and Walmart).[374]

OCA further argues that there is a "growing trend among Pennsylvania utilities to eliminate payment fees…"[375] First, these fees have not been "eliminated," but rather these costs are being passed on to all of the utility's customers. Additionally, OCA only cites to three water and wastewater utilities that have required their other ratepayers to absorb such transaction fees.[376] Importantly, each of these utilities voluntarily chose to absorb the transaction fees, either as a result of a settlement agreement or of their own accord, and not as a result of any PUC requirement.[377]

It is fundamentally unfair to require PGW customers to shoulder fees charged by credit card companies to other customers who elect to make one-time credit card payments, particularly when there are numerous fee-free options available. OCA has pointed to no statute, regulation,

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[371] PGW MB at 71.
[372] PGW St. No. 1-RJ at 2.
[373] *Id.*; PGW MB at 71.
[374] PGW MB at 70, 71-72.
[375] OCA MB at 75.
[376] OCA MB at 75.
[377] *See, e.g., Pa. PUC v. Pittsburgh Water and Sewer Authority*, Docket Nos. R-2020-3017951 (water) and R-2020-3017970 (wastewater), Recommended Decision dated Oct. 29, 2020, at 47 (subsequently adopted without modification by the Order entered Dec. 3, 2020).

Commission order, or other requirement that would necessitate that PGW's other ratepayers "absorb" these multi-million-dollar transaction fees. As such, OCA's argument must be rejected.

5. Customer Identification Requirements

CAUSE-PA/TURN argue that PGW should implement less stringent identification requirements for applicants for residential service,[378] as well as for victims of domestic violence.[379] PGW's current identification requirements serve an important purpose in that they prevent identify theft and protect other PGW customers from costs associated with unauthorized service. Some forms of identification that CAUSE-PA/TURN argue PGW should accept can be obtained without any verification of a person's identity (such as a City ID)[380] and as such these documents are not sufficient to confirm the applicant's identity to establish service.[381] Similarly, for victims of domestic violence, the Commission's regulations provide significant additional rights and protections to such customers, and it is reasonable for PGW to confirm the customer's identity.[382] The list of identification that PGW accepts is broad to give customers a variety of options to while also preventing identity theft. PGW's policy strikes an appropriate balance, has not been shown to violate any statute or regulation and should be maintained.

F. Low-Income Customer Service Issues

PGW has not proposed any changes to its low-income assistance programs or policies as part of this proceeding. However, OCA, CAUSE-PA/TURN and POWER have made numerous proposals regarding service to low-income customers. PGW addressed these proposals in its Main Brief[383] and provides further responses as necessary herein. The parties' arguments are not necessary or supported, and are not required by the Public Utility Code or the Commission's regulations. As the parties have failed to meet their burden of proving that their recommendations should be adopted, their arguments must be rejected. Additionally, as detailed in its Main Brief,[384] PGW submits that

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[378] CAUSE-PA/TURN MB at 16-21.
[379] CAUSE-PA/TURN MB at 21-23.
[380] *Id.*
[381] *Id.*
[382] *Id.*
[383] PGW MB at 73-82.
[384] *See* PGW MB at 73-74.

issues affecting its low-income programming are better addressed in other proceedings, including its Universal Service and Energy Conservation Plan ("USECP") proceeding and/or the Commission's current review of universal service programs – the outcome of which would be applied to Pennsylvania regulated utilities on a statewide basis.[385] This is particularly true where the costs of implementing their recommendations has not been examined in this proceeding.

1. PUC Policy Statement Factors

OCA states that the Commission should consider PGW's management, service quality and reliability, and universal service in determining just and reasonable rates.[386] However, OCA did not provide any specific support or argument regarding these factors. As PGW witness H. Gil Peach testified, OCA has not submitted evidence demonstrating any management or service quality/reliability problem.[387] Regarding the effect of the proposed rate increase on universal service, PGW witness Peach addressed OCA's argument, stating that while "utility costs are up without a corresponding increase in household income for poor households," "[t]his is not a service quality problem or management performance problem. The problem occurs at the level of the national and regional economy…"[388] PGW does not control household incomes. The Company is also facing rising costs and inflation, and still needs to prioritize infrastructure, safety and its ability to provide adequate service.[389] OCA has not presented any meaningful evidence that PGW's proposed rate increase should not be granted in full when these three factors are taken into consideration.

2. Low-Income and Residential Natural Gas Heating Bills

OCA does not present a specific argument but rather summarizes the testimony of OCA witness Roger Colton.[390] PGW responded to Mr. Colton's testimony in detail through the testimony of PGW witness Denise Adamucci.[391]

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[385] *2023 Review of All Jurisdictional Fixed Utilities' Universal Service Programs,* Docket No. M-2023-3038944.
[386] OCA MB at 76.
[387] PGW St. No. 9-R at 20-21.
[388] *Id.* at 21.
[389] *Id.* at 24-25.
[390] OCA MB at 77-80.
[391] *See* PGW St. No. 1-R at 3-9.

OCA states that rates can reasonably be compared across electric and natural gas utilities. PGW maintains, however, that it is "difficult and not particularly useful to compare PGW's rates to the rates of other NGDCs in Pennsylvania,"[392] specifically in the context of a rate case for the purpose of determining the revenue that PGW needs to operate. PGW's service territory is quite different from other service territories of Pennsylvania NGDCs – it is solely a dense urban area, with often higher costs of labor and other goods and services.[393] A utility's rates relative to other companies is not a basis upon which to determine just and reasonable rates, and OCA cites to no authority that would provide otherwise.[394]

PGW does not dispute that it has a large proportion of low-income customers in its service territory.[395] However, PGW (and the Commission) must balance the needs the Company's low-income customers with the costs to other customers, as well as PGW's obligation under the Public Utility Code to provide safe and adequate service.[396] In general, OCA fails to consider either the costs of its proposals regarding service to low-income customers or the revenue necessary for the Company to provide safe and adequate service going forward.

3. Affordability for PGW's Low-Income Customers

OCA again restates Mr. Colton's testimony without making a specific argument.[397] PGW has responded to Mr. Colton in detail through testimony.[398] Briefly, PGW's bills are not "unaffordable" as OCA claims. PGW has numerous programs in place to assist low-income customers, and in fact spends significantly more on its universal programs than any other natural gas or electric utility in Pennsylvania.[399] Again, OCA ignores the fact that PGW must provide safe and adequate service while balancing the needs of low-income customers with costs imposed on other customers.

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[392] PGW St. No. 1-R at 5.
[393] *Id.* at 4-5.
[394] *See* fn. 244, *supra.*
[395] *See, e.g.,* PGW St. No. 1-R at 6 ("PGW has a higher proportion of low-income customers in its service territory than other NGDCs… [In 2021], 22.6% of PGW's residential customers were confirmed low-income – which is a higher percentage than any other Pennsylvania electric or natural gas utility.").
[396] 66 Pa. C.S. § 1501.
[397] OCA MB at 80-81.
[398] *See* PGW St. No. 1-R at 3-9.
[399] PGW St. No. 1-R at 26.

Regarding the level of arrears experienced by PGW customers, Ms. Adamucci explained that PGW is currently experiencing a higher level of arrears due to the termination moratorium that the Commission put in place during the COVID-19 pandemic.[400] During that time, customers did not face potential termination, and as a result many customers accrued higher amounts of unpaid bills.[401]

4. CRP Enrollment

a) Identifying Confirmed Low-Income Customers

OCA argues that PGW's process for identifying confirmed low-income customers is too stringent, and that PGW should accept documentation of any municipal, state or federal means-tested public assistance benefits as documentation of low-income status.[402] OCA's argument is based on an incorrect reading of the Commission's regulations and therefore must be rejected.[403]

Section 62.2 of the Commission's regulations does not require that utilities accept all forms of identification that OCA proposes. Rather, Section 62.2 provides a definition of "confirmed low-income residential account" that simply notes that the customer is considered low-income if the Company has "information that would reasonably place the customer in a low-income designation."[404] The regulation further provides that "[t]his information may include receipt of LIHEAP funds (Low-Income Home Energy Assistance Program), self-certification by the customer, income source or information obtained in § 56.97(b) (relating to procedures upon rate-payer or occupant contact prior to termination)."[405] In compliance, PGW currently uses the information sources specifically outlined in the regulation.[406]

OCA also claims that Ms. Adamucci's rebuttal testimony on how PGW identifies confirmed low-income customers conflicts with a discovery response and that PGW has not reconciled this difference.[407] In fact, PGW did address this alleged discrepancy in Ms. Adamucci's rejoinder

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400 *Id.* at 6.
401 *Id.*
402 OCA MB at 81-86.
403 PGW MB at 76-77.
404 52 Pa. Code § 62.2.
405 *Id.*
406 PGW St. No. 1-R at 19-20.
407 OCA MB at 84, fn. 21.

testimony, in which she clarified that the referenced discovery responses provided a specific, limited subset of information, rather than identifying the number of distinct confirmed low-income customers.[408] "In comparison, 'confirmed low-income' data reported to the PUC for its Universal Service Report is pulled on an annual basis and includes CRP participation, LIHEAP Cash or Crisis grants, and low-income payment agreements in the prior 2 years."[409]

b) District Offices

CAUSE-PA/TURN argue that PGW should be required to reopen district offices in low-income neighborhoods with the highest decline in CRP participation.[410] CAUSE-PA/TURN have not pointed to any statute, regulation, Commission order or other requirement that PGW have physical customer service centers.[411] Additionally, CAUSE-PA/TURN have not presented any evidence demonstrating any direct relationship between the closure of the district offices (which PGW determined to do after a detailed study) and any alleged decline in CRP enrollment (even if that were a relevant consideration, which it is not). The Commission should not micromanage PGW's management decisions by requiring PGW to reopen these physical service centers. CAUSE-PA/TURN's argument is unsupported and must be rejected.

c) Outreach

CAUSE-PA/TURN argue that the Commission should require PGW to include outreach to assist with enrollment in CRP as part of its annual cold weather survey.[412] As Ms. Adamucci explained in her rebuttal testimony, "PGW already utilizes a host of methods to ensure that individuals included in the cold weather survey are aware of CRP. For instance, PGW includes language regarding CRP in both the letter that is initially sent to properties, as well as within the documentation included in the packets left at premises when field visits are conducted. In addition, all PGW customer service representatives are provided training annually on how to address calls

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[408] PGW St. No. 1-RJ at 4-5.
[409] PGW St. No. 1-RJ at 5.
[410] CAUSE-PA/TURN MB at 26-28.
[411] PGW MB at 70.
[412] CAUSE-PA/TURN MB at 28.

from premises flagged as being included in the cold weather survey. Customer service representatives are instructed to obtain the household size and income of all callers and to provide both grant and CRP information if the customer/occupant is income eligible."[413] As this testimony demonstrates, PGW already does outreach to assist with CRP enrollment as part of its annual cold weather survey. CAUSE-PA/TURN's position is unnecessary and unsupported and must be rejected.

d) Screening for Income Level

CAUSE-PA/TURN argue that the Commission should require PGW to screen applicants and customers for income level at the time their service is established and during non-emergency calls.[414] As discussed in PGW's Main Brief and in Ms. Adamucci's testimony, "customers do not want to be repeatedly asked about their income in every interaction with the Company, particularly since over 70% of PGW's customers are not low-income."[415] This proposal would also consume valuable customer service representative time that could be used for other customer calls. As Ms. Adamucci explained, "…it would increase the amount of time a customer service representative must spend on the phone with each customer, which would increase wait times and the call abandonment rate, not to mention increase costs for the call center."[416] Further, CAUSE-PA/TURN have pointed to no authority that would support requiring PGW to conduct the excessive screening that they recommend, and also have not shown that the benefits outweigh the costs. PGW's screening practices are reasonable and should be maintained, while CAUSE-PA/TURN's argument is unsupported and must be rejected.

5. Coordination and Data Sharing

OCA argues that PGW should be required to coordinate with a variety of Philadelphia City offices to enter into data sharing agreements and use the data to automatically enroll eligible customers in CRP.[417] In short, OCA's argument fails because: (1) OCA has pointed to no statute,

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[413] PGW St. No. 1-R at 21-22.
[414] CAUSE-PA/TURN MB at 29-30.
[415] PGW St. No. 1-R at 22; PGW MB at 77.
[416] PGW St. No. 1-R at 22.
[417] OCA MB at 86-89.

regulation, Commission order, or any other basis for requiring PGW to enter into such data sharing agreements; (2) OCA has not presented any evidence that the data these offices possess is relevant to PGW, valid, accurate, or an improvement over the data PGW already possesses; and (3) OCA ignores the costs of this proposal, including administrative and technology costs, as well as the resulting costs of cross-enrollment if it results in a large number of ineligible customers being enrolled in CRP.[418] OCA has failed to meet its burden and therefore its position must be rejected.

CAUSE-PA/TURN also argue that the Commission should require PGW to begin auto-enrolling customers in CRP using LIHEAP data that will become available through the Department of Human Services.[419] As discussed in PGW's Main Brief, there are numerous issues with this proposal, regarding both logistics and costs.[420] Again, CAUSE-PA/TURN have failed to address either the costs of this proposal – which could be significant – or the financial impacts on other PGW ratepayers, many of whom are low or near low-income.[421] Importantly, CAUSE-PA/TURN have not pointed to any statute, regulation, Commission order, or other requirement that would justify requiring PGW to auto-enroll customers in CRP in this way.

6. LIURP

a) LIURP Budgets

OCA, CAUSE-PA/TURN, and POWER each take different approaches to argue that PGW should increase its LIURP budget. OCA argues that PGW should increase its LIURP budget to treat an additional 425 homes per year.[422] CAUSE-PA/TURN contends that PGW should increase its LIURP budget to a level that would allow it to serve 3,000 households per year.[423] POWER proposes an increase in LIURP funding by an amount proportional to any approved residential rate increase.[424] In sum, PGW's LIURP funding is already significantly higher than that of any other natural gas or

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[418] PGW MB at 74-75.
[419] CAUSE-PA/TURN MB at 31.
[420] PGW MB at 75; PGW St. No. 1-R at 17.
[421] *Id.*
[422] OCA MB at 89-91.
[423] CAUSE-PA/TURN MB at 32-34.
[424] POWER MB at 12.

electric utility in Pennsylvania as a percentage of residential sales.[425] It is also inappropriate to set the LIURP budget based on the number of homes to be served, as this disincentivizes full weatherization, and also does not account for inflation or related cost increases.[426]

Additionally, POWER has provided no analysis whatsoever of its position – including the cost impact or even a rough estimate of the increase it is suggested – and also has provided no rational link between the proposed rate increase and the "proportional" increase to the LIURP budget it has proposed. These arguments regarding PGW's LIURP budget must be rejected.

b) Special Needs Criterion

CAUSE-PA/TURN also argues that the Commission should order PGW to explore a "special needs" criterion to potentially prioritize households between 150% to 200% of FPL for Home Comfort treatment.[427] As discussed in PGW's Main Brief, this proposal would expand PGW's LIURP program to include customers who are not considered "low-income."[428] PGW already has many low-income customers still to be served under LIURP so there is no need to expand to included non-low-income customers.[429] This argument must be rejected as there is no basis for this expansion and doing so would undermine PGW's ability to provide LIURP services to low-income customers, which is the entire purpose of the program.

7. Data Tracking and Reporting

OCA argues that PGW should collect monthly data by zip code on "fundamental information" of non-payment and make this data publicly available.[430] As discussed in PGW's Main Brief, OCA's recommendation is unsupported, as OCA has pointed to no statute, regulation, or Commission order that would support requiring PGW to collect this granular data and made it publicly available.[431] OCA has also failed to consider the costs of this proposal, which would require

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425 PGW MB at 80.
426 *Id.* at 80.
427 CAUSE-PA/TURN MB at 34-35.
428 PGW MB at 80.
429 *Id.*
430 OCA MB at 91-92.
431 PGW MB at 80-81.

PGW to implement additional systems to track this data.[432] It is unclear how this tracking would provide meaningful benefits to customers that would justify the cost.[433] OCA has failed to meet its burden of proving that PGW should be required to track and report this specific data, and therefore this recommendation should be rejected.

8. Undeliverable Mail

OCA argues that when a customer's mail is returned as undeliverable, PGW should be required to place a collection hold or a hold on removal from CRP, adopt a procedure to contact customers and update their information, and provide reports on undeliverable mail and use email, phone calls or test message to notify a customer of undeliverable mail.[434] PGW addressed this topic in its Main Brief.[435]

OCA has not pointed to any statute, regulation, Commission order or other requirement to support its proposals. In its Main Brief, for the first time OCA cites to certain federal statutes related to Medicaid funding in an apparent attempt to provide an analogy supporting its proposals regarding undeliverable mail.[436] These federal statutes are entirely irrelevant in the context of PUC jurisdictional utility service provided by PGW and do not provide any precedential support for OCA's proposals.

OCA also incorrectly states that "PGW assigns complete responsibility to the customer for having mail returned to PGW as undeliverable."[437] In fact, PGW already makes an effort to update a customer's contact information, including obtaining any mail forwarding information through its billing vendor and USPS, and/or calling the customer to update their contact information.[438] Through this process, PGW makes a reasonable attempt to update a customer's contact information, although it is ultimately the customer's responsibility to provide current contact information to PGW. OCA's position would also come with significant administrative expense which it has not considered, given

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[432] PGW St. No. 1-R at 30.
[433] *Id.*
[434] OCA St. 4 at 64-70.
[435] PGW MB at 77-78.
[436] OCA MB at 93-94.
[437] OCA MB at 92.
[438] PGW St. No. 1-R at 24.

that PGW would have to implement new systems to track this information, and would require significant staff time by customer service representatives.[439] OCA has not met its burden to prove that its recommended requirements should be adopted, and therefore OCA's arguments must be rejected.

9. CRP Cost Recovery Offset

OCA argues that PGW should make the following changes to its CRP offsets: (1) CRP credits should be offset by 12.5% rather than the current 5.75%; (2) the offset should be applied to all customers who are participating in the CRP percentage of income payment plan above the participation number as of September 30, 2023; and (3) the offset should be applied to arrearage forgiveness granted to all CRP participants receiving arrearage forgiveness in excess of those receiving forgiveness as of September 30, 2023.[440] As discussed in PGW's Main Brief, OCA appears to believe that PGW is "double recovering" credits and arrearage forgiveness provided through CRP.[441] This catchy phrasing is absolutely incorrect. OCA has presented no evidence that there is any double recovery occurring; the testimony presented by Mr. Colton is merely conjecture and he has presented no factual support for his arguments. PGW, on the other hand, has clearly explained and has presented evidence that there is no alleged "double recovery" occurring.[442] OCA continues to ignore PGW's simple and reasonable explanation and focuses on its incorrect and inflammatory phrase.

OCA's underlying concern appears to be whether PGW is recovering more bad debt expense than was forecasted in its FPFTY (OCA has no concern if PGW were to recover less bad debt expense than forecasted). OCA's position is based on the fundamental assumption that, as the number of enrollees in PGW's CRP and arrearage forgiveness goes up, PGW's uncollectible expense goes down.[443] OCA has presented zero evidence to substantiate this claim; it has only presented

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[439] *Id.*
[440] OCA MB at 96; OCA St. 4 at 72. OCA's position uses a settlement term from the prior rate case as a starting point (*Id.*), which itself is inappropriate. Since this term is not in the tariff, it will end with the entry of a final order in this proceeding.
[441] PGW MB at 81-82.
[442] PGW St. No. 1-R at 30-33; PGW St. No. 1-RJ at 2-4.
[443] PGW St. No. 1-R at 32.

theoretical speculation.[444] In response, PGW witness Peach presented testimony that the *exact opposite* is true – the larger the number of CRP participants, the larger the percentage of bad debt.[445] This entirely undermines OCA's baseless claim.

OCA does not address what should occur if the Company is recovering less bad debt than forecasted in its FPFTY.[446] Further, under Mr. Colton's proposal, OCA does not seem to care that if CRP participation is greater than enrollment as of September 30, 2023, PGW will run short of cash until rates are adjusted to actuals. OCA is inappropriately singling out one type of FPFTY expense. Further, OCA only proposes reconciliation if CRP participation is higher than a baseline participation level that OCA witness Colton has arbitrarily defined himself.[447] At the same time, as discussed in Section F.5 above, OCA asserts that PGW should auto-enroll an undefined number of City residents in CRP. Thus, PGW may immediately be subjected to OCA's offset.

OCA incorrectly believes that, for customers enrolled in CRP, PGW recovers bad debt expense twice – once through the USEC and once through the Company's overall bad debt expense recovery.[448] In reality, bad debt – by that name or any other name – is not recovered through the USEC. The USEC is a surcharge like any other surcharge in PGW's tariff, and PGW recovers CRP credits and arrearage forgiveness through the USEC. There is no "bad debt expense" line item in the USEC.[449] OCA also claims that the CRP discount and arrearage forgiveness credits paid by non-CRP customers are collected 100%.[450] This also is not correct. Non-CRP customers do not pay 100% of their surcharges as OCA appears to believe.[451] When CRP costs are calculated and charged to non-CRP customers, there is no cash recovery at this point – it is merely a re-allocation of customers from CRP to non-CRP ratepayers. Non-CRP customers contribute to bad debt expense when they fail to pay their bills; therefore, CRP costs recovered through the USEC are not collected at a rate of 100%

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444 *Id.*
445 PGW St. No. 9-R at 29-34 (Percent CRP participation and percent bad debt move together. They are both driven by percent unemployment and percent poverty in the City).
446 PGW St. No. 1-RJ at 3.
447 PGW St. No. 1-RJ at 3-4.
448 OCA MB at 97.
449 PGW St. No. 1-RJ at 3.
450 OCA MB at 97.
451 PGW St. No. 1-RJ at 3-4.

as OCA argues.[452] Additionally, CRP customers also do not pay 100% of their CRP bills and receive forgiveness for all pre-program arrears.

OCA also relies on a PGW case in 2007, in which the PUC first approved a CRP offset and stated that "double recovery is a possibility."[453] Simply because the PUC stated that the alleged "double recovery" was *possible* over 16 years ago (and not that PGW was actually double recovering at that time), is not evidence that any "double recovery" is currently occurring. OCA is effectively requiring PGW to "prove a negative" in this argument. OCA's reliance on this decision is misplaced.

For the reasons discussed here as well as in PGW's Main Brief[454] and in testimony, OCA's argument regarding CRP cost recovery offsets is unsupported and based only on conjecture, not on actual evidence in the record. OCA has failed to meet its burden to prove that its recommendation should be adopted; therefore, OCA's position must be rejected.

G. Pipeline Replacement/Alternatives

To the extent PGW does not explicitly address an argument from POWER's Main Brief in this Reply Brief, PGW incorporates its Main Brief on POWER's proposals as if set forth in full.[455]

1. Delegation of the Commission's Authority To a Working Group

POWER argues that the Commission should require PGW to implement a prescriptive, 2-step process after generally requiring PGW to incorporate NPAs into PGW's capital and infrastructure planning.[456] POWER contends that as proposed by Mr. Kleinginna, PGW should be required to convene a working group which will determine and direct when and where NPA deployment would be "useful."[457] POWER also argues that PGW will execute the targeted NPA investments that the working group determines are "cost effective."[458] As PGW discussed in its Main Brief,[459] this proposal, if approved by the Commission, would implement a new super-board of directors with the

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[452] OCA MB at 97.
[453] *Pa. PUC v. PGW*, Docket No. R-0006193 (Order entered Sept. 28, 2007).
[454] PGW MB at 81-82; PGW St. No. 1-R at 30-33; PGW St. No. 1-RJ at 2-4; PGW St. No. 9-R at 28-34.
[455] PGW MB at 82-99.
[456] POWER MB at 33.
[457] POWER MB at 32.
[458] POWER MB at 33.
[459] *See* PGW MB at 84.

power to dictate sweeping changes to PGW's capital and infrastructure planning, which must not be allowed, particularly when no problems have been shown concerning the safety, adequacy and reliability of PGW's service.[460]

While POWER argues that it is not recommending any particular NPAs to be deployed at this time,[461] this claim misses its mark because POWER recommends that PGW be required to investigate the potential for PGW to deploy geothermal energy as a particular type of NPA.[462] As PGW's testimony explained,[463] PGW is already undertaking a Geothermal Feasibility Study to evaluate the technical and business feasibility that geothermal may have for PGW and committed to completing this study. Requiring the further investigation of geothermal would "put the cart before the horse."[464] Additionally, POWER seems to ignore the fact that its NPA proposals also impact PUC approved LIURP plans, for which there are existing LIURP regulations, and an open rulemaking initiated by the Commission.[465]

Regardless of "particular" NPAs being sought, POWER is in fact asking the Commission to delegate its regulatory oversight authority to POWER and its proposed working group and require PGW to implement NPAs per the working group's discretion. POWER's proposed super-board of directors, consisting of "interested parties from this rate case [i.e. POWER], interested Commission staff, and any other interested stakeholders"[466] is unnecessary, unjust and unreasonable. PGW's capital planning and infrastructure replacement program operated as a municipally owned, public utility, simply cannot be governed by the "combine[d] and leverage[d] knowledge of [all working group] participants"[467] who would have the power to dictate changes to PGW's capital and infrastructure planning, based upon whatever agendas that motivate the participants. Adoption of POWER's proposed working group in this proceeding would be inefficient, ineffective, and

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460 *Metropolitan Edison Company v. Pa. P.U.C.*, 437 A.2d 76 (Pa. Cmwlth. 1981).
461 POWER MB at 32.
462 POWER MB at 35-36; POWER St. No. 1 at 11-13, 22.
463 PGW St. No. 10-RJ at 11.
464 *Id.*
465 *Initiative to Review and Revise the Existing Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1—58.18*, Docket No. L-2016-2557886.
466 POWER St. No. 1 at 31:6-7.
467 POWER MB at 33.

potentially create safety concerns. It would also be completely inconsistent with how all other PUC-regulated utilities operate. While "consumer advisory committees" do exist, PGW is unaware of any utility that has drawn in community groups into its actual distribution planning process. Such a step would be dangerous and potentially raise security concerns. In fact, the delegation of the Commission's authority over PGW's infrastructure planning, including its Long-Term Infrastructure Improvement planning, with the explicit agenda driven focus for PGW to "avoid" or "defer" safety focused capital investments[468] is a blueprint for disaster. Moreover, the notion of a community group intimately involved in the distribution planning process of PGW, including potential exposure to "confidential security information" as defined in the Public Utility Confidential Security Information Disclosure Act,[469] must be rejected.

Additionally, to the extent the Commission has already approved PGW's voluntary energy efficiency programs, further oversight is unnecessary and should not be transferred to POWER's proposed working group as discussed in PGW's main brief.[470] As proposed, POWER's working group would literally strip the Commission of its regulatory approval role or any meaningful oversight. POWER simply proposed that PGW be required to *report* the status of working group decisions to the PUC on a monthly basis,[471] and submit the working group's report within six months.[472] The Commission cannot relegate its statutory and complex regulatory oversight responsibility to POWER's proposed collaborative working group. There is absolutely no evidence of record or legal basis in this proceeding upon which to conclude that POWER's proposed NPAs, or proposal for a collaborative, offered as a "potential" means of reducing rates, will in fact reduce any

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[468] POWER's Main Brief misrepresents the testimony of its own witness when it claims that Mr. Kleinginna "does not recommend stopping any main replacement" POWER MB at 46. POWER's witness Mr. Kleinginna repeatedly testified that NPAs could allow PGW to "avoid" or "defer" capital investments under PGW's LTIIP. *See* PGW MB at 90-91. POWER's recommendation to avoid or defer PGW's Commission-approved replacement of at-risk cast iron main is a recommendation to abandon gas infrastructure, especially when combined with recommended fuel switching to geothermal or other sources to meet customers' energy demands.

[469] *See* 35 P. S. § 2141.2 (defining "Confidential Security Information" as "information contained within a record maintained by an agency in any form, the disclosure of which would compromise security against sabotage or criminal or terrorist acts and the nondisclosure of which is necessary for the protection of life, safety, public property or public utility facilities…").

[470] *See* PGW MB at 93-94.

[471] POWER St. No. 1 at 33:11-12.

[472] POWER St. No. 1 at 32:16-18.

rates, reduce consumption or increase energy efficiency. This proposal to explicitly excise the Commission's regulatory authority over PGW must be rejected.

2. Speculated "Cost of Energy Saving"

POWER's primary proposals are speculative, at best. POWER argues that PGW's rates should be set, as related to NPAs, based upon the concept of "cost of energy saving" which they argue could potentially lead PGW to rates that "lower the cost of service" at some undefined point in the future.[473] POWER asserts this proposal despite the admittedly inherent difficulty in estimating any actual or realized savings[474] and based on provably erroneous assumptions.[475] To accomplish its conceptual "cost of energy savings," POWER argues that its NPA pilot program should be "investigated" to see whether future rate reductions may or may not result.[476] POWER's proposed investigation is based upon unproven speculation and should be rejected.

POWER's proposal to ultimately alter how PGW's rates are set by the Commission is unreasonable and cannot be granted under well settled law and regulation. At bottom, POWER's testimony is replete with speculation where it opines that NPAs *could, may* or *might*[477] lower PGW's cost of service, or that NPA's have the *potential* to reduce cost of service.[478] Indeed, POWER does not dispute PGW's testimony showing their proposals are impractical or cannot be implemented today, but rather pivots to suggest the NPA Pilot could "investigate" speculative cost savings.[479] The Commission should not even entertain such sweeping changes to PGW's capital and infrastructure planning based upon speculation which is not competent evidence.[480] POWER's conjecture regarding

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[473] POWER MB at 36.
[474] POWER MB at 36-37.
[475] For instance, POWER's MB at 40-41 asserts Mr. Kleinginna' incorrect illustrative example based on PGW's installation of 10-inch pipe, despite PGW's testimony that 73% of all replacements and 88% of additions use 6-inch or smaller pipe today. PGW St. No. 7-RJ at 3. Additionally, POWER's calculations assume a theoretical combination of three of PGW's existing energy efficiency programs which PGW showed is both illogical and impossible. PGW St. No. 10-R at 20-22.
[476] POWER MB at 34-37.
[477] *See* PGW MB at 89, fns. 469-470.
[478] POWER MB at 34.
[479] POWER MB at 45-46, 50.
[480] *See Vertis Group, Inc. v. Duquesne Light Co.,* 2003 WL 1605744, Docket No. C-00003643 (Order entered Feb. 24, 2003), *aff'd*, 840 A.2d 390 (Pa. Cmwlth. 2003), *appeal denied,* 859 A.2d 770 (Pa. 2004) (agreeing with the ALJ that expert opinions exhibiting equivocation and speculation based upon mere possibilities or potential failed to rise to the level of certainty required by law to be accepted as competent evidence.).

the future "cost of energy savings" is not a consideration for determining PGW's Cash Flow method rate making process or the Commission's core principles in this rate proceeding as PGW discussed in its main brief pursuant to 52 Pa. Code §§ 69.2702-69.2703.[481] POWER's proposal to adjust or set PGW's future rates due to the potential for cost of energy saved is not reasonable, and POWER has not shown that doing so leads to any prudent, or actionable adjustments to PGW's rate increase as requested in this proceeding. POWER has not demonstrated why PGW's ratepayers today should be required to fund POWER's speculative investigative pilot programs. There has been absolutely no evidence adduced that PGW's current operations and plans are inadequate or otherwise violate the Public Utility Code. The Commission should find that POWER has failed to meet its burden of proving that its proposals should be adopted by the Commission in this proceeding.

Additionally, POWER's local scale, focused NPA deployment is simply implausible and cannot achieve the necessary demand reductions POWER asserts will lead to cost savings and lower rates. POWER argues that NPAs could "reduce design day demand in a ***portion*** of the distribution grid."[482] This is simply not how PGW's design day functions.[483] PGW's design day is a *system wide* metric which PGW must meet to continue to supply safe and reliable service under a worst-case scenario.[484] There is no such thing as a block by block, or neighborhood by neighborhood design day to match the scale of POWER's NPA deployment.[485] It is unreasonable to require PGW to plan its infrastructure, and spend time and money, based on theoretical NPA reduced demands, which may or may not occur, to achieve undefined "cost of energy savings."[486]

3. Pipeline Replacement Spending and Reporting

There is no evidence of record in this proceeding that shows that PGW's pipeline replacement programs are not just, reasonable and in the public interest, and the Commission has made no such findings or conclusions. POWER argues that PGW's pipeline replacement and

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481 *See* PGW MB at 15.
482 POWER MB at 31 (emphasis added).
483 S*ee* PGW St. No. 7-RJ at 2-4.
484 PGW St. No. 10-R at 17, 19-20; PGW St. No. 10-RJ at 6-9.
485 PGW St. No. 10-RJ at 3, 7-8.
486 PGW St. No. 10-RJ at 10-11.

spending reporting as submitted and reviewed by the Commission today is inadequate.[487] PGW explained in detail in its main brief why POWER's arguments lack merit and how POWER failed to meet its burden of proof for the Commission to require PGW to submit additional pipeline replacement and spending reports to the Commission.[488] However, an allegation not entered in the evidentiary record from POWER, yet now argued for the first time in its Main Brief, is POWER's argument that the Commission cannot or has not been doing its job as PGW's regulator.[489]

This new argument wholly lacks merit. POWER has failed to present any evidence that: 1) the Commission has found PGW's pipeline replacement and spending reports to be inadequate; 2) the Commission believes it cannot properly carry out its duties without the information in a format which POWER deems "necessary"; 3) that the Commission has found that the costs incurred under PGW's Long-Term Infrastructure Improvement Plan ("LTIIP") are imprudent; or 4) that the Commission in any audit of PGW's management quality on efficiency and effectiveness has ever found PGW's pipeline replacement reporting inadequate. Without any of the above referenced evidence, there is nothing to support POWER's assertion that the Commission cannot "properly assess the prudence of PGW's pipeline replacement spending."[490]

POWER has not disputed that PGW fully complies with the Commission's orders, requirements and directives regarding the submission of reports and information related to its pipeline replacement activity and spending. Further, POWER has not demonstrated any legal basis for the Commission to change its existing requirements. In fact, there is substantial evidence of record to support the conclusion that PGW's current filings and reports are fully compliant with Commission requirements. For example, in connection with DSIC proceedings, PGW consistently files publicly available quarterly reports concerning its main replacement activity and leak management operations with the Commission.[491] As detailed by PGW's Mr. Smith, PGW's Annual

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[487] POWER MB at 50-58.
[488] *See* PGW MB at 97-99.
[489] *See* POWER MB at 55 ("***The Commission cannot properly assess the prudence of PGW's pipeline replacement spending nor can opportunities for cost savings be efficiently identified***, without comprehensive tracking and reporting of all cost categories related to PGW's pipeline replacement activity.") (emphasis added).
[490] POWER MB at 55.
[491] Docket Nos. P-2012-2337737 and P-2015-2501500.

Asset Optimization Plan reports DSIC revenue inclusive of footage and expenditures to the Commission.[492] Lastly, there *is* substantial evidence of record of the Commission's clear support for PGW's accelerated LTIIP and associated expenses to remove as much of PGW's at-risk cast iron main as fast as possible, and the Commission has even further encouraged PGW to continue to accelerate its replacement.[493] There is no merit to POWER's "Comprehensive Pipeline Replacement Report" or POWER's claim that the Commission has failed to do its job overseeing and approving PGW's pipeline replacement and costs today.

In addition, POWER's attempted clarification of its NPA proposal in its Main Brief,[494] in response to PGW's safety concerns, further demonstrates that PGW is already doing much of what POWER proposes through its existing Commission-approved programs.[495] While POWER describes how PGW already does its load forecasting and planning based on actual reductions, POWER fails to explain how this further reduces (beyond PGW's existing process) infrastructure costs for replacements that have already occurred. If POWER's comments are not about replacements that have already occurred but instead for future replacements, then PGW's safety concerns remain, and POWER has failed to show that PGW's Commission-approved accelerated pipeline replacement efforts are unjust or unreasonable.

POWER has failed to meet its burden to show that PGW's pipeline replacement and spending reporting is inadequate, or that PGW's accelerated at-risk pipeline replacement costs are unjust or unreasonable. Consequently, the Commission should find that PGW's pipeline replacement programs are just, reasonable and in the public interest.

H. Miscellaneous Issues

Miscellaneous issues raised by POWER in its Main Brief are addressed by PGW in Sections III.B.1.2 and III.G.3 of this Reply Brief.

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[492] *See* PGW MB at 98, *citing* PGW St. No. 7-R at 12-15.
[493] PGW St. No. 7-R at 5:3-21; PGW St No. 10-R at 8-9.
[494] POWER MB at 44 (emphasis added) asserts: "This provides a period for assessing savings opportunities from demand reductions that result from any NPA investments. Pipeline replacement using less expensive lower-diameter pipelines would not occur until *after* any NPA investments have already lowered demand."
[495] PGW St. No. 10-R at 5-11.

IV. CONCLUSION

Based on the foregoing, PGW respectfully requests that Administrative Law Judges Eranda Vero and Arlene Ashton and the Commission approve the rate increase and other proposals set forth in Supplement No. 159 to PGW's Gas Service Tariff and Supplement No. 105 to PGW's Supplier Tariff consistent with PGW's Main Brief and this Reply Brief.

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