BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

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

RECOMMENDED DECISION

Before
Eranda Vero
Administrative Law Judge

And

Arlene Ashton
Administrative Law Judge

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I. INTRODUCTION

This Recommended Decision recommends that Philadelphia Gas Works proposed Supplement No. 159 to its Gas Service Tariff –Pa P.U.C. No. 2 and proposed Supplement No. 105 to PGW's Supplier Tariff – Pa P.U.C. No. 1, which proposed changes in rates, rules, and regulations calculated to produce an increase of approximately $85.8 million, or approximately 10.3% in additional annual distribution revenue, be denied because the Company has not met its burden of proving by a preponderance of the evidence the justness and reasonableness of every element of its requested increase. Instead, this decision recommends the approval of an increase in annual operating revenue in the amount of $22,306,000 or approximately 2.7% over present rates. Under the recommended increase, an average residential customer's monthly bill would increase by approximately 2%.

In addition, this Recommended Decision recommends that Philadelphia Gas Works' proposal to create a new tariff class General Service – Extra Large Transportation (GS-XLT) be approved because it represents a reasonable initial step to move the rates paid by Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. towards cost of service-based rates.

Furthermore, this decision recommends that PGW be directed to undertake multiple measures to improve its customer service, including outreach to low-income customers and enrollment and maintenance of such customers in PGW's Customer Responsibility Program. It is also recommended that the Commission decline to accept a proposal to integrate non-pipeline alternatives investments into PGW planning, as it lacks the jurisdiction and authority to do so.

The suspension date is November 28, 2023. The last reasonable Commission Public Meeting before the end of the suspension period is November 9, 2023.

II. HISTORY OF THE PROCEEDING

On February 27, 2023, PGW filed proposed Supplement No. 159 to PGW's Gas Service Tariff –Pa P.U.C. No. 2 ("Supplement No. 159") and proposed Supplement No. 105 to PGW's Supplier Tariff – Pa P.U.C. No. 1 ("Supplement No. 105") to become effective April 28, 2023, seeking a rate increase calculated to produce approximately $85.8 million (10.3%) in additional annual revenues. PGW also filed a Petition for Waiver seeking waiver of the application of the statutory definition of the fully projected future test year ("FPFTY"), to permit PGW to use a fully FPFTY beginning on September 1, 2023, in this proceeding.[1]

On February 27, 2023, PGW also served the Direct Testimony of the following PGW witnesses in support of its filing: Denise Adamucci, PGW St. No. 1; Joseph F. Golden, Jr., PGW St. No. 2; James C. Lover, PGW St. No. 3; Harold Walker III, PGW St. No. 4; Constance E. Heppenstall, PGW St. No. 5; Florian Teme, PGW St. No. 6; Robert Smith, PGW St. No. 7; and Ryan Reeves, PGW St. No. 8.

On February 28, 2023, Gina L. Miller, Esq. entered a Notice of Appearance on behalf of the Commission's Bureau of Investigation and Enforcement ("I&E").

On March 3, 2023, Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. ("GFCP/VEPI") filed a Formal Complaint against PGW's filing, which was docketed at C-2023-3038727.

On March 7, 2023, the Office of Consumer Advocate (OCA) filed a Formal Complaint, a Public Statement, and a Notice of Appearance on behalf of Lauren E. Guerra, Mackenzie C. Battle, David T. Evrard and Darryl A. Lawrence. OCA's Formal Complaint was docketed at C-2023-3038846.

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

On March 9, 2023, the Office of Small Business Advocate (OSBA) filed a Formal Complaint, a Public Statement, and a Notice of Appearance on behalf of Sharon E. Webb and Nakea S. Hurdle. OSBA's Formal Complaint was docketed at C-2023-3038885.

On March 17, 2023, James M. Williford (Mr. Williford) filed a Formal Complaint which was docketed at C-2023-3039130.

Also on March 17, 2023, Philadelphia Industrial And Commercial Gas User Group ("PICGUG") filed a Formal Complaint which was docketed at C-2023-3039059.

On April 3, 2023, PGW served supplemental direct testimony of PGW witnesses Adamucci and Ronald J. Amen concerning revisions to PGW's Weather Normalization Adjustment ("WNA") formula that should be implemented in future heating seasons.

On April 12, 2023, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) filed a Petition to Intervene and Answer in this proceeding.

By Order entered April 20, 2023, the Commission instituted an investigation to determine the lawfulness, justness, and reasonableness of the proposed rate increase, and proposed Supplement No. 159 and proposed Supplement No. 105 were suspended until November 28, 2023, unless permitted by Commission Order to become effective at an earlier date. In addition, the Commission ordered that the investigation include consideration of the lawfulness, justness, and reasonableness of PGW's existing rates, rules, and regulations. The Order also assigned the matter to the Office of Administrative Law Judge for the prompt scheduling of such hearings as may be necessary culminating in the issuance of a Recommended Decision.

In compliance with the Commission's April 20, 2023, Order, the matter was assigned to Administrative Law Judge Eranda Vero and Administrative Law Judge Arlene Ashton.

By order entered April 20, 2023, in a case previously filed by GFCP/VEPI against PGW, the Commission directed that the Section 1301 question of the "just and reasonable" rate and rate class applicable to PGW's service to GFCP/VEPI be examined under cost-of-service principles in this base rate proceeding.[2]

On April 24, 2024, PGW filed a Motion for Protective Order pursuant to 52 Pa.Code § 5.423(a). There was no formal opposition to the request, and the Motion was granted via Protective Order dated May 1, 2023.

On April 24, 2023, the Tenant Union Representative Network (TURN) filed a Petition to Intervene in this proceeding.

On April 25, 2023, POWER Interfaith (POWER) filed a Petition to Intervene in this proceeding.

On April 26, 2023, in compliance with the Commission's April 20, 2023 Order, PGW filed Supplement Proposed Tariff Supplement No. 161 to its Gas Service Tariff – Pa. P.U.C. No. 2 and Proposed Tariff Supplement No. 107 to its Gas Supplier Tariff – Pa. P.U.C. No. 1, suspending the effectiveness of rates proposed in Supplement No. 159 and Supplement No. 105 until November 28, 2023.

In accordance with a Prehearing Conference Order dated April 20, 2023, PGW, I&E, OCA, OSBA, GFCP/VEPI, CAUSE-PA, PICGUG, TURN and POWER submitted prehearing memoranda to the presiding officers. A call-in telephonic prehearing conference was held on April 28, 2023. The presiding officers and counsel for PGW, I&E, OCA, OSBA, GFCP/VEPI, CAUSE-PA, PICGUG, TURN and POWER participated in the prehearing conference.

[2] *Grays Ferry Cogeneration P'ship and Vicinity Energy Phila., Inc. v. Phila. Gas Works*, Docket No. C-2021-3029259, pp. 38-40 (Order entered Apr. 20, 2023) *(Complaint Case)*.

On May 5, 2023, pursuant to a Commission order at Docket No. C-2021-3029259, PGW submitted supplemental direct testimony and exhibits regarding the proposed rates, rules and regulations to govern gas service provided to GFCP/VEPI.

By Prehearing Order dated May 10, 2023, we granted the Petitions to Intervene filed by CAUSE-PA, TURN and POWER and established the procedural schedule and the procedures applicable to this proceeding.

Four Public Input hearings were held in this matter. On May 23, 2023, in-person hearings were held at 10:00 a.m. at the PUC Offices in Philadelphia, and at 6:00 p.m. at George Washington High School in Philadelphia. On May 24, 2023, telephonic hearings were held at 10:00 a.m. and 6:00 p.m. During the Public Input Hearings, a total of 22 PGW customers gave sworn testimony.

On May 23, 2023, OCA filed a Motion to Strike the supplemental direct testimony submitted by PGW on April 3, 2023, regarding PGW's WNA. On June 6, 2023, an Order Granting OCA's Motion to Strike was issued directing that PGW's supplemental direct testimony be stricken and not become part of the record.[3]

On May 31, 2023, PGW filed a timely Answer to OCA's Motion to Strike. Also on May 31, 2023, CAUSE-PA and TURN filed a Joint Answer to OCA's Motion to Strike.

On May 31, 2023, the non-company parties filed Direct Testimony.

I&E filed Direct Testimony of the following witnesses: D.C. Patel, I&E Statement No. 1; Zachari Walker, I&E Statement No. 2; Ethan Cline, I&E Statement No. 3; Esyan Sakaya, I&E Statement No. 4.

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

OCA filed Direct Testimony of the following witnesses: Dante Mugrace, OCA Statement 1; Marlon Griffing, OCA Statement 2; Glenn A. Watkins, OCA Statement 3; Roger D. Colton, OCA Statement 4; and Barbara R. Alexander, OCA Statement 5.

OSBA submitted the direct testimony of Robert D. Knecht.

CAUSE-PA and TURN submitted the Direct Testimony of Harry S. Geller.

POWER submitted the Direct Testimony of Mark D. Kleinginna, POWER Statement No. 1; Dorie Seavey, POWER Statement No. 2; Ben Havumaki, POWER Statement No. 3.

On June 2, 2023, GFPC filed the direct testimony of James L. Crist.

On June 2, 2023, PICGUG filed the direct testimony of Billie LaConte.

On June 26, 2023, Rebuttal Testimony was filed by PGW, OCA, OSBA, GFCP/VEPI, and PICGUG.

On July 7, 2023, Surrebuttal testimony was filed by OCA, GFCP/VEPI, I&E, POWER, and PGW. CAUSE-PA and TURN filed Surrebuttal Testimony jointly. On July 10, 2023, PGW submitted written Rejoinder.

Evidentiary Hearings were held on July 11 and July 12, 2023.

III. PUBLIC INPUT HEARINGS

At the time of the prehearing conference, only one consumer Formal Complaint had been filed in this base rate proceeding. However, this consumer Complaint, multiple protests filed with the Secretary's Bureau, and a request from a member of the Pennsylvania legislature[4] indicated sufficient public interest in PGW's requested rate increase. Accordingly, four public input hearings were held in various locations in PGW's service territory. In total, 22 people offered testimony:

Date/Location	**Witnesses Testifying**
Tuesday, May 23, 2023 (In-person hearings) Betsy Ross Room 801 Market Street Philadelphia, PA 19107 *10:00 a.m.*	6
George Washington High School Auditorium 10175 Bustleton Avenue Philadelphia, PA 19116 *6:00 p.m.*	3
Wednesday, May 24, 2023 (Telephonic hearings)	
10:00 a.m.	9
6:00 p.m.	4

All of the PGW customers who testified at the public input hearings opposed the proposed rate increase.[5] Each witness offered testimony regarding gas service affordability and inability to pay PGW bills as a concern for themselves, their neighbors and/or others in their community.[6] In their comments, several witnesses stressed the importance of evaluating the proposed rate increase in the context of the rising cost of living.[7] For example, Sonya Sanders, who stated that she had stopped working for medical reasons, testified "I and many of my

[4] *See* Rep. Rick Krajewski Letter dated April 11, 2023, filed with the Secretary's Bureau.

[5] *See e.g.,* Tr. 23-24, 45-46.

[6] *See e.g.,* Tr. 120-121; 142, 154-155, 125, and129.

[7] *See e.g.,* Tr. at 29 142, 149, and 150.

neighbors are struggling. . . . We cannot barely pay our bills month to month. . . . My gas every month is [$]175. I cannot afford it[.]"[8]

Reverand Angela Brown-Vann, who identified herself as an older consumer, already burdened with significant monthly medical expenses, expressed her opposition to the proposed rate increase, as follows:

> I strongly disagree with the proposed gas rate increase. The increase will make it difficult for me to afford the essential gas services that my family and I rely on every day. The current gas rates are already high, and an additional increase would only add to the financial burden on my family. Many people who are struggling with their bills will be harmed, despite PGW's customer assistance program. Some ratepayers can have their bills capped at a percentage of their . . . but many of us don't qualify, like myself. Many of us whose income is too high to qualify are still struggling. . . . And many people who should be able to have their bills capped can't get access to that program because of the paperwork requirements and lack of supportive customer service in multiple languages.[9]

A number of witnesses specifically addressed the impact of PGW's proposed increase in the fixed monthly charge payable by all customers.[10] For example, Rev. Kimmenez stated "[r]aising the fixed monthly charge . . . is especially bad because there is nothing a customer can do to reduce the expense."[11] Similarly, Emily Abendroth commented:

> [Rate] price increases are made all the more difficult for ratepayers by the presence of ever mounting peripheral gas bill charges . . . like the weather normalization fee and rising infrastructure fees in the form of distribution system improvement charges that can be found on all of our monthly bills. The result of these fees is that for Philly residents, even reducing one's own gas

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8 Ms. Sanders indicated that her neighbors had asked her to convey their concerns as well, which she did stating, "we cannot afford this. This will kill us. We already [decreased gas usage]. We [are] going to suffer." Tr. at 197.

9 Tr.at 189.

10 *See e.g.,* Testimony of Debbie Robinson, Transcript of Public Input Hearing at 137-138.

11 Tr.at 24.

usage, either by lowering the thermostat or making efforts not to use low heat [sic] don't necessarily actually help to significantly lower one's bills. [12]

Several witnesses testified to the inadequacy of PGW's customer assistance programs and/or customer service.[13] For example, Beatrice Zovich testified that:

> Only people whose income is less than 150 percent of the poverty line qualify for the Customer Responsibility Program. Lots of people who are not eligible for CRP face a very high energy burden and won't be protected from the rate hike. And many people who should be able to have their bills capped can't get access to that program because of the paperwork requirements and lack of supportive customer service in multiple languages.[14]

Expressing similar concerns about customer assistance programs, Mitchell Chanin commented "PGW has to assist low-income customers and offset the impact of rate increases [and] my sense is that those programs are grossly insufficient to protect people from this rate increase."[15]

A majority of the PGW customers who testified identified concerns relating to the impact of PGW's activities and services on the environment, either through reference to "climate change," the City's commitment to achieving net zero greenhouse gas emissions no later than 2050, or non-pipeline alternatives. [16]

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12 Tr. at 142.

13 *See e.g.,* Tr.at 91 and 153-154 .

14 Tr. at 133; *See also* Tr. at 80.

15 Tr.at 39.

16 *See e.g.,* Tr.at 28,31-32,34-36, 85, 141, 147, 150, 185 and 193.

IV. LEGAL STANDARD/BURDEN OF PROOF

A. Burden of Proof

The public utility bears the burden of proof to establish the justness and reasonableness of its requested rate increase. As set forth in Section 315(a) of the Public Utility Code (Code):

> (a) Reasonableness of rates – In any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceedings upon the complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.[17]

The Commonwealth Court has stated:

> Section 315(a) of the Public Utility Code, 66 Pa.C.S. § 315(a), places the burden of proving the justness and reasonableness of a proposed rate hike squarely on the utility. It is well-established that the evidence adduced by a utility to meet this burden must be substantial.[18]

The Pennsylvania Supreme Court has stated that the party with the burden of proof has a formidable task to show that the Commission may lawfully adopt its position. Even where a party has established a prima facie case, the party with the burden of proof must establish that "the elements of that cause of action are proven with substantial evidence which enables the party asserting the cause of action to prevail, precluding all reasonable inferences to the contrary."[19] Furthermore, it is well-established that the "degree of proof before administrative tribunals as well as before most civil proceedings is satisfied by establishing a

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[17] 66 Pa.C.S. § 315(a).

[18] *Lower Frederick Twp. v. Pa. Pub. Util. Comm'n*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980) (citations omitted). *See also, Brockway Glass v. Pa. Pub. Util. Comm'n*, 437 A.2d 1067 (Pa. Cmwlth. 1981).

[19] *Burleson v. Pa. Pub. Util. Comm'n*, 461 A.2d 1234, 1236 (Pa. 1983).

preponderance of the evidence."[20] Additionally, the evidence must be substantial and legally credible, and cannot be mere "suspicion" or a "scintilla" of evidence.[21] Thus, a utility has an affirmative burden to establish the justness and reasonableness of its rate request.

However, as the Commonwealth Court has explained: "While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged."[22] Therefore, while the ultimate burden of proof does not shift from the utility, a party proposing an adjustment to a ratemaking claim bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment.[23] Furthermore, a party that raises an issue that is not included in a public utility's general rate case filing bears the burden of proof regarding that issue.[24]

B. Just and Reasonable Rates

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

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

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[20] *Lansberry v. Pa. Pub. Util. Comm'n*, 578 A.2d 600, 602 (Pa. Cmwlth. 1990).

[21] *Id.*

[22] *Allegheny Cntr. Assocs. v. Pa. Pub. Util. Comm'n*, 570 A.2d 149, 153 (Pa.Cmwlth. 1990).

[23] *See, e.g.*, *Pa. Pub. Util. Comm'n v. Phila. Elec. Co.*, Docket No. R-891364 (Opinion and Order entered May 16, 1990); *Pa. Pub. Util. Comm'n v. Breezewood Tel. Co.*, Docket No. R-901666 (Opinion and Order entered Jan. 31, 1991).

[24] *Pa. Pub. Util. Comm'n v. Columbia Gas of Pa., Inc.*, R-2010-2215623 at 28 (Opinion and Order dated Oct. 14, 2011).

> Notwithstanding any provision of this title to the contrary, in determining the city natural gas distribution operation's revenue requirement and approving overall rates and charges, the commission shall follow the same ratemaking methodology and requirements that were applicable to the city natural gas distribution operation prior to the assumption of jurisdiction by the commission, and such obligation shall continue until the date on which all approved bonds have been retired, redeemed, advance refunded or otherwise defeased.[25]

The Commission is obligated under law to use the cash flow methodology to determine PGW's just and reasonable rates. Included in that requirement is the subsidiary obligation to provide revenue allowances from rates adequate to cover its reasonable and prudent operating expenses, depreciation allowances and debt service, as well as sufficient margins to meet bond coverage requirements and other internally generated funds over and above its bond coverage requirements, as the Commission deems appropriate and in the public interest for purposes such as capital improvements, retirement of debt and working capital.[26]

In determining just and reasonable rate levels for PGW, it is the Commission's policy to consider, among other relevant factors:

> **(1)** PGW's test year-end and (as a check) projected future levels of non-borrowed year-end cash.
> **(2)** Available short-term borrowing capacity and internal generation of funds to fund construction.
> **(3)** Debt to equity ratios and financial performance of similarly situated utility enterprises.
> **(4)** Level of operating and other expenses in comparison to similarly situated utility enterprises.
> **(5)** Level of financial performance needed to maintain or improve PGW's bond rating thereby permitting PGW to access the capital markets at the lowest reasonable costs to customers over time.
> **(6)** PGW's management quality, efficiency, and effectiveness.
> **(7)** Service quality and reliability.
> **(8)** Effect on universal service.[27]

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[25] 66 Pa.C.S. § 2212(e).

[26] 52 Pa. Code § 69.2702

[27] 52 Pa. Code § 69.2703(a).

Additionally, the Commission is obligated to establish rate levels adequate to permit PGW to satisfy its bond ordinance covenants, consistent with 66 Pa.C.S. § 2212(e) (relating to securities of city natural gas distribution operations).[28]

Moreover, a utility cannot unreasonably discriminate for or against one of its customers by establishing a special rate for them.[29] A special rate should not be approved absent a compelling reason and is limited to cases where there is a serious and credible threat of loss of load and where revenues from the customer exceed the cost of serving the customer.[30] Simply having a large volume of usage does not entitle a customer to a preferred rate.[31] A utility's offering of discounts and incentives to attract and retain customers is in furtherance of its obligations to provide adequate and reasonable service and to maintain its rates as just and reasonable, as required by 66 Pa.C.S. §§ 1301 and 1501.

V. DISCUSSION[32]

A. Revenue Requirement

1. Overall Revenue Increase

PGW's Position

PGW states that it requires an annual rate increase of $85.161 million, consisting of: (i) a three-year amortization of expenditures and increased uncollectibles resulting from the

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28 52 Pa. Code § 69.2703(b).

29 *Popowsky v. Pa. Pub. Util. Comm'n*, 683 A.2d 958 (Pa. Cmwlth. 1996).

30 *Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.*, Docket No. R-2010-2161694 (Opinion and Order entered June 21, 2012).

31 *U.S. Steel Corp. v. Pa. Pub. Util. Comm'n*, 390 A.2d 849 (Pa. Cmwlth. 1978) (citing *Carpenter v. Pa. Pub. Util. Comm'n*, 15 A.2d 401 (Pa. Super. 1940)).

32 The arguments of all parties have been given due consideration. However, not every party elected to take a position or object to another party's position on every issue presented in this proceeding. For the sake of conciseness, only those parties who asserted a particular position to a particular issue will be in included in the discussion on that issue.

COVID-19 Pandemic and the associated PUC orders responding to the Pandemic – $10.161 million for three years – and (ii) a $75.0 million annual increase.

PGW argues that without sufficient rate relief, it will be unable to meet all of its cash obligations in the FPFTY in a timely manner[33] and will be in danger of violating its required 1.5x minimum debt service coverage in fiscal year ("FY") 2025, after accounting for the annual $18 million City Payment.[34]

In addition, PGW contends that at current rates, the Company would have just $30.8 million of year-end available cash in the FPFTY,[35] which equates to just 16.9 days of expenses.[36] According to PGW, those levels of financial performance would not meet the minimum standards of financial adequacy required to maintain its bond rating.[37] Without rate relief, PGW anticipates its cash balances to plunge and be negative in FY 2025.[38] PGW contends that its requested rate increase will address these deficiencies and allow the Company to have adequate liquidity to meet its need for cash to fund construction, deal with emergencies, and permit PGW to reduce its dependence on expensive long-term debt to fund capital improvements.[39]

In addition, PGW maintains that, if the requested rate increase is granted, it will also serve to maintain PGW's current favorable bond rating. PGW explains that bond ratings are crucially important for the Company since, as a municipal utility, it heavily relies on long term debt to fund much of its capital improvement program. In PGW's view, continued support for PGW's rate increase needs is crucially important not only to ensure that it has the cash it needs to

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[33] PGW St. 2 at 16.

[34] PGW has a mandatory obligation to pay the City of Philadelphia $18 million per year ("City Payment"). PGW Exh. JFG-1 (debt service coverage w/City Payment, line 24).

[35] *See* PGW Exh. JFG-1, which shows ending cash of $30.776 million.

[36] PGW St. No. 2 at 14-15; PGW St. 2-R at 15.

[37] PGW St. No. 2 at 21-22; PGW St. 3 at 21-24.

[38] PGW Exh. JFG-1 (cash flow, line 25).

[39] PGW St. 2 at 22-23.

operate, but also to maintain its current bond rating, since a downgrade would impose millions of dollars of additional costs on PGW and its ratepayers for decades.[40]

PGW has based its claimed revenue requirement on the fully forecasted 12 months ending August 31, 2024,[41] referred to herein as the FPFTY. The Future Test Year ("FTY") is FY 2023, and the Historic Test Year ("HTY") is FY 2022. Those results are displayed on Exhibit JFG-1. The same financial results, assuming the proposed rate increase, are shown on Exhibit JFG-2R.[42] PGW's claimed *pro forma* results at present rates were directly derived from its Operating and Capital Budgets approved by the Philadelphia Gas Commission and Philadelphia City Council, respectively, updated to reflect more current data and to recognize a major bond issuance that is projected for the end of FY 2024.

<u>I&E's Position</u>

I&E submits that PGW has failed to demonstrate that its requested $85.8 million revenue increase is prudent and reasonable. According to I&E, PGW requested revenue increase is driven by PGW's goal to reduce its long-term debt and instead rely on ratepayer funded capital expenditures.[43] I&E determined that the appropriate revenue increase for PGW is $44,827,000. As discussed below, the main reason for this recommendation is that I&E eliminated PGW's $53.21 million claim for internally generated funds ("IGF"). After eliminating the $53.21 million IGF claim, I&E's analysis provides the total fund $167,494,000 in lieu of PGW's $199,759,000, resulting in a shortfall of $32,265,000. I&E contends that its recommended revenue requirement provides sufficient debt service coverage and days of cash on hand to

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40 PGW St. 3 at 21-23. Inadequate rate relief leading to a bond downgrade could drive up borrowing costs for currently projected bonds by $0.4 - $0.8 million *per year* for the next thirty years or so. Additional costs would inure to ratepayers as more bonds were issued.

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

42 Each page of Exhibit JFG (at present rates) and JFG-2R (at proposed rates) shows data for: (1) the HTY, the 12 months ended August 31, 2022, or FY 2022; (2) the FTY, the 12 months ended August 31, 2023, or FY 2023; and (3) the FPFTY, the 12 months ended August 31, 2024 or FY 2024. The Exhibit also shows projections for the Forecast Period. Page 1 of Exhibit JFG-1 displays operating revenues, operating expenses, and net earnings (Statement of Income); page 2 displays PGW's Cash Flow Statement, page 3 shows Debt Service Coverage; and page 4 shows PGW's Balance Sheet.

43 I&E M.B. at 9.

maintain PGW's current credit rating, while moderating PGW's 50/50 capital structure goal in order to reduce the impact on customer rates.[44]

OCA's Position

After careful analysis of PGW's filing and review of the Company's responses to the extensive discovery requests in this proceeding, OCA recommends an increase in revenue of $16.502 million.[45] As will be described below, OCA recommends substantial reductions to PGW's claimed operating expenses. In addition, OCA recommends a Debt Service Coverage ratio of 2.40 as compared to PGW's proposed 2.73.[46] It is OCA's view that a revenue requirement set to produce a 2.40 Debt Coverage ratio will provide PGW with financial stability while not overburdening its customers with unnecessarily high rates.[47]

OSBA's Position

Although OSBA did not provide a specific recommendation with regard to PGW's proposed revenue requirement, it pointed out in its Main Brief that, when measuring PGW's rate increase, the Company did not reset its Distribution System Improvement Charge ("DSIC") to zero, the base rate increase will also result in a DSIC increase.[48]

Additionally, OSBA notes that the increases in residential tariff rates will translate into an increase in costs for PGW's Customer Responsibility Program ("CRP") and therefore in the Universal Service and Efficiency Charge ("USEC").[49]

According to OSBA, rather than the claimed $85.2 million, the Company's proposals in this proceeding will result in an increase of $101.3 million. The OSBA analysis

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44 I&E R.B. at 2.

45 OCA M.B. at 13.

46 OCA M.B. at 13; OCA St. 2SR at 15.

47 OCA M.B. at 13.

48 OSBA M.B. at 6.

49 *Id.*

calculates, measured as a percent of YE 2023 city equity, PGW's current rates will produce a return on equity (inclusive of the city fee) of 12.9 percent, with a zero increase. With the proposed increase, the return on equity will be at least 23.1 percent.[50]

OSBA remarks that as a cash flow utility, PGW only has one source of revenue to cover its costs and its debt service requirements – its ratepayers. As a consequence, the contributions by ratepayers should benefit ratepayers and not other parties. According to PGW, the power of PGW's stakeholders to extract additional rents from PGW can be minimized by keeping rates to the bare minimum necessary to avoid a financial crisis. In OSBA's view, by keeping rates as low as possible, the Commission can keep PGW in a heightened state of alert with respect to controlling costs.[51]

CAUSE-PA/TURN's Position

CAUSE-PA/TURN recommend that PGW should not increase rates unless it takes necessary measures to mitigate the impact of the increase on low-income households.[52] An estimated 38% of PGW residential customers have "low income" – meaning their household income is at or below 150% of the federal poverty level.[53] PGW's service territory is limited to the city of Philadelphia, where 22.8% of residents live in poverty, versus 12.1% statewide and 12.8% nationwide.[54] CAUSE-PA/TURN note that while some low-income customers would be somewhat insulated from the increase due to their participation in PGW's CRP percentage of income payment plan ("PIPP"), less than half of identified low-income customers and less than a third of estimated low-income customers are actually enrolled in CRP.[55] Further, not all CRP customers are enrolled in the PIPP plan.

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50 *Id.*

51 OSBA M.B. at 6.

52 CAUSE-PA/TURN M.B. at 10; CAUSE-PA/TURN St. 1 at 10, 31-32.

53 CAUSE-PA/TURN M.B. at 10.

54 *Id.;* CAUSE-PA/TURN St. 1 at 10, 31-32.

55 CAUSE-PA/TURN M.B. at 9-10; CAUSE-PA/TURN St. 1 at 15.

CAUSE-PA/TURN note that PGW's low-income customers are disproportionately likely to be payment troubled[56] and terminated for non-payment due to their inability to afford service.[57] According to them, it is inequitable to raise rates on these struggling customers when they already cannot afford service.[58]

Further, CAUSE-PA/TURN note that energy insecurity is particularly pronounced for low-income Black families, underscoring race-based disparities in energy burden. According to the Energy Information Administration (EIA) Residential Energy Consumption Survey (RECS) released in 2022, 52% of Black and African American households experience energy insecurity, compared to 23.2% of white households – and nearly 40.2% of Black and African American households report foregoing food or medicine to pay energy costs, compared to 16.8% of white households.[59]

Lastly, CAUSE-PA/TURN argue that involuntary termination of gas service to a home has a deep and lasting impact on the health and wellbeing of the entire household and the community as a whole – and is a common catalyst to homelessness.[60] When a family is unable to use a primary heating system, they often resort to dangerous, high usage / high cost heating methods – such as electric space-heaters, electric stoves, and/or portable generators – which increase the risk of carbon monoxide poisoning and house fires.[61]

2. Debt Service Coverage

PGW explains that debt service coverage is the fundamental way in which PGW receives the cash it needs to operate its business and have cash for contingencies. While PGW's bond ordinances require that PGW maintain a debt service coverage of 1.5x, coverage above

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56 *See*, 52 Pa. Code § 62.2.

57 CAUSE-PA/TURN M.B. at 11.

58 *Id.*

59 *Id.*

60 *Id*. at 12.

61 *Id.* at 12. CAUSE-PA/TURN note that heating equipment is a leading cause of fires in U.S. homes. Space heaters are most often responsible for home heating equipment fires, accounting for more than two in five fires, as well as the vast majority of the deaths and injuries in home fires caused by heating equipment.

debt service requirements must be sufficient to produce sufficient additional revenues to pay for cash items that are not included in the debt service coverage calculation but for which PGW is committed or required to pay.[62] PGW states that, at present rates, its debt service coverage for the FPFTY is 2.1x; accounting for the mandatory obligation of the City Payment in the amount of $18 million per year, PGW's FPFTY debt service coverage falls below two: 1.94x.[63]

PGW maintains that of these *pro forma* levels of debt service coverage are inadequate to produce enough cash to enable the Company to meet all its cash obligations. PGW witness Golden set forth a list of these cash obligations, including the City Fee, pension fund contributions not on the income statement, DSIC costs, and the Other Post-Employment Benefits ("OPEB") surcharge.[64] He also explained that, from the debt service coverage, PGW must fund the portion of its capital improvements funded by internally generated funds and produce a reasonable amount of working capital to deal with revenue/expense timing differences.[65]

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62 PGW M.B. at 16; PGW St. 2 at 15-17; 52 Pa. Code § 69.2702(b).

63 PGW M.B. at 16; PGW Exh. JFG-1, Debt Service Coverage.

64 PGW M.B. at 16; PGW Exh. JFG-1, Debt Service Coverage*;* PGW St. 2 at 15-17.

65 PGW M.B. at 16; PGW Exh. JFG-1, Debt Service Coverage*;* PGW St. 2 at 16-17.

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

Item	Cash Requirement Not included in Debt Service Calculation ("000")	Cash Available over Debt Service FPFTY – Present Rates ("000")
City Payment	$18,000	
OPEB	$18,500	
Pension	$3,455	
Retiree Benefits	$37,435	
IGF funded CapX	$53,207	
PHMSA Grant Cast Iron Main Replacement	$10,752	
GASB 87/96 Principal Payments	$1,968	
DSIC	$41,000	
Working Capital	$15,442	
Sub-Totals	**$199,759**	**$116,040**[66]
TOTAL ADDITIONAL CASH NEEDED	**$83,720**[67]	

According to PGW, this Cash Needs Analysis demonstrates that a debt service coverage of at least 2.73x is required for PGW to be able to meet all its cash expenditures in the FPFTY.[68] PGW argues that a 2.73x debt service coverage level can only be achieved with an $85.1 million rate increase[69] and points to the testimony of PGW witness Walker. Mr. Walker analyzed the financial results for several groups of comparable utilities and concluded that PGW's historic and proposed debt service coverage ratios lagged behind those of its peers on average and in most years.[70] Based on Mr. Walker's testimony, PGW's proposed 2.73x debt service coverage is actually below the historical average debt service coverage for virtually every municipal utility peer examined.[71]

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66 PGW M.B. at 17; PGW Exh. JFG-1, pg. 3, "Net Available after 1998 Debt Service ($126,873) less amortized Covid-19 expense (which is not included on JFG-1).

67 PGW M.B. at 17; PGW Exh. JFG-1, pg. 3;The requested rate increase is greater to account for the portion that is uncollectible ($3,433 million), offset by additional $1,320 million additional Late Payment Charges. PGW St. No. 2 at 16.

68 PGW M.B. at 17.

69 *Id.*

70 PGW M.B. at 18; PGW St. No. 4 at 37; PGW Exh. HW-1, Sch. 4, pgs. 11-14, Sch. 5.

71 PGW M.B. at 18; PGW St. No. 4 at 37; PGW Exh. HW-1, Sch. 4, pgs. 11-14, Sch. 5.

According to I&E, PGW's debt service coverage requirement is significantly overstated and results in unjust and unreasonable rates for PGW customers. I&E explains that, while the rating agencies recognize PGW's need to satisfy its debt service coverage ratio at 1.5x, there is no indication that the coverage must be significantly higher to the level requested by PGW. I&E points out that Moody's sets the following ranges for debt service coverage for each of the ratings:

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

I&E witness Patel testified that the rating agencies have made it clear that debt service coverage ratios above the mandated 1.5x is satisfactory and strong enough to maintain PGW's current credit ratings. Specifically, Moody's opines that the FY 2023 budget should result in debt service coverage ratio remaining at least above 1.8x,[72] while recent reports from S&P Global and Fitch note that PGW has an extremely strong coverage of fixed costs, robust liquidity and reserves (totaling $236 million comprised of $115 million in unrestricted cash and $120 million of commercial paper) and a historically stable financial profile due to rate increases and budget adjustments.[73] Given that there is no indication that these rating agencies are concerned about PGW's current or future ability to service its debt, I&E concludes that PGW's requested 2.73x debt service coverage is grossly inflated and unreasonable.[74]

Instead, I&E recommends a coverage ratio of 2.46x before the $18 million City Payment and 2.30x after the City Payment.[75] According to I&E, these ratios fall within Moody's

72 I&E M.B. at 12; I&E St. 1 at 24-25; I&E Exhibit 1, Schedule 3, p. 15.

73 I&E M.B. at 12; I&E St. 1 at 25-26.

74 I&E M.B. at 12; I&E St. 1 at 25.

75 I&E R.B. at 3-4; I&E at M.B. at 9-11; I&E St. 1, at 27; Table IA.

highest credit quality rating levels and will allow PGW to maintain its credit rating. I&E believes that its recommendation provides PGW coverage for additional obligations, such as its pension fund, retiree health care, DSIC, and working capital.[76] However, I&E recommends the disallowance of approximately $53.2 million of IGF that PGW intends to use to finance capital improvement projects.[77]

I&E recommends that the $53.2 million IGF claim be rejected for three reasons. First, I&E's debt service recommendation provides approximately $41 million of DSIC revenue to accelerate infrastructure investment, and these funds must be used for specific, DSIC eligible projects. The same level of accountability does not exist with the IGF spending as there is no oversight or restrictions over the IGF funds.[78] Second, capital expenditures outside the DSIC should be tied to identified projects in the FPFTY in order to be included in rates. The requested $53.2 million IGF has no restrictions. Third, PGW can and should fund these long-term capital expenditures through debt financing rather than internally generated funds.

Analyzing the Company's financial metrics OCA recommends the revenue requirement be set at a level that generates a DSIC ratio of 2.40x for the FPFTY of 2023-2024.[79] OCA argues that its proposed ratio meets PGW's legal requirements under its bond covenant and exceeds the required bond covenant ratio of 1.5x by a sufficiently large margin to keep PGW financially stable throughout future events, while requiring a lesser revenue increase than that requested by PGW.[80] OCA points out that PGW already charges above-average retail rates as compared to similar companies, and PGW has a particularly large low-income customer base.[81] According to Fitch and S&P Global, the median household income for PGW customers is 73% of the national average, and consequently PGW customers' ability to pay is below the national average.[82] As such, OCA recommends that PGW not be permitted a DSC ratio that would

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[76] I&E M.B. at 9-11; I&E St. 1 at 27.

[77] I& E M.B. at 9-11; I&E St. 1 at 29.

[78] I& E M.B. at 9-11; I&E St. 1 at 29.

[79] OCA M.B. at 14; OCA St. 2 at 3.

[80] OCA M.B. at 14; OCA St. 2 at 3.

[81] OCA M.B. at 14; OCA St. 2 at 5.

[82] OCA M.B. at 14, OCA St. 2 at 6.

require an overly burdensome rate increase, when the smaller DSC ratio recommended by the OCA will be sufficient to satisfy PGW's cash flow and other financial needs for the FPFTY and beyond.

Further, OCA contends that its recommended DSC ratio is more in line with projected cost increases than PGW's proposed ratio. OCA notes that the inflation rate is down from the January 2022 and January 2023 year-over-year inflation rates, and the present inflation rate is less than the Company's requested percentage increase in rates.[83] It argues that PGW's revenue increase, if granted, would drive the Company's already above-average rates even higher for a cash flow utility whose costs will not increase as much as projects due to moderating inflation.

While recognizing that a utility has the right to recover all prudently incurred costs that are used and useful in the provision of service regardless of inflation, OCA argues that utility rates should also reflect the utility's best estimate of what each input to providing its service will cost, not simply what it has cost in the past.[84] Thus, OCA contends that it is appropriate to compare PGW's proposed rate increase to the annual inflation rate for the purpose of discerning whether the rate increase appropriately captures the likely future expenses that PGW will incur and collect the funding for from its customers.

In addition, OCA disagrees with PGW's claim that its requested DSC ratio will promote its goal of achieving a higher bond rating.[85] OCA notes that currently, taking together PGW's ratings from Fitch, S&P Global and Moody's, the Company averages a bit better than an A- rating at its current DSC.[86] According to OCA, the historical evidence of PGW's ratings and the most recent reports from the credit ratings agencies indicate that PGW's DSC ratio does not need to be at 2.73 for PGW to maintain or increase its bond rating:

[83] OCA M.B. at 14-15; OCA St. 2 at 6; Bureau of Labor Statistics, U.S. Department of Labor, *The Economics Daily*, *Consumer prices up 4.9 percent from April 2022 to April 2023.* At https://www.bls.gov/opub/ted/2023/consumer-prices-up-4-9-percent-from-april-2022-to-april-2023.htm.

[84] OCA M.B. at 15; OCA St. 2SR at 6-7.

[85] PGW St. 4 at 49.

[86] OCA M.B. at 16.

> The PGW DSC ratio average was 2.46 from 2017 through 2021. There was, however, significant variation in that span. The 2017 DSC ratio was 2.71 and the 2021 DSC ratio was 2.70. However, in the three years in between those end years, the ratio values were 2.35, 2.33, and 2.20. This series of DSC ratio values did not stop Fitch from upgrading the PGW credit rating to A- in February 2022. At the same time, Moody's and S&P Global kept their ratings for PGW at A3 (A- equivalent) and A, respectively. The fact is the DSC ratios in the 2017-2021 period did not impair PGW's ability to receive a bond rating increase, even though three of the years were significantly less than 2.73 and less than my recommended DSC ratio of 2.40.[87]

OCA also disagrees with PGW's assertions that an improved bond rating will benefit customers by allowing PGW to issue debt at lower interest rates. According to OCA, these assertions do not accurately capture the fact that any such benefits will be counteracted by the harms that will come to ratepayers due to increased costs from such a ratio.[88] In particular, OCA opposes PGW attempts to justify its $85.3 million requested revenue increase by claiming it needs to improve its DSC ratio, days of cash on hand, and debt-to-capitalization ratio, which PGW presents as the most important indicators that credit ratings agencies follow.[89] However, according to OCA, PGW's witnesses only provide speculation about what the consequences would be should PGW fail to make these improvements.[90] OCA avers that credit ratings statements make primarily general statements about what leads to upgrades or downgrades in credit ratings and that the three indicators that PGW chose to prioritize are not solely indicative of bond ratings improvements or downgrades. Other factors that the agencies indicate could lead to bond ratings changes include weakening demographics, material reduction, notable expansion of customer base, and a less supportive rate regulatory environment. Consequently, OCA maintains that it cannot be concluded from the credit ratings agency reports that PGW must receive its full requested rate increase to improve its bond ratings.[91]

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87 OCA M.B. at 16*;* OCA St. 2 at 6-7.

88 OCA M.B. at 16*;* OCA St. 2 at 7; PGW St. 2 at 14; PGW St. 3 at 20.

89 PGW St. 4 at 49.

90 OCA M.B. at 17; OCA St. 2 at 8.

91 OCA M.B. at 17.

Next, OCA disagrees with PGW's prediction that its requested DSC ratio will enable its bond rating to increase and would save PGW $13.9 million over the life of a long-term PGW bond.[92] Instead, OCA contends that the cost to ratepayers of higher rates to attain an increase in PGW's bond rating outweighs the benefits. OCA witness Griffing supported this position as follows:

> Mr. Lover found the savings to be $13.9 million for a two-notch difference over the life of a long-term PGW bond. I assume that the difference for a one-notch difference would be half of that amount, or about $7.0 million. The cost to PGW ratepayers in higher rates to attain a one-notch increase in the Company's bond rating is some large part of the $85.33 million increase requested by PGW. As a conservative estimate, I will assume it is $5 million. PGW ratepayers will pay that much more annually for the life of the bonds to maintain that bond rating. Thus, the cost to the ratepayers quickly dwarfs the benefit.[93]

Like I&E, OCA recommends the disallowance of a portion of PGW's Construction Expenditures. In making this recommendation, OCA notes that PGW has proposed nearly $207 million in Net Construction Expenditures in FPFTY 2023-2024.[94] In the HTY from 2021-2022, PGW spent approximately $151 million on such projects, and in the FTY it plans to spend approximately $170 million. Thus, OCA calculates that PGW's proposed FPFTY spending amounts to an increase of $36 million, or 21% more than that spent in the year prior.[95]

OCA also notes that prior to the COVID-19 pandemic, PGW's Net Construction Expenditures were significantly less, with PGW having spent $123.4 million in fiscal year 2017-2018, $100.5 million in the fiscal year 2018-2019, and $119.7 million in the fiscal year 2019-2020.[96]

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[92] OCA M.B. at 17; OCA St. 2 at 10.

[93] OCA M.B. at 17; OCA St. 2 at 10.

[94] OCA M.B. at 18; OCA St. 2 OCA St. 2 at 10-11.

[95] OCA Notes that this percentage increase is significantly higher than the inflation rate for April 2023 (4.9%), the January 2022 annual inflation rate (7.5%) and the January 2023 annual inflation rate (6.4%). OCA St. 2 at 11.

[96] OCA M.B. at 18; OCA St. 2, Sch. MFG-3, Sch. MFG-4.

Importantly, OCA points out that PGW has overestimated its projected construction expenditures in the last three years of 2020, 2021, and 2022 by $20.4 million, $15.6 million, and $23.3 million dollars each year respectively.[97]

Based on an analysis of the amounts spent by PGW in the fiscal years from 2018 to 2022, OCA recommends a reduction to Net Construction Expenditures in the amount of $17.108 million, to allow PGW a net construction expenditure amount of $189.851 million.[98] According to OCA, this amount reflects an increase of $19,361,000 over the amount presented by PGW for the future test year of 2022-2023, and it is equal to the increase from the historic test year of 2021-2022 to the FTY. The consecutive years of $19.4 million increases represent growth rates of 12.8 percent and 11.4 percent for PGW. Taken together, the absolute increase of $38.7 million over the two years is an increase of 25.6 percent. Thus, OCA finds the two-year growth for PGW to be smooth, yet substantial. Further, OCA argues that it is consistent with values of a 2.40 DSC ratio for PGW.[99] According to OCA, the recommended $17.1 million reduction addresses PGW's cash flow needs and recognizes that PGW has a history of projecting the need for more construction-related cash flow than it actually spends.[100]

3. Days of Cash ("DOC")

For the FPFTY at present rates, PGW is projecting that it will end the year with just $30.78 million in cash. That level of cash equates to just 16.9 days of cash on hand ("DOC") – with the cash balances and days of cash projected as being negative starting in FY 2025 and continuing to be negative throughout the Forecast Period.[101]

According to PGW, the bond rating agencies that closely follow PGW's financial performance have indicated that a cash balance of between 90 and 150 DOC should ideally be

97 OCA M.B. at 18.

98 OCA MB. at 19; OCA St. 2R, Sch. MFG-SR-3.

99 OCA M.B. at 19; OCA St. 2SR at 2.

100 OCA M.B. at 20; OCA St. 2SR at 4-5.

101 PGW M.B. at 18; PGW St. 2 at 18; Exh. JFG-1, Cash Flow Statement.

maintained for a utility with an "A" bond rating.[102] Therefore, a cash balance of only 17 days would fail to provide sufficient cash for PGW to be able to meet all of its cash obligations, as shown by the Cash Needs Analysis, discussed above, would be extremely concerning to the rating agencies and would prompt a review of its bond rating.[103]

PGW's rate increase request would produce a year-end cash balance in the FPFTY of $113.8 million, which equates to 61.6 days of cash.[104] PGW notes that this level of cash is still below the 90-150 days that is expected by the rating agencies for an "A" rated credit and just above the lower limit of the DOC for all of Mr. Walker's peer groups.[105]

I&E recommendations result in approximately 62.20 days cash on hand for PGW for the FPFTY which is sufficient to maintain good standing with the bond agencies.[106] In reaching this result, I&E notes that Moody's sets the following ranges for days cash on hand requirement:[107]

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

102 PGW M.B. at 18; PGW St. 3 at 16.

103 PGW M.B. at 19.

104 PGW M.B. at 19. 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. 2 at 23 and PGW St. 2-R at 24 due to the change in PGW Exh. JFG-2R.

105 *Id.*; PGW St. 4 at 37.

106 I&E R.B. at 5-6.

107 I&E M.B. at 12; I&E St. 1, p. 21.

I&E acknowledges that Moody's "A" bond rating ranges from 35 days to 150 days.[108] In fact, I&E's 62.2 DOC is solidly within that range and is slightly higher than PGW's 61.6 days of cash. I&E takes issue with PGW's argument that its level of cash will be sufficient for its needs, but that it is still "well below" the 90-150 days expected by the rating agencies. According to I&E, PGW's position ignores the fact that the rating agencies give PGW credit for available letters/lines of credit or capacity in a short-term debt program; therefore, its $120 million commercial paper program is fully available to meet its working capital requirements.[109] I&E contends that PGW's $120 million commercial paper program "provides a significant boost (80-90 days) to the cash and liquidity metric for PGW with all of the rating agencies, helping to maintain a solid credit rating."[110] Therefore, I&E disagrees with PGW's statement that its level of cash is well below the targeted range.[111]

OCA's recommended DSC ratio and net cash expenditures for PGW would result in PGW having approximately 57.41 days cash on hand.[112]

OCA disagrees with the Company's assertion that, because PGW's customer base has a median household income that is 73% of the national median, PGW needs to have more cash on hand in the case of any market shocks, otherwise, its credit ratings could be impacted negatively.[113] OCA is concerned that the increase that PGW recommends will negatively impact PGW's customers' abilities to pay their bills, in the same way that a recession would.[114] OCA suggests that, if PGW is concerned about its customers' abilities to pay in the event of a recession due to its customer bases' low median household income, PGW bolster its CRP enrollment so that its low-income customers have mechanisms to deal with financial difficulties.[115]

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108 I&E R.B. at 6.

109 *Id.*

110 *Id.*

111 *Id.*

112 OCA M.B. at 20; OCA St. 2SR at 2.

113 OCA M.B. at 21; PGW St. 3R at 2-3.

114 OCA M.B. at 21; PGW St. 3R at 2-3.

115 OCA M.B. at 21.

Next, OCA addresses PGW's argument that investing in a rate increase that will support upgrades to PGW's total credit ratings would be worth it for PGW's customers.[116] OCA finds this argument vague and unsupported by the record in this case as PGW performs no calculations to find the savings that it claims customers would incur from a higher credit rating.[117]

4. Debt to Total Capitalization

At present rates, PGW's debt to equity capitalization ratio in the FPFTY is 62.69%.[118] PGW points out that that percentage is below the level in the HTY (FY 2022), 64.11% and above the level – 60.6% – projected for the FPFTY with the full rate increase.[119]I PGW argues that a capitalization ratio of 60% or lower will permit PGW to continue its policy of balancing its capital structure by funding approximately 50% of its annual capital spending from internally generated funds ("50%/50% policy") as well as reduce financial risk.[120] PGW indicates that its ability to generate IGF is specifically mentioned in the Policy Statement as one of the criteria for judging the reasonableness of PGW's rate request.[121] The use of IGF to finance a portion of PGW's capital improvement expenditures not only helps to maintain PGW's capital structure at reasonable levels, it is also cheaper for ratepayers. This is due principally to: 1) the need to recover both debt service and debt service coverage from rates; and 2) the compounding effect of having to continually issue long term debt in lieu of using funds from rates.[122] PGW explains that while its capitalization ratio has improved in recent years, its above 60% projected ratio remains materially higher than PGW's peers.[123]

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116 OCA M.B at 22; PGW St. 3R at 2.

117 OCA M.B. at 22; OCA St. 2SR at 14.

118 PGW M.B. at 19; PGW Exh. JFG-1.

119 PGW M.B. at 19; PGW Exh. JFG-1, 2R.

120 PGW M.B. at 19; PGW St. 2 at 20-21.

121 PGW M.B. at 19; 52 Pa. Code § 69.2703(2).

122 PGW M.B. at 20; PGW St. 2-R at 10-11. Mr. Patel agreed that IGF is actually cheaper to PGW ratepayers over time than long term debt financing. I&E St. 1-SR at 8.

123 PGW M.B. at 20; PGW No. 4 at 31; PGW Exh. HW-1, Sch. 4, pg. 1.

I&E does not recommend a specific debt goal; however, it argues that PGW should evaluate a higher debt strategy to ensure just and reasonable rates.[124] To that end, I&E references a 2015 Commission Staff Report[125] to highlight that its recommendation provides a reasonable opportunity to achieve a higher debt to total capital ratio at the conclusion of the FPFTY and demonstrate that PGW's 50%/50% strategy is overly aggressive given that Staff has recognized that increasing debt is an appropriate option to finance capital expenditures rather than rate recovery. [126]

OCA disagrees with PGW's policy of attempting to use internally generated funds to pay for 50% of its capital budget. In doing so, OCA emphasizes that PGW's IGF is cash from rate payers. As OCA stated *supra* this level of IGF for construction purposes is based on an overstated level of spending as compared to prior periods. The inclusion of this level of IGF also leads to a significant overstatement of PGW's actual cash needs, and thus leads to a proposed revenue increase that is much higher than needed.[127]

B. Expenses

1. Customer Information System Spending

PGW's new Customer Information System ("CIS") was expected to go live in the FPFTY with a total anticipate cost of $61,662,000.[128] For the FPFTY, the remaining costs for the CIS include (but are not limited to) contingency costs of $7,119,731.[129] PGW maintains that these contingent/potential costs are known and measurable since they are based on the risks and the size of the project. Here, they are about 12% of the total project cost.[130]

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124 I&E R.B. at 6.

125 *Pennsylvania Public Utility Commission Staff Report: Inquiry into Philadelphia Gas Works' Pipeline Replacement Program*, April 21, 2015, p. 6.

126 I&E R.B. at 7-8.

127 OSBA R.B. at 6-7.

128 PGW M.B. at 21; PGW St. No. 1 at 12.

129 *Id.*

130 $7,119,731 divided by $61,662,000 is 0.12 or 11.55%.

OCA recommends that this contingency cost be disallowed in its entirety. Relying on the Commission's ruling in *PPL*,[131] OCA maintains that PGW's contingency costs in the amount of $7,119,731 should not be eligible for recovery as they are, by nature, estimates and are not known and measurable.[132]

PGW responds that unlike the situation in *PPL*, 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.[133] It is a recovery concept for an investor-owned utility.[134] Modifying PGW's depreciation expense will have no impact on its cash needs.[135]

It is reasonable for PGW to include reasonable allowance for contingencies into the FPFTY for potential cost over-runs. We agree with PGW that the CIS costs are not purely speculative. The Company has shown that they are measurable since they are based on the risks and the size of the project.

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131 *Pa. Pub. Util. Comm'n v. Pa. Power and Light Co.* 1995 Pa.P.U.C. LEXIS 189 at *115-117 (1995) (*PPL*).

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

132 OCA M.B. at 45; OCA St. 1 at 14-15.

133 OCA M.B. at 45; PGW St. 2-R at 14.

134 OCA M.B. at 45; PGW St. 2-R at 14.

135 OCA M.B. at 45; PGW St. 2-R at 14.

2. Employee Count; Payroll Expenses; Payroll Taxes

PGW bases its claim for payroll expenses and taxes in the FPFTY on a headcount of 1,637 employees.[136] PGW contends that its employee head count is trending upward, as the Company is adding new employees at a rate of roughly 5 per month.[137] PGW had 1,539 employees as of December 30, 2022.[138] As of June 30, 2023, PGW had 1,587 employees.[139]

OCA notes that PGW's claim for Salary and Wages for the FPFTY is $121,523,000.[140] OCA argues that this amount should be reduced to reflect the number of employees projected to be employed in the FPFTY.[141] In reaching this conclusion, OCA analyzed the actual number of PGW employees in 2020 through 2022, then factored in the expected number of employees for the years 2023 and 2024, and compared it to the actual number of employees in each of the prior historical periods. This analysis showed that employee levels varied in each of these year with PGW experiencing vacancies throughout any given year. According to OCA these vacancies should be taken into consideration when setting labor costs.[142]

To adjust for this, OCA witness Mugrace calculated a vacancy rate ratio of 2.95% using a three-year average ratio utilizing the actual employee level in 2022 and the projected levels for 2023 and 2024 (and without including the pandemic years of 2020-2021).[143] Applying the 2.95% vacancy ratio to PGW's projected salary expense of $121,523,000 results in a reduction to payroll expense of $3,582,144.[144]

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136 PGW M.B. at 22; PGW St. 2-R at 28; PGW St. 2-RJ at 6; PGW Exhs. JFG-1, JFG-2-A.

137 PGW M.B. at 22; PGW St. 2-R at 29.

138 PGW M.B. at 22; PGW St. 2-RJ at 6.

139 PGW M.B. at 22; PGW St. 2-RJ at 6.

140 OCA M.B. 36; OCA III-11.

141 OCA M.B. 36; OCA III-11.

142 OCA M.B. 36; OCA III-11.

143 OCA M.B. at 37; OCA St. 1 at 59; OCA St. 1SR at 7; *see also* PGW St. 2-R at 29-30, and OCA St. 1SR at 7.

144 OCA M.B. at 37; OCA Sch. DM-SR-20.

In response, PGW disagreed with OCA's position arguing that it only looked backwards and ignored PGW's need to hire more employees to return to normal levels in the wake of COVID-19, the actual current hiring trend, 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.[145]

In turn, OCA observes that for businesses the size of PGW, it is inevitable that vacancies will occur throughout any given year, whether due to retirement, medical leaves of absence, parental leave, voluntary or involuntary separations or other reasons. It is therefore appropriate to utilize a vacancy ratio because at any given time, a company such as PGW will always have a level of unfilled employee vacancies. According to OCA, this is inherent to the business environment.[146]

We find that Company has not provided sufficient evidence regarding the five employee per month increase. Relying strictly on the employee numbers during the six-month period December 2022 to June 2023 is not a reasonable means of establishing the employee headcount for the FTFTY. In the absence of further evidence regarding the pace of PGW's hiring, OCA's approach of applying the 2.95% vacancy ratio is an appropriate way of calculating employee complement for FPFTY. In addition, applying the 2.95% ratio to PGW's projected salary expense of $121,523,000 results in a reduction to payroll expense of $3,582,144.[147] We note that in its recent rate case decision in *Pennsylvania Public Utility Commission v. Columbia Gas of Pennsylvania, Inc.*, R-2020-3018835 (Opinion and Order entered Feb. 19, 2021) (*Columbia 2021*), the Commission agreed with OCA's proposed employee complement adjustment based on uncertain and varying employee counts.[148] We recommend that the Commission adopt OCA's proposed employee complement adjustment in the present case as well.

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145 PGW R.B. at 24; PGW M.B. at 22.

146 OCA R.B. at 10.

147 OCA M.B. at 37; OCA Sch. DM-SR-20.

148 *Pa. Pub. Util. Comm'n v. Columbia Gas of Pa., Inc.*, R-2020-3018835 at 67-71 (Opinion and Order entered Feb. 19, 2021) (*Columbia 2021*).

3. Lobbying Expenses

PGW's financial projections include lobbying expenses, since PGW expects to incur $100,000 in these expenses in the FPFTY. PGW contends that as a municipal utility it has an obligation to communicate with other parts of government in an effort to obtain information and appropriate funding for state and federal programs such as LIHEAP. These efforts directly benefit customers as PGW has no shareholders.[149]

PGW views its lobbying expense as related to providing quality service to customers, as required by *Butler Township.*[150] Therefore, PGW requests that the Commission exercise its discretion to allow the Company to include all lobbying activities in its *pro forma* operating expenses.[151]

I&E, OCA and POWER disagree.[152]

I&E recommends that PGW's $100,000 lobbying expense claim be disallowed[153] because it violates Section 1316 of the Code, which prohibits public utilities from recovering expenses for political advertising in rates.[154] This section defines political advertising as money spent for lobbying unless it is spent for appearances before regulatory or other governmental bodies in connection with a public utility's existing or proposed operations.[155]

In support of its position, I&E notes that the Commission has previously disallowed PGW recovery of its claimed lobbying expenses in PGW's prior base rate proceedings. In *PGW 2001*, the ALJ noted the Commission's longstanding history of

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[149] PGW M.B. at 22-23.

[150] *Butler Twp. Water Co. v. Pub. Util. Comm'n (Butler Township)*, 473 A.2d 219, 221 (Pa. Cmwlth. 1984). *See also T.W. Phillips Gas and Oil Co. v.Pa. Pub. Util. Comm'n*, 474 A.2d 355 (Pa. Cmwlth. 1984).

[151] PGW M.B. at 23.

[152] I&E M.B. at 15-16; OCA M.B. at 27-29; POWER M.B. at 59-60.

[153] I&E M.B. at 18; I&E St. 2 at 5-7; I&E St. 2-SR at 5-6.

[154] 66 Pa.C.S. § 1316.

[155] 66 Pa.C.S. § 1316(d).

disallowing this expense because "lobbying expenses do not have a direct ratepayer benefit and as such cannot be included in rates."[156] Additionally, the Commission expressly rejected the argument that PGW's status as a municipal utility should permit it to recover lobbying expenses and concluded that "we do not view the recovery of lobbying expense as being required by Section 2212's mandate that the Commission adheres to the prior ratemaking method. Rather, we are free to examine both the reasonableness of the amount and the category of O&M expense being claimed by PGW."[157] The Commission similarly disallowed PGW recovery of its lobbying expense claim in its 2006 base rate case given Section 1316's prohibition and the Commission's longstanding exclusion of lobbying expenses from base rate recovery.[158]

OCA maintains that there is no "special circumstance" surrounding PGW's ratemaking scenario.[159] Addressing a possible waiver to Section 1316 in PGW's 2006 base rate proceeding, Commission Order explicitly stated, "the Company has failed to present compelling reasons to grant a waiver under Section 2212(c) of the Code to change the treatment of this type of expense claim from the Commission's prior treatment, which is to exclude the claim from recovery within base rates."[160]

We agree with the arguments supplied by I&E, OCA and POWER. In particular we agree with OCA that there are no "special circumstances" in the present case that warrant a waiver under Section 2212(c) of the Code and a change in the treatment of lobbying expenses. In fact, we find that PGW's claim and reasons for requesting a waiver of Section 2212(c) are similar to those presented by the Company in *PGW 2006.* In *PGW 2006*, PGW proposed a claim for lobbying expenses which included, (1) $100,000 for WolfBlock Government Relations; (2) $130,000 for Mardi Enterprises; and (3) $15,200 for dues and subscription. The total claim was $245,200. PGW argued that just 25%, or $30,000, of the expense claimed for Mardi Enterprises

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156 *Pa. Pub. Util. Comm'n v. Phila. Gas Works*, Docket No. R-00006042, p. 64 (Opinion and Order entered Oct. 4, 2001) (*PGW 2001*).

157 *PGW 2001* at 66.

158 *Pa. Pub. Util. Comm'n v. Phila. Gas Works*, Docket No. R-00061931, p. 56 (Opinion and Order entered Sept. 28, 2007) (*PGW 2006*).

159 OCA M.B. at 28; OCA St. 1SR at 8.

160 *PGW 2006* at 56.

is for lobbying, while the remaining amount is associated with activities such as interacting with the Commission, the Energy Association of Pennsylvania, and with other state and federal trade and industry groups with public advocates, customers and community groups.[161] The ALJs recommended that the total claim of $245,000 be excluded from rates upon finding that PGW had not supported its claim by adequate evidence.[162] The Commission supported the resolution offered by the ALJs on this issue.[163] In the present case, we also find PGW has not provided any compelling reasons that the Commission should waive treatment of this claim contrary to the Commission consistently rejecting this claim in the past. We recommend that the lobbying claim in the amount of $100,000 be excluded from rates.

4. Rate Case Expenses

PGW's annual rate case expense of $477,000 is comprised of two components, which it proposes to amortize over five years: (1) $300,000 for current rate case expense and (2) $177,000 for the unrecovered expenses related to its 2020 base rate proceeding.[164] PGW proposes recovery of rate case expenses for this proceeding over a 5-year (60 month) timeframe.[165] PGW explains that it is still recovering rate case expenses of $177,000 from the 2020 base rate case via the same five-year amortization.[166] PGW notes that it voluntarily adopted a 5-year amortization period not because it reflects the duration between rate cases but because the Philadelphia Gas Commission (which has oversight of PGW budgets) ordered that the expenses be amortized over this time period for PGW budget purposes.[167]

I&E recommended an allowance of $316,981, which is a reduction of $160,019 ($477,000 - $316,981) to PGW's claim.[168] I&E bases its recommendation on normalizing the

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161 *PGW 2006,* Recommended Decision at 38.

162 *Id.* at 41

163 *PGW 2006* at 56.

164 I&E St. 2, p. 9; *See Pa. Pub. Util. Comm'n v. Phila. Gas Works*, R-2020-3017206 (Opinion and Order entered November 19, 2020) (*PGW 2020*).

165 PGW M.B. at 23; PGW St. No. 2-R at 33.

166 PGW M.B. at 23-24; PGW St. No. 2-R at 33-34; I&E St. No. 2 at 9.

167 PGW M.B. at 24; PGW St. No. 2-R at 34.

168 I&E M.B. at 20-23; I&E St. No. 2, p. 11.

total rate case expense over the average historic filing frequency of 53 months and removing the $177,000 unamortized PGW's 2020 base rate case legal expenses.

I&E notes that, while it is undisputed that PGW is permitted to recover reasonable and prudent rate case expense in rates, it is similarly well-settled that rate case expense is normalized, not amortized, for ratemaking purposes. I&E supports its position by referring to a long line of Commission rulings. It notes that in *Pa. PUC v. Phila. Elec. Co.*, the Commission concluded that "[o]ur present policy also is to allow for a *normalized* amount for current rate case expense; we do not amortize current rate case expense."[169] Similarly, in its decision in *Pa. PUC v. West Penn Power Co.*, the Commission agreed with the Office of Trial Staff's ("OTS") proposed normalization of the company's rate case expense, stating that "[w]e agree with the OTS that normalization is the proper treatment for [rate case expense]."[170] Finally, in its decision in *Pa. PUC v. Lemont Water Co.*, the Commission agreed with the ALJ's recommendation of a two-year normalization period of rate case expense as opposed to the company's requested two-year amortization, stating that "[o]n review of this issue, we support the ALJ's adoption of the principle of normalization rather than amortization of rate case expense."[171]

Next, I&E looked to PGW's historic filing frequency to determine the appropriate normalization period. I&E witness Walker explained that PGW's three most recent rate cases were filed on December 18, 2009, February 27, 2017, and February 28, 2020; therefore, including the current rate case, filed on February 27, 2023, the average historic filing frequency is 53 months [(86 months + 36 months + 36 months) ÷ 3].[172] I&E argues that its recommendation of a shorter recovery period benefits PGW as it allows for quicker recovery of its current rate case expense and is supported by Commission precedent. For example, in

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169 *Pa. Pub. Util. Comm'n v. Phila. Elec. Co.,* 56 Pa.P.U.C. 155*,* 176 (1982); 1982 Pa. PUC LEXIS 83, *58 (citing *Pa. Pub. Util. Comm'n v. Butler Twp. Water Co.*, 54 Pa.P.U.C. 571 (1980) (*Pa. PUC v. Phila. Elec. Co.*).

170 *Pa. Pub. Util. Comm'n v. West Penn Power Co.*, 73 Pa.P.U.C. 454, 492 (1990) (*Pa. PUC v. West Penn Power Co.*).

171 *Pa. Pub. Util. Comm'n v. Lemont Water Co.*, 81 Pa.P.U.C. 392, 404 (1994) (*Pa. PUC v. Lemont Water Co*.).

172 I&E M.B. at 24; I&E St. 2, at 12.

Emporium Water Company, City of DuBois, Columbia Gas and *PECO Energy Company – Gas Division*, the Commission adopted I&E's recommended normalization periods that relied on the respective utility's average historic filing frequency.[173]

PGW rejects I&E's period of recovery as 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.[174]

In addition, PGW argues that I&E's recommendation that the Company 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)[175] is an unreasonable collateral attack on a prior Commission order.[176]

In turn, I&E rejects PGW's contention by pointing out that PGW's 2020 base rate case was settled via a black box settlement.[177] As such, I&E argues that there was no line-by-line identification of individual expenses that PGW was authorized to recover. If the parties agreed to amortize the 2020 rate case expense, that would have to be expressly stated in the settlement and authorized in the Commission's Order. Both the settlement and Commission Order are silent with respect to rate case expense recovery, which means that such recovery was included in the

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173 *Pa. Pub. Util. Comm'n v. Emporium Water Co.,* Docket No. R-2014-2402324, pp. 47-50 (Opinion and Order entered Jan. 28, 2015) (*Emporium Water Company*); *Pa. Pub. Util, Comm'n v. City of DuBois – Bureau of Water,* Docket No. R-2016-2554150, pp. 65-66 (Opinion and Order entered Mar. 28, 2017); *Pa. Pub. Util. Comm'n v. City of DuBois – Bureau of Water,* Docket No. R-2016-2554150, p. 13 (Opinion and Order entered May 18, 2017) (*City of DuBois*); *Pa. Pub. Util. Comm'n v. Columbia Gas,* Docket No. R-2020-3018835, pp. 78-79 (Opinion and Order entered Feb. 19, 2021) (*Columbia Gas*); *Pa. Pub. Util. Comm'n v. PECO Energy Co. – Gas Division,* Docket No. R-2020-3018929, pp. 117-119 (Opinion and Order entered June 22, 2021) (*PECO Energy Company – Gas Division*).

174 PGW R.B. at 21; PGW M.B. at 23-24.

175 I&E M.B. at 17-19.

176 PGW R.B. at 12-22; PGW M.B. at 23-24; PGW St. 2-R at 34.

177 I&E R.B. at 9.

black box revenue requirement contained in the settlement. Accordingly, PGW was not authorized to amortize the 2020 rate case.[178]

It is understood that operating expenses that recur at irregular intervals are normalized for ratemaking purposes in order to determine a “normal” annual test year allowance. Rate case expense most certainly fits this definition as it is claimed in virtually every rate case filing and is not an unusual or infrequently reoccurring expense. In its decision in *Pa. PUC v. Phila. Elec. Co.*, the Commission discussed its policy regarding rate case expense, stating:

> Current rate case expense is not to be viewed as an expense to be recovered, but merely as a guide in determining a reasonable expense allowance for the future. If a particular utility should decide to expend more or less than its allowance, for whatever reason it may choose, that is a management decision for it to make. Our decision in this and every case is to determine the reasonable annual expense allowance to be charged to ratepayers.[179]

Based on the above, we recommend that PGW’s request to amortize rate cases expense be denied as it is inconsistent with long-standing Commission precedent and its policy regarding rate case expenses. PGW has provided no justification for altering this long-standing ratemaking treatment in this proceeding. Thus, it is our recommendation that the $177,000 unamortized legal expenses from PGW’s 2020 base rate case be removed and that the total rate case expenses of the present base rate case be normalized over 53 months.

5. <u>COVID-19 Related Expenses</u>

PGW is making a claim for incremental uncollectible and other expense incurred as a result of the COVID-19 pandemic emergency.[180] PGW notes that it responded to the Commission's directives regarding the pandemic and deferred collection of about $32.5 million

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[178] *Id.*

[179] *Pa. PUC v. Phila. Elec. Co.* (citing *Pa. Pub. Util. Comm’n v. NFG Dist. Corp.*, 54 Pa.P.U.C. 188 (1980)).

[180] PGW M.B at 24; PGW St. 2 at 9-11; *See* PUC's Emergency COVID Order, ratified on March 25, 2020, in Docket No. M-2020-3019244.

in a regulatory asset for proscribed COVID-19 related expenses.[181] PGW has not accrued additional expenses for the pandemic since February 2023 and has a total of $30.485 million accumulated of net COVID-19 related expenses.[182] PGW is proposing a three-year (36 month) recovery period for the COVID-19 related expenses,[183] which results in a COVID-19 related expense claim for the FPFTY of $10.162 million.[184]

I&E agrees with PGW's total COVID-19 claim of $30.485 million but disagrees with its proposed 36-month amortization period. Instead, I&E recommends that this expense be amortized over 53-months, resulting in a recommended allowance of $6,902,038.[185]

According to I&E, PGW's request to amortize this expense over three years[186] is unsupported by PGW's actual 53-month historic filing frequency. I&E maintains that the Commission looks to a company's historic filing frequency to determine the appropriate time period to normalize and amortize the utility's ratemaking claims.[187] In support of its position, I&E notes that in *Columbia Gas of Pennsylvania, Inc.,* the Commission affirmed that the normalization period should align with the historic data rather than Columbia's intent to file its next rate case.[188] The Commission affirmed this decision and accepted I&E's recommended five-year normalization period in the recent *PECO Energy Company – Gas Division* case, stating: "a normalization period based on the actual historic filing frequency is more reliable than future speculation or the stated intention to file a rate case."[189]

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181 PGW M.B. at 24; PGW St. 1 at 4. As a cash flow utility, the deferred collection directly impacted PGW' s budget. PGW St. 1 at 4.

182 PGW M.B. at 24. That amount is net of all reimbursements from the Federal Emergency Management Agency ("FEMA"). PGW St. 2-R at 35, 37.

183 PGW M.B. at 24; PGW St. 2 at 11. PGW generally is projecting a three-year period between base rate cases; therefore, this amortization period is reasonable. PGW St. 2 at 11.

184 PGW M.B. at 24-25; PGW Exh. JFG-2R (income) at line 26 (pandemic expenses).

185 I&E R.B. at 11; I&E St. No. 2-SR, pp. 8-12.

186 I&E R.B. at 11; PGW St. No. 2, p. 11.

187 I&E M.B. at 23.

188 *Pa. Pub. Util. Comm'n v. Columbia Gas of Pa., Inc.,* Docket No. R-2020-3018835, pp. 78-79 (Opinion and Order entered Feb. 19, 2021).

189 *Pa. Pub. Util. Comm'n v. PECO Energy Co. – Gas Division,* Docket No. R-2020-3018929, pp. 117-119 (Opinion and Order entered June 22, 2021).

OCA, too, agrees with PGW's total COVID-19 claim but recommends recovery of these expenses over a five-year period rather than the three-year period that PGW proposed. It does so in order to match the five-year period over which PGW proposed to recover its rate case expenses.[190] OCA supports the longer recovery period as it benefits customers when a lower amount is collected each year.[191] OCA proposes an annual recovery of COVID-related expenses equal to $5.985 million, a reduction of $4.642 million from PGW's proposed $10.627 million per year.

In response, PGW rejects the longer recovery periods recommended by I&E and OCA as unreasonable,[192] since PGW has been filing base rate cases every three years (2017, 2020 and 2023).[193] PGW deems them 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 Commission's goals of trying to minimize the adverse effects of the pandemic on ratepayers.[194]

Two filing intervals (2017 to 2020 and 2020 to 2023) are hardly indicative of a historical pattern or reliable average. In its calculations of recovery period, PGW leaves out the longer interval between its base rate filing of 2009 and that of 2017. Taking this interval into account results in a 53-month average period between PGW's rate case filings. Although this is longer period than the one recommended by PGW, it carries no uncertainty as to recovery. Since the Commission authorized the creation of a regulatory asset for pandemic-related expenses, PGW will be able to fully recover these costs while its customers benefit from the longer recovery period of 53 months.[195] Therefore, we recommend that PGW's total COVID-19 claim of $30.485 million be approved but the three-year recovery period be denied as unreasonable.

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190 OCA St. 1 at 53.

191 OCA M.B. at 26; OCA St. 1SR at 9.

192 I&E M.B. at 19-21; OCA M.B. at 25-26.

193 PGW M.B. at 24-26; PGW St. 2-R at 34.

194 PGW R.B. at 22.

195 *See* Secretarial Letter regarding *COVID-19 Cost Tracking and Creation of Regulatory Asset,* Docket No. M-2020-3019775, issued May 13, 2020.

Instead, we recommend that the Commission approve the 53-month amortization period suggested by I&E.

6. Inflation Adjustment

In determining the budget for the FPFTY, PGW used specific levels of increased expenses/costs (if specific data/information was available) and a generic inflation adjustment of 4.63% (when expenses/costs were expected to increase in the future, but that the specific level of increase could not be separately and specifically determined).[196] Since these adjustments relate to the costs expected to be incurred in each expense account in the FPFTY, PGW maintains that its projections are not speculative, and its inflation adjustment was closely targeted and applied only to those expenses/costs not otherwise specifically adjusted.

I&E identified the expenses on which PGW applied the 4.63% generic inflation adjustment as follows: gas processing ($7,882,000), field operations ($18,144,000), collection ($1,628,000), customer service ($189,000), account management ($5,898,000), marketing ($75,000), and administrative and general ($28,704).[197] According to I&E, this blanket inflation adjustment should be disallowed as it is not supported by the record or prudently recovered in rates.

It is well settled that a utility is entitled to recover its reasonably and prudently incurred expenses.[198] I&E notes that in *Pennsylvania Public Utility Commission v. Wellsboro Electric Co.*, the Commission explained that "The objective evaluation of reasonableness is whether the record provides sufficient detail to objectively determine whether the expense is prudently incurred…. To the extent that expenses are not incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable

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196 PGW M.B. at 26. PGW explains that that inflation adjustment was used on just seven lines of the Income Statement, approximately 20% of total operating expenses. PGW St. No. 2-R at 37-38; PGW Exh. JFG-5.

197 I&E M.B. at 25; PGW St. No. 2-R, p. 40.

198 *UGI Corp. v. Pa. Pub. Util. Comm'n*, 410 A.2d 923, 932 (Pa. Cmwlth. 1980).

through rates."[199] The Commission denied Wellsboro's request to apply a blanket three percent inflation adjustment to all of its O&M accounts in its FTY to reach its FPFTY projection, stating:

> the Company did not meet its burden in demonstrating that its proposed blanket three percent inflation adjustment to all expenses would meet the "known and measurable" standard for increasing each FTY expense claim in the FPFTY. To state it another way, the Company did not demonstrate that making this blanket adjustment to each expense claim directly relates to the actual costs expected to be incurred in each expense account in the FPFTY.[200]

Similarly, I&E points out that in its decision in *Pennsylvania Public Utility Commission v. Aqua Pennsylvania Inc.*, the Commission denied Aqua's proposed General Price Adjustment to approximately 22% of its O&M expenses, stating, "We also agree that allowing Aqua to apply a general inflation adjustment to a block of expenses could incentivize less accurate tracking of expenses and a less rigorous approach to controlling costs for those expenses."[201]

Accordingly, I&E recommends the disallowance of a 4.63% blanket inflation adjustment to PGW's FPFTY unadjusted O&M expense claims of $62.5 million.

OCA, too, recommends that the full amount of that adjustment ($62.5 million x 4.63% = $2.89 million) be removed from PGW's FPFTY revenue requirement[202] basing its recommendation on the same grounds as I&E.[203]

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199 I&E M.B. at 25-26; *Pa. Pub. Util. Comm'n v. Wellsboro Elec. Co.*, Docket No. R-2019-3008208, p. 12 (Opinion and Order entered Apr. 29, 2020) (citing *Western Pa. Water Co. v. Pa. Pub. Uto;. Comm'n*, 422 A.2d 906 (Pa. Cmwlth. 1980)); *Popowsky v. Pa. Pub. Util. Comm'n*, 674 A.2d 1149, 1153-54 (Pa. Cmwlth. 1996).

200 *Pa. Pub. Util. Comm'n v. Wellsboro Elec. Co.*, Docket No. R-2019-3008208, p. 38 (Opinion and Order entered Apr. 29, 2020).

201 I&E M.B. at 26; *Pa. Pub. Util. Comm'n v. Aqua Pa., Inc.*, Docket No. R-2021-3027385, p. 117 (Opinion and Order entered May 16, 2022).

202 OCA M.B. at 23; OCA St. 1SR at 10.

203 OCA M.B. at 23-24.

PGW responds that I&E and OCA have misapplied the caselaw. PGW avers that it 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.[204]

We note that in *PECO Gas 2021* the Commission approved an inflation adjustment upon finding that PECO had used a more targeted approach to applying a generic inflation adjustment on a single expense.[205] However, in *Pennsylvania Public Utility Commission v. Aqua Pennsylvania Inc.*, where the Commission disallowed Aqua's blanket inflation adjustment, Aqua had applied the adjustment on 22% of its operating expenses.[206] In the present matter, PGW's generic inflation adjustment was applied to approximately 20% of its total operating expenses.[207]

Additionally, in *Pennsylvania Public Utility Commission v. Wellsboro Electric Co.*, the Commission denied the requested inflation adjustment because the utility did not demonstrate that the increase to each expense claim "directly relates to the actual costs expected to be incurred in each expense account in the FPFTY."[208] Similarly, we find that PGW cannot demonstrate that the claimed 4.63% inflation adjustment is directly tied to the actual cost expected in the FPFTY because it admits that generic inflation adjustment was applied when "the specific level of increase could not be separately and specifically determined[.]"[209] It is PGW's burden to prove the reasonableness and prudency of its ratemaking claims,[210] and PGW has failed to carry its burden of proving whether and to what level the expenses in question will

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204 PGW R.B. at 23.

205 *Pa. PUC v. PECO Energy Co. – Gas Division*, Docket No. R-2020-3018929, Order entered June 22, 2021 (*PECO Gas 2021*).

206 *Pa. Pub. Util. Comm'n v. Aqua Pa., Inc.*, Docket No. R-2021-3027385 (Opinion and Order entered May 16, 2022).

207 PGW M.B. at 26; PGW St. 2-R at 38.

208 *Pa. Pub. Util. Comm'n v. Wellsboro Elec. Co.*, Docket No. R-2019-3008208 p. 40 (Opinion and Order entered Apr. 29, 2020).

209 PGW M.B. at 26.

210 *UGI Corp. v. Pa. PUC*, 410 A.2d 923, 932 (Pa. Commw. 1980).

increase or decrease in the future. Therefore, we recommend that the Commission deny PGW the $2.89 million generic inflation adjustment it has proposed in the present case.

7. Incentive Compensation

PGW explains that the Company has had incentive compensation expenses for a number of years. For the FPFTY, PGW identified bonus pay for senior management in the overall amount of $129,000. This consists of $32,000 for Bypass bonus, $32,000 for Employee Recognition and $65,000 for Contract and Retention bonus.[211]

PGW states that its Contract and Retention Bonus is for its CEO and (Acting) CFO.[212] According to PGW, the incentive plan is designed to promote the successful completion of annual corporate goals such as the continued improvement in customer satisfaction, revenue enhancement (from new business), increasing opportunities for minority, women, and disabled-owned businesses enterprises to participate in PGW projects, and increasing job satisfaction/recognition scores.[213]

OCA agrees with the amounts claimed by PGW for the Bypass bonus and the Employee Recognition payments as these expenditures reasonably could be said to inure to the benefit of PGW's customers. However, OCA disagrees with the amount claimed for the Contract and Retention bonus.[214]

OCA states that it reviewed the six corporate goals identified by PGW as determining incentive compensation for its CEO and Acting CFO in the FPFTY and found that four of them are related to customers, efficiency, and workforce satisfaction, while the remaining two goals are related to revenue enhancement and supplier diversity. Relying on the Commission's rulings in *PPL 2012* and *Aqua 2021*, OCA argues that incentive compensation

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211 PGW M.B. at 27; PGW St. 2-R at 41-42.

212 PGW M.B. at 27; PGW St. No. 2-R at 42-43.

213 PGW M.B. at 27; PGW St. No. 2-R at 42-43.

214 OCA M.B. at 38; OCA St. 1SR at 11.

paid to achieve financial performance and supplier diversity should not be charged to customers as they are not likely to provide benefit to customers.[215]

To determine the amount of the disallowance, OCA witness Mr. Mugrace assigned 1/6th of the $65,000 to be spent on the contract and retention bonuses to each corporate goal, or $10,333 per goal,[216] thus recommending a reduction of $21,666 (for the two goals that are related to revenue enhancement and supplier diversity) in this expense category.[217]

In response, PGW argues that goals selected by OCA – increased revenues from new business (which will allocate costs over a wide-base) and diversity in the supply chain – benefit ratepayers and incentives to try to achieve them are a legitimate, reasonable expense for any utility.[218]

In *PPL 2012*, the Commission ruled that where an incentive compensation plan is reasonable, prudently incurred, not excessive, and there is a benefit to ratepayers, a Company may recover the expense of that program. [219] In that same ruling, the Commission allowed incentive compensation expense because it was consistent with the Commission's "prior decisions approving incentive compensation programs that are focused on improving operational effectiveness."[220] In this case, PGW has shown that its incentive compensation goals related to revenue enhancement and supplier diversity improve the Company's operational effectiveness and provide benefit to PGW's ratepayers. They are also reasonable and not excessive. Consequently, we recommend that PGW's incentive compensation expenses be allowed.

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215 OCA M.B. at 38; OCA St. 1SR at 11-12; *Pa. PUC. v. PPL Elec. Util. Corp*., R-2012-2290597 (Order entered Dec. 28, 2012) *(PPL 2012)*(Where an incentive compensation plan is reasonable, prudently incurred, not excessive, and there is a benefit to ratepayers, a Company may recover the expense of that program); *Pa. PUC v Aqua Pa. Water Co.,* 2022 Pa. PUC LEXIS 161 * (Order entered May 16, 2022) (*Aqua 2021*) (the Commission found that Aqua's stock-based compensation was linked to performance objectives that benefit consumers, denying a party's exception to allowance of certain stock based compensation).

216 OCA M.B. at 38; OCA St. 1SR at 11-12.

217 OCA M.B. at 39; OCA Sch. DM-SR-20.

218 PGW R.B. at 24.

219 *Pa. PUC. v. PPL Elec. Util. Corp*., R-2012-2290597 (Order entered Dec. 28, 2012) (*PPL 2012*).

220 *PPL 2012* at 26.

8. Advertising Expenses

PGW has proposed advertising expenses of $3.132 million for the FPFTY.[221] PGW states that its advertising expenses include $779,000 for the Advanced Marketing Campaign to support customer communications. Such costs relate to: (a) Fueling the Future, an awareness campaign (launching in FY 2024) to inform PGW customers seeking increased energy efficiency and lower cost energy solutions; (b) Online Appointment Scheduling, an improved customer tool (launching in FY 2024); and (c) Main Replacement customer outreach, a customer communication campaign (launching in FY24) related to increased replacement work. Advertising expenses also include $78,000 for a Diversification campaign to support any customer communication regarding RNG customer opportunities and/or low-carbon products (launching in FY 2024).[222]

OCA witness Mugrace took exception to two components of PGW's proposed marketing expense: the $779,000 Advanced Marketing Campaign and the $78,000 Diversification of New Revenue Opportunities campaign.[223] Regarding the Advanced Marketing Campaign, the cost relates to three initiatives: Fueling the Future (to launch in 2024); Online Appointment Scheduling; and Main Replacement customer outreach. OCA witness Mr. Mugrace noted that of these initiatives, only Fueling the Future had advertising examples available. None were available for the Diversification of New Revenue Opportunities campaign.[224] Given the lack of availability of advertising materials for certain of these programs, Mr. Mugrace said it is impossible to determine whether the costs are reasonable and provide benefits to customers.

OCA recommends that 50% of the Advanced Marketing Campaign costs be disallowed and that the full amount of the Diversification and New Revenue Opportunities

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221 PGW Exh. III-A-25.

222 PGW St. No. 2-R at 51-52.

223 OCA M.B. at 27; OCA St. 1 at 25.

224 OCA M.B. at 27; OCA St. 1SR at 16.

campaign costs be disallowed. This amounts to a reduction in PGW's proposed Advertising expense of $389,500 (50% of $779,000) plus $78,000 for a total of $467,500.[225]

PGW responds that it satisfied its burden of proof by describing the substance of the advertising in question but fails to cite to caselaw that supports its position.[226]

The Commission has held that it is not possible to judge the reasonableness of a marketing plan that has not been initiated because of the uncertainness of the content.[227] The inability to assess whether or to what extent these proposed advertising campaigns in question will provide benefit to PGW's customers, supports the disallowances that OCA has proposed.

9. Pension Expense

PGW's funding requirement for pension expenses in the FPFTY, is $44.759 million and the cash outlay is $30.806 million.[228] PGW explains that the cash requirement is based on two mandates. PGW's Pension Plan (also known as the "Gas Works Plan"[229]) requires cash outlays for both (1) the actuarially determined contributions and (2) the additional amount determined by the Director of Finance (who is the chief financial officer of the City) to be appropriate to fund future benefit obligations with respect to such Pension Plan participants.[230] Beyond those two cash requirements, there is an additional (amortization, non-cash expense) requirement under Governmental Accounting Standards Board (GASB) that is dictated by PGW's actuarial report and combines with the cash requirements to produce the accounting

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225 OCA M.B. at 27; OCA Sch. DM-SR-9.

226 PGW R.B. at 26.

227 *Pa. PUC v. UGI Utilities, Inc*., 1994 Pa. PUC LEXIS 137*, 105-06 (Order July 27, 1994).

228 PGW M.B. at 28; PGW St. No. 2-R at 49; PGW Exh. JFG-2R (income), line 29 (pensions). Line 29 shows the funding requirement.

229 PGW M.B. at 28; PGW St. No. 2-R at 48; PGW Exh. JFG-10.

230 PGW M.B. at 29; PGW St. No. 2-R at 48-49. The Director of Finance has directed PGW to contribute not less than $30.0 million to the Gas Works Plan. *Id.*

expense shown on the income statement.[231] That pronouncement (GASB 68) creates the total funding requirement that is shown on PGW's income statement.[232]

The following chart is a breakdown of the above-described requirements:[233]

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

PGW explains that the increase from 2022 to 2024 is due to a change in the Governmental Accounting Standards Board (GASB) 68 Amortization Expense. According to PGW, the Pension Expense for 2024 would rise by 5% from 2023 because the GASB Amortization Expense for 2024 is relatively small.[234]

OCA noted that PGW's pension expense in the HTY (2022) was $20.675 million and that the increase to $44.759 million represents an increase of 117% in the course of two years.[235] OCA points out that PGW's pension expenditures for the fiscal years 2018 through 2022 ranged from a high of $43.158 million in 2018 to an actual credit of $3.146 million in 2021.[236] Given this wide variability in Pension Expense, OCA witness Mugrace recommended that this expenditure be normalized over a three-year period, 2022 through 2024, incorporating the actual expense of $20.675 million for 2022, and the projected expenditures of $42.833 million for 2023 and $44.759 million for 2024. The average of these figures equals $36.089

231 PGW M.B. at 29; PGW St. No. 2-R at 49.

232 PGW M.B. at 29; PGW St. No. 2-R at 49.

233 PGW M.B. at 29; PGW St. No. 2-R at 49.

234 OCA M.B. at 39; PGW St. 2-R at 49-50.

235 OCA M.B. at 39-40

236 *Id.*

million. Utilizing this figure for Pension Expense in the FPFTY would represent an $8.670 million reduction from the Company's projected expense of $44.759 million.[237]

In support of its position, OCA relies on *Butler Township Water Co. v. Pennsylvania Public Utility Commission*, 473 A. 2d 219 (Pa. Cmwlth. 1984) (*Butler Twp.*), where the Commonwealth Court observed that normalization of an expense is "the adjustment of an item of recurring expense where the amount of the expense incurred in the test year is greater or less than that which a public utility may be expected to incur annually during an estimated life of new rates."[238] OCA submits that normalization approach is the proper way to reflect the Pension Expense item because it has demonstrated such wide variability.[239]

In response, PGW argues that OCA's proposed normalization of GASB 68 entries is not reasonable since they are determined by actuarial valuation.[240] According to PGW, OCA has not justified a change in the underlying GASB 68 amortization and/or the removal of $8 million in cash outlay for pensions.[241]

Upon careful consideration of the evidence and arguments presented by both parties we recommend that the Commission adopt OCA's proposed reduction of the Company's pension expense of $8.670 million. In *Pennsylvania Public Utility Commission v. Total Environmental Solutions, Inc. – Treasure Lake Water Division*, 2008 Pa. 20 PUC LEXIS 1227 *100 (2008) (*TESI*), the Commission referred to the ALJ's explanation of the purpose of normalization as "a ratemaking technique used to smooth out the effects of an expense item that occurs at regular intervals, but in irregular amounts. Normalization is the proper adjustment to make the test year expense representative of normal operations."[242] The evidence in this case

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237 OCA M.B. at 39-40; OCA St. 1 at 55, OCA Sch. DM-SR-13.

238 *Butler Twp.* at 222. *See also Pa. PUC v. Total Environmental Solutions, Inc. – Treasure Lake Water Division*, 2008 Pa. PUC LEXIS 1227 *100; *Pa. PUC et al. v. PECO Energy – Gas Division*, 2021 Pa. PUC LEXIS 241 at *56, 59.

239 OCA M.B. at 40.

240 PGW MB at 28-30.

241 PGW MB at 28-30.

strongly demonstrates that PGW's pension expense, though regularly occurring, fluctuates significantly from year-to-year. Consequently, normalization of this expense is appropriate and consistent with sound ratemaking principles. We note that the Commission adopted a similar approach towards PECO's OPEB expenses in *Pennsylvania Public Utility Commission v. PECO Energy Co. – Gas Division*, 2021 Pa. PUC LEXIS 241 at *56, 59 (2021) (*PECO Gas*), which were found to be fluctuating from year-to-year. Like the present case, in *PECO Gas* actuarial reports were a factor in the company's OPEB expense calculations.[243]

10. Other Post-Employment Expense (OPEB)

For the FPFTY, PGW's cash outlay or funding requirement above the amount shown on the income statement for OPEBs is $58.019 million.[244] The cash outlay has the following components: (1) the OPEB Trust Cash Contribution of $18.5 million, which is funded by the Commission-approved $16.5 million OPEB surcharge and an additional $2.5 million from PGW's IGF; (2) retiree benefit (health care and life insurance) payments; and, (3) PGW's accounting expense regarding OPEBs under GASB 75 that is shown on Exhibit JFG-2R (income) at line 31.[245]

The following chart is a breakdown of the PGW's OPEB requirements:[246]

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

243 *PECO Gas* at 56.

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

245 PGW M.B. at 30; PGW St. No. 2-R at 50-51.

246 PGW M.B. at 30; PGW St. No. 2-R at 50-51.

OCA notes that PGW's proposed a balance for OPEBs in the FPFTY is negative $10.095 million.[247] PGW's balance for the Historic Test Year 2022 was a negative $1.242 million and its projected balance for 2023 is a negative $13.699 million. The decrease between the 2022 and 2024 levels amounts to a 712% reduction.[248] In 2018, PGW's OPEB balance was a positive $32.889 million.[249]

OCA acknowledges that PGW makes its OPEB contributions based on the recommendation of its actuaries, and that it must comply with GASB 75 and its reporting requirements, yet OCA contends that the variability of year-to-year balances should be taken into account.[250] In the face of such substantially varying amounts, OCA witness Mugrace recommended a three-year normalization of the OPEB Expense amounts over the years 2022 to 2024. Doing so results in a balance of negative $8.345 million, an increase of $1.750 million over the negative $10.095 million that PGW proposed.[251]

OCA argued that in setting rates, the Commission does not have to set OPEB expense at the level proposed by PGW. Rather, it can determine, based on its own evaluation of the record, the appropriate level of OPEB expenses to be included in rates.[252] OCA observes that the result of its proposed normalization reduces the credit offset by $1.750 million, which provides additional cash that can be used in PGW operations.[253]

PGW objected to OCA's normalization approach, arguing that OCA is focused on the OPEB expense under GASB 75, and not the total cash outlay. According to PGW, normalization of the GASB 75 entries is not reasonable since they are dictated by accounting rules over which PGW has no control.[254]

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[247] OCA M.B. at 41; PGW Exh. JFG-2, line 31.

[248] OCA M.B. at 41; OCA St. 1 at 56.

[249] OCA M.B. at 41; OCA St. 1 at 56-57.

[250] OCA M.B. at 41; OCA St. 1SR at 15.

[251] OCA M.B. at 41; OCA St. 1 at 57; OCA Sch. DR-SM-15.

[252] OCA M.B. at 42; *see TESI, Butler Twp.,* and *PECO Gas, supra*.

[253] OCA M.B. at 42; PGW Exh. JFG-2, line 25.

[254] PGW R.B. at 25.

According to OCA, the table above (submitted by PGW to show its OPEB requirements) shows the Company's actual cash outlay for 2022 as $43.490 million, and projections for 2023 and 2024 of $60.349 million and $58.019 million respectively. PGW's table also shows the cash outlays for 2020 and 2021 – $36.243 million and $47.782 million respectively.[255] The OCA observes that the increase in cash outlay between 2022 and 2023 amounts to 38.7%, followed by a decrease of 3.8% from 2023 to 2024. OCA concludes that even if one considers the amount of the yearly cash outlay for OPEBs, the fluctuations in the amounts from year-to-year make a strong case for normalizing OPEBs.[256]

As we did with the Pension Expense, we recommend that the Commission adopt the normalization approach as the way to reflect the OPEB expense item because it has demonstrated wide variability. Our recommendation relies not only on *Butler Twp.* but also on *PECO Gas* where the Commission adopted the normalization over the amortization approach as the better way to reflect OPEB expenses when they fluctuate from year-to-year.

11. Health Insurance Expense

PGW contents that healthcare cost trend is moving higher.[257] For the HTY (FY 2022), health insurance was $23.064 million.[258] For the FTY (2023), health insurance is on track for totaling $25.740 million (about a 10% increase from the HTY).[259] For the FPFTY (2024), health insurance is anticipated to be $27.715 million (about a 7.5% increase from the FTY).[260] That anticipated increase was projected by an independent consultant, Brown & Brown, and reflects PGW's market and plan demographics.[261]

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255 OCA R.B. at 20, referring to PGW M.B. at 30.

256 OCA R.B. at 20.

257 PGW M.B. at 31; PGW St. No. 2-R at 52.

258 PGW M.B. at 31; PGW St. No. 2-R at 52.

259 PGW M.B. at 31; PGW St. No. 2-R at 52.

260 PGW M.B. at 31; PGW St. No. 2-R at 52.

261 PGW M.B. at 31; PGW St. No. 2-R at 52. PGW Exhibit JFG-12 is an excerpt from the Brown & Brown Report.

For the FPFTY, PGW proposed an expense for health insurance of $27.715 million. This compares with the Company's expense for the HTY 2022 of $20.064 million.[262] Thus, between the HTY and the FPFTY, PGW is projecting an increase in health insurance expense of 20.15%.[263] In PGW Exh. JFG-2 and in responses to discovery, PGW provided both historical and projected health insurance expenditures. Based on those figures, the increase from 2020 to 2021 was 10.44%, from 2021 to 2022, 1.54%, from 2022 to 2023, 11.6% and from 2023 to 2024, 7.67%.[264]

In light of these varied increases, OCA avers that it would be speculative to grant PGW the amount it proposed for the FPFTY.[265] Instead, OCA witness Mugrace suggested relying on information published by the Center for Medicare and Medicaid Services (CMS), which found that the annual growth in national health spending for the years 2021 through 2030 is expected to be 5.7%.[266]

In response, PGW states that OCA's recommendation should be rejected because PGW's projected level of health insurance expense was derived from an independent third party. Further Mr. Mugrace's own data, shown on Schedule DM-SR-10 displays average annual growth from FY 2020 to FY 2022 HTY that are actually greater than his recommended 5.7% adjustment.[267]

The record evidence supports PGW's anticipated increase in health insurance expenses, and we recommend that the Commission approve it. We find OCA's grounds for applying a national growth index unconvincing, especially after OCA's witness previously expressed an aversion to applying national growth indices.[268] Instead, we find the projections

262 OCA M.B. at 42; PGW Exh. III.21.f.

263 OCA M.B. at 42; OCA St. 1 at 50.

264 OCA M.B. at 42.

265 *Id.*

266 *Id.*

267 PGW R.B. at 25.

268 OCA St. 1 at 16.

submitted by PGW – prepared by an independent consultant and based on PGW's actual experience – to be credible and base our recommendation on them.

12. Normalization Adjustments

As noted above, PGW states that its pro forma expense claim is based on its actual, budgeted levels of expenses, as approved by the Philadelphia Gas Commission and Philadelphia's City Council (the Capital Budget), only updated for more recent information (and one adjustment to reflect a full year of its planned, FY 2024 bond issuance).[269]

In his review of PGW's various expense categories, OCA witness Mugrace applied the following method of analysis:

> I reviewed each of PGW's 15-line items and the Natural Gas expense (Fuel), that make up PGW's Operating Expense accounts… I set a baseline variance of 25% or greater in determining my adjustments across the FTY periods in each of the operating expenses to make adjustments from PGW's FPFTY 2024 period. I determined the 25% baseline variance adjustment based upon the basic accounting principle that a material variance of at least 15% is considered a major variance and requires explanations as to the reasoning for the variance. Variances are useful to determine whether the expected or forecasted costs are in line with actual costs that have been incurred. I included a buffer of 10% over the 15%, or 25%, to make adjustments to PGW's costs (favorable and unfavorable or increases and decreases) from the HTY 2022 through the FY 2023 and FY 2024. In my review, and in certain instances, I utilized three-year normalizations in areas where PGW had incurred cost increases or cost decreases in what was projected or budgeted over that which were incurred in prior years, and reviewed whether those cost increases or decreases were reasonable in nature. The use of a three-year normalization is a reasonable approach in developing cost adjustments, on a budgeted and projected basis prospectively. Operating costs incurred from prior years typically show a trend that can be utilized to set costs in the future.[270]

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[269] PGW M.B. at 31.

[270] OCA M.B. at 29-30; OCA St. 1 at 17-18. (Emphasis removed).

Applying this method, Mr. Mugrace found numerous instances of variances of 25% or more and accordingly recommended that the expense in each such category be normalized over the three-year period, 2022 to 2024.[271]

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

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

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

Administrative & General Expenses[272]

Sub Expense Category	**Adjustment Amount**	**Effect on PGW Rev. Req.**	**Record Reference**
1. Accounting and Reporting	$ 20,042	Increase	OCA Sch. DM-SR-9
2. CFO	$ 2,038	Increase	OCA Sch. DM-SR-9
3. Chemical Services	$ 49,333	Decrease	OCA Sch. DM-SR-9
4.Corporate Communications	$ 98,667	Decrease	OCA Sch. DM-SR-9

271 OCA M.B. at 30.

272 OCA M.B. at 30-32.

Sub Expense Category	Adjustment Amount	Effect on PGW Rev. Req.	Record Reference
5. Corporate Planning	$ 41,667	Increase	OCA Sch. DM-SR-9
6. Customer Review Unit	$ 39,269	Decrease	OCA Sch. DM-SR-9
7. Data Analytics	$123,000	Decrease	OCA Sch. DM-SR-9
8. Gas Control and Acquisitions	$ 53,334	Decrease	OCA Sch. DM-SR-9
9. Gas Planning and Rates	$ 15,333	Decrease	OCA Sch. DM-SR-9
10. Human Resources	$191,333	Decrease	OCA Sch. DM-SR-9
11. Internal Audit	$ 67,319	Decrease	OCA Sch. DM-SR-9
12. Labor Relations	$ 1,667	Increase	OCA Sch. DM-SR-9
13. Legal	$143,786	Increase	OCA Sch. DM-SR-9
14. Organizational Development	$250,667	Decrease	OCA Sch. DM-SR-9
15.President and CEO	$ 3,379	Decrease	OCA Sch. DM-SR-9
16. Risk Management	$ 8,667	Increase	OCA Sch. DM-SR-9
17. Security and Loss Prevention	$ 70,326	Increase	OCA Sch. DM-SR-9
18.SVPGas Management	$ 15,667	Increase	OCA Sch. DM-SR-9
19. SVP Operations and Supply Chain	$ 2,786	Decrease	OCA Sch. DM-SR-9
20. Treasury	$ 12,069	Decrease	OCA Sch. DM-SR-9
21. VP Budget and Strategic Development	$ 6,510	Increase	OCA Sch. DM-SR-9
22. VP Marketing	$ 6,903	Increase	OCA Sch. DM-SR-9
23. VP Regulatory Compliance & Customer Programs	$1,206,276	Decrease	OCA Sch. DM-SR-9
24.Special Legal Services	$ 791,550	Decrease	OCA Sch. DM-SR-9

Accumulating the additions and subtractions of Mr. Mugrace's recommended adjustments (based on normalization) in the Administrative and General category produces a recommended decrease in PGW's revenue requirement of $2,587,042. Combining that amount with the normalization adjustments he proposed for Gas Processing, Field Operations, Collections, Customer Service, Account Management and Marketing, Mr. Mugrace recommended an overall reduction of the PGW revenue requirement of $4,276,673.[273]

In response, PGW argues that the Commission should reject extensive reliance on historic costs and historic averages when making recommendations for future rates based on a fully forecasted test year. According to PGW, historic costs and averages may be useful in evaluating spending levels between fiscal years, but they are not useful in setting future rates.[274] The Company stated that setting future rates requires looking at the anticipated actions and expenses in the future year. Extensive reliance on historic averages denies PGW the opportunity to recover all of its known and measurable expenses – if the projected expenses exceed the historic average – and essentially transforms the "fully forecasted" test year into something different – merely a restatement of past experience.[275]

Further, PGW contends that "looking backwards" to set future expenses assumes that the spending at the historic or average level is sufficient for the future. Nothing indicates that this assumption always holds true. The failure to account for higher future expenses in setting future rates would likely lead to more frequent rate cases and revenue deficiencies. This is especially problematic where the historic data being used frequently included years that were substantially affected by the COVID-19 Pandemic. Per PGW, virtually every aspect of PGW's operations were affected in some way by the Pandemic. As a result, PGW stated that assuming that expense levels incurred during those periods can be a basis for projecting expense levels for FY 2024 is fatally flawed.[276]

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273 OCA M.B. at 32.

274 PGW M.B. at 32.

275 PGW M.B. at 32.

276 *Id.*

In addition, PGW argues that it is particularly inappropriate to employ "normalization adjustments" for a company regulated on a Cash Flow basis.[277] According to PGW, the very definition of cash flow regulation is that the utility's revenue requirement should be set to ensure that it will have cash to cover its projected expenditures in the test year. Allowing only a "normal" amount – whether the amount is more or less than the projected levels – is wrong because it is simply not consistent with the Cash Flow method of ratemaking.[278]

In turn, OCA responds by noting that all of the expenses that Mr. Mugrace "normalized" were done over the period from 2022 (HTY) through 2024 (FPFTY) and included no 2020 data that may skew the calculations.[279]

Additionally, OCA notes that the objective of the ratemaking process, whether using a Cash Flow or Rate Base/Rate of Return method, is to provide a utility with the *opportunity* to recover the costs it prudently incurs in the provision of its utility service. It is not intended to *guarantee* total cost recovery.[280] OCA maintains that reviewing historical data in the development of going-forward rates is a reasonable approach given that historical trends are a good indicator of future costs. This determines whether costs are recurring in nature, and whether the cost expense proposed is realistic and a necessary part of PGW's day to day operations.[281] OCA notes that the rationale for normalizing costs is to prevent overcollection of expenses in future periods in the event the costs are not realized by a utility. It avers that recovery of all of a utility's anticipated costs without known and measurable costs being identified, or their prudency being assessed, creates an undue hardship on customers.[282] A utility should not have unfettered access to customers' money without its costs being justified, prudent and used and useful in nature. [283]

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277 *Id.*

278 *Id.*

279 OCA M.B. at 34; Mr. Mugrace stated that, "My normalization adjustments take into consideration the actual costs incurred by PGW (2022) and what PGW has anticipated (not actually incurred) in future years." OCA St. 1SR at 12.

280 OCA M.B. at 35; OCA St. 1SR at 12-13.

281 OCA M.B. at 35; OCA St. 1SR at 12-13.

282 OCA M.B. at 35; OCA St. 1SR at 12-13.

283 OCA M.B. at 35; OCA St. 1SR at 12-13.

We note that that in *PECO Gas*[284] the Commission adopted the recommendation of the OCA to normalize expenses in two categories (Other Postretirement Benefits and Injuries and Damages) where there were wide fluctuations in year-to-year spending. In both instances, the normalized amount was calculated over a three-year period. On reconsideration, the Commission rejected PECO's argument that normalizing OPEB expenses would unfairly skew recovery of those expenses.[285] We recommend that the principles followed by the Commission in *PECO Gas* to normalize expenses prone to wide variability should be similarly employed in the instant case. We recommend that the Commission approve the various "normalization" adjustments identified in the tables above and reduce PGW's expenses by $4,276,673.

13. Sale of Service Centers

In an effort to reduce costs, PGW permanently closed its five customer service centers in the spring of 2022.[286] PGW has estimated that these closings resulted in a savings of approximately $4.2 million consisting of $1.8 million in Facilities Savings, $2.1 million in Attrition Savings and $300,000 in Service Center Operating Savings.[287] OCA maintains that when the sale of the service centers occurs the proceeds should be returned to PGW and should not go to the City.[288]

PGW's position on the sale of the Service centers is that PGW does not own them, the City does. As such, revenue from the sale would not be PGW's money. However, even if PGW received the proceeds, they would be used to offset future capital expenditures, not operating costs.[289]

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284 *Pa. PUC et al. v. PECO Energy – Gas Division*, 2021 Pa. PUC LEXIS 241 at *56, 59 (*PECO Gas*).

285 *PECO Gas*, R-2020-3018929, (Order entered Aug. 26, 2021).

286 OCA M.B, at 46; PGW St. 1 at 8.

287 OCA M.B, at 46; PGW St. 1 at 8.

288 OCA M.B. at 46; OCA St. 1 at 14.

289 OCA M.B. at 46; PGW St. 2-R at 56.

OCA responds that the service center assets provided utility service to the customers of PGW when they were in service, that ratepayer money (through rates) was used to fund the service centers' operation and maintenance, and that the service centers were used and useful in the provision of gas utility service. On that basis, OCA argues that proceeds from the sale should go back to PGW.[290] OCA observes that it was PGW, not the City, that provided gas service to the customers. As such, sales proceeds should be returned to PGW, or at the very least they should be used to offset PGW's $18 million annual payment to the City.[291]

Moreover, OCA acknowledges in its Main Brief that it does not know whether PGW included depreciation charges for the service centers in their rates. If that is the case, then OCA argues that proceeds from the sale of the service centers should not only be returned to PGW, but they may also have to be returned to customers.[292]

The only evidence on the record with regard to the ownership of the service centers is PGW witness Golden's statement that the service centers are owned by the City. In addition, the sale of any of the centers has yet to occur and there is nothing on the record that indicates that a sale will occur in the FPFTY.[293] When the sale does happen, PGW and OCA can revisit their respective proposals with regard to the treatment of the revenue from the sale for ratemaking purposes. At this time, we recommend that the Commission take no action concerning this issue in this case beyond recognizing PGW's projected savings from the closure of the centers.

14. Depreciation

PGW proposed a Depreciation balance of $65.412 million for the FPFTY.[294] OCA was the only party who proposed adjustments to this balance. The first of OCA's

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290 OCA M.B. 47; OCA St. 1SR at 19.

291 OCA M.B. at 47; OCA St. 1SR at 19-20.

292 OCA M.B. at 47, citing *Pa. PUC et al. v. Western PA Water Company*, 1988 Pa. PUC LEXIS 422, *59-60 for the proposition that when depreciable assets are disposed of by a utility,

293 PGW R.B. at 27. PGW is not claiming any costs or expenses related to the sale in the FPFTY.

294 PGW Exh. JFG-2.

adjustments relates to PGW's remaining costs for the CIS, which include, but are not limited to, contingency costs of $7,119,731 for the FPFTY.[295] As explained in Section V.B.1. *supra*, OCA maintains that these costs should not be eligible for recovery as they are, by nature, estimates and are not known and measurable.[296] Removing the contingency costs from the CIS project results in a downward depreciation adjustment of $325,571.[297]

OCA's second adjustment relates to OCA witness Griffing's recommended reduction of $17.1 million in PGW's new construction expenditures.[298] This proposed reduction would produce a $522,527 downward adjustment in depreciation expense. Taken together, OCA's two adjustments would reduce Depreciation expense by $848,098.[299]

In Rebuttal Testimony, PGW witness Golden argued that the OCA's recommended reduction to Net Construction Expense should not be considered because it was not tied to the cancellation of specific construction projections.[300]

In accordance with our recommendation in Section V.B.1. *supra,* and because we cannot identify any cancelled construction projects, we recommend that PGW's Depreciation balance not be adjusted.

15. Uncollectible Reserve Balance

In this proceeding, PGW has proposed an Uncollectible Reserve balance of $36,919,000.[301] This balance is reflected in Line 7 of PGW Exhibit JFG-2 (Income Statement) and is labeled "appropriation for uncollectible reserve." PGW calculated this balance by taking its projected 2024 Billed Gas Revenues of $922,967,000 and multiplying this amount by 4.0% to

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295 OCA M.B. at 45; OCA St. 1 at 14; OCA St. 1 at 57.

296 OCA M.B. at 45; OCA St. 1 at 57.

297 *Id.*

298 OCA M.B. at 45; OCA St. 2SR, Sch. MFG-SR-2.

299 OCA M.B. at 45; OCA St. 1 at 58; OCA Sch. DM-SR-16.

300 PGW St. 2R at 8.

301 OCA M.B. at 47; PGW Exh. JFG-2, line 7.

arrive at a balance of $36,919,000.[302] For budgeting purposes, PGW assumes a 4.0% bad debt ratio.[303] PGW's 2024 Billed Revenues includes the full amount ($85.8 million) of the revenue requirement PGW is seeking in this case.

Both PGW and OCA agree that, if the Commission does not accept PGW's recommended rate increase, line 7 would need to be adjusted based upon the Commission's determination of PGW's allowed rate increase.[304]

We agree and recommend the same.

16. Recommendation

PGW has failed to prove that its requested $85.8 million revenue increase is prudent and reasonable. While it is undisputed that PGW needs to maintain a debt service coverage of 1.5x to satisfy its bond covenants, along with an overage above debt service requirements sufficient to produce additional revenues to pay for all of its cash obligations, the Company has failed to show that the debt service coverage needs be significantly higher, to the level of 2.73x requested by PGW, in order for PGW to maintain or improve its credit rating.

Instead, after careful consideration of the evidentiary record before us, we recommend that the Commission approve a revenue increase of $22,306,000 for PGW. We find that the recommended revenue increase is prudent and reasonable because it addresses PGW's cash flow needs and recognizes that PGW has a history of projecting the need for more construction-related cash flow than it actually spends. Our recommended revenue increase strikes a reasonable balance between PGW's intention to fund a portion of capital improvements through rates, rather than debt, and the burden this imposes upon its ratepayers.

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302 OCA M.B. at 47; OCA St. 1 at 12.

303 OCA M.B. at 47; OCA St. 1 at 12.

304 OCA M.B. at 47-48; PGW R.B. 26.

We also recommend a debt service coverage ratio of 2.40x before the $18 million City Payment and 2.24x after the City Payment. Our recommendations result in approximately 42.16 days cash on hand for PGW for the FPFTY, which is sufficient to maintain good standing with the bond agencies.[305] These recommendations also produce a debt-to-equity ratio of 61.68%, which is only slightly higher than 60.6% level projected by PGW for the FPFTY with the full rate increase requested, and below the 64.11% level in the HTY (FY 2022). We find that these recommendations provide PGW sufficient coverage for its bond requirements as well as its other obligations – such as its pension fund, retiree health care, DSIC[306], and working capital – while ensuring that rates are just and reasonable for PGW customers.

C. Rate Structure

1. Class Cost of Service Study ("CCOSS")

a) Methodology

PGW witness Heppenstall sponsored the Company's CCOSS.[307] The purpose of the CCOSS was to allocate PGW's full revenue requirement or total cost of service to the various customer classes. Customers under contract or non-tariff rates were excluded from the allocation of costs as this is a base rate proceeding. The revenues from the contract customers were included as a source of revenue to reduce the overall cost of service to be allocated to the other classes.[308]

In the CCOSS, PGW witness Heppenstall used the "Average and Extra Demand Method" ("A&E"). The A&E method is a weighted average of an "average demand" allocation

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[305] Both PGW's request and our recommendation on days of cash on hand fall within the range for Moody's A rating category. *See* I&E M.B. at 14.

[306] We note that our recommended revenue increase will result in incremental DSIC revenue – in addition to the approximately $41 million of DSIC revenue already included in PGW's present rates to accelerate the Company's infrastructure investment.

[307] PGW M.B. at 36; PGW Exh. CEH-1; PGW Exh. CEH-1S.

[308] PGW M.B. at 36; PGW St. No. 5 at 3; PGW Exh. CEH-1.

factor and an "excess demand" allocation factor.[309] PGW argued 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.[310] Further, PGW's distribution system is designed to meet customers' design day demands, warranting treatment of the cost of excess capacity as a primary cost driver rather than as an incremental cost. Ms. Heppenstall also noted that this method was approved in PGW's last fully litigated case.[311] She further explained that the weighting of these factors was based on the Commission's precedent of allocating 50% on average daily usage and 50% to excess above average daily usage.[312] Finally, she testified that the IT class average and excess usage was included in the calculation as these customers have only been interrupted once (in 2004) in almost 20 years and cannot be truly considered as interruptible for cost allocation purposes.[313]

The results of the CCOSS are set forth in Schedule A of PGW Exh. CEH-1 and are based on the projected costs for the FPFTY. The proposed increases in revenue under proposed rates and the percent increase are shown in columns 8 and 9 of Schedule A.[314] Schedule B of PGW Exh. CEH-1 shows the rate of return by customer class under present rates and Schedule C shows the rate of return by customer class under proposed rates. Additionally, Schedule A-1, which was created for comparison purposes and is included with PGW Exh. CEH-1, shows the effect on the individual class increases if revenues were brought to each class's full cost of service. Schedule A-1 shows that the IT class would require an increase of over 160% to bring revenues equal to the cost of service. However, applying the concept of gradualism, PGW opted not to move all classes fully to their cost of service.[315]

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309 PGW M.B. at 36; OSBA St. No. 1 at 24.

310 PGW M.B. at 36; *Pa. Public Utility Commission v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929 (Order entered June 17, 2021, at 227-230).

311 PGW M.B. at 36; PGW St. No. 5-R at 3; *Pa. Public Utility Commission v. Philadelphia Gas Works* Docket No. R-00061931 (Order entered September 28, 2007, at 120-124) ("*2007 PGW Base Rate Order*").

312 PGW St. No. 5 at 5.

313 PGW M.B. at 36-37; PGW St. No. 5 at 5-6.

314 PGW M.B. at 37; PGW St. No. 5 at 6-7.

315 PGW M.B. at 37; PGW St. No. 5 at 4.

I&E did not propose any modifications to PGW's cost of service study.[316]

OCA's witness Watkins expressed the view that the Peak and Average ("P&A") methodology is the preferred approach over the A&E methodology. However, he also noted that the relative rates of return at current rates are consistent under various cost allocation methods. Therefore, he did not take issue with PGW's use of the A&E method in this case.[317]

On behalf of OSBA, Mr. Knecht recommended the use of a customer-demand ("CD") method due to economies of scale and industry practice.[318] Similarly, PICGUG witness LaConte recommended using the CD methodology for allocating costs of mains.[319]

PGW witness Heppenstall responded that although she technically agrees that a certain portion of the costs of mains could be allocated to the customer cost function, the Commission has previously rejected such an approach for PGW.[320] Additionally, Ms. Heppenstall noted that Mr. Knecht had relied on an outdated classification percentage split of 25 percent and 75 percent demand developed for PGW in 2007 to determine the percentage of mains costs to be allocated to customer costs in this proceeding.[321]

Likewise, PICGUG witness LaConte performed a simple calculation to determine the portion of mains which should be allocated to customer costs and then reduced the calculation to 20 percent to be conservative.[322] As explained by Ms. Heppenstall, a more robust analysis would be required if PGW were to allocate a portion of the cost of mains to the customer cost function.[323]

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316 I&E M.B. at 27.

317 OCA M.B. at 52; OCA St. 3 at 12-17.

318 OSBA M.B. at 16; OSBA St. No. 1 at 26-29.

319 PICGUG M.B. at 20; PICGUG St. No. 1 at 16-20.

320 PGW St. No. 5-R at 5-6, 14; *2007 Base Rate Case Order*.

321 PGW St. No. 5-R at 5-6.

322 PICGUG M.B. at 20-21; PICGUG St. No. 1 at 21.

323 PGW St. No. 5-R at 14.

Given PGW's adherence to prior Commission directives regarding the use of the A&E method by natural gas utilities in general and PGW in particular, we recommend that 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. Moreover, the weightings proposed by OSBA and PICGUG for use with the CD method have not been fully developed and would require a stronger analysis than that provided in this case.

b) Allocation of Mains to IT Classes

The Company allocated the costs of distribution mains to the Rate IT class. In doing so, PGW argued that, since the IT customers have not been interrupted since 2004, they should be treated as firm customers who are supplied natural gas during peak periods and should be allocated costs accordingly.[324]

OCA agrees with PGW that, based on the record evidence, rate IT customers should be treated as receiving firm service for purposes of cost allocation.[325]

OSBA notes that under PGW's CCOSS method, current rate revenues from Rate IT fall far short of allocated costs, with a class rate of return at current rates of *negative* 3.4 percent (compared to system average of 7.7 percent).[20] According to OSBA, interruptible service as provided in Rate IT imposes costs on customers in that class that are not faced by firm service customers. OSBA theorizes that interruptible service can provide benefits to firm service ratepayers by deferring the need to expand the distribution system to meet peak loads. OSBA contends that in this proceeding, as in the past, PGW has failed to produce any credible cost analysis demonstrating whether or not Rate IT customers provide any actual benefit to firm service customers associated with avoided costs.

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324 PGW R.B. at 29; PGW St. No. 5-R at 4; PGW St. No. 5 at 5-6.

325 PGW M.B. at 38-39; OCA R.B. at 28; OCA St. 3R at 6.

OSBA uses PGW's approach for purposes of calculating cost allocation to rate IT customers in this proceeding.[326] However, OSBA recommends that the Commission require PGW to undertake a serious evaluation as to the specific magnitude of avoided cost benefits associated with Rate IT customers. If no such benefits are identified, PGW should begin transitioning these customers to firm service.[327]

In response, PGW argues that OSBA's recommendation appears for the first time in OSBA's Main Brief depriving PGW of the opportunity to respond to it in its testimony.[328] Without more, PGW contends that it would be unreasonable for the PUC to impose this requirement on the Company for the next base rate case.[329]

PICGUG recommended that the IT classes' excess demand be set to zero since they are technically interruptible.[330] PICGUG argues that treating IT customers as firm is unreasonable, as IT customers must still retain the ability to operate if interrupted according to PGW's tariff provisions.[331] In addition, PICGUG witness LaConte recommended that PGW use design day for peak demands rather than actual peak demands.[332] Although PGW previously noted in its Rebuttal Testimony that this data should be provided, PGW's Main Brief seems to argue that lack of data in this proceeding renders this argument moot.[333] However, PICGUG contends that PGW's failure to supply this data as part of this proceeding distorts the fact that Rate IT's load is not calculated for purposes of the Company's Peak Design Day Demand.[334] In order to correct any false assumptions, PICGUG recommends that PGW be directed to provide Peak Design Day Demand data as part of its next base rate filing.[335]

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326 OSBA M.B. at 17; OSBA Statement No. 1-SR at 7-9.

327 OSBA M.B. at 17; OSBA Statement No. 1-SR at 7-9.

328 PGW R.B. at 30.

329 *Id.*

330 PICGUG M.B. at 10; PICGUG St. No. 1 at 12-13.

331 PICGUG M.B. at 8-15.

332 PICGUG M.B. at 7; PICGUG St. No. 1 at 15-16.

333 PGW St. No. 5-R at 14; PGW M.B. 39-40.

334 PICGUG R.B. at 5.

335 PICGUG M.B. at 17.

PGW responds by pointing out that PICGUG has not provided evidence quantifying any costs it incurs to preserve its interruptibility.[336] Further, PGW contends that 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.[337] Therefore, PGW points out that Rate IT 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.[338] 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, PGW maintains that PICGUG's proposed approach is entirely inconsistent with cost causation principles since PGW has not interrupted Rate IT customers in nearly twenty years.

We agree with PGW that the Rate IT customers cannot be truly considered as interruptible for cost allocation purposes. Accordingly, we recommend that PICGUG's proposed approach of setting Rate IT's extra demand to zero be rejected.

c) <u>Allocation of Universal Service Program Costs</u>

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").[339]

While opining that universal service costs should be assigned only to residential customers since that is the only class that is eligible for the benefits,[340] OSBA accepted PGW's

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[336] PGW R.B. at 30.

[337] For example, at current rates under Rate GS, industrial customers pay a distribution charge of $0.51668 per Ccf (PGW Exhibit FT-1, Page No. 83), while Rate IT customers pay less than half of that charge, with some interruptible classes paying only a fraction of it (PGW Exhibit FT-1, Page No. 115).

[338] PGW R.B. at 30-31.

[339] PGW MB at 40-41.

[340] OSBA M.B. at 18.

long-standing and Commission-approved practice of recovering universal service costs from non-residential customers through the USEC.[341] However, OSBA witness Knecht contended that the current method is not equitable because it imposes a flat per-mcf charge on the classes that are subject to imposition of the costs. Instead of continuing to use this approach – which is also a long-standing and Commission approved practice – Mr. Knecht recommended that the costs be allocated and recovered on a percentage of base rates basis, similar to the DSIC mechanism.[342]

In responding to OSBA's proposal, PGW witness Teme testified that the entire USEC surcharge methodology, as consistently approved over many years by the Commission, should not change.[343] Additionally, PGW witness Peach set forth the various rulings of the PUC over the past 20 years endorsing the current practice of recovering universal service costs from all non-residential customers excluding IT through this surcharge.[344]

With regard to GFCP/VEPI, OSBA witness Knecht noted that the Company proposed to include the proposed Rate GS-XLT in the volumetric assignment of universal service costs, the Company's proposal would result in a $19.2 million USEC for Rate GS-XLT. Given the magnitude of the charge, OSBA questioned the seriousness of PGW's proposal, but maintained that there is no reason that GS-XLT should be entirely exempt from some reasonable responsibility for universal service costs. OSBA proposed a $290,000 USEC to this rate class.[345]

In its rebuttal testimony, PGW changed its initial position on the $19.2 million USEC to Rate GS-XLT to accept Mr. Knecht's $290,000 figure.[346] OCA is not opposed to this allocation of USEC costs to GFCP/VEPI as a practical assessment of costs to this unique rate class with a unique fact pattern presented in this case where cost of service-based rates are being assessed to GFCP/VEPI for the first time.[347]

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341 OSBA M.B. at 21.

342 OSBA M.B. at 23; OSBA St. 1 at 32-34.

343 PGW M.B. at 41; PGW St. 6-R at 27.

344 PGW M.B. at 41; PGW St. 9-R at 35.

345 OSBA M.B. at 22; OSBA Statement No. 1 at 33-34

346 PGW St. 6-RJ at 3.

347 OCA M.B. at 62.

In its Main Brief, GFCP/VEPI limit their argument to the claim that GFCP/VEPI is not eligible for USEC benefits and therefore should not be required to contribute to the program funding.[348]

We note that OCA, CAUSE-PA/TURN and PICGUG agree with PGW's allocation of the USEC to all classes.[349] This approach is consistent with PGW's long-standing Commission-approved practice of allocating universal service program costs to residential and non-residential customers alike. We find that there is insufficient evidence in this proceeding to make a change of the magnitude suggested by OSBA as to how PGW's USEC program costs are charged to the various classes.[350] In addition, we disagree with GFCP/VEPI's recommendation that they be exempt from contributing to the program funding, when other small, medium and large business customers (except Rate IT class) are similarly ineligible for USEC benefits, but must contribute to the fund. Furthermore, the proposed USEC charge to Rate GS-XLT in the amount of $290,000 is both reasonable and equitable. Therefore, we recommend that the Commission approve PGW's proposed allocation of universal service program costs.

2. Revenue Allocation

PGW states that its primary goal in proposing its revenue allocation was to allocate the increase to each class in a way that moves the various rate classes closer to their full cost of service while avoiding applying an unreasonably large portion of the increases to any one of the customer classes. In addition, PGW seeks to recognize the principle of gradualism in proposing increases for some classes despite the costs incurred to serve those classes.[351]

PGW's proposed revenue allocation is reflected in the table below.[352] The last column labeled "Share of Increase" represents each class's share of the overall revenue

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348 GFCP/VEPI M.B. at 28.

349 CAUSE-PA/TURN M.B. at 7; OCA M.B. at 62; PICGUG M.B. at 26.

350 OCA M.B. at 62.

351 PGW M.B. at 41-42; PGW St. 6 at 6.

352 PGW St. 6 at 9, Table 3; PGW St. 6-SD at 1-3; PGW Exh. FT-5.

allocation at proposed rates, after the Rate GS-XLT proposed revenues were factored into the proposal. [353]

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

PGW explains that, although the proposed rate for GS-XLT is higher than that established in 1996 for GFCP/VEPI, it is still well below the $10,237,000 cost of service level in PGW's CCOSS.[354]

Mr. Teme testified that the original allocations of the proposed rate increase constituted a reasonable application of the revenue allocation guidelines PGW followed.[355] Schedule B of PGW Exh. CEH-1 shows the rate of return by customer class under present rates and Schedule C shows the rate of return by customer class under proposed rates. Schedule G of the same exhibit shows the calculation of customer costs by class, showing both the results of a fully allocated customer cost of service and a direct customer cost analysis.[356] According to

353 PGW M.B. at 42.

354 PGW M.B. at 42-43; PGW St. 6-SD at 2.

355 PGW M.B. at 43; PGW St. 6 at 10.

356 PGW M.B. at 43; PGW St. 5 at 7; PGW Exh. CEH-1.

PGW witness Heppenstall, these schedules show that PGW is moving toward unity in its proposed rate design.[357]

In offering the revised revenue allocation proposal, after development of Rate GS-XLT, Mr. Teme explained that although PGW did not change the proposed revenue requirements, the overall rate increase request or the CCOSS, the inclusion of proposed revenues from Rate GS-XLT resulted in reductions to the proposed rate increases for all classes other than IT. As Mr. Teme testified, the originally proposed IT customer class rate increase did not bring the class to cost under PGW's CCOSS, and therefore, allocating a portion of the additional revenue from Rate GS-XLT to the Rate IT class would not be appropriate.[358]

OCA witness Watkins found that PGW's proposed revenue allocations were by and large reasonable. Nonetheless, he expressed a concern about the residential class rate of return being higher than the commercial class, while PGW proposed a smaller percentage increase to the commercial class than the residential class. Mr. Watkins therefore recommended equal percentage increases to the residential and commercial classes.[359]

OSBA presents the proposed revenue allocation of Mr. Knecht,[360] which reflects the results both of the re-assignment of USEC costs and the allocation of the base rate increase. According to Mr. Knecht, this is a "package deal" which balances the impacts of both types of changes with consideration of the principle of rate gradualism.[361]

Additionally, OSBA observes that Mr. Knecht's allocation of rate increase to Rate GS-XLT is relatively modest compared to PGW's various proposals because it is OSBA's position that the Alternative Receipt Service to GFCP/VEPI is a Gas Cost Rate ("GCR") issue, and that revenues associated with that service should be credited to the

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[357] PGW M.B. at 43; PGW St. 5 at 7.

[358] PGW M.B. at 43; PGW St. 6-SD at 2-3.

[359] OCA M.B. at 59; OCA St. 3 at 20.

[360] OSBA M.B. at 26-27.

[361] OSBA M.B. at 26.

customers who pay for the capacity used to provide the service, namely the GCR customers.[362]

PICGUG argues for a revenue allocation approach that maintains the Rate IT rates at their current levels.[363] PICGUG recommends that any additional revenues that PGW receives from GFCP/VEPI should be treated as other revenues and allocated as a reduction to all of PGW's other rate classes, including Rate IT.[364] Based on its proposed changes to the CCOSS, PICGUG maintains, that if PGW is granted its full rate increase, no increase should be imposed on Rate IT.[365] If PGW's CCOSS is approved, PICGUG recommends that the increase to Rate IT should not exceed the approved system average increase.[366]

PGW responds that the revenue allocation proposals of OSBA and PICGUG are based on the results of flawed cost of service studies and should be rejected.[367] Additionally, PGW argues that, because the OSBA proposal reflects the results both of Mr. Knecht's 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.[368] Lastly, PGW points out that 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.[369]

In the previous section, we addressed the concerns raised about the CCOSS upon which the other parties' revenue allocation proposals are based. We find that PGW's revenue allocation proposal is consistent with the Company's CCOSS and aligns with PGW's goals of moving classes closer to the cost of service, while considering the principle of gradualism. Therefore, we recommend that the Commission adopt the revenue allocation presented by PGW.

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362 OSBA M.B. at 27.

363 PICGUG MB at 28-31.

364 PICGUG M.B. at 30; PICGUG St. 1 at 25, 29.

365 PICGUG St. 1 at 29.

366 PICGUG M.B. at 30; PICGUG St. 1 at 30.

367 PGW R.B. at 33-34.

368 PGW R.B. at 33.

369 *Id.*

a. Scale Back of Rates

In direct testimony, I&E witness Cline submitted that, if the Commission approves a rate increase lower than that proposed by PGW, the first $7,000,000 be allocated solely to the residential class. Then the customer charges and usage rates for the residential class and each remaining customer classes that has an increase proposed, except the GS-XLT rate class, be scaled back proportionately.[370] I&E's witness defended this scaleback proposal as appropriate because the relative rate of return for the residential class is higher than any other rate class.[371] This means that the residential class is paying more than its cost to serve.[372]

OCA witness Watkins also supplied specific testimony as to how any potential scaleback should work in the event PGW is awarded less than its total requested increase. Mr. Watkins testified that, once the appropriate rates and revenues to be collected from GFCP/VEPI are determined, the increase to GFCP/VEPI should be subtracted from the overall authorized increase to PGW's base distribution rates. Then, the traditional full tariff classes revenue increases should be scaled back proportionately.[373]

Responding to the recommendations of I&E witness Cline and OCA witness Watkins, PGW recommends that if the Commission approves a lower revenue increase than PGW is requesting, the traditional proportional scale back approach (excluding the Rate GS-XLT class) should be used. However, if the residential rate class is above unity after application of this approach, the scale back should be modified to maintain the residential rate class at or below unity because that was the intent of PGW's original proposal.[374]

PICGUG proposes that, if the Commission approves a rate increase lower than that proposed by PGW, the first $1 million of that reduction should be allocated to Rate IT. After

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370 I&E Exh. 3, Schedule 3.
371 I&E St. 3 at 9.
372 *Id.*
373 OCA M.B. at 59-60; OCA St. 3 at 22.
374 PGW M.B. at 45-46; I&E St. 3 at 9-10; OCA St. 3 at 22.

the reduction is allocated to Rate IT, PICGUG recommends that the decrease be applied proportionately to each rate class.[375]

In response, PGW disagreed with PICGUG's scale back proposal as there is no justification for departing from the standard proportional scale back for Rate IT and noted that PICGUG's proposal was based on a flawed cost of service analysis.[376]

Because we are recommending that the Commission approve a lower revenue increase than PGW is requesting, we agree with I&E, OCA and PGW that the traditional proportional scale back approach (excluding the Rate GS-XLT class) should be used. However, because the residential rate class is above unity after the application of this approach, we recommend that scale back be modified in accordance with I&E's original proposal, wherein the first $7,000,000 of the decrease is allocated solely to the residential class. Then, the customer charges and usage rates for the residential class and each remaining customer classes that has an increase proposed, except the GS-XLT rate class, are scaled back proportionally.

While we commend PGW's intention to bring the residential customer class closer to unity, i.e., bring the revenue received from this class closer to the cost of providing service to it, we do not recommend that the Commission adopt PGW's proposal regarding the scale back of rates. We find that, when applied to the recommended revenue increase, PGW's proposal results in higher increases (than those originally proposed by PGW) for some of the other customer classes, while still failing to bring the residential customer class to unity. Instead, we find that our recommended approach brings the residential customer class closer to unity while providing just and reasonable rates to the other customer classes.

Lastly, we find that PICGUG's suggested $1 million scale back proposal is unreasonable and recommend that it be rejected as it is based on PICGUG's CCOSS.

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375 PICGUG M.B. at 30; PICGUG St. 1 at 29-30.

376 PGW M.B. at 45; PGW St. 6-R at 26.

3. Rate Design

PGW is requesting an increase in the delivery charge as well as the customer charge for most customer classes.[377] PGW claims that its CCOSS demonstrates its intent to move toward unity in its proposed rate design.[378]

a. Customer Charge

PGW's CCOSS provided "customer cost" results that determined the actual fixed customer cost per customer by class.[379] Those results show the level of monthly customer charge that would be required if PGW were to recover 100% of its fixed customer related costs in a monthly customer charge.[380] PGW explains that its objective is to move the customer charge for each customer class closer to the full cost of service to more properly align rates with costs and provide more revenue stability.[381] PGW's proposed increase in customer charges are supported by Ms. Heppenstall's cost analysis and are consistent with the principle of gradualism.[382]

i. Residential customer charge

PGW proposes a residential customer charge of $19.50 per month, as compared to the current charge of $14.90 per month.[383] PGW contends that its proposed residential customer charge will better reflect the direct customer costs per customer as calculated by Ms. Heppenstall.[384] Also, the Company argues that, in the interest of gradualism, it proposed a residential customer charge of $19.50, not the full amount that could be supported under PGW's

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377 PGW M.B. at 46; PGW St. 1 at 13.

378 *Id.*; PGW St. 5 at 7.

379 PGW M.B. at 46; PGW St. 6 at 7; PGW Exh. CEH-1.

380 PGW M.B. at 46; PGW St. 6 at 7.

381 PGW M.B. at 46; PGW St. 6 at 7.

382 PGW M.B. at 47; PGW St. 6-R at 11.

383 PGW M.B. at 47; PGW St. 6 at 8.

384 PGW M.B. at 47; PGW St. 1 at 13.

cost of service study.[385] Lastly, PGW notes that customers enrolled in CRP will be unaffected by the increase and proposes that in the event the full revenue request is not granted, the proposed $19.50 customer charge should not be scaled back.[386]

I&E did not recommend any change to PGW's proposed customer charges because they are supported by PGW's customer cost analysis.[387] However, I&E asks that the proposed customer charges be included in any scaleback of rates.[388]

OCA, CAUSE-PA/TURN and POWER challenged PGW's proposed residential customer charge. OCA points out that PGW proposal to increase its residential customer charge from $14.90 to $19.50 amounts to an almost 31% increase.[389] OCA notes that under the Company's proposal, PGW would have by far the highest natural gas distribution company (NGDC) residential customer charge in Pennsylvania.[390] Further, OCA argues that customer charge increases such as the one proposed by PGW send the wrong price signals to customers.[391]

Providing some actual dollar impacts to low-income customers based on PGW's proposed customer charge increase, OCA witness Colton testified that "the proposed increase in the customer charge imposes an additional charge of $10,372,135 on PGW's low-income customers," and added that "the proposed increase in the unavoidable monthly residential customer charge, standing alone, will have the same effect as reducing the LIHEAP dollars received by PGW's low-income customers by between 50% (2022-2023) and 70% (2019-2020) a year."[392] Based on Mr. Colton's testimony, OCA maintains that the fixed customer charge is unavoidable and its increase can lead customers to take actions that are potentially dangerous,

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385 PGW M.B. at 47; PGW St. No. 6-R at 13.

386 PGW M.B. at 49.

387 I&E M.B. at 27-28; I&E St. 3 at 7.

388 &E M.B. at 27-28; I&E St. 3 at 7-9.

389 OCA M.B. at 63; OCA St. 3 at 22.

390 OCA M.B. at 63, Table 14; OCA St. 3 at 23.

391 OCA M.B. at 64; OCA St. 3 at 23.

392 OCA M.B. at 64; OCA St. 4 at 33-34.

such as using a natural gas stove or oven as a supplemental heating source in order to reduce the heating usage in the home as a whole.[393]

With regard to PGW's arguments that CRP customers will not be impacted by the proposed customer charge increase, OCA responded that PGW (1) does a poor job of correctly identifying its entire low-income customer base; (2) does a poor job of enrolling qualified low-income customers in CRP; and (3) does a poor job of retaining those customers in CRP.[394] OCA submits that the nearly 31% proposed increase violates the principles of gradualism and avoidance of rate shock and should be denied.[395] To the extent that any customer charge increase is granted, then the OCA submits that any increase granted should be no more than the percentage increase to distribution revenues assigned to the Residential class.[396]

Like OCA, POWER points out that PGW's proposed residential customer charges is the highest such charge in the Commonwealth and recommends that the Commission reject it as unreasonable.[397] In addition, POWER argues that PGW's increase of the fixed residential customer charge violated the principles of gradualism and rate stability.[398] POWER contends that the fixed charge hike will cause disproportionate harm to low-income customers, low-use customers, and customers on fixed income.[399] According to POWER, this increase will negatively impact energy conservation and efficiency.[400]

CAUSE-PA/TURN contend that increasing the fixed charge erodes the ability of consumers to effectively deploy efficiency and conservation measures to achieve bill savings to mitigate the impact of the proposed rate increase.[401] They argue that, given low income

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393 OCA M.B at 64; OCA St. 4 at 36.

394 OCA R.B. at 37-38; *See generally*, OCA St. 4.

395 OCA R.B. at 36.

396 OCA R.B. at 39; See OCA St. 3 at 24.

397 POWER M.B. at 13-14.

398 POWER M.B. at 19-20.

399 *Id.* at 20-22.

400 *Id.* at 22-24.

401 CAUSE-PA/TURN R.B. at 7; CAUSE-PA/TURN St. 1 at 29.

households are disproportionately payment troubled, and often lack the ability to reasonably control usage due to poor housing stock and older, less efficient appliances, it is critical that they continue to have access to effective conservation tools capable of producing meaningful and lasting bill reductions.[402] For these reasons, CAUSE-PA/TURN recommend that PGW's fixed monthly customer charge remain unchanged at $14.90, and that, 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.[403]

PGW responds that increasing only the volumetric portion of the bill, as CAUSE-PA/TURN suggests,[404] would run contrary to the premise that a customer charge should accurately reflect a utility's fixed costs. The Company explains that its 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.[405]

Next, PGW responds that its proposed increase in residential customer charge is squarely within the range of recent proposals by NGDCs.[406] Noting that 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,[407] PGW argues that it is an exaggeration to imagine that a difference in $4.60 a month will have any detectable influence on customer decisions to conserve energy.[408] According to PGW, most customers will not reduce their energy use,[409] and even those who 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. Per PGW, this difference does not provide a meaningful incentive for energy efficiency.[410] As for the claim that the increase in the customer

402 CAUSE-PA/TURN R.B. at 7; CAUSE-PA/TURN St. 1 at 31.

403 CAUSE-PA/TURN M.B. at 16-17.

404 PGW R.B. at 37; 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.").

405 PGW R.B. at 37; PGW St. 6-R at 14.

406 PGW R.B. at 35; PGW St. 9-R at 7.

407 PGW R.B. at 37; PGW MB at 47; PGW St. 6-R at 13.

408 PGW R.B. at 37; PGW St. 9-R at 12.

409 PGW R.B. at 37; PGW St. 9-R at 13.

410 PGW R.B. at 37; PGW St. 9-R at 12.

charge has a disproportionate effect on low-income customers, PGW points out that a low-income customer can completely avoid the charge in question by enrolling in CRP.[411]

As noted above, we are recommending that the Commission approve a lower revenue increase than PGW is requesting as well as a proportional scale back approach (excluding the Rate GS-XLT class). We also recommend that PGW's proposed customer charges be included in any scaleback of rates. We agree with OSBA's argument in the section below that scaleback in the allowed revenue requirement implies a reduction in costs and most especially in the net income requirements demanded by PGW. Since the cost basis used to derive the customer charge necessarily relies on the net income requirement, a scaleback in the rate increase implies a scaleback in allocated costs.[412] As such, a scaleback in the customer charge increase is reasonable and appropriate.[413]

ii. Customer Charge for GS-Commercial Class

Recognizing PGW's status as one of the highest cost NGDCs in the Commonwealth, Mr. Knecht concluded that the Company's proposed increase for GS is at the upper edge of what would be reasonable, if the entire rate increase were to be granted.[414] The OSBA therefore recommends that, if the overall requirement is scaled back, so too should the proposed increase to the GS Commercial customer charge.[415]

Regarding this scaleback, the Company argued that it would move customer charges further away from allocated costs.[416] OSBA disagreed and explained that a scaleback in the allowed revenue requirement implies a reduction in costs and most especially in the net income requirements demanded by PGW. Since the cost basis used to derive the customer charge necessarily relies on the net income requirement, a scaleback in

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411 PGW R.B. at 36; PGW St. 9-R at 12-13.

412 OSBA R.B. at 13-14; OSBA St. 1-SR at 19.

413 OSBA R.B. at 13-14.

414 OSBA M.B. at 29; See OSBA St. 1 at 49, Table RDK-8.

415 OSBA M.B. at 29.

416 PGW R.B. at 38; PGW St. 6-R at 14.

the rate increase implies a scaleback in allocated costs.[417] As such, a scaleback in the customer charge increase is reasonable and appropriate. [418]

As noted above, we are recommending that the Commission approve a lower revenue increase than PGW is requesting as well as a proportional scale back approach (excluding the Rate GS-XLT class). We also recommend that PGW's proposed commercial customer charges be included in any scaleback of rates.

4. Other Tariff Changes

A complete list of PGW's proposed revisions to its gas service tariff and gas supplier tariff are provided in the List of Changes Made by this Tariff Supplement section in Supplement No. 159 provided in Exhibit FT-1 and the corresponding section in Supplement No. 105 provided in Exhibit FT-2. Aside from proposed rate schedule changes, PGW proposes that language be added to Section 5.7 of PGW's Gas Service Tariff, page 32, to clarify that PGW will accrue interest on customer deposits made in conjunction with receiving temporary heating service, consistent with PGW's current practice.[419] In addition, PGW proposes modification of its Air Conditioning Rider to more clearly detail how the rider is calculated and replace references to outdated rate schedules and terms.[420]

PGW is also seeking changes to its Gas Supplier and Gas Service Tariffs to clearly permit the interconnection of facilities that would seek to provide renewable natural gas ("RNG") onto PGW's distribution system.[421] The proposed changes will provide PGW the flexibility to accommodate new business involving RNG while maintaining gas quality on PGW's distribution system.[422]

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417 OSBA R.B. at 13-14; OSBA St. 1-SR at 19.

418 OSBA R.B. at 13-14.

419 PGW M.B. at 50; PGW St. 6 at 12.

420 PGW M.B. at 50; PGW St. 6 at 12-13.

421 PGW M.B. at 50; PGW St. 6 at 13-15.

422 PGW M.B. at 50; PGW St. 6 at 2, 14.

These tariff changes are unopposed. We find that they are reasonable and in the public interest. Thus, we recommend that the proposed tariff changes be approved.

D. GFCP/VEPI - Class GS-XLT

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

To that end, PGW proposes that GFCP/VEPI be served under their own separate tariff – Rate GS-XLT. PGW's proposed tariff incorporates the primary services that PGW has historically provided to GFCP/VEPI – transportation service and Alternative Receipt Service ("ARS").[423]

1. Firm vs Interruptible Transportation Service

Rate GS-XLT proposed by PGW offers firm transportation service and interruptible ARS service. According to PGW, the nature of services offered by GFCP/VEPI make firm transportation service a necessity and it is the reason why GFCP/VEPI previously rejected interruptible transportation service offered by PGW, even if backed up by firm standby service.[424]

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423 PGW M.B. at 51. Sales service is also offered but is rarely used and was not the subject of any controversy in this case. GFCP/VEPI have requested that the summer release program in the 1996 contract be discontinued and PGW has not included this service in the proposed tariff.

424 PGW M.B. at 52-53; Such a proposal made by PGW was "onerous and inadequate for GFCP/VEPI's required service." Interruptible service is "not practical" and "unacceptable" PGW St. No. 6-R at 20-21 (quoting GFCP/VEPI Complaint Case testimony).

PGW explains that GFCP/VEPI's change of the nature of service requested and failure to provide more detailed assurances that it can fully operate without adverse consequences in cases of service interruption, makes the Company reluctant to convert GFCP/VEPI's transportation service to interruptible.[425] In particular, PGW is concerned that the most significant change to PGW's proposed tariff suggested by GFCP/VEPI is indicative of GFCP/VEPI's desire of interruptible service in name only.[426] PGW's proposed language provides that a failure to comply with an interruption (called an operational flow order or "OFO") will result in a penalty charge of seventy-five dollars ($75.00) per Dth plus all incremental costs incurred by the Company because of the failure to comply with the OFO.[427] GFCP/VEPI suggested altering the penalty for excess consumption during an OFO to $5.00 per Dth. PGW argues that the alteration of the penalty creates an incentive for GFCP/VEPI to ignore an order to interrupt.[428]

However, PGW argues that, if GFCP/VEPI's transportation service is changed to interruptible, then the same set of rules for interruption that apply to Rate IT should apply to GFCP/VEPI's transportation service as well,[429] and that PGW's proposed penalty for ignoring OFO should be implemented.[430]

GFCP/VEPI contends that its service has been interruptible and will continue to be interruptible, even under the conditions it has proposed.[431] GFCP/VEPI explains that its peak usage is 56,000 Dth/day, but 21,000 Dth/day of that peak day capacity is proposed to continue to be provided via ARS as an interruptible service. This means that nearly half of GFCP/VEPI's

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425 PGW M.B. at 52-54.

426 PGW R.B. at 41-42.

427 PGW Exh. FT-6 (Proposed Rate GS-XLT), Tariff Page No. 121.

428 PGW R.B. at 41.

429 PGW M.B. 53-54. The terms of interruptible service are clear: "Customers are subject to curtailment or interruption at any time." Rate IT, PGW Gas Tariff Pa P.U.C. No. 2 at Page 111 (emphasis added). "The Company may curtail (reduce) or interrupt deliveries to the Customer whenever, at the Company's sole discretion, it determines that the available capacity in all or a portion of its system is projected to be insufficient to meet the requirements of all Customers." *Id.* at 112.

430 PGW R.B. at 41.

431 GFCP/VEPI M.B. at 16.

load on that peak day is subject to interruption.[432] Under the terms of the 1996 contract, PGW can interrupt up to 15 days per year when the temperature is below 25 degrees, and GFCP/VEPI has agreed to continue providing PGW with such flexibility. GFCP/VEPI explains that PGW's proposal of interruptible service was prior to GFCP/VEPI initiating the Complaint case. GFCP/VEPI claims that it was not fully aware of the meaning of "interruptible" in the context of PGW's offer, nor the ramifications of that designation and initially resisted.[433] Nonetheless, in this case, GFCP/VEPI has made it clear that it is willing to continue under the same historic interruptibility terms it has accepted for the past 25 years, in addition to the interruptibility conditions of existing Rate IT and proposed Rate GS-XLT.[434]

GFCP/VEPI acknowledges PGW's argument that Rate IT has a different standard for interruptibility as true, but adds that it also is true that in many respects, GFCP/VEPI is subject to a greater degree of interruptibility now and has a greater capacity to address such interruption than most IT customers.[435] According to GFCP/VEPI, PGW has incorrectly classified the service GFCP/VEPI provides to its customers as firm because GFCP/VEPI owns 35,000 Dth of capacity that can deliver its gas through the Philadelphia Lateral to the four-mile line which serves only GFCP/VEPI. Even if interrupted, GFCP/VEPI can continue to operate for considerable periods of time[436] without the ARS if that service is not provided, which would interrupt 37% of its peak day load. GFCP/VEPI's witness Crist explained that,

> Vicinity's got six million gallons of oil sitting right there on their site. They're probably the most interruptible capable customer that PGW has. That only benefits the GCR customers of PGW to have an interruptible resource such as Vicinity.[437]

432 *Id.*

433 GFCP/VEPI M.B. at 16.

434 *Id.*

435 GFCP/VEPI M.B. at 17; GFCP/VEPI St. 1-SR, 10:13-22.

436 GFCP/VEPI M.B. at 17; GFCP/VEPI St. 1-SR, 11:3-18. ("I have provided significant evidence that GFCP/VEPI 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.")

437 Tr. at 589.

Grays Ferry sells the electricity generated from gas into the PJM market as a "Capacity Performance Resource," meaning that PJM can call on its generation no matter the temperature conditions or energy feedstock supply problems. It is a "no-excuses" promise to deliver electricity under all circumstances which carries huge penalties if not fulfilled.[438] Vicinity is a steam utility serving Philadelphia with a Section 1501 responsibility to provide "adequate, efficient, safe, and reasonable service." Its consumers include those characterized as "essential humans needs," such as residences, hospitals and nursing homes.[439]

In view of these, we find little credibility in GFCP/VEPI's claims that it did not comprehend the meaning of "interruptible service" when it rejected PGW's offer in prior proceedings. Additionally, GFCP/VEPI's alteration of the penalty for excess consumption during an OFO is indicative of GFCP/VEPI's intention to ignore an order to interrupt, and ultimately of the type of transportation service that GFCP/VEPI needs.[440] Therefore, we recommend that the Commission approve firm transportation service for Rate GS-XLT.[441]

2. <u>Transportation Rate</u>

PGW proposes a transportation rate of $0.1054 per Mcf ($0.11067 per Dth) for GFCP/VEPI.[442] According to PGW, this proposed transportation rate is a modest 22% above the current rate; an annual increase of less than 1% above the current rate established by contract negotiations in 1996.[443]

On the other hand, GFCP/VEPI's proposes a new rate of $0.0415/Mcf ($0.0397/Dth).[444]

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[438] PGW St. 6-R at 22.

[439] Tr. 494-495.

[440] GFCP/VEPI M. B. at 16.

[441] GFCP/VEPI is currently the sole customer of the new Rate GS-XLT.

[442] PGW M.B. at 54; PGW St. 6-SD at 3; PGW Exh. FT-14.

[443] PGW M.B. at 54.

[444] GFCP/VEPI M.B. at 19.

PGW set the transportation rate employing the following rate setting methods:

a) Recovery of Capital Costs, Plant in Service

PGW explains that it owns the line connecting the TETCO interstate pipeline and GFCP/VEPI's points of consumption (commonly referred to as the "Four Mile Line") and acknowledges that under the 1996 contract, GFCP/VEPI's predecessors made a substantial contribution in aid of construction toward the cost of constructing the line. Therefore, there are no capital costs (i.e., depreciation) to recover associated with the line itself and none have been included in PGW's cost of service calculation.[445]

In addition, PGW's cost calculation recognizes the gate station investment associated with PGW's Gate Station 060 interconnection with TETCO, which directly serves GFCP/VEPI.[446] No party disputed this assignment.[447]

Finally, PGW included the meters that register the deliveries to GFCP/VEPI in the monthly customer charge. PGW explains that new meters were set in 2018, at the capital cost of $640,031 with an ongoing maintenance/operating cost of $64,003.07 per year.[448] PGW does not include these costs in CFCP/VEPI's transportation rate. Instead, PGW proposed to recover a portion of these costs via a customer charge that would generate $26,400 annually ($1,100 per meter per month times two meters). PGW believes that, although not fully compensatory, this is reasonable.[449]

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445 PGW M.B. at 55.

446 "GFCP/VEPI clearly rely upon PGW's measuring and regulating station equipment for the delivery of their gas supplies." PGW St. 8-SR at 1.

447 PGW M.B. at 55.

448 PGW M.B. at 55; PGW St. 6-R at 28-29.

449 PGW M.B. at 55.

PGW presents that no other capital (plant in service) accounts were allocated or assigned to the transportation rate - only those facilities that are part of the GFCP/VEPI delivery path.[450]

b) Recovery of Common Overhead Expenses

PGW explains that the Four Mile Line is actually two lines: one that runs from Gate Station 060 to PGW's Passyunk plant, and another that interconnects there to take gas from Passyunk to GFCP/VEPI's meters. Both are owned by PGW, are a part of PGW's distribution system and classified as such under PGW's chart of account as prescribed by the Commission.[451]

PGW argues that it is a natural gas distribution company operating a gas distribution system, and its operating costs are classified in categories of expense labeled as "distribution expense" when related to distribution system costs.[452] PGW witness Ryan expanded further on that statement:

> When accounting for costs to the distribution system, PGW does not split up costs to different distribution systems. For accounting purposes, all distribution related expenses are booked to the distribution accounts for the whole distribution system. GFCP/VEPI are customers on PGW's distribution system. Expenses incurred for GFCP/VEPI are entered into accounts set up to record PGW's distribution expenses."[453]

According to PGW, these are joint and common overheads, not attributable to any single customer, required to operate the Company. GFCP/VEPI's transportation service benefits from the incurrence of these expenses, and Rate GS-XLT transportation rate is designed to recover an allocated share of PGW's overheads based upon standard and accepted allocation techniques that PGW applied to the rate classes.[454]

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450 PGW M.B. at 55; PGW St. 5-R, Schedule E, page 3 of 6.

451 PGW M.B. at 55-56.

452 PGW M.B. at 56; PGW St. 5-R, Schedule E, page 2 of 6.

453 PGW St. No. 8-RJ at 1.

454 PGW M.B. at 56.

PGW's witness Heppenstall explained: "The purpose of the cost of service study is to equitably assign costs across all customer classes. The ideal scenario would be to directly assign costs to each customer based on the costs to serve that individual customer. These expenses, as they are joint and common costs needed to operate the system, cannot be directly assigned and must be allocated equitably across customer classes based on generally accepted methods of cost allocation."[455]

To show that its methods of cost allocation are appropriate, PGW analyzed the distribution expense category of "Metering & Regulator Stations" (Accounts 875, 877, 889 and 891)[456] which represent the single biggest distribution expense that GFCP/VEPI rejected. According to PGW witness Reeves, "PGW owns and operates a total of nine gate stations – four on TETCO and five on Transco. One of those, TETCO 060, is used by GFCP/VEPI to physically obtain its gas supplies. Also, GFCP/VEPI have a vested interest in another [gate station] (TETCO [034]) which is where the displacement ARS volumes are delivered."[457] In Ms. Heppenstall's study, GFCP/VEPI were allocated 8.9% of all metering and regulator station costs, based on throughput, and only 0.79% of all distribution expenses.[458] PGW argues that by rejecting even this modest amount, GFCP/VEPI are shifting all of the operating costs of the city gate stations that serves them to all other customers despite their clear use of these facilities. [459]

Another distribution expense category excluded by GFCP/VEPI is the Load Dispatch (Account 871) which contains expenses, including labor, incurred in dispatching and controlling the supply and flow of gas through the distribution system.[460] The allocation of these

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455 PGW M.B. at 56; PGW St. 5-R at 10-11.

456 *See* GFCP/VEPI St. JC-1 at 17; Tr. 556. PGW notes that the proposed Rate GS-XLT customer charge is based only on the two GFCP/VEPI meters and does not fully recover that cost.

457 PGW M.B. at 57; PGW St. 8-RJ at 2.

458 PGW M.B. at 57; PGW St. 5-R at 11. PGW notes that GFCP/VEPI did not dispute recovery of the capital costs of PGW's pipeline gate stations (Depreciation, Account 376), but excluded the costs of operating them. Tr. 580.

459 PGW M.B. at 57.

460 PGW notes that GFCP/VEPI accepted the pensions and benefits (Account 926) of PGW employees, which would include employees in the Dispatch Department. PGW Exh. CEH-1S, Schedule E, Page 3 of 6.

expenses[461] to GFCP/VEPI was also only 8.9% (based upon class daily throughput and maximum day demand) compared to all other customers that will pay the remaining 91%.[462]

PGW insists that the "low pressure" construct is an artificial results-oriented construct designed to set GFCP/VEPI apart from all other customers.[463] It contends that GFCP/VEPI's refusal to accept any allocations of distribution expenses and its insistence on direct assignment only, introduces an "us vs. them" confrontational element that is not part of the cost of service exercise.[464] Under this theory, all of PGW's costs are the responsibility of the other customer classes, unless it can be proved by job description or time logs that it was clearly and undeniably incurred solely for GFCP/VEPI's benefit.[465] According to PGW, if all customers imposed similar barriers, PGW undeniably would be left with stranded costs that benefit the delivery of service overall but cannot be forensically traced to any particular customer class.

GFCP/VEPI contends that the CCOSS PGW presented in this case properly allocated the cost of serving to the proposed distribution service under Rate GS-XLT, with a few exceptions.[466] GFCP/VEPI witness Crist proposed to remove $784,000 of additional low pressure distribution system costs that PGW inappropriately allocated to GFCP/VEPI.[467] GFCP/VEPI argues that, even if it were determined that some of those costs are appropriate for GFCP/VEPI, 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.[468] According to

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461 PGW witness Reeves testified that these efforts benefit GFCP/ VEPI as follows, "PGW personnel have to procure the gas, schedule the nominations for the gas, monitor the gas flow on interstate pipeline (and make adjustments if needed), and then account for the gas at the end of the month. PGW is also a recipient of gas which requires PGW personnel to monitor the incoming gas supply, and account for all the gas to make sure the volumes appropriately match." PGW St. 8-R at 3.

462 PGW M.B. at 57; PGW St. 5-R at Schedule F, page 5 of 16.

463 PGW M.B. at 57, 58.

464 PGW M.B. at 58.

465 *Id.*

466 GFCP/VEPI M.B. at 18.

467 GFCP/VEPI M.B. at 18-19.

468 *Id.*; Tr. at 561.

GFCP/VEPI, Mr. Crist's $0.0397/Dth distribution rate appropriately allocates the direct costs of service to Vicinity.[469]

We recommend that the Commission approve PGW's proposed transportation rate. The transportation rate calculated by PGW of $0.11067 per Dth ($0.1054 per Mcf) follows cost of service techniques acknowledged by non-GFCP/VEPI parties in this case and is a reasonable outcome. On the other hand, if the "direct assignment only" method proposed by GFCP/VEPI were applied on all expense categories, the recommended transport rate would be at or near zero, which is an unjustifiable approach and end result.

c) Surcharges

There are four applicable surcharges contained in PGW's tariff that fund various programs and recover various costs: the USEC Surcharge; the Efficiency Cost Recovery ("ECR") Surcharge; the OPEB Surcharge; and the DSIC. These are non-base rate revenue that do not impact the revenue requirement in this case but do affect the revenues collected from each customer class and should affect those for GFCP/VEPI. PGW has proposed that they apply to GFCP/VEPI.[470]

PGW points out that firm rate residential, commercial and industrial customers all pay the USEC surcharge.[471] PGW agreed to a reform that lowered the recovery of this program to $290,000 as proposed by OSBA.[472]

- PGW's rationale for collecting the USEC surcharge from GFCP/VEPI is that it is "reasonable public policy to require a large customer to contribute to helping to cover the costs of PGW's low-income programs regardless of the specific status of their service."[473] PGW maintains that this surcharge should be applied to GFCP/VEPI regardless of

469 GFCP/VEPI M.B. at 19.

470 PGW M.B. at 60.

471 PGW M.B. at 60; PGW St. 6-R at 26.

472 PGW M.B. at 60; PGW St. 6-R at 26-27.

473 PGW M.B. at 60; PGW St. 9-R at 36.

whether they take firm or interruptible transportation service.[474]

- The Efficiency Cost Recovery ("ECR") surcharge recovers energy efficiency and conservation program costs, which provides subsidies to program participants to adopt energy efficiency improvements. "PGW believes that it is reasonable to recover these program costs from Rate GS-[XLT] for the same reason as the USEC."[475]

- The OPEB surcharge is applied to all firm customers and should be applied to Rate GS-XLT transportation service as well.[476]

- The DSIC surcharge is also appropriate. "Replacement of aged distribution mains has long been a priority of PGW and this Commission. As distribution service customers, GFCP/VEPI should pay their proportionate share."[477]

PGW argues that failure to apply these surcharges to GFCP/VEPI means that other customers will unfairly continue to bear a disproportionate share of these substantial costs.[478]

For its part, GFCP/VEPI maintains that there is no basis for assessing surcharges to it.[479] In fact, GFCP/VEPI argues that it is not appropriate to charge any level of surcharges to it. GFCP/VEPI maintains that it is and historically has been interruptible for a significant portion of its load, and interruptible customers on the PGW system are not assessed surcharges. However, PGW refuses to recognize GFCP/VEPI's interruptible service and imposes upon it the same surcharges it imposes on its firm service customers without citing any basis on cost causation.[480]

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474 PGW M.B. at 60; PGW St. 9-R at 36.

475 PGW M.B. at 60; PGW St. 6-R at 28.

476 PGW M.B. at 60; PGW St. 6-R at 28.

477 PGW M.B. at 60; PGW St. 6-R at 28.

478 PGW M.B. at 60.

479 GFCP/VEPI M.B. at 27.

480 *Id.*

GFCP/VEPI notes that PGW's revised proposal assesses $290,000 USEC surcharge to GFCP/VEPI, yet GFCP/VEPI is not eligible to receive such USEC assistance from PGW.[481]

Next, PGW's revised proposal assesses $111,811 in ECR surcharge to GFCP/VEPI. GFCP/VEPI avers that, even if the program benefits would apply to the Rate GS-XLT class, GFCP/VEPI is the only customer in that class, therefore assessing the charge to it would be like taking money from GFCP/VEPI's right pocket and putting it back in its left pocket.[482]

Additionally, the OPEB surcharge funds PGW's obligations and is adjusted annually through the 1307(f) filing. GFCP/VEPI notes that PGW's revised proposal assesses $3,287,979 to GFCP/VEPI, or three times GFCP/VEPI's current total distribution charge amount of $1,129,040. According to GFCP/VEPI, a surcharge of this amount violates gradualism and can hardly be taken seriously, especially when PGW has provided no support for the assessment of this amount.[483]

Finally, GFCP/VEPI addresses the DSIC surcharge, whose purpose is to recover pipeline repair and replacement costs between rate cases. GFCP/VEPI remarks that the four-mile line serving it has not had any repairs in the past twenty-five years, yet PGW's revised proposal assesses $375,842 to GFCP/VEPI. According to GFCP/VEPI, PGW's tariff allows the Company to "reduce or eliminate the DSIC to any customer with competitive alternatives and customers having negotiated contracts with the Company, if it is reasonably necessary to do so."[484] GFCP/VEPI argues that its bypass pipeline is certainly a competitive alternative, and DSIC should not be charged. Also, GFCP/VEPI argues that, if DSIC were to be assessed, then it should apply solely to repair costs on the Four-mile line.[485]

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[481] GFCP/VEPI M.B. at 28.

[482] *Id.*

[483] *Id.*

[484] Supplement No. 95, to PGW Gas Service Tariff – Pa. P.U.C. No. 2, Seventh Revised Page No. 153.

[485] GFCP/VEPI M.B. at 28-29.

GFCP/VEPI explains its argument as follows, "If there is a credible competitive threat or bypass opportunity, then special rates may be used to retain the patronage of the customer that might otherwise leave the [local distribution company] altogether."[486] Once that special rate is determined, it makes no sense to believe that additional charges can be added to the rate without making the total rate realized by the customer in excess of the competitive alternative.[487]

GFCP/VEPI argues that the Commission has allowed the flexing of rates and riders so the affected utility would be able to retain large customers. Citing to Commission Orders in two 1307(f) cases and one Commission investigation, GFCP/VEPI argues that in instances in which a customer may obtain service by direct bypass, it may be reasonable to require captive purchase gas cost customers to bear the costs of discounted or waived gas delivery related charges incurred to retain throughput.[488]

However, in GFCP/VEPI's view, PGW is failing to acknowledge GFCP/VEPI's present ability to bypass PGW entirely and is instead imposing unjustified surcharges on GFCP/VEPI. Under these circumstances GFCP/VEPI states that if its rates increase dramatically, it would have strong financial incentive to depart the PGW system with as much speed as it can.[489]

PGW responds that GFCP/VEPI has not demonstrated that bypass is either physically or economically feasible.[490] First, PGW avers that there has been no showing by GFCP/VEPI that the pipeline is physically feasible. Numerous aspects relating to the physical

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486 GFCP/VEPI M.B. at 29.

487 *Id.*

488 GFCP/VEPI M.B. at 30 (citing *Pa. Pub. Util. Comm'n v. Equitable Gas Co.*, Docket No. R-00050272 (Opinion and Order entered Sept. 28, 2005, slip op. at 42-43) ("*Equitable*"); *see also Pa. Pub. Util. Comm'n v. Peoples Nat'l Gas Co.*, Docket R-00050267 (Opinion and Order entered Sept. 30, 2005, slip op. at 34) ("*Peoples*"); *Generic Investigation Regarding Gas-On-Gas Competition Between Jurisdictional Natural Gas Distribution Companies*, Docket No. I-2012-2320323 (Opinion and Order entered May 4, 2017, at 20-21). ("*Generic*").

489 GFCP/VEPI M.B. at 30.

490 PGW R.B. at 46.

construction of such a pipeline are unknown,[491] which led PGW's witness Teme to opine that "GFCP/VEPI have no realistic bona fide opportunity for bypass."[492]

Second, PGW states that GFCP/VEPI failed to present a complete financial picture, beyond the capital cost of construction. According to PGW, GFCP/VEPI presented only a partial valuation of the cost of the pipeline, namely a portion of the construction costs, and failed to factor in any other costs, such as operations and the cost of rights of way, regulatory and litigation costs and property agreements.[493]

Importantly, PGW notes that GFCP/VEPI acknowledges that even with the bypass ARS would still be needed.[494] Thus, the only costs GFCP/VEPI would avoid by construction of the bypass would be the transportation and customer charge components of PGW's proposed rates, the equivalent of $1.3 million per year.[495] Even without factoring in the other unknown costs, PGW calculates that the payback period for construction alone would be 20 years and opines that GFCP/VEPI's bypass line makes no sense financially.[496]

Third, PGW points out that GFCP/VEPI have promised to eliminate their use of natural gas to achieve a "Net Zero Carbon by 2050."[497] These efforts, which are already under way, [498] will reduce GFCP/VEPI's natural gas demand and negatively affect the bypass line's

491 PGW R.B. at 46, refencing 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.").

492 PGW R.B. at 49; GFCP/VEPI St. JC-1 at 32.

493 PGW R.B. at 49; PGW St. 6-R at 31.

494 PGW R.B. at 50; 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. GFCP/VEPI would deliver gas for use by PGW's customers to Skippack and PGW would deliver gas to the new GFCP/VEPI bypass line."); PGW St. 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.").

495 PGW R.B. at 50; PGW Exh. FT-14. Plus surcharges, if ordered by the Commission.

496 PGW R.B. at 50; PGW St. 6-R at 32.

497 PGW R.B. at 50; PGW Hearing Exhs. 21 and 22; (emphasis in original); Tr. 533-535.

498 PGW R.B. at 50; PGW Hearing Exh. 21.

economics. Therefore, PGW concludes that GFCP/VEPI's claim of bypass is either unrealistic or the recipe for the creation of a stranded asset.[499]

PGW makes it clear that it 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.[500] It further explains that without knowing the total cost and likelihood of bypass, PGW and the Commission are left to speculate about what a matching "special" rate might be. In the absence of any demonstration that bypass is anything other than an empty threat, PGW argues that cost of service principles should apply, and the Commission should ignore GFCP/VEPI's attempts to circumvent a cost-based rate.[501]

In turn, OSBA maintains that Rate GS-XLT should contribute to USEC costs, based on the percentage of base rates charges proposed by OSBA. Additionally, Rate GS-XLT should not be subject to the OPEB rider, as the OPEB costs are reflected in the cost basis for Rate GS-XLT base rates charges. Finally, OSBA argues that Rate GS-XLT should not be subject to the ECR rider, unless and until PGW incurs EE&C costs associated with Rate GS-XLT customers. Regarding the DSIC, the OSBA contends that it would be preferable for Rate GS-XLT to retain responsibility for any costs associated with major capital projects on the dedicated mains serving that facility.[502]

In Section C. 1. c *supra,* we already addressed GFCP/VEPI's objection to USEC charge for Rate GS-XTL. We explained that we disagree with GFCP/VEPI's recommendation that they be exempt from contributing to the program funding, when other small, medium and large business customers (except Rate IT class) are similarly ineligible for USEC benefits but must contribute to the fund. Furthermore, the proposed USEC charge to Rate GS-XLT in the amount of $290,000 is both reasonable and equitable. Therefore, we recommend that the Commission approve PGW's proposed allocation of universal service program costs.

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499 PGW R.B. at 50.

500 PGW R.B. at 48; PGW Exh. FT-9 at 8.

501 PGW R.B. at 49-51.

502 OSBA M.B. at 32-33.

Similarly, we recommend that the Commission approve PGW's proposal that the ECR, OPEB and DSIC surcharges also apply to GGFCP/VEPI. We do not find that the bypass line represents a physical or financial reality for GFCP/VEPI's foreseen future nor a substantial competitive alternative to PGW to warrant the implementation of flex rates for GFCP/VEPI.

3. Alternative Receipt Service

a) ARS Described

ARS is a unique service that GFCP/VEPI's predecessors and the City of Philadelphia agreed to twenty-five years ago under the now-expired contract at an annual fee of $54,000. The service was designed to allow GFCP/VEPI to overcome the fact that they lack sufficient upstream delivery capacity on TETCO (at the 060 Gate station intersection of the Philadelphia Lateral and the Four Mile Line that serves them) to receive all of the volumes that they need during the winter months to maintain operations. GFCP/VEPI are only capable of receiving service at TETCO Gate Station 060, and this is the only gate on which they hold capacity rights. The gap between GFCP/VEPI's peak demand and need is 21,000 Dth.[503]

Distilled to its essence, PGW agrees to accept deliveries of GFCP/VEPI gas volumes on a different portion of its distribution system using pipeline capacity supplied by GFCP/VEPI, and then PGW uses its own (GCR customer paid) capacity that directly ties to the Four Mile Line to deliver gas supplies to GFCP/VEPI. The alternative delivery point used by GFCP/VEPI under this arrangement is at PGW's Gate Station 034 located on the Skippack Lateral.[504]

PGW maintains that the arrangement is purely designed to accommodate GFCP/VEPI's under-contracted capacity position on TETCO. PGW emphasizes that "PGW and its other customers do not need additional deliveries at a different gate. PGW's capacity and supply arrangements are sufficient to meet the demand requirements of its system. There is no

503 PGW M.B. at 61; PGW St. 6-R at 28.

504 PGW M.B. at 61; PGW St. 8 at 2-4.

benefit gained by PGW or its customers."[505] PGW further explains that the ARS service is not a simple "swap"; it is a mutually beneficial exchange arrangement that is only possible because of the existence of PGW's gas distribution system and load dispersed throughout that system. ARS is an accommodation to GFCP/VEPI by "displacement" of PGW's normal deliveries for the sole benefit of GFCP/VEPI. PGW contends that, under ARS, it has allowed GFCP/VEPI to avoid the consequences of their capacity shortfall and the cost of securing the additional TETCO capacity that it needs, but has not secured, at Gate Station 060.[506]

Importantly, PGW argues that "ARS is just a business decision to be made by GFCP/VEPI. If ARS meets their business needs, then they can opt into the service, if not, then there are other options,"[507] including burning fuel oil and biofuels; demand reduction electrification; and bidding for additional TETCO capacity in the secondary capacity market.[508] PGW notes that GFCP/VEPI have not disclosed the costs of these alternatives,[509] and, in the case of capacity release, have chosen not participate at all.[510]

For its part, GFCP/VEPI explains that the Philadelphia Lateral is fully subscribed, meaning that all its capacity is allocated. PGW holds 134,800 Dth/day of Philadelphia Lateral Capacity and Grays Ferry holds 35,000 Dth/day. In the winter, GFCP/VEPI has peak needs of 56,000 Dth/day. GFCP/VEPI contends that, when the 1996 Contract was executed, its capacity shortfall could have been simply addressed had PGW released 21,000 Dth/day of its Lateral capacity to GFCP/VEPI with appropriate compensation. That did not happen. Instead of releasing the needed 21,000 Dth/day (56,0000 less 35,000) of its capacity on the Philadelphia Lateral to Vicinity, PGW created the ARS, thus holding GFCP/VEPI – a major competitor – hostage through the ARS.[511]

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505 PGW M.B. at 61, PGW St. 8-R at 7.

506 PGW M.B. at 61-62; PGW St. 8-R at 7.

507 PGW M.B. at 62; Tr. 530.

508 PGW M.B. at 62; PGW St. 8-R at 8.

509 PGW M.B. at 62; Tr.530.

510 PGW M.B. at 62.

511 CFVP/VEPI M.B. at 5.

b) Cost and Pricing of ARS

It is PGW's position that ARS should be priced in a way that is fair to its other customers and adequately compensates them for the use of PGW's gas distribution system that their rates are used to maintain. PGW rejects GFCP/VEPI's ARS pricing proposal as a scheme to keep its energy costs low at the expense of other PGW customers and a demonstration of corporate self-interest.[512]

PGW explains that ARS engages both its distribution system and its gas contracts. First is the use of PGW's distribution system. "ARS uses the Skippack lateral and the connected distribution network to accommodate the displaced gas volumes and ARS would not work without that capability."[513] Stated another way, only because there is a customer demand and a distribution system in another portion of PGW's system can PGW agree to send displacement volumes to GFCP/VEPI at another point on that system. As Ms. Heppenstall explained: "This swap or alternate delivery program would not be available without PGW's extensive distribution system. Therefore, it is reasonable that GFCP/VEPI be allocated costs related to this system."[514]

Secondly, ARS uses PGW's contracted TETCO capacity to Gate Station 060, which is paid for by its GCR customers, to cover GFCP/VEPI's delivery shortfall and accomplish ARS displacement. PGW explains that it maintains up to 21,000 Dth of TETCO capacity to provide ARS when and in the amounts demanded by GFCP/VEPI. PGW pays TETCO $0.61/Dth for the 21,000 Dth of capacity that supports ARS service; costs recovered from PGW customers through the GCR.[515] The cost of $0.61 per Dth cost is the same amount that PGW has proposed as the minimum rate for ARS service.[516]

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[512] PGW M.B. at 62.

[513] *Id.;* PGW St. 8-R at 7.

[514] PGW M.B. at 62; PGW St. 5-R at 9; PGW St. 8-R at 4-5.

[515] PGW M.B. at 62-63; PGW St. 8-RJ at 2.

[516] PGW M.B. at 63.

Thus, PGW has developed two methods in this case of how to price ARS. First, there is the distribution allocation of cost approach. In Supplemental Direct Testimony, Ms. Heppenstall unbundled transportation service and ARS, calculating the cost of each separately. In her study, she concluded that the base rate cost of ARS' use of PGW's distribution system is $8,941,824 or $2.373 per Mcf.[517]

The alternative method for establishing ARS pricing, and PGW's preferred solution, is to focus on the pipeline capacity used and set rates on that basis. PGW has proposed that ARS service be priced to reflect the greater of: (1) as a cap, the average revenue per Dth received by the Company from all releases of recallable capacity on TETCO during the prior fiscal year (estimated at $1.05/Dth); and (2) as a minimum rate, the maximum TETCO tariff rate (currently $0.61/Dth).[518] "PGW's average capacity release figure reflects actual transactions in the market, so that it will be more likely to track market trends, while at the same time, the minimum ensures that the rate will not fall below TETCO's tariffed rate."[519] Under PGW's proposal, GFCP/VEPI would be billed $2.3 million at the minimum rate and, potentially up to $4.0 million at the maximum rate.[520]

PGW takes issue with GFCP/VEPI's claim that they should be charged $0.10 per Dth, as well as with their claim that they should be allowed to carve PGW's capacity right into a narrow sliver and pay just for that portion at a price not determined in a competitive market, but by a single customer in one isolated transaction last year on the Philadelphia Lateral. According to PGW, the resulting ARS revenues are a paltry $395,716 per year.[521]

PGW explains that the $0.10/Dth claim comes from a rate paid by Paulsboro Refinery for a single winter release last year; it is obviously not a competitively determined rate.[522] As Mr. Reeves explained: "There is currently no competitive market for the Philadelphia

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[517] PGW M.B. at 63; PGW St. 5-SD at 6.

[518] PGW M.B. at 63; PGW St. 8 at 6.

[519] PGW M.B. at 63; PGW St. 8 at 7.

[520] PGW M.B. at 63-64; PGW Exhs. FT-4 and FT-14.

[521] PGW M.B. at 64.

[522] PGW M.B. at 64.

Lateral…there are only two potential customers in the market for Philadelphia Lateral specific releases of capacity – GFCP/VEPI and Paulsboro Refining. Since GFCP/VEPI do not bid on capacity, it is impossible to determine a market-based rate. One customer's bid does not set the market. By refusing to bid, GFCP/VEPI have prevented a competitive market price from emerging."[523] For this reason, setting the rate on this single bid would be grossly unreasonable. Therefore, PGW has suggested that the maximum ARS price should be set at the market price for *all* TETCO releases, not just the Philadelphia Lateral.[524]

Also, under PGW's approach, GFCP/VEPI will not pay for the full 21,000 Dth of TETCO capacity that supports ARS. Instead, PGW is proposing to use *actual* ARS volumes as the billing units so that GFCP/VEPI only pay for the level of ARS volumes actually consumed (3,768,722 Mcf under the test year) rather than the full 7,665,000 Dth of annual capacity needed to meet their peak needs (a daily volume of 21,000 Dth x 365 days) as was suggested by Mr. Crist in the *GCR Case*[525] and by the OCA and OSBA here.[526] Instead, GFCP/VEPI will pay only $2.3 million at the minimum rate and, potentially, $4.0 million at the maximum rate.[527] This rate design feature of PGW's proposed ARS generates a $2.2 to 4.1 million annual benefit to GFCP/VEPI over their GCR proposal.

GFCP/VEPI agrees with PGW that the ARS rate should be market based[528] but the two disagree on which market or which rate.[529] In particular, GFCP/VEPI does not agree that the PGW proposed rate of $0.61 a Dth/Day is reflective of the cost of capacity that extends from the delivery point on the Philadelphia Lateral all the way to M-1 at the Gulf of Mexico.[530] According to GFCP/VEPI, if PGW were releasing that entire capacity path to GFCP/VEPI, as opposed to segmenting the capacity and using only the Philadelphia lateral portion to serve

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523 PGW St. 8-R at 13.

524 PGW M.B. at 64-65; PGW St. 8 at 7.

525 *Pa. Pub. Util. Comm'n v. Phila. Gas Works*, Docket No. R-2023-3038069 (Order entered July 13, 2023) (*GCR Case*).

526 PGW M.B. at 65; PGW St. 8-R at 14-15.

527 PGW M.B. at 65; PGW Exhs. FT-4 and FT-14.

528 GFCP/VEPI St. 1-SR, 23:19-23.

529 GFCP/VEPI M.B. at 31.

530 PGW Exh. FT-14; PGW St. 8 at 6:15-24.

GFCP/VEPI, while releasing the other valuable segment to other parties, it may be worth the TETCO Tariff maximum rate.[531] GFCP/VEPI notes that it proposed such a permanent release and PGW rejected that proposal, and that data requests have produced evidence that the market value of such release capacity is $0.345/Dth/day.[532] GFCP/VEPI further states that PGW's witness admitted that the only segment of the capacity that provides any benefit to GFCP/VEPI, under ARS, is the Philadelphia lateral section which has a market value of $0.10/Dth-day.[533]

GFCP/VEPI draws a distinction between its pricing position on ARS and capacity release. In GFCP/VEPI's view, it is not reasonable to compare: 1) ARS, under which PGW delivers gas that it owns to GFCP/VEPI down the Philadelphia Lateral, where GFCP/VEPI has no ability to purchase less expensive M-1 gas; to 2) full release, where GFCP/VEPI would have the ability to buy and transport inexpensive gas from M-1 to meter 73060.[534] GFCP/VEPI contends that in pricing the ARS rate at $0.61 a Dth/Day, PGW has conflated the worst aspects of both, the lack of control of ARS, with the pricing of a full release.[535] According to GFCP/VEPI, they do not match nor does the proposed pricing for ARS.[536]

Both the OCA and I&E agree that allocation of a portion of PGW's distribution system to ARS is appropriate.[537] In addition, OSBA generally agrees with PGW that the charge for ARS should reflect the market value of the upstream capacity and submits that the value for that capacity should be determined by putting that capacity out for competitive bid under an asset management arrangement. However, OSBA argues that, because this transaction involves upstream gas supply capacity, the revenues associated with the ARS service should be credited to the GCR and not base rates.[538]

531 GFCP/VEPI M.B. at 31.

532 *Id.*

533 Tr. at 310-311.

534 GFCP/VEPI M.B. at 31-32.

535 GFCP/VEPI M.B. at 32.

536 *Id.*

537 PGW M.B. at 63; OCA St. 3 at 21; I&E St. 3 at 5-18.

538 OSBA M.B. at 32-33.

We recommend that the Commission approve the ARS provision of Rate GS-XLT as proposed by PGW. The proposal is fair to all parties. On one hand, GFCP/VEPI will pay, at minimum, PGW's cost to obtain the TETCO capacity they need at the pipeline's tariffed rate but only for the volumes that they use. GFCP/VEPI can continue to avoid the secondary market and do not have to burn more expensive oil to fire Vicinity's boilers. They do not have to pursue demand management or other techniques to control their natural gas usage. The price is substantially less than GFCP/VEPI was prepared to pay in the GCR case. On the other hand, PGW's other customers are assured that PGW will recover the cost of the TETCO capacity required for the ARS without subsidizing the cost of gas supplied to GFCP/VEPI via the ARS. In addition, they have the advantage of potentially receiving more if the competitive markets are willing to pay a higher price.

c) Sharing of ARS Revenues

PGW proposes that all revenues from ARS be credited to base rates and not the GCR. Mr. Reeves explained, "[t]his is not a capacity release in the traditional sense as it is not done on an opportunity basis based on the market price at the time of the sale."[539] Further, allocating the margin to the GCR would not recognize the role that PGW's distribution system plays in making ARS possible. Whether characterized as a swap or a displacement sale, the fact remains that it would not be possible without the existence of PGW's distribution system.

GFCP/VEPI does not take a position with regard to this proposal; however, OSBA avers that the Alternative Receipt Service to GFCP/VEPI is a GCR issue, and that revenues associated with that service should be credited to the customers who pay for the capacity used to provide the service, namely the GCR customers.[540]

We agree with PGW that the ARS is more than a capacity release in the traditional sense. As such, we recommend that all revenues from ARS be credited to base rates and not the GCR.

[539] PGW M.B. at 65; PGW St. No. 8-R at 15.

[540] OSBA M.B. at 27.

E. Customer Service Issues

1. PGW's Position

Initially, we note that PGW did not include any proposals concerning customer service in its base rate filing.[541] Broadly speaking, PGW presents two arguments in response to issues raised by other parties to this proceeding relating to PGW customer service. As to issues affecting all consumers and applicants for service, PGW argues that proposals are not necessary or supported, and are not required by the Commission's regulations.[542] PGW also contends that this proceeding is not the appropriate forum for resolution of low-income customer service issues, asserting that they are better addressed in the context of these universal service-specific proceedings rather than in this rate case.[543]

PGW elaborated on its arguments concerning customer service issues raised by OCA, CAUSE-PA/TURN and POWER in its Reply Brief. There, PGW argues that the Commission should not address consumer and low-income consumer issues raised by OCA because OCA failed to make a specific argument and the impact of the proposed rate increase "is not a service quality problem or management performance problem. The problem occurs at the level of the national and regional economy[and] PGW does not control household incomes."[544] PGW also rejects CAUSE-PA/TURN's arguments concerning re-opening of PGW district offices as a request that the Commission "micromanage PGW's management decisions."[545] PGW is similarly dismissive of CAUSE-PA/TURN's arguments concerning consumer outreach and screening for income level, and other issues.

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541 PGW M.B. at 67.

542 *Id. See also*, PGW R.B. at 52-53.

543 PGW M.B. at 73-74. *See also*, PGW R.B. at, 58.

544 PGW R.B. at 58-59 (citation omitted).

545 *Id.* at 61.

Before discussing the customer service issues raised by other parties, we first address PGW's argument that this proceeding is not the appropriate venue for consideration of customer issues and low-income customer issues.

This Recommended Decision is issued pursuant to the Commission's April 20, 2023, Order in this proceeding which assigned this case to the Office of Administrative Law Judge. We note that the Commission's Order specifically directed that the investigation to be conducted in this proceeding "include consideration of the lawfulness, justness, and reasonableness of PGW's existing rates, rules, and regulations." Further, as noted above,[546] the Commission's Policy Statement regarding PGW enumerates the following factors to be considered in evaluating just and reasonable rate levels for PGW:

> (6) PGW's management quality, efficiency, and effectiveness.
>
> (7) Service quality and reliability.
>
> (8) Effect on universal service.[547]

In accordance with the Policy Statement, the Commission has consistently considered and addressed customer service issues in past PGW base rate cases.[548] We see no reason to disregard the plain language of the Commission's Order or to deviate from that precedent in this proceeding. Accordingly, we turn to an analysis of the recommendations made by OCA, CAUSE-PA/TURN and POWER.

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546 *See* Section V. B., *supra*.

547 52 Pa. Code §§ 69.2703(a)(6)-(8).

548 See, e.g., *PGW 2020***.** Although certain consumer and low-income consumer issues raised in the afore-mentioned cases may have been resolved through settlement, the Commission does not rubber stamp settlements without further inquiry. To adopt a settlement in a rate case, the Commission must find that the proposed terms of the settlement are in the public interest. *See PGW 2020 at 46*, citing *Pa. Pub. Util. Comm'n v. CS Water and Sewer Assoc.*, 74 Pa.P.U.C. 767, 771 (1991). *See also Pa. Pub. Util. Comm'n v. York Water Co*., Docket No. R-00049165 (Order entered Oct. 4, 2004); *Pa. Pub. Util. Comm'n v. Phila. Elec. Co.*, 60 Pa.P.U.C. 1 (1985).

2. OCA and CAUSE-PA/TURN Recommendations

(a) Customer Service Call Center Performance Improvement

OCA identified multiple areas of concern relating to PGW's customer service: (1) call center performance and handling of customer complaints; (2) failure to negotiate payment plans that conform to Chapter 56; and (3) payment system fees.[549] OCA's witness, Barbara Alexander made four recommendations regarding PGW's customer service practices, which may be summarized as follows: (1) maintain current call center performance and, by the next base rate case significantly lower the rate of call abandonment rate to the average of other NGDCs; (2) begin to conduct regularly scheduled analysis of customer disputes, complaints, and BCS findings to identify the root causes of these complaints and document steps taken to respond to the findings of such analysis; (3) within six months after a final order in this proceeding, amend its payment arrangement policies and training programs to foster individualized negotiation of customer payment plans; and (4) within 12 months after the final order in this proceeding, phase out the reliance on additional fees to make payments of PGW bills in all venues and modalities.[550]

Responding to OCA's first recommendation concerning call center performance, PGW argues that OCA's position is "unsupported and unnecessary."[551] PGW asserts that its call center's performance has "returned to pre-pandemic standards [and] it is unnecessary for the Commission to order the Company to maintain this level of performance."[552] In addition, PGW criticizes the recommendation by OCA's witness that the Commission "address call center performance during months in which termination of service is allowed as vague.[553]

We note that the testimony of OCA's witness, Ms. Alexander focuses on two criteria for call center performance i.e., the timing of PGW's response to customer service

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549 OCA M.B. at 69-75.

550 OCA M.B. at 75-76 (citing OCA St. 5 at 4-5).

551 PGW M.B. at 68.

552 *Id.*

553 *Id.*

inquiries and the month during which the customer inquiry is made. The first criterion is measured by the percentage of calls to which a PGW representative responds and the rate at which customers abandon their calls before connecting to a customer service representative known as the "abandonment rate." As to the second criterion, Ms. Alexander draws a distinction between PGW call center performance during non-moratorium and moratorium periods i.e., months in which credit and collection and disconnections do or do not occur.[554]

In testimony, Ms. Alexander acknowledges that when compared to other Pennsylvania NGDCs, PGW's 30-second response rate for over 85% of its customer calls for 2019 through 2021 is average; however, she observes that PGW's call abandonment rate of 9% was the highest in the Commonwealth.[555] She also notes that "a pattern has arisen indicating that handling customer calls during months in which credit and collection and disconnections occur is below average but that the call center performs adequately during the disconnection moratorium periods."[556] While acknowledging PGW's improved call center performance in 2022, she called upon the Commission to require PGW to meet its current response rate level should any rate increase be approved and 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 and recommends that the Commission address call center performance during months in which termination of service is allowed."[557]

In its Reply Brief, OCA labels PGW call center performance as "erratic" and highlights a portion of Ms. Alexander's testimony in which she explains the rationale for establishing call center performance standards and the emphasis on months in which termination is allowed. According to Ms. Alexander, standards must be established "to avoid the potential of lowering expenses associated with the call center once a rate increase is approved."[558] She also testified that "call center performance during months in which termination of service is allowed

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[554] OCA M.B. at 69.

[555] *Id.*

[556] *Id.* at 70 (citing OCA St. 5 at 6).

[557] *Id.* at 70-71 (citing OCA St. 5SR at 2).

[558] OCA St. 5SR at 2.

[is particularly important] because there are no in person offices available to PGW customers to discuss their account and negotiate a payment agreement due to the closure of the PGW service center offices."

We agree with OCA that call center performance during months in which termination of service is allowed is important and that the near tripling of the call center's abandonment rate is so unusual as to be noteworthy. We also agree that having returned call center response time to the pre-pandemic rate, PGW should be required to maintain that response rate if its requested rate increase is granted, in whole or in part.[559] We also recommend that approval of any increase in rates be conditioned upon development of plans by PGW of plans to maintain its current level of service center performance and to address the spike in call abandonment and to implement a BCS review program and restore it to pre-pandemic levels within 6 months after the Commission's final ruling in this proceeding.

OCA contends that PGW does not conduct evaluations of customer complaints and complaint trends.[560] According to OCA, "PGW should conduct regular reviews of internal disputes and informal complaints and compliance related responses from BCS to identify 'red flags' and indicators that suggest the need for revision of internal training or the development of new policies and programs to ensure compliance with Chapter 56."[561]

OCA witness Alexander recommended that PGW institute a "root cause analysis process for customer complaints."[562] She stated that:

> It would seem to be a standard practice to evaluate and determine the root cause of customer complaints, particularly when those complaints have resulted in findings of potential infractions and improper application of policy by the BCS. I continue to recommend that the Commission require PGW to routinely

559 OCA's witness did not provide concrete suggestions as to how the Commission might address the spike in call abandonment or conduct a review of BCS decisions issued to PGW nor did she provide any estimate of the financial, personnel or other resources necessary for PGW to address these problems.

560 OCA M.B. at 71.

561 OCA R.B. at 40, citing OCA St. 5 at 9, OCA M.B. at 69-72..

562 OCA M.B. at 72.

> conduct a root cause analysis of complaints trends and BCS findings to identify underlying trends and take actions to prevent repeated patterns that can, if resolved, lower complaints, improve compliance with essential Chapter 56 requirements, and increase customer satisfaction.[563]

PGW rejects OCA's position and recommendation, asserting that it "does review consumer complaints as necessary to identify and address trends." PGW also alleges that "it is of limited value to analyze . . . a subjective determination made by BCS Staff [which] is not the result of litigation or other formal process.[564] PGW points to the rebuttal testimony by its witness, Ms. Adamucci in support of its position that PGW does review consumer complaints as necessary to identify and address trends. However, PGW's witness offered no explanation of PGW's current practices for reviewing consumer complaints.[565]

PGW justifies its lack of a policy and/or procedures for reviewing BCS decisions by arguing they are "not the result of litigation or other formal process." However, the Commission's Bureau of Consumer Services has primary jurisdiction over all complaints relating to disputes involving fixed service utilities.[566] In addition, although complaints brought before the Commission may be designated as "informal complaints" their filing and adjudication are, nevertheless, governed by Commission regulations.[567] Furthermore, neither did PGW point to any mechanism for review of formal complaints brought before the Commission,[568] which unarguably fall under the heading of "litigation or other formal process" or customer or applicant complaints that for whatever reason are litigated in other venues.

We find OCA's suggestion reasonable. However, we also appreciate that review of all informal complaints resulting in a BCS determination against PGW could

563 *Id.* (citing OCA St. 5SR at 2-3).

564 PGW M.B. at 68.

565 PGW St. 1-R at 35.

566 52 Pa. Code §154.

567 *See* 52 Pa. Code §§162-166.

568 *See* 52 Pa. Code §§171-174.

impose a heavy burden. To mitigate that burden, we recommend that as a condition to approval of any rate increase, PGW be required to undertake an analysis of Initial Decisions adverse to PGW, in whole or in part to identify underlying trends no less than quarterly. Further, we recommend that PGW be required to develop and implement actions to address trends identified through such analysis to prevent or lower complaints, improve compliance with the Code and Commission regulations and policies, and increase customer satisfaction. Finally, we further recommend that the first such analysis to be completed within 90 days after the date of the Commission's order in this proceeding.

(b) Failure to Negotiate Payment Plans that Conform to Chapter 56

OCA argues that because PGW has programmed its computer to guide customer service representatives to gather household income data and offer predetermined payment options and prohibits representatives from offering a payment plan that differs from these computerized calculations or that are based on the individual circumstances of a customer, PGW does not negotiate payment plans that conform to Chapter 56.[569] OCA asserts that PGW "outsources its responsibility to an algorithm that produces formulaic results that bear no reasonable relationship to what a family can actually afford."[570] In addition, OCA alleges that there is no evidence to support the determination that the algorithm used by PGW's software program takes into account individual circumstances.[571]

PGW responds that it does make a reasonable, good faith effort to provide each customer with a fair payment arrangement and that it complies with Commission's regulations which require a utility to:

> 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

569 OCA M.B. at 73, citing OCA St. 5S at 9.

570 OCA M.B. at 73.

571 *Id.*, citing OCA St. 5SR at 4.

> balance, the ability of the customer to pay, the payment history of the customer and the length of time over which the bill accumulated.[572]

PGW's witness testified that PGW's current practice takes into account "various factors that are specific to each customer" and uses a standard process to calculate a reasonable payment arrangement based on that information."[573] She also explained that "[w]ithout 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."[574]

OCA contends that PGW's policy conflicts with Chapter 56 and may be the reason for the significant increase in payment arrangement complaints that require BCS investigation. However, OCA does not dispute that PGW's computer program does take into account various factors and OCA has produced no evidence, other than the opinion of its witness, that the algorithm used by PGW's software program fails to do so or does so in an unreasonable manner. Also, to the extent that a customer or applicant believes that their situation was not appropriately evaluated by PGW, they are able to exercise their rights to recourse under the Code and Commission regulations.[575] Thus, we do not recommend that this suggestion by OCA be adopted.

(c) Fee-Free Payment System

OCA recommends that PGW move to a fee-free payment system to encourage customers to use a wide variety of payment options to pay their PGW bill.[576] OCA proffered that PGW collected $3,113,548 in fees from customers who used electronic payment options[577] to pay their PGW bills under PGW policy requiring customers to pay an additional $2.95 when

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572 52 Pa. Code § 56.97(b).

573 PGW St. 1-R at 36.

574 *Id.*

575 *See* Subchapter F of the Commission's regulations, 52 Pa. Code §§ 56.140-56.181.

576 OCA Man Brief at 74 (citing OCA St. 5 at 11).

577 According to OCA, fees were paid by residential customers on payments made with credit cards, debit cards, and via PGWs interactive voice menu. *Id*. at 74.

using such a payment method to pay their PGW bill.[578] OCA opines that its recommendation "is in line with a growing trend among Pennsylvania utilities to eliminate payment fees and reflects the expectation of most customers to use online payment methods."[579] OCA also contends that electronic processing fees should be "socialized" as all of its current payment processing costs are accounted for.[580]

PGW rejects OCA's argument for fee-free payment, noting that it provides residential customers with a variety of options for bill payment, many of which do not include any processing fees – such as monthly autopay, in-person cash or mailed personal check.[581] PGW also observes that it imposes a transaction fee only on one-time credit card payments and that in collecting the fee, PGW is merely acting as a pass-through because such fees are processing fees imposed by the credit card companies, not by PGW.[582] PGW also notes that customers can pay bills at hundreds of locations, including "big box" stores throughout Philadelphia for no additional fee and that PGW pays the costs relating to such cash transactions. PGW indicates that in 2022, it paid just under $60,380 in costs relating to such payments. Finally, PGW contends that it is "fundamentally unfair to require other PGW customers to absorb [approximately $3.1 Million in] fees charged by credit card companies, particularly when there are fee-free options available."[583]

We agree with PGW. PGW offers customers a variety of payment methods, including multiple no-fee alternatives. In addition, it absorbs the cost of making cash payments at locations throughout its service area convenient to customers. Furthermore, OCA has not provided substantial evidence in support of its argument that the approximately $3.1 Million in

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578 *Id.*

579 *Id.* (citing OCA St. 5 at 11). OCA identified several water utilities that had recently eliminated credit card and debit card payment fees, including Pittsburgh Water and Sewer Authority, York Water, and Pennsylvania American Water. Neither Philadelphia Water Authority, nor any other Philadelphia-based utility were among the utilities cited by OCA. *Id.*

580 *Id.*

581 PGW M.B. at 71 (citing St. No. 1-R at 37).

582 *Id*. at 71. PGW indicated that it does not add any additional fees or earn commissions on them, but they must be paid to the credit card companies. *Id.*

583 *Id.*

credit card fees imposed by credit card companies based on payment methods voluntarily chosen by *certain* residential customers should be shared *by and among all* residential customers, when no-cost alternatives are available to all PGW customers. Finally, OCA has not identified any section of the Code or any Commission regulation or policy that prohibits PGW from collecting credit card processing fees from customers who choose to pay their PGW bill electronically. As a result, we reject OCA's recommendation.

(d) Identification Requirements

CAUSE-PA/TURN contends that PGW's identification requirements to establish service are "overly burdensome, especially for foreign-born applicants and other vulnerable customers."[584] CAUSE-PA/TURN observes that PGW requires two forms of identification from an applicant to set up service, one of which must be a photo identification[585] and that PGW will only accept the following forms of identification:[586]

- Driver's License (contains name, signature, and photo of applicant)
- Employee Identification Card (furnished by employer and contains a photo of the applicant)
- Welfare Identification Card (with photo of applicant)
- Military Service Identification Card (with photo of applicant)
- Student ID (with photo of applicant)
- Liquor Control Board Card (LCB)
- [US] Passport
- [US] Citizenship papers
- State-issued identification card (with a photo of the applicant)
- Weapons Permit (with a photo of the applicant)

584 CAUSE-PA/TURN M.B. at 16. As used by CAUSE-PA/TURN in its Main Brief, the term "other vulnerable customers" incudes victims of domestic abuse and individuals seeking service after experiencing homelessness, domestic violence, or other issues. *Id*. at 19.

585 CAUSE-PA/TURN M.B. at 16 (citing CAUSE-PA St.1 at 19).

586 *Id*. at 16-17 (citing CAUSE-PA St.1 at 19).

CAUSE-PA/TURN asserts that the above list omits forms of identification that reasonably should be accepted by PGW.[587] CAUSE-PA's witness, Mr. Geller noted the absence of several types of documentation from PGW's list such as "foreign-issued government identification or Individual Taxpayer Identification Number (ITIN), [and] Philadelphia's municipal identification."[588] In addition, Mr. Geller explained that PGW's documentation barriers are particularly problematic for foreign-born individuals and those seeking service after experiencing homelessness, domestic violence, or other issues who may not be able to readily obtain state identification."[589]

CAUSE-PA/TURN offered several arguments in support of its position. Initially, CAUSE-PA/TURN points to Section 56.32 of Commission regulations, addressing Procedures for Applicants, which provides:

> For purposes of this section, valid identification consists of **one** government issued photo identification. If **one** government issued photo identification is not available, the public utility may require the applicant to present two alternative forms of identification, as long as **one** of the identifications includes a photo of the individual.[590]

This provision requires an applicant for service to provide information about each adult occupant residing at the location, including the applicant. CAUSE-PA/TURN argues that because PGW's policy exceed the requirements of the regulation, PGW has effectively established a barrier to service for any applicant unable to produce such documentation.

PGW rejects CAUSE-PA/TURN's argument that PGW's identification requirements are excessive or overly burdensome. PGW does not dispute that its documentation requirements exceed those set forth in Section 56.32; however, it argues that they are reasonable. PGW asserts that its documentation requirements are appropriate and necessary to confirm an

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587 *Id*. at 17 (citing CAUSE-PA St.1 at 20).

588 *Id*.

589 *Id*.

590 *Id.* at 17-18 (citing 52 Pa. Code § 56.32 (c)) (emphasis added).

individual's identity and their eligibility to receive service, and/or certain protections under the Commission's regulations.[591] According to PGW, its documentation requirements prevent identify theft and protect other PGW customers from costs associated with unauthorized service. PGW also argues that some forms of identification that CAUSE-PA/TURN wants PGW to accept, such as a City ID, are inherently unreliable because they may be obtained without any verification of a person's identity.[592] In addition, PGW contends that it is reasonable for PGW to confirm an individual's identity[593] where the individual alleges that he or she is the victim of domestic violence.

As the proponent of a rate increase, PGW has the burden of proving that although its documentation requirements exceed the requirements set forth in Regulation 56.32, they are reasonable. PGW's primary rationale for its current documentation requirements for applicants for new service is that they minimize the risk of granting service to an individual who has or is engaged in identity theft and to protect PGW's existing customers from costs associated with unauthorized service.[594] Identity theft is a well-known phenomenon and PGW is prudent to take steps to minimize the risk of initiating service and protecting its existing customers from costs associated with unauthorized service.

CAUSE-PA/TURN also argues that pursuant to Title VI of the Civil Rights Act of 1964,[595] as a recipient of federal funds used for programs such as LIHEAP, PGW is obligated to "equitably serve foreign born consumers" and that PGW's obligation extends beyond the requirements in the Public Utility Code and Commission regulations.[596] CAUSE-PA/TURN points to an Interlocutory Order issued by the Commission in the context of PGW's 2020 rate case, for the proposition that the Civil Rights Act of 1964 (Title VI) supplies "standards which may be reasonable to apply to determine whether PGW provides reasonable access for the

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591 PGW M.B. at 72 (citing PGW St. No. 1-R at 39).

592 *Id.* PGW M.B. at 72-73 (citing PGW St. No. 1-R at 39).

593 *Id.*

594 *Id.*

595 42 U.S.C. § 2000d.

596 CAUSE-PA/TURN M.B. at 18-19. According to CAUSE-PA/TURN, PGW's obligation arises under Title VI of the Civil Rights Act of 1964.

population it serves, which is known to have a percentage of foreign-born customers."[597] Further, CAUSE-PA/TURN's argument was not limited to immigrants but also extended to other applicants such as individuals who have experienced homelessness, domestic violence, or other hardships and are consequently unable to produce the types of identification listed in PGW's identification requirements. Mr. Geller provided a somewhat complex proposal identifying documentation that could be used to prove an applicant's identity, age, or both;[598] however, he did not identify or estimate the resources necessary to implement OCA's proposal.

We agree with CAUSE-PA/TURN that Title VI may provide a standard for evaluation of PGW's documentation requirements. However, we also observe that the Interlocutory Order which it cites in support of its position was issued in response to a specific material question relating to the admissibility of certain testimony.[599] In the Interlocutory Order, the Commission clearly articulates the manner in which such standards may be applicable in the context of a base rate case, stating:

> [b]y testifying that the . . . Title VI language access standards are applicable to PGW's customers, and that PGW is not in compliance with those standards, the . . . witnesses did not ask that the Commission render a finding that PGW is in violation of . . . Title VI standards . . . . Rather, the witnesses offered evidence to suggest that the reasonable standard to apply to the . . . issue has already been established under . . . Title VI and that this Commission, is free to adopt those standards, to determine whether PGW provides reasonable service by communicating with its customers in a reasonable manner, including its non-English speaking and LEP customers, under Section 1501 of the Code.[600]

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597 *Id*. at 18. *See Pa. Pub. Util. Comm'n v. Phila. Gas Works*, R-2020-3017206, Order on Interlocutory Appeal entered Aug. 6, 2020 at 11, 13 (Opinion and Order entered Oct. 19, 2020) (Interlocutory Order).

598 *See,* CAUSE-PA/TURN M.B. at 20-21.

599 *See* Interlocutory Order at 2.

600 Interlocutory Order at 13-14. The Commission noted that it is "is free to take judicial notice of the existence of facts and legal standards, where, as here, the knowledge of those facts and standards may aid in our review." *Id.*at fn. 6.

We note that under the circumstances presented in that case, the Commission was asked to rule on the relevance of evidence offered by a party and the Commission's analysis focused on admissibility of certain evidence and whether its exclusion would be reversible legal error.[601] In the Interlocutory Order, the Commission was careful to state that its "determination is limited to the finding that the evidence is relevant and must be admitted. We make no determination as to the weight the ALJs are to ascribe to the evidence."[602]

CAUSE-PA/TURN argues that PGW's documentary requirements are "overly burdensome . . . for foreign born applicants and other vulnerable customers."[603] In their discussion of the impact of the documentation requirements and recommended remedies, CAUSE-PA/TURN clearly identifies two populations who suffer disproportionately due to PGW's documentary requirements: foreign-born applicants for service and victims of domestic violence.

Undeniably, certain applicants for service have experienced extraordinary hardships prior to submitting an application for service to PGW and, therefore, may face difficulty in meeting the documentation standards established by PGW. The issue presented here is whether PGW's current requirements are reasonable if their application by PGW provides equitable access to gas service. Although CAUSE-PA/TURN provided compelling evidence of the burden imposed on certain applicants, there is no record evidence of the number of applicants negatively impacted by these rules, nor is there any estimate of the resources required to adopt the proposal put forth by CAUSE-PA/TURN. In the absence of substantial evidence, we cannot conclude that PGW's documentation requirements are unreasonable or that they should be modified as proposed by CAUSE-PA/TURN for all members of the populations it identifies as being particularly vulnerable and burdened by PGW's documentary requirements.

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601 *Id.*

602 *Id.* at 14.

603 *Id* at 16.

Commission regulations provide additional rights and protections to victims of domestic violence.[604] CAUSE-PA/TURN and PGW disagree as to the identification requirements necessary or appropriate to establish that a customer or applicant should be identified as eligible for such additional protection. PGW acknowledges that it requires all customers, including victims of domestic violence to submit a photo, contending that because "the Commission's regulations provide additional rights and protections to such customers, and it is reasonable for PGW to confirm the customer's identity with a photo.[605] CAUSE-PA/TURN contends that PGW's requirement that the customer submit a photo is "unjust and unreasonable and fails to recognize the unique challenges faced by these individuals."[606] CAUSE-PA/TURN argues that merely providing a copy of the PFA or other court order should be sufficient to access the protections available to victims of domestic violence.

PGW and CAUSE-PA/TURN each provide legitimate arguments in support of their respective positions. Although neither party provided data on the number of customers and/or applicants who are impacted by this requirement currently or annually, we assume that it is not a large population. Therefore, implementation of modest changes to PGW's policy that address the concerns of both parties would not be unduly burdensome to PGW and would afford an increased measure of flexibility to those customers and applicants. Accordingly, we recommend that domestic violence victims who are unable to submit photo identification to set up gas service due to circumstances arising out of their domestic abuse, should not be required to submit photo identification to set up gas service if they: (a) demonstrate through production of a PFA or other court order that they are the victim of domestic violence; and (b) certify that (i) they are unable to meet PGW's documentation requirements as a direct result of domestic violence; and (ii) any photo previously submitted to PGW for the applicant's current or prior residence was and remains accurate in all material respects.

In addition to the concerns regarding PGW's documentation requirements discussed above, CAUSE-PA/TURN contends that all utility tariffs, should provide a clear and

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604 PGW M.B. at 73 (citing PGW St. 1-R at 39).

605 *Id.*

606 CAUSE-PA/TURN M.B. at 23.

transparent accounting of all rules and conditions of service and asserts that the Commission should require PGW to modify its tariff to "specify all the terms and conditions required for residential service applicants, including these specific identification requirements."[607] CAUSE-PA/TURN asserts that PGW should be required to adopt Mr. Geller's recommended reforms to its customer identification requirements.

While we agree with CAUSE-PA/TURN that utility tariffs should provide a clear and transparent accounting of all rules and conditions of service, taken to its logical conclusion, acceptance of CAUSE-PA/TURN's proposal would effectively require all PGW policies and procedures to be incorporated into PGW's tariff. Such an outcome is unnecessarily rigid and unwieldy, as it would prohibit PGW from modifying or adapting its policies except in the context of a rate making proceeding. Thus, we recommend that PGW be ordered to inform potential residential service applicants of these identification requirements via PGW's in-person, telephone, and on-line communication channels, and that such requirements be reflected on the forms used by applicants to apply for service, consistent with this recommended decision.

F. Low-Income Customer Service Issues

1. PGW's Position

As noted above, PGW asserts that "issues affecting its low-income programming are better addressed in other, more focused proceedings, not in a base rate case"[608] and points to the periodic process for review and approval of PGW's Universal Service and Energy Conservation Plan (USECP) and the Commission on-going review of universal service programs as more suitable proceedings than this rate case to address such issues.[609]

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607 *Id.* citing St. 1 at 22.

608 PGW M.B. at 72-73. As noted above, PGW did not propose any changes to its customer service practices.

609 PGW M.B. at 74.

2. Affordability Underpins Low-Income Customer Issues

OCA, CAUSE-PA/TURN and POWER raised issues that specifically relate to PGW's customer service practices, such as identification of low-income customers and applicants, and enrolment and retention in CRP. Although OCA, CAUSE-PA/TURN and POWER focused on a variety of issues and presented proposals to address those issues, their positions are all supported by the same foundational argument. As articulated by CAUSE-PA/TURN the argument may be summarized as follows:

> It is unjust and unreasonable to raise rates for gas service, which is already unaffordable for a large number of PGW customers, without taking clear and articulable steps to mitigate the impact of the proposed rate increase on vulnerable households. PGW must take steps to address the unaffordability of its current rates and additional measures to curb the impact of any proposed rate increase.[610]

We understand PGW's argument and appreciate the potential benefits inherent in a comprehensive, and cohesive state-wide approach; however, we note that the date for filing of PGW's next Needs Assessment will be February 28, 2025[611] and the Commission's review is still in its early stages.[612] Thus, PGW's suggestion regarding alternative proceedings would effectively delay the timing of any effort to address or take action to resolve these issues for several years.[613] Delaying resolution of the low-income customer service issues raised in this proceeding until after the completion of the Commission's review or final approval of PGW's 2023-2027 USECP filing would deny low-income customer relief for an extended period of time.

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610 CAUSE-PA/TURN M.B. at 7. *See also*, OCA M.B. at 8-10, 76; POWER M.B. at 9-10, 27-29.

611 *PGW Further Revised 2023-207 Universal Service and Energy Conservation Plan* filed July 11, 2023, Docket M-3029323 at 3.

612 The comment period for input on the Commission's review closed on June 8, 2023. Moreover, in comments concerning the Commission's review of universal service programs, PGW indicated that because it "is currently in the process of receiving final approval of its 2023-2027 USECP [PGW] needs time to implement and evaluate its current changes before looking to change its programs again." Comments of Philadelphia Gas Works to March 27, 2023, Secretarial Letter Docket M-2023-3038944, at 11 (June 7, 2023).

613 We note, for example, that PGW's most recent USECP filing was made on October 29, 2021, and was not finally approved until August 1, 2023 i.e., 20 days after the Commission's July 12, 2023 letter. *See Philadelphia Gas Works Universal Service and Energy Conservation Plan for 2023-2027 Submitted in Compliance with 52 Pa. Code § 62.*4, Docket M-2021-3029323 (Order entered Jan. 12, 2023).

In light of the current level of PGW rates, the magnitude of PGW's proposed rate request, the delay involved in the proposal or timing of an alternative proceeding, and the impact on all PGW customers of the outcome of this proceeding, we find such an outcome unacceptable. Accordingly, consistent with the subsection (8) of the Commission's Policy Statement, which explicitly relates to Universal Service,[614] we address these issues raised by OCA, CAUSE-PA/TURN and POWER.

3. Recommendations of OCA, CAUSE-PA/TURN and POWER

OCA and CAUSE-PA/TURN provided extensive testimony and evidence establishing and demonstrating the specific impact of current rates on low-income customers and applicants.[615] Both parties vigorously argue that PGW's assistance programs are reaching only a small percentage of PGW's low-income customers and that improving CRP participation should be considered in evaluating PGW's proposal to substantially increase rates.[616]

As an initial matter, we note the basic parameters for this discussion proposed by CAUSE-PA/TURN.[617]

> With some exceptions, most utility assistance programs require households to have income that is not greater than 150% of the federal poverty level (FPL) to qualify. The FPL is a measure of poverty based exclusively on income and household size, but not

614 See the discussion under Section V. B. above.

615 *See,* OCA M.B. at 77–81; CAUSE-PA/TURN M.B. at 1-2, 24-26. OCA presented testimony and Commission data demonstrating that with the exception of 2023 "for the seven years 2017 through 2023 . . . PGW had the highest monthly bill of the natural gas companies for which data was provided" and during that period the average PGW monthly heating bill (15 MCF) increased from $204.90 (2017) to $293.27 (2023), an increase of 43% ($293.27 / $204.90 = 1.431)." OCA M.B. at 77.

616 *See also* OCA M.B. at 81-85, also citing 2017-2021 PGW estimated and confirmed low-income customer data.

617 We note that CAUSE-PA presented arguments relating solely to moderate and low-income customers and applicants and in its Petition to Intervene indicated that it is "an unincorporated association of low-income individuals that advocates on behalf of its members to enable consumers of limited economic means to connect to and maintain affordable water, electric, heating and telecommunication services." CAUSE-PA Petition to Intervene filed April 12, 2023 at ⁋7. Similarly, TURN indicates that it is "a not-for-profit advocacy organization composed of moderate-and low-income tenants, a substantial number of whom are customers of PGW or dependent on PGW natural gas service and all residing in Philadelphia." TURN Petition to Intervene filed April 24, 2023 at ⁋ 5.

> the composition of the household (i.e., whether the household consists of adults or children) or geography. As a baseline, in 2023, a family of four at 150% FPL has a gross annual income of just $45,000.[618]

OCA observes that the term "low-income customer service issues" is an umbrella term that typically refers to a "three-part problem" consisting of *identification* of low-income customers or applicants, *enrollment* of low-income customers or applicants in CRP, and *maintaining enrollment* of low-income customers or applicants in CRP.[619] We first examine the arguments concerning identification of low-income customers and applicants made by OCA and CAUSE-PA/TURN.

In analyzing the issues and the recommendations relating specifically to low-income customers and applicants, we considered and endeavored to balance the need to improve PGW's customer service to those consumers and applicants with the resources required to adopt recommended remedial measures and the potential risks associated with doing so. Based on our review and analysis of the arguments and proposals made by OCA, CAUSE-PA/TURN and POWER, we recommend that the Commission adopt the measures described below.

(a) Identifying Low-Income Customers

CAUSE-PA/TURN notes that currently, "PGW tracks its low income customer population two ways: estimated low income customers and confirmed low income customers."[620] According to CAUSE-PA/TURN's witness Mr. Geller, as of December 2022, "PGW reported

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618 CAUSE-PA/TURN M.B. at 5 (citing U.S. Dept. of Health and Human Services, 2023 U.S. Federal Poverty Guidelines, available at https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines). CAUSE-PA's witness, Mr. Geller opined that the $45,000 income figure "is substantially less than a household this size needs to meet their basic expenses in Philadelphia where the cost of living is higher than other parts of the state, including the cost of higher gas bills" and provided testimony concerning an alternative measure of low-income status, the "Self Sufficiency Standard." He describes this *county-level standard* as a benchmark developed to determine how much income a household needs to afford life's most basic necessities (food, rent, clothing, medicine/medical care, childcare, utilities, transportation, and taxes) without assistance *Id.* at 5, citing Self Sufficiency Standard, http://www.selfsufficiencystandard.org/Pennsylvania. CAUSE-PA did not argue that the Commission adopt this alternative standard; rather it was used as a comparison to the FPL.

619 *See* OCA M.B. at 91, fn. 26 (citing OCA St. 4 at 53).

620 CAUSE-PA/TURN M.B. at 2 (citing 52 Pa. Code §§ 62.2, 62.4, 62.5).

123,322 confirmed low income customers, accounting for 25% of residential customers [and] 187,901 estimated low income customers, accounting for 38% of residential customers."[621] As CAUSE-PA/TURN observes, the "estimated low income customer" count uses census data provided by the Commission's BCS and PGW residential customer count to estimate the likely number of low income customers in PGW's service territory.[622] In contrast, the term "confirmed low income," as used by PGW includes only customers participating in CRP and recipients of a LIHEAP Cash or Crisis grant, and participation on a low income payment agreement, in the past 2 years.[623] Based on data collected by PGW, CAUSE-PA/TURN concludes that as of December 2022 "less than half of PGW's confirmed low income customers were enrolled in CRP and less than a third of its estimated low income customers were enrolled.[624]

Pointing to 52 Pa. Code § 62.2, OCA's witness argued that PGW's process for confirming low-income customers is not in full compliance with the Commission's regulations governing Confirmed Low-Income customers for natural gas utilities.[625] OCA observes that PUC's regulations define "Confirmed Low-Income customers" as:

> [a]ccounts where the [Natural Gas Distribution Company] has obtained information that would reasonably place the customer in a low-income designation. This information may include receipt of LIHEAP funds (Low-Income Home Energy Assistance Program), self-certification by the customer, income source or information obtained in § 56.97(b) [relating to procedures upon rate-payer or occupant contact prior to termination].[626]

OCA's witness, Mr. Colton opined that PGW's process for confirming low-income status is more stringent than the PUC regulations allow, stating that currently the criteria used by PGW to identify confirmed low-income customers includes "CRP participation, receipt

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621 CAUSE-PA St. 1 at 7 (citing CAUSE-PA I-4, Attach. (123,322 confirmed low income customers vs. 488,316 residential customers); CAUSE-PA I-12; 2021 Universal Service Report at 9).

622 *Id.* (citing CAUSE-PA/TURN St. 1 at 7).

623 *Id.*

624 *Id.*

625 OCA M.B. at 85.

626 *Id*. (citing 52 Pa. Code § 62.2).

of a LIHEAP Cash or Crisis grant, and participation on a low-income payment agreement, in the past two years."[627] Mr. Colton argues that nothing in the PUC regulations otherwise requires a customer to be participating in one of the three identified programs (LIHEAP, CRP, low-income payment agreement) in order to be identified as a Confirmed Low-Income customer.[628]

OCA contends that PGW management chooses not to avail itself of actions that could reasonably address the payment difficulties of low-income customers.[629] OCA also pointed to zip code and income data, as proof that recent gas price increases have a significant impact on low-income customers and "must be addressed by PGW."[630] OCA recommends that PGW accept documentation of participation in any municipal, state or federal means-tested program as adequate documentation to identify a customer as a Confirmed Low-Income customer and/or to establish eligibility for the means-tested winter disconnection moratorium.[631]

Similarly, CAUSE-PA/TURN contends that PGW's fails to adequately identify and assess "the extent of unmet need for rate assistance to reasonably afford service" and identifies the primary reason for that failure as PGW's "[r]eliance on collections and termination data for only confirmed low-income customers."[632] CAUSE-PA/TURN contends that for purposes of evaluating the effectiveness of PGW's universal service program participation and outreach, it is more accurate to utilize the proportional census-based estimated low income customer count.[633]

We agree with OCA and CAUSE-PA/TURN that PGW's methodology for identifying low-income customers is flawed. While it is true that under Regulation 62.2, PGW <u>may</u> rely upon receipt of LIHEAP funds and CRP enrollment to establish confirmed low-income

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627 OCA M.B. at 85 (citing OCA St. 4 at 53).

628 OCA M.B. at 84 (citing OCA St. 4 at 54).

629 *Id.*

630 *Id.* at 77-80 (citing OCA St. 4SR at 30; PGW Management and Operations Audit, Docket D-No. 2022-3030321).

631 *Id.* at 85 (citing OCA St. 4SR at 9).

632 *Id.*

633 *Id.*

status, the regulation does not limit the definition of confirmed low-income customer to that subset of PGW's customers. To the contrary, the regulation specifically contemplates, without restriction, *any* information that would reasonably place the customer in a low-income designation. As OCA and CAUSE-PA/TU contend, census data gathered and published by the federal government and readily accessible to PGW falls within the scope of information that would reasonably place the customer in a low-income designation. We agree that use of census-based data will provide a more accurate and meaningful measure of PGW's low-income customer service efforts. As a result, we recommend that the Commission direct PGW to improve identification of low income customers in universal service programs by adopting the BCS census-based estimated low-income customer count and to utilize such data to improve enrollment in PGW's universal service program and the evaluation of the effectiveness of PGW's universal service program outreach and participation. We suggest that this recommendation be implemented by PGW beginning with its next USECP filing and all reports concerning service to low-income consumers filed on or after December 31, 2023.

(b) Data Sharing and Coordination

OCA and CAUSE-PA/TURN each offered multiple and somewhat overlapping suggestions to improve PGW's outreach, screening, and enrollment efforts to better serve PGW's low-income customers. OCA suggested that PGW should coordinate with a variety of Philadelphia City offices to enter into data sharing agreements and use the data provided to enroll eligible customers in CRP.[634] PGW summarized OCA's proposal as follows:

> PGW should (1) enter into a data sharing agreement with the City Department of Revenue to allow identification of Owner-Occupied Payment Agreement ("OOPA") Tier 4 and Tier 5 customers as confirmed low-income, and/or to be enrolled in CRP; (2) enter into a data sharing agreement with the data from City's Office of Integrated Data for Evidence and Action to identify customers as confirmed low-income, and/or to enroll them in CRP if eligible; (3) enter into a data sharing agreement to allow for automatic cross-enrollment of customers from Philadelphia Water Department's Tiered Assistance Program

[634] *See* OCA M.B. at 86-89, PGW M.B. at 74-77.

> into CRP; (4) partner with the City's Community Resource Corps to identify confirmed low-income customers and enroll them in CRP; (5) partner with the City's "Philly Counts" outreach program to identify confirmed low-income customers and enroll them in CRP; and (6) enter into a data sharing agreement with the Commonwealth to provide for cross-enrollment of LIHEAP recipients into CRP. OCA St. 4 at 43-50. OCA also argues that PGW should use these agreements to minimize default removals from CRP for failure to recertify.[635]

CAUSE-PA/TURN recommends that PGW develop an auto-enrollment process for CRP utilizing LIHEAP data when it becomes available through DHS beginning in Fall 2024.[636] CAUSE-PA/TURN, also urges that PGW be directed to include outreach to assist with enrollment in CRP as part of its annual cold weather surveys, beginning with the pre-December 2023 survey.[637]

PGW rejects the suggestions of OCA and CAUSE-PA/TURN, arguing that PGW cannot rely on data from organizations developed for entirely different purposes for the purpose of enrolling customers in CRP. PGW also contends that OCA also ignores the cost associated with these recommendations – both in terms of administrative and technology costs, as well as resulting costs if this cross-enrollment resulted in large numbers of customers being enrolled in CRP, and particularly if large numbers of *ineligible* customers enroll [and] PGW's non-CRP customers will have to bear these costs.[638] Likewise, PGW rejected CAUSE-PA/TURN's recommendation, citing logistical and cost issues.[639]

Undeniably, data and technology are integral to delivery of service by PGW and its regulatory compliance efforts. We agree with OCA and CAUSE-PA/TURN, that PGW should use data sharing and coordination to improve PGW's customer service to low-income

635 PGW M.B. at 74 fn. 390.

636 CAUSE-PA/TURN M.B. at 31 (citing St. 1 at 18.).

637 *See* CAUSE-PA/TURN M.B. at 28 (citing CAUSE-PA/TURN St. 1 at 17-18.).

638 *Id*. at 75 (citing PGW St. No. 1-R at 15-16.).

639 *Id*.

customers and applicants, where they entail modest expansion of existing PGW practices and where PGW already has ready the relevant data, or it is readily available to PGW.

Accordingly, we recommend that PGW be directed to develop and deliver to the Commission for its approval plans to implement the following suggestions within 60 days after a final order in this proceeding:

- Plans for outreach to assist with enrollment in CRP as part of its annual cold weather surveys, if possible, beginning with the pre-December 2023 survey;
- Plans to utilize LIHEAP enrollment data already in its possession to confirm customers' low-income status, to guide outreach efforts, and to facilitate enrollment and retention in CRP;
- Plans to confirm customers' low-income status as promptly and efficiently as possible, using data sharing and in coordination with DHS and Philadelphia's Department of Revenue;
- Plans to develop auto-enrollment and/or cross-processes that facilitate and simplify enrollment of customers in CRP;
- Plans to use shared data to enhance and guide outreach efforts;
- Plans to use shared data to facilitate enrollment and retention in CRP; and
- Plans to expand its collaboration relating to data sharing and coordination to include other state and city agencies and entities.[640]

PGW should also be directed to commence and complete implementation of plans for use of shared data as quickly, efficiently and within any time period specified by the Commission in any Order issued as part of its review.

We also adopt OCA's recommendation that PGW be directed to include, beginning with its next-filed USECP, a specific section that summarizes any actions included in the plans described above that have not been completed in full, and presents a workplan identifying the technology tools it has adopted, or that it intends to adopt in the near-term, mid-

[640] In its M.B., OCA specifically mentions the Philadelphia Water Department (PWD), Philadelphia's Office of Integrated Data for Evidence and Action (IDEA), Philadelphia's Community Resource Corps (CRC) and the City of Philadelphia's "Philly Counts" outreach efforts. We recommend that PGW prioritize collaboration with these and/or other state and city entities based on an assessment of the potential value of any such collaboration.

term, and long-term, to address low-income consumer identification, CRP enrollment, and CRP enrollment maintenance.

(c) Low-Income Usage Reduction Program (LIURP)

OCA, CAUSE-PA/TURN and POWER all contend that: (a) PGW's current LIURP budget is insufficient; (b) PGW's rate request will have a serious adverse effect on low-income customers and, therefore, on universal service; and (c) increased LIURP spending is a remedy to offset some of the harm that would be created by the rate increase sought in this case.[641] Despite their agreement on the need to increase to LIURP spending, these parties provided widely differing suggestions as to the appropriate level of spending.

OCA witness Colton recommended that PGW increase its LIURP budget to serve an additional 425 homes per year, requiring an estimated increase in LIRP spending of just over \$1.8 million.[642] CAUSE-PA/TURN proposed that PGW's recently approved "Home Comfort budget" of \$7.989 million be increased by an additional \$8.925 million to serve an additional 3,000 households per year to mitigate the disproportionately high impact of the rate increase on high usage customers.[643] POWER suggested that the Commission direct an increase in PGW's LIURP budget that is "commensurate with the percentage increase to residential rates." PGW's rate request proposed an increase in annual revenues of \$85.5 million of which approximately

641 *See* OCA M.B. at 89-91.

642 *Id.* at 89. OCA witness Colton provided the following explanation for his recommendation: "I base this number on PGW's historical capacity to treat homes. I first calculate the average number of homes served over the past five years (excluding the COVID year of 2020 as an outlier). (CAUSE-1-1). I then subtract the most recent year's production (2022: 1,894). This yields a difference between the five-year average and the most recent production of 421.4, which I round up to 425. Using an average per job cost over the past three years (\$4,238), I estimate a total budget to serve the additional 425 homes of \$1,801,180 (\$425 x \$4238)." OCA S. 4 at 56.

643 CAUSE-PA/TURN M.B. at 32. In addition to an increase in LIURP spending, CAUSE-PA/TURN proposed that the Commission direct PGW to "explore the establishment of a 'special needs' criterion for potential Home Comfort program prioritization of households between 151[%]-200% FPL" *See* CAUSE-PA/TURN M.B. at 34-35.

$68.1 million[644] was allocated to the residential class. Thus, POWER's recommendation would result in an increase of approximately $6.8 million to PGW's LIURP budget.[645]

PGW rejects these LIURP arguments and proposals, contending that issues affecting its low-income programming should not be considered in a base rate case and are better addressed in other "more focused" proceedings."[646] PGW argues that the Commission has previously recognized that certain complex issues involving universal service are "better reviewed in a universal service stakeholder process" like the periodic process for review and approval of PGW's USECP .[647] Additionally, the Commission is currently undertaking a review of universal service programs that would address many issues raised by the parties, the outcome of which would be applied to Pennsylvania regulated utilities on a statewide basis.[648]

Although OCA, CAUSE-PA/TURN and POWER, provided different calculations and arguments in support of their proposals, each portrayed the need for increased LIURP spending in stark terms.[649] As noted above, adoption of PGW's position would effectively delay an examination of PGW's LIURP spending for an unspecified period that will, in all likelihood, continue for several years. In light of the dimension of the need for additional LIURP funding, it would be unreasonable to delay review of LIURP funding for such an extended period.

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644 OCA M.B. at 1. The $68.1 million includes PGW's proposed increase residential monthly customer charge.

645 POWER M.B. at 29.

646 PGW M.B. at 73.

647 *Id.* at 74 (citing *Pa. Pub. Util. Comm'n v. Aqua Pennsylvania, Inc.,* Docket No. R-2021-3027385, 331-333 (Opinion and Order entered May 16, 2022) (recognizing prior orders finding that proposals involving CAP or other universal service issues "are more properly considered in a public utility's [USECP] proceeding."); *see, e.g., Pa. Pub. Util. Comm'n v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835, 160 (Opinion and Order entered Feb. 19, 2021) (finding that "issues related to Columbia's energy burden levels are more properly considered in the context of the Company's next USECP filing.")).

648 Docket No. M-2023-3038944.

649 OCA asserts that "At the three-year average production rate from 2017 through 2020, it would take 17 years to treat all homes in need" while noting that in light of lower LIURP production in 2022 the figure could be higher. OCA M.B. at 90 (citing OCA St. 4 at 57). CAUSE-PA/TURN argues that based on PGW's most recent needs assessment, it would take somewhere between 17 and 23 years to provide LIURP assistance to all of PGW's customers eligible for assistance. OCA M.B. at 90. POWER did not provide its own estimate; however, it endorsed the estimates provided by OCA and CAUSE-PA/TURN. *See* POWER M.B. at 28.

OCA, CAUSE-PA/TURN and POWER present strong arguments in favor of increasing LIURP funding. Those arguments must, however, be balanced against the impact of any increase on those customers who will bear the burden of such an increase. PGW notes that it has "both the highest total universal service spending and the highest LIURP spending as a percentage of residential sales, as compared to other Pennsylvania electric and natural gas utilities."[650] PGW also argues that as a percentage of residential revenue, PGW's LIURP spending was more than twice that of all Pennsylvania natural gas and electric utilities.[651] PGW also criticized the figures presented by OCA and CAUSE-PA/TURN, contending that it would be "inappropriate to set the LIURP budget based on the number of homes to be served."[652] PGW also critiques the position taken by OCA, CAUSE-PA/TURN and POWER for not taking into account inflation or related cost increases. According to PGW, "[a]s inflation increases and costs increase, the cost per home served increases and fewer homes are able to be served. It is simply not feasible to serve the number of homes identified under the recommended budgets."[653]

PGW has proposed a significant rate increase that will be felt by all its customers. An increase in PGW's LIURP budget would raise PGW LIRUP spending beyond a rate that is already the highest in the Commonwealth. Moreover, any such increase would be borne by customers who are not eligible for the program, further magnifying the burden of any rate increase on them. For these reasons, we recommend that the Commission reject the proposals made by OCA, CAUSE-PA/TURN and POWER to increase PGW's LIURP spending.[654]

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650 PGW M.B. at 78 (citing PGW St. No. 1-R at 26-27 and the Commission's 2021 Universal Service Report at 39, 55, and 84, *available at* https://www.puc.pa.gov/media/2188/2021_universal_service_report_rev122722.pdf ("PUC 2021 Universal Service Report")).

651 *Id.* at 78-79.

652 *Id.* at 79. PGW witness Adamucci explained, "[t]thinking about the LIURP budget in terms of the number of homes to be served disincentivizes full weatherization, and instead encourages small projects at a large number of homes rather than full weatherization of a smaller number of homes. This is inconsistent with best practices. PGW is limited by the conditions within a house as to whether the house can be fully weatherized, but the goal should be full weatherization if possible." *Id.*

653 *Id.* (citing PGW St. 1-R at 28).

654 Having declined to adopt the recommendations to increase PGW LIURP funding, we also decline to adopt CAUSE-PA/TURN's proposal that PGW be directed to "explore the establishment of a 'special needs' criterion for potential Home Comfort program prioritization of households between 151[%]-200% FPL"

(d) Disconnection of Service after Undeliverable Bills

OCA contends that PGW should take a number of steps when a customer's mail is returned as undeliverable, including placing a collection hold or a hold on removal from CRP, adopting a procedure to contact customers and update their information, and providing reports on undeliverable mail and use email, phone calls or text message to notify a customer of undeliverable mail.[655] PGW rejects OCA's proposal, stating that OCA's proposal would involve "significant administrative expense . . . given that PGW would have to implement new systems to track this information, and would require significant staff time by customer service representatives.[656]

In light of other recommendations herein to improve customer service that will almost certainly draw on the time, attention, and resources of PGW's administrative, managerial and IT staff and budgets, we decline to adopt OCA's recommendation regarding unreturned or undeliverable mail.

(e) Non-Payment Data Tracking and Reporting

OCA argues that PGW should collect monthly data by zip code on "critical elements" of non-payment and make this data publicly available.[657] PGW rejects OCA's proposal on the grounds that such data tracking and reporting is neither necessary nor required.[658] PGW also contends that OCA has failed to consider the cost of this recommendation. PGW does not currently track this data and it would have to implement additional systems to do so.[659] Further, PGW questions the purpose that such data tracking and

655 PGW M.B. at 77 (citing OCA St. 4 at 64-70).

656 *Id.*

657 PGW M.B. at 80 (citing OCA St. 4 at 59-64).

658 *Id.*

659 PGW St. 1-R at 30.

reporting would serve or whether it would provide any meaningful benefit to customers that would justify the cost.[660]

Here too, in light of other recommendations herein to improve customer service that will almost certainly draw upon the time, attention and resources of PGW's administrative, managerial and IT staff and budgets, we decline to adopt OCA's recommendation regarding unreturned or undeliverable mail.

(f) CRP Cost Recovery Offset

OCA argues that PGW should adjust PGW's bad debt expense recovery to prevent what OCA terms a "double recovery" of credits and arrearage forgiveness provided through PGW's CRP.[661] OCA indicates that this issue was addressed in the Settlement of PGW's 2020 base rate proceeding and proposes that the CRP cost recovery offset established in that proceeding be continued with modifications, two of which OCA describes as "substantive" while one is labeled "administrative."[662] OCA also contends that the Settlement in PGW's 2020 base rate proceeding was consistent with the litigated outcome of PGW's 2007 rate case.

PGW argues strenuously that "OCA's argument is seriously flawed and must be rejected."[663] PGW asserts that OCA's "claim that PGW is somehow 'double recovering' is wrong, and OCA has presented no actual evidence to support this claim."[664] PGW contends that

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660 *Id.*

661 *See* OCA M.B. at 95-99. PGW summarizes OCA's position as follows: (1) CRP credits should be offset by 12.1% rather than the current 5.75%; (2) the offset should be applied to all customers who are participating in the CRP percentage of income payment plan above the participation number as of September 30, 2023; and (3) the offset should be applied to arrearage forgiveness granted to all CRP participants receiving arrearage forgiveness in excess of those receiving forgiveness as of September 30, 2023. PGW M.B. at 81, fn. 425, citing OCA St. 4 at 71-72.

662 *See* OCA M.B. at 95-99.

663 As a preliminary matter, PGW argues that it is "inappropriate" to use a settlement term from PGW's prior rate case as the starting point for OCA's proposal in this proceeding because the terms of a settlement are not part of PGW's tariff and cease to be effective upon the entry of a final order in this proceeding. PGW R.B. at 66 fn. 439.

664 PGW M.B. at 81.

OCA's belief that, for customers enrolled in CRP, PGW recovers bad debt expense twice is simply incorrect"[665] and "there is no 'double recovery' occurring."[666]

Summarizing its argument in its Reply Brief, PGW asserts:

> 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.[667] OCA has presented zero evidence to substantiate this claim; it has only presented theoretical speculation.[668] 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.[669] This entirely undermines OCA's baseless claim.[670]

Further, PGW criticizes OCA's reliance on PGW's 2007 base rate case as support for its position, emphasizing that:

> [s]imply 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.[671]

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665 PGW M.B. at 81.

666 PGW M.B. at 81, citing PGW St. No. 1-R at 30-33; PGW St. No. 1-RJ at 2-4.

667 PGW St. No. 1-R at 32.

668 *Id.*

669 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).

670 PGW R.B. at 68.

671 *Id.*

Finally, PGW contends that OCA is inappropriately singling out one type of expense and only proposing a reconciliation if CRP participation is higher than a baseline participation level that established in the settlement of PGW's 2020 base rate proceeding.[672]

We find that OCA's rationale for the proposal is flawed in several respects. First, OCA's position is based on a settlement in a prior proceeding, which, as PGW points out, has no binding effect on this matter. Second, we agree with PGW that OCA has not presented substantial evidence of "double counting." In addition, we note that the calculations used by OCA to arrive at a proposed 12.1% offset include years during which COVID disrupted CRP enrollment and collection activity. Further, we observe that the OCA's offset is one-sided in that it is applied to new CRP customers, but there is no adjustment if there are less CRP customers than the preset number. For these reasons, we find that OCA has failed to provide substantial evidence in support of its proposal and decline to recommend adoption of the proposal in this proceeding. Instead, we recommend that PGW reinstate the mechanism and practice established in the 2007 PGW Base Rate Case designed to monitor possible under-recovery and/or over-recovery of CRP bad debt expense by collecting information to establish the net outcome in CRP participation over the level existing at the time a final order is issued in this proceeding, and the average shortfall per participant and to present that information with its quarterly reconciliation.[673]

G. Pipeline Replacement/Alternatives

Although POWER expressed agreement with OCA and CAUSE-PA/TURN on certain issues,[674] POWER presented a somewhat broader approach to addressing and rectifying

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672 OCA M.B. at 95, citing *Pa. PUC v. PGW*, R-2020-3017206, Order at 37 (entered Nov. 19, 2020).

673 *See* PGW 2007 BRC at 33.

674 Like OCA and CAUSE-PA/TURN , POWER argued that it would be "It would be neither just nor reasonable for PGW to raise its rates without the implementation of rate adjustments to protect affordability." POWER M.B. at 1. POWER also agreed with OCA and CAUSE-PA/TURN that an increase in PGW's residential rates should be conditioned upon an increase in PGW's LIURP budget; however, POWER offered its own proposal as to the size of the increase. *See,* POWER M.B. at 29-30.

what it termed "correct current affordability challenges."[675] POWER argued strenuously that addressing affordability requires a review of PGW infrastructure spending and developing processes for considering all cost-reduction opportunities consistent with safety and reliability needs,[676] and proposed integration of non-pipeline alternatives ("NPAs") investments into PGW planning.[677]

POWER asked the Commission to "direct PGW to begin to integrate consideration of [NPAs] as a potential means of reducing cost of service through a collaborative working group and reporting process."[678] POWER explained its rationale for its NPA proposal as follows:

> NPAs are investments that function to reduce design day demand in a portion of the distribution grid, and they can generate savings where the cost of reducing demand is less than cost of capital expenditures on distribution and processing plant than would otherwise be necessary if demand were not reduced. NPAs can generate further savings through reductions to upstream transportation and gas costs.[679]

In addition, POWER proposed specific mechanisms for integrating NPAs into PGW's planning process and reporting on the status of NPA initiatives.[680]

PGW's filing in this proceeding did not include consideration of NPAs. PGW strenuously objected to POWER's NPAs proposal and urged the Commission to "outright reject

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675 POWER agreed with OCA and CAUSE-PA/TURN that an increase in PGW's residential rates should be conditioned upon an increase in PGW's LIURP budget; however, POWER offered its own proposal as to the size of the increase. *See,* POWER M.B. at 29-30.

676 *Id.* at 30.

677 *Id.* (citing POWER St.. 1, Direct Test. of Mark D. Kleinginna (Corrected), at 31:20–33:22 (May 31, 2023)).

678 POWER M.B. at 4 (footnote omitted).

679 *Id*. at 31 (citations omitted).

680 POWER suggested that PGW: 1) consider opportunities for NPAs on a pilot basis through a collaborative working group that would develop screening criteria for potential pilots; and 2) report regularly on progress on NPA initiatives. *Id.*

POWER's recommendations."[681] PGW contends that through its enforcement of the Code and Commission regulations, the Commission ensures that PGW provides safe, adequate and reliable service to its customers at just and reasonable rates.[682] PGW characterizes POWER's proposal as "a demand that PGW change its operations to [POWER's] liking."[683] PGW argues that it is well established that the PUC may not dictate management policies or actions unless it specifically finds that the utility's service is inadequate or unreasonable.[684] PGW also argues that the Commission does not have the authority to direct PGW to implement POWER's NPAs recommendations.[685]

In evaluating POWER's NPAs proposals, we must first address the threshold issue of the Commission's jurisdiction over the proposal. While acknowledging the Commission's statutory authority over a utility's facilities and service,[686] PGW argues that the Commission may only exercise its authority "in the context of providing utility ***service***."[687] PGW contends that without express legislative authority, the Commission lacks jurisdiction to require PGW to alter its capital planning from its current safety focus to implement POWER's proposed non-gas NPAs which *could, may* or *might* reduce customer demand and/or force customers to convert away from natural gas service to other energy sources.[688]

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681 PGW M.B. at 84.

682 *Id.*

683 *Id.*

684 *Id.* (citing *Metro. Edison Co. v. Pa. Pub. Util. Comm'n*, 437 A.2d 76 (Pa. Cmwlth. 1981).

685 *See* PGW M.B. at 86-88.

686 PGW M.B. at 86 (citing 66 Pa.C.S. §§ 1501, 1505);

687 PGW M.B. at 86 (citing *Rovin, D.D.S. v. Pa. Pub. Util. Comm'n*, 502 A.2d 785 (Pa. Cmwlth. 1986) ("*Rovin*") (enforcement of environmental statutes is specifically vested in the Department of Environmental Protection and the Federal Environmental Protection Agency.) (emphasis in the original); *Pickford v. Pub. Util. Comm'n*, 4 A.3d 707 (Pa. Cmwlth. 2010) ("*Pickford*") (customer complaints related to the conversion of water treatment plants from chlorinated water to chloraminated water were obvious challenges to the health effects of chloramines under permits issued by the Department of Environmental Protection and, thus, outside the Commission's jurisdiction); *Country Place Waste Treatment Company, Inc. v. Pa. Pa. Pub. Util. Comm'n*, 654 A.2d 72 (Pa. Cmwlth. 1995) ("*Country Place Waste Treatment Company*") (Commission lacks authority to regulate air quality where sewage treatment plant caused odor)).

688 *Id.* at 86-87 (citation omitted)

PGW also observes that POWER did not argue that PGW's failure to engage in NPAs planning made PGW's present or proposed rates unjust and unreasonable, that the lack of such planning constitutes inadequate or unreasonable service, or that any other Pennsylvania gas utility engages in such planning.[689]

We note that none of the other parties to the proceeding expressed support for POWER's NPAs proposals.

The issues raised by POWER concerning NPAs are similar, but not identical to issues raised in PGW's 2020 base rate case[690] in which certain parties to the proceeding opposed a proposed settlement and requested that the Commission "deny PGW's requested rate increase as insufficiently supported by the evidence. Specifically, they contend that PGW has not shown that investments in accelerated infrastructure replacement are prudent, necessary, and consistent with public interest."[691] In that case, PGW argued that

> the Commission lacks jurisdiction over the environmental policy recommendations of the Environmental Stakeholders[who] are asking the Commission to make an affirmative ruling related to the effect of PGW's operations on the environment and to direct PGW to implement "*potentially* cost-effective alternatives," (*i.e.* convert PGW's customers to other energy sources as well as direct PGW to produce a CBP — a Climate Business Plan — 'with the stated goal of aggressively reducing and ultimately eliminating greenhouse gas emissions in the Commonwealth of Pennsylvania and the City of Philadelphia.'.[692]

PGW also argued that granting the Environmental Stakeholders request would extend the Commission's jurisdiction to cover the issues and recommendations beyond the power granted to the Commission by the legislature."[693] In the 2020 Recommended Decision, the ALJs observed that "the Commission has no authority to regulate environmental issues, create environmental

689 *Id.* at 87, see text accompanying fns. 454-458.

690 *PGW 2020* (Opinion and Order entered November 19, 2020).

691 *Id.* at 1.

692 *PGW 2020,* Recommended Decision at 79 (citations omitted).

693 *Id. at 77* (citing PGW R.B. at 4).

regulations or mandate strictly environmental action."[694] The ALJs concluded "The request by Environmental Stakeholders that the Commission order PGW to prepare a Climate Business Plan is in effect environmental regulation and enforcement and beyond the jurisdiction of the Commission."[695]

In its Opinion and Order in the PGW 2020 case, the Commission reaffirmed that "in matters involving rates, the Commission's jurisdiction is very broad and is exercised liberally in the interest of full and fair review of the rate proposals and adjustments offered by the various stakeholders."[696] The Commission also observed "[t]he basic nature of a base rate proceeding is to develop rates based on the test-period concept." [697] Relying on those foundational principles, the Commission did not disturb the ALJs conclusion that the Commission did not have jurisdiction to consider the Environmental Stakeholders' testimony in that case. However, the Commission rejected a recommendation made in the Recommended Decision that would have required PGW to include in its next rate increase request "information on its planning for warming weather trends on system needs and usage assessments as well as infrastructure replacement plans."[698] The Commission ruled, "[i]f environmental information does not serve to support a specific adjustment or proposal in a rate case, however, the information is not relevant to the rate case, and the Commission should not consider it in rendering a rate decision."[699] Summarizing its ruling on the arguments presented by the Environmental Stakeholder, the Commission stated, "we are not departing from our broad jurisdiction to regulate rates and determine the justness and reasonableness of same, including expense and revenue claims driven by weather patterns and customer usage. . . . We simply find that, at this time, mandating a Climate Business Plan is beyond our primary jurisdiction."[700]

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694 *Id.,* at 78 (citing *Funk v. Wolf*, 144 A.3d 228 (Pa. Cmwlth. 2016); *Country Place Waste Treatment Co. v. Pa. Pub. Util. Comm'n*, 654 A.2d 72, 76 (Pa. Cmwlth. 1995)).

695 *Id.*

696 *PGW 2020* (Opinion and Order issued November 19, 2020) at 90.

697 *Id.* at 92

698 *PGW 2020* Recommended Decision at 90.

699 *PGW 2020* (Opinion and Order issued November 19, 2020) at 92.

700 *PGW 2020* (Opinion and Order issued November 19, 2020) at 94.

Here, POWER asserts that "affordability of gas service is an integral component of establishing just and reasonable rates for PGW.[701] Linking affordability of gas service to cost of service, including infrastructure spending,[702] POWER argues that PGW should be directed to "fully integrate consideration of non-pipeline alternatives [ ] investments into its planning to help reduce the cost of service where doing so is cost-effective, safe, and reliable."[703] Further, POWER urges that PGW begin to engage in "iterative process" that "will lay the groundwork for further integrated consideration of NPAs as part of planning in the future.[704] Specifically, POWER's witness proposed that PGW "consider opportunities for NPAs on a pilot basis through a collaborative working group that would develop screening criteria for potential pilots, as a learning mechanism to inform future planning changes [and] report regularly on progress on NPA initiatives.[705]

PGW rejects the arguments and proposals made by POWER regarding NPAs, contending "there is no Pennsylvania law which requires PGW to incorporate NPAs into its capital planning"[706] In addition, PGW argues that "without express legislative authority, the Commission . . . does not have jurisdiction to require PGW to alter its capital planning from its current safety focus to implement POWER's proposed non-gas NPAs which *could, may* or *might* reduce customer demand and/or force customers to convert away from natural gas service to other energy sources."[707] PGW asserts that POWER was unable to demonstrate that PGW's lack of NPAs planning was "out of compliance with PUC requirements [because] it was unable to show that any other Pennsylvania gas utility engages in such practices.[708]

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701 POWER M.B. at 29 (citing 66 Pa. C.S. § 1301*; Pa. Pub. Util. Comm'n v. PECO Energy Co.*, No. C-2020-3022400, 2021 WL 2645922, at *20 (Pa.P.U.C. June 22, 2021); *Pa. Pub. Util. Comm'n v. Twin Lakes Util., Inc.*, Docket No. R-2019-3010958, 48, 80 (Opinion and Order entered Mar. 26, 2020); POWER St. 1, Direct Test. of Mark D. Kleinginna (Corrected), at 4 (May 31, 2023)).

702 POWER M.B. at 31, 34 (citations omitted).

703 *Id.* (citing POWER Interfaith Statement No. 1, Direct Test. of Mark D. Kleinginna (Corrected), at 31:20–33:22 (May 31, 2023)).

704 *Id.*

705 *Id.* (citing POWER Interfaith Statement No. 1, Direct Test. of Mark D. Kleinginna (Corrected), at 26:18–23; 29:1–8 (May 31, 2023)).

706 PGW M.B. at 86.

707 *Id.*

708 *Id.* at 87 (citing PGW St. 10-R at 11:23-26); *see also* POWER St. No. 1 at 9:16-18 (asking that PGW "lead on deployment of NPA programs").

Although the substance of the NPAs proposals made by POWER in this case differ from those made by Environmental Stakeholders in the 2020 PGW base rate case, the Commission's ruling in that case provides clear guidance as to how POWER's NPAs proposals are to be analyzed and considered. As a starting point, we note that the context of the cases is identical. Thus, here too the analysis begins with reference to Section 1308(d) of the Code and the heavy burden it imposes on a utility seeking an increase in base rates to prove they are just and reasonable.[709] Where a party such as POWER disagrees with the proposed rates, it may submit evidence with suggested adjustments to the proposed rates. As the Commission observed in its opinion and order in the PGW 2020 base rate case "this process is detailed in the statutory and regulatory structure of the Code and the Commission's bountiful Regulations."[710]

In this proceeding, POWER argues that it is "neither just nor reasonable for PGW to raise its rates without the implementation of rate adjustments to protect affordability."[711] In support of its position, POWER advocates for changes in rate design that would clearly entail certain expense adjustments.[712] However, none of the NPAs recommendations made by POWER were directly tied to specific expense or revenue adjustments. In fact, POWER repeatedly underscores that its NPAs recommendations relate to planning and prospective benefits to PGW customers.[713] Thus, POWER provides no estimates of cost or expense of adopting the recommendation, nor does it provide any estimate of the financial value, if any, that would be garnered from implementation of the recommendations or the anticipated timing of receipt of any such value.

We concur with PGW's analysis. As PGW noted, "[t]he only examples provided by POWER of utility planning incorporating NPAs and the ultimate sunsetting of natural gas

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709 *See* 2020 PGW BRC Opinion and Order, at 91.

710 *Id.*

711 POWER M.B. at 1.

712 *See*, for example POWER's arguments and proposals concerning Rate Design, particularly PGW's residential fixed charge, LUIRP funding, lobbying costs. POWER M.B. at 11-13.

713 *See* POWER M.B. at 31-32. POWER contends that implementation of its proposals will facilitate the gathering of "the data and preparing the analyses necessary for a full and informed consideration of cost-reduction opportunities from NPAs" and emphasizes that its witness is "not recommending that any particular NPA must be deployed" *Id*.

distribution service comes from other states." PGW further explains that both of the states specified by POWER, Colorado and New York, have each enacted laws that spurred their respective utility regulatory bodies to adopt regulations that support NPAs planning and/or action.[714] We are aware of no such legislation adopted by the Pennsylvania legislature. Thus, we find that the Commission lacks the jurisdiction and authority to accept POWER's NPAs proposals and to direct PGW to implement those proposals. Accordingly, we decline to recommend adoption of POWER's NPA planning suggestions.

VI. CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the parties and subject matter in this proceeding. 66 Pa.C.S. §§ 701, 1308, 1501.

2. The utility requesting the rate increase has the burden of proving that the rate involved is just and reasonable. 66 Pa.C.S. §315(a).

3. Even where a party has established a prima facie case, the party with the burden of proof must establish that "the elements of that cause of action are proven with substantial evidence which enables the party asserting the cause of action to prevail, precluding all reasonable inferences to the contrary." *Burleson v. Pa. Pub. Util. Comm'n*, 461 A.2d 1234, 1236 (Pa. 1983).

4. The "degree of proof before administrative tribunals as well as before most civil proceedings is satisfied by establishing a preponderance of the evidence." *Lansberry v. Pa. Pub. Util. Comm'n*, 578 A.2d 600, 602 (Pa. Cmwlth. 1990).

5. The evidence must be substantial and legally credible and cannot be mere "suspicion" or a "scintilla" of evidence. *Lansberry v. Pa. Pub. Util. Comm'n*, 578 A.2d 600, 602 (Pa. Cmwlth. 1990).

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[714] *Id.* at 88.

6. While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged. *Allegheny Cntr. Assocs. v. Pa. Pub. Util. Comm'n*, 570 A.2d 149 (Pa. Cmwlth. 1990).

7. While the ultimate burden of proof does not shift from the utility, a party proposing an adjustment to a ratemaking claim bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment. *See, e.g.*, *Pa. Pub. Util. Comm'n v. PECO Energy Co.*, Docket No. R-891364 (Opinion and Order entered May 16, 1990); *Pa. Pub. Util. Comm'n v. Breezewood Tel. Co.*, Docket No. R-901666 (Opinion and Order entered Jan. 31, 1991).

8. A utility cannot unreasonably discriminate for or against one of its customers by establishing a special rate for them. *Popowsky v. Pa. Pub. Util. Comm'n*, 683 A.2d 958 (Pa. Cmwlth. 1996).

9. A special rate should not be approved absent a compelling reason and is limited to cases where there is a serious and credible threat of loss of load and where revenues from the customer exceed the cost of serving the customer. *Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.*, Docket No. R-2010-2161694 (Opinion and Order entered June 21, 2012).

10. Simply having a large volume of usage does not entitle a customer to a preferred rate. *U.S. Steel Corp. v. Pa. Pub. Util. Comm'n*, 390 A.2d 849 (Pa. Cmwlth. 1978) (citing *Carpenter v. Pa. Pub. Util. Comm'n*, 15 A.2d 401 (Pa. Super. 1940)).

11. A utility's offering of discounts and incentives to attract and retain customers is in furtherance of its obligations to provide adequate and reasonable service and to maintain its rates as just and reasonable, as required by 66 Pa.C.S. §§ 1301, 1501.

12. The Commission is obligated to establish rate levels adequate to permit Philadelphia Gas Works to satisfy its bond ordinance covenants. 66 Pa.C.S. § 2212(e) (relating to securities of city natural gas distribution operations).

13. A utility is entitled to recover its reasonably and prudently incurred expenses. *UGI Corp. v. Pa. Pub. Util. Comm'n*, 410 A.2d 923 (Pa. Cmwlth. 1980).

14. Only prudently incurred expenses are incorporated in rate case expense claims, and it is the burden of the public utility to prove that the rate case expenses incurred are just and reasonable. *Allegheny Cntr. Assocs. v. Pa. Pub. Util. Comm'n*, 570 A.2d 149 (Pa. Cmwlth. 1990).

15. The objective evaluation of reasonableness is whether the record provides sufficient detail to objectively determine whether the expense is prudently incurred. *Pa. Pub. Util. Comm'n v. Wellsboro Elec. Co.*, Docket No. R-2019-3008208 (Opinion and Order entered Apr. 29, 2020) (citing *Western Pa. Water Co. v. Pa. Pub. Util. Comm'n* 422 A.2d 906 (Pa. Cmwlth. 1980)); *Popowsky v. Pa. Pub. Util. Comm'n*, 674 A.2d 1149 (Pa. Cmwlth. 1996).

16. Lobbying expenses do not have a direct ratepayer benefit and as such cannot be included in rates. *Pa. Pub. Util. Comm'n v. Phila. Gas Works*, Docket No. R-00006042 (Opinion and Order entered Oct. 4, 2001).

17. Normalization of an expense is the adjustment of an item of recurring expense where the amount of the expense incurred in the test year is greater or less than that which a public utility may be expected to incur annually during an estimated life of new rates. *Butler Twp. Water Co. v. Pa Pub. Util. Comm'n*, 473 A. 2d. 219 (Pa. Cmwlth 1984).

18. While the Commission's present policy is to allow for a normalized amount for current rate case expense, the Commission does not amortize current rate case expense. *Pa. Pub. Util. Comm'n v. PECO, 56 Pa.P.U.C. 155 (1982)* (citing *Pa. Pub. Util.*

Comm'n v. Butler Twp. Water Co., 54 Pa.P.U.C. 571 (1980); *see also*, *Pa. Pub. Util. Comm'n v. West Penn Power Co.*, 73 Pa.P.U.C. 454 (1990).

19. A normalization period based on the actual historic filing frequency is more reliable than future speculation or the stated intention to file a rate case. *Pa. Pub. Util. Comm'n v. PECO Energy Co. – Gas Div.,* Docket No. R-2020-3018929 (Opinion and Order entered June 22, 2021).

20. Allowing a utility to apply a general inflation adjustment to a block of expenses could incentivize less accurate tracking of expenses and a less rigorous approach to controlling costs for those expenses. *Pa. Pub. Util. Comm'n v. Aqua Pa., Inc.*, Docket No. R-2021-3027385 (Opinion and Order entered May 16, 2022).

21. Where an incentive compensation plan is reasonable, prudently incurred, not excessive, and there is a benefit to ratepayers, a Company may recover the expense of that program. *Pa. Pub. Util. Comm'n v. PPL Elec. Util. Corp*., R-2012-2290597 (Opinion and Order entered Dec. 28, 2012).

22. The Commission has approved incentive compensation programs that are focused on improving operational effectiveness. *Pa. Pub. Util. Comm'n v. PPL Elec. Util. Corp*., R-2012-2290597 (Opinion and Order entered Dec. 28, 2012).

23. The Company has not sustained its burden of proving that a rate increase of $85.8 million is just and reasonable. 66 Pa.C.S. § 315(a).

24. The Company has sustained its burden of proving that Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. do not qualify for a special rate. 66 Pa.C.S. § 315(a).

25. "Confirmed Low-Income residential accounts" are defined as accounts where the NGDC has obtained information that would reasonably place the customer in a low-

income designation. This information may include receipt of LIHEAP funds (Low-Income Home Energy Assistance Program), self-certification by the customer, income source or information obtained in § 56.97(b) (relating to procedures upon ratepayer or occupant contact prior to termination). 52 Pa. Code § 62.2.

26. The Commission's Bureau of Consumer Services has primary jurisdiction over all complaints relating to disputes involving fixed service utilities. 52 Pa. Code § 64.154.

27. Informal complaint procedures are governed by Commission regulations at 52 Pa. Code §§ 64.151-154.

28. A public utility shall exercise good faith and fair judgment in attempting to enter a reasonable payment arrangement or otherwise equitably resolve the matter. Factors to be taken into account when attempting to enter into a reasonable payment arrangement include the size of the unpaid balance, the ability of the customer to pay, the payment history of the customer and the length of time over which the bill accumulated. 52 Pa. Code § 56.97(b).

29. Prior to providing public utility service, a public utility may require the applicant to provide the names of each adult occupant residing at the location and proof of their identity. Valid identification consists of one government issued photo identification. If one government issued photo identification is not available, the public utility may require the applicant to present two alternative forms of identification, as long as one of the identifications includes a photo of the individual. In lieu of requiring identification, the public utility may ask, but may not require, the individual to provide the individual's Social Security Number. Public utilities shall take all appropriate actions needed to ensure the privacy and confidentiality of identification information provided by their applicants and customers. 52 Pa. Code § 56.32(c).

30. Each natural gas distribution company shall report annually to the Commission on the degree to which universal service and energy conservation programs within its service territory are available and appropriately funded. Annual natural gas distribution

company reports shall contain information on programs and collections for the prior calendar year. 52 Pa. Code § 62.5(a).

31. The Commission may not dictate management policies or actions unless it specifically finds that the utility's service is inadequate or unreasonable. *Metro. Edison Co. v. Pa. Pub. Util. Comm'n*, 437 A.2d 76 (Pa. Cmwlth. 1981).

VII. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That Philadelphia Gas Works not place into effect the rates contained in Supplement No. 159 to Gas Service Tariff – Pa. P.U.C. No. 2, which have been found to be unjust and unreasonable and therefore, unlawful.

2. That the Philadelphia Gas Works not place into effect the rates contained in Supplement No. 105 to Supplier Tariff – Pa. P.U.C. No. 1, which have been found to be unjust and unreasonable and therefore, unlawful.

3. That Philadelphia Gas Works be permitted to file tariffs, tariff supplements or tariff revisions containing proposed rates, rules and regulations consistent with this Recommended Decision to become effective on at least one day's notice after entry of the Commission's Order, for service rendered on and after November 28, 2023, which tariff supplements increase rates so as to produce an increase in annual operating revenues of not more than $22,306,000.

4. That Philadelphia gas works be required to allocate the authorized increase in operating revenues to each customer class and rate schedule within each class in the matter set forth in this Recommended Decision.

5. That Philadelphia Gas Works be required to comply with all directives, conclusions and recommendations in this Recommended Decision as if each were an ordering paragraph contained herein.

6. That the Complaint filed by the Office of Consumer Advocate in this proceeding at Docket Number C-2023-3038846 be dismissed and marked closed.

7. That the Complaint filed by the Office of Small Business Advocate in this proceeding at Docket Number C-2023-3038885 be dismissed and marked closed.

8. That the Complaint filed by the Philadelphia Industrial and Commercial Gas Users Group in this proceeding at Docket Number C-2023-3039059 be dismissed and marked closed.

9. That the Complaint filed by James M. Williford in this proceeding at Docket No. C-2023-3039130 be dismissed and marked closed.

10. That the Complaints filed by Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. at Docket Nos. C-2023-3038727 and C-2021-3029259 be dismissed and marked closed.

11. That upon acceptance and approval by the Commission of the tariff supplements filed by Philadelphia Gas Works, consistent with its Final Order, the investigation at Docket R-2023-3037933 be marked closed.

Date: September 5, 2023

/s/
Eranda Vero
Administrative Law Judge

/s/
Arlene Ashton
Administrative Law Judge

APPENDICES

RATE CASE TABLES I, IA, IB, II, III

COMMON ACRONYMS LIST

TABLE I

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

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Adjustments	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	ALJ Expense Adjustments	ALJ Expense-Adjusted Proposed Rates FPFTY FY 2024	ALJ Revenue Adjustments	ALJ Total Allowable Revenues FPFTY FY 2024
		A	**B**	**C = (A + B)**	**D**	**E = (C + D)**	**F**	**G = (E + F)**
		$	$	$	$	$	$	$
	OPERATING REVENUES							
1.	Non-Heating	31,493	$ -	31,493		31,493	-	31,493
2.	Gas Transport Service	75,685	-	75,685		75,685	-	75,685
3.	Heating	727,583	-	727,583		727,583	-	727,583
4.	Revenue Enhancement / Cost Reduction FY 2024	-	85,162	85,162		85,162	(62,856)	22,306
5.	Revenue Enhancement / Cost Reduction FY 2028	-	-	-		0	-	0
6.	Weather Normalization Adjustment	-	-	-		0	-	0
7.	Appropriation for Uncollectible Reserve	(33,485)	(3,407)	(36,892)		(36,892)	2,515	(34,377)
8.	Unbilled Adjustment	(763)	-	(763)		(763)	-	(763)
9.	Total Gas Revenues	800,513	81,755	882,268		882,268		821,927
10.	Appliance Repair & Other Revenues	7,807	-	7,807		7,807	-	7,807
11.	Other Operating Revenues	24,050	1,309	25,359		25,359	-	25,359
12.	Total Other Operating Revenues	31,857	1,309	33,166		33,166		33,166
13.	**Total Operating Revenues**	832,370	83,064	915,434		915,434		855,093
	OPERATING EXPENSES							
14.	Natural Gas	323,502	-	323,502	-	323,502		323,502
15.	Other Raw Material	31	-	31	-	31		31
16.	Sub-Total Fuel	323,533	-	323,533		323,533		323,533
17.	**CONTRIBUTION MARGINS**	**508,837**	83,064	**591,901**		**591,901**		**531,560**
18.	Gas Processing	23,890	-	23,890	(30)	23,860		23,860
19.	Field Operations	98,811	-	98,811	(2)	98,809		98,809
20.	Collection	5,087	-	5,087	24	5,111		5,111
21.	Customer Service	21,278	-	21,278	(1,428)	19,850		19,850
22.	Account Management	10,515	-	10,515	(132)	10,383		10,383
23.	Marketing	4,657	-	4,657	(73)	4,584		4,584
24.	Administrative and General	102,881	-	102,881	(2,587)	100,294		100,294
25.	Health Insurance	27,715	-	27,715	-	27,715		27,715
26.	Pandemic Expenses	-	10,162	10,162	(3,260)	6,902		6,902
27.	Capitalized Fringe Benefits	(10,717)	-	(10,717)	-	(10,717)		(10,717)
28.	Capitalized Administrative Charges	(31,571)	-	(31,571)	-	(31,571)		(31,571)
29.	Pensions	44,759	-	44,759	(8,670)	36,089		36,089
30.	Taxes	10,434	-	10,434	(277)	10,157		10,157
31.	Other Post-Employment Benefits	(10,095)	-	(10,095)	1,750	(8,345)		(8,345)
32.	Retirement Payout /Labor Savings	296	-	296	-	296		296
33.	Salary and Wage Adjustment		-		(3,582)	(3,582)		(3,582)
34.	Inflation Adjustment		-		(2,893)	(2,893)		(2,893)
35.	Lobbying Expense		-		(100)	(100)		(100)
36.	Advertising Expense		-		(468)	(468)		(468)
37.	Rate Case Expense		-		(160)	(160)		(160)
38.	Sub-Total Other Operating & Maintenance	297,940	10,162	308,102		286,214		286,214
39.	Depreciation	65,412	-	65,412	-	65,412		65,412
40.	Cost of Removal	6,729	-	6,729	-	6,729		6,729
		-	-	-	-	0		0
41.	Net Depreciation	72,141	-	72,141		72,141		72,141
42.	**Sub-Total Other Operating Expenses**	370,081	10,162	380,243		358,355		358,355
43.	**TOTAL OPERATING EXPENSES**	693,614	10,162	703,776		681,888		681,888
44.	OPERATING INCOME	138,756	72,902	211,658		233,546		173,205
45.	**Interest Gain / (Loss) and Other Income**	7,211	-	7,211	-	7,211		7,211
46.	INCOME BEFORE INTEREST	145,967	72,902	218,869		240,757		180,416
47.	**INTEREST**							
48.	Long-Term Debt	62,738	-	62,738	-	62,738		62,738
49.	Other	(1,776)	-	(1,776)	-	(1,776)		(1,776)
50.	AFUDC	-	-	-	-	0		0
51.	Loss From Extinguishment of Debt	3,348	-	3,348	-	3,348		3,348
52.	**Total Interest**	64,310	-	64,310		64,310		64,310
	NON-OPERATING REVENUE							
53.	Federal Grant Revenue (PHMSA)	10,752	-	10,752		10,752		10,752
54.	**NET INCOME**	**92,409**	72,902	**165,311**		**187,199**		**126,858**
55.	City Payment	18,000	-	18,000	-	18,000		18,000
56.	**NET EARNINGS**	**$ 74,409**	**$ 72,902**	**$ 147,311**		**$ 169,199**		**$ 108,858**

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

TABLE I(A)

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

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	ALJ Adjustments	ALJ Total Allowable Revenues FPFTY FY 2024
		$	$	$	$
	FUNDS PROVIDED				
1.	Total Gas Revenues [Table I, Line 9]	800,513	882,268		821,927
2.	Other Operating Revenues [Table I, Line 12]	31,857	33,166		33,166
3.	Total Operating Revenues [Table I, Line 13]	832,370	915,434		855,093
4.	Other Income Incr. / (Decr.) Restricted Funds [Table I, Line 40 Plus Table IB, Line 3]	2,877	2,877		2,877
5.	Non-Operating Income [Table I, Line 53]	10,752	10,752		10,752
6.	AFUDC (Interest)	-	-		-
7.	TOTAL FUNDS PROVIDED	845,999	929,063		868,722
	FUNDS APPLIED				
8.	Fuel Costs [Table I, Line 16]	323,533	323,533		323,533
9.	Other Operating Costs	370,081	380,243		358,355
10.	Total Operating Expenses [Table I, Line 43]	693,614	703,776		681,888
11.	Less: Non-Cash Expenses	89,718	89,718	-	89,718
12.	TOTAL FUNDS APPLIED	603,896	614,058		592,170
13.	Funds Available to Cover Debt Service	242,103	315,005		276,552
14.	Net Available after Prior Debt Service [Line 13]	242,103	315,005		276,552
15.	Equipment Leasing Debt Service	-	-	-	-
16.	Net Available after Prior Capital Leases	242,103	315,005		276,552
17.	1998 Ordinance Bonds Debt Service	115,230	115,230	-	115,230
18.	1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	-	-	-	-
19.	Total 1998 Ordinance Debt Service	115,230	115,230		115,230
20.	**Debt Service Coverage 1998 Bonds**	**2.10**	**2.73**		**2.40**
21.	Net Available after 1998 Debt Service	126,873	199,775		161,322
22.	Aggregate Debt Service [Line 19]	115,230	115,230		115,230
23.	Debt Service Coverage (Combined liens)	2.10	2.73		2.40
24.	Debt Service Coverage (Combined liens w/$18.0 City Fee)	**1.94**	**2.58**		**2.24**

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

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

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	ALJ Adjustments	ALJ Total Allowable Revenues FPFTY FY 2024
		$	$	$	$
	SOURCES				
1.	Net Income [Table I, Line 54]	92,409	165,311		126,858
2.	Depreciation & Amortization	62,947	62,947	-	62,947
3.	Earnings on Restricted Funds Withdrawal/(No Withdrawal)	(4,334)	(4,334)	-	(4,334)
4.	Federal Infrastructure Grant	-	-	-	
5.	Proceeds from Bond Refunding to Pay Cost of Issuance	3,480	3,480	-	3,480
6.	Increased/(Decreased) Other Assets/Liabilities	(45,717)	(35,521)	-	(35,521)
7.	Available From Operations	108,785	191,883		153,430
8.	Drawdown of Bond Proceeds	102,000	102,000	-	102,000
9.	Release of Restricted Fund Asset	-	-	-	-
10.	Release of Bond Proceeds to Pay Temporary Financing	-	-	-	-
11.	Temporary Financing	-	-	-	-
12.	TOTAL SOURCES	**$ 210,785**	**$ 293,883**		**$ 255,430**
	USES				
13.	Net Construction Expenditures	206,959	206,959	-	206,959
14.	Revenue Bonds	60,795	60,795	-	60,795
15.	Temporary Financing Repayment	-	-	-	-
16.	GASB 87 Lease Principal Payments	1,968	1,968	-	1,968
17.	Changes in City Equity	-	-	-	-
18.	Distribution of Earnings [Table I, Line 55]	18,000	18,000		18,000
19.	Non-Cash Working Capital	8,615	8,720	-	8,720
20.	Cash Needs	296,337	296,442		296,442
21.	Cash Surplus (Shortfall)	(85,552)	(2,559)		(41,012)
22.	TOTAL USES	**$ 210,785**	**$ 293,883**		**$ 255,430**
23.	Cash - Beginning of Period	116,328	116,328	-	116,328
24.	Cash - Surplus (Shortfall) [Line No. 21]	(85,552)	(2,559)	-	(41,012)
25.	**ENDING CASH**	**$ 30,775**	**$ 113,769**		**$ 75,316**
26.	**Outstanding Commercial Paper**	-	-	-	-
27.	**Outstanding Commercial Paper - Capital**	-	-	-	-
28.	**DSIC Spending**	41,000	41,000	-	41,000
29.	**Internally Generated Funds**	63,959	63,959	(38,453)	25,506
30.	**TOTAL IGF + Incremental DSIC Spending**	**$ 104,959**	**$ 104,959**		**$ 66,506**

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

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

LINE NO.		ALJ Adjustments	ALJ Reference
		$	
TABLE I	**STATEMENT OF INCOME**		
	OPERATING REVENUES		
1.	Non-Heating	-	
2.	Gas Transport Service	-	
3.	Heating	-	
4.	Revenue Enhancement / Cost Reduction FY 2024	(62,856)	ALJ Revenue Adjustment
5.	Revenue Enhancement / Cost Reduction FY 2028	-	
6.	Weather Normalization Adjustment	-	
7.	Appropriation for Uncollectible Reserve	2,515	ALJ Adjustment to match Revenue Adjustment
8.	Unbilled Adjustment	-	
10.	Appliance Repair & Other Revenues	-	
11.	Other Operating Revenues	-	
	OPERATING EXPENSES		
14.	Natural Gas	-	
15.	Other Raw Material	-	
18.	Gas Processing	(30)	OCA Normalization Adjustment
19.	Field Operations	(2)	OCA Normalization Adjustment
20.	Collection	24	OCA Normalization Adjustment
21.	Customer Service	(1,428)	OCA Normalization Adjustment
22.	Account Management	(132)	OCA Normalization Adjustment
23.	Marketing	(73)	OCA Normalization Adjustment
24.	Administrative and General	(2,587)	OCA Normalization Adjustment
25.	Health Insurance	-	
26.	Pandemic Expenses	(3,260)	I&E Amortization Adjustment
27.	Capitalized Fringe Benefits	-	
28.	Capitalized Administrative Charges	-	
29.	Pensions	(8,670)	OCA Normalization Adjustment
30.	Taxes	(277)	OCA Tax Adjustment for Salary/ Wage Adjustment
31.	Other Post-Employment Benefits	1,750	OCA Normalization Adjustment
32.	Retirement Payout /Labor Savings	-	
33.	Salary and Wage Adjustment	(3,582)	OCA Vacancy Adjustment
34.	Inflation Adjustment	(2,893)	OCA Inflation Adjustment
35.	Lobbying Expense	(100)	OCA/I&E Disallowance
36.	Advertising Expense	(468)	OCA Expense Adjustment
37.	Rate Case Expense	(160)	I&E Normalization Adjustment
39.	Depreciation	-	
40.	Cost of Removal	-	
	To Clearing Accounts	-	
45.	Interest Gain / (Loss) and Other Income	-	
48.	Long-Term Debt	-	
49.	Other	-	
50.	AFUDC	-	
51.	Loss From Extinguishment of Debt	-	
55.	City Payment	-	
TABLE I(A)	**DEBT SERVICE COVERAGE**		
11.	Less: Non-Cash Expenses	-	
15.	Equipment Leasing Debt Service	-	
17.	1998 Ordinance Bonds Debt Service	-	
18.	1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	-	
TABLE I(B)	**CASH FLOW STATEMENT**		
	SOURCES		
2.	Depreciation & Amortization	-	
3.	Earnings on Restricted Funds Withdrawal/(No Withdrawal)	-	
4.	Federal Infrastructure Grant	-	
5.	Proceeds from Bond Refunding to Pay Cost of Issuance	-	
6.	Increased/(Decreased) Other Assets/Liabilities	-	
8.	Drawdown of Bond Proceeds	-	
9.	Release of Restricted Fund Asset	-	
10.	Release of Bond Proceeds to Pay Temporary Financing	-	
11.	Temporary Financing	-	
	USES		
13.	Net Construction Expenditures	-	
14.	Revenue Bonds	-	
15.	Temporary Financing Repayment	-	
	GASB 87 Lease Principal Payments	-	
17.	Changes in City Equity	-	
19.	Non-Cash Working Capital	-	
23.	Cash - Beginning of Period	-	
24.	Cash - Surplus (Shortfall) [Line No. 19]	-	
26.	Outstanding Commercial Paper	-	
27.	Outstanding Commercial Paper - Capital	-	
28.	DSIC Spending	-	
29.	Internally Generated Funds	(38,453)	Adjustment for IGF
TABLE III	**BALANCE SHEET**		
	ASSETS		
1.	Utility Plant Net	-	
2.	Sinking Fund Reserve	-	
3.	Capital Improvement Fund - Current	-	
4.	Capital Improvement Fund - Long Term	-	
	Workers' Compensation Fund - & Health Insurance Escrow		
6.	Cash	(38,453)	Change in Cash
8.	Gas	-	
9.	Other	-	
10.	Accrued Gas Revenues	-	
11.	Reserve for Uncollectible	-	
13.	Materials & Supplies	-	
14.	Other Current Assets	-	
15.	Deferred Debits	-	
16.	Unamortized Bond Issuance Expense	-	
17.	Unamortized Loss on Reacquired Debt	-	
18.	Deferred Environmental	-	
19.	Deferred Pension Outflows	-	
20.	Deferred OPEB Outflows	-	
21.	Other Assets	-	
	EQUITY & LIABILITIES		
23.	City Equity	(38,453)	Change in Equity
24.	Revenue Bonds	-	
25.	Unamortized Discount	-	
26.	Unamortized Premium	-	
28.	Lease Obligations	-	
29.	Notes Payable	-	
30.	Accounts Payable	-	
31.	Customer Deposits	-	
32.	Other Current Liabilities	-	
33.	Pension Liability	-	
34.	OPEB Liability	-	
35.	Deferred Credits	-	
36.	Deferred Pension Inflows	-	
37.	Deferred OPEB Inflows	-	
38.	Accrued Interest	-	
39.	Accrued Taxes & Wages	-	
40.	Accrued Distribution to City	-	
41.	Other Liabilities	-	
	Plant in Service	-	
	Accumulated Depreciation	-	

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

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

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	ALJ Adjustments	ALJ Total FPFTY FY 2024
		$	$	$	$
	ASSETS				
1.	Utility Plant Net	1,980,842	1,980,842	-	1,980,842
2.	Sinking Fund Reserve	135,159	135,159	-	135,159
3.	Capital Improvement Fund - Current	220,527	220,527	-	220,527
4.	Capital Improvement Fund - Long Term	2,686	2,686	-	2,686
	Workers' Compensation Fund & Health Insurance Escrow				
6.	Cash	30,775	113,769	(38,453)	75,316
7.	**Accounts Receivable:**				
8.	Gas	190,252	189,813	-	189,813
9.	Other	4,474	4,474	-	4,474
10.	Accrued Gas Revenues	7,372	7,372	-	7,372
11.	Reserve for Uncollectible	(95,611)	(95,068)	-	(95,068)
12.	Total Accounts Receivable:	106,487	106,591		106,591
13.	Materials & Supplies	92,810	92,810	-	92,810
14.	Other Current Assets	4,909	4,909	-	4,909
15.	Deferred Debits	5,453	5,453	-	5,453
16.	Unamortized Bond Issuance Expense	933	933	-	933
17.	Unamortized Loss on Reacquired Debt	16,358	16,358	-	16,358
18.	Deferred Environmental	27,226	27,226	-	27,226
19.	Deferred Pension Outflows	59,055	59,055	-	59,055
20.	Deferred OPEB Outflows	36,251	36,251	-	36,251
21.	Other Assets	38,015	27,819	-	27,819
22.	**TOTAL ASSETS**	2,757,487	2,830,389		2,791,934
	EQUITY & LIABILITIES				
23.	City Equity	790,579	863,481	(38,453)	825,028
24.	Revenue Bonds	1,222,398	1,222,398	-	1,222,398
				-	0
25.	Unamortized Discount	(40)	(40)	-	(40)
26.	Unamortized Premium	105,867	105,867	-	105,867
27.	Long Term Debt	1,328,225	1,328,225		1,328,225
28.	Lease Obligations	57,613	57,613	-	57,613
29.	Notes Payable			-	0
30.	Accounts Payable	104,435	104,435	-	104,435
31.	Customer Deposits	2,081	2,081	-	2,081
32.	Other Current Liabilities	1,848	1,848	-	1,848
33.	Pension Liability	257,698	257,698	-	257,698
34.	OPEB Liability	84,529	84,529	-	84,529
35.	Deferred Credits	1,852	1,852	-	1,852
36.	Deferred Pension Inflows	25,865	25,865	-	25,865
37.	Deferred OPEB Inflows	22,616	22,616	-	22,616
38.	Accrued Interest	16,246	16,246	-	16,246
39.	Accrued Taxes & Wages	5,337	5,337	-	5,337
40.	Accrued Distribution to City	3,000	3,000	-	3,000
41.	Other Liabilities	55,562	55,562	-	55,562
42.	**TOTAL EQUITY & LIABILITIES**	2,757,487	2,830,389		2,791,935
	CAPITALIZATION				
43.	Total Capitalization	2,118,804	2,191,706		2,153,253
44.	Total Long Term Debt	1,328,225	1,328,225		1,328,225
45.	Debt to Equity Ratio	62.69%	60.60%		61.68%
46.	Capitalization Ratio	1.68	1.54		1.61
	Total Capitalization Excluding Leases	2,118,804	2,191,706		2,153,253
	Total Long Term Debt Excluding Leases	1,328,225	1,328,225		1,328,225
	Debt to Total Capital Ratio	0.627	0.606		0.617

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

COMMON ACRONYM LIST
PGW 2023 RATE CASE R-2023-3037933

ACRONYM	MEANING
AC Rider	Air Conditioning rider
ACS	American Community Survey
AHDD	Actual Heating Degree Days
ARS	Alternative Receipt Service
BCS	Bureau of Consumer Services
BL	Base Load
CAP	Customer Assistance Program
CARES	Customer Assistances Referral Evaluation Program
CCOSS	Class Cost of Service Study
CIMR	Cast Iron Main Replacement program
CIP	Capital Improvement Program
CIS	Customer Information System
CRP	Customer Responsibility Program
DIMP	Distribution Integrity Management Plan
DSIC	Distribution System Improvement Charge
DSC	Debt Service Coverage
DSCR	Debt Service Coverage Ratio
DSM	Demand Side Management Plan
ECR	Efficiency Cost Recovery Surcharge
FASB	Financial Accounting Standards Board
FPFTY	Fully Projected Future Test Year
FPL	Federal Poverty Level
FTE	Full Time Equivalents
FTY	Future Test Year
GASB	Government Accounting Standards Board
GCR	Gas Cost Rate
GFCP	Grays Ferry Cogeneration Partnership
GPC	Gas Procurement Charge
GS-XLT	General Service - Extra Large Transportation
GTS-F	Rate General Transportation Service-Firm
GTS-I	Rate General Transportation Service-Interruptible
HDD	Historic Degree Days
HL	Heat Load
HTY	Historical Test Year
IGF	Internally Generated Funds
IOU	investor-owned utilities
IT	Interruptible Transportation

LDC	Local Distribution Companies
LIHEAP	Low Income Home Energy Assistance Program
LIST	Low Income Smart Thermostat program
LIURP	Low Income Usage Reduction Program
LNG	Liquified Natural Gas
LTIIP	Long Term Infrastructure Improvement Plan
MFC	Merchant Function Charge
MHI	Median Household Income
NEC	Neighborhood Energy Center
NGDC	Natural Gas Distribution Companies
NGVS	Developmental Natural Gas Vehicle Service
NHDD	Normal Heating Degree Days
OPEB	Other Post-Employment Benefits surcharge
PFMC	Philadelphia Facilities Management Corporation
PGC	Philadelphia Gas Commission
PHA-GS	Philadelphia Housing Authority General Service
PIPP	Percentage of Income Payment Plan
RMSE	Root Mean Squared Error
RNG	Renewable Natural Gas
RRA	Revenue Reconciliation Adjustment
SIC	Standard Industrial Classification
TETCO	Texas Eastern Transmission
TU	Total Usage
TRANSCO	Transcontinental Gas Pipe Line Corporation
USAC	Universal Service Advisory Committee
USECP	Universal Services and Energy Conservation Plan
VEPI	Vicinity Energy Philadelphia, Inc.
WNA	Weather Normalization Adjustment