Eckert Seamans Cherin & Mellott, LLC
213 Market Street
8th Floor
Harrisburg, PA 17101

TEL: 717 237 6000
FAX: 717 237 6019

Sarah C. Stoner, Esq.
717.237.6026
sstoner@eckertseamans.com

September 15, 2023

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

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

Dear Secretary Chiavetta:

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

Sincerely

Sarah C. Stoner

Sarah C. Stoner

SCS/lww

Enclosure

cc: Hon. Eranda Vero w/enc.
Hon. Arlene Ashton w/enc.
Cert. of Service w/enc.
Ra-OSA@pa.gov w/enc.

#113978800v1

<u>**CERTIFICATE OF SERVICE**</u>

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

Via Email

Allison C. Kaster, Esq.
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
akaster@pa.gov

Sharon E. Webb, Esq.
Office of Small Business Advocate
Forum Place, 1st Floor
555 Walnut Street
Harrisburg, PA 17101
swebb@pa.gov

Harrison Breitman, Esq.
David T. Evrard, Esq.
Darryl Lawrence, Esq.
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
OCAPGW2023BRC@paoca.org

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

Robert D. Knecht
Industrial Economics Incorporated
5 Plymouth Road
Lexington, MA 02421
rdk@indecon.com

Dennis A. Whitaker, Esq.
Kevin J. McKeon, Esq.
Todd S. Stewart, Esq.
Hawke McKeon & Sniscak LLP
100 N 10th Street
Harrisburg, PA 17101
dawhitaker@hmslegal.com
kjmckeon@hmslegal.com
tsstewart@hmslegal.com

Glenn A. Watkins
President/Senior Economist
Jenny Dolen
Technical Associates, Inc.
6377 Mattawan Trail
Mechanicsville, Va. 23116
watkinsg@tai-econ.com
jenny.dolen@tai-econ.com

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

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

Devin McDougall, Esq.
Rebecca Barker
Clean Energy Program
Earthjustice
1617 John F. Kennedy Blvd., Suite 2020
Philadelphia, PA 19103
dmcdougall@earthjustice.org
rbarker@earthjustice.org

Hon. Rick Krajewski
109B East Wing
P.O. Box 202188
Harrisburg, PA 17120
repkrajewski@pahouse.net

Via First Class Mail

James Williford
2730 W. Allegheny Ave.
Philadelphia, PA 19132

Sarah C. Stoner
Sarah C. Stoner, Esq.

Date: September 15, 2023

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	:	C-2023-3039059
Gas User Group	:	C-2023-3038727
Grays Ferry Cogeneration Partnership and	:	
Vicinity Energy Philadelphia, Inc.	:	
v.	:	
	:	
Philadelphia Gas Works	:	

PHILADELPHIA GAS WORKS' EXCEPTIONS

Graciela Christlieb, Esq. (Atty ID 200760)
Philadelphia Gas Works
800 W. Montgomery Ave
Philadelphia, PA 19122
215.684.6164
graciela.christlieb@pgworks.com

Daniel Clearfield, Esq. (Atty ID 26183)
Sarah C. Stoner, Esq. (Atty ID 313793)
Karen O. Moury, Esq. (Atty ID 36879)
Norman J. Kennard, Esq. (Atty ID 29921)
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
717.237.6000
dclearfield@eckertseamans.com
sstoner@eckertseamans.com
kmoury@eckertseamans.com
nkennard@eckertseamans.com

Lauren M. Burge, Esq. (Atty ID 311570)
Eckert Seamans Cherin & Mellott, LLC
U.S. Steel Tower
600 Grant St., 44th Fl.
Pittsburgh, PA 15219
412.566.6000
lburge@eckertseamans.com

Counsel for Philadelphia Gas Works

Dated: September 15, 2023

TABLE OF CONTENTS

Page

I. INTRODUCTION 1

II. EXCEPTIONS 2

A. REVENUE REQUIREMENT 2

The RD Failed To Properly Apply The Puc's Cash Flow Policy Statement And The Resulting Recommended Revenue Requirement Does Not Meet Minimum Requirements. 2

Exception No. 1 - The RD's Recommended Levels Of Year-End Cash And Debt Service Coverage Are Grossly Deficient, Inconsistent With The Cash Flow Policy Statement And The Evidence And Would Threaten A Bond Downgrade. (RD at 63-64; Rate Case Tables I, I(B), II And III) 3

Exception No. 2 - If The Commission Elects To Accept The RD's Recommended Financial Metrics It Must At Least Correct The Error Made That Attributed Cash To PGW For A Non-Cash Item And An Amortization. (Rate Case Table I(B)) 10

Exception No. 3 - The RD Improperly Reduces IGF. (RD at 63-64; Rate Case Tables I, I(B), II and III) 11

a) The RD Offered No Rationale for This Recommendation 12

b) PGW's Full IGF Claim Should Be Adopted 14

Exception No. 4 - The RD Improperly Reduces Pension Expenses Using A Three-Year Average. (RD at 48-51, 63-64; Col 17, 19, 20, 23; Rate Case Tables I and II) 19

Exception No. 5 - The RD Improperly Increases OPEB Expenses Using A Three-Year Average. (RD at 51-53, 63-64; Col 17, 19, 20, 23; Rate Case Tables I and II). 21

Exception No. 6 - The RD Improperly Adjusts PGW's Employee Headcount For The FPFTY. (RD at 32-33, 63-64; Col 17, 19, 20, 23; Rate Case Tables I And II) 22

Exception No. 7 - The RD Improperly Normalizes Expenses. (RD at 55-60, 63-64; Col 17, 19, 20, 23; Rate Case Tables I And II) 23

Exception No. 8 - The RDd's Denial Of Targeted Inflation Adjustments To FTY Expenses Should Be Rejected. (RD at 42-45, 63-64; Col 23; Rate Case Tables I And II) 25

Exception No. 9 - The RD Improperly Amortizes PGW's Covid-19 Expenses Over A 53-Month Period. (RD at 39-42, 63-64; Col 23; Rate Case Tables I And II) 26

Exception No. 10 - The RD Improperly Denies Part Of PGW's Advertising Expenses. (RD at 47-48, 63-64; Col 15, 23; Rate Case Tables I And II) 26

Exception No. 11 - The RD Improperly Adjusts Pgw's Rate Case Expenses. (RD at 36-39, 63-64; Col 17-20, 23; Rate Case Tables I And II) 27

Exception No. 12 - The RD's Denial Of PGW's Lobbying Expenses Should Be Rejected. (RD at 34-36, 63-64; Col 16, 23; Rate Case Tables I And II) 27

B. RATE DESIGN 28

Exception No. 13: The RD Lacks Clarity Regarding The Scale Back Of PGW's Proposed Customer Charges. (RD at 75-82) 28

C. CUSTOMER SERVICE ISSUES 29

Exception No. 14: The RD Improperly Recommended That PGW Implement Call Center Performance Plans And A Performance Measure Specific To PGW Only. (RD at 108; Ordering ¶5) 29

Exception No. 15: The RD Improperly Recommended That PGW Undertake Quarterly Reporting Showing Analysis Of Initial Decisions Adverse To PGW. (RD at 108-110; Ordering ¶ 5) 32

D. LOW-INCOME CUSTOMER SERVICE ISSUES 33

Exception No. 16: Universal Service Issues Should Be Addressed In Universal Service Proceedings. (RD at 119-121; Ordering ¶ 5) 33

Exception No. 17: The Rd Erred In Finding That PGW's Method For Identifying Low-Income Customers Is Flawed. (RD at 122-125; Ordering ¶ 5) 36

Exception No. 18: The RD Erroneously Required PGW To Engage In Additional Data Sharing And Coordination Regarding Enrollment In Low-Income Assistance Programs. (RD at 125-128; Ordering ¶ 5) 38

III. CONCLUSION 40

I. INTRODUCTION

Philadelphia Gas Works ("PGW" or "Company") files these Exceptions to the Recommended Decision ("RD") of Administrative Law Judge ("ALJ") Eranda Vero and ALJ Arlene Ashton issued on September 5, 2023. By these Exceptions, PGW respectfully requests that the Commission modify the RD and approve the Company's rate increase request of $85.162 million that consists of: (1) a $75 million annual increase; and (2) a three-year amortization of the COVID-19 Pandemic expenses ($10.161 million for three years). The RD's revenue requirement recommendations are massively insufficient in that they fail to provide PGW with enough cash to pay all its anticipated bills when due, which is a key requirement for application of the Cash Flow method of ratemaking, as dictated by the Commission's own policy statement.

Errors resulting in recommended reductions to PGW's proposed amounts for pensions, inflation and internally generated funds ("IGF") related to spending for capital improvement projects total approximately $50 million. In addition, the RD incorrectly made a series of adjustments to PGW's projected operating expenses and capital expenditures that wrongly assume that "average" or "normalized" amounts would provide the cash that PGW needs to operate – they will not. The resulting allowed cash balances are well below anything PGW has experienced in recent years, below the levels experienced by similarly situated companies and would put PGW on track to be downgraded if PGW did not take steps to cut back expenditures, which of course would harm service and slow or stop its system modernization efforts. This outcome could threaten PGW's ongoing efforts to improve safety and reliability on its system, including its effort to hasten the replacement of cast iron main. Moreover, even if the Commission were to accept some or all the RD's adjustments, it needs to correct errors in several of the adjustments that understated PGW's allowed rate increase by at least $24.39-$25.73 million, as explained below, and correct the RD's calculation of year-end cash, which understated cash by $11.9 million.[1]

Exacerbating the RD's inadequate and erroneous rate relief recommendation, the ALJs improperly proposed that the Commission condition the rate increase on PGW implementing certain customer service

[1] Adjustments to the RD may require adjustment to the appropriation for uncollectible reserve (Rate Case Table I, Line 7), which is a flow-through account. PGW RB at 26-27. The amount of the appropriation for uncollectible reserve is 4% of the revenue enhancement (shown on Rate Case Table I, Line 4).

performance standards that would maintain the current level of service, which has not been shown – or even alleged – to be inadequate. Similarly, the RD inappropriately recommended modifications to PGW's universal service programs. Because these recommendations were not shown to correct a violation of a statute or regulation, ignored existing efforts of both PGW and the Commission to make these programs more accessible to low-income customers and are being adequately addressed in other proceedings, they should be rejected.

II. EXCEPTIONS

A. REVENUE REQUIREMENT

SUMMARY: THE RD FAILED TO PROPERLY APPLY THE PUC'S CASH FLOW POLICY STATEMENT AND THE RESULTING RECOMMENDED REVENUE REQUIREMENT DOES NOT MEET MINIMUM REQUIREMENTS.

The RD recommends that only $22.3 million of PGW's $85.8 million proposed rate increase request be allowed, or just 26% of the request. In fact, the RD's determination is even lower when one considers that PGW's total request included a proposal to recover, over three years, some $30.5 million in COVID-related expenses (which no Party opposed). However, the RD only permits PGW to recover these expenses over 53 months or $5.99 million per year. When this COVID-related expense recovery is removed, the permanent award (since the COVID expense recovery will cease once fully amortized) is only $16 million, compared to PGW's claim of $75 million (21.3%).

This level of rate increase is not only well below the level recommended by I&E – $44.8 million – but it would create the real prospect of a bond downgrade and would leave PGW no choice but to significantly cut back its current capital improvement efforts to make the system safer and more reliable, as well as slow or stop its numerous efforts to improve the quality of its customer service.

The unreasonableness of the RD's conclusions can be seen by either examining the recommendations from a "bottoms up" or "top down" approach. First, the RD accepted a series of adjustments offered by the Parties to "normalize" and "average" PGW's projected FPFTY expenses and capital expenditures. As shown below, those adjustments are either fundamentally inconsistent with PGW's Cash Flow ratemaking method, inconsistent with the evidence or contain errors which tend to substantially overstate many of them. Under the Cash Flow method, PGW's rates must be set so that it will have the cash it needs to pay its bills when they are

due – not some "normal" or "average" amount as is regularly used for investor-owned utilities that receive, in addition, an equity return allowance that can be used to cover any shortfall. PGW has no shareholders to cover any shortfall between actual and "pro forma" expenses; it has no other source of funding as it does not have investors and is entirely municipally owned. These adjustments, therefore, are simply inconsistent with establishing rates for a Cash Flow utility.

To compound the error, the ALJs took those incorrect "normalizing" adjustments and a massive adjustment to PGW's claim for IGF-funded capital improvements, simply calculated the adjusted level of rate increase left over from those adjustments and declared the resulting financial metrics resulting from those adjustments to be reasonable. The RD made no real effort to examine whether the resulting levels of cash were either sufficient for PGW to pay all its cash obligations either in the Fully Projected Future Test Year ("FPFTY") or in subsequent years, which they are not. The RD also totally failed to compare those projected levels with the levels realized by comparable companies or to consider all the evidence as to how the bond rating agencies will react to such an inadequate award. As such, the RD is fundamentally inconsistent with the Commission's own standards for determining a reasonable revenue requirement for a Cash Flow-regulated company as articulated in the Commission's own Cash Flow Policy Statement.[2] Finally, the RD makes several errors in calculating the expense and IGF adjustments, as well as PGW's projected cash levels so that even if the Commission determined to accept the RD's adjustments or recommended cash levels, the allowed rate increase would need to be increased just to be consistent with the RD's determinations.

EXCEPTION NO. 1 - THE RD'S RECOMMENDED LEVELS OF YEAR-END CASH AND DEBT SERVICE COVERAGE ARE GROSSLY DEFICIENT, INCONSISTENT WITH THE CASH FLOW POLICY STATEMENT AND THE EVIDENCE AND WOULD THREATEN A BOND DOWNGRADE. (RD AT 63-64; RATE CASE TABLES I, I(B), II AND III)

[2] 52 Pa. Code § 69.2702-03. The Policy Statement was enacted by the Commission in 2010 just after the Commission had been forced to award PGW a $60 million emergency/extraordinary rate increase in part because the Commission had in past cases consistently failed to recognize PGW's legitimate cash needs and pushed it into excessive reliance on short term borrowing, resulting in a near bond default. *See* PGW St. No. 2-RJ at 4-5; PGW St. No. 3 at 6-15. The Policy Statement was an attempt to establish that a just and reasonable level of rates for a cash flow-regulated company had to cover all of the company's prudent cash needs and had to produce year end cash and debt service that both produced such cash levels but were also comparable to similarly situated companies, as well as maintain or improve the company's bond rating. The RD only looked at one factor – maintenance of bond rating – and ignored the rest of the requirements.

The RD claimed that its $22.3 million rate increase recommendation would produce debt service coverage of 2.4x (before the City Payment) and year end cash on hand of $75.3 million, which translates to 42.16 days of cash on hand.[3] But, the RD attributes additional cash to PGW from two items that are actually non-cash or which will not produce additional cash: (1) the book expense portion of Pension Expense (which is actually a non-cash expense accounting adjustment, the denial of which cannot provide additional cash); and (2) the adjustment to PGW's claim for amortized COVID-19 expense recovery, which cannot produce additional cash since the dollars were expended in prior periods. These errors, which also affect the calculated debt service coverage levels that would be produced by the RD, are more fully explained in Exception No. 2, *infra*.

The financial metrics produced from the ALJs' recommendations, as adjusted, are shown below.

	HTY	PGW Pro Forma Present Rates	PGW Proposed Rates	ALJ Allowable	**ALJ Allowable - PGW Corrected**
	FY 2022	FY 2024	FY 2024	FY 2024	**FY 2024**
Days of Cash on Hand	79.0	16.9	61.9	42.16	**34.95**
Year-End Cash Balance (Dollars in Thousands)	$115,612	$30,775	$113,769	$75,316	**$63,386**
Debt Service Coverage	3.04	2.10	2.73	2.40	**2.30**
Coverage After City Payment	2.86	1.94	2.58	2.24	**2.14**

While the ALJs referenced the Commission's Cash Flow Policy Statement,[4] they appear to have evaluated the metrics resulting from a single factor – their (incorrect) observation that a year-end cash balance of 35.0 - 42.16 days and debt service coverage levels of between 2.3x - 2.4x would be "sufficient to maintain good standing with the bond agencies."[5] While this assertion is demonstrably untrue, it also ignores several other requirements that the PUC's Cash Flow Policy Statement requires be considered.

[3] RD at 63-64.
[4] 52 Pa. Code § 69.2702-03.
[5] RD at 63-64.

First, contrary to the RD's conclusion that PGW was seeking a 2.73x coverage level to "try to maintain or improve" its bond rating,[6] PGW demonstrated that the 2.73x debt service coverage level was, in actuality, needed to cover increases in costs and interest expense from a new bond issuance that will simply provide PGW with the cash it needs to operate. The Policy Statement specifically states that PGW's revenue should be established 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 …."[7]

To show its needs in this area, PGW presented a "Cash Needs Analysis" in the testimony of its main financial witness, Joseph Golden, that demonstrated that the debt service coverage it requested – 2.73x – was absolutely necessary to provide the cash to pay for items which are otherwise not reflected on PGW's income statement as expenses or which are pass throughs. Importantly, except for one item, no Party disputed PGW's statements about its cash needs or the items that needed to be covered by the debt service coverage.

Cash Requirements Beyond Existing Debt Service (Dollars in Thousands)		
FPFTY	**PGW**[8]	**RD (ALJ)**[9]
City Payment	$18,000	$18,000
OPEB	$18,500	$18,500
Pension	$3,455	$3,455
Retiree Benefits	$37,435	$37,435
Capital Spending (IGF)	$53,207	$14,754[10]
PHMSA Grant Cast Iron Main Replacement	$10,752	$10,752
GASB 87/96 Principal Payments	$1,968	$1,968
Distribution System Improvement Charge (DSIC)	$41,000	$41,000
Working Capital	$15,442	$15,442
TOTAL, as proposed	**$199,759**	**$161,322**
Additional Cash Needed to Meet IGF Needs for Capital Projects	$0	$38,453[11]
Total Resulting Rate Increase to Fully Fund Cash Needs	$85,162	$60,759[12]

[6] *Id.*
[7] 52 Pa. Code § 69.2702(b).
[8] RD at 20; PGW St. No. 2 at 16; PGW MB at 17.
[9] The RD did not respond to the Cash Requirements Analysis. It is assumed that the RD's reduction to IGF is targeted at capital spending, as calculated in the next footnote.
[10] $53,207,000 less $38,453,000. The $38,453,000 is from Rate Case Tables I, I(B), II and III.
[11] The $38,453,000 is from Rate Case Tables I, I(B), II and III.
[12] $22,306,000 plus $38,453,000.

This shows that, <u>even if all other adjustments were accepted</u>, PGW's debt service coverage and its rate increase would have to be set to produce $60.759 million in additional revenues just to provide the *minimum* level of cash that PGW needs to pay all its cash obligations in the FPFTY, which is what the Policy Statement mandates. Parenthetically, PGW's rate increase request contained a claim for the debt service ($22.7 million) associated with a $348 million bond issuance in the FPFTY, no part of which is included in present rates.[13] Thus, the $22.3 million rate increase offered by the RD would not even cover this one item and leave PGW at sea to deal with the myriad of other expense and capital increases that have occurred since its last rate case in 2020.[14]

Second, the RD failed to apply the provision in the Policy Statement which states that the Commission must look at "PGW's test year-end and (as a check) projected future levels of non-borrowed year-end cash."[15] The RD's calculated 35.0 - 42.16 days of cash ("DOC") is seriously deficient from any perspective. PGW's financial advisor Chris Lover testified that the bond rating agencies that closely follow PGW's financial performance have indicated that a cash balance of between 90 and 150 days of cash on hand is necessary for PGW to be viewed as in a financially sound position and avoid downgrade.[16] Moreover, the RD's stated 41.26 days of cash is below PGW's recent experience. PGW's Days Cash metric ranged from a low of 66 days to a high of 163 days from 2017 to 2021, averaged 117 days during this period, and was 158 days in 2021.[17] PGW realized 79 DOC in 2022.

Moreover, the RD failed to examine PGW's projected year end cash in years past the test year if the RD's recommendations are accepted. If this is done,[18] the picture is grim:

---

[13] PGW St. No. 2 at 8-9.
[14] In its MB, PGW detailed a variety of other expense increases that have occurred since its last rate increase in 2020. *See* PGW MB at 11-12.
[15] 52 Pa. Code § 69.2703(a)(1).
[16] PGW St. No. 2 at 18; PGW St. No. 3 at 17.
[17] PGW St. No. 4 at 37. PGW' s days cash measured 66 days in 2017, 101 days in 2018, 96 days in 2019, 163 days in 2020, 158 days in 2021. PGW Exh. HW-1, Schedule 4, page 9. PGW days cash measured 79 days in the HTY, and 61.2 days in the FTY. PGW St. No. 2 at 19. The days calculated by Mr. Walker for 2017 to 2021 use a different formula than the formula used by PGW. Cf. PGW Exh. HW-1, Schedule 3, page 1 with PGW St. No. 2 at 18. Mr. Walker tends to calculate about four additional days of cash.
[18] PGW Exceptions, Appendix A.

ALJ Allowable - PGW Corrected		
	Forecast, FY 2025	Forecast, FY 2026
Days of Cash on Hand	(10) days	(40) days
Year-End Cash Balance (Dollars in Thousands)	($18,528)	($69,541)
Debt Service Coverage (Combined)	1.96x	2.05x[19]

This shows that the RD rate increase would have disastrous results in FY 2025 (*negative* 10 DOC) and FY 2026 (*negative* 40 DOC). Importantly, even if PGW filed for an additional base rate increase in March of 2024 it would still not be able to obtain new rates, assuming the normal, nine-month time frame, until January 2025, which is some four months into PGW's FY 2025 fiscal year (PGW's fiscal year begins on September 1). The result might well be that PGW could have to both file for extraordinary rate relief and massively cut back on its capital improvement efforts, implement a hiring freeze, etc.

The RD's recommendation also gave no consideration to how its year end cash balance allowance affects PGW's cash needs throughout the year. PGW's cash balance changes throughout the fiscal year and is at a low point in the middle of the fiscal year. Maintaining a days cash on hand balance of 35.0 - 42.16 days at August 31st will be followed by a lower balance in the middle of PGW's fiscal year. This means that the FPFTY's balance of just 42.16 days cash on hand at fiscal year-end would result in zero or close to zero balances in January and February, leaving very little if any ability to respond to contingencies such as lower than *pro forma* sales or unanticipated expenditures. It also means that the low point value of days cash on hand would be below the S&P's "A" rating category range, seriously threatening a bond downgrade if PGW fails to take any action to reduce its planned capital and operating expenditures to the detriment of service and reliability.[20]

Finally, the ALJs failed to seriously consider another prong of the Cash Flow Policy Statement that directs that PGW's rates levels should be judged by the "debt to equity ratios and financial performance of similarly situated utility enterprises." PGW was the only Party that submitted any evidence showing the

[19] The debt service coverage ratio is higher in FY 2026 due to the (anticipated) changed circumstances in FY 2026. First, debt service is lower in FY 2026. Second, non-cash expenses are higher in FY 2026. The effect of these changes on the debt service coverage ratio is similar in PGW Exh. JFG-2-R.

[20] PGW St. No. 2-R at 25 (41.1 days of cash on hand falls within S&P's vulnerable category).

financial metrics realized by similarly situated companies, and that uncontroverted evidence shows that PGW's claimed 61.9 DOC and 60.6% debt to total capitalization ratio with the requested rate increase were extremely conservative. Gannett Fleming's Harold Walker showed PGW's requested DOC, Debt Service Coverage levels and debt/total capitalization compared to similarly situated municipal utilities:

	DOC	Debt Service Coverage	Debt/Equity
ALJ (Adjusted)	34.95	2.30x	61.68%
PGW Request	61.90	2.73x	60.60%
Muni Comp Group[21]	211	2.85x	52%

As can be seen, the financial metrics produced by even PGW's full request are extremely modest compared to its peers, but the requested rate increase moves PGW's metrics in the right direction. To recommend financial metrics that are so far away from PGW's realized results, its demonstrated cash needs or the financial results of its peer companies is clearly unreasonable.

As noted, the ALJs appeared to focus only on the Policy Statement's directive that PGW's rates should be established at the "[l]evel 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," and concluded that their (incorrectly calculated) 42.16 days of cash and 2.4x debt service coverage resulting from the recommended rate increase would be "sufficient to maintain good standing with the bond agencies" (citing I&E's Main Brief).[22] But this is demonstrably untrue.

Contrary to I&E witness Patel's opinion (on which the ALJs relied), 41 days of cash on hand (which is slightly higher than the RD's correct calculation of DOC) is not "well within" PGW's current credit ratings. In the record, PGW showed that I&E's originally proposed 41.1 days of cash on hand was at the extreme (lower end) of Moody's range for the "A" rating category, since that value is lower than 95% of the range in the category.[23] In addition, the RD's recommended value (35-42.1 days of cash on hand) would also fall within S&P's vulnerable category of 15 to 45 days of cash on hand.[24] PGW's Financial Advisor testified that the rating

---

[21] PGW St. No. 4-R at 9, 11. PGW witness Lover conducted a similar analysis, examining municipal utilities using data supplied by Fitch. The average for this group was 183.4 days with the *lowest* level being 61 days. PGW St. No. 3-R at 4.
[22] RD at 64.
[23] PGW St. No. 2-R at 25.
[24] *Id.*

agencies would be concerned if PGW's financial metrics fell to the levels recommended by I&E or OCA, which, ironically, are actually higher in several respects than that which were recommended in the RD, and testified that he could "reasonably foresee" a bond downgrade if the Commission were to award a rate increase that is substantially lower than the Company's request.[25] According to Mr. Lover, PGW is already considered an "extreme outlier to the norm" for a company with its rating. PGW is the lowest rated amongst its peer municipal utilities and the lowest rating is by multiple notches.[26] Adopting the RD's recommendations would appear to clearly threaten a bond downgrade. As Mr. Lover testified, a bond downgrade will not only raise the cost of borrowing for each and every year of the 30-year life of the bonds, it will have numerous other adverse consequences, all of which inures to the detriment of PGW's ratepayers.[27] The result will clearly be that PGW ratepayers will be forced to pay millions of additional dollars simply because of an extremely ill-advised rate decision that refuses to recognize PGW's legitimate cash needs.

As noted, the RD appears to simply apply a series of adjustments, subtract them from PGW's claimed rate increase and then proclaim that the resulting financial metrics were "reasonable." But the evidence clearly shows this was in serious error. Regardless of whether the Commission agrees or disagrees with the RD's recommendations on expense and capital spending through IGF, its own Policy Statement requires that it go back and examine the resulting metrics produced by making those adjustments and grant a rate increase that will permit PGW to have enough cash to operate, to at least maintain its financial health and to have days of cash and debt service coverages at reasonable levels, comparable to its peers. Strikingly, the RD's Days of Cash recommendation is one-third of the I&E/OCA recommendations which average 60 DOC (I&E's recommended days of cash is actually 62.2 days; OCA's recommendation is 57.41 days). Providing a rate increase that would produce 60 days of cash would require an increase of $78 million. Considering that there is absolutely no recommendation in the record that supports the RD's DOC position, it is clearly erroneous and must be reversed. Alternatively, PGW should be permitted additional revenues that would produce a DOC within the range of the I&E/OCA recommendations.

---

[25] PGW St. No. 3 at 21-23.
[26] *Id.*
[27] *Id.*

Additionally, if the Commission prefers to examine PGW's debt service coverage, then the rate increase should be modified to provide the minimum amount of cash shown to be required to cover all non-cash alternatives, including IGF-financed capital spending (discussed above and in Exception 3, below). This would require a total increase of $60.7 million to produce this minimum level of cash.

EXCEPTION NO. 2 - IF THE COMMISSION ELECTS TO ACCEPT THE RD'S RECOMMENDED FINANCIAL METRICS IT MUST AT LEAST CORRECT THE ERROR MADE THAT ATTRIBUTED CASH TO PGW FOR A NON-CASH ITEM AND AN AMORTIZATION. (RATE CASE TABLE I(B))

If the Commission declines to adopt the above Exception with respect to the overall inadequacy of the financial metrics produced by the RD, it must at least correct the error made in the ALJs' financial schedules. The RD's financial schedules calculated that its recommendation would produce $75.3 million in year-end cash.[28] But in doing so, the RD failed to recognize that two of those adjustments will not produce any additional cash for PGW. First, the Pension Expense adjustment (Table II, Line 29) is not an adjustment to the cash outlay for Pensions but for the non-cash income statement entry required by the actuaries to correctly state the value of PGW's Pension liability and the amount of its future liability (discussed in Exception No. 4, below). This is a non-cash accounting entry. Taking away or denying a non-cash item does not produce any additional cash for PGW, as the calculation in the RD assumes. Second, the RD makes an adjustment to change the amortization period for PGW's claim for past COVID-related expenses (Table II, Line 26). This adjustment (discussed in Exception No. 9, below) also does not produce any cash for PGW in the FPFTY because it is merely a return of cash it already expended in past periods (and which flowed through the Cash Flow Statement through the "beginning balance" used for the cash flow calculation). As noted above, if these two errors are fixed, the revised Year-End Cash corresponding to the outcome of the ALJ's recommendations is actually $63.4 million, and days of cash on hand would be reduced to just 34.95 days.[29]

Accordingly, since the ALJs found that a year-end cash balance of $75.3 million or 42.16 days of cash would be reasonable, if the Commission decides to accept this level of year end cash as reasonable, it needs to

---

[28] RD at Table I(B), Line 25.
[29] *See* Exceptions, Appendix A.

raise the allowed rate increase by $11.9 million so that PGW's projected FPFTY actually produces $75.3 million or 42.16 DOC as the ALJs thought they were awarding.

EXCEPTION NO. 3 - THE RD IMPROPERLY REDUCES IGF. (RD AT 63-64; RATE CASE TABLES I, I(B), II AND III)

PGW excepts to the recommendation of the ALJs to disallow $38.5 million of the Company's request for $53.2 million in IGF,[30] which is cash from rates that is needed to fund capital expenditures.[31] PGW made this proposal to reasonably balance its capital structure by continuing to fund approximately 50% of its annual capital spending from IGF and 50% through debt financing. The effect of this financing strategy, as explained by PGW, is to improve the Company's debt to total capitalization ratio and reduce financial risk.[32] Importantly, the use of IGF to finance a portion of PGW's capital improvement expenditures is also cheaper than debt financing is for ratepayers – a factor that I&E explicitly acknowledged while nonetheless advocating for the disallowance of PGW's entire $53.2 million claim for IGF.[33] While not directly challenging PGW's IGF claim, OCA proposed to reduce Net Construction Expenditures by approximately $17.1 million,[34] which is reflected in its recommendation to allow PGW to recover a total of $46.9 million in IGF, including the PHMSA Grant of $10.75 million.[35]

Moreover, in recommending that PGW's IGF claim be reduced by $38.5 million so that PGW may only recover IGF in the amount of $14.7 million, the RD did not propose an offsetting recommendation that PGW issue additional debt (or make an allowance for additional debt service expenses) to maintain the level of capital projects planned for the FPFTY. This means that the ALJs' recommendation, if adopted, would reduce spending

---

[30] RD at Rate Case Table I(B), Line 29. The exact amount of the recommended adjustment is $38,543,000.
[31] PGW St. No. 2 at 5.
[32] *See* PGW St. No. 3-R at 10.
[33] RD at 29, fn. 122. Although I&E witness Patel reduced the amount of the recommended disallowance to approximately $32 million in his surrebuttal testimony, I&E's Main Brief continued to recommend the rejection of PGW's entire IGF claim of $53.2 million. I&E MB at 11; Rate Case Table I(B), Line 29.
[34] OCA MB at 18-20.
[35] OCA MB at Rate Case Table I(B), Line 29. Of note, OCA's Schedule DM-SR-19, Line 15, which accompanied OCA witness Mugrace's surrebuttal testimony, showed an adjustment of $38,437,000 to PGW's "Net Funds Available after 1998 Debt Service." In PGW's Reply Brief, the Company noted this adjustment in arguing that OCA's proposed total cash reduction (from all adjustments) was actually $38.4 million despite claiming that it was $17.1 million. PGW RB at 8. Given OCA's consistency in testimony and briefing, however, of its proposal to reduce PGW's IGF level by $17.1 million, PGW now believes that OCA's inclusion of $38.4 million in Schedule DM-SR-19, Line 15, was an error. Therefore, OCA's proposed allowance for IGF is $36,107,000.

for PGW's capital projects and either delay or result in the cancellation of planned capital improvements, without any consideration of the potential impacts on system safety or system reliability or any explicit determination that any of these projects were imprudent or unreasonable.

a) The RD Offered No Rationale for This Recommendation

Despite this massive reduction in PGW's capital budget and the associated ramifications for PGW's infrastructure and overall operations, the RD contained no discussion of the ALJs' rationale to disallow $38.5 million in IGF. The only references in the RD to IGF and net construction expenditures are as follows:

- Obligation of the Commission under the cash flow methodology to consider the availability of IGF to fund construction;[36]
- I&E's proposal to reject PGW's $53.2 million claim for IGF;[37]
- PGW testimony explaining that Company must fund a portion of its capital improvements by IGF;[38]
- Identification of PGW's Cash Needs, including IGF of $53.2 million;[39]
- I&E's recommendation to disallow $53.2 million of IGF that PGW intends to use to finance capital improvement projects, and a description of the reasons;[40]
- OCA's proposal to disallow $17.1 million of net construction expenditures in the FPFTY;[41]
- PGW's explanation of its policy of balancing capital structure by funding approximately 50% of its annual capital spending from IGF and 50% from long term debt financing;[42]
- I&E's view that increasing debt is an appropriate option to finance capital expenditures and OCA's disagreement with PGW's proposed use of IGF to pay for 50% of its capital budget;[43]
- PGW's proposal to use $2.5 million from IGF to fund its OPEB;[44]
- ALJs' (incorrect) statement that PGW has a history of projecting the need for more construction-related cash flow than it actually spends;[45] and
- ALJs' disallowance of $38,453,000 in IGF.[46]

These references simply describe PGW's original proposals and discuss the positions of I&E and OCA opposing them without referring to PGW's responses refuting those claims. One of these references notes the testimony of

[36] RD at 12.
[37] RD at 15.
[38] RD at 19.
[39] RD at 20.
[40] RD at 22.
[41] RD at 25-26. In Direct Testimony, OCA witness Griffing recommended a $25 million reduction to PGW's net construction expenditures. OCA St. 2 at 11. In Surrebuttal Testimony, Dr. Griffing revised his recommendation to reduce PGW's construction expenditures to $17.1 million. OCA St. 2SR at 4; Schedule MFG-SR-2. OCA carried over the later recommendation to its Main Brief. OCA MB at 19-20, Rate Case Table II(B), Line 29 (OCA proposes to allow PGW $46,851,000 in IGF, including a PHMSA Grant of $10,752,000, for a recommended allowance of $36,099,000, or disallowance of $17,108,000).
[42] RD at 29.
[43] RD at 30.
[44] RD at 51.
[45] RD at 63.
[46] RD at Table I(B), Line 29; Table II, Line 29.

I&E witness Patel that IGF is actually cheaper for PGW ratepayers over time than long term debt financing, but the RD does not discuss the effect of that factor supporting PGW's IGF claim.[47] In addition, the ALJs' adjustment to IGF in Table II offers no "reference" or basis for it, and the prior discussion in the RD does not provide a rationale for this adjustment. As to the ALJs' reference to PGW's historical construction spending, this discussion failed to recognize that when the Company does not spend money in a certain year, the funds are used the following year for necessary projects, and this shift has nothing to do with spending IGF.

The RD further gives no indication as to which arguments of the Parties the ALJs found persuasive or what position(s) they were recommending be adopted. Of note, the $38.5 million disallowance recommended by the RD reflects the adoption of neither the I&E proposal to disallow the entire $53.2 million for IGF nor the OCA proposal to allow approximately $36.5 million for IGF. As no other Party offered testimony or briefs on this issue, the basis for the RD's recommended allowance of only approximately $15 million of PGW's claim is unclear. To the extent that the ALJs intended to accept the adjustment shown in OCA's Schedule DM-SR-19, Line 15, which is very close to the amount of the ALJs' recommended disallowance, the actual disallowance proposed by OCA in this case is $17.1 million, not $38.5 million.[48]

Section 703(e) of the Public Utility Code requires that the Commission's decisions be accompanied by findings that contain "sufficient detail to enable the court on appeal, to determine the controverted question presented by the proceeding, and whether proper weight was given to the evidence."[49] As the Commonwealth Court has held, "[t]his section has been interpreted to mean that an order is sufficient if it refers to facts in the record supporting the conclusion."[50] Although the *Consolidated Rail* Order acknowledged that it is not necessary that each and every issue raised by the parties be discussed, the Court emphasized that a decision must be sufficiently detailed to allow review and provide a clear articulation of the reasons underlying the decision. In that case, the Court was satisfied with the numerous factual findings that supported the Commission's

---

[47] RD at 29, fn. 122.
[48] *See* fn. 35, *supra*.
[49] 66 Pa. C.S. § 703(e); *Consolidated Rail Corp. v. Pa. P.U.C.*, 155 Pa. Cmwlth. 537, 625 A.2d 741, *744 (1993). While PGW recognizes that it is the Commission's Order, not the RD, which will be subject to appellate review, the RD has given the Commission no basis upon which to accept the ALJs' proposed disallowance of over 60 percent of PGW's IGF and has left PGW to surmise as to the underlying rationale in advocating for the Commission's reversal of the RD on this issue.
[50] *Id., citing Paxtowne v. Pa. Pa. P.U.C.*, 40 Pa. Cmwlth. 646, 398 A.2d 254 (1979); *Allegheny Center Associates v. Pa. P.U.C.*, 131 Pa. Cmwlth. 352, 570 A.2d 149 (1990).

conclusion. Here, besides having no rationale for the ALJs' recommended disallowance of $38.5 million in IGF, the RD contains no findings of fact, which if included might have shed some light on the reasons for the proposed reductions to cash that is directly linked to PGW's capital improvements and its capital structure.

Besides the lack of rationale in the RD, it is internally inconsistent. For example, with a reduction to IGF of $38.5 million, the same level of Net Construction Expenditures cannot be maintained, without other adjustments to Revenue Bond spending and Long-Term Debt. Yet, Rate Case Table I(B), Line 13, attached to the RD shows no adjustment to PGW's Net Construction Expenditures of $207 million or the Revenue Bonds. In addition, Rate Case Table I(A), Line 48, shows no increase to Long-Term Debt, which would be necessary without the level of IGF proposed by PGW (without which PGW would have to reduce its capital budget by this amount). Further, Debt Service Costs would need to increase, which would also reduce Debt Service Coverage in the amounts shown on Rate Case Table I(A).

Another example of the effect of reducing IGF by $38.5 million is that if PGW were able to use its Commercial Paper Program to offset this reduction and support the $207 million in Net Construction Expenditures, that would affect cash levels (because of the need to pay interest on the short-term borrowing) and result in potential cash deficits. For the RD's IGF adjustment to have no direct impact on PGW financially, the Company would need to delay or forego the construction of certain infrastructure or other capital improvement projects. Yet, the RD does not acknowledge that outcome or identify which projects that have been identified by PGW and approved by City Council as being necessary for the continued reliable, adequate, and safe operation of PGW's natural gas business should be delayed or cancelled. This result is untenable. Accordingly, PGW urges the Commission to reject this adjustment in its entirety for lack of any support.

b) PGW's Full IGF Claim Should Be Adopted

In addition to the complete lack of support for this substantial adjustment, PGW urges the Commission to reject it on the merits as well. Given the lack of rationale in the RD, the inconsistencies in the positions advanced by I&E and OCA, and the importance of IGF to PGW's ongoing construction expenditures, the Commission should adopt the entire IGF amount of $53.2 million proposed by PGW. PGW's ability to generate IGF is specifically identified in the Cash Flow Policy Statement as one of the criteria for judging the

reasonableness of PGW's rate request.[51] As noted, 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, thereby reducing financial risk and helping to maintain a favorable bond rating, it is also less costly for ratepayers.[52] As explained by PGW witness Joseph Golden, the approach of using an equal balance of financing sources "allows PGW to use long-term debt, its tax-exempt commercial paper program, and IGF to finance the improvements to its infrastructure to reduce PGW's reliance on long term debt while, at the same time, avoiding unreasonably burdening current customers with the full cost of current capital improvements."[53] As a result of its efforts over the last several years to finance new capital expenditures equally between IGF and long term debt, PGW has been able to "deleverage" its capital structure, moving it down to a far less risky 62%, falling to 61% if the full rate increase was awarded.[54] Notably, that level of debt to total capitalization is still far higher than comparably rated municipal utilities, who enjoy a debt/equity ratio of around 50%.[55]

I&E recommended rejection of PGW's $53.2 million IGF claim, contending that PGW should instead fund 100% of its non-DSIC[56] long-term capital expenditures through debt financing. In advancing this proposal, I&E argued that there is no oversight or restrictions on the use of IGF and further that expenditures outside the DSIC should be tied to identified projects in the FPFTY in order to be included in rates. In addition, I&E contended PGW should fund these long-term capital expenditures through debt financing rather than IGF.[57]

As shown by PGW, however, these reasons do not warrant a disallowance of PGW's use of IGF as proposed by I&E or a reduction of the magnitude recommended by the RD. The testimony of PGW witness Golden, with which I&E witness Patel agreed,[58] is that "the cost to the customer of funding the capital improvement program via a long-term debt option is actually more expensive over time than the IGF option."[59] Since rates must reflect not only the debt service payments but also the debt service coverage of any additional

---

[51] PGW MB at 19; 52 Pa. Code § 69.2703(2).
[52] PGW MB at 20.
[53] PGW St. No. 2 at 20.
[54] RD at Table III.
[55] PGW MB at 21.
[56] DSIC is also IGF; the costs for DSIC projects are simply recovered through a separate mechanism. *See* PGW St. No. 2 at 14, 20-21; PGW St. No. 2-R at 15-16.
[57] I&E MB at 11.
[58] I&E St. No. 1-SR at 8; RD at 29, fn 122.
[59] PGW St. No. 2-R at 10.

bond issuance, it is undisputed that "customers will pay more overall when PGW finances its capital improvements via the issuance of long-term debt rather than from the proposed rate increase or IGF."[60] Thus denying the use of IGF hurts ratepayers.

Moreover, PGW explained that in seeking to disallow its IGF claim of $53.2 million, I&E's recommendation did not reflect the increased borrowing that would be needed to keep capital spending at the same level as proposed by PGW. Likewise, the RD did not consider this impact of reducing the IGF amount by $38.5 million. This is not a small consideration since under I&E's recommendation, PGW's cash needs would need to be adjusted upward to reflect an estimated $7.0 to $10.5 million to cover debt service and debt service coverage in the FPFTY for an additional bond issuance.[61] As PGW witness Golden testified, this additional bond issuance would have to be replicated every other year, so that the debt service cost to replace $53.2 million in IGF would be $6.0 to $8.0 million in FY 2025, $9.0 to $12.0 million in FY 2026 and so on.[62] While the RD did not recommend a disallowance of the entire IGF claim requested by PGW, a reduction in $38.5 million in IGF would have similar, proportional effects in terms of additional costs to cover debt service and debt service coverage for an additional bond issuance. This would mean that for the FPFTY alone, PGW's cash needs would need to be adjusted upward to reflect an estimated $5.1 to $7.6 million to cover debt service and debt service coverage.

In addition, I&E's characterization of a lack of oversight in connection with IGF is not accurate nor valid. As explained by Mr. Golden, PGW identifies and tracks all capital expenditures for its annual budget, which is reviewed by the Philadelphia Gas Commission and approved by City Council. The capital budget process covers capital expenditures for both debt-funded and IGF expenses and identifies actual capital expenditures for the FPFTY.[63] The current and future capital budgets were all available to I&E and the other parties to review. While DSIC-funded capital expenditures are reviewed in PGW's LTIIP, PGW's LTIIP only focuses PGW's historic removal of 18 miles of cast iron main each year that is financed through base rates

[60] PGW St. No. 2-R at 11.
[61] PGW St. No. 2 at 20.
[62] PGW St. No. 2-R at 15.
[63] PGW St. No. 2-R at 12.

(some $55.1 million) and PGW's accelerated main replacement program funded through the DSIC (and is capped at 7.5% of revenues).[64] The claim that there is no "oversight" of PGW's capital expenditures outside of the LTIIP is simply not true. Moreover, there is no statute or PUC regulation that requires that the Commission or I&E review and approve all of a utility's capital expenditures. PGW would have no trouble reporting on its capital improvement plans to the Commission. But to deny otherwise unchallenged capital expenditures because they are not "reviewed" by I&E or the Commission, when no such review is required (or previously requested), is nonsensical.

While not directly challenging PGW's IGF claim, OCA proposed to reduce Net Construction Expenditures by approximately $17.1 million,[65] which is reflected in its recommendation to allow PGW to recover a total of $46.9 million in IGF, including the PHMSA Grant amount of $10.75 million.[66] OCA's reason for this recommendation is that the amount proposed by PGW for construction purposes is higher than the level of such spending in prior periods.[67] As noted by PGW, however, OCA witness Griffing presented no evidence whatsoever to justify an elimination of planned construction projects in the FPFTY.[68] Further, in the same way that the RD offered no analysis of what projects (if any) could be deferred or cancelled without harming system safety or reliability, Dr. Griffing did not identify a single specific project to cancel or defer, noting that he did "not have a recommendation as to how PGW achieves the reduction."[69] OCA has taken a cavalier approach to this issue by suggesting that PGW should manage this situation "in the same way that any organization would."[70] Notably, PGW is not just "any organization," but rather is a public utility providing natural gas service to ~500,000 customers in the City of Philadelphia, which is obligated by the Public Utility Code to provide these

---

[64] PGW St. No. 2-R at 12. POWER Exh. MDK-4 at 5. Both the FY 2024 and FY 2023 PGW Capital Budgets are in the record as POWER Exhs. DKS-5 (FY 2023) and MDK-4 (2024). A review of the Capital Budgets demonstrates the importance of these expenditures and also shows the flaws in I&E's argument claiming that the use of IGF permits recovery of costs from present ratepayers for assets that will benefit future ratepayers. I&E St. No. 1-R at 8. Besides not even being a recognized ratemaking concept, this intergeneration equity argument is flawed because many of PGW's expenditures are short-term in nature, meaning that the use of long-term debt financing would have future customers paying for assets that will no longer be in use. See PGW RB at 19-20.
[65] OCA MB at 18-20.
[66] OCA MB at Table I(B), Line 29; I&E St. No. 1 at 28.
[67] OCA RB at 6-7.
[68] PGW St. No. 2-R at 13.
[69] PGW St. No. 2-R at 13, referring to OCA Response to PGW Interrogatory III-1(a), III-1(b).
[70] OCA MB at 20.

services in an adequate, reliable and safe manner. Cancelling or delaying a project is not the same as if a convenience store chain decides to hold up renovating a particular store. Virtually all of PGW's capital budget is devoted to making the gas system safer, more reliable and less prone to leaks.[71] Neither OCA nor the ALJs have suggested that any of the projects included in PGW's capital budget, and approved by the City Counsel, should be delayed or cancelled. To the contrary, the Commission consistently urges PGW to do more construction, particularly in the area of pipeline replacement to enhance the safety of the Company's operations.[72]

That PGW has underspent in prior years should not affect the funding that is approved for capital expenditures in this proceeding. PGW's witnesses testified that underspending in prior years was affected by the COVID-19 pandemic and subsequent supply chain issues.[73] In any event, underspending in prior years has no relevance to the projects that are needed to ensure the modernization of PGW's infrastructure. As PGW witness Robert Smith testified, the proposed reduction in construction expenditures could have significant impacts on PGW's cast iron main replacement initiatives, negatively impacting the safety and reliability of PGW's system.[74]

Moreover, the underlying premise seems to be that if these capital allowances are not spent, they go into the pocket of PGW as increased earnings. This is categorically untrue. PGW has identified capital improvement projects that are necessary to support the Company's ability to provide safe and adequate service to its customers. To the extent that they are not completed for any reason, the funds do not go into the pockets of shareholders, of which PGW has none, but are put back into the system for the benefit of ratepayers, either through other projects being constructed or future rate cases being delayed (bond proceeds can only be used for capital improvements).

Any reliance, as has been suggested by I&E and OCA, on PGW's Commercial Paper Program as a source of short-term funding for capital projects, is misplaced. PGW witness Golden explained that this program

---

[71] POWER Exh. MDK-4 at 5.
[72] *See, e.g.*, *Pennsylvania Public Utility Commission Staff Report: Inquiry into Philadelphia Gas Works' Pipeline Replacement Program*, April 21, 2015; *Petition of Philadelphia Gas Works for Approval of its Third Long-Term Infrastructure Improvement Plan*, Docket No. P-2022-3032303 (Order entered August 25, 2022).
[73] PGW St. No. 2-R at 2-3.
[74] PGW St. No. 7-R at 25. Mr. Golden confirmed this, testifying that "the loss of millions of dollars in IGF capital funding will cause projects 4 to be deferred or cancelled in the FPFTY since PGW will not have all of the funds needed to do all of the projects in the capital budget for the FPFTY." PGW St. No. 2-R at 3.

permits the Company to issue two kinds of notes – Capital Project Notes and Working Capital Notes. The Capital Project Notes are available solely to fund capital projects but must be refunded through the issuance of long-term bonds. Since 2015, PGW has only issued a limited amount of Capital Project Notes, all of which were refunded in 2017. As to Working Capital Notes, they are only available to provide emergency cash working capital.[75] Thus, PGW's Commercial Paper Program is only actually used to allow PGW to time bond issuances so that it can issue the bonds when market conditions are best. Working Capital Notes can only be used in relatively dire emergencies. Thus, it is not reasonable to view PGW's Commercial Paper Program as the equivalent of non-borrowed cash.[76]

Accordingly, the Commission must reject this substantial adjustment because it was completely unexplained and unsupported by the RD and because denying PGW the capital it needs to undertake capital projects to keep the system safe and reliable is completely unreasonable. But if the Commission was inclined, nevertheless, to make an adjustment in this area, the adjustment that appears to track the RD is the OCA recommendation of a $17.1 million reduction to PGW's IGF claim. That means that the rate increase must be adjusted upward by $21.5 million.

EXCEPTION NO. 4 - THE RD IMPROPERLY REDUCES PENSION EXPENSES USING A THREE-YEAR AVERAGE. (RD AT 48-51, 63-64; COL 17, 19, 20, 23; RATE CASE TABLES I AND II)

PGW excepts to the RD's normalization of pension expenses which improperly removes $8.670 million from PGW's cash requirements claim of $30.806 million.[77] Contrary to the RD's assertion, the adjustment does not reflect a more accurate level of PGW's cash outlay for pension expenses in the FPFTY.

The RD confuses PGW's cash requirement claim of $30.806 million with the accounting line for Pension Expense on PGW's accounting statement. Here, PGW's claim is based on PGW's actual cash outlay of

[75] By law, those notes may only be issued under specific conditions: (1) to fund a project solely consisting of the financing of inventory and receivables; (2) the principal amount of the commercial paper notes outstanding cannot exceed the aggregate of project costs (consisting solely of inventory and receivables on the date of issuance of the commercial paper notes); (3) for federal tax purposes, in order to issue the notes on a tax-exempt basis, PGW must project negative cash flow for the period in which the notes will be outstanding; and (4) spend 90% of the amount of the notes within 6 months. PGW St. No. 2-RJ at 3-4.
[76] PGW St. No. 2-RJ at 3-4.
[77] RD at 48-51, 63-64; COL 17, 19, 20, 23; Rate Case Tables I and II.

$30.806 million.[78] That cash outlay is based on mandates of the pension plan[79] and has varied little in each of the years (FY 2020 to FY 2024) shown on the "cash outlay" line in the pension table (below).[80] That cash outlay has not been, and is not expected to be an irregular amount.[81]

	(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

The accounting line for Pension Expense on the income statement is based on the requirements of Governmental Accounting Standards Board ("GASB").[82] Under GASB 68, PGW's balance sheet includes PGW's net pension asset or liability, which is measured as the total pension liability less the amount of the pension plan's fiduciary net position.[83] That line is determined by actuarial valuation and reflects change in the market value of the pension plan's holdings and an assessment of future liability.[84]

The change in market value — mandated by and determined under GASB 68 — does not mean automatically that PGW will or is expected to incur a greater cash outlay (expense) during the life of new base rates.[85] PGW expects the cash outlay to be $30.806 million in the FPFTY. The amount of the cash outlay was

[78] The RD notes that PGW's cash outlay is $30.866 million. RD at 48. The RD incorrectly implies that it is removing $8.670 million from $44.759 million (funding requirement) leaving $36,089 million. RD at 48-51. The funding requirement is based on financial support for pension plan. It is not the foundation for base rates.
[79] PGW Exh. JFG-10 is a copy of the PGW Pension Plan. It was explained, in PGW St. No. 2-R at 48-49, that the Plan requires both actuarially determined contributions and an additional amount determined by the Director of Finance. It was further explained that "The Director of Finance has directed PGW to contribute not less than $30.0 million to the Gas Works Plan." *Id.* at 49.
[80] RD at 49.
[81] *Cf. Pennsylvania Public Utility Commission v. Total Environmental Solutions, Inc. – Treasure Lake Water Division*, 2008 Pa. 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."
[82] PGW MB at 28-30; PGW RB at 24-25.
[83] Filing Requirements, Volume 1 at II.a.1, Basic Financial Statements and Supplementary Information at 46.
[84] *Id.*; PGW MB at 28-30; PGW RB at 24-25.
[85] *Cf. 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

not challenged. But the RD is looking not at the cash outlay, but rather at the variability <u>in valuation under GASB 68</u> to justify normalization[86] and removal of $8.670 million from PGW's claim of $30.806 million. Normalization of the accounting line (that reflects changes in market value under GASB 68) is neither appropriate nor consistent with sound Cash Flow ratemaking principles,[87] since it does not reflect the actual cash outlay being claimed by PGW. Removing $8.670 million from PGW's cash outlay claim is not reasonable since the amount recommended would not provide sufficient cash for PGW to pay the anticipated (and unchallenged) cash outlay in the FPFTY. Moreover, and as explained in Exception No. 2 above, the effect of this adjustment on PGW's year-end cash on its Cash Flow Statement is incorrect. Even if this adjustment is not reversed, the incorrect cash calculation must be reflected on the Cash Flow Statement.

<u>EXCEPTION NO. 5 - THE RD IMPROPERLY INCREASES OPEB EXPENSES USING A THREE-YEAR AVERAGE. (RD AT 51-53, 63-64; COL 17, 19, 20, 23; RATE CASE TABLES I AND II).</u>

PGW excepts to the RD's normalization of OPEB expenses which improperly adds $1.750 million[88] to PGW's cash requirements claim of $47.924 million.[89] Contrary to the RD's belief, this adjustment does not reflect a more accurate level of PGW's cash outlay for OPEB expenses in the FPFTY.

Just as with Pension Expense, the RD confuses PGW's cash requirements claim of $47.924 million with the accounting line on PGW's accounting statement for OPEB Expense. PGW's claim is based on PGW's cash outlay of $47.924 million.[90] That cash outlay is based on mandates of the OPEB plan and has varied little from

---

recurring expense where the amount of the expense incurred in the test year is <u>greater or less than that which a public utility may be expected to incur annually during an estimated life of new [base] rates</u>." (Emphasis added).

[86] *See,* OCA St. 1 at 55, describing changes in PGW's accounting statements, not the cash outlay. *See also*, OCA Schedule DM-13 describing the lines in the accounting statements, not the cash outlay, since it shows a negative entry for FY 2021. There was still cash outlay in FY 2021.

[87] *See Pennsylvania Public Utility Commission v. PECO Energy Co. – Gas Division*, 2021 Pa. PUC LEXIS 241 at *56, 59 (2021) (*PECO Gas*) wherein the Commission permitted PECO Gas to recover the actual cash amount of the employers' contributions but did not allow PECO Gas to include its $35.1 million Pension Asset in rate base. The Commission noted that there is a financial accounting "mismatch" between the cash account method and the actuarial method, stating that the employers' funding obligations, therefore, fluctuate, and are often different from the calculated ASC 715 expense in any given year.

[88] PGW excepts and opposes this adjustment because it conceptually incorrect. Such opposition will — if accepted — remove "additional" revenues allowed by the RD.

[89] RD at 51-53, 63-64; COL 17, 19, 20, 23; Rate Case Tables I and II.

[90] The RD notes that PGW's cash outlay is $47.924 million. RD at 51 (Table). The RD incorrectly implies that providing additional cash of $1.750 million by changing the negative $10.095 line entry (funding requirement) to negative 8,345,000. The funding requirement is based on financial support for OPEBs. It is not the foundation for base rates.

FY 2020 ($47.105 million) to FY 2024 ($47.924 million), as shown on the OPEB table[91] as mandated by GASB 75.[92] That line is determined by actuarial valuation and reflects change in the market value of the OPEB plan's holdings.[93]

Accordingly, the RD's addition of $1.750 million to PGW's cash outlay of $47.924 million would not be appropriate. Normalization of the accounting line (that reflects changes in market value under GASB 68) is neither appropriate nor consistent with sound ratemaking principles,[94] since it does not reflect the actual cash outlay being claimed by PGW in the FPFTY.

EXCEPTION NO. 6 - THE RD IMPROPERLY ADJUSTS PGW'S EMPLOYEE HEADCOUNT FOR THE FPFTY. (RD AT 32-33, 63-64; COL 17, 19, 20, 23; RATE CASE TABLES I AND II)

PGW based its claim for payroll expenses and taxes in the FPFTY on a headcount of 1,637 employees.[95] That headcount is slightly more than the actual headcount for FY 2020 (of 1,633 employees)[96] and is less than PGW's normal (pre-pandemic) employment headcounts that averaged 1,655 employees.[97]

PGW excepts to the RD's employee count and the related adjustments to payroll expenses and taxes for the FPFTY.[98] The RD adopted the OCA's vacancy ratio of 2.95%[99] and, therefore, recommended a headcount of 1,588 employees for the FPFTY.[100] Using a headcount of 1,588 results in the denial of $3.859 million from PGW's claims for payroll expenses and taxes for the FPFTY.

Other than mechanical application of a historic vacancy ratio, nothing in the record shows that the headcount of 1,588 is reasonable given PGW's experience in the FTY and projected headcount for the FPFTY. Here, the RD's recommendation would mean that PGW is being allowed in rates the value of a single employee

---

[91] RD at 51 (Table).
[92] Filing Requirements, Volume 1 at II.a.1, Basic Financial Statements and Supplementary Information at 47.
[93] *Id.;* PGW MB 30-31; PGW RB at 25.
[94] *Cf. Pennsylvania Public Utility Commission v. PECO Energy Co. – Gas Division,* 2021 Pa. PUC LEXIS 241 at *56, 59 (2021) (*PECO Gas*) wherein the Commission found that (1) PECO Gas' OPEB expense fluctuated based on many assumptions that could affect the level of OPEB expense; (2) PECO Gas' projection of OPEB expenses for the FPFTY were speculative and unsupported, and (3) a three year average will reflect a level of OPEB expense that is more accurate and reasonable for the FPFTY. None of that is the same for PGW. *See* PGW MB at 30-31; PGW RB at 25.
[95] RD at 32.
[96] *See, e.g.*, OCA Schedule DM-20.
[97] PGW St. No. 2-R at 29-30.
[98] RD at 32-33, 63-64; COL 17, 19, 20, 23; Rate Case Tables I and II.
[99] RD at 32-33.
[100] PGW MB at 22; PGW RB at 24. (1,637 times 2.9% is 48.2915. 1,637 less 48.2915 is 1,588.71 or 1,588).

in the FPFTY above the headcount for June 2023.[101] It is unreasonable to project that the number of employees in the FPFTY will increase by just one in the FPFTY since the record shows that PGW's head count is trending upward, and it is adding new employees at a rate of roughly five per month in the FTY.[102] In addition, use of the historic vacancy ratio is also unreasonable because the headcount of 1,637 already reflects adjustments for anticipated vacancies and delays in filling positions in the FPFTY, as acknowledged by I&E witness Walker.[103]

EXCEPTION NO. 7 - THE RD IMPROPERLY NORMALIZES EXPENSES. (RD AT 55-60, 63-64; COL 17, 19, 20, 23; RATE CASE TABLES I AND II)

PGW excepts to the RD's normalization of expenses for gas processing, field operations, collection, customer service, account management, marketing, and administrative and general for an overall reduction of $4,276,673.[104] Normalization is a ratemaking concept that describes the transformation of an operating expense that recurs at irregular intervals and in irregular amounts into a "normal" expense allowance.[105] For at least two reasons, these adjustments are fundamentally wrong here. First, PGW is not regulated on the basis of rate of return/rate base where the exercise is to determine a pro forma or representative level of expenses for which the utility's equity investors should be compensated.[106] PGW, as a Cash Flow company, needs to receive cash that will cover its actual expenses – not some averaged or "normalized" amount. PGW cannot pay for goods and services on a "normalized" level – it has to pay the real invoices, and permitting only "normalized" levels of expenses is totally inconsistent with the Commission's Cash Flow Policy Statement. To do so will force PGW to massively curtail its operations to avoid being unable to pay for the goods and services it otherwise needs to maintain safe, reliable and reasonable service.

Second, the Parties and the RD incorrectly applied the whole notion of "normalization." The prerequisite for normalization is that the claimed amount is different "than that which a public utility may be

---

[101] RD at 32; PGW MB at 22; PGW RB at 24.
[102] PGW MB at 22; PGW RB at 24.
[103] I&E St. No. 2-SR at 3.
[104] RD at 55-60, 63-64; COL 17, 19, 20, 23; Rate Case Tables I and II.
[105] *See* RD at 50, *citing PUC v. Total Environmental Solutions, Inc. – Treasure Lake Water Division*, 2008 Pa. PUC LEXIS 1227 *100 (2008) (*TESI*).
[106] *See* Guide to Utility Ratemaking, James H. Cawley & Norman J. Kennard, Pa. P.U.C. (2018) at 127 ("The fair rate of return is the compensation to investors expressed as a percentage and applied to a rate base stated in dollars as a component of the overall revenue requirement.").

expected to incur annually during an estimated life of new [base] rates."[107] The RD does nothing to show that PGW's claimed expenses in the FPFTY are unreasonable. The RD is using the concept of normalization to actually reflect historic averages whenever future costs are anticipated to be higher than the historic average. Historic costs and averages may be useful in evaluating spending levels between fiscal years. They are not useful in setting future rates, especially when the historic costs are not adjusted for changes over time. Setting future rates requires looking at the anticipated actions and expenses in the future year.[108] Simply because an expense is projected to be higher in the FPFTY than the historic average does not make it unreasonable. PGW recognizes that it has the burden of proof to demonstrate that its claims are reasonable. But having presented evidence of the projected level expense in the FPFTY produced by an extensive and fact-based budgeting process,[109] it was up to the other Parties to refute that those levels are reasonable. Yet, the other Parties' position – adopted by the RD – is that an expense claim is per se unreasonable if it exceeds historic costs and averages. This approach not only turns the "fully projected future test year" into a "historic average test year," contrary to the clear directives in the Public Utility Code, but it also results in PGW being totally denied any recognition for the cost increases it has experienced since its last rate increase[110] as well as the effect on its costs and services of the much higher inflation rates that PGW and all enterprises have experienced recently.[111] The failure to account for higher future expenses in setting future rates will also likely lead to more frequent rate cases and revenue deficiencies.

The RD relied upon OCA's witnesses.[112] As noted, those witnesses merely showed that expenses for the FPFTY are projected to be higher than past expenses.[113] They recommended that future expenses be reduced to past spending levels, but they do nothing to show that PGW's claims were unreasonable or that it is reasonable or appropriate to use past spending levels for the FPFTY.[114] Finally, the RD combined the normalization

---

[107] COL 17. *See also* RD at 50, *citing Butler Twp. Water Co. v. PUC*, 473 A. 2d. 219 (Pa. Cmwlth 1984).
[108] Prior years do not have a tendency to show that data or estimates contained in the fully projected future test year are not accurate. *See* 66 Pa. C.S. § 315(e), requiring the utility to provide "appropriate data evidencing the accuracy of the estimates contained in the … fully projected future test year."
[109] PGW St. No. 2-R at 44-48.
[110] PGW MB at 31-32; PGW RB at 23-24; PGW St. No. 2-R at 44-48.
[111] *Id.*
[112] RD at 55.
[113] RD at 55; *see* OCA St. 1.
[114] RD at 55; *see* OCA St. 1.

adjustment with an inflation adjustment (below) which unreasonably and unfairly reduces the same PGW expense claims. By applying both normalization adjustments and inflation adjustments to the same expense categories the RD clearly double counts. The combined impact of those adjustments will deny PGW the opportunity to recover its anticipated costs in the FPFTY. If the claim is normalized, it is a "normal" expense and there is no need to adjust the expense claim for inflation. Likewise, if the claim is adjusted to remove increases projected for inflation, there is no need to further adjust the expense claim based on historic costs and averages. If the Commission is inclined to make these adjustments, either one or the other adjustment can be implemented – but not both.

EXCEPTION NO. 8 - THE RD'S DENIAL OF TARGETED INFLATION ADJUSTMENTS TO FTY EXPENSES SHOULD BE REJECTED. (RD AT 42-45, 63-64; COL 23; RATE CASE TABLES I AND II)

PGW excepts to the RD's denial of an 4.63% increase in expenses for gas processing, field operations, collection, customer service, account management, marketing, and administrative and general from the FTY to the FPFTY. That denial results in the removal of the $2.89 million generic inflation adjustment that PGW proposed to cover higher prices in the FPFTY.

The Commission allows targeted adjustments for higher prices. PGW expects all expenses/costs to increase from the FTY to the FPFTY. There was no dispute that PGW will indeed experience price increases in the FPFTY. With the exception of seven lines on the income statement (described above), PGW used specifically projected price increases that were provided by the department or responsible group managing the activity. For said seven lines, PGW applied a generic inflation adjustment of 4.63% because the subject matter experts were not able to determine a specific level of price increase, although they expected prices to go up.[115]

The 4.63% increase is reasonable. It is supported by the Company's historical experience, specific indicators of cost increases for the FPFTY, and the development of its pro forma FY 2024 budget.[116] It is, therefore, a reasonable projection of how prices will increase in the FPFTY for that handful of expense items where a more targeted specific level was not available. Such targeted (non-speculative) adjustments are

[115] PGW MB at 26-27; PGW RB at 22-23.
[116] PGW St. No. 2-R at 37-41.

permissible under Commission precedent,[117] and are different than the examples cited by I&E and OCA.[118] Moreover, this adjustment means that PGW would receive zero allowance for price increases in these departments. The Commission may take administrative notice of the fact that inflation continues to be substantial and that prices on all goods and services are expected to go up. Denying any recognition of these increases here because a "generic" or "general" indication of inflation was used as the predictive tool simply results in an arbitrary and unreasonable denial of PGW's claim.

The inflation adjustment when combined with the normalization adjustment (above) work to unreasonably and unfairly reduce PGW's expense claims, as discussed above.

EXCEPTION NO. 9 - THE RD IMPROPERLY AMORTIZES PGW'S COVID-19 EXPENSES OVER A 53-MONTH PERIOD. (RD AT 39-42, 63-64; COL 23; RATE CASE TABLES I AND II)

PGW excepts to the RD's use of a 53-month amortization period for PGW's total COVID-19 claim of $30.485 million.[119] That 53-month amortization period reduces the FPFTY allowance by $3.26 million.

PGW proposed a three-year (36 month) amortization period.[120] The longer recovery period adopted by the RD is unreasonable, since PGW has been filing base rate cases every three years (2017, 2020 and 2023), and is particularly inappropriate for a Cash Flow regulated company that used cash it would have used for other purposes in order to properly comply with the PUC's goals of trying to minimize the adverse effects of the pandemic on ratepayers.

EXCEPTION NO. 10 - THE RD IMPROPERLY DENIES PART OF PGW'S ADVERTISING EXPENSES. (RD AT 47-48, 63-64; COL 15, 23; RATE CASE TABLES I AND II)

PGW excepts to the RD's denial of half ($467,500) of the advertising expenses for PGW's Advanced Marketing Campaign to support customer communications.[121]

The RD's recommendations regarding advertising expenses should be rejected because PGW satisfied

---

[117] PGW RB at 22-23.
[118] PGW St. No. 2-R at 38-39.
[119] RD at 39-42, 63-64; COL 23; Rate Case Tables I and II.
[120] RD at 40; PGW MB at 24-26; PGW RB at 22.
[121] RD at 47-48, 63-64; COL 15, 23; Rate Case Tables I and II.

its burden of proof by describing the substance of the advertising.[122] The descriptions provided by PGW show the customer beneficial nature of this advertising. It is unreasonable for RD to require examples of all of those materials that will be used, since the above-described campaigns will not be commenced until the FPFTY. Creating this as the required level of proof is just a way of insuring that most advertising expenses for a future period will be denied.

EXCEPTION NO. 11 - THE RD IMPROPERLY ADJUSTS PGW'S RATE CASE EXPENSES. (RD AT 36-39, 63-64; COL 17-20, 23; RATE CASE TABLES I AND II)

PGW excepts to: (a) the RD's use of a 53-month normalization period for PGW's rate case expenses in this proceeding, and (b) the RD's denial of PGW's continued recovery of the remaining $177,000 in rate case expenses from the 2020 base rate case.[123]

Normalization over 53-months is not reasonable since that recovery period is inconsistent with PGW's budget planning period[124] (five years) and the projected duration between rate cases (about three years).[125]

PGW's position is that the Commission must allow the full recovery of legitimately incurred (and previously authorized) rate case expenses.[126] The RD's denial of the full recovery of legitimately incurred (and previously authorized) unamortized rate case expenses is unreasonable and is, in effect, an improper collateral attack on a prior Commission order.

EXCEPTION NO. 12 - THE RD'S DENIAL OF PGW'S LOBBYING EXPENSES SHOULD BE REJECTED. (RD AT 34-36, 63-64; COL 16, 23; RATE CASE TABLES I AND II)

PGW excepts to the RD's denial of PGW's lobbying expenses.[127] PGW's projected lobbying expenses are reasonable and should be deemed a reasonable expense.[128] PGW is a municipal utility and therefore has an obligation to maintain lines of communication with other parts of government. PGW's government relations professionals assist in obtaining information and appropriate funding for state and federal programs such as

---

[122] PGW MB at 26; PGW RB at 26.
[123] RD at 36-39, 63-64; COL 17-20, 23; Rate Case Tables I and II.
[124] PGW voluntarily adopted a 5-year amortization period not because it reflects the duration between rate cases (which is actually about 3 years) 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. PGW MB at 23-24.
[125] PGW MB 23-24; PGW RB at 21-22.
[126] *Id. See also* RD at 42.
[127] RD at 34-36, 63-64; COL 16, 23; Rate Case Tables I and II.
[128] PGW MB at 22-23; PGW RB at 22.

LIHEAP. These efforts directly benefit customers. In fact, since PGW is a municipal utility, PGW's lobbying efforts accrue to the benefit of customers – not to shareholders. To the extent that including lobbying expenses are deemed generally prohibited, PGW requests that the Commission waive its application for the reasons stated in PGW's Main Brief.

B. RATE DESIGN

EXCEPTION NO. 13: THE RD LACKS CLARITY REGARDING THE SCALE BACK OF PGW'S PROPOSED CUSTOMER CHARGES. (RD AT 75-82).

PGW is not excepting to the RD's overall scale back or the scaling back of PGW's proposed customer charge increases proportional to a rate increase scale back.[129] However, the RD does not propose specific customer charges for each class or detail the methodology to be used to calculate the scale back of customer charges for each class. Due to the lack of specificity regarding the implementation of the scale back of customer charges, PGW believes that the proportional scale back of customer charges would be calculated as described below and as reflected in Appendix B.

PGW requested approval of an increase in annual operating revenue in the amount of $85.82 million, while the ALJs' recommended approval of an increase in the amount of $22.3 million. The ALJs' recommended increase in annual operating revenue equates to approximately 26% of PGW's requested increase. The average customer charge increases originally requested for the existing various customer classes were approximately 33%.[130] Considering the ALJs' recommendation that the Commission approve a rate increase of $22.3 million, a proportionate scale back of PGW's proposed customer charges should be calculated to be a 9% increase in PGW's customer charges for all customer classes (excluding Rate GS-XLT).

This method of scaling back the customer charges should be adopted because it will maintain a reasonable level of customer charge increase which is appropriate because, even with these increases the

---

[129] The ALJs recommended that the Commission approve a lower revenue increase than PGW is requesting and suggested a proportional scale back approach (excluding the Rate GS-XLT class), with the first $7.0 million of the decrease allocated solely to the residential class. With regard to customer charges, the RD found that 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" should be scaled back proportionally. RD at 76. The RD also agreed with OSBA that the commercial customer charge be included in any scale back of rates in this proceeding. RD at 82.

[130] PGW St. No. 6 at 8.

customer charge rate will lag significantly behind customer charge costs, as demonstrated in the record by PGW. Generally, a utility should be permitted to recover fixed customer class-related costs through fixed customer charges. PGW's proposed customer charges are intended to reduce the disparity between PGW's current customer charges and the customer-classified costs identified in the cost of service study. The RD did not dispute PGW's customer charge study, which showed that existing customer charges lagged cost by an average of 68%,[131] and commended "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…."[132]

Using the formula described above and provided in Appendix B, the scaled back customer charge for the residential class would be $16.25 per month (with similar increases for the other customer classes except Rate GS-XLT). The formula can also be used to calculate a proportional scale back if the Commission revises upward PGW's allowed increase in annual operating revenues. For example, should the Commission recommend a higher increase in annual operating revenues than proposed by the ALJs, the ratio in the table in Appendix B will be altered and impact the increase to PGW's customer charges. The Commission's adoption of PGW's approach for determining the proportional scale back of customer charges as described herein will resolve any ambiguity in the RD regarding implementation of a proportional scale back, provide regulatory certainty, and be consistent with moving customer charges closer to the full cost of service.

C. CUSTOMER SERVICE ISSUES

EXCEPTION NO. 14: THE RD IMPROPERLY RECOMMENDED THAT PGW IMPLEMENT CALL CENTER PERFORMANCE PLANS AND A PERFORMANCE MEASURE SPECIFIC TO PGW ONLY. (RD AT 108; ORDERING ¶5)

PGW excepts to the recommendation of the ALJs for the Commission to condition any rate increase on the development of plans by the Company to address customer service performance.[133] The Parties made no allegations as to inadequate service by PGW under Section 1501 of the Public Utility Code and the RD made no findings to that effect. Yet, citing the testimony of OCA witness Alexander, the RD recommended that the Commission condition approval of any increase in rates upon the development of plans by PGW to maintain its

---

[131] *See* PGW St. No. 6 at 8. *compare* Proposed Charge (as filed) vs Direct Customer Costs Per Bill (Cost of Service Study).
[132] RD at 76.; see also PGW St. No. 6 at 8.
[133] RD at 108; Ordering Paragraph No. 5.

current level of customer service performance, including its call response rate and call abandonment rate, within 6 months after the Commission's final order in this proceeding.[134] Notably, the RD offered these recommendations despite acknowledging that the OCA 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.'"[135]

At the outset, PGW disagrees with the RD's assessment that there are any "problems" that need to be addressed. In the testimony of OCA's witness upon which these recommendations are based, Ms. Alexander stated that "PGW's call center performance has significantly improved even with the onset of termination activity."[136] She nonetheless testified that "[a]s a result of this improved performance in 2023, I recommend that the Commission require PGW to meet this level of performance in the rate effective year should any rate increase be approved in this proceeding."[137] Clearly, her focus was on PGW's customer performance levels being maintained. Indeed, OCA has not referred to any customer performance standards established by law or Commission regulation, with which PGW has failed to comply. Further, OCA has not shown, or even alleged, that PGW is providing inadequate service under Section 1501 of the Public Utility Code ("Code").[138] Further, like all regulated utilities, PGW reports call center performance to the Bureau of Consumer Services ("BCS") annually and has received no requirements from BCS regarding specific metrics that only PGW should meet.

The Commission has expressly rejected OCA's efforts in other base rate cases to condition a utility's rate increase upon the imposition of customer service standards OCA sought to have established and should do the same here. In the base rate case filed by the Pennsylvania American Water Company ("PAWC") in 2020,

---

[134] RD at 108. Although this discussion also refers to the implementation of a "BCS review program," this recommendation was offered by OCA is in connection with its proposal for PGW to conduct a root cause analysis of complaints. The RD modified this recommendation to entail a review of Initial Decisions that are "adverse" to PGW, rather than decision of the Bureau of Consumer Services. RD at 108-110. PGW addresses this issue in Exception No. 15. If the RD contemplates a "BCS review program" associated with call center performance, PGW is not aware what this program would entail and notes that BCS is free to review PGW's call center performance as part of its normal duties as it receives call center reporting from all regulated utilities.
[135] RD at 108, footnote 559.
[136] OCA St. 5SR at 1; See also OCA's Exhibit BA-3.
[137] OCA St. 5SR at 2.
[138] 66 Pa. C.S. § 1501.

OCA made the same argument that it has presented in this case. In rejecting OCA's argument, the Commission found that recommendations for a utility continue its service at *existing levels* demonstrates that as a general matter, the utility is not failing to provide safe, adequate and reasonably continuous service in accordance with Code Section 1501. The Commission was quite clear that when it has conditioned a rate increase on performance standards, the evidentiary record in the proceeding demonstrated a multitude of serious service issues.[139] Indeed, in imposing conditions on the rate increase in the *PG&W* Order in 1986, the Commission determined that the company had failed to maintain adequate water quality and had failed to provide adequate, efficient, safe, and reasonable service in accordance with its statutory duty.[140] Particularly since that is not in the case here, the Commission should reject the RD's recommendation.[141]

Moreover, OCA's proposal for PGW to take actions regarding the call response rate and abandonment rate contains no concrete suggestions and fails to consider the resources that PGW would need to devote to areas in which OCA's own witness has said the Company's performance is acceptable. The initial objective of Ms. Alexander's testimony seemed to have been focused on PGW returning to "pre-pandemic levels," which Exhibit BA-3 submitted with her surrebuttal testimony, demonstrates has been achieved. With this later testimony, she expressed satisfaction with PGW's performance levels and was only seeking to ensure that they were maintained.

It is also worth noting that PGW already reports call response rates and abandonment rates to BCS for inclusion in the Customer Service Performance Report.[142] Under the 2021 Report, the call abandonment rates for natural gas distribution companies ("NDGCs") are shown on page 8. While PGW had a 9% abandonment rate in 2021, Columbia Gas Company and UGI-Gas Utilities, Inc. both experienced 7% abandonment rates which were higher than levels experienced in prior years. As the Report explained, all companies pointed to substantially larger call volumes, predominantly due to the resumption of collection activities after the COVID-19 termination moratorium. PGW and UGI also indicated that staffing issues, including a reduced labor pool due

---

[139] *Pa. PUC v. Pennsylvania Gas & Water Co.*, 61 Pa. P.U.C. 409, 74 PUR 4th 238 (1986) ("*PG&W*").
[140] *Pa. PUC v. Pennsylvania Gas & Water Co.*, 61 Pa. P.U.C. 409, 74 PUR 4th 238 (1986).
[141] *See Metro. Edison Co. v. Pa. Pub. Util. Comm'n*, 437 A.2d 76 (Pa. Cmwlth. 1981) (Commission may not dictate management policies or actions unless it specifically finds that the utility's service is inadequate or unreasonable).
[142] The 2021 Customer Service Performance Report was published in September 2022.

to the COVID-19 pandemic, were contributing factors. Similarly, page 7 of the Report shows that Duquesne Light Company and PPL Electric Utilities Corporation, as electric distribution companies ("EDCs"), had the exact same level of abandonment rate as PGW – 9%. Of note, BCS collects, analyzes and publishes this data and has the ability to follow up with PGW (or any other utility) if it has any concerns that it does not believe have been and are being adequately addressed. Moreover, customers abandon calls due to a number of factors outside a utility's control, such that abandonment rates, absent evidence of inadequate service, should not be tied to a utility's base rate increase. In this instance, OCA has attempted to usurp BCS' authority and impose a new and unique regulatory obligation on PGW. Therefore, the RD's recommendations should be rejected.

EXCEPTION NO. 15: THE RD IMPROPERLY RECOMMENDED THAT PGW UNDERTAKE QUARTERLY REPORTING SHOWING ANALYSIS OF INITIAL DECISIONS ADVERSE TO PGW. (RD AT 108-110; ORDERING ¶ 5)

PGW excepts to the RD's finding that the rate increase should be conditioned on PGW: (1) undertaking a quarterly analysis of Initial Decisions adverse to PGW; (2) developing and implementing actions to address trends identified through such analysis to prevent or lower complaints; and (3) completing the first such analysis within 90 days of a final Commission order in this proceeding.[143]

PGW excepts to these requirements for a variety of reasons. First and foremost, neither the RD nor the OCA point to any applicable statute, regulation, or Commission order that would require the Company to undertake this type of "root cause" analysis. PGW is not aware of any such requirement, and is also unaware of any other utility that has been required by the Commission to undertake such an analysis (apart from possibly a commitment in a settlement agreement). As with call center performance,[144] the RD did not find that PGW is providing inadequate service under Section 1501, and thus offered no basis for imposing this requirement.

Second, PGW already performs this type of analysis. By its nature, an Initial Decision is the result of a litigated proceeding that the Company will have spent time and resources addressing. Of course, PGW reviews and analyzes any Initial Decision. It is in the Company's interest to take steps to address trends that may lead to formal complaints and associated litigation; it is not necessary to *order* PGW to review these decisions and

[143] RD at 110.
[144] Exception No. 14.

undertake such an analysis. It is also not clear to PGW what an "adverse" Initial Decision might include. For example, some Initial Decisions direct PGW to enter into payment arrangements due to the ability of the Commission to impose such a requirement on a utility that otherwise the utility would not have an obligation to offer under the regulations. The Initial Decision would have sustained the formal complaint, but that does not necessarily mean it is "adverse" to PGW.

Finally, if PGW is required to do this analysis, the analysis should be focused only on final PUC Orders, not Initial Decisions. It is not useful to focus on Initial Decisions, as they are subject to exceptions filed by PGW and/or the complainant, and can be modified based upon them or upon *sua sponte* review by the Commission. Ultimately, the final outcome may be very different. Final Orders are more indicative of actual trends and therefore should be the focus of any analysis. Further, to the extent that the RD requires PGW to produce this analysis to be served on the Commission or parties to this proceeding, PGW objects to this requirement. No other utility is required by regulation to do this. An analysis of final Orders in litigated proceedings should be limited to internal analysis and not shared broadly.

For these reasons, the PGW submits that the RD's recommendations regarding the analysis of Initial Decisions adverse to the Company should be rejected.

D. LOW-INCOME CUSTOMER SERVICE ISSUES

EXCEPTION NO. 16: UNIVERSAL SERVICE ISSUES SHOULD BE ADDRESSED IN UNIVERSAL SERVICE PROCEEDINGS. (RD AT 119-121; ORDERING ¶ 5)

PGW excepts to the RD's recommendation for PGW to address its low-income programming in this base rate case.[145] Given the well-established periodic process for review, approval and implementation of PGW's five-year Universal Service and Energy Conservation Plan ("USECP"), this base rate case is not the appropriate forum in which to address complex issues involving universal service. The Commission has previously recognized that these issues are "better reviewed in a universal service stakeholder process."[146] In *Aqua*, the Commission declined to modify the company's universal service program and noted that its decision was "consistent with prior decisions in which we have determined that it was not appropriate to consider

[145] RD at 119-121; Ordering Paragraph No. 5.
[146] *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-2021-3027385 et al. (Order entered May 16, 2022), at 331.

proposals relating to a public utility's energy burdens, Customer Assistance Program ("CAP") and other universal service program issues within the context of a base rate proceeding."[147] Additionally, the Commission is currently addressing a myriad of issues, including automatic enrollment in customer assistance programs, outreach to low-income customers and data sharing among agencies, in the context of its review of all fixed utilities' universal service programs.[148] Concerns about the affordability of utility rates and access by low-income customers to those programs are appropriately considered on a statewide basis as they are not unique to PGW.

The concerns expressed by the RD regarding a delay in the resolution of these issues if they are not addressed in this base rate case are unfounded. The USECP proceeding's five-year time periods and lengthy review process have been established by the Commission to provide sufficient opportunity for the stakeholders to evaluate the various components of the comprehensive universal service plans, ample time for the Commission to adjudicate the filings and a necessary timeframe for implementation by the utilities.[149] The five-year USECP time period was established after significant evaluation of universal service issues. PGW is currently in the process of implementing its 2023-2027 USECP pursuant to the Commission's Order entered on January 12, 2023 and Order on Reconsideration entered on March 16, 2023, which approved PGW's USECP, as modified by the Orders, and directed PGW to file a Revised 2023-2027 USECP.[150] PGW filed its Further Revised USECP on July 11, 2023, which was approved by Secretarial Letter dated July 12, 2023.

The USECP process is very robust and gives all stakeholders an opportunity to provide feedback before decisions are made by the Commission and implemented by the utilities. BCS serves in an advisory role in that process. It would be inappropriate, and entirely unfair to PGW, to permit the parties in this base rate case to

---

[147] *Id.* at 332-33. *See also Pa. PUC v. PECO Energy Co. – Gas Division*, Docket No. R-2020-3018929 (Order entered June 22, 2021), at 195; *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.,* Docket No. R-2020-3018835 (Order entered February 19, 2021), at 160.
[148] *2023 Review of All Jurisdictional Fixed Utilities' Universal Service Programs*, Docket No. M-2023-3038944 (Secretarial Letter dated August 22, 2023).
[149] On October 3, 2019, the Commission entered an Order in *Universal Service and Energy Conservation Plan (USECP) Filing Schedule and Independent Evaluation Filing Schedule*, Docket No. M-2019-3012601, to extend the duration of USECPs from the then-prescribed three years to at least five years. The filing schedule for third-party independent evaluations was adjusted to coincide with the revised USECP duration and filing schedule. The Commission extended PGW's 2017 USECP through 2022 and directed PGW to file its next five-year USECP (2023-2027) on November 1, 2021.
[150] *Philadelphia Gas Works Universal Service and Energy Conservation Plan for 2023-2027 Submitted in Compliance with 52 Pa. Code § 62.4*, Docket No. M-2021-3029323 (Orders entered January 12, 2023, and March 16, 2023).

obtain approval for changes outside that process, and would usurp BCS' authority (again). For example, as approved by the Commission earlier this year, PGW's 2023-2027 USECP addresses the forms of identification that PGW will accept for customers to be eligible for enrollment in the CRP and establishes a Consumer Education and Outreach Plan – topics that the parties in this rate case are seeking to revise consistent with their own views as to how these issues should be addressed. Given the extensive resources that PGW has devoted to the development, review and implementation of the 2023-2027 USECP, further changes are not warranted at this time.

In addition, the Commission issued an Order amending its CAP Policy Statement in 2019, after engaging in a comprehensive review of universal service and energy conservation programs of NGDCs and EDCs, including a thorough examination of the effects of the current energy burden thresholds. This analysis considered whether existing CAP pricing was affordable and ultimately established new energy burdens and addressed various issues concerning low-income customer assistance programs.[151] Through the November 5, 2019 Order, the Commission encouraged utilities to incorporate this guidance in their USECPs. By Order dated December 13, 2022, the Commission approved PGW's changes to its CRP relative to its 2017 USECP as a Pilot Program,[152] including changes reflecting the energy burden recommendations in the Order revising the CAP Policy Statement.[153] Given the Commission's recent changes to its CAP Policy Statement, its approval of PGW's modifications to its USECP to reflect that guidance, and its opening of a new proceeding and working group on universal service issues, it is not appropriate to revisit these issues in this rate proceeding.

Contrary to the conclusion in the RD, the reference to "universal service" in the Cash Flow Policy Statement[154] provides no basis for expanding the scope of this rate case to include specific universal service modifications proposed by the parties, particularly when there are other avenues for doing so. The Commission

---

[151] *2019 Amendments to Policy Statement on Customer Assistance Program*, 52 Pa. Code §§ 69.261-69.267 (Order at Docket M-2019-3012599 entered November 5, 2019).
[152] The Pilot Program was subsequently approved to become a permanent part of PGW's USECP for 2023-2027. *See* PGW's Further Revised USECP for 2023-2027, Docket No. M-2021-3029323 (dated July 11, 2023), at 4 (accepted by Secretarial Letter dated July 12, 2023).
[153] *Petition to Amend Philadelphia Gas Works Universal Service and Energy Conservation Plan for 2017-2022,* Docket No. P-2020-3018867 (Order entered December 12, 2022, adopting Recommended Decision dated September 9, 2022).
[154] RD at 105.

issued the Cash Flow Policy Statement[155] in accordance with Code Section 2212(e)[156] to set forth the factors that should be considered in determining whether PGW's rates are just and reasonable. PGW had requested that the Commission provide this guidance so that it would know the nature and type of evidence it was expected to submit in support of requested base rate increases. Many of the criteria identified in the Cash Flow Policy Statement such as year-end cash, access to capital markets at reasonable costs, internally generated funds and bond covenants are unique to a cash flow utility, which is not regulated on the basis of a fair rate of return on rate base as investor-owned utilities are. In including non-financial considerations, such as effect on universal service, in the Cash Flow Policy Statement, the Commission found that these factors are relevant in the analysis of "just and reasonable" rates but did not suggest that the inclusion of this criterion meant that a rate case could or should be used to expand or enhance the universal service programs offered by PGW.[157]

EXCEPTION NO. 17: THE RD ERRED IN FINDING THAT PGW'S METHOD FOR IDENTIFYING LOW-INCOME CUSTOMERS IS FLAWED. (RD AT 122-125; ORDERING ¶ 5)

PGW excepts to the RD's recommendation that PGW should be required to: (1) adopt the BCS census-based estimated low-income customer count and use this data to increase enrollment in CRP and evaluate the effectiveness of the Company's universal service program outreach and participation; and (2) implement this change with PGW's next USECP filing and all reports concerning service to low-income customers filed on or after December 31, 2023. PGW's current criteria comply with Commission regulations, and the census data is not useful for the purposes identified in the RD. The RD inappropriately encroaches on areas that are BCS' responsibility and sets compliance timelines that are not possible for PGW to meet. As such, the RD's recommendations should be rejected.

PGW disagrees that its criteria for identifying confirmed low-income customers do not meet the requirements of Section 62.2 of the Commission's regulations.[158] Section 62.2 provides a definition of "confirmed low-income residential account" that simply notes that the customer is considered confirmed low-

[155] 52 Pa. Code §§ 69.2701-69.2703.
[156] 66 Pa. C.S. § 2212(e).
[157] *Philadelphia Gas Works' Cash Flow Ratemaking Method Policy Statement*, Docket No. P-2009-2136508 (Order entered April 15, 2010).
[158] 52 Pa. Code § 62.2.

income if the Company has "information that would reasonably place the customer in a low-income designation."[159] The regulation further provides that "[t]his information may include receipt of LIHEAP funds (Low-Income Home Energy Assistance Program), self-certification by the customer, income source or information obtained in § 56.97(b) (relating to procedures upon rate-payer or occupant contact prior to termination)."[160] In compliance, PGW uses the information sources specifically outlined in the regulation.[161] PGW is not violating the regulation and there is no issue here to correct.

The RD also misunderstands the data it is directing PGW to use. This census data is simply an estimate of low-income individuals in the service territory as provided by BCS to each utility. This data does not provide sufficient information to determine if these individuals are actually PGW customers, so the data is not useful for the purposes identified by the RD. In fact, as noted in the most recent Universal Service Programs & Collections Performance Report for 2021, "[m]ost confirmed low-income households are verified through the customer's receipt of a Low Income Home Energy Assistance Program (LIHEAP) grant, enrollment in a universal service program or determined during the course of making a payment arrangement."[162] Therefore, imposing this additional data compilation requirement on PGW is not necessary.

Importantly, the RD is (again) encroaching on subject areas and functions that are within the purview and authority of BCS. The purpose of reporting confirmed low-income customers is to allow BCS to conduct a comparison among utilities.[163] The RD's recommendations would have the effect of changing PGW's required reporting to BCS, which would be problematic for BCS' purposes. BCS has never previously raised any concerns with the data reported by PGW, and it is inappropriate for the RD to step into BCS' shoes and change these requirements, particularly without understanding how this will impact BCS' analysis of all utilities' data.

Further, the RD imposes an unreasonable compliance timeline. PGW is currently undergoing a full replacement of its customer information system ("CIS"). Even if PGW is directed to attempt to somehow use

---

[159] *Id.*
[160] *Id.*
[161] PGW St. No. 1-R at 19-20; PGW RB at 62.
[162] 2021 Universal Service Programs & Collections Performance Report at 2, *available at* https://www.puc.pa.gov/media/2188/2021_universal_service_report_rev122722.pdf.
[163] For a discussion on how confirmed low-income data is used, *see* the 2021 Universal Service Programs & Collections Performance Report at 2, *available at* https://www.puc.pa.gov/media/2188/2021_universal_service_report_rev122722.pdf.

this census data (which seems highly unlikely as it is not by household/customer), the Company will be unable to begin the system changes necessary to do so until the system change is complete. As such, the requirement to use this data and the compliance timelines outlined in the RD are not possible for PGW to meet.

For these reasons, the RD's findings on PGW's identification of confirmed low-income customers should be rejected.

EXCEPTION NO. 18: THE RD ERRONEOUSLY REQUIRED PGW TO ENGAGE IN ADDITIONAL DATA SHARING AND COORDINATION REGARDING ENROLLMENT IN LOW-INCOME ASSISTANCE PROGRAMS. (RD AT 125-128; ORDERING ¶ 5)

PGW excepts to the RD's findings that would require the Company to submit for Commission approval plans to implement a lengthy list of efforts to "use data sharing and coordination" with other entities to "improve customer service to low-income customers and applicants," and to include the status of these plans and further workplans as part of the Company's next USECP.[164] The RD claims that these recommendations "entail modest expansion of existing PGW practices and where PGW already has ready the relevant data, or it is readily available to PGW."[165] This statement is entirely inaccurate. The data sharing and coordination items listed in the RD expand well beyond PGW's current system capabilities and available data and will be costly and resource intensive implement. These requirements are overly burdensome and have no basis, and therefore should be rejected.

Initially, neither the RD nor the parties have pointed to any statute, regulation, Commission order, or any other basis for requiring PGW to implement these data sharing and coordination requirements. PGW is not aware of any other regulated utility in Pennsylvania that has been required to undertake such efforts (and the RD does not identify any), unless possibly they have been agreed to under settlement agreements (which would be non-precedential). As such, there is no basis whatsoever for requiring PGW to implement these requirements.

Furthermore, the RD fails to consider the costs of these recommendations, which may be significant, and which must be paid for by PGW's customers (many of whom are low- or moderate-income). As an example,

[164] RD at 126-128.
[165] RD at 127.

the RD's requirement that PGW implement an auto-enrollment process is particularly egregious.[166] This would represent a significant change to PGW's CRP (and to universal service programs more broadly), as universal service programs have historically been opt-in programs that require the customer to take affirmative steps to enroll. A change of this magnitude should not be made through a base rate case, particularly when there has been no substantive discussion of its cost or feasibility. As explained by PGW,[167] these proposals raise a variety of issues related to both logistics and costs that must be fully addressed if they are to be implemented. In fact, it appears that the Commission will address some or all of these issues in its new universal service working group.[168]

Importantly, the Commission also lacks jurisdiction over the entities that the RD would require PGW to coordinate with and cannot force those entities to enter into data sharing agreements with PGW. Entities such as the Department of Revenue or other City of Philadelphia agencies have no obligation to coordinate with PGW, and neither PGW nor the Commission has any way to require their cooperation.

PGW maintains that these data sharing and coordination issues are best addressed on a statewide basis. The Commission is currently reviewing universal service programs, including just these types of coordination issues, and has formed a working group that is holding its first meeting on September 21, 2023 (which is less than one week from the date these exceptions are being filed).[169] PGW submitted detailed comments in the statewide proceeding[170] and intends to participate in the working group. The broader review of universal service programs is the appropriate forum to consider this type of coordination, which represents a significant change from current universal service practices.

PGW already has a USECP that has been approved by the Commission,[171] and which does not include any of these data sharing and reporting requirements, and particularly does not provide for auto-enrollment. PGW also has an Education and Outreach Plan associated with its USECP that has also been approved by the

---

[166] RD at 127.
[167] *See* PGW MB at 74-75; PGW RB at 64-65.
[168] Docket No. M-2023-3038944.
[169] Docket No. M-2023-3038944.
[170] PGW's Comments are available at https://www.puc.pa.gov/pcdocs/1788266.pdf.
[171] *See* PGW's Further Revised USECP for 2023-2027, dated July 11, 2023 (accepted by Secretarial Letter dated July 12, 2023), Docket No. M-2021-3029323.

Commission and does not include any such requirements. The USECP is within BCS' purview, and once again, the RD is improperly stepping into BCS' shoes and changing universal service programs and requirements that have already been reviewed and approved, and directing further items to be included in PGW's next USECP.

For these reasons, the RD erred by requiring PGW to develop and implement a lengthy list of data sharing and coordination requirements, which have no legal basis and are best addressed in other proceedings. These recommendations should be rejected.

III. CONCLUSION

For all the foregoing reasons, PGW respectfully requests that the Commission grant the above Exceptions and adopt the Recommended Decision with the modifications described herein.

Respectfully submitted,

Daniel Clearfield, Esq. (Atty ID 26183)
Sarah C. Stoner, Esq. (Atty ID 313793)
Karen O. Moury, Esq. (Atty ID 36879)
Norman J. Kennard, Esq. (Atty ID 29921)
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
717.237.6000
dclearfield@eckertseamans.com
sstoner@eckertseamans.com
kmoury@eckertseamans.com
nkennard@eckertseamans.com

Graciela Christlieb, Esq. (Atty ID 200760)
Philadelphia Gas Works
800 W. Montgomery Ave
Philadelphia, PA 19122
215.684.6164
graciela.christlieb@pgworks.com

Lauren M. Burge, Esq. (Atty ID 311570)
Eckert Seamans Cherin & Mellott, LLC
U.S. Steel Tower
600 Grant St., 44th Fl.
Pittsburgh, PA 15219
412.566.6000
lburge@eckertseamans.com

Counsel for Philadelphia Gas Works

Dated: September 15, 2023

Appendix A

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

LINE NO.		ACTUAL 2021-22	EST/ACT 2022-23	BUDGET 2023-24	FORECAST 2024-25	FORECAST 2025-26	LINE NO.
	OPERATING REVENUES						
1.	Non-Heating	$ 32,064	$ 34,618	$ 31,493	$ 30,103	$ 29,412	1.
2.	Gas Transport Service	69,065	76,080	75,685	77,263	78,571	2.
3.	Heating	663,298	782,404	727,583	702,099	695,889	3.
4.	Revenue Enhancement / Cost Reduction - FY2024	-	-	22,306	22,306	22,306	4.
5.	Revenue Enhancement / Cost Reduction - FY2028	-	-	-	-	-	5.
6.	Weather Normalization Adjustment	23,160	2,044	-	-	-	6.
7.	Appropriation for Uncollectible Reserve	(25,287)	(36,037)	(34,378)	(33,345)	(33,132)	7.
8.	Unbilled Adjustment	3,329	(3,186)	(763)	(262)	(88)	8.
9.	Total Gas Revenues	765,629	855,923	821,927	798,164	792,958	9.
10.	Appliance Repair & Other Revenues	6,656	6,641	7,807	7,886	7,966	10.
11.	Other Operating Revenues	33,152	25,031	25,359	23,997	23,916	11.
12.	Total Other Operating Revenues	39,808	31,672	33,166	31,883	31,882	12.
13.	**Total Operating Revenues**	805,437	887,595	855,093	830,047	824,840	13.
	OPERATING EXPENSES						
14.	Natural Gas	272,438	381,757	323,502	298,595	290,358	14.
15.	Other Raw Material	30	31	31	23	23	15.
16.	Sub-Total Fuel	272,468	381,788	323,533	298,618	290,381	16.
17.	**CONTRIBUTION MARGINS**	**532,969**	**505,807**	**531,560**	**531,429**	**534,459**	17.
18.	Gas Processing	24,085	22,976	23,860	24,695	25,559	18.
19.	Field Operations	80,640	93,719	98,809	102,267	105,847	19.
20.	Collection	4,256	4,670	5,111	5,290	5,475	20.
21.	Customer Service	13,996	18,075	19,850	20,545	21,264	21.
22.	Account Management	8,981	9,711	10,383	10,746	11,123	22.
23.	Marketing	4,433	4,238	4,584	4,744	4,910	23.
24.	Administrative & General	73,596	92,370	100,294	103,804	107,437	24.
25.	Health Insurance	23,064	25,740	27,715	29,775	31,915	25.
26.	Pandemic Expenses	-	-	6,902	6,902	6,902	26.
27.	Capitalized Fringe Benefits	(11,668)	(11,746)	(10,717)	(10,622)	(11,457)	27.
28.	Capitalized Administrative Charges	(20,011)	(21,294)	(31,571)	(31,478)	(33,013)	28.
29.	Pensions	20,675	42,833	36,089	36,089	36,089	29.
30.	Taxes	8,984	9,747	10,157	10,689	11,088	30.
31.	Other Post Employment Benefits	(1,242)	(13,699)	(8,345)	1,588	3,601	31.
32.	Retirement Payout / Labor Savings	-	1,251	296	127	(1,791)	32.
33.	Salary and Wage Adjustment	-	-	(3,582)	(3,582)	(3,582)	33.
34.	Inflation Adjustment	-	-	(2,893)	(2,893)	(2,893)	34.
35.	Lobbying Expense	-	-	(100)	(100)	(100)	35.
36.	Advertising Expense	-	-	(468)	(468)	(468)	36.
37.	Rate Case Expense	-	-	(160)	(160)	(160)	37.
38.	Sub-Total Other Operating & Maintenance	229,789	278,591	286,214	307,959	317,746	38.
39.	Depreciation	64,961	64,747	65,412	67,840	70,544	39.
40.	Cost of Removal	5,358	9,479	6,729	5,879	5,879	40.
41.	Net Depreciation	70,319	74,226	72,141	73,719	76,423	41.
42.	**Sub-Total Other Operating Expenses**	300,108	352,817	358,355	381,679	394,170	42.
43.	**TOTAL OPERATING EXPENSES**	572,576	734,605	681,888	680,297	684,551	43.
44.	OPERATING INCOME	232,861	152,991	173,205	149,751	140,289	44.
45.	**Interest Gain / (Loss) and Other Income**	(1,523)	6,147	7,211	7,461	7,185	45.
46.	INCOME BEFORE INTEREST	231,338	159,138	180,416	157,212	147,474	46.
47.	**INTEREST**						47.
48.	Long-Term Debt	47,044	50,635	62,738	59,476	56,586	48.
49.	Other	(11,859)	(5,242)	(1,776)	(1,213)	(3,758)	49.
51.	Loss From Extinguishment of Debt	4,166	3,615	3,348	2,972	2,624	51.
52.	**Total Interest**	39,351	49,008	64,310	61,235	55,452	52.
	NON-OPERATING REVENUE						
53.	Federal Grant Revenue (PHMSA)	-	-	10,752	17,876	22,863	53.
54.	**NET INCOME**	**191,987**	**110,130**	**126,858**	**113,853**	**114,885**	54.
55.	City Payment	18,000	18,000	18,000	18,000	18,000	55.
56.	**NET EARNINGS**	**$ 173,987**	**$ 92,130**	**$ 108,858**	**$ 95,853**	**$ 96,885**	56.

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

LINE NO.		ACTUAL 2021-22	EST/ACT 2022-23	BUDGET 2023-24	FORECAST 2024-25	FORECAST 2025-26	LINE NO.
	SOURCES						
1.	Net Income	$ 191,987	$ 110,130	$ 126,858	$ 113,853	$ 114,885	1.
2.	Depreciation & Amortization	57,764	62,032	62,947	65,530	68,319	2.
3.	Earnings on Restricted Funds Withdrawal/(No Withdrawal)	(616)	(3,290)	(4,334)	(4,565)	(4,269)	3.
4.	Proceeds from Bond Refunding to Pay Cost of Issuance	-	-	3,480	-	-	4.
5.	Increased/(Decreased) Other Assets/Liabilities	(56,648)	(30,824)	(47,451)	(51,116)	(31,687)	5.
6.	Available From Operations	192,487	138,047	141,500	123,702	147,248	6.
7.	Drawdown of Bond Proceeds	72,000	113,000	102,000	77,506	70,592	7.
8.	Release of Restricted Fund Asset	-	-	-	-	-	8.
9.	Release of Bond Proceeds to Pay Temporary Financing	-	-	-	-	-	9.
10.	Temporary Financing	-	-	-	-	-	10.
11.	TOTAL SOURCES	264,487	251,047	243,500	201,208	217,840	11.
	USES						
12.	Net Construction Expenditures	$151,129	$170,490	$206,959	$190,888	$184,047	12.
13.	Revenue Bonds	$54,030	61,610	60,795	67,849	63,694	13.
14.	Temporary Financing Repayment	-	-	-	-	-	14.
15.	GASB 87 Lease Principal Payments	-	19,000	1,968	3,894	3,922	15.
16.	Changes in City Equity	-	-	-	-	-	16.
17.	Distribution of Earnings	$18,000	18,000	18,000	18,000	18,000	17.
18.	Non-Cash Working Capital	84,107	(18,769)	8,720	2,491	(810)	18.
19.	Cash Needs	$307,266	250,331	296,442	283,122	268,853	19.
20.	Cash Surplus (Shortfall)	($42,779)	716	(52,942)	(81,914)	(51,013)	20.
21.	TOTAL USES	$264,487	251,047	243,500	201,208	217,840	21.
22.	Cash - Beginning of Period	$158,390	$115,612	116,328	63,386	(18,528)	22.
23.	Cash - Surplus (Shortfall)	($42,779)	716	(52,942)	(81,914)	(51,013)	23.
24.	**ENDING CASH**	**$115,612**	**$ 116,328**	**$ 63,386**	**$ (18,528)**	**$ (69,541)**	24.
25.	**Outstanding Commercial Paper**	-	-	-	-	-	25.
26.	**Outstanding Commercial Paper - Capital**	-	-	-	-	-	26.
27.	**DSIC Spending**	36,813	39,000	41,000	41,000	41,000	27.
28.	**Internally Generated Funds**	42,316	18,490	63,959	72,382	72,455	28.
29.	**TOTAL IGF + Incremental DSIC Spending**	79,129	57,490	104,959	113,382	113,455	29.
30.	**Days of Cash**	79	62	36	(10)	(40)	30.

PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE
(Dollars in Thousands)

LINE NO.		ACTUAL 2021-22	EST/ACT 2022-23	BUDGET 2023-24	FORECAST 2024-25	FORECAST 2025-26	LINE NO.
	FUNDS PROVIDED						
1.	Total Gas Revenues	$ 765,629	$ 855,923	$ 821,927	$ 798,164	$ 792,958	1.
2.	Other Operating Revenues	39,808	31,672	33,166	31,883	31,882	2.
3.	Total Operating Revenues	805,437	887,595	855,093	830,047	824,840	3.
4.	Other Income Incr. / (Decr.) Restricted Funds	(2,139)	2,857	2,877	2,896	2,916	4.
5.	Non Operating Revenue	-	-	10,752	17,876	22,863	5.
6.	AFUDC (Interest)	-	-	-	-	-	6.
7.	TOTAL FUNDS PROVIDED	803,298	890,452	868,722	850,819	850,619	7.
	FUNDS APPLIED						
8.	Fuel Costs	272,468	381,788	323,533	298,618	290,381	8.
9.	Other Operating Costs	300,108	352,817	358,355	381,679	394,170	9.
10.	Total Operating Expenses	572,576	734,605	681,888	680,297	684,551	10.
11.	Less: Non-Cash Expenses	68,773	89,822	77,788	79,423	82,185	11.
12.	TOTAL FUNDS APPLIED	503,803	644,782	604,100	600,874	602,366	12.
13.	Funds Available to Cover Debt Service	299,495	245,669	264,622	249,946	248,253	13.
14.	Net Available after Prior Debt Service	299,495	245,669	264,622	249,946	248,253	14.
15.	Leasing Debt Service	-	-	-	-	-	15.
16.	Net Available after Prior Capital Leases	299,495	245,669	264,622	249,946	248,253	16.
17.	1998 Ordinance Bonds Debt Service	98,430	109,942	115,230	127,877	120,848	17.
18.	1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	-	-	-	-	-	18.
19.	Total 1998 Ordinance Debt Service	98,430	109,942	115,230	127,877	120,848	19.
20.	**Debt Service Coverage 1998 Bonds**	**3.04**	**2.23**	**2.30**	**1.95**	**2.05**	20.
21.	Net Available after 1998 Debt Service	201,065	135,727	149,392	122,069	127,405	21.
22.	Aggregate Debt Service	98,430	109,942	115,230	127,877	120,848	22.
23.	Debt Service Coverage (Combined liens)	3.04	2.23	2.30	1.95	2.05	23.
24.	Debt Service Coverage (Combined liens with $18.0 City Fee)	**2.86**	**2.07**	**2.14**	**1.81**	**1.91**	24.

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

LINE NO.		ACTUAL 2021-22	EST/ACT 2022-23	BUDGET 2023-24	FORECAST 2024-25	FORECAST 2025-26	LINE NO.
	OPERATING REVENUES						
1.	Non-Heating	$ 32,064	$ 34,618	$ 31,493	$ 30,103	$ 29,412	1.
2.	Gas Transport Service	69,065	76,080	75,685	77,263	78,571	2.
3.	Heating	663,298	782,404	727,583	702,099	695,889	3.
4.	Revenue Enhancement / Cost Reduction - FY2024	-	-	22,306	22,306	22,306	4.
5.	Revenue Enhancement / Cost Reduction - FY2028	-	-	-	-	-	5.
6.	Weather Normalization Adjustment	23,160	2,044	-	-	-	6.
7.	Appropriation for Uncollectible Reserve	(25,287)	(36,037)	(34,378)	(33,345)	(33,132)	7.
8.	Unbilled Adjustment	3,329	(3,186)	(763)	(262)	(88)	8.
9.	Total Gas Revenues	765,629	855,923	821,927	798,164	792,958	9.
10.	Appliance Repair & Other Revenues	6,656	6,641	7,807	7,886	7,966	10.
11.	Other Operating Revenues	33,152	25,031	25,359	23,997	23,916	11.
12.	Total Other Operating Revenues	39,808	31,672	33,166	31,883	31,882	12.
13.	**Total Operating Revenues**	805,437	887,595	855,093	830,047	824,840	13.
	OPERATING EXPENSES						
14.	Natural Gas	272,438	381,757	323,502	298,595	290,358	14.
15.	Other Raw Material	30	31	31	23	23	15.
16.	Sub-Total Fuel	272,468	381,788	323,533	298,618	290,381	16.
17.	**CONTRIBUTION MARGINS**	**532,969**	**505,807**	**531,560**	**531,429**	**534,459**	17.
18.	Gas Processing	24,085	22,976	23,860	24,695	25,559	18.
19.	Field Operations	80,640	93,719	98,809	102,267	105,847	19.
20.	Collection	4,256	4,670	5,111	5,290	5,475	20.
21.	Customer Service	13,996	18,075	19,850	20,545	21,264	21.
22.	Account Management	8,981	9,711	10,383	10,746	11,123	22.
23.	Marketing	4,433	4,238	4,584	4,744	4,910	23.
24.	Administrative & General	73,596	92,370	100,294	103,804	107,437	24.
25.	Health Insurance	23,064	25,740	27,715	29,775	31,915	25.
26.	Pandemic Expenses	-	-	6,902	6,902	6,902	26.
27.	Capitalized Fringe Benefits	(11,668)	(11,746)	(10,717)	(10,622)	(11,457)	27.
28.	Capitalized Administrative Charges	(20,011)	(21,294)	(31,571)	(31,478)	(33,013)	28.
29.	Pensions	20,675	42,833	36,089	36,089	36,089	29.
30.	Taxes	8,984	9,747	10,157	10,689	11,088	30.
31.	Other Post Employment Benefits	(1,242)	(13,699)	(8,345)	1,588	3,601	31.
32.	Retirement Payout / Labor Savings	-	1,251	296	127	(1,791)	32.
33.	Salary and Wage Adjustment	-	-	(3,582)	(3,582)	(3,582)	33.
34.	Inflation Adjustment	-	-	(2,893)	(2,893)	(2,893)	34.
35.	Lobbying Expense	-	-	(100)	(100)	(100)	35.
36.	Advertising Expense	-	-	(468)	(468)	(468)	36.
37.	Rate Case Expense	-	-	(160)	(160)	(160)	37.
38.	Sub-Total Other Operating & Maintenance	229,789	278,591	286,214	307,959	317,746	38.
39.	Depreciation	64,961	64,747	65,412	67,840	70,544	39.
40.	Cost of Removal	5,358	9,479	6,729	5,879	5,879	40.
41.	Net Depreciation	70,319	74,226	72,141	73,719	76,423	41.
42.	**Sub-Total Other Operating Expenses**	300,108	352,817	358,355	381,679	394,170	42.
43.	**TOTAL OPERATING EXPENSES**	572,576	734,605	681,888	680,297	684,551	43.
44.	OPERATING INCOME	232,861	152,991	173,205	149,751	140,289	44.
45.	**Interest Gain / (Loss) and Other Income**	(1,523)	6,147	7,211	7,461	7,185	45.
46.	INCOME BEFORE INTEREST	231,338	159,138	180,416	157,212	147,474	46.
47.	**INTEREST**						47.
48.	Long-Term Debt	47,044	50,635	62,738	59,476	56,586	48.
49.	Other	(11,859)	(5,242)	(1,776)	(1,213)	(3,758)	49.
51.	Loss From Extinguishment of Debt	4,166	3,615	3,348	2,972	2,624	51.
52.	**Total Interest**	39,351	49,008	64,310	61,235	55,452	52.
	NON-OPERATING REVENUE						
53.	Federal Grant Revenue (PHMSA)	-	-	10,752	17,876	22,863	53.
54.	**NET INCOME**	**191,987**	**110,130**	**126,858**	**113,853**	**114,885**	54.
55.	City Payment	18,000	18,000	18,000	18,000	18,000	55.
56.	**NET EARNINGS**	**$ 173,987**	**$ 92,130**	**$ 108,858**	**$ 95,853**	**$ 96,885**	56.

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

LINE NO.		ACTUAL 2021-22	EST/ACT 2022-23	BUDGET 2023-24	FORECAST 2024-25	FORECAST 2025-26	LINE NO.
	SOURCES						
1.	Net Income	$ 191,987	$ 110,130	$ 126,858	$ 113,853	$ 114,885	1.
2.	Depreciation & Amortization	57,764	62,032	62,947	65,530	68,319	2.
3.	Earnings on Restricted Funds Withdrawal/(No Withdrawal)	(616)	(3,290)	(4,334)	(4,565)	(4,269)	3.
4.	Proceeds from Bond Refunding to Pay Cost of Issuance	-	-	3,480	-	-	4.
5.	Increased/(Decreased) Other Assets/Liabilities	(56,648)	(30,824)	(35,521)	(50,864)	(10,763)	5.
6.	Available From Operations	192,487	138,047	153,430	123,954	168,172	6.
7.	Drawdown of Bond Proceeds	72,000	113,000	102,000	77,506	70,592	7.
8.	Release of Restricted Fund Asset	-	-	-	-	-	8.
9.	Release of Bond Proceeds to Pay Temporary Financing	-	-	-	-	-	9.
10.	Temporary Financing	-	-	-	-	-	10.
11.	TOTAL SOURCES	264,487	251,047	255,430	201,460	238,764	11.
	USES						
12.	Net Construction Expenditures	$151,129	$170,490	$206,959	$190,888	$184,047	12.
13.	Revenue Bonds	$54,030	61,610	60,795	67,849	63,694	13.
14.	Temporary Financing Repayment	-	-	-	-	-	14.
15.	GASB 87 Lease Principal Payments	-	19,000	1,968	3,894	3,922	15.
16.	Changes in City Equity	-	-	-	-	-	16.
17.	Distribution of Earnings	$18,000	18,000	18,000	18,000	18,000	17.
18.	Non-Cash Working Capital	84,107	(18,769)	8,720	2,491	(810)	18.
19.	Cash Needs	$307,266	250,331	296,442	283,122	268,853	19.
20.	Cash Surplus (Shortfall)	($42,779)	716	(41,012)	(81,662)	(30,089)	20.
21.	TOTAL USES	$264,487	251,047	255,430	201,460	238,764	21.
22.	Cash - Beginning of Period	$158,390	$115,612	116,328	75,316	(6,346)	22.
23.	Cash - Surplus (Shortfall)	($42,779)	716	(41,012)	(81,662)	(30,089)	23.
24.	**ENDING CASH**	**$115,612**	**$ 116,328**	**$ 75,316**	**$ (6,346)**	**$ (36,435)**	24.
25.	**Outstanding Commercial Paper**	-	-	-	-	-	25.
26.	**Outstanding Commercial Paper - Capital**	-	-	-	-	-	26.
27.	**DSIC Spending**	36,813	39,000	41,000	41,000	41,000	27.
28.	**Internally Generated Funds**	42,316	18,490	63,959	72,382	72,455	28.
29.	**TOTAL IGF + Incremental DSIC Spending**	79,129	57,490	104,959	113,382	113,455	29.
30.	**Days of Cash**	79	62	43	(4)	(21)	30.

PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE
(Dollars in Thousands)

LINE NO.		ACTUAL 2021-22	EST/ACT 2022-23	BUDGET 2023-24	FORECAST 2024-25	FORECAST 2025-26	LINE NO.
	FUNDS PROVIDED						
1.	Total Gas Revenues	$ 765,629	$ 855,923	$ 821,927	$ 798,164	$ 792,958	1.
2.	Other Operating Revenues	39,808	31,672	33,166	31,883	31,882	2.
3.	Total Operating Revenues	805,437	887,595	855,093	830,047	824,840	3.
4.	Other Income Incr. / (Decr.) Restricted Funds	(2,139)	2,857	2,877	2,896	2,916	4.
5.	Non Operating Revenue	-	-	10,752	17,876	22,863	5.
6.	AFUDC (Interest)	-	-	-	-	-	6.
7.	TOTAL FUNDS PROVIDED	803,298	890,452	868,722	850,819	850,619	7.
	FUNDS APPLIED						
8.	Fuel Costs	272,468	381,788	323,533	298,618	290,381	8.
9.	Other Operating Costs	300,108	352,817	358,355	381,679	394,170	9.
10.	Total Operating Expenses	572,576	734,605	681,888	680,297	684,551	10.
11.	Less: Non-Cash Expenses	68,773	89,822	89,718	79,675	103,109	11.
12.	TOTAL FUNDS APPLIED	503,803	644,782	592,170	600,622	581,442	12.
13.	Funds Available to Cover Debt Service	299,495	245,669	276,552	250,198	269,177	13.
14.	Net Available after Prior Debt Service	299,495	245,669	276,552	250,198	269,177	14.
15.	Leasing Debt Service	-	-	-	-	-	15.
16.	Net Available after Prior Capital Leases	299,495	245,669	276,552	250,198	269,177	16.
17.	1998 Ordinance Bonds Debt Service	98,430	109,942	115,230	127,877	120,848	17.
18.	1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	-	-	-	-	-	18.
19.	Total 1998 Ordinance Debt Service	98,430	109,942	115,230	127,877	120,848	19.
20.	**Debt Service Coverage 1998 Bonds**	**3.04**	**2.23**	**2.40**	**1.96**	**2.23**	20.
21.	Net Available after 1998 Debt Service	201,065	135,727	161,322	122,321	148,329	21.
22.	Aggregate Debt Service	98,430	109,942	115,230	127,877	120,848	22.
23.	Debt Service Coverage (Combined liens)	3.04	2.23	2.40	1.96	2.23	23.
24.	Debt Service Coverage (Combined liens with $18.0 City Fee)	**2.86**	**2.07**	**2.24**	**1.82**	**2.08**	24.

Appendix B

Calculation of Proportional Scale Back of Customer Charges

PGW's Requested Rate Increase (in millions)	$85.820
ALJs' Recommended Rate Increase Per Recommended Decision (in millions)	$22.306
Ratio of ALJs' Recommended Rate Increase as Compared to PGW's Proposed Rate Increase	26%
Average Customer Charge Increase % (as PGW originally proposed compared to current customer charges)[1]	33%
Scale Back of Customer Charges (Except Rate GS-XLT) as Ratio of Rate Increase ALJs Recommended in Recommended Decision to PGW's Proposed Rate Increase (33% x .26% = 8.58%, rounded to 9%)	9%

[1] PGW St. No. 6 at 8.