ECKERT SEAMANS
ATTORNEYS AT LAW

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 22, 2023

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

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

Dear Secretary Chiavetta:

Enclosed for electronic filing please find the Philadelphia Gas Works' ("PGW") Reply Exceptions 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.

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of PGW's Reply 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 22, 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 Gas	:	C-2023-3039059
User Group	:	
Grays Ferry Cogeneration Partnership and	:	C-2023-3038727
Vicinity Energy Philadelphia, Inc.	:	
v.	:	
	:	
Philadelphia Gas Works	:	

PHILADELPHIA GAS WORKS' REPLIES TO 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 22, 2023

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I. INTRODUCTION

Philadelphia Gas Works ("PGW" or "Company") files these Replies to the Exceptions of OCA, PICGUG, CAUSE-PA/TURN, GFCP/VEPI and POWER to the Recommended Decision ("RD") of Administrative Law Judge ("ALJ") Eranda Vero and ALJ Arlene Ashton issued on September 5, 2023.

II. REPLIES TO EXCEPTIONS

A. EXPENSES

1. The PUC Should Reject OCA's Proposed Reductions In PGW's Construction Expenses

PGW's filing included a proposal for Net Construction Expenditures in the amount of $207 million and sought approval to recover $53.2 million of those expenditures through internally generated funds ("IGF," i.e., through rates). The RD recommended a disallowance of $38.5 million in IGF – for reasons not explained by the ALJs – resulting in an allowance of only $14.7 million in IGF for construction purposes, which, in turn, reduced PGW's year-end days of cash to an inadequate 35 days and left it some $38.5 million short of the cash it will need to pay all its bills in FY 2024.[1] PGW excepted to this recommendation, stressing the importance of using IGF to finance a portion of PGW's capital improvement projects, particularly since it is cheaper than debt financing for ratepayers, and noting that the RD had failed to include an offsetting recommendation for PGW to issue additional debt to maintain the level of projects planned for the FPFTY.[2]

On their face, OCA Exceptions Nos. 1 and 3 challenge PGW's Net Construction Expenditures. Together those Exceptions would reduce PGW's Net Construction Expenses by $24.2 million: $17.1 million in OCA Exception No. 3 and $7.1 million in OCA Exception No. 1. What OCA's Exceptions fail to acknowledge is the effect of its proposals on PGW's IGF claim. Specifically, a $24.2 million reduction in Net Construction Expenditures would necessarily result in

[1] RD at Rate Case Table I(B), Line 29; PGW Exc. No. 1 at 4-10; PGW Exc. No. 3 at 12-13.

[2] PGW Exc. No. 3 at 11-19. As noted by PGW's Exceptions, the RD's recommendation was based on neither the I&E nor the OCA positions. I&E had sought to have the entire $53.2 million IGF claim denied, (I&E MB at 11; I&E RB at 2, 4-5), whereas OCA had proposed to reduce PGW's Net Construction Expenditures by $24.2 million. OCA's proposal consisted of a reduction of $17.1 million based upon its review of PGW's history of projections vs. spending, (OCA St. 2-SR at 4-5, Schedule MFG-SR-2), and a rejection of PGW's $7.1 million claim for contingency costs related to its Customer Information System (OCA St. 1 at 15, 57-58). While OCA's Cash Flow Statement reflected a proposed reduction in Net Construction Expenditures of $24.2 million, it showed a proposed reduction in IGF of only $17.1 million. OCA MB, Rate Case Table I(B), Line 13 and Line 29. (The Rate Case Tables attached to OCA's Main Brief either contain an error or inconsistent logic; in any event, they are a source of confusion, making them unreliable in evaluating PGW's proposed rate increase). The RD explicitly rejected OCA's $7.1 million adjustment for contingency costs and otherwise showed no reduction in net construction expenditures. RD at 30-31, 61-62, Rate Case Table I(B) at Line 13 (net construction expenditures). However, the RD recommended that IGF for capital improvement projects be reduced by $38.5 million – so that PGW may only recover IGF in the amount of $14.7 million. RD at Rate Case Table I(B), Line 29.

a reduction of $24.2 million in PGW's IGF claim of $53.2 million.[3] Implicitly, those Exceptions – if both were granted in lieu of the RD adjustment to IGF – would provide an allowance of $29 million in IGF for construction purposes (as opposed to the $14.7 million allowed by the RD).[4] Therefore, OCA's Exceptions tacitly concede that, even if its two construction-related adjustments were to be adopted – which PGW opposes – PGW's rate increase would have to be hiked by $14.3 million over the RD's recommended $22.3 million increase in annual operating revenues.

However, consistent with PGW's Exceptions to the RD's recommended disallowance of $38.5 million in IGF, the Company's full Net Construction Expenditures and IGF claim should be adopted.[5] None of the arguments offered in the OCA's Exceptions Nos. 1 and 3 demonstrate that the ALJ erred in denying the OCA's Net Construction Expenses recommendations. Therefore, and as further explained herein, both of those exceptions by OCA should be denied.

a) **Reply Exception No. 1: The Commission Should Not Adopt the OCA's Recommended Reduction of $17.1 Million in Net Construction Expense.**

For the reasons explained in PGW's Exceptions to the RD's IGF recommendation, it would be unreasonable to adopt OCA's proposal to reduce PGW's Net Construction Expense by $17.1 million simply because expenditures in prior years were lower than projected.[6] Of note, in making this recommendation, OCA's witness did not identify a single specific construction project to cancel or defer. To recommend a significant adjustment to PGW's budget for capital projects without any consideration of the impacts on PGW's system safety or system reliability is arbitrary.[7] Importantly, adoption of this OCA proposed adjustment would require PGW to delay or forego the construction of infrastructure or other capital improvement projects, which 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 service.[8]

It is of no consequence that PGW has spent less on construction projects in recent years than the Company projected to spend. A number of factors outside of PGW's control have contributed to the underspending, including the COVID-19 pandemic and subsequent supply chain issues. With that experience, PGW has factored into its FPFTY

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[3] OCA did not recommend any changes to PGW's proposed bond issuance or any changes to PGW's DSIC – which are the two other ways that PGW pays for capital projects. *See* PGW RB at 21, fn. 128. So, changes to PGW's Net Construction Expenses would impact the amount of PGW's IGF for construction purposes.

[4] As OCA's Exceptions only challenge the Net Construction Expenditures amount in the RD, it is unclear what OCA is proposing. It would be unreasonable, and without any support in the evidentiary record, for OCA to be seeking reductions to Net Construction Expenses and/or IGF in addition to the RD's recommendation. The combined total of reductions ($38.5 million by the RD and $24.2 million by OCA) would exceed PGW's total claim by $9.5 million.

[5] PGW Exc. No. 3 at 11-19; PGW MB at 9-14,16-18, 21-23, 32-35; PGW RB at 4-21, 26.

[6] PGW Exc. at 14, 17-19.

[7] PGW St. No. 2-R at 13.

[8] The variety and scope of PGW's FY 2024 projected capital improvements are set out in its Capital Budget, POWER Exh. MDK-4.

budget an allowance for those issues that continue to linger, and it would be unreasonable and counterproductive to hold that PGW's going forward capital improvements must continue to be held back. What matters now is to ensure that PGW has the funds it needs to modernize the Company's infrastructure, including the replacement of cast iron main.[9]

Even if PGW does not spend the $207 million in construction expenditures that it has requested for the FPFTY, it does not mean that any leftover funds go into the pockets of shareholders, of which there are none. To the contrary, any unspent funds that remain to finance the FPFTY construction budget will benefit ratepayers when these funds are expended in future years.

b) Reply Exception No. 2: The RD Correctly Rejected the OCA's Proposed Adjustment to PGW's Customer Information System Spending.

PGW's projected contingency for the Customer Information System ("CIS") should be accepted, as recommended by the RD.[10] The transition to the new CIS will allow PGW to move from its prior system, which is over 20 years old.[11] For the FPFTY, the remaining costs for the CIS include (but are not limited to) contingency costs of $7,119,731.[12] This amount was included in PGW's claims because PGW anticipated that it would be needed in the FPFTY to complete the project.[13] While it was labeled a "contingency" it would have been more accurately labeled as "projected additional amount to complete project." The amount of the projected additional expenditures – $7.1 million, is reasonable – as explained by PGW,[14] and in fact no witness challenged it as imprudent. Accordingly, the RD correctly concluded that these likely additional costs are measurable because they are based on the risks and the size of the project.[15] Unlike the other cases discussed by OCA, the contingency here is not a "fudge factor" or guess; the total contract price for CIS is known and the contingency is a reasonable amount of the total cost, based on the experience to date with this mammoth project.[16] In contrast, OCA appears to base its position virtually entirely on the fact that the amounts were called a "contingency" and seeks a contingency of zero,[17] which is unreasonable because PGW must still

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[9] PGW Exc. at 18; PGW St. No. 2-R at 5; PGW St. No. 7-R at 25.
[10] RD at 30-31.
[11] PGW St. No. 1 at 12.
[12] PGW MB at 21-22; PGW RB at 26.
[13] PGW MB at 21-22; PGW RB at 26. In fact, PGW recently notified the Philadelphia Gas Commission that itwould shortly file to increase the FY 2024 budget for this item by $30 million. *Notification of Supplemental Funding Request - Customer Information System* (Project #47-01-2-03) Sept. 8, 2023.
[14] PGW MB at 21-22; PGW RB at 26.
[15] RD at 30-31.
[16] PGW MB at 21-22.
[17] This adjustment would reduce PGW's Net Construction Expenses. *See* OCA MB, Exh. 2, Table I(B) at Line 13. The reduction of $24,228,000 shown in OCA's Table I(B) represents the contingency of $7,199,731 plus the $17.1 million discussed in OCA Exc. No. 3. But OCA did not make a reduction to PGW's internally generated funds to remove the contingency. In addition, OCA links its proposed contingency adjustment to PGW's depreciation expenses and excepts

use cash to complete this project.

In addition, OCA's proposal seeks to "double dip" in its adjustments. On one hand, OCA claimed, based solely upon a review of PGW's capital budgets and realized spending in the COVID-affected years of 2020-2022, that PGW's FPFTY capital spending should be based on an "average" of past experience and proposed to reduce PGW's claim by $17.1 million. On top of that, OCA demanded to further reduce PGW's capital spending by proposing to eliminate $7.1 million in contingency costs included for the CIS projection presumably from the "average" it just calculated. While both adjustments should be rejected as explained above, it would be even more unreasonable to accept both. If a reasonable level of PGW's capital spending is to be based on "averages" then the Commission should not also engage in specific adjustments on top of the "average" because the result is no longer an average. Conversely, if the Commission were to elect to accept a specific adjustment to PGW's capital spending (and the IGF allowance used to fund those capital expenditures), it should not then "average" the expenditures.

2. Reply Exception No. 3: The RD Correctly Rejected The OCA's Proposed Adjustment To PGW's Incentive Compensation Expenses.

PGW has had incentive compensation expenses for a number of years.[18] Part of those expenses relate to a Contract and Retention Bonus for its CEO and (Acting) CFO. The record shows that these are reasonable, prudently incurred and not excessive in amount.[19] The RD correctly found that the goals of the bonuses are to improve operational effectiveness and provide benefits to customers.[20] The OCA excepts and argues that two of the five goals do not provide a benefit to customers. The OCA's exception should be rejected since all of the corporate goals benefit ratepayers.[21] Contrary to OCA's conclusionary pronouncements, increased revenues from new business will indeed benefit existing ratepayers because the new business will produce additional revenues which, in turn, will spread fixed cost recovery over a wider base. Increasing diversity in the supply chain benefits ratepayers by expanding competitive alternatives which, in turn, will help to incent more competitive pricing. Therefore, incentives to try to achieve these goals are legitimate, reasonable expenses for any utility including PGW.[22]

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to the RD's failure to reduce PGW's depreciation expenses. OCA Exc. No. 1. *But see* OCA Schedule DM-16 and OCA MB, Exh. 2, Table I at Line 34, which do not include the reduction of $7,199,731 as a depreciation expense. PGW disagrees with OCA's application of depreciation expenses to PGW because depreciation expense is not a cash flow concept. PGW MB at 21-22; PGW RB at 26. It is a recovery concept for an investor-owned utility. *Id.* Modifying PGW's depreciation expense will have no impact on its cash needs. *Id.*

[18] PGW MB at 27-28; PGW RB at 24.
[19] *See* PGW MB at 27-28; PGW RB at 24.
[20] RD at 45-46.
[21] PGW MB at 27-28; PGW RB at 24.
[22] PGW RB at 24.

B. RATE STRUCTURE

1. Reply Exception No. 4: The RD Properly Adopted PGW's Cost Allocation Proposals.

PGW presented a class cost-of-service study ("CCOSS") sponsored by Constance E. Heppenstall.[23] As explained by PGW, the CCOSS relied on the Average and Extra Demand Method ("A&E method"), which is reasonable for use by a natural gas utility since it aligns with cost causation principles and was approved by the Commission in PGW's last fully litigated rate case.[24] In addition, PGW allocated the costs of distribution mains to the IT customers since they have not been interrupted since 2004 and should therefore be treated as effectively firm customers.[25] The RD recommended that the Commission approve the use of the A&E method as proposed by PGW,[26] as well as PGW's approach of allocating the cost of mains to IT customers.[27]

By Exception Nos. 1 and 2, PICGUG contends that the RD erred in approving PGW's treatment of Rate IT as firm customers for purposes of PGW's CCOSS.[28] PGW urges the Commission to deny these Exceptions.[29] Given that PGW's customers are not realistically subject to interruption,[30] and that gas supply to the IT classes has not been interrupted for nearly 20 years, it would be inappropriate to set their demand to zero as advocated by PICGUG on the basis that they are technically interruptible. Absent this allocation method, IT customers will avoid any cost responsibility for maintaining the gas distribution system that has and will continue to serve them every day.

PICGUG incorrectly argues that the RD's recommendation does not reflect cost of service principles.[31] As PGW witness Heppenstall testified, these customers have not been interrupted since 2004 and "should be treated as firm customers who are supplied natural gas during peak periods and should be allocated costs accordingly."[32] Cost allocation, as explained by Ms. Heppenstall, should reflect the service that PGW provides during the period of Interruptible classes' peak day demand.[33] Of note, PICGUG's reference to a Commonwealth Court decision calling cost of service the "polestar" of ratemaking[34] has no applicability to the resolution of this issue. In that case, the Court

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[23] PGW St. No. 5; PGW St. No. 5-SD; PGW Exh. CEH-1; PGW Exh. CEH-1S.
[24] PGW MB at 36-40; PGW RB at 28-31; PGW St. No. 5 at 3; PGW St. No. 5-R at 2-3.
[25] PGW RB at 29; PGW St. No. 5-R at 4; PGW St. No. 5 at 5-6.
[26] RD at 64-67.
[27] RD at 69.
[28] PICGUG Exc. No. 1 at 3-11.
[29] PGW MB at 38-39; PGW RB at 29-31; PGW St. No. 5 at 5-6; PGW St. No. 5-R at 13.
[30] OCA St. 3 at 14-15.
[31] PICGUG Exc. No. 1 at 11.
[32] PGW St. No. 5 at 5-6; PGW St. No. 5-R at 4.
[33] PGW St. No. 5-R at 13.
[34] PICGUG Exc. No. 1 at 4; *Lloyd v. Pa. Publ. Util. Comm'n*, 904 A.2d 1010, 1020 (Pa. Commw. Ct. 2006).

was reviewing a situation where the Commission had not adhered to cost causation principles during the revenue allocation phase. Here, the debate is centered on the appropriate allocation of costs – no one is contending that cost of service principles should be ignored or given less weight than other factors. To the contrary, the RD found that it is reasonable to allocate costs of mains to IT customers since, in reality, they receive the same service as firm customers.[35] Therefore, PICGUG's arguments contending that the RD rejected cost causation principles should be disregarded.

With respect to PICGUG's Exception No. 2, which argues the adoption of the RD would result in discrimination against Rate IT customers,[36] this argument has no basis. Section 1304 of the Public Utility Code precludes a public utility – as to rates – from subjecting any person to "unreasonable prejudice or disadvantage."[37] Here, it is not the proposed rate itself that PICGUG is challenging but rather the cost allocation approach. Of note, OCA's witness proposed to allocate the costs of mains to the IT classes only based on their average usage, but that method made no difference in the revenue allocation phase.[38] Besides the inapplicability of Section 1304 to the cost allocation method, PICGUG has not met the "unreasonable" test of this provision, since PGW's rationale for the allocation of mains costs to interruptible customers is that they are not actually interrupted. Further, PICGUG does not argue that IT customers are subjected to a prejudice or disadvantage as compared to other customers or other classes. Rather, PICGUG's theory is that Section 1304 is applicable to the situation in which IT customers are treated as firm for cost allocation purposes while being treated as interruptible for purposes of PGW's Tariff. Yet, PICGUG does not point to evidence of any costs IT customers incur to preserve their interruptibility.[39] In fact, contrary to PICGUG's claim of some "prejudice" or "disadvantage" in rates, IT customers have long enjoyed (and will continue to enjoy under proposed rates) the advantage of much lower distribution rates than are paid by PGW's firm service customers.[40]

Through Exception No. 3, PICGUG excepts to the RD's recommended rejection of its proposal to classify a portion of its mains as customer related rather than having all such costs classified as demand related.[41] PICGUG characterizes the ALJs' recommendation as being based on the "lack of information from PGW."[42] This Exception should be denied.

[35] RD at 69.
[36] PICGUG Exc. No. 2 at 9-11.
[37] 66 Pa. C.S. § 1304 (emphasis supplied).
[38] PGW MB at 38-39.
[39] PGW RB at 30.
[40] PGW RB at 30-31.
[41] PICGUG Exc. No. 3 at 11-14.
[42] PICGUG Exc. No. 3 at 11.

The RD fully explained the ALJs' reasons for rejecting PICGUG's proposal to classify a portion of mains as customer related – which did not include a lack of information from PGW. Importantly, the RD noted that the Commission has previously rejected this approach for PGW.[43] Further, the RD recognized that the parties advocating for use of a customer-demand method for the allocation of mains have not fully developed their proposed weightings to the customer and demand functions or otherwise justified a departure from the A&E method.[44] In addition, as explained by PGW's cost of service witness, the Company's distribution system is designed to meet customers' design day demands, which warrants treatment of the cost of excess capacity as a primary cost driver.[45] In view of the rationale set forth by PGW and the RD, use of the A&E method as proposed by PGW should be approved.

Through Exception No. 4, PICGUG excepts to the RD's acceptance of PGW's reliance on peak day demand data to calculate excess demand for purposes of the CCOSS. By way of relief, PICGUG requests that the Commission require PGW to provide peak design day demand data by customer class in its next base rate case.[46]

PGW's witness explained that PGW does not have the data to determine the design day peak demands by customer class, which is why historic peak usage was used.[47] Until such time as this data is available, this issue warrants no further review.

2. <u>Reply Exception No. 5: The RD Properly Adopted PGW's Revenue Allocation Proposal.</u>

PGW offered a revenue allocation proposal based on the findings of its CCOSS, which aligned PGW's goals of moving classes closer to the cost of service, while considering the principle of gradualism.[48] The RD accepted PGW's proposed revenue allocation.[49]

Based upon its view that PGW's CCOSS is flawed, PICGUG argues that the revenue allocation proposal adopted by the RD likewise fails to reflect the need for a customer-based classification for a portion of PGW's distribution mains expense.[50] However, PICGUG has presented no alternative revenue allocation proposal to show which classes would absorb the portion of the rate increase that the Rate IT class would avoid. Further, PICGUG's proposal is based on the flawed cost of service study performed by its witness and therefore should be rejected.[51]

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[43] RD at 66-67; PGW MB at 38; PGW St. No. 5-R at 5-6, 14.
[44] RD at 66-67; PGW MB at 38; PGW St. No. 5-R at 5-6, 14.
[45] PGW MB at 36; PGW St. No. 5-R at 3.
[46] PICGUG Exc. at 14-15.
[47] PGW St. No. 5-R at 14; PGW MB at 39-40.
[48] PGW MB at 41-45; PGW RB at 33-34.
[49] RD at 74.
[50] PICGUG Exc. No. 5 at 16-17.
[51] PGW RB at 33-34.

In Exception No. 6, PICGUG argues that the scaleback approach recommended by the RD should be rejected and that Rate IT customers should be moved closer to cost of service.[52] This argument, which is based upon revising the CCOSS to reflect PICGUG's positions, would result in the first $1 million of a reduction in the revenue increase being allocated to Rate IT. In view of PGW's disagreement with PICGUG's proposals to modify the CCOSS, the Company likewise opposes PICGUG's scaleback approach.[53]

3. <u>Reply Exception No. 6: The RD Properly Accepted PGW's Proposed Residential Customer Charge.</u>

The RD properly accepted PGW's proposed residential customer charge of $19.50 per month, but recommended that the residential customer charge be included in any scale back of rates.[54] In its fourth Exception, OCA contended that the principles of gradualism and avoidance of rate shock weigh against accepting the RD's recommendation. OCA claimed that the RD's approach to the residential customer charge would create a policy that would encourage other utilities to propose a high customer charge and a scale back that will "buffer the effects and make it appear reasonable,"[55] and demands that PGW's current residential customer charge ($14.90) be retained or increase it no more than the residential percentage distribution increase (i.e., $15.30 per month at the RD's proposed $22.3 million rate increase).[56]

OCA's rhetoric completely ignores the fact that PGW's original proposal was not artificially inflated and was far lower than the actual undisputed customer costs.[57] Even though customer costs were shown to be approximately 150% higher than PGW's existing residential charge,[58] PGW proposed a customer charge increase that would have moved the charge closer to covering fixed, customer-related costs in a fixed monthly rate while still allowing some fixed cost revenue to be recovered through usage-based charges in the interest of gradualism.[59] OCA's proposal would ignore all this and result in a rate that was only a few cents higher than existing rates,[60] even though the evidence shows

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[52] PICGUG Exc. No. 6 at 17-20.
[53] PGW MB at 45-46.
[54] RD at 81. While PGW requested that the Commission adopt PGW's approach for calculating the proportional scale back of customer charges, PGW did not except to the scaling back of PGW's proposed customer charges. PGW Exc. No. 13 at 28-29.
[55] OCA Exc. No. 4 at 10.
[56] OCA Exc. No. 4 at 10-12; Calculation based on RD's recommended 2.7% increase in annual operating revenue. RD at 1. Calculation follows: ((0.027 * $14.90 = $0.40) + $14.90) = $15.30.
[57] PGW St. No. 6 at 8; PGW St. No. 6-R at 13.
[58] *See* PGW St. No. 6 at 8, Table 2; *compare* Current Charge for Rate GS-Residential Percentage ($14.90) to Direct Customer Costs Per Bill (Cost of Service Study) ($37.39).
[59] PGW St. No. 6 at 8; PGW MB at 48.
[60] OCA Exception No. 4 at 10-12; Calculation based on RD's recommended 2.7% increase in annual operating revenue. RD at 1. Calculation follows: ((0.027 * $14.90 = $0.40) + $14.90) = $15.30.

that PGW's residential customer charge proposal will not meaningfully impact energy efficiency and conservation efforts.[61] OCA's demands should be rejected and PGW's proposed scaleback should be adopted.[62]

The Commission should reject OCA's proposal, deny OCA's Exception No. 4, and adopt the scale back approach recommended in PGW's Exception No. 13.

C. GFCP/VEPI – CLASS GS-XLT

The RD thoroughly reviewed the record and arguments made by the parties with regard to rates for GFCP/VEPI and adopted the balanced approach proposed by PGW. While GFCP/VEPI are disappointed that their positions were not adopted, this is because PGW's Rate GS-XLT proposal is eminently reasonable and balances *all* ratepayer interests. GFCP/VEPI, on the other hand, have taken extreme confrontational positions designed only to serve their self-interest. Given the page limitation of these Reply Exceptions, PGW will address the primary issues by reference to its Main and Reply Briefs and urges the Commission to review the positions explained there.[63]

In response to the Commission's April 20, 2023 Order,[64] PGW has proposed that GFCP/VEPI be served under their own separate tariff – Rate GS-XLT, which the ALJs have adopted.[65] The primary services that PGW has historically provided to GFCP/VEPI – transportation service and Alternative Receipt Service ("ARS") – have been incorporated into this new rate.

PGW's proposed revenues from this new rate of $3,620,361 (exclusive of surcharges) are, by far, the lowest among the proposals made by the various Parties excepting GFCP/VEPI.[66] All Parties, with the exception of GFCP/VEPI, agree that a healthy increase is required to bring GFCP/VEPI's 1996 contract rates into compliance with the Public Utility Code. For their part, GFCP/VEPI – incredibly – proposed an unreasonable revenue *reduction* of 21% below the rate established 25 years ago.[67] Here is a summary of the various proposals:

Current Revenues:	$ 1,129,040
Proposed Revenues:	
PGW	$ 7,685,993 ($3,620,361 excluding surcharges)

[61] PGW RB at 36-37.
[62] PGW St. No. 6-R at 14; PGW Exception No. 13.
[63] PGW MB at 51-67; PGW RB at 39-52.
[64] PGW fully addressed the four issues raised in the Commission's April 20, 2023 Order. PGW MB at 66-67.
[65] GFCP/VEPI argue that they were "denied a special rate" in the RD. GFCP/VEPI Exc. at 4. Clearly, a special Rate is approved by the ALJs, as they state: "In addition, this Recommended Decision recommends that Philadelphia Gas Works' proposal to create a new tariff class General Service – Extra Large Transportation (GS-XLT) be approved…" RD at 1. PGW believes that Conclusion of Law No. 24 as stated (GFCP/VEPI "do not qualify for a special rate") was an inadvertent error on behalf of the ALJs. It should have stated "does qualify."
[66] PGW Exh. FT-14.
[67] PGW MB at 51-52. The surcharges are separately noted because they have a significant impact on the revenues collected. These fund various programs, outside of PGW's revenue requirement.

OSBA	\$ 7,871,000 - \$8,201,000 (no surcharges)
BI&E	\$ 28,065,252 (full surcharges)
OCA	\$ 31,866,336 (full surcharges)
GFCP/VEPI	\$ 911,623 (no surcharges)

PGW has proposed a Rate GS-XLT that is just and reasonable, which accommodates GFCP/VEPI's claimed needs while being fair to its other customers and which is relatively modest in comparison to the proposals of the other non-GFCP/VEPI Parties. It should be adopted by the Commission as recommended by the ALJs.

1. Reply Exception No. 7: The Transportation Rate Has Been Appropriately Calculated By PGW and GFCP/VEPI's Cost of Service Methodology is "An Unjustified Approach."

The ALJs found that the \$0.1054 per Mcf (\$0.11067 per Dth) transportation rate calculated by PGW for Rate GS-XLT "follows cost of service techniques acknowledged by non-GFCP/VEPI parties in this case and is a reasonable outcome." The RD expressly rejected the "direct assignment only" method proposed by GFCP/VEPI, which, if applied on a consistent basis, "on all expense categories, the recommended transport rate would be at or near zero, which is an unjustifiable approach and end result."[68] These findings should be affirmed.

All cost of service experts in this case, of course excepting GFCP/VEPI's witness, have agreed that the proposed transportation rate is reasonable and should be adopted. [69] The proposed transportation rate is a modest 22% above the 1996 contract rate; an annual increase of less than 1%. On the other hand, GFCP/VEPI's proposed new rate of \$0.0415/Mcf is a full 50% below the existing rate of \$.0833/Mcf contractually set twenty-five years ago.[70]

As with all rates, transportation service involves both capital and operating costs. The capital component is very modest.[71] Under the 1996 contract, GFCP/VEPI's predecessors made a substantial contribution in aid of construction toward the cost of constructing the Four Mile Line and, therefore, all parties agree that there are no capital costs (i.e., depreciation) to recover associated with the line itself. The capital costs to be recovered, therefore, only include the interstate pipeline gate station investments upon which GFCP/VEPI rely[72] and the cost of the two meters that measure the flow to GFCP/VEPI's facilities. No other capital (plant in service) accounts are included – only those that are *directly* a part of the GFCP/VEPI delivery path.

[68] RD at 91.
[69] The OSBA actually calculates a higher COS rate of between \$0.139 and \$0.166 per Mcf. PGW Hearing Exh. 23.
[70] GFCP/VEPI St. JC-1 at 17, 19.
[71] PGW MB at 55.
[72] *In Exceptions*, f*or the first time* GFCP/VEPI claim that they also paid for the gate station serving the Four Mile Line. GFCP/VEPI Exc. at 14. This was not a position previously taken and the general citation to the 1996 Contract is too vague to support this claim. "GFCP/VEPI clearly rely upon PGW's measuring and regulating station equipment for the delivery of their gas supplies." PGW St. No. 8-SR at 1.

While GFCP/VEPI are, by far, *PGW's largest customers by volume (17%), they are allocated only 0.8% of all distribution expenses*.[73] Expenses are allocated consistent with the Commission prescribed chart of account, Commission-accepted allocation methods and the established, respected treatises on cost allocation.[74] Except for GFCP/VEPI, all parties concede that *their* rates should contain an allocated portion of overhead expenses.

GFCP/VEPI seek to evade even this modest allocation, by perpetrating the fiction that there should be two sets of expense accounts – one for them ("high pressure distribution") and one for all other customers ("low pressure") – the so-called "direct assignment" method.[75] Two examples. The largest single excluded distribution expense is the operation of PGW's station gate interconnections with the interstate pipelines; 8.5 million Dth of GFCP/VEPI delivered gas flow through these stations annually. They clearly are not "gate stations serving the low pressure distribution system" only and not GFCP/VEPI, as they claim.[76] Another excluded expense account is the dispatch and control of gas flows, including delivery of interstate pipeline deliveries at the gate stations that serve GFCP/VEPI.[77] These functions also benefit GFCP/VEPI, and they should pay their proportionate share.

This refusal to accept any allocations is deeply flawed, unworkable and inconsistently applied.[78] The "low pressure" construct is an artificial results-oriented construct designed to set up a false narrative that attributes all expenses to the "low pressure" system customers. <u>When GFCP/VEPI's witness, in the Complaint Case, included allocated joint and common costs in his cost of service, the resulting rate was $0.212 per Dth,[79] twice what PGW is suggesting here.</u>

A transportation rate of $0.11067 per Dth ($0.1054 per Mcf) follows bedrock cost of service techniques acknowledged by every other expert in this case and is a reasonable outcome.

2. <u>Reply Exception No. 8: The RD Properly Finds That Surcharges Should Be Assessed and That the Capability to Bypass Has Not Been Shown.</u>

PGW has proposed that the four surcharges contained in its tariff should apply to Rate GS-XLT on the basis of

[73] PGW Exh. CEH-1S, Sch. F.
[74] PGW MB at 55-57.
[75] There is no such thing. Under the Commission's accounting system "distribution" is not separately tracked by "high" and "low" pressure. *Id*. Distribution is a single category of expense.
[76] In Exceptions, GFCP/VEPI now claim to not use these gate stations at all. GFCP/VEPI Exc. at 14. As a simple matter of physical flow, this is not credible.
[77] PGW MB at 57.
[78] PGW MB at 58-59. If all customers imposed similar barriers, PGW undeniably would be left with stranded costs that benefit the delivery of service overall but cannot be forensically traced to any particular customer class.
[79] PGW St. No. 5-R at 11-12; Tr. 568.

public policy and consistent with the application to other classes.[80] It is "reasonable public policy to require a large customer to contribute to helping to cover the costs of PGW's low-income programs regardless of the specific status of their service."[81] The DSIC surcharge is also appropriate as a priority of PGW and this Commission. These surcharges are applied to all firm customers. GFCP/VEPI should pay their proportionate share. The ALJs recommended that the reduced amount of USEC charge as proposed by PGW "in the amount of $290,000 was both reasonable and equitable."[82] The other surcharges should similarly be applied.

The ALJs rejected GFCP/VEPI's assertion that they should be excused from surcharges due to alleged competitive circumstances: "We do not find that the bypass line represents a physical or financial reality for GFCP/VEPI's foreseen future nor a substantial competitive alternative to PGW to warrant the implementation of flex rates for GFCP/VEPI."[83] The ALJs concluded that bypass is an ineffective, unproven threat. This is accurate and evidence based.

For all of its repetition and bluster,[84] there has been no showing that bypass is either physically or economically possible.[85] TETCO has not agreed to interconnect with the line were it to be built.[86] There are other critical property rights that they have failed to obtain. These are gaping and formidable holes and GFCP/VEPI have "no realistic bona fide opportunity for bypass."[87] And the economics make no sense. Even were the bypass to occur, ARS (discussed below) or some equivalent would still be needed as GFCP/VEPI testified,[88] contrary to its new position in Exceptions.[89] In short, GFCP/VEPI are claiming that they would construct a $25 million pipeline to avoid a

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[80] PGW MB at 60.
[81] PGW St. No. 9-R at 36.
[82] RD at 71.
[83] RD at 97.
[84] GFCP/VEPI Exc. at 1, 2, 3, 7, 8, 15, 16, 17, 18, 19, and 25. "In this case, Vicinity presented ample evidence that it has completed all of the preparatory work required to bypass PGW, and that pending the outcome of this proceeding, it is prepared to take service directly from TETCO through a facility that it will own and control, making it clear that bypass is no mere threat." GFCP/VEPI Exc. at 5.
[85] PGW RB at 47-51.
[86] PGW RB at 40.
[87] PGW RB at 49. The OSBA agrees with this conclusion. PGW St. No. 6-R.
[88] GFCP/VEPI St. JC-1 at 28-29 ("The ARS gas swap arrangement would still function as it does now. Vicinity would deliver gas for use by PGW's customers to Skippack and PGW would deliver gas to the new Vicinity bypass line."). This because GFCP/VEPI's capacity shortfall continues.
[89] It is bizarre that GFCP/VEPI now argue in Exceptions that "Mr. Crist was merely suggesting that ARS could continue, not that it would be required as PGW falsely claims." GFCP/VEPI Exc. at 15, fn. 48. ARS would still be needed by GFCP/VEPI because their TETCO capacity shortfall would continue. PGW St. No. 6-R at 31 ("Even with bypass, Mr. Crist testifies that GFCP/VEPI would need ARS and would require that PGW deliver those volumes to the bypass line."). This is unrebutted testimony.

transportation rate of $1.3 million per year.[90]

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

3. Reply Exception No. 9: The RD Properly Approved the Proposed ARS Rate.

The RD also recommends that the Commission approve the ARS provisions of Rate GS-XLT as proposed by PGW, finding that "[t]he proposal is fair to all parties."[91] "On one hand, GFCP/VEPI will pay, at a minimum, PGW's cost to obtain the TETCO capacity [GFCP/VEPI] need at the pipeline's tariffed rate but only for the volumes that they use… On the other hand, PGW's other customers are assured that PGW will recover the cost of the TETCO capacity required for the ARS without subsidizing the cost of gas supplied to GFCP/VEPI via the ARS. In addition, they have the advantage of potentially receiving more if the competitive markets are willing to pay a higher price."[92] These findings are persuasive, evidence based and should be adopted.

ARS allows GFCP/VEPI to overcome the fact that they lack sufficient upstream delivery capacity on TETCO during the winter months. The gap between GFCP/VEPI's peak demand and need is <u>21,000 Dth, some 37.5% of their maximum demand</u>.[93] The ARS arrangement is purely designed to accommodate GFCP.[94] "PGW and its other customers do not need additional deliveries at a different gate…. There is no benefit gained by PGW or its customers."[95]

Taking ARS is a business decision to be made by GFCP/VEPI and only one of the many options that GFCP/VEPI could pursue to obtain the additional capacity they require.[96] Instead of allowing GFCP/VEPI to manipulate the rate for ARS so that it is their least cost option, the ALJs urge the Commission to set the rate for ARS in a balanced manner and, then, allow GFCP/VEPI to select its best option.

PGW has proposed a pricing model based on capacity costs, not base rate costs in response to the Commission's April 20, 2023 Order and positions taken by the Parties, including GFCP/VEPI, in PGW's 2023 GCR

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[90] This estimate is only a partial statement of the capital cost of a new pipeline and ignores ongoing operating costs. PGW RB at 49.
[91] RD at 103.
[92] *Id.*
[93] RD at 98; PGW St. No. 8 at 2.
[94] PGW MB at 61-62.
[95] PGW St. No. 8-R at 7.
[96] PGW MB at 62. This included bidding on TETCO capacity in the secondary capacity market, using oil capacity to fire the boilers, or pursuing demand management or other techniques to control their natural gas usage. GFCP/VEPI have not disclosed the costs of these alternatives. For example, Mr. Crist stated: "I did not testify to thermal storage. Therefore, I am not able to respond to your inquiry." Tr. 530. This same answer was given for all ARS alternatives. In the case of capacity release, GFCP/VEPI do not participate at all.

case. ARS is priced to reflect the greater of: (1) the TETCO tariff rate that PGW (GCR customers) pays for the capacity (currently $0.61/Dth); and (2) the average revenue per Dth received by the Company from all releases of recallable capacity on TETCO (estimated at $1.05/Dth).[97] The proposal assures that PGW's GCR customers are not forced to subsidize GFCP/VEPI by permitting the use of GCR-paid for capacity without fully compensating ratepayers. The rate also recognizes that PGW would not be able to provide this service without the availability and use of its distribution system.[98] Both OSBA and OCA have advocated a higher floor rate for capacity, namely the valuation of $0.80 per Dth offered by GFCP/VEPI in the GCR Case.[99]

GFCP/VEPI's response has been to recant the $0.80/Dth and advocate a mere $0.10 per Dth. The method used to drive the price down is flawed and self-serving.[100] The resulting ARS revenues are a paltry $0.4 million per year, well below the cost borne by GCR customers of $2,298,920 for the capacity that underlies ARS.[101]

GFCP/VEPI position would require PGW to break up one or more of its long haul contracts to serve GFCP/VEPI, in order to only use the most valuable segment. PGW witness Mr. Reeves summarized the arrangement thusly: "By offering $0.10 per DTH to use the most valuable portion of our TETCO capacity contract, GFCP/VEPI's proposal leaves our customers on the hook for making up the difference."[102] The position is akin to demanding to rent only the front seat of a car and leaving the costs of the backseat for the owner to pick up.

Moreover, GFCP/VEPI are not being asked to pay the full cost of capacity. PGW proposes to bill ARS as an element of actual consumption and not maximum demand, thus, resulting in a lesser charge to GFCP/VEPI. Under PGW's approach, GFCP/VEPI will not pay for the full 21,000 Dth of TETCO capacity. Instead, *actual* ARS volumes are used as the billing units so that GFCP/VEPI only pay for the level of ARS volumes *actually* consumed as supported by Mr. Crist in the GCR Case and the OCA and OSBA here.[103] This rate design feature generates a $2.2 to 4.1 million annual benefit to GFCP/VEPI over their GCR proposal.[104]

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[97] PGW St. No. 8 at 6.
[98] PGW MB at 63; PGW St. No. 8 at 6.
[99] OSBA St. No. 1 at 46-47; OCA St. 3 at 5 and 21.
[100] PGW MB at 64-65. The $0.10/Dth claim comes from a rate paid by Paulsboro Refinery for a single winter release last year; it is obviously not a competitively determined rate, since GFCP/VEPI do not bid on capacity, but chose to rely upon ARS instead. One customer's bid does not set the market. "By refusing to bid, GFCP/VEPI have prevented a competitive market price from emerging." PGW St. No. 8-R at 13. For this reason, setting the rate on this single bid would be grossly unreasonable.
[101] PGW MB at 64.
[102] PGW St. No. 8-R at 14.
[103] PGW MB at 65.
[104] PGW MB at 65.

4. **Reply Exception No. 10: Rate GS-XLT Transportation Service Should Remain Firm.**[105]

Rate GS-XLT transportation service is offered as firm, because of GFCP/VEPI's uses of natural gas.[106] In the Complaint proceeding, GFCP/VEPI adamantly rejected PGW interruptible (with back up) proposal as "onerous and inadequate for Vicinity's required service."[107] Interruptible service is "not practical" and "unacceptable" they said.[108] The RD affirmed the firm nature of transportation service.[109]

In this case, GFCP/VEPI now are actively seeking interruptible status even though the biggest part of their gas demand, *the Grays Ferry turbines run solely on natural gas and have no back up fuel*.[110] GFCP/VEPI have not added any oil storage capacity since the Complaint Case.[111] Placing non-dual fuel load on interruptible status is contrary to PGW's tariff requirement, especially for customers serving essential human needs.[112] This sudden GFCP/VEPI change of position seems rather disingenuous.[113]

If Rate GS-XLT transportation is determined to be interruptible, then GFCP/VEPI's attempt to liberally rewrite the rules of interruption to make them "more firm" should be rejected.[114] In order to be consistent across all interruptible customers, the same terms of interruption that apply to all other customer classes should be incorporated into Rate GS-XLT transportation service – PGW should be able to interrupt GFCP/VEPI at its discretion.[115] Moreover, the rate levels

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[105] *See* PGW MB at 52-54; PGW RB at 40-42.
[106] Grays Ferry is a "Capacity Performance Resource" on PJM with a "no-excuses" commitment to deliver electricity under all circumstances with huge penalties if not fulfilled.[106] Vicinity is a steam utility serving Philadelphia including "essential humans needs" customers such as residences, hospitals and nursing homes. Tr. 494-495.
[107] PGW St. No. 6-R at 20-21 (*quoting* GFCP/VEPI Complaint Case testimony).
[108] *Id*.
[109] The ALJs found "little credibility in GFCP/VEPI's claims that it did not comprehend the meaning of 'interruptible service' when it rejected PGW's offer in prior proceedings." Moreover, they reject GFCP/VEPI's alteration of the penalty for excess consumption during an OFO and found it indicative of a likely intent to evade interruption. RD at 86.
[110] Tr. 496 ("If natural gas service were disrupted to the combust turbine, they would shut down for that period of time.").
[111] PGW St. No. 6-R at 22-23; Tr. 527.
[112] PGW MB at 53; PGW St. No. 6-R at 24.
[113] When asked to provide correspondence, memorandums, emails, or other documents, both internal and external, related to their "ability to withstand interruption of transportation service" in order to gauge the risk analysis undertaken, GFCP/VEPI responded that "Vicinity is unaware of any responsive documents." PGW St. No. 6-R at 22; PGW Exh. FT-10.
[114] Meaningful penalties should remain. There should be no incentive to ignore an operational flow order. Conditions of interruption should not be restricted to "force majeure." *See* PGW MB at 53-54.
[115] The terms of interruptible service are clear: "Customers are subject to curtailment or interruption at any time." Rate IT, PGW Gas Tariff Pa P.U.C. No. 2. "The Company may curtail (reduce) or interrupt deliveries to the Customer whenever, at the Company's sole discretion, it determines that the available capacity in all or a portion of its system is projected to be insufficient to meet the requirements of all Customers …." *Id*.

and application of surcharges should not change.[116]

D. CUSTOMER SERVICE

1. Reply Exception No. 11: The RD Properly Found That PGW's Process For Negotiating Payment Arrangements Complies With Chapter 56.

OCA wrongly claims that it is a "matter of record" that PGW's process for negotiating payment arrangements does not comply with Chapter 56.[117] In fact, OCA's reading of Section 56.97(b) is incorrect; PGW's payment arrangement process is fully in compliance with Chapter 56 and should be maintained,[118] as the RD correctly concluded.[119]

OCA's argument is based on the fact that PGW's customer service representatives enter a customer's information into a computer to calculate a customer's payment arrangement. Although PGW's system takes into account the factors required by Section 56.97(b), OCA believes that customer service representatives should be given broad discretion to offer a different payment arrangement if they wish.[120] However, the regulation does not require an "individualized determination" by a customer service representative as OCA argues. Rather, the utility must "exercise good faith and fair judgment" when entering into a "reasonable" payment arrangement considering the necessary factors outlined in Section 56.97(b).[121] As the RD correctly recognizes, the current process complies with the regulation because it takes into account all required factors specific to the customer when calculating a payment arrangement including ability to pay.[122] Importantly, without this standard process, it would be up to each customer service representative to determine a reasonable payment arrangement, which could vary widely from one representative to another and could result in unfair differences in payment arrangements offered to customers and costs to other ratepayers.[123] PGW's current process is reasonable and complies with Chapter 56, and OCA has produced no evidence to the contrary.[124] Therefore, PGW's current process should be maintained.

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[116] Neither the transportation cost of service nor the rate would be affected. As Ms. Heppenstall testified, a change in GFCP/VEPI's transportation service status to interruptible would not change the results of her cost of service study. PGW St. No. 5-R at 12-13.
[117] OCA Exc. at 13-14.
[118] 52 Pa. Code § 56.97(b); *see* PGW MB at 69-70; PGW RB at 54-55.
[119] RD at 110-111.
[120] OCA St. 5 at 9.
[121] *Id.*
[122] RD at 111.
[123] PGW MB at 69; PGW St. No. 1-R at 36.
[124] RD at 111.

2. Reply Exception No. 12: The RD Correctly Rejected OCA's Proposal That PGW Absorb Certain Bill Payment Transaction Fees.

OCA argues that PGW should be required to absorb millions of dollars in credit card transaction fees so that customers choosing to pay their bill with a credit card will not be directly charged those fees.[125] The RD correctly rejected this argument.[126] PGW offers a variety of bill payment options, many of which do not include any fees.[127] It would be fundamentally unfair to require all other PGW customers to absorb credit card company fees when certain customers choose to pay with a credit card, particularly when there are numerous fee-free options available. OCA has pointed to no statute, regulation, Commission order, or other requirement that would necessitate that PGW and its ratepayers absorb these fees.[128] While OCA calls it a "growing trend" for utilities to absorb these fees, it only points to a few examples, and those examples have each chosen to absorb these fees voluntarily or through a settlement, not as a result of a Commission order or other requirement.[129] As stated in the RD, OCA has failed to provide any evidentiary support for its claim.[130]

OCA also chooses to ignore the significant cost associated with its proposal (none of which were included in OCA's proposed revenue requirement for PGW).[131] Credit card fees incurred by residential customers in 2022 were approximately $3.1 million (an amount which would likely increase significantly if the fees were not charged directly to customers). In its Exceptions, OCA faults PGW for absorbing processing fees associated with cash payments made at big box stores but not absorbing credit card fees.[132] OCA fails to recognize two important differences: (1) the processing fees for in-person cash payments are significantly less than credit card fees (approximately $60,000 in 2022, as opposed to $3.1 million in credit card fees); and (2) the in-person cash payments primarily benefit customers who are unbanked.[133] The RD properly rejected OCA's argument, which lacks any support and is fundamentally unfair.

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[125] OCA Exc. at 15-16.
[126] RD at 111-113.
[127] RD at 112; PGW MB at 70-72; PGW RB at 55-57.
[128] *Id.*
[129] OCA Exc. at 15; PGW RB at 56.
[130] RD at 112-113.
[131] PGW MB at 71.
[132] OCA Exc. at 15-16.
[133] PGW MB at 71-72.

3. **Reply Exception No. 13: The RD Correctly Found That CAUSE-PA/TURN Have Failed To Provide Substantial Evidence in Support of Their Proposals Regarding Identification Requirements for Applicants.**

CAUSE-PA/TURN argue that the forms of identification that PGW requires to establish residential service are too stringent.[134] CAUSE-PA/TURN submitted a lengthy list of documents and claimed that any one of those documents should be sufficient to establish identity (rather than two forms of identification as PGW requires).[135] The RD correctly found that CAUSE-PA/TURN failed to provide substantial evidence in support of their proposal, and thus rejected their claims.[136]

CAUSE-PA/TURN have not substantiated that PGW's identification requirements violate any statute, regulation, or Commission order. Further, PGW's current identification requirements serve an important purpose in that they prevent identify theft and protect other PGW customers from costs associated with unauthorized service.[137] Some forms of identification that CAUSE-PA/TURN argue PGW should accept can be obtained without any verification of a person's identity (such as a City ID), and as such these documents are not sufficient to confirm the applicant's identity to establish service.[138] The list of identification that PGW accepts is broad so as to give customers a variety of options while also preventing identity theft. PGW's policy strikes an appropriate balance, has not been shown to violate any statute or regulation, and should be maintained.

Additionally, the RD correctly rejected CAUSE-PA/TURN's claim that PGW should modify its tariff to "specify all the terms and conditions required for residential service applicants, including these specific identification requirements."[139] As PGW witness Adamucci, explained, PGW's tariff "provides sufficient information regarding the requirements to apply for gas service, including identification and documentation requirements."[140] To require PGW to include each and every requirement in its tariff "would effectively require all PGW policies and procedures to be incorporated into PGW's tariff. Such an outcome is unnecessarily rigid and unwieldy, as it would prohibit PGW from modifying or adapting its policies...."[141] The RD correctly rejected this recommendation. PGW's tariff includes the appropriate level of detail, and additional information is readily available, including on the Company's website.

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[134] CAUSE-PA/TURN Exc. at 4-7.
[135] CAUSE-PA/TURN St. 1 at 19-23.
[136] RD at 117.
[137] PGW RB at 57; PGW MB at 72-73.
[138] *Id.*; PGW St. No. 1-R at 39.
[139] RD at 118-119; CAUSE-PA/TURN MB at 23.
[140] PGW St. No. 1-R at 39, *citing* PGW's Gas Service Tariff – Pa P.U.C. No. 2 at Page No. 17.
[141] RD at 119.

E. LOW-INCOME CUSTOMER SERVICE

1. Reply Exception No. 14: PGW's Process for Identifying Low-Income Customers is Appropriate and Should Be Maintained.

The RD recommended that PGW should be required to adopt BCS' census-based estimated low-income customer count and use this data to increase CRP enrollment and evaluate the effectiveness of the Company's universal service program outreach and participation.[142] PGW has excepted to the RD's findings on this point, because PGW's current criteria for identifying low-income customers complies with PUC regulations and the identified census data is not useful for this purpose. Further, the RD inappropriately encroaches on areas that are BCS' responsibility and sets unreasonable compliances deadlines.[143] In its Exceptions, the OCA argues that the RD should have gone even further by requiring PGW to accept documentation of participation in any municipal, state or federal means-tested program as documentation to identify a customer as Confirmed Low-Income and/or establish eligibility for the winter disconnection moratorium.[144]

As discussed in PGW's Briefs and Exceptions, PGW's current process complies with the regulations and should be maintained. Section 62.2 of the Commission's regulations does not require that utilities accept all forms of identification that OCA would require; rather, this section provides a definition of "confirmed low-income residential account" that simply provides that the customer is considered low-income if the Company has "information that would reasonably place the customer in a low-income designation," which may include receipt of LIHEAP, self-certification, or information obtained in negotiating a payment arrangement.[145] PGW's current process uses the information sources outlined in the regulation, and strikes an appropriate balance between accepting various forms of identification while preventing ineligible customers from enrolling.[146] OCA's reading of the regulation is overly expansive and should be rejected.

2. Reply Exception No. 15: The RD Properly Rejected OCA's Proposals Regarding Undeliverable Mail.

OCA's Exceptions argue that PGW should be required to "follow the law" by placing a collection hold on all accounts for which bills and/or disconnection notices are returned as undeliverable.[147] Despite OCA's attention-getting

[142] RD at 122-125.
[143] PGW Exc. at 36-38.
[144] OCA Exc. at 17-18.
[145] 52 Pa. Code § 62.2.
[146] PGW MB at 77; PGW RB at 60-61; PGW St. No. 1-R at 19-20.
[147] OCA Exc. at 19-20.

claim, there is no "law" that requires PGW to stop the collections or termination process if mail is returned as undeliverable. OCA cites to the requirements for notice prior to termination stated in Section 1406(b) of the Public Utility Code in support of its argument.[148] However, nothing in Section 1406(b) requires the utility to ensure that mailed notices or bills are actually received by the customer, or that the utility place a collection or termination hold if the customer does not receive the mail, and neither the PUC nor BCS has ever held otherwise. Section 1406(b) as well as Chapter 56 of the Commission's regulations include specific, detailed requirements for forms and timing of notice to be provided prior to termination, and PGW follows these requirements.

As discussed in PGW's Briefs, PGW already makes an appropriate effort to update a customer's contact information, including obtaining any mail forwarding information through its billing vendor and USPS, and/or calling the customer to update their contact information (although it is ultimately the customer's responsibility to provide current contact information to PGW).[149] OCA's proposal has no legal basis, and would also come with significant administrative burden and expense, which OCA completely ignores. As such, the RD correctly rejected the OCA's unsupported claims.[150]

3. <u>Reply Exception No. 16: The RD Correctly Rejected OCA's CRP Offset.</u>

For the reasons set forth in PGW's testimony and briefs, the RD correctly rejected OCA's proposal to apply a 12.1% offset to PGW's bad debt expense recovery to prevent what OCA misleadingly alleges is a "double recovery" of credits and arrearage forgiveness provided through PGW's Customer Responsibility Program ("CRP").[151] Importantly, in finding that OCA's proposal is "flawed in several respects," the RD's key reason for rejecting the proposed CRP offset is the lack of evidence showing "double counting."[152]

In excepting to the RD's rejection of the CRP offset, OCA contends that the ALJs "misapprehend" its position and argues that its proposed offset should be adopted.[153] However, a review of the RD shows that the ALJs fully understood OCA's proposal and were not persuaded that the evidence justified continuing and/or modify the existing CRP offset which PGW agreed to in a prior settlement. OCA presented no actual evidence to support its claim, while

[148] 66 Pa. C.S. § 1406(b).
[149] PGW MB at 77-78; PGW RB at 65-66.
[150] RD at 131.
[151] PGW MB at 81-82; PGW RB at 66-68; PGW St. No. 1-R at 30-33; PGW St. No. 1-RJ at 2-4; PGW St. No. 9-R at 28-34. As previously explained by PGW, it is not a double counting issue that OCA is raising but rather a possible under-recovery or over-recovery of bad debt expense. "Double counting" is simply catchy phrasing that OCA has employed in an effort to attract attention to this issue.
[152] RD at 132-134.
[153] OCA Exc. No. 9 at 21-24.

PGW, on the other hand, clearly explained that no "double recovery" is occurring.[154] Notably, OCA's advocacy in this case was premised from the outset on the flawed notion that a CRP offset would continue after this case and, therefore, focused its efforts on the percentage amount and other specific parameters applicable to such an offset.

However, as the RD appropriately recognized, the current CRP offset was a provision of PGW's 2020 base rate case settlement that will end upon the issuance of a final order in this proceeding and has no binding effect on this matter.[155] Moreover, PGW presented the testimony of a well-regarded economist, Dr. Gil Peach, who testified that, not only was there no evidence that PGW's bad debt expense is reduced when CRP enrollment increases but that there is actually an opposite effect – PGW's bad debt expense *increases* when enrollment increases.[156] Besides the contrary evidence regarding "double counting," the ALJs further observed that the proposed offset is one-sided in that there is no adjustment if there are fewer CRP customers than the preset number. Therefore, the RD recommended that "PGW reinstate the mechanism and practice established in the 2007 PGW Base Rate Case designed to monitor possible under-recovery and/or over-recovery of CRP bad debt expense by collecting information to establish the net outcome in CRP participation over the level existing at the time a final order is issued in this proceeding, and the average shortfall per participant and to present that information with its quarterly reconciliation."[157] As this recommendation adequately addresses any concerns that might exist about the potential for under- or over-recovery of bad debt expense, the Commission should reject OCA's proposal for a CRP offset to be implemented as a result of this case.[158]

In excepting to the RD's recommendation, OCA relies heavily on a Commonwealth Court decision arising from PGW's 2007 base rate case.[159] That reliance is misplaced. Indeed, OCA wrongly characterizes the *2009 Commonwealth Court Order* as being the source of a "requirement for PGW to implement a bad debt offset."[160] A review of the *2009 Commonwealth Court Order* shows that the appeal focused on PGW's proposal to establish rates based on a five-year planning period, and that the only issue concerning bad debt expense involved the PUC's directive

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[154] PGW MB at 81; PGW St. No. 1-R at 30-33; PGW St. No. 1-RJ at 2-4.
[155] RD at 134.
[156] PGW MB at 82; PGW St. No. 9-R at 29-34.
[157] RD at 134.
[158] It is worth noting that even if double recovery occurred, which OCA has not shown, it is immaterial for PGW as a cashflow utility. To the extent that any double recovery is occurring, PGW has no shareholders who may be benefitting. Rather, the funds – if there are any extra – are being put back into the natural gas system for the benefit of ratepayers to make service more reliable or safer, forego the need for more financing, or delay the filing of future base rate cases. Accordingly, there is no reason for the Commission to take any additional steps to address the "possibility" described by OCA.
[159] OCA Exc. at 21-22; *Phila. Gas Works v. Pa. PUC*, 2009 Pa. Commw. Unpub. LEXIS 797, 2009 WL 9098313 ("*2009 Commonwealth Court Order*").
[160] OCA Exc. at 21.

for PGW to track information due to changes in the number of customers being enrolled in the CRP. As the Commission itself had not required PGW to implement a bad debt offset, that issue was not before Commonwealth Court as OCA would have the Commission believe, and therefore the appellate decision does not justify OCA's proposal here. Indeed, in affirming the Commission's Order in PGW's 2007 Base Rate Case, the Court expressly stated that the PUC had not directed PGW to make an automatic adjustment to its bad debt expense. Of note, neither the Commission nor the Court found that any double counting had occurred. Rather, the Court merely found that the PUC had "acted within its discretion when it directed PGW to implement a mechanism to collect data to determine the net change in its CRP participation compared to the number of CRP participants at the time its rates become effective and directed PGW to track the average shortfall per CRP participant."[161] Importantly, the Commission Order affirmed by the Commonwealth Court had acknowledged only that "[d]ouble recovery of uncollectible accounts expense is a possibility and can be alleviated by implementing a mechanism for reconciliation."[162]

Simply stated, no evidence has been produced to establish that any double recovery was or is occurring – only that over-recovery of bad debt expense could be possible, as could under-recovery. In fact, there is evidence to the opposite effect with respect to any potential over-recovery. Therefore, the result directed by the PUC in 2007 and affirmed by the Commonwealth Court in 2009, which is replicated by the RD here, is an acceptable and appropriate outcome. As no basis exists for requiring PGW to implement OCA's proposed CRP offset – with evidence disputing its basic premise – the proposal should be rejected and the RD's resolution of this issue should be adopted.

F. PIPELINE REPLACEMENT/ALTERNATIVES

1. Reply Exception No. 17: The Commission Should Deny POWER's Exceptions Because the Commission Lacks Jurisdiction to Order POWER's NPA Proposals and Power Failed to Support its Proposals With Specific Expense and Revenue Adjustments.

POWER[163] raises two exceptions to the RD's proper rejection of POWER's Non-Pipeline Alternative ("NPA") proposals that would require PGW to implement sweeping changes to the Company's current safety and reliability focused infrastructure planning allegedly pursuant to Chapter 13 of the Public Utility Code.[164] While POWER's

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[161] *2009 Commonwealth Court Order* at *24.
[162] *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-00061931 (Order entered September 28, 2007), at 42.
[163] POWER's institutionally stated climate justice goals advocate for the complete cessation of PGW's natural gas distribution services and the total electrification of Philadelphia, a goal the Commission is not empowered to adjudicate under the Public Utility Code. *See* PGW St. No. 10-R at 3; *see also* https://powerinterfaith.org/campaigns/climate-justice/; *see also* https://powerinterfaith.org/pgw-just-transition/; POWER 2023 Climate Justice Platform for Philadelphia (Updated) (powerinterfaith.org).
[164] *See* PGW MB at 89-90; PGW RB at 72-74.

Exceptions claim its proposals were not meant to undermine public safety,[165] the record demonstrates that POWER's proposals would have PGW defer or avoid capital investments by incorporating NPAs on the basis that NPAs *could*, *may,* or *might*[166] allow PGW to defer and avoid necessary infrastructure investments. The record in this proceeding demonstrated that the Commission has repeatedly supported and approved PGW's infrastructure replacement initiatives,[167] and has even encouraged PGW to further accelerate its pipeline replacement to improve safety and reliability.[168] As a public utility, PGW must plan to meet current system demand and design day requirements, but POWER's NPA proposals would overturn those sound utility planning criteria[169] based on the theoretical and arbitrary reductions of PGW's main size on the simple *possibility* that NPAs could theoretically reduce future customer demand and keep that demand from coming back.[170] Unless one simply abandons providing gas service to that service location, any such reductions would not be permanent enough to permit PGW to actually change its distribution system in reliance thereon, which is, in fact, POWER's actual objective – to get PGW out of the gas business.[171]

POWER's Exception No. 1 disagrees with the RD's determination that the Commission lacks jurisdiction and authority to order the adoption of POWER's environmental proposals, even while admitting that no legislation grants the Commission authority to require NPAs[172] or the sunsetting of PGW's natural gas distribution system. POWER attempts to cite various existing provisions of the Code[173] in support of its quest to have the Commission exceed its current jurisdiction by claiming that their goal is to make rates and service more reasonable and affordable.[174] But the only way in which this wholesale attack on PGW's gas distribution system makes any sense is to advance the goal of eventually removing PGW from the natural gas business in order to eliminate the gas company as a carbon emitter. The

[165] POWER Exc. at 2-3.
[166] *See* PGW MB at 89-90, *citing* POWER St. No. 1 at 7:13-17; POWER St. No. 1-SR at 13:5-6.
[167] *See* PGW MB at 84; *see also Petition of Philadelphia Gas Works for Approval of its Third Long-Term Infrastructure Improvement Plan*, Docket No. P-2022-3032303, Opinion and Order (entered Aug. 25, 2022).
[168] *See, e.g., Pennsylvania Public Utility Commission Staff Report: Inquiry into Philadelphia Gas Works' Pipeline Replacement Program*, April 21, 2015.
[169] If NPAs are not mandatory, if just *one* customer elects to stay with PGW's gas service, the record evidence is clear that POWER's NPA proposals would only add costs to PGW's rate payers, not reduce them, as PGW would still be obligated to provide existing customers with safe and reliable service. *See* PGW MB at 92-93.
[170] PGW MB at 91.
[171] PGW MB at 84, 90-91; PGW St. No. 10-R at 14-15; PGW St. No. 10-RJ at 3.
[172] POWER Exc. at 3 ("…while it may be true that Pennsylvania has not adopted legislation specifically referencing and requiring NPAs…"); *see also* PGW MB at 86-8.
[173] POWER Exc. at 3-6.
[174] The RD correctly recognized that there is no Pennsylvania law which requires PGW to incorporate NPAs into its capital planning (RD at 140-141) and POWER's examples from Colorado and New York (*see* PGW MB at 88) were the result of laws that spurred their respective utility regulatory bodies to adopt regulations that support NPA planning and/or action.

RD and the Commission's 2020 PGW BRC Opinion and Order[175] correctly set forth the Commission's authority over environmental issues, and here, where NPAs "do not serve to support a specific adjustment or proposal in a rate case… the Commission should not consider it in rendering a rate decision."[176] POWER's Exceptions present no reason to overrule the RD or the sound basis for the Commission's 2020 Order.

Next, POWER's Exception No. 2 disputes the RD's finding that POWER did not propose specific expense or revenue adjustments.[177] However, the record in this proceeding is completely devoid of any specific proposed expense or revenue adjustments in support of POWER's NPA proposals. Even as argued in its Exceptions, POWER attempts to rely on projections of theoretical savings generated from NPAs, like through smart thermostats, and offers an alarmist total estimated expenditure that PGW will undertake through 2058 to continue to enhance the safety and reliability of its utility service, as if they were evidence of genuine revenue and expense adjustments to PGW's proposed rates. They are not. The RD correctly recognized[178] that POWER's recommendations were not directly tied to any specific expense or revenue adjustments[179] and, at most, related only to *planning and prospective* benefits to PGW's customers with no anticipated timing of receipt of any such value. Projections of what total costs may be 30 years or more in the future on LTIIP initiatives the Commission has repeatedly supported, are simply not sufficient evidence to support POWER's NPA proposal in this proceeding since they are well beyond any time horizon being considered in this rate case. Accordingly, POWER's arguments were correctly rejected in the RD, and should likewise be rejected by the Commission.

Finally, POWER's Exceptions again advance its "collaborative working group" idea to inject itself into the management of PGW's future infrastructure planning.[180] Adoption of POWER's proposed working group in this proceeding would be inefficient, ineffective, and potentially create significant safety and security risks.[181] The RD recognized this proposal as inconsistent with how PUC-regulated utilities operate.[182] Moreover, the record showed that the delegation of the Commission's authority over PGW's infrastructure planning to a community based "working

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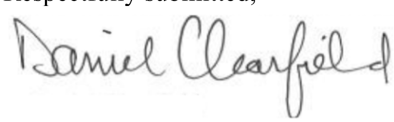
[175] *Pennsylvania Public Utility Commission et. al. v. Philadelphia Gas Works,* Docket No. R-2020-3017206 et al., Opinion and Order at 94 (entered Nov. 19, 2020).
[176] *Id.*; RD at 138.
[177] POWER Exc. at 6-8.
[178] RD at 140.
[179] *See* RD at 140, fns. 712, 713 (recognizing that the only rate design proposals submitted by POWER dealt with residential fixed charges, LIURP funding, and lobbying costs).
[180] POWER Exc. at 8.
[181] PGW RB at 68-71.
[182] RD at 136.

group" raises significant concerns for the potential exposure of PGW's "Confidential Security Information"[183] and interferes with PGW's Commission supported and approved LTIIP. POWER's collaborative working group proposal was correctly rejected by the RD and must also be rejected by the Commission. To the extent that POWER continues to believe that its long-term planning approach should be considered by the Commission, it should petition for an industry-wide rulemaking or investigation, where all companies as well as the PUC's Gas Safety Bureau could participate, not attempt to foist them onto one utility in the context of a base rate case.

III. CONCLUSION

For all the foregoing reasons, PGW respectfully requests that the Commission (1) reject the Exceptions filed by OCA, PICGUG, CAUSE-PA/TURN, GFCP/VEPI and POWER; <u>and</u> (2) grant PGW's Exceptions and adopt the Recommended Decision with the modifications described therein.

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

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