PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Public Meeting held November 9, 2023

Commissioners Present:

Stephen M. DeFrank, Chairman
Kimberly Barrow, Vice Chair, Statement
Ralph V. Yanora
Kathryn L. Zerfuss, Statement
John F. Coleman, Jr., Statement, Concurring in part and Dissenting in part

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

v.

Philadelphia Gas Works

Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc.	C-2021-3029259

v.

Philadelphia Gas Works

OPINION AND ORDER

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BY THE COMMISSION:

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition are the Exceptions of Philadelphia Gas Works (PGW, or the Company), the Office of Consumer Advocate (OCA), the Philadelphia Industrial And Commercial Gas User Group (PICGUG), Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. (Vicinity), the Joint Exceptions of the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) and the Tenant Union Representative Network (TURN) (collectively, CAUSE-PA/TURN, or the Joint Parties), and the Exceptions of POWER Interfaith (POWER), filed on September 15, 2022, to the Recommended Decision (R.D.) of Administrative Law Judges (ALJs) Eranda Vero and Arlene Ashton, issued on September 5, 2023,[1] in the above-captioned proceeding. PGW, the Commission's Bureau of Investigation and Enforcement (I&E), the OCA, the Office of Small Business Advocate (OSBA), and CAUSE-PA/TURN filed Replies to Exceptions on September 22, 2023. Additionally, on September 29, 2023, PICGUG filed a Motion to Strike (PICGUG Motion). PGW and the OSBA each filed an Answer to the PICGUG Motion on October 19, 2023.

For the reasons discussed below, we shall: (1) grant, in part, and deny, in part, the Exceptions filed by PGW, the OCA, and Vicinity; (2) deny the Exceptions filed by PICGUG, CAUSE-PA/TURN, and POWER; and (3) grant PICGUG's Motion.

Additionally, as discussed below, PGW proposed rate changes that would have increased its total annual operating revenues for its natural gas utility service by approximately $85,162,000, or approximately 10.2%, based on a fully projected future test year (FPFTY) ending August 31, 2024.[2] In this Opinion and Order, we shall approve

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[1] I&E and the OSBA each submitted a letter on September 15, 2023 indicating that they would not be filing Exceptions.

[2] As noted below, PGW initially sought an increase in total annual operating revenues of $85.8 Million, or approximately 10.3%.

an annual revenue increase of $26,201,000 to the Company's *pro forma* revenue at present rates of $832,370,000, or approximately 3.15%.

I. Background

PGW is a municipal public utility company, owned by the City of Philadelphia (City) and managed and operated by the Philadelphia Facilities Management Corporation (PFMC). Further, PGW is a "City Natural Gas Distribution Operation," as defined in the Pennsylvania Public Utility Code (Code), 66 Pa. C.S. § 102. The Commission's jurisdiction over PGW, and its tariff rates, arose from the legislature's adoption of the Natural Gas Choice and Competition Act, 1999, June 22, P.L. 122, No. 21 § 3, effective July 1, 1999. (Chapter 22, Natural Gas Competition) 66 Pa. C.S. § 2201 et seq; 66 Pa. C.S. § 2201(b) (establishing Commission jurisdiction over PGW "with the same force as if the service were rendered by a public utility.").[3] PGW manages a distribution system of approximately 3,000 miles of gas mains and 476,000 service lines supplying approximately 500,000 customers in Pennsylvania. PGW M.B. at 1. PGW's service territory consists of an urban area of 134 square miles, the limits of the City, and is the exclusive distributor of natural gas within the limits of the City. PGW Exh. DKW-2 at 6. PGW represents that it is the largest municipally-owned natural gas utility in the nation. PGW St. 4 at 5.

As explained, *infra*, PGW's ratemaking process is based on the Cash Flow Ratemaking Method, where its revenue requirement is the sum of operating expenses, debt service, and a "margin" sufficient to maintain the organization's ability to attract

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[3] Although the Natural Gas Choice and Competition Act brought all "City Natural Gas Distribution Operations" under the jurisdiction of the Commission, PGW is presently the only City Natural Gas Distribution Operation. PGW M.B. at 1, n.3.

capital on reasonable terms.[4] PGW has no shareholders and does not pay a dividend or a rate of return (ROR) to its owners. However, the Company does remit a fixed annual payment of $18 Million (City Payment) to the City, as permitted under 66 Pa. C.S. § 2212(h). Accordingly, all of the funds it needs to run the Company come from its ratepayers or from borrowing, the costs of which must then be paid by ratepayers. PGW M.B. at 1, 11; PGW St. 1 at 2-3. PGW last filed for an increase in natural gas base rates in 2020, which this Commission addressed at *Pa. PUC, et. al v. Philadelphia Gas Works*, Docket Nos. R-2020-3017206, *et al*. (Order entered November 19, 2020) (*2020 PGW Rate Case*).

In this current base rate proceeding, PGW sought an increase in jurisdictional natural gas revenues of $85.2 million, or 10.2% on a total revenue basis.[5] PGW's requested increase was based upon the FPFTY ending August 31, 2024.[6] PGW explained that since the *2020 PGW Rate Case*, it has continued to engage in an aggressive capital improvement program and has focused on improving safety, increasing efficiency, and enhancing customer service. The Company represented that it filed its

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[4] Other than PGW and the Pittsburgh Water and Sewer Authority (PWSA), utilities under the jurisdiction of this Commission use the rate base/rate of return methodology to set rates. I&E St. 1 at 2, n.1.

[5] PGW's original request of $85.8 million was modified for a revision to PGW's requested COVID-19 expense recovery to credit that claim for a $10,752,000 Pipeline and Hazardous Materials Safety Administration (PHMSA) grant received by the Company after its original request was prepared. *See,* PGW St. No. 2-R at 2; Exhs. JFG-2-R (Statement of Income); JFG-5 (Statement of Income).

[6] The future test year (FTY) ended August 31, 2023, and the historical test year (HTY) ended August 31, 2022. PGW M.B. at 13. The statutory definition of FPFTY, set forth in 66 Pa. C.S. § 315(e), would have required that the FPFTY commence in November 2023 and to continue for twelve months. However, pursuant to 66 Pa. C.S. § 2212(c), PGW has the authority to request that the Commission suspend or waive this provision of the Code. As previously noted, concurrent with its filing of the instant base rate case, PGW filed a Petition requesting that the Commission waive the application of the statutory definition of FPFTY to permit the Company to use a FPFTY beginning earlier than that which is mandated by Section 315, *i.e.,* on September 1, 2023.

rate increase request because of several factors, including materially increased expenses and capital expenditures, have reduced PGW's projected cash and liquidity. In addition, PGW noted that it will be issuing a $348 million bond at the end of Fiscal Year (FY) 2024, upon conclusion of the FPFTY, that will impose incremental debt service of approximately $22.7 million. PGW stated that none of these incremental costs are currently included in the Company's rates. PGW M.B. at 2, 13.

II. History of the Proceeding

On February 27, 2023, PGW filed proposed Supplement No. 159 to PGW's Gas Service Tariff – Pa. P.U.C. No. 2 (Supplement No. 159) and proposed Supplement No. 105 to PGW's Supplier Tariff – Pa. P.U.C. No. 1 (Supplement No. 105) to become effective April 28, 2023. Supplement No. 159 and Supplement No. 105 sought a rate increase calculated to produce approximately $85.8 million (10.3%) in additional annual revenues.[7] Also filed on this date was a Petition for Waiver seeking waiver of the application of the statutory definition of the FPFTY to allow PGW to use a fully FPFTY beginning September 1, 2023, in this proceeding. PGW also served the Direct Testimony of its witnesses, in support of its filing.

Also on February 27, 2023, I&E filed a Notice of Appearance. Complaints were filed against the proposed rate increase by Vicinity on March 3, 2023; the OCA on March 7, 2023; the OSBA on March 9, 2023; James M. Williford (Mr. Williford) on March 17, 2023; and PICGUG on March 17, 2023.

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[7] As explained previously there was a slight reduction to 10.2%. *See*, Footnote 5.

PGW served supplemental direct testimony regarding revisions to PGW's Weather Normalization Adjustment (WNA) formula to be used in future heating seasons on April 3, 2023.

On April 12, 2023, CAUSE-PA filed a Petition to Intervene and Answer.

On April 20, 2023, the Commission, by Order, instituted an investigation to determine the lawfulness, justness, and reasonableness of PGW's proposed rate increase. The April 20, 2023 Order suspended proposed Supplement No. 159 and proposed Supplement No. 105 until November 28, 2023, unless permitted by further Order of the Commission to become effective at an earlier date. The April 20, 2023 Order also assigned the matter to the Office of Administrative Law Judge (OALJ) for the scheduling of any necessary hearings and the issuance of a Recommended Decision. Pursuant to this Order, the matter was assigned to ALJs Vero and Ashton. A Prehearing Conference Order was also issued on April 20, 2023, setting a call-in telephonic prehearing conference for April 28, 2023.

In a corollary matter, the Commission directed on April 20, 2023, that Section 1301 questions of the Code, 66 Pa. C.S. § 1301, regarding the "just and reasonable rate" and rate class applicable to PGW's service to Vicinity be examined utilizing cost of service principles in this base rate case. *See, Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. v. Philadelphia Gas Works*, Docket No. C-2021-3029259 (Order Entered April 20, 2023). (*Complaint Proceeding*).

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

TURN filed a Petition to Intervene in this matter on April 24, 2023. On April 25, 2023, POWER filed its Petition to Intervene.

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

Prehearing memoranda were filed by PGW, I&E, the OCA, the OSBA, Vicinity, CAUSE-PA, TURN, POWER and PICGUG prior to a call-in telephonic prehearing conference was held on April 28, 2023.

On May 5, 2023, pursuant to the *April 2023 Order*, PGW submitted supplement direct testimony and exhibits regarding the proposed rates, rules, and regulations governing gas service provided to Vicinity.

By Prehearing Order on May 10, 2023, the Petitions to Intervene by CAUSE-PA, TURN, and POWER were granted, and a procedural schedule and framework established. Additionally, the Petition for Waiver, filed by PGW on February 27, 2023, was granted, as the September 1, 2023 date for the beginning of the FPFTY was consistent with PGW's financial filings.

Four Public Input Hearings were held in this matter. On May 23, 2023, two Public Input in-person hearings were held. On May 24, 2023, two Public Input telephonic hearings were held. During the Public Input Hearings, twenty-two (22) PGW customers provided sworn testimony.

On May 23, 2023, the OCA filed a Motion to Strike (OCA Motion) the supplemental direct testimony submitted by PGW on April 3, 2023, regarding PGW's WNA.[8] On May 31, 2023, PGW filed a timely answer to the OCA Motion and CAUSE-PA/TURN filed a Joint Answer to the OCA Motion. An Order granting the OCA's Motion to Strike was issued on June 6, 2023, directing that PGW's supplemental direct testimony be stricken and not become part of the record.

On May 31, 2023, I&E, the OCA, the OSBA, CAUSE-PA/TURN, and POWER served their Direct Testimony and associated exhibits.

On June 2, 2023, Vicinity and PICGUG submitted their Direct Testimony and associated exhibits.

On June 26, 2023, Rebuttal Testimony was filed by PGW, the OCA, the OSBA, Vicinity, and PICGUG.

On July 7, 2023, Surrebuttal Testimony was filed by the OCA, Vicinity, I&E, POWER, PGW, and CAUSE-PA/TURN.

On July 10, 2023, PGW submitted a written Rejoinder.

Evidentiary hearings were held in this matter on July 11 and July 12, 2023. The Parties submitted Main Briefs on July 27, 2023, and Reply Briefs on August 7, 2023. The record in this proceeding closed on or about August 7, 2023, upon the filing of Reply Briefs.

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[8] Per the Opinion and Order in Docket No. R-2022-3034229, PGW's WNA shall be evaluated and fully addressed in PGW's next rate case. *Pa. PUC v. Phil. Gas Works*, Docket No. R-2022-3034229 (Opinion and Order entered September 21, 2023) (*September 2023 Order*).

In their Recommended Decision, issued on September 5, 2023, ALJs Vero and Ashton recommended that PGW's proposed Supplement No. 159 to its Gas Service Tariff –Pa. P.U.C. No. 2, and proposed Supplement No. 105 to its Gas Supplier Tariff – Pa. P.U.C. No. 1, and the associated proposed revenue increases, be denied because the Company did not meet its burden of proving by a preponderance of the evidence the justness and reasonableness of every element of its requested increase. Instead, the ALJs recommended the approval of an increase in annual operating revenue in the amount of $22,306,000, or approximately 2.7% over present rates. The ALJs also recommended that PGW's proposal to create a new tariff class: Rate General Service – Extra Large Transportation (GS-XLT) be approved. Additionally, the ALJs recommended that PGW be directed to undertake multiple measures to improve its customer service. The ALJs further recommended that the Commission reject a proposal by POWER to integrate non-pipeline alternatives (NPAs) investments into PGW planning, finding that the Commission lacks the jurisdiction and authority to do so. R.D. at 1.

As previously noted, PGW, the OCA, PICGUG, Vicinity, CAUSE-PA/TURN, and POWER filed Exceptions to the R.D. on September 15, 2023. Reply Exceptions were submitted by PGW, I&E, the OCA, the OSBA, and CAUSE-PA/TURN on September 22, 2023.

On September 29, 2023, PICGUG filed its Motion.

On October 19, 2023, PGW and the OSBA each filed an Answer to the PICGUG Motion.

III. Public Input Hearings

As noted above, in the History of Proceeding, several public input hearings were held in order to hear from PGW's customers regarding its proposed natural gas rate increase. More specifically, two in-person hearings were held on May 23, 2023 and two telephonic hearings were held on May 24, 2023. A total of twenty-two witnesses testified. For a summary of the public input hearings, see pages 6 to 9 of the Recommended Decision.

IV. Legal Standards

At issue here is PGW's request for a general base rate increase, which is governed by Section 1308(d) of the Code. Section 1308(d) of the Code provides the procedures for changing base rates, the time limitations for the suspension of the new rates, and the time limitations on the Commission's actions. 66 Pa. C.S. § 1308(d).[9] "Under traditional ratemaking, utilities may not change rates charged to customers outside of a base rate case." *McCloskey v. Pa. PUC*, 127 A.3d 860, 863 n.2 (Pa. Cmwlth. 2015).

A. Just and Reasonable Rates

Section 1301(a) of the Code mandates that "[e]very rate made, demanded, or received by any public utility ... shall be just and reasonable, and in conformity with [the] regulations or orders of the [C]ommission." 66 Pa. C.S. § 1301(a). Pursuant to the just and reasonable standard, a utility may obtain "a rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers[,] as well as a

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[9] Among other things, Section 1308(d) of the Code requires the Commission to render a final decision granting or denying, in whole or in part, the general rate increase requested by a public utility, within a general time frame not to exceed seven months from the proposed effective date of the utility's proposed tariff supplement. *See*, 66 Pa. C.S. § 1308(d); *see also*, 52 Pa. Code § 53.31 (requiring a tariff proposing a rate increase to be effective upon sixty days' advance notice). Unless the utility voluntarily extends the suspension period, the Commission's non-action within this timeframe means, by operation of law, the utility's proposed general rate increase will go into effect, as proposed, at the end of such period. *See*, 66 Pa. C.S. § 1308(d).

reasonable rate of return on its investment." *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002) (*City of Lancaster*). There is no single way to arrive at just and reasonable rates, and "[t]he [Commission] has broad discretion in determining whether rates are reasonable" and "is vested with discretion to decide what factors it will consider in setting or evaluating a utility's rates." *Popowsky v. Pa. PUC*, 683 A.2d 958, 961 (Pa. Cmwlth. 1996) (*Popowsky*).

A public utility is entitled to an opportunity to earn a fair rate of return on the value of the property dedicated to public service. *Pennsylvania Gas and Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975) (citations omitted). In determining a fair rate of return, the Commission must adhere to the constitutional standards established by the United States Supreme Court in the seminal cases *Bluefield Water Works and Improvement Co. v. Public Service Comm'n of West Virginia*, 262 U.S. 679, 692-93 (1923) (*Bluefield*) and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944). In *Bluefield*, the Supreme Court stated:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

Bluefield, 262 U.S. at 692-93.

In establishing the just and reasonable rates for PGW, it is well settled that, pursuant to 66 Pa. C.S. § 2212(e), the Commission utilizes the Cash Flow Ratemaking Method. Under the Cash Flow Ratemaking Method, PGW's revenue requirement is the sum of operating expenses, debt service, and a "margin" sufficient to maintain the organization's ability to attract capital on reasonable terms. Section 2212(e) directs the Commission as follows:

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

66 Pa. C.S. § 2212(e).

In 2010, the Commission issued a policy statement (Policy Statement) setting forth the criteria and the financial and other considerations that are to be examined in setting PGW's base rates at just and reasonable levels. *See*, 52 Pa. Code §§ 69.2701-2703. In its Policy Statement, the Commission described the requirements of the Cash Flow Method as follows:

> (b) The Commission is obligated under law to use the cash flow methodology to determine PGW's just and reasonable rates. Included in that requirement is the subsidiary obligation to provide revenue allowances from rates adequate to cover its reasonable and prudent operating expenses, depreciation allowances and debt service, as well as sufficient margins to meet bond coverage requirements and other internally generated funds over and above its bond coverage requirements, as the Commission deems appropriate and in

> the public interest for purposes such as capital improvements, retirement of debt and working capital.

52 Pa. Code § 69.2702(b).

The Commission also stated that, in determining just and reasonable rate levels for PGW it would consider, among other relevant factors, the following financial factors:

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

52 Pa. Code § 69.2703(a).

B. Burden of Proof

The Commission is required to investigate all general rate increase filings. *Popowsky*, 683 A.2d at 961. The burden of proof to establish the justness and reasonableness of every element of a public utility's rate increase request rests solely upon the public utility in all proceedings filed under Section 1308(d) of the Code. 66 Pa. C.S. § 315(a); *see also*, *Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980) (*Lower Frederick*); *see also*, *Brockway Glass Co. v. Pa. PUC*, 437 A.2d 1067 (Pa. Cmwlth. 1981). Section 315(a) of the Code provides as follows:

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

66 Pa. C.S. § 315(a). The evidence necessary to meet that burden must be substantial. *Lower Frederick* at 507.

The Pennsylvania Commonwealth Court has stated:

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

In general rate increase proceedings, the burden of proof does not shift to parties challenging a requested rate increase. Rather, the utility's burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one, and that burden remains with the public utility throughout the course of the rate proceeding. There is no similar burden placed on parties to justify a proposed adjustment to the Company's filing. The Pennsylvania Supreme Court has held:

> [T]he appellants did not have the burden of proving that the plant additions were improper, unnecessary or too costly; on the contrary, that burden is, by statute, on the utility to demonstrate the reasonable necessity and cost of the installations, and that is the burden which the utility patently failed to carry.

Berner v. Pa. PUC, 116 A.2d 738, 744 (Pa. 1955).

However, in proving that its proposed rates are just and reasonable, a public utility need not affirmatively defend every claim it has made in its filing, even those which no other party has questioned. As the Pennsylvania Commonwealth Court has held:

> While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.

Allegheny Center Assocs. v. Pa. PUC, 570 A.2d 149, 153 (Pa. Cmwlth. 1990) (citation omitted) (*Allegheny Center Assocs.*); *see also*, *Pa. PUC v. Equitable Gas Co.*, 73 Pa. P.U.C. 310, 359-360 (1990).

Additionally, Section 315(a) of the Code cannot reasonably be read to place the burden of proof on the utility with respect to an issue the utility did not include in its general rate case filing and which, frequently, the utility would oppose. 66 Pa. C.S. § 315(a). The burden of proof must be on the party who proposes a rate increase beyond that sought by the utility. *Pa. PUC v. Metropolitan Edison Company*, Docket No. R-00061366, 2007 Pa. PUC LEXIS 5 (Order entered January 11, 2007). The mere rejection of evidence contrary to that presented by the public utility is not an impermissible shifting of the evidentiary burden. *United States Steel Corp. v. Pa. PUC*, 456 A.2d 686 (Pa. Cmwlth. 1983).

As we proceed in our review of the various positions of the Parties in this proceeding, we note that any issue or Exception that we do not specifically address shall be deemed to have been duly considered and denied without further discussion. The Commission is not required to consider expressly or at length each contention or argument raised by the parties. *Consolidated Rail Corp. v. Pa. PUC*, 625, A.2d 741 (Pa. Cmwlth. 1993); *also see, generally, University of Pennsylvania v. Pa. PUC*, 485 A.2d 1217 (Pa. Cmwlth. 1984).

V. Discussion

A. Revenue Increase and Revenue Requirement

A utility's revenue requirement represents the total revenue that the utility needs to collect through the rates it charges to the public to cover its cost of service. *See,* https://www.puc.pa.gov/General/publications_reports/pdf/Ratemaking_Guide2018.pdf, accessed on September 25, 2023 (*PUC Rate Case Handbook*) at 102. As previously noted, PGW sets its rates based upon the Cash Flow Method of ratemaking. This ratemaking method arose from an ordinance, enacted on December 29, 1972 (1972 Ordinance), which approved an agreement between the PFMC, which is the entity set up to operate PGW; and the City. The 1972 Ordinance set forth how PGW's rates would be set and how the Company would be operated. I&E St. 1 at 3.

As a Cash Flow Regulated company, PGW's operations are entirely funded from rates, either indirectly as a result of short-term or long-term borrowing, which the PGW must then pay back using the funds raised from the rates charged to its ratepayers, or directly through charges to its customers. Accordingly, PGW's most important financial metrics are: (1) the bond debt service coverage (DSC) ratio; (2) the end of year days of cash on hand (DOC) and liquidity balance; (3) the debt to equity capitalization ratio; and (4) the bond rating agency requirements necessary to maintain a certain credit rating. PGW St. 2 at 12. Generally, the revenue allowances from PGW's rates should be adequate to cover its reasonable and prudent operating expenses, depreciation allowances, and debt service. Additionally, the Company should be allotted sufficient margins to meet bond coverage requirements, and other internally generated funds (IGF) over and above its bond service requirements, as the Commission deems appropriate and in the public interest. This includes capital improvements, retirement of debt, and working capital. As previously noted, as a City Natural Gas Distribution Operation, PGW does not have shareholders and does not pay a dividend, or a ROR to its owner in any traditional sense; however, PGW, which is owned by the City, pays the City an annual $18 million City Payment, which is, in effect, a dividend payment. OCA St. 1 at 5-6.

1. Proposed Revenue Requirement

a. Positions of the Parties

PGW's final proposed revenue requirement was approximately $915,434,000, representing a proposed revenue increase of $85,162,000 over *pro forma* revenues[10] at present rates of $832,370,000.[11] The Company's requested increase consisted of: (1) a three-year amortization of expenditures and increased uncollectibles resulting from the COVID-19 Pandemic and the associated Commission orders responding to the Pandemic: $10,161,000 annually for three years; and (2) a $75,000,000 annual increase. PGW M.B. at 10-11, 33, and Appendix C, Table I.

I&E proposed a revenue requirement of $876,892,000 for PGW. I&E noted that this recommended revenue requirement represented an increase of approximately $44,827,000 to the claimed present rate revenues of $832,370,000. I&E M.B. at 8-9; and Appendix Table I at 1.

The OCA proposed a final revenue requirement of $849,658,000 on a total Company basis, representing a revenue increase of approximately $16,502,000. OCA M.B. at 13 and Exh. 2, Table I.

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[10] PGW represented that its *pro forma* revenues are a function of the projected gas demand per customer and the anticipated number of customers in each class for the projection periods. PGW's Marketing and Gas Planning departments calculated revenues and sales by class for the budget year/FPFTY and provided projections for the forecast years. The Company calculated heating and non-heating load and weather normalized heating load. PGW stated that its normalized heating load is based on "normal" weather, calculated using the twenty-year average of experienced degree days. PGW M.B. at 14.

[11] PGW's total proposed revenue requirement is comprised of its "total gas revenues" at proposed rates plus its "total other operating revenues" at proposed rates. The increase to its revenue requirement, when compared to its revenue at present rates can be calculated by: (1) adding its revenue enhancement (*i.e.*, proposed revenue increase) of $85,162,000; (2) less an increase of $3,407,000 to its appropriation for uncollectible reserve; (3) plus an increase to its "other" operating revenues of $1,309,000; and (4) plus its revenues at present rates of $832,370,000. [$832,370,000 + $85,162,000 – $3,407,000 + $1,309,000 = $915,434,000]. PGW M.B. at Appendix C, Table I. This same method can be utilized in examining the rate tables provided by I&E and the OCA in their main briefs, outlining their respective proposed revenue requirements and revenue increases. We note that no party challenged PGW's proposed increase for its "other operating revenues."

The remaining Parties to this proceeding did not submit a specific revenue requirement or revenue increase proposal. Instead, they proffered various observations or concerns regarding the Company's proposed revenue increase.

The OSBA proffered two specific observations. First, the OSBA submitted that PGW's financial forecasts are not a reliable basis upon which to set rates in this proceeding. The OSBA noted that the Company's financial forecasts in the *2020 PGW Rate Case* included costs that proved to be far in excess of the costs that it actually incurred. Namely, the OSBA pointed out that PGW had favorable actual-to-budget cost variances in FY 2021 and 2022 of $98.7 million and $85.5 million, respectively. Second, the OSBA argued that under Commission regulation, PGW has been permitted to set rates sufficiently high to allow it to increase its ratepayer-financed book equity by over $1 billion between 2007 and 2023. According to the OSBA, given that PGW has claimed that Commission regulation is perceived to be a negative risk factor, such that PGW should be awarded even larger rate increases, the Company will not be satisfied with the rate increases awarded by the Commission. Thus, the OSBA opined that the Commission must assess its policy of permitting PGW to amass vast amounts of book equity at the expense of its ratepayers. OSBA M.B. at 6.

PICGUG highlighted the concerns of I&E and the OCA, discussed, *infra*, regarding the Company's proposed increase and the resulting financial metrics. Thus, PICGUG submitted that the Commission must fully review PGW's request, including the issues raised by I&E and the OCA, to ensure that any rate increase request is just and reasonable. PICGUG M.B. at 6.

CAUSE-PA/TURN argued that while a portion of the Company's low-income customers would be somewhat insulated from the proposed increase because of their participation in PGW's Customer Responsibility Program (CRP), of a percentage of income payment plan (PIPP), less than half of identified low-income customers, and less than a third of estimated low-income customers are actually enrolled in CRP. In addition, CAUSE-PA/TURN noted that not all CRP customers are enrolled in the PIPP plan, while CRP customers who are on PGW's budget bill CRP plan will pay the full impact of any rate increase. Therefore, CAUSE-PA/TURN took the position that PGW should not be permitted to increase rates unless it takes the necessary measures to mitigate the impact of the increase on low-income households. CAUSE-PA/TURN M.B. at 8-9.

Similarly, POWER asserted that PGW's ratepayers face affordability issues, such that it would not be just and reasonable to worsen them through an increase in rates. For this reason, POWER claimed that unless the Company implements certain affordability protections, it should not be granted any rate increase. POWER M.B. at 14.

b. Recommended Decision

The ALJs recommended an overall revenue requirement of $855,093,000 for PGW based on the various adjustments they recommended be adopted in their Recommended Decision, resulting in an overall distribution revenue increase of $22,306,000. According to the ALJs, this recommended revenue increase and revenue requirement is just and reasonable because it addresses PGW's cash flow needs and recognizes that the Company has a history of projecting the need for more construction-related cash flow than it actually spends. The ALJs further opined that their recommended revenue increase will strike a reasonable balance between PGW's intention to fund a portion of capital improvements through rates, rather than debt, and the burden this imposes upon its ratepayers. R.D. at 1, 63, and Appendix Table I.

c. Disposition

Based upon our findings regarding certain inputs to PGW's revenues and expenses, as discussed below, we shall approve an overall revenue requirement of $858,831,000, which will result in an overall distribution revenue increase of $26,201,000, on an annual basis.

2. Financial Metrics Part 1: Debt Service Coverage and Days Cash on Hand

a. Debt Service Coverage

The DSC ratio is a financial metric used to determine a company's ability to generate enough income in its operations to cover annual debt expenses. *PUC Rate Case Handbook* at 159-60. PGW asserted that DSC is the fundamental way in which it receives the cash it needs to operate its business and to have cash on hand for contingencies. PGW's debt is financed through bonds issued by the City. The City's general ordinances require that PGW maintain a minimum DSC ratio of 1.5x on its debt services issuances, which is calculated by subtracting operating expenses from total funds available, to calculate total funds available to cover debt service. The cash generated by this ratio, *i.e.*, the funds available to cover debt service, must be sufficient to produce satisfactory additional revenues to pay for cash items that are not included in the DSC ratio calculation, but for which PGW is committed to or required to pay. These payments include the mandatory yearly $18 million City Payment, the IGF needed for PGW to continue to meet its IGF goals, and working capital, *i.e.*, a cushion over and above these items to account for lags in receipt of cash compared to billings. *Id.*; PGW M.B. at 16; PGW St. 2 at 15.

(1) Positions of the Parties

PGW provided that, at present rates, its DSC ratio for the FPFTY is 2.1x before accounting for the mandatory obligation of the $18 million City Payment, and 1.94x after the City Payment. PGW argued that this level of DSC is inadequate to meet all of its cash obligations, which include the following: the City Payment, pension fund contributions not on the income statement, Distribution System Improvement Charge (DSIC) costs, and its Other Post-Employment Benefits (OPEB) surcharge. In addition, PGW argued that its DSC must be able to fund the portion of its capital improvements that is funded through IGF, and that it also must produce a reasonable amount of working capital. In this proceeding, PGW submitted that its rates must be set to produce a DSC ratio of at least 2.73x before the City Payment, so that it will be able to meet all of its cash expenditures in the FPFTY. PGW insisted that this can only be achieved with its proposed $85,162,000 revenue increase. PGW M.B. at 16-18.

PGW claimed that its proposed level of DSC was reasonable when compared to those of similarly situated companies. In this regard, PGW submitted that its witness, Mr. Harold Walker III, analyzed the financial results for several groups of: (1) municipally owned utilities; (2) Pennsylvania investor-owned utilities (IOUs); and (3) IOUs that operate outside of Pennsylvania. According to the Company, Mr. Walker's analysis demonstrated that PGW's historical and proposed DSC ratios, using various measures because of differences in calculations, lagged behind those of its peers, on average, in most years; and that its proposed DSC ratio of 2.73x was below the historical average DSC for virtually every municipal utility peer group he examined. PGW M.B. at 18 (citing PGW St. No. 4 at 37).

I&E took the position that PGW's proposed level of DSC was significantly overstated and would result in unjust and unreasonable rates for PGW's customers, if approved. I&E asserted that although major bond ratings agencies recognize that the

Company must have its rates set to produce a DSC ratio of at least 1.5x, there is no indication that the Company must have the significantly higher level of DSC that it seeks. I&E reasoned that these ratings agencies have not raised any concern about PGW's present or future ability to service its debt. I&E M.B. at 9-10.

Therefore, I&E proposed that the Company be permitted to have a DSC ratio of 2.45x before the City Payment and 2.30x after the City Payment. I&E explained that the principal difference between its proposed level of DSC and that of the Company is I&E's recommended disallowance of approximately $53.2 million of IGF, discussed, *infra*, that PGW intends to use to finance capital improvement projects. Nonetheless, I&E submitted that its own proposed DSC ratio falls within the highest credit quality rating levels, as determined by Moody's Investors Service (Moody's), and will permit the Company to have sufficient cash to cover all of its obligations. Additionally, I&E claimed that this level of DSC would result in just and reasonable rates for PGW's customers. I&E M.B. at 10-11.

The OCA argued that because the median household income for PGW's customers is 73% of the national average, these customers' "ability to pay" is below the national average. Accordingly, the OCA took the position that PGW's proposed level of DSC was indicative of an overly burdensome rate increase. The OCA argued that PGW already charges above-average retail rates when compared to similar companies, despite having a particularly large low-income customer base. Thus, the OCA submitted that PGW's proposed revenue increase, if granted, would drive its already above-average rates even higher for a cash flow utility whose costs will not increase as much as its projects, given the current moderating inflation environment. In the OCA's view, the cost to ratepayers resulting from PGW's proposed level of DSC would negate any potential future benefit to the ratepayers, particularly when there is no indication that the Company's requested DSC level is necessary for it to maintain a sufficient bond credit rating. Instead, the OCA proposed a DSC ratio of 2.40x before the City Payment and

2.24x after the City Payment. The OCA submitted that this proposed level of DSC is appropriate in the current economic climate, would meet the Company's legal requirements under its bond covenant, and would exceed the required bond covenant ratio of 1.5x by a large margin that will be sufficient to keep PGW financially stable throughout future events. OCA M.B. at 14-17.

b. Days Cash on Hand (DOC)

DOC measures the number of days that an organization can continue to pay its operating expenses, given the amount of cash it currently has on hand. *See, https://www.accountingtools.com/articles/days-cash-on-hand.html,* accessed on September 26, 2023. PGW, and all Parties that made a specific revenue requirement recommendation in this proceeding, calculated days cash on hand, as follows:

$$\textbf{DOC=}\ \frac{\text{Year-End Cash Balance}}{\dfrac{[\text{Capitalized Fringe Benefits} + \text{Capitalized Administrative Charges} + \text{Operating Expenses} - \text{Net Depreciation}]}{365}}$$

PGW M.B. at 19, n.80.[12]

(1) Positions of the Parties

PGW proposed a DOC balance of 61.6 days, consistent with its requested revenue increase amount of $85,162,000, which would produce a year-end cash balance in the FPFTY of $113,769,000. PGW asserted that the bond rating agencies that closely follow the Company's financial performance have indicated that for a utility with an "A" bond rating, a DOC balance of between 90 and 150 DOC should ideally be maintained.

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[12] The year-end cash balance is found on Table I(B)-Cash Flow Statement at Line 25. The remainder of the inputs are found on Table I-Statement of Income on Lines 27, 28, 43, and 41, respectively. *See generally*, R.D. at Appendix.

PGW continued that for the FPFTY at present rates, the Company is projecting that it will end the FY with just $30.78 million in cash, which equates to just 16.9 DOC. Therefore, PGW submitted that, at present, it would not have sufficient cash to be able to meet all of its cash obligations. According to the Company, this would be concerning to the rating agencies and would prompt a review of its bond rating. In addition, PGW projected that both its year-end cash balance and its DOC will be negative beginning in FY 2025. PGW further highlighted that while its proposed DOC balance will provide sufficient cash for the Company's cash needs, it is still well below the 90 to 150 days that is expected by the rating agencies on average, over time, to be issued an "A" rated credit. PGW M.B. at 18-19.

I&E stated that its proposed revenue increase and revenue requirement resulted in a year-end cash balance of $113,769,000 and a DOC balance of approximately 62.2 days.[13] I&E M.B. Table I(B) at 2; I&E R.B. at 6. I&E acknowledged that PGW's average DOC will decline as the Company uses cash for capital expenditures. Nonetheless, I&E highlighted that this DOC balance still falls within the range of "greater than 35 days but less than or equal to 150 days" that Moody's Investors Service (Moody's) has outlined to be listed as an "A" rated credit. I&E also disagreed with PGW's assertion that its proposed DOC balance of 61.6 days is "well below" the 90 to 150 days expected by the rating agencies. In this regard, I&E claimed that PGW's position ignored the fact that the rating agencies give PGW credit for available letters and/or lines of credit or capacity in a short-term debt program. Namely, I&E argued that PGW failed to account for its $120 million of commercial paper that is fully available to meet its working capital requirements. I&E contended that this $120 million commercial

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[13] In its Main Briefs, I&E represented that its proposed DOC balance was 39.2 Days. I&E M.B. at 12. However, it is clear that when the DOC formula outlined above is applied, I&E's proposed revenue increase, revenue requirement, and ending cash balance resulted in a final proposed DOC balance of 62.2 days, or slightly higher than PGW's proposed balance. *See*, I&E R.B. at 6.

paper program provides a significant boost to the cash and liquidity metric for PGW, helping to maintain a solid credit rating. Therefore, I&E stated that PGW is not well-below the targeted range. I&E M.B. at 11-13; I&E R.B. at 6.

The OCA's proposed revenue increase and revenue requirement resulted in a year-end cash balance of $101,831,633, and a proposed DOC balance of 57.41 days. OCA St. 1-SR-Revised at 3. According to the OCA, its lower recommended DOC is more appropriate, as it will be less burdensome for customers while still allowing PGW sufficient funds to address any financial difficulties that may arise and to maintain its current bond ratings from credit agencies. OCA M.B. at 21. The OCA observed that PGW's proposed DOC is based on the Company's assertion that because its customer base has a median household income that is 73% of the national median, PGW needs to have more DOC to serve as a cushion for any market shocks. *Id.* (citing PGW St. 3-R at 2-3). However, the OCA countered that, similar to the impact from a recession, the revenue increase and the DOC that PGW proposed in this proceeding would negatively impact PGW's customers' abilities to pay their bills. The OCA posited that if PGW is concerned about its customers' abilities to pay in the event of a recession, given its customer bases' low median household income, then PGW should seek to bolster its CRP enrollment so that its low-income customers have mechanisms to deal with financial difficulties. Therefore, the OCA submitted that its own proposed, more conservative, DOC balance estimate is sufficient, will not cause as heavy a rate burden for PGW's customers, and should be adopted. OCA M.B. at 21-22.

c. Recommended Decision

Based upon their recommended revenue requirement of $855,093,000 and recommended revenue increase of $22,306,000, *supra*, the ALJs recommended a DSC ratio for PGW of 2.40x before the $18 million City Payment, and 2.24x after the City Payment. The ALJs explained that these recommendations result in a year-end cash balance of $75,316,000, and a DOC balance of approximately 42.16 days for PGW in the FPFTY. The ALJs opined that their recommended financial metrics will be sufficient for PGW to maintain its good standing with the major bond rating agencies. Further, the ALJs concluded that these recommendations will permit PGW to meet its obligations, including its pension fund, retiree health care, DSIC, and working capital, while also ensuring that its resulting rates will be just and reasonable for the Company's ratepayers. R.D. at 64.

d. PGW Exception Nos. 1 and 2 and Replies

In its Exception No. 1, PGW takes issue with the ALJs' recommended revenue increase and revenue requirement, and the resulting DSC ratio, DOC balance, and year-end cash balance. According to PGW, the ALJs' recommended financial metrics are grossly deficient, are inconsistent with the Commission's Policy Statement, and would place the Company in danger of a bond rating downgrade. PGW argues that although the ALJs referenced the Policy Statement, they focused on only one of its factors: their finding that a DOC balance of 42.16 days and a DSC ratio of 2.4x before the City Payment would be sufficient to maintain a good standing with the bond rating agencies. According to PGW, while the ALJs made this finding in error, they also ignored several other Policy Statement factors that should be considered.

First, PGW points to Section 69.2702(b) of our Regulations, which states, as follows:

> The Commission is obligated under law to use the cash flow methodology to determine PGW's just and reasonable rates. Included in that requirement is the subsidiary obligation to provide revenue allowances from rates adequate to cover its reasonable and prudent operating expenses, depreciation allowances and debt service, as well as sufficient margins to meet bond coverage requirements and other internally

> generated funds over and above its bond coverage requirements, as the Commission deems appropriate and in the public interest for purposes such as capital improvements, retirement of debt and working capital.

PGW Exc. at 5 (citing 52 Pa Code § 69.2702). PGW submits that contrary to the ALJs' conclusion, the Company demonstrated that a DSC ratio of 2.73x is an absolute necessity to provide PGW with sufficient cash to pay for items which are otherwise not reflected on its income statement as expenses, or which are "pass throughs." PGW submits that aside from the Company's claim for IGF to fund its capital expenditures, discussed in Section V.A.3, *infra*, no Party disputed PGW's statements about its cash needs or the items that needed to be covered by the DSC ratio. PGW further contends that even if all other adjustments recommended by the ALJs are accepted, PGW's DSC ratio and its revenue 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 meet all its cash obligations in the FPFTY. PGW Exc. at 5-6 (emphasis in original).

Next, PGW claims that the ALJs failed to consider factor number 1 of the Policy Statement, *supra*, which states that the Commission must look at "PGW's test year-end [cash] and (as a check) projected future levels of non-borrowed year-end cash." PGW claims that when this factor is considered, it is clear the ALJs' recommended DOC balance of 42.16 days of cash is "seriously deficient from any perspective." PGW restates its argument that major credit rating agencies that closely follow the Company's financial performance have indicated that a cash balance of between 90 and 150 DOC is necessary for the Company to be viewed as being in a financially sound position, and to avoid a rating downgrade. PGW also notes that the ALJs' recommended DOC balance is below PGW's recent experience, wherein it averaged 117 DOC between 2017 and 2021, and realized a balance of 79 DOC in 2022. Additionally, PGW submits that if the ALJs' recommended DOC balance is adopted, the Company will experience a negative DOC in FY 2025 and 2026. PGW Exc. at 6-7.

PGW also claims that the ALJs disregarded factor number 3 of the Policy Statement, that the Commission must consider the "debt to equity ratios and financial performance of similarly situated utility enterprises." PGW points to the testimony of its witness, Mr. Walker, that PGW's requested DOC balance, DSC ratio, and debt to total capitalization ratio are extremely modest compared to similarly situated municipal utilities. For example, PGW notes that while it requested a DOC balance of 61.9 days, Mr. Walker's "MUNI Comp Group" had an average DOC balance of 211 days. PGW Exc. at 7-8 (citing PGW St. 4-R at 9, 11).

Additionally, PGW insists that if the Commission adopts the ALJs' recommended DOC balance, then the Company would be placed at risk of a bond rating downgrade. PGW contends that a bond rating downgrade will raise its cost of borrowing for the entire thirty-year life of its bonds, while also having numerous other adverse consequences. As a result, PGW claims that its ratepayers would be forced to pay millions of additional dollars. PGW Exc. at 8-9.

PGW further argues that the ALJs' recommended DOC balance is one-third of the recommendations of I&E and the OCA, which average approximately 60 days. PGW claims that if the Commission does not reverse the ALJs' recommendation, then it should permit the Company to have additional revenues that would produce a DOC balance within the range of the I&E and OCA recommendations. PGW claims that granting a revenue increase that would produce a DOC balance of 60 days would require an increase of $78 million. PGW adds that if the Commission prefers to examine the Company's DSC ratio, then the ALJs' recommended revenue 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. PGW restates that this would require a total revenue increase of $60.7 million to produce this "minimum" level of cash. PGW Exc. at 9-10.

In the remainder of its Exception No. 1, and in its Exception No. 2, PGW argues that if the Commission does not agree with the Company's position that the ALJs' recommended financial metrics are inadequate, then it must at least correct certain errors that are present in the Rate Tables that are attached in the Appendix of the Recommended Decision. More specifically, PGW alleges that in recommending a year-end cash balance of $75,316,000, the ALJs failed to recognize that two of their recommended adjustments that led to this year-end cash balance will not produce any additional cash for PGW. First, PGW contends that the ALJs' recommended adjustment, *infra*, to the Company's claim for pension expense will not create more cash for PGW, as this item is only a non-cash accounting entry. Second, PGW claims that the ALJs' below-recommended adjustment to the Company's claim for COVID-19 expense will not increase its level of cash, as it is merely a return of funds that PGW already spent in prior periods; and which flowed through to the cash flow statement through the "beginning balance" used for the cash flow calculation.[14] To correct these alleged errors, PGW proffered the following table, which is reproduced in Table 1, below, as follows:

[14] The Company's claims for COVID-19 Expense and Pension Expense are discussed, in detail, in sections V.B.5 and V.B.9, *infra.*

Table 1: PGW's Proposed Adjustments to Correct Claimed Errors in the Recommended Decision

	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**

PGW Exc. at 4.

Additionally, PGW included, as Appendix A to its Exceptions, a Statement of Income, Cash Flow Statement, and Statement of Debt Service Coverage mirroring those in the Rate Case Tables attached to the R.D., and then corresponding financial statements that set forth the Company's claimed corrections. Thus, PGW submits that the year-end cash balance corresponding to the outcome of the ALJs' recommendation is actually $63,386,000, while the correct DOC balance under this recommendation would be 34.95 days. PGW further notes that if these corrections are made, they would produce a DSC ratio of 2.3x before the City Payment, and 2.14x after the City Payment. PGW Exc. at 4, 10.

However, PGW also reinforces its argument that the ALJs' recommended revenue increase is not sufficient. PGW submits that because the ALJs found that a year-end cash balance of $75.3 million and a DOC balance of 42.16 days would be reasonable, the Commission must adjust the Company's allowed revenue increase upward by $11.9 million, or from the recommended $22.306 million stated in the R.D. to

$34.206 million, to match the financial metrics that the "ALJs thought they were awarding." PGW Exc. at 10-11.

In its Reply to PGW's Exception No. 1, I&E disagrees with PGW's argument that its requested DSC ratio of 2.73x is "absolutely necessary" to provide cash to cover all items that are not included in the DSC calculation. I&E retorts that there is no mandate that such recovery is "necessary." Rather, I&E restates its position that while rating agencies recognize that PGW must maintain a DSC ratio of at least 1.5x, these rating agencies have made it clear that DSC ratios above the mandated 1.5x are satisfactory and strong enough to maintain PGW's current credit ratings. Therefore, I&E remains of the opinion that given that there is no indication that these rating agencies are concerned about PGW's ability to service its debt, PGW's proposed DSC ratio of 2.73x before the City Payment is significantly overstated. I&E R. Exc. at 2-3.

Next, I&E observes that although the Company takes issue with the ALJs' recommendation that its requested DSC ratio be denied, the vast majority of PGW's arguments in its Exception No. 1 center on the DOC metric. I&E contends that like the Company's arguments, above, regarding its proposed DSC ratio, these arguments are inaccurate. First, I&E addresses the Company's claim that the ALJs' recommended DOC balance of 42.16 days is "seriously deficient from any perspective" because a cash balance of between 90 and 150 DOC is necessary for PGW to be viewed in a financially sound position, and to avoid downgrade. I&E counters that the ALJs correctly noted that their recommended DOC balance falls within Moody's "A" rating range of 35 to 150 days. I&E also submits that the ALJs' recommended DOC balance does not include the $120 million of commercial paper, to which PGW has access. I&E restates that when the commercial paper program is considered, it significantly boosts the Company's DOC. I&E R. Exc. at 3-4.

Additionally, I&E rebuts PGW's argument that because the ALJs' recommended revenue increase results in providing one-third of the I&E/OCA recommendations, which average 60 DOC, the Company should be granted a revenue increase that produces at least 60 DOC. According to I&E, PGW's argument simply highlights that there are "a variety of ways the days cash on hand is simply a fall out metric," and one of several financial metrics that is used under the Cash Flow Method of Ratemaking to determine an overall revenue requirement. I&E notes that its own recommended revenue increase of approximately $44.8 million resulted in a DOC balance of 62.2 days, while the OCA's recommended increase of approximately $16.5 million resulted in a DOC balance of 57.41 days. I&E stresses that while the ALJs recommended a revenue increase and revenue requirement that was higher than that advocated by the OCA, their recommendation resulted in a DOC balance of approximately 15 fewer days. I&E R. Exc. at 4-5.

Further, I&E submits that although the Company claims that it will be immediately downgraded if it is not awarded a specific, and much higher DOC balance than what was recommended by the ALJs, the record evidence demonstrates that PGW's credit rating is stable. According to I&E, even PGW has recognized that the rating agencies have found the "supportive regulatory environment, combined with the Company's strong financial risk profile, coverage metrics, liquidity and reserves, debt service coverage, main pipeline replacement program, strong revenue source, and lower leverage ratio to be a positive credit attribute." I&E R. Exc. at 5-6 (citing PGW St. 4 at 21-22). Therefore, I&E maintains that there is no evidence that PGW needs to improve its credit rating or that it is at risk of a credit rating downgrade. I&E R. Exc. at 6.

In its Reply to PGW's Exception No. 2, I&E takes the position that making PGW's claimed corrections to the ALJs' Rate Tables is not appropriate at this late stage of this proceeding. I&E submits that the ALJs, and all opposing Parties, followed PGW's spreadsheet model wherein the Company included its total claims for each account.

I&E states that each opposing Party adjusted those claims according to its own position on each contested issue. In addition, I&E argues that in calculating their recommended revenue increase and revenue requirement, the ALJs relied on the financial model, including all financial calculations, metrics, and financial statements that PGW provided on the record in this proceeding. I&E explains the ALJs' calculation as follows:

> In the FPFTY pro forma Statement of Income, PGW included pandemic expense amortization of $10,162,000 and pension expense of $44,759,000 and projected the net income of $165,311,000 (Table I, line 54) and this net income of $165,311,000 is shown as one of the sources of cash flow as the starting point (Table I(B), line 1) that results in PGW's FPFTY claim for ending cash balance of $113,769,000 (Table I(B), line 25). Following PGW's FPFTY pro forma calculation model, I&E and the ALJ correctly calculated the ending cash balance allowance of $75,316,000 (Table I(B), line 25) after considering all [Operating and Maintenance (O&M)] expense adjustments as shown in the Statement of Income (Table I, column D) that results in a net income allowance of $126,858,000 (Table I, line 54). This net income allowance of $126,858,000 is considered as one of the sources of cash flow as the starting point (Table I(B), line 1) that results in the ending cash balance allowance of $75,316,000 (Table I(B), line 25).

I&E R. Exc. at 6-7 (citing R.D. at Appendix). I&E submits that PGW had an opportunity to correct its model at any point during this proceeding, but that it failed to do so. Therefore, I&E argues that the Commission should deny PGW's Exception Nos. 1 and 2. I&E R. Exc. at 6, 7-8.

In its reply to PGW's Exception No. 1, the OCA argues that the Company's assertions regarding what its financial situation will be several years into the future are speculative. In contrast, the OCA submits that it provided substantial evidence to show that PGW's current financial situation is stable and that a revenue increase consistent with the OCA's recommendations would be reasonable and adequate for PGW throughout the near-term future. The OCA also argues that PGW improperly refers to and cites the Commission's Policy Statement as if it were a Commission regulation or a statute. However, according to the OCA, the Commission's Policy Statement is simply a guide for the Commission to consider and does not have the force or effect of law that PGW attempts to portray. Rather, the OCA argues, the overriding legal requirement in this proceeding is that PGW's rates must be just and reasonable. The OCA opines that the ALJs properly concluded that PGW failed to meet its burden of proof with respect to many of its claims in this proceeding. OCA R. Exc. at 1-2.

The remainder of the OCA's reply to PGW's Exception Nos. 1 and 2 mirrors many of the arguments set forth by I&E, *supra*. Like I&E, the OCA provides a detailed explanation as to how the ALJs arrived at their recommended revenue increase and revenue requirement, in addition to their recommended year-end cash balance for PGW in the FPFTY. The OCA, likewise, argues that the ALJs made these recommendations based upon the financial information PGW placed on the record, as adjusted by the opposing Parties and reviewed by the ALJs. Accordingly, the OCA submits that PGW's Exception Nos. 1 and 2 should be denied. OCA R. Exc. at 2, 3-4.

In its replies to the Company's Exception Nos. 1 and 2, the OSBA submits that the Commission should consider the following: (1) PGW's ratepayers have contributed more than $1 billion to the Company's equity over the past 17 years, inclusive of approximately $216 million in City Payments; and (2) the Company's forecasts for its revenue requirement as presented in the *PGW 2020 Rate Case* for the 2020 to 2022 period were vastly overstated. According to the OSBA, this highlights that the Company's cost forecasts are "demonstrably untrustworthy." Therefore, the OSBA claims that the Commission should deny the Company's arguments excepting to the ALJs' recommended revenue requirement and the associated financial metrics. OSBA R. Exc. at 4-5 (citing OSBA St. 1 at 12-13).

e. Disposition

Upon our consideration of the record evidence, we are of the opinion that PGW's claimed DSC ratio and DOC balance would not produce just and reasonable rates. Therefore, we shall deny PGW's Exception No. 1, consistent with the following discussion.

At the outset, we shall address the Company's claim regarding our Policy Statement. As noted in Section IV.A, *supra,* it is the Commission's policy to *consider* other relevant factors, as set forth in our Regulations at 52 Pa. Code § 69.2703. In 2009, the Company filed a petition that culminated in the establishment of the Policy Statement. In the Final Commission Order, set forth in In *Re PGW Petition, Order and Proposed Policy Statement*, Docket No. P-2009-2136508, (Final Order entered April 19, 2010) (*April 2010 Order*), the Commission explained, in pertinent part, as follows:

> [A] policy statement is intended to provide **guidance** regarding the policy the agency intends to implement in future adjudications. **And, unlike a regulation, it is not enforceable and has no binding effect on the agency, or on anyone else.**
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> * * *
>
> [T]he Commission is not establishing a binding norm when it issues a policy statement. Instead, and as previously stated herein, while the Commission has applied the Cash Flow Method in accordance with the requirements of Section 2212(e) of the Gas Choice Act, as well as Chapter 13 of the Public Utility Code and applicable Pennsylvania law in prior PGW rate cases, we continue to believe that the issuance of a final policy statement will provide **guidance** to PGW and all interested parties on the statutorily-mandated ratemaking

> criteria for PGW and the information that should be considered in determining just and reasonable rates.

April 2010 Order at 9, 10 (emphasis added). Therefore, as the OCA points out in its Replies to Exceptions, the Policy Statement does not have the same force or effect of law that PGW attempts to portray. Rather, it serves as a guide for the Commission to consider in setting forth just and reasonable rates for the Company. *See,* OCA R. Exc. at 2.

Although the ALJs did not explicitly state certain of the factors in arriving at their recommended DSC ratio and DOC balance, the ALJs reviewed the entire record of PGW's claimed expenses and needs for IGF, *infra*, and found that in many areas PGW had failed to carry its burden of proof. *See, Id.* In our view, when the factors highlighted by PGW in its Exception No.1 are considered, the consideration serves to augment the ALJs' findings that neither the Company's proposed DSC ratio, nor its proposed DOC balance should be adopted.

In its Exceptions, PGW submits that its proposed DSC ratio of 2.73x before the City Payment is "absolutely necessary" to meet all of its cash expenditures in the FPFTY. We disagree. A DSC ratio is appropriate when: (1) it satisfies legal requirements, such as bond covenants; and (2) it exceeds the required bond covenant ratio by a large enough margin such that a company is equipped to meet its cash expenditures for predictable events, such as revenue variations from billing cycles, and unpredictable events, such as recessions or other events that severely impact an organization's revenues (and ability to pay debt service). *See,* OCA St. 2 at 5. However, as I&E observed, although major credit rating agencies have recognized PGW's need to satisfy its DSC ratio at 1.5x, there is no evidence on the record that the DSC must be set at the significantly higher level the Company has requested.

To the contrary, the record indicates that in its "Credit Opinion of November 18, 2022," Moody's acknowledged that "the PAPUC must approve rates sufficient for PGW to satisfy its indenture required 1.5 times [DSC ratio] rate covenant." However, Moody's noted that PGW's FY 2023 budget "should result in financial metrics remaining at least above 1.8x, which is what we expect generally going forward as PGW continues to maintain the balance between future revenue rate increases, debt issuances for capital, and operating cost growth." *See,* I&E Exh.1, Sch.3 at 12, 15. Additionally, the latest report on the record for Standard & Poor's (S&P) Global, dated March 27, 2023, highlighted, *inter alia,* that among PGW's credit strengths is its extremely strong coverage of fixed costs (*i.e.* debt service payments after the City Payment), in addition to its robust liquidity and reserves. Further, Fitch, in its latest report, dated February 17, 2022, which is on the record, noted PGW's historically stable financial profile that has resulted from recent rate increases and budget adjustments that have led to greater revenue recovery and operating income. *See*, I&E St. 1 at 25-26. Therefore, there is no indication that these rating agencies are concerned about PGW's current or future ability to service its debt.

This is further evident given the specific credit ratings that these rating agencies have assigned to PGW. More specifically, the record indicates that, currently, PGW has been assigned an "A--" credit rating by Fitch; an "A" rating by S&P Global, and an "A3" rating by Moody's. Together these ratings indicate that PGW averages a rating of slightly higher than an "A--" at its current DSC ratio. Moreover, PGW's year-end DSC ratio averaged 2.46x from 2017 through 2021, but with significant variation. Namely, while the Company's year-end 2017 DSC ratio was 2.71x and its 2021 DSC ratio was 2.70x, its year-end DSC ratio values for 2018 through 2020 were 2.35x, 2.33x, and 2.20x, respectively. Notwithstanding this variation, Fitch upgraded its credit rating for PGW from a rating of BBB+ to its current rating of "A--" despite the Company's DSC ratio consistently being well-below the ratio of 2.73x that it currently seeks. *See* I&E Exh. 1, Sch. 3 at 2-8; OCA St. 2 at 6-7. For all of the above reasons, we concur with the ALJ, as well as with I&E and the OCA, that the Company's proposed DSC ratio of 2.73x, before the City Payment, is overstated.

We also are not persuaded by PGW's arguments that the ALJs improperly rejected its proposed DOC balance of 61.6 days. First, PGW insists in its Exceptions that the ALJs' recommended DOC balance of 42.16 days is deficient and ignores factor number 1 of the Policy Statement. The Company claims that its witness, Mr. James C. Lover, testified that the credit rating agencies have indicated that a cash balance of between 90 and 150 DOC is necessary to be viewed as being in a "financially sound position and to avoid downgrade." However, we find that I&E successfully rebutted this argument. Namely, I&E provided the following chart, set forth in Table 2, below, outlining the range of DOC that Moody's has deemed necessary, as an input for an entity to be assigned each successive credit rating:

Table 2: Moody's DOC Ranges

Credit Rating	Number of required DOC
Aaa	Greater than 250 days
Aa	Greater than 150 days but less than or equal to 250 days
A	Greater than 35 days but less than or equal to 150 days
Baa	Greater than 15 days but less than or equal to 35 day
Ba	Greater than 7 days but less than or equal to 15 day
B and Below	Equal to or less than 7 day

I&E St. 1 at 21. Thus, as I&E notes, the ALJs' recommendation falls within Moody's "A rating range" of 35 to 150 DOC. In addition, in his rebuttal testimony, PGW's Witness, Mr. Lover, acknowledged the following:

> The level of cash is reviewed holistically. For this metric, the rating agencies also give PGW credit for any available letters/lines of credit or availability capacity in a short-term debt program which PGW can use in emergencies, if absolutely necessary. Given the provisions of the City of Philadelphia's Note Ordinances, PGW has an ability to issue

> short-term notes to address working capital requirements, capital projects and other project costs. The Note Purchase and Credit Agreement supporting PGW's combined commercial paper programs sets the maximum level of outstanding notes plus interest at $120 million in 2022. This provides a significant boost (80-90 days) to the cash and liquidity metric for PGW with all of the rating agencies, helping to maintain a solid credit rating.

PGW St. 3-R at 5. We note that the ALJs' recommended DOC balance does not include the $120 million of commercial paper referenced both by the Company, above, and I&E. As PGW admits, this significantly boosts the number of DOC. *See* I&E R. Exc. at 4.

For these reasons, we also agree with I&E that, contrary to the Company's argument, it will not be immediately downgraded by the major credit rating agencies if it is not awarded a specific DOC balance. As previously noted, these rating agencies view the Company's credit rating as stable.

Additionally, we find no merit in PGW's argument that the ALJs failed to consider factor number 3 of the Policy Statement, such that its proposed DOC balance should be approved. In its Exceptions, PGW has represented that its requested DOC balance, DSC ratio, and debt to total capitalization ratio, discussed, *infra*, are "extremely modest" compared to similarly situated municipal utilities. However, we note the testimony of I&E's witness, Mr. D.C. Patel, that PGW's position as the largest municipally-owned gas distribution utility in the nation and its status as a utility under this Commission's jurisdiction are factors, that when combined, make it difficult to find a group of similarly situated utilities. I&E St. 1 at 14-15. In addition, PGW's witness, Mr. Walker, noted that the companies included in PGW's "MUNI comp group" reflected the fact that: (1) there are only a relatively small number of large municipal local distribution companies (LDCs) existing in PGW's region; and (2) some municipal LDCs were found to have an abnormally low amount of debt, and/or negative net income, producing unusable metrics for comparison purposes. PGW St. 4 at 10.

Turning to PGW's arguments in the balance of its Exception No. 1, and in its Exception No. 2, we likewise find that they have no merit. As noted above, PGW argues that if the Commission elects to accept the ALJs' recommended financial metrics, then it must correct an error that is present in the rate tables attached to the R.D. that attributed cash to PGW for non-cash expense adjustments. Specifically, PGW points to the amortization of the pandemic expense of $3,260,000, and the pension expense of $8,670,000,[15] in the ALJs' calculation of year-end cash balance of $75,316,000, as shown in Table I(B) of the Appendix attached to the Recommended Decision. However, our review of the record indicates that, as explained by I&E in its reply to PGW's Exception No. 2, *supra*, the ALJs utilized the same methodology developed by PGW in reaching their recommended year-end cash balance. *See*, PGW Exhs. JFG-1, JFG-2, JFG-1-R, and JFG-2-R.

As I&E and the OCA each point out, PGW could have modified its financial model at any prior point during this proceeding. Had it done so, the opposing Parties would have had an opportunity to evaluate the reasonableness of the Company's modification, and, if they found it was warranted, would have updated their respective testimony schedules to reflect a different methodology. In turn, this methodology would have been reflected in the ALJs' recommendations and would have been captured in the Rate Tables attached to the Recommended Decision. *See,* I&E R. Exc. at 7-8. We concur with I&E that PGW's attempt to proffer a different methodology at the Exceptions stage of this proceeding is inappropriate. Accordingly, we shall decline to make the corrections that PGW has proposed in its Exception No. 2.

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[15] As previously noted, these expenses are discussed, in detail, in Sections V.B.5 and V.B.9, *infra*.

Based on the forgoing, we shall deny PGW's Exception Nos. 1 and 2. As previously noted, based upon our findings regarding certain inputs to PGW's revenues and expenses, we are approving a revenue requirement of $858,831,000 and a revenue increase of $26,201,000. This results in a DSC ratio for PGW of 2.44x before the $18 million City Payment, and 2.28x after the City Payment. We are of the opinion that this DSC ratio will not only meet PGW's legal requirements under its bond covenant but will also exceed the required bond covenant DSC ratio of 1.5x by a sufficiently large margin that will keep PGW financially stable throughout future events; while also producing just and reasonable rates for PGW's ratepayers.

Additionally, this revenue increase and revenue requirement result in a year-end cash balance of $96,661,000 and a DOC balance of approximately 54.1 days for the Company in the FPFTY. In our view, this DOC balance is more appropriate than that proposed by the Company, as it will be less burdensome for the Company's ratepayers, while still allowing PGW sufficient funds to address any financial difficulties that may arise; and to maintain its current credit ratings. We note that although the above-determined financial metrics, revenue increase, and revenue requirement are greater than the amounts recommended by the ALJs, they are still significantly less than the revenue requirement, revenue increase, and the associated financial metrics originally sought by the Company.

3. Financial Metrics Part 2: Debt to Total Capitalization

The debt to total capital ratio measures the total amount of outstanding debt that a company has, as a percentage of the firm's total capitalization, (*i.e.*, its debt plus its equity). The ratio is an indicator of the company's leverage, which is debt used to purchase assets. *See, https://www.investopedia.com/terms/t/total-debttocapitalization-ratio.asp*, accessed on

September 29, 2023.[16] In this proceeding, this ratio was calculated by dividing PGW's long-term debt, excluding leases, by its total capitalization, excluding leases. *See* R.D. at Appendix, Table III.

a. Positions of the Parties

PGW explained that if the Commission adopts the full amount of its proposed revenue increase and its revenue requirement, then its debt to total capital ratio will be 60.6%. PGW submitted that because this percentage is below its debt to total capital ratio of 62.69% in the FPFTY at present rates and is also below the level in the HTY of 64.11%, this ratio is "moving in the right direction." PGW argued that a debt to total capital ratio of below 60% would reduce the Company's riskiness, as well as its reliance on long-term debt, which, in turn, will reduce the costs to ratepayers. Accordingly, PGW asserted that it has followed a policy of striving to fund its incremental capital expenditures equally by funding 50% using long term debt and 50% using IGF (*i.e.*, through its rates). In this proceeding, PGW made a claim of $53,207,000 in IGF to finance capital improvement projects.[17] PGW M.B. at 17, 19; PGW R.B. at 17.

PGW submitted that its ability to generate IGF is explicitly outlined in the Policy Statement as one of the criteria for judging the reasonableness of any rate request. PGW reasoned that the use of IGF to fund a portion of its capital improvement

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[16] Although, traditionally, the "debt to total capital ratio" differs from the "debt to equity ratio," the terms were used interchangeably in this proceeding. The ALJs and each of PGW, I&E, and the OCA listed the debt to equity ratio as a separate line item on the balance sheets, set forth in Table III of their respective rate tables. This was calculated by dividing PGW's total long-term debt by its total capitalization, and, in this case produced a figure identical to the debt to total capital ratio.

[17] PGW's actual IGF claim, as reflected on its Rate Tables, was $63,959,000. This consisted of its specific IGF claim of $53,207,000 plus a PHMSA Grant of $10,752,000. [$53,207,000 + $10,752,000 = $63,959,000]. *See* PGW M.B. at Appendix C, Table I(B); R.D. at Appendix, Table I(B); I&E St. 1 at 28.

expenditures helps to maintain PGW's capital structure at reasonable levels, and is also cheaper for ratepayers. PGW continued that the use of debt financing is two to three times more expensive to ratepayers when compared to financing capital expenditures with an equivalent amount of IGF because of: (1) the need to recover both debt service and DSC from rates; and (2) the compounding effect of having to continually issue long-term debt in lieu of using funds from rates. PGW disagreed with the positions of I&E and the OCA, *infra*, that its proposed debt to capital ratio is too low. PGW M.B. at 19-21; PGW R.B. at 17-21. Citing the testimony of its witness, Mr. Walker, PGW submitted that its projected ratio is "materially higher" than similarly-situated municipal utilities. PGW M.B. at 20, 21 (citing PGW St. 4 at 31).

As previously noted, I&E disagreed with PGW's $53,207,000 claim, and recommended that it be denied in its entirety. First, I&E noted that the Company proposed a cash requirement, beyond its existing debt service, of $41 million of DSIC revenue to accelerate infrastructure investment. I&E submitted that these funds must be used for specific, DSIC-eligible projects. In contrast, I&E stated, this level of accountability does not exist with respect to IGF spending, as there is no oversight or restriction over the use of IGF funds. Second, I&E took the position that capital expenditures outside the DSIC should be tied to projects in the FPFTY to be eligible for inclusion in rates. However, I&E argued that PGW's proposed IGF claim of $53.2 million contains no such restrictions. I&E M.B. at 11.

Additionally, I&E asserted, PGW should fund its long-term capital expenditures through debt financing, rather than through IGF. Consistent with this position, I&E also disagreed with the Company's intent to fund its incremental capital expenditures equally, using 50% of funds from IGF and 50% of funds from debt. Although I&E acknowledged the Company's desire to reduce its reliance on long-term debt to finance infrastructure improvements, it claimed that such a strategy is burdensome for ratepayers and contrary to sound ratemaking principles. Therefore, I&E

submitted that PGW should seek to attain a higher level of debt to total capitalization. I&E argued, *inter alia*, that financing capital improvements with long-term debt, rather than cash, better matches the recovery of the expenditure with the useful life of the asset. I&E did not recommend a specific debt goal for PGW to achieve. However, its own proposed revenue requirement and revenue increase resulted in a proposed debt to total capital ratio of 61.50% in this proceeding. I&E M.B. at 11, 13-14; I&E R.B. at 7.

The OCA, likewise, disagreed with PGW's goal of funding its incremental capital expenditures equally, using 50% of funds from IGF and 50% from debt. According to the OCA, PGW's use of this level of IGF for construction purposes is based on an overstated level of spending when compared to prior periods, and leads to: (1) a significant overstatement of PGW's actual cash needs; and (2) a requested revenue increase that is much higher than necessary. The OCA stressed that IGF is financed directly from ratepayers. Thus, the OCA submitted that PGW's use of ratepayer funds, as IGF, to fund its construction spending is not reasonable and should be rejected. The OCA added that the Company has a Commercial Paper program that is available to address any cash flow needs for capital projects that cannot be funded with IGF in the short term. OCA R.B. at 6-8.[18]

b. Recommended Decision

The ALJs explained that their recommended revenue requirement and revenue increase will produce a debt to total capital ratio of 61.68% for PGW. The ALJs

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[18] As will be discussed in more detail in Section V.B.14, *infra*, the OCA recommended a reduction of $17.108 million to PGW's claim for Net Construction Expenditures. In its reply to the Company's Exception No. 3, the OCA noted that its proposed adjustment was for "PGW's proposed construction spend," while I&E's proposed disallowance of $53.2 million in IGF was related to *how* PGW finances its construction spending, not *how much* it should spend. *See*, OCA R. Exc. at 5 (emphasis added).

observed that this is only slightly higher than the ratio of 60.6% that would result from PGW's proposed increase. The ALJs opined that their recommendation will strike a reasonable balance between PGW's intention to fund a portion of capital improvements through rates, rather than debt, and the burden this imposes upon its ratepayers. The ALJs also concluded that this will help to ensure just and reasonable rates for PGW's customers. R.D. at 64.

Additionally, the ALJs recommended that the Company's proposed IGF claim be reduced by $38,453,000.[19] R.D. at Appendix-Tables I(B) and II.

c. PGW Exception No. 3 and Replies

In its Exception No. 3, PGW objects to the ALJs' recommendation to reduce the Company's IGF claim by $38,453,000. According to PGW, the ALJs offered no rationale to support their recommendation, nor did their adjustment, as set forth in Tables I(B) and II of the Recommended Decision, contain any reference or basis for the reduction. Rather, PGW argues, the ALJs simply described PGW's original proposal, and the opposing positions of I&E and the OCA thereto, without referring to PGW's responses refuting those Parties' claims. In addition, PGW submits that the ALJs' recommendation does not reflect either I&E's proposal to disallow its entire claimed $53.2 million for IGF; nor the OCA's proposal to allow approximately $36.5 million for IGF spending.[20] Thus, PGW claims that because no other Party offered testimony or briefs on this issue, the basis for the ALJs' recommended allowance of only

[19] As previously noted, PGW's actual IGF claim, as reflected on its rate tables, was $63,959,000. Therefore, this recommended adjustment would result in an allowance of $25,506,000 for IGF, which includes a PHSMA grant of $10,752,000. [$63,959,000 – $38,453,000 = $25,506,000].

[20] As discussed below, in making its proposed reduction to the Company's claim of $17.108 million for net construction expenditures, the OCA also proposed a corresponding reduction of $17.108 million to the Company's IGF claim.

approximately $15 million of the Company's claim is unclear.[21] PGW adds that the ALJs, likewise, did not proffer 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. In PGW's view, this means that the ALJs' recommendation, if adopted, would reduce spending for PGW's capital projects and would either delay or result in the cancellation of planned capital improvements, without any consideration of the potential impacts on system safety or system reliability. PGW Exc. at 11-14.

Next, PGW claims that given the ALJs' lack of support for their recommended adjustment, the Commission should grant the Company its entire claimed IGF amount of $53,207,000. PGW restates that the Company's ability to generate IGF is explicitly outlined in the Policy Statement as one of the criteria for judging the reasonableness of any rate request. PGW also reinforces its argument that the use of IGF to finance a portion of its capital improvement expenditures not only helps to sustain PGW's capital structure at reasonable levels, thereby reducing financial risk and helping to maintain a favorable bond rating; but it is also less costly for ratepayers than when the Company issues long-term debt. PGW restates that given its efforts over the last several years to finance new capital expenditures using equal portions of IGF and long-term debt, it has been able to "deleverage" its debt to total capital structure, "moving it down to a far less risky 62%, falling to 60.60% if the full rate increase was awarded." PGW also reinforces its argument that this level of debt to total capitalization is "still far higher than comparably rated municipal utilities, who enjoy a debt to equity [ratio] around 50%." PGW Exc. at 14-15.

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[21] [$53,207.000 -- $38,453,000= $14,754,000];
[$14,754,000 + $10,752,000 = $25,506,000].

Next, PGW recites the three arguments I&E advanced, *supra*, against the Company's use of IGF. PGW submits that none of I&E's arguments should serve as a basis for disallowing or reducing the Company's use of IGF. PGW contends that if its IGF claim were to be disallowed in its entirety, as proposed by I&E, the Company would need to increase borrowing to keep capital spending at the same level it proposed. According to PGW, its cash needs would need to be adjusted upward to reflect an estimated $7.0 to $10.5 million to cover debt service and DSC in the FPFTY for an additional bond issuance. PGW continues that the ALJs' recommended reduction of $38.453 million of its claim would have similar, proportional effects. Further, PGW submits that contrary to I&E's assertion that the Company's use of IGF lacks any oversight, PGW must track all capital expenditures for its annual budget, which is reviewed by the Philadelphia Gas Commission (PGC) and approved by City Council. PGW adds that this capital budget process covers capital expenditures for both debt-funded and IGF-funded expenses and identifies actual capital expenditures for the FPFTY. PGW further asserts that its current and future capital budgets were all available to I&E and the other Parties to review. PGW Exc. at 15-17.

Additionally, PGW argues that although the OCA did not directly challenge the Company's IGF claim, the OCA proposed to reduce net construction expenditures by approximately $17.108 million, which was reflected in its recommendation to allow PGW to recover a total of $46.9 million in IGF, including the Company's PHMSA Grant amount of $10.752 million. PGW Exc. at 17 (citing OCA M.B. at 18-20, Table I(B), Line 29). According to PGW, the OCA's reason for making this recommendation was that the amount proposed by PGW for construction purposes was higher than the level of such spending in prior periods. PGW Exc. at 17 (citing OCA M.B. at 6-7). PGW claims, however, that, in the same way that the ALJs offered no analysis of what projects, if any, could be deferred or cancelled without harming system safety or reliability, the OCA did not identify a single specific project to cancel or defer. PGW Exc. at 17-18.

PGW insists that it has identified capital improvement projects that are necessary to support the Company's ability to provide safe and adequate service to its customers. Therefore, PGW restates its position that the Commission should overturn the ALJs' recommendation. Alternatively, PGW argues that if the Commission were to entertain an adjustment, the OCA's recommended reduction of $17.108 million should be accepted. PGW contends that in this scenario, the ALJs' recommended revenue increase would need to be adjusted upwards by $21.5 million, or from the recommended $22.306 million stated in the R.D. to $43.806 million. PGW Exc. at 18-19.

In reply to PGW's Exception No. 3, I&E submits that the ALJs correctly recommended that PGW's IGF claim be adjusted downward. I&E states that although it recognizes that the ALJs did not provide a detailed analysis to explain their recommended reduction of $38.453 million to the Company's claim for IGF, there were several options on the record for the ALJs to consider. Namely, I&E notes: (1) its own recommendation that the entire $53.2 million be disallowed; (2) the OCA's proposed reduction of $17.108 million; and (3) the Company's position that it should be awarded its full claimed amount. I&E submits that the ALJs properly considered all three options in arriving at their recommendation. I&E R. Exc. at 8.

I&E remains of the opinion that to be included in rates, PGWs non-DSIC capital expenditures must be tied to identified projects in the FPFTY. I&E dismisses PGW's argument that the PGC and City Council track and approve all capital expenditures in the Company's annual budget. I&E stresses that, in this rate case, the Company's IGF spending was not tied to identified projects in the FPFTY. Thus, I&E reasons, this underscores that there is no oversight or restriction over the use of IGF funds. Additionally, I&E maintains that PGW's desired financing strategy to achieve a capital structure comprised of 50% IGF and 50% debt is not reasonable because it presents a burden for ratepayers. I&E R. Exc. at 9.

According to I&E, PGW's argument that its debt to total capitalization is higher than that of other municipal utilities has no merit. I&E notes that in 2015, the Commission investigated PGW's pipeline replacement program and released a Staff Report indicating that as a municipally owned-utility, it was feasible for PGW to operate with a longer-term debt-to-capital ratio "perhaps as high as 70%." I&E R. Exc. at 9 (citing *Pennsylvania Public Utility Commission Staff Report: Inquiry into Philadelphia Gas Works' Pipeline Replacement Program*, April 21, 2015 (Staff Report), at 6). I&E also points out that PGW's debt to total capital ratio continues to trend much lower than 70% at both present and proposed rates. I&E R. Exc. at 9.

Finally, I&E submits that although PGW argues in its Exceptions that its financing strategy is cheaper for ratepayers because of the costs that are associated with debt, financing capital expenditures with cash is not appropriate from a ratemaking perspective. In I&E's view, financing capital improvements with long-term debt better matches the recovery of the expenditure with the useful life of the asset. Therefore, I&E argues that PGW's Exception No. 3 should be denied. I&E R. Exc. at 10-11.

In its Replies to Exceptions, the OCA states that the Company, in its Exception No. 3, appears to confuse certain issues. Thus, the OCA states that it recommended that PGW's proposed construction *spend* for the FPFTY be reduced by $17.108 million, discussed, *infra*; while I&E's adjustment to IGF was related to how PGW finances its construction spending, and not how much it should spend. Nonetheless, the OCA submits that PGW's arguments in its Exception No. 3 are without merit. According to the OCA, I&E provided substantial testimony as to why PGW's entire $53.2 million claim for IGF should be denied. In addition, the OCA explains that I&E's testimony and arguments as to PGW's desire to fund 50% of capital improvements, using only ratepayer funding, echo many of the OCA's same concerns on this issue. Further, the OCA opines, the record does not support PGW's contention that using IGF to fund a portion of capital projects is better for ratepayers than using debt financing. OCA R. Exc. at 4-5.

In its Replies to Exceptions, the OSBA explains that, as a conceptual matter, it agrees, all other factors being equal, that a reduction in IGF for new capital projects implies higher debt. As such, the OSBA states that it does not disagree with modifying the ALJs' recommendation to reflect the additional costs associated with a minor increase in debt financing in the FPFTY. Nonetheless, the OSBA submits that contrary to the Company's arguments, the ALJs' recommended reduction in the Company's IGF claim will not result in, *inter alia*, unsafe operations, or a cash shortage. In addition, the OSBA argues, the Company would be unlikely to experience a rating downgrade given that its debt to capital ratio will continue to decline. Namely, the OSBA highlights that PGW's net income from 2020 to 2022 was nearly $475 million, resulting in a significant decline in the Company's debt to capital ratio from 83.7% at year-end 2019 to 64.1% at year-end 2022. Thus, the OSBA continues, PGW must simply increase its debt financing relative to that in its forecast for the FPFTY. The OSBA further contends that PGW has not offered any evidence that the additional debt financing associated with the reduced use of IGF for capital projects would result in an unreasonable debt to capital ratio in either the 2024 FPFTY or the 2025 forecast year. OSBA R. Exc. at 4, 6, 7.

The OSBA also notes: (1) that it agrees with PGW's assertion that it "should reasonably balance its capital structure;" and (2) that PGW's debt to capital ratio is higher than that for the typical IOU. However, the OSBA argues that there must be a balance between what is asked of current day ratepayers in the form of equity financing and the benefit to future ratepayers in the form of lower debt service costs. The OSBA submits that PGW has made significant progress toward reducing its debt to total capital ratio "on the backs of ratepayers," especially during the pandemic. Accordingly, the OSBA reasons, basic fairness considerations lend support to reducing the rate of progress the Company has made. Thus, the OSBA concurs with I&E and the OCA that PGW's goal of funding its incremental capital expenditures equally, using 50% of funds from IGF and 50% of funds from debt, is not appropriate. OSBA R. Exc. at 7-8.

d. Disposition

We concur with the positions of I&E, the OCA, and the OSBA that the Company's stated goal of funding its incremental capital expenditures equally, using 50% of funds derived from IGF and 50% derived from long-term debt is not appropriate. Initially, we note the Staff Report, referenced by I&E, wherein Commission Staff stated, as follows:

> As a municipally owned utility, it is Staff's opinion that PGW can operate with a long-term debt-to-capital ratio perhaps as high as 70 percent. Issuing new debt up to that level could be a method by which PGW could fund acceleration of its pipeline replacement. Additionally, financing infrastructure improvement this way better matches the recovery of these capital expenditures with the useful life of the capital asset which, in turn, matches recovery of cost from the ratepayers who benefit over time from the utility incurring the cost.

Staff Report at 6. Although the Staff Report was released in the context of accelerating PGW's main replacement program, and we decline to establish a debt to capital ratio for the Company that approaches 70%, we nonetheless find that the Staff Report notably highlighted that operating with a long-term debt to total capital ratio well-above 50% is an appropriate option for PGW to finance its capital expenditures. *See,* I&E R.B. at 7.

Additionally, while we are mindful that PGW should not be overleveraged and risk a potential credit rating downgrade that would result in higher debt costs, it is important to emphasize that PGW's IGF is cash from ratepayers. As such, there must be a balance to ensure that PGW's credit rating remains sound, while its ratepayers are not overburdened. I&E M.B. at 14; OCA R.B. at 6-7. We have established in the previous section of this Opinion and Order that, given PGW's present financial position, it is presently at no risk of experiencing a credit rating downgrade from the major rating agencies. This is punctuated by the fact that its debt to total capital ratio continues to trend downward. OSBA R. Exc. at 6. However, in our view, PGW's "50-50" financing strategy does not appropriately consider the resulting negative impact this strategy would have on the Company's ratepayers.

Accordingly, we shall decline to award PGW the full IGF claim of $53.207 million that it seeks. Instead, the adjustments we have made to the Company's revenue and expense claims, as discussed in this Opinion and Order, will result in a debt to total capital ratio for PGW of 61.08%. Similar to the recommendation of the ALJs, we note that this debt to capital ratio is only slightly higher than the debt to total capital ratio of 60.60% proposed by the Company in the FPFTY. We find that this debt to capital ratio will strike the appropriate balance discussed above. Additionally, for the reasons discussed in Section V.A.2, *supra,* regarding PGW's "MUNI comp group," we reject the Company's argument that its debt to total capital ratio must be lower to match that of comparably rated municipal utilities.

Notwithstanding the above, we shall grant the Company's Exception No. 3, in part. We concur with the ALJs, and each opposing Party that proffered a reply to PGW's Exception No. 3, that PGW's IGF claim must be reduced. However, PGW correctly notes in its Exceptions that the ALJs failed to offer any rationale for their recommended reduction to the Company's claim. Instead, the ALJs simply summarized each Party's position regarding the Company's use of IGF in establishing its debt to total capital ratio. R.D. at 15-16, 22, 29-30. Additionally, the ALJs discussed the OCA's proposed reduction to the Company's claim for net construction expenditures, *infra*, and their associated recommendation that this proposed reduction be denied. *Id*. at 62. However, the ALJs did not explicitly state, in the body of the Recommended Decision, their recommendation that the Company's IGF claim be reduced by $38.453 million; nor did they provide any analysis thereto. Rather, the ALJs' recommended reduction appears solely as a line item in the Appendix of the Recommended Decision on Line 29 of Table I(B), and Line 29 of the adjustments to Table I(B), as set forth in Table II. Accordingly, we cannot determine the specific basis for the ALJs' recommended reduction to the Company's IGF claim. For this reason, we must look elsewhere in the record to determine the appropriate adjustment to the Company's IGF claim.

As noted elsewhere in this Opinion and Order, the OCA has proposed a reduction of $17.108 million to the Company's claim for net construction expenditures. In making this proposed reduction, the OCA also proposed a corresponding reduction of $17.108 million to the Company's IGF claim in the tables attached to its Main Briefs. OCA M.B. at Exh. 2, Table I(B), Line 29. As will be discussed in Section V.B.14, *infra*, we find sufficient evidence in the record to support the OCA's proposed reduction to the Company's claim for net construction expenditures. Consistent with this finding, we shall also adopt the OCA's proposed reduction to the Company's IGF claim. We are of the opinion that this is a more appropriate reduction than that which was recommended by the ALJs.

Accordingly, we shall grant PGW's Exception No. 3, in part, and deny it, in part, and shall reduce the Company's IGF claim by $17,108,000, or from $53,207,000 to $36,099,000. When combined with the Company's PHSMA grant, this results in a total IGF claim for PGW of $46,851,000 in the FPFTY.[22]

[22] [$36,099,000 + $10,752,000 = $46,851,000].

B. Expenses

1. CIS Spending

a. Positions of the Parties

PGW stated that its new Customer Information System (CIS) is expected to go live by the end of 2023. PGW explained that this project will provide the Company with a modernized CIS system and will permit the Company to retire its prior system, which is over 20 years old. PGW St. 1 at 12. PGW anticipated that the total costs of the CIS system will be $61,662,000. PGW continued that for the FPFTY, the remaining costs for the CIS system include (but are not limited to) contingency costs of $7,119,731. According to the Company, these contingency costs are known and measurable because they are based on the risks and the size of the project. PGW added that these costs are approximately 12% of the total project cost.[23] Thus, PGW claimed that it is reasonable to include a reasonable allowance for contingencies in the FPFTY to allow for potential cost over-runs. PGW M.B. at 21-22.

The OCA submitted that PGW's claim of $7,119,731 for CIS contingency costs should be denied in its entirety. The OCA took the position that such costs should not be recovered because they are, by nature, estimates, and are not known and measurable. The OCA disagreed with the Company's argument that it is reasonable to include a reasonable allowance for contingencies to account for potential cost overruns. In the OCA's view, this argument is akin to stating that the Company should be permitted to recover the costs because it should be able to ensure that any uncertainty, risk of cost overrun, or unknown is planned for even if it is not foreseeable or likely to occur. The

[23] [$7,119,731 ÷ $61,662,000=0.1155, or 11.55%].

OCA argued, however, that PGW's position is inconsistent with case law and sound ratemaking policy. OCA R.B. at 8-9.

b. Recommended Decision

The ALJs concluded that it is reasonable for PGW to include a reasonable allowance for contingencies in the FPFTY for potential cost over-runs. According to the ALJs, CIS contingency costs are not purely speculative. Rather, the ALJs found that PGW demonstrated that such costs are measurable because they are based on the risks and the size of the project. Therefore, the ALJs recommended that PGW be permitted to claim contingency costs of $7,119,731, related to CIS spending. R.D. at 31.

c. OCA Exception No. 1 and Replies

In its Exception No. 1, the OCA remains of the opinion that PGW's claim for CIS contingency costs should be denied. The OCA submits that contrary to the ALJs' ruling, such costs are not known and measurable, but rather speculative and uncertain. As such, the OCA argues that PGW's customers should not be asked to bear these costs on the *possibility* that they might occur. The OCA contends that the Commission has closely scrutinized the inclusion of contingency costs in past proceedings. OCA Exc. at 2-3.

For example, the OCA cites to the Commission's decision in *Joint Petition of Metropolitan Edison Company, et al. for Consolidation of Proceedings and Approval of Energy Efficiency and Conservation Plans*, Docket Nos. M-2009-2092222, M-2009-2112952 and M-2009-2112956 (Opinion and Order entered October 28, 2009) (*FirstEnergy*). The OCA argues that in *FirstEnergy,* the Commission denied a contingency reserve the FirstEnergy Companies proposed in connection with implementation of their Energy Efficiency and Conservation (EE&C) plans, on the basis that FirstEnergy's ratepayers should not be assessed for contingencies that the FirstEnergy companies characterized as unforeseen. *Id.* at 3 (citing *FirstEnergy* at 141-42). The OCA asserts that the Commission should, likewise, find that PGW has provided nothing more than blanket assertions as to why speculative and unknown costs should be included in rates. Therefore, the OCA insists that its proposed downward adjustment to remove the Company's claim of $7,119,731 for CIS contingency costs should be adopted.

In its Reply Exceptions, PGW argues that the ALJs properly recommended that its proposed contingency costs for its CIS system be accepted. PGW explains that although it labeled these costs as "contingency costs," they are more properly labeled as "projected additional amount to complete project." PGW restates its position that its proposed amount of $7,119,731 is reasonable and was not challenged by any Party's witness as imprudent. PGW submits that the ALJs correctly concluded that these likely additional costs are measurable because they are based on the risks and the size of the project. In this regard, PGW argues that the total contract price for its CIS system is known, and the contingency is a reasonable amount of the total cost, based on the Company's experience, to date, with this project. Accordingly, PGW submits that the Commission should deny the OCA's Exception No. 1.

d. Disposition

In light of the record evidence, we agree with the ALJs' recommendation, and therefore, shall allow PGW an expense claim for CIS contingency costs of $7,119,731. In its Exceptions, the OCA cites to *FirstEnergy*, in support of its argument that PGW's claimed CIS "contingency costs" should be denied. In FirstEnergy, in addressing the companies' proposal to include a contingency reserve related to the implementation of their EE&C Plan, we stated, in pertinent part, as follows:

> [W]e do not agree with assessing ratepayers for contingencies that the Companies have characterized as unforeseen. It is our considered opinion that **the inclusion of unmeasurable, unforeseen costs** within rates to be recovered from ratepayers is unjust and unreasonable.

FirstEnergy at 94 (emphasis added). In contrast, we find that PGW has demonstrated that its proposed CIS "contingency costs" are known and measurable. PGW has represented that the total costs of its CIS system are projected to be $61,662,000, and the Company has included a level of CIS contingency costs based upon its experience with the risks and size of the project. While the OCA essentially seeks to apply a "contingency cost" of $0.00, PGW must still use cash to complete the CIS project. PGW R.B. at 26; PGW R. Exc. at 3-4. As such, we agree with PGW's statement in its Reply Exceptions that these CIS contingency costs are more properly characterized as the "projected additional amount to complete [the] project." The OCA's Exception No. 1, as it relates to the Company's inclusion of CIS contingency costs, is denied.

2. Employee Count; Payroll Expenses; Payroll Taxes

a. Positions of the Parties

PGW stated that its claim for payroll expenses and taxes in the FPFTY is based on a headcount of 1,637 employees. PGW M.B. at 22 (citing PGW St. 2-R at 28). PGW contended that the employee complement is trending upward at a rate of five additional employees per month. *Id.* (citing PGW St. 2-R at 29). PGW provided that as of June 30, 2023, PGW had 1,587 employees. *Id.* (citing PGW St. 2-R at 29; PGW St. 2-RJ at 6-7).

The OCA's witness, Mr. Dante Mugrace, noted that based on his analysis, employee levels varied for PGW between 2020 and 2022, and in prior historical periods.

OCA M.B. at 36 citing (OCA St. 1 at 59). Mr. Mugrace calculated a vacancy rate ratio of 2.95%. OCA M.B. at 36-37. He used a three-year average ratio utilizing the actual employee level in 2022 and the projected levels for 2023 and 2024. Mr. Mugrace did not include the pandemic years in his calculation. The OCA provided that applying the 2.95% vacancy ratio to PGW's projected salary expense of $121,523,000 results in a reduction to payroll expense of $3,582,144. OCA M.B. at 37 (citing OCA St. 1SR at 7; OCA Sch. DM-SR-20).

b. Recommended Decision

The ALJs recommended that the Commission adjust the Company's employee count and payroll expense proposal by utilizing the OCA's 2.95% vacancy ratio, which reduces PGW's projected salary expense of $121,523,000 by $3,582,144. R.D. at 33 (citing OCA M.B. at 37; OCA Sch. DM-SR-20). The ALJs found that PGW has not provided sufficient evidence regarding the five employee per month increase. The ALJs stated that relying on six months of data from December 2022 to June 2023 is not a reasonable approach of projecting employee complement for the FPFTY. R.D. at 33.

c. PGW Exception No. 6 and Replies

In its Exception No. 6, PGW contends the ALJs erred by adopting the OCA's proposed vacancy rate of 2.95% which leads to a complement of 1,588 for the FPFTY.[24] PGW explains that it based its claim for payroll expenses and taxes in the FPFTY on a complement of 1,637 employees, which is slightly more than the actual headcount of 1,633 employees for FY 2020, and less than PGW's pre-pandemic

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24 [1,637 x 2.95% = 48.2915]; [1,637 – 48.2915 = 1,588.71, or 1,588]. *See*, PGW Exc. at 22, n. 100 (citing PGW M.B. at 22; PGW R.B. at 24).

complement that averaged 1,655 employees. PGW Exc. at 22 (citing R.D. at 32; OCA Schedule DM-20; PGW St. 2-R at 29-30). PGW argues that nothing in the record demonstrates that a headcount of 1,588 is reasonable given PGW's experience in the FTY and the projected headcount for the FPFTY. PGW asserts that the ALJs' recommendation allows only one additional employee in the FPFTY above the complement for June 2023. PGW Exc. at 23 (citing R.D. at 32; PGW M.B. at 22; PGW R.B. at 24). PGW contends that the projected complement of 1,637 for the FPFTY "already reflects adjustment for anticipated vacancies and delays in filling positions in the FPFTY, as acknowledged by I&E witness [Mr. Zachari] Walker." PGW Exc. at 23 (citing I&E St. 2-SR at 3).

In Replies to PGW Exception No. 6, the OCA notes that the ALJs found that PGW had not provided sufficient evidence regarding the projected five employee per month increase. According to the OCA, the ALJs found that relying on six months of data to project employee count is unreasonable and the OCA's approach is more reasonable. OCA R. Exc. at 7-8 (citing R.D. at 33). The OCA submits that the ALJs cited to *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835 (Opinion and Order entered February 19, 2021) (*Columbia 2021*) as precedent in which the Commission agreed to OCA's proposed employee complement adjustment based on uncertain and varying employee counts. The OCA argues that the ALJs' ruling in the present case is well-founded. OCA R. Exc. at 7-8.

d. Disposition

Regarding the Employee Count, Payroll, and Payroll Taxes Expense, we find the ALJs' recommendation reasonable to reject PGW's proposal to add five new employees per month for a total of 1,637 in the FPFTY. We further agree with the ALJs' recommendation to utilize the OCA's vacancy ratio of 2.95% to reflect an employee complement of 1,588 for the FPFTY. Therefore, we shall adopt the ALJs' recommendation that the Commission reduce the Company's claimed payroll expense by $3,582,144, or from $121,523,000 to $117,940,856.[25] PGW's Exception No. 6 is denied.

3. Lobbying Expenses

a. Positions of the Parties

PGW proposed an expense of $100,000 for lobbying costs in the FPFTY. PGW provided that its government relations staff engage in activities that directly benefit customers, such as assisting in obtaining information and funding for state and federal programs like the Low-Income Home Energy Assistance Program (LIHEAP). While PGW acknowledged that the Commission has disallowed lobbying expenses in prior rate proceedings, PGW argued that the Commission could exercise its discretion and allow those lobbying expenses that directly benefit customers. PGW Exc. at 22-23 (citing PGW St. 2-R; OCA St. 2 at 20).

I&E asserted that PGW's proposed lobbying expense would violate Section 1316 of the Code, 66 Pa. C.S. § 1316, which prohibits public utilities from recovering expenses for political advertising in rates. I&E M.B. at 16 (citing PGW St. 2-R at 31-33). I&E noted that the Commission disallowed the Company's lobbying expense claim in PGW's 2001 and 2007 base rate cases. I&E M.B. at 16. I&E submitted that the Commission addressed PGW's argument that a municipal utility should be allowed to claim lobbying expenses in disposing of the Company's 2001 base rate case. I&E R.B. at 8 (citing *Pa. PUC v. PGW*, Docket No. R-00006042 at 66 (Opinion and Order entered October 4, 2001) (*2001 PGW Rate Case*)).

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[25] This adjustment has a corresponding downward adjustment of $278,935 to the Company's claim for payroll tax. Therefore, the Company's payroll tax expense claim is reduced from $10,434,000 to $10,155,065. *See,* OCA Sch. DM-SR-14; OCA M.B. at Exh. 2, Table I.

The OCA's witness, Mr. Mugrace, noted that PGW did not provide a breakdown of the lobbying expense amount and argued that the full amount of the expense should be denied. Mr. Mugrace maintained that there is no "special circumstance" surrounding PGW's ratemaking situation. OCA M.B. at 28 (citing OCA St. 1-SR at 8).

POWER submitted that PGW's witness, Mr. Joseph F. Golden, Jr., stated that disallowance of the lobbying expense "would not affect the cash flow for PGW," which weakens PGW's argument that the statutory provision prohibiting the lobbying expense should be waived. POWER M.B. at 59 (citing OCA St. 1-SR; PGW St. 2-R).

b. Recommended Decision

The ALJs agreed with the arguments maintained by I&E, the OCA and POWER, especially the OCA's argument that there is no "special circumstance" surrounding PGW's ratemaking scenario that warrants a waiver under Section 2212(c) of the Code and a change in the treatment of lobbying expenses. The ALJs recommended that the $100,000 PGW proposed for lobbying expenses be denied. The ALJs cited to the PGW 2007 base rate case at *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-00061931, et al, (Order entered September 28, 2007) (*2007 PGW Rate Case*) where PGW proposed, and the Commission denied, a similar claim for lobbying expenses. R.D. at 35 (citing OCA M.B. at 28; OCA St 1SR at 8).

c. PGW Exception No. 12 and Replies

In its Exception No. 12, PGW avers that its lobbying expenses are reasonable. PGW explains that it is a municipal authority and has an obligation to maintain lines of communication with other parts of government. PGW requests that the

Commission waive its prohibition on lobbying expenses. PGW Exc. at 27-28 (citing PGW M.B. at 23-24; PGW R.B. at 21-22; R.D. at 42).

In its Replies to PGW Exception No. 12, I&E maintains that Section 1316 of the Code prohibits public utilities from revering expenses for political advertising in rates. I&E R. Exc. at 17 (citing 66 Pa. C.S. § 1316). I&E explains that political advertising is defined as money spent for lobbying unless it is spent for appearances before regulatory or other governmental bodies in connection with a public utility's existing or proposed operations. I&E R. Exc. at 17 (citing 66 Pa. C.S. § 1316(d)). I&E submits that the Commission has denied lobbying expense recovery in two prior PGW rate cases, and the ALJs appropriately concluded that it should be disallowed in this current proceeding. I&E R. Exc. at 17.

In its Replies to Exceptions, the OCA provides that there is a clear statutory provision, set forth in Section 1316, prohibiting the inclusion of lobbying expenses in rates, in addition to applicable Commission precedent which previously rejected arguments made by PGW that were similar or identical to those made in this case. OCA R. Exc. at 13.

d. Disposition

We agree with the ALJs' recommendation to disallow PGW's claimed lobbying expense in its entirety. As the OCA provided, PGW's status as a municipal utility is not a "special circumstance" that would merit the waiver of the provision prohibiting lobbying expenses. Additionally, as POWER noted, the legislature could have made an exception for municipal utilities if it had intended to do so. Moreover, as noted by the ALJs, the Commission has rejected PGW's argument that a municipal utility should be permitted to recover lobbying expenses in prior base rate proceedings. *See, 2007 PGW Rate Case* at 59-60.

4. Rate Case Expenses

a. Positions of the Parties

PGW explained that its rate case expenses are amortized over a five-year period, as ordered by the PGC, which has oversight over PGW's budgets. PGW M.B. at 23-24 (citing PGW St. No. 2-R at 34). According to PGW, it is still recovering $117,000 of rate case expenses from the *2020 PGW Rate Case*. PGW M.B. at 23 (citing PGW St. 2-R at 33; I&E St. 2 at 9). PGW further explained that it has multiple rate cases being amortized concurrently and will continue to do so as long as the five-year amortization schedule is used. PGW R.B. at 22 (citing PGW St. 2-R at 34).

I&E recommended that PGW's unamortized 2020 rate case expense of $177,000 be disallowed and that its current proposed rate case expense be normalized over a 53-month period, rather than amortized over a five-year period. I&E R.B. at 9. I&E provided that PGW was unable to cite to a Commission order that granted a five-year amortization for the *2020 PGW Rate Case* expense. Additionally, I&E explained the 2020 rate case was a settlement which was silent with respect to the rate case expense recovery; and therefore, the Commission did not approve a five-year amortization for the 2020 rate case expense. I&E R.B. at 9-10. Similarly, I&E averred that PGW's request to amortize the current $300,000 rate case expense over a five-year period must also be denied. I&E argued that this rate case expense must be normalized rather than amortized to be consistent with Commission precedent. I&E R.B. at 10 (citing I&E M.B. at 18-19). I&E explained that the Commission normalized PGW's rate case expense in PGW's 2001 base rate proceeding. I&E R.B. at 10 (citing *2001 PGW Rate Case* at 51-53).

Regarding I&E's proposed 53-month recovery period, I&E explained that PGW has provided no citation to a Commission decision where the recovery period was based on a budget planning period or a utility's stated intention to file a future rate case. I&E R.B. at 10.

b. Recommended Decision

The ALJs recommended that PGW's request to amortize its rate case expense be denied. The ALJs reasoned that PGW has provided no justification for altering the long-standing Commission precedent and its policy regarding rate case expenses. The ALJs recommended that the $177,000 unamortized legal expenses from the *2020 PGW Rate Case* be removed and that the total rate case expenses of the present base rate case be normalized over a 53-month period. R.D. at 39.

c. PGW Exception No. 11 and Replies

In its Exception No. 11, PGW maintains that normalization of rate case expenses over a 53-month period is unreasonable and inconsistent with PGW's five-year budget planning period and its projected duration between rate cases of approximately three years. PGW Exc. at 27 (citing PGW M.B. at 23-24; PGW R.B. at 21-22). PGW asserts that the Commission must allow the full recovery of legitimately incurred (and previously authorized) rate case expenses. According to PGW, the ALJs' denial of the full recovery of the unamortized rate case expenses is unreasonable and an "improper collateral attack on a prior Commission order." PGW Exc. at 27 (citing *Id.*; R.D. at 42).

In its Replies to PGW Exception No. 11, I&E explains that operating expenses that recur at irregular intervals are normalized for ratemaking purposes and expenses that are non-recurring or infrequently recurring are traditionally amortized for ratemaking purposes. I&E further explains that unrecovered normalized expenses would be disallowed in a subsequent base rate case while an amortized balance can be recovered in a later rate case if there is a remaining amortized balance, which is what PGW is attempting to do. I&E R. Exc. at 15. I&E agrees with the ALJs' determination that a rate case expense is to be normalized "as it is claimed in virtually every rate case filing and is not an unusual or infrequently reoccurring expense." I&E R. Exc. at 15 (citing R.D. at 39). Additionally, I&E contends that it is consistent with prior ratemaking treatment for this utility, where PGW's rate case expense was normalized in the *2001 PGW Rate Case*.

d. Disposition

We agree with the ALJs that the remaining portion of the 2020 rate case expenses should be denied. The *2020 PGW Rate Case* was a settlement which was silent on the rate case expense. PGW made the decision to amortize its 2020 rate case expense rather than normalize the expense, as the Commission required in the *2001 PGW Rate Case*. *See, 2001 PGW Rate Case* at 51-53. There is no "improper collateral attack on a prior Commission order" here, as PGW avers. *See*, PGW Exc. at 27. We are persuaded by I&E's argument that the rate case expense should be normalized and PGW cannot recover the remainder of its 2020 rate case expenses in this proceeding. We note that the Commission described its policy regarding rate case expense in *Pa. PUC v PECO* as follows:

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

I&E M.B. at 18 (citing *Pa. PUC v. PECO*, 56 Pa. P.U.C. 155, 176 (1982) (additional citations omitted)).

Similarly, the rate case expense for the current proceeding shall be normalized over a 53-month period as I&E suggested and the ALJs recommended. As I&E explained, the Commission precedent requires that the rate case expense be normalized. Moreover, the normalization period should reflect the company's historical rate case frequency, not the Company's future intention for filing a rate case. We shall adopt the ALJs' recommendation on this issue. Accordingly, we shall reduce PGW's claim for rate case expense by $160,019, or from $477,000 to $316,981, to be normalized over a 53-month period. PGW's Exception No. 11 is denied.

5. COVID-19 Related Expenses

a. Positions of the Parties

PGW's claim for COVID-19 related expenses totaled $30.485 million. PGW M.B. at 24 (citing PGW St. 2 at 9-11, additional citations omitted). PGW proposed a three-year recovery period for COVID-19 related expenses, which results in a COVID-19 related expense claim of $10.162 million for the FPFTY. PGW asserted that a three-year recovery period is reasonable as it expects a three-year period between rate cases. PGW M.B. at 24-25 (citing PGW St. 2 at 11, PGW Exh. JFG-2-R (statement of income) at Line 26 (pandemic expenses)).

I&E submitted that it agrees with PGW's total COVID-19 expense claim of $30,484,000, but disagrees with its proposed three-year amortization period. I&E recommended that the expense be amortized over a 53-month period based on PGW's actual 53-month historic base rate case filing frequency. I&E M.B. at 19-20 (citing PGW St. 2 at 11). I&E provided that PGW's three historic rate case filing intervals support a

53-month amortization period rather than the 36-month period PGW proposed.[26] I&E averred that using the last three rate case intervals provides a more accurate historic value than relying on only the last two rate cases as PGW suggests. I&E R.B. at 11. I&E argued that PGW's three-year COVID-19 expense amortization and PGW's proposed five-year rate case expense amortization do not match, and neither aligns with its actual historic rate case filing frequency. I&E R.B. at 12.

The OCA recommended a five-year amortization for COVID-19 expenses, arguing that PGW will be allowed to fully collect deferred COVID-19 costs at a lower cost to customers over five years rather than PGW's proposed three-year period. OCA R.B. at 13.

b. Recommended Decision

The ALJs recommended that PGW's total COVID-19 claim of $30.485 million be approved, but that the three-year recovery period be denied as unreasonable. The ALJs recommended that the Commission approve the 53-month amortization period suggested by I&E. R.D. at 41-42.

c. PGW Exception No. 9 and Replies

In its Exception No. 9, PGW finds fault with the ALJs' use of a 53-month amortization period for the Company's total COVID-19 claim of $30.484 million, which reduces the FPFTY allowance by $3.26 million. PGW explains that it proposed a three-year amortization period because it has been filing base rate cases every three years (2017, 2020, 2023). According to PGW, the longer amortization period is unreasonable

[26] PGW's three historic filing intervals were 86 months (December 2009 to February 2017), 36 months (February 2017 to February 2020) and 36 months (February 2020 to February 2023). I&E R.B. at 11.

for a Cash Flow regulated company that used cash it would have used for other purposes. PGW Exc. at 26 (citing R.D. at 39-42, 63-64; Appendix Rate Case Tables I and II; PGW M.B. at 24-26; PGW R.B. at 22).

In its Replies to Exceptions, I&E notes that the ALJs used the three previous filing intervals to quantify PGW's base rate case filing frequency rather than PGW's 36-month projection. I&E R. Exc. at 13 (citing I.D. at 41). I&E also provides that the ALJs stated, in support of the 53-month amortization, "[a]lthough this is a longer period than the one recommended by PGW, it carries no uncertainty as to recovery." I&E R. Exc. at 14 (citing R.D. at 41).

In its Replies, the OCA notes that customers will benefit from a longer recovery period, and while the ALJs chose a 53-month recovery period rather than the OCA's recommendation of five years, the OCA submits that the ALJs' recommendation is consistent with the OCA's proposal. OCA R. Exc. at 11-12.

d. Disposition

We find that it is appropriate to approve PGW's total COVID-19 claim of $30,484,000. Nonetheless, we also find the three-year recovery period that PGW proposed is unreasonable. We agree with the ALJs' recommendation to amortize the COVID-19 expense over a 53-month period, resulting in a reduction of $3,260,000 to the Company's claim in the FPFTY and an allowance of $6,902,038.[27] The 53-month recovery period aligns with PGW's average historical filing period for base rate cases. As the ALJs provided, the expense will be fully recovered by PGW, but customers will benefit from a longer recovery period. R.D. at 40-41, I&E R.B. at 11, I&E St. No. 2-SR at 8-12. PGW's Exception No. 9 is denied accordingly.

[27] [($30,484,000 ÷ 53) x 12=$6,902,038].

6. Inflation Adjustment

a. Positions of the Parties

PGW proposed a blanket inflation adjustment of 4.63% to certain of its O&M expense claims. PGW maintained that it is required to track expenses and maintain costs. PGW M.B. at 26 (citing PGW St. 2-R at 38). PGW explained that it expects all expenses/costs to increase from the FTY to the FPFTY. PGW M.B. at 26 (citing PGW St. 2-R at 37, 38). According to PGW, its inflation adjustment was closely targeted and was applied to only those expenses/costs not specifically adjusted, and only where subject matter experts determined that the general inflation adjustment to their department's expense was reasonable. PGW M.B. at 26-27. PGW contended that it used the generic inflation rate on only 20% of its expense categories, and the inflation adjustment of 4.63% is reasonable given that the inflation rate for the FTY is higher. PGW R.B. at 22-23 (citing OCA M.B. at 18).

I&E recommended the disallowance of the 4.63% blanket inflation adjustment to PGW's FPFTY unadjusted O&M expense claims of $62.5 million, resulting in a reduction of $2,741,050. I&E M.B. at 21 (citing I&E St. No. 2-SR at 12-14). I&E argued that PGW's request to apply an inflation adjustment to 20% of its expenses is contrary to the Commission's recent decision in *Pa. PUC v Aqua Pennsylvania, Inc.*, Docket No. R-2021-3027385, (Opinion and Order entered May 16, 2022) *(Aqua 2022*) where it denied Aqua's similar request to apply an inflation adjustment to approximately 22% of its O&M expenses. The Commission found that:

> …allowing Aqua to apply a general inflation adjustment to a block of expenses could incentivize less accurate tracking of expenses and a less rigorous approach to controlling costs for those expenses.

I&E R.B. at 13 (citing *Aqua 2022* at 117).

I&E averred that PGW has failed to prove the reasonableness and prudency of its ratemaking claim, as the increases to these expense categories is not known and measurable. I&E R.B. at 13-14.

The OCA's witness, Mr. Mugrace, noted that PGW did not provide a specific breakdown of the $2.89 million inflation adjustment.[28] OCA M.B. at 23. The OCA reasoned that inflationary costs cannot be precisely determined, and it is difficult to pinpoint if a particular cost will be subject to inflation. Mr. Mugrace stated that regardless of the rate methodology being used, the costs relied upon must be valid and supported by data. OCA M.B. at 24 (citing OCA St. 1SR at 10). Thus, the OCA likewise recommended that the $2.89 million inflation adjustment be denied in its entirety. OCA M.B. at 24 (citing OCA Sch. DM-SR-2). The OCA provided that in *Aqua 2022*, the Commission cited to *Pa. PUC et al. v. Wellsboro Electric Company*, R-2019-3008208 (Opinion and Order entered April 29, 2020) (*Wellsboro 2020*). In *Wellsboro 2020*, the Commission agreed with the ALJs' recommendation to deny the Company's request to apply a three percent inflation adjustment factor to all of its O&M expenses in the FTY as a basis for determining its FPFTY costs. OCA R.B. at 15 (citing *Wellsboro 2020* at 40).

b. Recommended Decision

The ALJs recommended that the Commission deny PGW's $2.89 million generic inflation adjustment. The ALJs found that PGW cannot demonstrate that the claimed 4.63% inflation adjustment is directly related to the actual costs expected in the FPFTY. According to the ALJs, PGW admitted that the generic inflation adjustment was applied when separate and specific costs could not be determined. R.D. at 44-45.

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[28] [$62,500,000 x 4.63% = $2,893,750].

c. PGW Exception No. 8 and Replies

In PGW's Exception No. 8, the Company submits that it used specifically projected price increases for O&M expenses, as provided by the subject experts where available. PGW states that it applied the generic inflation adjustment of 4.63% when the subject experts could not provide a specific increase, although the experts expected prices to increase. PGW Exc. at 25 (citing PGW M.B. at 26-27; PGW R.B. at 22-23). PGW maintains that a 4.63% increase is reasonable and 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. PGW Exc. at 25 (citing PGW St. 2-R at 37-41). PGW insists that its projections for a limited number of expense items is reasonable and permissible under Commission precedent. PGW Exc. at 25-26 (citing PGW R.B. at 22-23).

In its Replies to PGW Exception No. 8, I&E notes that the ALJs recognized that a targeted inflation factor was approved in *Pa. PUC v. PECO Energy Co. – Gas Division*, Docket No. R-2020-3018929, (Opinion and Order entered June 22, 2021) (*PECO Gas 2021*) because the inflation adjustment was applied to a single expense. I&E R. Exc. at 11-12 (citing R.D. at 44). According to I&E, PGW's approach was not nearly as targeted as PECO's. I&E avers that PGW's "high-level argument that all costs are going up cannot justify rate recovery from PGW customers." I&E R. Exc. at 12. I&E argues that PGW has the option to request a rate increase at any time rather than "padding a significant portion of its operating expenses by an additional 4.63%." I&E R. Exc. at 12-13.

In its Replies to Exceptions, the OCA submits that the ALJs properly applied Commission precedent to PGW's proposed 4.63% inflation adjustment to 20% of its expenses. The OCA notes that the ALJs concluded that PGW failed to carry its burden of proof that the inflation factor was appropriate. OCA R. Exc. at 9-11.

In its Reply, the OSBA restates its position that PGW's forecasts are not credible. The OSBA points to the testimony of its witness, Mr. Robert D. Knecht, that in PGW's previous base rate case, the forecasts were only 6.4% over the HTY value and were overstated; and notes that in this case, PGW forecasts that O&M costs will exceed the HTY costs by 35.5%. OSBA R. Exc. at 9-10 (citing OSBA St. 1 at 14-15).

d. Disposition

We agree with the ALJs' recommendation and find that the 4.63% inflation adjustment applied to 20% of PGW's expenses is not reasonable. PGW based the 4.6% on a May 2022 report from the Congressional Budget Office (CBO). PGW rejected the 2024 estimate from the CBO report stating it was too low at 2.4% given today's inflation. PGW used the actual 2021 inflation estimate of 4.7%, and data from the CBO report for 2022 and 2023 to calculate a three-year average of 4.6%. PGW acknowledges that the CBO report data may not reflect actual conditions. PGW Exh. JFG-5. Furthermore, the Commission precedent set forth in *Wellsboro 2020* and *Aqua 2022* indicates that an inflation adjustment cannot be applied broadly and does not meet the "known and reasonable" standard for increasing each FTY expense claim in the FPFTY. *Wellsboro 2020*. As I&E put forward, PGW has the option to file for a rate increase if it no longer recovers its operating expenses through rates, rather than applying a blanket inflation adjustment. Accordingly, we shall adopt the recommendation of the ALJs on this issue and deny PGW the $2.89 million generic inflation adjustment it proposed.

7. Incentive Compensation

a. Positions of the Parties

PGW explained that it has an incentive plan called the Contract and Retention bonus for the chief executive officer (CEO) and (acting) chief financial officer (CFO), which is designed to promote completion of annual corporate goals established by the PFMC. PGW M.B. at 27. PGW's corporate goals include: (1) continued improvement in customer satisfaction; (2) revenue enhancement (from new business); (3) implementing new efficiencies through continuous improvement; (4) increasing opportunities for minorities, women, and disabled-owned business enterprises to participate in PGW projects; (5) increasing job satisfaction/recognition scores; and (6) pursuing clean energy options. PGW M.B. at 27 (citing PGW Exh. JFG-8). PGW reasoned that all of these corporate goals benefit ratepayers. According to PGW, benefits accruing to the Company also benefit ratepayers, who are in the City, because PGW is owned by the City. PGW argued that increased revenues from new business and diversity in the supply chain benefit ratepayers such that the incentives are a legitimate, reasonable expense. PGW R.B. at 24.

The OCA recommended that $21,666 of the $129,000 bonus pay for senior management be disallowed. The OCA's witness, Mr. Mugrace, reviewed the corporate goals used in determining the bonus pay. Mr. Mugrace found that two goals: (1) financial performance and (2) supplier diversity, should not be charged to customers as they are not likely to provide benefits to customers. Mr. Mugrace assigned 1/6th of the total contract and retention bonus to each goal, arriving at $10,833 for each. OCA R.B. at 15. Therefore, Mr. Mugrace calculated that $21,666 of the $65,000 attributed to the contract and retention bonuses should be disallowed.[29] OCA M.B. at 38-39 (citing OCA Sch. DM-SR-20).

b. Recommended Decision

The ALJs noted that in *Pa. PUC v. PPL Elec. Util. Corp.*, R-2012-2290597 (Opinion and Order entered December 28, 2012) (*PPL 2012*), the Commission ruled that where an incentive compensation plan is reasonable, prudently incurred, not excessive, and provides a benefit to ratepayers, a Company may recover the expense. The ALJs explained that in that same ruling, the Commission allowed PPL to claim an incentive compensation expense because it was consistent with the Commission's "prior decisions approving incentive compensation programs that are focused on improving operational effectiveness." R.D. at 46 (citing *PPL 2012* at 26). Similarly, the ALJs reasoned that PGW has shown that its incentive compensation goals related to revenue enhancement and supplier diversity improve the Company's operational effectiveness and provide benefits to PGW's ratepayers. The ALJs concluded that the proposed costs are reasonable and not excessive. R.D. at 46.

c. OCA Exception No. 2 and Replies

In its Exception No. 2, the OCA argues that the ALJs erred in their determination that PGW's incentives questioned by the OCA "improve the Company's operational effectiveness and provide a benefit to PGW's ratepayers." OCA Exc. at 5 (citing R.D. at 46). According to the OCA, PGW's assertions regarding the questioned incentives are "more conclusory than evidentiary." The OCA contends that a re-examination of the record will support its recommendation for a partial disallowance of the incentive compensation expense. OCA Exc. at 5.

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[29] [$10,833 x 2 = $21,666].

In PGW's Replies to OCA Exception No. 2, PGW insists that all of the corporate goals benefit ratepayers. According to PGW, new business will provide additional revenues and spread fixed cost recovery over a wider base. Similarly, PGW continues, increasing diversity in the Company's supply chain benefits ratepayers by expanding competitive alternatives which may incent more competitive pricing. PGW R. Exc. at 4.

d. Disposition

The Incentive Compensation Expenses in question are reasonable and not excessive. The incentives total $65,000 for six corporate goals. The two goals that the OCA's witness, Mr. Mugrace, would disallow are for financial performance and supplier diversity. We find that both of these goals would benefit ratepayers. In our view, better financial performance would lower the costs borne by PGW's ratepayers. Increasing supplier diversity could lead to more competitive bidding and lower prices, which would also benefit customers. The OCA's Exception No. 2 is denied.

8. Advertising Expenses

a. Positions of the Parties

PGW provided that its proposed $3.132 million claim for advertising expenses[30] includes $779,000 for its Advanced Marketing Campaign, to be launched in FY 2024, to support customer communications which include: (1) Fueling the Future, an awareness campaign to inform PGW customers seeking increased energy efficiency and lower cost energy solutions; (2) Online Appointment Scheduling, an improved customer service tool; and (3) Main Replacement customer outreach, a customer communication

[30] PGW Exh. III-A-25.

campaign related to increased replacement work. Additionally, PGW explained, advertising expenses include $78,000 for a Diversification of New Revenue campaign to support any customer communication regarding renewable natural gas (RNG) customer opportunities and/or low carbon products. PGW M.B. at 28 (citing PGW St. 2-R at 51-52).

The OCA noted that its witness, Mr. Mugrace, took issue with both of the above components of the Company's advertising expense claim. OCA M.B. at 26 (citing OCA St. 1 at 25). Mr. Mugrace stated that it was difficult to determine whether the Advanced Marketing Campaign will benefit customers, because PGW has not provided any detail on the program. Regarding the Diversification of New Revenue campaign, Mr. Mugrace argued that the proposed program appeared to be related to new business opportunities, and it is unclear if the program would benefit customers.[31] OCA M.B. at 26 (citing OCA St. 1 at 26). The OCA recommended that 50% of the Advanced Marketing Campaign costs be disallowed, and the full amount of the Diversification and New Revenue campaign costs be disallowed. This would be a reduction in PGW's proposed Advertising expense of $389,500 (50% of $779,000) for the Advance Marketing Campaign, plus its entire claim of $78,000 for the Diversification of New Revenue Campaign, for a total of $467,500. OCA M.B. at 27 (citing OCA St. 1SR at 16; OCA Sch. DM-SR-9).

The OCA cited to *Pa. PUC v. UGI Utilities, Inc*. 1994 Pa. PUC Lexis 137, *111-12 (Order July 27, 1994) (*UGI 1994*), where the Commission disallowed certain advertising expenses because the actual expenditure was uncertain and because the utility's claim lacked supporting evidence of the content of the advertising. OCA R.B. at 18.

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[31] The OCA's witness Mr. Mugrace noted that PGW provided advertising examples for only the "Fueling the Future" program. OCA R.B. at 17.

b. Recommended Decision

The ALJs agreed with the OCA's recommendation because of the inability to assess the proposed advertising campaigns to determine if they will benefit customers. R.D. at 48 (citing *UGI 1994*).

c. PGW Exception No. 10 and Replies

In its Exception No. 10, PGW asserts that the ALJs improperly recommended that the Commission reject half (*i.e.*, $467,500) of the Company's proposed advertising expenses for its's Advanced Marketing Campaign. PGW avers that it has described the substance of the advertising as beneficial to customers. According to PGW, it is unreasonable to require examples of all the materials to be used, as the campaigns will not commence until the FPFTY. PGW Exc. at 26-27 (citing R.D. at 47-48, 63-64; Appendix at Tables I and II; PGW M.B. at 26; PGW R.B. at 26).

In its Replies to PGW Exception No. 10, the OCA contends that PGW has failed to meet its burden to show that the advertising expenses are certain and will benefit PGW's customers. OCA R. Exc. at 12 (citing R.D. at 48).

d. Disposition

We agree with the ALJs' conclusion that the OCA's proposed reduction to the Company's claim for advertising expenses should be adopted. In our view, the advertising expenses in question have not been clearly defined by PGW, and it cannot be determined easily that these programs will benefit customers. The advertising expense is decreased by $389,500 plus $78,000 for a total of $467,500. As a result, we shall allow

PGW to claim an advertising expense of $2,664,500.[32] Accordingly, PGW's Exception No. 10 is denied.

9. Pension Expense

a. Positions of the Parties

PGW proposed a pension expense of $44,759,000 for the FPFTY. According to PGW, this includes a total cash outlay of $30,806,000. PGW explained that its Pension Plan, also known as the Gas Works Plan, requires cash outlays for both: (1) the actuarially determined contributions; and (2) the additional amount determined by the City Director of Finance to be appropriate to fund future benefit obligations with respect to such Gas Works Plan participants. PGW stated that it has an additional amortization, non-cash expense requirement under the Governmental Accounting Standards Board (GASB) that is dictated by PGW's actuarial report and combines with the cash requirements to produce the accounting expense shown on its income statement. PGW continued that this pronouncement, known as the GASB 68 Amortization Expense, creates the total funding requirement that is shown on the Company's income statement. Table 3, below, provides a summary of the Company's claimed Gas Works Plan requirements.

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[32] [$3,132,000 - $467,500 = $2,664,500].

Table 3: Summary of the Gas Works Plan Components

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

PGW M.B. at 28-29.

The OCA recommended that the Commission reduce the Company's claim by $8,670,000, or from $44,759,000 to $36,089,000. The OCA pointed to the testimony of its witness, Mr. Mugrace, that because the Company's pension expense in the HTY was $20,675,000, PGW's claim of $44,759,000 in the FPFTY represents an increase of 117% over a period of just two years. The OCA continued that in discovery, PGW provided its pension expenditures for FY 2018 through 2022, over which time the Company's pension expenses ranged from a high of $43,158,000 in 2018 to a credit balance of $3,146,000 in 2021. In light of this wide variability, the OCA submitted that this expenditure should be normalized over a three-year period from 2022 through 2024. The OCA proposed to incorporate the actual expense of $20,675,000 the Company incurred in 2022, and the projected expenditures of $42,833,000 for 2023 and $44,759,000 for 2024. The OCA explained that the average of these figures equals the OCA's proposed pension expense for the Company of $36,089,000. OCA M.B. at 39 (citing OCA St. 1 at 54-55; OCA Sch. DM-SR-13; I&E RE-2-38).

b. Recommended Decision

The ALJs recommended that the Commission adopt the OCA's proposed downward adjustment of $8,670,000 to the Company's claim for pension expense.

R.D. at 50. The ALJs cited to *Pa. PUC v. Total Environmental Solutions, Inc.*, Docket Nos. R-00072493, *et al.* (Opinion and Order entered July 30, 2008) (*TESI*), wherein the Commission noted the explanation of ALJ Katrina L. Dunderdale that the purpose of normalization is to smooth out the effects of an expense item that occurs at regular intervals, but in irregular amounts. *Id.* (citing *TESI* at 72). Applying this to the instant proceeding, the ALJs found that although PGW's pension expense occurs at regular intervals, it fluctuates significantly from year to year. Therefore, the ALJs agreed with the OCA that it is appropriate to normalize this expense. The ALJs added that the Commission followed a similar approach in *PECO Gas 2021*. R.D. at 50-51.

c. PGW Exception No. 4 and Replies

In its Exception No. 4, PGW finds fault with the ALJs' recommendation that its pension expense be normalized. According to PGW, the ALJs have improperly recommended the removal of $8,670,000 from PGW's cash requirements claim of $30,806,000. PGW submits that contrary to the ALJs' findings, this adjustment does not reflect a more accurate level of the Company's cash outlay for pension expenses in the FPFTY. Rather, PGW contends, the ALJs have conflated the Company's cash requirement claim of $30,806,000 with the accounting line for Pension Expense on PGW's accounting statement. PGW explains that its claim is based on its actual cash outlay of $30,806,000, which is based on the mandates of the Gas Works Plan. PGW points to the "Total Cash Outlay-Pension" line item, set forth in Table 3, *supra,* and argues that this amount has varied little in the fiscal years indicated on the table (*i.e.* Fiscal Years 2020 through 2024). Accordingly, PGW asserts that this cash outlay has not been, and is not expected to be, an irregular amount. PGW Exc. at 19-20.

PGW continues that the accounting line for pension expense on its income statement is based on the requirements of GASB 68, wherein PGW's balance sheet includes the Company'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. PGW argues that this 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. Additionally, PGW submits that the change in market value, as mandated by and determined under GASB 68, does not indicate that PGW automatically will, or is expected to, incur a greater cash outlay, *i.e.*, expense, during the life of its new base rates. PGW Exc. at 20.

PGW submits that while the amount of this cash outlay was not challenged by any Party in this proceeding, the ALJs erroneously focused on the variability in valuation under GASB 68 to justify normalization and to recommend the OCA's proposed downward adjustment of $8,670,000. PGW insists that normalizing the accounting line that reflects changes in market value under GASB 68 is neither appropriate nor consistent with sound Cash Flow Ratemaking principles, because it does not reflect the actual cash outlay being claimed by PGW. In PGW's view, this adjustment 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. PGW Exc. at 20-21.

Finally, PGW restates its argument in its Exception No. 2, *supra*, that the effect of this adjustment on PGW's year-end cash balance on its cash flow statement is incorrect. PGW submits that even if the Commission finds that the ALJs' recommended adjustment for pension expense should not be reversed, the Commission must revise the cash flow statement. PGW Exc. at 21.

In its Replies to Exceptions, the OCA counters that although there is a difference between the cash outlay and the GASB 68 amortization expense, the two expenses combine to comprise PGW's total claimed pension expense. The OCA notes that the Summary of the Gas Works Plan components, set forth in Table 3 above, demonstrates that this amount has fluctuated significantly between 2020 and what is projected for 2024. The OCA submits that the ALJs found that the evidence in this case strongly demonstrates that PGW's pension expense, although regularly occurring, fluctuates significantly from year-to-year. Thus, the OCA restates its position that normalization of this expense would be appropriate and consistent with sound ratemaking principles. OCA R. Exc. at 6.

d. Disposition

On consideration of the record evidence, we shall adopt the ALJs' recommendation and deny PGW's Exception No 4. Like the OCA, we are mindful that there is a difference between the cash outlay for pension expense and the GASB 68 amortization expense. We further acknowledge that PGW based its contributions on the recommendation of the Director of Finance; and that the Company must comply with GASB 68. Nonetheless, these two items combine to make up PGW's total claimed pension expense. As noted by the OCA, PGW's Summary of Gas Works Plan Components in Table 3, *supra,* indicates that PGW's total pension expense increased from $20,675,127 in the HTY to a projected $44,759,000 in the FPFTY, representing a 117.05% increase in a two-year period.

In setting the appropriate pension expense for PGW, we must consider prior contributions and the variability of the year-to-year contributions. Solely relying on one source to set the contribution rate may result in contributions being too high or too low for the new regulatory period when new rates are set for natural gas service. We further note that costs change over time, but not always proportionately. When this is the case, normalizing such costs is appropriate. *See,* OCA St. 1SR at 14. As noted by the ALJs, we stated the following in *TESI:*

> [N]ormalization adjustments are made to eliminate any unusual activity or event, or to stabilize fluctuations in expenses which would not reasonably be expected to recur in

> the future. In other words, normalization is a ratemaking technique used to smooth out the effects of an expense item that occurs at regular intervals, but in irregular amounts. Normalization is the proper adjustment to make the test year expense representative of normal operations.

TESI at 72. Accordingly, we shall adopt the ALJs' recommendation to apply a three-year normalization period to the Company's claim for pension expense. In turn, we shall also adopt the OCA's proposed downward adjustment of $8,670,000, which will reduce PGW's claim from $44,759,000 to $36,089,000. Finally, as we have denied PGW's Exception No. 2 above, we shall decline to make PGW's requested correction to the cash flow statement.

10. Other Post-Employment Benefit Expense

a. Positions of the Parties

PGW proposed an OPEB expense with a credit balance of $10,095,000 in the FPFTY. PGW stated that for the FPFTY, its cash outlay, or funding requirement above the amount shown on its income statement for OPEBs, is $58,019,000. PGW explained that this cash outlay has the following components: (1) the OPEB Trust Cash Contribution of $18,500,000, which is funded by its Commission-approved, $16.5 million OPEB surcharge, and an additional $2.5 million from PGW's IGF; (2) retiree benefit payments, which consist of healthcare and life insurance payments; and (3) PGW's accounting expense regarding OPEBs under GASB 75 that is shown on PGW Exhibit JFG-2-R (Statement of Income) at Line 31. PGW provided a table to summarize the breakdown of its claimed OPEB requirements, which is reproduced in Table 4, below. We note that the line item outlining the Company's claimed OPEB expense is highlighted:

Table 4: Summary of PGW's OPEB Requirements

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

PGW M.B. at 30. According to PGW, given its status as a cash flow utility, only its cash outlays for OPEBs should be considered for ratemaking purposes. PGW St. 2-R at 50.

The OCA disagreed with the Company's claim for OPEB expense and proposed an increase of $1,750,000, or an adjustment from a credit balance of $10,095,000 to a credit balance of $8,345,000. Similar to its argument regarding the Company's claim for pension expense, *supra,* the OCA recommended a three-year normalization of the OPEB expense amounts over 2022 to 2024, which resulted in the OCA's proposed OPEB credit balance of $8,345,000. The OCA reasoned that PGW's OPEB balance has varied substantially over the past several fiscal years. Namely, the OCA pointed out that PGW's OPEB expense for the 2022 HTY was a credit balance of $1,242,000, while it has a projected credit balance for the 2023 FTY of $13,699,000. Additionally, the OCA stressed that the Company has indicated a 712% reduction between 2022 and 2024. Moreover, the OCA noted that in 2018, PGW's OPEB balance was a positive $32,889,000. OCA M.B. at 41.

b. Recommended Decision

The ALJs found that, like PGW's pension expense claim above, it was appropriate to also normalize the Company's claimed OPEB expense. The ALJs agreed with the OCA that this expense item has demonstrated wide variability from year to year. Therefore, the ALJs recommended that the Commission adopt the OCA's proposed addition of $1,750,000 to the Company's claimed OPEB expense of a credit balance of $10,095,000. The ALJs stated that this recommendation is consistent with the Commission's treatment of the OPEB expense that was at issue in *PECO Gas 2021*. R.D. at 53.

c. PGW Exception No. 5 and Replies

In its Exception No. 5, PGW argues that the ALJs' recommendation that the Company's OPEB expense be increased by $1,750,000 was erroneous. In this regard, the Company claims that, as with their above recommendation regarding the adjustment to PGW's pension expense, the ALJs have confused PGW's cash requirements claim with the accounting line on PGW's accounting statement for OPEB Expense. PGW states that its OPEB claim is based on its cash outlay of $47,924,000. According to the Company, the ALJs incorrectly implied that their recommendation provides additional cash of $1,750,000 by changing the negative $10,095,000 line entry for Total OPEB expense to negative $8,345,000. However, PGW submits that while this funding requirement is based on financial support for OPEBs, it is not the foundation for base rates. PGW Exc. at 21, 21 n.90.

PGW further argues that its $47,924,000 cash outlay is based on the mandates of the OPEB plan and has varied little from FY 2020 to FY 2024. Therefore, PGW contends that an addition of $1,750,000 to its cash outlay of $47,924,000 would not be appropriate. In PGW's view, normalizing the accounting line that reflects changes in market value under GASB 68 is neither appropriate nor consistent with sound ratemaking principles because it does not reflect the actual cash outlay being claimed by PGW in the FPFTY. PGW Exc. at 21-22.

In its Replies to Exceptions, the OCA argues that the ALJs correctly found that normalization of the Company's OPEB expense is proper, and consistent with past

Commission precedent, because the expense varies widely from year to year. Therefore, the OCA submits that PGW's Exception No. 5 should be denied. OCA R. Exc. at 5-6.

d. Disposition

We concur with the ALJs that, similar to PGWs pension expense claim, a three-year normalization of the Company's claim for OPEB expense is appropriate. As with PGW's pension expense, we are mindful that the Company based its contributions on the recommendation of its actuaries and what has been reported in GASB 75, and what is required and consistent with GASB 75. Nonetheless, prior expenses and the variability of the year-to-year expense balances should be taken into consideration. Table 4, *supra,* indicates that the Company projected its OPEB expense to decrease by 1,002.67% between the 2022 HTY and the 2023 FTY. In addition, the Company projected an increase of 26.31%. *See also,* OCA Sch. DM-SR-15. Further, it is evident that the amounts shown in the bottom line of Table 4 above, entitled "Total Cash Outlay - OPEB not seen on JFG-1/JFG-2," which reflects the total cash outlay, demonstrate that there have been wide variations from year to year. Namely, the increase in cash outlay between the 2022 HTY and the 2023 FTY amounted to 38.7%, followed by a decrease of 3.8% from the 2023 FTY to the 2024 FPFTY. *See also,* OCA R.B. at 21. For these reasons, we find that normalization of the Company's OPEB expense is proper.

We note that our treatment of this claimed expense is consistent with our treatment of the OPEB expense claim at issue in *PECO Gas 2021.* In that proceeding, we stated that because the OPEB expense has a propensity for fluctuation from year to year, normalization of this expense is appropriate. *PECO Gas 2021* at 93-94. Therefore, we shall deny PGW's Exception No. 5 and adopt the ALJs' recommendation, which applies the OCA's proposed increase of $1,750,000 to PGW's claim for OPEB expense, or an adjustment from a credit balance of $10,095,000 to a credit balance of $8,345,000.

11. Health Insurance Expense

a. Positions of the Parties

PGW averred that its health care costs are increasing. In this regard, PGW noted that for the HTY (FY 2022), health insurance was $23.064 million. For the FTY (2023), health insurance is expected to total $25.740 million (about a 10% increase from the HTY). For the FPFTY (2024) health insurance is anticipated to be $27.715 million (about a 7.5% increase from the FTY) as projected by an independent consultant, Brown & Brown, and reflects PGW's market and plan demographics. PGW M.B. at 31 (citing PGW St. 2-R at 52; PGW Exh. JFG-12).

While the OCA recommended a growth rate in health insurance costs of 5.7%, PGW noted that the OCA's witness Mr. Mugrace's data showed annual growth greater than his recommended 5.7%. PGW noted that the average growth rate provided by Mr. Mugrace in OCA Schedule DM-SR-10 was 7.82%. PGW submitted that Mr. Mugrace disregarded historical trends and the findings of PGW's expert, Brown & Brown, and recommended a national growth index, even after he had expressed an aversion to using a national index. PGW R.B. at 25 (citing OCA St. 1-SR at 17; PGW St. No 2-SR at 8-9; OCA St. 1 at 16).

The OCA noted that PGW's health insurance costs were variable and suggested the use of information published by the Center for Medicare and Medicaid Services, which found that the annual growth in national health spending for the years 2021 through 2030 is expected to be 5.1%. OCA M.B. at 42-43 (citing OCA St. 1 at 50).

The OCA's witness, Mr. Mugrace, testified that although PGW stated that its consultant relied on data and market information specific to PGW's situation, the Company provided no additional information related to those specifics. OCA R.B. at 22.

Mr. Mugrace predicted that PGW's increase in health insurance expense will not exceed the national average and does not believe the Company's expense for the FPFTY will reach the level projected. OCA R.B. at 22-23 (citing OCA St. 1SR at 17; OCA M.B. at 43-44).

b. Recommended Decision

The ALJs found that the record evidence supported PGW's anticipated increase in health insurance and recommended that the Commission approve it. The ALJs were unconvinced by the OCA's recommendation of a national index, after the OCA's witness Mr. Mugrace expressed an aversion to utilizing national indices. The ALJs found the projections prepared by an independent consultant for PGW and based on PGW's actual experience to be credible. R.D. at 54-55 (citing OCA St. 1 at 16).

c. Disposition

No Party filed Exceptions to the ALJs' recommendation on this issue. We find adequate support in the record to conclude that the Company's claimed expense is reasonable. PGW's witness, Mr. Golden, testified that the Company's healthcare costs are "based on actuarial projection and PGW's actual circumstances and were determined by an independent expert – Brown & Brown." Mr. Golden continued: "Mr. Mugrace does nothing to show why or how national spending is comparable to PGW's market and plan demographics as determined by Brown and Brown." PGW St. No. 2-SR at 53. We are not persuaded by the OCA's argument that a national cost index is more reliable than a report developed from PGW's specific market and demographic data. Therefore, we shall adopt the ALJs' recommendation on this issue.

12. Normalization Adjustments

a. Positions of the Parties

PGW stated that its *pro forma* expense claim is based on its actual, budgeted levels of expenses as approved by the PGC and Philadelphia's City Council, in the Capital Budget, only updated for more recent information (and one adjustment to reflect a full year of its planned, FY 2024 bond issuance). PGW averred that while the OCA and I&E insisted that the Company's test year levels should be based on historical averages or normalized, the Commission should reject extensive reliance on historical costs and averages. PGW M.B. at 31 (citing OCA St. 1 and 1-SR; I&E St. 2 at 7-14; I&E St. 2-SR at 8). PGW explained that historical costs and averages may be useful in evaluating spending levels between fiscal years, but they are not useful in setting future rates. PGW M.B. at 31-32 (citing 66 Pa. C.S. § 315(e)).

PGW argued that it is inappropriate to employ "normalization adjustments" for a company regulated on a cash flow basis. According to PGW, allowing only a "normal" amount – whether the amount is more or less than the projected levels - is wrong because it is not consistent with the Cash Flow Method of ratemaking. PGW M.B. at 32.

The OCA's witness, Mr. Mugrace, explained that he analyzed PGW's various expense categories as follows:

> I reviewed each of PGW's 15-line items and the Natural Gas expense (Fuel), that make up PGW's Operating Expense accounts. I also reviewed the data responses submitted by PGW to OCA… as well as PGW's Index to the Rate Filing Requirement (Volume I parts 1-3). I reviewed the I&E's data sets as well as other Intervenor data sets. I analyzed and reviewed PGW's adjustments beginning with the HTY

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

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

For those categories that showed a variance of 25% or greater, these categories were normalized over the three-year period, 2022-2024. OCA M.B. at 29. Table 5, below, outlines a list of the expense items that Mr. Mugrace proposed be normalized, and the dollar impact of that normalization on PGW's revenue requirement:

Table 5: OCA Normalization Adjustments to PGW Expense Categories

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

OCA M.B. at 30.

Under the expense category Administrative & General, Mr. Mugrace identified twenty-four separate expenses, each with significant variations from year to year, for which he recommended using a three-year normalization. These items and their effect on PGW's revenue requirement are listed in Table 6, below:

Table 6: OCA proposed Normalization Adjustments to PGW Administrative & General Expenses

Sub Expense Category	Adjustment Amount	Effect on PGW Rev. Req.	Record Reference
1. Accounting and Reporting	$ 20,042	Increase	OCA Sch. DM-SR-9
2. CFO	$ 2,038	Increase	OCA Sch. DM-SR-9
3. Chemical Services	$ 49,333	Decrease	OCA Sch. DM-SR-9
4. Corporate Communications	$ 98,667	Decrease	OCA Sch. DM-SR-9
5. Corporate Planning	$ 41,667	Increase	OCA Sch. DM-SR-9
6. Customer Review Unit	$ 39,269	Decrease	OCA Sch. DM-SR-9
7. Data Analytics	$123,000	Decrease	OCA Sch. DM-SR-9
8. Gas Control and Acquisitions	$ 53,334	Decrease	OCA Sch. DM-SR-9
9. Gas Planning and Rates	$ 15,333	Decrease	OCA Sch. DM-SR-9
10. Human Resources	$191,333	Decrease	OCA Sch. DM-SR-9
11. Internal Audit	$ 67,319	Decrease	OCA Sch. DM-SR-9
12. Labor Relations	$ 1,667	Increase	OCA Sch. DM-SR-9
13. Legal	$143,786	Increase	OCA Sch. DM-SR-9
14. Organizational Development	$250,667	Decrease	OCA Sch. DM-SR-9
15.President and CEO	$ 3,379	Decrease	OCA Sch. DM-SR-9
16. Risk Management	$ 8,667	Increase	OCA Sch. DM-SR-9
17. Security and Loss Prevention	$ 70,326	Increase	OCA Sch. DM-SR-9
18.SVP Gas Management	$ 15,667	Increase	OCA Sch. DM-SR-9
19. SVP Operations and Supply Chain	$ 2,786	Decrease	OCA Sch. DM-SR-9
20. Treasury	$ 12,069	Decrease	OCA Sch. DM-SR-9
21. VP Budget and Strategic Development	$ 6,510	Increase	OCA Sch. DM-SR-9
22. VP Marketing	$ 6,903	Increase	OCA Sch. DM-SR-9
23. VP Regulatory Compliance & Customer Programs	$1,206,276	Decrease	OCA Sch. DM-SR-9
24.Special Legal Services	$ 791,550	Decrease	OCA Sch. DM-SR-9

OCA M.B. at 30-32.

The OCA's adjustments to PGW's revenue requirement for the Gas Processing, Field Operations, Collections, Customer Service, Account Management, and Marketing equal a combined reduction of $1,642,297 to the Company's claim. In addition, the OCA's adjustments to PGW's requirement for Administrative and General Expenses equal a combined reduction of $2,587,042. This amounts to a total proposed overall reduction to the Company's revenue requirement of $4,229,339.[33] OCA M.B. at 32. Mr. Mugrace noted that none of his normalization adjustments included 2020 data, and that all of the expenses that were normalized were done over the period from 2022 (HTY) through 2024 (FPFTY). OCA M.B. at 34. In further support of its proposed normalization adjustments, the OCA cited to *TESI*, *supra.* OCA M.B. at 36 (citing *TESI* at 72).

b. Recommended Decision

The ALJs cited to *PECO Gas 2021, supra,* where the Commission adopted the recommendation of the OCA to normalize expenses in two categories where there were wide fluctuations in year-to-year spending. In both instances, the normalized amount was calculated over a three-year period. The ALJs recommended that the Commission approve the OCA's normalization adjustments and reduce PGW's expenses by $4,276,673.[34] R.D. at 60.

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[33] The OCA represented this total proposed downward adjustment to be $4,276,673. OCA M.B. at 32. However, when adding each of the OCA's normalization adjustments together, it is clear that they result in an overall proposed downward adjustment of $4,229,339. [$1,642,297 + $2,587,042 = $4,229,339].

[34] As previously noted, the normalization of these expenses would result in a reduction of $4,229,339. The ALJs accurately applied this downward adjustment amount in the Appendix of the Recommended Decision at Table II, Lines 18 through 24 of their adjustments to Table I. We shall modify page 60 of the Recommended Decision to reflect the actual downward adjustment of $4,229,339.

c. PGW Exception No. 7 and Replies

In its Exception No. 7, PGW disagrees with the ALJs' recommended normalization of expenses for gas processing, field operations, collection, customer service, account management, marketing, and administrative and general expenses for an overall reduction of $4,276,673.[35] PGW Exc. at 23 (citing R.D. at 55-60, 63-64; Appendix at Tables I and II). PGW argues that these normalization adjustments are wrong for the following reasons: (1) PGW does not set its rates based on the rate base/rate of return methodology. Instead, as a cash flow company, it needs to receive cash that will cover its actual expenses, not normalized expenses; and (2) the Parties are applying "normalization" incorrectly here. PGW maintains that the ALJs' Recommended Decision does not show that PGW's claimed expenses in the FPFTY are unreasonable. According to PGW, historical costs and averages may be useful in evaluating spending between years, but they are not useful in setting future rates. PGW argues that the other Parties' position - which was adopted by the ALJs – that an expense claim is unreasonable if it exceeds historical costs and averages turns a FPFTY into an "historical average test year." PGW Exc. at 24.

PGW also maintains that the ALJs applied both a normalization adjustment and removed the inflation adjustment which unreasonably and unfairly reduces the same PGW expense claims. PGW Exc. at 24-25.

In reply, the OCA notes that PGW's concerns regarding normalization overlook the fact that in a FPFTY environment, all expense projections are estimates. According to the OCA, the expense figures projected by PGW are equally subject to deviations as an expense projection based on normalization. OCA R. Exc. at 9. The OCA notes that it explained in its main brief that the objective of the ratemaking process,

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[35] We reinforce that the actual downward adjustment would be $4,229,339.

whether using a Cash Flow or rate of return method, is to provide a utility with the opportunity to recover costs it prudently incurs in the provision of its utility service. The OCA submits that the ratemaking process is not intended to guarantee total cost recovery. OCA R. Exc. at 9 (citing OCA M.B. at 35).

d. Disposition

Regarding the ALJs' recommended normalization adjustments, we note the testimony of the OCA's witness, Mr. Mugrace, that "the rationale for normalizing costs is to prevent overcollection of expenses in future periods in the event the costs are not realized by a utility." OCA St. 1-SR at 12-13. Mr. Mugrace explained that "My normalization adjustments take into consideration the actual costs incurred by PGW (2022) and what PGW has anticipated (not actually incurred) in future years." OCA St. 1-SR at 12. We are persuaded that the OCA's recommendation is reasonable and prevents the burden of overcollection of expense costs on ratepayers. For this reason, we shall apply the OCA's proposed Normalization Adjustments, as recommended by the ALJs, which result in an overall downward adjustment of $4,229,339, to the Company's Expense claims discussed above. Accordingly, PGW's Exception No. 7 is denied.

13. Sale of Service Centers

a. Positions of the Parties

PGW argued that the City owns PGW, and the service centers used by PGW. PGW R.B. at 27 (citing PGW St. 4 at 5; 66 Pa. C.S. § 102). PGW explained that it reduced costs by permanently closing five service centers in the Spring of 2022. PGW R.B. at 27 (citing PGW St. 1 at 8). PGW averred that if and when the City sells the service centers, the proceeds will go to the City, not PGW. PGW R.B. at 27 (citing PGW St. 2-R at 56; PGW St. 2-RJ at 9). PGW maintained that any proceeds from the potential sale of the service centers cannot be used to offset the annual $18 million City Payment. PGW submitted that the annual payment to the City is authorized by the Code and is required by the 1972 Ordinance. PGW R.B. at 27-28 (citing 66 Pa. C.S. § 2212(f); *Public Advocate v. Phila. Gas Comm'n*, 674 A.2d 1056 (Pa. 1996)).

The OCA's witness, Mr. Mugrace, was concerned with the crediting of the proceeds of the sales of the service centers when this occurs. Mr. Mugrace argued that the proceeds should be returned to PGW and should not go to the City. OCA M.B. at 46 (citing OCA St. 1 at 14). Mr. Mugrace contended that the service center assets provided utility service to customers of PGW when they were in service, that ratepayer money was used to fund the service centers, and that the service centers were used and useful in the provision of gas utility service. OCA M.B. at 46. According to the OCA, the proceeds of the sale of the service centers should be returned to PGW. OCA M.B. at 46-47 (citing OCA St. 1-SR at 19).

b. Recommended Decision

The ALJs noted that the only evidence on record regarding the ownership of the service centers is PGW witness, Mr. Golden's, statement that the service centers are owned by the City. The ALJs noted that the sale of any of the centers has yet to occur, and there is nothing on the record that indicated that a sale will occur in the FPFTY. R.D. at 61 (citing PGW R.B. at 27, noting that PGW is not claiming any costs or expenses related to the sale in the FPFTY). The ALJs reasoned that when the sale happens, PGW and OCA can revisit their respective proposals regarding the treatment of the revenue from the sale, for ratemaking purposes. The ALJs recommended that the Commission take no action concerning this issue in this case beyond recognizing PGW's projected savings from the closure of the centers. R.D. at 61.

c. Disposition

No party excepted to the recommendation of the ALJs on this issue. Regarding the Service Centers, we agree with the ALJs that no action should be taken at this time regarding the potential proceeds of the sale of the service centers. As PGW noted, it is not claiming any costs or expenses related to the sale in the FPFTY.

14. Net Construction Expenditures

a. Positions of the Parties

PGW proposed net construction expenditures of $206,959,000 in the FPFTY. *See*, PGW Exh. JFG-2 (Cash Flow Statement).

The OCA recommended that the Company's claim be reduced by $17,108,000, or from $206,959,000 to $189,851,000. The OCA noted that in the HTY, PGW spent approximately $151,000,000 on such projects, and that the Company planned to spend approximately $170,000,000 in the FTY. Thus, the OCA argued, PGW's proposed FPFTY spending amounts to an increase of $36,000,000, or 21% more than was spent in the year prior, and 36.9% more when comparing the HTY to the FPFTY. The OCA noted that these percentage increases are significantly higher than the inflation rate for April 2023 of 4.9%, in addition to the January 2022 annual inflation rate of 7.5%, and the January 2023 annual inflation rate of 6.4%. Moreover, the OCA submitted that prior to the COVID-19 pandemic, PGW's net construction expenditures were significantly less, as PGW spent $123,400,000 on construction in FY 2017-2018, $100,500,000 in FY 2018-2019, and $119,700,000 in the FY 2019-2020. OCA M.B. at 18, 19.

The OCA explained that its own recommended net construction expenditure amount for the Company of $189,851,000 is based on an analysis of the actual amounts spent by PGW in the FY from 2018 to 2022. Therefore, the OCA identified $17,108,000 as a reduction that PGW could make that was consistent with the OCA's recommended DSC ratio, *supra*, of 2.40x before the City Payment and 2.24x after the City Payment. The OCA claimed that its recommended $17,108,000 reduction addresses PGW's cash flow needs. In addition, the OCA argued that this reduction appropriately recognizes that PGW has a history of projecting the need for more construction-related cash flow than it actually spends. OCA M.B. at 19-20.

PGW countered that the OCA's proposed reduction to net construction expenditures was arbitrary. In this regard, PGW submitted that the OCA has failed to identify any specific construction projects to cancel or defer. PGW St. 2-R at 8, 13. Additionally, PGW argued that the OCA's claimed inflation rates were based upon the Consumer Price Index (CPI), which does not consider large changes to the cost to construct gas utility plant. PGW claimed that the price change in the cost to construct gas utility plant has been much higher than the annual change in the CPI. For example, PGW submitted that while the January 2021 to January 2022 price change for the CPI was 8%, gas utility plant construction costs increased by 24% based on the Handy-Whitman Index of Public Utility Costs. PGW St. 4-R at 7-8. Thus, PGW asserted that its claim for net construction expenditures should be adopted.

b. Recommended Decision

The ALJs disagreed with the OCA that the Company's claim for net construction expenditures should be reduced. According to the ALJs, there is no evidence that PGW cancelled any construction projects. Therefore, the ALJs recommended that the Company's claim of $206,959,000 for net construction expenditures be adopted. R.D. at 62.

c. OCA Exception No. 3 and Replies

In its Exception No. 3, the OCA claims that the ALJs erred by recommending that the Commission reject the OCA's proposed reduction of $17,108,000 to the Company's claim for net construction expenditures. The OCA submits that in stating that they could not identify any cancelled construction projects, the ALJs improperly concluded that the OCA's proposed reduction lacked merit. According to the OCA, the issue for ratemaking purposes is whether the *total* expense is reasonable and representative of the expenses that will be made into the future based on both past practice, current practice, and future projections. The OCA maintains its recommended reduction is not arbitrary, but rather, is based on a detailed analysis of PGW's construction spending, dating back to FY 2017-2018. OCA Exc. at 6-7.

The OCA explains that, in conducting this analysis, it utilized information from the *2020 PGW Rate Case* to demonstrate that PGW has a history of over-projecting its construction expenditures. The OCA claims that its analysis revealed that the Company's actual expenditures were significantly lower than the Company's projected expenditures. OCA Exc. at 7-9 (citing OCA St. 2-SR-Revised at 3-4, Sch. MFG-SR-2). Therefore, the OCA insists that the ALJs' recommendation on this issue should be reversed. OCA Exc. at 9.

In reply, PGW cites to its argument in its own Exception No. 3, *supra,* that it would be unreasonable to adopt the OCA's proposal to reduce PGW's claimed net construction expenditures by $17.108 million on the basis that its expenditures in prior years were lower than projected. PGW restates its position that the OCA has not identified a single specific construction project to cancel or defer. According to PGW, adopting the OCA's 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. PGW further argues that it is irrelevant that the Company has spent less on construction projects in recent years than what it projected to spend. PGW claims that several factors outside of its control have contributed to underspending. PGW insists that even if it does not spend its entire proposed amount of net construction expenditures, any unspent funds that remain to finance the FPFTY construction budget will benefit ratepayers when these funds are expended in future years. Therefore, PGW argues that the OCA's Exception No. 3 should be denied. PGW R. Exc. at 2-3.

d. Disposition

We agree with the ALJs that the OCA did not identify any construction projects to be deferred or cancelled. Nonetheless, we also concur with the OCA that, for ratemaking purposes, we must consider whether PGW's *total* expense claim for net construction expenditures is reasonable. On review of the record developed in this proceeding, we disagree with PGW's position, as adopted by the ALJs, that the OCA's proposed reduction of $17,108,000 to the Company's claim is arbitrary. Rather, we find that the OCA provided substantial evidence to demonstrate that the Company has shown a trend of over-projecting its construction expenditures. Table 7, below, summarizes the OCA's findings regarding PGW's projected vs. actual construction expenditures since the *2020 PGW Rate Case,* which spans FY 2019-20 (the FTY in the *2020 PGW Rate Case*), 2020-21 (the FPFTY in the *2020 PGW Rate Case*), and 2021-22 (a forecast year that PGW provided in the 2020 Rate Case, which corresponds to the HTY in this current rate case).

Table 7: PGW Projected v Actual Net Construction Expenditures-Fiscal Years 2020-2022

Fiscal Year	Projected	Actual	Variance
2019-20	$119,673	$99,300	($20,373)
2020-21	$154,084	$138,500	($15,584)
2021-22	$174,477	$151,129	($23,348)

See OCA Sch. MFG-SR-2. Based on this evidence, we concur with the OCA that PGW has established a trend where its projected construction expenditures significantly exceed its actual construction expenditures. In addition, we note that with respect to the amounts associated with the current, 2023 PGW rate case, PGW's claimed net construction expenditures increased from $151,129,000 in the HTY of 2022, to the Company's proposed claim of $206,959,000 in the FPFTY of 2024. This represents an increase of $55,800,000, or 36.9%, in just two years. *See, Id.* We, therefore, agree with the OCA that a reduction to the Company's claim for net construction expenditures is warranted.[36]

We further agree with the OCA's method for reaching its proposed reduction. Namely, the OCA took the difference between the Company's net construction expenditures of $151,129,000 in the HTY, and $170,490,000 in the FTY, or $19,361,000, and added this difference to the FTY amount to arrive at its proposed net construction expenditures for the Company of $189,851,000.[37] *See,* OCA Sch. MFG-SR-1.

Accordingly, we find that it is reasonable to adopt the OCA's proposed reduction to the Company's claim for net construction expenditures, and thereby grant

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[36] As noted above, the OSBA, in its replies to PGW's Exception Nos. 1, 2, and 8, likewise, argues against PGW's cost projections. The OSBA's arguments rely on its direct testimony submitted in this proceeding. Namely, in his direct testimony, the OSBA's witness, Mr. Knecht, prepared a trend analysis to evaluate, *inter alia,* whether the Company's financial forecasts presented in the *2020 PGW Rate Case* were reasonable. Mr. Knecht compared these forecasts to the Company's actual costs for Fiscal Years 2020, 2021, and 2022 (*i.e.,* the HTY) and presented evidence to indicate that the Company over-forecasted its costs in almost all cost categories by an average of nearly $74 Million more than the costs it ultimately incurred. OSBA St. 1 at 12, 14, Table RDK-3, and Exh. WP-1. Although this period spanned the COVID-19 Pandemic, we find that the OSBA's testimony lends support to the claims the OCA has made regarding the Company's net construction expenditures.

[37] [$170,490,000 + $19,361,000 = $189,851,000].

the OCA's Exception No. 3. We find the OCA's proposed reduction to be consistent with the DSC ratio of 2.44x before the City Payment and 2.28x after the City Payment, *supra*, that we have authorized for the Company. OCA St. 2-SR at 4. As a result, we shall modify the ALJs' recommendation and shall reduce the Company's claim for net construction expenditures by $17,108,000, or from $206,959,000 to $189,851,000.[38]

15. Depreciation

a. Positions of the Parties

PGW proposed a depreciation balance of $65,412,000 in the FPFTY. *See* PGW Exh. JFG-2-R (Statement of Income).

The OCA proposed two adjustments to the Company's claimed depreciation balance. As discussed above, the OCA argued that PGW's claim of $7,119,731 for CIS contingency costs should be denied in its entirety. According to the OCA, removing the contingency costs from the CIS project results in a downward depreciation adjustment of $325,571. In addition, the OCA took the position that the Company's proposal for net construction expenditures should be reduced from $206,959,000 to $189,851,000. The OCA stated that this proposed reduction would produce a $522,527 downward adjustment to the depreciation balance. Further, the OCA

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[38] We note that the OCA's Rate Tables reflect a proposed reduction of $24,228,000 for Net Construction Expenditures, which would have reduced the Company's claim from $206,959,000 to $182,731,000. This reduction included the OCA's proposed reduction of $7,119,000 to the Company's claim for CIS contingency costs, *supra*. OCA M.B. at Exh. 2, Table I(B) Line 29; *See also,* OCA Sch. DM- SR-18 (Revised). As we have declined to adopt the OCA's proposed reduction to CIS contingency costs, our final reduction to the Company's claim for net construction expenditures is $17,108,000. As discussed in Section V.A.3 above, we shall also apply a corresponding reduction of $17,108,000 to PGW's IGF claim.

explained, these adjustments would reduce the Company's depreciation balance by a total of $848,098.[39] OCA M.B. at 45.

In addition to its arguments, discussed above, for why the OCA's proposed reductions to the Company's claims for CIS contingency costs and net construction expenditures should be rejected, PGW also disagreed with the OCA's proposed adjustments to the Company's depreciation balance. PGW reasoned that depreciation expense is not really a cash flow concept. Rather, PGW argued, it is a recovery concept for an IOU. PGW claimed that modifying the Company's depreciation balance will have no impact on its cash needs. PGW R.B. at 26.

b. Recommended Decision

The ALJs recommended that the Commission accept PGW's proposed depreciation balance of $65,412,000. The ALJs stated that this recommendation is consistent with their recommendations, *supra,* that the Company's claims for contingency costs for CIS spending and for net construction expenditures should both be adopted. R.D. at 62.

c. OCA Exception Nos. 1 and 3 and Replies

As noted above, the OCA argues in its Exception No. 1 that the ALJs erred by rejecting the OCA's proposed reduction to CIS contingency costs; and in its Exception No. 3 that the ALJs improperly rejected the OCA's proposed reduction to the Company's claim for net construction expenditures. Additionally, the OCA submits that the Commission should also adopt the OCA's proposed combined downward reduction of

39 [$325,571 + $522,527 = $848,098].

$848,098 to the depreciation balance associated with these two expense items. OCA Exc. at 2, 3, 6, 9.

In its Replies to Exceptions, PGW restates its position that the depreciation expense is not a cash flow concept and will have no impact on the Company's cash needs. PGW insists that depreciation is a recovery concept for an IOU and should not be examined in this proceeding. PGW R. Exc. at 3-4, n.17.

d. Disposition

Consistent with our resolution of Sections B.V.1 and B.V.14, *supra,* we shall grant the OCA's Exceptions, in part, and deny them, in part. For the reasons set forth in Section B.V.1, we have adopted the ALJs' recommendation to deny the OCA's proposed reduction of $7,119,000 to the Company's claim for CIS contingency costs. Therefore, we shall also deny the OCA's Exception No. 1, as it relates to the OCA's proposed corresponding downward adjustment of $325,751 to the Company's depreciation balance related to CIS spending.

Conversely, for the reasons set forth in Section B.V.14, we have granted the OCA's Exception No. 3 to the extent that we have adopted the OCA's proposed reduction of $17,108,000 to the Company's claim for net construction expenditures. For this reason, we shall also adopt the OCA's proposal to apply an associated downward adjustment to the Company's depreciation balance related to net construction expenditures. However, we will not apply the downward adjustment of $522,527 that the OCA has proposed.

On review of the record, we find that the OCA has stated this reduction amount in error. Originally, the OCA proposed a reduction of $25 million to the Company's claim for net construction expenditures. Consequently, in his direct testimony, the OCA's witness, Mr. Mugrace, explained that the OCA's proposed reduction to the depreciation balance associated with the Company's net construction expenditures was calculated by multiplying the OCA's original proposed reduction of $25 million by the depreciation rate related to distribution plant, or by 2.090%. This resulted in a downward adjustment of $522,527 to PGW's depreciation balance.[40] OCA St. 1 at 57-58. Subsequently, the OCA revised its proposed downward adjustment to net construction expenditures to its final proposed reduction of $17,108,000, discussed above. However, the OCA continued to propose a reduction to the Company's depreciation balance that corresponds to its originally proposed reduction to net construction expenditures of $25 million.

Accordingly, as we are adopting the OCA's final proposed reduction of $17,108,000 to the Company's claim for net construction expenditures, we shall apply a corresponding downward adjustment of $496,132 to the Company's depreciation balance.[41] This will reduce the Company's final depreciation balance from $65,412,000 to $64,916,000. The OCA's Exception No. 3, as it relates to depreciation, is granted, in part, and denied, in part.

16. Uncollectible Reserve Balance

a. Positions of the Parties

PGW carries an uncollectible reserve balance on its books. The amount included in this reserve balance represents the amount of receivables that the Company does not expect to collect. On PGW's income statement, the uncollectible reserve balance appears as a reduction to the Company's operating revenues, entitled

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40 [$25,000,000 x 2.090% = $522,527].

41 [$17,108,000 x 2.090% = $496,132].

"appropriation for uncollectible reserve."[42] For budgeting purposes, PGW assumes a 4.0% bad debt ratio. Initially, PGW proposed an uncollectible reserve balance of $36,919,000. PGW Exh. JFG-2, Line 7 (Statement of Income). PGW calculated this balance by taking its projected 2024 Billed Gas Revenues of $922,967,000, and multiplying this amount by 4.0%, to arrive at a reserve balance of $36,919,000. PGW's 2024 Billed Revenues included the full amount of the revenue requirement and revenue increase that PGW sought in this case. OCA M.B. at 47-48. Because it subsequently reduced its requested revenue increase, PGW's final proposed uncollectible reserve balance was $36,892,000. PGW Exh. 2-R, Line 7 (Statement of Income). Given the company's requested revenue increase, this represented an increase to the uncollectible reserve balance of $3,407,000.[43] PGW M.B. at Appendix C, Table I, Line 7.

In light of its proposed reduction to the Company's overall revenue increase, from $85,162,000 to $16,502,000, the OCA also proposed a reduction to the size of PGW's uncollectible reserve balance, utilizing PGW's assumption of a 4.0% bad debt ratio. Therefore, the OCA proposed to reduce the Company's uncollectible reserve balance to $34,018,906, representing a reduction of $2,873,094 from the Company's final proposed uncollectible reserve balance of $36,892,000.[44] The OCA argued that because this adjustment represents a change that corresponds to its overall revenue increase recommendation, it should be adopted. OCA M.B. at 48.

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[42] In this section, we shall use the terms "uncollectible reserve balance" and "appropriation for uncollectible reserve" interchangeably.

[43] PGW's appropriation for uncollectible reserve under its revenues at present rates in the FPFTY was $33,485,000. PGW M.B. at Appendix C, Table I, Line 7.

[44] The OCA's proposed revenue increase also represented a corresponding increase to PGW's appropriation for uncollectible reserve of $533,906 when compared to the Company's appropriation for uncollectible reserve under its revenues at present rates. [$34,018,906 – $33,485,000 = $533,906]. OCA M.B. at Table I, Line 7.

PGW argued that the OCA's recommended adjustment to the Company's uncollectible reserve balance should be rejected because its proposed revenue increase is unreasonably low. Nonetheless, PGW submitted that if the Commission does not accept PGW's proposed revenue increase, then it must modify the Company's final allowed uncollectible reserve balance based upon its determination of PGW's final allowed revenue increase. PGW R.B. at 26-27.

Although it did not proffer any specific testimony regarding PGW's uncollectible reserve balance, I&E's proposed revenue increase resulted in a reduction of $1,793,000 to the Company's proposed balance, or from $36,892,000 to $35,099,000. Like the OCA, I&E utilized PGW's assumption of a 4.0% bad debt ratio. I&E M.B. at Table II, Page 1 and Explanation Note for Changes, Page 1.[45]

b. Recommended Decision

Based upon their recommended revenue increase for PGW of $22,306,000, the ALJs recommended a reduction of $2,515,000 to the Company's claimed uncollectible reserve balance, resulting in an adjustment from $36,892,000 to $34,377,000. Additionally, when compared to the Company's proposed revenues at present rates, the ALJs' recommended revenue increase produced a corresponding increase to the Company's appropriation for uncollectible reserve of $892,000.[46] R.D. at Appendix A, Table I, Line 7. The ALJs stated that the Company's allowed uncollectible reserve balance will need to be adjusted based upon the Commission's determination of PGW's final allowed revenue increase in this proceeding. R.D. at 63.

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[45] In addition, I&E's proposed revenue increase represented a corresponding increase to PGW's appropriation for uncollectible reserve of $1,614,000, when compared to the Company's appropriation for uncollectible reserve under its revenues at present rates. [$35,099,000 – $33,485,000 = $1,614,000].

[46] [$34,377,000 – $33,485,000 = $892,000].

c. Disposition

In the introduction to its Exceptions, PGW stated that "[a]djustments 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 Exc. at 1, n.1. However, no Party directly excepted to the ALJs' recommendation that the uncollectible reserve balance must be adjusted based upon the Commission's final determination as to PGW's allowed revenue increase. As we are approving a revenue increase for PGW that is less than what the Company sought, we find the ALJs' recommendation to be necessary, by definition.

Accordingly, as indicated in Table I, Line 7 to the Appendix of this Opinion and Order, the revenue increase of $26,201,000 that we have approved for the Company results in an uncollectible reserve balance of $34,534,000. This represents a reduction of $2,358,000 to the Company's claimed uncollectible reserve balance.[47] Further, when compared to the Company's appropriation for uncollectible reserve under its revenues at present rates of $33,485,000, the revenue increase that we have approved for PGW results in an increase to its appropriation for uncollectible reserve of $1,049,000.[48]

17. Commission Revenue Requirement and Revenue Increase Allowance

Table 8, below, summarizes the revenue requirement, revenue increase, and the associated financial metrics that we have authorized for PGW, based on our discussion above.

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[47] [$36,892,000 – $2,358,000 = $34,534,000].

[48] [$34,533,000 – $33,485,000 = $1,049,000].

Table 8: PGW's Authorized Revenue Requirement, Revenue Increase, and Financial Metrics

Revenue Requirement	**$858,831,000**
Revenue Increase	**$26,201,000**
DSC Ratio-Pre City Payment	**2.44**
DSC Ratio-Post City Payment	**2.28**
DOC Balance	**54.1**
Debt to Total Capital Ratio	**61.08%**

C. Rate Structure

This section of this Opinion and Order addresses the ALJs' recommendations pertaining to cost of service, revenue allocation, and rate design. When a utility files for a rate increase and the proposed increase exceeds $1 million, the utility must include with its filing an allocated class cost of service study (ACCOSS or ACCOS Study) in which it assigns to each customer class a rate, based upon operating costs that it incurred in providing that service. 52 Pa. Code § 53.53; *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1015 (Pa. Cmwlth. 2006) (*Lloyd*). Cost allocation studies require a considerable amount of judgment and are described as more of an accounting/engineering art rather than science. *Application of Metropolitan Edison Co.*, Docket No. R-00974008 (Order entered June 30, 1998); *Pa. PUC v. Pennsylvania Power & Light Co.*, 1983 Pa. P.U.C. Lexis 22. Public utility rates should enable the utility to recover its cost of service and should allocate this cost among its customers. These rates are required by statute to be just, reasonable, and non-discriminatory. 66 Pa. C.S. §§ 1301, 2804(10).

In this proceeding, there are nine different customer rate classes to which PGW would allocate costs:[49]

1) Residential;
2) Commercial;
3) Industrial;
4) Municipal;
5) Philadelphia Housing Authority (PHA)-General Service (GS);
6) PHA-Rate 8 (PHA-R8);
7) Developmental Natural Gas Vehicle Service (NGVS);
8) Interruptible (IT); and
9) Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. (Vicinity)

PGW St. 5-SD at 2.

1. Class Cost of Service Study (CCOSS)

a. Methodology

An ACCOSS is a benchmark for evaluating customer class cost responsibility with the fundamental purpose of aiding in the accurate and reasonable design of rates by identifying all the capital and operating costs incurred by the utility in serving its customers, and then directly assigning or allocating these costs to each individual rate class based on established principles of cost-causation.

The ACCOSS presented by PGW in this proceeding was sponsored by PGW's witness, Ms. Costance Heppenstall, and utilized an Average and Extra/Excess

[49] PGW noted that because this is a base rate proceeding, customers under contract or non-tariff rates were excluded from the allocation of costs. PGW further noted that contract customer revenues were included as a source of revenue to reduce the overall cost of service to be allocated to the other classes. PGW at M.B. at 36 (citing PGW St. 5 at 3; PGW St. 5-SD; PGW Exh. CEH-1, CEH-1S).

Demand (AED) method for allocating the Company's full revenue requirement, or total costs of service, to the various customer classes. PGW M.B. at 36. The Company's ACCOSS AED method is a weighted average of an average demand allocation factor and an excess demand allocation factor. *Id.* (citing OSBA St. 1 at 24).

Schedules A, B, and C of PGW Exhibit CEH-1 show PGW's proposed increases in revenues under the proposed rates, the ROR by customer class under present rates, and the ROR by customer class under the proposed rates, respectively. Schedule A-1, which is included with PGW Exhibit CEH-1, shows the effect on the individual class increases if revenues were brought to each class's full cost of service. As an example, Ms. Heppenstall provided that the IT class would require more than a 160% increase to bring revenues equal to cost of service. By applying the concept of gradualism, PGW opted not to move all classes fully to their cost of service. PGW M.B. at 37 (citing PGW St. 5 at 4-7).

(1) Positions of the Parties

PGW's witness, Ms. Heppenstall, provided that the AED method was used because: (1) the Commission recently found that this method is reasonable for a natural gas utility to align with cost causation principles; (2) the Company's distribution system is designed to meet customers' design day demands, warranting treatment of the cost of excess capacity as a primary cost driver instead of an incremental cost; and (3) it was approved in the Company's last fully-litigated rate case. PGW R.B. at 28; PGW M.B. at 36 (citing PGW St. 5-R at 2-3; *PECO Gas 2021* at 227-30; *2007 PGW Rate Case* at 120-24). Further, Ms. Heppenstall noted that the weighting of the factors was based on Commission precedent of allocating 50% to average daily usage and 50% to excess above average daily usage. Moreover, Ms. Heppenstall provided that the interruptible customer class average and excess usage was included in the calculation because interruptible customers have been interrupted only once (in 2004) in nearly 20 years and cannot truly be considered as interruptible for cost allocation purposes. PGW M.B. at 36-37 (citing PGW St. 5 at 5-6).

I&E did not propose any modifications to the Company's revenue allocation.

The OCA's witness, Mr. Glenn Watkins, submitted that because the Commission supports the allocation of distribution mains costs based only on annual throughput and peak demands, the Commission has consistently approved both the Average & Excess (A&E) and Peak & Average (P&A) methods, which both reflect a consideration of peak day demands and annual throughput. Further, Mr. Watkins noted that the Company's proposed AED method is a variation of the A&E method, where PGW's witness, Ms. Heppenstall, chose to: (1) give equal weight to peak day and average day demands (*i.e.*, 50% weight to peak day and 50% weight to average day demands) rather than using the actual coincident peak; and (2) treat interruptible customers the same as firm customers, in that excess demands reflect interruptible peak day demands as if they were firm customers. OCA M.B. at 49-50 (citing OCA St. 3 at 7-8, 10-11, 14-15). Moreover, Mr. Watkins submitted that after reviewing the results of PGW's ACCOSS and conducting several ACCOSS analyses, the Company's proposed ACCOSS method: (1) produces reasonable results that are similar to traditional A&E and P&A methods; and (2) generally aligns with Commission precedent that supports the allocation of mains costs by only using peak demands and annual throughput.[50] OCA

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[50] Additionally, Mr. Watkins highlighted that the Commission has consistently: (1) rejected proposals that classify or allocate distribution mains based on the number of customers; and (2) approved methods that recognize both peak demand and annual usage. OCA St. 3SR at 4-5 (citing *2021 Columbia Gas Order* at 217; *2007 PGW Order* at 80; *Pa. PUC v. National Fuel Gas Distribution Corporation*, 83 Pa. P.U.C. 262 (1994); *Pa. PUC v. National Fuel Gas Distribution Corporation*, 73 Pa. P.U.C. 552 (1990); *Pa. PUC v. Equitable Gas Company*, 73 Pa. P.U.C. 301 (1990); *Pa. PUC v. National Fuel Gas Distribution Corporation*, 72 Pa. P.U.C. 1 (1989); *Pa. PUC v. Peoples Gas Company*, 69 Pa. P.U.C. 138 (1989).

M.B. at 50-52, 55 (citing OCA St. 3 at 14-15; *Columbia 2021* at 186-218). Accordingly, the OCA submitted that it will not challenge the Company's proposed ACCOSS. OCA R.B. at 25 (citing OCA St. 3 at 2).

The OSBA submitted that the Commission should adopt the Customer-Demand (CD) ACCOSS method developed by its witness, Mr. Knecht. OSBA R.B. at 6. Mr. Knecht asserted that a customer component is necessary to reflect: (1) the economies of scale of extending the distribution to serve larger customers relative to smaller customers; (2) why mains costs are never sized to meet average demand; and (3) why the zero-intercept method is a more reasonable approach to determining a customer component for mains demand. Further, Mr. Knecht averred that the CD ACCOSS method reasonably reflects that per unit of peak demand, it costs less to extend the gas distribution system to serve larger customers than smaller customers. OSBA M.B. at 15-16 (citing OSBA St. 1-SR at 6-7; OSBA St. 1-R at 8, 12; OSBA St. 1 at 25-29). Moreover, Mr. Knecht explained that using the minimum system analysis based on data provided in this proceeding, the customer component of mains costs would be 65%. Accordingly, he recommended the historical zero-intercept method value of 25%, combined with a design day demand allocation factor. OSBA R.B. at 6 (citing OSBA St. 1 at 2, RDK WP7; OSBA M.B. at 15 (citing OSBA St. 1 at 28).

PICGUG submitted that the Company's ACCOSS must be modified to recognize that Rate IT[51] class customers remain subject to interruption at any time. PICGUG asserted that contrary to cost causation principles, the Company: (1) treats interruptible customers as firm service for purposes of the ACCOSS, while requiring such customers to perform as interruptible for purposes of receiving service, resulting in discrimination to Rate IT customers; and (2) used Peak Day Demand, rather than Peak Design Day Demand, when applying the AED method. PICGUG pointed out that PGW

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[51] As noted above, Rate IT refers to Interruptible Service.

indicated that Peak Design Day Demand data is unavailable. As such, PICGUG averred that the Company should be required to provide Peak Design Day Demand data in its next base rate filing. PICGUG also asserted that the Company's ACCOSS improperly classifies all distribution mains costs and, as such, should be modified to classify a portion (*i.e.*, 20%) of distribution mains as customer-related costs. PICGUG R.B. at 4-6; PICGUG M.B. at 6-7.

(2) Recommended Decision

The ALJs recommended that, given the Company's adherence to prior Commission directives regarding the use of the A&E method by natural gas utilities, and specifically PGW, the Commission should approve PGW's method for the allocation of distribution mains costs. The ALJs found that the Parties that advocated for the CD method failed to justify a departure from the A&E method. The ALJs also found that the OSBA and PICGUG did not fully develop the weightings proposed for use with the CD method and, therefore, require a stronger analysis than that provided here. R.D. at 67.

(3) Exceptions and Replies

(a) PICGUG Exception No. 2 and Replies

In its Exception No. 2, PICGUG argues that the ALJs' recommendation, if adopted, would violate the Code by inappropriately treating Rate IT customers as firm for purposes of the Company's ACCOSS, and interruptible for the purposes of the Company's tariff. PICGUG Exc. at 8 (citing R.D. at 69). PICGUG counters that because Rate IT customers are required to continue to stand-by to interrupt at the Company's discretion, for the protection of actual firm service customers, the Commission must require the Company to remove the allocation of peak-related costs from Rate IT. PICGUG Exc. at 8.

PICGUG cites Section 1304 of the Code, 66 Pa C.S. § 1304, to question the ALJs' reliance on the Company's position that Rate IT is "technically" interruptible, arguing that the Company requires Rate IT customers to remain interruptible. PICGUG Exc. at 8-9 (citing R.D. at 69; PICGUG M.B. at 13-15). PICGUG continues that a customer is either subject to interruption or not, and in this case, strict requirements must be met by Rate IT customers, not firm service customers.[52] Further, PICGUG contends that a customer's status as interruptible is defined by the Company's discretionary right to interrupt, rather than the actual frequency of interruptions. Moreover, PICGUG notes that while PGW's firm service customers are guaranteed service on peak demand days, the Company has no obligation to serve interruptible customers, and those customers must be ready to be interrupted daily. PICGUG Exc. at 9 (citing PICGUG M.B. at 13-15). PICGUG adds that if a Rate IT customer does not interrupt, then the customer will be subject to penalties. PICGUG Exc. at 9.

PICGUG also argues that based on the ALJs' recommendation, Rate IT would continue to be subject to the requirements of the Company's tariff and, as such, would continue to prevent the Company from reducing service to firm customers involuntarily during extreme weather or unplanned emergencies. PICGUG adds that if the Company were to call upon Rate IT customers during such an event, and Rate IT customers did not interrupt because they are only classified as firm under the ACCOSS, such action may be considered a violation of the Company's tariff. PICGUG Exc. at 9-10 (citing R.D. at 69; PICGUG M.B. at 15).

PICGUG also argues that treatment of Rate IT as firm for purposes of the ACCOSS requires such customers to pay rates based upon the Company incurring

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[52] PICGUG also refers to the ALJs' reference to the OSBA's argument that the Company failed to provide a cost analysis regarding whether Rate IT benefits firm service customers associated with avoided cost, arguing that avoided cost to other rate classes is not the polestar in ratemaking. PICGUG Exc. at 9, n. 30.

additional costs to serve these customers during peak days. PICGUG explains that although the Company does not incur additional costs to serve Rate IT customers on peak days, such customers implement and maintain procedures necessary for the Company, at its discretion, to interrupt Rate IT customers, and PGW does not have to incur excess capacity to serve these customers. PICGUG Exc. at 10 (citing PICGUG M.B. at 15). Further, PICGUG notes that while maintaining the requirements needed to receive interruptible service, Rate IT customers will be forced to remit rates based upon a firm service customer profile, thereby protecting the Company and its firm service customers through the ability to interrupt; and Rate IT subsidizing the firm rate classes by paying discriminatory rates. PICGUG Exc. at 10.

PICGUG also argues that, if Rate IT is to be treated as firm for purposes of PGW's ACCOSS, then requirements for mandatory interruption by Rate IT customers must be removed from PGW's tariff. PICGUG explains that, given that the Company retains the discretion to interrupt Rate IT going-forward, if Rate IT is treated as firm under PGW's ACCOSS, and PGW interrupts Rate IT in subsequent months, no course correction can occur for purposes of Rate IT, and the discrimination against Rate IT will continue. As such, PICGUG asserts that the ALJs' recommendation regarding the treatment of Rate IT under the Company's ACCOSS must be rejected, and the ACCOSS must be corrected to reflect Rate IT's continuing efforts to protect PGW's firm service customers. PICGUG Exc. at 10-11.

In its replies to PICGUG's Exception No. 2, PGW challenges the basis of PICGUG's argument that adoption of the ALJs' recommendations would result in discrimination against Rate IT customers. PGW R. Exc. at 6 (citing PICGUG Exc. at 9-11). PGW notes that the OCA's proposal to allocate the costs of mains to the IT classes based on average usage made no difference in the revenue allocation. PGW R. Exc. at 6 (citing PGW M.B. at 38-39).

In its replies to PICGUG Exception No. 2, the OCA contends that PICGUG's arguments regarding the treatment of the IT class are not supported by the facts. The OCA maintains that the IT class: (1) has been served during peak periods for the last twenty years; and (2) is significantly underpaying its cost to serve, even under the exclusion of the IT class from any peak period costs. Moreover, the OCA argues that the principles of cost causation require that some costs of mains be allocated to the IT class. Accordingly, the OCA submits that based on the record evidence, the ALJs' recommendation on this issue is well-supported and should be adopted by the Commission. OCA R. Exc. at 14 (citing OCA R.B. at 28-30; R.D. at 69; OCA St. 3 at 15).

In its replies to PICGUG Exception No. 2, the OSBA asserts that to treat Rate IT customers as firm service for cost allocation purposes, and to provide a rate discount that reflects the specific circumstances facing such customers, is reasonable. The OSBA argues that the Company's Rate IT customers: (1) have not been interrupted for nearly twenty years; and (2) are required to maintain alternative fuel capacity or otherwise demonstrate their interruptibility at an unknown cost to those customers. OSBA R. Exc. at 11 (citing PGW M.B. at 38; PICGUG M.B. at 9). Further, the OSBA contends that PGW has failed to present any credible evidence regarding any savings that the Company achieves through the interruptibility of Rate IT customers. OSBA R. Exc. at 11-12 (citing OSBA St. 1-SR at 7-8). Moreover, the OSBA challenges PICGUG's argument that the ALJs' treatment of Rate IT as firm for purposes of the ACCOSS, but as interruptible for purposes of the Company's tariff, would result in discrimination against Rate IT customers. Specifically, the OSBA contends that PICGUG's argument would have merit if the Company avoided costs associated with interruptible service, and if Rate IT were not discounted below firm service rates to reflect the interruptible value to other ratepayers. The OSBA continues that there is no evidence regarding the magnitude, if any, of the Company's savings associated with the interruptibility of Rate IT customers. As such, the OSBA notes that it supports the proposal of its witness, Mr. Knecht, that the

Company be required to present such analysis in its next base rate proceeding. OSBA R. Exc. at 11-12 (citing OSBA St. 1-SR at 7).

(b) PICGUG Exception No. 5 and Replies

In its Exception No. 5, PICGUG disagrees with the ALJs' reliance on the Company's proposed revenue allocation, arguing that the Company's revenue allocation is unreasonable and relies on a flawed ACCOSS. As such, PICGUG argues that the Commission must reject the ALJs' recommendation and modify the Company's ACCOSS. PICGUG Exc. at 15-16 (citing R.D. at 74).

PICGUG challenges the ALJs' conclusion that the Company's proposed revenue allocation is consistent with PGW's ACCOSS and aligns with the Company's goals of moving classes closer to the cost of service while considering the principles of gradualism. PICGUG Exc. at 16 (citing R.D. at 74). Specifically, PICGUG argues that application of the Company's ACCOSS would: (1) result in unreasonable rate discrimination for Rate IT customers because it adopts a value-of-service cost allocation for Rate IT customers instead of a cost of service allocation; (2) violate cost of service principles; and (3) require Rate IT customers to pay for firm service while continuing to receive fully-interruptible service, in accordance with the Company's tariff. PICGUG Exc. at 16 (citing PICGUG Exc. at 3-11). PICGUG adds that the Company's proposed revenue allocation fails to reflect the arguments supporting a customer-based classification for a portion of PGW's distribution mains expense. PICGUG Exc. at 16 (citing PICGUG Exc. at 11-14).

PICGUG also argues that if the Commission rejects the Company's proposal to allocate excess demand costs to interruptible customers, then the Company's current relative rate of return (RROR) from Rate IT customers of 2.06, when incorporating PICGUG's proposal to classify 20% of mains expense as customer-related, would increase the RROR for Rate IT to 2.52. PICGUG Exc. at 16-17 (citing PICGUG R.B. at 15). PICGUG points out that while no Party disputes that PGW will continue to reserve all rights to interrupt Rate IT customers, the ALJs' agreed with an ACCOSS depicting Rate IT customers as below cost of service and recommended allocating Rate IT an increase of 1.35x the system average. Accordingly, PICGUG argues that the Company's proposed revenue allocation results in unjust and unreasonable rate discrimination for Rate IT customers. PICGUG Exc. at 17.

In its replies to PICGUG Exception No. 5, PGW disagrees with PICGUG's argument that the revenue allocation proposal recommended by the ALJs, likewise, fails to reflect the need for a customer-based classification for a portion of distribution mains expense. PGW R. Exc. at 7 (citing PICGUG Exc. at 16-17). PGW counters that PICGUG has presented no alternative revenue allocation proposal to demonstrate which classes would absorb the portion of the rate increase that would be avoided by Rate IT. Further, PGW argues that PICGUG's proposal is based on a flawed cost of service study and, therefore, should be rejected. PGW R. Exc. at 7 (citing PGW R.B. at 33-34).

In its replies to PICGUG Exception No. 5, the OCA argues that other than proposing that the IT class should be assigned a rate increase, PICGUG sponsored no specific revenue allocation proposal. Further, the OCA notes that the ALJs evaluated and dismissed PICGUG's arguments regarding why the IT class should not be treated as receiving firm service and why a customer-demand ACCOSS should be adopted. The OCA argues that because the Company's ACCOSS was adopted as a guide to allocate revenue in this matter, the resulting revenue allocation is reasonable and supported by the record. Accordingly, the OCA argues that the Commission should adopt the ALJs' recommendation on this matter. OCA R. Exc. at 16 (citing PICGUG Exc. at 15-16; OCA R.B. at 32-33; PGW M.B. at 44; R.D. at 67, 69).

In its replies, the OSBA submits that PICGUG Exception No. 5 relies on the arguments set forth in PICGUG's Exception Nos. 1 and 2. As such, the OSBA refers to its replies to PICGUG Exception Nos. 1 and 2, *infra*. OSBA R. Exc. at 14.

b. Allocation of Mains to IT Classes

(1) Positions of the Parties

PGW's witness, Ms. Heppenstall, submitted that because IT class customers have only been interrupted once in nearly twenty years, they should be treated as firm customers who are supplied natural gas during peak periods. PGW R.B. at 29 (citing PGW St. 5-R at 4; PGW St. 5 at 5-6). Ms. Heppenstall provided that although the Company does not include interruptible load in its peak design day demand calculation, it does provide gas service during the period of Interruptible classes' peak day demand; and that service, therefore, should be reflected in the cost allocation. Accordingly, PGW submitted that its proposal to treat interruptible customers as firm for the purpose of allocating mains costs is reasonable based on the nature of the service that interruptible customers receive from PGW and, therefore, should be approved. PGW M.B. at 39 (citing PGW St. 5-R at 13).

Additionally, although PGW agreed with the OSBA and PICGUG that the Company's ACCOSS should utilize design day peak demands, PGW used historic peak usage because the data to determine the design day demands by customer class is unavailable. As such, PGW submitted that until such time as this data is available, this issue warrants no further review. PGW M.B. at 39-40 (citing PGW St. 5-R at 14; OSBA St. 1 at 30-31; PICGUG St. 1 at 15-16).

The OCA's witness, Mr. Watkins, submitted that the Company's proposal to treat interruptible customers the same as firm customers, meaning excess demands reflect

Interruptible peak day demands as if they were firm customers, is justified and should be accepted. Mr. Watkins explained that based on a comparison of the Company's proposed study to his P&A study, which treats the IT class as being interruptible by excluding peak costs, the IT class is substantially underpaying its cost to serve. As such, Mr. Watkins submitted that because the IT class has not been interrupted or curtailed in nearly twenty years and is relying on PGW's distribution system every day and during peak periods, the Company's AED ACCOSS, which treats the interruptible class as receiving firm service, is more-closely aligned with cost causation. OCA R.B. at 29-30 (citing OCA St. 3 at 12, 14-15).

The OSBA disagreed with the Company's proposal to treat Rate IT customers as firm for cost allocation purposes while not providing a dollar value associated with the interruptibility of such customers.[53] The OSBA noted that the Company did not provide a cost analysis demonstrating that Rate IT customers provide a benefit to firm service customers associated with avoiding costs. OSBA R.B. at 7 (citing OSBA St. 1-SR at 7). The OSBA asserted that interruptible service, as provided in Rate IT: (1) imposes costs on customers in that class that are not faced by firm service customers; and (2) can provide benefits to firm service ratepayers by deferring the need to expand the distribution system to meet peak loads. OSBA M.B. at 16 (citing OSBA St. 1-SR at 7-8; OSBA St. 1 at 29). Further, the OSBA criticized the Company's proposal to require the Rate IT customers to comply with the existing tariff language regarding alternative fuel or demonstrated interruptibility requirements, despite indicating that PGW has no expectation of interrupting these customers. OSBA R.B. at 7 (citing OSBA St. 1-SR at 7). Moreover, the OSBA opined that the Company should: (1) cease engaging in inconsistent ratemaking to prevent customer migration; and (2) begin setting the eligibility requirements and the tariff rates for the Rate IT class based on credible cost

[53] The OSBA noted that in its ACCOSS, the Company did not allocate any universal service costs to Rate IT, nor did it credit Rate IT with universal service revenues. OSBA M.B. at 16, n.19.

analysis and sharing the Universal Service and Energy Conservation (USEC) revenue requirement. OSBA R.B. at 7. Accordingly, the OSBA submitted that the Commission must require the Company to undertake an evaluation of the specific magnitude of avoided cost benefits associated with Rate IT customers. The OSBA added that if no such benefits are identified, the Company should begin transitioning these customers to firm service. OSBA R.B. at 8; OSBA M.B. at 17.

PICGUG submitted that the Commission must direct the Company to provide its design day demand by customer class in its next base rate proceeding. PICGUG argued that PGW's proposal to treat Rate IT customers as firm for cost of service purposes conflicts with PGW's acknowledgement that interruptible service customers should be excluded from assignment of costs from peak events, which comes from the Company's unsupported reliance on peak day demand to assign costs, which violates cost causation principles. PICGUG R.B. at 10. Further, PICGUG argued that the Company serving interruptible load on peak demand days "in no way alters the reality that PGW's Peak Design Day Demand does not include interruptible load." PICGUG R.B. at 10-11.

PICGUG also submitted that the Company's proposed ACCOSS should be modified to allow for 20% of the distribution mains costs, to be classified as a customer-related cost. PICGUG also submitted that alternatively, it would support the approval of the OSBA's proposed 25% per customer allocation. PICGUG's witness, Ms. Billie LaConte, determined that based on the principle of minimum investment, some portion of the facilities serving each customer is necessary regardless of the customer's demand. PICGUG R.B. at 11-12 (citing PICGUG M.B. at 18, 38). Further, PICGUG highlighted that the OSBA's witness, Mr. Knecht, found that it was necessary to account for economies of scale of extending the distribution to serve large customers relative to smaller customers and, as such, offered the zero-intercept method for calculating the per-customer component. PICGUG R.B. at 12 (citing OSBA M.B. at 15). Moreover, PICGUG argued that the allocation of distribution mains costs on a per-customer basis is consistent with accepted regulatory practice, including the National Association of Regulatory Utility Commissioners (NARUC) Gas Rate Design and Gas Distribution Rate Design manuals, and the Gas Rate Fundamentals published by the American Gas Association Rate Committee. PICGUG R.B. at 12-13 (citing PICGUG M.B. at 18-19).

(2) Recommended Decision

The ALJs agreed with the Company that, for cost allocation purposes, the Rate IT customers cannot be truly considered as interruptible, and accordingly, rejected PICGUG's proposal to set Rate IT's excess demand to zero. R.D. at 69.

(3) Exceptions and Replies

(a) PICGUG Exception No. 1 and Replies

In its Exception No. 1, PICGUG argues that the ALJs' recommendation to treat Rate IT as firm service for purposes of the ACCOSS rejects cost of service principles in favor of a value of service methodology. PICGUG Exc. at 3 (citing R.D. at 69). PICGUG counters that the ALJs' recommendation must be rejected and the Company's ACCOSS must be modified to remove the allocation of peak-related costs to Rate IT. Further, PICGUG argues that the Company does not have to supply gas to Rate IT customers during peak events because PGW maintains the right to interrupt Rate IT at its discretion, and for the protection of firm service customers. PICGUG Exc. at 3 (citing PICGUG M.B. at 9-12; PICGUG R.B. at 8-9).

PICGUG contends that the Company's proposed ACCOSS inappropriately allocates excess demand to Rate IT. PICGUG asserts that Rate IT customers are truly interruptible when, pursuant to PGW's tariff, such customers meet certain requirements in order to receive service and grant the Company the right to interrupt service for reliability purposes. Further, PICGUG notes that if the Company projects insufficient available capacity to meet the requirements of all of its customers, then, in accordance with the Company's tariff, Rate IT customers are subject to curtailment or interruption at any time and at the Company's discretion. PICGUG Exc. at 4 (citing PICGUG M.B. at 8-11). Moreover, PICGUG notes that Rate IT customers must maintain the ability to interrupt upon eight hours' notice through the use of alternative fuel equipment, which allows such customers to modify their operations without the use of natural gas during an interruption period. PICGUG Exc. at 4-5 (citing PICGUG M.B. at 9).

PICGUG also argues that the Company choosing not to interrupt Rate IT customers at its own discretion does not render Rate IT anything less than truly interruptible. PICGUG explains that PGW has not proposed any modifications to its tariff that would change the requirements for interrupting Rate IT and, in order to protect the gas supply of firm service customers going forward, the Company will continue to reap the benefit of reserving the right to curtail such customers. PICGUG Exc. at 5 (citing PICGUG M.B. at 9-10).

Additionally, PICGUG insists that Rate IT customers are not benefitting from their lower cost distribution system, but incur additional costs to maintain the requirements for interruption. PICGUG continues that the Company's excess capacity due to PGW not interrupting Rate IT for several years does not mean that the Company has incurred additional costs to serve its Rate IT customers.[54] PICGUG Exc. at 5-6 (citing R.D. at 69; PICGUG M.B. at 10-12). Further, PICGUG disputes the Company's

[54] PICGUG adds that it disagrees with the Company's current process of classifying 100% of mains costs as demand-related, and argues that 20% of the Company's mains costs should be classified as customer-related. Furthermore, as a point of clarification, PICGUG notes that its position regarding PGW's ACCOSS focuses on two arguments: (1) the allocation of peak demand costs for Rate IT; and (2) the classification of mains costs applied to all customer classes. PICGUG Exc. at 6, n. 19.

claim that Rate IT customers should not be excluded from being treated as firm service customers for cost allocation purposes when they incur the costs of being interruptible. PICGUG Exc. at 6 (citing R.D. at 69). Specifically, PICGUG points out that Rate IT customers agreed to implement processes to meet the Company's interruptible requirements in return for receiving cost-based interruptible rates. PICGUG continues that under the ALJs' recommendation, Rate IT customers would be required to remit the costs applicable to receiving firm service, thereby subsidizing the Company's actual firm service customers while continuing to comply with the Company's interruptible requirements, to the benefit of the Company's actual firm service customers. PICGUG Exc. at 6 (citing PICGUG M.B. at 8). Moreover, PICGUG argues that by recommending that Rate IT pay rates based upon firm service costs, the ALJs rejected Commission precedent and cost causation principles by finding that Rate IT should be charged based upon the value of the Company's service. PICGUG Exc. at 6-7 (citing R.D. at 69).

PICGUG also criticizes the ALJs' findings for purposes of determining the treatment of Rate IT under the Company's ACCOSS. Specifically, PICGUG notes that the ALJs did not indicate how interruptions must occur in a year for Rate IT to be considered interruptible, or how many years can pass without an interruption for Rate IT to be considered firm service. Further, PICGUG notes that the ALJs did not address how many or how often interruptions would need to occur in order to find that Rate IT is interruptible. Moreover, PICGUG notes the Company's proposal does not seek tariff modifications related to the requirements needed to receive interruptible service and, as such, Rate IT customers will still be required to maintain interruptibility and continue to remit firm-based rates regardless of the number of interruptions. PICGUG Exc. at 7.

In its replies to PICGUG Exception No. 1, PGW challenges PICGUG's argument that the ALJs' recommendation rejected cost of service principles. PGW R. Exc. at 5 (citing PICGUG Exc. at 3, 8). PGW restates the testimony of its witness, Ms. Heppenstall, that: (1) IT class customers have not been subjected to a gas supply interruption since 2004 and should be treated as firm customers who are supplied natural gas during peak periods; and (2) cost allocation should reflect the service that the Company provides during the period of interruptible classes' peak day demand.

PGW R. Exc. at 5 (citing PGW St. 5-R at 4, 13; PGW St. 5 at 5-6). Moreover, PGW disagrees with PICGUG's application of *Lloyd*, regarding cost of service as the "polestar of ratemaking." Specifically, PGW explains that here, the argument is centered on the appropriate allocation of costs and no Parties contend that cost of service principles should be ignored or given less weight than other factors. PGW R. Exc. at 5-6 (citing PICGUG Exc. at 4; *Lloyd*). PGW counters that, contrary to PICGUG's argument otherwise, the ALJs found that because IT customers receive the same service as firm customers, it is reasonable to allocate costs of mains to those customers. PGW R. Exc. at 6 (citing R.D. at 69).

In its replies to PICGUG Exception No. 1, the OCA argues that PICGUG's arguments regarding the treatment of the IT class are not supported by the facts. The OCA repeats that the IT class has been served during peak periods for the last twenty years. Further, the OCA maintains that currently, or based on the exclusion of any peak period costs, the IT class is significantly underpaying its cost to serve. Moreover, the OCA argues that the principles of cost causation require that some costs of mains be allocated to the IT class. Therefore, the OCA contends that based on the record evidence, the ALJs' recommendation on this issue is well supported and should be adopted by the Commission. OCA R. Exc. at 14 (citing OCA R.B. at 28-30; R.D. at 69; OCA St. 3 at 15).

In its replies to PICGUG Exception No. 1, the OSBA disagrees with PICGUG's argument that the ALJs inappropriately applied the principle of value of service to the allocation of costs to Rate IT. Specifically, the OSBA argues that there is little or no agreement as to what cost causation means for interruptible service on gas distribution mains. The OSBA explains that the cost associated with providing service to interruptible customers is largely dependent on: (1) the specifics of the distribution system; (2) the existing capacity on the distribution system; and (3) specific parameters under which to interrupt customers. OSBA R. Exc. at 10 (citing OSBA St. 1 at 14-15). Accordingly, the OSBA contends that it is a reasonable approach to allocate costs to the interruptible Rate IT class as if it were firm service, and then to provide a value of service discount to those rates to reflect the specific circumstances that apply at PGW. Additionally, the OSBA submits that value of service is a legitimate rate design creation. OSBA R. Exc. at 10-11 (citing OSBA St. 1 at 29).

(b) PICGUG Exception No. 3 and Replies

In its Exception No. 3, PICGUG argues that the ALJs should have recommended that the Company be required to classify 20% of its mains costs as customer-related, for purposes of PGW's ACCOSS. PICGUG Exc. at 11 (citing R.D. at 67-69). PICGUG questions the Company's proposal to allocate costs for all gas distribution mains, which deliver natural gas to end users, to customer classes through the AED method. Specifically, PICGUG argues that because gas distribution utilities must make minimum investments in facilities to connect customers to the gas delivery system, the investment is independent of the level of peak demand of the customer. PICGUG continues that, to the extent that this component of the distribution mains costs is a function of the requirement to connect the customer and support the deliverability of natural gas, regardless of the customer's size, allocating the cost of those facilities to service classes based on the number of customers is appropriate and consistent with cost causation. PICGUG Exc. at 11-12 (citing PICGUG M.B. at 17-18). Further, PICGUG repeats that allocating a portion of distribution mains costs on a customer basis is consistent with accepted regulatory practice. Moreover, PICGUG contends that PGW does not have any unique characteristics indicating that the same cost causation principles generally applicable to all other LDCs should not be applied to the Company. PICGUG Exc. at 12-13 (citing PICGUG M.B. at 17-19).

PICGUG maintains that based on the data provided by the Company in this proceeding and the last base rate proceeding, approximately 20% of the Company's distribution mains should be classified as a customer-related cost. Further, PICGUG argues that the Company's inability to provide adequate information, which is the basis for PICGUG's 20% estimate, should not be the basis for rejecting a modification to the Company's ACCOSS. PICGUG Exc. at 13 (citing R.D. at 67; PICGUG M.B. at 20). Moreover, PICGUG points out that the ALJs' did not find PICGUG's proposal, nor the OSBA's 25% proposal through the zero-intercept method, inappropriate. As such, PICGUG contends that the Commission should reject the ALJs' recommendation and require that the Company: (1) classify approximately 20% to 25% of its mains costs as customer-related; and (2) in its next base rate proceeding, provide additional information to ensure that this issue is fully developed and analyzed to achieve a specific classification percentage. PICGUG Exc. at 13-14 (citing OSBA M.B. at 15).

In its replies to PICGUG Exception No. 3, PGW argues that the ALJs explained why they rejected PICGUG's proposal, including: (1) the Commission previously rejected PICGUG's proposed approach to classify a portion of mains as customer-related; and (2) the Parties that advocated for use a customer-demand method did not fully develop their proposed weightings to the customer and demand functions, or otherwise justify a departure from the Company's method. PGW also counters that 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. PGW R. Exc. at 7 (citing PICGUG Exc. at 11-14; PGW M.B. at 36; PGW St. 5 at 3).

In its replies to PICGUG Exception No. 3, the OCA repeats that the Commission has consistently rejected the theory of assigning the cost of distribution mains based on the number of customers. Further, the OCA argues that Commission precedent and PGW's past litigated rate cases weigh against the use of a CD ACCOSS. Moreover, the OCA points out that PICGUG has not cited to one case in support of its proposed CD method. Accordingly, the OCA contends that the ALJs' recommendation is consistent with Commission precedent, supported by the facts, and should be adopted. OCA R. Exc. at 15 (citing OCA R.B. at 26; OCA M.B. at 53-56; OCA St. 3R at 4-5).

In its replies to Exceptions, the OSBA notes that it does not disagree with PICGUG's Exception No. 3. OSBA R. Exc. at 13.

(c) PICGUG Exception No. 4 and Replies

In its Exception No. 4, PICGUG argues that the ALJs overlooked the Company's reliance on peak day demand data to calculate excess demand for the ACCOSS. PICGUG Exc. at 14 (citing R.D. at 68-69). PICGUG contends that while the Company agreed with PICGUG and the OSBA that peak design day demand is the appropriate metric to assign costs for an ACCOSS, PGW claimed that peak design day demand data is unavailable and the ALJs erred by offering no analysis or recommendation on this issue. As such, PICGUG stresses its position that the Commission should direct the Company to provide peak design demand data by customer class in its next base rate case. PICGUG Exc. at 14-15 (citing R.D. at 68, 74; PICGUG R.B. at 10; PGW M.B. at 39).

In its replies to PICGUG Exception No. 4, PGW repeats that historic peak usage was used because the data to determine the design day peak demands by customer class was unavailable and, until such time as this data is available, further review of this matter is not warranted. PGW Exc. at 7 (citing PICGUG Exc. at 14-15; PGW M.B. at 39-40; PGW St. 5-R at 14).

(4) PICGUG Motion to Strike, Answer, and Disposition

(a) PICGUG Motion, PGW Answer, and OSBA Answer

In its Motion to Strike, PICGUG argues that in their Reply Exceptions, the OSBA and PGW present a new extra-record rate analysis, and a new legal argument, respectively. PICGUG contends that to allow PGW and the OSBA to present new arguments in the Reply Exceptions stage would be prejudicial to PICGUG and would violate PICGUG's due process rights. PICGUG Motion at 3 (citing OSBA R. Exc. at 13; PGW R. Exc. at 6).

PICGUG argues that the Commission has held that new evidence is generally not admissible during the Exceptions stage because it deprives parties of the opportunity to test the reasonableness of the new evidence or to present evidence in response. PICGUG Motion at 3 (citing *Pa. P.U.C. v. Pennsylvania Gas and Water Company Water Division*, 1988 Pa. PUC LEXIS 511, at 10). Specifically, PICGUG notes that in *Pa. PUC v. National Fuel Gas Distribution Company*, 1986 Pa. P.U.C. LEXIS 25 (Pa. PUC 1986) (*NFGDC*), the Commission found that the parties did not have an opportunity to test or respond to updated data presented by the utility at the Exceptions stage and thus declined to consider that update. *Id.* (citing *NFGDC* at 63). Further, PICGUG refers to *Enron Capital & Trade Resources Corporation v. The Peoples Natural Gas Company, et al.*, Docket No. R-00973928C0001, 1998 Pa. PUC LEXIS 199 (August 24, 1998) (*Enron CTR*) to argue that the Commission has held that the use of post-hearing documents to present new evidence in a contested proceeding is a violation of due process. *Id.* (citing *Enron CTR*).

PICGUG contends that the OSBA, in response to PICGUG's arguments, presents new evidence in the form of a rate analysis table not previously introduced on the record or in this proceeding. PICGUG Motion at 4 (citing OSBA R. Exc. at 10-13). PICGUG explains that although the OSBA cites to its electronic workpaper, RDK WP3, neither the new rate analysis table presented in the OSBA's Reply Exceptions, nor the calculations and assumptions underlying the new rate analysis, are included in the cited document. *Id.* (citing OSBA R. Exc. at 12-13; OSBA St. 1, Exh. RDK-2; Tr. at 410). Moreover, PICGUG argues that because the OSBA offers this new rate analysis comparison for the first time in its Reply Exceptions, PICGUG has not had an opportunity to: (1) issue discovery or cross-examine the OSBA's witness on whether the methods and assumptions applied to develop this analysis are just and reasonable; and (2) investigate the parameters or methods applied to determine what the OSBA considers to be an "average" customer. PICGUG Motion at 4-5 (citing OSBA R. Exc. at 12-13).

PICGUG also argues that consideration of the OSBA's new offer of evidence at this stage would constitute a violation of PICGUG's due process rights. PICGUG asserts that if leave to respond to the OSBA's extra-record analysis were granted, then PICGUG would be unable to interpret or analyze the calculations without discovery and an opportunity for cross-examination. Further, PICGUG argues that although the OSBA had sufficient opportunities to provide its rate analysis table and accompanying argument in several rounds of testimony, the OSBA is now attempting to present this evidence under the appearance of proffering evidence for consideration by the Commission. Accordingly, PICGUG submits that: (1) the OSBA's attempt to present new evidence at this stage must be rejected; and (2) consistent with past precedent, the Commission should grant PICGUG's Motion and disregard the extra-record rate analysis offered by the OSBA. PICGUG Motion at 5.

With regard to PICGUG's position that PGW raises a new argument in its Reply Exceptions, PICGUG argues that similar to the preclusion against extra-record evidence, a party cannot raise new legal arguments that it failed to raise in its Main Brief during the Exceptions stage of a proceeding. PICGUG Motion at 5-6 (citing *Pa. P.U.C.*

v. Mechanicsburg Water Company, 1993 Pa. PUC LEXIS 112 (Pa. P.U.C. July 22, 1993) (*MWC*) at 164). Further, PICGUG notes that contrary to the Company's argument in support of its ACCOSS as consistent with cost of service principles, PICGUG has continually argued that the Company's ACCOSS discriminates against Rate IT customers, in violation of Section 1304 of the Code. PICGUG Motion at 6 (citing PICGUG R.B. at 9; PICGUG M.B. at 15, B-1; PGW R.B. at 30-31, 33-34; PGW M.B. at 38). However, PICGUG notes that in response to PICGUG's Exceptions, PGW, for the first time, raises the argument that cost allocation methods cannot be unreasonably discriminatory because Section 1304 applies only to rates. *Id.* (citing PGW R. Exc.at 6). Moreover, PICGUG notes that PGW does not offer citations to the record for this new legal argument, which PGW failed to raise in its Main Brief or Reply Brief. Furthermore, PICGUG argues that by presenting this legal argument in its Reply Exceptions, PGW attempts to violate PICGUG's due process rights. PICGUG asserts that by waiting until the Reply Exceptions stage of this proceeding, PGW ensured that PICGUG would have no opportunity to respond. Accordingly, PICGUG submits that the Commission should grant PICGUG's Motion and disregard PGW's late argument. *Id.*

Additionally, PICGUG notes that if the Commission denies PICGUG's Motion, PICGUG alternatively requests leave to respond. PICGUG also notes that if the Commission considers PGW's argument (*i.e.*, that Section 1304 applies only to rates and not cost allocation), PGW's argument should be dismissed for lack of any legal support or basis in law. PICGUG Motion at 6-7 (citing 66 Pa. C.S. § 102).

In its Answer, PGW disagrees with PICGUG's position that Section 5.501 of the Commission's regulations and the Commission's decision in *MWC* support striking the Company's legal argument regarding the inapplicability of Section 1304 of the Code to the Company's proposed cost allocation method. PGW Answer to PICGUG Motion at 4 (citing 66 Pa. C.S. § 1304; 52 Pa. Code § 5.501). Specifically, PGW argues that it complied with the requirements of Section 5.501(a) by setting forth its position regarding the allocation of costs to interruptible customers with specific references to record evidence. PGW Answer to PICGUG Motion at 4-5 (citing PGW M.B. at 35-40; PGW St. 5-R at 4, 13; PGW St. 5 at 5-6; 52 Pa. Code § 5.501(a)). Further, PGW questions PICGUG's reliance on *MWC* and Section 5.501, arguing that neither preclude a party from advancing specific legal angles in their exceptions that may not have been expressly stated in prior pleadings. PGW Answer to PICGUG Motion at 5-6 (citing PGW R.B. at 29-31; *Ackie, et al. v. Philadelphia Gas Works*, Docket No. C-2019-3013933 (Initial Decision issued September 2, 2021) at 10, (Opinion and Order entered September 15, 2022); 52 Pa. Code § 5.501)). Moreover, PGW contends that by PICGUG arguing that adoption of the ALJs' recommendation to approve the Company's method for allocating the costs of distribution mains to interruptible customers would violate Section 1304, it "opened the door for the filing of a reply by PGW." PGW Answer to PICGUG Motion at 6 (citing PICGUG Exc. at 8-11; 66 Pa. C.S. § 1304). PGW continues that its arguments in response to PICGUG's Exception No. 2 are consistent with its position that a fair and reasonable way to allocate distribution mains costs is to treat the Rate IT classes as receiving firm service that they receive. PGW Answer to PICGUG Motion at 6-7 (citing PGW R. Exc. at 6). Additionally, PGW notes that its argument regarding the inapplicability of Section 1304 of the Code to cost allocation methods was similar to the Commonwealth Court's decision in *Lloyd*, in that PGW contended that PICGUG is improperly seeking to rely on principles that are applicable to rates to evaluate the Company's approach to cost allocation. PGW Answer to PICGUG Motion at 7 (citing PGW R.B. at 31; *Lloyd*; 66 Pa. C.S. § 1304).

PGW maintains that it is advantageous for Rate IT customers to receive lower distribution rates given their interruptible status, adding that allocating the costs of mains to rate IT classes based on their average usage will make no difference in the revenue allocation. Accordingly, PGW contends that because PICGUG has not demonstrated that the Company's proposed cost allocation method unreasonably disadvantages or discriminates against Rate IT customers, the Company's proposal should be approved. PGW Answer to PICGUG Motion at 7-8 (citing PGW M.B. at 38-39).

In its Answer, the OSBA admits, in part, and denies, in part, various material allegations in PICGUG's Motion. The OSBA, essentially, challenges PICGUG's claims regarding the recognition and use of record evidence by the Company and the OSBA. As such, the OSBA requests that the Commission deny PICGUG's Motion. OSBA Answer to PICGUG Motion at ¶¶1-9 (citing PICGUG Motion at 4; OSBA M.B. at 16-17; OSBA St. 1 at 29).

(b) Disposition of Motion

Upon review, we shall grant PICGUG's Motion. We agree with PICGUG that the OSBA's Reply Exceptions acknowledge and make use of extra-record material in an attempt to advance arguments not previously made and factual evidence not of record; specifically: (1) the discussion on page 12, beginning with, "[h]owever, regarding the purportedly discriminatory rates, OSBA offers the following comparison of rates . . ." through page 13, ending with, "[s]urely an 84 percent rate discount is more than sufficient . . ." which does not include any citations to the evidentiary record; and (2) a table on page 13 titled "PGW Proposed Rates for Industrial Customers" that was not previously entered into the record.[55] *See,* OSBA R. Exc. at 12-13.

We will disregard the extra-record material, specifically, the table titled "PGW Proposed Rates for Industrial Customers" and the associated language on pages 12-13 of the OSBA's Reply Exceptions, as consideration of this extra-record information and accompanying new arguments would violate the due process rights of

[55] We note that, based upon our review, we find no reason to reopen the record at this stage, pursuant to 52 Pa. Code § 5.571(d)(2).

the other Parties to this proceeding. It is well-established that parties cannot raise new arguments and introduce new evidence at the exceptions stage. *Hess* at 265-66*;* *Apollo Gas* 1994 Pa. PUC Lexis, at *8-14. The record closed on or about August 7, 2023, upon the filing of Reply Briefs. To allow the OSBA's new arguments and evidence, including the table titled "PGW Proposed Rates for Industrial Customers," at this late stage in the proceeding would deprive the other Parties to this proceeding of the opportunity to respond to the evidence and the arguments based on it. *See, Hess* at 267. Therefore, we will grant PICGUG's Motion to Strike, and we will not consider the extra-record material and arguments referenced by the OSBA in its Reply to PICGUG Exception No. 2.

Regarding PICGUG's position that PGW improperly raises a new argument in its Reply Exceptions, upon review, we agree with PICGUG, and shall strike the argument as improperly raised for the first time in the Exceptions stage of the proceeding. *See*, *MWC* at 164. In addition, we note that PICGUG's position that PGW's ACCOSS discriminates against Rate IT customers, in violation of Section 1304 of the Code, is an argument which ultimately raises an issue of discrimination *in rates*, which are predicated upon the Company's ACCOSS, which PICGUG alleges to be discriminatory. Without regard to the merits of PICGUG's position on the issue, it is certainly a matter within the Commission's discretion to determine whether, as a matter of fact, the Company's proposed ACCOSS results in rates which result in an unreasonable preference to one class, or an unreasonable detriment to another. *See*, *Peoples Natural Gas Co. v. Pa. PUC*, 409 A.2d 446 (Pa. Cmwlth 1979) (the determination of discrimination in rates is a matter within the authority of the Commission based upon what is reasonable in the circumstances). It is possible to conclude that, in the given circumstances of a proceeding, a company's proposed ACCOSS, as applied, results in rates which are discriminatory to one class over another.

Therefore, we will disregard and reject the arguments raised by PGW for the first time in the Reply Exceptions stage of this proceeding, that a violation of Section 1304 cannot be established based upon a claim that the Company's proposed ACCOSS is discriminatory.

c. Disposition of ACCOSS Methodology and Allocation of Mains to IT Classes

The selection of the appropriate ACCOSS in this proceeding centers on whether PGW's revenue requirement, or total costs of service, should be allocated based on: (1) 50% weighted average demand and 50% excess demand; or (2) 50% average demand and 50% peak demand. The Parties that do not challenge the Company's proposed AED methodology are PGW, I&E, and the OCA. The OSBA supports the use of the CD method but did not object to PGW's proposal. Similarly, PICGUG supports the use of the CD method, but disagreed with the Company's treatment of Rate IT customers in the ACCOSS. Specifically, PICGUG argues that contrary to cost causation principles, PGW's ACCOSS treats interruptible customers as firm while requiring those customers to perform as interruptible for purposes of receiving service.

In its Exceptions, PICGUG, essentially, disagrees with the treatment of Rate IT customers as firm for purposes of the ACCOSS, and interruptible for purposes of the Company's tariff. PICGUG argues that the allocation of excess demand to Rate IT is inappropriate because, pursuant to PGW's tariff, such customers are truly interruptible when they meet certain requirements for service and, in return, the Company has the right to interrupt their service for reliability purposes. PICGUG adds that PGW has no obligation to serve interruptible customers. In short, PICGUG argues that interruptible customers are interruptible because they are subject to interruption, regardless of whether an interruption took place. Further, PICGUG contends that the Company's proposed ACCOSS discriminates against interruptible customers because it adopts a value-of-service cost allocation, thereby violating cost of service principles. Accordingly, PICGUG argues that the Company's proposed ACCOSS must be modified to remove the allocation of peak-related excess demand costs from the Rate IT class. PICGUG Exc. at 3-5, 8-9, 16.

Additionally, PICGUG argues that based on the record data in the instant proceeding and the last base rate proceeding, approximately 20% of the Company's distribution mains should be classified as a customer-related cost. PICGUG contends that gas distribution utilities must make minimum investments, which are independent of the level of customer peak demand, in facilities to connect customers to the gas delivery system, and, to the extent that this component of the distribution mains costs is a function of the requirement to connect the customer and support the delivery of natural gas to any size customer, allocating the cost of those facilities to service classes based on the number of customers is appropriate, and consistent with cost causation. PICGUG Exc. at 11-13 (citing PICGUG M.B. at 17-18, 20).

Based on a review of the respective advocates' arguments in support of the record ACCOSSs before us, we believe that the Company's proposed AED methodology is reasonable and best suited for this proceeding. We agree with the ALJs, PGW, and the OCA that the use of the AED methodology generally adheres with prior Commission directives. Indeed, Commission precedent, including the proceeding for the *2007 PGW Rate Case*, and the recent proceeding in *Columbia 2021*, weigh against the idea that mains costs include a customer component. Further, we agree with the ALJs that the Parties advocating for the CD method did not sufficiently justify a departure from the AED method, nor did they develop weightings for the use of the CD method.

To the extent that PICGUG challenges PGW's treatment of the interruptible/Rate IT customer class through its proposed ACCOSS, we agree with the ALJs that for cost allocation purposes, interruptible customers are not truly interruptible.

Further, we find the testimony of the OCA's witness, Mr. Watkins, more persuasive. Specifically, Mr. Watkins testified that PICGUG's position that interruptible customers should not be responsible for peak demand associated with distribution mains will result in a significant under-assignment of cost responsibility to interruptible customers. Mr. Watkins also testified and provided evidence supporting that interruptible customers rely on the Company's distribution system every day and have not been interrupted for nearly twenty years. Moreover, based on Mr. Watkins' analysis, including his P&A study where the interruptible customers include average day demands but the peak component is zero, Rate IT is substantially underpaying its cost to serve. As noted by the OCA, because the interruptible class of customers has not been interrupted in nearly twenty years, it is using the Company's distribution system during peak periods. OCA R.B. at 30. Accordingly, we agree with the OCA that PGW's AED ACCOSS, where the IT class is treated as receiving firm service, more closely aligns with cost causation.

Regarding the design of PGW's distribution system, we find PGW's argument and the testimony of PGW's witness, Ms. Heppenstall, more compelling. As discussed earlier, the Company's ACCOSS AED method is a weighted average of an average demand allocation factor and an excess demand allocation factor. PGW M.B. at 36 (citing OSBA St. 1 at 24). Ms. Heppenstall testified that PGW's distribution system is designed to meet the design day demands of its customers, warranting treatment of the cost of excess capacity as a primary cost driver rather than as an incremental cost. Ms. Heppenstall further testified that the AED methodology was used and approved in the Company's last fully litigated rate case, and the weighting of the demand allocation factors are based on the Commission precedent of allocating 50% on average daily usage and 50% to excess above average daily usage. PGW St. 5-R at 3 (citing *2007 PGW Rate Case* at 120-24); PGW St. 5 at 5. In response to PICGUG's recommendation that the interruptible classes' excess demand be set to zero because interruptible customers are technically interruptible, Ms. Heppenstall explained that the interruptible customer class should be treated the same as firm customers in the cost of service study because their gas supply has not been interrupted for over twenty years. PGW St. 5-R at 13 (citing PICGUG ST. 1 at 12-13). Ms. Heppenstall continued, "[e]ven though PGW does not include interruptible load in calculating its peak design day demand, PGW does provide gas during the period of Interruptible classes' peak day demand. Therefore, the cost allocation should reflect that service." PGW St. 5-R at 13 (emphasis omitted). We agree. Accordingly, we find that the Company's proposed AED methodology most closely aligns with the principles of cost causation in this instance. Therefore, we will deny PICGUG's Exception Nos. 1, 2, 3, and 5.

Regarding PICGUG's argument that PGW must be directed to provide peak day demand by customer class in its next base rate proceeding, we find that PICGUG has failed to provide sufficient analysis to support such a requirement. Moreover, we disagree with PICGUG's argument that PGW's reliance on peak day demand to assign costs violates cost causation principles. Therefore, we shall deny PICGUG's Exception No. 4.

d. Allocation of Universal Service Program Costs

(1) Positions of the Parties

PGW submitted that the USEC surcharge funds programs for: (1) low-income customers to provide assistance in paying their gas bills; (2) the senior discount; and (3) the Company's Low Income Usage Reduction Program (LIURP). PGW M.B. at 60 (citing PGW St. 6-R at 26). Further, PGW submitted that consistent with long-standing Commission-approved practice, universal service program costs are allocated to residential and non-residential customers through the USEC surcharge. PGW R.B. at 32 (citing PGW M.B. at 40-41). Moreover, PGW asserted that although the USEC surcharge is a non-base rate revenue that does not impact the revenue requirement in this case, it does affect the revenues collected from each customer class and should affect Vicinity's customers, regardless of whether the customers take firm or interruptible service.[56] PGW M.B. at 60 (citing PGW St. 9-R at 36).

PGW asserted that the USEC surcharge methodology has been consistently approved by the Commission and should not change. PGW M.B. at 41 (citing PGW St. 6-R at 27). PGW further asserted that its witness, Mr. H. Gil Peach, set forth the various rulings of the Commission over the past twenty years endorsing the current practice of recovering universal service costs from all non-residential customers, excluding Rate IT, through this surcharge. PGW M.B. at 41 (citing PGW St. 9-R at 35). Accordingly, PGW submitted that the Commission should approve the Company's current cost allocation method. PGW M.B. at 41.

The OCA disagreed with the OSBA's recommendation, *infra,* that USEC charges should be recovered on a flat rate basis, arguing that the OSBA failed to provide sufficient evidence supporting a change in how USEC costs are allocated and recovered. Accordingly, the OCA submitted that the OSBA's proposal is incomplete, lacks sufficient evidentiary support, and should be rejected. OCA R.B. at 30-32 (citing OSBA M.B. at 23); OCA M.B. at 61-62 (citing PGW St. 6-R at 27).

The OSBA submitted that although it accepted the Company's practice of recovering universal service costs from all customer classes through the USEC surcharge, it opined that universal service costs should only be assigned to the classes that are eligible for the benefits of universal service, namely residential customers. OSBA R.B. at 8-9; OSBA M.B. at 18, 21 (citing OSBA St. 1 at 32). Further, the OSBA's witness, Mr. Knecht, submitted that the Company's current methodology is not equitable because it imposes a flat per-million cubic feet (MCF) charge for the classes that are subject to the

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[56] PGW noted that it accepted a proposal by the OSBA to lower the USEC surcharge recovery of this rate class to $290,000. PGW M.B. at 60.

imposition of the universal service costs. As such, Mr. Knecht recommended that universal service costs be allocated and recovered based on a percentage of base rates that, in effect, is a flat percentage markup for all rate classes. OSBA St. 1 at 32-34.

PICGUG submitted that the OSBA has not provided any credible or persuasive basis for the Company to expand the recovery of universal service plan costs to interruptible customers. PICGUG asserted that the arguments advanced by the OSBA lack context and are fundamentally inconsistent with the Commission's existing policies for cost recovery of low-income programs. Accordingly, PICGUG submitted that the Commission should not assign any of the Company's universal service plan costs to Rate IT and should direct the Company to continue recovering its low-income program costs from firm sales customers. PICGUG R.B. at 13-14 (citing OSBA M.B. at 21, 23); PICGUG M.B. at 26-27 (citing OSBA St. 1 at 33-34).

Vicinity submitted that it is not eligible to receive USEC program assistance because there is no cost basis. Accordingly, Vicinity submitted that it should not be assessed the USEC surcharge. Vicinity M.B. at 27-28.

CAUSE-PA/TURN submitted that the Company's USEC surcharge should be recovered from all customers, regardless of rate class. CAUSE-PA/TURN contended that, in *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2017-2586783 (Opinion and Order entered November 8, 2017) (*2017 PGW Rate Case*), the Commission: (1) affirmed the Company's policy of requiring all customers to contribute to the public purpose cost of ensuring that all customers can access and maintain gas service allocation of USEC costs; and (2) recognized the benefits of universal service programs to non-residential customers. CAUSE-PA/TURN R.B. at 6-7 (citing *2017 PGW Rate Case* at 74).

(2) **Recommended Decision**

The ALJs recommended that the Commission approve the Company's proposed allocation of universal service program costs. The ALJs found that the Company's allocation of the USEC surcharge to all classes is consistent with the Commission-approved practice of allocating universal service program costs to residential and non-residential customers. The ALJs also found that there is insufficient evidence in this proceeding to make a change of the magnitude suggested by the OSBA as to how the Company's USEC program costs are charged to the various classes. The ALJs also disagreed with Vicinity's recommendation that it should be exempt from contributing to the program funding when other small, medium, and large business customers (except those under the Rate IT class) are similarly ineligible for USEC benefits but must contribute to the fund. Additionally, the ALJs found that the proposed USEC surcharge to Rate GS-XLT of $290,000 is both reasonable and equitable. R.D. at 71.

(3) **Disposition**

No Party filed Exceptions on this issue. Finding the ALJs recommendation to be reasonable, and supported by substantial evidence in the record, we adopt it without further comment.

2. **Revenue Allocation**

a. **Positions of the Parties**

PGW submitted that the Commission should adopt the Company's proposed revenue allocation because it closely aligns with the results of the Company's ACCOSS, which is consistent with prior Commission directives. PGW provided that the

Company's proposed revenue allocation seeks to move the rate classes closer to their full cost of service without applying an unreasonably large portion of the increases to any one customer class. Further, PGW provided that it recognizes the principle of gradualism by proposing lower increases for some classes despite the higher costs incurred by PGW to serve those classes. Moreover, PGW asserted that its proposal for allocating revenues among customer classes constitutes a reasonable application of the ACCOSS results, and the ACCOSS schedules demonstrate that the Company is moving toward unity in its proposed rate design. PGW R.B. at 33-34 (citing PGW M.B. at 41-43; PGW St. 6 at 10; PGW St. 5 at 7).

PGW's proposed revenue allocation is reflected in Table 9, below, as follows:

Table 9 PGW's Proposed Revenue Allocation[57]

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

PGW M.B. at 42. PGW's initially proposed revenue allocation is shown in the columns labeled "Original Increase (000$)" and "Original Percent Increase." *Id.* Subsequently,

57 In Table 9, GFCP/VEPI refers to Vicinity.

PGW's witness, Mr. Florian Teme, revised the proposed revenue allocation to reflect proposed revenue from Vicinity, under the new Rate GS-XLT, thereby producing increases by class, as shown in the columns labeled "Revised Increase (000$)" and "Revised Percent Increase." *Id.* (citing PGW St. 6 at 9; PGW St. 6-SD at 1-3; PGW Exh. FT-5). Further, PGW noted that the column labeled "Share of Increase" reflects share of the overall revenue allocation at proposed rates after the proposed revenue for Rate GS-XLT was included. *Id.* Moreover, PGW provided that the percent increase for GS-XLT is based on Vicinity's HTY revenues as part of the rate case, as Vicinity has been served under a contract since 1996, with prices remaining the same during that time. PGW M.B. at 42 (citing PGW St. 6 at 11).

PGW's witness, Mr. Teme, noted that the original allocations of the proposed rate increase constituted a reasonable application of the revenue allocation guidelines followed by the Company. As previously noted, Schedules B and C of PGW Exhibit CEH-1 show PGW's ROR by customer class under present rates, and the ROR by customer class under the proposed rates, respectively. Schedule G of the same exhibit shows the calculation of customer costs by class, reflecting both the results of a fully allocated customer cost of service and a direct customer cost analysis. PGW's witness, Ms. Heppenstall, asserted that these schedules demonstrate that the Company is moving toward unity in its proposed rate design. PGW M.B. at 43 (citing PGW St. 5 at 7; PGW Exh. CEH-1).

Furthermore, PGW noted that although the Company did not change the proposed revenue requirements, the inclusion of proposed revenues from Rate GS-XLT resulted in reductions to the proposed rate increases for all classes other than IT. Mr. Teme explained that the originally proposed increase to Rate IT did not bring the class to cost under the Company's ACCOSS and, therefore, it would be inappropriate to allocate a portion of the additional revenue from Rate GS-XLT to Rate IT. PGW M.B. at 43 (citing PGW St. 6-SD at 2-3).

The OCA submitted that its witness, Mr. Watkins, found the Company's proposed revenue allocations were reasonable. Notwithstanding, Mr. Watkins expressed concern about the residential rate class ROR being higher than the commercial class, while the Company proposed a smaller percentage increase to the commercial class than the residential class. As such, Mr. Watkins recommended equal percentage increases to the residential and commercial classes. OCA M.B. at 58-59 (OCA St. 3 at 20-21). Therefore, the OCA submitted that its recommended revenue allocation should be accepted because it reasonably moves all classes toward cost of service and follows an acceptable ACCOSS method. OCA R.B. at 35.

The OSBA submitted that its witness, Mr. Knecht, developed a revenue allocation proposal that reflects the results of both the reassignment of USEC costs and the allocation of the base rate increase, the impacts of which balances with consideration of the principle of rate gradualism. OSBA M.B. at 27 (citing OSBA St. 1-SR at 15). Further, the OSBA provided that based on Mr. Knecht's analysis, the differences across the rate classes are relatively modest and provide a reasonable range for revenue allocation. OSBA M.B. at 27 (citing OSBA St. 1 at 44). Moreover, the OSBA added that when compared to the Company's various proposals, Mr. Knecht's allocation of rate increase to Rate GS-XLT is relatively modest because it is the OSBA's position that the revenues associated with Alternative Receipt Service (ARS) to Vicinity should be credited to Gas Cost Rate (GCR) customers who pay for the capacity used to provide such service. OSBA M.B. at 27.

PICGUG submitted its opposition to PGW's revenue allocation because it is based on the Company's ACCOSS, which treats interruptible customers as firm service customers even though, in accordance with PGW's tariff, such customers must invest additional costs in preparation for curtailment. Specifically, PICGUG's witness, Ms. LaConte, provided that the Company's ACCOSS substantially inflates the cost of providing gas delivery service to the Rate IT class, thereby resulting in rates that are not reflective of each class's true cost to serve. Further, Ms. LaConte asserted that the Company's proposed revenue allocation does not properly recognize Rate IT for purposes of receiving any benefits from the revenues from Vicinity. PICGUG St. 1 at 26-28. Moreover, Ms. LaConte averred that Rate IT is substantially above its allocated cost of service and providing a ROR that is substantially higher than the ROR that the Company is seeking. Accordingly, Ms. LaConte submitted that: (1) if the Commission approves a full rate increase for PGW, then Rate IT should receive no rate increase; (2) the revenues recovered from Vicinity should be allocated based on total base rate revenues for all rate classes, including Rate IT; and (3) if the Commission were to approve a lower increase for the Company, then the first $1 million of that reduction should be allocated to Rate IT, and thereafter, applied proportionately to each rate class. Additionally, Ms. LaConte submitted that if the Commission approves the Company's ACCOSS, then the increase to Rate IT should not exceed the approved system average increase. PICGUG St. 1 at 29-30.

b. Recommended Decision

The ALJs found that PGW's revenue allocation proposal is consistent with the Company's ACCOSS and aligns with the Company's goals of moving classes closer to the cost of service, while considering the principle of gradualism. Therefore, the ALJs recommended that the Commission adopt PGW's proposed revenue allocation. R.D. at 74.

c. Disposition

No Party filed Exceptions on this issue. Finding the ALJs' recommendation to be reasonable, and supported by substantial evidence in the record, we adopt it without further comment.

3. Rate Design

a. Scale Back

(1) Positions of the Parties

PGW argued that its proposed customer charges should be adopted and, if necessary, should be scaled back only to collect the ultimately permitted rate increase from a specific class. PGW St. 6-R at 14. PGW took the position that departing from the standard proportional scale back for Rate IT is not justified. Accordingly, PGW submitted that, if the Commission approves a lower revenue increase than requested by the Company, then the traditional proportional scale back approach, excluding the Rate GS-XLT class, should be used. PGW also submitted that if the residential rate class is above unity after implementation of this approach, then the scale back should be modified to maintain the residential rate class at, or below, unity.[58] PGW M.B. at 45-46 (citing PGW St. 6-R at 18-19).

I&E's witness, Mr. Ethan Cline, recommended that, if the Commission approves a rate increase lower than PGW requested, then the first $7,000,000 be allocated solely to the residential class, and the customer charges and usage rates for the residential class and each remaining customer class that has an increase proposed, except Rate GS-XLT, be scaled back proportionately to the percentage increase shown for each class in I&E Exhibit No. 3, Schedule 3, which is reproduced in Table 10, as follows:

[58] The term "unity" is the same as having a RROR of 1.0. I&E St. 3-SR at 9 (citing PGW St. 6-R at 18-19).

Table 10: I&E Exhibit No. 3, Schedule 3

PHILADELPHIA GAS WORKS (R-2023-30379330)
TOTAL PGW SALES, TRANSPORTATION, AND REVENUE
FIRST $7,000,000 To The Residential Class

		Present	Increase	Proposed	Percent Increase
	(A)	(B)	(C)	(D)	(E)
	OPERATING REVENUES				
1	Residential	$351,525,688	$57,135,573	$408,661,261	16.3%
2	Commercial	$61,799,334	$10,306,930	$72,106,264	16.7%
3	Industrial	$4,919,783	$911,817	$5,831,600	18.5%
4	Municipal	$4,872,791	$1,354,563	$6,227,354	27.8%
4	PHA-GS	$1,648,361	$372,765	$2,021,125	22.6%
5	PHA-8	$2,614,387	$338,207	$2,952,594	12.9%
6	NGV	$27,153	$7,813	$34,966	28.8%
7	Interruptible	$305,667	$0	$305,667	0.0%
8	Total PGW Sales and Transportation	$427,713,164	$70,427,668	$498,140,832	16.5%
9	GTS/IT	$13,902,055	$7,892,545	$21,794,600	56.8%
10	BUS	$173,180	$0	$173,180	0.0%
11	TED	$63,132	$0	$63,132	0.0%
12	NGS	$67,939	$0	$67,939	0.0%
		$76,000	$0	$76,000	0.0%
13	Subtotal GTS/IT TED and NGS	$14,282,306	$7,892,545	$22,174,851	55.3%
14	**TOTAL**	$441,995,470	$78,320,212	$520,315,682	17.7%

I&E St. 3 at 8-9; I&E Exh. No. 3, Sch. 3. Mr. Cline explained that given that the residential RROR under the revised rates is 1.15, which is higher than any other rate class, allocating the first $7,000,000 of a scale back to the residential class will lower the RROR to 1.14, and the percentage increase to 16.3%, thereby providing a more reasonable starting point for a proportional scale back of rates.[59] I&E St. 3 at 9 (citing I&E Exh. 3, Schs. 3-5).

[59] Mr. Cline also explained that a RROR less than 1.0 indicates that the revenue received from a particular class is less than the cost of providing service to that class, and a RROR of greater than 1.0 indicates that the revenue received from a specific class is more than the cost of providing service to that class. I&E St. 3 at 8.

PGW disagreed with Mr. Cline's recommendation to include the customer charges in the scale back of rates, claiming that it would move customer charges further away from customer costs. I&E St. 3-SR at 8-9; PGW St. 6-R at 14. Consequently, PGW modified Mr. Cline's scale back proposal to first scale back rates proportionately and, if the residential class remains above unity after the scale back, then the scale back should be modified to bring the residential class to unity. Mr. Cline accepted the Company's proposed scale back modification as reasonable, noting that the only difference between both proposals is that his proposal attempts to achieve unity prior to the overall proportional scale back, while PGW's proposal attempts to achieve unity after the overall proportional scale back. I&E St. 3-SR at 8-9 (citing PGW St. 6-R at 14, 18-19).

The OCA submitted that although it is not opposed to the Company's scale back approach, its witness, Mr. Watkins, proposed a scale back approach that would be easier to implement. Specifically, Mr. Watkins asserted that the Commission should first determine the appropriate rates and revenues to be collected from Vicinity, and then subtract the increase to Vicinity from the overall authorized increase to the Company's base distribution rates. OCA R.B. at 35 (citing OCA St. 3 at 22). Accordingly, the OCA submitted that its scale back approach is reasonable, supported by the record, and should be accepted. OCA M.B. at 60.

The OSBA submitted that if the overall revenue requirement is scaled back, then the proposed increase to the Rate GS - commercial charge should also be increased. The OSBA asserted that a scale back in the allowed revenue requirement implies a reduction in costs, particularly in the Company's net income requirements. Further, the OSBA averred that given the cost basis used to determine the customer charge relies on the net income requirement, a scale back in the rate increase implies a scale back in allocated costs. Accordingly, the OSBA submitted that a scale back in the customer charge increase is reasonable and appropriate. OSBA R.B. at 13-14 (citing OSBA St. 1SR at 19).

PICGUG submitted that if the Commission declines to modify the Company's ACCOSS to account for the interruptibility of Rate IT and continues to allow for the omission of peak design day demand data, it would be appropriate to provide alternative relief to Rate IT through a targeted scale back. PICGUG R.B. at 17. Accordingly, PICGUG submitted that if the Commission reduces the Company's proposed rate increase, then the first $1 million of that reduction should be allocated to Rate IT and the remainder applied proportionately to each rate class. Additionally, PICGUG submitted that if the Commission approves the Company's ACCOSS, then the increase to Rate IT should not exceed the approved system average increase. OCA St. 1 at 29-30.

(2) Recommended Decision

The ALJs found that given their recommendation that the Commission approve a revenue increase lower than requested by the Company, they agreed with I&E, the OCA, and PGW that the traditional proportional scale back approach, excluding the Rate GS-XLT class, should be used. However, the ALJs found that the residential rate class is above unity after the application of this approach. Thus, the ALJs recommended that, in accordance with I&E's original proposal, the scale back be modified such that the first $7 million of the decrease is allocated solely to the residential class, and then the customer charges and usage rates for the residential class and each remaining customer class with a proposed increase, except the GS-XLT rate class, are scaled back proportionally. R.D. at 76.

The ALJs commended the Company's intention to bring the residential customer class closer to unity (*i.e.*, bring the revenue received from the residential class closer to the cost of providing service). However, the ALJs found that adoption of PGW's rate scale back proposal, when applied to the recommended revenue increase, would result in higher recommended revenue increases for some of the other customer classes than the increases originally proposed by PGW, while still failing to bring the residential customer class to unity. As such, the ALJs found that their recommended approach, based on I&E's original proposal, brings the residential customer class closer to unity while providing just and reasonable rates to the other customer classes. R.D. at 76.

Finally, the ALJs found PICGUG's suggested $1 million scale back proposal unreasonable and, as it is based on PICGUG's proposed ACCOSS, recommended that it be rejected. R.D. at 76.

(3) Exceptions and Replies

(a) PGW Exception No. 13 and Replies

In its Exception No. 13, PGW criticizes the ALJs for not specifying the customer charges for each rate class or the methodology used to calculate the scale back of those charges.[60] PGW Exc. at 28 (citing R.D. at 75-82). PGW, in disagreeing with the calculation of the scale back of customer charges, refers to the average customer charge increases originally requested for the existing customer classes of 33%, and the ALJs' recommended revenue increase of $22.3 million.[61] PGW Exc. at 28 (citing PGW St. 6 at 8).

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[60] PGW notes that it does not except to the ALJs' overall scale back or the scaling back of the Company's proposed charge increases proportional to a rate increase scale back. PGW Exc. at 28 (citing R.D. at 76, 82).

[61] As noted herein, the ALJs recommended the approval of an increase in annual operating revenue of $22,306,000. R.D. at 1, 63.

PGW argues that the customer charge rate lags significantly behind customer charge costs. Further, PGW contends that generally, a utility should be permitted to recover fixed customer class-related costs through fixed customer charges, and the Company'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. PGW Exc. at 28-29. Moreover, PGW points out that while the ALJs did not dispute the Company's customer charge study showing that existing customer charges lagged cost, they commended PGW's intention to bring the residential customer class closer to unity. PGW Exc. at 29 (citing R.D. at 76; PGW St. 6 at 8).

In its replies to PGW's Exception No. 13, the OCA disagrees with the Company's argument that the ALJs' scale back recommendation does not clarify nor specify customer charges for the customer classes. OCA R. Exc. at 17 (citing PGW Exc. at 28). The OCA refers to its Exception No. 4, *infra,* and submits that no increase to the residential class customer charge should be adopted. That said, the OCA disagrees with how PGW proposes the scale back to be calculated and, therefore, submits that PGW's argument regarding the scale back should be denied. OCA R. Exc. at 18 (citing OCA Exc. at 10-12; PGW Exc. at 28-29).

(b) PICGUG Exception No. 6 and Replies

In its Exception No. 6, PICGUG disagrees with the ALJs' recommended use of I&E's proposed scale back because it is based on the Company's "inappropriately discriminatory" ACCOSS. PICGUG Exc. at 17 (citing R.D. at 76). PICGUG maintains that if the Commission modifies the Company's ACCOSS to remove any allocation of excess demand for Rate IT customers and classify 20% of the Company's mains expense as customer-related, the ACCOSS will show that Rate IT is above its cost of service, thereby warranting no rate increase. PICGUG Exc. at 17-18.

PICGUG contends that the ALJs failed to fully account for the basis of PICGUG's proposed scale back, arguing that because Rate IT is already substantially above its cost to serve, Rate IT is providing a RROR that is substantially higher than the Company's cost to serve and, as such, requests that Rate IT receive no rate increase. Specifically, PICGUG argues that if the Company's ACCOSS is modified to account for Rate IT's interruptibility, then the resulting RROR of 2.06 will require a decrease of 9.3% to bring Rate IT closer to its cost to serve. Further, PICGUG argues that if the ACCOSS is modified to reflect 20% of distribution main costs as customer-related, the resulting RROR of 2.52 will necessitate a decrease of 17.5%. Moreover, PICGUG argues that if the Company receives less than its requested revenue increase, then the first $1 million of that reduction should be allocated to Rate IT to bring that class closer to its cost to serve, and the remainder should be applied proportionality. Furthermore, PICGUG claims that any additional revenues recovered from Vicinity should be allocated to all other rate classes, including Rate IT. PICGUG Exc. at 18 (citing PICGUG M.B. at 28-30; PICGUG St. 1 at 5).

PICGUG contends that because the ALJs recommended a scale back that is based on an ACCOSS that fails to account for the interruptibility of Rate IT, Rate IT customers will: (1) continue to maintain the processes needed to meet PGW's interruptibility requirements for the protection of firm service customers; and (2) be forced to subsidize firm service customers because Rate IT's RROR will be higher than current rates. PICGUG Exc. at 19 (citing R.D. at 76). Further, PICGUG requests that because Rate IT customers will remain at risk of interruption, the Commission apply gradualism principles to moderate the resulting rate increase. Accordingly, PICGUG recommends that the Commission grant no rate increase to Rate IT, adding that if the Company is granted less than its requested revenue increase, then Rate IT should be allocated the first $1 million of any revenue decrease with the remaining scale back being applied proportionately. Finally, PICGUG contends that if the Commission approves the

Company's proposed ACCOSS, then the Commission should allocate less than PGW's proposed 1.35% system average increase to Rate IT customers. PICGUG Exc. at 19-20.

In its replies to PICGUG Exception No. 6, PGW notes that given that the Company disagrees with PICGUG's proposed modifications to the ACCOSS, PGW likewise opposes PICGUG's scale back approach. PGW R. Exc. at 8 (citing PGW M.B. at 45-46).

In its replies to PICGUG Exception No. 6, the OCA argues that the IT class is substantially underpaying its cost of service, and conversely, the RROR for the residential class is higher than any other class. OCA R. Exc. at 17 (citing OCA M.B. at 55-56; OCA 3SR at 2; I&E St. 3 at 9). As such, the OCA counters that the ALJs correctly recognized that PICGUG's proposed scale back could only be considered if, in fact, that class was overpaying, which is not the case. Accordingly, the OCA submits that the ALJs' recommended scale back approach, as to the revenue increase, should be adopted. OCA R. Exc. at 17.

In its replies, the OSBA submits that PICGUG Exception No. 6 relies on the arguments set forth in PICGUG's Exception Nos. 1 and 2. As such, the OSBA refers to its replies to PICGUG Exception Nos. 1 and 2. OSBA R. Exc. at 14.

(4) Disposition

At the onset, we note that PGW's Exception No. 13 acknowledges and makes use of information sourced from extra-record material in an attempt to advance arguments not previously made and factual evidence not of record; specifically: (1) the discussion on page 28, beginning with, "PGW believes that the proportional scale back of customer charges would be calculated as described below . . ." through page 29, ending with, "[t]he Commission's adoption of PGW's approach for determining the proportional scale back of customer charges as described herein . . .” which includes citations to Appendix B to PGW’s Exceptions; and (2) Appendix B to PGW’s Exceptions, titled “Calculation of Proportional Scale Back of Customer Charges” that was not previously entered into the record.[62] *See,* PGW Exc. at 28-29, Appendix B. Additionally, the OCA’s Reply to PGW’s Exception No. 13 addresses the extra-record material included in PGW’s Exception No. 13.

We will disregard the extra-record material, specifically, the table titled “Calculation of Proportional Scale Back of Customer Charges” and the associated language on pages 28-29 of PGW’s Exceptions, to the extent that this language cites to Appendix B to PGW’s Exceptions, as consideration of this extra-record information and accompanying new arguments by the Commission would violate the due process rights of the Parties to this proceeding. Similarly, we will disregard language in the OCA’s Reply to PGW’s Exception No. 13, to the extent that the language addresses extra-record material provided in PGW’s Exception No. 13. It is well-established that parties cannot raise new arguments and introduce new evidence at the exceptions stage. *Hess* at 265-66; *Apollo Gas,* 1994 Pa. PUC Lexis, at *8-14. As noted earlier, the record closed on or about August 7, 2023, upon the filing of Reply Briefs. To allow this new evidence, including the table titled “Calculation of Proportional Scale Back of Customer Charges,” at this late stage in the proceeding would deprive the other Parties to this proceeding of the opportunity to respond to the evidence and the arguments based on it. *See Hess* at 267. Therefore, we must reject this extra-record material referenced by PGW in its Exception No. 13.

As previously discussed, I&E’s witness, Mr. Cline, in his direct testimony, recommended that if the Commission approves a lower-than-requested rate increase for

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[62] We note that, based upon our review, we find no reason to reopen the record at this stage, pursuant to 52 Pa. Code § 5.571(d)(2).

PGW, then: (1) the first $7,000,000 be allocated to the residential class; and (2) the customer charges and usage rates for the residential customer class and each remaining customer class that has an increase proposed, except Rate GS-XLT, be scaled back proportionately, in accordance with the percentage increases shown for each rate class per I&E Exhibit No. 3, Schedule 3. I&E St. 3 at 8-9. Mr. Cline also testified that his proposal attempts to achieve unity prior to the overall proportional scale back of rates, while PGW's proposal attempts to achieve unity after the overall proportionate scale back of rates. I&E St. 3-SR at 8-9. Although Mr. Cline asserted that both scale back recommendations are reasonable, we are persuaded by Mr. Cline's testimony with regard to his proposal to initially allocate the first $7,000,000 of the increase to the residential customer class. We agree with Mr. Cline that if the Commission approves a rate increase lower than requested, an initial $7,000,000 allocation to the residential class provides a more reasonable starting point for a proportional scale back of rates, given that at the offset, the residential RROR of 1.15 is higher than any other rate class (*i.e.*, further away from unity than any other class).[63] Indeed, as noted by the ALJs, adoption of the Company's proposed scale back of rates would: (1) result in higher revenue increases for other customer classes than originally proposed; and (2) not bring the residential customer class to unity. Accordingly, we agree with the ALJs' recommendation that the scale back be modified in accordance with I&E's original proposal, thereby bringing the residential RROR closer to unity while providing just and reasonable rates to the other customer classes. Therefore, we shall deny PGW's Exception No. 13.

With respect to PICGUG's argument that the ALJs' recommended use of I&E's proposed scale back approach is based on an ACCOSS that inappropriately discriminates against Rate IT, we agree with the ALJs that the basis for PICGUG's

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[63] As previously noted, Mr. Cline testified that the term "unity" is the same as having a RROR of 1.0, and a RROR of greater than 1.0 indicates that the revenue received from a specific class is more than the cost of providing service to that class. I&E St. 3-SR at 9; I&E St. 3 at 8.

argument is its proposed ACCOSS. Further, we refer to our disposing of PICGUG's similar arguments pertaining to the treatment of Rate IT customers for purposes of the ACCOSS, discussed *supra*. In short, given that we disagree with PICGUG's proposed modifications to the ACCOSS, we likewise disagree with PICGUG's proposed scale back approach. Therefore, we shall deny PICGUG's Exception No. 6.

To the extent that PGW argues that the Recommended Decision does not specify the methodology to be used to calculate the scale back of customer charges for each rate class, we note that the ALJs recommended that: (1) PGW's proposed customer charges be included in any scale back of rates; and (2) based on I&E's scale back proposal, the first $7 million of the decrease be allocated solely to the residential class, and then the customer charges and usage rates for the residential class and each remaining customer class with a proposed increase, except the GS-XLT rate class, be scaled back proportionally. *See* R.D. at 76, 81. Accordingly, we do not find error with the ALJs not specifically addressing how to calculate the scale back for PGW's proposed customer charges for each class in their Recommended Decision. Therefore, we find that PGW's argument on this issue has no merit.

b. Residential Customer Charge

(1) Positions of the Parties

PGW provided that its ACCOSS determines the actual fixed customer cost per customer by class if the Company were to recover 100% of its fixed customer-related costs in a monthly customer charge. PGW submitted that its objective is to move the customer charge for each customer class closer to the full cost of service, thereby properly aligning rates with costs and providing revenue stability. PGW M.B. at 46 (citing PGW St. 6 at 7; PGW Exh. CEH-1).

PGW proposed an increase to the residential customer charge to $19.50 per month, as compared to the current charge of $14.90 per month. PGW M.B. at 47 (citing PGW St. 6 at 8). PGW submitted that its proposed increase: (1) is consistent with the principle of gradualism, as it did not propose the full amount that could be supported under its ACCOSS; (2) provides the necessary price signals and does not impede energy conservation; (3) is consistent with the Commission's guidance, as PGW's proposed residential customer charge is below the customer-based cost; and (4) will not impact customers enrolled in low-income customer assistance programs, including the CRP. PGW M.B. at 46-48 (citing PGW St. 6-R at 11, 13; PGW St. 6 at 8; PGW St. 1 at 13). Furthermore, PGW submitted that scaling back the proposed customer charges, if less than the full rate request is granted, would move customer charges further away from customer costs. PGW M.B. at 49 (citing PGW St. 6-R at 14).

In summary, PGW submitted that the Company's customer charge proposals: (1) are just and reasonable; (2) recognize the need for a balance between gradually increasing fixed charges and moving toward the cost to serve customers; (3) result in customer charges that are lower than the results produced by its cost of service study; and (4) represent reasonable movement toward recovering the customer costs of service. PGW M.B. at 50.

I&E submitted its acceptance of the Company's proposed increases to customer charges, without modification, and the Company's modified scale back recommendation, in the event the Commission approves less than PGW's full request. Specifically, I&E accepted PGW's modification to first scale back rates proportionately and, if the residential class remains above unity after the scale back, then the scale back should be modified to bring the residential class to unity. I&E added that it shares the same goal with PGW: to maintain the residential rate class at or below unity. I&E R.B. at 14-15 (citing I&E M.B. at 23; I&E St. 3-SR at 7-9; PGW M.B. at 45-46).

The OCA submitted its opposition to the Company's requested increase in the residential customer charge, recommending that the monthly residential charge be increased no more than the overall percentage increase to total residential distribution revenues. Further, the OCA argued that such an increase would: (1) make it the highest such charge among natural gas distribution companies (NGDCs) in Pennsylvania; (2) negatively impact low-income customers; (3) pose as a barrier to investments in energy efficiency measures; and (4) violate the principles of gradualism and avoidance of rate shock. OCA R.B. at 36-37 (citing OCA M.B. at 64-68; OCA St. 3 at 23-24; OCA St. 4 at 36-37). Moreover, the OCA asserted that if more revenue is collected from fixed monthly customer charges, then less revenue will be collected from volumetric charges, thereby resulting in less incentive to conserve natural gas usage. OCA St. 3 at 23. Accordingly, the OCA submitted that its proposed scale back is reasonable, supported by the record, and should be accepted. OCA M.B. at 60.

The OSBA did not address the Company's proposed increase to the residential customer charge. However, the OSBA did address the Company's proposed rate design for the Rate GS – commercial class, discussed, *infra*.

CAUSE-PA/TURN submitted that the Company failed to carry its burden to demonstrate that its proposed residential customer charge is just and reasonable. CAUSE-PA/TURN R.B. at 10 (citing CAUSE-PA/TURN M.B. at 13-16). CAUSE-PA/TURN asserted that increasing the fixed charge "erodes" the ability of consumers to deploy efficiency and conservation measures to achieve bill savings that mitigate the impact of the rate increase. CAUSE-PA/TURN R.B. at 7 (citing CAUSE-PA/TURN St. 1 at 29). Further, CAUSE-PA/TURN contended that low-income customers will have no ability to offset any of the Company's proposed fixed charge increase. CAUSE-PA/TURN R.B. at 7-8. As such, CAUSE-PA/TURN submitted that if the Commission approves any rate increase, assigning any rate increase to the volumetric charge will preserve the ability of low-income households to lower their utility costs by reducing consumption and mitigate the impact of the increased rates through participation in the LIURP program. *Id.* at 8-9 (citing CAUSE-PA/TURN St. 1 at 29, 31). CAUSE-PA/TURN added that an increase in the fixed customer charge limits the ability of LIURP to aid program participants in achieving meaningful savings, thereby threatening the effectiveness of LIURP to reduce CAP/CRP costs. CAUSE-PA/TURN R.B. at 9-10 (citing CAUSE-PA/TURN M.B. at 15; CAUSE-PA/TURN St. 1 at 29).

POWER submitted that the Company's proposed residential fixed charge increase would result in the highest such charge in Pennsylvania and, as such, is neither just nor reasonable. POWER M.B. at 15 (citing POWER St. 1 at 6-7, Exh. MDK-2; 66 Pa. C.S. § 1301). POWER argued that PGW's proposed residential fixed charge increase would violate the principle of gradualism and cause rate shock. POWER M.B. at 19 (citing POWER St. 3 at 5; OCA St. 3 at 20-23; OCA St. 4 at 24-25, 33-38). Further, POWER contended that the fixed charge increase would disproportionately harm: (1) low-income customers; (2) energy users that have lowered their energy use; and (3) customers on fixed incomes. POWER M.B. at 20 (citing POWER St. 3 at 11, Exh. BH-2). Moreover, POWER argued that a residential price hike will reduce the impact of energy conservation and energy efficiency, as a residential customer will be less likely to conserve energy, thereby providing less savings. POWER M.B. at 22 (citing POWER St. 3 at 13; PGW St. 6-R at 12).

(2) Recommended Decision

The ALJs recommended that, given their recommendation that the Commission approve a lower revenue increase than requested by PGW and a proportional scale back approach excluding the Rate GS-XLT class, the Company's proposed customer charges be included in any scale back of rates. The ALJs agreed with the OSBA's argument, as discussed in the section, below, regarding Rate GS Commercial class, that a scale back in the allowed revenue requirement implies a reduction in costs, particularly in the net income requirements demanded by the Company. The ALJs found that because the cost basis used to determine the customer charge relies on the net income requirement, a scale back in the rate increase implies a scale back in allocated costs. R.D. at 81 (citing OSBA R.B. at 13-14; OSBA St. 1-SR at 19). As such, the ALJs found that a scale back in the customer charge increase is reasonable and appropriate. R.D. at 81.

(3) Exceptions and Replies

In its Exception No. 13, PGW criticizes the ALJs for not proposing specific customer class charges, nor detailing the scale back calculation for those charges. PGW Exc. at 28-29 (citing R.D. at 75-82). A more detailed summary of PGW's Exception No. 13 is provided in the section addressing the ALJs' Recommendations regarding scale back, *supra*.

(a) OCA Exception No. 4 and Replies

In its Exception No. 4, the OCA argues that the ALJs' recommendation: (1) contradicts the principles of gradualism and avoidance of rate shock; and (2) sends a message to PGW and other utilities to "propose a high customer charge and a scale back will buffer the effects and make it appear reasonable." OCA Exc. at 10 (citing R.D. at 81). Accordingly, the OCA insists that retaining the current charge, or, if increased, limiting the increase in the customer charge to no more than the percentage distribution increase to the residential class, is a more reasonable approach. OCA Exc. at 10.

The OCA argues that its witness, Mr. Watkins, provided that PGW has: (1) a current customer charge within the range of other Pennsylvania gas utilities; and (2) the highest percentage of low-income customers of any NGDC in Pennsylvania. Further, the OCA repeats that lower volumetric charges that result from more revenue collected from fixed monthly customer charges do not incentivize natural gas usage conservation. OCA Exc. at 10-11 (citing OCA St. 3 at 23).

The OCA also argues that its witness, Mr. Roger D. Colton, noted that any increase in the customer charge will more heavily burden low-income customers by: (1) taking a larger portion of resources out of their incomes; (2) making it more difficult to control their exposure to unaffordable bills through the implementation of energy efficiency measures; and (3) impact their efforts to control their bills. OCA Exc. at 11 (citing OCA St. 4 at 42). Further, the OCA notes that Mr. Colton asserted that contrary to the Company's argument otherwise, enrollment in the CRP represents only a fraction of income-eligible customers and a much larger population of low-income customers not enrolled in the CRP will be harmed by the Company's increased customer charge. OCA Exc. at 11 (citing OCA St. 4SR at 6; OCA St. 4 at 28-33). Moreover, the OCA argues that Mr. Colton noted that the Company's energy efficiency programs are limited in their reach and protection of customers. OCA Exc. at 11-12 (citing OCA St. 4-SR at 7).

The OCA repeats that if the Commission considers an increase to the Company's current residential customer charge, then the increase should not be more than the percentage increase in distribution revenues assigned to the residential class. The OCA adds that although a scale back to the Company's proposed charge would result in some reduction, such an approach would result in fixed charges becoming an increasing percentage of a total bill, thereby impeding conservation and energy efficiency activities. OCA Exc. at 12.

In its replies to the OCA's Exception No. 4, PGW disagrees with the OCA's arguments and contends that the Company's proposed scale back should be adopted. PGW R. Exc. at 10 (citing PGW Exc. at 34-35; PGW St. 6-R at 14). Specifically, PGW counters that the Company's original proposal was not artificially inflated and was much lower than the actual customer costs. Further, PGW argues that although customer costs were shown to be approximately 150% higher than the Company's existing residential charge, PGW proposed a customer charge increase that would move the charge closer to covering fixed customer-related costs in a monthly fixed rate, while still allowing some fixed cost revenue to be recovered through usage-based charges. PGW R. Exc. at 8 (citing PGW M.B. at 48; PGW St. 6-R at 13; PGW St. 6 at 8). Moreover, PGW argues that the OCA's proposal would yield a rate that is only a few cents higher than existing rates, even though the evidence shows that the Company's residential customer charge proposal will not meaningfully impact EE&C efforts. PGW R. Exc. at 8-9 (citing PGW R.B. at 36-37; OCA Exc. at 10-12).

(4) Disposition

Rate design requires a balance of the competing interests of customer classes as well as prudent application of the principles of cost causation, gradualism, and overall fairness. Given the results of the Company's ACCOSS and the customer cost analysis provided therein, we do not believe that the proposed increase is unreasonable. As previously noted, the primary purpose of cost of service studies and corresponding rate allocation and design is to move the rates assigned to the various customer classes toward their respective costs of service. Rate design should reflect the cost of service to each rate class and should eliminate cross-subsidization. *See, Lloyd*, *supra.* PGW's ACCOSS demonstrated that residential customers have a monthly customer cost of $37.39. *See*, PGW St. 6 at 8, Table 2. Therefore, the Company's proposed monthly residential customer charge of $19.50 is clearly justified by the results of its ACCOSS. A customer charge that better approximates the total customer-related costs provides a more accurate price signal and offers greater transparency to customers about the fixed costs that PGW incurs to connect them to the system, regardless of the amount of energy consumed. Improved price signals can translate into more economically efficient energy usage.

As discussed, in the interest of gradualism, PGW proposed a residential customer charge of $19.50 per month, not the full amount that could currently be supported by its ACCOSS. On this issue of gradualism, we recognize that an increase in the monthly residential customer charge from $14.90 to $19.50 is not insignificant. However, as we have previously found, to the extent that gradualism factors into the allocation and design of rates, it should also be considered in the context of the entire increase to a customer class, rather than to an individual element or component of the rate design. *See, Pa. PUC v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058 (Opinion and Order entered October 25, 2018) (*UGI Electric 2018*) at 174. Therefore, with regard to the alternative proposal of the OCA that PGW's monthly residential customer charge should either remain at $14.90 per month, or that the residential customer charge should be increased to no more than the percentage distribution increase to the residential class, we find this proposal to be without merit. Further, by this Opinion and Order, we are ultimately approving a lower revenue increase than that sought by the Company. Accordingly, PGW's actual customer charge that results from this revenue increase will be reduced as a result of the scale back that will be applied.

Further, the OCA and CAUSE-PA/TURN have noted the important factor that rate design plays in promoting conservation and energy efficiency. However, we find unpersuasive the contention that increasing PGW's monthly residential customer charge will impede energy conservation efforts by stunting the incentives for consumers to take charge of their energy costs by reducing usage. Under PGW's proposal, the proposed residential customer charge will remain only a small portion of a customer's total bill; thus, still providing residential customers with an opportunity to save money by lowering energy usage. For example, assuming the Company's entire request is approved, PGW's witness, Mr. Teme, determined the impact of PGW's proposal on a typical residential customer with usage of 71 MCF per year. Under PGW's proposal, Mr. Teme calculated that the total annual bill for said customer will be $1,652.81. Of that, approximately

$234.00 (14.16%) represents the fixed customer charge. *See,* PGW St. 6-R at 13. Thus, approximately $1,418.81 (85.84%) represents the variable portion. As this calculation shows, more than 85% of a typical monthly residential bill is based on volumetric rates, which still preserves the ability of consumers to control costs through efficiency, conservation, and consumption reduction.

Additionally, we find compelling the testimony of PGW's witness, Ms. Denise Adamucci, which provided that PGW offers a variety of energy efficiency programs that can assist with home energy burdens, energy efficiency, and conservation, including: (1) EnergySense rebates, which offers generous rebates for low-income customers that cover the cost difference between a standard efficiency model and high-efficiency equipment; (2) a marketplace that offers instant rebates on smart thermostats; (3) a Low-Income Smart Thermostat program, which provides low-income customers with free smart thermostats and free installation and education; and (4) LIURP, for high-use low-income customers. *See*, PGW St. 1-R at 8. As such, regarding the OCA's and CAUSE-PA/TURN's arguments that increasing the Company's monthly residential customer charge to $19.50 will restrict how much control customers have over how much they pay, making it more difficult for customers to pay less by using less, we find them to be without merit.

Moreover, we find no merit in the arguments of the OCA and CAUSE-PA/TURN that PGW's requested increase to the residential customer charge will have a disproportionate adverse effect on PGW's low-income customers. Rather, we find that PGW has successfully rebutted the argument that low-income customers would be disproportionately impacted. We find compelling the testimonies of PGW's witnesses, Ms. Adamucci and Mr. Peach, which both addressed bill affordability and low-income assistance programs, including that low-income customers who participate in the CRP will not be affected by any customer charge increase. *See*, PGW St. 1-R at 8; PGW St. 9-R at 9-10.

As we have already found, the OCA and CAUSE-PA/TURN have not sufficiently supported their assertions that the Company's proposed increase to the residential customer charge will impair low-income, low-use customers' ability to partially off-set the rate increase through conservation efforts. Additionally, we find persuasive PGW's argument that: (1) the proposed increase to the customer charges is appropriate to accurately reflect a utility's fixed costs; and (2) the recovery of the additional fixed customer costs is consistent with past regulatory practice in Pennsylvania. Moreover, we find compelling the testimony of Mr. Peach, which addressed inflation by demonstrating that the value of PGW's $12.00 fixed residential charge in 2003 is equal to $21.57 in April 2023. *See,* PGW St. 9-R at 6-7. As Mr. Peach stated, because the Commission authorized the equivalent of $21.57 in 2003, it is reasonable, and consistent with past Commission practice and cost causation, to request $19.50 in the instant case. We agree.

Although we have determined that PGW's proposed customer charge is not unreasonable, we nonetheless note that PGW's proposed increase to the customer charge is not insignificant. As previously noted, the ALJs were persuaded by the OSBA's argument that a scale back to the customer charge increase is reasonable and appropriate because the cost basis used to determine the customer charge relies on the net income requirement and, therefore, a scale back in a rate increase implies a scale back in allocated costs. R.D. at 81; OSBA St. 1-SR at 19. As such, the ALJs, in agreement with the OSBA's position, recommended that PGW's proposed customer charges be included in any scale back of rates. We agree with the ALJs that a scale back in the customer charge increase is reasonable and appropriate. Accordingly, we find that, as a matter of fairness, the customer charge should be scaled back along with the other rates.

To the extent that PGW argues that the Recommended Decision does not specify customer charges for each rate class, we note that the ALJs recommended that PGW's proposed customer charges be included in any scale back of rates. *See,* R.D. at

76, 81. Accordingly, we do not find error with the ALJs not specifically addressing PGW's proposed customer charges for each class in their Recommended Decision. Therefore, we find that PGW's argument on this issue has no merit.

For all of the above reasons, PGW's proposed increase in its residential customer charge, which will be reduced by the scale back, is adopted, and the OCA's Exception No. 4, and the related arguments of CAUSE-PA/TURN are denied.

c. Customer Charge for GS-Commercial Class

(1) Positions of the Parties

PGW noted the suggestion of the OSBA that the Company should establish customer charges differentiated by size to mitigate the intra-class cross-subsidization. However, PGW submitted that it is not reasonable nor appropriate to utilize customer costs for the residential class to determine costs for the commercial class. PGW R.B. at 38 (citing PGW St. 6-R at 10; OSBA M.B. at 28). Further, PGW disagreed with the OSBA's request, *infra,* that the customer charge be scaled back to reflect any reduction in the overall revenue requirement, countering that scaling back the proposed customer charge for the commercial class, if less than the full rate request is granted, would move customer charges further away from customer costs. PGW R.B. at 38 (citing PGW St. 6-R at 14; OSBA M.B. at 11).

I&E submitted that the Company's proposed increases to customer charges are supported by PGW's customer cost analysis and, as such, did not recommend an adjustment. I&E further offered its acceptance of PGW's modification to first scale back rates proportionately and, if the residential class remains above unity after the scale back, then the scale back should be modified to bring the residential class to unity. Further, I&E noted that it shares the same goal with PGW: to maintain the residential rate class at or below unity. I&E M.B. at 23 (citing I&E St. 3-SR at 9; I&E St. 3 at 7; PGW St. 6-R at 18-19). We note that I&E did not directly address the rate structure for Rate GS-commercial.

The OSBA submitted that PGW's proposed rate design for the Rate GS-commercial class will result in: (1) relatively larger rate increases for small commercial customers when compared to larger commercial customers; and (2) the small customers paying more for the more-expensive meters and services required for the larger customers. OSBA M.B. at 28 (citing OSBA St. 1 at 48). Notwithstanding, the OSBA ultimately concluded that if PGW's rate increase is granted, the Company's proposed increase for Rate GS is "at the upper edge of what would be reasonable." OSBA M.B. at 29. Further, the OSBA recommended that if the overall revenue requirement is scaled back, then the proposed increase to the Rate GS-commercial charge should also be scaled back, because a scale back in the allowed revenue requirement implies a reduction in costs and in the net income requirements. OSBA R.B. at 14; OSBA M.B. at 29.

(2) Recommended Decision

The ALJs recommended that, given their recommendation that the Commission approve a lower revenue increase than requested by PGW, as well as a proportional scale back approach excluding the Rate GS-XLT class, the Company's proposed commercial customer charges be included in any scale back of rates. R.D. at 82.

(3) Disposition

No Party filed Exceptions that directly address the Rate GS-commercial charges. However, we note that in its Exception No. 13, PGW criticizes the ALJs for not proposing specific customer class charges nor detailing the scale back calculation for those charges. PGW Exc. at 28-29 (citing R.D. at 75-82). A more detailed summary of PGW Exception No. 13, and our Disposition thereto, is provided in the section addressing the ALJs' recommendations regarding scale back, *supra*.

Finding the ALJs' recommendation regarding Rate GS-commercial charges to be reasonable, and supported by substantial evidence in the record, we adopt it without further comment.

4. Other Tariff Changes

a. Positions of the Parties

Other than the proposed rate schedule changes, discussed *supra*, PGW proposed the following changes to the PGW Gas Service Tariff – Pa P.U.C. No. 2: (1) additional language to Section 5.7 of PGW's Gas Service Tariff, page 32, to clarify that PGW will accrue interest on customer deposits made in conjunction with receiving temporary heating service, which is the Company's current practice; and (2) updating language within PGW's Gas Service Tariff with respect to the Company's Air Conditioning Rider, to more accurately reflect PGW's current internal processes, as the AC Rider is still in its original form from September 1, 2003. PGW St. 6 at 12-13.

PGW also proposed changes to its Gas Supplier and Gas Service Tariffs, to clearly permit the interconnection of facilities that would seek to provide RNG directly onto the Company's distribution system, thereby providing the Company the flexibility to accommodate new business involving RNG while maintaining gas quality on PGW's distribution system. PGW M.B. at 50 (citing PGW St. 6 at 2, 12-15).

PGW submitted that the specified tariff changes are unopposed, reasonable, and in the public interest. PGW M.B. at 51.

b. Recommended Decision

The ALJs found the unopposed tariff changes are reasonable and in the public interest. Therefore, the ALJs recommended that the proposed tariff changes be approved. R.D. at 83.

c. Disposition

No Party filed Exceptions on this issue. Finding the ALJs' recommendation to be reasonable, we adopt it without further comment.

D. Vicinity-Class GS-XLT

In a separate complaint proceeding initiated by Vicinity to establish the rate applicable to PGW's service to Vicinity, PGW was directed by the Commission that this current rate proceeding was the appropriate forum in which to establish, for the first time, the just and reasonable, cost-based rate for PGW's provision of service to Vicinity, in compliance with Chapter 13 of the Code. *See, Complaint Proceeding.*[64] In compliance with the Commission's directive, PGW proposes that service to Vicinity be provided under a new tariff rate- Rate GS-XLT. *See*, PGW St. 6-SD at 2-3.

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[64] In the *Complaint Proceeding*, Vicinity requested that the Commission establish the just and reasonable rate for PGW's provision of service to Vicinity, when upon expiration of the existing 1996 contract for service between the parties, PGW's negotiating position was that Vicinity's service would "default" to an existing tariff rate, either interruptible Rate Class IT, or firm Rate Class GS. The Commission found that pursuant to the mandatory provisions of Chapter 13, PGW was required to proceed under Chapter 13 to establish a new rate applicable to Vicinity and directed that the issue be addressed in the present rate proceeding. *Complaint Proceeding* at 35-36; 40.

Under the proposed Rate GS-XLT, for which Vicinity is presently the only customer, PGW's service to Vicinity would encompass both transportation service and additional service unique to PGW's provision of service to Vicinity, *i.e.* ARS.[65] R.D. at 83.[66] Under PGW's proposal, service is to be provided with base rates set at the cost of service derived in the supplemental filing, with a market-based charge for ARS, and the application of four surcharges, (*i.e*, USEC, OPEB, the Efficiency Cost Recovery (ECR) and the DSIC).

1. Firm vs. Interruptible Transportation Services

a. Positions of the Parties

PGW has proposed that Vicinity be served under its own separate tariff – Rate GS-XLT, which incorporates the primary services that PGW has historically provided to Vicinity: transportation service and ARS. PGW M.B. at 51; *See also*, PGW Exhibit FT-6. PGW proposed a transportation rate of $0.1054/Mcf ($0.11067/Dth).[67] PGW argued that the proposed rate, which is 22% above the current rate, reflects a reasonable increase to the rates previously established in 1996. PGW's proposed rate is based upon PGW's cost of service study (COSS) and the allocation of costs associated with PGW's low pressure distribution system which were calculated on a volumetric basis. PGW M.B. at 54-59.

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[65] ARS is a unique service that allows PGW to provide additional deliverability for Vicinity in the coldest months. *See,* Vicinity St. JC-1 at 4-5.

[66] Sales service is also offered but not at issue in this proceeding. In addition, other service offered under a prior contract between the parties (*i.e*., the summer release program) is discontinued and not included in proposed GS-XLT. R.D. at 83 (citing PGW M.B. at 51).

[67] Dth stands for "dekatherm."

With respect to the character of service necessary for Vicinity, whether "firm" vs. "interruptible," PGW asserted that Vicinity's rejection of PGW's proffered "option" of Rate IT in the prior *Complaint Proceeding*, as well as Vicinity's suggestion to reduce the penalties for violation of a PGW operation flow order (OFO), established that Vicinity required firm service. PGW M.B. at 52-54. PGW further asserted that it was reluctant to place Vicinity on interruptible service because Vicinity had failed to provide assurances in sufficient detail that Vicinity could fully operate on an interruptible service schedule. PGW noted that under the terms of interruptible service:

> Customers are subject to curtailment or interruption *at any time.* …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…

PGW M.B. at 53-54 (citing Rate IT, PGW Gas Tariff Pa. P.U.C. No. 2 at 111-12).

PGW further noted that, despite its reservations as to whether interruptible service was sufficient for Vicinity, PGW would not object should the Commission determine that Vicinity's service is interruptible, provided that the terms of interruptible service be incorporated into the proposed Rate GS-XLT, and that the rate levels and application of the surcharges does not change. In addition, PGW argued that Vicinity's service status, whether characterized as "firm" or "interruptible," would not impact the results of PGW's COSS. PGW M.B. at 53-54 (citing PGW St. No. 5-R at 12-13).

With respect to the appropriate transportation rate, Vicinity argued that any costs associated with PGW's low pressure distribution system should not be attributed to Vicinity, based upon Vicinity's position that it in no way utilizes PGW's low pressure distribution system. Therefore, Vicinity argued that PGW's COSS should be modified to remove any allocation of such costs to Vicinity. Vicinity asserted that the only costs which should be attributed to Vicinity were those directly related to the high-pressure distribution lines from which Vicinity receives service from PGW. Vicinity also asserted that, with the proper modification of PGW's COSS removing the low-pressure distribution system costs, the appropriate rate for Vicinity's service would be $0.0415/Mcf ($0.0397/Dth), which would correctly allocate PGW's direct costs of service for Vicinity. Vicinity M.B. at 19 (citing Vicinity St. No. 1-SR at 2-4).

Regarding the character of Vicinity's service, as either "firm" or "interruptible," Vicinity argued that PGW unreasonably refuses to provide an interruptible rate for Vicinity where the facts establish that "Vicinity's service has been interruptible and will continue to be interruptible," even under PGW's proposed Rate GS-XLT. Vicinity M.B. at 16. Vicinity argued that its service has historically been interruptible, under the terms of the 1996 contract. Vicinity further argued that it was prepared to accept the historical terms for interruptibility "in addition to the interruptibility conditions of existing Rate IT and Proposed Rate GS-XLT." On that basis and based on Vicinity's unique position as a customer with unique service requirements, Vicinity argued that its service is properly characterized as interruptible. Vicinity M.B. at 16-17.

b. Recommended Decision

The ALJs recommended that the Commission approve PGW's proposed transportation rate for GS-XLT of $0.11067 per Dth ($0.1054 per Mcf) on the basis that it follows the cost of service techniques acknowledged by all the Parties other than Vicinity and produces a just and reasonable outcome. The ALJs' also recommended that the Commission reject the COSS adjustments proposed by Vicinity on the basis that Vicinity's methodology would be based upon "direct assignment only" and would reach an unjustifiable result of near zero costs assigned to Vicinity. R.D. at 86-91.

With respect to whether Vicinity's service should be characterized as "interruptible" vs. "firm," the ALJs concluded that Vicinity's position, that its service is and has always been "interruptible," should be rejected. The ALJs' conclusion relied upon assertions by Vicinity in the prior *Complaint Proceeding* that Rate IT was not appropriate for Vicinity since Vicinity required "firm" service. The ALJs further reasoned that Vicinity's request to reduce the penalty for excess consumption during a PGW OFO, was indicative of Vicinity's intent to ignore an OFO and therefore indicated the type of service Vicinity requires is "firm" service. R.D. at 83-86.

c. Vicinity Exception Nos. 1 and 4 and Replies

In its Exception No. 1, Vicinity contends the ALJs erred by failing to approve Vicinity's proposed adjustments to PGW's cost of service. Vicinity argues that it is unreasonable to allocate the costs of PGW's low pressure distribution system on a volumetric basis to Vicinity, where such allocation results in $784,000 out of the total $1,295,000 costs allocated to Vicinity, and where Vicinity's service does not utilize PGW's low pressure distribution system. Vicinity maintains that by allocating costs for anything other than the high-pressure system paid for and directly utilized by Vicinity, the ALJs' recommendation defies basic principles of cost causation. Vicinity Exc. at 13-15 (citing *Lloyd*).

In its Replies to Vicinity's Exception No. 1, PGW notes that the ALJs properly found that PGW's proposed rate complies with cost of service techniques acknowledged by all Parties' expert witnesses, except Vicinity. PGW further asserts that Vicinity's argument that costs should be based upon Vicinity's use of PGW's "high pressure distribution system" (which results in little or no direct costs) vs. the "low pressure distribution system" (which results in virtually no costs based on Vicinity's assertion it does not utilize this system) is a fictional construct and should be rejected. PGW maintains that it has one distribution system and its provision of service to Vicinity is dependent upon this system, albeit in a unique manner, requires that Vicinity accept its proportionate share of costs associated with that distribution system. PGW asserts that its proposed rate of $0.11067 per Dth ($0.1054 per Mcf) "follows bedrock cost of service techniques" and produces a reasonable rate. PGW R. Exc. at 10-11.

In its Exception No. 4, Vicinity contends the ALJs erred by concluding that Vicinity's service is not, and never was, interruptible. Vicinity asserts that PGW's position that Vicinity requires firm and only firm service is a departure from PGW's position in the *Complaint Proceeding* and contradicts the historical agreement for PGW's provision of Service to Vicinity, which included express provision for PGW to interrupt an additional 6,000 Dth/Day for any reason. Vicinity Exc. at 22 (citing Vicinity St. SR-1 at 10).

Vicinity argues that the ALJs' reliance upon Vicinity's position in the prior *Complaint Proceeding* to conclude that, because Vicinity rejected interruptible service there, Vicinity cannot now credibly assert that its service was, and is interruptible, is misplaced and misconstrues Vicinity's position in that proceeding. Vicinity further argues that it is unreasonable and unjust for the ALJs to find that Vicinity's argument for a lower penalty for non-compliance with OFOs is somehow evidence of Vicinity's intent to violate PGW's issuance of flow orders, to effectively achieve "firm service" while being categorized as interruptible. Vicinity further notes that it has never failed to comply with such flow orders. Vicinity Exc. at 22-23.

In its Replies to Vicinity's Exception No. 4, PGW insists that Rate GS-XLT should remain firm, arguing that the biggest part of Vicinity's gas demand, *i.e.*, the Grays Ferry turbines, runs solely on natural gas and has no back-up fuel. Finally, PGW asserts that if Vicinity's service is determined to be interruptible, the standards and penalties for interruption under Rate IT should be imposed. PGW R. Exc. at 15.

d. Disposition

Regarding PGW's COSS, we agree with the ALJs' recommendation that, in the circumstances, PGW's proposed COSS produces a just and reasonable result. Because we conclude that, in the highly unique circumstances of this case, PGW's service to Vicinity is dependent upon, and benefits from, the use of PGW's distribution system, it is just and reasonable to allocate costs as recommended by the ALJs. Therefore, we decline to reduce the costs attributed to PGW's service to Vicinity. Accordingly, we shall deny Vicinity's Exception No. 1.

Regarding the question of whether the service provided by PGW to Vicinity should be characterized as "firm" rather than "interruptible," we disagree with the ALJs' reasoning and conclusion that Vicinity requires firm service. Although PGW proposes to provide firm service, upon examination of the facts of Vicinity's receipt of service from PGW to date, it is evident that the existing terms include definite "interruptible" characteristics. For example, the terms of the contract for service in place since 1996 included express provisions for interruptibility. *See,* Vicinity St. SR-1 at 10. In addition, as to the nature of the service required by Vicinity, Vicinity has stated:

> PGW's argument is that Rate IT has a different standard for interruptibility, and while that is true, it also is true that in many respects, Vicinity is subject to a greater degree of interruptibility now and has a greater capacity to address such interruption than most IT customers. Classifying the service as firm, as PGW has done, is incorrect because Vicinity owns 35,000 Dth of capacity that can deliver its gas through the Philadelphia Lateral to the four-mile line which serves only Vicinity. Even if interrupted, Vicinity can continue to operate for considerable periods of time without the ARS if that service is not provided, which would interrupt 37% of its peak day load. [Vicinity's witness,] Mr. [James E.] Crist[, P.E.] explained during cross-examination,

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

> Vicinity is clearly a unique customer who became a customer under unique circumstances and whose service needs are unique.

Vicinity M.B. at 17 (citing Vicinity St. No. 1-SR at 10). We further note the testimony of Vicinity's witness, Mr. Crist, wherein he stated, "I have provided significant evidence that Vicinity has oil storage and is capable of operating its facility for 70 days in the summer, 30 days in the winter, and 20 days at peak, and that is without replenishment of its oil stores." *See*, Vicinity St. 1-SR at 11.

In addition, Vicinity has expressed its unequivocal acceptance of the terms of interruptible service as applied to it under past contracts, as well as interruptible requirements applicable to Rate IT. *See,* Vicinity M.B. at 17. We shall not adopt the ALJs' reasoning, which relied upon Vicinity's rejection of PGW's offer of selecting either Rate IT or Rate GS in the context of the prior *Complaint Proceeding*, as a basis for concluding the character of service Vicinity requires.

In that prior proceeding, Vicinity sought to have a just and reasonable rate applied to it, and on that basis argued that a "special rate" should be applied; and therefore, rejected *both* the rate class "options" argued by PGW, which included either *firm* or *interruptible* service (*i.e.*, interruptible Rate Class IT, or firm Rate Class GS). *See, Complaint Proceeding* at 27-28 (citing *Complaint Proceeding* I.D. at 22-23; PGW *Complaint Proceeding* M.B. at 44-48).[68] Notwithstanding Vicinity's basis for

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[68] In the *Complaint Proceeding,* PGW argued that the presiding ALJ, Marta Guhl, could assign Vicinity to *either* interruptible Rate IT or firm Rate GS.

rejection of either rate, PGW's position was that Vicinity could qualify under *either* Rate IT or Rate GS. Therefore, it is not reasonable to now conclude that the type of service required by Vicinity is "firm" based upon Vicinity's rejection of the Company's offer of Rate IT in the *Complaint Proceeding*, any more than it would be reasonable to conclude that Vinity's service should be characterized as "interruptible" based upon PGW's position in that same proceeding, that the ALJ could assign Vicinity interruptible Rate IT.

We further note that it is not reasonable to infer from Vicinity's request to reduce penalties for violation of an OFO, that Vicinity, therefore, intends to violate PGW's OFOs or otherwise operate as having "firm" service, even if classified as interruptible. As a general matter, it is reasonable for a party to seek a reduction of any penalty it could potentially be subject to. In the present circumstance we see no adverse inference to be drawn from Vicinity's request. To the extent the ALJs' reasoning drew such an inference, we shall reject it.

We conclude that the character of service provided to Vicinity is based upon the definite interruptible nature of the agreement for service historically provided by PGW to Vicinity as well as Vicinity's credible averments regarding its ability to fully function within the confines of terms for "interruptible" service, including compliance with PGW's OFO orders and the concomitant penalties associated with noncompliance with such orders. Accordingly, we shall grant Vicinity's Exception No. 4. We further direct, as requested by PGW, that because we determine that the character of PGW's service to Vicinity is interruptible, we therefore determine that the conditions for interruptible service set forth in PGW's Rate IT should be incorporated in addition to the proposed terms for Rate GS-XLT.

2. The Transportation Rate

a. Recovery of Capital Costs, Plant in Service

(1) Positions of the Parties

PGW's proposal for recovery of capital costs, plant in service, attributed no capital costs to recover associated with the PGW line connecting the Texas Eastern Transmission (TETCO) interstate pipeline and Vicinity's points of consumption (*i.e.*, the Four Mile Line), in acknowledgement of the fact that Vicinity had largely paid the costs of construction of the Four Mile Line. PGW's cost calculation for Vicinity included the gate station investment for PGW's Gate Station 060 interconnection with TETCO, which directly serves Vicinity. Finally, rather than recover the costs for meters that register the deliveries to Vicinity in the transportation rate, PGW proposed to recover a reasonable portion of those costs through a customer charge of $1,100 per meter, per month, for two meters. PGW M.B. at 55; PGW St. 6-R at 28-29.

(2) Recommended Decision

As part of the ALJs' overall recommendation for approval of PGW's proposed transportation rate for Vicinity, the ALJs recommended that the Commission adopt PGW's proposal for capital costs, plant in service, which allocated or assigned to Vicinity's transportation rate only those facilities which are a part of Vicinity's delivery path. R.D. at 87-88 (citing PGW M.B. at 55, 91).

(3) Disposition

No party filed Exceptions on this issue regarding the ALJs' recommendation. We find substantial record evidence to support the ALJs' recommendation and conclusion that PGW's proposal for recovery of capital costs, plant in service regarding Vicinity is reasonable in the circumstances. *See,* R.D. at 91. Therefore, finding the ALJs' recommendation to be reasonable, we adopt it without further comment.

b. Recovery of Common Overhead Expenses

(1) Positions of the Parties

PGW claimed common overhead expenses as part of the transportation rate allocated to Vicinity based upon the Company's position that the "distribution system" costs are not allocated as "direct expenses" but, rather, are common overheads, not attributable to any single customer. PGW's position was consistent with the view that, for accounting purposes, all distribution system costs are classified as a general "distribution expense." PGW M.B. at 55-56. PGW's witness, Mr. Ryan Reeves, explained:

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

PGW St. No. 8-RJ at 1.[69]

Vicinity argued that PGW's CCOSS should be modified to remove certain costs inappropriately allocated to Vicinity, including $784,000 of low-pressure

[69] As noted, *supra,* GFCP/VEPI refers to Vicinity.

distribution system costs, and the proposal for assigning volumetric costs associated with maintenance of gate stations that serve multiple customers. Regarding any low-pressure distribution system costs, Vicinity argued that it did not utilize any of PGW's low pressure system and, therefore, should not be allocated costs. With respect to the volumetric allocation of gate station costs, Vicinity argued that cost causation is not volumetric, and therefore should not be calculated on that basis. Vicinity M.B. at 18-19.

(2) Recommended Decision

As part of the ALJs' overall recommendation for approval of PGW's proposed transportation rate for Vicinity, the ALJs recommended that the Commission adopt PGW's proposal for common overhead expenses, which allocated or assigned to Vicinity costs associated with PGW's distribution system based upon the reasoning that such expenses are joint and common costs needed to operate the entire system and cannot be directly assigned. Therefore, the ALJs recommended that the Commission adopt PGW's proposal to allocate the common overhead expenses across customer classes. R.D. at 88-91 (citing PGW M.B. at 56-58; Vicinity M.B. at 18-19).

(3) Disposition

No party filed Exceptions on this issue regarding the ALJs' recommendation. We find substantial record evidence to support the ALJs' recommendation and the conclusion that PGW's proposal for recovery of common overheads, not attributable to any single customer is reasonable in the circumstances. *See,* R.D. at 91. Finding the ALJs' recommendation to be reasonable, we adopt it without further comment.

c. **Surcharges**

(1) **Positions of the Parties**

PGW proposed that Vicinity be subject to surcharges associated with USEC, OPEB, ECR, and the DSIC, without regard to the characterization of Vicinity's service as "firm" or "interruptible." PGW argued that failure to apply these surcharges to Vicinity would result in other customers unfairly bearing a disproportionate share of these substantial costs. As proposed, PGW would allocate the surcharges to Vicinity, as follows:

- USEC- $290,000
- ECR- $111,811
- OPEB- $3,287,979
- DISC- $375,842

PGW M.B. at 60. PGW proposed that although the surcharges are non-base rate revenues that do not impact the revenue requirement in this case, the surcharges do impact the revenues collected from each customer class and should likewise affect those for Vicinity. *Id.* (citing PGW St. No. 6-R at 26-28; PGW St. No. 9-R at 36).

With respect to the USEC and ECR surcharges, PGW argued that, as a matter of public policy, it is reasonable to require Vicinity to support the costs of PGW's low-income programs through collection of the USEC and ECR surcharges, regardless of the specific status of their service as "firm" or "interruptible." PGW M.B. at 60. With respect to the OPEB, which is a cost associated with post-employment benefits for PGW employees that is recovered from all PGW customers under a firm service rate, PGW asserted that Vicinity should also be required to contribute a proportionate share of these costs. Finally, regarding the DSIC, PGW asserted that Vicinity, as a distribution customer, should be required to pay its proportionate share of costs associated with the replacement of aged distribution mains. *Id*.

(2) Recommended Decision

The ALJs recommended that the Commission adopt PGW's position that Vicinity be subject to the surcharges associated with USEC, OPEB, ECR and the DSIC, based on the arguments presented by PGW. The ALJs' recommendation rejected Vicinity's arguments in opposition to imposition of the surcharges. The ALJs expressly rejected Vicinity's position that it should be exempt from USEC surcharges because it is not eligible for USEC benefits, noting that other small, medium, and large business customers are also subject to that surcharge despite being ineligible for the benefits. The ALJs further concluded that the proposed surcharge of $290,000 for USEC is both reasonable and equitable in the circumstances. Moreover, the ALJs rejected Vicinity's argument that its position as a competitive customer should exempt it from surcharges. The ALJs' recommendation results in annual surcharges for Vicinity in the amount of $4,065,632, over and above the projected annual revenue of $1.3 million, from the recommended transportation rate. R.D. at 96-97.

(3) Vicinity Exception No. 2 and Replies

In its Exception No. 2, Vicinity submits that the ALJs' conclusion that Vicinity should be subject to the surcharges was in error. Vicinity avers that it should be exempt from the surcharges both because its service should be properly classified as "interruptible," and because it is a competitively situated customer of PGW, which should warrant a special reduction in both rates and surcharges. Vicinity Exc. at 15-17.

As a general matter of policy, Vicinity avers that the Commission has already determined that imposing surcharges on competitively situated customers is bad policy. Vicinity Exc. at 15 (citing *Joint Petition for Generic Investigation of Rulemaking Regarding "Gas on Gas" Competition between Jurisdictional Natural Gas Distribution Companies*, Docket Nos. P-2011-2277868, I-2012-2320323 (Opinion and Order entered May 4, 2017) (*Gas Wars Order*)). Vicinity reiterates that its unique receipt of service from PGW via the high-pressure distribution system, which it funded; and its ability to complete a bypass of PGW's system warrants special consideration both as to rates and surcharges.

Vicinity further notes that under its initial position, PGW proposed surcharges totaling over $14 million, or eighteen times the proposed transportation rate. Vicinity continued that, at the hearing, the Company substantially reduced this proposal to $5.38 million, which is still more than three times the proposed transportation rate on an annual basis. Vicinity Exc. at 17.

Vicinity argues that while none of the surcharges should apply to it, the most egregious proposed surcharge amount is that attributable to the surcharge for OPEB, *i.e.,* $3,287,979. Vicinity asserts that this surcharge is unreasonable as applied to it, where the surcharge is restricted to firm service customers, and Vicinity's service is interruptible.

In its Replies, PGW submits that the ALJs properly concluded that Vicinity should be subject to all four surcharges. In addition, PGW avers that the ALJs properly rejected Vicinity's arguments that its position as a competitive customer with bypass options should warrant its exemption from surcharges. PGW R. Exc. at 11-13.

In its Replies to Vicinity's Exception No. 2, CAUSE-PA/TURN assert that the ALJs were correct in applying the USEC surcharge to Vicinity. CAUSE-PA/TURN insist that all firm customers should contribute to USEC *regardless of rate class*. CAUSE-PA/TURN R. Exc. at 11-12 (emphasis added).

(4) Disposition

We agree with the ALJs' recommendation to apply the USEC, the ECR, and the DISC surcharges to Vicinity. We note that the decision to require Vicinity to contribute its proportionate share to the costs for universal service and distribution maintenance is without regard to our conclusion, *supra*, that the character of service PGW provides to Vicinity is interruptible. Although the classification of interruptible service is not typically subject to the USEC and ECR, and certain other surcharges, we find that those costs are reasonable in the given circumstances. We further note the unique circumstances of PGW's provision of service to Vicinity, and the fact that this proceeding represents the first opportunity to examine the question of Vicinity's service on a cost basis, makes the principles of rate shock and gradualism relevant to our determination.

With respect to PGW's application of surcharges, the Commission has previously concluded in the context of the 2017 rate proceeding that a departure from standard practice in restricting recovery of universal service costs to residential customers was just and reasonable in PGW's unique circumstances and given its customer base, finding that:

> [W]e recognize that PGW was, and will continue to be, the only Pennsylvania jurisdictional gas distribution company that does not allocate costs of universal service programs to strictly the residential class. As this Commission has previously determined in prior proceedings involving PGW, this Company has followed this allocation procedure prior to coming under our regulatory authority and our approval of this allocation for this Company represents an exception to our general policy as applied to other jurisdictional utilities that such costs are only allocated to the residential customer class.

> There are several reasons why we shall continue to approve PGW's unique allocation of universal service costs. PGW is unique in that it is a large, municipal natural gas utility situated within the City of Philadelphia and serves more low-income customers than any other jurisdictional gas utility.

PGW 2017 Rate Case at 74-75.

For the same reasons we previously approved a departure from the Commission's standard practice in the application of surcharges by PGW, we find that a similar departure from PGW's approved practice of restricting contributions to firm service customers is warranted in the present circumstances, to authorize PGW to apply the surcharges, which it would otherwise apply only to firm service customers for USEC and ECR, to Vicinity, which we have determined receives interruptible service.

We find that it is just and reasonable in the circumstances to require Vicinity to contribute to the universal service programs, which serve the public interest, and to the DSIC, which serves the general public interest in safe and reliable facilities, and where we conclude that the service to Vicinity is reliant upon the existence and use of PGW's distribution system, while acknowledging that Vicinity's reliance upon PGW's distribution systems is not typical. Conversely, we conclude that, on balance, the public interest considerations do not weigh in favor of approving a departure from PGW's existing practice of exempting interruptible service customers from contributing to OPEB.

We find that the costs to be borne under the combined USEC, ECR and DSIC of approximately $777,653,[70] are reasonable in the circumstances, and do not invoke the principles of rate shock, and gradualism. However, imposition of the

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[70] [USEC $290,000 + ECR $111,811 + DSIC $375,842 = $777,653].

$3,287,979 related to the OPEB surcharge, upon Vicinity would be a drastic increase in the circumstances. Given that we have concluded that the character of Vicinity's service to be interruptible, and that we have directed that the same standards for interruptibility be imposed upon Vicinity as Rate IT,[71] it is consistent with PGW's approved practice, that Vicinity be exempt from contribution to the OPEB surcharge.

In summary, we recognize our disposition on the issue of surcharges reflects an inconsistency attributable to the unique circumstances of both PGW, and its customer Vicinity. Weighing the totality of circumstances and the competing interests and principles in play, we find that on balance, it is just and reasonable and in the public interest to require Vicinity's contribution to the USEC, the ECR and DSIC surcharges; however, we further conclude that Vicinity should be exempt from the OPEB contribution, consistent with PGW's existing interruptible class.

3. Alternative Receipt Service

a. ARS Described

The issues raised regarding the ARS by PGW to Vicinity require a background understanding of the unique arrangement. The historic arrangement is described as follows:

> ARS is a unique service that GFCP/VEPI's predecessors and the City of Philadelphia agreed to twenty-five years ago under the now-expired contract at an annual fee of $54,000. The service was designed to allow GFCP/VEPI to overcome the fact that they lack sufficient upstream delivery capacity on TETCO (at the 060 Gate station intersection of the Philadelphia Lateral and the Four Mile Line that serves them) to receive all of the volumes that

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71 *See,* Rate IT, PGW Gas Tariff Pa. P.U.C. No. 2 at 111-12.

> they need during the winter months to maintain operations. GFCP/VEPI are only capable of receiving service at TETCO Gate Station 060, and this is the only gate on which they hold capacity rights. The gap between GFCP/VEPI's peak demand and need is 21,000 Dth.
>
> Distilled to its essence, PGW agrees to accept deliveries of GFCP/VEPI gas volumes on a different portion of its distribution system using pipeline capacity supplied by GFCP/VEPI, and then PGW uses its own (GCR customer paid) capacity that directly ties to the Four Mile Line to deliver gas supplies to GFCP/VEPI. The alternative delivery point used by GFCP/VEPI under this arrangement is at PGW's Gate Station 034 located on the Skippack Lateral.

R.D. at 97 (citing PGW M.B. at 61; PGW St. 6-R at 28; PGW St. 8 at 2-4.)[72]

b. Cost and Pricing of ARS

(1) Positions of the Parties

PGW asserted that the ARS is an arrangement designed to meet Vicinity's capacity position on TETCO, rather than any capacity needs of PGW and its other customers. PGW proposed that the ARS pricing should be fair to its other customers and account for/adequately compensate for the use of PGW's distribution system, which the other customers' rates maintain. PGW M.B. at 61-62.

As to the cost and pricing of ARS, PGW asserted that because the ARS utilizes both PGW's distribution system and its gas contracts, it is reasonable that Vicinity be allocated costs related to the system. PGW maintained that only because there is a customer demand and distribution system in a separate portion of PGW's entire

[72] We again note that GFCP/VEPI refers to Vicinity.

system, is PGW able to agree to send displacement volumes to Vicinity. PGW's witness, Ms. Heppenstall explained:

> This swap or alternative delivery program would not be available without PGW's extensive distribution system. Therefore, it is reasonable that Vicinity be allocated costs related to the system.

PGW St. No. 5-R at 9: PGW St. No. 8-R at 4-5.

Vicinity maintained that the appropriate rate for ARS could be based upon a permanent release with a market value of such release capacity of $0.345/Dth/day, or in the alternative, the price should be based on the only segment of the capacity that provides any benefit to Vicinity: the Philadelphia lateral section, which has a market value of $0.10/Dth/day. Vicinity M.B. at 31.

Both the I&E and the OCA agreed that allocation of a portion of PGW's distribution system is appropriate. I&E St. 3 at 5-18; OCA St. 3 at 21.

(2) Recommended Decision

The ALJs recommended that the Commission adopt the ARS provision of Rate GS-XLT, as proposed by PGW. The ALJs reasoned that the proposal is fair to all Parties. Specifically, the ALJs concluded that it was reasonable for Vicinity to pay, at minimum, PGW's cost to obtain the TETCO capacity it needs at the pipeline's tariffed rate, based upon the volumes that Vicinity uses. The ALJs further found that Vicinity benefits by avoiding the need to utilize the secondary market. Namely, the ALJs highlighted that Vicinity would not have to burn more expensive oil to fire its boilers, such that it would be relieved from pursuing demand management or other techniques to control its natural gas usage. R.D. at 103.

The ALJs concluded that the proposed price for ARS is substantially less than Vicinity was prepared to pay in PGW's 2023 GCR proceeding at *Pa. PUC, et al v. Philadelphia Gas Works*, Docket Nos. R-2023-3038069, *et al,* (Order entered July 13, 2023) (*2023 PGW GCR Case*). According to the ALJs, the proposed ARS provisions further ensure that PGW's other customers are assured that the Company will recover the cost of the TETCO capacity required for the ARS without subsidizing the cost of gas supplied to Vicinity *via* the ARS. Finally, the ALJs concluded that PGW's other customers have an additional benefit of potentially receiving more revenue credited if the competitive markets are willing to pay a higher price. R.D. at 103.

(3) Vicinity Exception No. 3 and Replies

In its Exception No. 3, Vicinity submits that the ALJs' recommendation, that the Commission adopt the position that Vicinity utilize PGW's distribution system for the receipt of ARS, is in error. Vicinity avers that this "fundamental misconception" also renders the ALJs' subsequent conclusion regarding the pricing of ARS to be in error. Vicinity asserts that the actual costs of ARS to PGW are minimal, requiring only the same level of involvement as PGW has with any other delivery of gas to its system. Vicinity describes PGW's position as follows:

> PGW proposes that it simply use the short haul Philadelphia Lateral capacity to supply gas to Vicinity at gate station 73060 for the swap, but that PGW retain the full 21,000 Dth/day of capacity all the way back to the Gulf Coast. The long-haul capacity is an asset that PGW can split into parts, i.e., keep the Philadelphia lateral portion to deliver for Vicinity, and sell the other portion which extends all the way to the Gulf of Mexico, and earn extra money for the GCR. The Philadelphia lateral portion has little to no value for any other party, except Vicinity, and the long-haul segment that extends to the Gulf has substantial value[.]

Vicinity Exc. at 20 (footnote omitted).

In its Replies to Vicinity Exception No. 3, PGW notes that the ALJs recognized that PGW's proposed ARS pricing model is based upon capacity costs, not base rate costs, in response to the Commission's April 20, 2023 Order disposing of the *Complaint Proceeding,* and positions taken by the Parties, including Vicinity, in the *2023 PGW GCR Case*. As PGW explains:

> 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). 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. 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

PGW R. Exc. at 13-14 (citing PGW St. No. 8 at 6; PGW M.B. at 63; PGW St. No. 8 at 6.).

(4) Disposition

We agree with the ALJs' recommendation to adopt the ARS provision of Rate GS-XLT, as proposed by PGW. We are persuaded that, under the circumstances, the proposal is fair to all Parties. Specifically, we agree that it is reasonable for Vicinity to pay, at minimum, PGW's cost to obtain the TETCO capacity it needs at the pipeline's tariffed rate based upon the volumes that Vicinity uses. As to the pricing of ARS, it is notable that the proposed price for ARS is substantially less than Vicinity was prepared to pay in the *2023 PGW GCR Case*.

c. Sharing of ARS Revenues

(1) Positions of the Parties

PGW proposed that all ARS revenues from rate GS-XLT be credited to base rates, and not the GRC. PGW's position was based upon the fact that ARS is completely reliant upon the existence and use of PGW's extensive distribution system. PGW further asserted that the ARS is not a "capacity release" in any traditional sense, as it is not done on an "opportunity basis" or based on market price at the time. As such, PGW argued that allocating the revenues from ARS to the GCR would improperly disregard the essential role of PGW's distribution system in ARS and would deprive the customers whose rates pay for the distribution system of any benefit. PGW M.B. at 65; PGW St. No. 8-R at 15.

The OSBA maintained that PGW's provision of ARS to Vicinity was primarily a matter of "capacity release." Therefore, the OSBA asserted that any revenues from ARS should be credited to the GCR customers, as they are the customers which pay for the capacity used to provide the ARS service. OSBA M.B. at 27.

Vicinity took no position on whether ARS revenues should be credited to base rates or the GCR.

(2) Recommended Decision

The ALJs agreed with PGW's position that all ARS revenues should be credited to base rates, and not the GCR. The ALJs reasoned that the ARS, as proposed under Rate GS-XLT, involves more than a "capacity release" in the traditional sense. On that basis, the ALJs agreed that the involvement of and reliance upon PGWs extensive distribution system was the predominant factor in the provision of ARS for Vicinity.

Accordingly, the ALJs recommend that ARS revenues be credited to base rates. R.D. at 103.

(3) Disposition

No Party filed Exceptions on this issue. We find substantial record evidence to support the ALJs' recommendation and conclusion that ARS revenues should be credited to base rates. Finding the ALJs' recommendation to be reasonable, we adopt it without further comment.

E. Customer Service Issues

At the outset, we note that PGW's base rate filing did not include any proposals concerning customer service. PGW M.B. at 67. However, the OCA and CAUSE-PA/TURN, through their testimony and filings, raised concerns and made recommendations pertaining to several customer service issues. These issues are addressed in more detail below. In response to the testimony submitted by the OCA and CAUSE-PA/TURN, PGW asserted that the customer service proposals are unnecessary, unsupported by the record, and not required by Commission Regulations. *Id*. *See also*, PGW R.B. at 52-53.

However, we further note that a base rate case is the proper venue for hearing the customer service issues raised in this proceeding.[73] As set forth in our Policy Statement, issues related to customer service are among the factors to be considered in

[73] We note that in its Exception No. 16, PGW excepts to the ALJs' determination that a base rate case is the proper venue for customer service issues. PGW Exception No. 16, and the associated Replies, are addressed *infra* at Section V.F.1.

evaluating whether PGW's proposed rates are just and reasonable, including the following:

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

52 Pa. Code §§ 69.2703(a)(6)-(8).

Additionally, the Commission has previously considered and addressed customer service issues in past PGW base rate cases. *See, 2020 PGW Rate Case*.

1. Customer Service Call Center Performance and Handling of Complaints

a. Positions of the Parties

The OCA raised multiple areas of concern with respect to PGW's call center performance and handling of customer complaints, citing the testimony of its witness, Ms. Barbara Alexander. OCA M.B. at 69-72. Regarding call center performance, the OCA relied on two specific performance metrics: (1) the percentage of calls to which a PGW representative responds within 30-seconds (response rate), and (2) the percentage of customers who abandon their call prior to response by a PGW representative (abandonment rate). While noting PGW's response rate of over 85% is comparable to that of other NGDCs, the OCA asserted PGW's abandonment rate of 9% is the highest in the Commonwealth. The OCA also noted that during the period from September 2021 through August 2022, PGW's response rate dropped to 76%, while its abandonment rate rose to 24%. OCA M.B. at 69-70 (citing OCA St. 5 at 6).

The OCA also raised concerns over PGW's responses to, and reviews of, consumer complaints. The OCA relied on the testimony of its witness, Ms. Alexander, alleging that PGW does not conduct evaluations or tracking of consumer complaints and documented infractions found by the Commission's Bureau of Consumer Services (BCS). The OCA argued that PGW should implement a "root cause analysis process" for consumer complaints to improve compliance. OCA M.B. at 71-72.

The OCA made two recommendations regarding PGW's customer service and call center performance. Namely, the OCA submitted that PGW should be ordered: (1) to maintain current call center performance and, by the next base rate case, significantly lower the rate of call abandonment to the average of other NGDCs; and (2) to conduct regularly scheduled "root cause" analysis of consumer complaints, disputes, and BCS findings and document the findings of such analysis. OCA M.B. at 69-72.

In response, PGW argued that the OCA's recommendations are unnecessary and unsupported based on record evidence that the Company's call service performance has returned to pre-pandemic standards and is in line with those of other NGDCs. PGW M.B. at 68 (citing PGW St. No. 1-R at 34). PGW also asserted that the OCA has failed to point to a Commission standard or regulation to which PGW's call center is failing to adhere and, therefore, a Commission order requiring the Company to maintain the current level of performance is unneeded. PGW claimed that any additional analysis of consumer complaints, disputes, and BCS findings is also unnecessary, as PGW reviews these items, as necessary, to identify or address trends. Finally, PGW argued that the OCA fails to assert any Commission authority for the position that the more robust process advocated for by the OCA is required. PGW M.B. at 68.

b. Recommended Decision

The ALJs recommended that PGW be required to maintain its current customer call center response rates, conditioning any approval of a rate increase upon the filing of a plan to maintain this rate within six (6) months of the Commission's final Commission Order in this proceeding. Additionally, the ALJs recommended that the approval of any rate increase be conditioned upon: (1) PGW undertaking a quarterly review of all Initial Decisions adverse to PGW to identify trends; and (2) PGW developing plans to address trends identified through its analysis to reduce complaints, improve compliance with the Code and Commission Regulations and policies, and to improve customer satisfaction; with the first analysis to be completed within ninety (90) days of the entry of a final Commission Order in this matter. R.D. at 108, 110.

c. PGW Exception Nos. 14 and 15, and Replies

In its Exception No. 14, PGW reiterates and expands upon the arguments raised before the ALJs. PGW argues that the ALJs' analysis and recommendation that the Commission adopt the OCA's position failed to refer to "any customer performance standards established by law or Commission regulation, with which PGW has failed to comply." PGW Exc. at 30. PGW also asserts that Commission precedent supports its position that "recommendations for a utility continue [*sic*] 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." *Id*. at 31 (citing *Pa. PUC v. Pennsylvania Gas & Water Co.*, 61 Pa P.U.C. 409 (1986). (Emphasis in original)).

Regarding call center performance, PGW argues that the Company reports call center performance to BCS, and that BCS has not followed up with PGW to assert that call center responses are being inadequately addressed. PGW further asserts that, given the number of reasons for possible abandonment of a call, call abandonment is an unreliable metric to tie to a base rate increase; and that the OCA's recommendations, and the ALJs' reasoning, attempt to circumvent the authority of BCS without any basis. PGW asserts that neither the OCA, nor the ALJs' reasoning, offers concrete suggestions, while failing to consider the substantial resources PGW is required to devote to these increased administrative duties. PGW Exc. at 31-32.

In its Exception No. 15, PGW finds fault with the ALJs recommendation that the Company be required to undertake a "root cause" quarterly analysis of complaints. PGW notes there was no finding that the Company has been providing inadequate service pursuant to Section 1501 of the Code, 66 Pa. C.S. § 1501, and suggests that PGW already undertakes a review of Initial Decisions, formal complaints, and other associated disputes such that a requirement to undertake this type of analysis is redundant. Additionally, PGW notes a dearth of other utilities held to this standard, and objects to sharing any analysis of complaints with the Commission or the Parties to this matter. PGW Exc. at 32-33.

In its Reply Exceptions, the OCA reiterates its argument that PGW has the highest call abandonment rate of any NGDC in the Commonwealth. The OCA also notes the significant deterioration of PGW's call center performance in the period from September 2021 through August 2022, when response rates fell to 76% and abandonment rates rose to 24%. The OCA also notes the closure of PGW's in-person offices, and ongoing staffing shortages, as reasons for the Commission to impose an ongoing obligation upon the Company to maintain current call center performance. Additionally, the OCA argues that PGW has failed to identify any harm or negative impact that would result from implementing a quarterly "root-cause" analysis of consumer complaints submitted to BCS. Accordingly, the OCA submits that PGW's Exceptions Nos. 14 and 15 should be denied. OCA R. Exc.at 19-20.

d. Disposition

Based on our review of the record, and for the following reasons, we shall reject PGW's Exception Nos. 14 and 15 and adopt the ALJs' recommendations requiring PGW to file plans for maintaining customer service call response rates at current levels and to conduct a quarterly review of customer complaints.

The record evidence establishes that PGW's call center performance declined to an unacceptable level in the period from September 2021 to August 2022. For almost a full calendar year, PGW's 30-second call response rate dropped to 76% and its call abandonment rates rose to 24%. This disturbing dip in customer service performance, when paired with the closing of PGW's in-person customer service centers, constitutes substantial evidence of a significant failure by PGW to provide adequate performance. Further, PGW still has an abandonment rate of 9%, which is the highest of all NGDCs in Pennsylvania. The Commission's Bureau of Audits, in its *Management and Operations Audit* (2022 Audit Report)[74] notes this decline and draws a stark comparison to customer call center performance in FY 2021, where response rates were 93% and call abandonment rates were 5%. 2022 Audit Report at 64. The 2022 Audit Report calls upon PGW to continue monitoring and adjusting call center resources to improve the performance of the call center. *Id.* at 65.

That said, we also acknowledge PGW's marked improvement in FY 2022. The 2022 Audit Report notes that in July 2022, PGW entered contracts with third parties to provide additional call center support and remedy staffing concerns the utility was facing. 2022 Audit Report at 64-65. These steps taken by PGW have seen rates return to those previously exhibited by PGW and have seen PGW's overall customer satisfaction

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[74] *See*, 2022 Management and Operations Audit, Docket No. D-2022-3030321 (Report issued March 2, 2023).

rates improve to 88%. *Id.* at 59. However, it is critical that PGW not be stagnant in its attempts to improve and maintain customer call center performance. For that reason, we shall require PGW to prepare and submit plans showing how the utility intends to maintain or improve its current call center responsiveness. We find this requirement to be a minimal burden on PGW, especially considering the fact that customer call center performance has already improved based on steps PGW has already taken. This report shall be due to the Commission within one-hundred and eighty (180) days of a final Commission Order in this matter.

In light of the evidence of customer call center performance issues, and the findings outlined in the 2022 Audit Report findings recommending PGW improve customer service performance, establish performance and reporting metrics for alternative communication methods with customers, and work with payment troubled customers to reduce outstanding customer balances, we agree with the ALJs' recommendation that PGW should develop and implement a quarterly review process for addressing trends identified in Commission Decisions adverse to PGW. *See,* 2022 Audit Report at 67-68. Again, we find this to not be unduly burdensome to PGW and believe the improved customer satisfaction and compliance with the Code and Commission Regulations to be of benefit to PGW. Considering the concerns raised in PGW's Exceptions regarding sharing of quarterly review reports, we shall require the filing of such plans within ninety (90) days of a Final Order in this matter but will not require PGW to submit findings of such an analysis to the Commission outside of the normal Commission audit and BCS processes. PGW shall continue to cooperate with the Commission's Bureau of Audits and BCS to ensure adequate service to its customers.

2. Alleged Failure to Negotiate Payment Plans that Conform to Chapter 56

a. Positions of the Parties

The OCA argued that PGW fails to negotiate customer payment plans that conform to Chapter 56 of the Code. In support, the OCA relied on the testimony of its witness, Ms. Alexander, who testified that PGW utilizes a software program to guide customer service representatives through the payment plan determination process. The OCA argued this practice conflicts with Chapter 56 of the Commission's Regulations at 52 Pa. Code § 56, and does not make the required individual determination, stating that "PGW outsources its responsibility to an algorithm that produce formulaic results that bear no reasonable relationship to what a family can actually afford." The OCA requested that procedures be developed that require an inquiry into the individual ability of a customer to meet proposed payment plans. OCA M.B. at 72-73

In response, PGW argued that the OCA has misread Section 56.97(b) of the Commission's Regulations; and that PGW's process for negotiating payment plans complies with the Code. PGW asserted that the current process considers the customer's income and ability to afford the payment arrangement alongside other factors and the standardization of the process prevents customer service representatives from calculating payment arrangements, which could be variable between representatives. PGW represented that its current procedure is fair, reasonable, and in compliance with Chapter 56, and asked that the Commission reject the OCA's argument. PGW R.B. at 54-55.

b. Recommended Decision

In their Recommended Decision, the ALJs recommended that the Commission reject the arguments of the OCA and found that PGW's system and policy for developing payment plans does not contradict the provisions of Chapter 56. The ALJs noted that the OCA "does not dispute that PGW's computer program does take into account various factors and OCA has produced no evidence, other than the opinion of its witness, that the algorithm used by PGW's software program fails to do so or does so in an unreasonable manner." Finally, the ALJs' noted the rights and remedies available to customers who believe their situation was not appropriately evaluated by PGW. R.D. at 111.

c. OCA Exception No. 5 and Replies

The OCA, in its Exception No. 5, takes issue with the ALJs' finding that PGW's process for negotiating payment plans complies with Chapter 56. OCA Exc. at 13. According to the OCA, the evidence supports a finding that PGW's payment plan process fails to consider the customer's ability to pay and, therefore, does not comply with Chapter 56. *Id.* at 14. The OCA asks the Commission to reject the ALJs' recommendation as to this issue, and to require PGW to modify its procedure. *Id.*

In response, PGW repeats its position that its payment plan negotiation and arrangement process is in full compliance with the requirements of Chapter 56 and asks the Commission to adopt the ALJs' recommendation. PGW argues that the OCA erroneously asks for an "individualized determination" and consideration of relevant factors by a customer service representative, rather than the statutorily required "good faith and fair judgment" and "reasonable" payment arrangement that considers the factors outlined in Section 56.97(b). PGW asserts that the ALJs properly found the current process considered all required factors, was reasonable, and complied with Chapter 56. PGW R. Exc. at 16.

d. Disposition

Upon review, we find that PGW's policy regarding payment arrangements does not conflict with the provisions outlined in Chapter 56 of our Regulations. Therefore, we shall deny the OCA's Exception No. 5., and adopt the ALJs' recommendation on this issue.

The OCA's argument that PGW failed to meet its burden in this regard is misplaced. As the Commonwealth Court has explained: "[w]hile it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged." *See, Allegheny Cntr. Assocs*., *supra.* While the ultimate burden of proof does not shift from the utility, the party proposing an adjustment or amendment to a ratemaking claim does bear the burden of presenting evidence demonstrating the reasonableness of the adjustment. *See*, e.g.*, Pa. PUC v. Phila. Elec. Co*., Docket No. R-891364 (Opinion and Order entered May 16, 1990); *Pa. PUC v. Breezewood Tel. Co.*, Docket No. R-901666 (Opinion and Order entered January 31, 1991). The burden of proof regarding an issue not included in a public utility's rate case is also incumbent upon the party raising that issue. *Pa. PUC v. Columbia Gas of Pa., Inc.*, R-2010-2215623 at 28 (Opinion and Order dated October 14, 2011).

As the ALJs correctly noted, the record in this matter establishes that PGW's current system for calculating payment arrangements takes into account numerous factors, including the ability of a customer to pay. The OCA did not present substantial evidence, other than the opinion testimony of its witness, Ms. Alexander, that PGW's algorithmic system failed to consider the factors in Chapter 56 or did so unreasonably. PGW's testimony established a reasonable basis for its system as a means to remove the subjectivity of customer service representatives from the consideration of payment arrangements. Customers also have additional remedies available if they believe factors were improperly considered or if they disagree with the payment arrangement offered by PGW.

Accordingly, we shall deny the OCA's Exception No. 5, and adopt the ALJs' recommendation on this issue.

3. Fee-Free Payment System

a. Positions of the Parties

The OCA argued that PGW should be required to move to a fee-free payment system to provide customers a wider variety of payment options and reduce the nearly 50% of PGW customers who pay a payment fee. OCA M.B. at 74 (*citing* OCA St. 5 at 11). The OCA noted an emerging trend of utilities eliminating payment fees based on the proliferation and consumer expectation of online payment. The OCA also argued that electronic processing fees should be "socialized" in the same manner as the payment processing costs for other forms of payment. OCA M.B. at 74.

In response, PGW noted the variety of payment options available to residential customers, including those methods which do not charge a fee: monthly autopay, in-person cash payment at local locations, and mailed personal check. PGW M.B. at 70-71 (citing PGW St. 1-R at 37). PGW also argued that the fees are not imposed by PGW and that including the fees in the Company's overall revenue requirement would result in PGW customers having to cover "millions of dollars" in credit card fees. PGW M.B. at 71. PGW requested that the Commission reject the OCA's argument in favor of fee-free payments, stating that the OCA has failed to point to a statute, Commission Regulation, Commission Order, or other requirement mandating PGW to do so.

b. Recommended Decision

The ALJs recommended that the Commission reject the arguments of the OCA, finding the OCA had not provided sufficient evidence to support its assertion that credit card fees should be shared among all residential customers, and that the OCA failed to point to any regulation or policy prohibiting PGW from collecting credit card processing fees. Further, the ALJs found PGW offered a number of fee-free payment options and absorbs the cost of cash payments as a convenience to its customers. R.D. at 112-13.

c. OCA Exception No. 6 and Replies

In its Exception No. 6, the OCA reiterates its argument requesting the Commission to direct PGW to offer fee-free payments for all its payment options. The OCA asserts that the ALJs failed to consider that all forms of payment utilized by PGW incur a processing fee, and that PGW passes those fees on to its customer base; and that including fees is the "most common approach" used by businesses that accept credit card payments. OCA Exc. at 15-16 (citing OCA St. 5 at 6, 11-12). While admitting PGW is not specifically required by the Code to do so, the OCA argues PGW should counter the closure of its in-person customer service centers and implement a fee-free payment system. OCA Exc. at 16.

In its Replies to Exceptions, PGW submits that the Commission should adopt the ALJs' recommendation on this issue. PGW notes the variety of fee-free options available to its customers and restates its position that requiring all residential PGW customers to absorb credit card fees is fundamentally unfair. PGW restates its position that the OCA has failed to consider the significant cost associated with the fee-free proposal, does not cite to any Commission Order, statute, regulation, or other requirement, but instead relies on a small number of examples to support its assertion that fee-free payment is a "growing trend." PGW R. Exc. at 17.

d. Disposition

Upon consideration of the record in this matter, we shall adopt the ALJs' findings and reject the OCA's Exception No. 6. We concur with the Company that the OCA has failed to point to any section of the Code, or any Commission Regulation, Order, or policy prohibiting PGW from collecting credit card processing fees from customers paying their PGW bills electronically. The OCA has also failed to provide substantial evidence in support of its proposal that the $3.1 million in credit card fees should be shared among all residential customers, rather than the individual customers electing fee added payment methods. Additionally, PGW offers multiple options for fee-free payment, including in-person payments at retailers in the community.

Accordingly, we shall deny the OCA's Exception No. 6 and adopt the ALJs' recommendation on this issue.

4. Identification Requirements

a. Positions of the Parties

CAUSE-PA/TURN contended that PGW imposes an "overly burdensome" set of identification requirements for establishing service and that these requirements disproportionately impact foreign-born customers, victims of domestic violence, and other vulnerable or at-risk populations. CAUSE-PA/TURN M.B. at 16 (citing CAUSE-PA St. 1 at 19). In support for its position, CAUSE-PA/TURN cited to the fact that PGW requires two forms of identification from an applicant prior to establishing service and limits the forms of identification accepted. CAUSE-PA/TURN M.B. at 16-17. CAUSE-PA/TURN asserted that it is unjust and unreasonable to require additional verification where a government issued photo identification has been provided, and argues this requirement is in violation of Section 56.32(c) of the Commission's Regulations, which requires only one form of photo identification. *Id.* at 17-18.[75] CAUSE-PA/TURN asked that PGW's policies be amended to allow a wider range of identification documentation and the Commission order PGW to modify its tariff to include and specify all terms and conditions for residential service applicants. *Id.* at 20. Additionally, CAUSE-PA/TURN argued that the requirements are especially onerous for victims of domestic violence and run counter to the expedited process for victims of domestic violence to access essential services. In the Joint Parties' view, merely providing a copy of a Protection from Abuse Order (PFA) or other court order should be sufficient. *Id*. at 22-23.

PGW countered that CAUSE-PA/TURN have failed to substantiate that PGW's identification requirements violate any statute, Regulation, or Commission Order. Specifically, PGW argues, the current identification requirements are "appropriate and necessary" to confirm a customer's identity and protect against identity theft and unauthorized service. PGW M.B. at 72-73 (citing PGW St. 1-R at 39). In view of additional rights and protections afforded to victims of domestic violence, PGW is of the

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[75] 52 Pa. Code § 56.32(c) states: "Prior to providing public utility service, a public utility may require the applicant to provide the names of each adult occupant residing at the location and proof of their identity. For purposes of this section, valid identification consists of one government issued photo identification. If one government issued photo identification is not available, the public utility may require the applicant to present two alternative forms of identification, as long as one of the identifications includes a photo of the individual. In lieu of requiring identification, the public utility may ask, but may not require, the individual to provide the individual's Social Security Number…"

opinion that it is reasonable to confirm a customer's identity via their established procedures. PGW M.B. at 73.

b. Recommended Decision

In their Recommended Decision, the ALJs found there to be three identification issues: (1) whether the requirement, that all applicants for PGW service show two forms of identification, is reasonable; (2) whether the requirement of two forms of identification imposes an excessively onerous burden on victims of domestic violence; and (3) whether PGW should amend its tariffs to incorporate terms and conditions of service outlining specific identification requirements for residential service applicants. R.D. at 114, 115, 117-18.

As to the first issue, the ALJs noted that PGW's identification requirements exceed those outlined in Section 56.32(c) of our Regulations. R.D. at 114. However, the ALJs found that PGW's additional requirements are "prudent" and reasonable considering potential identity theft and customer costs associated with unauthorized service. The ALJs' recommendation declined to modify PGW's current documentary requirements, holding that CAUSE-PA/TURN have presented compelling evidence, but failed to provide record evidence of the number of applicants impacted, the cost to adopt changes, and other necessary substantial evidence to prevail on the issue. *Id.* at 115, 117.

Regarding identification requirements for victims of domestic violence, the ALJs noted the additional rights and protections afforded the victims of domestic violence and, therefore, recommended limited changes to PGW's policies. R.D. at 118. Where applicants for service are victims of domestic violence, the ALJs recommend the following:

> [D]omestic violence victims who are unable to submit photo identification to set up gas service due to circumstances arising out of their domestic abuse, should not be required to submit photo identification to set up gas service if they: (a) demonstrate through production of a PFA or other court order that they are the victim of domestic violence; and (b) certify that (i) they are unable to meet PGW's documentation requirements as a direct result of domestic violence; and (ii) any photo previously submitted to PGW for the applicant's current or prior residence was and remains accurate in all material respects.

Id.[76]

Finally, the ALJs reasoned that CAUSE-PA/TURN's recommendation that PGW include certain policies and procedures in its tariff was unnecessarily unwieldy and rigid, and that upholding the recommendation would effectively require all PGW policies and procedures to be part of PGW's tariff. Instead, the ALJs recommended that PGW be ordered to inform potential applicants for residential service of identification requirements via in-person, telephone, and online communication channels, and on forms used by applicants to apply for service. R.D. at 119.

c. CAUSE-PA/TURN Exception No. 1 and Replies

In its Exception No. 1, CAUSE-PA/TURN takes exception to the ALJs' finding that would allow PGW to continue its current identification requirements for customers applying for residential service. The Joint Parties argue that the ALJs confined their analysis only to groups identified by the Joint Parties as "at-risk," and erred in focusing on the reasonableness of the identification requirements rather than their legality. CAUSE-PA/TURN Exc. at 4-5. The Joint Parties remain of the opinion that the

[76] We note that no Party objected to the ALJs' recommendation regarding applicants for service who are victims of domestic violence. As noted below, we find this recommendation to be reasonable and shall adopt it.

identification requirements are onerous, and in violation of 52 Pa. Code § 56.32(c). *Id.* at 5-6. CAUSE-PA/TURN believe the ALJs mistakenly found PGW's assertion that the identification requirements reduce identity theft and unauthorized service, arguing that PGW failed to provide any evidence showing such a reduction. CAUSE-PA/TURN also notes that PGW has not requested a waiver or exemption from Section 56.32, nor has PGW previously brought the identification requirements issue before the Commission. CAUSE-PA/TURN insist that the Commission should order PGW to discontinue its practice of requiring two forms of identification. *Id.* at 6-7.

In its Replies, PGW asserts that the ALJs' reasoning was correct, and restates its position that CAUSE-PA/TURN failed to provide substantial evidence in support of their proposal and assertion that PGW's identification requirements violate any statute, Regulation, or Commission Order. PGW asserts that the identification requirements serve an "important" purpose in preventing identify theft and protecting customers from costs associated with unauthorized service, allow residential applicants to show a variety of acceptable forms of identification, and properly verify the identity of potential customers. PGW R. Exc. at 18.

d. Disposition

Upon review, we shall adopt the ALJs' recommendation and deny CAUSE-PA/TURN's Exception No. 1. Although PGW's identification requirements exceed those set forth in our Regulations at 52 Pa. Code § 56.32, we find PGW provided a reasonable basis for this deviation. Conversely, we find CAUSE-PA/TURN's proposed tariff modifications to be unduly burdensome and unsupported by substantial evidence. Finally, we adopt the amended requirements for victims of domestic violence outlined in the R.D.

PGW offered evidence on the record that its identification requirements are necessary to prevent identity theft and unauthorized service requests. Namely, PGW submitted evidence that unauthorized service requests pass associated costs to customers, and additional identification requirements reduce these costs and prevent such issues. As the ALJs observed, CAUSE-PA/TURN submitted evidence of the burden this requirement imposed on certain applicants, but failed to provide substantial evidence the documentation requirements were unreasonable or should be modified.

We further concur with the finding of the ALJs that CAUSE-PA/TURN's proposal that PGW include all rules and conditions of service in its tariff is unnecessarily strict and would produce tariffs that are unwieldy and prohibitive for small changes to policy. Moreover, we find that CAUSE-PA/TURN have failed to point to any Commission Rule, Regulation, policy, or provision of the Code requiring such disclosure in a tariff. Therefore, we find the recommendation of the ALJs that PGW inform potential customers of identification requirements via existing communication channels, and on the forms used to apply for services to be reasonable.

Consistent with the forgoing, we shall deny CAUSE-PA/TURN's Exception No. 1 and adopt the ALJs' recommendation on this issue.

F. Low Income Customer Service Issues

1. Appropriate Forum

a. Positions of the Parties

PGW contended that a base rate case is not the proper proceeding to address issues affecting its low-income programming and that such issues are appropriately addressed in alternative proceedings that are more focused, such as universal service-specific proceedings. PGW reasoned that the Commission has acknowledged that certain complex universal service issues are better reviewed in a stakeholder process for universal service, such as the periodic review and approval process for PGW's Universal Service and Energy Conservation Plan (USECP). Additionally, PGW explained that the Commission is now reviewing universal service plans, which would address many of the issues that are raised by the parties, the result of which would be implemented statewide for Pennsylvania regulated utilities. PGW M.B. at 73-74.

The OCA argued that under Section 1501 of the Code, PGW is required to provide adequate and reasonable service and that the Commission's Policy Statement regarding PGW ratemaking procedures identifies the importance of quality of service issues in assessing PGW's rate request. OCA R.B. at 45 (citing 52 Pa. Code § 69.2703(a)(7)). The OCA stated that the quality of service is always evaluated in base rate cases and ultimately influences the amount of the rate increase that is eventually approved. The OCA further contended that the Commission may reject a public utility's proposal to raise rates if the Commission determines that the utility's service is insufficient in that it falls short of either quantity or quality of service requirements. OCA R.B. at 45-46.

Similarly, CAUSE-PA/TURN asserted that PGW has the burden of showing that its proposed rate increase is just and reasonable. According to the Joint Parties, the Commission's Policy Statement on PGW's ratemaking requires the Commission to consider how the proposed rate increase will affect universal service as well as how to lessen its effects by enhancing those programs. The Joint Parties claimed that in the current proceeding, PGW is seeking to significantly raise its rates for basic gas service. In CAUSE-PA's view, the mere presence of a statewide docket, for which there is no timeline for a Commission decision and no assurance that modifications will be made at the state level, does not absolve PGW of its ongoing obligation to offer its customers just and reasonable rates and thorough universal service programming. CAUSE-PA/TURN R.B. at 20.

b. Recommended Decision

The ALJs noted that while they appreciate the potential advantages of a thorough, coordinated statewide approach as proposed by PGW, low-income customers would be denied relief for a considerable amount of time if the low-income customer service deficiencies cited in this proceeding weren't resolved until after the completion of the Commission's review or final approval of PGW's 2023-2027 USECP filing. Considering PGW's current rates, the Company's proposed rate request, the delay entailed in the proposed alternative proceedings, and the impact on all PGW customers, the ALJs determined such an outcome to be unacceptable. R.D. at 120-21. Additionally, the ALJs noted that the Commission has consistently addressed customer service issues in prior PGW base rate cases in accordance with the Commission's Policy Statement at 52 Pa. Code § 69.2703(a)(6)-(8). *Id*. at 105. Therefore, the ALJs found no reason to ignore that precedent or the plain language of the Commission's Policy Statement with respect to the instant case and subsequently addressed the low-income customer service issues raised by the OCA, CAUSE-PA/TURN, and POWER. *Id*. at 105, 121.

c. PGW Exception No. 16 and Replies

In its Exception No. 16, PGW reiterates its argument that this base rate case is not the proper forum to address complex, universal service issues. PGW Exc. at 33. In support of its position, PGW cites to *Aqua 2022,* wherein the Commission purportedly refused to modify Aqua's universal service program (USP) and reasoned that such determination was consistent with prior cases where the Commission held that addressing complex issues involving universal service in a base rate case is not appropriate. *Id*. at 33-34 (citing *Aqua 2022* at 331, 332-33). In addition, PGW contends that as part of the

Commission's review of all fixed utilities' universal service programs, the Commission is currently dealing with a wide range of concerns, such as automatic enrollment in customer assistance programs, outreach to low-income consumers, and data exchange among agencies. In PGW's view, concerns regarding the affordability of utility rates and low-income consumers' access to such programs are not unique to PGW and should be considered on a statewide basis. PGW Exc. at 34.

Further, PGW claims that the ALJs' concerns regarding a delay in the resolution of these issues if they are not addressed in this base rate case are misplaced. PGW Exc. at 34. According to PGW, the five-year time frames and extensive review process of the USECP proceeding have been established by the Commission to give stakeholders sufficient time to assess the different parts of the comprehensive universal service plans, the Commission enough time to adjudicate the filings, and the utilities enough time to implement their plans. PGW is also currently in the process of implementing its 2023-2027 USECP. PGW contends that the USECP process is thorough and provides an opportunity for input from all parties before decisions are made by the Commission and put into effect by the utilities. Because BCS serves in an advisory role during the USECP process, it is the position of PGW that permitting the Parties in this base rate matter to gain approval for adjustments outside of that process would be improper, unjust to PGW, and usurp BCS' power. *Id*. at 34-35.

PGW further excepts to the ALJs' conclusion that the Commission's Policy Statement justifies expanding the scope of a rate case to include specific universal service modifications proposed by the Parties. PGW argues that by including these non-financial factors, such as the effect on universal service, in the Policy Statement, the Commission found that these factors are relevant in the analysis of "just and reasonable" rates, but did not suggest using these factors in a base rate case to expand or enhance universal service programs offered by PGW. PGW Exc. at 35-36.

In its Reply, the OCA agrees with the ALJs' conclusion that a base rate case is the proper forum to address low-income service issues. OCA R. Exc. at 21. Given that PGW recently submitted its USECP and that, therefore, its Needs Assessment deadline would fall in February of 2025, the OCA asserts that it is reasonable to infer that waiting until PGW's next USECP to address PGW's low-income challenges would be problematic. While PGW claims that prior Commission decisions support the conclusion that a USECP is the appropriate forum to review PGW's low-income issues, the OCA contends that the Commission's Policy Statement specific to PGW ratemaking recognizes the significance of quality of service issues and their impact on universal service in evaluating PGW's rate request. The OCA further contends that delaying consideration of low-income customers for an extended period would effectively ignore factor numbers 7 and 8 of the Commission's Policy Statement that the Commission will take quality of service and the impact on universal service into account when determining just and reasonable rate levels for PGW. *Id*. at 21-22.

CAUSE-PA/TURN replies that PGW's reliance on the USECP process and the statewide approach to its low-income service issues is flawed. CAUSE-PA/TURN R. Exc. at 3. The Joint Parties stress that under the Commission's Policy Statement, 52 Pa. Code § 69.2703(a)(8), when setting just and reasonable rates, the Commission must consider the impact of rates on universal service. *Id*. at 4-5. Therefore, CAUSE-PA/TURN dismisses PGW's argument, that universal service issues should be excluded from the review of PGW's rates, as illogical. *Id*.

While PGW cites to the base rate case in *Aqua 2022* to support its claim that universal service concerns are better reviewed in a universal service-specific process, the Joint Parties contend that PGW fails to consider the fact that such order was modified after reconsideration to clarify that the Commission rejected CAUSE-PA/TURN's argument that Aqua's USP should be structured as a Percentage of Income Program (PIP), and that consideration of recommendations regarding Aqua's universal service programs in its rate proceeding were not barred. CAUSE-PA/TURN R. Exc. at 5 (citing *Aqua 2022*, Opinion and Order on Reconsideration, Docket No. R-2021-3027385 et al. (Order entered October 27, 2022), at 23). According to CAUSE-PA/TURN, the USECP review process is not as rigorous as PGW claims because there is no opportunity for formal discovery or a hearing before an ALJ. In contrast, CAUSE-PA/TURN contends, parties in a base rate case have the chance to conduct a more extensive analysis through discovery, submission of expert witness testimony, cross-examination of witnesses, and on-the-record hearings before an ALJ. CAUSE-PA/TURN R. Exc. at 5-6.

d. Disposition

During this proceeding, the OCA, CAUSE-PA/TURN, and POWER raised issues specifically relating to PGW's low-income customer service practices. We note that PGW's percentage of low-income customers (38.4%) is the highest of any NGDC in the state. OCA St. 3 at 23. Additionally, the Company's percentage of confirmed low-income customers is higher than any other Pennsylvania electric or natural gas utility. PGW St. 1-R at 6 (citing https://www.puc.pa.gov/media/2188/2021_universal_service_report_rev122722.pdf (PUC 2021 Universal Service Report) at 7).

As mentioned above, pursuant to the Commission's Policy Statement, one of the factors that the Commission must consider in evaluating just and reasonable rate levels for PGW is "the effect on universal service." *See*, 52 Pa. Code § 69.2703(a)(8). Historically and in accordance with this Policy Statement, we have addressed customer service issues in prior PGW base rate cases. *See, 2020 PGW Rate Case*; *2007 PGW Rate Case*. We agree with the ALJs that there is no reason to disregard the language plainly stated in the Policy Statement and find that the ALJs appropriately applied Commission precedent in the present case.

Additionally, we share the concerns raised by the Parties and acknowledged by the ALJs that tabling consideration of these issues until PGW's next USECP proceeding would result in denying low-income customer relief for an extended period. In our view, such a result is unreasonable and thwarts the purpose of universal service, which is to help low-income customers *maintain* their natural gas service. *See*, 66 Pa. C.S. § 2202. Further, we find CAUSE-PA/TURN's argument, that a base rate case proceeding provides a more formal review process than the USECP review process, to be persuasive. Accordingly, we find that the instant proceeding is the more appropriate forum to address these low-income customer service issues and we shall deny PGW's Exception No. 16.

2. Identification of Low-Income Customers

a. Positions of the Parties

PGW asserted that under 52 Pa. Code § 62.2, "confirmed low-income residential account" simply means that the customer is considered low-income if the Company has "information that would reasonably place the customer in a low-income designation." Additionally, PGW continued, the regulation states that "[t]his information may include receipt of [LIHEAP] funds, 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)." PGW M.B. at 76-77 (citing to 52 Pa. Code § 62.2). PGW contended that its process is compliant by using the information sources listed in this regulation. PGW M.B. at 77.

According to the OCA, PGW enrolls fewer than half of its Confirmed Low-Income Customers in its CRP. OCA M.B. at 82 (citing OCA St. 4 at 30). The OCA submitted that rather than identifying its low-income customers and then seeking to enroll those customers in the CRP, PGW looks at the number of customers that are:

(1) enrolled in the CRP; (2) receiving LIHEAP; and (3) enrolled in low-income payment arrangements, and labels those customers as Confirmed Low-Income Customers. The OCA insisted that this falls short of the requirements in Section 62.2 of our Regulations. OCA M.B. at 83, 85. The OCA further contended that a customer is not required under our Regulations to participate in any of the three programs mentioned (*i.e.,* LIHEAP, CRP, or a low-income payment arrangement) in order to be identified as a Confirmed Low-Income Customer. *Id*. at 85 (citing OCA St. 4 at 54). As such, the OCA argued that PGW's process is stricter than what the Commission's regulations permit, and that by not accepting information that would "reasonably place the customer in a low-income designation," as Section 62.2 requires, PGW is denying regulatory protections to customers who are entitled to them. OCA M.B. at 85. Therefore, the OCA proposed that PGW accept documentation of participation in any municipal, state, or federal means-tested program as sufficient documentation to identify a customer as a Confirmed Low-Income Customer and/or to establish eligibility for the means-tested winter disconnection moratorium. *Id*. (citing OCA St. 4 at 9).

CAUSE-PA/TURN argued that PGW tracks its low-income customer population in two ways: estimated low-income customers and Confirmed Low-Income Customers. CAUSE-PA/TURN M.B. at 24. The Joint Parties noted that the "estimated low-income customer" count estimates the likely number of low-income customers in PGW's service area using census data from BCS in addition to PGW's residential customer count. *Id*. (citing CAUSE-PA/TURN St. 1 at 7). As to "confirmed low-income customers," PGW classifies them as such only if they participate in the CRP, have been issued a LIHEAP Cash or Crisis grant, and have enrolled in a low-income payment agreement in the past two years. The Joint Parties' witness, Mr. Harry S. Geller, explained that the estimated low-income customer count presents a more accurate representation of the low-income consumers in PGW's territory. *Id*.

According to CAUSE-PA/TURN's analysis of data gathered by PGW, as of December 2022, less than half of PGW's confirmed low-income customers were enrolled in the CRP, and less than one-third of its estimated low-income customers were enrolled. CAUSE-PA asserted that PGW's failure to adequately identify and assess the extent of unmet need for rate assistance to reasonably afford service is due in large part to PGW's reliance on collections and termination data for only confirmed low-income customers. Based on its analysis, CAUSE-PA/TURN asserted that the proportional census-based estimated low-income customer count is more accurate for assessing the effectiveness of PGW's universal service program participation and outreach. CAUSE-PA/TURN M.B. at 25.

b. Recommended Decision

In the Recommended Decision, the ALJs agreed with the arguments of the OCA and CAUSE-PA/TURN that PGW's methodology for identifying low-income customers is flawed. The ALJs found that Section 62.2 of the Commission's Regulations "specifically contemplates, without restriction, *any* information that would reasonably place the customer in a low-income designation." R.D. at 124-25. Additionally, the ALJs concurred with the OCA and CAUSE-PA/TURN that census data that is collected and published by the federal government, and accessible to PGW, falls within the scope of information that would legitimately place the customer in a low-income designation and is a more accurate indicator of PGW's low-income customer service efforts. *Id*. at 125. Therefore, the ALJs recommended that the Commission direct the Company to adopt the BCS census-based estimated low-income customer count and to utilize such data to increase enrollment in PGW's universal service program. The ALJs further recommended that the Company be directed to assess the effectiveness of PGW's universal service program outreach and participation. The ALJs recommended that PGW implement such recommendations with its next USECP filing, and all reports regarding service to low-income customers filed on or after December 31, 2023. *Id*.

c. Exceptions and Replies

(1) PGW Exception No. 17 and Replies

In its Exception No. 17, PGW disputes the ALJs' finding that the Company's methodology for identifying low-income customers is flawed. PGW argues that its current criteria for identifying low-income customers complies with Commission regulations and that the ALJs have misunderstood the census data they recommended PGW be ordered to use. According to PGW, the census data is merely an estimation of the number of low-income people in the service territory, as provided to each utility by BCS, and this information cannot be used to identify whether these individuals are indeed PGW customers. PGW Exc. at 36-37. In support of its position, PGW points to the PUC 2021 Universal Service Report, which states that most confirmed low-income homes are identified by either the receipt of a LIHEAP grant, enrollment in a universal service program, or during the course of making a payment arrangement. *Id.* (citing PUC 2021 Universal Service Report at 2). PGW further contends that the ALJs' recommendation inappropriately encroaches on areas that are the responsibility of BCS and imposes an unreasonable compliance timeline that PGW is unable to meet as it is currently undergoing a full replacement of its CIS. PGW Exc. at 37-38.

In its Reply, the OCA agrees with the ALJ's interpretation of Section 62.2 of our Regulations, and their conclusion that the BCS census-based estimated low-income count falls within the scope of information that would reasonably place the customer in a low-income designation. The OCA argues that if PGW is unable to meet the compliance timeline as recommended by the ALJs, then PGW should request an extension of the timeline. OCA R. Exc. at 22-23.

In its Replies to Exceptions, CAUSE-PA/TURN argues that PGW misunderstands the datapoints provided by BCS. Namely, the Joint Parties explain that the census data on residents in PGW's service area with incomes at or below 150% of the Federal Poverty Level (FPL) is provided by BCS to PGW for use in calculating estimated low-income customers. To arrive at a more precise estimate of the proportion of PGW customers with low incomes, BCS then adjusts this data proportionately to PGW's residential customer count. In response to PGW's argument that the ALJs' recommendation encroaches on BCS's purview, CAUSE-PA/TURN argues that BCS, as a bureau of the Commission, calculates and provides such data at the Commission's directive. CAUSE-PA/TURN further contends that the timeline set forth in the R.D. is reasonable, as the data is readily available for use in reporting under PGW's current plan and PGW's next needs assessment. CAUSE-PA/TURN R. Exc. at 8.

(2) OCA Exception No. 7 and Replies

In its Exception No. 7, the OCA reiterates its recommendation that PGW should accept documentation of any municipal, state, or federal means-tested public assistance benefits to identify a customer as a Confirmed Low-Income Customer and/or establish eligibility for the winter disconnection moratorium. According to the OCA, such standard is lower than what is already required in the Code since the Code permits customers to self-certify. OCA Exc. at 17. The OCA emphasizes the finding of the ALJs that "[Section 62.2] specifically contemplates, without restriction, *any* information that would reasonably place the customer in a low-income designation." *Id*. (citing R.D. at 124-25). The OCA argues that while the ALJs agreed that PGW's current methodology for identifying low-income customers is flawed, the ALJs' recommendation limits low-income customer identification to the BCS census-based estimated low-income customer count and does not adopt the OCA's proposal. The OCA purports that its own recommendation is reasonable, is in accordance with the Commission's Regulations, and should be adopted along with the ALJs' recommendation. OCA Exc. at 18.

In reply, PGW argues that the OCA's reading of Section 62.2 is overly expansive. PGW contends that this regulation does not require that utilities accept all forms of identification that the OCA would require. According to PGW, its current process conforms to Section 62.2, as it uses the information sources listed in the regulation and strikes the right balance between accepting different forms of identification while preventing ineligible customers from enrolling. PGW R. Exc. at 19.

d. Disposition

As an initial matter, we note CAUSE-PA/TURN's analysis of data gathered by PGW demonstrating that, as of December 2022, less than half of the customers that the Company has identified as low-income were enrolled in CRP, and less than one-third of its estimated low-income customers were enrolled. As such, we emphasize the need for PGW to improve CRP participation, especially considering PGW's proposed rate increase.

We agree with the ALJs' conclusion that PGW's process for identifying low-income customers is flawed. PGW's reading of the confirmed low-income designation appears to limit the pool of Confirmed Low-Income Customers by only counting customers enrolled in CRP, receiving LIHEAP, and on low-income payment agreements. Section 62.2 of our Regulations defines the "Confirmed Low-Income Customers" designation in broader terms, as it provides examples of information that PGW may rely upon when making such designation, and not an exhaustive list. In other words, the enumeration of these examples of information in the regulation does not imply the exclusion of others if the information is obtained by the Company and would reasonably place the customer in a low-income designation.

Next, we also agree with the ALJs' conclusion that the BCS census-based estimated low-income count, which is collected and published by the federal government and readily accessible to PGW, falls within the scope of information that would reasonably place the customer in a low-income designation under Section 62.2. Additionally, we find this data to be a more accurate tool for assessing the number of eligible customers and the effectiveness of PGW's universal service program participation and outreach than PGW's current methodology.

Therefore, consistent with the above discussion, the Company is directed to improve its identification of low-income customers in its universal service programs by adopting the BCS census-based estimated low-income customer count, and to utilize such data to increase CRP enrollment and evaluate the effectiveness of PGW's universal service program outreach and participation. As this data is readily available for use in reporting under PGW's current plan and next needs assessment, PGW shall implement this change beginning with its next USECP filing and all reports concerning service to low-income consumers filed on or after December 31, 2023.

Accordingly, we shall deny PGW's Exception No. 17. Because we conclude that the BCS census-based estimated low-income customer count is sufficient, the OCA's Exception No. 7 is also denied.

3. Data Sharing and Coordination

a. Positions of the Parties

PGW rejected the idea of coordinating with City offices to enter into data sharing agreements, contending that it cannot rely on information from organizations created for wholly unrelated objectives in order to enroll clients in CRP. PGW claimed that there are significant costs associated with these coordination issues, including the administrative and technology costs, as well as any costs that might result from a large number of customers being enrolled in CRP as a result of this cross-enrollment, particularly if a large number of ineligible customers enroll. According to PGW, its non-CRP customers would then be responsible for paying these costs. PGW concluded that these coordination issues are better addressed through a comprehensive, statewide proceeding. PGW M.B. at 74-75.

The OCA proposed that PGW coordinate with multiple City offices to enter into data sharing agreements and use the information provided to enroll eligible customers in CRP. OCA M.B. at 86-89.

CAUSE-PA/TURN proposed that PGW create a system for automatically enrolling CRP participants using LIHEAP data when it becomes accessible through the Department of Human Services (DHS) in the Fall of 2024. CAUSE-PA/TURN M.B. at 31. Additionally, the Joint Parties recommended that PGW be instructed to incorporate outreach to help with CRP enrollment in its yearly cold weather surveys, starting with the pre-December 2023 survey. *Id*. at 28.

b. Recommended Decision

The ALJs began by recognizing that data and technology are indisputable components of PGW's delivery of service and its efforts related to regulatory compliance. The ALJs agreed with the OCA and CAUSE-PA/TURN that PGW should use data sharing and coordination to enhance the Company's customer service to low-income customers and applicants, where they involve a modest expansion of current PGW practices and where the Company already has the pertinent data or access to it. R.D. at 126-27.

Therefore, the ALJs recommended that PGW be ordered to prepare and submit to the Commission for approval plans to carry out the following recommendations within sixty (60) days after entry of a final order in this proceeding:

- Plans for outreach to assist with enrollment in CRP as part of its annual cold weather surveys, if possible, beginning with the pre-December 2023 survey;
- Plans to utilize LIHEAP enrollment data already in its possession to confirm customers' low-income status, to guide outreach efforts, and to facilitate enrollment and retention in CRP;
- Plans to confirm customers' low-income status as promptly and efficiently as possible, using data sharing and in coordination with DHS and Philadelphia's Department of Revenue;
- Plans to develop auto-enrollment and/or cross-processes that facilitate and simplify enrollment of customers in CRP;
- Plans to use shared data to enhance and guide outreach efforts;
- Plans to use shared data to facilitate enrollment and retention in CRP; and
- Plans to expand its collaboration relating to data sharing and coordination to include other state and city agencies and entities.

R.D. at 127.

The ALJs further directed PGW to initiate and complete implementation of plans for the use of shared data as soon as possible and within any deadlines outlined by the Commission in any Order issued as part of its review. R.D. at 127. In addition, the ALJs recommended that the Commission adopt the OCA's proposal that PGW be instructed to include, starting with its next-filed USECP, a specific section that lists any actions included in the plans mentioned above that have not yet been fully completed and present a workplan outlining the technology tools it has adopted or that it intends to adopt in the short-term, mid-term, and long-term, to address low-income customer identification, CRP enrollment, and CRP enrollment maintenance. *Id*. at 127-28.

c. PGW Exception Nos. 16, 18, and Replies

PGW's Exception No. 16 and the Replies of the OCA and CAUSE-PA/TURN are addressed, *supra,* in Section V.F.1.

In its Exception No. 18, PGW argues that the data sharing and coordination items enumerated in the Recommended Decision go considerably beyond PGW's current system capabilities and data availability, are too costly to implement, and are not supported by statute. PGW also claims that the Commission does not have jurisdiction over the organizations that the ALJs' recommendation would require it to work with, including the City, and that the Commission cannot compel these entities to sign data sharing agreements with PGW. PGW Exc. at 38-39. It is PGW's position that these data sharing and coordination issues are better addressed on a statewide basis and that the broader review of universal service programs is the proper forum to consider this type of coordination. Lastly, PGW notes that it already has a USECP that does not include any of these data sharing and reporting requirements. According to PGW, the USECP falls under the purview of BCS, and the ALJs' recommendation seeks to modify approved universal service programs and requirements. *Id*. at 39-40.

The OCA argues in its Reply that PGW provided no evidence that the City would not want to cooperate with PGW on data sharing and that, on the contrary, the record demonstrates that the City currently collaborates with the Philadelphia Water Department. Therefore, according to the OCA, it is logical to assume that the City would similarly work with PGW. The OCA further contends that despite PGW's assertion that providing plans would be too costly, PGW offered no evidence of the alleged cost. OCA R. Exc. at 24.

In reply to PGW's argument that the data sharing and coordination items enumerated in the Recommended Decision are unsupported by statute,

CAUSE-PA/TURN contends that PGW is obligated to provide just and reasonable service to low-income customers. According to the Joint Parties, the ability of PGW to offer just and reasonable rates and services to low-income households depends on improving the identification of low-income customers and better matching them to important rate assistance and use reduction services. Lastly, CAUSE-PA/TURN notes the absence of any argument made by PGW with respect to the ALJs' recommendation that PGW include outreach to assist with enrollment in CRP as part of its annual cold weather surveys, which, according to the Joint Parties, does not require any coordination with non-PGW entities. Therefore, the Joint Parties submit that PGW has waived any objection to carrying out this provision of the Recommended Decision.
CAUSE-PA/TURN R. Exc. at 10-11.

d. Disposition

As previously noted, PGW is owned by the City. This fact suggests that other City agencies are likely to work with PGW. Because of PGW's status as a municipally owned utility, the ALJs' recommendation may be better tailored to PGW's requirements than a statewide process. Additionally, we note how PGW lags other utilities in their identification, enrollment, and maintenance of low-income customers in programs that are designed to help low-income customers.

Therefore, we agree with the ALJs' recommendation that data and technology are key to low-income customer service and we find the ALJs' recommended approach reasonable in the circumstances. Accordingly, we shall deny PGW's Exception No. 18 and adopt the ALJs' recommendation, which directs the Company to prepare and submit to the Commission for approval plans to carry out the recommendations set forth above within sixty (60) days after entry of a final order in this proceeding.

4. Low-Income Usage Reduction Program

a. Positions of the Parties

PGW stated that, in recent years, it has had both the highest total universal service spending and the highest LIURP spending as a percentage of residential sales, when compared to other Pennsylvania electric and natural gas utilities. PGW M.B. at 78 (citing PGW St. 1-R at 26-27; 2021 Report at 39, 55, 84). In this regard, PGW provided that its LIURP spending accounted for 1.76% of the Company's residential revenue, while the average for all Pennsylvania natural gas and electric utilities was 0.80% of residential sales. PGW M.B. at 79 (citing 52 Pa. Code § 58.4(a), which requires natural gas utilities to provide annual LIURP funding of at least 0.2% of jurisdictional revenue.) PGW argued that it is inappropriate to set the LIURP budget based on the number of homes to be served, as this would disincentivize full weatherization, and does not account for inflation or other cost increases. PGW R.B. at 64 (citing PGW M.B. at 80). PGW explained that its 2022 per-job costs were $4,148 for LIURP. PGW treated 1,894 homes with a budget of $7,872,501, including internal costs. PGW explained that if it was required to treat more homes, it would have to spend much less per job with less energy savings for the low-income customers. PGW St. 1-R at 28.

The OCA's witness, Mr. Colton, recommended that PGW's LIURP budget should be increased to serve an additional 425 homes per year. OCA M.B. at 89 (citing OCA St. 4 at 56). The OCA provided that PGW's current LIURP budget is inadequate. According to the OCA, at the current rate of service, it would take seventeen years to treat the 44,168 confirmed low-income homes in need of LIURP service. OCA M.B. at 90 (citing OCA St. 4 at 57). The OCA reasoned that the proposed increased level of rates and the proposed increased residential customer charge will increase the need for LIURP services. OCA M.B. at 91 (citing OCA St. 4-SR at 19). The OCA submitted that PGW's LIURP budget has been constant at $7,988,818 per year for the years 2018 through 2022 and that PGW proposes to keep its LIURP spending constant for the next three years (*i.e.*, 2023 through 2025). OCA R.B. at 55 (citing OCA St. 4 at 57). The OCA explained that its proposed increase to LIURP funding would not be collected through base rates but would be recovered through PGW's Universal Service Rider. The OCA further explained that as more than 60% of PGW's LIURP participants are also CRP participants, every dollar of reduced bill to a CRP participant would be a dollar of reduced costs to be collected through the Universal Service Rider. The OCA maintained that increased LIURP investment would also reduce arrearages for low-income customers. OCA R.B. at 56 (citing OCA St. 4 at 56).

CAUSE-PA/TURN averred that PGW's LIURP program can help mitigate the impact of the proposed rate increase on low-income customer households by installing a range of efficiency and weatherization measures to reduce high usage. CAUSE-PA/TURN M.B. at 32 (citing CAUSE-PA/TURN St. 1 at 23). CAUSE-PA/TURN's witness, Mr. Gellar, explained that due to underbudgeting and restrictions on access to the program, it is not operating in a manner to meet the needs of low-income customers. *Id.*

CAUSE-PA/TURN provided that since 2013, PGW's LIURP budget has only increased 3.7% while PGW's rate proposal would increase the bill for a typical customer by 9.9%. CAUSE-PA/TURN M.B. at 24. CAUSE-PA/TURN recommended that the Commission increase PGW's LIURP budget by an amount sufficient to serve 3,000 households per year. More specifically, the Joint Parties explained that a LIURP budget of $8,925,000 would serve 3,000 households at PGW's reported cost per job of $2,975. *Id.* at 28. CAUSE-PA/TURN also recommended the creation of a "special needs" criterion for potential Home Comfort customers who have a household income between 151-200% of the FPL. CAUSE-PA/TURN explained that these customers will be impacted by the proposed rate increase but would be ineligible for CRP or LIHEAP. *Id.* at 27.

POWER argued that an increase in residential rates will cause more customers to be eligible for LIURP services, pushing the current PGW estimate of a seventeen-year timeline to reach all homes in need even further out. POWER submitted that this is an unreasonable timeline for PGW to serve its LIURP-eligible customers. POWER M.B. at 28. POWER provided that in *Pa. PUC, et al v UGI Utilities, Inc. – Electric Division*, Docket Nos. R-2021-3023618, *et al* (Opinion and Order entered October 28, 2021) (*UGI Electric 2021*) and in *Pa. PUC, et al v UGI Utilities, Inc. – Gas Division*, Docket Nos. R-2015-2518438, *et al* (Opinion and Order entered October 14, 2016)(*UGI Gas 2016*), the Commission approved an increase in LIURP funding proportional to the percentage distribution rate increase for the residential class; and POWER advocated a similar increase here. POWER M.B. at 28-29 (*UGI Electric 2021* at 20; *UGI Gas 2016* at 37; Recommended Decision in *UGI Gas 2016*, issued July 22, 2016, at 54.). POWER contended that because PGW has an unusually high proportion of low-income households, it is appropriate that PGW have a higher LIURP budget than other Pennsylvania utilities. POWER R.B. at 5 (citing POWER St. 1, Exh. MDK-2, PGW Business Diversification Study at 8, 16; CAUSE-PA/TURN St. 1 at 6-7).

b. Recommended Decision

The ALJs recommended that the Commission reject proposals to increase PGW's LIURP budget. The ALJs reasoned that PGW has proposed a significant rate increase that will impact all of its customers. According to the ALJs, an increase in PGW's LIURP budget would raise the Company's LIURP spending beyond a rate that is already the highest in the Commonwealth. The ALJs provided that an increase in the LIURP budget would be borne by PGW customers who are not eligible for the program. The ALJs also recommended the denial of CAUSE-PA/TURN's suggestion that LIURP be extended to allow households between 151-200% of the FPL to participate in LIURP. R.D. at 130; n. 654.

c. PGW Exception No. 16 and Replies

As previously noted, PGW's Exception No. 16 and the associated Replies are addressed in Section V.F.1, *supra*.

d. Disposition

PGW's currently approved LIURP budget is $7.989 million. OCA R.B. at 55. PGW has provided LIURP services to (1) 1,657 homes in 2020, (2) 2,060 homes in 2021, and (3) 1,894 homes in 2022. OCA R.B. at 55 (citing OCA St. 4 at 58).

The OCA recommended that PGW increase its LIURP budget to serve an additional 425 homes per year. POWER recommended that PGW increase its LIURP spending proportional to the approved residential rate increase. PGW M.B. at 78-79. While the ALJs described CAUSE-PA/TURN's proposal as an increase of $8.925 million to PGW's LIURP budget to provide LIURP to an additional 3,000 homes, we note that CAUSE-PA/TURN actually proposed a *total* LIURP budget of $8.925 million to provide services to a *total* of 3,000 homes, and not an *additional* $8.925 million to service 3,000 *additional* homes. R.D. at 128; *See*, CAUSE-PA/TURN Exc.at 2-3 (citing CAUSE-PA/TURN M.B. at 33). We recognize this error and modify the Recommended Decision accordingly.

We note that PGW's LIURP spending is significantly higher at 1.76% than any other natural gas or electric utility as a percentage of residential sales. PGW M.B. at 79. As previously noted, PGW provided that the average for all Pennsylvania natural gas and electric utilities was 0.80% of residential sales, which is less than half of PGW's proportional spending. PGW St. 1-R at 27. We agree with the ALJs that increasing PGW's LIURP budget is not appropriate. Namely, PGW already has the highest rate of spending for LIURP at 1.76% of residential sales in the Commonwealth, and it is ill-advised to further increase the rates for those customers who will not benefit from the LIURP costs. We also agree with the ALJs that it is not advisable to expand the LIURP eligibility to customers in the 150% to 200% FPL range. As PGW provided, it already has many low-income customers waiting to participate in the LIURP Home Comfort program. PGW St. 1-R at 29.

5. Disconnection of Service after Undeliverable Bills

a. Positions of the Parties

PGW contended that it makes an effort to update a customer's contact information when mail is returned, including obtaining any mail forwarding information through its billing vendor and the United States Postal Service (USPS), and/or calling the customer to update their contact information. PGW M.B. at 78 (citing PGW St. No. 1-R at 24). PGW noted that by way of its current process, it makes a reasonable attempt to update a customer's contact information when it is ultimately the customer's responsibility to provide PGW with its current contact information. PGW R.B. at 65. According to PGW, the OCA's proposal would also come with significant administrative expense, given that PGW would have to implement new systems to track this information, and would require significant staff time by customer service representatives. PGW M.B. at 78 (citing PGW St. No. 1-R at 24).

The OCA argued that PGW's practice assigns the customer full responsibility for mail that is returned to PGW as being undeliverable. OCA M.B. at 92 (citing OCA St. 4 at 65). The OCA argued that because PGW does not track any of its bills or disconnection notices that are returned as undeliverable, it does not track such returns by zip code either. OCA M.B. at 92. Based upon this fact, the OCA further argued that it is unreasonable for PGW to attribute mail that is returned as undeliverable to customers as a failure to give a correct address. *Id*. at 93 (citing OCA St. 4 at 65-66). In support of its position, the OCA cited to the USPS procedures manual, providing that there are nearly 20 reasons why mail may be "Undeliverable As Addressed." *Id*. Therefore, the OCA's witness, Mr. Colton, recommended that PGW take several actions when a customer's mail is returned as undeliverable, including placing a collection hold on all accounts for which bills and/or disconnection notices are returned as undeliverable. OCA M.B. at 94 (citing OCA St. 4 at 70). Further, the OCA argued that PGW did not offer any testimony on what the administrative costs would be if it implemented the OCA's recommendation. OCA M.B. at 95.

b. Recommended Decision

In consideration of other recommendations made within the proceeding to enhance customer service that will undoubtedly consume time, attention, and resources from PGW's administrative, management, and information technology staff and budgets, the ALJs recommended that the Commission reject the OCA's proposal regarding unreturned or undeliverable mail. R.D. at 131.

c. OCA Exception No. 8 and Replies

In its Exception No. 8, the OCA argues that PGW's current practice of terminating service for returned mail does not comply with the Commission's pre-termination notice requirements at Chapter 14 of the Code and should be rejected. The OCA submits that undeliverable mail is caused by several factors that are wholly beyond the control of ratepayers. The OCA contends that its recommendation that a collection hold be placed on accounts in which undeliverable mail is returned would bring PGW into compliance with the Code and should be adopted. OCA Exc. at 19-20.

In reply, PGW argues that it is not required by law to ensure that mailed notices or bills are actually received by the customer or to stop the collections or termination process if mail is returned as undeliverable, as the OCA claims. According to PGW, it follows the Commission's requirements for forms and timing of notice prior to termination. PGW reiterates its argument that it updates customer contact information through its billing vendors and the USPS, and that the OCA's recommendation lacks legal basis and would create an administrative burden. PGW R. Exc. at 20.

d. Disposition

As a preliminary matter, we note that Section 1406(a) of the Code, 66 Pa. C.S. § 1406(a), permits a utility company to terminate service under certain conditions, such as nonpayment of an undisputed delinquent account or failure to comply with the material terms of a payment arrangement. Section 1406(b) outlines the procedure that the Company must follow before terminating service. *See*, 66 Pa. C.S. § 1406(b).

We find that there is no evidence in the record that PGW does not follow the requirements of Section 1406(b) prior to terminating a customer's service when mail is returned as undeliverable. PGW provided testimony of the steps it takes to update customer contact information when mail is returned as undeliverable, including making phone calls and requesting updated information through USPS. These steps are made in addition to the steps PGW must take before terminating service under Section 1406(b).

The OCA has not pointed to any additional Commission statute, Regulation, Order, or other legal requirement in support of its proposal. Based on the evidence in the record and the lack of a legal requirement mandating that PGW take the OCA's proposed administrative steps, we shall deny the OCA's Exception No. 8.

6. Nonpayment Data Tracking and Reporting

a. Positions of the Parties

PGW contended that it does not track data by zip code on critical elements of non-payment and would have to implement additional systems to do so. According to PGW, this data tracking and reporting is unnecessary and unsupported by statute. It is also unclear to PGW the purpose of such data tracking and reporting as well as whether it would offer customers any meaningful benefit to justify the cost. PGW M.B. at 80-81.

The OCA argued that PGW does not track fundamental information, such as the mean or median bill for all residential accounts, the mean or median bill for all residential accounts in arrears, the mean or median arrears of accounts in arrears, or the average arrears of all residential accounts disconnected for nonpayment in a month, that would permit PGW to identify and respond to bill payment difficulties associated with unaffordable bills. Considering PGW's significant residential payment difficulties, the OCA's witness, Mr. Colton, recommended that PGW be ordered to gather monthly data by zip code on important elements of nonpayment and to make this information publicly available. OCA M.B. at 91-92.

b. Recommended Decision

Again, the ALJs recommended that the Commission reject the OCA's proposal related to nonpayment data tracking and reporting due to other recommendations made to enhance customer service that will undoubtedly consume time, attention, and resources from PGW's administrative, management, and information technology staff and budgets. R.D. at 132.

c. **Disposition**

No Exceptions have been filed to this determination. Finding the ALJs' recommendation to be reasonable, appropriate, and in accordance with the record evidence, it is adopted.

7. **CRP Cost Recovery Offset**

a. **Positions of the Parties**

PGW argued that contrary to the OCA's position, *infra,* there is no double recovery occurring as the Company recovers CRP credits and arrearage forgiveness through the USEC surcharge, but not bad debt. PGW R.B. at 67 (citing PGW St. No. 1-RJ at 3). PGW further contended that non-CRP customers do not pay 100% of their surcharges and contribute to the Company's bad debt expense when they fail to pay their bills. Thus, PGW claimed, CRP costs recovered through the USEC are not collected at a rate of 100%. PGW R.B. at 67. Moreover, PGW argued that CRP customers do not pay 100% of their CRP bills and receive forgiveness for all pre-program arrears. *Id*. at 68. According to PGW, the OCA's underlying concern relates to whether PGW is recovering more bad debt expense than predicted in its FPFTY and assumes that, as the number of enrollees in PGW's CRP and arrearage forgiveness increases, PGW's uncollectible expense decreases. *Id*. at 66 (citing PGW St. No. 1-R at 32). PGW noted, however, the OCA made no mention of what should occur if PGW recovers *less* bad debt than predicted in its FPFTY. Further, PGW criticized the OCA's reliance on the *2007 PGW Rate Case*, arguing that simply because the Commission mentioned the possibility of a double recovery it is not evidence that any double recovery is currently occurring. PGW M.B. at 67-68.

The OCA, through the testimony of its witness, Mr. Colton, recommended that an offset of 12.1% should be applied to PGW's bad debt expense recovery, rather than the current 5.75%, to prevent a "double recovery" of credits and arrearage forgiveness provided through PGW's CRP. Next, the OCA recommended that the offset be applied to all customers participating in the CRP percentage of income program component above the participation number as of September 30, 2023. Lastly, the OCA recommended that this offset be applied to arrearage forgiveness credits granted to all CRP participants receiving arrearage forgiveness in excess of those receiving forgiveness as of September 30, 2023. OCA M.B. at 96 (citing OCA St. 4 at 72). The OCA argued that while PGW's current offset was established in the settlement of the *2020 PGW Rate Case*, the settlement was consistent with the litigated outcome of the *2007 PGW Rate Case*. OCA M.B. at 95.

b. Recommended Decision

The ALJs recommended that the Commission reject the OCA's proposal, finding its reasoning to be flawed for several reasons. First, the ALJs held, as PGW pointed out, that the OCA's stance is based on a settlement from a previous proceeding that is not applicable to this case. Second, the ALJs concurred with PGW that the OCA hasn't offered enough evidence of "double counting." Moreover, the ALJs noted that years in which COVID-19 interfered with CRP enrollment and collection activity were factored into the calculations that the OCA utilized to arrive at the recommended 12.1% offset and that such offset is one-sided in that it only affects new CRP customers; but if there are less CRP customers than the preset number, no adjustment is made. Instead, the ALJs recommended that PGW reinstate the mechanism and procedure established in the *2007 PGW Rate Case*, which was intended to track possible under and/or over recovery of CRP bad debt expense. This procedure involves gathering data to determine the net outcome in CRP participation over the level existing at the time a final Commission

Order is issued in this proceeding, as well as the average shortfall per participant, and presenting that data with its quarterly reconciliation. R.D. at 134.

c. OCA Exception No. 9 and Replies

In its Exception No. 9, the OCA argues that the ALJs erred in rejecting the OCA's position on bad debt expense and that the OCA's proposed offset should be adopted. The OCA submits that PGW's current offset of 5.75% was established in the settlement of the *2020 PGW Rate Case*. OCA Exc. at 21. However, according to the OCA, the offset was implemented because of a Commonwealth Court Order, *Philadelphia Gas Works v. Pa. PUC*, No. 1914 C.D. 2007, 2009 Pa. Commw. Unpub. LEXIS 797 (Pa. Cmwlth. 2009) (*2007 PGW Commonwealth Court Order*), arising from the *2007 PGW Rate Case*, wherein the Commonwealth Court stated the following:

> PUC ordered PGW to develop a mechanism to automatically adjust PGW's actual collection of its bad debt expense in base rates based upon the change in participation in the CRP. The purpose of the mechanism is to eliminate double recovery of uncollectible expenses.

Id. at 21-22 (citing *2007 PGW Commonwealth Court Order* at 22).

In reply, PGW argues that the OCA's proposal should be rejected and the ALJs' resolution of the issue adopted as no evidence has been provided by the OCA to establish any double recovery, simply the possibility of both an over and under recovery of bad debt expenses. PGW R. Exc. at 21-22. PGW notes that the ALJs correctly acknowledged that the current offset was a provision of the *2020 PGW Rate Case* settlement that will expire upon the entry of a final order in this matter and had no binding effect on this proceeding. According to PGW, the *2007 PGW Commonwealth Court Order* that the OCA erroneously relies upon, was not the source of a requirement for PGW to implement a bad debt offset. Instead, PGW argues that the appeal focused on PGW's proposal to establish rates based on a five-year planning period and the issue concerning bad debt expense was not before the Commonwealth Court. *Id*. PGW further contends in affirming the Commission's Order in the *2007 PGW Rate Case*, the Commonwealth Court stated that the Commission had not directed PGW to make an automatic adjustment to its bad debt expense and acknowledged that double recovery of uncollectible accounts expense is a possibility and can be alleviated by implementing a reconciliation mechanism. *Id*. at 22.

d. Disposition

We find the ALJs' recommendation to be reasonable and supported by the record as well as prior precedent. As we previously stated, in the *2007 PGW Rate Case*, we agree that double recovery of uncollectible accounts expense is a possibility and can be alleviated by implementing a mechanism for reconciliation.

Further, we agree with the Company that the *2007 PGW Commonwealth Court Order*[77] was not the source of a requirement for PGW to implement a bad debt offset, as the current 5.75% offset was a product of the *2020 PGW Rate Case* settlement that will expire upon the entry of a final Commission order in this matter and is not binding on this proceeding.

Therefore, the ALJs' recommendation that PGW be directed to reinstate the mechanism and procedure established in the *2007 PGW Rate Case*, which was intended

[77] For clarification, we note that the Commonwealth Court, in its unreported opinion, held that the "PUC did not direct PGW to make an automatic adjustment to its bad debt expense; rather it only directed PGW to collect data to determine the net change in CRP participation and average shortfalls for its CRP participants." *2007 PGW Commonwealth Court Order* at 23. The Commonwealth Court further noted the OCA's position in the case that "there is a potential for double recovery." *Id*. at 24.

to track possible under and over recovery of CRP bad debt expense, is adopted. We shall direct PGW to collect data to establish the net change in CRP participation compared with the number of CRP participants at the effective date or rates established pursuant to this base rate case, as well as the average shortfall per participant, to be presented with its quarterly CRP reconciliation.

Accordingly, because we agree with the ALJs' determination to decline to adopt the OCA's proposed offset, the OCA's Exception No. 9 is denied.

G. Pipeline Replacement/Alternatives

1. Positions of the Parties

PGW explained that its infrastructure planning and main replacement is governed by its Commission-approved Long Term Infrastructure Improvement Plan (LTIIP) and Distribution Integrity Management Plan (DIMP). PGW M.B. at 83 (citing PGW St. 7-R at 2). PGW further explained that the Commission has approved the accelerated replacement of at-risk cast iron as a focus of PGW's infrastructure planning and both the LTIIP and DIMP are carefully monitored by the Commission's Gas Safety Division. PGW M.B. at 83 (citing PGW St. 10-R at 10-11).

PGW averred that POWER intervened in this proceeding and recommended: (1) the integration of NPAs[78] into the Company's capital and infrastructure planning; (2) the initiation of a NPA Pilot Program, facilitated by a

[78] POWER describes NPAs as "methods of meeting peak and seasonal loads that do not require new natural gas pipeline or other gas plant to be developed." Examples include "demand-side measures, such as demand response, sewer heat recovery, advanced control strategies, new business models, energy efficiency or electrification." POWER St. 1 at 6 (citing National Grid, *What is an NPA*?, https://perma.cc/WMR7-PVKU).

working group of interested parties that will meet, oversee and require PGW to implement and least ten NPAs within twelve months; and (3) the filing of an annual pipeline replacement and spending report. PGW M.B. at 83-84 (citing POWER St. 1 at 31-34).

PGW averred that the Commission should reject POWER's NPA proposal outright. According to PGW, the Commission already has regulatory requirements in place pursuant to Section 1501 and Chapter 13 of the Code to ensure that PGW provides safe, adequate, and reliable service to its customers. Additionally, the Commission carefully and extensively regulates PGW's efforts to replace its "at risk" and other facilities. PGW contended that those efforts should not be replaced or delayed by POWER's proposals. PGW averred that POWER has not shown how any particular portion of PGW's rate increase proposal or its existing rates or service is unjust, unreasonable, or inadequate. PGW reasoned that the Commission is not a "super board of directors" and cannot dictate management policies without a determination that a utility's service is inadequate or unreasonable. PGW M.B. at 84 (citing *Metropolitan Edison Company v. Pa. PUC*, 437 A.2d 76 (Pa. Cmwlth. 1981)). PGW noted that the Commission considered and rejected a similar environmental proposal in PGW's last rate case and determined that it does not set environmental policies. In the *2020 PGW Rate Case* the Commission stated:

> We accept PGW's argument that it is unadvisable for the Commission to make new policy or establish new filing requirements via individual rate cases. We agree with PGW that it would be unfair to impose an undefined filing requirement upon it of the kind recommended by the ALJs in the absence of statutory, regulatory or other legal order or requirement that directs the creation and submission of information that is essentially a climate change plan.
>
> We want to be clear in stating here that we are not departing from our broad jurisdiction to regulate rates and determine the justness and reasonableness of same, including expense and

> revenue claims driven by weather patterns and customer usage. In fact, we encourage all parties in rate case proceedings to file appropriate information and supporting documentation for the establishment of rates and appropriate adjustments thereto. We simply find that, at this time, mandating a Climate Business Plan is beyond our primary jurisdiction.

PGW M.B. at 85 (citing *2020 PGW Rate Case* at 94).

PGW argued that the Commission does not have the authority to require PGW to implement POWER's NPA proposal. PGW reasoned that the Commission has "only the power and jurisdiction expressly conferred or necessarily implied to it by the Legislature" and the Commission "must act within, and cannot exceed that jurisdiction." PGW M.B. at 86 (citing *City of Phila. v. Phila. Elec. Co.*, 473 A.2d 997, 999-1000 (Pa. 1984); *City of Pittsburgh v. Pa. PUC*, 43 A.2d 348 (Pa. Super. 1945) additional citations omitted).

PGW explained that the examples used by POWER in New York state were based on the New York Public Service Commission (NYPSC) Gas Planning Order, which resulted from New York's recently enacted Climate Leadership and Community Protection Act which created emission reduction requirements for gas distribution systems. According to PGW, the NYSPC required gas utilities to change their gas planning procedures and requiring gas utilities to propose NPA screening criteria along with cost recovery of NPA projects and shareholder incentives for utilities to pursue these initiatives. PGW M.B. at 88 (citing Case 20-G-0131, Proceeding on Motion of the Commission in Regard to Gas Planning Procedures, Order Adopting Gas System Planning Process (issued May 12, 2022) (*Gas Planning Order*)). PGW averred that a similar rulemaking and regulatory process occurred in Colorado. PGW noted that no such legislation exists in Pennsylvania. PGW M.B. at 88 (citing PGW St. 10-R at 13-14).

PGW insisted that POWER's NPA proposal is at odds with how PGW must plan for its system to meet current demand and design day requirements. PGW maintained that it must plan its system to reliably meet a "worst case scenario" and planning for unquantifiable demand reductions from NPAs would not be prudent. PGW M.B. at 91 (citing PGW St. 10-RJ at 8). As an example of the unsuitability of the NPA proposal of reducing main size, PGW's witness, Mr. Elliott S. Gold, testified that reducing pipe size from 6" to 4" would only save 4% of the installation and materials costs but could lead to reduced capacity of 50% and cause reliability issues. PGW M.B. at 92 (citing PGW St. 7-RJ at 3).

Regarding the block-by-block, or local, approach of POWER's proposal, PGW contended that such an approach is incompatible with the Company's operations. PGW's witness, Mr. Robert K. Smith, explained that while there are areas of PGW's system where smaller diameter pipes can be implemented, arbitrary reductions to demand on one block does not necessarily mean PGW can reduce the size of its mains on that block. Doing so, Mr. Smith argued, would affect reliability for customers who do not choose to implement the NPAs and customers upstream. PGW M.B. at 93 (citing PGW St. 7-RJ at 2).

Regarding cost recovery, PGW asserted that it must continue its current LTIIP for safety and reliability, and the NPA spending advocated by POWER would be additional to PGW's current rates. PGW M.B. at 94. PGW averred that POWER's proposed NPA Pilot Program and Working Group are inconsistent with current Commission administered laws and regulations. PGW opined that the delegation of authority over its planning process to a working group and the potential exposure to "confidential security information" by the working group must be rejected. PGW R.B. at 70 (citing 35 P.S. § 2141.2). Additionally, PGW set forth that the pilot program is an impractical approach to capital planning. PGW M.B. at 95. Finally, PGW argued that the reporting that POWER asked the Commission to order PGW to complete would be an imprudent use of PGW's ratepayers' resources. PGW maintained that its current reporting is compliant. *Id*. at 99.

POWER's witness, Mr. Mark D. Kleinginna, recommended that PGW implement NPAs through: (1) a pilot program of NPAs developed through a working group process, and (2) regular reporting of NPA initiatives. POWER M.B. at 31 (citing POWER St. 1 at 26, 29). POWER provided that the working group process would start with monthly meetings that include PGW, any interested parties, and any interested Commission staff. The working group could then develop screening criteria to identify potential NPAs that PGW could deploy on a pilot basis. Mr. Kleinginna suggested that the working group identify at least ten potential NPAs for consideration. The working group would then develop a process for implementing the NPAs. POWER M.B. at 32 (citing POWER St. 1 at 27-28). POWER acknowledged that "PGW's existing energy efficiency programming is highly cost-effective, and shows the potential for cost-effectively reducing demand through well-demonstrated, already-deployed measures." POWER M.B. at 33 (citing POWER M.B. at 36-42). Mr. Kleinginna added that the working group could use information from the existing programs to develop new targeted NPAs. POWER M.B. at 33.

Regarding the reporting of NPA results, Mr. Kleinginna recommended biannual reporting to ensure transparency and to promote a competitive market for NPAs. *Id.* POWER explained that it is not recommending any particular NPA. Rather, POWER recommended that "NPAs be fully considered as part of PGW's planning process for their potential to reduce cost of service through the implementation of the collaborative pilot working group and reporting process." POWER M.B. at 34. POWER explained that for PGW's rates to be "just and reasonable," PGW must consider cost-reduction opportunities such as NPAs. POWER M.B. at 43. POWER argued that the Commission has the authority to require PGW to "consider the cost reduction opportunities from

NPAs for its capital spending, and the Commission can and should exercise that authority." POWER R.B. at 23.

POWER clarified its position on pipeline replacement, noting that Mr. Kleinginna did not recommend halting main replacement and substituting NPAs in the LTIIP process as PGW claimed. Rather, POWER recommended examining whether NPAs could enable mains to be replaced with smaller diameter pipe and thereby reducing costs. R.B. at 15 (citing POWER St. 1 at 21).

2. Recommended Decision

The ALJs noted that the issues raised by POWER regarding NPAs are similar to those raised in PGW's 2020 base rate case. R.D. at 137 (citing *2020 PGW Rate Case*). In that case, certain parties opposed a proposed settlement and requested that the Commission "deny PGW's requested rate increase as insufficiently supported by the evidence. Specifically, they contend that PGW has not shown that investments in accelerated infrastructure replacement are prudent, necessary, and consistent with public interest." R.D. at 137. (citing *2020 PGW Rate Case* at 1).

3. Exceptions and Replies

a. Power Exception No. 1 and Replies

In its Exception No. 1, POWER submits that the ALJs erred in determining that the Commission lacks jurisdiction and authority to accept POWER's NPA proposal. More specifically, POWER argues, the ALJs erroneously concluded that the Commission does not have jurisdiction and authority to direct PGW to implement NPAs because Pennsylvania does not have legislation requiring gas utilities to consider NPAs. POWER Exc. at 2 (citing R.D. at 141). POWER explains that while Pennsylvania has not adopted legislation specifically requiring NPAs, there is regulatory authority for the Commission to accept POWER's NPA proposal. Power Exc. at 2.

POWER notes that Section 1301 of the Code, 66 Pa. C.S. § 1301, provides the Commission with the authority to investigate all general rate increase filings to ensure that "[e]very rate made, demanded, or received by any public utility…shall be just and reasonable, and in conformity with [the] regulations or orders of the commission." POWER Exc. at 3-4 (citing 66 Pa. C.S. § 1301(a)). POWER explains that the Commission has also recognized that rate affordability is properly considered as part of setting just and reasonable rates under Section 1301. POWER Exc. at 4 (citing *Pennsylvania Pub. Util. Comm'n Off. of Consumer Advoc. Off. of Small Bus. Advoc. Philadelphia Area Indus. Energy Users Grp. v. PECO Energy Co.*, No. C-2020-3022400, 2021 WL 2645922, at *20 (Pa PUC June 22, 2021); *Pa. PUC et. al v. Twin Lakes Util*., Inc., Docket No. R-2019-3010958 (Opinion and Order entered March 26, 2020) at 48, 80). POWER also cites to 52 Pa. Code § 69.2703(a)(6) regarding PGW's management efficiency; Section 1501 regarding adequate, efficient, safe and reasonable service; and Section 523 regarding efficiency and energy supply alternatives such as conservation or load management. POWER Exc. at 4-5 (citing 52 Pa. Code § 69.2703(a)(6); 66 Pa. C.S. § 1501; 66 Pa. C.S. § 523(a); 66 Pa. C.S. § 523(b)(4)). POWER reasons that its NPA proposal is well within the Commission's jurisdiction to consider and implement. POWER Exc. at 6.

In its Replies, PGW notes that "POWER attempts to cite various existing provisions of the Code in support of its quest to have the Commission exceed its current jurisdiction by claiming that their goal is to make rates and services more reasonable and affordable." PGW Replies at 23 (citing POWER Exc. at 3-6). PGW argues that the R.D. and the *2020 PGW Rate Case* correctly presented the Commission's authority over environmental issues. PGW provides that 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." PGW R. Exc. at 24 (citing *2020 PGW Rate Case*; R.D. at 138).

b. Power Exception No. 2 and Replies

In its Exception No. 2, Power disagrees with the ALJs' statement that POWER's NPA recommendations were not tied to a specific expense and POWER did not provide information on cost savings or timing of cost savings. POWER Exc. at 6-7 (citing R.D. at 140). POWER contends that it identified PGW infrastructure costs as a concern. Specifically, POWER notes that PGW will spend $22.456 million on gas processing and $140.734 million on mains in the 2024 FY. POWER Exc. at 7 (citing POWER St. 1 at 4). POWER provides that PGW's pipeline replacement program is expected to cost $6 to $8 billion by 2058. POWER Exc. at 7 (citing POWER St. 2 at 22). POWER submits that smart thermostats generate savings at a cost of about $0.89 per MCF, which is 93% savings from the cost of delivered gas. POWER Exc. at 7-8 (citing POWER St. 1 at 24). POWER reasons that more precise savings information would need additional data and would benefit from the working group POWER suggests. POWER Exc. at 8.

In its Replies, PGW avers that POWER's recommendations are not directly tied to any specific expense or revenue adjustments and "at most, related only to planning and prospective benefits to PGW's customers with no anticipated timing of receipt of any such value." PGW R. Exc. at 24 (citing R.D. at 140, nn. 712-13). PGW argues that POWER's projections of LTIIP costs thirty years into the future are not sufficient evidence to support POWER's NPA proposal. PGW contends that POWER's proposed working group would be "inefficient, ineffective, and potentially create significant safety and security risks." PGW R. Exc. at 24 (citing PGW R.B. at 68-71). PGW concludes that rather than trying to impose its NPA proposal on a company such as PGW in a rate case, POWER should petition for an industry-wide rulemaking or investigation, where all

NGDCs, as well as the Commission's Gas Safety Bureau, could participate. PGW R. Exc. at 25.

4. Disposition

We will first address the Commission's jurisdiction regarding environmental matters including POWER's NPA proposal. While the ALJs and PGW cite to the *2020 PGW Rate Case* to argue that the Commission does not have such jurisdiction, we disagree. PGW has averred that POWER's goals are to: (1) eliminate the use of "dirty energy," (2) use "affordable renewable energy," and "(3) [transform] PGW into a utility that provides both affordable heating and cooling without the use of fossil fuels." PGW M.B. at 84 (citing PGW St. 10-R at 3). PGW contends that the NPAs are POWER's attempt to "advance its own environmental agenda above current statutory and regulatory realities…" PGW M.B. at 84-85 (citing PGW St. 10-R at 4). NPAs are measures that can be used to reduce fossil fuel usage and conserve energy. The Commission has the duty to review POWER's NPA proposal as required by Article I, Section 27 of the Pennsylvania Constitution, known as the Environmental Rights Amendment (ERA).[79] The Commission "and its adjudicatory decisions and regulations are subject to the ERA, which is consonant with the Supreme Court's statement in *PEDF*[80] that all agencies of the Commonwealth are bound by the ERA." *Twp. of Marple v. Pa. PUC*, 294 A.3d 965, 974, 2023 Pa. Commw. LEXIS 47 (Pa. Commw. Ct. 2023) (citations omitted).

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[79] The ERA states: "The people have a right to clean air, pure water, and to the preservation of the natural, scenic, historic and esthetic values of the environment. Pennsylvania's public natural resources are the common property of all the people, including generations yet to come. As trustee of these resources, the Commonwealth shall conserve and maintain them for the benefit of all the people." Pa. Const. Art. I, § 27.

[80] *Pennsylvania Environmental Defense Fund v. Commonwealth of Pennsylvania*, 161 A.3d 911 (Pa. 2017) (*PEDF*).

While we recognize the Commission's responsibilities to analyze and apply environmental concerns to our work, as set forth by the ERA, we do not find POWER's arguments persuasive. POWER has requested that the Commission require PGW to complete several steps including a working group to develop NPAs and advise PGW on its infrastructure planning and require PGW to complete POWER's "Comprehensive Annual Pipeline Spending Report." POWER has not provided specific costs for its proposed programs or specific benefits to ratepayers. This proceeding is to evaluate PGW's proposed rate increase with the goal of establishing just and reasonable rates. As the Company observed, this Commission is not a superboard of directors and cannot proscribe management decisions for PGW. POWER has not identified specific unjust or unreasonable rates in this proceeding or measures to remediate specific unjust or unreasonable rates.

POWER's current model for a working group to advise a NGDC on its capital spending and infrastructure planning is not feasible. PGW's LTIIP and DIMP are carefully reviewed by the Commission. We are not persuaded that a working group is necessary or even well-advised, and POWER has not provided a funding mechanism for the working group or pilot programs it recommends. The working group could not have access to confidential security information used in the planning process including in such matters as the DIMP. POWER's proposed NPA pilot would be better analyzed as part of a rulemaking and stakeholder process. It is not appropriate here in a base rate case as POWER has not identified any specific rate that is unjust or unreasonable. POWER's suggestion that the to-be-developed NPAs be implemented in a block-by-block fashion is not applicable to PGW's planning or infrastructure. PGW must use a larger scale in its system wide design day planning process. PGW has several current programs that are already working towards achieving the energy efficiency and affordability goals that POWER advocates including PGW's Demand Side Management Plan, Energy Sense residential equipment rebates, Home Comfort program through LIURP, and free smart thermostats for low-income customers. PGW St. 10-R at 6-8.

We will not be directing PGW to change its reporting that it completes relating to its LTIIP, Annual Asset Optimization Plan (AAOP) and DSIC to suit POWER's use. We cannot direct PGW to incur additional expenses that will be paid by ratepayers for POWER's benefit. Moreover, we have not found PGW's AAOP, and DSIC reporting inadequate.

We do not agree with POWER's assertion that the Commission cannot "properly assess the prudence of PGW's pipeline replacement spending." POWER M.B. at 55. PGW submits quarterly and annual reports to the Commission of its expenses and replacement costs under its DSIC and AAOP reporting requirements.

No other Pennsylvania NGDC is required to apply NPAs like POWER's proposed programs. If they decide to do so in the future, the Commission will be ready to evaluate any such program within its responsibilities related to the ERA and to ensure just and reasonable rates. The companies that POWER cited to in New York and Colorado that are implementing NPA programs are doing so as a result of legislative and statutory requirements that are not yet present in Pennsylvania. We agree with PGW, that policy changes such as requiring NGDCs to implement NPAs should be part of a rulemaking procedure and completed on a statewide basis in conjunction with a rulemaking and stakeholder process, not a base rate case.

The measures that POWER uses as examples of NPAs – smart thermostat, residential equipment rebates – are already part of PGW's programs. POWER acknowledges that PGW's existing programs are successful at reducing fuel usage and saving customers money. For the reasons above, we shall deny POWER's Exception No. 1 and Exception No. 2.

VI. Conclusion

Based on our review of the record in this proceeding, we shall: (1) grant, in part, and deny, in part, the Exceptions filed by PGW, the OCA, and Vicinity; (2) deny the Exceptions filed by PICGUG, CAUSE-PA/TURN, and POWER; (3) grant PICGUG's Motion to Strike; and (4) approve an annual revenue increase of $26,201,000 to the Company's *pro forma* revenue at present rates of $832,370,000, or approximately 3.15%; **THEREFORE,**

IT IS ORDERED

1. That the Exceptions filed by Philadelphia Gas Works on September 15, 2023, are granted, in part, and denied, in part, consistent with this Opinion and Order.

2. That the Exceptions filed by the Office of Consumer Advocate on September 15, 2023, are granted, in part, and denied, in part, consistent with this Opinion and Order.

3. That the Exceptions filed by Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. on September 15, 2023, are granted, in part, and denied, in part, consistent with this Opinion and Order.

4. That the Exceptions filed by the Philadelphia Industrial and Commercial Gas User Group on September 15, 2023, are denied, consistent with this Opinion and Order.

5. That the jointly filed Exceptions of the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania and the Tenant Union

Representative Network, filed on September 15, 2023, are denied, consistent with this Opinion and Order.

6. That the Exceptions filed by POWER Interfaith on September 15, 2023, are denied, consistent with this Opinion and Order.

7. That the Motion to Strike Portions of the Replies to Exceptions of the Office of Small Business Advocate, filed by the Philadelphia Industrial and Commercial Gas User Group on September 29, 2023, is granted, and, accordingly, the discussion on page 12, beginning with, "[h]owever, regarding the purportedly discriminatory rates, OSBA offers the following comparison of rates . . ." through page 13, ending with, "[s]urely an 84 percent rate discount is more than sufficient . . ." and the table on page 13 titled "PGW Proposed Rates for Industrial Customers," and the associated language, set forth in the Office of Small Business Advocate's Replies to Exceptions, is stricken, consistent with this Opinion and Order

8. That the Motion to Strike Portions of the Replies to Exceptions of Philadelphia Gas Works, filed by the Philadelphia Industrial and Commercial Gas User Group on September 29, 2023, is granted, and, accordingly, the language on page 6, beginning with "Section 1304 of the Public Utility Code precludes a public utility . . ." through and including " . . . distribution rates than are paid by PGW's firm service customers," in the Replies to Exceptions of Philadelphia Gas Works, is stricken, consistent with this Opinion and Order.

9. That the Recommended Decision of Administrative Law Judges Eranda Vero and Arlene Ashton, issued on September 5, 2023, is adopted, as modified, by this Opinion and Order.

10. That the corrections and modifications directed by this Opinion and Order, reflected in the Philadelphia Gas Works, Docket No. R-2023-3037933 (Commission Tables Calculating Allowed Revenue Increase), attached hereto, are adopted as in the public interest.

11. That Philadelphia Gas Works shall not place into effect the rates contained in Supplement No. 159 to Gas Service Tariff – Pa. P.U.C. No. 2, as filed.

12. That Philadelphia Gas Works shall not place into effect the rates contained in Supplement No. 105 to Supplier Tariff – Pa. P.U.C. No. 1, as filed.

13. That Philadelphia Gas Works is authorized to file tariffs, tariff supplements and/or tariff revisions, on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, *et seq.*, and 53.101, designed to produce an annual distribution rate revenue increase of approximately $26,201,000, to become effective for service rendered on and after November 29, 2023.

14. That Philadelphia Gas Works shall file detailed calculations with its tariff filing, which shall demonstrate to the Commission's satisfaction that the filed tariff adjustments comply with the provisions of this final Opinion and Order.

15. That Philadelphia Gas Works shall allocate the authorized increase in operating revenue to each service, rate schedule, and customer class, and rate schedule within each rate customer class, in the manner prescribed in this Opinion and Order.

16. That Philadelphia Gas Works shall comply with all directives and conclusions contained in this Opinion and Order that are not the subject of individual ordering paragraphs as if they were the subject of specific ordering paragraphs.

17. That Philadelphia Gas Works shall prepare and submit a report, outlining how it intends to maintain or improve its current call center responsiveness, to be filed with the Commission's Bureau of Consumer Services no later than one-hundred and eighty (180) days after the entry date of this Opinion and Order.

18. That Philadelphia Gas Works shall develop and implement a quarterly review process for addressing trends identified in Commission Decisions adverse to the Company. The Company shall file an associated report with the Bureau of Consumer Services no later than ninety (90) days after the entry date of this Opinion and Order.

19. That Philadelphia Gas Works shall improve its identification of low-income customers in its universal service programs by adopting the Bureau of Consumer Services census-based estimated low-income customer count, described in Section F.2 of this Opinion and Order, and shall utilize such data to increase Customer Responsibility Program enrollment and evaluate the effectiveness of PGW's universal service program outreach and participation. The Company shall implement this change beginning with its next Universal Service and Energy Conservation Plan filing and all reports concerning service to low-income consumers filed on or after December 31, 2023.

20. That Philadelphia Gas Works shall prepare and submit to the Commission for approval plans to carry out the recommendations set forth in Section F.3 of this Opinion and Order. The Company shall file these plans with the Bureau of Consumer Services no later than sixty (60) days after the entry date of this Opinion and Order.

21. That the Formal Complaint filed by the Office of Consumer Advocate at Docket Number C-2023-3038846 is sustained, in part, and dismissed, in part, and shall be marked closed.

22. That the Formal Complaint filed by the Office of Small Business Advocate at Docket Number C-2023-3038885 is dismissed and shall be marked closed.

23. That the Formal Complaint filed by the Philadelphia Industrial and Commercial Gas Users Group at Docket Number C-2023-3039059 is dismissed and shall be marked closed.

24. That the Formal Complaint filed by James M. Williford in this proceeding at Docket No. C-2023-3039130 is dismissed and shall be marked closed.

25. That the Formal Complaints filed by Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. at Docket Nos. C-2023-3038727 and C-2021-3029259 are sustained, in part, and dismissed, in part.

26. That a copy of this Opinion and Order be served on the Bureau of Consumer Services, Division of Policy; the Bureau of Investigation and Enforcement; the Bureau of Audits, and the Bureau of Technical Utility Services, Finance/Tariff Division for monitoring and compliance.

BY THE COMMISSION,

Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: November 9, 2023

ORDER ENTERED: November 9, 2023

LIST OF ABBREVIATIONS

A&E	Average & Excess
AAOP	Annual Asset Optimization Plan
ACCOSS	Allocated Class Cost of Service Study
AED	Average and Extra/Excess Demand
ALJ	Administrative Law Judge
ARS	Alternative Receipt Service
BCS	Bureau of Consumer Services
CAUSE-PA	Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania
CBO	Congressional Budget Office
CCOSS	Class Cost of Service Study
CD	Customer Demand
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIS	Customer Information System
City	City of Philadelphia
Code	Pennsylvania Public Utility Code
COSS	Cost of Service Study
CPI	Consumer Price Index
CRP	Customer Responsibility Program
DHS	Department of Human Services
DIMP	Distribution Integrity Management Plan
DOC	Days of Cash On Hand
DSC	Debt Service Coverage
DSIC	Distribution System Improvement Charge
Dth	Dekatherm
ECR	Efficiency Cost Recovery
EE&C	Energy Efficiency and Conservation
ERA	Environmental Rights Amendment
FPFTY	Fully Projected Future Test Year
FPL	Federal Poverty Level
FTY	Future Test Year
FY	Fiscal Year
GASB	Governmental Accounting Standards Board
GCR	Gas Cost Rate
GS	General Service
GS-XLT	Rate General Service - Extra Large Transportation
HTY	Historical Test Year

I&E	Bureau of Investigation and Enforcement
IGF	Internally Generated Funds
IOU	Investor Owned Utility
IT	Interruptible
LDC	Local Distribution Company
LIHEAP	Low-Income Home Energy Assistance Program
LIURP	Low-Income Usage Reduction Program
LTIIP	Long Term Infrastructure Improvement Plan
MCF	Million Cubic Feet
Moody's	Moody's Investors Service
NARUC	National Association of Regulatory Utility Commissioners
NGDC	Natural Gas Distribution Company
NGVS	Natural Gas Vehicle Service
NPA	Non-Pipeline Alternative
NYPSC	New York Public Service Commission
O&M	Operating and Maintenance
OALJ	Office of Administrative Law Judge
OCA	Office of Consumer Advocate
OFO	Operation Flow Order
OPEB	Other Post-Employment Benefits
OSBA	Office of Small Business Advocate
P&A	Peak & Average
PFA	Protection from Abuse Order
PFMC	Philadelphia Facilities Management Corporation
PGC	Philadelphia Gas Commission
PGW	Philadelphia Gas Works
PHA	Philadelphia Housing Authority
PHA-R8	PHA-Rate 8
PHMSA	Pipeline and Hazardous Materials Safety Administration
PICGUG	Philadelphia Industrial And Commercial Gas User Group
PIP	Percentage of Income Program
PIPP	Percentage of Income Payment Plan
POWER	POWER Interfaith
PWSA	Pittsburgh Water and Sewer Authority
R.D.	Recommended Decision
RNG	Renewable Natural Gas
ROR	Rate of Return
RROR	Relative Rate of Return
S&P	Standard & Poor’s

TETCO	Texas Eastern Transmission
TURN	Tenant Union Representative Network
USEC	Universal Service and Energy Conservation
USECP	Universal Service and Energy Conservation Plan
USP	Universal Service Program
USPS	United States Postal Service
Vicinity	Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc., or GFCP/VEPI
WNA	Weather Normalization Adjustment

Pennsylvania Public Utility Commission

v.

Philadelphia Gas Works
Docket No. R-2023-3037933

Commission Tables Calculating Allowed Revenue Increase

Table I	**Statement of Income**
Table IA	**Debt Service Coverage**
Table IB	**Cash Flow Statement**
Table II	**Adjustments**
Table III	**Balance Sheet**

COMMISSION FINAL ALLOWANCE-TABLE I

Philadelphia Gas Works
STATEMENT OF INCOME
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 [1]	PGW Adjustments	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 [2]	Commission Expense Adjustments	Commission Expense-Adjusted Proposed Rates FPFTY FY 2024	Commission Revenue Adjustments	Commission Total Allowable Revenues FPFTY FY 2024
		A	B	C = (A +B)	D	E = (C + D)	F	G = (E + F)
		$	$	$	$	$	$	$
	OPERATING REVENUES							
1.	Non-Heating	31,493	$ -	31,493		31,493	-	31,493
2.	Gas Transport Service	75,685	-	75,685		75,685	-	75,685
3.	Heating	727,583	-	727,583		727,583	-	727,583
4.	Revenue Enhancement / Cost Reduction FY 2024	-	85,162	85,162		85,162	(58,961)	26,201
5.	Revenue Enhancement / Cost Reduction FY 2028	-	-	-		0	-	0
6.	Weather Normalization Adjustment	-	-	-		0	-	0
7.	Appropriation for Uncollectible Reserve	(33,485)	(3,407)	(36,892)		(36,892)	2,358	(34,534)
8.	Unbilled Adjustment	(763)	-	(763)		(763)	-	(763)
9.	Total Gas Revenues	800,513	81,755	882,268		882,268		825,665
10.	Appliance Repair & Other Revenues	7,807	-	7,807		7,807	-	7,807
11.	Other Operating Revenues	24,050	1,309	25,359		25,359	-	25,359
12.	Total Other Operating Revenues	31,857	1,309	33,166		33,166		33,166
13.	**Total Operating Revenues**	832,370	83,064	915,434		915,434		858,831
	OPERATING EXPENSES							
14.	Natural Gas	323,502	-	323,502	-	323,502		323,502
15.	Other Raw Material	31	-	31	-	31		31
16.	Sub-Total Fuel	323,533	-	323,533		323,533		323,533
17.	**CONTRIBUTION MARGINS**	**508,837**	83,064	**591,901**		**591,901**		**535,298**
18.	Gas Processing	23,890	-	23,890	(30)	23,860		23,860
19.	Field Operations	98,811	-	98,811	(2)	98,809		98,809
20.	Collection	5,087	-	5,087	24	5,111		5,111
21.	Customer Service	21,278	-	21,278	(1,428)	19,850		19,850
22.	Account Management	10,515	-	10,515	(132)	10,383		10,383
23.	Marketing	4,657	-	4,657	(73)	4,584		4,584
24.	Administrative and General	102,881	-	102,881	(2,587)	100,294		100,294
25.	Health Insurance	27,715	-	27,715	-	27,715		27,715
26.	Pandemic Expenses	-	10,162	10,162	(3,260)	6,902		6,902
27.	Capitalized Fringe Benefits	(10,717)	-	(10,717)	-	(10,717)		(10,717)
28.	Capitalized Administrative Charges	(31,571)	-	(31,571)	-	(31,571)		(31,571)
29.	Pensions	44,759	-	44,759	(8,670)	36,089		36,089
30.	Taxes	10,434	-	10,434	(279)	10,155		10,155
31.	Other Post-Employment Benefits	(10,095)	-	(10,095)	1,750	(8,345)		(8,345)
32.	Retirement Payout /Labor Savings	296	-	296	-	296		296
33.	Salary and Wage Adjustment		-		(3,582)	(3,582)		(3,582)
34.	Inflation Adjustment		-		(2,893)	(2,893)		(2,893)
35.	Lobbying Expense		-		(100)	(100)		(100)
36.	Advertising Expense		-		(468)	(468)		(468)
37.	Rate Case Expense		-		(160)	(160)		(160)
38.	Sub-Total Other Operating & Maintenance	297,940	10,162	308,102		286,211		286,211
39.	Depreciation	65,412	-	65,412	(496)	64,916		64,916
40.	Cost of Removal	6,729	-	6,729	-	6,729		6,729
		-	-	-	-	0		0
41.	Net Depreciation	72,141	-	72,141		71,645		71,645
42.	**Sub-Total Other Operating Expenses**	370,081	10,162	380,243		357,856		357,856
43.	**TOTAL OPERATING EXPENSES**	693,614	10,162	703,776		681,369		681,369
44.	OPERATING INCOME	138,756	72,902	211,658		234,045		177,442
45.	**Interest Gain / (Loss) and Other Income**	7,211	-	7,211	-	7,211		7,211
46.	INCOME BEFORE INTEREST	145,967	72,902	218,869		241,256		184,653
47.	**INTEREST**							
48.	Long-Term Debt	62,738	-	62,738	-	62,738		62,738
49.	Other	(1,776)	-	(1,776)	-	(1,776)		(1,776)
50.	AFUDC	-	-	-	-	0		0
51.	Loss From Extinguishment of Debt	3,348	-	3,348	-	3,348		3,348
52.	**Total Interest**	64,310	-	64,310		64,310		64,310
	NON-OPERATING REVENUE							
53.	Federal Grant Revenue (PHMSA)	10,752	-	10,752		10,752		10,752
54.	**NET INCOME**	**92,409**	72,902	**165,311**		**187,698**		**131,095**
55.	City Payment	18,000	-	18,000	-	18,000		18,000
56.	**NET EARNINGS**	**$ 74,409**	**$ 72,902**	**$ 147,311**		**$ 169,698**		**$113,095**

[1] PGW Exhibit JFG-1 (Present Rates)
[2] PGW Exhibit JFG-2-R (Proposed Rates)
Table II Adjustments To Be Shown On Other Tables
Adjustments from Table II

COMMISSION FINAL ALLOWANCE-TABLE I(A)
Philadelphia Gas Works
DEBT SERVICE COVERAGE
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	Commission Adjustments	Commission Total Allowable Revenues FPFTY FY 2024
		$	$	$	$
	FUNDS PROVIDED				
1.	Total Gas Revenues [Table I, Line 9]	800,513	882,268		825,665
2.	Other Operating Revenues [Table I, Line 12]	31,857	33,166		33,166
3.	Total Operating Revenues [Table I, Line 13]	832,370	915,434		858,831
	Other Income Incr. / (Decr.) Restricted Funds				
4.	[Table I, Line 45 Plus Table IB, Line 3]	2,877	2,877		2,877
5.	Non-Operating Income [Table I, Line 53]	10,752	10,752		10,752
6.	AFUDC (Interest) [Table I, Line 13]	-	-		-
7.	TOTAL FUNDS PROVIDED	845,999	929,063		872,460
	FUNDS APPLIED				
8.	Fuel Costs [Table I, Line 16]	323,533	323,533		323,533
9.	Other Operating Costs	370,081	380,243		357,856
10.	Total Operating Expenses [Table I, Line 38]	693,614	703,776		681,389
11.	Less: Non-Cash Expenses	89,718	89,718	-	89,718
12.	TOTAL FUNDS APPLIED	603,896	614,058		591,671
13.	Funds Available to Cover Debt Service	242,103	315,005		280,789
14.	Net Available after Prior Debt Service [Line 13]	242,103	315,005		280,789
15.	Equipment Leasing Debt Service	-	-	-	-
16.	Net Available after Prior Capital Leases	242,103	315,005		280,789
17.	1998 Ordinance Bonds Debt Service	115,230	115,230	-	115,230
18.	1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	-	-	-	-
19.	Total 1998 Ordinance Debt Service	115,230	115,230		115,230
20.	**Debt Service Coverage 1998 Bonds**	**2.10**	**2.73**		**2.44**
21.	Net Available after 1998 Debt Service	126,873	199,775		165,559
22.	Aggregate Debt Service [Line 19]	115,230	115,230		115,230
23.	Debt Service Coverage (Combined liens)	2.10	2.73		2.44
24.	Debt Service Coverage (Combined liens w/$18.0 City Fee)	**1.94**	**2.58**		**2.28**

(1) PGW Exhibit JFG-1 (Present Rates)
(2) PGW Exhibit JFG-2-R (Proposed Rates)
Table II Adjustments To Be Shown On Other Tables
Adjustments from Table II

COMMISSION FINAL ALLOWANCE-TABLE I(B)
Philadelphia Gas Works
CASH FLOW STATEMENT
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 (1)	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 (2)	Commission Adjustments	Commission Total Allowable Revenues FPFTY FY 2024
		$	$	$	$
	SOURCES				
1.	Net Income [Table I, Line 54]	92,409	165,311		131,095
2.	Depreciation & Amortization	62,947	62,947	-	62,947
3.	Earnings on Restricted Funds Withdrawal/(No Withdrawal)	(4,334)	(4,334)	-	(4,334)
4.	Federal Infrastructure Grant	-	-	-	
5.	Proceeds from Bond Refunding to Pay Cost of Issuance	3,480	3,480	-	3,480
6.	Increased/(Decreased) Other Assets/Liabilities	(45,717)	(35,521)	-	(35,521)
7.	Available From Operations	108,785	191,883		157,667
8.	Drawdown of Bond Proceeds	102,000	102,000	-	102,000
9.	Release of Restricted Fund Asset	-	-	-	-
10.	Release of Bond Proceeds to Pay Temporary Financing	-	-	-	-
11.	Temporary Financing	-	-	-	-
12.	TOTAL SOURCES	$ 210,785	$ 293,883		$ 259,667
	USES				
13.	Net Construction Expenditures	206,959	206,959	(17,108)	189,851
14.	Revenue Bonds	60,795	60,795	-	60,795
15.	Temporary Financing Repayment	-	-	-	-
16.	GASB 87 Lease Principal Payments	1,968	1,968	-	1,968
17.	Changes in City Equity	-	-	-	-
18.	Distribution of Earnings [Table I, Line 55]	18,000	18,000		18,000
19.	Non-Cash Working Capital	8,615	8,720	-	8,720
20.	Cash Needs	296,337	296,442		279,334
21.	Cash Surplus (Shortfall)	(85,552)	(2,559)		(19,667)
22.	TOTAL USES	$ 210,785	$ 293,883		$ 259,667
23.	Cash - Beginning of Period	116,328	116,328	-	116,328
24.	Cash - Surplus (Shortfall) [Line No. 21]	(85,552)	(2,559)	-	(19,667)
25.	**ENDING CASH**	**$ 30,775**	**$ 113,769**		**$ 96,661**
26.	**Outstanding Commercial Paper**	-	-	-	-
27.	**Outstanding Commercial Paper - Capital**	-	-	-	-
28.	**DSIC Spending**	41,000	41,000	-	41,000
29.	**Internally Generated Funds (IGF)**	63,959	63,959	(17,108)	46,851
30.	**TOTAL IGF + Incremental DSIC Spending**	**$ 104,959**	**$ 104,959**		**$ 87,851**
	Days of Cash on Hand	**16.9** (3)	**61.6** (4)		**54.1** (5)

(1) PGW Exhibit JFG-1 (Present Rates)
(2) PGW Exhibit JFG-2-R (Proposed Rates)
(3) PGW M.B. at 18
(4) PGW M.B. at 19
(5) See DOC Formula set forth in Section V.A.2.b
Table II Adjustments To Be Shown On Other Tables
Adjustments from Table II

Table II Page 1-Adjustments to Table I

COMMISSION FINAL ADJUSTMENTS-TABLE II

Philadelphia Gas Works
SUMMARY OF ADJUSTMENTS
R-2023-3037933
(Dollars in Thousands)

LINE NO.		Commission Adjustments $	Commission Reference
TABLE I	STATEMENT OF INCOME		
	OPERATING REVENUES		
1.	Non-Heating	-	
2.	Gas Transport Service	-	
3.	Heating	-	
4.	Revenue Enhancement / Cost Reduction FY 2024	(58,961)	Commission Revenue Adjustment
5.	Revenue Enhancement / Cost Reduction FY 2028	-	
6.	Weather Normalization Adjustment	-	
7.	Appropriation for Uncollectible Reserve	2,358	Commission Adjustment consistent with Commission Revenue Adjustment
8.	Unbilled Adjustment	-	
10.	Appliance Repair & Other Revenues	-	
12.	Other Operating Revenues	-	
	OPERATING EXPENSES		
14.	Natural Gas	-	
15.	Other Raw Material	-	
18.	Gas Processing	(30)	OCA Normaltization Adjustment - See Section V.B.12 and OCA Sch. DM-SR 3
19.	Field Operations	(2)	OCA Normaltization Adjustment - See Section V.B.12 and OCA Sch. DM-SR 4
20.	Collection	24	OCA Normaltization Adjustment - See Section V.B.12 and OCA Sch. DM-SR 5
21.	Customer Service	(1,428)	OCA Normaltization Adjustment - See Section V.B.12 and OCA Sch. DM-SR 6
22.	Account Management	(132)	OCA Normaltization Adjustment - See Section V.B.12 and OCA Sch. DM-SR 7
23.	Marketing	(73)	OCA Normaltization Adjustment - See Section V.B.12 and OCA Sch. DM-SR 8
24.	Administrative and General	(2,587)	OCA Normaltization Adjustment - See Section V.B.12 and OCA Sch. DM-SR 9
25.	Health Insurance	-	
26.	Pandemic Expenses	(3,260)	I&E Amortization Adjustment - See Section V.B.5
27.	Capitalized Fringe Benefits	-	
28.	Capitalized Administrative Charges	-	
29.	Pensions	(8,670)	OCA Normalization Adjustment - See Section V.B.9
30.	Taxes	(279)	OCA Tax Adjustment for Salary/WageAdjustment-See Section V.B.2 and OCA Sch DM-SR 14
31.	Other Post-Employment Benefits	1,750	OCA Normalization Adjustment - See Section V.B.10
32.	Retirement Payout /Labor Savings	-	
33.	Salary and Wage Adjustment	(3,582)	OCA Vacancy Adjustment - See Section V.B.2
34.	Inflation Adjustment	(2,893)	OCA Inflation Adjustment - See Section V.B.6
35.	Lobbying Expense	(100)	OCA and I&E Disallowance - See Section V.B.3
36.	Advertising Expense	(468)	OCA Expense Adjustment - See Section V.B.8
37.	Rate Case Expense	(160)	I&E Normalization Adjustment - See Section V.B.4
39.	Depreciation	(496)	Grant OCA Exception No. 3 - See Section V.B.15
40.	Cost of Removal	-	
	To Clearing Accounts	-	
45.	**Interest Gain / (Loss) and Other Income**	-	
48.	Long-Term Debt	-	
49.	Other	-	
50.	AFUDC	-	
51.	Loss From Extinguishment of Debt	-	
55.	City Payment	-	

Table II Page 2:-Adjustments to Tables 1(A) and I(B)

COMMISSION FINAL ADJUSTMENTS-TABLE II

Philadelphia Gas Works
SUMMARY OF ADJUSTMENTS
R-2023-3037933
(Dollars in Thousands)

LINE NO.		Commission Adjustments $	Commission Reference
TABLE I(A)	**DEBT SERVICE COVERAGE**		
11.	Less: Non-Cash Expenses	-	
15.	Equipment Leasing Debt Service	-	
17.	1998 Ordinance Bonds Debt Service	-	
18.	1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	-	
TABLE I(B)	**CASH FLOW STATEMENT**		
	SOURCES		
2.	Depreciation & Amortization	-	
3.	Earnings on Restricted Funds Withdrawal/(No Withdrawal)	-	
4.	Federal Infrastructure Grant	-	
5.	Proceeds from Bond Refunding to Pay Cost of Issuance	-	
6.	Increased/(Decreased) Other Assets/Liabilities	-	
8.	Drawdown of Bond Proceeds	-	
9.	Release of Restricted Fund Asset	-	
10.	Release of Bond Proceeds to Pay Temporary Financing	-	
11.	Temporary Financing	-	
	USES		
13.	Net Construction Expenditures	(17,108)	Grant OCA Exception No. 3 - See Section V.B.14
14.	Revenue Bonds	-	
15.	Temporary Financing Repayment	-	
16.	GASB 87 Lease Principal Payments	-	
17.	Changes in City Equity	-	
19.	Non-Cash Working Capital	-	
23.	Cash - Beginning of Period	-	
24.	Cash - Surplus (Shortfall) [Line No. 19]	-	
26.	**Outstanding Commercial Paper**	-	
27.	**Outstanding Commercial Paper - Capital**	-	
28.	**DSIC Spending**	-	
29.	**Internally Generated Funds (IGF)**	(17,108)	Adjustment for IGF; Grant PGW Exception No.3, In Part. - See Section V.A.3

Table II Page 3-Adjustments to Table III

COMMISSION FINAL ADJUSTMENTS-TABLE II
Philadelphia Gas Works
SUMMARY OF ADJUSTMENTS
R-2023-3037933
(Dollars in Thousands)

LINE NO.		Commission Adjustments $	Commission Reference
TABLE III	BALANCE SHEET		
	ASSETS		
1.	Utility Plant Net	-	
2.	Sinking Fund Reserve	-	
3.	Capital Improvement Fund - Current	-	
4.	Capital Improvement Fund - Long Term	-	
	Workers' Compensation Fund - & Health Insurance Escrow		
6.	Cash	(17,108)	Change in Cash
8.	Gas	-	
9.	Other	-	
10.	Accrued Gas Revenues	-	
11.	Reserve for Uncollectible	-	
13.	Materials & Supplies	-	
14.	Other Current Assets	-	
15.	Deferred Debits	-	
16.	Unamortized Bond Issuance Expense	-	
17.	Unamortized Loss on Reacquired Debt	-	
18.	Deferred Environmental	-	
19.	Deferred Pension Outflows	-	
20.	Deferred OPEB Outflows	-	
21.	Other Assets	-	
	EQUITY & LIABILITIES		
23.	City Equity	(17,108)	Change in Equity
24.	Revenue Bonds	-	
25.	Unamortized Discount	-	
26.	Unamortized Premium	-	
28.	Lease Obligations	-	
29.	Notes Payable	-	
30.	Accounts Payable	-	
31.	Customer Deposits	-	
32.	Other Current Liabilities	-	
33.	Pension Liability	-	
34.	OPEB Liability	-	
35.	Deferred Credits	-	
36.	Deferred Pension Inflows	-	
37.	Deferred OPEB Inflows	-	
38.	Accrued Interest	-	
39.	Accrued Taxes & Wages	-	
40.	Accrued Distribution to City	-	
41.	Other Liabilities	-	
	Plant in Service	-	
	Accumulated Depreciation	-	

COMMISSION FINAL ALLOWANCE-TABLE III
Philadelphia Gas Works
BALANCE SHEET
R-2023-3037933
(Dollars in Thousands)

LINE NO.		PGW Pro Forma Present Rates FPFTY Budget FY 2024 [1]	PGW Pro Forma Proposed Rates FPFTY Budget FY 2024 [2]	Commission Adjustments	Commission Total FPFTY FY 2024
		$	$	$	$
	ASSETS				
1.	Utility Plant Net	1,980,842	1,980,842	-	1,980,842
2.	Sinking Fund Reserve	135,159	135,159	-	135,159
3.	Capital Improvement Fund - Current	220,527	220,527	-	220,527
4.	Capital Improvement Fund - Long Term	2,686	2,686	-	2,686
	Workers' Compensation Fund				
	& Health Insurance Escrow				
6.	Cash	30,775	113,769	(17,108)	96,661
7.	**Accounts Receivable:**				
8.	Gas	190,252	189,813	-	189,813
9.	Other	4,474	4,474	-	4,474
10.	Accrued Gas Revenues	7,372	7,372	-	7,372
11.	Reserve for Uncollectible	(95,611)	(95,068)	-	(95,068)
12.	Total Accounts Receivable:	106,487	106,591		106,591
13.	Materials & Supplies	92,810	92,810	-	92,810
14.	Other Current Assets	4,909	4,909	-	4,909
15.	Deferred Debits	5,453	5,453	-	5,453
16.	Unamortized Bond Issuance Expense	933	933	-	933
17.	Unamortized Loss on Reacquired Debt	16,358	16,358	-	16,358
18.	Deferred Environmental	27,226	27,226	-	27,226
19.	Deferred Pension Outflows	59,055	59,055	-	59,055
20.	Deferred OPEB Outflows	36,251	36,251	-	36,251
21.	Other Assets	38,015	27,819	-	27,819
22.	**TOTAL ASSETS**	2,757,487	2,830,389		2,813,279
	EQUITY & LIABILITIES				
23.	City Equity	790,579	863,481	(17,108)	846,373
24.	Revenue Bonds	1,222,398	1,222,398	-	1,222,398
				-	0
25.	Unamortized Discount	(40)	(40)	-	(40)
26.	Unamortized Premium	105,867	105,867	-	105,867
27.	Long Term Debt	1,328,225	1,328,225		1,328,225
28.	Lease Obligations	57,613	57,613	-	57,613
29.	Notes Payable			-	0
30.	Accounts Payable	104,435	104,435	-	104,435
31.	Customer Deposits	2,081	2,081	-	2,081
32.	Other Current Liabilities	1,848	1,848	-	1,848
33.	Pension Liability	257,698	257,698	-	257,698
34.	OPEB Liability	84,529	84,529	-	84,529
35.	Deferred Credits	1,852	1,852	-	1,852
36.	Deferred Pension Inflows	25,865	25,865	-	25,865
37.	Deferred OPEB Inflows	22,616	22,616	-	22,616
38.	Accrued Interest	16,246	16,246	-	16,246
39.	Accrued Taxes & Wages	5,337	5,337	-	5,337
40.	Accrued Distribution to City	3,000	3,000	-	3,000
41.	Other Liabilities	55,562	55,562	-	55,562
42.	**TOTAL EQUITY & LIABILITIES**	2,757,487	2,830,389		2,813,280
	CAPITALIZATION				
43.	Total Capitalization	2,118,804	2,191,706		2,174,598
44.	Total Long Term Debt	1,328,225	1,328,225		1,328,225
45.	Debt to Equity Ratio	62.69%	60.60%		61.08%
46.	Capitalization Ratio	1.68	1.54		1.57
	Total Capitalization Excluding Leases	2,118,804	2,191,706		2,174,598
	Total Long Term Debt Excluding Leases	1,328,225	1,328,225		1,328,225
	Debt to Total Capital Ratio	62.69%	60.60%		61.08%

[1] PGW Exhibit JFG-1 (Present Rates)
[2] PGW Exhibit JFG-2-R (Proposed Rates)
Table II Adjustments To Be Shown On Other Tables
Adjustments from Table II