

**PENNSYLVANIA PUBLIC UTILITY COMMISSION
BUREAU OF AUDITS**



REPORT ON PHILADELPHIA GAS WORKS

**STATEMENTS OF
GAS COST RATE
JANUARY 1, 2020 — DECEMBER 31, 2021**

**DECEMBER 1, 2022
DOCKET NO. D-2022-3031535**

**PA PUC BUREAU OF AUDITS
DOCKET NO. D-2022-3031535**

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Background

Philadelphia Gas Works (PGW or company) is the nation's largest municipally owned gas utility and is owned by the City of Philadelphia (City). The City manages and oversees PGW's operations through a non-profit corporation, the Philadelphia Facilities Management Corporation (PFMC). According to PGW's annual reports filed with the Pennsylvania Public Utility Commission (PUC or Commission), for the years 2021 and 2020, PGW's total sales revenues from residential, commercial, industrial, and public authorities were \$600,535,128 and \$557,608,686; respectively.

PGW maintains a distribution system of approximately 3,000 miles of gas mains that provide gas service to about half a million residential, commercial, and industrial customers in the City. PGW also owns and operates facilities for the liquefaction, storage, and vaporization of natural gas to supplement the gas supply it draws directly from interstate pipeline and storage companies. PGW has a diverse operation that includes firm service, interruptible service, and transportation service customers. PGW's revenue base is comprised primarily of firm service residential customers.

Prior to July 1, 2000, PGW was solely under the jurisdiction of the Philadelphia Gas Commission. Effective July 1, 2000, pursuant to the passage of the Pennsylvania Natural Gas Choice and Competition Act (Act), PGW came under the regulatory jurisdiction of both the Philadelphia Gas Commission and the PUC. Under the Act, notwithstanding any other provision of the Public Utility Code to the contrary, the PUC is required to follow the same ratemaking methodology and requirements previously applicable to PGW in determining PGW's operational revenue requirement and in approving overall rates and charges.

PGW is required to submit a filing under Section 1307(f) of the Public Utility Code to recover purchased gas costs. The Section 1307(f) procedures require that the company file legislatively mandated documentation six-months prior to the effective date of a new rate to allow for review and hearings by the PUC and affected stakeholders. PGW files its GCR tariff supplements quarterly on March 1st, June 1st, September 1st, and December 1st reflecting changes in purchased gas costs.



Independent Auditor's Report to the Pennsylvania Public Utility Commission

Report on the Financial Statements

We have audited Philadelphia Gas Works' Statements of Gas Cost Rate Over/Under Collections for the 12-month periods ended December 31, 2021 and December 31, 2020.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether these statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in these statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of these statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of these statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of these statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Gas Cost Rate Statements, referred to above, present fairly, in all material respects, the Gas Cost Rate revenue and expenses of Philadelphia Gas Works as of December 31, 2021 and December 31, 2020, in conformity with accounting principles generally accepted in the United States of America and the requirements of the Pennsylvania Public Utility Commission.

Report on Other Legal and Regulatory Requirements

The accompanying statements were prepared for the purpose of complying with the rules and regulations of the Pennsylvania Public Utility Commission and are not intended to be a complete presentation of the Philadelphia Gas Works' revenue and expenses.

Kelly Monaghan, CPA

Kelly A. Monaghan, CPA, CGFM, CFE, CISA
Director
Bureau of Audits
Harrisburg, PA
December 1, 2022

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**Gas Cost Rate (GCR) ¹
Over/(Under) Collections (Section 1307(f))
for the 12 months ended December 31, 2021²**

<u>Month</u>	<u>GCR Revenue</u> (1)	<u>Natural Gas Refunds</u> (2)	<u>GCR Costs</u> (3)	<u>Over/(Under) Collections</u> (4) = (1) + (2) - (3)
January 2021	\$ 34,066,390	\$ 345	\$ 23,415,553	\$ 10,651,182
February	38,680,206	0	28,072,641	10,607,564
March	24,382,630	0	17,592,429	6,790,201
April	12,537,108	42,490	9,700,932	2,878,666
May	6,862,659	0	8,862,196	(1,999,536)
June	4,425,880	2,983	8,195,424	(3,766,561)
July	3,661,348	2,981	9,472,273	(5,807,944)
August	3,435,438	0	7,901,509	(4,466,070)
September	4,462,198	0	9,370,138	(4,907,940)
October	5,676,445	14,453	13,088,803	(7,397,904)
November	15,686,365	113,192	28,807,921	(13,008,364)
December	<u>33,696,273</u>	<u>0</u>	<u>30,545,364</u>	<u>3,150,909</u>
Total	<u>\$ 187,572,941</u>	<u>\$ 176,445</u>	<u>\$ 195,025,183</u>	<u>\$ (7,275,797)</u>

¹ As reported to the Commission at Docket No. R-2022-3030686. Arithmetic differences are due to rounding.

² Notes to the Financial Statements are an integral part of this report.

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**Gas Cost Rate (GCR) ³
Over/(Under) Collections (Section 1307(f))
for the 12 months ended December 31, 2020⁴**

<u>Month</u>	<u>GCR Revenue</u> (1)	<u>Natural Gas Refunds</u> (2)	<u>GCR Costs</u> (3)	<u>Over/(Under) Collections</u> (4) = (1) + (2) - (3)
January 2020	\$ 33,781,763	\$ 0	\$ 22,279,369	\$ 11,502,394
February	31,091,681	0	18,806,211	12,285,470
March	20,860,513	0	14,781,334	6,079,179
April	13,965,982	9,649	12,460,126	1,515,505
May	10,106,350	0	9,209,682	896,668
June	4,775,649	7,260,413	7,381,387	4,654,676
July	3,270,897	9,505,503	6,871,143	5,905,257
August	3,082,208	(1,342,969)	6,450,113	(4,710,874)
September	3,825,969	0	7,245,938	(3,419,969)
October	5,078,229	2,460	8,115,784	(3,035,095)
November	11,546,981	0	12,822,898	(1,275,917)
December	<u>24,343,210</u>	<u>0</u>	<u>21,051,077</u>	<u>3,292,133</u>
Total	<u>\$ 165,729,434</u>	<u>\$ 15,435,056</u>	<u>\$ 147,475,062</u>	<u>\$ 33,689,429</u>

³ As reported to the Commission at Docket No. R-2021-3023970. Arithmetic differences are due to rounding.

⁴ Notes to the Financial Statements are an integral part of this report.

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Notes to the Financial Statements

1 – Statements

The Gas Cost Rate (GCR) Over/(Under) Collections presented in this report are condensed from the officially filed statements. The audit was conducted on PGW's officially filed 1307(f) statements submitted to the PUC in accordance with Section 1307(f)(3) of the Public Utility Code on February 1, 2022 and March 1, 2021. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. R-2022-3030686 and R-2021-3023970.

2 – GCR Revenue

GCR Revenue is derived by multiplying the sales volumes billed during the month by the C-Factor of the applicable GCR rate.

3 – Natural Gas Refunds

Natural Gas Refunds are the supplier refunds received by the company.

4 – GCR Costs

GCR Costs represent the cost of purchased gas adjusted for the net change in gas inventory, and the cost of electricity used at PGW's Liquefied Natural Gas (LNG) plants, less the cost of gas used for interruptible service (Rates BPS, LBS, CG, GTS, and NGV) and utility operations. GCR Costs are also reduced for the estimated margin on interruptible sales.

5 – Over/(Under) Collections

The Over/(Under) Collection is the difference between the GCR Revenue and the GCR Costs. The resulting amount represents the portion of GCR Revenue refundable to or GCR Costs recoverable from customers through subsequent GCR rates. Differences arise for two primary reasons:

- Variations between the actual volumes billed to customers and the estimates used to determine the GCR rates; and,
- Variations between the actual GCR Costs and the estimates used to determine the GCR rates.

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Current Audit Findings

Finding No. 1 – PGW overstated GCR costs by a net amount of \$1,872,285 for the 12-month period ended December 31, 2021.

When comparing PGW’s internal Net Cost of Fuel reports to the GCR 1307(f) reconciliation statement for the 12-months ended December 31, 2021, variations in costs were noted in January, February, April, July, and September.

	GCR Costs per Net Cost of Fuel Report	GCR Costs per 1307(f) Statement	Overstated/ (Understated)
January 2021	\$ 23,422,456	\$ 23,415,533	\$ (6,903)
February	27,781,955	28,072,641	290,686
April	8,302,293	9,700,932	1,398,639
July	9,472,317	9,472,273	(44)
September	9,180,231	9,370,138	189,907
Total			\$ 1,872,285

PGW explained that these errors were due to either the cost of off-system sales being misclassified, or the cost of LNG and off-system sales being included as GCR costs on the 1307(f) statement.

Recommendation:

We recommend that PGW refund \$1,872,285, plus applicable interest, to its customers through an adjustment to the E-Factor of its next GCR filing. We also recommend that PGW institute appropriately designed and effectively functioning controls to prevent, detect, and correct errors in the GCR filings.

Finding No. 2 – Refunds were under reported by \$593,544.

Natural Gas Refunds of \$363 and \$128,412, received in August 2021 and June 2020, respectively, were inadvertently not recorded in the general ledger or included in the 1307(f) reconciliation statements. Also, interest in the amount of \$464,769, which was included in refunds of \$10,934,570 received in July 2020 from Transco and \$6,759,960 received in April 2020 from Texas Eastern, was inappropriately retained by the company and not included in the 1307(f) reconciliation statement.

Recommendation:

We recommend that PGW refund \$593,544⁵, plus applicable interest, to its customers through an adjustment to the E-Factor of its next GCR filing. We also recommend that PGW institute appropriately designed and effectively functioning controls to prevent, detect, and correct errors in the GCR filings.

⁵ \$593,544 = \$363 + \$128,412 + \$464,769

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Acknowledgement

We wish to express our appreciation to the officers and staff of Philadelphia Gas Works for their cooperation and assistance. The audit was conducted by Gerville J. Brown, assisted by Danielle M. Gumby.