

**PENNSYLVANIA PUBLIC UTILITY COMMISSION  
BUREAU OF AUDITS**



**REPORT ON PHILADELPHIA GAS WORKS**

**STATEMENTS OF  
OTHER POST EMPLOYMENT BENEFIT SURCHARGE  
SEPTEMBER 1, 2019 — AUGUST 31, 2021**

**DECEMBER 1, 2022  
DOCKET NO. D-2022-3031536**

**PA PUC BUREAU OF AUDITS  
DOCKET NO. D-2022-3031536**

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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 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.

By Order entered July 29, 2010, at Docket No. R-2009-2139884, the PUC approved a Joint Petition for Settlement, establishing new base rates effective September 1, 2010. In addition, it allowed PGW to establish an adjustment clause to collect an additional \$16 million annually to fund Other Post Employment Benefits (OPEB).



COMMONWEALTH OF PENNSYLVANIA  
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## **Independent Auditor's Report to the Pennsylvania Public Utility Commission**

### **Report on the Financial Statements**

We have audited Philadelphia Gas Work's Statements of Other Post Employment Benefit Surcharge Over/Under Collections for the 12-month periods ended August 31, 2021 and August 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 Other Post Employment Benefit Surcharge Statements, referred to above, present fairly, in all material respects, the Other Post Employment Benefit revenue and expenses of Philadelphia Gas Works as of August 31, 2021 and August 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 Work's 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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**Other Post Employment Benefit (OPEB) Surcharge<sup>1</sup>  
Over/(Under) Collections (Section 1307(f))  
for the 12 months ended August 31, 2021<sup>2</sup>**

<u>Month</u>	<u>OPEB Volumes</u> (1)	<u>OPEB Surcharge</u> (2)	<u>OPEB Revenue</u> (3) = (1) x (2)
September 2020	1,135,929	\$ 0.3418	\$ 388,204
October	1,406,052	0.3473	488,322
November	3,150,664	0.3473	1,094,226
December	6,270,813	0.3473	2,177,853
January 2021	8,505,193	0.3473	2,953,854
February	9,694,780	0.3473	3,366,997
March	6,715,022	0.3473	2,332,127
April	3,725,922	0.3473	1,294,013
May	2,014,927	0.3473	699,784
June	1,322,377	0.3473	459,262
July	1,082,919	0.3473	376,098
August	<u>1,024,183</u>	0.3473	<u>355,699</u>
Total	<u><u>46,048,781</u></u>		<u><u>\$ 15,986,437</u></u>
FY 2021 OPEB Revenue plus FY 2020 Under Collection			\$ 14,914,713
FY 2021 Permitted Recovery			<u>16,000,000</u>
Over/(Under) Recovery			<u><u>\$ (1,085,287)</u></u>

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

<sup>2</sup> Notes to the Financial Statements are an integral part of this report.

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**Other Post Employment Benefit (OPEB) Surcharge<sup>3</sup>  
Over/(Under) Collections (Section 1307(f))  
for the 12 months ended August 31, 2020<sup>4</sup>**

<u>Month</u>	<u>OPEB Volumes</u> (1)	<u>OPEB Surcharge</u> (2)	<u>OPEB Revenue</u> (3) = (1) x (2)
September 2019	1,141,774	\$ 0.3228	\$ 368,565
October	1,363,289	0.3362	458,338
November	3,767,742	0.3362	1,266,715
December	7,076,152	0.3362	2,379,002
January 2020	8,185,552	0.3362	2,751,982
February	7,537,547	0.3362	2,534,123
March	5,596,295	0.3362	1,881,474
April	4,041,596	0.3362	1,358,785
May	2,868,396	0.3362	964,355
June	1,410,071	0.3362	474,066
July	1,031,552	0.3362	346,808
August	<u>952,170</u>	0.3362	<u>320,120</u>
Total	<u><u>44,972,134</u></u>		<u><u>\$ 15,104,332</u></u>
FY 2020 OPEB Revenue plus FY 2019 Under Collection			\$ 14,928,276
FY 2020 Permitted Recovery			<u>16,000,000</u>
Over/(Under) Recovery			<u><u>\$ (1,071,724)</u></u>

<sup>3</sup> As reported to the Commission at Docket Number R-2021-3023970. Arithmetic differences are due to rounding.

<sup>4</sup> Notes to the Financial Statements are an integral part of this report.

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**Notes to the Financial Statements**

**1 – Statements**

The Other Post Employment Benefit (OPEB) Surcharge Over/(Under) Collections presented in this report are 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 March 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 – OPEB Volumes**

OPEB Volumes are the sales volumes in MCFs billed during the month.

**3 – OPEB Surcharge**

The OPEB Surcharge is calculated by dividing the total costs approved for annual recovery (see Note 5) by the estimated applicable MCFs of throughput.

**4 – OPEB Revenue**

OPEB Revenue is derived by multiplying the sales volumes billed during the month by the applicable OPEB surcharge. The OPEB surcharge is applied to each MCF of firm sales and transportation volumes except for the Natural Gas Vehicle Service Firm customers.

**5 – Permitted Recovery**

By Order entered July 29, 2010, at Docket No. R-2009-2139884, the PUC approved a Joint Petition for Settlement, establishing new base rates effective September 1, 2010. In addition, it allowed PGW to establish an adjustment clause to collect an additional \$16 million annually to fund OPEB.

**6 – Over/(Under) Recovery**

The Over/(Under) Recovery is the difference between the OPEB Revenue and the Permitted Recovery. The resulting amount represents the portion of OPEB Revenue refundable to or recovered from customers through subsequent OPEB surcharges. Differences arise due to variations between the actual sales volumes billed to customers and the estimates used to determine the OPEB surcharges.

**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.