

**PENNSYLVANIA PUBLIC UTILITY COMMISSION
BUREAU OF AUDITS**



REPORT ON PHILADELPHIA GAS WORKS

**STATEMENTS OF
UNIVERSAL SERVICE AND ENERGY CONSERVATION
SURCHARGE
SEPTEMBER 1, 2019 — AUGUST 31, 2021**

**DECEMBER 1, 2022
DOCKET NO. D-2022-3031537**

**PA PUC BUREAU OF AUDITS
DOCKET NO. D-2022-3031537**

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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.

On July 1, 2002, at Docket No. M-00021612, PGW filed its Restructuring Plan, consistent with the Commission's filing requirements for PGW, to unbundle its rates and to initiate customer choice pursuant to the Act. The Final Restructuring Order, entered March 31, 2003, allowed PGW to establish an appropriate non-bypassable cost recovery mechanism to recover the costs of its universal service and energy programs over the lives of these programs. The USEC became effective September 1, 2003.



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Independent Auditor's Report to the Pennsylvania Public Utility Commission

Report on the Financial Statements

We have audited Philadelphia Gas Works' Statements of Universal Service and Energy Conservation 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 Universal Service and Energy Conservation Surcharge Statements, referred to above, present fairly, in all material respects, the Universal Service and Energy Conservation Surcharge 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 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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**Universal Service and Energy Conservation (USEC)¹
Over/(Under) Collections Section 1307(f)
for the 12 months ended August 31, 2021²**

<u>Month</u>	<u>USEC Revenue</u> (1)	<u>USEC Expenses</u> (2)	<u>Over /(Under) Collections</u> (3) = (1) - (2)
September 2020	\$ 1,596,062	\$ (592,982)	\$ 2,189,044
October	2,298,051	1,362,442	935,609
November	5,147,684	4,984,526	163,158
December	11,142,004	9,472,609	1,669,395
January 2021	16,328,363	14,947,154	1,381,209
February	18,614,234	17,407,087	1,207,147
March	11,731,711	11,728,382	3,328
April	5,864,489	6,892,201	(1,027,712)
May	3,172,170	2,725,708	446,462
June	1,965,351	895,079	1,070,272
July	1,514,131	231,944	1,282,186
August	1,431,990	778,975	653,015
Total	<u>\$ 80,806,240</u>	<u>\$ 70,833,127</u>	<u>\$ 9,973,112</u>

¹ As reported to the Commission at Docket No. R-2021-3023970. Arithmetic differences are due to rounding.

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

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**Universal Service and Energy Conservation (USEC)³
Over/(Under) Collections (Section 1307(f))
for the 12 months ended August 31, 2020⁴**

<u>Month</u>	<u>USEC Revenue</u> (1)	<u>USEC Expenses</u> (2)	<u>Over /(Under) Collections</u> (3) = (1) - (2)
September 2019	\$ 1,435,490	\$ (1,326,316)	\$ 2,761,806
October	1,657,283	296,127	1,361,156
November	4,576,629	4,409,569	167,060
December	7,761,111	9,424,042	(1,662,931)
January 2020	8,012,507	12,323,589	(4,311,082)
February	7,378,747	12,918,550	(5,539,803)
March	6,004,239	8,583,702	(2,579,463)
April	4,715,849	4,851,043	(135,194)
May	3,346,010	2,059,642	1,286,367
June	1,650,858	(600,645)	2,251,503
July	1,211,316	(1,528,632)	2,739,948
August	1,118,396	2,255,154	(1,136,758)
Total	<u>\$ 48,868,435</u>	<u>\$ 53,665,827</u>	<u>\$ (4,797,392)</u>

³ As reported to the Commission at Docket Number R-2020-3017934. 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 Universal Service and Energy Conservation (USEC) Surcharge 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 November 30, 2021 and November 30, 2020. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2021-3023970 and M-2020-3017934.

2 – USEC Revenue

USEC Revenue is derived by multiplying the sales volumes billed during the month by the C-Factor of the applicable USEC surcharge. The USEC is applied equally to all volumes of gas delivered.

3 – USEC Expenses

USEC Expenses are the costs incurred by PGW for the operation of the programs that are recoverable through the USEC Surcharge. The specific costs authorized to be recovered through this surcharge are as follows:

1. Discounts provided to customers pursuant to the Customer Responsibility Program (CRP)
2. Discounts provided to senior citizens
3. Costs associated with the Low Income Reduction Usage Program (LIRUP)
4. Costs of the pilot Conservation Incentive Credit program
5. Past due arrearages forgiven for customers entering the CRP/Customer Assistance Program on or after September 1, 2003

4 – Over/(Under) Collections

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

- Variations between the actual monthly volumes billed to customers and the estimates used to determine the USEC rates; and,
- Variations between the actual USEC Expenses and the estimates used to determine the USEC rates.

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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.