



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET, HARRISBURG, PA 17120

BUREAU OF
INVESTIGATION
&
ENFORCEMENT

May 9, 2024

Via Electronic Filing

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v.
Philadelphia Gas Works – 1307(f)
Docket No. R-2024-3045966
I&E Pre-Served Testimony, Exhibit, and Verification Statement

Dear Secretary Chiavetta:

Enclosed for electronic filing please find the Bureau of Investigation and Enforcement's (I&E) Pre-Served Testimony, Exhibit, and Verification Statement in the above-captioned proceeding. The following documents were admitted into the record via Administrative Law Judge Arlene Ashton's Interim Order Granting Joint Stipulation for Admission of Evidence and Closing the Record that was issued on May 9, 2024:

Zachari Walker:	I&E Statement No. 1
	I&E Exhibit No. 1
	Verification Statement

Copies of this letter are being served on parties of record per the attached Certificate of Service. Should you have any questions, please do not hesitate to contact me.

Sincerely,

Michael A. Podskoch, Jr.
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Bureau of Investigation and Enforcement
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Enclosures

cc: Administrative Law Judge Arlene Ashton (*Cover Letter and Certificate of Service only – via email*)
Pamela McNeal, Legal Assistant (*Cover Letter and Certificate of Service only – via email*)
Per Certificate of Service (*Cover Letter and Certificate of Service only – via email*)

I&E Statement No. 1
Witness: Zachari Walker

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA GAS WORKS

Docket No. R-2024-3045966

Direct Testimony

of

Zachari Walker

Bureau of Investigation and Enforcement

Concerning:

E-FACTOR

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Zachari Walker, and my business address is Pennsylvania Public
4 Utility Commission, 400 North Street, Harrisburg, PA 17120.

5

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
8 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
9 Analyst.

10

11 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?**

12 A. An outline of my education and employment experience is attached as
13 Appendix A.

14

15 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

16 A. I&E is responsible for representing the public interest in rate and other
17 proceedings before the Commission. I&E's analysis in this proceeding is based on
18 its responsibility to represent the public interest. This responsibility requires the
19 balancing of the interests of the ratepayers, the utility company, and the regulated
20 community as a whole.

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A. The purpose of my direct testimony is to document Philadelphia Gas Works'
3 (PGW or Company) correction to interest rates applied for over/under collections
4 included in the Company's E-factor and to reiterate the support for using the
5 corrected rate.

6
7 **Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?**

8 A. Yes. I&E Exhibit No. 1 contains schedules that support my direct testimony.
9

10 **BACKGROUND INFORMATION**

11 **Q. PGW'S ANNUAL 1307(f) FILING ESTABLISHES A PROPOSED GAS**
12 **COST RATE (GCR) TO BECOME EFFECTIVE BEGINNING IN ITS**
13 **NEXT PURCHASE GAS COST (PGC) YEAR, BEGINNING SEPTEMBER**
14 **1, 2024. BRIEFLY IDENTIFY THE COMPONENTS THAT COMPRISE**
15 **THE GCR.**

16 A. The GCR is charged to customers that obtain their natural gas supply from PGW
17 and is composed of three components: the projected gas costs (C-factor), a gas
18 cost adjustment (E-factor), and an interruptible revenue credit (IRC).

19
20 **Q. AT THE CONCLUSION OF THIS PROCEEDING, WILL PGW'S**
21 **RESULTING GCR REMAIN UNCHANGED?**

22 A. No. The Company will update the proposed GCR in its compliance filing, using

1 its most current historical data and projections. The Company may also update its
2 GCR in each of its quarterly filings.

3
4 **Q. OF THE THREE COMPONENTS THAT COMPOSE THE GCR, WHAT IS**
5 **THE FOCUS OF YOUR TESTIMONY?**

6 A. My testimony focuses on the E-factor.

7
8 **Q. WHAT IS AN E-FACTOR?**

9 A. E-factor is the means to true-up a natural gas distribution company's (NGDC)
10 historic actual gas costs with the historic actual gas revenues billed to the NGDC-
11 supplied customers. The difference between the gas costs and billed revenues
12 makes up the majority of the total E-factor dollars. An E-factor rate is a billable
13 rate expressed as a dollar amount per Mcf.

14 PGW's E-factor rate is called the Gas Adjustment Cost (GAC). The E-
15 factor rate, or GAC, is a component of the Company's overall GCR.

16
17 **Q. WHAT IS INCLUDED IN THE E-FACTOR DOLLARS?**

18 A. The E-factor dollars are comprised of four elements: (1) any residual unreturned or
19 unrecovered E-factor dollar balances from prior years; (2) the over or under
20 collected gas cost dollars experienced in the closing PGC year, September 1, 2023,
21 through August 31, 2024; (3) the customers' share of the supplier refunds
22 experienced in the PGC year just ending; and (4) interest. These net collective

1 dollars are to be refunded or recovered, as appropriate, over the Company's
2 subsequent PGC year of September 1, 2024, through August 31, 2025.

3
4 **Q. DOES THE E-FACTOR ACT AS A CREDIT OR AS A CHARGE ON**
5 **CUSTOMER BILLS?**

6 A. The E-factor could act either as a credit or as a charge on customer bills,
7 depending upon the outcome of the Company's historic PGC year. The function
8 of the E-factor serves to refund purchased gas revenue over collections, or to
9 recover purchased gas revenue under collections, relative to net gas costs incurred
10 during the Company's PGC year.

11
12 **Q. HOW IS THE VALUE OF THE E-FACTOR CHARGE OR CREDIT**
13 **DETERMINED?**

14 A. The closing PGC year's "experienced" dollars, reported by month, with interest,
15 are combined with supplier refunds, interest, and any residual E-factor dollar
16 balance from prior years, to compute a total E-Factor dollar amount. The total E-
17 factor dollars are to be refunded or recovered, as appropriate, over the future PGC
18 year through the GAC. The Company is to project the total gas volumes that the
19 GAC will be applied to during its future PGC year of September 1, 2024, through
20 August 31, 2025. The total E-factor dollars are divided by the future PGC year's
21 applicable projected volumes to develop the E-factor rate per Mcf. The E-factor
22 rate per Mcf becomes the future PGC year's GAC.

1 **Q. WHAT ISSUE WILL YOU BE ADDRESSING REGARDING PGW'S E-**
2 **FACTOR IN YOUR TESTIMONY?**

3 A. I will address the Company's application of incorrect interest rates for interest
4 calculations on over/under collections during the months of September through
5 December 2023.¹

6

7 **INTEREST ON OVER/UNDER COLLECTIONS**

8 **Q. WHAT INTEREST RATES DID PGW USE IN CALCULATING INTEREST**
9 **ON OVER/UNDER COLLECTIONS?**

10 A. The Company used an incorrect interest rate of 7.50% for the period of September
11 2023 through December 2023, and 8.50% for the period of January 2024 through
12 August 2024 to calculate the interest on over/under collections.²

13

14 **Q. DID PGW PROVIDE A BASIS FOR USING THE INTEREST RATES FOR**
15 **THE GIVEN PERIODS ABOVE TO CALCULATE THE INTEREST ON**
16 **OVER/UNDER COLLECTIONS?**

17 A. No, however, in response to I&E-I-2, PGW stated that the 7.50% interest rate was
18 applied in error, that the prime interest rate of 8.50% should have been applied to
19 over/under collections for September through December 2023, and provided
20 updated schedules to reflect the revised interest rate.³

¹ PGW Tab No. 2, Item 53.64(a), Schedule 5(a).

² *Id.*

³ I&E Exhibit No. 1, Schedule 1.

1 **Q. IS THERE LEGISLATION TO SUPPORT PGW’S CORRECTION TO USE**
2 **THE PRIME RATE FOR COMMERCIAL BORROWING 60 DAYS PRIOR**
3 **TO THE TARIFF FILING TO CALCULATE THE INTEREST ON**
4 **OVER/UNDER COLLECTIONS?**

5 A. Yes. Section 1307(f) of the Public Utility Code, as amended by Act 47 of 2016,
6 states that the interest rate applied on over/under collections is the prime rate for
7 commercial borrowing in effect 60 days prior to the tariff filing is used to calculate
8 the interest on over/under collection.⁴ Because PGW filed its tariff on March 1,
9 2024, the proper interest rate to apply would be the prime interest rate effective on
10 January 1, 2024. The prime interest rate for commercial borrowing has been
11 8.50% since July 27, 2023,⁵ and thus is the correct interest rate to apply to
12 calculate interest on over/under collection according to the language in Section
13 1307(f).

14
15 **Q. DO YOU AGREE WITH PGW’S REVISION?**

16 A. Yes. Had PGW not made this revision, I would have recommended that the 8.50%
17 interest rate be applied to calculate the interest on over/under collections.

⁴ 66 Pa.C.S. § 1307(f)(5).

⁵ I&E Exhibit No. 1, Schedule 2.

1 **E-FACTOR**

2 **Q. WHAT E-FACTOR HAS THE COMPANY CALCULATED IN THE**
3 **CURRENT PROCEEDING?**

4 A. The Company's proposed E-factor was \$0.6671/Mcf.⁶

5

6 **Q. DID PGW UPDATE THE CALCULATED E-FACTOR FOLLOWING THE**
7 **REVISION TO THE INTEREST RATE APPLIED TO OVER/UNDER**
8 **COLLECTIONS?**

9 A. Yes – PGW updated its calculated E-factor to \$0.6640/Mcf.⁷

10

11 **Q. DO YOU AGREE WITH THE UPDATED E-FACTOR CALCULATION?**

12 A. Yes. I was able to use the electronic copies of the Company's filing to reproduce
13 the E-factor calculation, \$0.6640/Mcf, based on the revised interest rate, 8.50%,
14 applied to over/under collections.

15

16 **Q. HOW DOES THE UPDATED E-FACTOR IMPACT THE OVERALL**
17 **PROPOSED GCR?**

18 A. The revised E-factor increases the overall proposed GCR from \$4.2188/Mcf to
19 \$4.2219/Mcf. Effective September 1, 2024, this represents an increase of

⁶ PGW Tab No. 2, Item 53.64(a), Schedule 1.

⁷ I&E Exhibit No. 1, Schedule 3.

1 \$0.2189/Mcf (\$4.2219/Mcf - \$4.0030/Mcf) from the GCR of the most recent
2 quarter ended February 29, 2024, \$4.0030/Mcf.

3

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 A. Yes.

Zachari Walker

Professional and Educational Background

Experience:

Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania

March 2021 to Present:

Fixed Utility Financial Analyst, Bureau of Investigation and Enforcement

Bridgestone Retail Operations LLC, Nashville, Tennessee

December 2014 to July 2020:

Business Manager

Evaluated and validated accounting entry postings. Monitored, reconciled, and corrected daily transactions and accounts. Ensured accuracy of daily reports of business and researched inaccuracies. Utilized data analysis to determine key performance indicators and corresponding trends.

Education/Professional Development:

Bridging the Gap, Holly Ridge, North Carolina, 2021

Business Analyst Blueprint Training Program, 36 PD hours

Stevenson University, Stevenson, Maryland, 2014

Bachelor of Science, *magna cum laude*, Business Administration

Concentration in Finance

Professional Affiliations:

International Institute of Business Analysis (IIBA), Pickering, Ontario, Canada

Active Member 2021

Utility-Related Trainings & Other Courses/Webinars:

Pennsylvania Public Utility Commission Rate School 2022, January 18-February 8, 2022

Michigan State University Institute of Public Utilities Accounting and Ratemaking Course 2021, September 14-16, 2021

NARUC Staff Subcommittee on Accounting & Finance, Spring 2021 Virtual Conference, April 6-8, 2021

Testimony Submitted:

R-2023-3042805	Community Utilities of Pennsylvania, Inc. – Wastewater Division
R-2023-3042804	Community Utilities of Pennsylvania, Inc. – Water Division
R-2023-3037933	Philadelphia Gas Works
R-2022-3035730	National Fuel Gas Distribution Corporation
R-2022-3032369	Citizens' Electric Company of Lewisburg, PA
R-2022-3032806	The York Water Company – Wastewater Division
R-2022-3031340	The York Water Company – Water Division
R-2021-3030218	UGI Utilities, Inc. – Gas Division
R-2021-3026682	City of Lancaster – Bureau of Water
R-2021-3026116	Borough of Hanover – Hanover Municipal Water Works
R-2021-3025207	Community Utilities of Pennsylvania Inc. – Wastewater Division
R-2021-3025206	Community Utilities of Pennsylvania Inc. – Water Division

Casework Not Requiring Testimony:

R-2023-3041575	Conneaut Lake Park Water Corporation, Inc.
R-2023-3040285	PECO Energy Co. – Gas Operations 1307(f)
R-2022-3032250	PECO Energy Co. – Gas Operations 1307(f)

I&E Exhibit No. 1
Witness: Zachari Walker

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA GAS WORKS

Docket No. R-2024-3045966

Exhibit to Accompany

the

Direct Testimony

of

Zachari Walker

Bureau of Investigation and Enforcement

Concerning:

E-FACTOR

Philadelphia Gas Works
Case Name: GCR 24
Docket No(s): R-2024-3045966
PGW Responses to I&E Set 1
List of Attachments

I&E Exhibit No. 1
Schedule 1
Page 1 of 1

As Update 3/25/24

Philadelphia Gas Works
Case Name:GCR 24
Docket No(s): R-2024-3045966

Response to Discovery Request: IE Set I-2
Date of Response: 3/21/2024
Response Provided By: Florian Teme

Question:

Reference the March 1, 2024 Annual GCR filing, Tab 2, Item 53.64(a), Schedule 5(a), Column 4, Interest Rate. Provide a detailed explanation, with supporting documentation, for why PGW used a 7.50% interest rate for September 2023 through December 2023 instead of the prime interest rate for commercial borrowing 60 days prior to the tariff filing of 8.50%. If a calculated value, provide a detailed calculation of the 7.50% interest rate used. If in error, provide the corrected schedule.

Attachments: 1

IE_Set_I_2_IE 1 -2 Sch 5(a),5(b),5(c) Interest FY24 1307 f - Rev.xlsx

Response:

September 2023 through December 2023 the prime interest rate applied should have been 8.50%. Please refer to the attached revised schedule.

3/25/24 Updated Response:

The change in prime interest rate has been adjusted on the below schedules which have been revised accordingly and are being provided in further response to this discovery request.

Sch 1(a) Price to Compare 1307f REV

Sch 1 1307 f Rev

Sch 7 Calc of Recovered Charges 1307f REV

Sch 8 Change in Dist Rates 1307 REV

Historical Prime Rate

▼2013 - 2023

Effective Date	Rate
7/27/2023	8.50%
5/4/2023	8.25%
3/23/2023	8.00%
2/2/2023	7.75%
12/15/2022	7.50%
11/3/2022	7.00%
9/22/2022	6.25%
7/28/2022	5.50%
6/16/2022	4.75%
5/5/2022	4.00%
3/17/2022	3.50%
3/16/2020	3.25%
3/4/2020	4.25%
10/31/2019	4.75%
9/19/2019	5.00%
8/1/2019	5.25%
12/20/2018	5.5%

Philadelphia Gas Works

I&E Exhibit No. 1

Levelized Gas Cost Rate

Schedule 3

Page 1 of 1

September 1, 2024

Formula:
GCR = SSC + GAC - IRC

where:

	<u>Demand</u>	<u>Commodity</u>	<u>Total</u>	
S = Firm Sales (Mcf)			35,848,448	Schedule 2
Net Natural Gas Expense	\$ 67,127,358	\$ 111,012,600	\$ 178,139,959	
Purchased Electric & Misc Expenses	\$ -	\$ 315,775	\$ 315,775	
C = Total Applicable GCR Expense	\$ 67,127,358	\$ 111,328,376	\$ 178,455,734	Schedule 3
SSC = C / S	\$ 1.8725	\$ 3.1056	\$ 4.9781	

Adjustment For:

GCR Firm Sales (Mcf)			35,848,448	Schedule 2
Interest	\$ 15,808	\$ (1,089,078)	\$ (1,073,270)	Schedule 5(a),5(c)
C & E-Factor Reconciliation	\$ (3,535,258)	\$ (19,193,246)	\$ (22,728,504)	Schedule 4(b),4(c),4(e)
	\$ (3,519,451)	\$ (20,282,324)	\$ (23,801,774)	
E = E-Factor	\$ (0.0982)	\$ (0.5658)	\$ (0.6640)	

Interruptible Revenue Credit			\$ 535,399	Schedule 10(a)
IRC = Interruptible Revenue Credit / S			\$ 0.0149	

Net Applicable GCR Expenses = C + E - Interruptible Revenue Credit			\$ 154,118,561	
<u>GCR = SSC + GAC - IRC</u>			\$ 4.2992	

SSC in effect 9/01/24	\$ 1.8439	\$ 3.0582	\$ 4.9021	
GAC in effect 9/01/24	\$ (0.0984)	\$ (0.5669)	\$ (0.6653)	
IRC in effect 9/01/24			\$ (0.0149)	
GCR in effect 9/01/24			\$ 4.2219	Schedule 7

Recovery Test on:

Firm Sales (Mcf)			35,848,448	
= GCR Projected Recovery		\$	151,197,666	
= Load Balancing Revenue		\$	2,882,751	
= LNG Sales Demand Revenue		\$	37,450	
= Total Projected Recovery		\$	154,117,866	Schedule 7
Compared To				
Net Applicable GCR Expenses		\$	154,118,561	
= Net Over/(Under) Recovery		\$	(694)	

Degree Days 3,878

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2024-3045966
	:	
Philadelphia Gas Works	:	

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Letter Regarding Pre-Served Testimony, Exhibit, and Verification Statement** dated May 9, 2024, in the manner and upon the persons listed below.

Served via Electronic Mail Only

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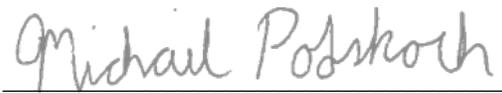
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