

**PENNSYLVANIA PUBLIC UTILITY COMMISSION
BUREAU OF AUDITS**



REPORT ON PHILADELPHIA GAS WORKS

**STATEMENTS OF
RESTRUCTURING AND CONSUMER EDUCATION
SURCHARGE
SEPTEMBER 1, 2019 — AUGUST 31, 2021**

**MAY 2, 2024
DOCKET NO. D-2023-3042563**

**PA PUC BUREAU OF AUDITS
DOCKET NO. D-2023-3042563**

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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 dual regulatory authority of the Philadelphia Gas Commission and the PUC. Under the Act, notwithstanding any other provision of the Public Utility Code to the contrary, the PUC must allow the company to follow the same ratemaking methodology and requirements previously applicable 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, which was consistent with the Commission's filing requirements for PGW, permitting PGW to unbundle its rates and 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 PUC approved non-gas restructuring and consumer education costs that have or will be incurred to meet the provisions of the Act and applicable PUC regulations, orders, and other regulatory requirements.



Independent Auditor's Report to the Pennsylvania Public Utility Commission

Report on the Financial Statements

We have audited Philadelphia Gas Works' Statements of Restructuring and Consumer Education 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 Restructuring and Consumer Education Surcharge Statements, referred to above, present fairly, in all material respects, the Restructuring and Consumer Education Surcharge revenue and expenses of Philadelphia Gas Works as of August 31, 2021 and August 21, 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 Philadelphia Gas Works' revenue and expenses.



Kelly A. Monaghan, CPA, CGFM, CFE, CISA
Director
Bureau of Audits
Harrisburg, PA
May 2, 2024

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**Restructuring and Consumer Education Surcharge (RCES)¹
Over/(Under) Collections (Section 1307(f))
for the 12 months ended August 31, 2021²**

<u>Month</u>	<u>RCES Volumes (mcf)</u> (1)	<u>RCES Surcharge</u> (2)	<u>RCES Revenue</u> (3) = (1) x (2)
September 2020	1,135,929	\$ 0.0017	\$ 1,931
October	1,406,052	(0.0009)	(1,265)
November	3,150,664	(0.0009)	(2,836)
December	6,270,813	(0.0009)	(5,644)
January 2021	8,505,193	(0.0009)	(7,655)
February	9,694,780	(0.0009)	(8,725)
March	6,715,022	(0.0004)	(2,350)
April	3,725,922	0.0002	745
May	2,014,927	0.0002	403
June	1,322,377	0.0002	264
July	1,082,919	0.0002	217
August	<u>1,024,183</u>	0.0002	<u>205</u>
Total	<u><u>46,048,781</u></u>		<u><u>\$ (24,710)</u></u>
Plus FY 2020 Over/(Under) Balance			\$ 19,650
Minus FY 2021 RCES Expenses			<u>0</u>
Total Over/(Under) Collection			<u><u>\$ (5,060)</u></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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**Restructuring and Consumer Education Surcharge (RCES)³
Over/(Under) Collections (Section 1307(f))
for the 12 months ended August 31, 2020⁴**

<u>Month</u>	<u>RCES Volumes (mcf)</u> (1)	<u>RCES Surcharge</u> (2)	<u>RCES Revenue</u> (3) = (1) x (2)
September 2019	1,141,774	\$ 0.0060	\$ 6,851
October	1,363,289	0.0043	5,862
November	3,767,742	0.0043	16,201
December	7,076,152	0.0043	30,427
January 2020	8,185,552	0.0043	35,198
February	7,537,547	0.0043	32,411
March	5,596,295	0.0043	24,064
April	4,041,596	0.0043	17,379
May	2,868,396	0.0043	12,334
June	1,410,071	0.0043	6,063
July	1,031,552	0.0043	4,436
August	<u>952,170</u>	0.0043	<u>4,094</u>
Total	<u><u>44,972,134</u></u>		<u><u>\$ 195,321</u></u>
Plus FY 2018 Over/(Under) Balance			(147,623)
Minus FY 2020 Permitted Recovery			<u>28,049</u>
Total Over/(Under) Collection			<u><u>\$ 19,650</u></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 Statements of Restructuring and Consumer Education Surcharge (RCES) 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 Commission 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 – RCES Volumes

RCES Volumes are the sales volumes in MCFs billed during the month. One MCF is equal to a thousand cubic feet of natural gas.

3 – RCES Revenue

RCES Revenue is derived by multiplying the sales volumes billed during the month by the applicable RCES rate, excluding E-factor. The RCES is applied to each MCF of firm sales and transportation volumes except for the Natural Gas Vehicle Service Firm customers.

4 – RCES Expenses

The RCES Expenses are the Commission approved costs which the company has or will incur to meet the provisions of the Natural Gas Choice and Competition Act and applicable Commission regulations, orders, and other regulatory requirements, other than costs pertaining to universal service and energy conservation programs.

5 – RCES Over/(Under) Collections

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

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

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Current Audit Finding

Finding – PGW overstated RCES expenses by \$28,049 for the period September 1, 2019 through August 31, 2020.

PGW reported \$28,049 of expenses for the month of August 2020. These expenses could not be substantiated by PGW. The RCES adjustment clause mechanism ended as of August 31, 2021 with an undercollection balance of (\$5,060). Netting the amount of the \$28,049 overstatement with the (\$5,060) undercollection balance results in a \$22,989 overcollection to be refunded to PGW's customers.

Recommendation:

Because the RCES adjustment clause mechanism has ended, we recommend that PGW develop a plan to refund the \$22,989 overcollection to customers. We also recommend that PGW implement proper internal control to ensure the proper calculation and accuracy of amounts reported in its various surcharge filings.

Auditor's Note:

PGW refunded \$28,049 to its customers through the Universal Services and Energy Conservation Surcharge that became effective June 1, 2024 at Docket No. R-2023-3038064.

Observation Audit Observation

Observation – PGW did not file a RCES reconciliation statement for the period September 1, 2018 through August 31, 2019.

PGW did not file its RCES reconciliation statement for the period September 1, 2018 through August 31, 2019 as required by Section 1307 of the Public Utility Code.

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 Jacob L. Fultz.