

**PENNSYLVANIA PUBLIC UTILITY COMMISSION
BUREAU OF AUDITS**



REPORT ON PHILADELPHIA GAS WORKS

**STATEMENTS OF
EFFICIENCY COST RECOVERY
SEPTEMBER 1, 2019 — AUGUST 31, 2021**

**MAY 2, 2024
DOCKET NO. D-2023-3042564**

**PA PUC BUREAU OF AUDITS
DOCKET NO. D-2023-3042564**

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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 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.

By Order entered July 29, 2010, the PUC approved a Joint Petition for Settlement (Settlement) at Docket No. R-2009-2139884, establishing new base rates effective September 1, 2010. The Settlement allowed PGW to establish an automatic adjustment clause for the recovery of its Energy Conservation and Demand Side Management (DSM) Plan.



Independent Auditor's Report to the Pennsylvania Public Utility Commission

Report on the Financial Statements

We have audited Philadelphia Gas Works' Statements of Efficiency Cost Recovery 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 Efficiency Cost Recovery Statements, referred to above, present fairly, in all material respects, the Efficiency Cost Recovery 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 A. Monaghan, CPA, CGFM, CFE, CISA
Director
Bureau of Audits
Harrisburg, PA
May 2, 2024

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**Efficiency Cost Recovery (ECR)¹
Over/(Under) Collections (Section 1307(f))
for the 12 months ended August 31, 2021²**

<u>Customer Class</u>	<u>ECR Revenue</u> (1)	<u>ECR Expenses</u> (2)	<u>Over/(Under) Collections</u> (3) = (1) - (2)
Residential	\$ 641,664	\$ 536,562	\$ 105,102
Commercial	150,450	378,691	(228,241)
Industrial	(19,410)	0	(19,410)
Total	<u>\$ 772,704</u>	<u>\$ 915,253</u>	<u>\$ (142,549)</u>

¹As 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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**Efficiency Cost Recovery (ECR)³
Over/(Under) Collections (Section 1307(f))
for the 12 months ended August 31, 2020⁴**

<u>Customer Class</u>	<u>ECR Revenue</u> (1)	<u>ECR Expenses</u> (2)	<u>Over/Under Collections</u> (3) = (1) - (2)
Residential	\$ 209,995	\$ 474,570	\$ (264,575)
Commercial	300,277	374,976	(74,699)
Industrial	<u>(15,265)</u>	<u>(1,785)</u>	<u>(13,480)</u>
Total	<u>\$ 495,007</u>	<u>\$ 847,761</u>	<u>\$ (352,754)</u>

³ As reported to the Commission at Docket No. 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 Statements of Efficiency Cost Recovery (ECR) 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. R-2021-3023970 and R-2020-3017934.

2 – ECR Revenue

ECR Revenue is derived by multiplying the sales volumes billed during the month by the applicable ECR rate, excluding E-factor. The ECR does not apply to the Developmental Natural Gas Vehicle Service (NGVS) or the interruptible customer classes.

3 – ECR Expenses

ECR Expenses include the program and administrative costs for the following: Residential Heating Equipment Rebates Program, Comprehensive Residential Heating Retrofit Incentive Program, Commercial and Industrial Retrofit Incentive Program, Commercial and Industrial Equipment Rebate Program, and the High-Efficiency Construction Incentive Program.

4 – Over/(Under) Collections

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

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

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Current Audit Finding

Finding – PGW’s reported September 2019 expenses were reduced for prior period adjustments.

PGW understated its reported ECR expenses for the month of September 2019 due to error corrections and the true-up of estimates made in the reconciliation statement for the 12-month period ended August 31, 2019. These adjustments were not properly or adequately disclosed in the records PGW provided to support monthly amounts as reported in its filed statements.

Recommendation:

We recommend that PGW implement proper measures that will fully document and disclose adjustments of amounts included in its filed statements, and to implement proper internal controls to ensure the proper calculation and accuracy of amounts reported in its filed statements.

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.