BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

JOSEPH F. GOLDEN, JR.

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R-2020-3017206

Philadelphia Gas Works

General Rate Increase Request

TOPICS:

Revenue Requirement
Revenue & Expense Adjustments
Updated Financial Schedules

July 13, 2020

Table of Contents

Table of Exhibits

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND POSITION WITH THE COMPANY.

A. My name is Joseph F. Golden, Jr. My position is Executive Vice President and Acting Chief Financial Officer for Philadelphia Gas Works ("PGW" or "Company").

Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS PROCEEDING ON BEHALF OF PGW?

A. Yes. I submitted my direct testimony, PGW St. No. 2, on February 28, 2020.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. My rebuttal testimony responds to certain portions of the following direct testimony submitted by other parties, including the Office of Consumer Advocate ("OCA"), the Bureau of Investigation and Enforcement ("I&E") and the Office of Small Business Advocate ("OSBA"). The primary purpose of my rebuttal testimony is to: (1) update the Fully Projected Future Test Year ("FPFTY") financial schedules; (2) reply to the various revenue requirement recommendations; (3) address the financial metrics recommendations of various parties; and (4) respond to arguments regarding PGW's claims for certain revenues and expenses.

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. My testimony first provides updated *pro forma* financial schedules for the FPFTY reflecting updates and adjustments accepted by PGW. On net these adjustments are not material and do not change PGW's claimed $70.0 million rate increase request. Initially, however, I show that if the economic effects of the Covid-19 pandemic were deemed appropriate to incorporate into PGW's projections, it would *increase* PGW's revenue requirement by some $36-37 million. I also comment on the overall rate increase recommendations of Mr. Spadaccio, the witness for I&E, Mr. Garrett for OCA, and Mr.

Knecht for OSBA and the financial standards that are recommended to judge the reasonableness of PGW's rate request. Next, I provide responses to the revenue and expense adjustments proposed by I&E witness Spadaccio and OCA witnesses Garrett and Habr.

II. COVID-19 IMPACTS ON THE FPFTY

Q. DO ANY PARTIES PROPOSE ADJUSTMENTS TO THE TRADITIONAL RATEMAKING ANALYSIS?

A. Yes, their testimony attacks PGW's proposed rate increase on two bases. First, several witnesses, primarily from OCA, and principally witness Scott Rubin, claim that the PUC should reject PGW's proposed rate increase in light of the Covid-19 pandemic. Mr. Rubin asserts that in view of the alleged economic impacts of Covid-19 on PGW's customers "now is not the time to be raising rates." Accordingly, Mr. Rubin asserts, the Commission should grant either no rate increase or should grant a rate decrease.[1] In addition to Mr. Rubin, witnesses for other parties have similarly expressed a willingness to depart from traditional ratemaking analyses in light of Covid-19.[2]

Q. WHAT IS PGW'S RESPONSE TO THE PROPOSAL TO REJECT TRADITIONAL RATEMAKING IN LIGHT OF COVID-19?

A. PGW strongly believes that the Commission should reject the proposals of Mr. Rubin and other witnesses to ignore traditional ratemaking, because these proposals are not appropriate, prudent, or lawful. PGW witness James H. Cawley, a former PUC Commissioner, will be submitting testimony on why Mr. Rubin's contentions are

---

[1] *See* OCA St. 1.

[2] Mr. Knecht's "position is that there is not a critical immediate need for a large rate increase in FY 2021, particularly in the midst of a pandemic, in a period of increased civil unrest, and at the same time as a Commission-approved large increase in universal service charges." OSBA St. 1 at 12-13.

unreasonable and unsupportable.[3] Also, Dr. Peach will be submitting testimony discussing his analysis of the effects of the pandemic on customers' ability to pay their PGW bills.[4]

Q. HAVE THE PARTIES ALSO RAISED QUESTIONS ABOUT THE RELIABILITY OF PGW'S FULLY PROJECTED FUTURE TEST YEAR ("FPFTY") DATA IN LIGHT OF THE COVID-19 PANDEMIC?

A. Yes. Mr. Garrett, again a witness for OCA, claims that PGW's FPFTY data is unreliable and cannot be used to establish rates in this proceeding. He bases this contention on the fact that, when PGW was asked in discovery for an analysis of the effects of Covid-19 on its FPFTY revenue, expense and construction expenditures, PGW answered that it was still evaluating these effects and that the Covid-19 effects were changing day-to-day. Mr. Garrett even characterizes this answer as "stunning as it points out the unreliability of the projections upon which rates would be set."[5]

Q. DO YOU BELIEVE THAT THE CONTINUING NATURE OF THE COVID-19 PANDEMIC RENDERS PGW'S FPFTY FATALLY UNRELIABLE?

A. No. First, it's important to recall that the nature of fully projected future test years is that they are based *entirely* on projections. As such there is always a level of uncertainty in projections. However, uncertainty related to budgetary estimates does not render a projection unreliable. Since this is the first time that Mr. Garrett has testified in a Pennsylvania rate case he may not be familiar with this feature of Pennsylvania regulatory policy (adopted by the General Assembly and codified in regulation by the PUC). With the use of a FPFTY, there will always be the potential of revisions of

---

[3] PGW St. No. 12-R (Cawley).

[4] PGW St. No. 11-R (Peach).

[5] OCA St. 2 at 6-7.

projections as events develop and trends change. However, if the FPFTY budgeting process is rigorous and well established, that FPFTY projection will be a reasonable reflection of what the utility may experience during the period studied. I firmly believe that PGW's budgeting process is rigorous and well documented and produces reliable results.

Q. IS THERE ANY INDEPENDENT CONFIRMATION THAT YOUR FY 2021 PROJECTIONS, WHICH FORM THE BASIS OF YOUR FPFTY, ARE REASONABLE PROJECTIONS ON WHICH TO RELY TO PROJECT PGW'S REVENUE REQUIREMENT IN THAT PERIOD?

A. Yes. The Philadelphia Gas Commission ("PGC" or "Gas Commission") Hearing Examiners are progressing through the evaluation of PGW's FY 2021 operating budget. Informal Discovery sessions were conducted, testimony from the Public Advocate filed, and public hearings held. A Recommended Decision is due on July 22, 2020, with Gas Commission approval at their August meeting. To date, the Public Advocate has recommended only $1.481 million of expense adjustments in their testimony and their final position to the PGC. The Budget being reviewed by the Gas Commission is the same in almost every respect to the FPFTY.

Q. IS MR. GARRETT CORRECT HOWEVER THAT YOU INDICATED THAT, BECAUSE OF COVID-19, PGW'S PROJECTION OF OPERATIONS IN THE FPFTY SHOULD BE VIEWED AS UNRELIABLE?

A. I believe Mr. Garrett misunderstood my discovery answer. What I was trying to convey was that PGW had not conducted a line-by-line evaluation of each and every item in the FPFTY in light of Covid-19 chiefly because, under the PUC's current rules regarding fully projected future test years, there is no process for wholesale revision of FPFTY projections. While PGW has not revised, or had not intended to revise its FPFTY projections, it is not correct, as Mr. Garret intimates, that PGW has not been carefully monitoring the effects of the pandemic on its operations and its finances or believes that such an analysis is not possible.

Q. IN RESPONSE TO MR. GARRETT'S TESTIMONY, HAS PGW CONDUCTED AN EVALUATION OF THE FPFTY PROJECTIONS IN LIGHT OF WHAT IS NOW KNOWN ABOUT THE EFFECTS ON THE PANDEMIC ON ITS OPERATIONS AND FINANCES?

A. PGW has indicated that, due to the changing nature of the Covid-19 effects, it was not in a position to make an interim or final determination of how the pandemic would affect the Company at that early stage. However, in order to provide guidance PGW has conducted an analysis based on what is known at the present time. This analysis shows that if the FPFTY were to be adjusted for these effects it would definitely increase PGW's revenue requirement.

Q. PLEASE EXPLAIN PGW'S ANALYSIS OF THE EFFECTS OF THE PANDEMIC ON ITS FPFTY (FY 2021) PROJECTIONS.

A. PGW looked at four main areas to assess the impact of the Covid-19 pandemic on PGW's FPFTY operations: construction, payroll/hiring, revenues and bad debt expense. PGW asked an economist, Dr. Gil Peach to do a careful analysis of the effect of the adverse economic circumstances on PGW's likely uncollectible expense and revenues in the FPFTY. The results of this analysis are as follows:

<u>Uncollectibles</u>

Q. WHAT HAS PGW'S COLLECTION EXPERIENCE BEEN DURING FY 2020 TO DATE?

A. PGW's rolling 24-month collection rate is 96.86% through May 2020. This compares favorably to the May 2019 period, which was at 96.26%.

Q. HAVE YOU READ DR. PEACH'S TESTIMONY, SPECIFICALLY RELATED TO HIS ASSESSMENT OF PGW'S BAD DEBT EXPENSE?

A. Yes, I did read his testimony in this area. Based on a detailed economic analysis of the effect of unemployment levels and other factors on PGW's collections, Dr. Peach is projecting that PGW is likely to experience a doubling of its uncollectible, or bad debt expense in the FPFTY.

Q. PLEASE PROVIDE YOUR REACTION TO DR. PEACH'S CONCLUSION THAT PGW'S BAD DEBT EXPENSE MAY DOUBLE TO $66.2 MILLION IN FY 2021, PGW'S FPFTY.

A. PGW cannot determine with certainty what the bad debt expense will be for FY 2020 at this point. Nor can this be done for FY 2021. However, it is likely that PGW will experience an increase in bad debt expense in one or both fiscal years based on the economic factors detailed in Dr. Peach's testimony.

Revenues

Q. DID PGW EXAMINE HOW THE PANDEMIC COULD AFFECT ITS REVENUES IN THE FPFTY?

A. Yes. Again in response to OCA's contention that PGW's FPFTY data was not reliable because PGW had not conducted a detailed analysis due to the continued economic uncertainty, the Company analyzed its revenue trends to determine any likely material changes from that set forth in the FPFTY. This review found that customer usage of natural gas in PGW's third fiscal quarter has been below normal. While some of this decrease can be attributed to warmer temperatures, some of the decrease is related to the slowing of the local economy, shuttering of businesses, and construction delays. This has resulted in a related drop in PGW revenue and margin as well.

To analyze the effect of the Covid-19 related economic slowdown on non-residential revenues, PGW requested Dr. Peach to undertake an econometric analysis, which he has done and which is shown in his rebuttal testimony.[6] Dr. Peach concluded that if present trends continue, PGW's non-residential sales levels would fall some 3.7% in the FPFTY, which translates into a margin reduction of approximately $3.5 million.

Q. YOU NOTE A POTENTIAL DECREASE IN COMMERCIAL AND INDUSTRIAL MARGIN. WILL THIS BE OFFSET BY AN INCREASE IN RESIDENTIAL MARGIN?

A. No, PGW's residential sales are primarily driven by weather related usage. For the FPFTY, and since the last PGW base rate settlement, PGW has utilized the 20-year average of heating degree days. While PGW expects flat sales volumes in the FPFTY, any deviations whether greater than or less than the sales volumes associated with a "normal" year would be modest.

Q. WHAT WOULD BE THE EFFECT ON PGW'S REVENUE REQUIREMENT IF THESE TRENDS WERE INCORPORATED INTO ITS FPFTY FINANCIAL RESULTS?

A. If PGW were to incorporate these trends into the FPFTY they would also decrease PGW's FPFTY income, which would decrease the financial metrics shown on JFG-1-A (present rates), thereby increasing the amount of rate increase that PGW would need to reach the financial metrics that I and the other PGW witnesses testified were required for PGW to meet its bond covenants and have sufficient cash to pay all its cash obligations.

[6] PGW St. No. 12-R (Peach).

Payroll Costs

Q. DID PGW EXAMINE THE EFFECT THAT THE PANDEMIC HAS HAD ON PGW HIRING AND PAYROLL COSTS AND WHAT EFFECT IT WILL LIKELY HAVE IN THE FPFTY?

A. Yes. PGW reviewed its personnel levels in FY 2020 and found that the current complement of employees is approximately 23 below budget. PGW is actively onboarding new employees with 18 new hires in March 2020 and 11 new hires in April 2020. PGW has hired in excess of 100 employees this fiscal year alone primarily to backfill vacancies due to a large number of January 2020 retirees. PGW's employment level has increased modestly from August 2019 to May 2020. With the higher level of local unemployment PGW is seeing highly qualified employees applying for all vacant PGW positions. PGW expects to be back on track by the end of the Fiscal Year with the hiring effort continuing to reach budgeted levels. It is worth noting that, except for a short period when Philadelphia was covered by a mandatory closure order, PGW has been continuing virtually all of its functions, such as gas line repair, system maintenance, and leak detection. Its district offices were open during the beginning of the pandemic until those employees were transitioned to remote duties. PGW has not laid off or furloughed any employees. Accordingly, PGW expects that taking Covid-19 into account will not materially alter its filed FPFTY projections.

Construction

Q. CAN YOU ELABORATE ON HOW PGW'S CONSTRUCTION PROGRAM HAS BEEN AFFECTED BY THE COVID-19 RESTRICTIONS?

A. The Governor's Emergency Declaration triggered a restriction on construction and other utility related work that lasted about five weeks. In early May, the Governor lifted most restrictions on construction and other utility related work. Since then, PGW has resumed construction activities that were suspended. PGW has made an effort to get back to planned construction levels for FY 2020 but will need to "roll" some planned construction projects from FY 2020 into the FPFTY. PGW was able to perform maintenance work during the time period of the emergency declaration. When the construction work was restarted, not all of the PGW contractors were mobilized immediately. Accordingly, while some construction (about $25 million) will be rolled into FY 2021, PGW expects to be caught up and back on schedule by the end of calendar year 2020. In FY 2021 it projects that it will complete the small amount of construction that it will not complete this Fiscal Year and will be able to complete all construction planned for FY 2021 in that fiscal year.

Q. WHAT HAVE YOU PROJECTED AS THE NET RESULT ON THE FPFTY AS A RESULT OF RESTRICTIONS OR ECONOMIC CONSEQUENCES OF THE PANDEMIC?

A. Of the major areas we examined we found that two – payroll and construction – are likely to be materially unchanged from the projections contained in the FPFTY and reflected in JFG-1-A. Two areas – uncollectibles/bad debt expense and pro forma revenues – appear to be materially affected.

Q. WHAT RESULT MAY THIS DRAMATIC INCREASE IN PGW'S BAD DEBT EXPENSE HAVE ON PGW'S FINANCIAL POSITION?

A. If PGW's bad debt expense were to double, meaning PGW would receive $33.1 million less in receipts than anticipated, it would not only solidify PGW's need for its entire $70.0 million base rate increase request but it may accelerate the filing of PGW's future base rate request.

Q. WHAT RESULT MAY LOWER REVENUE AND MARGIN HAVE ON PGW IF THE ECONOMY REMAINS IN RECESSION?

A. If PGW experiences a continued lower level of revenue and margin related to the slowing of the local economy, PGW would be in a similar, but not as distressed, financial position. If the non-residential customers remain at lower levels of usage PGW may experience a loss of annual margin in the range of $3.0 million to $4.0 million. This result would further strain PGW's cash balances and negatively affect its financial position. While either of these individual negative results supports PGW's $70.0 million base rate request, the potential for both of them to occur beginning in FY 2020 and continuing into the FPFTY amplifies the need for the full $70.0 million to be granted.

Q. WHAT ARE PGW'S CONCLUSIONS WITH RESPECT TO MR. GARRETT'S CLAIM THAT PGW'S FULLY PROJECTED FUTURE TEST YEAR DATA HAS BEEN RENDERED "UNRELIABLE"?

A. As it has since the passage of Act 11 which permitted the use of fully projected future test years, PGW believes that it would be best to judge the reasonableness of its rate increase using its originally projected FPFTY. Its FPFTY projections are reasonably calculated and reflect well established budgeting procedures and have been tentatively accepted by the PGC, as I explained. We believe that attempting to fully revise the FPFTY would be unduly burdensome and would place the other parties in a difficult position, given the lateness of any such full scale revision. However, if parties are going to claim that failure to project results from the effects of Covid-19 on the FPFTY somehow makes the results unreliable then this analysis should be considered. The available information clearly establishes that, were the effects of Covid-19 restrictions and a slow economy factored into PGW's FPFTY, PGW's revenue requirement would be much higher – some $36.0

million to $37.0 million higher. This further demonstrates the reasonableness and necessity of granting PGW's full $70.0 million rate increase request.

III. UPDATED FPFTY

Q. HAVE YOU PROVIDED A REVISED JFG-1 AND JFG-2?

A. Yes. The revisions reflected in the attached exhibits, JFG-1-A and JFG-2-A, are as follows:

Adjustments to JFG-1 and JFG-2					
(Amounts in thousands of dollars)					
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Administrative and General (Legal & PFMC)	$(976)	$(562)	$(576)	$(590)	$(605)
Cost/Labor Savings (additional ½% increase)	$683	$708	$726	$744	$763
Taxes (additional ½% increase)	$46	$47	$48	$49	$50
Total All Adjustments	**$(247)**	**$193**	**$198**	**$203**	**$208**

The above-described revisions and updates are reflected in the attached exhibits, JFG-1-A and JFG-2-A. These revisions, at present rates, would slightly increase year-end cash from $45,160 to $45,407.[7] After consideration of the proposed adjustments and the $70.0 million rate increase, year-end cash would increase from $113,276 to $113,523.[8] Consequently, they have a non-material effect on PGW's *pro forma* financial metrics and do not change our position that a $70.0 million rate increase is necessary and reasonable. Please note that I have not included the potential revisions to the FY 2021 FPFTY due to the effects of the pandemic that I discussed above. As I have explained, if those were

[7] Exh. JFG-1-A.

[8] Exh. JFG-2-A.

included PGW's revenue requirement would increase by some $36.0 million to $37.0 million.

Q. PLEASE EXPLAIN WHY THERE IS A ½% INCREASE TO COST/LABOR SAVINGS AND TAXES IN THE FPFTY.

A. When PGW compiled its FPFTY, the Collective Bargaining Agreement ("CBA") in place with the Gas Workers Union, Local 686, was set to expire in May 2020. The contract extension was not yet being negotiated at that time. Subsequent to PGW filing its FPFTY, the CBA was extended for two years. The original FPFTY had union wage increases of 2.5% factored into the budget. The ultimate CBA terms included a 3.0% wage increase, also affected by related payroll taxes. The difference between the 2.5% in the FPFTY and the 3.0% in the CBA extension is reflected in the Cost/Labor savings and taxes.

Q. PLEASE DESCRIBE THE INDIVIDUAL ADJUSTMENTS THAT MAKE UP THE NEGATIVE ADJUSTMENT OF $976,000 TO ADMINISTRATIVE AND GENERAL EXPENSES IN THE FPFTY.

A. I have made the following adjustments:

1. I have reduced *pro forma* expenses for purchased services by $548,000. This reduction is related to the reimbursement amount for Philadelphia Facilities Management Corporation ("PFMC") under the management agreement. The total budgeted amount is now $205,000 for purchased services, which is the amount anticipated to be expended by PFMC in the FPFTY (as opposed to $753,000, which is one component of the maximum amount of reimbursement available under the management agreement). This revision accepts the adjustment to purchased services proposed by OCA witness Garrett.[9]

---

[9] *See* OCA St. 2 at 28-29; OCA Exhibit MEG-5.8.

2. I reduced pro forma expenses for legal services by $428,000. Before the Gas Commission, PGW updated the budget for legal services. That update resulted in a reduction in the projected expenses for legal services.

IV. REVENUE REQUIREMENT CALCULATION

Q. HAVE YOU EXAMINED THE DIRECT TESTIMONY FILED BY I&E WITNESS ANTHONY SPADACCIO, OCA WITNESS MARK GARRETT AND OSBA WITNESS ROBERT KNECHT IN THIS CASE?

A. Yes, I have.

Q. PLEASE SUMMARIZE THEIR OVERALL RECOMMENDATION REGARDING REVENUE REQUIREMENT.

A. My understanding is that I&E's total recommended revenue requirement for PGW is $707,137,000.[10] This recommended revenue requirement represents an increase of $47,041,000 to present rates.

The recommendation regarding the additional revenue requirement of OCA is in the zero (no rate increase) to a decrease of $2.8 million range.[11] I also note that OCA's recommendations expressly call for PGW to arbitrarily decrease construction expenses by $30.0 million in the FPFTY so that PGW will have more cash available in order to sustain (allegedly) sufficient financial metrics in the FPFTY.[12] This is in direct contrast to I&E's recommendation for PGW to maintain or increase construction expenses.[13]

---

10 I&E St. 1 at 4; I&E Exhibit No. 1, Schedule 1.

11 OCA St. 1 at 31.

12 *See* OCA St. 2 at 9; OCA St. 3.

13 *See* I&E St. 1 and St. 2.

Regarding OSBA witness Knecht, there is recognition of the need for a revenue increase of $10.0 million (under present rates).[14] Mr. Knecht, however, recommends no rate increase so as to keep PGW's rates "to the bare minimum necessary to avoid a financial crisis"[15] while not recognizing or discussing any impact on system safety or reliability of such a policy.

Q. DO YOU HAVE ANY OVERALL RESPONSE TO THESE RECOMMENDATIONS?

A. Yes, I recognize the good faith effort the witnesses have used to determine a reasonable revenue requirement for PGW using the Cash Flow Method of ratemaking, the method mandated by law, and in general accordance with the Commission's Policy Statement regarding PGW's ratemaking methodology.[16] I also take into account that the witnesses' recognize the need for PGW to maintain financial health in order to continue its efforts to modernize its system and improve safety, reliability and customer service. I nonetheless believe that if the witnesses' recommendations are adopted by the PUC, they would threaten PGW's ability to maintain financial health and its efforts to modernize its system and improve safety, reliability and customer service, the very essence of what their recommendations purport to achieve. Additional problems with their overall recommendations are described below.

---

[14] OSBA St. 1 at 12.

[15] OSBA St. 1 at 6, 11-12.

[16] 52 Pa. Code §§ 69.2701 to 69.2703.

Q. BASED UPON YOUR ANALYSIS, WILL THE REJECTION OF THE REQUESTED RATES (I.E., A ZERO INCREASE) OR A DECREASE OF $2.8 MILLION FROM EXISTING RATES PERMIT PGW TO MEET MINIMUM STANDARDS OF FINANCIAL ADEQUACY?

A. No. My analysis shows that a zero increase or a decrease in existing rates will not provide adequate levels of cash, debt service coverage and other financial metrics necessary to enable PGW to pay its bills and maintain efficient access to the capital markets at reasonable rates.

At current rates, the Company would have just $45.4 million of year-end available liquidity.[17] This projected level equates to about 33.9 days of expenses.[18] Those levels of financial performance would <u>not</u> meet the minimum standards of financial adequacy, as further explained by PGW witness Hartman, and would produce financial metrics well below comparable gas utilities, as discussed by PGW witness Walker. I am also concerned that those levels would not provide adequate levels of cash to fund ongoing operations and construction projects. It is important to remember that, as a cash flow company, PGW needs the cash in the year in which these projects are realized. Simply put, PGW, like any business, needs a reserve of cash on hand in order to pay current obligations as they come due. PGW incurs costs to provide the service (labor, materials, supplies, services, etc.) in advance of bills being rendered and revenue collected for providing the service. The timing of the costs necessary to run the business precede the timing of the receipt of revenues to cover those costs, which means a reserve of cash always must be available to handle basic day-to-day utility operations.

---

[17] *See* JFG-1-A, which shows ending cash of $45,407.

[18] PGW St. No. 2 at 14-15.

Testimony of the other parties seeking no or a negative rate increase would also have a profoundly negative effect on PGW's finances in FY 2022. Note that PGW is projecting *negative* year-end cash in FY 2022 without a rate increase. A failure to grant a rate increase here would make it extremely difficult to continue with planned construction and normal operations. Keep in mind that if the OCA's (or OSBA's[19]) position were accepted by the Commission, PGW would be forced to immediately file for another rate increase, but would not be able to secure additional rate relief until the end of calendar year 2021, at the earliest. By then it would be too late to bill and collect enough revenue to avoid finishing FY 2022 with negative cash. Such a result would put PGW in serious risk of not being able to pay all of its obligations when they come due. I would note that being able to do so is another covenant of its Bond Ordinances.

Q. BASED UPON YOUR ANALYSIS, WILL I&E'S RECOMMENDED REVENUE REQUIREMENT PERMIT PGW TO MEET MINIMUM STANDARDS OF FINANCIAL ADEQUACY?

A. The increase of $47,041,000 to present rates would help PGW maintain financial health. That being said, at the revenue requirement recommended by I&E, PGW could have increasing difficulty in keeping its financial health above the minimum standards, if there are unanticipated challenges in the FPFTY. Therefore, I continue to believe that the $70.0 million rate increase is necessary and reasonable, and would help PGW to avoid significant deterioration in PGW's ongoing path to financial stability.

[19] *See* footnote 2.

V. <u>FINANCING STRATEGY FOR CAPITAL EXPENDITURES; DEBT TO EQUITY/CAPITALIZATION RATIO</u>

Q. DO ANY PARTIES PROPOSE MODIFICATIONS TO PGW'S FINANCING STRATEGY FOR CAPITAL EXPENDITURES?

A. Yes. I&E witness Spadaccio recommends that PGW move toward a more burdensome and debt-laden capital structure. Generally, Mr. Spadaccio recommends that PGW work toward a debt to total capital ratio goal of approximately, but no less than, 70%.[20] Specifically, for this proceeding, Mr. Spadaccio recommends a 77% debt to total capital ratio at the conclusion of the FPFTY.[21] In addition to Mr. Spadaccio, witnesses for other parties have similarly expressed disagreement with PGW's financing strategy.[22]

Q. DO YOU HAVE ANY OVERALL RESPONSE TO THESE RECOMMENDATIONS?

A. With the implementation of the DSIC surcharge, as it is utilized in a Cash Flow methodology company such as PGW, the Commission has recognized the importance of infrastructure replacement and system improvement on a "pay-go" basis. Recommending the use of additional debt to fund current capital projects defies the Commission's efforts to use "pay-go" funds for this exact purpose. In authorizing the DSIC surcharge the PUC already took into account PGW's funding of its existing capital program at an approximate 50/50 split of debt financing and funding from IGF. In increasing the DSIC surcharge from 5.0% to 7.5% the PUC chose to further expand the "pay-go" component of PGW's funding of its capital program. This proceeding should not be utilized to undo the Commission's important efforts to better PGW's infrastructure improvement program while attempting to maintain PGW's financial health by prudently "deleveraging" PGW's

---

20 I&E St. 1 at 7.

21 I&E St. 1 at 7; I&E Exhibit No. 1, Schedule 1, p. 6, line 47.

22 OCA St. 3 at 2, 4-5, 8-10. OSBA St. 1 at 6.

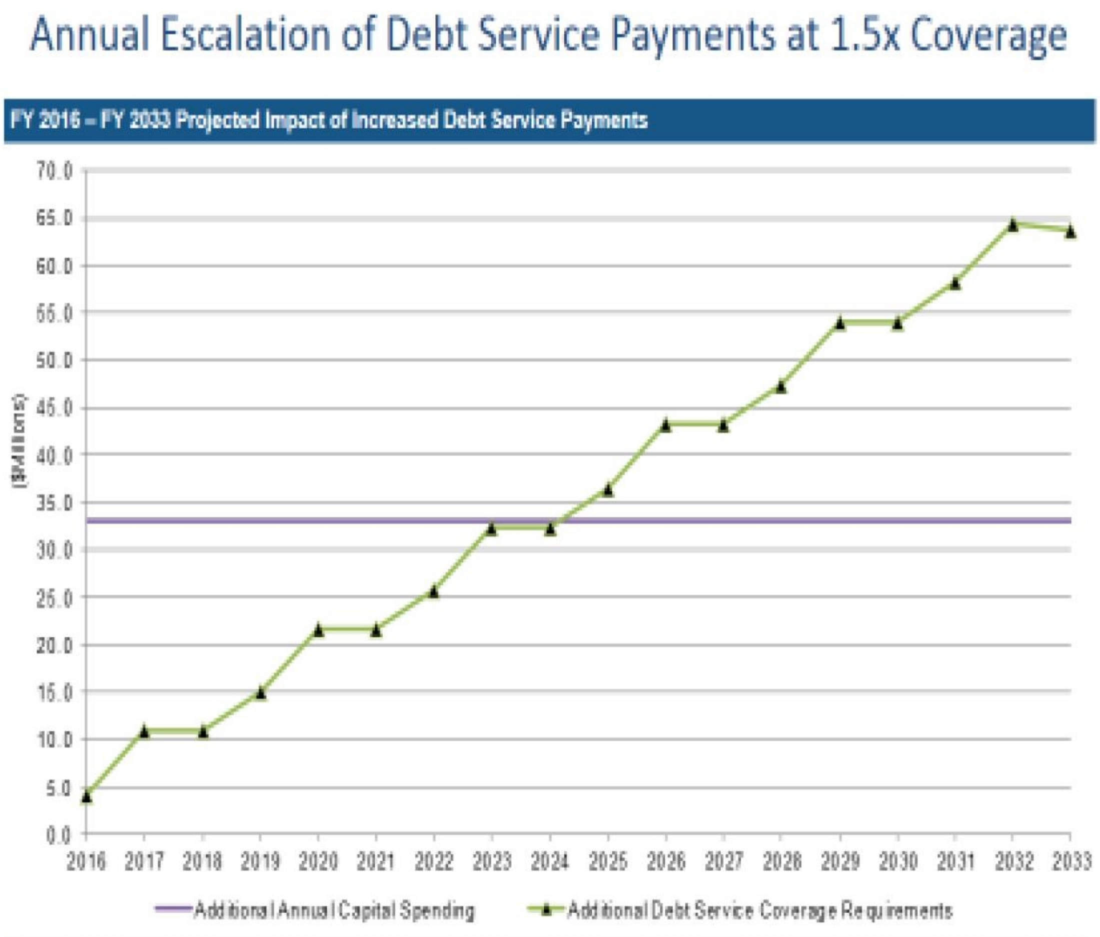
high debt to equity ratio. The recommended I&E strategy is akin to "kicking [the problem] down the road" to future ratepayers at a compounded burden of additional borrowing related interest expense, bond issuance expense, and additional pressure on the debt service coverage ratio.

Q. DO YOU BELIEVE THAT INCREASING RELIANCE ON LONG-TERM DEBT WOULD BE A GOOD DEAL FOR RATEPAYERS?

A. No, I do not. When one considers that rates must reflect not only the debt service but the debt service coverage of any new issuance, customers will pay more overall when PGW finances its capital via the issuance of long-term debt, rather than from IGF. Accordingly, the revenue requirement for bond financed capital improvements would be 50% more than just the debt service. Moreover, because PGW would have to continue to issue bonds every two to three years to continue to fund the capital improvements at the mix of debt and IGF recommended by I&E, the cost of financing through long-term debt will continue to grow over time.

Moreover, because of the 150% debt service coverage factor, the cost to the customer of funding the program via a long-term debt option becomes more expensive than the IFG option in relatively short order, as the following chart illustrates:

Figure 1



Q. MR. SPADACCIO FOR I&E PROPOSES THAT PGW'S DEBT-TO-EQUITY RATIO SHOULD NOT BE LESS THAN 70%, AS OPPOSED TO PGW'S TARGET OF 60% AND OBSERVES THAT HIS RECOMMENDED RATE INCREASE ($47 MILLION) WOULD PERMIT PGW TO ACHIEVE A 77% DEBT TO TOTAL CAPITALIZATION RATIO (I &E ST. 1 AT 7). PLEASE RESPOND.

A. It is important to understand the reason that PGW believes it should seek to achieve a capitalization ratio of 60%. A lower percentage of debt to equity ratio means PGW is healthier financially. PGW would not have to go to the capital markets as frequently. Rating agencies uniformly request information on PGW's capital structure when PGW conducts its annual rating agency presentations. Also, as I've shown, for PGW it is actually less costly overall to finance capital improvements through rates.

Q. MR. SPADACCIO REFERENCES A 2015 PUC STAFF REPORT AND STATES THAT THE REPORT RECOMMENDS THAT PGW'S DEBT TO TOTAL CAPITAL RATIO SHOULD BE NO LOWER THAN 70% (I&E ST.1 AT 6-7). CAN YOU RESPOND?

A. I would note that this Report was not a PUC opinion or order. It was a finding of the staff. While we support many of the conclusions in that report we respectfully believe that the Staff overlooked the positive benefits to ratepayers of a less leveraged PGW.

Mr. Spadaccio does not, however, recognize that the cost to the customer of funding the program via a long-term debt option becomes more expensive than the IGF option, as I explained. Mr. Spadaccio also does not reconcile his recommendation with the Staff Report itself. In that Report, Staff opined that it might be acceptable for a municipal utility to have a debt to equity ratio of <u>as high as</u> 70%.[23] PGW's debt to equity ratio would be at 77% in the FPFTY. That is certainly a long way from the 70% that the PUC Staff suggested might be reasonable for PGW.[24]

If Mr. Spadaccio's recommendations were accepted, there would be movement in the wrong direction compared to PGW's proposal. PGW's proposal would lower the ratio to 75.87% in the FPFTY and to 70.2% in FY 2022.[25] Mr. Hartman explains that a Commission determination to consign PGW to such enormous leverage would certainly be viewed negatively by rating agencies and investors.

---

[23] Pennsylvania Public Utility Commission, Staff Report: Inquiry into the Philadelphia Gas Works' Pipeline Replacement Program, dated April 21, 2015, p. 6, 44, 50.

[24] Pennsylvania Public Utility Commission, Staff Report: Inquiry into the Philadelphia Gas Works' Pipeline Replacement Program, dated April 21, 2015, p. 6, 44, 50.

[25] Exhibit JFG-2-A, Balance Sheet.

Q. MR. KNECHT FOR OSBA OBSERVES THAT PGW'S DEBT TO TOTAL CAPITAL RATIO HAS GONE DOWN SINCE 2017 AND ASSERTS THAT THIS IS AN INDICATION OF PGW'S STRONG FINANCIAL HEALTH. CAN YOU RESPOND?

A. While it is true that PGW has made substantial financial progress in the last several years with appropriate rate support from the Commission, PGW still needs to work at maintaining and improving its financial health. PGW witness Hartman has given more details on PGW's significant financial turnaround in his direct testimony. He notes, however, that PGW still has limited financial flexibility. Mr. Hartman explains that more is needed to keep PGW's financial metrics at the levels needed to maintain and improve upon the recent rating upgrades and improved access to the capital markets at lower rates. Consistent with that explanation, PGW witness Walker explained that PGW's debt to equity ratio is still 23% higher than its peer group of municipal utilities. Accordingly, he points out that there is a continuing need to support PGW's deleveraging with a timely rate increase to enable PGW to further strengthen its credit profile and to lessen the gap between itself and its peers. With that in mind, Mr. Knecht's observation implies that nothing more needs to be done since PGW made progress in the past. His observation provides little insight into what is needed to maintain or improve PGW's financial stability, since past performance does not guarantee future results. And these observations are at odds with the testimony of Messrs. Hartman and Walker.

Q. IN YOUR DIRECT TESTIMONY (AND ABOVE) YOU INDICATED THAT ONE OF THE REASONS THAT PGW STRIVES TO BRING ITS DEBT TO TOTAL CAPITALIZATION RATIO DOWN IS BECAUSE FINANCING NEEDED CONSTRUCTION WITH "PAY-GO" RATE DOLLARS IS IN THE LONG RUN CHEAPER FOR RATEPAYERS. DR. HABR FOR OCA DISPUTES THIS ANALYSIS, CLAIMING THAT YOU HAVE FAILED TO TAKE ACCOUNT OF THE FACT THAT THE OPPORTUNITY COST OF MONEY FOR A CUSTOMER IS HIGHER THAN THE INTEREST RATE ON PGW'S DEBT.

FOR THIS REASON, DR. HABR CLAIMS THAT IT WOULD BE BETTER FOR RATEPAYERS IF PGW'S CAPITALIZATION RATIO WAS 75%-80% (OCA ST. 3 AT 8-10). PLEASE RESPOND.

A. Dr. Habr has presented a misleading analysis because he has failed to include two important factors when making the comparison between cost to ratepayers of pay-go financing and the cost to ratepayers of bond financing. First, he has failed to recognize that revenue requirement for a debt issuance is not just interest but also issuance costs and then 50% more to provide the debt service minimum requirements of bond indenture. Second, by only comparing interest rates he failed to take account of the total revenue requirement over time. A proper comparison must also recognize that PGW's construction program is ongoing, so that the proper comparison must consider the revenue requirement associated with construction year over year. That is illustrated in the chart above (Figure 1). Again, when one considers a single bond issuance compared to a "pay-go" funding of the same amount of construction, the cost to customers of the debt financing is less expensive – initially. But in 3 years, PGW will be required to issue another bond in order to continue to finance yearly construction year over year. Ratepayers will now be paying the debt service and the debt service coverage on Bond 1 *and* the debt service and debt service coverage on Bond 2. By year 9, ratepayers will be paying interest and debt service coverage on bond 1, bond 2 and bond 3. And so on. As Figure 1 shows, costs to customers from debt issuance very quickly overtake the cost to customers of annual "pay-go" contributions in their rates.

Q. DR. HABR ALSO INDICATES THAT YOUR COMMENTS DO NOT SEEM TO TAKE INTO ACCOUNT THE TIME VALUE OF MONEY TO RATEPAYERS. IS THAT CORRECT?

A. Yes. But as I now have said a few times, the total cost to customers from financing the same amount of yearly construction is higher after the second or third bond issuance needed to continue to have bond proceeds by which to finance the construction. The issue of time value would only be important if one were considering two "investment opportunities" of equal value.

VI. DEBT SERVICE COVERAGE RATIO

Q. IN ITS DIRECT CASE, PGW PROPOSED A REVENUE REQUIREMENT THAT WOULD PRODUCE A 2.34X COVERAGE (WITHOUT CITY FEE) AND 2.17X (WITH CITY FEE). I&E WITNESS SPADACCIO RECOMMENDS A DEBT SERVICE COVERAGE OF 2.13X (WITHOUT CITY FEE) AND 1.96X (WITH CITY FEE). ON THE OTHER HAND, OCA WITNESS HABR IS FOCUSED ON DEBT SERVICE COVERAGE. HE USES AN AVERAGE OF THE DEBT SERVICE COVERAGE FROM 2010 TO 2016 TO DETERMINE THE TARGET DEBT SERVICE COVERAGE OF 1.88X (WITHOUT THE CITY FEE) AND 1.71X (WITH THE CITY FEE). CAN YOU PROVIDE AN OVERALL RESPONSE?

A. Debt service coverage is an important metric (and must be considered in setting revenue requirement).[26] PGW has to meet bond covenants and this metric needs to be at a level that gives PGW cash to pay for items included in that calculation but which are committed. Examples of these committed payments are the City Fee, pension fund contributions not on the income statement, DSIC costs, and the OPEB surcharge. These items are not available as free cash. Mr. Spadaccio's recommendation recognizes this. The items in the FPTFY that have to be recognized out of "funds available" for debt service coverage and the various witness treatment of each item are shown in Figure 2:

[26] 52 Pa. Code § 69.2701-69.2703.

Figure 2

Cash Requirements Beyond Existing Debt Service (Dollars in Thousands)				
	PGW[27] Proposed	**I&E[28] Proposal**	**OCA[29] Proposal**	**OSBA[30] Proposal**
City Payment	18,000	18,000	18,000	18,000
OPEB	18,500	18,500	18,500	18,500
Pension	1,663	2,000	2,000	7,500
Retiree Benefits	6,870	5,000	5,000	---
Capital Spending (IGF)	41,000	41,000	11,000	42,000
Working Capital	22,655	1,018	4,498	---
DSIC	35,000	35,000	35,000	---
TOTAL, as proposed	**143,688**	**120,518**	**93,998**	**86,000**

The cash available after debt service coverage and after the obligations listed in Figure 2 is necessary to ensure that PGW can deal with unforeseen expenses and working capital needs or dips in expected revenue. It is true that some of the construction expenses that would be paid from the construction-related cash (IGF and working capital) could be delayed or deferred to "free up" cash. But, that should be avoided since it would - as I already stated - "kick the problem down the road." So, PGW strongly believes that an amount above this minimum amount is absolutely necessary in order to both actually deal with unanticipated contingencies and to provide assurance to the investment community that it has the capacity to maintain adequate coverages and to pay its obligations when they are due.

PGW prudently recommended a ratio in excess of debt service coverage and the obligations listed in Figure 2. That "free" cash will increase the likelihood that PGW will

[27] *See, e.g.,* JFG-2-A, including pg 1 lines 35, 55; pg 2, lines 26, 27; and, pg 3, line 20.

[28] I&E St. 1 at 21.

[29] OCA Response to PGW Interrogatory I-9(a)-(f).

[30] OSBA St. 1 at 12.

be able to meet its obligations, as set forth above, and to maintain or improve PGW's bond rating. PGW's proposal also provides some $22 million for contingencies and working capital, to assure a cushion if income drops due to unusual events.

As can be seen, only I&E has come close to recognizing PGW's cash obligations after debt service. That recommendation would, however, leave PGW with less ending (free) cash at the end of the FPFTY and with virtually no cash for contingencies and working capital. With less free cash, PGW could have increasing difficulty in keeping its financial health above the minimum standards, if there are unanticipated challenges in the FPFTY such as the potential effects from Covid19 to which I have testified.

This analysis clearly shows why the OCA and the OSBA recommendations are simply inadequate. As part of discovery responses, OCA recognized the categories of PGW's cash requirements. But, OCA's claim rests entirely on arbitrarily lopping off of some $30.0 million in construction expenditures and providing virtually no level of working capital or cash cushion. I discuss the arbitrary and unreasonable nature of this adjustment elsewhere in my rebuttal testimony. Suffice it to say that forcing PGW to defer $30.0 million in construction is neither justified nor logical. The reality of OCA's recommendations means no rate increase in the FPFTY and $30.0 million in additional cash obligations in FY 2022. This will make the financial results in FY 2022 even worse. At a high level, PGW would have about $20.0 million in year-end cash.[31] That level of cash is insufficient and PGW would be very close to violating the debt service requirements before the end of FY 2022.

[31] The projected net earnings of $50 million less $30 million in delayed construction equals $20 million. See PGW Exh. JFG-1-A.

Mr. Knecht, on the other hand, recognizes that the value of PGW funding a portion of PGW's construction is better for the company and its ratepayers, but fails to give us sufficient cash to fund the other cash items, working capital or for contingencies. His review focuses on a few cash requirements and ignores other cash requirements, so nothing suggests that Mr. Knecht's analysis would provide sufficient cash for PGW to pay all of its obligations when they are due.

Q. DR. HABR OPINES THAT A DEBT SERVICE COVERAGE OF 1.88 TIMES IS SUFFICIENT TO PERMIT PGW TO MEET ITS OBLIGATIONS (NOT INCLUDING $30.0 MILLION OF FPFTY CONSTRUCTION, WHICH HE APPEARS TO CONCLUDE IS UNNECESSARY). CAN YOU COMMENT ON DR. HABR'S RECOMMENDATION OF 1.88 TIMES?

A. The results of Dr. Habr's opinion, if adopted, would weaken PGW's financial health and would not provide adequate cash for PGW to continue to pay its bills. The debt service coverage is only one metric that PGW utilizes to work towards financial health. The concept of this metric is to allow PGW to pay all of its expenses (On the Income Statement). PGW can then demonstrate it can pay the principal portion of bonds as they come due. Then PGW would have cash available to pay other item that are not current expenses but are cash requirements nonetheless. Arbitrarily stopping construction by an arbitrary value is not prudent and is inconsistent with PGW's LTIIP. As I noted before, this is in direct contrast to I&E's recommendation for PGW to maintain or increase construction expenses.[32]

---

[32] *See* I&E St. 1 and St. 2.

Q. DO YOU BELIEVE THAT REDUCING PGW'S CONSTRUCTION BUDGET BY $ 30.0 MILLION IN ORDER TO PERMIT A 1.88 TIMES COVERAGE TO BE ADEQUATE IS REASONABLE?

A. No. The additional amount above the PGW average is primarily associated with the installation of a new Customer Information System ("CIS"). If PGW delays this project into the next fiscal year it's going to hurt PGW's ability to upgrade the system, provide enhanced customer service and operational efficiencies in future years, when the system is fully operational, or it is going to have to delay other needed projects (Dr. Habr didn't identify *any* specific projects to delay). Also, if deferred into FY 2022 it may be difficult to maintain contractor experience continuity and will only exacerbate current CIS limitations.

VII. <u>YEAR-END CASH; DAYS CASH ON HAND</u>

Q. DID THE PARTIES INDICATE WHAT LEVEL OF CASH OR LIQUIDITY THEY BELIEVED WAS REASONABLE FOR PGW TO HAVE AVAILABLE AT YEAR-END?

A. With I&E's recommended rate increase, I&E witness Spadaccio recommends year-end cash of $ 90.086 million,[33] which equates to 67.96[34] days of cash. In comparison, with OCA's recommended rate decrease and expense adjustments, OCA witness Garrett recommends year end cash of $93.998 million,[35] which equates to 73.50[36] days of cash. OSBA witness Knecht simply rejects analysis of year end-cash as a financial metric.[37]

33 I&E St. 1 at 4; I&E Exhibit 1, Schedule 1, at 3, Line 23 (Ending Cash).

34 I&E St. 1 at 17; I&E Exhibit 1, Schedule 1 at 7.

35 OCA St. 3 at 8; OCA Exhibit DSH-3.

36 OCA St. 3 at 8; OCA Exhibit DSH-3.

37 *See* OSBA St. 1 at 9-12.

Q. DO YOU AGREE WITH MR. KNECHT THAT THE ANALYSIS OF YEAR-END CASH SHOULD BE DISREGARDED IN ESTABLISHING JUST AND REASONABLE RATES FOR PGW?

A. No. Days of cash is one of the key indicators that PGW uses to track its financial requirements. The Policy Statement[38] lists days of cash on hand as an item that must be included. Further, the level of cash that would be produced by these two witnesses' debt service coverage calculations can be extrapolated.

Q. OSBA WITNESS KNECHT SUGGESTS FURTHER THAT IT IS NOT CREDIBLE THAT YEAR-END CASH BALANCE WILL DROP TO $45.2 MILLION WITHOUT A RATE INCREASE IN FY 2021.[39] CAN YOU COMMENT?

A. Yes. Mr. Knecht's workpapers incorrectly show that "Long Term Debt/Notes Pbl" as of 8/31/21 without a rate increase is $1,131,223. Mr. Knecht acknowledged this mistake in his response to PGW's data request I-12. The correct number as set forth in Exhibit JFG-1 is $1,195,179 which Mr. Knecht also acknowledged in his response to PGW's data request I-12. Additionally, Mr. Knecht corrected his testimony in his response to PGW's data request I-13. His original testimony states the following:

> PGW asserts that its year-end cash balance will drop to $45.2 million without a rate increase in FY21. This is simply not credible, since it is driven by the Company's assumption that debt will be reduced by $128 million, with net debt increasing by $58 million.

Mr. Knecht corrected the debt reduction numbers as follows:

> This is simply not credible, since it is driven by the Company's assumption that debt will be reduced by $64 million, with net debt increasing by $9 million.

---

[38] 52 Pa. Code § 69.2701-69.2703.

[39] OSBA St. 1 at 11.

This admission is significant. PGW's long term debt balance at 8/31/20 is $1,259,473. When netted against Mr. Knecht's incorrect long term debt balance at 8/31/21 in the amount of $1,131,223 the result equals $128 million. It is clear to me, that Mr. Knecht originally believed that PGW purposefully projected that it would pay down its long term debt more than the actual principal payments that were due during the FPFTY. After acknowledging that the long term debt balance as of 8/31/21 is actually $1,195,179, Mr. Knecht corrected his testimony to show that the actual long term debt reduction is $64 million during the FPFTY (i.e. $1,259,473 minus $1,195,179). Mr. Knecht originally believed PGW had paid down its debt by an extra $64 million (i.e. $128 million minus $64 million), therefore, Mr. Knecht incorrectly asserted that PGW's cash balance at 8/31/21 in the amount of $45.2 million was "simply not credible" because his incorrect workpapers showed an additional and erroneous pay down of long term debt during the FPFTY in the amount of $64 million In fact, the $64 million pay down of long-term debt reflects scheduled principal maturities ($55.433 million) and are **not** being paid off arbitrarily or at PGW's discretion. The additional $8.527 million reduction in the Long-term debt balance is **not** cash. It represents an amortization of the premium that bond purchasers paid to PGW at the time of the issuance of the bonds. Accordingly, Mr. Knecht's criticism of PGW's projected cash balance at 8/31/21 should be rejected as based on erroneous calculations. Moreover, the pay downs he questioned were not only half as large as he suggested but also completely reasonable and required.

Q. PLEASE DISCUSS THE PROPOSED LEVELS OF YEAR-END CASH BY I&E AND OCA.

A. I&E's proposed level of year-end cash is $91.0 million or 68 days of cash. While more reasonable than the other recommendations, this is still going in the wrong direction and leaves the Company vulnerable to contingencies. It is also almost twice as low as PGW's municipal peer group, as Mr. Walker explains.[40]

OCA's proposed level of year-end cash is misleading. That proposal is based on a reduction in the use of cash by PGW – specifically, a $30.0 million reduction in net construction expenditures.[41] If construction expenditures remain the same (which they should), the level of ending cash under the OCA's analysis falls by $30.0 million to about $63.8 million.[42] That being said, I further dispute that level of ending cash. Generally speaking, OCA started with the assumption of the full rate increase ($70.0 million) and then made adjustments to negate that increase ($72.0 million). So, one would expect OCA's "final" level of cash to be close to the levels shown in current rates for the FPFTY. They are not. The OCA's levels ($93.8 million[43] or $63.8 million[44]) are significantly above the results shown in JFG-1-A (of $45.407 million). Therefore, I conclude that the OCA's calculation of year-end cash is not accurate and reasonable.

---

40 PGW St. No. 4-R.

41 OCA St. 2 at 9; OCA St. 3 at 2, 4-5.

42 *See* OCA Exhibit MEG-2, which lists ending cash of $93.8 million. $93.8 million less $30 million is $63.8 million.

43 OCA Exhibit MEG-2.

44 *See* OCA Exhibit MEG-2, which lists ending cash of $93.8 million. $93.8 million less $30 million is $63.8 million.

VIII. CONSTRUCTION EXPENSE

Q. PLEASE RESPOND TO OCA'S RECOMMENDATION FOR A $30 MILLION REDUCTION IN NET CONSTRUCTION EXPENDITURES.

A. Dr. Habr recommends a $30.0 million reduction in net construction expenditures.[45] In offering this recommendation, Dr. Habr explains that the budgeted net construction expenditures are higher in the FPFTY than in prior FYs.

I would note that OCA witness Garrett recognizes that Dr. Habr's recommendation impacts the ending cash balance in the cash flow statements, as a reduction in the uses of cash. In other words, Mr. Garrett acknowledges that reducing construction expenditures is a way to "manufacture" more year-end cash in the FPFTY.

Q. PLEASE DISCUSS DR. HABR'S CRITICISM OF THE LEVEL OF PGW'S CONSTRUCTION EXPENDITURES.

A. Dr. Habr notes that certain capital expenditures "can be deferred if the situation calls for it."[46] Dr. Habr observes that the construction expenditures are higher in the FPFTY (FY 2021) than the FTY (FY 2020), the HTY (FY 2019), and FY 2018.[47] From that observation, Dr. Habr recommends that construction expenditures for the FPFTY should be reduced. In offering that recommendation, however, Dr. Habr does not identify specific projects to cancel or defer. In fact, when asked what specific construction projects Dr. Habr is recommending be cancelled or deferred, the response was: "Dr. Habr is not making any specific recommendations. PGW is better suited to identify which projects can be delayed with the least disruption."[48] This emphasizes that Dr. Habr did

---

45 OCA St. 2 at 9; OCA St. 3 at 2, 4-5.

46 OCA St. 3 at 3.

47 OCA St. 3 at 4.

48 OCA Response to PGW Interrogatory I-8(b).

not make this recommendation on the basis of an analysis of what projects (if any) could be deferred without harming system safety or system reliability analysis. Dr. Habr has even acknowledged that he did not perform a risk assessment.[49] Dr. Habr offered no position on whether the $30.0 in construction projects should be deferred to a different FY.[50] He indicated that deferral "is a decision PGW management must make."[51] So, in the end, Dr. Habr merely assumes that $30.0 million worth of planned construction to meet PGW's betterment and replacement commitments, which are focused on improving the safety and reliability of the PGW's distribution system, simply disappears. This is obviously not reasonable.

I disagree with Dr. Habr and believe the planned construction projects should continue in the FPFTY. As I've indicated above, PGW's current view is that it will catch up any projects that were planned but not completed in FY 2020 and be fully back on track by calendar year end.

Q. ARE THERE REASONS WHY FY 2021 CONSTRUCTION EXPENDITURES ARE HIGHER THAN PREVIOUS YEARS?

A. During the FPFTY funding will be required for two multiyear projects. PGW's Building Consolidation effort will commence in FY 2021 at a capital cost of $53.250 million. This project will reduce PGW's real estate footprint decreasing operating costs, as well as improve efficiency by reducing staffing levels. Another major initiative is the implementation of PGW's Advance Metering infrastructure which will allow PGW to read meters on a demand basis and eliminate the current mobile technology to read meters with limited benefits. As a cash flow company, PGW needs the cash in the year in

49 OCA Response to PGW Interrogatory I-8(c).

50 OCA Response to PGW Interrogatory I-8(d).

51 OCA Response to PGW Interrogatory I-8(d).

which these projects are realized and therefore cannot receive an "amortized" portion. If it were to receive only a portion of these construction costs it would have to defer or delay the project. Deferring or delaying these projects will hurt customer service.

I would further note that Dr. Habr's recommendation of less spending for betterment and replacement commitments appears to be fully at odds with the testimony of I&E witnesses Spadaccio and Orr. Specifically, Mr. Spadaccio does not recommend any changes to net construction in the FPFTY.[52] Generally, Mr. Orr further supports continued betterment and replacement commitments by PGW.

It would, therefore, be inappropriate to reduce PGW's planned capital expenditures by $30 million and OCA's proposed adjustment should be rejected.

IX. <u>BAD DEBT EXPENSE; COLLECTION EXPENSE</u>

Q. PLEASE DESCRIBE THE RECOMMENDATION OF OCA FOR THE USE OF A COLLECTION RATE OF 97%.

A. Mr. Garrett recommends the use of a collection rate of 97%,[53] rather than the 96% collection rate proposed by PGW, for purposes of calculating bad debt expense. This proposal lowers PGW's bad debt expense by $12,630,000. Alternatively, Mr. Garrett recommends a collection rate of 96.57%, or a bad debt expense rate of 3.43%, which would lower PGW's bad debt expense by $9,696,000.

Q. DO YOU AGREE WITH MR. GARRETT'S RECOMMENDATION?

A. No. Mr. Garrett is correct that (a) PGW is requesting a collection rate of 96% and a corresponding budgeted bad debt expense rate of 4%;[54] and (b) bad debt expense

52 I&E St. 1; I&E Exhibit No. 1, Schedule 1, at 3.

53 OCA St. 2 at 10-13; OCA Exhibit MEG-5.1

54 OCA St. 2 at 11-13.

included in Exhibits JFG-1 and JFG-2 reflect a bad debt expense rate of 4.5%. However, this is because PGW uses a combined calculation of written-off accounts and adjustment to the reserve for uncollectible accounts at year-end to determine its bad debt expense. It does not use a net write-off to establish a level of bad debt expense. I disagree with Mr. Garrett's analysis, since he focused on net write-offs. I further disagree with Mr. Garrett's suggestion that PGW's actual experience supports a higher collection rate and corresponding lower bad debt expense. To the contrary, the three year average of PGW's actual experience would support a lower collection rate and a higher level of bad debt expense:

		2019	2018	2017
(a)	Gas revenues (net)	$664,084	$628,254	$588,414
(b)	Bad debt expense	$29,983	$30,826	$29,992
(c)	(a) + (b) =	$694,067	$659,080	$618,406
(b)	Bad debt expense	$29,983	$30,826	$29,992
(c)	Gas revenues (Gross)	$694,067	$659,080	$618,406
(d)	(b) / (c) =	4.32%	4.68%	4.85%
			3 Year Average:	**4.62%**

Based on this data, it would not be prudent to reduce bad debt expense at this time, particularly as PGW's rates are increasing. It is appropriate to use the 96% collection rate and a corresponding budgeted bad debt expense rate of 4%, as proposed by PGW. OCA's proposal to use a higher collection rate and lower bad debt expenses should be rejected.

I would also note that Mr. Garrett's recommendation that PGW will experience better collections in the FPFTY is contradicted by testimony from other OCA witnesses,[55] which suggest that economic conditions have made (or will make) rates unaffordable to many customers. It is also inconsistent with Dr. Peach's analysis which concluded that, due to the continued effects of the Covid-19 pandemic, PGW's bad debt expense could double in FY 2021.

It would, therefore, be inappropriate to impose a higher collection rate (with a corresponding lower bad debt expense) upon PGW and OCA's proposed adjustment should be rejected.

X. PAYROLL EXPENSE

Q. PLEASE ADDRESS OCA'S PROPOSED REDUCTION TO PGW'S CLAIM FOR PAYROLL EXPENSE.

A. Mr. Garrett recommends a reduction of $4,600,000 to PGW's claim for payroll expense.[56] In offering this recommendation, Mr. Garrett claims that the requested increase in payroll expense from the HTY 2019 to the FPFTY 2021 cannot be fully explained by annual pay increases. He also states that PGW has maintained employee counts below budget levels in each of the past 3 years.

Q. DO YOU AGREE WITH MR. GARRETT'S RECOMMENDATION?

A. No, I do not. Before addressing the specifics of Mr. Garrett's recommendation it is important to understand that PGW's financial projections (JFG-1-A and JFG-2-A) do <u>not</u> include a specific line item for payroll expense. PGW's total payroll expense is comprised of many separate line items within its financial projections on both the Balance Sheet and Income Statement. Two of such items are "Field Operations

---

[55] OCA St. 1; OSBA St. 1.

[56] OCA St. 2 at 16-20; OCA Exhibit MEG-5.3.

Expense"[57] and "Incentive Compensation." So, when Mr. Garrett is addressing payroll expense, he is really addressing other specific line items within PGW's financial projections including PGW's labor utilized on capital projects.

Mr. Garrett is correct that the employee levels have a direct impact on payroll costs.[58] He states that the purpose of his recommended adjustment is to prevent PGW from including the cost of unfilled positions in rates.[59] However, at the end of May 2020 PGW had 1,641 active employees. This is an increase from May 2019 and May 2018 of 28 and 19 employees, respectively.

I disagree with Mr. Garrett's conclusion that the budgeted level of employees for the FPFTY and the impact of the scheduled pay increases do not justify PGW's claims. PGW's claim for payroll expense in the FPFTY is based on a headcount of 1,675 employees. The head count is trending up, and PGW projects that it will reach the assumed headcount level in the FPFTY. In addition, PGW disagrees with the recommendation to use average historic levels for these expenses simply because the FPFTY levels are higher than the historical levels. By definition, the use of the historical average does <u>not</u> provide all of the funds from ratepayers in the FPFTY to pay for all of the costs incurred (and payable) by PGW in the FPFTY. A historical trend is not consistent with the allowance of full projections in the test year, as permitted by Act 11 and PUC regulations.[60]

---

[57] *See* JFG-1-**A** and JFG-2-**A,** Statement of Income, Line 21.

[58] OCA St. 2 at 18.

[59] OCA St. 2 at 20.

[60] *See* 66 Pa. C.S. § 315(e); 52 Pa. Code § 53.56.

Therefore, it would be inappropriate to exclude $4.6 million from PGW's claim for payroll expense, as distributed through the financial statements, and OCA's proposed adjustment should be rejected.

XI. DISTRIBUTION & FIELD SERVICES

Q. PLEASE DESCRIBE OCA'S PROPOSED REDUCTION TO PGW'S CLAIM FOR THE DISTRIBUTION DEPARTMENT AND THE FIELD SERVICES DEPARTMENT.

A. Mr. Garrett recommends that the average historic levels be used for setting the overall claim for Field Operations Expense.[61] The adjustment to the Distribution Department expense is a reduction of $426,000 and the reduction to Field Services Department expense is $2,083,000. Together these adjustments reduce Field Operations Expense by $2,508,000.

Q. DO YOU AGREE WITH MR. GARRETT'S RECOMMENDATION?

A. No. The projected expenses in the Distribution Department and the Field Services Department are reasonable. These expenses are based on employee counts and related costs. These projected expenses are properly reflected within the Field Operations Expense. The Field Operations Expense is part of the overall payroll expense, as I already explained. The acceptance of Mr. Garrett's recommendations regarding payroll expense and Field Operations Expense would result in double-reduction of the same expenses. Therefore, it would be inappropriate to exclude $2,508,000 from PGW's claim for Field Operations Expense and OCA's proposed adjustment should be rejected.

---

61 OCA St. 2 at 13-15; OCA Exhibit MEG-5.2.

XII. LOBBYING EXPENSE

Q. PLEASE RESPOND TO OCA'S RECOMMENDATION TO EXCLUDE PGW'S LOBBYING EXPENSE.

A. Mr. Garrett recommends excluding PGW's lobbying expense of $105,000 for ratemaking purposes.[62] While I understand and acknowledge the Commission's general rule with respect to lobbying expense,[63] I respectfully submit that these amounts are reasonable for PGW. PGW is a municipal utility and therefore has an obligation to maintain lines of communication with other parts of government. Moreover, I understand that PGW's government relations professionals assist in obtaining information and appropriate funding for state and federal programs such as LIHEAP. These efforts directly benefit customers. In fact, since PGW has no shareholders, all of PGW's lobbying efforts accrue to the benefit of customers. Under these circumstances, I believe that lobbying expense should be deemed a reasonable pro forma expense for PGW. It would, therefore, be inappropriate to exclude PGW's claim for lobbying expense in its entirety and OCA's proposed adjustment should be rejected.

Q. SHOULD THE COMMISSION DEPART FROM THE COMMISSION'S GENERAL RULE FOR LOBBYING EXPENSES?

A. Yes. Normal regulatory treatment of lobbying expenses is not appropriate for PGW. Unlike an investor-owned utility, every dollar of increased surplus accrues to the benefit of customers since it obviates the need for additional rate increases. Accordingly, PGW continues to respectfully request that its lobbying expenses also be included in pro forma expenses. In addition, I am informed by counsel that the PUC can waive provisions of the

---

[62] OCA St. 1 at 20-21.

[63] 66 Pa. C.S. § 1316.

Public Utility Code if such a waiver would be reasonable considering PGW's special circumstances.

XIII. RATE CASE EXPENSE

Q. PLEASE DESCRIBE THE RECOMMENDATION OF OCA TO REDUCE RATE CASE EXPENSE BY $468,000 (OR $94,000 PER YEAR) SO AS TO REMOVE A NON-RECURRING, NON-RATE CASE EXPENSE.

A. OCA witness Garrett recommends that rate case expenses be reduced by $468,000 for the cost of a software contract.[64] The rate case expenses are normalized over five years, so this adjustment would reduce the annual rate case expenses by $94,000. Mr. Garrett is correct that software training for in-house personnel is generally considered an ongoing operating cost of the utility, not specifically related to rate case expense.

Q. DO YOU AGREE WITH MR. GARRETT'S RECOMMENDATION?

A. No. Mr. Garrett is incorrect in stating that software training was included in rate case expense. PGW has a contract with Premier Logic. Under that contract, Premier Logic provides two different services that are separately invoiced. First, Premier Logic provides software training. Second, and to a lesser degree, Premier Logic provides technical support for the administration of the rate case. PGW only included the portion of the contract related to administration of the rate case in PGW's rate case expense. Mr. Garrett, however, mistakenly asserted that PGW included all of the contractual services within the rate case expense. Based on that mistaken analysis of the contract, Mr. Garrett seeks to reduce the annual rate case expenses by $94,000. Given that his recommendation

[64] OCA St. 2 at 21; OCA Exhibit MEG-5.5.

is based on a mistake, it would be inappropriate to exclude $94,000 from PGW's claim for rate case expense and OCA's proposed adjustment should be rejected.

XIV. INCENTIVE COMPENSATION EXPENSES

Q. PLEASE ADDRESS OCA'S RECOMMENDATION TO EXCLUDE PGW'S INCENTIVE COMPENSATION EXPENSES.

A. Mr. Garrett recommends that the expense for C-Suite incentive plan (of $105,000) for executives be excluded from rate recovery. He also recommends that 50% of the goal-based incentives (i.e., $442,000) for the non-bargaining employees be excluded from rate recovery. In offering his second recommendation, Mr. Garrett claims that there is a lack of well-defined, quantitative goals and criteria and that there are few or no benefits for ratepayers.

Q. DO YOU AGREE WITH MR. GARRETT'S RECOMMENDATION?

A. No, I do not. Incentive compensation is a practice of the Board of Directors of the Philadelphia Facilities Management Corporation (PGW's Board of Directors) and is designed to promote the successful completion of annual corporate goals. As stated in a discovery response,[65] PGW's corporate goals will be used for determining the C-Suite incentive compensation for the FPFTY. Those goals include continued improvement in customer satisfaction, revenue enhancement (from new business), increasing opportunities for minority, women, and disabled-owned businesses enterprises (M/W/DSBEs) to participate in PGW projects, and increasing job satisfaction/recognition scores. PGW submits that this information sufficiently supports its claim for the C-Suite incentive plan.

---

65 PGW Response to Interrogatory BIE-RE-16. *See also* Exh. JFG-5, which is a table of PGW's corporate goals for the FPFTY.

In addition to that plan, PGW has four incentive plans for the non-bargaining employees. These plans are: (1) the Motivational Sales Program, whose purpose is to maximize corporate and individual performance by establishing specific, aggressive goals and providing financial incentives to sales employees of PGW based on exceeding these goals; (2) the Bypass Bonus Plan provides a bonus to employees who report unauthorized users of gas; (3) the Event Driven Bonus Plan provides bonuses to those employees who have taken an innovative action in a specific instance and shown initiative that resulted in an event that has a positive and meaningful impact on PGW; and (4) the Employee Recognition Award Plan provides recognition and awards to employees whose accomplishment or contribution has had a substantial impact on the department, the company or the community. Extensive details on these plans were provided to I&E in discovery.[66] PGW submits that this information sufficiently supports its claim for the goal-based incentives for the non-bargaining employees.

Additionally, these items have been instrumental in supporting PGW's improved customer service, financial health, and system safety and reliability. The goal-based incentives for the non-bargaining employees have also been utilized to retain high quality employees. The need for an incentive component to PGW's compensation program was identified in the August 2015 Stratified Management and Operations Audit Report. Recommendation II-8 states "Perform a management compensation study (including incentive compensation) to assess compensation level as compared to market and realign as deemed appropriate."[67]

---

66 PGW Response to Interrogatory BIE-RE-16, including the related attachment (BIE-RE-16 Incentive Compensation_Bonus Pay - Attachment.pdf).

67 Exh. JFG-6, Excerpt from the Final Stratified Management and Operations Audit Report for Philadelphia Gas Works, August 2015 (PUC Docket No. D-2015-2468141).

Therefore, it would be inappropriate to exclude $547,000 from PGW's claim for incentive compensation and OCA's proposed adjustment should be rejected.

XV. RESERVES FOR RISK MANAGEMENT

Q. PLEASE RESPOND TO OCA'S RECOMMENDATION TO NORMALIZE PGW'S NON-LABOR RISK MANAGEMENT EXPENSES.

A. Mr. Garrett proposes to normalize (on a 3-year basis) the non-labor risk management expenses, so as to reduce the Administrative and General Expense by $3,325,000, since this expense can fluctuate.[68] These expenses are related to insurance premiums and a reserve balance.

Mr. Garrett acknowledges that the reserve appropriation can change over time.[69] He even acknowledges that the reserve appropriation is subject to internal processes that are (and should be) controlled by management.[70] However, Mr. Garrett's recommendation would not allow PGW to recover the level of reserve appropriation projected for the FPFTY. By definition, Mr. Garrett's recommendation to use the historical average does not provide all of the funds from ratepayers in the FPFTY to pay for all of the costs incurred (and payable) by PGW in the FPFTY. Assuming that PGW would continue to pay the insurance premiums, Mr. Garrett's proposal would mean that PGW would lack funds (determined to be necessary by management) for the reserves. Therefore, it would be inappropriate to exclude $3,325,000 from PGW's claim for risk management and OCA's proposed adjustment should be rejected.

---

68 OCA St. 2 at 26-28; OCA Exhibit MEG-5.7.

69 OCA St. 2 at 27.

70 OCA St. 2 at 27.

XVI. CONCLUSION

Q. DOES THAT COMPLETE YOUR REBUTTAL TESTIMONY?

A. Yes.

VERIFICATION

I, Joseph F. Golden, Jr., hereby state that: (1) I am the Executive Vice President and Acting Chief Financial Officer for Philadelphia Gas Works ("PGW"); (2) the facts set forth in my testimony are true and correct to the best of my knowledge, information and belief; and (3) I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

July 13, 2020
Dated

Joseph F. Golden, Jr.
Joseph F. Golden, Jr.
Executive Vice President
Acting Chief Financial Officer
Philadelphia Gas Works

EXHIBIT
JFG-1-A

Exhibit JFG-1A
Present Rates

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

LINE NO.		Actual 2017-18	HTY Actual 2018-19	FTY ESTIMATE 2019-20	FPFTY BUDGET 2020-21	FORECAST 2021-22	FORECAST 2022-23	FORECAST 2023-24	FORECAST 2024-25	LINE NO.
	OPERATING REVENUES									
1	Non-Heating	$ 23,492	$ 25,065	$ 24,026	$ 21,466	$ 20,547	$ 19,683	$ 18,889	$ 18,031	1
2	Gas Transport Service	51,682	63,565	66,378	67,767	69,251	70,578	71,981	73,328	2
3	Heating	588,624	603,521	579,656	576,418	575,835	576,884	580,122	580,938	3
4	Revenue Adjustment (TED/BUS Rate)	-	-	270	400	531	662	792	922	4
5	Weather Normalization Adjustment	(3,806)	1,596	92	-	-	-	-	-	5
6	Appropriation for Uncollectible Reserve	(30,826)	(29,983)	(30,927)	(29,951)	(29,289)	(29,355)	(29,524)	(29,582)	6
7	Unbilled Adjustment	(912)	320	617	(36)	(25)	14	13	38	7
8	Total Gas Revenues	628,254	664,084	640,112	636,064	636,850	638,466	642,273	643,675	8
9	Appliance Repair & Other Revenues	8,121	7,908	7,910	7,964	8,044	8,125	8,207	8,290	9
10	LNG Project Revenues	-	-	-	-	-	1,550	2,000	3,000	10
11	Other Operating Revenues	11,124	12,736	11,264	11,164	11,166	11,187	11,242	11,261	11
12	Total Other Operating Revenues	19,245	20,644	19,174	19,128	19,210	20,862	21,449	22,551	12
13	**Total Operating Revenues**	647,499	684,728	659,286	655,192	656,060	659,328	663,723	666,227	13
	OPERATING EXPENSES									
14	Natural Gas	186,254	206,801	195,397	191,548	189,544	191,040	194,269	196,115	14
15	Other Raw Material	11	24	10	10	10	10	10	10	15
16	Sub-Total Fuel	186,265	206,825	195,407	191,558	189,554	191,050	194,279	196,125	16
17	**CONTRIBUTION MARGINS**	**461,234**	**477,903**	**463,879**	**463,634**	**466,506**	**468,278**	**469,444**	**470,102**	17
18	Gas Processing	21,644	22,028	22,512	21,740	22,918	22,291	22,917	23,545	18
19	Field Services	39,291	-	-	-	-	-	-	-	19
20	Distribution	47,762	-	-	-	-	-	-	-	20
19	Field Operations	-	79,341	85,188	86,412	88,554	90,765	93,041	95,367	19
20	Collection	4,097	4,212	4,383	4,430	4,541	4,654	4,771	4,889	20
21	Customer Service	13,904	13,983	15,248	15,751	16,145	16,549	16,962	17,385	21
22	Account Management	7,878	8,277	9,206	9,245	9,476	9,712	9,954	10,202	22
23	Marketing	3,751	4,232	4,999	4,916	5,040	5,167	5,297	5,430	23
24	Administrative & General	69,179	69,631	84,074	85,191	84,959	86,192	89,573	89,954	24
25	Health Insurance	22,242	22,080	25,340	27,151	29,091	31,171	33,402	35,794	25
26	Environmental	-	-	792	1,059	2,862	1,012	972	993	26
27	Capitalized Fringe Benefits	(10,767)	(9,786)	(13,716)	(8,969)	(9,546)	(9,921)	(10,347)	(10,200)	27
28	Capitalized Administrative Charges	(16,396)	(14,276)	(16,793)	(22,707)	(21,788)	(20,247)	(19,722)	(20,129)	28
29	Amortization of Restructuring Costs	-								29
30	Pensions	43,159	30,268	29,844	23,577	25,808	30,287	28,655	27,429	30
31	Taxes	8,758	8,705	9,280	9,481	9,586	9,779	9,974	9,906	31
32	Other Post Employment Benefits	32,889	28,351	24,732	25,422	31,592	20,795	24,446	22,197	32
33	Proposed Bond Refunding Savings	-	-	(1,437)	(589)	(588)	(590)	(588)	(220)	33
34	Cost / Labor Savings	-	-	144	519	708	726	744	763	34
35	Sub-Total Other Operating & Maintenance	287,391	267,046	283,796	282,629	299,358	298,342	310,051	313,305	35
36	Depreciation	57,583	63,686	65,602	67,934	73,264	76,516	71,157	71,142	36
37	Cost of Removal	6,387	4,500	4,500	4,500	4,500	4,500	4,500	4,500	37
38	To Clearing Accounts	(7,516)	-	-	-	-	-	-	-	38
39	Net Depreciation	56,454	68,186	70,102	72,434	77,764	81,016	75,657	75,642	39
40	**Sub-Total Other Operating Expenses**	343,845	335,232	353,898	355,063	377,122	379,358	385,708	388,947	40
41	**TOTAL OPERATING EXPENSES**	530,110	542,057	549,305	546,621	566,676	570,408	579,987	585,072	41
42	OPERATING INCOME	117,389	142,671	109,981	108,571	89,384	88,919	83,736	81,155	42
43	**Interest Gain / (Loss) and Other Income**	4,634	10,787	4,369	7,400	6,706	5,897	7,473	7,098	43
44	INCOME BEFORE INTEREST	122,023	153,458	114,350	115,971	96,091	94,817	91,208	88,253	44
45	**INTEREST**									45
46	Long-Term Debt	48,351	46,136	50,520	54,442	51,549	48,512	57,937	54,824	46
47	Other	(10,618)	(10,523)	(11,337)	(9,612)	(6,980)	(1,543)	(5,690)	(5,280)	47
48	AFUDC	(1,353)	(1,295)	(1,718)	(2,212)	(2,504)	(2,091)	(1,922)	(1,956)	48
49	Loss From Extinguishment of Debt	5,560	5,278	4,845	4,460	4,047	3,615	3,348	2,972	49
50	**Total Interest**	41,940	39,596	42,310	47,078	46,112	48,493	53,673	50,560	50
51	**NET INCOME**	**80,083**	**113,862**	**72,040**	**68,893**	**49,979**	**46,324**	**37,535**	**37,692**	51
52	City Payment	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	52
53	**NET EARNINGS**	**$ 62,083**	**$ 95,862**	**$ 54,040**	**$ 50,893**	**$ 31,979**	**$ 28,324**	**$ 19,535**	**$ 19,692**	53

Exhibit JFG-1A
Present Rates

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

LINE NO.		Actual 2017-18	HTY Actual 2018-19	FTY ESTIMATE 2019-20	FPFTY BUDGET 2020-21	FORECAST 2021-22	FORECAST 2022-23	FORECAST 2023-24	FORECAST 2024-25	LINE NO.
	SOURCES									
1	Net Income	$ 80,083	$ 113,862	$ 72,040	$ 68,893	$ 49,979	$ 46,324	$ 37,535	$ 37,692	1
2	Depreciation & Amortization	51,717	57,048	60,396	63,079	68,808	72,473	67,400	67,558	2
3	Earnings on Restricted Funds Withdrawal/(No Withdrawal)	(2,898)	(5,102)	(3,491)	(4,708)	(3,988)	(3,159)	(4,715)	(4,320)	3
	Elimination of Accrued Interest on Refunded Debt	-	-	-	-	-	-	-	-	
	Equity Bond / Debt Reduction	-	-	-	-	-	-	-	-	
4	Proceeds from Bond Refunding to Pay Cost of Issuance	-	-	2,600	-	-	-	2,350	-	4
5	Increased/(Decreased) Other Assets/Liabilities	(1,282)	(20,376)	(27,609)	(37,907)	(26,891)	(21,985)	(35,039)	(39,027)	5
6	Available From Operations	127,619	145,431	103,935	89,356	87,907	93,653	67,531	61,903	6
7	Drawdown of Bond Proceeds	55,000	45,000	65,009	78,084	88,177	74,039	66,418	67,892	7
	Grant Income	-	-	-	-	-	-	-	-	
	Lease Funds Debt Service	-	-	-	-	-	-	-	-	
	Capitalized Interest	-	-	-	-	-	-	-	-	
8	Release of Restricted Fund Asset	-	-	-	-	-	-	-	-	8
9	Release of Bond Proceeds to Pay Temporary Financing	-	-	-	-	-	-	-	-	9
10	Temporary Financing	-	-	-	-	-	-	-	-	10
11	TOTAL SOURCES	182,619	190,431	168,944	167,440	176,084	167,692	133,949	129,795	11
	USES									
12	Net Construction Expenditures	$ 123,427	$ 110,523	$ 119,673	$ 154,084	$ 174,477	$ 145,691	$ 133,918	$ 136,292	12
13	Funded Debt Reduction	-	-	-	-	-	-	-	-	13
13	Revenue Bonds	38,425	51,820	52,870	54,956	55,433	59,165	61,253	64,756	13
	Revenue Bond Subordinate Debt	-	-	-	-	-	-	-	-	
	Capital Lease	-	-	-	-	-	-	-	-	
	Equity Bond Contribution/ Debt Reduction	-	-	-	-	-	-	-	-	
14	Temporary Financing Repayment	-	-	-	-	-	-	-	-	14
15	Changes in City Equity	-	-	-	-	-	-	-	-	15
16	Distribution of Earnings	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	16
	Additions To (Reductions of)									
17	Non-Cash Working Capital	(39,749)	16,994	742	(3,202)	1,181	(879)	3,555	218	17
18	Cash Needs	140,103	197,337	191,285	223,838	249,091	221,977	216,726	219,266	18
19	Cash Surplus (Shortfall)	42,516	(6,906)	(22,341)	(56,397)	(73,007)	(54,285)	(82,777)	(89,471)	19
20	TOTAL USES	182,619	190,431	168,944	167,440	176,084	167,692	133,949	129,795	20
21	Cash - Beginning of Period	88,535	131,051	124,146	101,805	45,407	(27,599)	(81,884)	(164,661)	21
22	Cash - Surplus (Shortfall)	42,516	(6,906)	(22,341)	(56,397)	(73,007)	(54,285)	(82,777)	(89,471)	22
23	**ENDING CASH**	**$ 131,051**	**$ 124,146**	**$ 101,805**	**$ 45,407**	**$ (27,599)**	**$ (81,884)**	**$ (164,661)**	**$ (254,132)**	23
24	**Outstanding Commercial Paper**	-	-	-	-	-	-	-	-	24
25	**Outstanding Commercial Paper - Capital**	-	-	-	-	-	-	-	-	25
26	**DSIC Spending**	50,440	35,641	33,000	35,000	37,000	37,000	37,000	37,000	26
27	**Internally Generated Funds**	17,987	29,882	21,664	41,000	49,300	34,652	30,500	31,400	27
28	**TOTAL IGF + Incremental DSIC Spending**	68,427	65,523	54,664	76,000	86,300	71,652	67,500	68,400	28

PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE
(Dollars in Thousands)

LINE NO.		Actual 2017-18	HTY Actual 2018-19	FTY ESTIMATE 2019-20	FPFTY BUDGET 2020-21	FORECAST 2021-22	FORECAST 2022-23	FORECAST 2023-24	FORECAST 2024-25	LINE NO.
	FUNDS PROVIDED									
1	Total Gas Revenues	$ 659,080	$ 664,084	$ 640,112	$ 636,064	$ 636,850	$ 638,466	$ 642,273	$ 643,675	1
2	Other Operating Revenues	(11,581)	20,644	19,174	19,128	19,210	20,862	21,449	22,551	2
3	Total Operating Revenues	647,499	684,728	659,286	655,192	656,060	659,328	663,723	666,227	3
4	Other Income Incr. / (Decr.) Restricted Funds	4,634	10,787	878	2,692	2,718	2,738	2,758	2,777	4
5	City Grant	-	-	-	-	-	-	-	-	5
5	AFUDC (Interest)	1,353	1,295	1,718	2,212	2,504	2,091	1,922	1,956	5
6	TOTAL FUNDS PROVIDED	653,486	696,810	661,882	660,095	661,282	664,157	668,402	670,960	6
	FUNDS APPLIED									
7	Fuel Costs	186,265	206,825	195,407	191,558	189,554	191,050	194,279	196,125	7
8	Other Operating Costs	343,757	335,232	353,898	355,063	377,122	379,358	385,708	388,947	8
9	Total Operating Expenses	530,110	542,057	549,305	546,621	566,676	570,408	579,987	585,072	9
10	Less Non-Cash Expenses	82,843	74,552	73,083	69,157	76,765	84,545	77,603	76,412	10
11	TOTAL FUNDS APPLIED	447,267	467,505	476,222	477,464	489,911	485,864	502,384	508,660	11
12	Funds Available to Cover Debt Service	206,219	229,305	185,659	182,631	171,372	178,293	166,018	162,301	12
13	1975 Ordinance Bonds Debt Service	-	-	-	-	-	-	-	-	13
14	**Debt Service Coverage 1975 Bonds**	-	-	-	-	-	-	-	-	14
13	Net Available after Prior Debt Service	206,219	229,305	185,659	182,631	171,372	178,293	166,018	162,301	13
14	Equipment Leasing Debt Service	-	-	-	(47,075)	-	-	-	-	14
15	Net Available after Prior Capital Leases	206,219	229,305	185,659	229,706	171,372	178,293	166,018	162,301	15
16	1998 Ordinance Bonds Debt Service	87,690	98,417	100,784	106,790	107,718	108,452	113,799	120,191	16
17	1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	-	-	-	-	-	-	-	-	17
18	Total 1998 Ordinance Debt Service	87,690	98,417	100,784	106,790	107,718	108,452	113,799	120,191	18
19	**Debt Service Coverage 1998 Bonds**	**2.35**	**2.33**	**1.84**	**2.15**	**1.59**	**1.64**	**1.46**	**1.35**	19
20	Net Available after 1998 Debt Service	118,529	130,888	84,875	122,916	63,654	69,841	52,219	42,110	20
	1998 Ordinance Subordinate Bond Debt Service	-	-	-	-	-	-	-	-	
	Debt Service Coverage Subordinate Bonds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
21	Aggregate Debt Service	87,690	98,417	100,784	106,790	107,718	108,452	113,799	120,191	21
22	Debt Service Coverage (Combined liens)	2.35	2.33	1.84	1.71	1.59	1.64	1.46	1.35	22
23	Debt Service Coverage (Combined liens with $18.0 City Fee)	**2.15**	**2.15**	**1.66**	**1.54**	**1.42**	**1.48**	**1.30**	**1.20**	23

PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)

NO.		ACTUAL 8/31/18	HTY ACTUAL 8/31/19	FTY ESTIMATE 2019-20	FPFTY BUDGET 2020-21	FORECAST 2021-22	FORECAST 2022-23	FORECAST 2023-24	FORECAST 2024-25	NO.
	ASSETS									
1.	Utility Plant Net	$ 1,403,956	$ 1,451,470	$ 1,505,541	$ 1,591,691	$ 1,692,904	$ 1,762,079	$1,824,840	$1,889,990	1.
2.	Leasehold Asset	-	-	-	852	36,088	34,324	33,695	31,932	2.
3.	Sinking Fund Reserve	103,255	106,509	125,588	127,803	130,058	132,352	150,539	153,195	3.
4.	Capital Improvement Fund - Current	61,000	68,634	78,084	88,177	74,039	10,125	67,892	82,740	4.
5.	Capital Improvement Fund - Long Term	50,815	-	167,333	81,621	9,288	-	94,965	13,861	5.
6.	Workers' Compensation Fund -									6.
7.	& Health Insurance Escrow	2,646	2,711	2,731	2,759	2,786	2,814	2,843	2,871	7.
8.	Cash	131,051	124,146	101,805	45,407	(27,599)	(81,884)	(164,661)	(254,132)	8.
9.	Accounts Receivable:									9.
10.	Gas	141,346	146,018	144,249	140,752	137,949	135,139	132,313	129,481	10.
11.	Other	2,964	1,775	1,800	1,825	1,850	1,875	1,900	1,925	11.
12.	Accrued Gas Revenues	4,628	4,947	5,564	5,528	5,503	5,517	5,530	5,568	12.
13.	Reserve for Uncollectible	(66,328)	(66,751)	(67,015)	(65,657)	(64,324)	(62,985)	(61,637)	(60,284)	13.
14.	Total Accounts Receivable:	82,610	85,989	84,598	82,448	80,978	79,546	78,106	76,690	14.
15.	Materials & Supplies	52,368	51,691	51,546	50,851	51,308	52,191	53,267	54,028	15.
16.	Other Current Assets	2,501	3,258	3,000	3,160	3,165	3,170	3,175	3,180	16.
17.	Deferred Debits	15,499	14,885	12,867	12,940	12,525	12,502	12,481	12,452	17.
18.	Unamortized Bond Issuance Expense	290	258	232	209	189	173	159	146	18.
19.	Unamortized Loss on Reacquired Debt	42,054	36,776	31,931	27,471	23,424	19,808	16,461	13,489	19.
20.	Deferred Environmental	31,593	37,102	48,168	47,108	44,246	43,234	42,262	41,290	20.
21.	Deferred Pension Outflows	24,943	14,421	12,560	8,590	7,775.00	6,716.00	6,559.00	6,402.00	21.
22.	Deferred OPEB Outflows	81,048	91,175	71,633	52,091	32,548.00	25,282.00	25,282.00	25,282.00	22.
23.	Other Assets	9,650	16,387	29,174	28,934	31,610	33,319	33,057	35,797	23.
24.	**TOTAL ASSETS**	$ 2,095,279	$ 2,105,410	$ 2,326,791	$ 2,252,111	$ 2,205,331	$ 2,135,750	$2,280,921	$2,189,212	24.
	EQUITY & LIABILITIES									
25.	City Equity	$ 111,700	$ 207,562	$ 261,603	$ 312,496	$ 344,475	$ 372,798	$ 392,335	$ 412,025	25.
26.	Revenue Bonds	1,016,300	964,476	1,171,606	1,116,650	1,061,217	1,002,052	1,175,799	1,111,043	26.
27.	Unamortized Discount	(64)	(56)	(52)	(48)	(44)	(40)	(36)	(32)	27.
28.	Unamortized Premium	109,237	98,000	87,919	78,577	70,050	62,371	55,247	48,675	28.
29.	Long Term Debt	1,125,473	1,062,420	1,259,473	1,195,179	1,131,223	1,064,383	1,231,010	1,159,686	29.
30.	Lease Obligations	-	-	-	852	36,088	34,324	33,695	31,932	30.
31.	Notes Payable	-	-	-	-	-	-	-	-	31.
32.	City Loan	-	-	-	-	-	-	-	-	32.
32.	Accounts Payable	72,620	67,530	68,782	68,769	68,676	68,537	68,292	68,068	32.
33.	Customer Deposits	2,644	3,090	2,956	2,828	2,707	2,592	2,482	2,378	33.
34.	Other Current Liabilities	5,942	4,207	3,733	4,647	3,208	2,869	4,501	3,134	34.
35.	Pension Liability	261,261	247,246	244,136	244,675	244,919	244,177	242,469	235,033	35.
36.	OPEB Liability	378,888	336,079	316,130	293,105	266,991	237,796	205,133	169,348	36.
37.	Deferred Credits	16,494	8,284	3,848	4,013	2,154	2,105	2,096	2,090	37.
38.	Deferred Pension Inflows	13,266	18,230	18,166	6,344	693	664	1,260	6,719	38.
39.	Deferred OPEB Inflows	36,134	69,874	45,987	22,099	5,942	6,979	6,979	6,979	39.
40.	Accrued Interest	8,080	8,326	7,601	7,073	7,809	8,584	3,194	3,805	40.
41.	Accrued Taxes & Wages	3,889	4,080	4,042	4,222	4,394	4,573	4,760	4,954	41.
42.	Accrued Distribution to City	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	42.
43.	Other Liabilities	55,888	65,482	87,334	82,810	83,053	82,369	79,714	80,062	43.
44.	**TOTAL EQUITY & LIABILITIES**	$ 2,095,279	$ 2,105,410	$ 2,326,791	$ 2,252,111	$ 2,205,331	$ 2,135,750	$2,280,921	$2,189,212	44.
	CAPITALIZATION									
45.	Total Capitalization	1,237,173	1,253,628	1,521,076	1,507,675	1,475,697	1,437,181	1,623,345	1,571,711	45.
46.	Total Long Term Debt	1,125,473	1,062,772	1,259,473	1,195,179	1,131,223	1,064,383	1,231,010	1,159,686	46.
47.	Debt to Equity Ratio	90.97%	84.78%	82.80%	79.27%	76.66%	74.06%	75.83%	73.78%	47.
48.	Capitalization Ratio	10.08	5.57	4.81	3.82	3.28	2.86	3.14	2.81	48.

EXHIBIT
JFG-2-A

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

LINE NO.		HTY Actual 2018-19	FTY ESTIMATE 2019-20	FPFTY BUDGET 2020-21	FORECAST 2021-22	FORECAST 2022-23	FORECAST 2023-24	FORECAST 2024-25	LINE NO.
	OPERATING REVENUES								
1	Non-Heating	25,065	$ 24,026	$ 21,466	$ 20,547	$ 19,683	$ 18,889	$ 18,031	1
2	Gas Transport Service	63,565	66,378	67,767	69,251	70,578	71,981	73,328	2
3	Heating	603,521	579,656	576,418	575,835	576,884	580,122	580,938	3
4	Revenue Adjustment (TED/BUS Rate)	-	270	400	531	662	792	922	4
5	Revenue Enhancement / Cost Reduction - FY2021	-	-	70,000	70,000	70,000	70,000	70,000	5
6	Weather Normalization Adjustment	1,596	92	-	-	-	-	-	6
7	Appropriation for Uncollectible Reserve	(29,983)	(30,927)	(33,101)	(32,369)	(32,435)	(32,604)	(32,662)	7
8	Unbilled Adjustment	320	617	(36)	(25)	14	13	38	8
9	Total Gas Revenues	664,084	640,112	702,914	703,770	705,386	709,193	710,595	9
10	Appliance Repair & Other Revenues	7,908	7,910	7,964	8,044	8,125	8,207	8,290	10
11	LNG Project Revenues	-	-	-	-	1,550	2,000	3,000	11
12	Other Operating Revenues	12,736	11,264	12,161	12,162	12,184	12,239	12,257	12
13	Total Other Operating Revenues	20,644	19,174	20,125	20,206	21,859	22,446	23,547	13
14	**Total Operating Revenues**	684,728	659,286	723,039	723,976	727,245	731,640	734,143	14
	OPERATING EXPENSES								
15	Natural Gas	206,801	195,397	191,548	189,544	191,040	194,269	196,115	15
16	Other Raw Material	24	10	10	10	10	10	10	16
17	Sub-Total Fuel	206,825	195,407	191,558	189,554	191,050	194,279	196,125	17
18	**CONTRIBUTION MARGINS**	**477,903**	**463,879**	**531,481**	**534,422**	**536,195**	**537,361**	**538,018**	18
19	Gas Processing	22,028	22,512	21,740	22,918	22,291	22,917	23,545	19
20	Field Services	-	-	-	-	-	-	-	20
21	Distribution	-	-	-	-	-	-	-	21
22	Field Operations	79,341	85,188	86,412	88,554	90,765	93,041	95,367	22
23	Collection	4,212	4,383	4,430	4,541	4,654	4,771	4,889	23
24	Customer Service	13,983	15,248	15,751	16,145	16,549	16,962	17,385	24
25	Account Management	8,277	9,206	9,245	9,476	9,712	9,954	10,202	25
26	Marketing	4,232	4,999	4,916	5,040	5,167	5,297	5,430	26
27	Administrative & General	69,631	84,074	85,191	84,959	86,192	89,573	89,954	27
28	Health Insurance	22,080	25,340	27,151	29,091	31,171	33,402	35,794	28
29	Environmental	-	792	1,059	2,862	1,012	972	993	29
30	Capitalized Fringe Benefits	(9,786)	(13,716)	(8,969)	(9,546)	(9,921)	(10,347)	(10,200)	30
31	Capitalized Administrative Charges	(14,276)	(16,793)	(22,707)	(21,788)	(20,247)	(19,722)	(20,129)	31
32	Amortization of Restructuring Costs								32
33	Pensions	30,268	29,844	23,577	25,808	30,287	28,655	27,429	33
34	Taxes	8,705	9,280	9,481	9,586	9,779	9,974	9,906	34
35	Other Post Employment Benefits	28,351	24,732	25,422	31,592	20,795	24,446	22,197	35
36	Proposed Bond Refunding Savings	-	(1,437)	(589)	(588)	(590)	(588)	(220)	36
37	Cost / Labor Savings	-	144	519	708	726	744	763	37
38	Sub-Total Other Operating & Maintenance	267,046	283,796	282,629	299,358	298,342	310,051	313,305	38
39	Depreciation	63,686	65,602	67,934	73,264	76,516	71,157	71,142	39
40	Cost of Removal	4,500	4,500	4,500	4,500	4,500	4,500	4,500	40
41	To Clearing Accounts	-	-	-	-	-	-	-	41
42	Net Depreciation	68,186	70,102	72,434	77,764	81,016	75,657	75,642	42
43	**Sub-Total Other Operating Expenses**	335,232	353,898	355,063	377,122	379,358	385,708	388,947	43
44	**TOTAL OPERATING EXPENSES**	542,057	549,305	546,621	566,676	570,408	579,987	585,072	44
45	OPERATING INCOME	142,671	109,981	176,418	157,300	156,836	151,653	149,071	45
46	**Interest Gain / (Loss) and Other Income**	10,787	4,369	7,400	6,706	5,897	7,473	7,098	46
47	INCOME BEFORE INTEREST	153,458	114,350	183,818	164,007	162,734	159,125	156,169	47
48	**INTEREST**								48
49	Long-Term Debt	46,136	50,520	54,442	51,549	48,512	57,937	54,824	49
50	Other	(10,523)	(11,337)	(9,612)	(6,980)	(1,543)	(5,690)	(5,280)	50
51	AFUDC	(1,295)	(1,718)	(2,212)	(2,504)	(2,091)	(1,922)	(1,956)	51
52	Loss From Extinguishment of Debt	5,278	4,845	4,460	4,047	3,615	3,348	2,972	52
53	**Total Interest**	39,596	42,310	47,078	46,112	48,493	53,673	50,560	53
54	**NET INCOME**	**113,862**	**72,040**	**136,740**	**117,895**	**114,241**	**105,452**	**105,608**	54
55	City Payment	18,000	18,000	18,000	18,000	18,000	18,000	18,000	55
56	**NET EARNINGS**	**$ 95,862**	**$ 54,040**	**$ 118,740**	**$ 99,895**	**$ 96,241**	**$ 87,452**	**$ 87,608**	56

PHILADELPHIA GAS WORKS
CASH FLOW STATEMENT
(Dollars in Thousands)

LINE NO.		HTY Actual 2018-19	FTY ESTIMATE 2019-20	FPFTY BUDGET 2020-21	FORECAST 2021-22	FORECAST 2022-23	FORECAST 2023-24	FORECAST 2024-25	LINE NO.
	SOURCES								
1	Net Income	$ 113,862	$ 72,040	$ 136,740	$ 117,895	$ 114,241	$ 105,452	$ 105,608	1
2	Depreciation & Amortization	57,048	60,396	63,079	68,808	72,473	67,400	67,558	2
3	Earnings on Restricted Funds Withdrawal/(No Withdrawal)	(5,102)	(3,491)	(4,708)	(3,988)	(3,159)	(4,715)	(4,320)	3
	Elimination of Accrued Interest on Refunded Debt	-	-	-	-	-	-	-	
	Equity Bond / Debt Reduction	-	-	-	-	-	-	-	
4	Proceeds from Bond Refunding to Pay Cost of Issuance	-	2,600	-	-	-	2,350	-	4
5	Increased/(Decreased) Other Assets/Liabilities	(20,376)	(27,609)	(37,907)	(26,891)	(21,985)	(35,039)	(39,027)	5
6	Available From Operations	145,431	103,935	157,203	155,823	161,570	135,448	129,819	6
7	Drawdown of Bond Proceeds	45,000	65,009	78,084	88,177	74,039	66,418	67,892	7
	Grant Income	-	-	-	-	-	-	-	
	Lease Funds Debt Service	-	-	-	-	-	-	-	
	Capitalized Interest	-	-	-	-	-	-	-	
8	Release of Restricted Fund Asset	-	-	-	-	-	-	-	8
9	Release of Bond Proceeds to Pay Temporary Financing	-	-	-	-	-	-	-	9
10	Temporary Financing	-	-	-	-	-	-	-	10
11	TOTAL SOURCES	190,431	168,944	235,287	244,000	235,609	201,866	197,711	11
	USES								
12	Net Construction Expenditures	$110,523	$119,673	$154,084	$174,477	$145,691	$133,918	$136,292	12
13	Funded Debt Reduction	-	-	-	-	-	-	-	13
13	Revenue Bonds	51,820	52,870	54,956	55,433	59,165	61,253	64,756	13
	Revenue Bond Subordinate Debt	-	-	-	-	-	-	-	
	Capital Lease	-	-	-	-	-	-	-	
	Equity Bond Contribution/ Debt Reduction	-	-	-	-	-	-	-	
14	Temporary Financing Repayment	-	-	-	-	-	-	-	14
15	Changes in City Equity	-	-	-	-	-	-	-	15
16	Distribution of Earnings	18,000	18,000	18,000	18,000	18,000	18,000	18,000	16
	Additions To (Reductions of)								
17	Non-Cash Working Capital	16,994	742	(3,470)	983	(1,077)	3,357	19	17
18	Cash Needs	197,337	191,285	223,570	248,893	221,779	216,528	219,067	18
19	Cash Surplus (Shortfall)	(6,906)	(22,341)	11,718	(4,892)	13,830	(14,662)	(21,357)	19
20	TOTAL USES	190,431	168,944	235,287	244,000	235,609	201,866	197,711	20
21	Cash - Beginning of Period	131,051	124,146	101,805	113,523	108,630	122,460	107,799	21
22	Cash - Surplus (Shortfall)	(6,906)	(22,341)	11,718	(4,892)	13,830	(14,662)	(21,357)	22
23	**ENDING CASH**	**$ 124,146**	**$ 101,805**	**$ 113,523**	**$ 108,630**	**$ 122,460**	**$ 107,799**	**$ 86,442**	23
							347	555	
24	**Outstanding Commercial Paper**	-	-	-	-	-	-	-	24
25	**Outstanding Commercial Paper - Capital**	-	-	-	-	-	-	-	25
26	**DSIC Spending**	35,641	33,000	35,000	37,000	37,000	37,000	37,000	26
27	**Internally Generated Funds**	29,882	21,664	41,000	49,300	34,652	30,500	31,400	27
28	**TOTAL IGF + Incremental DSIC Spending**	65,523	54,664	76,000	86,300	71,652	67,500	68,400	28

Exhibit JFG-2A
Requested Rates

PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE
(Dollars in Thousands)

LINE NO.		HTY Actual 2018-19	FTY ESTIMATE 2019-20	FPFTY BUDGET 2020-21	FORECAST 2021-22	FORECAST 2022-23	FORECAST 2023-24	FORECAST 2024-25	LINE NO.
	FUNDS PROVIDED								
1	Total Gas Revenues	$ 664,084	$ 640,112	$ 702,914	$ 703,770	$ 705,386	$ 709,193	$ 710,595	1
2	Other Operating Revenues	20,644	19,174	20,125	20,206	21,859	22,446	23,547	2
3	Total Operating Revenues	684,728	659,286	723,039	723,976	727,245	731,640	734,143	3
4	Other Income Incr / (Decr) Restricted Funds	10,787	878	2,692	2,718	2,738	2,758	2,777	4
5	City Grant	-	-	-	-	-	-	-	5
5	AFUDC (Interest)	1,295	1,718	2,212	2,504	2,091	1,922	1,956	5
6	TOTAL FUNDS PROVIDED	696,810	661,882	727,942	729,198	732,074	736,319	738,876	6
	FUNDS APPLIED								
7	Fuel Costs	206,825	195,407	191,558	189,554	191,050	194,279	196,125	7
8	Other Operating Costs	335,232	353,898	355,063	377,122	379,358	385,708	388,947	8
9	Total Operating Expenses	542,057	549,305	546,621	566,676	570,408	579,987	585,072	9
10	Less Non-Cash Expenses	74,552	73,083	69,157	76,765	84,545	77,603	76,412	10
11	TOTAL FUNDS APPLIED	467,505	476,222	477,464	489,911	485,864	502,384	508,660	11
12	Funds Available to Cover Debt Service	229,305	185,659	250,478	239,288	246,210	233,935	230,217	12
13	1975 Ordinance Bonds Debt Service	-	-	-	-	-	-	-	13
14	**Debt Service Coverage 1975 Bonds**	-	-	-	-	-	-	-	14
13	Net Available after Prior Debt Service	229,305	185,659	250,478	239,288	246,210	233,935	230,217	13
14	Other Cash Requirements	-	-		-	-	-	-	14
15	Net Available after Prior Capital Leases	229,305	185,659	250,478	239,288	246,210	233,935	230,217	15
16	1998 Ordinance Bonds Debt Service	98,417	100,784	106,790	107,718	108,452	113,799	120,191	16
17	1999 Ordinance Subordinate Bonds Debt Service - (TXCP)	-	-	-	-	-	-	-	17
18	Total 1998 Ordinance Debt Service	98,417	100,784	106,790	107,718	108,452	113,799	120,191	18
19	**Debt Service Coverage 1998 Bonds**	**2.33**	**1.84**	**2.35**	**2.22**	**2.27**	**2.06**	**1.92**	19
20	Net Available after 1998 Debt Service	130,888	84,875	143,688	131,570	137,758	120,136	110,026	20
	1998 Ordinance Subordinate Bond Debt Service	-	-	-	-	-	-	-	
	Debt Service Coverage Subordinate Bonds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
21	Aggregate Debt Service	98,417	100,784	106,790	107,718	108,452	113,799	120,191	21
22	Debt Service Coverage (Combined liens)	2 33	1 84	2 35	2 22	2 27	2 06	1 92	22
23	Debt Service Coverage (Combined liens with $18 0 City Fee	**2.15**	**1.66**	**2.18**	**2.05**	**2.10**	**1.90**	**1.77**	23

Exhibit JFG-2A
Requested Rates

PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)

NO.		HTY ACTUAL 8/31/19	FTY ESTIMATE 2019-20	FPFTY BUDGET 2020-21	FORECAST 2021-22	FORECAST 2022-23	FORECAST 2023-24	FORECAST 2024-25	NO.
	ASSETS								
1.	Utility Plant Net	1,451,470	1,505,541	1,591,691	1,692,904	1,762,079	1,824,840	1,889,990	1.
2.	Leasehold Asset	-	-	852	36,088	34,324	33,695	31,932	2.
3.	Sinking Fund Reserve	106,509	125,588	127,803	130,058	132,352	150,539	153,195	3.
4.	Capital Improvement Fund - Current	68,634	78,084	88,177	74,039	10,125	67,892	82,740	4.
5.	Capital Improvement Fund - Long Term	-	167,333	81,621	9,288	-	94,965	13,861	5.
6.	Workers' Compensation Fund -								6.
7.	& Health Insurance Escrow	2,711	2,731	2,759	2,786	2,814	2,843	2,871	7.
8.	Cash	124,146	101,805	113,523	108,630	122,460	107,799	86,442	8.
9.	Accounts Receivable:								9.
10.	Gas	146,018	144,249	140,392	137,300	134,202	131,088	127,968	10.
11.	Other	1,775	1,800	1,825	1,850	1,875	1,900	1,925	11.
12.	Accrued Gas Revenues	4,947	5,564	5,528	5,503	5,517	5,530	5,568	12.
13.	Reserve for Uncollectible	(66,751)	(67,015)	(65,565)	(64,142)	(62,713)	(61,275)	(59,832)	13.
14.	Total Accounts Receivable:	85,989	84,598	82,180	80,511	78,881	77,243	75,629	14.
15.	Materials & Supplies	51,691	51,546	50,851	51,308	52,191	53,267	54,028	15.
16.	Other Current Assets	3,258	3,000	3,160	3,165	3,170	3,175	3,180	16.
17.	Deferred Debits	14,885	12,867	12,940	12,525	12,502	12,481	12,452	17.
18.	Unamortized Bond Issuance Expense	258	232	209	189	173	159	146	18.
19.	Unamortized Loss on Reacquired Debt	36,776	31,931	27,471	23,424	19,808	16,461	13,489	19.
20.	Deferred Environmental	37,102	48,168	47,108	44,246	43,234	42,262	41,290	20.
21.	Deferred Pension Outflows	14,421	12,560	8,590	7,775.00	6,716.00	6,559.00	6,402.00	21.
22.	Deferred OPEB Outflows	91,175	71,633	52,091	32,548.00	25,282.00	25,282.00	25,282.00	22.
23.	Other Assets	16,387	29,174	28,934	31,610	33,319	33,057	35,797	23.
24.	**TOTAL ASSETS**	2,105,410	2,326,791	2,319,958	2,341,094	2,339,430	2,552,518	2,528,725	24.
	EQUITY & LIABILITIES								
25.	City Equity	207,562	261,603	380,343	480,238	576,478	663,932	751,538	25.
26.	Revenue Bonds	964,476	1,171,606	1,116,650	1,061,217	1,002,052	1,175,799	1,111,043	26.
27.	Unamortized Discount	(56)	(52)	(48)	(44)	(40)	(36)	(32)	27.
28.	Unamortized Premium	98,000	87,919	78,577	70,050	62,371	55,247	48,675	28.
29.	Long Term Debt	1,062,420	1,259,473	1,195,179	1,131,223	1,064,383	1,231,010	1,159,686	29.
30.	Lease Obligations	-	-	852	36,088	34,324	33,695	31,932	30.
31.	Notes Payable	-	-	-	-	-	-	-	31.
32.	City Loan	-	-	-	-	-	-	-	32.
32.	Accounts Payable	67,530	68,782	68,769	68,676	68,537	68,292	68,068	32.
33.	Customer Deposits	3,090	2,956	2,828	2,707	2,592	2,482	2,378	33.
34.	Other Current Liabilities	4,207	3,733	4,647	3,208	2,869	4,501	3,134	34.
35.	Pension Liability	247,246	244,136	244,675	244,919	244,177	242,469	235,033	35.
36.	OPEB Liability	336,079	316,130	293,105	266,991	237,796	205,133	169,348	36.
37.	Deferred Credits	8,284	3,848	4,013	2,154	2,105	2,096	2,090	37.
38.	Deferred Pension Inflows	18,230	18,166	6,344	693	664	1,260	6,719	38.
39.	Deferred OPEB Inflows	69,874	45,987	22,099	5,942	6,979	6,979	6,979	39.
40.	Accrued Interest	8,326	7,601	7,073	7,809	8,584	3,194	3,805	40.
41.	Accrued Taxes & Wages	4,080	4,042	4,222	4,394	4,573	4,760	4,954	41.
42.	Accrued Distribution to City	3,000	3,000	3,000	3,000	3,000	3,000	3,000	42.
43.	Other Liabilities	65,482	87,334	82,810	83,053	82,369	79,714	80,062	43.
44.	**TOTAL EQUITY & LIABILITIES**	2,105,410	2,326,791	2,319,958	2,341,094	2,339,430	2,552,518	2,528,725	44.
	CAPITALIZATION								
45.	Total Capitalization	1,253,628	1,521,076	1,575,522	1,611,460	1,640,861	1,894,942	1,911,224	45.
46.	Total Long Term Debt	1,062,772	1,259,473	1,195,179	1,131,223	1,064,383	1,231,010	1,159,686	46.
47.	Debt to Equity Ratio	84.78%	82.80%	75.86%	70.20%	64.87%	64.96%	60.68%	47.
48.	Capitalization Ratio	5.57	4.81	3.14	2.36	1.85	1.85	1.54	48.

EXHIBIT
JFG-5

Exhibit
JFG-5

FY 2021 Corporate Goals and Objectives

ID	OBJECTIVE	GOAL COVERAGE					DEVELOPERS
1	Based upon the results of the FY 2020 Customer Affairs focus group, increase overall customer satisfaction 10%.	C					D. Adamucci B. Cummings J. Hawkinson F. Teme F. Weigert
2	Generate $3 million in new business margin (excluding LNG, GTS and non-regulated revenue streams), based on current FY 2019 customer rates.[1]		R				D. Furtek F. Teme
3	Select and commence implementation of new efficiency opportunity(ies) based on the FY 2020 continuous improvement program.			E			D. Adamucci B. Cummings D. Furtek B. Gallagher J. Hawkinson D. Leonard T. Mauro G. Stunder F. Weigert
4	Increase the percentage of spend with Philadelphia-based M/W/DSBE[2] firms in all contract opportunities by 30% over the FY 2019 level by the end of FY 2021.				S		D. Adamucci T. Mauro E. Young
5	Increase the Job Satisfaction/Recognition score from the FY 2019 employee engagement survey by 10%.					W	B. Cummings J. Grant L. Webb E. Young
6	In FY 2021, implement opportunity(ies) to further position PGW as a leader in transitioning Philadelphia to a clean energy future.	C				W	D. Adamucci B. Cummings K. Dybalski D. Furtek R. Guzman D. Leonard G. Stunder F. Teme L. Webb F. Weigert

Goals Legend:

Customer	Continuously improve the customer experience.
Revenue	Maintain a competitive utility by enhancing revenue.
Efficiencies	Improve efficiencies in our day-to-day activities.
Supplier	Increase utilization of diverse providers and local businesses.
Workforce	Continue to attract, develop and retain a diverse, skilled workforce.

[1] Includes new construction, increased service (pipe size), increased put-through, repurposing a premise's profile (e.g. rehabilitation, retail becomes restaurant), additional natural gas equipment added to an adequate service, and turn-ons of abandoned services inactive greater than 12 months. LNG, GTS, and non-regulated revenue streams (i.e., PLP, and Area Wide Utility Energy Service Contracts) are excluded. Margin excludes gas revenues. Impacts from rate case revenue increases are excluded.

[2] Defined as: Minority-Owned Business Enterprises (MBE), Women-Owned Business Enterprises (WBE) and Disabled-Owned Business Enterprises (DSBE), known collectively as M/W/DSBE firms.

EXHIBIT
JFG-6

Exhibit JFG-6

Schumaker & Company

Philadelphia Gas Works

Final Stratified Management and Operations Audit Report

Docket No. D-2015-2468141

August 2015

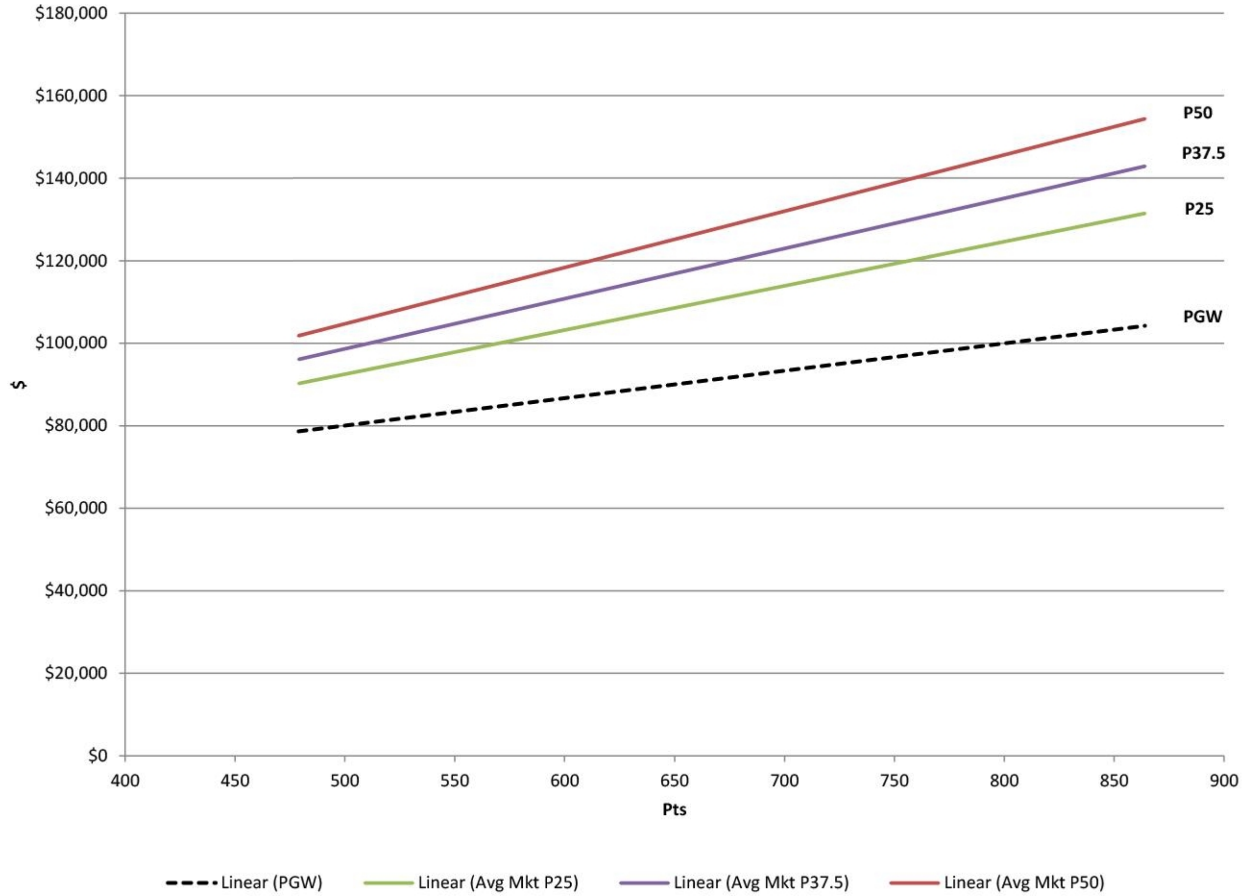
Finding II-8 Compensation for management-level positions is below market, making it difficult to attract talent.

The most recent compensation study for PGW was conducted in 2010 by Hay Group, a global management consulting firm. This study revealed that PGW compensation levels for exempt employees was well below market (i.e., around the 15th percentile for lower-level management and much lower for upper-level management).

Salary ranges were last adjusted in 2005 and even then were only applied to upper-level management positions. PGW has not implemented an incentive compensation system as was recommended by Schumaker & Company in the 2008 PaPUC Stratified Management & Operations Audit.

Exhibit II-10 is a chart from the 2010 Hay Group study comparing PGW compensation levels to comparable positions in the energy sector as rated using the Hay point system (the figures on the horizontal axis). The linear data represents the average pay within a percentile group. As such, the P25 line, is the average pay at the bottom 25th percentile of reported compensation. In every case, PGW's level of compensation falls well below the 25th percentile.

Exhibit II-10
PGW Exempt Employee Compensation versus Market
2010



Source: 2010 Hay Group Study, Information Response 314

Since the completion of the 2010 report, PGW reports that it is falling further behind the market on compensation.

Schumaker & Company believes that compensation rates this far below market make it difficult to attract and retain top talent. As was discussed in Finding II-6, 42% of PGW's 57 most senior managers are eligible for retirement immediately. PGW has reported difficulty in filling key positions. Most notable is the difficulty the organization has had in attracting and retaining the Director of Customer Affairs. The job has been filled twice in two years after lengthy searches. Finding IT professionals also remains a challenge. A sudden surge in retirements combined with difficulty attracting and retaining talent represents a continuity of operations risk for PGW.