

BEFORE THE PHILADELPHIA GAS COMMISSION

**IN THE MATTER OF THE FISCAL YEAR :
2027 BUDGETS/OVERSIGHT REVIEW OF :
PGW’S PROPOSED FY 2027 CAPITAL :
BUDGET AND FORECAST FOR FISCAL :
YEARS 2028 THROUGH 2032**

RECOMMENDED DECISION

*FY 2027 Capital Budget, Associated Forecast,
And Related Matters*

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I. SUMMARY

A. RECOMMENDED BUDGET ADJUSTMENTS

Tables 1 through 4 provide an overview of Philadelphia Gas Commission (“Gas Commission” or “Commission”) Staff’s recommended adjustments to the Philadelphia Gas Works’ (“PGW” or “Company”) proposed Fiscal Year (“FY”) 2027 Capital Budget (“Budget”). For the reasons discussed in detail herein, Staff recommends that the Gas Commission reject the Budget as filed and instead endorse for City Council’s approval an FY 2027 Budget in a total not-to-exceed amount of \$208.010 million. Of this amount, \$202.684 million (97.4%) would reflect spending authority available to PGW for purposes of expenditure and/or commitment at the start of the fiscal year on September 1, 2026, and \$5.326 million (2.6%) would require the Commission’s *release approval and/or the satisfaction of certain conditions prior* to commitment and/or expenditure.

Table 1 - Recommended FY27 Capital Budget (by Spending Authorization Category)

Spending Category	Proposed Budget	Recommended Adjustments	Recommended Budget	Change (%)
Immediate Funding	\$385,881,000	(\$183,197,000)	\$202,684,000	(47.5%)
Conditional Funding	-	-	-	-
Recommended Conditional Funding	-	\$646,000	\$646,000	-
Conditioned Funding	\$4,680,000	-	\$4,680,000	-
Total	\$390,561,000	(\$182,551,000)	\$208,010,000	(46.7%)

Table 2 - Recommended FY27 Capital Budget (by Business Unit)

Business Unit	Proposed Budget	Recommended Adjustments	Recommended Budget	Change (%)
Gas Processing	\$188,823,000	(\$181,992,000)	\$6,831,000	(96.4%)
Distribution	\$160,682,000 ¹	-	\$160,682,000	-
Field Services	\$20,506,000	-	\$20,506,000	-
Fleet Operations	\$13,146,000	-	\$13,146,000	-
Facilities	\$1,285,000	-	\$1,285,000	-
Information Services	\$6,025,000	(\$559,000)	\$5,466,000	(9.3%)
Other	\$94,000	-	94,000	-
Total	\$390,561,000	(\$182,551,000)	\$208,010,000	(46.7%)

Table 3 - Recommended FY27 Capital Budget (by Priority Status)

Applicable Priority	Proposed Budget	Recommended Adjustments	Recommended Budget	Change (%)
1 – Safety	\$139,663,000	-	\$139,663,000	-
2 - Reliability	\$199,716,000	(\$182,346,000)	\$17,370,000	(91.3%)
3 - Enforced Relocations	\$13,257,000	-	\$13,257,000	-
4 – Revenue Producing	\$18,102,000	-	\$18,102,000	-
5 - Improved Efficiency	\$19,823,000	(\$205,000)	\$19,618,000	(1.0%)
Total	\$390,561,000	(\$182,551,000)	\$208,010,000	(46.7%)

¹ \$4.680 million of this total is the conditioned funding reserve, which is approximately 3% of the Distribution department’s budget.

Table 4 - Summary of Recommended Adjustments to FY27 Capital Budget

Line items to Which Adjustments Are Recommended	Priority	Proposed Budget	Recommended Adjustment	Recommended Budget
Gas Processing- 53-02-2-22 Replace Liquefier-Richmond	2	\$181,992,000	(\$181,992,000)	-
Fleet- 73-01-2-03 Vehicle Replacement ²	2	\$646,000	-	\$646,000
Other Departments (Information Services)- 47-01-1-03 SAN Storage	2	\$354,000	(\$354,000)	-
Other Departments (Information Services)- 47-01-1-04 Expense Reimbursement Management System	5	\$205,000	(\$205,000)	-
Other Departments (Information Services)- 47-01-1-05 IP Cameras ³	1	\$914,000	-	\$914,000
NET TOTAL ADJUSTMENTS		\$184,111,000	(\$182,551,000)	\$1,560,000

B. OTHER RECOMMENDATIONS

In addition to the Budget adjustments summarized in the preceding Section I.A., Staff also recommends herein that the Commission take various other actions in connection with its Budget decision. Among these are:

1. Direct PGW to submit within seven (7) business days of the Commission meeting at which final action is taken on the proposed Budget the customary Compliance Capital Budget proposal and revised Capital Financing Plan, reflecting the Budget adjustments endorsed by the Commission, as well as an appropriately revised Forecast of Capital Budgets.
2. Recommend that City Council adopt the attached Capital Program Protocols (“Protocols”) in conjunction with its approval of the FY 2027 Capital Budget.
3. Recommend that City Council acknowledge receipt of PGW’s revised Forecast of Capital Budgets.
4. Direct PGW to file an updated Small and Local Business (“S/LB”) Forecast concurrent with the FY 2027 Capital Budget filing.
5. Instruct PGW to submit quarterly updates on the status of its S/LB program progress beginning within seven (7) business days of the Commission meeting at which final action is taken on the proposed Budget and concluding with submission of the S/LB forecast for PGW’s FY 2027 Capital Budget.
6. Urge PGW to engage members of the public, particularly those in impacted communities, in its planning process for all future projects of this magnitude.

²PGW proposes that Fleet Operations budgeted expenditures for vehicle replacements (20 sedans or SUVs) be conditionally approved subject to PGW providing a report showing the economics and operational need for purchasing sedans and/or SUVs prior to spending any funds. This report will include a life cycle analysis of initial costs, operation costs, salvage costs and will explain operational considerations for the planned expenditures. PGW will identify the amount of spending (not to exceed \$646,000) that it requests to be released based on this report.

³ PGW agrees to use a twenty-four month lifespan for this project as opposed to the proposed thirty-six month lifespan in the budget in response to Public Advocate concerns stated at PA Statement 1 at 15-16.

II. PROCEDURAL HISTORY

On November 25, 2025, PGW, the Public Advocate (“Advocate”) and Gas Commission Staff held an FY 2027 Capital Budget workshop, at which the following were discussed: Marketing, Distribution, AMI, Fleet, Lifespan extension modifications budget review process, and other miscellaneous capital budget categories.

On January 2, 2026, PGW filed a proposed FY 2027 Capital Budget of \$390.561 million. Said filing consisted of:

(1) a letter dated January 2, 2026, from William J. Gallagher to The Honorable Christy Brady transmitting the Budget proposal;

(2) a Table of Contents, Introduction, Capital Budget Narrative, Proposed FY 2027 Capital Budget, an informational Five-Year Forecast of Capital Budgets for FYs 2028 through 2032 in the amount of \$1.021 billion, Supporting Documentation for proposed line items, a Philadelphia Facilities Management Corporation (“PFMC”) Board Resolution dated November 25, 2025 authorizing the filed Budget proposal, Capital Financing Plan, the prepared Direct Testimony of Robert K. Smith, Senior Vice President for Operations and Supply Chain; Daniel Cassidy, Vice President for Technical Operations; and Frank Weigert, Chief Information Officer, and other information; and

(3) correspondence from John Byars, Director, Procurement and Economic Outreach, regarding the status of PGW’s Disadvantaged Business Enterprise (“DBE”) Program.⁴

On January 5, 2026, Commission Staff established a procedural schedule, which was circulated to the service list.⁵

As part of the Gas Commission’s customary due diligence review and related discovery process, Informal Discovery (“ID”) meetings were held virtually on January 15 and February 3, 2026, from which transcripts were produced.⁶ PGW, the Public Advocate, and Commission Staff participated in the informal discovery process.

On January 6, 2026, the Hearing Examiners issued a Pre-hearing Memorandum establishing parameters for the proceeding.⁷

The Public Advocate filed the Direct Testimony of its witness, Lafayette Morgan, on February 12, 2026.⁸ A Public Hearing was held on February 19, 2026, from which a transcript was produced.⁹ The Hearing took place in the Commissioner’s Hearing Room, with a virtual option for those who

⁴ See PGW Ex. 3.

⁵ See PGC Ex. 1.

⁶ See PGC Ex. 5, PGC Ex. 10.

⁷ See PGC Ex. 2.

⁸ See PA St. 1.

⁹ See PGC Ex. 14.

could not attend in person.¹⁰ Commissioner Dominic McGraw and Alternate Commissioner Bill Rubin were present at the hearing as observers.¹¹ Also present was Katherin Leonetti from the City’s Office of Sustainability. During the hearing, PGW offered the testimony of Daniel Cassidy, Vice President of Technical Operations.¹² Also in attendance were: (for PGW) William J. Gallagher, Vice President of Budget and Strategic Development; Eric Wickley-Olsen, P.E., Principal Engineer; Joseph K. Hawkinson, Vice President of Field Operations; Kelly Schreiber, Vice President of Operations, Resource Management and Personnel; Joanne Kelly, Vice President IS Infrastructure and Service Management; Robert Hoaglund, Esq., Senior Attorney; Arthur S. Hall, P.E., Director of Facilities and Engineering; Ryan Reeves, Director of Gas Control and Acquisition; Shawn M. Murray, Director of Resource Management Technology; Sean P. McNeeley, Director of Resource Management and Technology; John Byars, Director of Procurement and Supplier Diversity; Stephen Schumer, Manager of Budget Reporting; Shane Mayo, Manager of Administrative Services; James Sawka, Manager of Fleet Operations; Samantha S. Rivera, Engineer III; Brian R. Eckroade, Supervisor of Maintenance; Doug Balmer, Budget Analyst, Finance; Iman Hill, Budget Analyst, Finance; Victoria E. Battles, Executive Assistant; and (for the Public Advocate) Lafayette Morgan.¹³ In addition, eight members of the public attended the hearing in person and an additional 35 members of the public attended the hearing virtually.¹⁴ All were offered the opportunity to offer testimony on the record.¹⁵

Public testimony reflected a broad range of concerns centered on safety, environmental impacts, affordability, transparency, and long-term planning.¹⁶ Several members of the public expressed concern about the age and condition of the existing LNG facility and the potential consequences of equipment failure, while others questioned whether PGW had adequately communicated the risks associated with LNG operations to nearby communities.¹⁷ Multiple participants raised concerns about continued investment in fossil-fuel infrastructure, arguing that a new liquefier could lock the city into long-term gas dependence.¹⁸ Some urged the Commission to require PGW to align capital investments with the City’s carbon-reduction and climate-resilience goals.¹⁹ Multiple residents of Port Richmond testified regarding their concerns about the impacts on their neighborhood.²⁰

Several PGW customers testified about their concerns for the rate impacts of a major capital project, particularly for low-income households.²¹ Others questioned whether PGW had fully evaluated non-infrastructure alternatives that could reduce peak demand without major capital spending.²² A few speakers questioned whether the project was the right size for the needs that

¹⁰ See PGC Ex. 11 (Notice and TEAMS link for public hearing scheduled for February 19, 2026 posted at <https://www.phlgc.net/calendar.html> regarding the FY 2027 Capital Budget proposal).

¹¹ See PGC Ex. 14.

¹² Id.

¹³ Id.

¹⁴ Id. KYW NEWSRADIO 103.9 FM also signed into the hearing virtually.

¹⁵ Id.

¹⁶ Id. at 60-113.

¹⁷ Id.

¹⁸ Id.

¹⁹ Id.

²⁰ Id.

²¹ Id.

²² Id.

PGW expressed.²³

Some of the public testimony focused on long-term energy strategy.²⁴ A number of speakers urged the Commission to consider electrification, energy efficiency, and distributed resources as alternatives to LNG expansion.²⁵ Others emphasized the need for PGW to articulate a transition plan that balances reliability with decarbonization.²⁶

Public testimony also addressed transparency and the public process.²⁷ Some participants testified that the LNG project was hard to follow, the technical testimony was difficult to understand, and that PGW should provide clearer explanations for the public.²⁸ Participants expressed their frustrations that they did not receive advance notice of the project from PGW, but through neighborhood organizations shortly before the Gas Commission hearing.²⁹

There was a total of 39 exhibits pertaining to the Capital Budget. The record includes responses to four transcript requests (“TR-”) (TR-1 through TR-4) in this portion of the proceeding and responses to data requests propounded by the Advocate and Commission Staff during informal discovery. The record also includes responses to post-hearing data requests posed by the Commissioners.

On February 20, 2026, Commission Staff issued a briefing memo wherein they set forth guidelines for the participants’ briefs.³⁰

PGW and the Public Advocate filed their respective Comments and Briefs on March 4, 2026.

The parties and Commission Staff have worked diligently to position this matter for decision at the Commission meeting scheduled for April 14, 2026. Following the hearing on February 19, the filing of responses to data and transcript requests, and the submission of Briefs, the record is now complete on all issues relevant to this Recommended Decision.

III. APPLICABLE LEGAL AND GOVERNANCE STANDARDS

A. MANAGEMENT AGREEMENT/ORDINANCE

The Agreement Between The City Of Philadelphia And The Philadelphia Facilities Management Corporation For The Management And Operation Of The Philadelphia Gas Works³¹ identifies legal duties and obligations applicable to the Gas Commission's review and endorsement of a

²³ Id.

²⁴ Id.

²⁵ Id.

²⁶ Id.

²⁷ Id.

²⁸ Id.

²⁹ Id.

³⁰ See PGC Ex. 13.

³¹ Bill No. 455 passed by City Council on December 29, 1972, as since amended (hereinafter cited as: “Management Agreement/Ordinance”).

proposed Capital Budget.

- **In General**

Section I.6. imposes on PFMC the duty to apply the highest standards of management practice and diligence to the operation of PGW. Section VI.7. requires PFMC to keep the Gas Commission fully informed of its plans for operation, improvement, extension and betterment of PGW. Section VI.9. vests the Gas Commission with the responsibility for overseeing PFMC's operation of PGW.

- **Infrastructure Stewardship**

Section II.4. requires that all changes, additions, extensions, betterments, improvements, alterations and replacements in PGW and in the mains, pipes and appurtenances thereof, and in the property needed to meet the demands for gas, shall be made in such a way and manner as shall maintain PGW in good order and condition with the best and most economical processes in use that are customary in the best regulated gas works, to the extent permitted by funds available for said purposes.

- **Budgets Are Subject To Approval**

Section IV.2.b. requires PFMC to prepare annually for PGW a proposed capital budget for the ensuing year and a forecast for the six (6) years comprising the ensuing budget year and the five (5) years next following. Section IV.2.b. also requires that the budget proposal and forecast be submitted to the Director of Finance and the Gas Commission in sufficient time for their review and submission of said budget and forecast, together with their recommendations thereon by no later than the middle of the fourth month preceding the beginning of PGW's fiscal year to City Council for its approval.

- **Budget Approval Requires Substantiation**

Section IV.2.b. requires that a proposed capital budget and forecast be satisfactory to the Gas Commission in form and extent. Section IV.2.b. also requires that said budget and forecast include a showing of the nature of the additions and replacements proposed and the amounts needed therefor.

- **Budget Approval Requires Acceptable Financing**

Section IV.2.b. requires that the capital budget and forecast include a showing of how the funds required are to be supplied as between funds generated within the business through charges to customers or otherwise and funds to be obtained by capital loans.

- **Spending Must Comply With Budget Approvals And Applicable Standards**

Section IV.2.c. requires that PGW's expenditures be made pursuant to approved budgets and subject to any rules and regulations that the Gas Commission may promulgate in connection therewith.

B. FY 2026 CAPITAL BUDGET ORDINANCE-CAPITAL PROGRAM PROTOCOLS

Section 3 of the Ordinance approving PGW's FY 2026 Capital Budget requires that PGW adhere to the Capital Program Protocols set out in Exhibit #2 of said Ordinance during the lifespan of the

line items in said Budget.³² Said Protocols thereby govern the submission of a proposed FY 2027 Capital Budget and the administration of such Budget upon approval. The pertinent provisions of the Protocols follow.

- **Definitions**

Part 1 - Subpart A.1. defines “Budget Year” as the fiscal year assigned to a capital budget.

Part 1 - Subpart A.2. defines “Fiscal Year” as the 12-month period that begins on the first day in September and ends on the last day in August.

Part 1 - Subpart A.3. defines “Line Item Lifespan” as the fiscal year(s) during which a line item may be available for the purpose of spending and/or commitment.

Part 1 - Subpart A.4. defines “Immediate Funding” as the spending authority in an approved capital budget that is available for expenditure and/or commitment on the first day of the budget year subject to the limitations stated in the budget ordinance.

Part 1 - Subpart A.5. defines “Conditional Funding” as the spending authority in an approved capital budget that is available for expenditure and/or commitment if released by the Gas Commission after PGW has provided supplemental disclosure/substantiation in accordance with the budget ordinance.

- **Nomenclature**

Part 1 – Subpart B.4. provides that the term “conditional funding reserve” shall refer to the three (3) line items allocating conditional funding to the Office of the Chief Operating Officer for unbudgeted/unanticipated capital needs as may arise during the budget year related to safety, reliability of service, and load growth.

- **Substantiation**

Part 1 - Subpart C.2. provides that a line item shall reflect any and all components related to capital work identified thereby, the purpose of such work as identified by priority status, and the applicable projected cost.

Part 1 – Subpart D.1.A.B. provides that a line item shall be assigned a priority status of “1” when budgeted to fund capital investment critical to ensuring public safety, the integrity of PGW’s facilities, and/or the safety of PGW’s employees. Such line item: (A) may be eligible for approval as conditional funding for discrete projects identified by PGW under appropriate circumstances; and (B) is eligible for approval as conditional funding for unbudgeted and/or unanticipated capital needs as part of the conditional funding reserve.

Part 1 – Subparts E.1.A.B. and 2.A. provide that a line item shall be assigned a priority status of “2” when budgeted to fund capital investment to preserve the dependability and proper working condition of PGW’s energy-related infrastructure based on accepted/applicable engineering practices; and/or to keep PGW’s general facilities in a state suitable for occupancy and/or the

³² Bill No. 250528 (passed by City Council on June 12, 2025, and signed by the Mayor on June 13, 2025) (hereinafter cited as: “FY 2026 Capital Budget Ordinance”).

conduct of business, and/or to keep equipment, information systems and/or other infrastructure in a continuing state of readiness for responding to PGW’s operational needs. Such line item may be eligible for approval as conditional funding for discrete projects identified by PGW under appropriate circumstances.

Part 1 – Subpart G.1.A. and B. provide that a line item shall be assigned a priority status of “4” when budgeted to fund capital investment enhancing revenue generation by providing new and/or additional gas-related service(s) to end users. Such line item: (A) may be eligible for approval as conditional funding for discrete projects identified by PGW under appropriate circumstances; and (B) is eligible for approval as conditional funding for unbudgeted and/or unanticipated capital needs as part of the conditional funding reserve.

- **Line Item Lifespan**

Part 1 – Subpart C.3. provides that a line item shall match expenditures and/or commitments to spend with its approved lifespan.

Part 1 - Subpart C.4.D. provides that a line item shall lapse and its related spending authority shall expire if no work has been opened for the line item by the close of business on the last day of the budget year.

Part 1 - Subpart C.4.E. provides that a line item shall lapse and its related spending authority shall expire if the line item lifespan has expired.

Part 1 - Subpart C.4.F. provides that a line item shall lapse and its related spending authority shall expire if the capital work justifying the line item approval is completed or cancelled unless the balance of spending authority in the line item is to be transferred.

Part 1 - Subpart C.5. provides that a line item shall have a lifespan no greater than twenty-four (24) months commencing on the first day of the budget year except where the line item is part of the conditional funding reserve.

Part 1 - Subpart C.6. states that upon Commission recommendation and City Council approval, a budget line item lifespan may be approved for thirty-six (36) or forty-eight (48) months upon a showing that (i) the project timeline exceeds twenty-four (24) months, as known upon budget submission (Form 6410); (ii) the project cannot be reasonably phased-in over multiple budgets; and (iii) the expenditures related to such project will be off-limits as a source for budget transfers.

Part 1 - Subpart C.7. provides that a line item in the conditional funding reserve shall have a lifespan no greater than fifteen (15) months commencing on the first day of the budget year.

Part 1-Subpart C.8. allows the Commission to approve a capital budget line item lifespan extension of up to twelve (12) months without further City Council authorization subject to the following conditions:

- A. PGW must substantiate that the need for a lifespan extension is based on circumstances outside of PGW’s ability to anticipate, mitigate, or control arising after approval of expenditure but prior to the expiration of the original lifespan.

B. No line item lifespan extension pursuant to this section shall increase the spending authority originally approved for the line item.

C. The Commission's authorization is limited to a single lifespan extension for any affected line item.

D. Upon approval of a line item lifespan extension, the Commission shall give notice to City Council of the extension and supporting reasons therefor.

E. Line items with a priority status of "4" are ineligible for a lifespan extension pursuant to this section.

F. Line items with lifespans in excess of 24 months, approved pursuant to Subpart C.6 hereof, are ineligible for a lifespan extension pursuant to this section.

- **Filing Deadlines**

Part 3 - Subpart A.1. provides that a capital budget proposal for the next ensuing budget year shall be filed with the Gas Commission by no later than the first business day in January.

Part 3 - Subpart A.2. provides that a proposal to amend an approved Budget shall be filed with the Gas Commission by no later than the first business day in March of the budget year.

Part 3 - Subpart A.3.A. provides that a request that the Gas Commission release conditional funding in an approved Budget shall be filed with the Gas Commission by no later than: A) the first business day in September that follows the budget year for a line item in the conditional funding reserve; and B) the first business day in April of the budget year for all other line items.

- **Substantiation**

Part 3 – Subpart B.2. provides that a proposed line item assigned a priority status of "2" shall be substantiated by a showing that the capital work at issue is necessary based on a confirmed risk assessment and/or cost benefit analysis. If no risk assessment and/or cost benefit analysis is confirmed or if the project scope and/or costs is/are not yet finalized, the line item may be considered for conditional funding of a discrete project only if there is a reasonable expectation that the risk assessment will be confirmed and/or that the project scope and/or costs will be finalized during the budget year.

Part 3 – Subpart B.4. provides that a proposed line item assigned a priority status of "4" shall be substantiated by a showing that a contractual commitment has been or is reasonably certain to be secured during the budget year and that such commitment promises an acceptable return on investment. If a Miscellaneous Funding line item is proposed, the allocation for unbudgeted/unanticipated capital projects included therein shall be reasonable. If no contractual commitment and/or analysis of investment return is yet available, the line item may be considered for conditional funding of a discrete project if there is a reasonable likelihood that a contractual commitment indicating an acceptable return on investment will be secured during the budget year.

- **Content Requirements**

Part 4 imposes specific documentation requirements for a budget proposal. These include an authorizing PFMC Board Resolution (Subpart C), a Cost Component Breakout (Subpart D), Cost Derivation (Subpart E), a Capital Financing Plan (Subpart G), and a Disadvantaged Business Enterprise Participation Plan (Subpart H).³³

- Part 4 – Subpart A provides that a capital budget proposal shall be accompanied by supporting documentation that fully and meaningfully describes the matter at issue in accordance with the applicable line item and its related priority status as detailed in Part 3 - Subparts B.1. through B.6. It further provides that a budget proposal must identify for each line item the business need(s) and projected cost(s) of the capital work at issue and must show that spending or commitment to spend will be made during the budget year.
- Part 4 - Subpart D provides that supporting documentation for a proposed line item shall include a breakout of cost components that reflects the following as applicable: (1) Labor; (2) Purchased Services; (3) Materials; (4) Information System Hardware/Software; (5) Other Cost; (6) Project Cost comprising Part 4 - Subparts D.1. through D.5.; (7) Administrative & General Expense; (8) Allowance for Funds Used During Construction; (9) Total Capital Cost comprising Part 4 - Subparts D.6 through D.8.
- Part 4 - Subpart E provides that (1) supporting documentation for a proposed line item budgeted on the basis of unit costs shall include an explanation or analysis that justifies the use of an averaging method that deviates from 5-year averaging; (2) supporting documentation for a proposed line item in the Distribution Department shall include unit costs derived on a line-by-line basis by comparing cost data obtained via arithmetic mean, weighted arithmetic mean, median and correlation coefficient.

IV. DISCUSSION

A. OVERVIEW OF FILING AND RECOMMENDED ADJUSTMENTS

PGW's proposed FY 2027 Capital Budget totals \$390.561 million, which is \$175.349 million (or 81.5%) higher than the FY 2026 Compliance Capital Budget of \$215.212 million. As illustrated in the following Table 5, the proposed Budget reflects a decrease in requested funding for Information Services (\$28.719 million or 82.7%). Departments where requested funding increased include Gas Processing (\$174.247 million or 1195.4%), Distribution (\$14.449 million, or 9.9%), Facilities (\$0.696 million or 118.2%), Fleet Operations (\$2.775 million or 26.8%), Field Services (\$11.807 million or 135.7%). Finally, for the departments categorized as "Other" the budget increased from the FY 2026 Compliance Capital Budget to the FY 2027 Proposed Capital Budget from \$0.0 million to \$0.094 million.

³³ The last sentence of Part 4 - Subpart A advises PGW that questions and/or doubts as to whether items of information should be included in supporting documentation shall be resolved in favor of inclusion.

Table 5 - PGW Capital Budget (FY 2026 vs. FY 2027)

Business Unit	Approved Compliance FY26 Budget	Proposed FY27 Budget	Change (\$)	Change (%)
Gas Processing	\$14,576,000	\$188,823,000	\$174,247,000	1195.4%
Distribution	\$146,233,000	\$160,682,000	\$14,449,000	9.9%
Field Services	\$8,699,000	\$20,506,000	\$11,807,000	135.7%
Fleet Operations	\$10,371,000	\$13,146,000	\$2,775,000	26.8%
Facilities	\$589,000	\$1,285,000	\$696,000	118.2%
Information Services	\$34,744,000	\$6,025,000	(\$28,719,000)	(82.7%)
Other	-	\$94,000	\$94,000	-
TOTAL	\$215,212,000	\$390,561,000	\$175,349,000	81.5%

B. CAPITAL FINANCING PLAN

PGW’s proposed FY 2027 Capital Funding plan included with the Budget filing is summarized in the following Table 6.

Table 6 - FY 2027 Capital Funding Plan

Capital Spending in FY 2027		Capital Funding Sources	
Spending from FY 2027 Program	\$199,205,000	Debt	\$147,024,000
Spending Carryover from FY 2024, 2025, 2026	\$105,436,000	Distribution System Infrastructure Charge (“DSIC”)	\$42,551,000
Total Gross FY 2027 Spending	\$304,641,000	Federal Grant Revenue	\$29,703,000
Projected Reimbursement	\$8,478,000	Internally Generated Funds (“IGF”)	\$74,770,000
Salvage	\$269,000		
Construction Contributions	\$1,846,000		
Net FY 2027 Capital Spending	\$294,048,000	Total FY 2027 Capital Funding Sources	\$294,048,000

Other than those that flow from the recommended adjustments to the filed Budget, no changes to PGW’s capital spending projections and no adjustments to the capital funding sources were identified during Staff’s review.

C. PROPOSED FY 2027 CAPITAL BUDGET AND RELATED MATTERS

1. Agreed Adjustments to Budget

Through this proceeding the Parties agreed to a total of \$0.559 million in downward adjustments in funding for Information Services. The following Table 7 enumerates the agreed expense adjustments, adjustments to conditional funding, and adjustments for time with a reference to the

record and a brief explanation of the adjustment. Commission Staff concurs that the adjustments are reasonable.

Table 7 - Summary of Agreed Budget Adjustments

	Expense/Line Item	Proposed Budget	Agreed Adjustment	Support	Explanation
1	Other Departments (Information Services)- 47-01-1-03 SAN Storage	\$354,000	(\$354,000)	<u>See</u> PA Statement 1 at 15; PGW Exhibit 3 at 512.	PGW agrees to withdraw planned spending for SAN storage from the FY 2027 Capital Budget. This expenditure will be budgeted in the next capital budget.
2	Other Departments (Information Services)- 47-01-1-04 Expense Reimbursement Management System	\$205,000	(\$205,000)	<u>See</u> PA Statement 1 at 15; PGW Exhibit 3 at 517.	PGW agrees to withdraw this planned expenditure from the FY 2027 Capital Budget.
3	Fleet-73-01-2-03 Vehicle Replacements	\$646,000	Agreed to move to conditional funding	<u>See</u> PA Statement 1 at 13-14. See also, PGW Exhibit 3 at 281 for project detail.	PGW proposes that Fleet Operations budgeted expenditures for vehicle replacements (20 sedans or SUVs) be conditionally approved subject to PGW providing a report showing the economic and operational need for purchasing sedans and/or SUVs prior to spending any funds.
4	Other Departments (Information Services)- 47-01-1-05 IP Cameras	\$914,000	Adjustment to lifespan to 24 months from 36 months	<u>See</u> PA Statement 1 at 15-16	PGW agrees to use a twenty-four-month lifespan for this project as opposed to the proposed thirty-six month lifespan in the budget.
	Net Total Agreed Adjustments	\$2,119,000	(\$559,000)		

The participants agreed to conditional funding for the following line item: Fleet-Vehicle Replacement (#73-01-2-03) \$0.646 million.³⁴ PGW proposes that Fleet Operations budgeted expenditures for vehicle replacements (20 sedans or SUVs) be conditionally approved subject to PGW providing a report showing the economics and operational need for purchasing sedans and/or SUVs prior to spending any funds. This report will include a life cycle analysis of initial costs, operation costs, salvage costs and will explain operational considerations for the planned expenditures. PGW will identify the amount of spending (not to exceed \$646,000) that it requests

³⁴ PGW Comments at 8; PA St. 1 at 13-14.

to be released based on this report.³⁵ Regarding IP Cameras #(47-01-1-05) PGW agrees to use a twenty-four-month lifespan for this project as opposed to the proposed thirty-six month lifespan in the budget in response to Public Advocate concerns.³⁶

2. Issues That Remain in Dispute: Replacement of LNG Liquefier-Richmond Plant

a. Useful Life and Years in Service

In its FY 2027 Capital Budget, PGW included a request for approximately \$ 181.992 million³⁷ for the replacement of the Richmond LNG liquefier.³⁸ PGW argues that “this project is necessary as the existing liquefier is nearing the end of its useful life; and an unplanned outage or LNG equipment failure would cause serious service reliability problems for gas customers.”³⁹ The Public Advocate counters that “PGW’s assertion that the LNG liquefier is reaching the end of its useful life is inadequately supported” and that “similar plants have remained in service for in excess of 50 years.”⁴⁰

In support of PGW’s request to replace the liquefier in its FY 2027 Capital Budget, PGW argues that the Richmond liquefier was placed in service in 2002 and is therefore more than twenty years old, meaning it is already “at or beyond the typical service life” for LNG liquefaction facilities of this type.⁴¹ PGW asserts that it relied on its consultant, CH-IV, International (“CH-IV”) which identifies a 20-year nominal useful life for comparable liquefiers and explains that examples of units operating 40–50 years generally involve smaller facilities, lower thermal cycling rates, or more favorable operating conditions than those found at Richmond.⁴² Based on this evidence, PGW asserts that the Richmond unit is well into the latter portion of its practical service life, and that reliance on an aging, heavily cycled liquefier presents reliability risks requiring prudent long-term planning.⁴³ PGW also notes that “the maintenance history at the existing plant suggests that there may be problems [maintenance outages] ahead.”⁴⁴

PGW further argues that the Richmond liquefier has experienced unusually high thermal cycling since its early commissioning years continuing at roughly fifteen or more cycles per year, which

³⁵ PA Statement 1 at 13-14. See also, PGW Exhibit 3 at 281

³⁶ PA Statement 1 at 15-16.

³⁷ In the interest of simplicity, the Hearing Examiners will use the rounded figure of \$182 million throughout this Recommended Decision.

³⁸ PGW Ex. 4; PGW Comments at 9.

³⁹ Id.

⁴⁰ PA Brief at 10.

⁴¹ PGW Comments 16-17.

⁴² Id. at 10, 16.

⁴³ See PGW Comments. at 16–17, (explaining that the Richmond liquefier has experienced thermal cycling approximately five times the industry norm, resulting in accelerated mechanical fatigue, reduced useful life, and maintenance conditions that “signal problems to come;” noting that the cold box will be twenty-eight years old by FY 2030 and that a failure would cause an estimated 2.5-year outage; and concluding that a 25–30-year useful life is a conservative estimate and that delaying replacement “will put customers at risk.”). These factors collectively demonstrate that the Richmond liquefier is in the latter portion of its practical service life and that continued reliance on the aging, heavily-cycled unit presents increasing reliability risks.

⁴⁴ Id. at 9.

CH-IV concluded materially accelerates mechanical fatigue and end-of-life degradation.⁴⁵ As detailed in PGW’s Comments, during the 2002–2005 commissioning and acceptance period, Atmospheric Pressure Chemical Ionization (“APCI”), PGW’s contractor for the construction of the current liquefier, repeatedly started and stopped the unit in an effort to address performance issues and meet guaranteed output.⁴⁶ PGW testified that this period involved higher-than-normal early-life cycling, which contributes disproportionately to long-term mechanical fatigue.⁴⁷ PGW further explains that after it accepted the plant in 2005, the liquefier continued to operate with thermal cycling approximately five times higher than industry norms, due to APCI’s design, the plant’s capacity constraints, and PGW’s distribution system sendout requirements.⁴⁸ According to PGW, thermal cycling is a primary driver of mechanical fatigue because each cycle imposes expansion–contraction stress on critical components, ultimately causing metal fatigue, cracking, and loss of structural integrity.⁴⁹ PGW thus concludes that this accelerated wear materially shortens the liquefier’s practical service life and places the Richmond unit firmly within the latter stages of its useful life.⁵⁰

Relying on CH-IV’s finding that Richmond experiences significantly higher thermal cycling than the long-lived liquefiers cited by the Public Advocate and that this elevated cycling “accelerates end-of-life degradation,” PGW asserts that operation into the 40–50-year range is unlikely.⁵¹ On that basis, PGW argues the Public Advocate’s expectation of a much longer useful life based solely on chronological age and comparisons to units with far less demanding duty cycles is unsubstantiated.⁵²

PGW also highlights its concern regarding the cold box, which has been in service for twenty-three years and will reach twenty-eight years of service by FY 2030.⁵³ PGW states that the cold box has experienced the same elevated cycling rate, and a failure would result in an estimated 2.5-year outage.⁵⁴ PGW notes that it had previously planned to replace the cold box during FY 2023 due to end-of-life concerns.⁵⁵ The Commission and City Council approved this replacement during that fiscal year, and while PGW did not move forward with the replacement at that time, it argues that further delay in constructing the new liquefier will expose ratepayers to avoidable reliability risk.⁵⁶

Finally, PGW emphasizes the critical role the liquefier played during the recent 15-day extreme cold weather period, when LNG production and storage avoided more than \$90 million in commodity costs.⁵⁷ PGW argues that ensuring continued reliability and cost savings requires the

⁴⁵ Id. at 16-17 (citing Tr. at 19, which is the engineering testimony of Mr. Daniel Cassidy, Vice-President of Technical Operations).

⁴⁶ Id. at 16-17.

⁴⁷ PGW Comments at 9 (citing Tr. at 23, PGW Ex. 8 (PA-CB-49)).

⁴⁸ Id.

⁴⁹ Id.

⁵⁰ Id. at 17.

⁵¹ Id. at 16-17.

⁵² Id. at 17.

⁵³ Id.

⁵⁴ Id.

⁵⁵ Id. at 17; See FY 2023 Capital Budget Recommended Decision p.15-18

⁵⁶ Id. at 17.

⁵⁷ Id. at 18.

timely replacement of the aging, heavily-cycled liquefier, and that the four-year construction timeline makes immediate budget authorization essential.⁵⁸

The Advocate contests PGW’s calculation of the Richmond LNG liquefier’s years in service.⁵⁹ The Advocate contends the unit was placed in service in March 2005, not 2002, and therefore has 21 years in service as of 2026 and not the 24 years that PGW claims, emphasizing that from 2002 through 2004 the plant was not in service, but instead remained in a testing mode while the manufacturer attempted to achieve production capacity.⁶⁰ Using its proposed 2005 in-service date, the Advocate argues that this reduces the unit’s operational age by approximately three years, undercutting PGW’s assertion that the liquefier is “well into” the end of its practical life based on chronological age alone.⁶¹

According to the Advocate, CH-IV “assumed thermal cycling events” rather than using hard data, and PGW’s effort to validate CH-IV through conversations with other operators renders the support speculative and double hearsay.⁶² The Advocate’s critique challenges the adequacy of PGW’s evidentiary support, arguing that in the absence of measured thermal-cycling data, a documented failure analysis, or a plant-specific condition assessment, PGW’s fatigue-based end-of-life theory remains insufficiently substantiated to justify a capital investment of this scale.⁶³

The Advocate argues that PGW obtained \$14.5 million in FY 2023 to replace the cold box but did not use it.⁶⁴ As part of that FY 2023 request, Chart Energy and Chemicals, Inc., a division of Chart Industries Inc. (“Chart”), an OEM cryogenic equipment manufacturer and consultant for PGW, examined operating data for the existing cold box, determined that PGW was operating the facility outside of Chart’s recommended guidelines, and issued corrective recommendations that PGW implemented.⁶⁵ The Advocate notes that after implementing Chart’s recommendations, PGW acknowledged it had no indication of imminent failure and relied instead on a general “rule of thumb” for useful life.⁶⁶ The Advocate contends that PGW now invokes thermal-cycling theory to justify accelerated end-of-life conclusions without reconciling Chart’s prior life-extending recommendations or providing contemporaneous, plant-specific condition evidence, and therefore urges the Commission to require specific, verifiable condition data rather than generalized cycling assertions.⁶⁷

⁵⁸ Id.

⁵⁹ PA Brief at 5.

⁶⁰ Id. at 3,5,7.

⁶¹ Id. at 5.

⁶² Id. at 7

⁶³ See Pa St. 1 at 9–10 (asserting that PGW’s claims regarding the liquefier’s remaining life rely on “unsubstantiated assertions” and lack evidence demonstrating imminent failure); PA-CB-49 (stating that CH-IV “did not rely upon ‘hard data’” but instead assumed thermal-cycling levels for its analysis); Tr. 35 (characterizing PGW’s reliance on operator conversations as speculative and lacking plant-specific verification).

⁶⁴ PA Brief at 8.

⁶⁵ Id.; See FY 2023 Capital Budget p. 15-18.

⁶⁶ Id.

⁶⁷ Id. at 8-9.

Finally, the Advocate concludes that PGW's claim that the liquefier is at or near end-of-life is inadequately supported for a capital project of this scale. Given the existence of plants operating 50 plus years and Chart's guidance to extend life, the Advocate argues the record does not justify immediate replacement.⁶⁸ In the Advocate's estimation, PGW's evidence supporting its claims regarding the LNG liquefier's in-service date as well as the lack of hard data supporting PGW's position, the use of assumptions when analyzing the effects of thermal cycling, and PGW's failure to account for the benefits of prior corrective actions undertaken, rebut PGW's claim that time is of the essence and that prudence requires authorization now.⁶⁹ Accordingly, the Advocate recommends that the Commission deny PGW's requested funding.⁷⁰

The Hearing Examiners agree with PGW and find that its proposals are asset-specific, technically detailed, and corroborated by independent consultant analysis, while the Public Advocate relies on generalized industry examples that are not specific to the Richmond facility. PGW presented operational data showing elevated thermal cycling ($\approx 15+$ cycles/year) and credible engineering testimony that such cycling is a primary driver of mechanical fatigue, cracking, and accelerated end-of-life degradation. The Hearing Examiners find persuasive CH-IV's independent conclusion that the Richmond unit's cycling materially accelerated degradation compared to the long-lived units cited by the Advocate. The record contains facility-specific cycling history, maintenance records, and observed degradation patterns. Moreover, the Public Advocate offered no competing technical analysis or plant-specific condition evidence. Accordingly, the Hearing Examiners conclude that PGW has credibly demonstrated that the Richmond liquefier is in the latter portion of its service life and that continued reliance on the aging unit presents increasing reliability risks.

b. Liquefier Size

The Public Advocate also questions the proposed size of PGW's replacement LNG Liquefier. The Advocate raises two concerns with the size proposed by PGW: (1) that the liquefier would produce "excess capacity, beyond what is needed to service PGW's customers now and in the future" and (2) that it doesn't account for declining firm load, which could create a burden for ratepayers.⁷¹ For these reasons, the Advocate argues that the Gas Commission should not approve PGW's LNG budget request based on the size proposed in this budget request.⁷²

In support of its argument, the Advocate differentiates the production capacity of PGW's proposed plant (10 million standard cubic feet per day, which totals annual production capacity of 3.3 billion cubic feet ("Bcf")⁷³ from its existing plant (maximum annual production capacity of 2.2 Bcf).⁷⁴ The Advocate notes that with its existing plant, PGW was able to meet the needs of its customers without interrupting service.⁷⁵ The Advocate further states that the new plant will produce more

⁶⁸ Id. at 7.

⁶⁹ Id. at 6-7.

⁷⁰ Id. at 10.

⁷¹ PA Brief at 10-12.

⁷² Id.

⁷³ This is assuming 330 operating days per year. See PA Brief at 11.

⁷⁴ PA Brief at 11.

⁷⁵ Id.

LNG than the existing plant as it will not have seasonal operating limits and notes that PGW has not explained why it needs the extra production, which would total an additional 1.1 Bcf annually.⁷⁶

The Advocate further argues that the size of PGW’s proposed LNG liquefier is not consistent with its customers’ needs.⁷⁷ The Advocate states that in making its projections, PGW utilized a 30-year period that included 30 design winters, which the Advocate argues would never occur.⁷⁸ Reasoning that because PGW has a current LNG storage capacity over 4 Bcf and has not needed to liquefy more than 1.8 Bcf in any of the last five calendar years, the Advocate concludes that PGW’s proposed plant, which could liquefy 3.3 Bcfs per year is oversized.⁷⁹

Finally, the Advocate argues that because PGW’s overall firm load is declining, PGW’s proposed plant size is larger than necessary and would produce more LNG than is used and useful in serving PGW customers.⁸⁰ The Advocate reminds the Commission that in the past, PGW has sold the excess LNG reserves it produces which has generated millions of dollars in revenue.⁸¹ The Advocate argues that this could create problems with future rate cases because “the Public Utility Commission could determine that, if a portion of PGW’s LNG facilities were in excess of what is needed to serve firm demand, PGW’s rates should account for a higher assumed cost recovery from non-customer sales, placing PGW in a challenging position in the event of a colder than usual winter.”⁸²

PGW argues that the proposed LNG Liquefier meets its current system requirements.⁸³ PGW states that it based the size of the liquefier on its system requirements in a design winter.⁸⁴ PGW further explains that it requires 3.2 Bcf annually to meet design winter requirements and since its existing liquefier can produce only 2.2 Bcf annually, it must purchase and truck the shortfall of 1 Bcf.⁸⁵ According to PGW, this problem would be eliminated with the larger replacement liquefier because it would be able to produce 3.3 Bcf of LNG annually to enable PGW to meet its current system requirements without LNG trucking.⁸⁶ PGW notes that the proposed liquefier would be able to operate year round, unlike the current liquefier, which has seasonal operating limits.⁸⁷

The Hearing Examiners are not persuaded by PGW’s arguments that the replacement liquefier must be sized significantly larger than its existing liquefier (total annual production capacity of 3.3 Bcf versus 2.2 Bcf). The Hearing Examiners agree with the Advocate that more explanation is needed as to why PGW needs the extra 1.1 Bcf in annual production and what will be done with the excess LNG produced. As the Advocate points out, PGW’s design period included 30 design

⁷⁶ Id. (citing PA-CB-16).

⁷⁷ Id.

⁷⁸ Id. (citing Tr. At 50-51, referencing PGW filing at 13-14).

⁷⁹ Id. at 12 (citing PA-CB-9 (RFP at 8); PA-CB-13).

⁸⁰ Id. at 12 (citing Tr. at 36).

⁸¹ Id. (citing A. Maykuth, ‘Opportunity Has Passed,’ LNG Developer, The Philadelphia Inquirer. A8 (April 5, 2022)).

⁸² Id.

⁸³ PGW Comments at 13.

⁸⁴ Id.

⁸⁵ Id.

⁸⁶ Id.

⁸⁷ Id.

winters, which the Advocate states would never occur. The Hearing Examiners note that PGW did not produce compelling evidence supporting why it included 30 consecutive design winters, such as standard industry practice, regulatory requirements, or best practices. Without any such evidence to counter the Advocate's argument that a design period based upon 30 design winters is impractical because such a situation would never actually occur, the Hearing Examiners must agree with the Advocate.

Furthermore, the Advocate's argument regarding potential rate case implications is a valid concern. Even though PGW operates on a cashflow ratemaking basis, the used and useful concept is still relevant and serves to ensure that ratepayers do not bear the costs of utility infrastructure that exceeds what is reasonably required to serve them.⁸⁸ In the situation described by the Advocate, oversizing the proposed plant would in effect shift weather and market risks to the ratepayers by creating dependence on external sales, which would be eliminated in a colder than average winter when PGW would need all LNG capacity for its own system. In short, the Advocate argues that ratepayers should only pay for safe and reliable service and not for LNG business risks. The Hearing Examiners agree.⁸⁹

For these reasons, the Hearing Examiners agree with the Public Advocate and find that given the concerns about size and the need for additional production, this project is not ready for Commission approval at this time.

c. Status of Design Plans

PGW, in its responses to the Informal Discovery requests submitted by both the Hearing Examiners and the Public Advocate, has disclosed that at this time, PGW does not have details on the exact location, design, detailed engineering, or equipment for this project.⁹⁰ Further, it does not have a firm price at this time for the turnkey project that is PGW's intended outcome of this capital expenditure.⁹¹

The Advocate has raised concerns about the lack of design plans for the project. The Advocate argues that "there are assumptions, unknowns and uncertainties with respect to plant design, size and potential target market such that approval at this time could lead to expenditures that may not be necessary."⁹² According to the Advocate:

PGW has not begun project detail design, nor developed site plans. PGW lacks a firm price from a contractor for the turnkey project. The exact location of the plant appears unknown, and detailed engineering, equipment selection, piping and electrical routing have yet to be determined. Because the specific equipment and

⁸⁸ 52 Pa. Code § 69.2701-§ 69.2703. See also 66 Pa. C.S. § 1330 (b)(3) (stating that capital costs and expenses recovered through alternative rates and rate mechanisms must be "reasonable and prudently incurred and used and useful in providing service.")

⁸⁹ The Hearing Examiners note that it is possible that PGW has anticipated and planned for this issue, however no such evidence was presented in this proceeding.

⁹⁰ See PGW Responses to PA-CB-10, PA-CB-11.

⁹¹ See PGW Response to KB-HE-12.

⁹² PA Brief at 14.

pipings have not been specified or designed, PGW is unable to perform necessary Flame Acceleration Simulator (FLACS) modeling to determine the exclusion zone or other hazard mitigation measures needed for a new liquefier. Finally, because PGW's proposed LNG liquefier utilizes different technology than its existing liquefier, the new LNG liquefier would require operational changes for PGW, which have not been thoroughly assessed in this budget proceeding and may create additional, undetermined risks.⁹³

In the Advocate's estimation, these uncertainties, coupled with PGW's recent experience with significant capital projects "indicates near certainty that PGW's funding needs will change and its project will not be completed during the four-year spending window."⁹⁴ According to the Advocate, the lack of completed project designs coupled with the almost certain risk of project redesign once the design phase begins, indicates that "PGW will undoubtedly return to the Commission for more time and potentially more capital funding in subsequent budget years making the approval of this project at this time imprudent."⁹⁵

The Hearing Examiners find the Advocate's arguments regarding the status of PGW's design plans persuasive. As noted by the Advocate, PGW's recent experience with large capital projects points to the distinct possibility that the replacement of the LNG liquefier will necessitate multiple redesigns and additional capital funds beyond those requested in the proposed FY 2027 Capital Budget. Given that reality, it would be imprudent for the Commission or City Council to approve a \$182 million dollar outlay of rate payer funds given the current, incomplete state of this project's design. At a minimum, PGW should have an idea of whether or not it will have to undertake internal advanced engineering work to begin the replacement of the LNG liquefier (something PGW will not have to do if the public private partnership ("P3"; discussed below) is negotiated).

d. P3 Negotiations

As PGW has shared throughout this proceeding, it is engaged in negotiations with an as yet undisclosed private entity on a potential P3 as "another way for PGW [to explore] its options to meet customers' requirements on a least cost basis."⁹⁶ PGW further notes that "the P3 negotiations would yield an independent project which, if successfully negotiated, would substantially reduce the need for capital funding from gas customers."⁹⁷

Despite the ongoing P3 negotiations, PGW's request is for immediate authority to spend the proposed \$182 million dollars upon the commencement of Fiscal Year 2027 on September 1, 2026.⁹⁸ According to PGW, even though it is in the process of negotiating a potential P3 which could result in little to no cost to PGW for the replacement of its LNG liquefier, "PGW has determined that a new liquefier operational by the year 2030 is the priority and must be funded. To that end, PGW is recommending that this funding [be] approved" so that the work necessary to

⁹³ Id. at 14-15.

⁹⁴ Id. at 15.

⁹⁵ Id. at 16.

⁹⁶ PGW Comments at 14.

⁹⁷ Id. at 15.

⁹⁸ Id.

meet this goal continues.⁹⁹

However, PGW has offered an alternative to immediate funding for this line item in the form of conditional funding under the Capital Program Protocols.¹⁰⁰ In suggesting this alternative, PGW has proposed the following conditions for the release of the conditional funding: “(a) If the P3 negotiations have concluded with no deal, funding for the liquefier shall be released [and] (b) If the P3 negotiations are ongoing, the PGC may withhold the funding pending further updates from PGW senior management.”¹⁰¹

The Advocate, in continuing to argue against the approval of this line item points to the state of PGW’s P3 negotiations and their impact on PGW’s capital needs for Fiscal Year 2027. As noted by the Advocate, PGW entered into negotiations with a third party in hopes of reaching an agreement by which all or a significant portion of the cost of the new LNG liquefier would be borne by PGW’s partner.¹⁰² During the February 19, 2026 Public Hearing, PGW shared that “if [PGW and its potential partner] agree to terms for the 3P [sic], [PGW] would not go forward with” advanced internal engineering work in anticipation of the project.¹⁰³ According to the Advocate, this makes it clear that “approval of expenditure for PGW’s LNG liquefier replacement project is neither necessary or prudent” at this time.¹⁰⁴

In response to PGW’s offer of conditional funding for this line item, the Advocate once again urges the Commission to reject this proposal. According to the testimony of the Advocate’s witness, “the Public Advocate does not believe approving this project as conditional funding is appropriate because the project’s necessity has not been adequately substantiated at this time” nor have the questions related to “the excess LNG capacity it would provide, its conflict with City sustainability objectives, and the lack of detail and specificity provided by PGW [on the design of the project], each as discussed in the preceding sections [of the Advocate’s Brief].”¹⁰⁵

Finally, the Advocate argues that PGW’s proposal should be rejected at this time due to the relationship between PGW’s fiscal year budgets, its debt financing practices, and customer rates. As noted by the Advocate, PGW’s customer rates:

are set using the cash flow methodology and so capital investments are recovered through rates designed to cover PGW’s debt service, as well as such internally generated funds as the [PUC] determines to be appropriate and in the public interest for purposes such as capital improvements, retirement of debt and working capital.¹⁰⁶

Because of this, the Advocate posits that approving PGW’s request for \$182 million to fund this project prematurely would “result in PGW increasing its debt in preparation to finance the

⁹⁹ Id.

¹⁰⁰ Id.

¹⁰¹ Id.

¹⁰² Id.

¹⁰³ Id.

¹⁰⁴ Id.

¹⁰⁵ PA Brief at 19 (citing PA St. 1 at 12).

¹⁰⁶ Id. at 6 (citing 52 PA. Code § 96.2702).

plant...and the debt service costs will be passed on to customers and unnecessarily increase customer rates even if the plant is not constructed”¹⁰⁷ or is constructed at a significantly lower price than the current \$182 million price tag should a successful P3 be negotiated.¹⁰⁸

Once again, the Hearing Examiners are persuaded by the Advocate’s position on this issue. Looking at the current state of PGW’s P3 negotiations, as PGW itself has stated, the successful conclusion of P3 negotiations will result in the replacement of PGW’s LNG liquefier at either a substantially reduced cost, or at no cost to PGW, and ultimately its rate payers. PGW anticipates that its negotiations will be concluded no later than September 2026, the start of FY 2027.¹⁰⁹ As correctly noted by the Advocate and discussed previously, because the PUC requires PGW to operate under a cashflow ratemaking framework, its customer rates are designed to cover PGW’s expenses only, including its debt service.¹¹⁰

If PGW is responsible for any capital outlay related to this line item, PGW would need to begin the process of taking on additional debt to finance the expenditures related to it. This new debt, whether PGW is required to finance all or part the new liquefier (if it has to finance any portion of it at all) will result in increased rates for PGW’s customers. Because of this reality, the Hearing Examiners are of the opinion that the Commission should avoid approving what is essentially rate payer funded debt unnecessarily. The Hearing Examiners find that until the results of PGW’s negotiations of the potential P3 are concluded and there is an answer to the question of whether or not debt financed capital funds are needed and in what amount, this line item is not ripe for Commission or City Council approval.

Turning next to PGW’s offer of conditional funding for this line item tied to the outcome of its P3 negotiations, the Hearing Examiners are once again persuaded by the Advocate’s arguments. Given the number of uncertainties related to the P3 negotiations and other concerns raised by both the Advocate and members of the public (discussed in Section II above), the Hearing Examiners do not find that conditional funding at this time is appropriate. Further, conditional funding approval would trigger the same debt financing concerns that the Hearing Examiners addressed above. If this project is granted conditional funding, PGW would still need to begin the process of taking on additional debt to finance those expenditures, impacting customer rates. Again, the Hearing Examiners are of the opinion that the Commission should avoid approving what is essentially rate payer funded debt unnecessarily.

e. Public Impact

As noted in Section II of this Recommended Decision, members of the public attending the February 19, 2026 Public Hearing expressed a broad range of concerns related to this project, centering on safety, environmental impacts, affordability, transparency, and long term planning.¹¹¹

¹⁰⁷ Id.

¹⁰⁸ It should be noted that the Advocate made the foregoing argument regarding the relationship between PGW’s debt financing and customer rates when discussing the useful life of the current LNG liquefier. However, the Hearing Examiners find that it is also relevant in terms of the discussion surrounding the status of P3 negotiations. See PA Brief at 5-6.

¹⁰⁹ PGW Response to PA-CB-7.

¹¹⁰ PA Brief at 5,6.

¹¹¹ See pages 4-5 of this Recommended Decision.

The Hearing Examiners are especially concerned that PGW did not, at a minimum, disclose its plans for the replacement of its LNG liquefier to the residents of Port Richmond, the neighbors of its Richmond Plant where the new liquefier would be located prior to seeking Commission and City Council approval. We therefore recommend that the Commission strongly urge PGW to engage members of the public, particularly those in impacted communities, in its planning process for all future projects of this magnitude.

Therefore, while the Hearing Examiners agree with PGW that the Richmond liquefier is in the latter portion of its service life and that continued reliance upon it presents reliability risks, the Hearing Examiners also find that the project as presented is not ready and recommend that the Commission deny PGW's request for \$182 million for Replacement of the LNG Liquefier-Richmond Plant at this time. The Hearing Examiners further find that if PGW at the conclusion of its P3 negotiations finds that it requires capital expenditures to complete this project, PGW may request an amendment of the FY 2027 Capital Budget for such purposes. As the Hearing Examiners have found that replacement of the LNG liquefier is prudent for safe and reliable service, the record on the need is closed. However, the Hearing Examiners find that PGW has not provided sufficient support for the size of the proposed liquefier nor has it fully addressed the concerns of the public; therefore, those issues will have to be addressed within any proposed budget amendment.

D. ASSOCIATED CAPITAL FORECAST

The Outyear Forecast is an informational advisory. It does not constitute a request for endorsement or approval of capital spending authority for the Forecast as a whole. The FY 2028 – FY 2032 Forecast of Capital Budgets that accompanied the FY 2027 Budget proposal totaled \$1.021 billion.

E. CAPITAL PROGRAM PROTOCOLS

On April 16, 2025, the Gas Commission adopted Capital Program Protocols as part of its FY 2026 Capital Budget recommendation.¹¹² City Council subsequently accepted this recommendation by incorporating said Protocols in the FY 2026 Capital Budget Ordinance and expressly requiring that PGW adhere to these Protocols during the lifespan of the FY 2026 Budget.¹¹³ The Hearing Examiners recommend the adoption of these same Capital Program Protocols, attached as Appendix A hereto.

F. DBE-S/LB PARTICIPATION

PGW historically filed its Disadvantaged Business Enterprise (“DBE”) forecast with its Capital Budget or shortly thereafter. However, this year, PGW informed Commission Staff that there would be a pause in its fiscal year budgets DBE forecast, quarterly DBE reporting, and DBE

¹¹² In Re: Proposed FY 2026 Capital Budget, Resolution And Order (April 16, 2025) (Resolution Paragraph 2.C.) and Appendix #2 (Public Meeting Held April 16, 2025).

¹¹³ FY 2026 Capital Budget Ordinance; Exhibit B.

dashboard, attached as Appendix B.¹¹⁴ PGW explained that this pause was due to the City modifying its DBE program effective November 18, 2025.¹¹⁵ PGW further explained that the City plans to replace the DBE program with a Small and Local Business (“S/LB”) program.¹¹⁶ PGW indicated that it plans to “implement an S/LB program in parallel with the City and is currently awaiting guidance.”¹¹⁷ According to PGW, the program’s “guidelines and metrics” are still being developed, but it will share a timeline for resuming reporting once further information is available.¹¹⁸

G. MISCELLANEOUS RECOMMENDATIONS

Staff recommends that the Commission also adopt the following directives to complete the Capital Budget due diligence process.

Instruct PGW to submit a Compliance FY 2027 Capital Budget Proposal consistent with the Gas Commission-endorsed line item adjustments within seven (7) business days of the Commission meeting at which final action is taken on the proposed Budget. Further, instruct PGW that its Compliance Budget filing shall include a Revised Forecast of Capital Budgets incorporating the impacts of the adjustments to the FY 2027 Capital Budget, which are endorsed by the Commission.

Instruct PGW to submit a revised Capital Financing Plan that also reflects the endorsed FY 2027 Budget by the same due date as the aforesaid Compliance Budget filing.

Instruct PGW to submit quarterly updates on its S/LB program progress beginning within seven (7) business days of the Commission meeting at which final action is taken on the proposed Budget and concluding with submission of the S/LB forecast for PGW’s FY 2027 Capital Budget.

Authorize the Executive Director to work with PGW to reconcile any variances between the Compliance Budget Proposal as filed by PGW and the calculation of budget adjustments endorsed by the Gas Commission, and to incorporate within the proposed form of budget ordinance transmitted to City Council any necessary mathematical corrections required to effectuate the substance of such budget adjustments.

Recommend that City Council adopt the attached Capital Program Protocols in conjunction with its approval of the FY 2027 Capital Budget.

Recommend that City Council acknowledge receipt of PGW’s revised Forecast of Capital Budgets.

Direct PGW to file an S/LB Forecast concurrent with the FY 2028 Capital Budget filing.

Recommend that the Commission strongly urge PGW to engage members of the public, particularly those in impacted communities, in its planning process for all future projects of this

¹¹⁴ Letter dated January 2, 2026 from John L. Byars, Director of Procurement and Economic Outreach to service list.

¹¹⁵ Id.

¹¹⁶ Id.

¹¹⁷ Id.

¹¹⁸ Id.

magnitude.

Recognize that PGW and the Public Advocate entered into a stipulation regarding outstanding issues with the Fleet Department stemming from the FY 2026 Capital Budget but recently negotiated, attached as Appendix C, and direct PGW to provide Fleet spending reports as defined in the stipulation.

Respectfully submitted on behalf of Commission Staff,

/s/ Gemela McClendon

GEMELA MCCLENDON, ESQ.

Executive Director

/s/ Heidi Wushinske

HEIDI WUSHINSKE, ESQ.

Hearing Examiner

/s/ Roslyn Bell

ROSLYN BELL, ESQ.

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/s/ Timothy Murtha

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