

BEFORE THE
PHILADELPHIA GAS COMMISSION

Re Philadelphia Gas Works : FY 2027 Capital Budget Proceeding

COMMENTS/EXCEPTIONS SUBMITTED ON BEHALF OF PHILADELPHIA GAS WORKS

I. INTRODUCTION.

Philadelphia Gas Works (“PGW” or “Company”) files these Comments/Exceptions to the Recommended Decision, dated March 17, 2026 (hereinafter referred to as the “Recommended Decision” or “R.D.”), rendered by the Philadelphia Gas Commission Staff (“Hearing Examiners” or “HEs”) in the FY 2027 Capital Budget Proceeding.¹ PGW has briefed the issues addressed in the Recommended Decision and urges the Philadelphia Gas Commission (“Commission” or “PGC”) to reconcile the Hearing Examiners’ recommendations with the Company’s Brief and this submission in its deliberations.

These Comments/Exceptions focus on the recommendations regarding (i) the Replacement of LNG Liquefier at Richmond Plant (“LNG Project”); and (ii) the requested Small and Local Business Program quarterly updates.

II. ARGUMENT.

A. LNG Project.

As stated in PGW’s brief, planned expenditures for the LNG Project should be approved to (i) prudently ensure service reliability; and (ii) avoid potential system failure scenarios.² LNG production serves as much as 30% of gas sendout requirements during the coldest winter days.³ Planned spending

¹ Executive Director Gemela N. McClendon, Hearing Examiners Heidi Wushinske and Roslyn Bell (collectively, the “Hearing Examiners” or “HEs”) together with Senior Analyst Anna C. Rowe and Timothy Murtha participated in the preparation of the Recommended Decision.

² PGW Brief at 12-13. See discussion *infra*. (Section II.A(2) of PGW Comments/Exceptions.)

³ PGW Exhibit 3 at 13. See also, PGW Exhibit 7 (HE-14).

authority is promptly needed to avert potential service interruptions and potential harmful incidents including loss of life, property damage, personal injury and financial loss.

1. Replacement of Liquefier.

The Company concurs with the Hearing Examiners that the existing LNG Liquefier is at the end of its useful life and that continued reliance on the aging unit presents increasing reliability risks.⁴ As stated by the Hearing Examiners:

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 at the latter portion of its service life and that continued reliance on the aging unit presents increasing reliability risks.⁵ [Emphasis added].

PGW further agrees with the Hearing Examiners' determination that replacement of the existing LNG Liquefier is prudent for safe and reliable service.⁶ Moreover, the Company concurs that the record should now be closed for purposes of determining the prudence of the LNG Project.⁷

The Company submits, however, that consistent with the above determination (that replacement of the existing LNG Liquefier is prudent for safe and reliable service), the PGC needs to provide budgetary approval to actually proceed with the replacement project. The absence of such approval represents a gross inconsistency in the Recommended Decision. As explained below, PGW believes that this is a fatal error. The LNG Project cannot be delayed any longer without risking service interruptions

⁴ R.D. at 16.

⁵ *Id.*

⁶ *Id.* at 22.

⁷ *Id.*

during extreme winter conditions. Reliable LNG production is also needed to address system failure scenarios.⁸

2. Liquefier Size.

PGW submits that the Hearing Examiners err in finding that the record does not demonstrate that a new LNG Liquefier should be sized at 3.3 Bcf (as opposed to the size of the existing LNG Liquefier at 2.2 Bcf).⁹ In this context, the Hearing Examiners appear to rely on the Public Advocate's ("Advocate" or "PA") assertions that, in its view, (i) the replacement LNG Liquefier would produce "excess capacity, beyond what is needed to service PGW's customers now and in the future;" and (ii) PGW's analysis does not account for declining firm load, which could create a burden for ratepayers.¹⁰ Both PA assertions are plainly wrong. The record fully supports PGW's position as to the appropriate size for the new LNG Liquefier. As explained below, (a) there is no excess capacity; and (b) PGW's analysis of design winter requirements takes into account average customer load.

a. Excess Capacity.

In the first instance, PA assertions of excess capacity associated with the replacement LNG Liquefier are baseless. In reliance on such assertions, the Hearing Examiners discount the central fact that the existing LNG Liquefier does not fully meet system requirements.¹¹ The existing LNG Liquefier produces only 2.2 Bcf annually, which is less than the amount needed for a design winter/year. In contrast, the replacement LNG Liquefier is sized to meet system requirements (3.2 Bcf) and will correct for the current insufficiency.

Stated differently, the size of the replacement LNG Liquefier is based on firm customer requirements for a design winter/year. The volume of LNG necessary to meet design year requirements is 3.2 Bcf annually (taking into account annual boiloff). The existing LNG Liquefier can only produce 2.2 Bcf (annual 1 Bcf shortfall). Any additional LNG needed for customers is purchased and delivered by

⁸ See discussion *infra*. (Section II.A(2) of PGW Comments/Exceptions).

⁹ R.D. at 17-18; 22.

¹⁰ *Id.* 16.

¹¹ *Id.* at 16-17. The HEs endorse the PA position that more explanation is needed with regard to the size of the replacement LNG Liquefier. However, the explanation has already been clearly presented of record. The replacement liquefier is sized to meet system requirements (3.2 Bcf) in contrast with the existing plant which produces less than the amount needed for a design winter/year. There is no excess capacity.

truck. The replacement LNG Liquefier will be able to fully meet system requirements, eliminating future need to secure and deliver additional LNG. The above facts are uncontroverted in the record.¹²

It bears emphasis that the new LNG plant will not have seasonal operating limits like the existing LNG Liquefier (it will be able to operate year-round). By design, the new liquefier will meet current system requirements on its own without trucking LNG. This is a clear operational advantage. Simply put, there is no “excess” production planned for the new LNG plant design, as mistakenly described in the Recommended Decision.¹³ The output from the replacement LNG Liquefier is planned to meet firm customer requirements for a design winter/year.

b. Customer Requirements.

Second, PA assertions that firm customer load was not taken into account in the design analysis are also mistaken.¹⁴ In reliance on such assertions, the Hearing Examiners ignore the fact that the Company included average customer load in its analysis of design winter needs. PGW also included winter peak day demand, which is more relevant and critical in this analysis than average customer consumption.¹⁵ All indications from this winter inform PGW that a design day would require PGW to supply about 200,000 DTHD via LNG vaporization. Using this winter as an example, PGW vaporized about 1.15 BCF between January 19 and February 2. If this LNG was not available, PGW would have had to curtail or shut off firm gas customers.¹⁶

The Hearing Examiners also appear to rely upon the Advocate’s assertion that, in making its projections, PGW utilized a 30-year period that included 30 design winters.¹⁷ This is inaccurate. As

¹² See, PGW Brief at 13.

¹³ R.D. at 16.

¹⁴ *Id.* at 16-17.

¹⁵ Tr. 24. PGW Brief at 18.

¹⁶ See, PGW Brief at 12-13; 18.

¹⁷ R.D. at 17. Note that this PA argument was raised in connection with the calculation of costs to truck LNG over the life of the replacement LNG Liquefier. This was one scenario evaluated as an alternative to the replacement of the LNG Liquefier. The calculation of truck deliveries needed (1,200 per Bcf) over the life of the facility was the subject of this discussion on the record. See, Tr. 51; PGW Exhibit 3 (Budget Filing) at 13-14. The Hearing Examiners appear to be conflating two issues raised in the proceeding (i) the calculation of trucking costs (alternate scenario evaluated); and (ii) the determination of LNG plant sizing based on customer requirements for a single design winter/year. As stated above, PGW determined the size of the replacement LNG Liquefier based upon firm customer requirements for a design winter/year — not multiple winters.

explained previously, the plant size for the replacement LNG Liquefier is based on firm customer requirements for one design winter/year. In a design winter, LNG sendout is projected at 2.7 Bcf and because of annual boiloff, 3.2 Bcf is needed to be produced to meet that need.¹⁸

Note that because of the LNG consumed this winter, PGW will be purchasing 0.75 Bcf in order to reach 2.7 Bcf by November 1. The need for the aforesaid purchase confirms that the existing LNG Liquefier does not produce enough LNG to meet annual system design requirements. Also, please be aware that this winter was not a design winter. To be sure, the replacement LNG Liquefier should be sized to meet actual system requirements (3.2 Bcf) — which are above the capacity of the existing LNG Liquefier.

Finally, as stated previously, PGW also uses LNG to support potential system failure scenarios. That is, PGW plans for various failure scenarios, including pipeline supplier curtailments and metering and regulation (“M&R”) station failures when reviewing winter operations plans. LNG is a critical component for providing vaporized gas during these potential events.¹⁹ The proposed LNG Liquefier is sized to meet system requirements and support potential system failure scenarios.

3. Project Design Plans.

The Hearing Examiners err in denying approval, at least on a conditional basis, in absence of detailed project plans.²⁰ As with any analogous project, plans for the replacement LNG Liquefier project design are preliminary at this point in time; and site plans do not exist. As stated in the record, the project will be located at Richmond plant. After the completion of more detailed engineering, equipment selection, piping, and electrical routing will be confirmed. PGW will provide additional project detail as this information becomes available. It should be noted that the status of plant design and engineering is no different from other projects of this size and at this stage. Advanced Engineering studies must be undertaken to provide additional project detail and prepare for the procurement process. Expenditures for Advanced Engineering are estimated at \$4 million. Project approval (at least on a conditional basis) is necessary to proceed with the aforesaid engineering studies.

¹⁸ See, PGW Exceptions/Comments at 3; PGW Brief at 13; 18.

¹⁹ Tr. 26.

²⁰ R.D. at 19.

In the instant context, Advanced Engineering studies will be supported in part through the FY 2026 Operating Budget and supplemented with planned spending in the FY 2027 Operating Budget. As more detailed information becomes available, PGW will forward the same to the Commission. As explained below, submission of a summary of findings related to the Advanced Engineering studies can be an additional requirement for the release of conditional funding (should the PGC decide to approve the LNG Project subject to such budget authorization).²¹

4. P3 Negotiations.

The Hearing Examiners err in denying project approval because of the pendency of public-private partnership (“P3”) negotiations.²² The staff maintains that the LNG Project is not ripe for approval until the outcome of P3 negotiations is known.²³ As a consequence, they reject project approval suggesting that the Company might request a Capital Budget Amendment at such time as the outcome of P3 negotiations becomes known. PGW maintains that the project must be approved at the earliest possible time ahead of and apart from P3 negotiations due to the determination that replacement is prudent.

As stated during the proceeding, the Company informed the Commission of the potential for a P3 partnership to be transparent about that possibility. It is possible that PGW and a P3 partner will reach an agreement that eliminates the need for capital funding. However, there is no guarantee of that outcome, and PGW must plan and take action as a prudent operator to avoid loss, some of which could be catastrophic to customers. And as noted in the record, the LNG project (proposed in this proceeding) and the P3 negotiations are independent efforts. As noted previously, PGW is open, in the alternative, to conditional funding for this project, so that this prudent project is not delayed.

5. Conditional Funding.

The Hearing Examiners err in failing to approve conditional funding authorization for the LNG Project (offered by PGW in the alternative).²⁴ The HEs maintain that conditional funding authorization is inappropriate given the status of the LNG Project and suggest instead that the Company seek a Capital

²¹ See, Section II.A(5) of PGW Comments/Exceptions.

²² R.D. at 21.

²³ *Id.*

²⁴ *Id.*

Budget Amendment at a later date.²⁵ The problem with the HEs recommended approach is that it will delay project completion (which is needed by FY 2030). Also, note that this result is in direct conflict with the HEs determination that the existing LNG Liquefier is at the latter stage of its service life and should be replaced.

The conditional funding approach proposed by PGW identifies a way to provide timely approval so that the Commission is provided with all necessary project details (and other information) without an unnecessary delay in the budget review process. Stated differently, if conditional funding authorization is granted, the conditions for release of such funding can include more specific project information (such as a refined estimate of costs, project design and equipment specification). This information would be produced as a result of Advanced Engineering studies. Such studies would be reasonably undertaken based upon conditional funding authorization. Information from such studies would be a reasonable basis for the PGC to make an informed decision to release approved funding. This will allow PGW to timely proceed with a project that the Hearing Examiners have found to be prudent and necessary.

6. Public Outreach.

The Hearing Examiners err in concluding that PGW failed to conduct public outreach relating to its LNG replacement project.²⁶ The HEs assert that the Commission should “urge PGW to engage members of the public, particularly those in impacted communities, in its planning process for all future projects of this magnitude.”²⁷ However, there is little evidence on the record to substantiate the suggestion that the public was unaware of this year’s budget request for the LNG Liquefier replacement. Furthermore, PGW finds it unproductive for the Commission to give any weight to the Recommended

²⁵ *Id.* The HEs indicated that conditional funding was problematic based upon assertions of the Public Advocate that such authorization would trigger (i) unnecessary capital spending; and (ii) PUC ratemaking complications given the Advocate’s imagined “excess capacity” associated with the replacement LNG Liquefier. Both of the above assertions are false.

With regard to capital spending, PGW does not plan to access the capital markets for a new money transaction prior to FY 2028. At the time of PGW’s next bond offering, it will seek capital financing for its entire capital program and will size the bond issue based on expenditures that can be completed in the near term consistent with applicable Internal Revenue Service regulations. The LNG Project, upon authorization, will take 48 months to complete. This project will not likely be financed in the aggregate in the next bond issue.

With regard to “excess capacity” ratemaking issues, PGW submits that this PA assertion is unsupported in the record. There is no excess capacity. The proposed LNG Liquefier is sized to meet current system requirements and support potential system failure scenarios. See discussion, *supra*. (Section II.A(2) of PGW Comments/Exceptions).

²⁶ R.D. at 21-22.

²⁷ *Id.* at 2.

Decision’s directive on outreach for “future projects” that are unrelated to the instant proceeding, as the PGC must deliberate on the urgent budget request at hand.

It appears that the Hearing Examiners extrapolated the talking points of a few speakers from the February 19, 2026 hearing to serve as evidence that PGW had not alerted the public generally to the necessity of the LNG liquefier replacement project at the Richmond Plant. Note, however, that the public hearing was held in person, and included a simultaneous virtual option through Teams.²⁸ Forty-three members of the public attended the hearing, with eight appearing in person and thirty-five through the virtual online option. Additionally, KYW news attended. Of the forty-three public attendees, only four expressed disappointment with their perceived lack of outreach from PGW as “they did not receive advance notice of the project from PGW, but through neighborhood organizations shortly before the Gas Commission hearing.”²⁹ The Hearing Examiners then magnified this issue in their Recommended Decision stating that they 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.”³⁰ PGW submits that this statement is without support.

That is, since at least January 2022, when PGW filed its Fiscal Year 2023 Capital Budget and Five Year Forecast for Fiscal Years 2024 - 2028, the public has been on notice of PGW’s plans to repair the cold box or replace the existing LNG liquefier.³¹ Therefore, over the past four years, the public, including, of course, Port Richmond residents, have had the opportunity to engage with PGW and the Commission on this issue. As the Commission is aware, public meetings are held almost every month at the Gas Commission, where anyone can attend in person or virtually to discuss concerns relating to PGW’s budget. Accordingly, the public has been afforded multiple opportunities in recent years to join a public meeting and discuss the issue of the LNG liquefier repair and replacement. All meetings are posted on the Gas Commission’s website at least a week in advance, as acknowledged by PGC Staff during the

²⁸ *Id.* at 3.

²⁹ *Id.* at 5

³⁰ *Id.* at 22.

³¹ See, PGW’s FY 2023 Capital Budget and Forecast Fiscal 2024 – 2028.

February public hearing, conceding its shared responsibility for public outreach.³² Please also note that even the Public Advocate did not raise this perceived lack of public awareness as a reason to deny funding.³³

That said, PGW welcomes the Commission's input concerning future public outreach concerning the LNG Project. PGW submits, however, that the Hearing Examiners' criticisms in this context are misplaced.

7. LNG Project Approval.

The Hearing Examiners are mistaken in rejecting approval of this prudent and necessary project. PGW has made the case that it is imprudent to delay this project any longer. The Company is concerned that delay of this project will put customers financially and physically at risk. As shown this winter — in colder than normal weather, PGW relies on LNG for peak shaving. Utilization of LNG is essential for service reliability. It also saves our customers hundreds of millions of dollars over the service life of the LNG plant. This conclusion can be easily seen from the cold snap this winter. Because of LNG, customers were spared \$90 million in additional costs for natural gas. This translates to a savings of \$179 for a typical residential customer. More importantly, it means there were no curtailments in service. PGW requests funding for the LNG project to ensure a similar outcome in future years.

As explained in these Exceptions/Comments, the Hearing Examiners' recommendations regarding (i) LNG Liquefier size; (ii) project design plans; (iii) conditional funding; and (iv) public outreach should be rejected. Instead, PGW suggests that the Commission approve the request, or in the alternative, utilize conditional funding authorization and associated requirements (for the release of such funding) tied to the results of the Advanced Engineering studies that must be undertaken immediately. Such studies will provide more detailed information regarding project cost, design, engineering, equipment selection, piping and electrical routing and will offer additional support for this project.

³² As indicated by PGC Staff: "Notice of this meeting was posted on the Gas Commission's website a week beforehand. I am sorry that you did not know about it beforehand. But it was posted in accordance with the law one week beforehand." Tr. at 113.

³³ See, PA Brief at 13-14.

B. Small and Local Business Program.

The Hearing Examiners direct PGW to submit Small and Local Business (“S/LB”) program quarterly updates as a part of its miscellaneous recommendations.³⁴ The Company seeks clarification on this point as the City of Philadelphia (“City”) in in the process of establishing this new program. As noted in the Recommended Decision:

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 dashboard, attached as Appendix B. PGW explained that this pause was due to the City modifying its DBE program effective November 18, 2025 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.” 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.³⁵

In the instant case, PGW is directed 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. As a point of clarification, PGW notes that its reporting is paused pending the City establishing the new program. The Company will have nothing to report until the new program and associated guidelines and goals are established.

³⁴ R.D. at 23.

³⁵ *Id.* at 22-23.

III. CONCLUSION.

For all the foregoing reasons and arguments raised in PGW's Brief, the Company requests that the Recommended Decision be modified consistent with these Comments/Exceptions.

Respectfully submitted,

/s/ Andre C. Dasent

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