

MEMORANDUM

TO: Philadelphia Gas Commissioners
FROM: Gas Commission Staff
DATE: April 27, 2026
RE: **Final FY 27 Capital Budget Recommended Decision**

I. EXECUTIVE SUMMARY

Reject PGW's proposed FY 2027 Capital Budget of **\$390.561 million** and approve a budget of **\$208.010 million**, as a result of the following recommended adjustments:

- Remove **\$354,000** for Other Departments line item #47-01-1-03 (SAN Storage) as agreed to by PGW and the Public Advocate;
- Remove **\$205,000** for Other Departments line item #47-01-1-04 (Expense Reimbursement Management System) as agreed to by PGW and the Public Advocate;
- Move **\$646,000** for the Fleet Department line item #73-01-2-03 (Vehicle Replacement) to conditional funding, as agreed to by PGW and the Advocate;
- Make **\$914,000** for Other Departments line item # 47-01-1-05 (IP Cameras) subject to a 24 month lifespan as agreed to by PGW and the Advocate; and
- Remove **\$181.992 million** for the Gas Processing Department line item #53-02-2 (Replace Liquefier-Richmond).

II. DISCUSSION

Only one area of disagreement between PGW and the Public Advocate remained after the Public Hearing held on February 19, 2026: funding for the proposed LNG Liquefier.

A. Public Advocate's Arguments

The Advocate asserted that PGW did not establish that the existing LNG liquefier is at or near the end of its useful life or justify the proposed size of the replacement liquefier. Thus, the Advocate argued that the project is not sufficiently developed to support budget approval, particularly given the uncertainty of the pending P3 negotiations.

B. PGW's Response

PGW asserted that the Richmond liquefier is in the latter portion of its practical service life due to extraordinary thermal cycling that materially exceeds industry norms. PGW also argued that the proposed size of the liquefier aligns with prudently planned system reliability needs and reflects system requirements under design-winter conditions. With respect to financing and readiness, PGW acknowledged ongoing P3 negotiations but asserted that approval or at minimum conditional approval was necessary to ensure timely replacement.

C. Commissions Staff Findings

Commission Staff found that this project, while necessary, was not ready for approval in the FY 2027 Capital Budget. In making this finding, Commission Staff analyzed the three areas below.

1. End-of-Life and Need

Commission Staff found that PGW has demonstrated that the Richmond LNG liquefier is in the latter portion of its service life because PGW presented asset-specific evidence, supported by

independent consultant analysis, demonstrating materially accelerated degradation driven by extraordinary thermal cycling and operational history. Commission Staff further found that continued reliance on the existing liquefier could lead to increasing reliability risks, and that replacement is necessary to ensure safe and reliable service.

2. Liquefier Size

Commission Staff found that PGW did not provide sufficient support for the proposed size of the replacement liquefier because PGW did not adequately justify the increase in total annual production capacity to 3.3 Bcf from 2.2 Bcf.

3. Financing and Project Readiness

Commission Staff found that the proposed project lacked finalized design, engineering specifications and a firm project cost, primarily due to ongoing P3 negotiations. For these reasons, Commission Staff found that approving funding at this stage could lead to unnecessary debt issuance and rate impacts and therefore recommended removal of this line item from PGW's FY 2027 Capital Budget.

D. PGW Exceptions

In its exceptions, PGW argued six primary points:

- (1) Consistent with the finding that the LNG liquefier should be replaced, budget approval is needed to proceed with the project.
- (2) PGW provided adequate support for the increased liquefier size by showing that there is no actual excess capacity and its analysis of design winter requirements considered average customer load.
- (3) The Hearing Examiners erred in denying approval, at least on a conditional basis, in the absence of detailed project plans, and submission of a summary of findings related to Advanced Engineering studies could be a requirement for the release of conditional funding.
- (4) Pending P3 negotiations should not affect approval because while it is possible that PGW and a P3 partner will reach an agreement that eliminates the need for capital funding, there is no guarantee of that outcome, and PGW must plan and take action as a prudent operator.
- (5) Conditional funding authorization for the LNG Project should have been approved in the alternative, which was offered by PGW 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.
- (6) PGW asserts that it conducted adequate public outreach relating to its LNG replacement project and that Commission Staff's findings to the contrary were misplaced.

E. Commission Staff's Final Recommendations

Commission Staff agreed with one of PGW's exceptions (size of liquefier) and recommended rejection of the other five, discussed below.

- (1) Commission Staff **agreed** with PGW's exception regarding the size of the liquefier, reasoning that PGW presented a clearer explanation of its calculation of the liquefier size. Commission Staff further noted that PGW's explanation that "[i]n a design winter, LNG send out is projected at 2.7 Bcf and because of annual boiloff, 2.3 Bcf is

- needed to be produced to meet that need” more clearly supported its need for a larger liquefier.
- (2) Commission Staff recommended rejecting PGW’s exception that consistent with the finding that the liquefier should be replaced, FY 2027 budget approval is needed to proceed with the project. Commission Staff reasoned that while PGW proved that replacement was necessary, it did not prove that the project was ready due to the lack of important details such as design plans and total cost to PGW ratepayer due to P3 negotiations being on-going.
 - (3) Commission Staff recommended rejection of PGW’s exception that this project should alternately be approved as conditional funding in the absence of detailed project plans, reasoning that at a minimum, PGW should have an idea of whether it will have to undertake internal advanced engineering work to begin the replacement of the LNG liquefier and noting that past capital project experience coupled with the possibility that PGW may not need the newly identified \$4 million for Advanced Engineering if a successful P3 is negotiated supports rejection of conditional funding.
 - (4) Commission Staff recommended rejection of PGW’s exception that its pending P3 negotiations should not affect approval, based on the same reasoning as (3) above.
 - (5) Commission Staff recommended rejection of PGW’s exception that conditional funding authorization for the LNG Project should have been approved in the alternative, reasoning that conditional funding approval would still impact customer rates, even if the conditional funding is not needed due the successful conclusion of P3 negotiations.
 - (6) Commission Staff disagreed that PGW conducted adequate public outreach relating to its LNG replacement and recommended that this exception be rejected. Commission Staff noted that many members of the public testified at the February 19, 2026 Hearing, which supported this finding.

Agreement with PGW’s exception regarding the size of the liquefier would limit the scope of review to the finances of the project, should PGW request a budget amendment once its LNG plans are more fully developed.

F. DBE/SLB

Commission Staff recommended that PGW be directed to provide 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. PGW sought clarification on the Hearing Examiners’ recommendation, stating 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.” Commission Staff found that this confusion arose because past DBE reporting presented a very detailed financial snapshot which would not be possible given the pause in the City’s program. Therefore, Commission Staff recommended that the reporting consist of an update on the implementation status of the new program, rather than a detailed financial report, which could be as simple as a brief email update on the status of program development and implementation. Regarding PGW’s FY 2028 Capital Budget Filing, Commission

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Staff recommended that PGW be directed to file an updated S/LB Forecast concurrent with the filing of the FY 2028 Capital Budget *if the program is in place at the time of the budget filing.*