MEMORANDUM

TO: Philadelphia Gas Commissioners
FROM: Gas Commission Staff
DATE: July 31, 2026
RE: **PGW's Proposed FY 2027 Operating Budget**

I. EXECUTIVE SUMMARY

1. It is recommended that the Commission approve PGW's proposed FY 2027 Operating Budget as follows:
   - Approve budgeted Gas Revenues of **$759.049 million**;
   - Approve Natural Gas Expense of **$173.132 million**;
   - Reduce labor and payroll expenses to reflect a **1% vacancy rate**, resulting in an approximate staffing level of **1,621 FTEs** for budgeting purposes and a downward adjustment to Labor and Fringe Benefits of **$1,938,526**;
   - Approve the **$236,000** increase for excess liability insurance as conditional funding, subject to release upon release upon PGW's notice identifying the selected provider or providers and premium amounts;
   - Approve PGW's proposed FY 2027 Special Legal budget of **$1.865 million** and reject the Public Advocate's proposed **$1.623 million** reduction;
   - Approve **$100,000** of the proposed **$350,000** Research America/customer satisfaction survey budget as conditional funding, subject to release upon PGW's written notice identifying the selected vendor and final contract amount;
   - Approve PGW's requested Information Services (IS) Department budget with immediate spending authorization; but order PGW to provide quarterly reports until the end of FY 2027 or until the IS budget is depleted. It is also recommended that PGW be ordered to develop its operating budgets using reliable, specific and articulable information, such as invoices or quantifiable cost projections; and
   - Recommend that PGW be ordered to file an updated DBE/SLB forecast concurrent with its FY 2028 Operating Budget filing.

II. DISCUSSION

PGW and the Public Advocate did not reach agreement on any operating budget adjustments. The following areas remain in dispute: FEED Study, Environmental Impact Study, payroll and labor expenses, excess liability insurance, environmental remediation, Information Services, Special Legal budget, Research American (customer satisfaction survey costs), and government relations expenses.

A. FEED Study

The Hearing Examiners chose to not recommend changes to the Commissioner's Capital Budget position. This has the net effect of leaving the proposed amounts in the budget contrary to the Advocate's request.

1. **PGW's position**
   PGW asserted that it plans to select two studies/vendors at approximately $2 million each to ensure that it is getting the best product at a fair price.

2. **The Advocate's position**
   The Advocate opposed the inclusion of this $4 million arguing that it is premature, unclear how the project complies with the City's climate goals, and that PGW did not previously disclose that it planned to conduct two separate FEED studies.

B. Environmental Impact Study (EIS)

The Hearing Examiners chose to not recommend changes to the Commissioners' Capital Budget position. This has the net effect of leaving the proposed amounts in the budget contrary to both PGW and the Advocate's positions.

1. **PGW's position**
   PGW requested that the $1 million included in the FY 2027 Operating Budget be rejected, arguing that it should first conduct the FEED study, then pursue an EIS based upon the plans that develop from that process.

2. **The Advocate's position**
   The Advocate argued that the EIS funding should be conditional until the Commission is satisfied that PGW's scope of work and proposal for the EIS is sufficiently detailed and aligns with the Commission's goals.

C. Payroll and Labor Expenses

The Hearing Examiners recommended a 1% vacancy adjustment, reflecting approximately 1,621 FTEs for budgeting purposes, reasoning that PGW did not demonstrate that it could reach and maintain the proposed average staffing level of 1,637 FTEs throughout FY 2027. The Hearing Examiners recommended rejecting the Advocate's proposed 2% adjustment because it was not supported by the record.

1. **PGW's position**
   PGW argued that its proposed staffing level was reasonable and attainable, noting that as of June 22, 2026, it had reached 1,624 FTEs and was actively hiring to close the remaining gap.

2. **The Advocate's position**
   The Public Advocate recommended a downward adjustment of $3.877 million, premised on applying a 2% vacancy rate to PGW's proposed staffing level.

D. Excess Liability Insurance

The Hearing Examiners recommended that PGW's proposed $236,000 increase for excess liability insurance coverage be approved as conditional funding, subject to release upon PGW's notification by letter to the Commission that it has selected the insurance provider or providers. The Hearing Examiners recommended that the letter should be sent promptly upon selection and should identify the provider or providers and the applicable premium amounts; and that the amount released from conditional funding should not exceed the actual premium cost associated with the selected coverage.

1. **PGW's position**
   PGW argued for immediate spending authority, stating that the conditional funding process would add an unnecessary bureaucratic step after negotiations are complete, without improving the outcome of the negotiations or reducing market uncertainty.

2. **The Advocate's position**
   The Public Advocate recommended $236,000 increase be approved only as conditional funding because of continuing uncertainty associated with the final cost of coverage until PGW completes the renewal process, identifies the insurance provider or providers, and determines the actual premiums.

E. Environmental Remediation

The Hearing Examiners initially recommended that the proposed $2.0 million for excess environmental remediation be approved as conditional funding, based in part on PGW's lack of regulatory support for immediate funding for this uncertain expense. However, after reviewing PGW's exceptions, which provided the missing regulatory support, the Hearing Examiners recommended approval with immediate spending authority.

1. **PGW's position**
   PGW argued for immediate spending authority, citing regulatory compliance concerns. PGW further argued that it must have full and immediate budget authorization in place to accomplish this, because it needs to be ready to proceed immediately after it assesses the site.

   PGW filed exceptions on this issue wherein it reasserted its need for immediate funding and provided the relevant regulatory provisions supporting this need.

2. **The Advocate's position**
   The Public Advocate recommended conditional funding for this expense subject to PGW providing its projected expenditures based on its' consultants' findings, arguing that PGW's proposal represented a worst case scenario and citing the lack of regulatory support.

F. Information Services

The Hearing Examiners initially recommended that PGW's $37.793 million Information Services Department budget be approved with immediate spending authorization, and that the Commission order PGW to provide quarterly reports including invoices or purchase orders for expenditures related to this budget item. The Hearing Examiners also recommended that the Commission order PGW to develop its operating budgets using reliable, specific and articulable information, such as invoices or quantifiable cost projections.

After reviewing PGW's exceptions, the Hearing Examiners now recommend that the Commission modify this recommendation to add that the first such report should be submitted within 10 days of a final Order in this proceeding and shall include all relevant documentation received by PGW since the close of discovery and that quarterly reports should continue until the end of FY 2027 or until the IS budget is depleted.

1. **PGW's position**
   PGW maintained that this budget is routine, similar to those that have been approved in prior years and should be approved with immediate spending authority. PGW also noted that it explained in detail why each expenditure flagged by the Advocate was necessary.

   PGW filed exceptions on this issue in which it argued against the recommended reporting arguing that it could provide a one-time report consisting of supporting documentation that was obtained after the discovery period closed. PGW also pointed out that the recommended reporting should have an end date.

2. **The Advocate's position**
   The Advocate contended that PGW failed to provide adequate support for its IS budget and recommended approval with conditional funding for $8.315 million of it, to be released only upon PGW supplying vendor quotes, invoices, or other supporting documentation.

G. Special Legal

The Hearing Examiners recommended that the Commission approve PGW's proposed FY 2027 Special Legal budget of $1.865 million citing Commission precedent and PGW's need to respond quickly to unexpected legal matters.

1. **PGW's position**
   PGW argued that its Special Legal budget should be approved with immediate spending authority as it is prepared in anticipation of future regulatory proceedings, litigation, employment disputes, environmental matters, and other specialized legal needs that may arise unexpectedly or be driven by circumstances outside of PGW's control.

2. **The Advocate's position**
   The Advocate contended that PGW's Special Legal budget should be reduced by $1.623 million based on a review of the most recent four years of actual expenditures. The Advocate further argued that PGW has not needed to spend the amount included in its Special Legal budget in any year for more than twenty-five (25) years, and the budget continues to repeat amounts year after year without sufficient regard to actual spending or identified needs.

H. Research America

The Hearing Examiners recommended categorizing $100,000 of this $350,000 proposed budget as conditional funding, subject to immediate release upon the Commission's receipt of written notification that a final contract has been agreed upon. The Hearing Examiners recommended that this notice include the name of the selected vendor and the final dollar amount of the negotiated contract. The Hearing Examiners further recommended that only that portion of the conditional funds necessary to fully fund the negotiated contract be released upon receipt of this notification.

1. **PGW's position**
   PGW asserted that the expenses in this category will increase during FY 2027, and the budget amount reflects this anticipated change in cost which will be finally determined through a competitive RFP process. Further, PGW argued that it must have full budget authority to issue the RFP and negotiate a contract with the successful vendor.

2. **The Advocate's position**
   The Advocate argued that of the $350,000 proposed for this budget, $100,000 should be approved as only conditional funding because the need for a $100,000 increase is not known at this time and will not be known until the conclusion of PGW's RFP process.

I. Government Relations

The Hearing Examiners recommended that the Commission approve PGW's request for $100,000 in expenses for government relations/lobbying, reasoning that PGW has provided quantifiable benefits for its customers stemming from its lobbying efforts.

1. **PGW's position**
   PGW argued that its lobbying expenses are permitted under the Management Agreement and also produce results that benefit its customers, such as pipeline safety, infrastructure and home safety (improvements, meter safety, methane detection, emissions, reduction, employee and customer safety), funding for PGW's poorest customers (e.g. LIHEAP,

Customer Assistance Programs), and access to weatherization and conservation funding and programming.

2. **The Advocate's position**
   The Advocate argued that this budget area should be rejected entirely because it is unnecessary, its costs cannot be recovered under PUC ratemaking methodology, PGW's lobbying is not in line with the City's climate goals, it is duplicative of other trade groups' lobbying, and it contradicts the Commission's desire for cooperation between the City and Commonwealth regarding PGW's rates.

III. DBE/SLB

PGW filed an update on its DBE/SLB program on May 22, 2026, wherein it stated that it was now finalizing its Small and Local Business Program and expected it to be implemented within the next several months. Once the program is implemented, PGW stated that it would resume its quarterly updates relative to the FY 2027 Capital Budget goals and would file an updated DBE/SLB forecast concurrent with its FY 2028 Capital Budget filing. The Hearing Examiners recommended that the same filings be made as a part of PGW's FY 2028 Operating Budget.