BEFORE THE
PHILADELPHIA GAS COMMISSION

COMMENTS SUBMITTED ON BEHALF OF PHILADELPHIA GAS WORKS IN SUPPORT OF ITS PROPOSED FY 2027 OPERATING BUDGET

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I. INTRODUCTION.

Philadelphia Gas Works ("PGW" or "Company") requests the approval of its Fiscal Year ("FY") 2027 Operating Budget by the Philadelphia Gas Commission ("Commission" or PGC"). As explained below, the FY 2027 Operating Budget includes reasonable assumptions, attainable targets and spending programs building upon the progress made during the current fiscal year. PGW requests, based on the record presented and the arguments made in this brief, that its proposed operating expenditures be approved.

II. STATEMENT OF THE PROCEEDING.

The FY 2027 Operating Budget proceeding was convened pursuant to Section IV of the Agreement between the Philadelphia Facilities Management Corporation and the City of Philadelphia (the "Management Agreement").[1] The principal documents that were submitted in support of the instant budget filing include:

- FY 2027 Operating Budget (dated May 15, 2025), including exhibits and supporting documentation; the prepared direct testimony of Joseph F. Golden, Jr., William J. Gallagher and Stephen R. Schummer; and the PFMC Board Resolution authorizing the budget filing.[2]
- FY 2027 Operating Budget Supplemental Filing, comprised of the budget overview and forecast, schedules, actuarial valuation report and budget exams;[3] and
- Letter from the City Director of Finance to the Commission regarding the sufficiency of the FY 2027 Operating Budget.[4]

In addition to the above documentation, the Company responded to approximately 53 named discovery requests (PA-OB-1 through PA-OB-35; HE-1 through HE-16; and OB-ID-1 and OB-ID-2)[5] The Company

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[1] The Management Agreement governs the operations of the Gas Works, as authorized by an Ordinance of the Council of the City of Philadelphia (Bill No. 455), as approved by the Mayor on December 29, 1972, and subsequently amended.

[2] PGW Exhibit 1 contains the FY 2027 Operating Budget (hereafter referred to as the "PGW Budget Filing")

[3] PGW Exhibit 1 also contains the FY 2027 Operating Budget Supplemental Filing (hereafter referred to as the "PGW Supplemental Filing").

[4] PGW Exhibit 1. The Director of Finance letter related to the sufficiency of the FY 2027 Operating Budget is included with the PGW Budget Filing.

[5] The responses to PA-OB discovery (Sets 1-2) are included in PGW Exhibits 4, 5 and 6. Responses to OB-HE discovery requests are marked as PGW Exhibits 4, 5 and 6 and; and OB-ID series data responses are marked as PGW Exhibit 5.

also provided oral responses to questions of the Commission staff and the Public Advocate ("Advocate" or "PA") at the informal discovery session ("ID Session").[6]

PGC Executive Director Gemela McClendon, Hearing Examiners Heidi Wushinske and Roslyn Bell presided over the budget proceedings (hereinafter referred to as the "Hearing Examiners").[7] The Public Advocate ("Advocate" or "PA") was the only active participant in the proceeding.[8] Only one hearing was required to address all issues (June 24, 2026). A transcript of 135 pages was accumulated at the aforesaid hearing in addition to the statements and exhibits of the parties and written discovery responses.[9]

III. GOVERNING LEGAL STANDARD.

Section IV(2)(a) of the Management Agreement directs PGW to annually prepare its operating budget and authorizes, among other things, the Commission's review of PGW's annual operating budget and forecast, according with the following requirements:

> There shall be prepared annually an operating budget for the ensuing year and an operating forecast for four (4) years comprising the ensuing year and three (3) years next following. Such budget forecast shall be prepared by the Company with the aid of the Director of Finance; shall be consistent with the accounting methods prescribed in Section IV(1); and in general be in the form and extent satisfactory to the Director of Finance and Gas Commission. The operating budget and forecast shall be subject to the approval of the Gas Commission.

Consistent with the above, the City Director of Finance notified the Commission via letter, dated April 15, 2026, that the FY 2027 Operating Budget was in a form with sufficient detail to meet his requirements. This matter is now before the Commission for its approval.

IV. PGC APPROVAL OF THE FY 2027 OPERATING BUDGET IS NEEDED TO ENSURE CONTINUED FINANCIAL PROGRESS.

The Company's present financial condition and financial outlook are stable in light of various financial, managerial and operational accomplishments and the continuing developments identified below:

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6 The Company engaged in an informal discovery ("ID") session with the PGC staff and the Public Advocate on June 1, 2026.

7 Anna Rowe, Timothy Murtha and Sandra Fontanez also assisted in the proceeding on behalf of the PGC Staff.

8 Community Legal Services, Inc. was engaged by the PGC to serve as the Public Advocate. The Advocate submitted the testimony of Lafayette K. Morgan (hereinafter referred to as "Mr. Morgan") in this proceeding. See, PA Statement 1.

9 The June 24, 2026 public hearing transcript (PGC Exhibit 9) is hereinafter referred to as "Tr."

- PGW's projects total operating revenues of $759.049 million in FY 2027. Net income is stable at $162.876 million by year-end FY 2027.[10]

- PGW estimates debt service coverage on 1998 General Ordinance[11] revenue bonds at 2.44x and projects internally generated funds and incremental distribution system improvement charge ("DSIC") revenues of $115.3 million.[12]

- PGW projects a debt-to-equity ratio of 46.9% by the end of FY 2027.[13]

- PGW maintained a 12-month collection rate of 91.8% through March 2026 and projects a 96% collection rate for FY 2027.[14]

- PGW expects to receive a $31.488 million federal grant in FY 2027 under the U.S. Pipeline and Hazardous Materials Safety Administration ("PHMSA") grant program.[15]

- Pursuant to the recent authorization by the City to issue Gas Works Revenue Notes ("CP Notes")[16] and prior authorization for the issuance of Gas Works Revenue Capital Project Commercial Paper Notes ("Capital Project Notes"),[17] PGW entered into a Note Purchase and Credit Agreement dated as of June 1, 2026 with TD Public Finance, LLC ("Bank") pursuant to which the Bank will purchase Capital Project Notes and CP Notes to be issued from time to time to support the capital program. The above transaction closed on June 16, 2026.

- the City and PGW plan the issuance of approximately $135 million in revenue refunding bonds in August 2026 to achieve savings in connection with capital borrowing requirements.[18]

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10 PGW Budget Filing at 1, Exhibit A-1(Statement of Income).

11 1998 General Ordinance is defined in Section V below.

12 PGW Budget Filing at 3, Exhibit A-2 (Cash Flow Statement).

13 PGW Budget Filing at 5, Exhibit A-4 (Balance Sheet).

14 *Id.*

15 PGW Budget Filing at 1, Exhibit A-1 (Statement of Income) and 19, Exhibit F (Capital Funding & Expenditures). The PHMSA grant is also referred to as the Natural Gas Distribution Infrastructure Safety and Modernization ("NGDISM") federal grant.

16 In June 2026, the City authorized the issuance of Gas Works Revenue Notes ("CP Notes") in an aggregate principal amount not to exceed $150 million. pursuant to the Inventory and Receivables Act and the General Inventory and Receivables Gas Works Revenue Note Ordinance of 2026 (Bill No. 260112, approved March 25, 2026),

17 The City previously authorized the issuance of Gas Works Revenue Capital Project Commercial Paper Notes ("Capital Project Notes") in an amount not to exceed $120 million, pursuant to the General Gas Works Revenue Bond Ordinance of 1998 (Bill No. 980232, approved May 8, 1998, as amended and supplemented particularly by the Fourteenth Supplemental Ordinance thereto (Bill No. 170432, approved June 15, 2017).

18 The size and timing of the refunding are pending (subject to change based upon market conditions).

- PGW's stable financial condition is affirmed by its current bond credit ratings assigned by Moody's, S&P and Fitch which are "A3" (stable outlook); "A" (stable outlook); and "A-" (stable outlook), respectively.[19]

Programmatic expenditures in the FY 2027 Operating Budget build upon PGW's above achievements and continuing developments. The Company will continue its pursuit of operational and financial improvements, during the coming fiscal year, to secure a better financial future for PGW customers.

V. PGW MUST FULFILL ITS COMMITMENTS TO INVESTORS.

PGW requests the approval of the FY 2027 Operating Budget to fund its operations and fulfill the requirements of its bond covenants with investors.[20] The debt service coverage covenant, set forth in the General Gas Works Revenue Bond Ordinance of 1998, approved on May 8, 1998 (Bill No. 980232), as amended and supplemented ("1998 General Ordinance"), has historically received the most attention in budget proceedings. However, the additional covenants stated below are also a part of the legal obligations of the Company to its bondholders. These covenants include the following:

(1) to pay all cash obligations including the costs of operating and maintaining PGW during each fiscal year in full, when due;

(2) to pay interest and principal on outstanding revenue bonds, when due;

(3) to provide at least 1.5x coverage of the debt service on outstanding PGW revenue bonds after operating expenses have been met;

(4) to pay principal and interest on subordinated bonds, including interest on the commercial paper; and

(5) to continuously maintain in good condition and operate the Gas Works.

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[19] PGW Budget Filing (Statement 1) at 36.

[20] The Management Agreement outlines the rate covenant upon which rates and budgets are premised and provides that authorized revenues must be sufficient to pay all operation and maintenance expenses of conducting the enterprise, including the payment of debt service expense, charges for depreciation, pension costs, the Company's management fee, expenses of the PGC, all sinking fund charges, among other expenses.

The aforesaid covenants are obligations undertaken by the City and PGW together with other transactional commitments assumed with the issuance of PGW revenue bonds, revenue refunding bonds and the renewal of the commercial paper program.[21]

VI. THE CORE ASSUMPTIONS OF THE FY 2027 OPERATING BUDGET ARE REASONABLE AND SHOULD BE APPROVED.

The FY 2027 Budget Year is summarized in several key exhibits and schedules in the budget filing.[22] The Statement of Income (Exhibit A-1) sets forth operating revenues and expenses by key functional areas for FY 2025 (Actual), FY 2026 (Budget Estimate) and FY 2027 (Proposed Budget). The Cash Flow Statement (Exhibit A-2) reflects sources and uses of cash for the above stated periods. The Revenue Bond Debt Service Coverage Statement (Exhibit A-3) depicts funds provided, funds applied and funds available to cover revenue bond debt indicating actual and projected coverage levels consistent with the 1998 General Ordinance. The Balance Sheet (Exhibit A-4) sets forth total assets, total equity and liabilities and debt to equity ratios for the above periods.

The discussion below surveys PGW's Statement of Income (also referred to as Exhibit A-1) and addresses core budget assumptions, including projected operating revenues and expenses. As shown in Exhibit A-1, operating revenues for FY 2027 are budgeted at $759.049 million.[23] The FY 2027 Budget Year reflects the utilization of an updated 20-year heating degree day (HDD) weather normalization (3,844 HDD) and anticipates a projected Gas Cost Rate (GCR) of $4.81/Mcf.[24] In addition to the above overview of operating revenues, a review of projected operating expenses, sources and uses of cash, debt service coverage, among other areas, is essential to understanding the budget. The narrative that follows addresses core areas of the budget together with a summary of budgeted expenses by cost area and an explanation of major variations

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21 In addition to the foregoing, a rate covenant is included in the City of Philadelphia Municipal Utility Inventory and Receivables Act, P.L. 827, No. 231 (Act of December 7, 1982), 53 P.S. 16999.1, *et seq*., as amended and supplemented, which authorizes the issuance of notes for working capital purposes.

22 By way of background, PGW revenues used to fund its operations and pay debt service are derived primarily from the sale of gas distribution and related services to its customers. The operating budget reflects, among other things, anticipated revenues and expenses, required working capital and debt service expense for the subject fiscal year.

23 PGW Budget Filing at 1 (Exhibit A-1); PGW Supplemental Filing at 1.

24 PGW Statement 1 at 3; PGW Supplemental Filing at 1. As a general proposition, budget assumptions are tied to normalized conditions whether the issue is heating degree days, natural gas costs, contribution margins, collections, bad debt, cash balances or staffing assumptions. See discussion, pages 5-8 of this Brief.

between the FY 2027 Budget and the FY 2026 Budget Estimate – all with reference to PGW's Statement of Income.[25]

A. Natural Gas Costs.

Natural gas costs are the largest area of expense incurred by PGW, as shown in the Statement of Income (line 13). These costs are projected to total $205.678 million in FY 2027 or $32.016 million lower than the $237.694 million shown in the FY 2026 Budget Estimate.[26] The decrease in natural gas costs from the FY 2026 Estimate reflects a lower commodity price.[27]

B. Contribution Margins.

Contribution margins, as shown in the Statement of Income (line 16), are expected to total $553.371 million in FY 2027 representing a decrease of $43.244 million from the $596.615 million level projected in the FY 2026 Budget Estimate. These margins represent the funds (total operating revenues less the cost of fuel) available, on an accrual accounting basis, to meet PGW's operational and financial requirements.[28]

C. Labor and Fringe Benefits.

Labor and fringe benefits represent the second largest area of expense that PGW incurs (Statement of Income, line 17). The proposed budget reflects an average personnel level of 1,637 full time employees ("FTEs") for FY 2027.[29] Budgeted spending in this area is projected to decrease by $11.493 million from the FY 2026 Budget Estimate to $203.166 million in the FY 2027 Budget.[30]

The main factors that impact the anticipated expenditures for labor and fringe benefits are: (i) operating labor costs (anticipated to increase by $12.992 million to $155.723 million in FY 2027 Budget);[31] (ii)

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25 The Statement of Income (Exhibit A-1) is set forth in the PGW Budget Filing and is referred to herein as either the Statement of Income or Exhibit A-1.

26 See, PGW Budget Filing at 31 (Schedule SD-7).

27 See, PGW Supplemental Filing at 3; PGW Budget Filing at 31 (Schedule SD-7).

28 PGW Statement 1 at 5; and PGW Budget Filing at 1, Exhibit A-1 (Statement of Income, Line 16).

29 FY 2027 personnel levels are projected to be 1,637 full time employees with corresponding payroll expense increasing due to wage increases of 5.25% for non-union personnel; and a 2.0% wage increases for union personnel effective in May 2027. PGW Statement 1 at 2; PGW Exhibit 6 (PA-OB-29).

30 PGW Budget Filing at 1 (Statement of Income, Line 17).

31 PGW Budget Filing at 13 (Exhibit C-3).

pension expense (anticipated to decrease by $27.253 million to $3.220 million in the FY 2027 Budget);[32] and (iii) payroll taxes (anticipated to increase by $0.521 million to $11.594 million in the FY 2027 Budget).[33]

D. Bad Debt Expense.

PGW anticipates $47.894 million of expense related to bad debt in FY 2027, as shown on Line 8 of the Statement of Income. This compares to $55.368 million of such expense for the FY 2026 Budget Estimate.[34] The budget filing assumes a 96% rolling 12-month collection rate in FY 2027 – the same collection rate utilized in the FY 2026 budget. PGW's focus on collections remains at the forefront of all Company activities, as improvement in this area is paramount to improving cash flow and liquidity.[35]

E. Other Expenses and Depreciation.

Other Expenses and Depreciation (Line 18 of the Statement of Income) are projected to increase by $15.648 million to $189.997 million in FY 2027, as compared to $174.349 million in the FY 2026 Budget Estimate.[36]

F. Other Income.

PGW expects $15.670 million in Other Income in FY 2027 as shown on Line 22 of the Statement of Income. This level of revenue is a decrease of $3.937 million above FY 2026 Budget Estimate.[37]

G. Interest Expense.

Total interest expense of $44.490 million, as projected for FY 2027 (Line 27), represents a decrease of $2.512 million in total Interest Expense from the FY 2026 Budget Estimate ($47.002 million), as shown on the Statement of Income. Also, as shown on the Statement of Income, budgeted long-term debt interest expense (Line 24) of $51.478 million represents a decrease of $2.630 million from the FY 2026 Budget

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32 PGW Budget Filing at 13 (Exhibit C-3).

33 *Id.*

34 PGW Budget Filing at 1 (Statement of Income at Line 8). PGW has also provided documentation for Accounts Receivable and Bad Debt expense calculations and reserve requirements in PGW Budget Filing at 29 (Schedule SD-5). See discussion, PGW Statement 1 at 6.

35 PGW Budget Filing at 29 (Schedule SD-5).

36 PGW Budget Filing at 1 (Statement of Income, Line 18); See, PGW Statement 1 at 6.

37 PGW Budget Filing at 1 (Statement of Income, Line 22). The decrease in other income is the result of lower assumed balances and applicable interest rates with respect to capital improvement fund compared to FY 2026. PGW Statement 1at 6.

Estimate. The Loss from the Extinguishment of Debt (Line 26) of $1.806 million in the FY 2027 Budget Year is expected to be approximately $0.274 million less than the FY 2026 Budget Estimate reflecting the normal amortization of this expense.[38]

H. Federal Grant Revenue.

PGW anticipates receiving $31.488 million in federal grant revenues in FY 2027, as shown on the Statement of Income (Line 28), to support its capital program (main replacement). These revenues are expected as the upshot of PGW's application for funding under the Natural Gas Distribution Infrastructure Safety and Modernization ("NGDISM") grant program, administered by PHMSA.[39]

I. Net Income.

The net income from operations is projected at $162.876 million for FY 2027, as shown on Line 29 of the Statement of Income. Net income is the result of PGW's operations after combining revenues and other income, less operating and interest expenses.[40]

The above-stated core assumptions are the foundation for the proposed budget, as set forth in the Statement of Income. In addition to the foregoing, the Cash Flow Statement is one of PGW's primary financial planning and control documents. This statement is presented on a "cash basis" and documents the impact of planned financings and other financial considerations relevant to the budget process.[41]

VII. THE COMPANY'S PROPOSED BUDGET EXPENDITURES SHOULD BE APPROVED WITHOUT FURTHER ADJUSTMENT.

The Public Advocate recommends adjustments in nine subject areas as shown in the table below.

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38 *Id.*; PGW Budget Filing at 1 (Statement of Income, Lines 24, 26 and 27).

39 This grant program was established in connection with the Infrastructure Investment and Jobs Act enacted on November 15, 2021. Through the NGDISM grant program, PHMSA seeks to reduce the risk profile of existing pipeline systems.

40 *Id.*; See, PGW Budget Filing at 1 (Statement of Income, Line 29).

41 The Statement of Income and Cash Flow Statement read together offer an appropriate perspective with regard to operating budget expenditures; their linkage with planned capital spending; and the sources of funds available to support the capital spending for the coming fiscal year. The debt service coverage levels (1998 Ordinance Bonds) projected for the coming budget year (2.44x) offer additional insight as to how operating and capital budgeting are linked. See, PGW Budget Filing at 4, Exhibit A-3 (Debt Service Coverage Schedule - Lines 17, 20).

Table 1 — Summary of Public Advocate Adjustments to FY 2027 Operating Budget

Description	Amount
Adjustments	
Adjustment to Special Legal Expenses	($1,623,131)
Adjustment to Labor Expense	(3,877,057)
Adjustment to Government Relations Expenses	(100,000)
Adjustment to Gas Processing FEED Study Expense	(4,000,000)
Total Budget Adjustments	($9,600,188)
Conditional Adjustments	
Adjustment to Proposed Excess Liability Insurance Expense	$236,000
Adjustment to Information Services Expense	11,715,000
Adjustment to Administrative Consulting – Environmental Studies	1,000,000
Adjustment to Environmental Remediation	2,000,000
Adjustment to Research America Expenses	100,000
Total Conditional Adjustments	$15,051,000

The narrative that follows addresses each issue raised by the Advocate in the order presented above: (a) Special Legal; (b) Personnel Levels; (c) Legislative and Governmental Advocacy; (d) FEED Study; (e) Excess Liability Insurance; (f) Information Services; (g) Environmental Study; (h) Environmental Remediation; and (i) Research America.[42]

A. Special Legal.

The proposed FY 2027 Operating Budget for the PGW Legal department includes $1.865 million for Special Legal expense based on projected needs in FY 2027.[43] PGW Senior Vice President and General

[42] The Commission should note that the bulk of the Advocate's proposed adjustments are related to conditional funding authorizations ($15.051 million). PGW believes that these are inappropriate recommendations for an operating budget proceeding. The arguments that follow detail, substantive arguments against each of the Advocate's proposed adjustments together with the Company's specific concerns that conditional funding authorization recommendations are misplaced here.

[43] PGW Supplemental Filing at 15.

Counsel, Raquel Guzmán addresses this subject area. Ms. Guzmán indicates that Special Legal expenditures for litigation and related matters vary based upon the circumstances presented in a given year.[44] Of necessity, the budget must reflect a fresh set of circumstances that are presented for each fiscal year.

The Advocate criticizes planned expenditures for Special Legal, indicating that actual spending in this area has historically been less than budgeted levels.[45] In support of its position, Mr. Morgan provides a summary of actual spending during FY 2022-2025 (depicted in the table below) from which he calculates average spending during this four-year period (Column 5). He then subtracts the average spending for each subcategory (Column 6) from the corresponding budgeted amount in the FY 2027 Special Legal budget (Column 7). Table 2 shows the Public Advocate's analysis.

Table 2 — Summary of Public Advocate's Adjustment for Special Legal Expenses

Special Law Firms	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Actual	4-Year Average	Budget	Adjustment
PGC/LOCAL Regulatory	$ 44,089	$ 27,360	$ 77,940	$ 48,560	$ 39,590	$ 100,000	$ (60,410)
Taxes & Revenue Matters	-	51,964	22,373	17,727	18,413	70,000	(51,587)
Environmental	2,857	19,244	1,460	2,804	5,273	75,000	(69,727)
Pension, Benefits & Related Matters	111,333	106,667	66,746	66,666	70,282	100,000	(29,718)
Employment	83,427	729	94,709	18,297	39,432	150,000	(110,568)
Ramon D Townsend	69,052	57,313	88,752	107,100	64,443	120,000	(55,557)
Employment Labor	15,521	3,930	2,138	585	4,435	150,000	(145,565)
Toxic Torts	-	-	-	-	-	50,000	(50,000)
Landlord and Other Liens	-	-	-	-	-	150,000	(150,000)
General Litigation	-	-	-	-	-	100,000	(100,000)
General Transactional Misc. Spec. Projs.	-	-	-	-	-	800,000	(800,000)
	$ 326,279	$ 267,207	$ 354,118	$ 261,739	$ 241,869	$ 1,865,000	$ (1,623,131)

Mr. Morgan observes, based on his analysis of spending shown in the table above, that there has been under-spending in this expense area annually during the period studied ($1.061 million on average).[46] The Advocate recommends an adjustment to lower Special Legal expense by $1.623 million in FY 2027 in reliance on the

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44 Tr. 39-40.

45 PA Statement 1 at 13-14.

46 *Id*.

above analysis.[47] Mr. Morgan concedes that this adjustment is analogous (substantively identical) to the adjustment recommended by the Advocate in the last budget proceeding.[48]

PGW disagrees with the Advocate's adjustment as it looks backward in time (FY 2022-2025) and ignores the need for budget authorization to support current and prospective litigation and related regulatory activities which drive expenses in this area. Spending in this subject area is unlike other areas of the operating budget that can be estimated based on a calculation of average expenditures over past fiscal years. Budgeting in anticipation of future regulatory proceedings, litigation or the actions of our legal adversaries in connection with the above is more complicated. And the absence of necessary budget authorization, when legal action must be promptly taken, is more consequential.[49] For all of the above reasons, PGW believes the Advocate's proposed adjustment reducing the proposed Special Legal budget of $1.865 million by $1.632 million is imprudent and wholly unconstructive.

The Commission may recall that the Advocate has raised similar adjustments to Special Legal expense in years past.[50] By our count, this is the Advocate's tenth attempt at making an adjustment to this expense item. The Advocate's downward adjustments have taken several forms, as shown in the table below.

Table 3 — History of the Public Advocate's Special Legal Adjustments

Fiscal Year	Methodology
2012	Prior year's estimated actual spending plus 10% for contingencies.
2013	12-year average.
2014	Match the estimated-actual FY 2013 expenditure.
2015	Updated estimate of FY 2014 Special Legal expenses, plus a 14% allowance for additional fees
2016	Three-year average of actual-estimated spending.

47 PA Statement 1 at 13; Schedule LKM 1-7.

48 Tr. 54-55. An analogous PA adjustment was rejected by the hearing examiners and PGC in the FY 2026 budget proceeding. See, Recommended Decision (FY 2026 OB) at 25-27.

49 See, Tr. 36-40; PGW Exhibit 6 (PA-OB-7(D-E).

50 The Advocate advanced these adjustments during the tenure of its prior witness (Michael Bleiweis). Nonetheless, the prior adjustments to Special Legal expense are analogous to the adjustment proposed in this case.

2017	20% reduction based upon City procurement rules (following the FY 2016 PGC decision).
2018	20% reduction based upon City procurement rules.
2019	$100,000 reduction in Special Legal expense.
2026	$1.333 million reduction in Special Legal expense.

In each instance described above, the Advocate's recommendation to reduce Special Legal budgeted expenditures was rejected.[51] The reason for the consistent rejection of PA adjustments to Special Legal expense was plainly stated in the FY 2016 Operating Budget Recommended Decision:

> PGW's Special Legal budget is based on specific factual circumstances that change from year to year, and unlike other expense areas, is not driven by historical spending and averages. [The Advocate] overlooks the Hearing Examiners' rejection of his past recommendations is linked to the fact that he has consistently advocated the same position, albeit with methodological variations, that PGW's budget should conform as closely as possible to past actual or estimated-actual spending…But we (and more importantly the Commission) have accepted PGW's position that each year's budget reflects [a] fresh set of circumstances and potential unknowns. Accordingly, while historic spending can provide background for an informed judgment in this area, it does not provide the sole or strongest basis for setting the Special Legal budget for the reasons that have been repeatedly identified by PGW and endorsed by the Commission.[52]

Consistent with its prior proposed adjustments in this subject area (as shown in Table 3), the Advocate's recommendation in this proceeding is devoid of any analysis regarding litigation and regulatory challenges anticipated in the coming fiscal year. Instead, Mr. Morgan makes wholesale adjustments in this budget area based solely upon trends in historic spending.[53] To be sure, the proposed adjustment has nothing to do with

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[51] Recommended Decision (FY 2017 Operating Budget) at 36. As noted by the Hearing Examiners in prior proceedings the Advocate's downward adjustments have taken several forms, as shown in the table above. The table also reflects the Advocate's FY 2018 recommendation to reduce Special Legal spending by 20% based upon City procurement rules. See, PA Statement 1 at 45 (FY 2018 Operating Budget). The table further reflects the Advocate's FY 2019 recommendation to reduce Special Legal spending by $100,000. See, PA Statement 1 at 34-36 (FY 2019 Operating Budget); Recommended Decision (FY 2019 Operating Budget) at 23. The table finally reflects the PA adjustment to reduce spending by $1.333 million in the FY 2026 Operating Budget proceeding. PA Statement 1 at 10-11 (FY 2026 Operating Budget); Recommended Decision (FY 2026 Operating Budget) at 25-26.

[52] See, Recommended Decision (FY 2016 Operating Budget) at 10, 26. In the FY 2016 proceeding, the Hearing Examiners memorialized four basic areas of agreement when establishing a budget for Special Legal expense (i) it is based on specific factual circumstances that change annually; (ii) actual Special Legal spending is on an upward trend; (iii) even if actual spending is less than the budget, this does not mean it is imprudent to budget for legal matters that may not actually arise within the fiscal year due to inherent unpredictability in this area; and (iv) PGW's actual spending record is the product of its cost-containment efforts, rather than the result of over-budgeting. *Id.* at 10; Accord, Order and Resolution (FY 2014 Operating Budget) at 12.

[53] See, PA Statement 1 (Schedule LKM-1-4).

future spending and the litigation and regulatory challenges that lie ahead. Mr. Morgan concedes this point in his testimony — confirming that the instant adjustment is based on a 4-year average of past spending (FY 2022-2025).[54] Given the foregoing, PGW requests that the PGC once again reject this recommendation. There is a complete disconnect between an analysis of historical spending (FY 2022-2025) and budget authorization for Special Legal expenses in FY 2027. Proposed expenditures for Special Legal in the amount of $1.865 million should be approved for the FY 2027 budget.

B. Personnel Levels.

The proposed FY 2027 Operating Budget for labor and payroll expenses is based on an average personnel level of 1,637 full-time employees ("FTEs").[55] This headcount is determined taking into account the need for new-hires based upon anticipated attrition, turnover, retirements and new initiatives. As established in prior proceedings, budgets are appropriately set based on normal conditions — projecting personnel additions to meet corporate-wide goals and to fulfill strategic needs.

PGW Vice President for Human Resources, Anthony Dinkins addresses this subject area in his testimony. Mr. Dinkins explains that PGW must have the necessary personnel to run its operations, maintain and improve its facilities and perform key functions (e.g., to implement programs such as the Customer Information System initiative and support Field Services activities).[56] He also submits that (i) the proposed headcount for FY 2027 represents a reasonable staffing threshold; and (ii) the headcount is identical to the staffing level approved by the PGC in the FY 2026 Operating Budget.[57] Finally, Mr. Dinkins indicates that, as of June 22, 2026, the Company had already reached a headcount of 1,624 FTEs (not including PGC Staff). PGW is also actively engaged in filling the balance of the positions needed to meet the targeted headcount.[58] Based on the above, it is clear that PGW can readily achieve an average 1,637 FTEs in FY 2027.

The Advocate has a more pessimistic view of what personnel levels can be achieved in FY 2027. That is, Mr. Morgan believes that the Company may have to operate with a lower average number of FTEs

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54 PA Statement 1at 14-15.

55 PGW Statement 1 at 5, 10.

56 Tr. 80.

57 PGW Budget Filing (Statement 1) at 5; PGW Exhibit 1 (Supplemental Filing) at 4; Tr. 77.

58 See, response to TR-6.

than anticipated in the budget. The Advocate's position is premised on his understanding of the budget filing and discovery responses related to this subject which pre-date the submission of his testimony.[59] However, as alluded to above, personnel levels in June 2026 were significantly higher than prior months in the current fiscal year. As a result, the variance between current personnel levels (1,624 FTEs) and targeted levels for FY 2027 (1,637 FTEs) was already significantly narrowed at the time of the public hearing in this matter — unbeknownst to Mr. Morgan. As a result, the Advocate's proposed adjustment was based on a false (outdated) premise.[60]

The mechanics of the Advocate's adjustment are simple. As shown in PA Statement 1, the Advocate proposes a targeted personnel count of 1,609 in FY 2027 (28 FTE reduction) — based on a "2% vacancy" assumption that is unsubstantiated in the record.[61] This adjustment results in a reduction in labor expense of $3.877 million.[62] In essence, the Advocate argues that, assuming a 2% vacancy rate is realistic, it is unlikely that PGW will reach an average of 1,637 FTEs in FY 2027. Mr. Morgan does not explain in detail the basis of his recommendation regarding personnel levels. The narrative in his written testimony emphasizes that personnel leave PGW (attrition and related vacancies).[63] However, Mr. Morgan does not recognize that throughout this fiscal year (and continuing into FY 2027) PGW is actively hiring new personnel and can readily achieve a 1,637 headcount in FY 2027.[64]

Also it bears reiteration that, as of June 2026, PGW is already offsetting the 2% attrition assumed in Mr. Morgan's proposed adjustment. Moreover, Mr. Dinkins indicates that PGW plans cadet classes in FY 2027 with projected hires of 50 FTEs or more.[65] The point of the foregoing is that attrition will be more than

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59 The FY 2027 Operating Budget proceeding commenced with the filing on May 15, 2026. Informal discovery was undertaken on June 1, 2026. Written discovery responses were provided on June 15, 2026. PA testimony was submitted on June 18, 2026. The record was updated by Mr. Dinkins testimony at the public hearing (June 24, 2026) at which time more recent information regarding personnel levels was available. See also, response to TR-6.

60 See, PGW response to TR-6.

61 PA Statement 1 at 8 (Schedule LKM-OB-1-2).

62 *Id*.

63 PA Statement 1 at 9-10.

64 Mr. Morgan also did not have the most recent headcount (as of June 2026) in framing the recommendations in testimony.

65 Tr. 78-79.

offset by new hires and PGW will achieve it targeted average headcount in the coming fiscal year. The vacancy rate that Mr. Morgan assumes for FY 2027 is mistaken.

Taking all of the above into account, the labor expense proposed in the budget is reasonable and should be approved. The Public Advocate's proposed reduction in labor and payroll expense ($3.877 million) should be rejected.

C. Legislative and Governmental Advocacy.

The proposed Corporate Communications budget includes $100,000 in purchased services expense to support legislative and governmental advocacy activities.[66] This planned expenditure is the same, in its amount and purpose, as requested in prior budgets. These budgeted expenditures are permissible expenditures under the Management Agreement and significantly benefit gas customers. PGW Chief of Staff and Senior Vice President, Melanie McCottry addresses this subject area.

The Advocate once again recommends that the Commission remove the above planned expenditures from the operating budget.[67] This recommendation is set forth in the testimony of PA witness, Lafayette Morgan.[68] Mr. Morgan characterizes expenses in this subject area as "lobbying expenses."

The Advocate's rationale for disallowance of this budget item is that the cost for legislative and governmental advocacy activities is, in essence, an ownership expense; and that it is inappropriate to include such expense in the operating budget as such activities, in its view, are not necessary for the provision of utility service.[69] In prior PGC proceedings, Mr. Morgan has referenced Pennsylvania Public Utility Commission ("PUC") general ratemaking conventions to support his position.[70] It should be noted, however, that PGW does not agree with the Advocate's position and, in any event, it is inapposite here.

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66 PGW Supplemental Filing at 101.

67 PA Statement 1 at 16. As the Commission is aware, the Advocate has proposed analogous adjustments in this area in prior budget proceedings which have been routinely rejected during the period FY 2006-2014. Recommended Decision (FY 2015 Operating Budget) at 23. Variations of this adjustment have also been rejected each year during the period FY 2015-2026.

68 PA Statement 1 at 14.

69 *Id*.

70 See, Tr. 49 (FY 2025 Operating Budget Proceeding - June 27, 2024 hearing).

As the Commission is aware, expenditures to support legislative and governmental advocacy activities (referred to below as lobbying-related activities) are permissible under the standards set forth in the Management Agreement. As stated by the Hearing Examiners is the FY 2016 Operating Budget proceeding:

> As we have discussed in prior Recommended Decisions, review of PGW's Operating Budget is done in accordance with the standards set out in the Management Agreement/Ordinance. The Advocate "acknowledges the Commission's prior position that the Management Agreement envisages that PGW rates must support all expenses associated with PGW operations, including lobbying, notwithstanding the fact that under the Public Utility Code, PGW may not recover this expense through rates. The question remains whether lobbying expenses are reasonable or necessary to conduct the Gas Works enterprise to the benefit of the customers, not whether they are recoverable through rates under state [PUC] ratemaking standards for investor-owned utilities. The Commission has repeatedly rejected the Advocate's request to disallow expenses for lobbying-related activities at the state level on this basis.[71] [Emphasis supplied]

In view of the foregoing, the Advocate's recommendation is misplaced, as the subject expense is permissible under the Management Agreement.

Further, the subject expenditures also relate to legislative and regulatory activities that take place within the Commonwealth (e.g., activities of the General Assembly, activities of different agencies and departments statewide, including the PUC) and are in support of policies like infrastructure improvement (pipeline safety), as well as securing funding for rental assistance and homeowners' assistance programs – all of which benefit gas customers.[72]

Taken together, budgeted expenditures for legislative and governmental advocacy activities are permissible under the Management Agreement and significantly benefit gas customers.[73] In view of the above, the Company requests that the Advocate's proposed disallowance of legislative and governmental advocacy expenditures ($100,000) in the FY 2027 budget be rejected.

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71 Recommended Decision (FY 2016 Operating Budget) at 23-24.

72 See, PGW Exhibit 6 (PA-OB-33).

73 In addition, these expenditures directly benefit PGW ratepayer interests on issues related to (i) infrastructure and home safety (improvements, meter safety, methane detection, emissions reduction, employee and customer safety); (ii) funding for PGW's poorest customers (e.g. LIHEAP, Customer Assistance Programs (PGW CRP), accessibility to aid, rental assistance and homeowner assistance programs to help natural gas customers with utility payments; and (iii) access to weatherization and conservation funding and programming. In FY 2025, LIHEAP provided over 36,000 grants to PGW customers, totaling over $9.7 million dollars in assistance. See, PGW Brief (FY 2026 Operating Budget) at 23.

D. FEED Study.

The proposed budget for Gas Processing includes $4.0 million for front-end engineering and design ("FEED") studies. Such studies are to provide, among other things, a more detailed and accurate cost for the replacement of the LNG Liquefier.[74] The proposed expenditures are needed to support planning for the LNG project. It also bears emphasis that the Commission directed that $4.0 million be included in the budget to fund a FEED study.[75]

PGW Vice President for Technical Operations, Daniel Cassidy, addressed this subject in his testimony. He emphasized that FEED studies are essential to determine the scope, design and cost of the LNG project.[76] Equipment specifications and regulatory requirements will also need to be evaluated as a part of the FEED studies.[77]

The Commission will recall that this subject was addressed in the FY 2025 Operating Budget proceeding. There, Mr. Cassidy noted the necessity of conducting a FEED study for a large initiative like the LNG project to accurately determine project engineering, design, cost, equipment specification and regulatory requirements.[78] In the current proceeding, Mr. Cassidy further explains the need for FEED studies and the basis for the current estimated cost for the same in the budget:

> Multiple vendors (likely 2) will submit a lump sum-turnkey cost for the new liquefier at the conclusion of the FEED (Front End Engineering and Design) study. Multiple vendors will provide PGW with project details and costs that can be compared to ensure that PGW is getting the best product at a fair price. In addition to the liquefaction system engineering during the study, the vendors will define construction and permitting details and provide firm quotes for equipment. Any contingencies arising from the study will be included in the lump-sum cost.[79]

Simply put, PGW plans to use multiple vendors to determine a lump-sum turnkey cost for the new LNG Liquefier. Multiple vendors will provide PGW with project details and costs that can be compared to ensure that PGW is getting the best product at a fair price. As explained by Mr. Cassidy, the FEED study vendors will

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74 Tr. 13.

75 See, Resolution and Order (FY 2027 Capital Budget) at 12.

76 Tr. 13. See also, Tr. 17 (FY 2025 OB - June 27, 2024 hearing).

77 *Id*.

78 Tr. 17 (FY 2025 OB - June 27, 2024 hearing).

79 Tr. 14-15.

also define engineering, construction and permitting details and provide firm quotes for equipment. Any contingencies arising from the study will be included in the lump-sum cost. Taken together, the FEED studies will provide a roadmap (detailed engineering framework and related costs) so that the PGC can make an informed decision in approving this significant project.[80]

The Public Advocate opposes this budgeted expense. Mr. Morgan argues that "the Commission has denied PGW's request to move forward with the Richmond LNG project at this time"[81] and that funding a FEED study is inconsistent with this PGC decision. He also indicates that approval should be withheld presumably because the environmental study ordered by the Commission may indicate pursuing the LNG project is contrary to City environmental policy or other objectives.[82] Mr. Morgan misses the point that planning is critical to determine the appropriate design, size and cost of this future capital project. This is all a part of making the determination to proceed with project implementation (a future decision subject to PGC authorization). Please recall that the preliminary estimated cost of the LNG Liquefier replacement project is $182.0 million. Serious planning (i.e., FEED study in this instance) is necessary so that limited resources can be expended wisely taking into account all relevant engineering, economic, regulatory and operating considerations. In the instant context, it is prudent to fully evaluate the scope, design and cost of the LNG liquefier project in the coming fiscal year. This expenditure should be approved consistent with the Commission's directive.[83]

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80 PGW submits that it is prudent to do more than one FEED study because ideally we would have two options (with two different costs) to choose from. The Company believes that it can determine a fair price and reach a reasonable plan for project procurement, engineering and construction with multiple vendors. It is very likely that we will save the cost of the second FEED study by having more than one vendor in this context. In essence, undertaking the FEED studies as proposed by the Company, will lay the foundation for a competitive bid process that will ensure a fair price and a better outcome for PGW and gas customers.

81 PA Statement 1 at 7.

82 PA Statement 1 at 7, 9. Mr. Morgan opines that the PGC intends to review the Environmental Impact Study results prior to considering a future capital budget proposal for the LNG project. He believes this is a basis for denying approval for the FEED studies. Mr. Cassidy indicates that the Advocate is wrong. The FEED studies should actually precede an environmental impact study. The FEED studies will provide project scope, design, and engineering detail which are needed to undertake a meaningful environmental impact analysis. See discussion *infra.* (Section VII.G). Mr. Morgan also argues in the alternative, that if expenditures for a FEED study are approved, it should be for $2 million. PA Statement 1 at 7.

83 See, Resolution and Order (FY 2027 Capital Budget) at 12.

E. Excess Liability Insurance.

The Risk Management budget includes $5.281 million for excess liability insurance expense.[84] This amount is $236,000 higher than the approved budget for FY 2026. PGW Vice President for Risk Management and Environmental Services, Jane Lamb addresses this subject area.[85] Ms. Lamb explained, in this and previous proceedings, that planned expenditures for excess liability insurance coverage are (i) mandatory in nature; and (ii) necessarily requested/approved in each fiscal year. The coming fiscal year will be no different.

In the instant context, PGW projects the likely cost for excess liability insurance coverage based upon observed market conditions and input from experts in this area (including PGW Risk Management staff and insurance brokers). The Company uses the best and most recent information it has in determining planned spending in this area. At the time of the budget filing, market trends indicated that cost increases were likely in the coming fiscal year. This anticipated cost increase is reflected in the budget as a reasonable assumption given current market conditions. To be sure, PGW wants to achieve the lowest reasonable cost to bind coverage. However, a negotiation with insurance providers will actually determine the cost of insurance for the next fiscal year. The budget offers a signal (harbinger) of what can be reasonably anticipated.

The Advocate opposes immediate spending authority for the proposed increase in spending for excess liability insurance coverage ($236,000).[86] Mr. Morgan's recommendation is tied to the uncertainty associated with future insurance negotiations. However, as acknowledged by PGW, negotiations are inherently uncertain and must be undertaken and completed to determine actual costs for FY 2027. This is true in every year for a range of budgeted expenditures, including the subject insurance coverage. A budget estimate is necessarily made for business planning purposes.

In a sense, Mr. Morgan is critical of PGW for stating the simple fact that it will not know with certainty what the negotiated price of the excess liability insurance coverage will be until negotiations regarding the same are completed.[87] Because of this unknown, Mr. Morgan recommends that conditional

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[84] PGW Supplemental Filing at 147.

[85] Ms. Lamb explained this proposed expenditure during the discovery phase of the proceeding. Ms. Guzmán spoke to this issue at the public hearing on June 24, 2026.

[86] PA Statement at 10.

[87] Tr. at 67; *see also* PGW's response to PA-OB-25(B).

funding authorization be imposed on PGW for this expenditure. In this context, he also suggests that PGW be required to notify the Commission *after negotiations are completed* of (i) the name of the insurance provider(s); and (ii) the cost of insurance for the provider(s) selected. PGW argues that this extra step to gain the release of conditional funding is unnecessary.

Ironically, Mr. Morgan could not articulate how requiring this extra step (for the release of conditional funding) actually addresses his discomfort with the uncertainty associated with the anticipated increase in the cost of excess liability insurance coverage.[88] In point of fact, it accomplishes nothing. As the parties learned last year, notification after the fact did not change the dynamics of the negotiation with insurance providers or remove market uncertainty. Because there were multiple insurance providers and sequential negotiations in FY 2026, the notification process was a distraction from the ultimate goal to negotiate the lowest reasonable cost for excess liability insurance coverage.

Note that PGW has historically, and will in the coming fiscal year, vigorously negotiate the lowest reasonable rate possible for excess liability insurance coverage. The Company needs the ability to bind coverage in a timely manner without being impeded by an extra bureaucratic step to gain the release of conditional funding.[89] Because conditional funding does not remove uncertainty or change the outcome of negotiations, it should be rejected here. PGW asks the Commission to approve the Risk Management budget in full ($5.281 million) with immediate spending authority to secure excess liability insurance coverage.

F. Information Services.

The Information Services ("IS") budget includes total planned expenditures of $36.793 million for FY 2027.[90] This amount includes expenses for labor, purchased services, general material, equipment rentals and leasing, maintenance software, software subscriptions, among other items. PGW Vice President for IS Infrastructure and Services, Joanne Kelly addresses this subject area in her testimony. As explained by Ms. Kelly, the roster of IS proposed expenditures for FY 2027 represents routine spending that has been approved in prior budgets.

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88 Tr. 67-69.

89 Tr. at 61.

90 PGW Budget Filing at 127.

The Advocate opines, after review of the proposed IS funding requests for the coming fiscal year that, in its view, several budget items lacked sufficient supporting documentation. Mr. Morgan identifies the budget items for which he requested more detail in a table shown on page 12 of his testimony. Mr. Morgan calculated the budget amount of these items to be $11.715 million. The table appearing in Mr. Morgan's testimony is replicated below.

Table 4 — Summary of PA Adjustments to Information Services Budget

Discovery Ref.	Description	Amount	Redundant
PA OB 22(b)	**Network & System Engineering under General Material** • Field laptops • Desktop, laptop, Nano PCs • Miscellaneous equipment, peripherals	 2,000,000 200,000 200,000	
PA OB 22(d)	**Network & System Engineering under Purchased Services** • One additional System.Engineer • One additional Network Engineer Consultant	 250,000 190,000	
PA OB 22(f)	**Non IS Department Technology** • Translation Services	 400,000	
PA OB 22(g)	**Network & System Engineering under Software Subscriptions** • Microsoft EA agreement • VMWare software maintenance • Island Enterprise Browser	 1,574,000 240,000 270,000	 Redundant Expenditure
PA OB 22(h)	**Network & System Engineering under Software Subscriptions** • Microsoft EA/SA • VMWare Enterprise Foundation • ActivTrak (Birch Grove Software Inc.) • Island Enterprise Web Browser • Other Software Subscription	 1,574,000 574,000 220,000 270,000 253,000	 Redundant Expenditure Redundant Expenditure
PA OB 22(i)	**Security Control under Software Subscriptions** • Varonis Data Security SaaS Solution	 200,000	
PA OB 22(j)	**Security Control under Software Subscriptions** • Palo Alto Subscription • Varonis Data Security SaaS Solution	 300,000 200,000	 Redundant Expenditure
PA OB 22(k)	**VP Regulatory Compliance increase** • SEW My Account Regulatory Intelligence	 1,400,000	Redundant Expenditure
PA OB 22(l)	**Non IS Dept. Technology** • SmartCX Subscription	 1,400,000	Redundant Expenditure
	Total	**$11,715,000**	**Redundant Total** **3,444,000**

Ms. Kelly responds to Mr. Morgan's concerns by indicating that PGW discovery responses addressed specific questions raised by the Advocate.[91] She also explains that the subject expenditures are either business as usual operating needs and expenditures or end-of-life replacement equipment purchases. Ms. Kelly's testimony addressing Mr. Morgan's concerns is summarized by subject area below.

- With reference to budgeted expenditures for computer hardware and related peripherals shown in Row 1 of Table 4 above, Field Laptops have reached end of life and need to be replaced to maintain field operation functionality. Such replacements

[91] See, PGW Exhibit 5 (PA-OB-22).

are undertaken roughly every four years. Such equipment is critical to Field Services operating requirements. Similarly, desktop, laptop and nano PCs (also shown on Row 1) need to be replaced due to aging or failed equipment. Note that all of the planned expenditures on Row 1 are normal operating expenses which are approved periodically based on operational needs.

- Other budgeted items for purchased services expenses (shown on Row 2) are in connection with services for an additional System Engineer and Network Engineer Consultants. Such staff augmentation, used for various projects throughout the year, is also considered to be a normal annual operating expense.

- Expenditures for translation services (shown in Row 3) are an ongoing expense used by Customer Service for ESL (English as a Second Language) customers. This is another routine budget item.

- Likewise, VMware Software maintenance (shown in Row 4) is required for ongoing support and to keep our virtual desktop and server infrastructure up to date. This is also a normal annual operating expense. Moreover, ActivTrak (shown in Row 5) is a workforce analytics and productivity management platform. This is also a normal annual operating expense.

- Finally, the Palo Alto Subscription (shown in Row 7) manages our firewalls to maintain appropriate web access for our employees and protects the PGW network against malicious sites and bad actors. This is also a normal annual operating expense.[92]

In view of the above, Ms. Kelly disagrees with the Advocate's recommendation that conditional funding authorization is needed. There is no uncertainty here and each subject area has been addressed in sufficient measure for routine expenditures that have been approved by the PGC in prior budgets.

In addition to the foregoing, Ms. Kelly points out that the Advocate's table contains redundancies/ errors and, as a consequence, the calculation of its IS adjustment is not only substantively mistaken but overstated. Stated differently, the total aggregate amount for the PA adjustment listed in Table 4 above is overstated by $3.444 million. The following items are either listed twice or erroneously combined (as indicated) and should not be counted as additional budget items in the IS budget:

- **PA-OB-22(g) and PA-OB-22(h)** "Microsoft EA agreement" $1,574,000 - This is our annual agreement for PGW's Microsoft enterprise product suite. The amount listed is for year 3 of a 3-year contract term. It listed twice in the Advocate's table (Rows 4 and 5).

- **PA-OB-22(g) and PA-OB-22(h)** "Island Enterprise Browser" $270,000 – This is PGW's new enterprise browser acquired in FY 2025 for security and data loss prevention. The amount listed is the 3rd year of a 3-year term. It is listed twice in the

[92] Tr. 91-92.

Advocate's table (Rows 4 and 5).

- **PA-OB-22(i) and PA-OB-22(j)** "Varonis Data Security Saas (Software as a Service) Solution" $200,000 – This is a new data security software product acquired in FY 2026. It is used to automatically discover, classify, and protect sensitive data across web and cloud environments. The amount listed is the 2nd year of a 2-year term. It is listed twice in the Advocate's table (Rows 6 and 7).

- **PA-OB-22(k) and PA-OB-22(l)** "SEW My Account Software Regulatory Intelligence" $1,400,000 – The description for PA-OB-22(k) has combined two budget items from the response to PA-OB-22(k) in error (i.e., (i) SEW My Account Software and (ii) Regulatory Intelligence Subscription). These are two different products. The My Account Software is the SmartCX Subscription. The Regulatory Intelligence is a software subscription provided by Hdata and used for energy regulation and utility compliance. The amount listed is duplicative with PA-OB-22(l) (Rows 8 and 9).[93]

It should also be noted that planned expenditures for the Microsoft EA Agreement and the SEW My Account Software Regulatory Intelligence (referenced above) are for ongoing contracts that were originally authorized in prior budget proceedings.

Taken together, PGW submits that (i) the Advocate's adjustment for IS expenditures is substantively wrong given the routine nature of proposed spending (computer hardware replacements, software subscription renewals, ongoing contract renewals and purchased services) and (ii) the overall calculation of the budget impact (assuming it was not in error in the first place) is incorrectly calculated. For the above reasons, PGW submits that the PA adjustment is erroneous and not supported by the record and should be rejected. The proposed IS budget should be approved in full with immediate spending authority.

G. Environmental Impact Study.

The PGC Resolution and Order in the FY 2027 Capital Budget proceeding includes a directive that PGW include $1.0 million in the FY 2027 Operating Budget for an environmental study related to the LNG project.[94] Accordingly, PGW has included this expenditure in the proposed budget as directed. Per the response to OB-ID-1, the Company is informed that the aforesaid expenditure is to be for a full life-cycle environmental impact study. More recently, the PGC has also indicated that the best practices articulated by the International Association for Impact Assessments are to be used as a guideline in conducting the study.[95]

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93 Tr. 88-90

94 PGC Resolution and Order (FY 2027 Capital Budget) at 13.

95 See, Commission response to TR-5.

That is all the information that we have, as of this writing, and PGW has not had an opportunity to vet this recommendation with its own personnel or outside experts.

PGW respectfully asserts that it is premature to undertake such a study or even establish appropriate study criteria at this time. Project scope, design, engineering, construction and regulatory requirements for the LNG project are to be developed in connection with the planned FEED studies and other analyses. Essentially, it is imprudent to undertake a costly environmental impacts study for a project whose parameters are not yet fully defined. Based upon the information presented in this record, PGW must urge the Commission to conclude that criteria and costs for an environmental impact study should not be approved in this budget. Further discussion is required to determine what studies would be necessary and appropriate, and PGW needs to be a leader in this discussion.

H. Environmental Remediation.

The proposed budget includes $2.0 million for Environmental Remediation at PGW's site located at Ninth and Diamond Streets. PGW Director of Chemical and Environmental Services, Kevin Grooms addresses this subject area. Mr. Grooms explains that this budgeted expenditure is a realistic estimate of the cost of environmental remediation at the site (albeit a worst case scenario). He also states that PGW is in the process of assessing the site and will likely have more definitive information within a few months.[96] Mr. Grooms stresses that immediate spending authority is necessary for this budget item given regulatory compliance concerns.[97]

The Public Advocate recommends that this expenditure be authorized on a conditional funding basis. Mr. Morgan indicates that budget uncertainty drives his recommendation. However, he does not explain his recommendation in detail (e.g., what requirements are to be met to trigger the release of conditional funding).[98] Moreover, he does not explain why conditional funding is preferable to immediate spending authority given the fact that PGW will be obliged to timely meet environmental regulatory requirements.

Mr. Grooms stresses that "from a regulatory standpoint, we have a requirement to be prepared to

96 Tr. 74.

97 Tr. 72-73.

98 PA Statement at 10-11.

address a worst-case scenario and therefore [the] budget does reflect that."[99] He goes on to explain that the Company has an obligation to be prepared to immediately address a mobile and volatile contaminant should they find this problem at the site.[100] Mr. Grooms emphasizes that we should be ready to proceed when the site assessment is completed.

PGW submits that the Commission should approve this budget request with immediate spending authority. Mr. Morgan's recommendation is largely unexplained and lacks sufficient record support. PGW should have immediate spending authority to meet environmental regulatory requirements. The proposed $2.0 million Environmental Remediation expenditure should be approved.

I. Research America.

The proposed Customer Service budget includes a purchased services expense of $350,000 for Research America (vendor used for customer satisfaction surveys).[101] This planned expenditure reflects an increase over estimated spending in FY 2026. Note, however, that projected spending in the next fiscal year actually represents a decrease of $100,000 from the approved budgets for FY 2025 and FY 2026.[102] PGW Vice President - Customer Affairs, Bernard Cummings addresses this subject area. Based upon information learned by the Company in compiling the budget, he believes that expenses in the coming fiscal year will increase (albeit not above levels approved in prior approved budgeted amounts). The anticipated increase to $350,000 in the proposed budget reflects the anticipated change in cost which will be finally determined through a competitive RFP process.

The Advocate requests that this expenditure be given conditional spending authorization.[103] Presumably this is because of "uncertainty" as the RFP process has not been completed. Such uncertainty, however, is part and parcel to the budget process. PGW must have budget authority to issue the RFP and negotiate a contract with the successful vendor. The budget is provided to show a reasonably anticipated outcome (informed estimate) after the RFP process is completed.

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99 Tr. at 72-73.

100 *Id.*

101 PGW Supplemental Filing at 110.

102 *Id.*

103 PA Statement 1 at 15.

In the instant context, Mr. Cummings explained that in compiling the FY 2027 budget, PGW considered that it may change vendors in this area and/or experience inflationary increases.[104] Additionally, Mr. Cummings stated that Research America recently indicated that certain functionality is becoming more expensive, and therefore, it would be prudent for PGW to increase its request by $100,000 in order to ensure it has sufficient budget authorization to support this service. It bears emphasis that the Company has only modestly increased its budget request in this area from the actual estimated spending in the current fiscal year. As stated above, this request remains below approved budgeted expenditures for Research America in FY 2025 and FY 2026. PGW submits that this expenditure is reasonable and should be approved with immediate spending authority. The Public Advocate's recommendation should be rejected.

VIII. CONCLUSION.

For all the foregoing reasons, the Company requests that the Gas Commission approve the proposed FY 2027 Operating Budget based on the record presented and the arguments raised in this brief.

Respectfully submitted,

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104 *Id.* at 102-103.