BEFORE THE PHILADELPHIA GAS COMMISSION

IN THE MATTER OF THE FISCAL YEAR 2027 BUDGETS/OVERSIGHT REVIEW OF PGW'S PROPOSED FY 2027 OPERATING BUDGET AND FORECAST FOR FISCAL YEARS 2028 THROUGH 2032

<u>RECOMMENDED DECISION</u>

FY 2027 Operating Budget and Related Matters

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I. RECOMMENDED ADJUSTMENTS TO FY 2027 OPERATING BUDGET[1]

Table 1: Summary of Recommended Adjustments

Summary of Recommended Adjustment	Filed Budget	Rec Adjustment ($)	Rec Budget ($)	Rec Dec
OPERATING REVENUES				
Total Gas Revenues	$ 763,532,000	0	$ 763,532,000	IV.B
Other Operating Revenues	(4,483,000)	0	(4,483,000)	
Total Operating Revenues	$ 759,049,000	$ 0	$ 759,049,000	
OPERATING EXPENSES				
Natural Gas Expense	205,647,000	0	205,647,000	IV.B.
Other	31,000	0	31,000	
Contribution Margins	$553,371,000	$ 0	$ 553,371,000	
Adjusted Non-Fuel Operating Expenses:				
Labor & Fringe: Payroll	178,579,000	(1,938,526)	176,640,474	IV.D.2.c.
Environmental Impact Study	$0	$1,000,000	$1,000,000	IV.D.2.b.
Total Non-Fuel Operating Expense	$ 310,628,000	$ (938,526)	$ 309,689,474	
Income Before Interest	$ 175,878,000	$ 938,526	$ 176,816,526	
Interest Expense	$ 44,490,000	$ 0	$ 44,490,000	
Net Income	$ 162,876,000	$ 938,526	$ 163,814,526	

II. HISTORY OF THE PROCEEDING

At its August 13, 2025, public meeting, the Philadelphia Gas Commission ("PGC" or "Commission") directed the Philadelphia Gas Works ("PGW" or the "Company") to submit its proposed Operating Budget for Fiscal Year ("FY") 2027 ("Operating Budget" or "Budget") by

[1] In addition to the recommended adjustments, the following budget items are recommended for conditional spending status in whole or in part: Excess Liability Insurance ($236,000); Environmental Remediation ($2 million); and Research American ($100,000) .

no later than May 22, 2026.[2]

On May 15, 2026, PGW filed a proposed Operating Budget, including a Philadelphia Facilities Management Corporation ("PFMC") Board Resolution dated May 1, 2026, authorizing submission of the Budget for Commission approval, along with various supporting schedules and departmental budgets.[3] The filing included the supporting joint testimony of Joseph Golden, William J. Gallagher and Stephen R. Schummer.[4] Accompanying the budget filing, PGW also filed a letter from City Finance Director Rob Dubow to Commission Chair Christy Brady stating that the FY 2026 Operating Budget was satisfactory as to form and extent.[5]

In addition, providing written answers to data requests, PGW also answered data requests and other questions at an Informal Discovery ("ID") session held on June 1, 2026.[6]

On June 18, 2026, the Advocate filed the Direct Testimony of its witness, Lafayette K. Morgan.[7] On June 24, 2026 Executive Director Gemela McClendon and Hearing Examiners Heidi Wushinske and Roslyn Bell held an in-person public hearing. The Operating Budget proceeding generated a total of 24 exhibits. The record also includes responses to three transcript requests (TR-5 through TR-7) in this portion of the proceeding, one addressed to PGW, one addressed to the PGC Commissioners, and another addressed to both PGW and the Advocate.[8] In addition, the record includes responses to data requests propounded by the Advocate and the Hearing Examiners during informal discovery.

On July 3, 2026, PGW and the Advocate submitted Briefs (respectively "PGW Comments" and "PA Brief.")

The parties and Commission Staff have worked diligently to prepare this matter for decision at the Commission's August 11, 2026, meeting. As of the conclusion of the hearing on June 24, 2026, and the filing of responses to data and transcript requests as of June 29, 2026, together with the submission of Briefs, the record is complete on all issues pertinent to this Recommended Decision.

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[2] In Re: Proposed FY 2026 Operating Budget and Related Matters, Order and Resolution at Ordering Paragraph 8 (Public Meeting Held August 12, 2025) (hereinafter "FY 2026 Budget Decision.")
[3] PGW Exhibit 1 (also referred to as "Budget Filing.")
[4] PGW Statement 1.
[5] PGW Exhibit 1.
[6] PGC Exhibit 3, PGC Exhibit 5.
[7] PA Statement 1.
[8] PGW Ex. 13; PA Ex. 1.

III. APPLICABLE LEGAL AND GOVERNANCE STANDARDS

A. MANAGEMENT AGREEMENT

The relevant standard for review and approval of PGW's proposed Operating Budget for FY 2027 is set forth in Section IV.2.(a) of the Agreement Between The City Of Philadelphia And the Philadelphia Facilities Management Corporation For The Management And Operation Of The Philadelphia Gas Works ("Management Agreement/Ordinance").[9]

> 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 the three (3) years next following. Such budget and forecast shall be prepared by [PFMC] with the aid of the Director of Finance; shall be consistent with the accounting methods prescribed in Section IV (1); and in general shall be in 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.[10]

The Management Agreement/Ordinance recognizes the linkage of the Operating Budget to PGW's plan for financing its capital improvement program.[11]

Further, Section IV.2.(c) provides that "[a]ll [PGW] expenditure[s] and commitments therefor shall be made pursuant to...approved budgets and subject to rules and regulations, if any, promulgated by the Gas Commission in connection therewith." In addition to review and approval

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[9] The Management Agreement was adopted by an ordinance passed by the City Council of Philadelphia on December 29, 1972 (Bill No. 455, as subsequently amended). The ordinance has statutory effect, School District of Philadelphia v. Zoning Board of Adjustment, 417 Pa. 277, 207 A.2d 864 (1965); Action Alliance, Etc. v. Philadelphia Gas Commission, 45 Pa. Cmwlth. 234, 241-42, 406 A.2d 1155, 1158 (1979).

[10] The Court of Common Pleas of Philadelphia County held that the Gas Commission's final Order in the FY 1994 Operating Budget proceeding was not an appealable adjudication within the meaning of the Local Agency Law, 2 Pa.C.S. §751 et seq (Tenants Action Group, Inc, et al v. Philadelphia Gas Commission et al, C.P. Phila. No. 9312-0828, Order dated April 20, 1994, Avellino, J.).

[11] Section IV.2.(b) (which sets out the requirements for preparation of an annual Capital Budget and Forecast and the requisite reviews by the Gas Commission and the Finance Director and approval by City Council) provides in pertinent part:

> The capital budget and forecast shall include a showing of the nature of the proposed capital additions and replacements, the amounts needed therefor and how the funds required are to be supplied as between
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> (i) funds generated within the business through charges to customers or otherwise; and
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> (ii) funds to be obtained through capital loans.

of PGW's budgets, the Commission is vested with the responsibility for the overseeing of the operation of the Gas Works by [PFMC] pursuant to Section VI.9.[12]

B. GAS WORKS REVENUE BOND ORDINANCES

The General Gas Works Revenue Bond Ordinance of 1975 (Bill No. 1871) ("1975 Ordinance") requires PGW to maintain a debt service coverage level of at least 1.5 times. In light of the enactment of the General Gas Works Revenue Bond Ordinance of 1998 (Bill No. 980232) ("1998 Ordinance"), PGW no longer issues bonds under the 1975 Ordinance.[13] The 1998 Ordinance maintains the 1.5 times debt service coverage requirement, but provides more financial flexibility and increases the coverage cushion through transitioning PGW from a parity lien structure to a senior/junior lien structure.[14] The 1975, 1998, and 2017 Bond Ordinances and the individual ordinances authorizing issuance of a specific series of bonds contain essentially the same definition of "Operating Expenses."[15] As set forth in the most recent ordinance authorizing the issuance of new revenue bonds, Bill No. 210684 (enacted on October 20, 2021) at Section 2.01 (Definitions):

> Operating Expenses means all costs and expenses of PGW necessary and appropriate to operate and maintain the Gas Works in good operable condition during each Fiscal Year, and shall include, without limitation, the Manager's fee, salaries and wages, purchases of service by contract, costs of materials, supplies and expendable equipment, maintenance costs, costs of any property or the replacement therefor for any work or project related to the Gas Works which does not have a probable useful life of at least five (5) years, pension and welfare plan and workmen's compensation requirements, provision for claims, refunds and uncollectible receivables and for City Charges, all in accordance with generally accepted accounting principles consistently applied, but shall

[12] Notwithstanding enactment of the Natural Gas Choice and Competition Act, 66 Pa.C.S. §2201 et seq. ("the Gas Choice Act"), the City retains its executive and legislative powers to "...determine the powers, functions, budgets, activities and mission of [PGW]..., including but not limited to, the ownership, governance, management or control thereof." 66 Pa.C.S. §2212(s).

[13] See FY 1999 Consolidated Budget Proceeding at PGW Exhibit 29 and Tr. 731. Pursuant to the authority provided by Bills No. 150159 and 150160 (both enacted March 26, 2015) PGW decided to refund and defease all bonds outstanding under the 1975 Ordinance in August 2015, "terminating the pledge and security interest granted by that Ordinance and prospectively rendering the rate covenant for bonds issued under the 1975 [Ordinance] moot." PGW Brief at 5, fn.8 (FY 2015 Operating Budget); Tr. 339-340 (FY 2015 Operating Budget).

[14] FY 1999 Consolidated Budget Proceeding at PGW Exhibit 29 and Tr. 731.

[15] There are slight differences in the wording of the definition of "Operating Expenses" between the 1975 General Bond Ordinance and the 1998 General Bond Ordinance, not germane here, which are identified in the City-PGW Brief regarding proposed sale advisors costs in the FY 2013 Operating Budget proceeding at page 3, fn. 1.

> exclude depreciation, interest and sinking fund charges. Operating Expenses shall not include Unrelated Expenses.[16]

In this same Section, "City Charges" is defined to mean "the proportionate charges, if any, for services performed for PGW by all officers, departments, boards or commissions of the City which are contained in the computation of operating expenses of PGW, including, without limitation, the expenses of the Gas Commission, and also means the base payments to the City contained in the Management Agreement and all other payments made to the City from Gas Works Revenues."[17] Also, "Unrelated Expenses" are defined to mean "expenses unrelated to the supply, manufacture, storage and distribution of gas or assets related thereto."[18]

C. GAS COMMISSION DIRECTIVES

The Commission has directed PGW to provide various reports, forecasts, studies, and procedures. When it acted on PGW's proposed FY 2026 Operating Budget, the Commission ordered PGW to file the following:

- Monthly financial reports in the same format as used for the FY 2025 reporting, by no later than the fifteenth (15^{th}) day of the succeeding month for each month in FY 2026;[19]
- Monthly collections status reports with a scope and in a form similar to the monthly reports filed for FY 2025, to include copies of any and all deliverables provided by any PGW consultants related to PGW's collections procedures and policies, including CRP program modifications;[20]
- Monthly "Detailed Metrics" reports regarding attaining of annual enterprise metrics and quarterly "Operating Statistics" reports with a scope and in the form agreed to with Gas Commission Staff pursuant to the direction provided by Ordering Paragraph 7 of the Commission's FY 2015 Operating Budget decision.[21]

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[16] See Bill No. 210684.
[17] Id.
[18] Id.
[19] In Re: Proposed FY 2026 Operating Budget and Related Matters, Order and Resolution at Ordering Paragraph 5 (Public Meeting Held August 12, 2025).
[20] Id. at Ordering Paragraph 6.
[21] Id. at Ordering Paragraph 7.

IV. DISCUSSION

A. PGW'S STABLE FINANCIAL OUTLOOK FOR FY 2027 REFLECTS FINANCIAL, MANAGERIAL, AND OPERATIONAL ACCOMPLISHMENTS AND CONTINUING DEVELOPMENTS.

PGW states that its present financial condition is stable considering financial, managerial, and operational accomplishments. PGW asserts that the following planned programmatic expenditures in the FY 2027 Operating Budget build upon these achievements and continuing developments:[22]

- PGW has maintained a 12-month collection rate of 91.8% through March 2026 and projects a 96% collection rate for FY 2027;[23]

- 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;[24]

- PGW's projected total operating revenues in FY 2027 are $759.049 million. Net income is stable at $162.876 million by year-end FY 2027; [25]

- PGW estimates debt service coverage on 1998 Ordinance Revenue Bonds at 2.44x and projects internally generated funds and incremental distribution system improvement charge ("DSIC") revenues of $115.3 million;[26]

- PGW's projects a debt-to-equity ratio of 46.9% by the end of FY 2027;[27]

- PGW expects to receive a $31.488 million federal grant in FY 2027 under the Natural Gas Distribution Infrastructure Safety and Modernization ("NGDISM") grant program, administered by the U.S. Pipeline and Hazardous Materials Safety Administration ("PHMSA") (hereinafter "PHMSA grant");[28]

- Pursuant to the recent authorization by the City to issue Gas Works Revenue Notes ("CP Notes")[29] and prior authorization for the issuance of Gas Works Revenue 16 Capital

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[22] PGW Comments at 3 (citing PGW Budget Filing at 5, Exhibit A-4 (Balance Sheet).
[23] Id. at 4 (citing PGW Budget Filing (Statement 1) at 36).
[24] Id. at 3 (citing PGW Budget Filing at 1, Exhibit A-1(Statement of Income)).
[25] Id. (citing PGW Budget Filing at 1, Exhibit A-1(Statement of Income)).
[26] Id. (citing PGW Budget Filing at 3, Exhibit A-2 (Cash Flow Statement)).
[27] Id. (citing PGW Budget Filing at 5, Exhibit A-4 (Balance Sheet)).
[28] Id. (citing PGW Budget Filing at 1, Exhibit A-1 (Statement of Income) and 19, Exhibit F (Capital Funding & Expenditures).
[29] Id. 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

Project Commercial Paper Notes ("Capital Project Notes"), PGW entered 17 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;[30] and

- 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.[31]

PGW states that these achievements and continuing developments, along with the pursuit of operational and financial improvements, will enable it to secure a better financial future for PGW customers.[32] These circumstances must inform the Commission's review and evaluation of PGW's FY 2027 Operating Budget proposal.

PGW also must fulfill its commitments to its investors.[33] In addition to the General Gas Works Revenue Bond Ordinance of 1998, approved May 8, 1998 (Bill No. 980232), as amended and supplemented ("1998 General Ordinance"), PGW has other legal obligations to bondholders.[34] These obligations have been "undertaken by the City and PGW together with other transactional commitments assumed with the issuance of PGW revenue bonds and the renewal of the commercial paper program" and include:[35]

- Paying all cash obligations including the costs of operating and maintaining PGW during each fiscal year in full when due;
- Paying interest and principal on outstanding revenue bonds, when due;
- Providing at least 1.5x coverage of the debt service on outstanding PGW revenue bonds after operating expenses have been met;

Inventory and Receivables Gas Works Revenue Note Ordinance of 2026 (Bill No. 260112, approved March 25, 2026).

[30] Id. The City previously authorized the issuance of Gas Workes 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).

[31] Id.

[32] PGW Comments at 4.

[33] PGW Comments at 4.

[34] Id.

[35] PGW Comments at 4.

- Paying principal and interest on subordinated bonds, including interest on the commercial paper; and
- Continuously maintaining in good condition and operating the Gas Works.[36]

PGW requests approval of its proposed FY 2027 Operating Budget in part to fulfill these legal obligations and financial obligations to its investors.[37]

B. PGW'S GAS REVENUE AND EXPENSE PROJECTIONS FOR FY 2027 ARE REASONABLE FOR BUDGETING PURPOSES.

PGW projects total Gas Revenues in FY 2027 of $763.532 million,[38] a $6.883 million or (0.89%) decrease from budgeted FY 2026 gas revenues of $770.415 million and a $65.192 million or (7.87%) decrease from FY 2026 estimated-actual revenues of $828.724 million.[39] Heating Revenues during the FY 2027 budget year are projected to total $635.386 million. [40] Sales to firm heating customers are projected to decrease by 3.0 Bcf resulting in a $55.2 million decrease in billed gas revenues in the FY 2027 Budget year.[41] Budgeted Natural Gas Expense for FY 2027 is $205.647 million, $32.515 million or (18.78%) higher than the FY 2026 budgeted expense ($173.132 million), and $32.016 million or (13.47%) lower than the FY 2026 estimated-actual expense ($237.663 million).[42] For budgeting purposes, the projected gas revenues and underlying gas price and sale projections are reasonable.

We therefore recommend that the Commission approve budgeted Gas Revenues of $763.532 million and a Natural Gas Expense of $205.647 million.

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[36] Id.

[37] Id. PGW also notes that a rate covenant is included in the City of Philadelphia Municipal Utility Inventory and 19 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.

[38] PGW notes that "the FY 2027 Budget Year 23 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." PGW Comments at 5.

[39] PGW Budget Filing at 1 (Exhibit A-1); PGW Supplemental Filing at 1.

[40] Id.

[41] FY 2027 Proposed Budget Direct testimony of Joseph Golden, William Gallagher & Stephen R. Schummer at p. 38

[42] FY 2027 Proposed Budget P. 1 Exhibit A-1.

C. FEDERAL GRANT

As stated above, PGW anticipates receiving a $31.488 million federal NGDISM grant in FY 2027 to support its main replacement program.[43] The NGDISM grant program was established through the Infrastructure Investment and Jobs Act signed by President Biden on November 14, 2021 and makes available $200 million a year to municipality or community owned utilities to repair, rehabilitate, or replace natural gas distribution pipeline systems.[44] The first grants were awarded in 2022 and the program will run for five years, with a total budget of $1 billion.[45]

D. RECOMMENDED ADJUSTMENTS TO THE FY 2027 BUDGET.

1. Adjustments Agreed Upon by PGW and the Advocate

PGW and the Advocate did not reach agreement on any adjustments in the FY 2027 Operating Budget proceeding.

2. Adjustments Recommended by the Public Advocate that Remain in Dispute

a. FEED Study

In compliance with the Commission's Resolution and Order In Re: PGW's Proposed FY 2027 Capital Budget, signed May 13, 2026, PGW included $4 million to conduct a front-end engineering and design study ("FEED").[46] According to PGW's testimony, such studies are needed for projects as complex as the proposed Richmond LNG project "to determine the scope, design and cost of the LNG project. Equipment specifications and regulatory requirements will also need to be evaluated as a part of the FEED studies."[47] According to PGW, during the FY 2025 Operating Budget proceeding, the need for a FEED study for the proposed Richmond LNG liquefier was discussed.[48] In the present proceeding, PGW cites those same arguments and presents further explanations to support its need for the requested dollar amounts in the present proceeding. According to PGW, $4 million is needed at this time as PGW plans to select two vendors to "submit a lump sum-turnkey cost for the new liquefier at the conclusion of the FEED … study."[49]

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[43] PGW Comments at 3 (referencing PGW Budget Filing at 1, Exhibit A-1 (Statement of Income) and 19, Exhibit F (Capital Funding & Expenditures)).
[44] See phmsa.dot.gov.
[45] Id.
[46] PGW Comments at 17.
[47] Id.
[48] See Tr. 17, FY 2025 Operating Public Hearing held June 27, 2024.
[49] Tr. 14-15.

In PGW's opinion, two studies/vendors are required so that "project details and costs … can be compared to ensure that PGW is getting the best product at a fair price."[50]

The Advocate, for its part, opposes the inclusion of this $4 million in the FY 27 Operating Budget for several reasons. First, the Advocate argued that based upon PGW's testimony during the FY 2025 Operating Budget proceeding related to the completion of a FEED study for the proposed LNG liquefier:

> If the Commission desires to approve a FEED study [in the present proceedings], it should limit the budget to the $2 million PGW previously identified. Indeed, as Mr. Morgan [the Advocate's witness] explained, this amount was based on PGW's estimate of 2% of the projected costs to purchase and install PGW's Richmond LNG plant. In that proceeding, PGW explained that its budget amount was based on industry estimates, adjusted for contingencies.[51]

According to the Advocate, PGW did not reveal that it intended to conduct two separate FEED studies for the same project until the June 24, 2026 Public Hearing.[52] Until that point, the Advocate states that PGW had only spoken of a single FEED study, and not the two (2) that it was now proposing at the Hearing.[53] Further, this "surprise disclosure that two FEED studies were contemplated was not accompanied by any explanation of the need or basis for duplicative consulting work."[54] Taken together, the Public Advocate argues that what it describes as PGW's failure to provide a clear and substantiated explanation of its proposal, as well as its failure to disclose that it contemplated two studies instead of one, is "inexplicable and demonstrates bad faith" on PGW's part as such explanations should have been provided at the beginning of these proceedings and not at the Public Hearing stage.[55]

The Advocate further argues that, notwithstanding the questions surrounding the cost and need for two FEED studies, "the Commission's desire for an Environmental Impact Study ("EIS") to inform its consideration of PGW's Richmond LNG project indicates even a single FEED study would be premature at this point."[56] According to the Advocate, an "EIS could provide additional insights as to the relative environmental risks (and associated costs) that could be avoided and

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[50] Id.
[51] PA Brief at 5.
[52] Id.
[53] Id.
[54] Id. at 6.
[55] Id.
[56] Id. at 6-7.

inform alternative studies."[57] Additionally, the Advocate argues that it remains unclear how the proposed LNG liquefier squares with the City's commitment to carbon neutrality by 2050 and PGW's own commitment to its Low Carbon Pathways project.[58] In the Advocate's estimation, all of this taken together "indicates a strong likelihood that approval of PGW's FEED study would fund consulting work regarding a capital project that may not be undertaken … [placing] a $4 million stranded cost burden on PGW's ratepayers."[59] For these reasons, the Advocate urges the Commission to deny PGW's request for $4 million to fund the FEED study or alternatively, only approve $2 million for the proposed FEED study.[60]

The Hearing Examiners recognize the arguments and positions put forth by both PGW and the Advocate. However, as the order for PGW to undertake a FEED study came directly from the Commissioners themselves, it would be inappropriate for the Hearing Examiners to substitute their judgement and recommend that the Commissioners reject their prior Order or make modifications to the same. Should the Commissioners wish to alter their order from the May 12, 2026, Commission Meeting based upon the arguments made by either party, they have the authority to do so.

Therefore, the Hearing Examiners decline to overturn the Commissioners' direct order in this matter.

b. Environmental Impact Study

The Commission's Resolution and Order In Re: PGW's Proposed FY 2027 Capital Budget, signed May 13, 2026, ordered PGW to include $1 million in the proposed FY 2027 Operating Budget for the completion of an EIS, which PGW included in a revised budget filing on June 8 2026.[61] During this proceeding, clarification was sought by both PGW and the Public Advocate on the intended nature of this study, and in a response, the Commission informed the parties that the EIS was intended to be a full life-cycle study[62] and that it was to be conducted in accordance with the best practices articulated by the International Association for Impact Assessments.[63]

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[57] Id. at 7.
[58] Id.
[59] Id.
[60] Id.
[61] TR p. 57 from the May 12, 2026 Philadelphia Gas Commission Meeting.
[62] See, PGC Response to OB-ID-1 dated June 29, 2026.
[63] See, PGC Response to TR-5.

For its part, PGW argues that it is too early in the project timeline to undertake an EIS or "even establish appropriate study criteria at this time."[64] According to PGW, it would be "imprudent to undertake a costly environmental impacts study for a project whose parameters are not yet fully defined."[65] In other words, it is PGW's belief that it should first conduct the FEED study, then pursue an EIS based upon the plans that develop as a result of that process. PGW therefore requests that the $1 million included in the FY 2027 Operating Budget be rejected at this time.[66]

The Advocate agrees with PGW that the Commission's Resolution and Order were unclear and also argues that even with the clarification obtained from the Commissioners by the Hearing Examiners during the present Proceeding,[67] the expectations for this study remain unclear. For example, while the Commission's response to TR-5 indicated that it expected "PGW to conduct a full life cycle [EIS] of the proposed Richmond LNG Liquefier…using the best practices articulated by the International Association for Impact Assessment ['IAIA'],"[68] the Advocate points out that the "gold standards" for life cycle assessments have been promulgated by another organization, the International Organization for Standardization ("ISO").[69] However, unlike PGW who urges the Commission to reject the funding at this time, the Advocate, for its part, does not argue for the rejection of this proposed funding, but rather urges the Commission to make said funding conditional "until [the Commission] is satisfied that PGW's scope of work and proposal for the EIS is sufficiently detailed and satisfactorily aligns with the Commission's goals."[70]

The Hearing Examiners recognize the arguments and positions put forth by both PGW and the Advocate. However, as the order for PGW to undertake an EIS came directly from the Commissioners themselves, it would be inappropriate for the Hearing Examiners to substitute their judgement and recommend that the Commissioners reject their prior Order or to make

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[64] PGW Comments at 24.
[65] Id.
[66] Id.
[67] See, OB-Id-1 and TR. 5.
[68] PA Brief at 9, citing PGC Response to TR-5.
[69] It is worth noting here that the Hearing Examiners chose to reference the IAIA due to the Advocate's citation to this organization in its Testimony. See, PA St. 1 at 8.
[70] PA Brief at 10.

modifications to the same. Should the Commissioners wish to provide further clarification on the areas highlighted by both parties, they have the authority to do so.

Therefore, the Hearing Examiners decline to overturn the Commissioners' direct order in this matter.

c. Payroll and Labor Expenses

The proposed FY 2027 Operating Budget includes labor and payroll expenses of $178.6 million based on an average personnel level of 1,637 full-time employees ("FTEs").[71] PGW asserts that this staffing level is reasonable and attainable, noting that as of June 22, 2026, PGW had reached 1,624 FTEs and was actively hiring to close the remaining gap.[72] PGW further contends that the proposed headcount mirrors the staffing level approved by the Commission in the FY 2026 Operating Budget and reflects anticipated needs associated with attrition, retirements, and ongoing operational initiatives.[73]

PGW disputes the Advocate's recommendation to reduce its headcount (and resulting budget), arguing that the Advocate relied on outdated headcount information that did not reflect the significant hiring progress made in June 2026.[74] PGW emphasizes that the variance between current staffing (1,624 FTEs) and the proposed 1,637 FTE level had already narrowed by the time of the public hearing.[75] PGW also notes that planned cadet classes in FY 2027 are expected to add 50 or more FTEs, offsetting attrition and supporting attainment of the proposed staffing level.[76]

The Public Advocate recommends a downward adjustment of $3.877 million, premised on applying a 2% vacancy rate to PGW's proposed staffing level.[77] The Advocate argues that PGW has not demonstrated an ability to maintain an average of 1,637 FTEs in recent fiscal years.[78] As shown in the Advocate's testimony, PGW's average headcount was 1,615 FTEs in FY 2025, and 1,613 FTEs for the first nine months of FY 2026.[79] The Advocate notes that PGW has not reached 1,637 FTEs in any month of FY 2025 or FY 2026, and that PGW's hiring recovery following

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[71] PGW Comments at 13.
[72] Id.
[73] Id.
[74] Id. at 13.
[75] Id.
[76] Id. at 14-15.
[77] PA Brief at 11.
[78] Id.
[79] Tr. at 78-79; Id. at 11.

annual retirements is slow, often taking many months.[80] Further, the Advocate asserts that even if PGW reaches 1,637 FTEs at some point during FY 2027, predictable attrition will prevent PGW from maintaining that level on average.[81] The Advocate therefore recommends adjusting the budget to reflect a more realistic staffing level of 1,609 FTEs, resulting in the proposed $3.877 million reduction.[82]

The Hearing Examiners have repeatedly accepted and incorporated PGW's projected staffing levels into operating budget recommendations, including workforce targets approaching or reaching 1,637 full-time employees. However, despite receiving approval for labor expense levels based on these staffing assumptions year after year, PGW has consistently failed to achieve the authorized headcount. Recent personnel data submitted by PGW, including the data provided in response to TR-6, demonstrate that PGW's average headcount has remained materially below the proposed level and that attrition, retirements, and hiring lag continue to place downward pressure on staffing. As a result, PGW's labor expense forecasts are based on an employee level that has not been realized in practice. The Commission should therefore recognize that historical experience does not support the assumption that PGW will reach and maintain 1,637 employees in FY 2027 and should give greater weight to actual staffing performance rather than continually approving labor expense levels tied to workforce targets that PGW has repeatedly been unable to attain.

At the same time, the Hearing Examiners do not find that the full 2% vacancy adjustment proposed by the Advocate is supported by the record. PGW has recently narrowed the gap between actual staffing and the proposed 1,637 FTE level, and PGW presented evidence of continued hiring efforts, including planned cadet classes intended to offset attrition. While that evidence does not justify rejecting a vacancy adjustment altogether, it supports a more measured reduction than the Advocate proposes. A 1% vacancy adjustment therefore strikes the appropriate balance because it recognizes PGW's progress toward its staffing target while also reflecting the historical reality that PGW has not sustained the full proposed level on an average annual basis.

For the reasons stated above, the Hearing Examiners recommend that PGW's labor and payroll expense be reduced to reflect a 1% vacancy rate. This adjustment results in a staffing

[80] Id.
[81] Id.
[82] Id.

level of approximately 1,621 FTEs for budgeting purposes and represents a reasonable compromise between the Public Advocate's proposed 2% reduction and PGW's request for full funding at 1,637 FTEs. The 1% vacancy rating results in a downward adjustment to Labor and Fringe Benefits of $1,938,526.

d. Excess Liability Insurance

In its proposed FY 2027 Operating Budget, PGW requested $5.281 million for excess liability insurance coverage, an increase of $236,000 over the approved FY 2026 budget amount.[83] PGW asserts that excess liability coverage is mandatory and must be secured each fiscal year, and that the FY 2027 budget estimate reflects observed market conditions and input from PGW Risk Management staff and insurance brokers.[84] PGW requests immediate spending authority so that it may negotiate and bind coverage in a timely manner without an additional step to obtain release of conditional funding.[85]

PGW opposes conditional funding for this budget request. PGW acknowledges that negotiations with insurance providers will determine the actual cost of coverage but argues that such uncertainty is inherent in the budget process and exists in every fiscal year.[86] PGW also argues 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.[87] PGW emphasizes that it has historically negotiated, and will continue to negotiate, to obtain the lowest reasonable cost for excess liability insurance coverage.[88]

The Advocate recommends that the $236,000 increase be approved only as conditional funding.[89] The Advocate's recommendation is premised on the 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.[90] The Advocate further notes that the Commission applied a conditional funding limitation to excess liability insurance in the FY 2026 Operating Budget proceeding and argues that the same approach should apply here, with the

[83] PGW Comments at 19.
[84] Id.
[85] Id. at 20
[86] Id. 19-20.
[87] Id. at 20.
[88] Id.
[89] PA Brief at 13.
[90] Id.

additional limitation that the amount released should not exceed the actual premium costs incurred by PGW.[91]

The Hearing Examiners continue to find that cost uncertainty constitutes an appropriate and valid basis for conditional funding. PGW's need for excess liability insurance coverage is not in dispute. However, the amount of the proposed increase is not based on final premiums or binding quotes; it is an estimate made before the renewal process is complete. As in the FY 2026 Operating Budget proceeding, tying release of the incremental budget authority to a notice filing will preserve PGW's ability to secure required coverage while ensuring that the Commission has sufficient information to confirm the actual cost of that coverage.[92]

The Hearing Examiners acknowledge PGW's concern that insurance coverage must be bound in a timely manner and that negotiations may proceed quickly. However, in arguing against once again making these funds conditional as was done in the FY 2026 Operating Budget, nowhere does PGW allege that the conditional nature of those funds during the last fiscal year budget hindered its ability to negotiate and bind the needed insurance in a timely manner. A streamlined letter notification requirement does not prevent PGW from negotiating or selecting coverage. Rather, it provides an accountability mechanism for release of the incremental funding after PGW knows the selected provider or providers and the premium amounts. Therefore, the Hearing Examiners reject PGW's characterization of the notification requirement as being "unnecessary" and a "distraction."[93]

Because PGW concedes that the final premium will not be known until negotiations are complete,[94] the Commission cannot determine in advance whether the full increase will be necessary, reasonable, or prudent. Requiring PGW to identify the selected provider or providers and the final premium amount after negotiations are complete is therefore not an impediment to negotiation; it is the minimum information needed to confirm whether conditional spending authority should be released and in what amount.

Accordingly, the Hearing Examiners recommend that the proposed $236,000 increase for excess liability insurance coverage be approved as conditional funding, subject to release upon

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[91] Id.
[92] *See* FY 2026 Operating Budget Recommended Decision at 25.
[93] PGW Comments at 20.
[94] Id. at 19.

PGW's notification by letter to the Commission that it has selected the insurance provider or providers. The letter should be sent promptly upon selection and should identify the provider or providers and the applicable premium amounts. The amount released from conditional funding should not exceed the actual premium cost associated with the selected coverage.

e. Environmental Remediation

In its proposed FY 2027 Operating Budget, PGW requested a $2.0 million for environmental remediation at its 9th and Diamond Street property. PGW argues that $2.0 million is a prudent estimate "albeit a worst case scenario."[95] PGW requests immediate spending authority for this expense, citing "regulatory compliance concerns."[96] PGW argues 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 assess the site.[97]

PGW states that its budget request, while a worst case scenario, is "a realistic estimate of the cost of environmental remediation at the site."[98] PGW further explains that it "has an obligation to be prepared to immediately address a mobile and volatile contaminant should they find this problem at the site."[99] PGW contends that the Advocate's conditional spending authorization recommendation is "largely unexplained and lacks sufficient record support."[100] For these reasons, PGW urges the Commission to approve the requested $2.0 million for environmental remediation with immediate spending authority.[101]

The Advocate urges the Commission to approve the $2 million environmental remediation budget request as conditional funding, subject to PGW providing "its projected expenditures based on its' consultants' findings."[102] In support of its conditional funding proposal, the Advocate points out that PGW has acknowledged it cannot determine the scope of the work until its consultants complete their review, which will be two or three months from now.[103] The Advocate also notes that PGW's witness described the $2.0 million request as "the 'upper-limit ceiling for a worst-case

[95] PGW Comments at 24-25.
[96] Id. at 24.
[97] Id.
[98] Id. (citing Tr. 74 (testimony of PGW witness Kevin Grooms).
[99] Id. (citing Tr. 72-72 (testimony of PGW witness Kevin Grooms).
[100] Id.
[101] Id.
[102] PA Brief at 15-16.
[103] Id.

scenario.'"[104] The Advocate further notes that PGW did not identify any specific regulatory basis that would support immediate spending authorization for this project, arguing that no such basis exists.[105] The Advocate concludes that the Commission should not approve the requested $2.0 million with immediate spending authorization because it is almost certain that the project will not be a worst-case scenario, requiring the full amount.[106] Instead, the Advocate, asserts that the $2 million should be approved on a conditional basis only.[107]

The Hearing Examiners agree with the Advocate's recommendation to approve the expense on a conditional basis and agree with the Advocate's argument that the cost uncertainty, combined with the lack of regulatory basis supports conditional funding.[108] The Hearing Examiners also agree with the Advocate that it would be imprudent to authorize the full $2.0 million with immediate spending authority because the full amount would only be required in a worst-case scenario, which is unlikely to happen.[109] The Hearing Examiners concur with the Advocate that no regulatory citations were provided by PGW in support of this request. PGW references regulatory compliance concerns multiple times in its argument and testimony, but provides no details, such as which regulatory agency and which statutes or regulations. Such citations would have been useful in persuading the Hearing Examiners, and ultimately the Commissioners, that PGW does indeed require immediate spending authority for this request. For these reasons, the Hearing Examiners agree with the Advocate that PGW's request should be approved on a conditional funding basis.

Accordingly, the Hearing Examiners recommend that the proposed $2.0 million for excess environmental remediation be approved as conditional funding, subject to release upon PGW providing to the Commission its projected expenditures based on the consultants' findings. Further, only that portion of the conditional funds necessary to complete the required work shall be released.

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[104] Id. at 15 (citing Tr. at 72).
[105] Id. at 16.
[106] Id.
[107] PGW Comments at 24-25/
[108] PA Brief at 15-16.
[109] Id.

f. Information Services

PGW has included $1.895 million in funding for Special Legal expenses based upon PGW's proposed FY 27 Operating Budget for its Information Services ("IS") Department. These funds include planned spending of $37.793 million for expenses such as labor, purchased services, general materials, equipment,, and software.[110] PGW maintains that this budget is routine, similar to those that have been approved in prior years, and should be approved with immediate spending authority.[111]

According to PGW, the Advocate incorrectly contended in its testimony that multiple IS Department budget requests, totaling $11.715 million, were unsupported by the record.[112] According to PGW, each expenditure flagged by the Advocate in its testimony were either business as usual operating needs or end-of-life replacement purchases.[113] PGW also notes that it explained in detail why each expenditure flagged by the Advocate was necessary.[114] PGW similarly explains that the remaining expenditures flagged by the Advocate are routine budget items, software subscription renewals, normal annual operating expenses for the Department, or duplicative listings.[115] In conclusion, PGW argues that its proposed IS budget should be approved in full with immediate spending authority, due to nature of the expenses, as well as the errors in the Advocate's proposed adjustment.[116]

The Advocate contends that PGW failed to provide adequate support for its IS budget request and thus recommends approval with conditional funding for a portion of it.[117] The Advocate initially argued that $11.715 million of the IS budget should be conditional but subsequently reduced its recommendation to $8.315 million after PGW pointed out redundancies and errors in the Advocate's proposed adjustment. [118] The Advocate argues that these expenses should be approved only as conditional funding because PGW failed to provide support for them, and they should only be released upon PGW supplying vendor quotes, invoices, or other

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[110] PGW Budget Filing at 127.
[111] PGW Comments at 20-23.
[112] Id. at 21-23.
[113] Id. at 21.
[114] Id. at 21-22.
[115] Id.
[116] Id. at 23.
[117] PA Brief at 16-18.
[118] Id. at 17.

supporting documentation.[119] Finally, the Advocate argues that "PGW is not entitled to a presumption that its budget is reasonable."[120] The Advocate stresses that PGW again failed to provide meaningful supporting documentation during the course of this proceeding; therefore, conditional funding is necessary.[121]

The Hearing Examiners share some of the Advocate's concerns about lack of substantive information provided in response to the Advocate's discovery requests and agree that "[r]outine expenses are not exempt from review."[122] The Advocate raises an important point about the lack of substantive information, particularly in the discovery portion of the proceeding. While the Hearing Examiners do not agree this necessitates conditional funding, it does warrant additional reporting. The Hearing Examiners also understand the Advocate's frustration with the lack of detail provided in response to its discovery requests during the proceeding and recommend that the Commission order PGW to prepare future budgets based on the recommendations detailed below.

Therefore, the Hearing Examiners recommend: that PGW's $37.793 million Information Services Department budget be approved with immediate spending authorization; that this Commission order PGW to provide quarterly reports including invoices or purchase orders for its Field laptops, desktops, laptops and nano PCs and hardware and software purchases made during that quarter, including subscription renewals as well as expenditures related to the contracted system and network engineer consultants. The Hearing Examiners also recommend that the Commission order PGW to develop its operating budgets using reliable, specific and articulable information, such as invoices or quantifiable cost projections.

[119] Id. at 17 (citing PA St. 1 at 11).
[120] Id. at 18.
[121] Id.
[122] Id. While arguing for partial conditional funding, the Advocate points to the cancellation of the second Informal Discovery Meeting, scheduled for June 11, as one of the reasons that it feels it did not receive sufficient documentation to support PGW's proposed expenditures in this area. It must be noted that this meeting was cancelled only after consultation with and agreement of the Advocate. If at any time the Advocate had objected to cancelling the meeting, the Hearing Examiners would have insisted that the meeting go forward. See email from Public Advocate to Executive Director McClendon dated June 10, 2026 wherein the Public Advocate stated that it was okay cancelling the meeting provided that it could engage in informal discovery by phone; See also email from Executive Director to the Public Advocate dated June 10, 2026 wherein the Executive Director informed PGW that the meeting could be cancelled provided that the Advocate agreed. While the Hearing Examiners acknowledge that PGW initiated the meeting cancellation due to lack of witnesses, the Advocate's portrayal of the cancellation lacks important detail.

g. Special Legal

PGW has included $1.865 million in funding for Special Legal expenses based upon anticipated needs in FY 2027 as projected by the Legal Department.[123] PGW argues that "expenditures for litigation and related matters vary based upon the circumstances presented in a given year."[124] PGW indicated that, out of necessity, "the budget must reflect a fresh set of circumstances that are presented for each fiscal year."[125] For these reasons, PGW argues that the $1.865 million budgeted for Special Legal is reasonable and should be approved.

According to PGW, Special Legal is unlike other Operating Budget areas in that PGW must budget 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.[126] PGW argues that the Advocate, as it has for at least ten (10) fiscal years, calls for the Commission to reduce PGW's proposed Special Legal budget, this year suggesting the elimination of $1.623 million in proposed funding in this area, and that the Advocate's repeated insistence on relying principally upon prior spending is misplaced.[127] According to PGW, the Advocate's proposal is based upon its insistence that the budget in this area be determined based upon a comparison of the four-year average of actual spending from FY 2022 through FY 2025 to the corresponding FY 2027 budgeted amounts, a methodology that PGW disagrees with given the specialized nature of the Special Legal budget category. Further, PGW argues that the Advocate's position fails to take into account potential litigation and regulatory challenges that may arise during the fiscal year.[128] PGW also points to the Commission's past precedent on this issue and urges the Commission to once again reject the Advocate's annual call to reduce the budget for this area and instead approve PGW's proposed budget without adjustment

The Advocate argues that PGW's Special Legal budget remains a recurring source of excess spending authority and should be reduced by $1.623 million based on their review of the most recent four years of actual expenditures.[129] In the Advocate's view, PGW has not needed to spend the amount included in its Special Legal budget in any year for more than twenty-five (25)

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[123] PGW Comments at 9.
[124] Id. at 10.
[125] Id.
[126] TR. 39-40.
[127] PGW Comments at 11.
[128] Id. at 12-13.
[129] PA Brief at 19.

years, and the budget continues to repeat amounts year after year without sufficient regard to actual spending or identified needs.[130] The Advocate also contends that reducing the Special Legal budget would not impair PGW's ability to respond to legal matters because PGW's Operating Budget is not administered as a strict line-item budget, and amounts budgeted for expenses that do not materialize may be used for other purposes, including Special Legal matters.[131]

The Advocate further asserts that PGW's Special Legal budget is not data-driven or realistic.[132] It points to PGW's continued inclusion of $800,000 for Miscellaneous Special Projects, which PGW acknowledged was a placeholder not tied to any specific identified project, and argues that PGW's proposed budget fails to adjust for known matters such as the potential Richmond LNG project.[133] The Advocate also highlights PGW's historical under-budgeting for Eckert Seamans, stating that over the four years reviewed, PGW budgeted only $100,000 for those services but incurred more than $2.85 million in fees, which the Advocate characterizes as evidence that PGW has not seriously evaluated its Special Legal needs.[134]

Finally, the Advocate relies on categories such as Toxic Torts, Landlord and Other Liens, and General Litigation, asserting that PGW incurred no expense in those Special Legal categories over the last four years reviewed while continuing to include the same combined $300,000 for them in the FY 2027 budget.[135] If the Commission does not adopt the proposed reduction, the Advocate asks the Commission at least to direct that future Special Legal budgets be built from actual prior-year expenditures, identified matters requiring representation in the budget year, and a single contingency not exceeding twenty-five percent of average historical expenditures.[136]

Prior Recommended Decisions and Commission approvals have repeatedly declined to reduce Special Legal budgets based solely on historical underspending. The FY 2016 Operating Budget Recommended Decision is the clearest statement of that precedent: it treated Special Legal as a budget area driven by year-specific legal circumstances and potential unknowns, rather than by a mechanical average of past expenditures.[137] The Hearing Examiners further recognized that

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[130] Id. at 20-21
[131] Id. at 20.
[132] PA Brief at 19.
[133] Id. At 21.
[134] Id. At 22.
[135] Id. 22-23.
[136] Id. at 19.
[137] See Recommended Decision (2016) at 20, 26.

each year's budget reflects a fresh set of circumstances and potential unknowns, and that while historic spending can provide background for an informed judgment, it does not provide the sole or strongest basis for setting the Special Legal budget. Subsequent decisions have applied that same reasoning.[138]

The Advocate has raised similar adjustments in prior budget proceedings through several approaches, including reliance on prior-year estimated actual spending, multi-year averages, percentage reductions, and fixed-dollar reductions, and each recommendation has been rejected. The Advocate has not advanced any new arguments that would persuade the Hearing Examiners to recommend that the Commission overturn years of Commission precedent to reduce the proposed amount of this budget category in PGW's FY 2027 Operating Budget. Instead, the Advocate offered substantially the same argument that the Hearing Examiners and, ultimately, the Commission, have rejected for many years: that the Special Legal budget should be reduced based upon historical underspending and average prior-year expenditures. The Hearing Examiners remain of the belief that, unlike other areas of PGW's Operating Budget, the allocation for Special Legal cannot be set simply by analyzing spending in previous fiscal years. PGW's fiscal year spending on Special Legal is determined by circumstances outside of PGW's control, including new regulatory developments, litigation brought against PGW, employment-related disputes, environmental issues, or other matters requiring specialized representation. It is unrealistic to expect PGW to predict with precision what legal matters it will have to address in any given fiscal year. Further, it would be unfair to hamstring PGW's ability to respond to matters requiring specialized legal representation simply because such representation was not needed, or was needed in different amounts, in prior years.

The record illustrates why a mechanical historical-average approach is inadequate. Although the Advocate notes that certain Special Legal categories such as Toxic Torts, Landlord and Other Liens, and General Litigation had little or no recorded spending during the reviewed period, the Advocate also acknowledges that PGW incurred substantial Special Legal expenses in other areas not neatly captured by those budget categories, including significant costs associated with Eckert Seamans. This confirms that legal needs can shift among matters, firms, and categories in ways that are difficult to forecast when the budget is prepared. The Advocate's point that PGW's

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[138] PGW Comments at 11-12.

Operating Budget is not a strict line-item appropriation further undercuts the requested reduction: reducing the Special Legal line item would not necessarily provide the claimed ratepayer protection but would instead remove dedicated spending authority from a category where PGW may need to respond quickly to matters outside its control.

As the Hearing Examiners and Commission have previously found, Special Legal is a separate and distinct budget category that must take into consideration circumstances that PGW cannot necessarily predict or control. Given this reality, the Special Legal budget warrants a different standard than those applied to other Operating Budget categories. PGW should continue, in future budget filings, to identify known matters, anticipated proceedings, and the basis for major Special Legal budget categories to the extent feasible. However, the record in this proceeding does not justify a $1.623 million reduction to a budget category intended to preserve PGW's ability to secure specialized legal services when needed.

Therefore, the Hearing Examiners recommend that the Commission reject the Advocate's proposed $1.623 million downward adjustment and approve PGW's proposed FY 2027 Special Legal budget of $1.865 million.

h. Research America

PGW has proposed a purchased service expense of $350,00 within its Customer Service Department.[139] This amount represents an increase over the FY 2026 estimated spend in this category, but a $100,000 decrease in the approved FY 2025 and FY 2026 budgets in this area.[140] PGW states that this figure is based upon information it obtained during its budget preparation process as well as during the preparation of an RFP to select a vendor for its customer satisfaction surveys.[141] According to PGW, it believes 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."[142] Further, PGW argues that it "must have [full] budget authority to issue the RFP and negotiate a contract with the successful vendor."[143]

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[139] PGW Comments at 25.
[140] Id.
[141] Id. at 25-26.
[142] Id. at 25.
[143] Id.

The Advocate argues that of the $350,000 proposed for this cost silo, $100,000 should only be approved as conditional funding.[144] According to the Advocate, the need for a $100,000 increase is not known at this time and will not be known until the conclusion of its RFP process.[145] The Advocate discounts PGW's testimony that "'natural inflationary increases' would result in higher prices"[146] as well as PGW's testimony on its experience with a "smaller vendor on a smaller scale project" and its testimony that Research America, the incumbent on this contract, had informed PGW that its work for PGW was becoming more expensive for Research America to provide.[147] According to the Advocate, "the cost in FY 2027 for customer experience surveys will not be known until PGW completes the RFP process and selects its vendor. As a result, the $100,000 remains speculative…and the Commission should approve conditional funding for the $100,000 increase."

The Hearing Examiners commend PGW on the overall reduction in this area's proposed fiscal year operating budget. However, we are persuaded by the Advocate's argument that the projected $100,000 increase in this area is speculative at best. PGW's negotiations could go any number of ways, and the Advocate's proposal does not hinder PGW's ability to enter into a $350,000 contract but rather ensures that the approved budget amount ultimately matches the final negotiated contract. And as discussed in Section _D.2.d._ above, the Hearing Examiners do not find, nor has PGW alleged, that the Commission requiring a simple letter notification upon the conclusion of PGW's negotiation of a new contract represents an undue burden that hinders PGW's ability to bind and enter into a contract.

Therefore, the Hearing Examiners recommend categorizing $100,000 of this area's $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. This notice shall include the name of the selected vendor and the final dollar amount of the negotiated contract. Further, only that portion of the conditional funds necessary to fully fund the negotiated contract shall be released upon receipt of this notification.

i. Government Relations

As in past years, PGW's proposed FY 2027 Operating Budget includes $100,000 in purchased services expenses for government relations/lobbying expenses, an amount that "is the

[144] PA Brief at 23.
[145] Id. at 24.
[146] PA Brief at 24, citing Tr. at 102.
[147] Id. at 24.

same, in its amount and purpose, as requested in prior budgets."[148] And as in prior years, the Public Advocate recommends excluding these expenses from PGW's budget.[149]

PGW argues that the Advocate's position should be rejected and notes that its lobbying expenses are permitted under the Management Agreement and also produce results that benefit its customers.[150] PGW states that some of these customer benefits include 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.[151] Addressing the Advocate's rate case argument, PGW disagrees and contends that PUC ratemaking conventions are not relevant.[152]

PGW points to the Commission's prior decisions on whether PUC ratemaking guidelines should be applied in this analysis. Specifically, PGW cites the Recommended Decision in the FY 2016 Operating Budget, adopted by the Commission, which stated the following:

> 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.[153] [Emphasis supplied]

PGW argues that the Advocate's position is incorrect and notes that the Commission has rejected the Advocate's similar proposed adjustments in this area since FY 2006.[154]

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[148] PGW Comments at 15.
[149] PA Brief at 25-26.
[150] PGW Comments at 15-16.
[151] PGW Comments at 16, FN 73.
[152] Id. at 15.
[153] Id. at 16.
[154] Id. at 15, FN 67.

In arguing against the inclusion of these expenses in the FY 2027 Operating Budget, the Advocate raises five arguments.[155] First, the Advocate argues that these expenses are unnecessary to the provision of utility service, and their nonpayment does not affect the provision of utility services.

Second, the Advocate contends that these expenses encourage spending on activities whose costs cannot be recovered via gas rates due to PUC policy. According to the Advocate, in reviewing PGW's rate case, the PUC disallowed lobbying expenses to be included in PGW's revenue requirements.[156]

Third, the Advocate asserts that PGW has not lobbied in line with the City's climate goals.[157] In support of this argument, the Advocate cites to its witness' testimony, which cites an article from 2021 that accused PGW of being involved with legislation supporting electrification (Senate Bill 275).[158]

Fourth, the Advocate states that PGW's lobbying is "duplicative of efforts undertaken" by other trade groups (such as the Energy Association of Pennsylvania and American Gas Association). The Advocate asserts that these trade groups "conduct legislative and governmental advocacy that support the natural gas sector."[159]

And finally, according to the Advocate, approving the PGW's lobbying budget "directly contradicts the Commission's expressed desire for City and State cooperating regarding PGW rates."[160] In support of this argument, the Advocate cites to the Vice Chair's August 12, 2025 statement "[w]e're committed to being a dependable resource and hope that we can collaboratively work with PGW, PFMC, and the PUC as part of the rate review process."[161] The Advocate contends that approving lobbying expenses is inconsistent with the Vice Chair's statement.[162]
For these reasons, the Advocate argues that the Commission should deny PGW's government relations budget in its entirety.

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[155] PA Brief at 25-26.
[156] PA Brief at 25 (citing Pa. PUC v. PGW, Docket No. R-2023-3037933, Opinion and Order at 62).
[157] Id. (citing PA. St. 1 at 16, which cites to an article that appeared on whyy.org in 2021).
[158] PA Brief at 25 (citing PA St. 1 at 16).
[159] Id. at 25.
[160] Id. (citing the Gas Commission's August 12, 2025 Mtg Part 4, Tr. at 8).
[161] Id. at 26 (citing August 12, 2025 Mtg Part 4, Tr. at 8).
[162] Id.

The Hearing Examiners agree with PGW that the Advocate's arguments regarding PUC ratemaking and customer benefits are contrary to the Commission's longstanding rationale on this issue, dating back as far as 20 years. In the FY 2016 Operating Budget, the Hearing Examiners found that "[t]he 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."[163] More recently, in the FY 2025 Operating Budget proceeding, the Hearing Examiners found that "[t]his Commission has consistently found that a nexus exists between the reasonableness of government relations/lobbying expenses to conduct the Company's business and the resulting customer benefits."[164] The Hearing Examiners also acknowledge that lobbying expenses are permissible under the Management Agreement. The Hearing Examiners are not persuaded to accept the Advocate's arguments to the contrary, which this Commission has rejected for 20 years.

Turning to the Advocate's argument that PGW's lobbying is inconsistent with the City's climate goals, the Hearing Examiners once again recommend rejection of this claim. Specifically, in the FY 2024 Operating Budget proceeding, the Hearing Examiners analyzed this contention in detail and rejected it, citing the testimony of PGW's CEO Seth Shapiro during a City Council hearing.[165] The Hearing Examiners noted that in testimony before City Council's Committee on Finance and Transportation and Public Utilities' on February 9, 2022, Mr. Shapiro stated that "[PGW] didn't push for [Senate Bill] 275"[166] and further explained "that PGW did not provide any line item edits on the bill, but rather one PGW employee offered his comment on a definition of energy [after being asked for his input], which a public servant is obligated to do as a subject matter expert."[167] Based on these facts, the Commission rejected the Advocate's contention that PGW used its lobbying efforts to support Senate Bill 275, which is the basis for the Advocate's resurrected argument that PGW is not lobbying consistent with the City's climate goals. The Hearing Examiners note that the only example the Advocate cited in support if its argument is a debunked comment on a definition from nearly five years ago. The Hearing Examiners find that

[163] FY 2016 Operating Budget Recommended Decision at 23-24.
[164] FY 2025 Operating Budget Recommended Decision at 18-19.
[165] FY 2024 Operating Budget Recommended Decision at 20 (citing Transcript of Committee on Finance and Transportation and Public Utilities, February 9, 2022, at pages 77-90).
[166] Id. at 87.
[167] Id. at 87-90.

the Advocate has not presented any new facts in support of this argument and recommend that this Commission reject it, consistent with prior Commission precedent.

This year, the Advocate also raises several new arguments in support of its decades long position against government relations/lobbying expenses. The Hearing Examiners similarly do not find these new arguments set forth by the Advocate during this proceeding persuasive, as discussed below. First, the Hearing Examiners reject the Advocate's argument that approving the PGW's lobbying budget "directly contradicts the Commission's expressed desire for City and State cooperation regarding PGW rates."[168] The Hearing Examiners do not agree with the Advocate's contention that approval of PGW's government relations budget "effectively undermines the PUC's rate determination."[169] The Hearing Examiners agree with PGW that the correct review standards are set forth in the Management Agreement, not PUC ratemaking methodology. Merely applying the appropriate standard in the appropriate situation is not "undermining," but rather recognizing that different principles govern different types of proceedings. Therefore, the Commission does not undermine the PUC by applying its governing principals when determining issues within its jurisdiction.

Finally, addressing the Advocate's argument that these efforts are duplicative, the Hearing Examiners find that Advocate does not cite to any examples of how the groups that it identified provided any direct benefits to PGW's customers. While it may be true that these groups lobby generally for things like pipeline safety and customer assistance, PGW has provided quantifiable benefits for its customers stemming from its lobbying efforts while the Advocate has stated that the other groups it cited "support the natural gas sector."[170] The Hearing Examiners do not find this convincing.

Based on the foregoing, the Hearing Examiners recommend that the Commission reject the Advocate's request to disapprove PGW's request for $100,000 in expenses for government relations/lobbying.

[168] PA Brief at 26.
[169] <u>Id.</u>
[170] <u>See</u> PGW Comments at 16, FN 73 wherein PGW states that "in FY 2025, LIHEAP provided over 36,000 grants to PGW customers, totaling over $9.7 million dollars in assistance; PGW Brief (FY 2026 Operating Budget) at 23; PA St. 1 at 16.

E. DBE/SLB Participation

Prior to filing its FY 2027 Capital Budget, PGW informed Commission Staff that there would be a pause in its fiscal year budgets DBE forecast, quarterly DBE reporting, and DBE dashboard.[171] PGW explained that this pause was due to the City modifying its DBE program effective November 18, 2025.[172] PGW further explained that the City planned to replace the DBE program with a Small and Local Business ("S/LB") program.[173] PGW indicated that it planned to "implement an S/LB program in parallel with the City and was currently awaiting guidance."[174] According to PGW, the program's "guidelines and metrics" were still being developed at that time, but PW stated that it would share a timeline for resuming reporting once further information became available.[175]

In its May 12, 2026 Order in the FY 2027 Capital Budget proceedings, the Commission directed PGW to file quarterly updates on the development of its S/LB program progress.[176] In compliance with the Commission's Order, PGW filed an update on May 22, 2026. In its update, PGW stated that the City's Office of Economic Opportunity had "concluded its policy and procedural development to establish its new Small and Local Business Program."[177] PGW further stated that it was now finalizing its Small and Local Business Program and expected it to be implemented within the next several months.[178] Once the program is implemented, PGW stated that it would resume its quarterly updates relative to the FY 2027 Capital Budget goals.[179] PGW concluded that it would file an updated DBE/SLB forecast concurrent with its FY 2028 Capital Budget filing.[180] The Hearing Examiners recommend that the same filings be made as a part of PGW's FY 2028 Operating Budget.

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[171] Letter dated January 2, 2026 from John L. Byars, Director of Procurement and Economic Outreach to service list.
[172] Id.
[173] Id.
[174] Id.
[175] Id.
[176] In Re: Proposed FY 2027 Fiscal Year 2027 Budgets/Oversight Proceeding, Order and Resolution at Ordering Paragraph 1 (Public Meeting Held May 12, 2026).
[177] See DBE/SLB updated filed May 22, 2026.
[178] Id.
[179] Id.
[180] Id.

V. SUMMARY OF RECOMMENDATIONS

For the reasons discussed in the foregoing sections, we recommend that the Gas Commission adopt downward adjustments totaling $938,526 to PGW's proposed FY 2027 Non-Fuel Operating expenses of $ 310.628 million. This would result in a total non-fuel operating expense of $ 309.689 (rounded) and budgeted Net Income of $162.876 million would increase by $938,526 to $163.815 million (rounded). Commission Staff also recommends adoption of the various filing and reporting requirements discussed in this decision. Additionally, we recommend that PGW be directed to file, within ten (10) business days of the meeting at which the Commission takes final action on the Operating Budget, a Compliance Operating Budget reflecting and identifying all the Commission-approved adjustments as well as any technical corrections to presentation, ancillary adjustments or flow-through changes. We also recommend that the Commission direct PGW to file its proposed FY 2027 Operating Budget by no later than May 28, 2027.

Further, we recommend that the Commission require PGW to continue to file monthly financial reports by no later than the fifteenth (15^{th}) day of the succeeding month for each month in FY 2027. PGW should also be directed to continue to file monthly collections status reports, with a scope and in a form similar to the monthly reports filed for FY 2026. Such monthly status reports should continue to include copies of any and all deliverables provided by any consultants related to PGW's collections procedures and policies, including CRP program modifications. We also recommend that the Commission instruct PGW to continue to file both its monthly "Detailed Metrics" reports regarding attainment of annual enterprise metrics and quarterly Operating Statistics reports with a scope and in the form agreed to with Commission Staff.

Finally, we recommend that PGW be directed to file its Small and Local Business Participation Forecast at the same time that it files its Operating Budget.

Respectfully Submitted,

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