BEFORE THE
PHILADELPHIA GAS COMMISSION

Re Philadelphia Gas Works	:	FY 2027 Operating Budget Proceeding

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COMMENTS/EXCEPTIONS TO THE RECOMMENDED DECISION SUBMITTED ON BEHALF OF PHILADELPHIA GAS WORKS

I. INTRODUCTION.

Philadelphia Gas Works ("PGW" or "Company") files these Comments/Exceptions to the Recommended Decision, dated July 10, 2026 (hereinafter referred to as the "Recommended Decision" or "R.D."), rendered by the Philadelphia Gas Commission Staff (hereinafter "Hearing Examiners" or "HEs") in the FY 2027 Operating Budget Proceeding.[1] PGW has briefed the issues addressed in the Recommended Decision and urges the Philadelphia Gas Commission ("Commission" or "PGC") to reconcile the Hearing Examiners' recommendations with the Company's Brief and this submission in its deliberations.

The table below summarizes the Company's position with regard to findings in the Recommended Decision accepting or rejecting specific adjustments vetted in this proceeding.

Summary of Areas of Agreement and Disagreement with the Hearing Examiners

Description of Proposed PGW Expenditures	**Budgeted Amount**
1. Areas of Agreement	
Special Legal Expenses	$1,865,000
Gas Processing FEED Study Expense	4,000,000
Government Relations Expenses	100,000
Information Services Expenses*	37,793,000

[1] Executive Director Gemela N. McClendon, Hearing Examiners Heidi Wushinske and Roslyn Bell together with Senior Analyst Anna C. Rowe and Timothy Murtha participated in the preparation of the Recommended Decision (also referred to as the Hearing Examiners)

2. Areas of Disagreement	
Personnel Levels (Labor & Payroll Expense)	($1,938,526)
Conditional Funding — Excess Liability Insurance Expense	236,000
Conditional Funding — Environmental Remediation	2,000,000
Conditional Funding — Research America Expenses	100,000
Additional Reporting Requirements — Information Services Expense*	N/A
Administrative Consulting – Environmental Impact Study	N/A
* Information Services expenditures and reporting requirements are addressed separately.	

The Company believes that it is important to acknowledge areas of agreement (Part 1 in the table above) as the recommended approval of planned expenditures for Special Legal, Feed Studies, Information Services and Government Relations represent important budget areas that must be fully funded. The Hearing Examiners also recommend the approval of the vast majority of planned expenditures in the FY 2027 Operating Budget ($759.049 million as originally proposed). However, these comments/exceptions must also focus on findings of the Hearing Examiners that we believe will impede PGW's financial and operational progress in the coming fiscal year (Part 2 above). Those include recommendations related to (a) Personnel Levels; (b) Excess Liability Insurance; (c) Environmental Remediation; (d) Research America; (e) Information Services (reporting requirements);[2] and (f) Environmental Impact Study.

II. ARGUMENT.

A. Personnel Levels.

The Hearing Examiners err in recommending a significant reduction in labor and payroll expense based upon their efforts to fix an erroneous adjustment proposed by the Public

[2] Comments concerning Information Services relate to additional reporting requirements only.

Advocate.[3] As explained below, the PA adjustment was premised upon an assumed personnel vacancy rate (based on outdated data) which was relied upon, in part, by the Hearing Examiners. The end result is an unsubstantiated $1.939 million reduction in labor and payroll expenses at a critical time for PGW. This is a significant error.

By way of background, 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").[4] As explained by PGW in this proceeding, the Company had already reached a headcount of 1,624 FTEs (not including PGC Staff), as of June 22, 2026. PGW is also actively engaged in filling the balance of the positions needed to meet the targeted headcount.[5] Based on the above and planned cadet classes (50 or more FTEs recruited at one time), it is clear that PGW can readily achieve an average 1,637 FTEs in FY 2027. All of the foregoing was emphasized at the public hearing.[6]

To be clear, the Advocate's position is premised on its understanding of the budget filing and discovery responses related to this subject which pre-date the submission of its testimony.[7] 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. In other words, the Advocate's proposed adjustment was based on a false (outdated) premise.

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3 R.D. at 14-15.

4 Tr. 77. See also, PGW Statement 1 at 5, 10. Please note that the targeted headcount is determined by 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. See, PGW Brief at 13.

5 See, response to TR-6.

6 Tr. 76-79.

7 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 PGW Vice President, Anthony 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.

Despite the foregoing, the Hearing Examiners seek to fix this failed PA adjustment. They do so by cutting the subject adjustment (based on outdated data) in half. In short, the Hearing Examiners use a 1% vacancy rate to arrive at their $1.939 million reduction in labor and payroll expenses. Note that this recommendation has every appearance of being a compromise. But it is still wrong.[8] PGW is well on its way to meeting the targeted headcount (1,624 FTEs and climbing) and FY 2027 has not even begun.

It bears emphasis that PGW's proposed personnel headcount comes at a critical time for the Company. That is, PGW must achieve higher staffing levels in FY 2027 to implement the Customer Information Service (CIS) initiative as well as carry-out ongoing Field Services activities. The Company cannot succeed with insufficient budget authorization to continue hiring generally and add cadet classes (50 or more FTE's recruited) where needed. Ironically, we are already close to our personnel goal. With cadet classes planned early in FY 2027, PGW will exceed 1,637 FTEs nominally and will be poised to achieve an average at or above that targeted level for the coming fiscal year. We are much closer to the targeted headcount than in past fiscal years when comparable personnel headcounts have been approved.

The Hearing Examiners and the Advocate are focused on the past when the actual personnel numbers were lower and the targeted headcount was not achieved. The point that they are missing is that each year is appropriately viewed independently. PGW is reasonably projected to achieve the targeted headcount in FY 2027 and needs the resources to provide optimal services for gas customers. We are almost there. This is not a time to hamstring PGW operations. The recommendation of the Hearing Examiners to reduce the targeted headcount should be rejected.

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[8] 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. This adjustment results in a reduction in labor expense of $3.877 million. The HE recommendation mirrors this adjustment. In essence, it cuts the adjustment in half ($1.9 million).

Neither adjustment seems to sufficiently 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. The premise of each adjustment also fails to reflect the fact that PGW plans cadet classes in FY 2027 with projected hires of 50 FTEs or more. The point of the foregoing is that attrition will be more than offset by new hires and PGW will achieve it targeted average headcount in the coming fiscal year. The vacancy rate that the Advocate first assumed (2%) as adjusted by the Hearing Examiners (1%) for FY 2027 is mistaken.

B. Excess Liability Insurance.

The Hearing Examiners err in recommending that anticipated increased spending for Excess Liability Insurance ($236,000) should be made subject to conditional funding authorization.[9] PGW maintains that immediate spending authority should be approved for this budgeted item.[10]

By way of background, the Risk Management budget includes $5.281 million for excess liability insurance expense.[11] This amount is $236,000 higher than the approved budget for FY 2026. As explained by PGW in this and prior proceedings, the 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 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 reasonable estimate of what can be anticipated.

The Hearing Examiners recommend that conditional funding authorization be utilized here. They once again adopt the Advocate's position in this context. Per the Recommended Decision, PGW would request the release of conditional funding when it has completed negotiations with its insurance providers. At that point, the Company would be required to

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9 R.D. at 16-17.

10 PGW Brief at 19-20.

11 PGW Supplemental Filing at 147.

transmit a letter to the Commission with the identity of the insurance provider(s) together with the insurance premium amount(s) to release conditional funding.[12]

In making this recommendation, the Hearing Examiners adopt the Advocate's argument that there is "uncertainty" associated with future insurance negotiations which makes determining an exact amount difficult.[13] 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. Please note that the $236,000 in question represents a reasonable estimate of increased future costs and is in many ways similar other planned expenditures in the FY 2027 Operating Budget that are impacted by business uncertainty (due to inflation, market conditions, operational changes, competitive bid process, contract negotiations, procurement issues generally). In short, all budget expenditures are subject to some uncertainty.

The Hearing Examiners' recommendation purports to address uncertainty concerns articulated by PA witness Lafayette Morgan (hereafter "Mr. Morgan"). However, at the hearing in this matter, Mr. Morgan could not explain how conditional funding authorization could mitigate uncertainty or change the dynamics or outcome of negotiations.[14] In point of fact, conditional funding authorization will not minimize the uncertainty associated with the anticipated increase in the cost of excess liability insurance coverage. The recommendation just adds extra steps to the process of binding insurance coverage. 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. The extra steps were problematic because there were multiple insurance providers and sequential negotiations in FY 2026. The notification process (for the release of conditional funding) was a significant distraction from the ultimate goal to negotiate the lowest reasonable

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12 R.D. at 16-17.

13 PA Statement 1 at 10.

14 See, Tr. 67-69.

cost for excess liability insurance coverage. This year will mirror the last — unless we break with adding unnecessary bureaucratic steps to a negotiation process that must be timely completed to bind mandatory insurance coverage for the coming fiscal year.

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.[15] Because conditional funding does not remove uncertainty or change the outcome of negotiations, it should be rejected here. The Commission should overrule the Hearing Examiners' findings regarding Excess Liability Insurance and approve the Risk Management budget in full ($5.281 million) with immediate spending authority to secure excess liability insurance coverage.

C. Environmental Remediation.

The Hearing Examiners err in adopting the Public Advocate's position regarding the Environmental Remediation expense at PGW's site located at 9th and Diamond Streets ($2.0 million).[16] The Hearing Examiners state that they would like to have more information before approving immediate spending authority for this budget item. Conditional funding authorization is recommended.

As explained in the PGW Brief, this budgeted expenditure is a realistic estimate of the cost of environmental remediation at the site (albeit a worst case scenario).[17] PGW is in the process of assessing the site and will likely have more definitive information within a few months.[18] Immediate spending authority is necessary for this budget item given regulatory compliance concerns.[19]

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15 PGW Brief at 19-20.

16 R.D. at 17-18.

17 See, PGW Brief at 24.

18 Tr. 74.

19 Tr. 72-73.

The Hearing Examiners overlook the weaknesses of the Advocate's proposal. That is, Mr. Morgan fails to explain this recommendation in detail (e.g., what requirements are to be met to trigger the release of conditional funding).[20] Moreover, Mr. Morgan 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.[21]

PGW Director of Chemical and Environmental Services, Kevin Grooms addressed this issue in the proceeding. Mr. Grooms emphasized that we must be ready to proceed when the site assessment at 9th and Diamond Streets is completed. In its brief, the Advocate complains that "no regulatory basis" was provided with reference to the aforementioned obligation.[22] PGW responds, that the Advocate failed to ask that question at the public hearing. In point of fact, PGW is required to proceed when the site assessment is completed pursuant to the Pennsylvania Land Recycling and Environmental Remediation Standards Act (Act 2).[23] That is, if PGW identifies a volatile, mobile plume of a potentially hazardous substance, the regulatory obligation to characterize and contain that plume to protect public health is triggered.

The point of the foregoing is that the Hearing Examiners are adopting a flawed PA position. The weaknesses in the PA position identified above were insufficiently addressed in the

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20 PA Statement at 10-11.

21 *Id.* The Advocate confirms its ignorance of environmental requirements in this area in its brief. After discovery and hearings have been completed (with an extensive discussion of this issue), it first requests a citation for regulatory authority. No participant requested this citation before July 2 (when briefs were filed). That citation has now been provided. The requirement has not changed. The only thing that is different is that is abundantly clear is that the PA position (now adopted by the Hearing Examiners) is not well founded. PGW needs immediate spending authority to respond to regulatory requirements.

22 PA Brief at 16.

23 Act of May 19, 1994, P.L. 4, No. 2, 35 P.S. 6026.101, *et seq.* Note that, if an immediate hazard exists or is discovered at a site, prompt action is necessary to abate the hazardous condition and prevent future or further release of regulated substances. Leaking tanks or drums, conditions presenting a fire or explosion threat, or a situation involving a threat to human health or the environment warrant a prompt response. See also, Clean Streams Law, Act of June 22, 1937, P.L. 1987, No. 394, 35 P.S. 691.5 and 25 Pa. Code Section 91.33 (applicable because of high water table at the site).

Recommended Decision.[24] In short, the Hearing Examiners appear to be following Mr. Morgan (who is not an environmental regulatory expert) without question. This is a mistake, if PGW is to have necessary budget authorization to timely proceed with required remediation in FY 2027.

PGW submits that the Commission should reject the Hearing Examiners' recommendation imposing conditional funding authorization requirements on planned Environmental Remediation expenditures lack sufficient record support and should be rejected. The proposed $2.0 million Environmental Remediation expenditure should be approved with immediate spending authority.

D. Research America.

The Hearing Examiners err in adopting the Public Advocate's position regarding the Research America expenditure.[25] This planned expenditure is included in the Customer Service budget. The Recommended Decision indicates that there is uncertainty concerning the anticipated increase in this planned expenditure ($100,000) above FY 2026 estimated spending. Conditional funding authorization is recommended for the above amount.[26]

By way of background, the proposed Customer Service budget includes a purchased services expense of $350,000 for Research America (vendor used for customer satisfaction surveys). 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.[27]

In the instant context, the Company learned in compiling the budget that expenses in FY 2027 will likely increase (albeit not above levels approved in prior approved budgeted amounts).

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[24] The Hearing Examiners indicate that a citation to regulatory authority would be useful to themselves and the Commission in deciding this issue. Please note that no specific citation was requested prior to submission of the Advocate's brief. PGW has provided such specific citation with these Comments/ Exceptions. See discussion *supra*. (footnote 23).

[25] R.D. at 24-25.

[26] *Id*.

[27] PGW Supplemental Filing at 110.

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 Hearing Examiners recommend that conditional funding authorization be utilized here. This is because of "uncertainty" as the RFP process has not been completed. Such uncertainty, however, is an ordinary part of 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) of the upcoming RFP process.

In the instant context, PGW explained that in compiling the FY 2027 budget, the Company considered that it may change vendors in this area and/or experience inflationary increases.[28] Additionally, PGW 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 that it has sufficient budget authorization to support this service.[29] 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 the FY 2025 and FY 2026 Operating Budgets. PGW submits that this budget item is reasonable and should be approved with immediate spending authority as has been the case in prior budgets for this expense. The Hearing Examiners' recommendation for Research America planned expenditures (conditional funding only for $100,000) should be rejected.[30]

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28 PGW Brief at 25-26.

29 *Id.*

30 The Hearing Examiners indicate that PGW has not argued that the notification requirement in this or other budget areas is an undue burden. R.D. at 25. Please note, however, that the Company has indicated that such "after the fact" notification does not minimize the complained of uncertainty associated with contract negotiations (excess liability insurance coverage) and in fact adds an extra and unneeded bureaucratic step (and unnecessary distraction) in the process negotiating insurance coverage with multiple providers. See discussion, *supra*.

Also, more generally, PGW issues scores of RFPs annually. And each expenditure associated with any RFP is arguably subject to "uncertainty," as the Advocate and the Hearing Examiners appear to define it. It would be untenable (and an undue burden) to undertake conditional funding authorization for all projects subject to the RFP process. Likewise, it seems inappropriate to impose conditional funding requirements here.

E. Information Services.

PGW concurs with the Hearing Examiners' approval of immediate spending authorization for FY 2027 budgeted expenditures for Information Services ("IS"). The Company disagrees, however, with the caveat to such approval that quarterly reporting will be required for IS expenditures prospectively.[31] Such quarterly reporting would include "purchase orders or invoices for field laptops, desktops, laptops, nano PCs, and hardware and software purchases made during that quarter including subscription renewals as well as expenditures related to contracted system and network engineer consultants."[32] The time frame for which quarterly reporting will be required is unspecified in the Recommended Decision.

The Company proposes, in lieu of the aforesaid reporting requirements, that it will submit to the Commission additional supporting budget documentation accumulated in the weeks since discovery has been completed. This information is directly responsive to questions raised in the proceeding (related to field laptops, desktops, nano PCs, hardware purchases, software subscriptions, service contracts). The Company proposes to provide the additional documentation referenced above at such time as the PGC directs. This will be a one-time submission and will be responsive to discovery requests made in this budget proceeding.

F. Environmental Impact Study.

PGW acknowledges that planned expenditures for the Environmental Impact Study are included in the FY 2027 Operating Budget by PGC directive.[33] The Company submits that further discussion is required to determine what studies would be necessary and appropriate, and PGW needs to be a leader in this discussion.

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31 R.D. at 20.

32 *Id.*

33 *Id.* at 11-12.

III. CONCLUSION.

For all the foregoing reasons the Company requests that the Commission reconcile the Hearing Examiners' recommendations with PGW's Brief and this submission in its deliberations.

Respectfully submitted,

/s/ Andre C. Dasent

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