

**BEFORE THE HOUSE
CONSUMER AFFAIRS COMMITTEE**

Concerning HB 1294

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REGULATORY AND EXTERNAL AFFAIRS**

PHILADELPHIA GAS WORKS



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PGW SUPPORTS HB 1294

- PGW is municipally-owned and has no stockholders
- ARRM surcharge would reduce customer costs
 - PUC authorized to impose other consumer benefits
- PGW rates are sufficient to pay only 25% of capital costs, the remaining costs are paid from expensive long term debt
- Borrowing is the most expensive way for customers to pay for replacement of cast iron mains
 - Current debt outstanding: \$1.2 billion
 - Debt to capitalization: 82% debt, 18% capital

MAINTAINING SAFE INFRASTRUCTURE

- **Training**
 - Field forces trained to federal standards
- **Systematic Leak Survey and Detection**
 - Every street surveyed – exceeds applicable system standards
 - Every house surveyed upon customer service visit
- **Systematic maintenance and replacement**
 - Current program reviewed by Gas Commission and PUC
- **Leak Response**

PGW's Main Replacement Program

- PGW established a Cast Iron Main Replacement Program prior to 1980
- Since 2000, PGW has averaged more than one percent (1%) Replacement Rate
- PGW's cast iron replacement rate is similar to most-comparable benchmark companies & adjudged appropriate in PUC audits
- PGW retained Advantica in 2008 to perform a review of the program and to develop a replacement program based on sophisticated risk analysis
- At the current replacement rate, PGW will replace the remaining cast iron in 88 years
- It is estimated (in today's dollars) that it will cost \$2.5 - \$3 billion to replace all cast iron main in PGW's network
- Accelerating the replacement program from 18 miles/year to 24 miles/year will replace all remaining Cast Iron in 66 years and increase costs to current customers

ACCELERATING MAIN REPLACEMENT

- PUC currently has both authority and expertise to require appropriate rate of main replacement for each utility
 - PUC actively supports consumer protections
- PGW believes that its current program is appropriate, but would comply if directed to change the program

APPENDIX

Infrastructure System Characteristics

System Characteristics

- **PGW operates 3,000 miles of natural gas distribution main**
- **Highest percentage of cast iron main in the state (52%) – 1580 miles**
- **Short service length (distance from main to basement wall) – 32 feet**
 - **Shorter distance for gas to migrate into homes and buildings**
 - **Average length of service is 1/2 that of others**
- **18 Miles (more than 1%) of cast iron main are replaced annually**
- **PGW spends \$40 - \$45M annually on main and service replacements**
 - **Approximately 55% - 60% of our capital budget**
 - **\$8M is relocation work impacted by city or state projects**

