

# HOUSE CONSUMER AFFAIRS COMMITTEE

## Informational Meeting on Natural Gas

March 10, 2011



# PGW - In Brief (FY 2010)

*PGW is unique as a municipally owned, solely urban, mid-sized LDC with predominantly low income customers.*

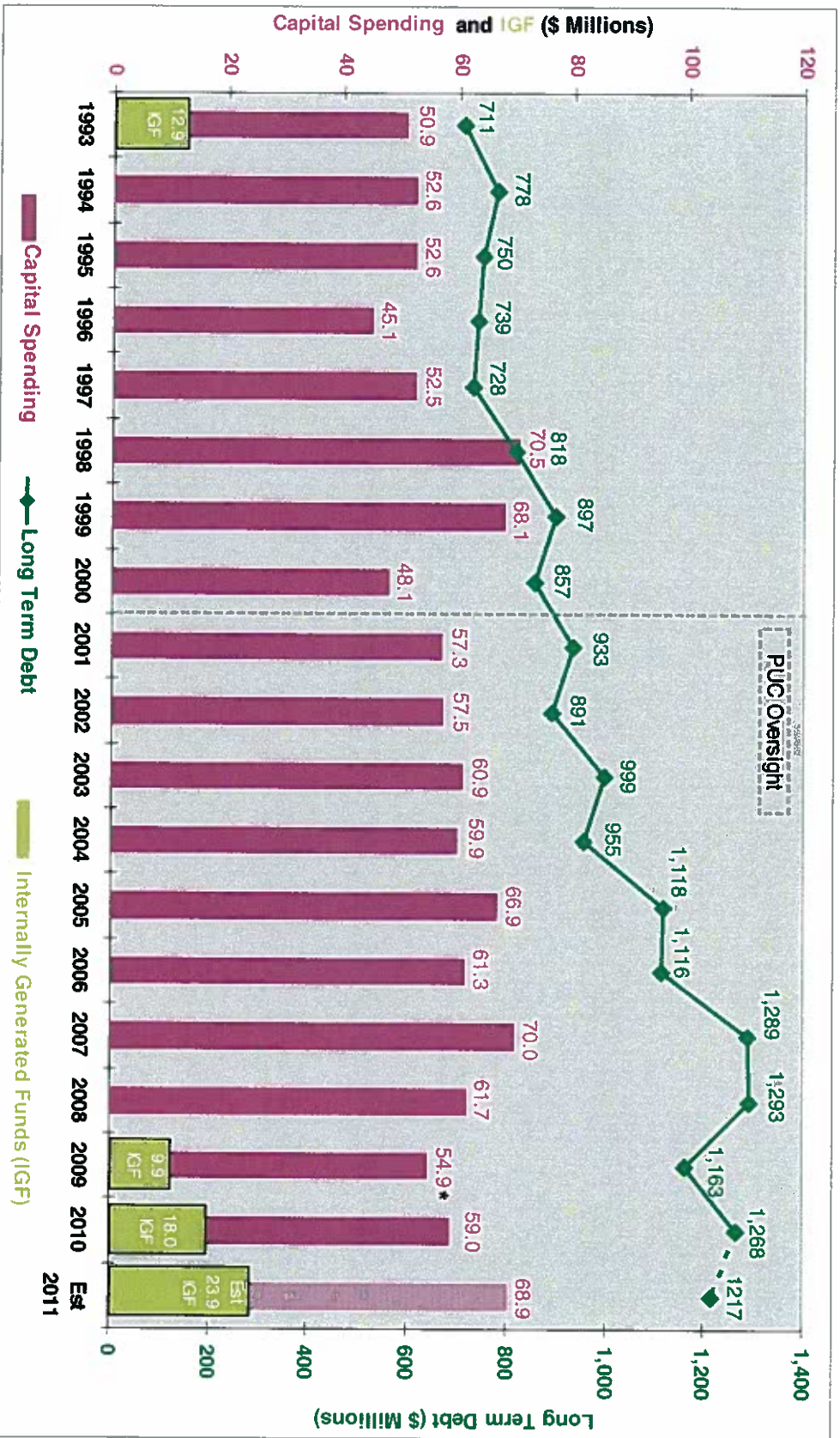
- **Largest Municipal LDC in U.S.**
- **2<sup>nd</sup> Largest LDC in Pennsylvania**
- **Customer Base - 502,000**
  - 477,000 Residential (80% of City Heating Load)
  - 25,000 Comm./Indust./PHA/Municipal
  - 502,000 Total Customers
- **Revenues (\$000) - 2010 - \$ 759,232**
  - \$ 353,998 Commodity (47%)
  - 405,234 Other (53%)
  - \$ 759,232 Total Revenues
- **Outstanding Debt**
  - Long Term Debt - \$1.2 Billion
    - Debt is 81.9% of Total Capitalization
  - Pension Balance - \$165 Million (69%)
  - OPEB Balance - @ \$650 Million
- **Customer Support Programs**
  - LIHEAP/Crisis
    - 77,089 Grants (16% of Residential Base)
  - Customer Assistance (CRP/CAP) -
    - 82,524 Participants
  - Conservation
    - 100,000 customers in 5 Years
    - 85 Weatherization Workshops
  - Senior Citizen Discount
    - Closed to new participants
    - 34,208 Participants
- **Customer Services**
  - Gas Delivery
    - 69.0 Bcf (Firm & Transportation)
  - Parts & Labor Ins. Plan (PLP)
    - 55,632 Subscribers
- **1,682 Employees**
- **Facilities**
  - 6,000 Miles of Mains & Services
  - 1,570 Miles of Cast Iron Mains
  - Three LNG Tanks - 4 Bcf Storage
  - Most intensively developed LDC in country.
    - Average gas main is 32 feet from the front foundation wall.

# PGW HAS IMPROVED

- PGW has righted the ship and its outlook is stable
  - Internally generated funds since 2009 and going forward (first time since 1993)
  - Continuing efficiency improvements
  - Recent upgrade in bond ratings
  - Improved collections
  - Lowest personnel level ever, no management team raises in 4 years, very good relationship with Union

# FINANCIAL PERFORMANCE

Capital Program was funded exclusively with long-term debt for 15 years.

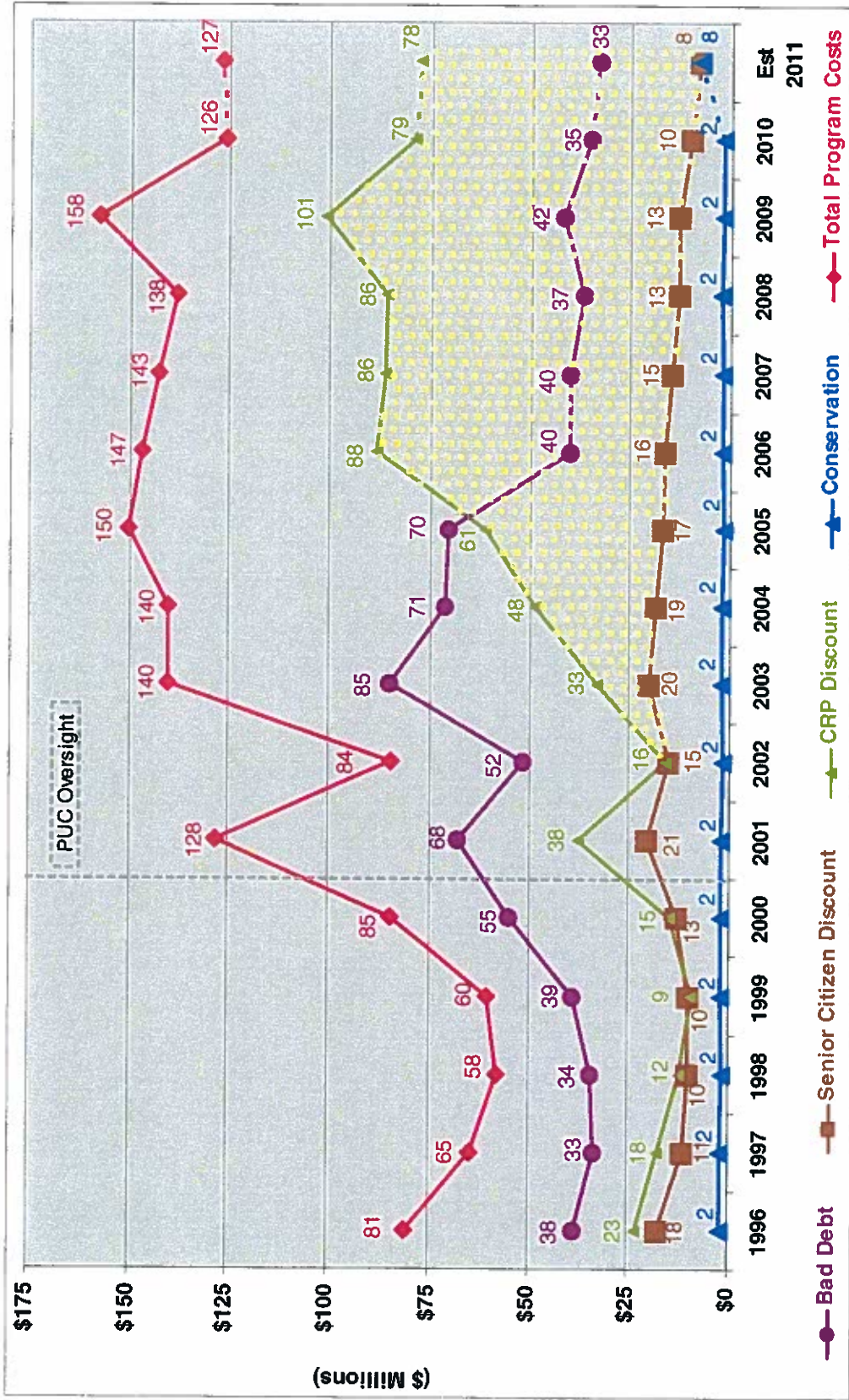


\*Spending reduced to conserve costs during financial crisis.

# FINANCIAL PERFORMANCE

## Social Program Cost Components

Major Changes Due to Uncompensated Increase in Commodity Costs



## ACT 201 IS WORKING

- According to the January 14, 2011 PUC “Third Biennial Report to the General Assembly and the Governor Pursuant to Section 1415”, Act 201 (Chapter 14) is working.
  - Low-income customers have fared better since the passage of Chapter 14.
  - Despite a prolonged declining economy since the passage of Chapter 14, utilities have effectively managed residential collections expenses and Universal Service program expenses so that the total costs spread upon the residential rate base have been increasing at a pace that is well below the inflation rate.

## ACT 201 IS WORKING

- “Overall, the analysis of the various collections data continues to show a dramatic pattern of improvement for PGW since the passage of Chapter 14.
  - Significantly fewer customers owe money to PGW, while the amount of debt has also significantly declined since 2004.
  - PGW also stands out for the 26.6 percent decrease in its gross residential write-offs ratio.
  - PGW’s improved collections performance and overall financial health is reflected by its recently upgraded bond rating.”

## **New Demand-Side-Management (DSM) Program**

- Comprehensive portfolio of six programs to help 100,000 PGW residential, commercial, industrial and municipal customers become more energy efficient.
- Over 5 years, \$60 million portfolio will generate over \$115 million in savings to all PGW customers, and
- Will reduce greenhouse gas emissions, including 1.24 million tons of carbon dioxide - the environmental equivalent of taking 200,000 cars off Philadelphia's streets.
- Expected to create as many as 1,000 new jobs, including new employment opportunities related to PGW programs and indirect jobs from increased local spending.
- Encouraging hiring from low income community

# DSM PROGRAM DESCRIPTIONS

| PROGRAM   | Target Market  | Efficiency Technologies Targeted   | Financial Strategies  | Target Participation |
|---|--|--|---|----------------------|
| Low-income Residential Retrofit                         | PGW low-income customers   | Instrumented air-sealing; attic/wall insulation; high-efficiency windows; high-efficiency furnace early replacement; high-efficiency showerheads and aerators;           | Free installation   | 17,830               |
|   | High-use heating customers (customers ranked in the highest 40% in terms of annual consumption)                      |  | Financial incentives to buy down projects to a 2-year payback period                      | 26,559               |
| Premium Efficiency Gas Appliances and Heating Equipment | Buyers, sellers, and installers of gas space and water heating equipment to residential and small business customers | High-efficiency clothes washers, space- and water-heating equipment  | Financial incentives covering 80% of the incremental cost of premium-efficiency equipment | 51,835               |
|   | Buyers and sellers of commercial/industrial gas heating and non-heating equipment                                    | High-efficiency heating and process equipment  |   |                      |
| Commercial and Industrial equipment efficiency upgrades | Building owners considering supplemental measures, early retirement of inefficient equipment;                        | High-efficiency boilers and furnaces for space and water heating; high-efficiency building controls; high-efficiency shell improvements; high-efficiency clothes washers | Customized incentives based on payback buy down, including other resource savings.        | 1,566                |
|   | New construction, remodeling, and renovation efficiency improvements for residential and commercial buildings        | Financial incentives covering 80% of the incremental cost of high-efficiency equipment and technologies  |   | 3,682                |
| High-efficiency Construction                            |  |  |   | 9                    |

# PGW's Main Replacement Program

- PGW established a Cast Iron Main Replacement Program prior to 1980
- Since 2000, PGW has replaced on average 18+ miles per year
  - Exceeds industry standard of 1% per year
- 2001 External Independent Audit reviewed PGW's Replacement Rate - Validated the 1% Industry Standard
- 2008 PGW retained Advantica to perform a review of the program
  - Current program follows Advantica recommendations
- 2008 External Independent Audit reviewed PGW's Replacement Rate & the Advantica Main Replacement Program
- PAPUC and Philadelphia Gas Commission have reviewed PGW's Main Replacement Program
- At the current replacement rate, PGW will replace the remaining 1,580 miles of cast iron main in 88 Years
- In today's dollars it would cost more than \$1.6 billion to replace all cast iron main in PGW's network
- Accelerating the program from 18 miles/year to 24 miles/year of replacement per year would replace all remaining Cast Iron in 66 years
- PGW's leak detection program meets or exceeds current Federal & State regulations
- PGW is municipally-owned, has no stockholders
- All funds come from customers