

**BEFORE THE  
SENATE CONSUMER PROTECTION AND PROFESSIONAL LICENSURE  
COMMITTEE**

**Hearing on Reauthorization of Chapter 14 of the Public Utility Code**

**Testimony of Philadelphia Gas Works**

**October 3, 2023**

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Good morning, Chair Stefano, Chair Boscola, Committee Members and guests. My name is Melanie McCottry, and I am the Chief of Staff and Senior Vice President for External Affairs & Communications for Philadelphia Gas Works (PGW) in Philadelphia, Pennsylvania and I am joined by Denise Adamucci, Senior Vice President of Customer and Regulatory Affairs for PGW. Thank you for providing us with the opportunity to participate in today’s hearing on the Responsible Utility Customer Protection Act - known as Chapter 14 of Title 66. Today, I am proud to advocate on behalf of the hundreds of thousands of PGW’s timely ratepaying customers who rely on Chapter 14 to **provide protections against rate increases resulting from other customers’ delinquencies**. The Act helps to ensure that customers experiencing financial hardship have a multitude of tools to pay their bills or avoid termination (including medical extensions, and payment arrangements) without imposing unnecessary costs on the working poor families and individuals in our service territory who do not qualify for utility-sponsored or government assistance.

My testimony will describe why Chapter 14 continues to be a vital tool for PGW as written, including the PGW-specific provisions within the law that remain integral to the financial well-being of our customers. Chapter 14 has had a positive impact on PGW and its responsible ratepaying customers since its original implementation in 2004. As evidence:

<b>PGW before Chapter 14</b>	<b>PGW under Chapter 14</b>
<b>Bonds were rated just above junk.</b>	<b>All three ratings agencies rate PGW in the ‘A’ category.</b>
<b>Collection rate as low as 86 percent.</b>	<b>Maintain a 96 percent collection rate.</b>
<b>Financial assistance for low-income customers not as affordable.</b>	<b>Low-income customers are eligible for significant financial assistance.</b> <i>*Low-income customers have received over \$1.3 billion in bill discounts and arrearage forgiveness.</i>

## **A. PGW is Unique Among Pennsylvania Utilities**

Although PGW is no longer in financial crisis, the company exclusively serves an urban service territory which leaves the company particularly vulnerable to fluctuations in its population size and high concentrations of persistent poverty.

### *Constraints of Municipal Ownership*

PGW is not an investor-owned utility, we do not make a profit. As a municipally-owned utility, PGW employs the cash flow method – which merely subtracts the money spent from the money received every fiscal year. PGW has no shareholders and does not pay a dividend or a rate of return. Accordingly, all the funds it needs to run the Company come from its roughly 500,000 customers (of which approx. 234,000 are low income or the struggling working poor) or from borrowing (the costs of which then must be paid by customers). In Fiscal Year 2023, PGW’s total annual revenue of \$770 million was assigned to improving safety, enhancing the quality of life of its customers, increasing energy efficiency, modernizing its distribution system, and delivering customer service. It is critical that PGW maintains its financial wherewithal and solid financial position so that it can provide safe, reliable and affordable utility service. PGW looks to this legislature to protect the currently available Chapter 14 collection tools that allow PGW to preserve access to and, potentially, improve its borrowing costs for long-term bond transactions and access to credit services.

It is essential that those tools remain available in the event that they are needed in the next 10 years, when Chapter 14 will again sunset.

PGW must maintain its strong bond ratings because it means lower interest rates and cost savings for its customers. If PGW were to fail, the City of Philadelphia would be left responsible for its long-term debt.

*The Socioeconomics of Philadelphia & PGW's Customer Base*

PGW's service territory is limited to the City of Philadelphia. Philadelphia is uniquely challenged among utility service territories in Pennsylvania - just last month, the U.S. Census Bureau again named Philadelphia the poorest large city in the United States.<sup>1</sup> In Philadelphia:

- **Approximately 107,250 individuals and families in Philadelphia are low income and live at 150 percent and below** of the Federal Poverty Level (FPL). The low-income FPL is the primary measure to evaluate extreme financial hardship, however many struggling households exist just above this poverty level.
- **Even more - 126,750 individuals and families - live over 150 percent to 250 percent – they are classified as ALICE** (Asset Limited, Income Constrained, and Employed).

ALICE customers earn above the poverty level but make less than what is needed to afford basic essentials. They also often earn too much to qualify for government assistance. Clearly, there is little to no room in an ALICE customer's household budget for emergency expenses. According to the United Way, the number of households in financial hardship in Philadelphia continues to be undercounted in official measures since ALICE households are not included<sup>2</sup>.

**PGW consistently has a higher percentage of its customer base living in poverty than other Commonwealth utilities and has a significantly higher ALICE population in comparison to its neighboring counties**, who are not serviced by a municipally owned gas utility like PGW.

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<sup>1</sup> <https://www.census.gov/topics/income-poverty/poverty.html>

<sup>2</sup> <https://www.uwp.org/alice/about-alice/>

Due to the economic effects of the COVID-19 pandemic, Philadelphia saw a 7 percent increase in the number of ALICE households. 48 percent of Philadelphia residents are now classified as ALICE compared to 39 percent of Pennsylvanians.<sup>3</sup>

To aid PGW's low-income customers, PGW's customer assistance program - CAP - is based on income rather than usage and provides free arrearage forgiveness. CAP is paid for by other customers so PGW's ALICE customers must pay to subsidize CAP in their rates. As a result, it is acutely important that PGW maintains each tool outlined in Chapter 14 to protect its full ratepaying customers from the poor payment practices of other customers who can pay but choose not to.

## **B. The Impact of COVID-19: Key PGW Takeaways**

PGW fully-supported the Pennsylvania PUC's moratorium on service terminations during the COVID-19 pandemic. However, after months of reporting, PGW showed an increase in the number of customers with past due accounts and increased amounts of past due money that our customers owe.

Many PGW customers who struggled or failed to pay their bills before the pandemic only fell further behind. These customers, protected from the consequences of the collections process, neglected to pay and grew their debt to such amounts that they will struggle to ever repay it.

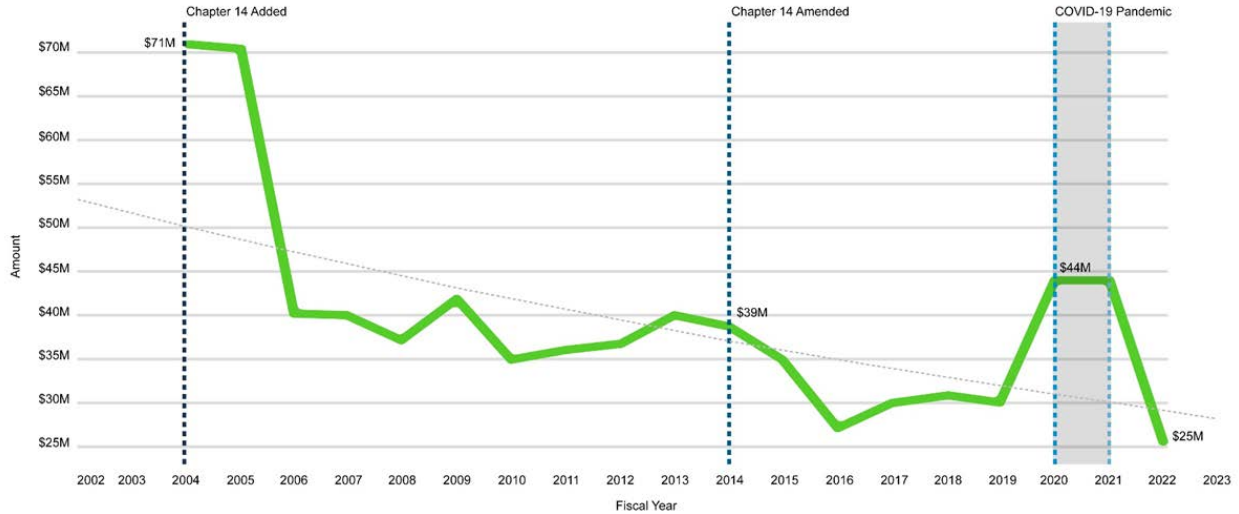
To the extent they do not repay this debt, it will ultimately increase the costs PGW's other very economically challenged customers must bear.

Unfortunately, these customers also did not take advantage of unprecedented assistance made available during the pandemic.

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<sup>3</sup> <https://www.unitedforalice.org/covid19>

As noted by the Pennsylvania PUC in PGW’s most recent audit report, PGW “leveraged and continues to employ robust communications efforts to prompt customers to seek social assistance due to financial needs.<sup>4</sup>” – however, customers opted not to enroll or pay. Our data shows the unequivocal impact of Chapter 14, and COVID policies on customer behavior. PGW’s bad debt decreased from over \$71 million to under \$30 million between 2004 and 2019. Then, due to the COVID termination moratorium PGW’s bad debt increased to \$44 million (highlighted by the gray bar in the graph) and was predicted to continue to increase if the moratorium had not ceased.



During COVID, over the course of 2019 and early 2023, PGW saw a significant number of broken payment arrangements, and PUC agreements broke at a higher rate.

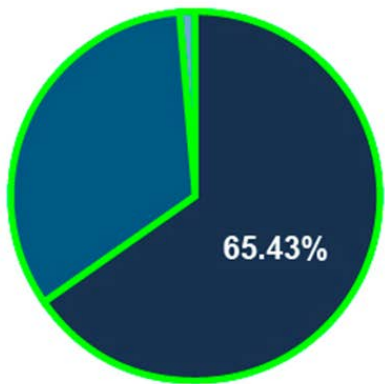
Over 65 percent of customers broke PGW customer payment arrangements and 74 percent of customers broke PUC payment arrangements issued to PGW customers within the

<sup>4</sup> Source: Pennsylvania PUC Management and Operations Audit, February 2023 [PGW Audit Report](#)

first year between FY2019 and FY2023. As evidenced, many customers are not motivated to pay even when they receive a payment agreement based on their income.

Expanding Chapter 14 to allow for additional periods of nonpayment and extra payment agreements without consequence will only exacerbate such behavior.

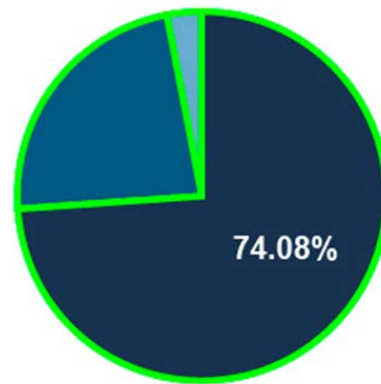
**PGW Broken Arrangement Percentage**



**Arrangement Break Status  
FY19 - FY23 to date**

- Broken after 1 year - 1.32%
- Broken w/i 1 year - 65.43%
- Still Active - 33.25%

**PUC Broken Arrangement Percentage**



**Arrangement Break Status  
FY19 - FY23 to date**

- Broken after 1 year - 2.87%
- Broken w/i 1 year - 74.08%
- Still Active - 23.05%

\*PGW Customer Payment Arrangements 2019-2023

Also cited by the Pennsylvania PUC, “Due to the pervasive economic effects of the COVID-19 pandemic, PGW’s long term aged residential customer accounts receivable balances have significantly increased. PGW’s residential customer account balances aged 90 days and over have increased significantly, outpacing the increase in current balances since March 2020.

Older accounts receivable balances are at increased risk for non-collection, more specifically, for larger overdue balances.”<sup>5</sup>

<sup>5</sup> Source: Pennsylvania PUC Management and Operations Audit, February 2023 [PGW Audit Report](#)

## **In Conclusion: Why PGW Needs Chapter 14 including PGW-Specific Provisions**

As the legislature is aware, one of the main reasons Chapter 14 was originally passed two decades ago was to provide city natural gas distribution operations - PGW - with access to collection tools that would protect its ability to provide affordable energy service for the benefit of City residents. Chapter 14 continues to ensure that PGW can maintain its financial health despite the challenges of its financial model and customer base. Philadelphians deserve safe, reliable, and affordable energy service.

Retaining the Act is vital to PGW revenue collection. At the same time, PGW's highly beneficial low-income program - CAP - will continue to protect the most vulnerable low-income customers by providing them with affordable gas bills. In fact, PGW voluntarily lowered the energy burden low-income households pay. Many advocates do not believe that low-income bill programs are relevant to this discussion, but they are. These programs protect the most vulnerable customers, and Chapter 14 protects non-low-income customers from the debt of customers who can afford to pay but elect otherwise.

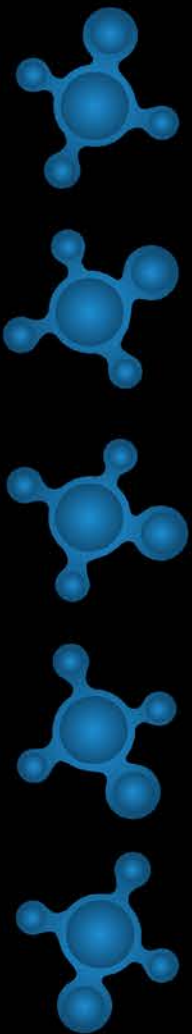
Chapter 14 is still needed, including the PGW-specific provisions within the law that remain integral to the financial well-being of our customers, the City of Philadelphia and the Commonwealth. In its current form, Chapter 14 provides ample protections for customers who are having difficulty paying their utility bills including the limitations on winter termination, protection from termination for those with medical conditions, and ample communication and notifications before scheduled terminations.



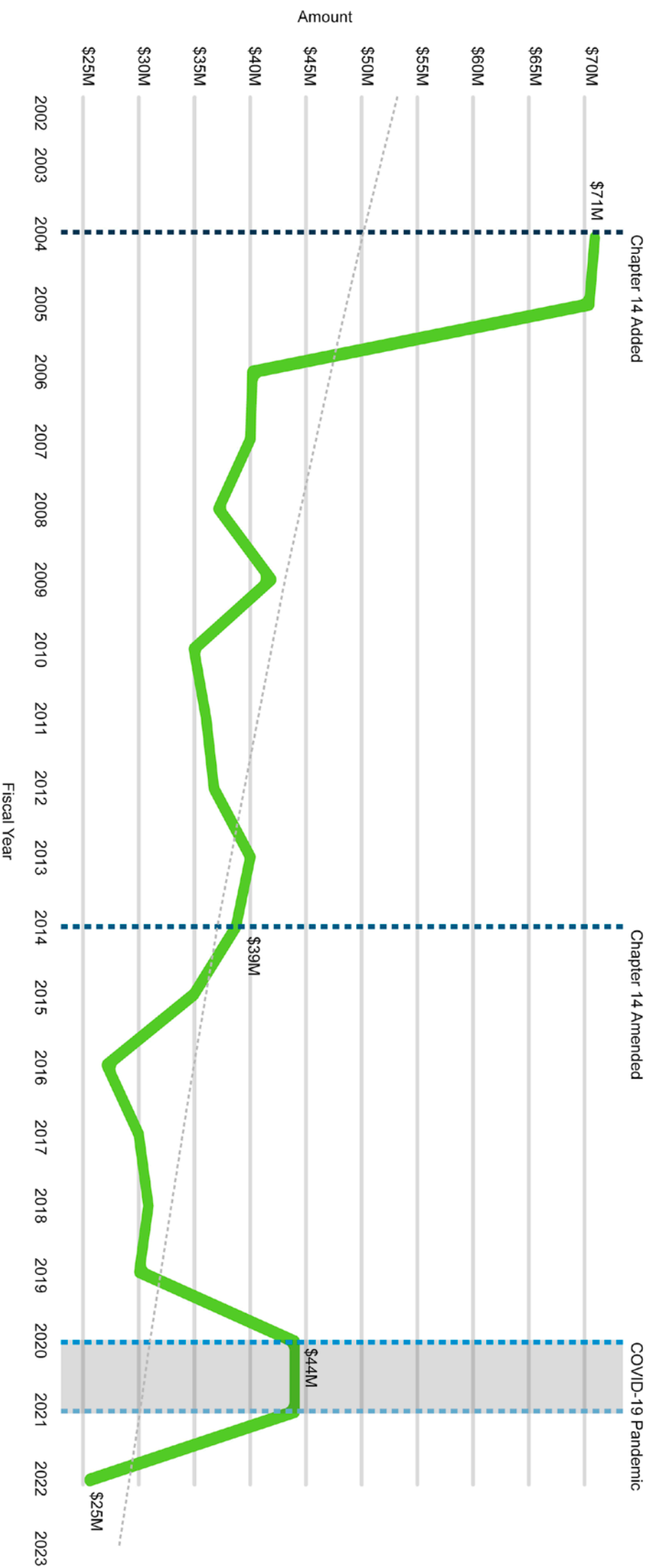
The ongoing tension between customers who make the effort to pay and those who elect not to uniquely impacts PGW due to its municipal status. This status is not up for debate today; but must be acknowledged when reviewing the financial considerations needed to deliver natural gas service safely and reliably to the nation's poorest big city.

Chapter 14 gives PGW the tools to protect paying and vulnerable customers from the delinquent behaviors of non-responsive customers. More specifically, the PGW-specific provisions contained within the legislation ensure that PGW has collection tools available to it to ensure that will guarantee that paying and vulnerable customers continue to be protected if PGW confronts financial stress - especially given the ongoing effects of inflation on families. To change the law otherwise is shortsighted and would not be fair or equitable. PGW encourages Committee members to support the continuation of Chapter 14 in its current form, to allow PGW to: continue to effectively collect revenue and keep bills affordable for all customers; prudently manage the impact of delinquent customers; and preserve the fiscal health of the City of Philadelphia, making for a stronger Commonwealth.

Again, thank you for the opportunity to speak with you today and I would be pleased to take your questions.



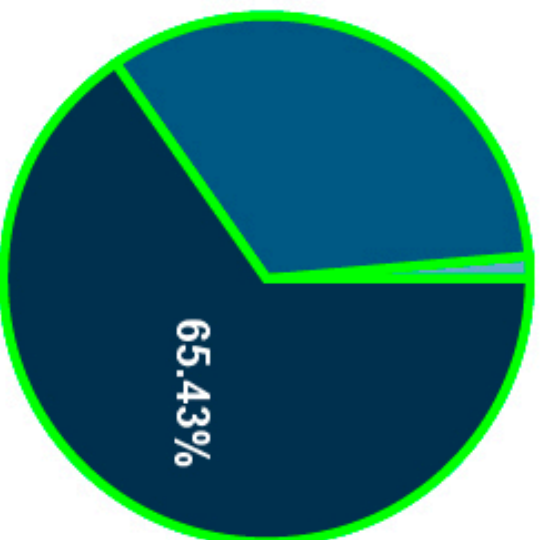
## PGW Bad Debt Expense Timeline: Before Chapter 14 to Today





### Broken Payment Arrangement Percentages

PGW Broken Arrangement Percentage



PUC Broken Arrangement Percentage

