

**SUPPLEMENTAL RESPONSE TO
PUBLIC ADVOCATE'S INTERROGATORIES (SET IV)
AND
REQUESTS FOR PRODUCTION OF DOCUMENTS
QUESTION 15(B)**

Dated: April 2025

1 **PA-IV-15.** REFER TO PWD STATEMENT 2A, PAGE 27, LINES 5 TO 10.
2

3 A. PLEASE PROVIDE DOCUMENTATION, EMPIRICAL STUDIES OR
4 OTHER EVIDENCE THAT SHOW BONDHOLDERS REQUIRE AN
5 ADDITIONAL DEBT SERVICE COVERAGE AS “COMFORT” THAT THE
6 DEPARTMENT, OR A UTILITY, WILL MEET ITS DEBT COVENANTS.
7

8 B. PLEASE PROVIDE DOCUMENTATION OR OTHER EVIDENCE WHERE
9 A UTILITY REGULATORY COMMISSION AWARDED ADDITIONAL
10 BASIS POINTS TO A UTILITY’S RETURN, OR ADDITIONAL
11 COVERAGE TO DEBT SERVICE, TO PROVIDE COMFORT TO
12 INVESTORS.
13

14 **RESPONSE:**

15 A. Previously provided.
16

17 B. Please see Philadelphia Gas Works, General Rate Increase Request – Docket No.
18 R-2025-3053112, Calculation and Support for Requested Revenue Requirement
19 Financial Condition.

- 20 • The fundamental ratemaking philosophy for most financially stable
21 municipal utilities is to provide safe and reliable service at rates that
22 recover all current costs, plus a margin in excess of current costs. This
23 margin, also referred to as debt service coverage, is a municipal utility’s
24 only real alternative to issuing debt to fund capital program costs. Coverage
25 above debt service requirements also provides funds for cash obligations
26 that are not shown in the debt service coverage calculations and provides
27 assurance to investors that the utility will be able to make timely debt
28 service payments.

- The methodology used for calculating debt service coverage does not necessarily reflect all of the cash obligations of a utility notably including capital requirements. The realized debt service coverage ratio should be higher than the minimum required level to provide cash that can be used to pay those other obligations.
- PGW uses a modified accrual basis of accounting. For rate-making purposes, the PUC requires PGW to show its accounting on full accrual basis. The conversion means that PGW has certain obligations that are not recorded as “traditional expenses.” To pay those obligations, PGW needs to have cash above and beyond debt service coverage to pay those obligations. The cash needed to pay those obligations is shown on debt service coverage that is higher than the minimum. If PGW has only given the absolute minimum level of debt service coverage, PGW may not be able to pay all its cash obligations.

RESPONSE PROVIDED BY: Acacia Financial Group Inc and PFM Financial Advisors LLC.