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## Philly steam-loop owner accuses city's gas utility of 'predatory, anti-competitive' conduct.

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Nov. 1A long-simmering feud between the Center City steam loop and Philadelphia Gas Works has erupted into public view, with the privately-owned heating district formally alleging that the city-owned gas utility engages in predatory anticompetitive behavior.

Vicinity Energy, which owns the system that provides steam heat to many Center City buildings as well as the University of Pennsylvania, has filed a formal complaint alleging that PGW is seeking a tenfold increase in its gas-delivery fees. Such an increase would force Vicinity to raise steam rates for its 167 customers, mostly large residential and office buildings and public institutions, including the Philadelphia Museum of Art and Thomas Jefferson University.

At the same time that it is seeking to boost Vicinity's rates, PGW is "aggressively" poaching steam-loop customers, such as the National Park Service's Independence National Historical Park, to switch to PGW natural gas service, said Bill DiCroce, the chief executive of Vicinity Energy. Vicinity's system heats about 75 million square feet of building space.

"They're giving away boiler plants and giving incredible deals downtown, trying to take people off our system or to win business," said DiCroce. "It's crazy."

PGW's conduct "constitutes unreasonable and discriminatory service and unlawful and predatory competition," Vicinity said in its formal complaint to the Pennsylvania Public Utility Commission, dated Oct. 22. Vicinity, which acquired the steam system two years ago from Veolia Energy, is owned by Antin Infrastructure Partners, a French company. The Philadelphia system is the largest of 19 district energy systems it owns.

PGW, in an e-mailed statement, said it is merely trying to remedy a "significantly discounted" rate given to the steam district in 1996, under which Vicinity pays "roughly 1/10th of the rate that PGW's next lowest-priced customer pays." That contract, which PGW says saves Vicinity \$10 million a year, is set to expire at the end of 2022.

"It is our belief that it is not fair for our Philadelphia customers, especially our residential customers, many of whom struggle to make ends meet, to continue to pay for Vicinity Energy's extremely lopsided deal for another 25 years," PGW said in its statement.

With both sides playing hardball, the dispute seems to ripe for adjudication by an independent arbiter. Both Vicinity and PGW said they welcomed the PUC's intervention, and expressed confidence they would win.

A resolution of the dispute could have big implications for PGW's 500,000 customers as well as the owners of 350 buildings served by Vicinity's 40-mile network of pipes that deliver high-pressure steam produced at its Grays Ferry cogeneration plant at 2600 Christian Street and a second, smaller plant at 908 Sansom Street. A tenfold increase in the fees Vicinity pays PGW to deliver its gas would add about \$10 million in annual costs to operations, which last year generated \$65 million in revenue.

The steam loop though the pipe network is not really a loop was started a century ago by Philadelphia Electric Co., now known as Peco. It sold the district energy system in 1987 to a predecessor of Vicinity. About 53% of the steam Vicinity produces is sold to the University of Pennsylvania.

Vicinity, which is PGW's largest gas customer, said it has attempted to open negotiations with PGW over its contract since 2017, but talks began only this year after the arrival of PGW's new chief operating officer, Seth Shapiro. Mayor Kenney chose Shapiro, a real estate executive, to take over the helm of the utility at the end of this year when the current chief executive, Craig White, is set to retire.

Vicinity, like other large customers, buys its gas directly from suppliers and pays PGW to transport it. But Vicinity's transportation fee is in a class of its own because it has its own pipeline, built 25 years ago under a deal struck with a PGW management team installed by the Rendell administration to turn around the ailing utility.

At the time, a previous owner of the steam plant, Trigen Philadelphia Energy Corp. wanted to convert the Grays Ferry plant's fuel source from oil to natural gas. The conversion would improve the plant's emissions, as well as its efficiency the improvements included upgrading the plant's boilers to simultaneously generate electricity, a process know as cogeneration.

But PGW's distribution system was unable to deliver the quantity and pressure of natural gas needed to operate a large power plant.

The steam plant proposed to bypass PGW by building its own pipeline four miles to connect to the interstate transmission line, which delivers gas directly to local utilities and large customers. PGW, as the exclusive provider of gas service in the city, had other ideas.

The compromise that was struck involved PGW converting an existing, unused fuel pipeline to its plant on Passyunk Avenue, and connecting that to a new pipeline linking the Grays Ferry plant. The steam plant is the sole customer of the four-mile pipeline. Under the terms of the 25-year contract, the steam plant owners paid PGW for the costs of upgrading the pipeline, along with its annual operating and maintenance costs.

A generation of PGW executives has privately grumbled about the deal struck 25 years ago, saying that Vicinity's transportation fee does not include the costs for maintaining the rest of the utility's 6,000-mile system. The deal was signed five years before PGW came under the PUC's regulatory review, and PGW officials suggest it would not meet PUC approval now as "just and reasonable."

Vicinity says that PGW has recovered the cost of the four-mile pipeline from the fees Vicinity has paid, which currently more than cover the annual cost of operating and maintaining the pipe.

As part of the negotiations, DiCroce said that Vicinity offered to buy the pipeline outright from PGW and to get off the utility system altogether, but PGW declined. If PGW maintains its position to raise Vicinity's fees 1,000%, DiCroce said, Vicinity might build its own pipeline, bypassing PGW's system. Engineering firms are already exploring such a project, he said.

"I know that will take time, it'll be expensive, and we'll get criticized for it," said DiCroce. "But won't PGW be criticized as well because they abandoned a pipe that has been there only to serve us for 25 years and that we paid for. Now, they're going to have another stranded asset in the ground that I offered to pay them for a second time."

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