PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17120

Final Rulemaking for Revision of
52 Pa. Code, Chapter 53
§§ 53.61 – 53.68, Pertaining to the
Recovery of Fuel Costs by
Gas Utilities

Public Meeting May 7, 2015
2346923-LAW
Docket No. L-2013-2346923

MOTION OF
VICE CHAIRMAN JOHN F. COLEMAN, JR.

On May 9, 2013, the Commission initiated this rulemaking proceeding to simplify and streamline the gas cost rate filings of small gas utilities. The Commission has received and reviewed public comments, and is now ready to adopt final regulations.

I am in general agreement with the staff recommendation, with one exception: the interest rate that would apply to over and under collection of natural gas costs. The Final Rulemaking Order would require small and large gas utilities to use the same interest rate calculation methodology on over and undercollections of natural gas costs. Section 1307(f) of the Public Utility Code requires large gas utilities to refund over collections of natural gas costs with 8% interest, and recoup under collections at 6% interest. 66 Pa.C.S. §1307(f).

While this approach would ensure uniformity and parity between small and large natural gas utilities on this issue, the primary question is *whether this model serves the public interest.* I do not believe that it does. I find Valley Energy, Inc.'s comments on this point to be persuasive. Valley has recommended that the Commission adopt a symmetrical, market based interest rate standard. Valley proposes that the Commission use the prime rate for commercial borrowing, which is lower than the legal rate of interest. This rate has been set at 3.25% since 2008.

I agree that we should use the prime rate for commercial borrowing, and a symmetrical interest for over and under collections. It is not in the public interest to require customers and utilities to incur higher interest rate costs merely because the General Assembly adopted a different standard for large utilities during an era of higher interest rates. Using this particular market based approach will result in immediate benefits for customers and utilities. If there are significant, fundamental changes in the markets that affect interest rates, the methodology we adopt today can be revisited at that point.

Separately, I note that the Commission has proposed eliminating the asymmetric interest rate standard used in automatic adjust clauses for default service. In that rulemaking, we explained our rationale for using a market based interest rate standard based on the prime rate:

> The Commission believes that using the prime interest rate is most appropriate here as this rate is most commensurate with market rates. Additionally, the prime interest rate is publicly known and available, and transparent.

Automatic Adjust Clauses Related to Default Service, Docket L-2014-242001 (Proposed Rulemaking Order entered October 2, 2014). The same rationale applies to this rulemaking.

Nor do I find the rationale for an asymmetric interest rate standard to be compelling. No data has been provided to demonstrate that an asymmetric interest rate results in more accurate gas cost projections. Rather, it may unjustly penalize small companies in years where they underestimate their costs. This may create an incentive to underestimate gas costs every year, resulting in unnecessarily higher interest expenses over the long run.

Finally, I note that the Commission has supported legislation to eliminate the asymmetric, non-market based interest rate standard in the Public Utility Code for large gas utilities.

THEREFORE, I MOVE THAT:

1. The Final Rulemaking Order be adopted, as modified by this Motion.

2. The Law Bureau prepare a Final Rulemaking Order consistent with this Motion.

Date: **<u>May 7, 2015</u>**

JOHN F. COLEMAN, JR.
VICE CHAIRMAN