

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560 (in PA only)

IRWINA. POPOWSKY
Consumer Advocate

FAX (717) 783-7152
consumer@paoca.org

May 28, 2010

Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

RE: Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works 1307(f)
Docket No. R-2010-2157062

Secretary Chiavetta:

Enclosed for filing please find the Statement in Support of Settlement of the Office of Consumer Advocate, in the above-referenced proceeding.

Copies have been served as shown on the Certificate of Service.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Aron J. Beatty".

Aron J. Beatty
Assistant Consumer Advocate
PA Attorney I.D. # 86625

Enclosures

cc: Hon. Cynthia Fordham
Hon. Christopher Pell
Certificate of Service

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2010-2157062
	:	
Philadelphia Gas Works	:	
	:	

STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF JOINT PETITION FOR SETTLEMENT

The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Petition for Settlement of Philadelphia Gas Works' 2010-2011 GCR Proceeding (Joint Petition), finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

I. BACKGROUND

On February 1, 2010, The Philadelphia Gas Works (PGW or Company) filed advance information regarding its annual purchased gas cost rate (PGC) filing pursuant to Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f), and the Public Utility Commission's (Commission) Regulations at 52 Pa.Code §53.64. Thereafter, on March 1, 2010, PGW submitted Supplement No. 37 to Gas Service Tariff - Pa. P.U.C. No. 2 and Supplement No. 32 to Gas Supplier Tariff - Pa. P.U.C. No. 1 to become effective for services rendered on or after September 1, 2010.

On March 15, 2010, the OCA filed a Formal Complaint against the Company's proposed rates, seeking to ensure that such rates are not excessive, discriminatory, or otherwise

contrary to Commission regulation or policy. PGW's definitive filing of March 1st reflected a proposed decrease in the PGC rate. PGW's proposed PGC rate to be effective September 1, 2010 was projected to be \$7.3294/Mcf, a decrease of \$0.0161/Mcf from the \$7.3455/Mcf rate in effect on March 1, 2010.

A prehearing conference was held before Administrative Law Judges Cynthia Williams Fordham and Christopher Pell (ALJs) on March 17, 2010 and a procedural schedule was established for this proceeding.

On April 13, 2010, the OCA submitted the Direct Testimony of Richard W. LeLash (OCA St. 1). After propounding extensive discovery, filing testimony, and participating in informal discovery sessions to evaluate PGW's operations and purchasing procedures, the OCA entered into settlement discussions with the Company and other parties. These settlement discussions resulted in the proposed Settlement set forth in the Joint Petition. This Settlement addresses issues relating to the Company's PGC rate filing, and for the reasons set forth below, the OCA submits that the Settlement is in the public interest.

II. TERMS AND CONDITIONS OF SETTLEMENT

The Settlement contains several key provisions agreed to by the parties. The OCA submits that important provisions contained in the Settlement are designed to benefit ratepayers, including (1) the continuation and extension of the Company's hedging program, designed to increase the stability of rates for PGW's customers; (2) the requirement that PGW enter into an asset management agreement for storage facilities in an effort to reduce future gas costs to be collected from ratepayers; (3) the requirement that PGW will retain the services of a third party to review its capacity resources in order to evaluate the appropriate level of capacity resources needed to help ensure least cost procurement, consistent with PGW's obligation to

provide safe, adequate and reliable service to its customers; and (4) PGW's continued retention of a gas pricing analysis and buying advisory service at a reasonable cost (capped at \$125,000) in order to provide the Company with highly relevant market information to assist the Company when making gas purchases.

PGW, like all of Pennsylvania's gas utilities, has been subject to wholesale price volatility over recent periods. In response to volatile market conditions, the Company has implemented a Gas Purchasing Program intended to help minimize volatility in PGC rates paid by ratepayers. The stated purpose of the purchasing plan is "to reduce PGW ratepayers' exposure to natural gas price volatility and to establish agreed upon standards governing PGW's gas procurement practices." Joint Petition for Settlement, Section (III)(2)(a). The current program sets firm hedging goals under the Settlement that the OCA submits have helped to mitigate rate volatility. Under the Settlement, PGW has agreed to extend the Gas Purchasing Program through May 2012, with minor modifications designed to meet its purchasing requirements. See Joint Petition for Settlement, Appendix B. The OCA submits that the existing plan has been developed through a series of GCR proceedings and supports its continuation.

The OCA submits that the Company's continued adherence to the gas purchasing program will bring benefits to PGW's ratepayers through an increased level of rate stability. Moreover, the benefits of reduced volatility of gas costs are significant, particularly for residential customers with limited flexibility in their monthly budgets. Importantly, the Settlement provides that the parties will monitor and review the effectiveness of the program and revisit the details of the program in next year's GCR proceeding. Joint Petition for Settlement, Section (III)(2)(c). The OCA submits that the Company's hedging program has evolved through

numerous gas cost proceedings and that the parties agreement to continue this review and enhancement process in future cases remains a very important benefit for customers.

The Settlement also establishes that PGW will enter into an asset management agreement for storage facilities in an effort to reduce future gas costs to be collected from ratepayers. Joint Petition for Settlement, Section (III)(3). The agreement PGW will enter involves the release of 1.5 Bcf of the Washington WSS storage service and will end on March 31, 2011. The Company's agreement addresses concerns raised by the OCA concerning its use of storage resources. See, OCA St. 1 at 18-20. The OCA submits that the Company's asset management agreement should benefit ratepayers through reductions in the total cost of gas supply in the upcoming year.

The Settlement further provides that PGW will retain the services of a third party to review its capacity resources. Joint Petition for Settlement, Section (III)(7). The third party will advise PGW as to the appropriate level of capacity resources needed to help ensure least cost procurement, consistent with PGW's obligation to provide safe, adequate and reliable service to its customers. Included within its review, the third party vendor will advise the Company regarding possible asset management arrangements, including a review of the best practices regarding the payment structure of such arrangements. PGW will provide the results of this review along with supporting testimony of the aforementioned third party in its next annual GCR filing on March 1, 2011. Joint Petition for Settlement, Section (III)(7).

The OCA strongly supports this provision of the Settlement, which directly addresses the concerns raised by OCA witness LeLash in his Direct Testimony regarding the Company's capacity resources. See, OCA St. 1 at 15-24. The OCA submits that an overall evaluation of PGW's capacity resources is critical to ensure that its procurement meets its least

cost obligation. The OCA further submits that a third party evaluation with accompanying testimony will greatly assist the parties in their evaluation of the Company's capacity costs in next year's GCR proceeding.

Finally, under the Settlement, PGW will continue its retention of a gas pricing analysis and buying advisory service at a reasonable cost (capped at \$125,000) in order to provide the Company with highly relevant market information to assist the Company when making gas purchases. Joint Petition for Settlement, Section (III)(8). The OCA supports the Company's proposed use of cost effective market services that have the potential to help reduce gas costs.

III. CONCLUSION

For the foregoing reasons, the OCA submits that the terms and conditions of the Joint Petition for Settlement are in the public interest and the interest of Philadelphia Gas Works' ratepayers and should be approved.

Respectfully Submitted,



Aron J. Beatty
Assistant Consumer Advocate
PA Attorney I.D. # 86625
E-Mail: ABeatty@paoca.org
James A. Mullins
Assistant Consumer Advocate
PA Attorney I.D. # 77066
E-Mail: JMullins@paoca.org

Counsel for:
Irwin A. Popowsky
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152
Dated: May 28, 2009
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CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission :
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 v. : Docket No. R-2010-2157062
 :
 Philadelphia Gas Works 1307(f) :
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I hereby certify that I have this day served a true copy of the foregoing document, the Statement in Support of Settlement of the Office of Consumer Advocate, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 28th day of May 2010.

SERVICE E-MAIL and INTEROFFICE MAIL

Johnnie Simms, Esquire
Adeolu Bakare, Esquire
Office of Trial Staff
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

SERVICE BY E-MAIL and FIRST CLASS MAIL

Gregory J. Stunder, Esquire
Philadelphia Gas Works
800 West Montgomery Avenue
Philadelphia, PA 19122

Daniel Clearfield, Esq.
Eckert Seamans Cherin &
Mellott, LLC
213 Market Street – 8th Fl.
Harrisburg, PA 17101

Sharon Webb, Esquire
Assistant Small Business Advocate
Office of Small Business Advocate
Commerce Building, Suite 1102
300 North Second Street
Harrisburg, PA 17101

Richard LeLash
Financial and Regulatory Consultant
18 Seventy Acre Road
Redding, CT 06896

Philip Bertocci, Esq.
Community Legal Services
1424 Chestnut Street
Philadelphia, PA 19102

Barry A. Naum, Esq.
Charis Mincavage, Esq.
Carl J. Zwick, Esq.
McNees Wallace & Nurick LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

Robert Knecht
Industrial Economics, Inc.
2067 Massachusetts Avenue
Cambridge, MA 02140

SERVICE BY FIRST CLASS MAIL POSTAGE PREPAID

Astrid K. Nedela
8211 Rockwell Ave., #2
Philadelphia, PA 19111-1827

Vincent Gariano
409 Audubon Terrace
Philadelphia, PA 19116



Aron J. Beatty
Assistant Consumer Advocate
PA Attorney I.D. # 86625
E-Mail: ABeatty@paoca.org
James A. Mullins
Assistant Consumer Advocate
PA Attorney I.D. # 77066
E-Mail: JMullins@paoca.org

Counsel for
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152
109909