

Philadelphia Gas Works

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VIA OVERNIGHT MAIL

May 28, 2010

Rosemary Chiavetta
Secretary
PA Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

RECEIVED

MAY 28 2010

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Re: Philadelphia Gas Works, Docket No. R-2010-2157062

Dear Secretary Chiavetta:

Enclosed for filing are an original and three (3) copies of the Joint Petition for Settlement of Philadelphia Gas Works' 2010-2011 GCR Proceeding along with Philadelphia Gas Works' Statement in Support of its 2010-2011 GCR Proceeding.

If you have any questions regarding this matter, please contact me. Thank you for your assistance with this matter.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gregory J. Stunder", is written over the typed name. The signature is fluid and cursive.

Gregory J. Stunder

cc: Parties of record
Administrative Law Judge Cynthia Williams Fordham
Administrative Law Judge Christopher Pell

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, et al.

v.

PHILADELPHIA GAS WORKS

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Docket No. R-2010-2157062

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MAY 28 2010

**JOINT PETITION FOR SETTLEMENT OF
PHILADELPHIA GAS WORKS'
2010-2011 GCR PROCEEDING**

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**TO ADMINISTRATIVE LAW JUDGES CYNTHIA WILLIAMS FORDHAM AND
CHRISTOPHER PELL:**

I. INTRODUCTION

Philadelphia Gas Works ("PGW" or the "Company"), the Office of Trial Staff ("OTS"), the Office of Consumer Advocate ("OCA"), and the Office of Small Business Advocate ("OSBA") (collectively "the Settling Parties")¹ hereby submit this Joint Petition for Settlement of PGW's 2010-2011 GCR Proceeding ("Settlement"), as captioned above, and respectfully request the following:

1. That Administrative Law Judges ("ALJs") Cynthia Williams Fordham and Christopher Pell recommend and the Commission approve this Settlement and all of its terms and conditions.

2. That the ALJs recommend and the Commission authorize PGW to file a tariff supplement to reflect rates and terms consistent with this Settlement and applicable to the Section 1307(f) purchased gas cost rate investigation at Docket No. R-2010-2157062 to be

¹ Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") does not join in this Settlement but has authorized the Settling Parties to state its non-opposition to the Settlement.

effective for services rendered on or after September 1, 2010, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1, 2010 to reflect actual experience and changes in forecasted natural gas prices utilizing the methodology prescribed by paragraph III 1.(b).

3. That based on the data and testimony submitted in this case, the ALJs recommend and the Commission make the Findings of Facts and Conclusions of Law proposed at Sections IV and V below.

4. That the Commission terminate its investigation at Docket No. R-2010-2157062 and mark closed the proceedings at Docket Nos. R-2010-2157062.

II. BACKGROUND

1. On February 1, 2010, PGW submitted required data in advance of its annual purchased gas cost (“PGC”) filing pursuant to 66 Pa. C.S. § 1307 and 52 Pa. Code § 53.64.

2. 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. This annual gas cost rate (“GCR”) filing was made pursuant to 66 Pa. C.S. § 1307(f), which authorizes certain natural gas distribution companies to make annual purchased gas cost filings with the Commission to reflect increases or decreases in natural gas costs. Furthermore, PGW submitted data in support of its Tariff supplement, as well as the direct testimony of witnesses Kenneth Dybalski (**PGW ST. 1** re: Proposed 2010 Annual GCR Adjustment) and Douglas Moser (**PGW ST. 2** re: Proposed 2010 Annual GCR Adjustment).

3. As required by Commission regulations, PGW provided public notice of its proposed GCR rate in Supplement No. 37 through bill inserts and newspaper publications in PGW’s service territory.

4. OTS entered a notice of appearance in the case. PICGUG filed a Petition to Intervene, which was granted by the ALJs. OCA and OSBA filed complaints against PGW's tariff supplements and public statements.

5. A Prehearing Conference was held before ALJs Cynthia Williams Fordham and Christopher Pell on March 17, 2010. ALJs Fordham and Pell issued a Prehearing Order which established the schedule and the procedures applicable to this proceeding.

6. Discovery, both formal and informal, was undertaken by OTS, OCA, and OSBA. Formal discovery consisted of 65, 44 and 12 interrogatories propounded by these parties, respectively.

7. On April 13, 2010, direct testimony was submitted by OTS (OTS St. 1), OCA (OCA St. 1) and OSBA (OSBA St. 1) and on April 28, 2010, rebuttal testimony was submitted by OSBA (OSBA St. 2).

8. The Settling Parties commenced settlement discussions and were able to reach this Settlement which resolves all issues pertaining to PGW's 2010-2011 annual GCR Filing.

III. SETTLEMENT

The undersigned Settling Parties, intending to be legally bound and for due consideration given, agree to the terms and conditions set forth below:

1. PURCHASED GAS COST RATES

(a) The Settling Parties agree to accept the underlying data and calculations submitted by PGW in its February 1, 2010 pre-filing and its March 1, 2010 annual filing. The PGC rate adopted by this Settlement is \$7.3294 per Mcf. This rate is predicated on PGW's gas cost projections at the time of the March 1, 2010 annual PGC filing. In accordance with 52 Pa. Code § 53.64, PGW will submit a quarterly adjustment to the PGC rate on or before September 1, 2010, to be effective on one day's notice, to account for actual

experience and changes in forecasted natural gas prices and demand, which will establish the PGC rate, effective September 1, 2010.

(b) PGW shall calculate the quarterly filing updates for the 2010-2011 PGC period in accordance with the Commission's regulations at 52 Pa. Code § 53.64(i)(5).

(c) Attached as Appendix "A" hereto are the rates relating to this Settlement.

2. GAS PURCHASING PROGRAM

(a) Commencing upon the date of execution of this Settlement, the Settling Parties agree that PGW will follow the Gas Purchasing Program attached hereto as Appendix B. The Gas Purchasing Program is intended to reduce PGW ratepayers' exposure to natural gas price volatility and to establish agreed upon standards governing PGW's gas procurement practices.

(b) In PGW's 2010-2011 and 2011-2012 annual PGC proceedings, none of the Settling Parties shall be permitted to challenge the reasonableness, prudence or recoverability of gas costs associated with locked-in prices established in accordance with non-discretionary purchases made in accordance with Appendix B.

(c) The Settling Parties agree to monitor and review the appropriateness and effectiveness of the Gas Purchasing Program set forth in Appendix B and will revisit the Gas Purchasing Program on a going-forward basis in the context of PGW's 2011-2012 and future years' annual PGC filing.

(d) The Settling Parties agree that PGW's obligation to follow the Gas Purchasing Program attached hereto as Appendix B is subject to PGW customers' incremental migration to transportation service, as well as PGW financial constraints and/or credit limitations. PGW agrees that if these factors impact the Company's ability to carry out

the Gas Purchasing Program, PGW will contact the stakeholders in order to discuss the necessary modifications to the Gas Purchasing Program.

(e) PGW may begin purchasing the volumes set forth in Appendix B starting June 1, 2010.

(f) As part of its March 1, 2011 filing, PGW will provide schedules demonstrating how it has complied with Appendix B (Schedules 1 and 2) to this Settlement.

3. ASSET MANAGEMENT MARGINS OR CREDITS RETENTION

PGW has entered into an asset management arrangement with a third party on May 7, 2010. The arrangement involves the release of 1.5 Bcf of the Washington WSS storage service and will end March 31, 2011.

4. DOMINION TRANSMISSION

PGW agrees to take any reasonable steps which may be necessary in order to assure that its GCR customers are included in the class if *Jacquet et al. v. Dominion Transmission, Inc. et al.*² survives the motion to dismiss and is given class action designation. PGW will report on its efforts (if *Jacquet* survives the motion to dismiss and is given class action designation) in its next annual GCR filing on March 1, 2011.

5. PROJECTED SOFT-OFF VOLUMES

PGW agrees to use a 3-year average for the projected amount of soft-off volumes.

6. PROJECTED LOST AND UNACCOUNTED FOR GAS

PGW agrees to use a 3 year average for the projected amount of lost and unaccounted for gas.

7. CAPACITY RESOURCES

² Docket No. 2:05-cv-00548 (S.D. W.Va.)

PGW agrees to retain the services of a third party to review its capacity resources. 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.

8. PRICE ANALYSIS AND BUYING ADVISORY SERVICE

PGW is permitted to recover the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2010-2011 GCR period. Continued recovery of the fee beyond the 2010-2011 GCR period must be addressed in next year's Purchased Gas Cost proceeding. PGW's use of the Planalytics service is intended to operate within the constraints of the gas supply plan detailed in Appendix B, and not as a replacement to it. Specifically, PGW will only adopt recommendations made by Planalytics with respect to the timing of its gas price hedges if such recommendations are consistent with the requirements of Appendix B, Schedule 2. PGW agrees to present an analysis of the Planalytics service for calendar year 2010 in its next annual GCR filing on March 1, 2011. The analysis will show February 2010 and July 2010 purchases for which PGW relied upon Planalytics advisory services, and will compare the purchase prices to the average monthly NYMEX futures prices for the relevant periods.

9. FORECASTING MARKET PRICES

PGW is permitted to use NYMEX Futures prices exclusively for all forecasting beginning with the June 1, 2010 GCR quarterly filing.³

10. ADMISSION OF EVIDENCE

The Settling Parties stipulate to the admission of the filing, testimony and exhibits identified in Appendix “C” hereto.

IV. PROPOSED FINDINGS OF FACT

As a consequence of the Settlement terms and conditions set forth in Section III above, the Settling Parties request that the ALJs and the Commission make the following findings of fact and such other findings and conclusions as may be required as appropriate:

1. PGW’s gas distribution system is located in Southeastern Pennsylvania in the County and City of Philadelphia. Since this is not a gas producing area, PGW and its natural gas customers are dependent upon the interstate natural gas pipeline system to deliver natural gas into the PGW gas distribution system. (PGW ST. 2 at 2).

2. PGW relies on the interstate pipeline for all natural gas supply, storage and transportation services, except for PGW’s own on-system peak shaving facilities. In this regard, PGW owns and operates liquified natural gas LNG facilities that are used both to meet intraday, daily and seasonal supply needs as well as to meet peak day requirements. (PGW ST. 2 at 2).

3. Spectra Energy (“Spectra”) and Williams Gas Pipeline are the two interstate natural gas pipelines that deliver gas to PGW’s city gates. In addition, Dominion Transmission Inc. (“DTI”), and Equitrans, Inc. (“Equitrans”) provide natural gas storage services that PGW uses to meet winter peak requirements. These storage services require intermediate

³ PGW used both NYMEX and Global Insight futures pricing until its March 1, 2010 filing, at which time Global Insight discontinued providing futures pricing to PGW.

transportation services from Spectra to deliver storage withdrawals to the PGW gas distribution system. (PGW ST. 2 at 2).

4. PGW pursues a least cost procurement policy using a portfolio approach in both contract structure and pricing. The portfolio approach protects ratepayers from some of the risk of natural gas market volatility by utilizing a mix of first-of-the-month index pricing, physical forward purchase contracts, storage injection, and winter-only supply contracts, as appropriate given market conditions, and to the extent PGW is not constrained by its financial condition. (PGW ST. 2 at 3).

5. PGW also uses capacity release and off-system sales when available. The prices for the off-system sales transactions are negotiated and, beginning September 1, 2008, 75% of associated credits and margins are returned to customers through the GCR.

6. The details of PGW's actual gas purchases for the 12 months ending December 31, 2009 and an estimate of gas purchases through August of 2010 are presented in the schedules attached to Item 53.64(c)(1) of PGW's February 1, 2010 Pre-filing and Tabs 3 and 4 of PGW's March 1, 2010 annual GCR filing.

7. Projected gas costs as reflected in this Settlement are based on peak-day capacity requirements at a 0 degree design day temperature. (PGW's February 1, 2010 Pre-filing, Item 53.64(c)(13)).

8. PGW is not affiliated with any pipeline or gas supply entity, nor does it have any contracts for local production. Therefore, transactions with affiliates are not an issue in this proceeding pertaining to PGW's procurement practices. (PGW's February 1, 2010 Pre-filing at Item 53.65(5)).

V. **PROPOSED CONCLUSIONS OF LAW**

1. **Historical Reconciliation Period Standards**

(a) With respect to PGW's gas purchases and gas purchasing practices during the twelve-month historical reconciliation period ended December 31, 2009⁴, it is requested that the ALJs and the Commission find that PGW has met the standards of Section 1318 of the Public Utility Code, 66 Pa.C.S. § 1318, as required by Section 1307(f)(5) of the Public Utility Code, 66 Pa.C.S. § 1307(f)(5), as to all actual purchased gas costs in the historical period. It is requested that the Commission find that, during the twelve months ended December 31, 2009:

i. PGW met the requirements of Section 1318(a) of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers.

2. **Interim and Projected Period Findings**

(a) With respect to the eight-month interim period beginning on January 1, 2010, and with respect to the projected twelve-month period beginning September 1, 2010, when rates contained in this Settlement will be in effect, it is requested that the Commission find, based upon information presently available and based upon evidence of record in this proceeding concerning PGW's projected purchases and purchasing policies, that the rates to be adopted by the Commission result from PGW's compliance with all of the provisions of Section 1318 of the Public Utility Code.

(b) The Settling Parties agree, based upon evidence of record in this proceeding concerning PGW's projected gas purchases and gas purchasing policies, that

⁴ The reconciliation period for PGW in this proceeding is the twelve-month period ended December 31, 2009, in accordance with the Commission's regulations at 52 Pa. Code § 53.64(i)(1).

PGW's projected gas purchases and projected gas purchasing policies may comply with the standards of Section 1318 of the Public Utility Code. Nevertheless, it is expressly understood and agreed that this Section of the Settlement, Section V.2., is made solely for the purpose of setting prospective rates that shall be subject to the standards of Section 1318 of the Public Utility Code, 66 Pa.C.S. § 1318, and further review in an appropriate future proceeding. Section V.2. of the Settlement is not intended in any way to limit or prevent OTS, OCA or OSBA from reviewing, after such projected gas purchases actually have been made and gas purchasing practices actually have been implemented, whether PGW's gas purchases and gas purchasing practices complied with Section 1318. If, in an appropriate future proceeding, gas purchases and gas purchasing practices from January 1, 2010 through August 31, 2010 were challenged, the Commission's findings based upon Section V of the Settlement shall not bar the examination of such purchases and practices, including, but not limited to, disallowance of, or reductions to, such costs during the eight-month interim period commencing January 1, 2010, and the twelve-month application period commencing September 1, 2010, and ending on August 31, 2011.

VI. CONDITIONS OF SETTLEMENT

1. This Settlement will go into effect upon the Commission's entry of a final order approving the Settlement, in full and without modification. If the Commission rejects the Settlement, the Agreement automatically will terminate and be null and void with the exception of paragraph 3 below, which will continue in full force and effect. The Settlement also shall automatically become null and void (except for paragraph 3, below) if the Commission, in approving the Settlement, modifies any of its terms or conditions or adds any conditions, unless it is subsequently accepted by the aggrieved signatory party, or parties, as so modified. If the Commission approves the Settlement in full and without modification, the Stipulation:

(a) shall be deemed to resolve with prejudice all issues addressed by this Settlement; and

(b) shall be implemented and shall be enforceable notwithstanding the pendency of a petition for reconsideration or a legal challenge to the Commission's approval, unless such implementation and enforcement of the Settlement is stayed or enjoined by the Commission, another regulatory agency, or a Court having competent jurisdiction over the matter.

2. This Settlement is made without admission against or prejudice to any factual or legal positions which any of the signatories hereto may assert in subsequent litigation in the event that the Commission does not issue a final Order approving this Settlement in full and without modification. If the Commission does not adopt this Settlement in accordance with the terms set forth herein, the Settling Parties reserve their full right to argue that the Commission is without the legal authority to order the implementation of all or part of the terms and conditions set forth herein and no party shall be deemed to have waived or be estopped from asserting such a position before the Commission or before any court.

3. This Settlement Petition may be executed in counterparts, all of which shall constitute one agreement binding on all signatories, and shall have the same force and effect as an original instrument, notwithstanding that the signatories may not be signatories to the same original or the same counterpart.

4. The Settling Parties will submit Statements in Support of this settlement.

5. The Settling Parties agree to waive exceptions to the ALJs' recommended decision if the ALJs recommend that the Joint Petition for Settlement of Philadelphia Gas Works' 2010-2011 GCR Proceeding be approved without change or modification.⁵

⁵ See Appendix D – Sample Ordering Paragraphs for the Recommended Decision.

CONCLUSION

WHEREFORE, the Settling Parties, by their respective counsel, respectfully request as follows:

1. That Administrative Law Judges Cynthia Williams Fordham and Christopher Pell and the Commission approve this Settlement including all terms and conditions thereof; and
2. That the Commission enter an order consistent with this Settlement, resolving and terminating the 2010-2011 GCR proceeding.

Respectfully submitted,

Philadelphia Gas Works



Gregory J. Stunder, Esq.
Philadelphia Gas Works
800 West Montgomery Ave.
Philadelphia, PA 19122
215-684-6878

Counsel for Philadelphia Gas Works

Dated: May 28, 2010

Office of Trial Staff

By 
Adeolu A. Bakare
Counsel for Office of Trial Staff

PA Public Utility Commission
400 North Street, P.O. Box 3265
Harrisburg, PA 17105-3265

Office of Consumer Advocate

By _____
Aron Beatty
Counsel for the Consumer Advocate

Office of Consumer Advocate
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, PA 17101-1923

Office of Small Business Advocate

By _____
Sharon Webb
Counsel for the Small Business Advocate

Office of Small Business Advocate
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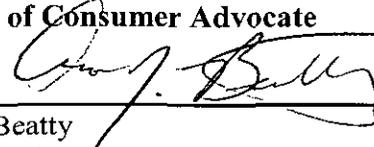
Office of Trial Staff

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Adeolu A. Bakare
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Counsel for the Consumer Advocate

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Appendix A

<u>Gas Cost Rate</u>	
	<u>09/01/2010</u>
Rate per Mcf	\$7.3294
<u>USC</u>	
	<u>09/01/2010</u>
Rate per Mcf	\$1.9391
<u>Restructuring/Consumer Ed Surcharge</u>	
	<u>09/01/2010</u>
Rate per Mcf	\$0.0240

Appendix B
Schedule 1

2010-2011 Gas Purchasing Program

	2010-2011	
	<u>Dth</u>	<u>% of Total</u>
Non-discretionary component		
Price hedging - monthly incremental contracts - Schedule 2	9,580,000	18.8%
Physical hedging (depending on beginning inventory)	12,000,000	23.5%
	21,580,000	42.3%
Market Rates Component		
FOM Call Options	18,250,000	35.8%
	39,830,000	78.1%
Discretionary *	11,170,000	21.9%
TOTAL PURCHASES	51,000,000	100.0%

* Discretionary purchases will partly consist of volumes that are price hedged and physically hedged depending upon PGW's ability to perform such transactions.

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APPENDIX C

Stipulated Record

1. PGW's February 1, 2010 Pre-Filing Information;
2. PGW's March 1, 2010 Annual GCR Filing;
3. PGW St. 1 (Dybalski);
4. PGW St. 2 (Moser);
5. OTS St. 1 (Yocca);
6. OCA St. 1 (Lelash);
7. OSBA St. 1 (Knecht).
8. OSBA St. 2 (Knecht) (Proprietary and Non-Proprietary Versions).

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, et al. :

v. :

PHILADELPHIA GAS WORKS :

Docket No. R-2010-2157062

Appendix D

Sample Ordering Paragraphs for the Recommended Decision

1. That the Joint Petition for Settlement of the Philadelphia Gas Works' 2010-2011 GCR Proceeding submitted by the Philadelphia Gas Works, the Office of Trial Staff, the Office of Consumer Advocate, and the Office of Small Business Advocate at Docket No. R-2010-2157062 is approved.¹

2. That the Philadelphia Gas Works is authorized to file a tariff supplement to reflect rates and terms consistent with the Settlement and applicable to the Section 1307(f) purchased gas cost rate investigation at Docket Nos. R-2010-2157062 to be effective for services rendered on or after September 1, 2010, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1, 2010, to reflect actual experience and changes in forecasted natural gas prices utilizing the methodology prescribed by paragraph III 1(b) of the Joint Petition.

3. That the Gas Purchasing Program in Appendix B shall be made available to the Commission and its Staff for use in this proceeding. For purposes of filing, to the extent that Appendix B is placed in the Commission's report folders, such information shall be handled in accordance with routine Commission procedures inasmuch as the report folders are not subject to public disclosure.

¹ The undersigned concur with the findings of fact and the conclusions of law as set forth in Sections IV. and V., respectively, of the Joint Petition for Settlement of the Philadelphia Gas Works' 2010-2011 GCR Proceeding.

4. That the Philadelphia Gas Works shall calculate the quarterly filing updates for the 2010-2011 GCR period in accordance with the Commission's regulations at 52 Pa. Code § 53.64(i)(5).

5. That the Philadelphia Gas Works will follow the Gas Purchasing Program attached to the Joint Settlement Petition as Appendix B.

6. That in the Philadelphia Gas Works' 2010-2011 and 2011-2012 annual gas cost rate proceedings, none of the Settling Parties shall be permitted to challenge the reasonableness, prudence or recoverability of gas costs associated with locked-in prices established in accordance with non-discretionary purchases under Appendix B solely on the basis that the Philadelphia Gas Works should not have locked-in the price prior to applicable deadlines.

7. That the Settling Parties agree to monitor and review the appropriateness and effectiveness of the Gas Purchasing Program set forth in Appendix B of the Joint Petition and will revisit the Gas Purchasing Program on a going-forward basis in the context of PGW's 2011-2012 and future years' annual PGC filing.

8. That the Philadelphia Gas Works' obligation to follow the Gas Purchasing Program attached to the Joint Petition as Appendix B is subject to Philadelphia Gas Works' credit limits and/or financial constraints. If financial constraints and/or credit limitations impact the Company's ability to carry out the Gas Purchasing Program, Philadelphia Gas Works will contact the stakeholders in order to discuss the modifications to the Gas Purchasing Program required by these factors.

9. That Philadelphia Gas Works has entered into an asset management arrangement with a third party on May 7, 2010. The arrangement involves the release of 1.5 Bcf of the Washington WSS storage service and will end March 31, 2011.

10. That the Philadelphia Gas Works will take any reasonable steps which may be necessary in order to assure that its PGC customers are included in the class if *Jacquet et*

*al v. Dominion Transmission, Inc. et al.*² survives the motion to dismiss and is given class action designation. Philadelphia Gas Works will report on its efforts (if *Jacquet* survives the motion to dismiss and is given class action designation) in its next 1307(f) annual filing on March 1, 2011.

11. That the Philadelphia Gas Works will use a 3-year average for the projected amount of soft-off volumes.

12. That the Philadelphia Gas Works will use a 3 year average for the projected amount of lost and unaccounted for gas volumes.

13. That the Philadelphia Gas Works will retain the services of a third party to review its capacity resources. 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.

14. That the Philadelphia Gas Works will recover the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2010-2011 GCR period. Continued recovery of the fee beyond the 2010-2011 GCR period must be addressed in next year's Purchased Gas Cost proceeding. PGW's use of the Planalytics service is intended to operate within the constraints of the gas supply plan detailed in Appendix B, and not as a replacement to it. Specifically, PGW will only adopt recommendations made by Planalytics with respect to the timing of its gas price hedges if such recommendations are consistent with the requirements of Appendix B, Schedule 2. PGW agrees to present an analysis of the Planalytics service for calendar year 2010 in its next annual GCR filing on March 1, 2011. The analysis will show February 2010 and July 2010 purchases for which PGW relied upon Planalytics advisory

² Docket No. 2:05-cv-00548 (S.D. W.Va.).

services, and will compare the purchase prices to the average monthly NYMEX futures prices for the relevant periods.

15. That the Philadelphia Gas Works will use NYMEX Futures prices exclusively for all forecasting beginning with the June 1, 2010 GCR quarterly filing.

16. That the Philadelphia Gas Works' filing and the testimony and the accompanying exhibits submitted by the Philadelphia Gas Works, the Office of Trial Staff, the Office of Consumer Advocate and the Office of Small Business Advocate are admitted into evidence in this proceeding.

17. That the formal complaint filed by the Office of Consumer Advocate at C-2010-2164086 is deemed satisfied.

18. That the formal complaint filed by the Office of Small Business Advocate at C-2010-2163437 is deemed satisfied.

19. That the intervention of the Philadelphia Industrial and Commercial Gas Users Group is dismissed.

20. That the Commission Investigation at Docket No. R-2010-2157062 is terminated and marked closed.

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.	:	
	:	
	:	Docket No. R-2010-2157062
v.	:	
	:	
PHILADELPHIA GAS WORKS	:	

**PHILADELPHIA GAS WORKS' STATEMENT IN SUPPORT
OF THE JOINT PETITION FOR SETTLEMENT
OF ITS 2010-2011 GCR PROCEEDING**

Philadelphia Gas Works ("PGW" or "Company") submits this Statement in Support of the Joint Petition for Settlement of its 2010-2011 Gas Cost Rate ("GCR") Proceeding. PGW respectfully requests that Administrative Law Judges ("ALJs") Cynthia Williams Fordham and Christopher Pell and the Public Utility Commission approve the Joint Petition, make the findings required by the Public Utility Code, 66 Pa. C.S. §§ 1317 and 1318, and deem this settlement in the public interest.

I. BACKGROUND

On February 1, 2010, PGW submitted required data in advance of its annual GCR filing pursuant to 66 Pa. C.S. § 1307 and 52 Pa. Code § 53.64. 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. This annual GCR filing was made pursuant to 66 Pa. C.S. § 1307(f), which authorizes certain natural gas distribution companies to make annual purchased gas cost filings with the Commission to reflect increases or decreases in natural gas costs.

The Office of Trial Staff ("OTS") entered a notice of appearance in the case. The Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") filed a Petition to

Intervene which was granted by the ALJs. The Office of Consumer Advocate (“OCA”) and Office of Small Business Advocate (“OSBA”) filed complaints against PGW’s filing.

A Prehearing Conference was held before ALJs Cynthia Williams Fordham and Christopher Pell on March 17, 2010, ALJs Fordham and Pell issued a Prehearing Order which established the schedule and the procedures applicable to this proceeding.

Discovery, both formal and informal, was undertaken by various parties. The Parties commenced settlement discussions and were able to reach a Settlement which resolves all issues pertaining to PGW’s 2010-2011 annual GCR Filing.¹

II. PGW IS PURSUING A LEAST COST FUEL PROCUREMENT POLICY CONSISTENT WITH PGW’S OBLIGATION TO PROVIDE SAFE, ADEQUATE AND RELIABLE SERVICE TO ITS CUSTOMERS.

Currently, PGW pursues a least cost procurement policy consistent with PGW’s obligation to provide safe, adequate and reliable service by among other things:

(1) using a portfolio approach in contract structure and pricing; and

(2) utilizing capacity release credits, off system sales margins (when available) and asset management arrangement fees as an additional cost saving strategy and method for providing 75% of the credits, margins and fees as a reduction to purchased gas costs.

The proposed settlement advances the above goal by:

(1) committing to a gas purchasing program that includes purchasing for both the 2010-2011 and 2011-12 GCR periods;

(2) entering into an asset management arrangement which involves the release of 1.5 Bcf of the Washington WSS storage service; and

¹ Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”) does not join in this Settlement, but has authorized the Settling Parties to state their non-opposition to the Settlement.

(3) agreeing to retain the services of a third party to review PGW's capacity resources and providing the results of this review along with supporting testimony in its next annual GCR filing on March 1, 2011.

The Company's portfolio approach utilizes a mix of first-of-the-month index pricing, physical forward purchase contracts, storage injection, and winter-only supply contracts to protect ratepayers from some of the risk of natural gas market volatility. The Gas Purchasing Program submitted with this settlement is intended to reduce PGW ratepayers' exposure to price volatility by hedging some portion of the Company's firm requirements against significant swings in the price of natural gas and establish agreed to standards governing PGW's gas procurement practices. The settlement agreement of the parties recognizes that PGW will also submit quarterly adjustments to the PGC factor in order to account for changes in forecasted price and demand. The foregoing will further assure that PGW is doing everything possible to reduce costs or improve cashflow and its financial strength.

Therefore, the above settlement terms certainly meet the Commission's goal in ensuring the least cost procurement policy consistent with PGW's obligation to provide safe, adequate and reliable service.

III. APPROVAL OF THE JOINT PETITION IS IN THE PUBLIC INTEREST

The Joint Petition is in the public interest because it fairly and reasonably resolves a number of significant issues affecting PGW and its customers and produces GCR rates that are just, reasonable and compliant with the Public Utility Code. All of the facts necessary to approve the settlement are included in the record of the proceeding through the filing and supporting data itself, the testimony of the Parties, or the attachments to the settlement agreement submitted to the ALJs through the stipulation of the Parties.

IV. CONCLUSION

Having found that PGW pursues a least cost procurement policy consistent with PGW's obligation to provide safe, adequate and reliable service, that this settlement satisfies the Commission's requirements at Section 1317 and 1318 of the Code and is in the public interest, PGW supports the Joint Petition and urges ALJs Fordham and Pell and the Commission to approve it in its entirety.

Respectfully submitted:



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Counsel for Philadelphia Gas Work

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

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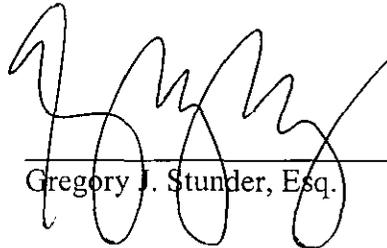
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Gregory J. Stunder, Esq.

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