

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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May 9, 2011

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-2011-2224739

Secretary Chiavetta:

Enclosed for filing please find the Office of Consumer Advocate's Statement in Support of Joint Petition for Settlement, 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. Christopher Pell  
Certificate of Service

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2011-2224739
	:	
Philadelphia Gas Works	:	
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STATEMENT OF THE  
OFFICE OF CONSUMER ADVOCATE  
IN SUPPORT OF JOINT PETITION FOR SETTLEMENT

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The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Petition for Settlement of Philadelphia Gas Works' 2011-2012 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, 2011, 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, 2011, PGW submitted Supplement No. 45 to Gas Service Tariff - Pa. P.U.C. No. 2 and Supplement No. 38 to Gas Supplier Tariff - Pa. P.U.C. No. 1 to become effective for services rendered on or after September 1, 2011.

On March 9, 2011, 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 1<sup>st</sup> reflected a proposed increase in the PGC rate. PGW's proposed PGC rate to be effective September 1, 2011 was projected to be \$6.3077/Mcf, a decrease of \$0.2323/Mcf from the \$6.5400/Mcf rate in effect on March 1, 2011.

A prehearing conference was held before Administrative Law Judge Christopher Pell on March 14, 2011 and a procedural schedule was established for this proceeding.

The OCA retained the services of Richard W. LeLash to assist the office in its review of the Company's gas purchasing practices. After propounding extensive discovery 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. Unlike in prior proceedings, the parties reached a settlement prior to the date established for the submission of Direct Testimony. The OCA's extensive discovery, both formal and informal, combined with the results of a third party study of the Company's procurement practices (the Summit Energy study, discussed more fully below), provided a reasonable basis to reach a Settlement with the Company at the earlier stage of the proceeding. The 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 of the Company's hedging program, designed to ensure a degree of stability in rates for PGW's customers; (2) the requirement that PGW develop an

action plan to address the recommendations of the Summit Energy Report (Summit Report) that was performed in accordance with the Settlement of PGW's 2010-2011 PGC proceeding for the purpose of evaluating 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 (3) 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 continues to be "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 and provide for protection in the event of a future rise in gas prices. Under the Settlement, PGW will continue to implement the existing Gas Purchasing Program. 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 at this time.

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. While gas pricing has stabilized in recent months, the purpose of the gas purchasing program is to build in a degree of protection against sudden increases in prices. 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 further provides that PGW will provide an action plan addressing the recommendations made in the Summit Energy Report<sup>1</sup> that was conducted pursuant to the Settlement of the 2010-2011 PGC proceeding and filed with its annual March 1, 2011 submission. Joint Petition for Settlement, Section (III)(3). Under the Settlement, PGW will provide an action plan addressing the many recommendations contained in Summit Energy's report, and specifically the Company will conduct a cost benefit analysis regarding the Equitrans and Dominion storages, to be included in its next Purchased Gas Cost proceeding. Settlement at (III)(3). In its Report, Summit Energy recommended the release of PGW's Equitrans storage, and also that PGW consider reducing its Dominion storage. Summit Energy Report at 3.

The OCA submits that the Summit Report identifies several areas of PGW's operations that have the potential to reduce costs to ratepayers. In last year's PGC proceeding, the Company agreed to take the steps necessary to bring a third party with expertise in the gas industry to evaluate its mix of capacity resources. Under the Settlement, the Company has agreed to take the important step of evaluating which recommendations should be acted upon in

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<sup>1</sup> As explained by PGW witness Douglas Moser, "PGW retained the services of Summit Energy Services to review its capacity resources. Summit Energy Services provides energy management to organizations in a wide range of industries and manages more than \$20 billion in annual energy expenditures for more than 650 companies and

order to reduce the cost of providing service to PGW's ratepayers. Specifically, Summit Energy recommended the release of Equitrans storage and the possible reduction of Dominion storage. The Settlement requires PGW to demonstrate, through a cost benefit analysis, that Summit Energy's recommendations should be acted upon. The OCA submits that a cost benefit evaluation of PGW's capacity resources is critical to ensure that its procurement meets its least cost obligation.

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.

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thousands of facilities." PGW St. 2 at 10-11. The Summit Energy report provided in the March 1, 2011 filing is dated January 25, 2011.

### 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,



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CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission :  
 :  
 v. : Docket No. R-2011-2224739  
 :  
 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 Office of Consumer Advocate's Statement in Support of Joint Petition for Settlement, 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 9th day of May 2011.

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