



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

May 9, 2011

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Philadelphia Gas Works' Purchased Gas Cost Section 1307(f) Filing

Docket No. R-2011-2224739

Dear Secretary Chiavetta:

Enclosed please find an original and three (3) copies of the Office of Trial Staff's (OTS) **Statement in Support of Joint Petition for Settlement** in the above-captioned proceeding.

Copies are being served electronically on all active parties of record. If you have any questions, please contact me at (717) 783-6155.

Sincerely,

Adeolu A. Bakare
Prosecutor
Office of Trial Staff
PA Attorney I.D. #208541

Enclosure
AAB/edc

cc: Parties of Record
Hon. Christopher Pell

PA PUC
SECRETARY'S BUREAU

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility
Commission

v.

Philadelphia Gas Works

Docket No. R-2011-2224739

**OFFICE OF TRIAL STAFF
STATEMENT IN SUPPORT OF
JOINT PETITION FOR SETTLEMENT**

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TO ADMINISTRATIVE LAW JUDGE CHRISTOPHER PELL:

The Office of Trial Staff (“OTS”) of the Pennsylvania Public Utility Commission (“Commission”), by and through its Prosecutor, Adeolu A. Bakare, hereby respectfully submits that the terms and conditions of the foregoing Joint Petition for Settlement Agreement (“Settlement”) are in the public interest and represent a fair and just balance of the interests of PGW (“PGW” or “Company”) and its customers.

INTRODUCTION

1. OTS is charged with the representation of the public interest in rate-related proceedings held before the Commission. Consequently, in negotiated settlements, it is incumbent upon OTS to ensure that the public interest is served and to quantify to what extent amicable resolution of any such proceeding will benefit the public interest. Based upon OTS’s analysis of the Company’s 1307(f) filing, acceptance of this proposed

Settlement is in the public interest and OTS recommends that Administrative Law Judge (“ALJ”) Christopher Pell and the Commission approve the Settlement in its entirety.

BACKGROUND

2. OTS adopts and incorporates the background set forth in the Settlement.¹
3. The Settlement represents a balance of the interests of the Company and its customers. Accordingly, for the reasons articulated below, OTS maintains that the proposed Settlement is in the public interest and requests that it be approved by the ALJ and the Commission.

DISCUSSION

A. Purchased Gas Cost Rates

PGW’s proposed purchased gas costs rates, attached as Appendix A to the Settlement, show a \$0.2647/Mcf decrease from the current PGC rate of \$6.5400/Mcf to \$6.2753/Mcf as of September 1, 2011.

OTS represents that the natural gas costs that PGW incurred during the historic period adhered to a least cost fuel procurement policy. Adherence to a least cost procurement policy benefits ratepayers because least cost gas reduces customer gas bills and in compliance with PGW’s obligation to provide safe, adequate and reliable service to its customers. After review of the filing and extensive discovery and settlement discussions, OTS maintains that PGW’s historic gas purchasing practices have satisfied its least cost procurement obligation.

¹ Settlement, pp. 2-3.

Additionally, OTS reviewed the Company's projected gas costs and determined that it appears those costs are consistent with a least cost fuel procurement policy. While those costs are subject to review in a future PGC proceeding, OTS opines that ratepayers are protected in that PGW gains no unwarranted financial advantages through its projected gas purchases and projected gas purchasing policies.

B. Gas Purchasing Program

OTS submits that the gas purchasing program agreed to in the Settlement will assist in reducing the volatile nature of gas purchases while not dramatically impacting the Company's obligation to purchase gas under a least cost procurement policy. Reducing volatility benefits ratepayers as long as it does not violate that statutory mandate. OTS agrees that it will not challenge the reasonableness of PGW's gas purchasing program provided that it is restricted to the volumes and time periods set forth in Appendix B to the Settlement with allowance for the limiting circumstances provided in paragraph III(2)(d) of the Settlement.

C. Asset Management Margins or Credits Retention

OTS submits that continuing PGW's longstanding asset management sharing mechanism is in the public interest. The current mechanism allows the Company to retain 25% of margin revenues with PGC customers retaining the remaining 75%.² This sharing mechanism was approved in the Company's recent PGC proceedings at Docket Nos. R-2010-2157062, R-2009-2088076 and R-2008-2021348. OTS submits that continuing the current sharing mechanism through August 31, 2012 is in the public

² Settlement, p. 5.

interest because it continues to provide the Company with an incentive to maximize its efforts to increase capacity release and off-system sales activity and thereby directly reduces gas costs for PGC customers.

D. Cost Recovery for Price Analysis and Buying Advisory Services

The agreement with Planalytics, a price analysis and buying advisory service, is in the public interest. The Public Utility Code in Section 1307(h) expressly states that risk management tools are included in the definition of gas costs; therefore, Planalytics' annual fee for this service, subject to a maximum of \$125,000, is appropriately recovered from PGC customers as it will assist in mitigating the financial risk in its gas supply portfolio.

E. Unaccounted For Gas

The parties agree that the Company's lost and unaccounted for gas ("LUFG") in this proceeding is acceptable. OTS reviewed the Company's LUFG rate of 3.7% and does not recommend an adjustment. Noting that the LUFG reported in this the 2011 PGC filing reflects a 0.1% decrease from the prior year, OTS encourages PGW to continue its efforts to maintain and improve its LUFG rate.

4. Based on OTS's analysis of the filing, acceptance of this proposed Settlement is in the public interest. Resolution of this case by settlement rather than litigation will avoid the substantial time and effort involved in continuing to formally pursue all issues in this proceeding at the risk of accumulating excessive expense.

5. OTS further submits that the acceptance of the foregoing settlement will negate the need for an evidentiary hearing, the preparation of Main and Reply Briefs, the preparation of Exceptions and Reply Exceptions, and the filing of possible appeals.

6. The Settlement is conditioned upon the Commission's approval of all terms contained therein and should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by the Company or OTS provided therein.

7. OTS's agreement to settle this case is made without any admission or prejudice to any position that OTS might adopt during subsequent litigation in the event that the Settlement is rejected by the Commission or otherwise properly withdrawn by any other parties to the instant proceeding.

8. If the ALJ recommends that the Commission adopt the Settlement as proposed, OTS agrees to waive the filing of Exceptions. However, OTS has not waived its right to file Reply Exceptions with respect to any modifications to the terms and conditions of the Settlement, or any additional matters, that may be proposed by the ALJ in the Recommended Decision. OTS also reserves the right to file Reply Exceptions to any Exceptions that may be filed with the Company.

WHEREFORE, the Commission's Office of Trial Staff represents that it supports the Settlement as being in the public interest and respectfully requests that Administrative Law Judge Christopher Pell recommend, and the Commission subsequently approve, the foregoing Joint Petition for Complete Settlement, including all terms and conditions contained therein.

Respectfully submitted,



Adeolu A. Bakare
Prosecutor
PA Attorney I.D. # 208541

Office of Trial Staff
Pennsylvania Public Utility Commission
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Dated: May 9, 2011

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Philadelphia Gas Works' :
Purchased Gas Cost Section : Docket No. R-2011-2224739
1307(f) Filing :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Statement in Support of Joint Petition for Settlement** dated May 9, 2011, either personally, by first class mail, electronic mail, express mail and/or by fax upon the persons listed below, in accordance with the requirements of § 1.54 (relating to service by a party):

Gregory J. Stunder, Esquire
Philadelphia Gas Works
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