

Philadelphia Gas Works

Gregory J. Stunder
Senior Attorney



800 W. Montgomery Avenue, Philadelphia, PA 19122
Telephone: (215) 684-6878 – Fax (215) 684-6798
Email: greg.stunder@pgworks.com

VIA OVERNIGHT MAIL

June 5, 2012

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

RECEIVED
JUN 05 2012
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Re: Philadelphia Gas Works, Docket No. R-2012-2286447

Dear Secretary Chiavetta:

Enclosed for filing are an original and three (3) copies of the:

- 1) Joint Petition for Settlement of Philadelphia Gas Works' 2012-2013 GCR Proceeding;
- 2) Philadelphia Gas Works' Statement in Support;
- 3) Bureau of Investigation and Enforcement's Statement in Support;
- 4) Office of the Consumer Advocate's Statement in Support; and
- 5) Office of the Small Business Advocate's Statement in Support.

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 a printed name. The signature is fluid and cursive.

Gregory J. Stunder

cc: Parties of record
Administrative Law Judge Christopher Pell

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, et al.	:	
	:	Docket No. R-2012-2286447
v.	:	
	:	
PHILADELPHIA GAS WORKS	:	

**JOINT PETITION FOR SETTLEMENT OF
PHILADELPHIA GAS WORKS'
2012-2013 GCR PROCEEDING**

TO ADMINISTRATIVE LAW JUDGE CHRISTOPHER PELL:

I. INTRODUCTION

Philadelphia Gas Works ("PGW" or the "Company"), the Bureau of Investigation and Enforcement ("I&E") and the Office of Consumer Advocate ("OCA") (collectively "the Settling Parties")¹ hereby submit this Joint Petition for Settlement of PGW's 2012-2013 GCR Proceeding ("Settlement"), as captioned above, and respectfully request the following:

- 1) That Administrative Law Judge ("ALJ") Christopher Pell recommends and the Commission approves this Settlement and all of its terms and conditions.
- 2) That the ALJ recommends and the Commission authorizes 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-2012-2286447 to be effective for services rendered on or after September 1, 2012, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1,

¹ The Office of Small Business Advocate ("OSBA") and the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") do not join in this Settlement but have authorized the Settling Parties to state their non-opposition to the Settlement.

2012 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 ALJ recommends and the Commission makes 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-2012-2286447 and mark closed the proceedings at Docket Nos. R-2012-2286447.

II. BACKGROUND

- 1) On February 1, 2012, 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, 2012, PGW submitted Supplement No. 51 to Gas Service Tariff - Pa. P.U.C. No. 2 and Supplement No. 43 to Gas Supplier Tariff - Pa. P.U.C. No. 1 to become effective for services rendered on or after September 1, 2012. 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 2012 Annual GCR Adjustment**) and Douglas Moser (**PGW ST. 2 re: Proposed 2012 Annual GCR Adjustment**).
- 3) As required by Commission regulations, PGW provided public notice of its proposed GCR rate in Supplement No. 51 through bill inserts and newspaper publications in PGW's service territory.

- 4) I&E entered a notice of appearance in the case. PICGUG filed a Petition to Intervene, which was granted by the ALJ. OCA and OSBA filed complaints against PGW's tariff supplements and public statements.
- 5) A Prehearing Conference was held before ALJ Christopher Pell on March 15, 2012. ALJ 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 I&E, OCA, and OSBA. Formal discovery consisted of 52, 61 and 14 interrogatories propounded by these parties, respectively.
- 7) The Settling Parties commenced settlement discussions and were able to reach this Settlement which resolves all issues pertaining to PGW's 2012-2013 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, 2012 pre-filing and its March 1, 2012 annual filing. The PGC rate adopted by this Settlement is \$5.1876 per Mcf. This rate is predicated on PGW's gas cost projections at the time of the March 1, 2012 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, 2012, 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, 2012.

b) PGW shall calculate the quarterly filing updates for the 2012-2013 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) EQUITRANS CONTRACT

The parties agree that PGW will provide notice to Equitrans of termination of the Equitrans storage contract and related transportation arrangements prior to March 31, 2013, unless:

a) PGW presents an evaluation of the benefits and costs associated with the contract to the parties by February 1, 2013, demonstrating the reasonableness of maintaining the contract; and

b) The parties, within 30 days of receiving the evaluation described in part (a), all agree that it is in the interests of ratepayers for PGW to maintain the Equitrans storage contract.

3) 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 2012-2013 GCR period. Continued recovery of the fee beyond the 2012-2013 GCR period must be addressed in next year's Purchased Gas Cost proceeding.

4) FOM PRICED DAILY GAS SUPPLY CONTRACTS

a) PGW will renew its current FOM Priced daily gas supply contracts which expire during 2012 at 50 percent of the current contract MDQ quantities for a term of one year.²

² PGW may replace the other 50 percent of the current contract MDQ quantities with daily index price contracts.

- b) PGW will present an analysis of the costs and benefits associated with maintaining FOM priced daily contracts similar to that prepared by the OCA in the instant proceeding. PGW may include what it believes to be other relevant considerations in its analysis. Contracting for FOM priced gas supplies beyond the period discussed in part (a) will be addressed in next year's 1307(f) proceeding.

5) OFF-SYSTEM SALES

PGW will maintain and provide information showing its daily analysis of off-system sales opportunities for the period November 1, 2012 – February 28, 2013. The information will include index prices at the receipt points for its firm transportation contracts, applicable variable and fuel retention charges to potential off-system markets, market area index prices, and the availability of its firm transportation pipeline and LNG capacity. The information will be sufficient to show anticipated off-system sales margins and whether the Company had the resources to complete an off-system transaction.

6) QUARTERLY/ANNUAL FILING AND C/E FACTOR ISSUES

PGW agrees to:

- a) define the acronym "GAC";
- b) report its projected migration volumes for the upcoming PGC year in both its annual and compliance 1307(f) filings;
- c) calculate interest of over and under collections as set forth in I & E's direct testimony;
- d) include actual data for the second month preceding a quarterly GCR filing;

- e) only use three months of actual data (starting with the month that begins four months before the quarterly filing date) in its quarterly filings;
- f) (i) base the September 1 E factor on 11 months actual & 1 month estimated data, and residual E-factor dollar balances from prior PGC years; (ii) base the December 1 E factor on fixed 12 months (September 1 through August 31) of actual data, and residual E-factor dollar balances from prior PGC years; (iii) only adjust the E factor during the GCR year for current PGC year sales volume; and (iv) reconcile the 1st, 2nd and 3rd quarter gas cost adjustments through the C factor; and
- g) track and record e-factor billed revenues (which includes both GCR and migration sources) separately to ease reconciliation of the e-factor.

7) LOST AND UNACCOUNTED FOR GAS

PGW agrees to identify its UFG mitigation strategies and evaluate whether UFG mitigation strategies employed by other similarly situated NGDCs (which have achieved reductions in UFG) are appropriate for PGW. PGW further agrees to report on the foregoing efforts in its March 1, 2013 Section 1307(f) filing.

8) OFF-SYSTEM SALES MARGIN, CAPACITY RELEASE CREDIT AND ASSET MANAGEMENT MARGIN/CREDIT/FEE RETENTION

PGW will retain 25% of all off-system sales margins, capacity release credits and asset management margins/credits/fess with the remaining 75% applied as an offset to purchased gas costs. The retention period is September 1, 2012 to August 31, 2013 unless the Commission approves continuation. The Company also agrees to include an off-system sales margin, capacity release credit and asset management margins/credits/fees retention proposal

for the Purchased Gas Cost period(s) beginning on September 1, 2013 in its March 1, 2013 annual 1307(f) filing.

9) ADMISSION OF EVIDENCE

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

VI. 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 liquefied 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

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, winter-only supply contracts, and LNG, 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 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, 2011 and an estimate of gas purchases through August of 2013 are presented in the schedules attached to Item 53.64(c)(1) of PGW's February 1, 2012 Pre-filing and Tabs 3 and 4 of PGW's March 1, 2012 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, 2012 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, 2012 Pre-filing at Item 53.65(5)).

IV. PROPOSED CONCLUSIONS OF LAW

1) Historical Reconciliation Period Standards

With respect to PGW's gas purchases and gas purchasing practices during the twelve-month historical reconciliation period ended December 31, 2011³, 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, 2011, 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, 2012, and with respect to the projected twelve-month period beginning September 1, 2012, 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 PGW's projected gas purchases and projected gas purchasing policies may comply with the standards of

³ The reconciliation period for PGW in this proceeding is the twelve-month period ended December 31, 2011, in accordance with the Commission's regulations at 52 Pa. Code § 53.64(i)(1).

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 I&E or OCA 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, 2012 through August 31, 2012 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, 2012, and the twelve-month application period commencing September 1, 2012, and ending on August 31, 2013.

V. 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' 2012-2013 GCR Proceeding be approved without change or modification.⁴

⁴ See Appendix C – Sample Ordering Paragraphs for the Recommended Decision.

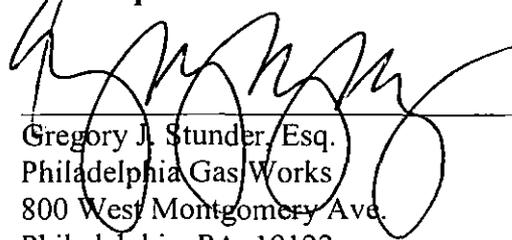
CONCLUSION

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

- 1) That Administrative Law Judge 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 2012-2013 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: June 5, 2012

Bureau of Investigation and Enforcement

By Carrie Wright
Carrie Wright
Counsel for the Bureau of Investigation and
Enforcement

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

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**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

Bureau of Investigation and Enforcement

By _____
Carrie A. Wright
Counsel for the Bureau of Investigation and
Enforcement

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

June 4, 2012

Office of Small Business Advocate

By _____
Sharon Webb
Counsel for the Small Business Advocate

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

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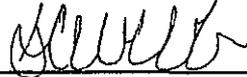
**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

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

Appendix A

<u>Gas Cost Rate</u>	
	<u>09/01/2012</u>
Rate per Mcf	\$5.1876
<u>USC</u>	
	<u>09/01/2012</u>
Rate per Mcf	\$1.8655
<u>Restructuring/Consumer Ed Surcharge</u>	
	<u>09/01/2012</u>
Rate per Mcf	\$0.0000

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**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

APPENDIX B

Stipulated Record

1. PGW's February 1, 2012 Pre-Filing Information;
2. PGW's March 1, 2012 Annual GCR Filing;
3. PGW St. 1 and 1R (Dybalski);
4. PGW St. 2 and 2R (Moser);
5. I&E St. 1 and 1-SR (Cline);
6. I&E St. 2 and 2-SR, (Morrisey);
7. OCA Direct and Surrebuttal Testimony (Mierzwa);
8. OSBA St. 1, 2 and 3 (Knecht).

Note: Testimony exhibits intended to be included in the record.

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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-2012-2286447
v.	:	
	:	
PHILADELPHIA GAS WORKS	:	

Appendix C

Sample Ordering Paragraphs for the Recommended Decision

That the Joint Petition for Settlement of the Philadelphia Gas Works' 2012-2013 GCR Proceeding submitted by the Philadelphia Gas Works, the Bureau of Investigation and Enforcement and the Office of Consumer Advocate at Docket No. R-2012-2286447 is approved.¹

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-2012-2286447 to be effective for services rendered on or after September 1, 2012, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1, 2012, to reflect actual experience and changes in forecasted natural gas prices utilizing the methodology prescribed by paragraph III 1(b) of the Joint Petition.

That the Philadelphia Gas Works shall calculate the quarterly filing updates for the 2012-2013 GCR period in accordance with the Commission's regulations at 52 Pa. Code § 53.64(i)(5).

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JUN 05 2012

**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

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' 2011-2012 GCR Proceeding.

That the Philadelphia Gas Works will PGW will provide notice to Equitrans of termination of the Equitrans storage contract and related transportation arrangements prior to March 31, 2013, unless:

- a) PGW presents an evaluation of the benefits and costs associated with the contract to the parties by February 1, 2013, demonstrating the reasonableness of maintaining the contract; and
- b) The parties, within 30 days of receiving the evaluation described in part (a), all agree that it is in the interests of ratepayers for PGW to maintain the Equitrans storage contract.

That the Philadelphia Gas Works will recover the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2012-2013 GCR period. Continued recovery of the fee beyond the 2012-2013 GCR period must be addressed in next year's Purchased Gas Cost proceeding.

That the Philadelphia Gas Works will renew its current FOM Priced daily gas supply contracts which expire during 2012 at 50 percent of the current contract MDQ quantities for a term of one year and present an analysis of the costs and benefits associated with maintaining FOM priced daily contracts similar to that prepared by the OCA in the instant proceeding.² PGW may include what it believes to be other relevant considerations in its analysis. Contracting for FOM priced gas supplies beyond the period discussed in part (a) will be addressed in next year's 1307(f) proceeding

That the Philadelphia Gas Works will maintain and provide information showing its daily analysis of off-system sales opportunities for the period November 1, 2012 – February 28, 2013.

² PGW may replace the other 50 percent of the current contract MDQ quantities with daily index price contracts.

The information will include index prices at the receipt points for its firm transportation contracts, applicable variable and fuel retention charges to potential off-system markets, market area index prices, and the availability of its firm transportation pipeline and LNG capacity. The information will be sufficient to show anticipated off-system sales margins and whether the Company had the resources to complete an off-system transaction.

That the Philadelphia Gas Works will: a) define the acronym “GAC”; b) report its projected migration volumes for the upcoming PGC year in both its annual and compliance 1307(f) filings; c) calculate interest of over and under collections as set forth in I & E’s direct testimony; d) include actual data for the second month preceding a quarterly GCR filing; e) only use three months of actual data (starting with the month that begins four months before the quarterly filing date) in its quarterly filings; and f) (i) base the September 1 E factor on 11 months actual & 1 month estimated data, and residual E-factor dollar balances from prior PGC years; (ii) base the December 1 E factor on fixed 12 months (September 1 through August 31) of actual data, and residual E-factor dollar balances from prior PGC years; (iii) only adjust the E factor during the GCR year for current PGC year sales volume; and (iv) reconcile the 1st, 2nd and 3rd quarter gas cost adjustments through the C factor; and g) track and record e-factor billed revenues (which includes both GCR and migration sources) separately to ease reconciliation of the e-factor.

That the Philadelphia Gas Works will retain 25% of all off-system sales margins, capacity release credits and asset management margins/credits/fess with the remaining 75% applied as an offset to purchased gas costs. The retention period is September 1, 2012 to August 31, 2013 unless the Commission approves continuation. The Company also agrees to include an off-system sales margin, capacity release credit and asset management margins/credits/fees retention proposal for the Purchased Gas Cost period(s) beginning on September 1, 2013 in its March 1, 2013 annual 1307(f) filing.

That the Philadelphia Gas Works will identify its UFG mitigation strategies and evaluate whether UFG mitigation strategies employed by other similarly situated NGDCs (which have achieved reductions in UFG) are appropriate for PGW. PGW further agrees to report on the foregoing efforts in its March 1, 2013 Section 1307(f) filing.

That the Philadelphia Gas Works' filing and the testimony and the accompanying exhibits submitted by the Philadelphia Gas Works are admitted into evidence in this proceeding.

That the formal complaint filed by the Office of Consumer Advocate at C-2012-2290539 is deemed satisfied.

That the formal complaint filed by the Office of Small Business Advocate at C-2012-2291777 is deemed satisfied.

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

That the Commission Investigation at Docket No. R-2012-2286447 is terminated and marked closed.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, et al.

v.

PHILADELPHIA GAS WORKS

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Docket No. R-2012-2286447

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**PHILADELPHIA GAS WORKS' STATEMENT IN SUPPORT
OF THE JOINT PETITION FOR SETTLEMENT
OF ITS 2012-2013 GCR PROCEEDING**

PENNSYLVANIA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Philadelphia Gas Works ("PGW" or "Company") submits this Statement in Support of the Joint Petition for Settlement of its 2012-2013 Gas Cost Rate ("GCR") Proceeding. PGW respectfully requests that Administrative Law Judge ("ALJ") 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, 2012, 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, 2012, PGW submitted Supplement No. 51 to Gas Service Tariff - Pa. P.U.C. No. 2 and Supplement No. 43 to Gas Supplier Tariff - Pa. P.U.C. No. 1 to become effective for services rendered on or after September 1, 2012. 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 Bureau of Investigation and Enforcement ("I&E") 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 ALJ. 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 ALJ Christopher Pell on March 15, 2012. ALJ 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 2012-2013 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.²

The proposed settlement advances the above goal by:

- (1) Agreeing to provide notice to Equitrans of termination of the Equitrans storage contract and related transportation arrangements prior to March 31, 2013, unless:

¹ The 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.

² Joint Petition for Settlement Paragraph III.5.

a) PGW presents an evaluation of the benefits and costs associated with the contract to the parties by February 1, 2013, demonstrating the reasonableness of maintaining the contract; and

b) The parties, within 30 days of receiving the evaluation described in part a), all agree that it is in the interests of ratepayers for PGW to maintain the Equitrans storage contract.³

(2) Agreeing to renew its current FOM Priced daily gas supply contracts which expire during 2012 at 50 percent of the current contract MDQ quantities for a term of one year.⁴

(3) Agreeing to identify its UFG mitigation strategies and evaluate whether UFG mitigation strategies employed by other similarly situated NGDCs (which have achieved reductions in UFG) are appropriate for PGW and to report on the foregoing efforts in its March 1, 2013 Section 1307(f) filing.⁵

The Company's portfolio approach utilizes a mix of first-of-the-month index pricing, physical forward purchase contracts, storage injection, winter-only supply contracts, and LNG to protect ratepayers from some of the risk of natural gas market volatility. 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.

³ Joint Petition for Settlement Paragraph III.2.

⁴ Joint Petition for Settlement Paragraph III.4.

⁵ Joint Petition for Settlement Paragraph III.7.

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.

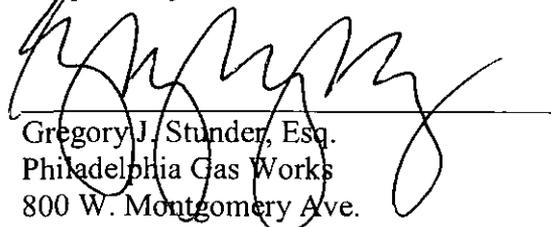
III. APPROVAL OF THE JOINT PETITION IS IN THE PUBLIC INTEREST

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, or the attachments to the settlement agreement submitted to the ALJ 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 ALJ Pell and the Commission to approve it in its entirety.

Respectfully submitted:



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

Counsel for Philadelphia Gas Work

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility
Commission

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Docket No. R-2012-2286447

v.

Philadelphia Gas Works

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JUN 05 2012

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BUREAU OF INVESTIGATION AND ENFORCEMENT
STATEMENT IN SUPPORT OF
JOINT PETITION FOR SETTLEMENT**

TO ADMINISTRATIVE LAW JUDGE CHRISTOPHER PELL:

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), by and through its Prosecutor, Carrie B. Wright, 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. I&E 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 I&E 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 I&E’s analysis of the Company’s 1307(f) filing, acceptance of this proposed

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

BACKGROUND

2. I&E 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, I&E 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

The PGC rate adopted by this Settlement is \$5.1876 per Mcf. I&E 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, I&E maintains that PGW’s historic gas purchasing practices have satisfied its least cost procurement obligation.

Additionally, I&E 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, I&E opines that ratepayers

¹ Settlement, pp. 2-3.

are protected in that PGW gains no unwarranted financial advantages through its projected gas purchases and projected gas purchasing policies.

B. 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.

C. Quarterly/Annual Filing and C/E Factor Issues

In Settlement, PGW has agreed to several recommendations of I&E regarding PGW's Quarterly and Annual filings, as well as their C and E factor. First, PGW has agreed to define the acronym "GAC." Currently this acronym is not spelled out in PGW's tariff, so I&E recommended that PGW do so.² Spelling this out fully will aid others in understanding the meaning of this term.

PGW also agreed to report its projected migration volumes in both its annual and compliance 1307(f) filings. These migration volumes were not clearly identified in PGW's 1307(f) annual and compliance filings. Reporting these volumes in these filings is important because they are necessary for the Commission to review to ensure that PGW is including these gas volumes when the overall E-factor rate is calculated.

² I&E St. No. 2 pp. 28-30.

In direct testimony, I&E recommended and interest calculation that PGW has accepted in Settlement. The basis for the I&E recommendation was to acknowledge the concept that each month's actual over or under collection dollar amount and its corresponding originally calculated interest amounts will be repaid or recovered at the completion of the PGC year that is currently in progress.

In Section III., paragraphs 6(d), 6(e), and 6(f), PGW also agree to certain I&E recommendations regarding PGW's C and E factor and quarterly and annual filings. It was important to I&E that PGW accept these recommendations because acceptance of them aligns PGW's process more closely with Commission regulations. For instance, PGW has included a provision that it will use actual data for the second month preceding a quarterly GCR filing. This in line with 52 Pa. Code § 53.64(i)(5)(ii) which states "[t]he utility shall recalculate its rates to reflect actual gas costs. PGW has also agreed to include the three months the Commission regulations state are to be included in their quarterly filings. Among other things, the other provisions ensure that PGW will no longer be improperly combining the current PGC years C-Factor variances into the E-factor. Further, the provisions ensure that the total E-factor dollars to be recovered or refunded are targeted to the proper customer group. Adherence to Commission regulations is in the public interest.

D. Unaccounted For Gas

I&E reviewed the Company's lost and unaccounted for gas ("LUFG") rate of 4.0%. PGW's three year average LUFG has been increasing slightly since the 2008-2009 fiscal year. As such I&E recommended PGW increase its efforts to maintain a

reasonable level of LUFG.³ PGW has agreed to identify and evaluate LUFG mitigation strategies used by other NGDCs, and report these efforts in its next 1307(f) filing. This satisfies the I&E concern regarding rising levels of LUFG and will provide I&E with information to determine whether an adjustment needs to be made in PGW's next 1307(f) proceeding.

E. Asset Management Margins or Credits Retention

I&E 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%. This sharing mechanism was approved in the Company's recent PGC proceedings at Docket Nos. R-2011-224739, R-2010-2157062, R-2009-2088076 and R-2008-2021348. I&E submits that continuing the current sharing mechanism through August 31, 2012 is in the public 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.

4. Based on I&E'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.

³ I&E St. No. 1 p. 4.

5. I&E 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.

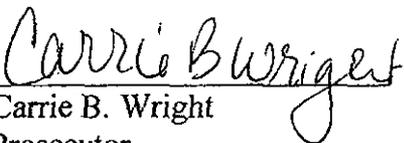
6. The Settlement is conditioned upon the Commission's approval of all terms contained therein and should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by the Company or I&E provided therein.

7. I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E 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, I&E agrees to waive the filing of Exceptions. However, I&E 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. I&E also reserves the right to file Reply Exceptions to any Exceptions that may be filed with the Company.

WHEREFORE, the Commission's Bureau of Investigation and Enforcement 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,


Carrie B. Wright
Prosecutor
PA Attorney I.D. # 208185

Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Post Office Box 3265
Harrisburg, Pennsylvania 17105-3265
(717) 787-1976

Dated: June 5, 2012

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission

v.

Philadelphia Gas Works

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Docket No. R-2012-2286447

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JUN 05 2012

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

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Petition for Settlement of Philadelphia Gas Works' 2012-2013 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, 2012, 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, 2012, PGW submitted Supplement No. 51 to Gas Service Tariff - Pa. P.U.C. No. 2 and Supplement No. 43 to Gas Supplier Tariff - Pa. P.U.C. No. 1 to become effective for services rendered on or after September 1, 2012.

On February 27, 2012, 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 increase in the PGC rate. PGW's proposed PGC rate to be effective September 1, 2012 was projected to be \$5.1876/Mcf, an increase of \$0.2093/Mcf from the \$4.9783/Mcf rate in effect on March 1, 2012.

A prehearing conference was held before Administrative Law Judge (ALJ) Christopher Pell on March 15, 2012 and a procedural schedule was established for this proceeding.

The OCA retained the services of Jerome D. Mierzwa to assist the office in its review of the Company's gas purchasing practices. The OCA served the Direct and Surrebuttal Testimonies of Jerome Mierzwa on the parties in this proceeding and the ALJ on April 20, 2012 and May 9, 2012, respectively. After propounding extensive discovery and filing testimony, 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. 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, and that the Settlement should be approved because it is in the public interest.

OCA witness Mierzwa reviewed the Company's filing and made three primary recommendations. Mr. Mierzwa summarized his recommendations as follows:

- Pursuant to the recommendation presented in the January 2011 *Capacity Resource and Asset Management Evaluation Report* prepared by SummitEnergy, PGW should terminate its Equitrans storage contract and related transportation arrangements;

- PGW should discontinue its practice of contracting for gas supplies under arrangements which provide the Company the option to purchase gas supplies on a daily basis during a month at first-of-the-month market (index) prices; and
- PGW should significantly increase its efforts to pursue off-system sales opportunities.

OCA Direct Testimony at 3. The OCA submits that the Settlement addresses each of Mr. Mierzwa's concerns.

The Equitrans Storage Contract:

In prior PGC proceedings, the Company and parties agreed to study the level of capacity resources maintained by the Company. In its 2010-2011 PGC proceeding, PGW agreed to have a third party study its capacity resources to help ensure least cost procurement consistent with PGW's obligation to provide safe, adequate and reliable service to customers. The Company contracted for Summit Energy Services to review its capacity resources. The Summit Report recommended that PGW eventually terminate its Equitrans storage if, after exploring asset management possibilities, it would be cost effective to terminate the contract. OCA Direct Testimony at 5. In its 2011-2012 PGC proceeding, the Company agreed to provide an action plan addressing the recommendations made in the Summit Energy Report.

In his testimony in this proceeding, OCA witness Mierzwa explained that the Company did in fact explore its asset management options regarding the Equitrans storage, but the analysis indicated that none of the proposals received were cost effective. Id. at 6. As a result, OCA witness Mierzwa recommended that the Company terminate its Equitrans storage arrangement and the related transportation contracts at the first available opportunity. Id. at 7.

In response to the OCA testimony in this proceeding, the Company did not commit to terminate the Equitrans storage contract, but rather proposed to review the matter further and provide additional information in its 2013-2014 PGC filing. PGW St 2R at 2. OCA

witness Mierzwa testified in response that the matter was clear and the Company should proceed to terminate the contract. OCA Surrebuttal Testimony at 2-3.

Under the Settlement, PGW will move forward with the termination of the Equitrans contract, as follows:

The parties agree that PGW will provide notice to Equitrans of termination of the Equitrans storage contract and related transportation arrangements prior to March 31, 2013, unless:

- a) PGW presents an evaluation of the benefits and costs associated with the contract to the parties by February 1, 2013, demonstrating the reasonableness of maintaining the contract; and
- b) The parties, within 30 days of receiving the evaluation described in part (a), all agree that it is in the interests of ratepayers for PGW to maintain the Equitrans storage contract.

Joint Petition for Settlement at §III.2.

The OCA submits that the Settlement provides for a reasonable resolution of this issue. Under this provision, ratepayers will benefit from capacity reductions that were identified in the Summit Report as an area of PGW's operations that have the potential to reduce costs to ratepayers. The Company previously agreed to take the steps necessary to bring a third party with expertise in the gas industry to evaluate its mix of capacity resources. This provision of the Settlement represents the culmination of those efforts. Under the Settlement, the Company has agreed to follow through with the cost saving recommendations contained in the Summit Energy Study in order to reduce the cost of providing service to PGW's ratepayers and to ensure that its procurement meets its least cost obligation.

First Of Month Priced Daily Gas Supply Contracts:

In his Direct Testimony, OCA witness Mierzwa explained that PGW's practice of fixing daily supply contracts at "First-Of-The-Month" (FOM) prices should be discontinued.

OCA Direct Testimony at 7-12. According to the study presented by Mr. Mierzwa, the demand charges associated with these types of contracts were exceeding the benefits achieved by PGW. Id. The net result was an additional level of costs that was flowed through to ratepayers. Id.

The Company responded that the performance of these types of contracts has varied, and that in times of rising wholesale gas prices they have provided a net benefit to ratepayers. PGW St. 2R at 2-3. In addition, the Company argued that two large gas suppliers have indicated that they plan on cutting production due to current market conditions, making it inadvisable to eliminate these contracts. Id.

Under the Joint Petition for Settlement, the Company has agreed to the following treatment of FOM Priced Daily contracts:

4) FOM PRICED DAILY GAS SUPPLY CONTRACTS

- a) PGW will renew its current FOM Priced daily gas supply contracts which expire during 2012 at 50 percent of the current contract MDQ quantities for a term of one year.
- b) PGW will present an analysis of the costs and benefits associated with maintaining FOM priced daily contracts similar to that prepared by the OCA in the instant proceeding. PGW may include what it believes to be other relevant considerations in its analysis. Contracting for FOM priced gas supplies beyond the period discussed in part (a) will be addressed in next year's 1307(f) proceeding.

Joint Petition for Settlement at §III.4.

The OCA submits that the Settlement provides a reasonable resolution to this issue. Under the Settlement, the Company will limit the FOM Priced Daily gas supply contracts to 50 percent of current levels. In addition, the Company has agreed to present an analysis of the costs and benefits associated with these purchase in next year's PGC proceeding. The parties will be able to further review the reasonableness of these contracts at that time. The OCA

submits that the Settlement recognizes the concerns demonstrated by OCA witness Mierzwa, and should be adopted at this time.

Off System Sales Opportunities:

In his Direct Testimony, OCA witness Mierzwa expressed concern that the Company was not adequately utilizing “off-system sales” as part of its procurement strategy. OCA Direct Testimony at 13-14. As explained by Mr. Mierzwa, off-system sales involve the bundling of unutilized interstate pipeline capacity and purchased commodity gas supplies to make gas sales to third parties not located on PGW’s distribution system. Id. at 13. In PGW’s case, margins generated from such sales are credited 75 percent to PGC customers and 25 percent is retained by the Company. Id. The OCA submits that the benefits to ratepayers of effective off-system sales are clear and the Company must efficiently manage such opportunities. To achieve such benefits, OCA witness Mierzwa recommended that PGW adopt and implement policies and procedures enabling the Company to evaluate and execute off-system sales on a daily basis. Id. at 14.

In its Rebuttal Testimony, the Company argued that it does evaluate opportunities for off-system sales. PGW St. 2R at 5. PGW argued that it has focused on capacity release transactions (instead of off-system sales) that produced \$8.4 million in credits during the 2011. Id.

Under the Settlement, PGW agreed to monitor off-system sales opportunities and provide data on potential opportunities in its next PGC proceeding, as follows:

5) OFF-SYSTEM SALES

PGW will maintain and provide information showing its daily analysis of off-system sales opportunities for the period November 1, 2012 – February 28, 2013. The information will include index prices at the receipt points for its firm transportation contracts,

applicable variable and fuel retention charges to potential off-system markets, market area index prices, and the availability of its firm transportation pipeline and LNG capacity. The information will be sufficient to show anticipated off-system sales margins and whether the Company had the resources to complete an off-system transaction.

Joint Petition for Settlement at §III.5.

The OCA submits that the proposed resolution of this issue is reasonable at this time. Under the Settlement, the Company will closely monitor off-system sales opportunities. The OCA submits that the format of the information that is required under this section of the Settlement will assist the Company and the parties in future proceedings when assessing the benefits of off-system sales.

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: June 5, 2012
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	DOCKET NOS. R-2012-2286447
	:	C-2012-2291777
PHILADELPHIA GAS WORKS	:	

**STATEMENT OF
THE OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF
THE JOINT PETITION FOR SETTLEMENT**

Introduction

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. Pursuant to that statutory authority, the Office of Small Business Advocate (“OSBA”) filed a complaint at Docket No. R-2012-2286447 on March 1, 2012, in response to the 66 Pa. C.S. § 1307(f) filing of Philadelphia Gas Works (“PGW” or the “Company”). The OSBA’s Complaint is Docketed at C-2012-2291777. The OSBA actively participated in the negotiations that led to the proposed settlement, and is a signatory to the *Joint Petition for Settlement of Philadelphia Gas Works’ 2012-2013 GCR Proceeding (“Joint Petition”)*. The OSBA submits this statement in support of the *Joint Petition*.

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**PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU**

The Joint Petition

A. Unaccounted-for gas

A review of PGW's unaccounted-for gas rate ("UFG") reflects an increase in each of the past three years from 3.5% to 4.4% in FY 2011.¹ A twelve year history of PGW's UFG rate is illustrated in the Company's response to OSBA-I-9.² The OSBA, through the testimony of its expert witness Mr. Robert D. Knecht, raised concerns about the Company's annual UFG rate which has varied between 3.4 and 4.4 percent over the past ten years.

PGW's response to OSBA's discovery request suggests that the Company does not believe that the movement in UFG rates is evidence of trend or deterioration in the UFG rate, and that the recent three-year average of 4.0% is consistent with the longer-term average.³

In testimony, Mr. Knecht recommended that that Commission direct PGW to undertake an evaluation of the reasons for the apparent increase in its UFG rate over the past three years, as well as an analysis of why it has not been able to achieve the progress in UFG rates that other Pennsylvania natural gas distribution companies ("NGDC") have achieved.⁴ Mr. Knecht further recommended that PGW provide the results of its analysis in the February 1 pre-filing in its 2013 gas cost rate ("GCR") proceeding to all parties to review the analysis.⁵

In the *Joint Petition* PGW has agreed to identify UFG mitigation strategies and evaluate whether mitigation strategies employed by other similarly situated NGDCs (which have achieved

¹ OSBA Statement No. 1 at 2.

² See OSBA Statement No. 1, Exhibit IEC-1.

³ OSBA Statement No. 1 at 3.

⁴ OSBA Statement No. 1 at 3.

⁵ OSBA Statement No. 1 at 3.

reductions in UFG) are appropriate for PGW.⁶ Further, PGW has agreed to report on the foregoing efforts in its 2013 GCR filing.⁷

Parties will, at that time, have the opportunity to evaluate the analysis and additional year of UFG figures. Therefore, the *Joint Petition* resolves the OSBA's concerns about possible trend in PGW's UFG rates.

B. Quarterly/Annual Filing and C/E Factor Issues

Regarding the issue of reconciling PGC costs, the OSBA submitted testimony in this proceeding defending PGW's currently approved method for reconciliation.⁸ The OSBA believes that PGW's currently approved method is more logical than that adopted by the settlement, in that it includes only forward-looking costs in the C-Factor, and it includes all reconciliation variances in the E-Factor. In addition to being more logical, the existing approach is more consistent with PGW's migration rider, and would more accurately balance the playing field between PGW and NGSs. Nevertheless, based on the evidence of I&E, the OSBA acknowledges that other NGDCs use the method adopted in the settlement concludes that there is some merit in requiring PGW to adopt a standard method. The OSBA therefore does not oppose this aspect of the settlement.

⁶ See *Joint Petition* at Para. 7.

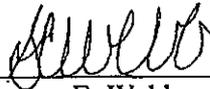
⁷ *Joint Petition* at Para. 7.

⁸ OSBA Statement No. 2 at 10.

Conclusion

For the reasons set forth in the *Joint Petition*, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed *Joint Petition* and respectfully requests that the ALJ and the Commission approve the *Joint Petition* in its entirety.

Respectfully submitted,



Sharon E. Webb
Assistant Small Business Advocate
Attorney ID No. 73995

For:

Steven C. Gray
Acting Small Business Advocate
Attorney ID No. 77538

Office of Small Business Advocate
300 North Second Street - Suite 1102
Harrisburg, PA 17101

Dated: June 5, 2012

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).

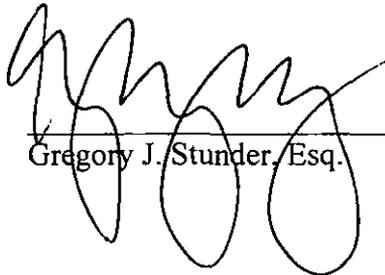
VIA E-MAIL and FIRST CLASS MAIL

Aron Beatty, Esq.
Office of Consumer Advocate
5th Floor, Forum Place Bldg.
555 Walnut Street
Harrisburg, PA 17101-1921

Adeolu Bakare, Esq.
Charis Mincavage, Esquire
McNEES, WALLACE, NURICK
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

Sharon Webb, Esq.
Office of Small Business Advocate
Commerce Building, Suite 1102
300 North 2nd Street
Harrisburg, PA 17101

Carrie Wright, Esq.
Office of Trial Staff
PA Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120



Gregory J. Stunder, Esq.

Date: June 5, 2012

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

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City PHILADELPHIA State PA ZIP 19122 2892

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To Recipient's Name Secretary Rosemary Christa Phone _____

Company PA PWC

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FedEx Express Saver
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5 Packaging * Declared value limit \$500.

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No Signature Required
Package may be left without obtaining a signature for delivery.

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Someone at recipient's address may sign for delivery. Fee applies.

Indirect Signature
If no one is available at recipient's address, someone at a neighboring address may sign for delivery for residential deliveries only. Fee applies.

Does this shipment contain dangerous goods?

No Yes Yes Shipper's Declaration Dry Ice
One box must be checked. Shipper's Declaration not required. Dry Ice, 3 UN 1845 x kg

Dangerous goods (including dry ice) cannot be shipped in FedEx packaging or placed in a FedEx Express Drop Box.

Cargo Aircraft Only

7 Payment Bill to:

Enter FedEx Acct. No. or Credit Card No. below. Obtain recip. Acct. No.

Sender Recipient Third Party Credit Card Cash/Check

Total Packages Total Weight

*Our liability is limited to \$100 unless you declare a higher value. See the current FedEx Service Guide for details.



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RECIPIENT: PEEL HERE

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