

Philadelphia Gas Works

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November 13, 2012

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
2nd Floor, 1 North
400 North Street
Harrisburg, PA 17120

RE: Philadelphia Gas Works Supplement No. 55 to Gas Service Tariff Pa P.U.C. No. 2
Docket No. R-2012-

Dear Secretary Chiavetta,

Philadelphia Gas Works (“PGW”) hereby files Supplement No. 55 to PGW’s Gas Service Tariff Pa P.U.C. No. 2 (“Supplement No. 55”). Supplement No. 55 is being filed with an issue date of November 13, 2012 and an effective date of January 12, 2013.

In this filing, PGW is proposing to unbundle natural gas procurement costs and gas supply related uncollectible expense from distribution rates and recover these costs through a gas procurement charge and a merchant function charge that will be included in the price to compare. PGW is making this filing pursuant to the Pennsylvania Public Utility Commission’s (“Commission”) Revised Final Rulemaking Order at Docket No. L-2008-2069114 entered on June 23, 2011 and the Commission’s Secretarial Letter issued on May 25, 2012,¹ in the same proceeding.

This filing is comprised of the Statement of Reasons (including Supplement No. 55 and Responses to 52 Pa.Code §53.52(a) and (b)) and the direct testimony of PGW witnesses Dybalski (PGW St. 1) and Gorman (PGW St. 2).

Please contact me if you have any questions regarding this filing.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Gregory J. Stunder", is written over a large, stylized blue scribble or flourish.

Gregory J. Stunder

Enclosures

cc: Certificate of Service

¹ The Secretarial Letter sets forth a PGW filing date of November 12, 2012 but due to the November 12, 2012 state recognized holiday, PGW is filing this tariff supplement on November 13, 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).

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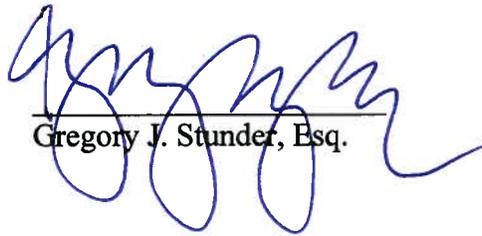
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Gregory J. Stunder, Esq.

**Philadelphia Gas Works
Supplement No. 55 to Gas Service Tariff – Pa P.U.C. No. 2**

**Statement of Reasons for
Philadelphia Gas Works's
Natural Gas Procurement Cost and Uncollectible Expense Unbundling Filing**

I. INTRODUCTION

In this filing, Philadelphia Gas Works (“PGW”) is proposing to unbundle natural gas procurement costs and gas supply related uncollectible expense from distribution rates and recover these costs through a gas procurement charge (“GPC”) and merchant function charge (“MFC”), respectively. The GPC and the MFC will be included in the price to compare (“PTC”). PGW is making this filing pursuant to the Pennsylvania Public Utility Commission’s (“Commission”) Revised Final Rulemaking Order at Docket No. L-2008-2069114 entered on June 23, 2011 (“June 2011 Order”) and the Commission’s Secretarial Letter issued on May 25, 2012, in the same proceeding.

In the *June 2011 Order*, the Commission stated that its goal with respect to gas supply unbundling is to avoid situations in which shopping customers are paying both the natural gas supplier and the natural gas distribution company for the same commodity related costs. With that goal in mind, the new regulation identifies the natural gas procurement costs to be shifted from base rates to the PTC as follows:

- (i) Natural gas supply service, acquisition and management costs, including natural gas supply bidding, contracting, hedging, credit, risk management costs and working capital.
- (ii) Administrative, legal, regulatory and general expenses related to those natural gas procurement activities, excluding those related to the administration of firm storage and transportation capacity.

52 Pa. Code § 62.223(b)(1). Additionally, the *June 2011 Order* proposes a MFC as a mechanism to identify and remove from distribution rates the cost of uncollectible expenses associated with natural gas costs and include them in the PTC. Specifically, the new regulation sets forth the following:

An NGDC shall file an MFC rider. The MFC rider must remove the cost of uncollectibles applicable to natural gas costs from its distribution rates and recover those annual costs as part of the PTC on a revenue neutral basis.

52 Pa. Code § 62.223(c).

In accordance with the *June 2011 Order*, PGW is proposing in this filing to remove gas supply procurement costs and uncollectible expenses from base rates and to recover these costs in a GPC and MFC, respectively. In order to accomplish this unbundling, PGW is proposing to remove from base rates: 1) the labor and benefits costs associated with the procurement of gas supply; and 2) uncollectible expenses applicable to natural gas costs. More specifically, the labor and benefits costs associated with the procurement of gas supply include the gas procurement related activities of the following functions: gas supply, accounting, internal legal and management support.

Although PGW is proposing to remove gas supply procurement costs and uncollectible expenses related to natural gas costs from base rates, it is not proposing to remove working capital costs associated with gas in storage inventory. PGW does not release storage capacity to natural gas suppliers (“NGS”). Instead, PGW manages storage capacity on behalf of the suppliers as established in PGW’s restructuring proceeding. As a result of the foregoing, PGW, not NGS’s, bears the working capital costs for gas in storage, therefore, these working capital costs will remain in PGW’s base rates.

In its *June 2011 Order*, the Commission directed that gas procurement cost recovery be shifted from delivery rates to the GPC on a revenue neutral basis and include the GPC in the PTC. The Commission also directed that the shifted costs shall be recovered on a per Mcf basis, shall not be reconcilable and shall remain the same until an NGDC's next base rate case. Accordingly, PGW is proposing recovery of these costs via a non-reconcilable GPC on a per Mcf basis which will be updated in PGW's next base rate filing.

The *June 2011 Order* also requires the shifting of natural gas supply-related uncollectible expense from delivery rates to the MFC on a revenue neutral basis and include the MFC in the PTC. Revenue neutrality in the unbundling will be accomplished by applying the same write-off rate to both the removal of costs from base rates and the MFC calculation. More specifically, the Commission directed that the unbundling occur on a per Mcf basis but that the write off factor upon which the unbundling is based is to be applied to an NGDC's gas cost rate on a quarterly basis in order to calculate a per Mcf quarterly MFC that is non reconcilable. Additionally, the Commission set forth that the write off factor must be the same write off factor determined in the NGDC's last base rate case and the write off factor shall remain the same until the next base rate case. Finally, the Commission also is requiring that a different write off factor for each rate class in order to recognize class differences in uncollectible rates.

This filing also requests approval for modifying PGW's tariff in order to properly identify the components of the PTC as set forth in the final regulations. The PTC will be adjusted on a quarterly basis and will consist of the following elements on a per Mcf basis:

- 1) the c-factor – the gas cost rate determined in an NGDC's Section 1307(f) proceeding;
- 2) the e-factor – the reconciliation for over and under collections in accordance with Section 1307(f);

- 3) the GPC – the Gas Procurement Costs unbundled from base rates; and
- 4) the MFC – the Merchant Function Charge which represents the uncollectible expense associated with gas supply costs unbundled from base rates.

These elements will appear as a single PTC rate on the customer's bill.

For the reasons set forth herein and the supporting testimony, this filing achieves the Commission's objective to increase levels of customer shopping by establishing more level playing field in terms of cost allocation; therefore, PGW's GPC and MFC proposal is in the public interest and should be approved.

II. PROCEDURAL BACKGROUND

On March 27, 2009, the Commission entered its Proposed Rulemaking Order which was designed to promote competition for natural gas supplies. *Natural Gas Distribution Companies and the Promotion of Competitive Retail Markets*, Docket No. L-2008-2069114 ("March 2009 Order"). Therein, the Commission noted that there was not effective competition in the retail natural gas supply market and that the Commission was taking several rulemaking actions to further promote competition. This rulemaking addressed five issues, including: (1) reformulation of the PTC; (2) purchase of receivables; (3) mandatory capacity assignment; (4) NGDC costs of competition related activities; and (5) regulatory assessments. In its March 2009 Order, the Commission also directed interested parties to file comments with respect to the issues identified therein.

On August 10, 2010, the Commission issued its Advance Notice of Final Rulemaking Order ("ANOFR"). Therein, the Commission explained that it made several changes to the proposed regulations based upon the Comments that it received. In part, the Commission noted

that it was: (1) requiring NGDCs to remove all of their gas procurement costs from base rates; (2) requiring a MFC to address uncollectible cost issues; and (3) requiring unbundling issues to be addressed in a Section 1308(a) tariff filing. In the ANOFR, the Commission sought additional comments on the revisions to the proposed regulations.

By Order entered February 23, 2011, the Commission issued its Final Rulemaking Order. Therein, the Commission noted that it was making further changes to the regulations based on Comments that it had received in response to the ANOFR. In particular, the Commission revised the regulations to include the development of the PTC that will appear on NGDC bills, clarified the POR program rules, and revised the capacity release rules to be consistent with the language of the Pennsylvania Public Utility Code.

By Order entered June 23, 2011, the Commission issued its Revised Final Rulemaking Order. Therein, the Commission noted that it had submitted its Final Rulemaking Order to the Independent Regulatory Review Commission ("IRRC"). However, the Commission withdrew the Final Rulemaking Order based on comments that it had received, including comments from IRRC. In the Revised Final Rulemaking Order, the Commission made certain clarifications and corrections to address parties' comments.

The Revised Final Rulemaking Order was published in the Pennsylvania Bulletin on April 14, 2012, and the regulations became effective on that date. On May 25, 2012, the Commission issued a Secretarial Letter setting forth the schedule for NGDCs to make Section 1308(a) tariff filings to remove gas procurement costs from base rates and recover these costs through a GPC that would be reflected in the NGDC's PTC. 66 Pa. C.S. § 1308(a). PGW was assigned a Group Three filing date of November 12, 2012.

Pursuant to the Commission's Orders entered at Docket No. L-2008-2069114, the

Secretarial Letter issued on May 25, 2012, and 52 Pa. Code § 62.223, PGW hereby makes its Section 1308(a) filing to remove gas procurement costs and natural gas supply related uncollectible expense from base rates and to recover these costs as part of its PTC and MFC, respectively. As explained below, PGW is making this filing on a revenue neutral basis and is not proposing to reconcile recovery of gas procurement costs.

III. GAS PROCUREMENT CHARGE AND MERCHANT FUNCTION CHARGE PROPOSALS

A. INTRODUCTION

PGW's GPC and MFC proposals are set forth below and in the testimony that accompanies this filing. PGW believes that its GPC and MFC proposals are consistent with the Commission's directive in the *June 2011 Order* to create a level playing field for natural gas suppliers. PGW Attachment 1 to this filing is the tariff supplement which includes the GPC and the MFC and also includes the reduction in base rates to reflect the removal of gas procurement costs and gas supply related uncollectible expenses, on a revenue neutral basis, that are currently embedded in base rates. PGW Attachment 2 to this filing includes the Company's responses to the commission's filing requirements contained in 52 Pa. Code § 53.52(a) and (b). PGW has also included the written testimony of Kenneth Dybalski, PGW Statement No. 1, and Howard Gorman, PGW Statement No. 2, with this filing.

PGW explains below the specific gas procurement cost elements that it is proposing to remove from base rates and recover through the GPC. The following explains how these costs were estimated and how rates were developed to reflect the removal of these costs from base rates and to reflect the new GPC. In addition, the Company explains why it is proposing not to

remove working capital costs associated with gas in storage inventory and certain legal costs. The Company also explains that it does not have IT related gas procurement costs.

B. GAS PROCUREMENT CHARGE

Labor and Benefits Costs

PGW is proposing to remove from base rates labor and benefits costs associated with gas procurement activities. The gas procurement labor and benefits costs fall under four separate functional categories, which are as follows: (1) gas supply; (2) accounting; (3) internal legal; and (4) management.

The first category of labor and benefits costs is gas supply. The total labor and benefits cost is approximately \$241,724. The second category under labor and benefits is accounting support. The total annual labor and benefits cost is approximately \$10,467. The third category under labor and benefits is internal legal support. Internal legal support includes time spent to negotiate gas procurement contracts. The annual estimated labor and benefits costs for internal legal is approximately \$2,544. The fourth category under labor and benefits is management support. Management support costs are related to activities performed by the PGW management team to supervise gas procurement activities. In order to determine management support costs, PGW estimated the number of management hours spent on PGC activities and multiplied the number of hours by estimated salary and benefits costs for PGW's Senior Vice President – Gas Management. The total cost for management support activities is estimated to be approximately \$20,862.

Exclusion of Working Capital Costs For Gas In Storage Inventory

PGW is not proposing to remove working capital storage inventory costs from base rates because PGW does not release storage capacity to NGS's, therefore, all working capital costs for gas in storage inventory are incurred by PGW. In other words, NGS's that operate on the PGW's system do not incur these costs. Accordingly, PGW is not proposing to remove working capital storage inventory costs from base rates.

In PGW's July 2002 restructuring filing, the Company proposed that it would not release actual storage capacity to NGS's.¹ Instead, the NGS's operating on PGW's system receive bundled city gate sales service for a portion of their gas supplies. NGS's return this gas supply during the following injection season. This gives NGS's the seasonal storage benefit of acquiring winter supplies at summer prices, while preserving PGW's ability to retain storage to retain system reliability and comply with applicable FERC rules regarding capacity release, as explained more fully in the Direct Testimony of Kenneth Dybalski. Under this approach, NGS's receive the benefits of storage but do not actually retain actual gas in storage on PGW's system and thus do not have working capital costs related to storage inventory on the PGW's system.

Under the *June 2011 Order*, the Commission noted that the purpose of the unbundling rules was to create a level playing field for all market competitors. Because NGS's on PGW's system do not incur working capital costs related to gas in storage inventory, it is appropriate for PGW to leave these costs in base rates. If these costs were removed from base rates, it would create an uneven playing field because shopping customers would receive the benefits of the PGW's storage system but would not pay working capital costs for this storage inventory, resulting in a subsidy of Choice customers by PGC customers. Because PGW does not release

¹ *PaPUC v. PGW*, Docket No. M-00021612.

actual storage capacity to NGS's, it is appropriate to leave working capital costs for storage inventory in base rates.

Legal Costs

As indicated above, PGW is only unbundling internal legal costs related to negotiating gas procurement contracts. On the other hand, the GPC unbundling filings of the UGI NGDCs and PECO Gas propose to unbundle legal costs related to annual and quarterly Purchased Gas Cost ("PGC") proceedings. PGW differs on this issue. The Commission has clearly stated that the intent of the rulemaking is to create an even playing field between NGDC's and NGS's. Unbundling costs related to PGC proceedings would only create a level playing field if NGS's were required to prepare annual and quarterly PGC filings but NGS's are not. PGW prepares an initial PGC filing which generally comprises over 750 pages of data plus the testimony of two or three witnesses. After the initial filing, the PGC process is substantially similar to a rate case (i.e. preparation of legal pleadings, preparation of discovery responses, etc.) and this process demands both legal and non-legal resources from the NGDC. There is not any same or similar legal mandate which requires an NGS to prepare annual and quarterly filings. Additionally, annual and quarterly PGC filings are tariff filings and the original draft regulation included in the August 10, 2010 Advance Notice of Final Rulemaking Order (at Docket No. L-2008-2069114) identified "tariff filing" costs as gas procurement costs to be unbundled from base rates but the revised final regulation in the June 23, 2011 Revised Final Rulemaking Order no longer includes "tariff filing" costs as gas procurement costs, therefore, the Commission no longer intended to include any costs related to tariff filings. For the foregoing reasons, PGW is only proposing to remove the legal costs related to negotiating gas procurement contracts from base rates.

IT Related Gas Procurement Costs

PGW has reviewed the GPC unbundling filings of the UGI NGDCs and PECO Gas and notes UGI and PECO have differing positions as to unbundling the costs related to their GasStar Systems which are used for both gas procurement purposes and capacity management. UGI provided reasons why it was not unbundling these IT related gas procurement costs and, alternatively, PECO proposed to unbundle certain GasStar System costs related to gas procurement activities. PGW does not use a GasStar system nor any similar system, therefore, there are not any IT related gas procurement costs in base rates.

C. MERCHANT FUNCTION CHARGE PROPOSAL

PGW is proposing to remove gas supply related uncollectible expense from base rates. As explained more fully in the testimony of Howard Gorman, this is accomplished by computing the uncollectible expense related to PGW's Gas Cost Rate revenue in PGW's most recent base rate case. Accordingly, PGW is proposing to unbundle \$17.335 million of uncollectible expense from base rate recovery which will be recovered from customers via a MFC, and, as directed by the Commission, PGW is proposing a different MFC for each rate class based upon the different write off factors of each rate class.

IV. CONCLUSION

For the reasons stated herein and in the testimony that is accompanying this filing, PGW respectfully requests that the Pennsylvania Public Utility Commission approve the Company's

Section 1308(a) filing to remove gas procurement costs from base rates and gas supply related uncollectible expense and include these costs in a Gas Procurement Charge and a Merchant Function Charge, respectively.

PGW Attachment 1

Supplement No. 55

PHILADELPHIA GAS WORKS

GAS SERVICE TARIFF



Issued by: Craig White
President and CEO

PHILADELPHIA GAS WORKS
800 West Montgomery Avenue
Philadelphia, PA 19122

List of Changes Made by this Tariff Supplement

MERCHANT FUNCTION CHARGE, GAS PROCUREMENT CHARGE AND PRICE TO COMPARE (PAGE No. 78)

A Merchant Function Charge, a Gas Procurement Charge and a Price to Compare have been added to this page.

GENERAL SERVICE – RATE GS (Page No. 83)

The Delivery Charge has been reduced as a result of the implementation of the Merchant Function Charge and the Gas Procurement Charge. The Merchant Function Charge and the Gas Procurement Charge have been added to the list of surcharges.

MUNICIPAL SERVICE – RATE MS (Page No. 87)

The Delivery Charge has been reduced as a result of the implementation of the Merchant Function Charge and the Gas Procurement Charge. The Merchant Function Charge and the Gas Procurement Charge have been added to the list of surcharges.

PHILADELPHIA HOUSING AUTHORITY SERVICE – RATE PHA (Page No. 90)

The Delivery Charge has been reduced as a result of the implementation of the Merchant Function Charge and the Gas Procurement Charge. The Merchant Function Charge and the Gas Procurement Charge have been added to the list of surcharges.

DEVELOPMENTAL NATURAL GAS VEHICLE SVC - RATE NGVS FIRM SERVICE (Page No. 135)

The Delivery Charge has been reduced as a result of the implementation of the Merchant Function Charge and the Gas Procurement Charge. The Merchant Function Charge and the Gas Procurement Charge have been added to the list of surcharges.

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MERCHANT FUNCTION CHARGE (“MFC”)

The MFC is a volumetric charge, applied to firm sales service customers, which will be included in the Price to Compare. The MFC is based on Gas Cost Rate multiplied by a fixed uncollectible percentage established in the Company’s last general base rate proceeding. The MFC will not be reconciled to reflect actual results. The MFC is intended to make the Company’s Price to Compare more comparable to the gas supply services price offers of other Natural Gas Suppliers that presumably reflect anticipated uncollectible expenses. The following percentages will be applied to the quarterly Gas Cost Rate in order to calculate the quarterly MFC: 5.57% - GS Residential (“GS RES”) 1.09% - GS Public Housing (“GS PH”); 1.45% - GS Commercial (“GS COM”); 1.58% - GS Industrial (“GS IND”); 1.59% - MS Municipal Service (“MS”); and 1.09% - PHA Philadelphia Housing Authority Service (“PHA”). The current MFC is set forth below in the Price to Compare table.

GAS PROCUREMENT CHARGE (“GPC”)

The GPC is a volumetric charge, applied to firm sales service customers, which will be included in the Price to Compare. The GPC will remain in effect until reviewed and updated in the Company’s next general base rate proceeding.

Current Gas Procurement Charge = \$0.00054/Ccf

PRICE TO COMPARE (“PTC”)

The PTC is composed of the Sales Service Charge (“SSC”), Gas Adjustment Charge (“GAC”), the Merchant Function Charge and the Gas Procurement Charge. The PTC will change whenever any of the components of the PTC change. The current PTC is (per Ccf):

	<u>GS RES</u>	<u>GS PH</u>	<u>GS COM</u>	<u>GS IND</u>	<u>MS</u>	<u>PHA</u>	<u>NGVS</u>
<u>SSC</u>	<u>\$x.xxxxx</u>						
<u>GAC</u>	<u>\$x.xxxxx</u>						
<u>MFC</u>	<u>\$x.xxxxx</u>						
<u>GPC</u>	<u>\$0.00054</u>						
<u>PTC</u>	<u>\$x.xxxxx</u>						

GENERAL SERVICE - RATE GS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after September 1, 2012

AVAILABILITY

Available for any purpose where the Company's distribution mains adjacent to the proposed Gas Service location are, or can economically be made, suitable to supply the quantities of Gas or Transportation Services required.

RATES

CUSTOMER CHARGE (per Meter (except parallel meters)):

\$ 12.00 per month for Residential and Public Housing Authority Customers.
\$ 18.00 per month for Commercial Customers
\$ 50.00 per month for Industrial Customers

Plus,

GCR (not applicable to GS Customers who transport gas through a qualified NGS):

\$ 0.52247 per Ccf for Residential and Public Housing
\$ 0.52247 per Ccf for Commercial Customers
\$ 0.52247 per Ccf for Industrial Customers

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

\$0.63863 <u>\$0.59744</u>	per Ccf for Residential	(D)
\$0.49820 <u>\$0.48973</u>	per Ccf for Public Housing	(D)
\$0.46530 <u>\$0.45611</u>	per Ccf for Commercial and Municipal Customers	(D)
\$0.45859 <u>\$0.45028</u>	per Ccf for Industrial Customers	(D)

(B) Surcharges:

Universal Service and Energy Conservation Surcharge; Restructuring and Consumer Education Surcharge; Efficiency Cost Recovery Surcharge; ~~and~~ Other Post Employment Benefit Surcharge; Merchant Function Charge; and Gas Procurement Charge.

(D) – Decrease

MUNICIPAL SERVICE - RATE MS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after September 1, 2012.

AVAILABILITY

Available to properties owned or occupied by the City of Philadelphia or the Board of Education, or any of their respective agencies or instrumentalities, for any type of Gas Service, unless purchased for resale to others, and where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required; provided, however, that the rate shall not be available to Commercial Tenants of any such property.

RATES

CUSTOMER

CHARGE (per Meter (except parallel meters):

\$ 18.00 per month

Plus,

GCR (not applicable to MS Customers who transport Gas through a qualified NGS):

\$0.52247 per Ccf

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

| ~~\$0.34040~~ \$0.33346 per Ccf

(B) Surcharges:

(D)

| Universal Service and Energy Conservation Surcharge; and The Restructuring and Consumer Education Surcharge; the Efficiency Cost Recovery Surcharge; and Other Post Employment Benefit Surcharge; Merchant Function Charge; and Gas Procurement Charge.

Also,

The following Riders may apply:

(D) – Decrease

PHILADELPHIA HOUSING AUTHORITY SERVICE - RATE PHA

Rate: Applicable to all Retail Sales Service or Transportation Services rendered pursuant to this Rate Schedule on or after September 1, 2012

AVAILABILITY

Available for all Gas usage in multiple dwelling Residential buildings containing 10 or more dwelling units, owned and operated by the Philadelphia Housing Authority, where cooking shall be performed exclusively with Gas and where Gas Service shall be supplied through one or more single point metering arrangements at locations where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required.

This rate is also available for all Gas usage in single and multiple dwelling Residential buildings, containing less than 10 dwelling units, provided, and only so long as, Gas is used exclusively for cooking, water heating and space heating for all such Residential buildings owned and operated by the Philadelphia Housing Authority, except (a) buildings operated by the Philadelphia Housing Authority, prior to the original effective date of this rate (January 1, 1969), and (b) buildings for which, in the judgment of the Company, such Gas Service cannot be provided economically.

RATES

CUSTOMER

CHARGE (per Meter (except parallel meters);

\$18.00 per month

Plus,

GCR (not applicable to PHA customers who transport gas through a qualified NGS):

\$ 0.52247 per Ccf

Plus

DISTRIBUTION CHARGE:

DISTRIBUTION CHARGE (consisting of item (A) and (B), below):

(A) Delivery Charge:

~~\$0.41480~~ \$0.40633 per Ccf

(D)

(B) Surcharges:

Universal Service and Energy Conversation Surcharge; The Restructuring and Consumer Education Surcharge; the Efficiency Cost Recovery Surcharge; and Other Post Employment Benefit Surcharge; Merchant Function Charge; and Gas Procurement Charge.

(D) – Decrease

**DEVELOPMENTAL NATURAL GAS VEHICLE SERVICE - RATE NGVS
FIRM SERVICE**

Rate: Applicable to all Retail Sales Service rendered pursuant to this Rate Schedule on or after
September 1, 2012

AVAILABILITY

This service is available to provide uncompressed Natural Gas to any Customer for the exclusive purpose of compressing such Gas for use as fuel for motor vehicles. The compression of the Natural Gas to the pressure required for use as a motor vehicle fuel will be conducted by the Customer, at the Customer's designated premises. Service shall only be available where the Company's distribution system is, or can economically be made available to supply the service. Each Customer will be required to execute a service agreement which will specify terms and conditions of service.

CHARACTER OF SERVICE

Service under this rate schedule is firm and shall only be interrupted in the case of operating emergencies experienced by the Company.

MONTHLY RATE

CUSTOMER CHARGE:

\$35.00 per month

Plus,

GCR (not applicable to PHA customers who transport gas through a qualified NGS):

\$ 0.52247 per Ccf

Plus

DISTRIBUTION CHARGE:

DISTRIBUTION CHARGE (consisting of item (A) and (B), below):

(A) Delivery Charge:

~~\$0.13212~~ \$0.13160 per Ccf

(D)

(B) Surcharges:

Universal Service and Energy Conversation Surcharge; ~~and~~ The Restructuring and Consumer Education Surcharge; Merchant Function Charge; and Gas Procurement Charge.

(D) – Decrease

PGW Attachment 2

Filing Requirements – Responses to 52 Pa. Code § 53.52(a) and (b)

**Natural Gas Procurement Cost and Uncollectible Expense Unbundling Filing –
Filing Requirements**

§53.52(a)(1) The Specific reasons for each change.

RESPONSE:

Please see the Statement of Reasons for PGW’s Natural Gas Procurement Cost and Uncollectible Expense Unbundling Filing.

§53.52(a)(2) The total number of customers served by the utility.

RESPONSE:

Fiscal Year 2012 Average:

GS Residential	469,567
GS Commercial	24,055
GS Industrial	687
GS PHA	1,703
Municipal/MS	898
PHA	845
NGV	1
	<hr/>
	497,756

§53.52(a)(3) A calculation of the number of customers, by tariff subdivision, whose bills will be affected by the change.

RESPONSE:

Same as response to §52.52(a)(2).

§53.52(a)(4) The effect of the change on the utility's customers.

RESPONSE:

Gas Procurement Charge: The base rates will decrease for all firm sales service and firm transportation customers by an amount equal to the Gas Procurement Cost credit amount (Testimony of Howard Gorman, Exhibit HSG-1, line 13) and the rates will increase for firm sales service customers by an amount equal to the Gas Procurement Charge (Testimony of Howard Gorman, Exhibit HSG-1, line 7).

Merchant Function Charge: The base rates will decrease for all firm sales service and firm transportation customers by an amount equal to the Merchant Function Charge credit amount (Testimony of Howard Gorman, Exhibit HSG-2, line 22) and the rates will increase for firm sales service customers by an amount equal to the current quarter Gas Cost Rate multiplied by the natural gas supply related uncollectible percentage (Testimony of Howard Gorman, Exhibit HSG-2, line 11).

§53.52(a)(5) The direct or indirect effect of the proposed change on the utility's revenues and expenses.

RESPONSE:

Per the Revised Final Rulemaking Order at Docket No. L-2008 -2069114 entered on June 23, 2011 ("June 2011 Order"), the Gas Procurement Charge and the Merchant Function Charge are designed to be revenue neutral, thus having no direct or indirect effect on the utility's revenues and expenses.

§53.52(a)(6) The effect of the change on the service rendered by the utility.

RESPONSE:

The change will not affect the service rendered by the utility.

§53.52(a)(7) A list of factors considered by the utility in its determination to make the change. The list shall include a comprehensive statement about why these factors were chosen and the relative importance of each. This subsection does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. §1308.

RESPONSE:

Please see the Statement of Reasons for PGW's Natural Gas Procurement Cost and Uncollectible Expense Unbundling Filing.

§53.52(a)(8) Studies undertaken by the utility in order to draft its proposed change. This paragraph does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. §1303.

RESPONSE:

The June 2011 Order did not require studies to be undertaken by the utility, and the Company has not undertaken any studies.

§53.52(a)(9) Customer polls taken and other documents which indicate customer acceptance and desire for the proposed change. If the poll or other documents reveal discernible public opposition, an explanation of why the change is in the public interest shall be provided.

RESPONSE:

The June 2011 Order did not require customer polls to be taken by the utility, and the Company has not conducted any polls.

§53.52(a)(10) Plans the utility has for introducing or implementing the changes with respect to its ratepayers.

RESPONSE:

The Company will file a compliance filing with the Commission to implement the proposed tariff and rates contained therein when it receives an order from the Commission to do so and will follow any specific communications required by the Commission as part of implementing the changes.

§53.52(a)(11) FCC, FERC or Commission orders or rulings applicable to the filing.

RESPONSE:

The Commission order applicable to the filing is the June 2011 order, and the Commission's Secretarial Letter issued May 25, 2012, in the same proceeding.

§53.52(b)(1) The Specific reasons for each change.

RESPONSE:

Please see the Statement of Reasons for PGW's Natural Gas Procurement Cost and Uncollectible Expense Unbundling Filing.

§53.52(b)(2) The operating income statement of the utility for the 12-month period, the end of which may not be more than 120 days prior to the filing.

RESPONSE:

Please see the attached PGW Schedule 1 containing the operating income statement for the 12-month period ending August 31, 2012.

§53.52(b)(3) A calculation of the number of customers, by tariff subdivision, whose bills will be increased.

RESPONSE:

Please see the Company's response to §53.52(a)(3), the Price to Compare ("PTC") for firm customers will increase.

§53.52(b)(4) A calculation of the total increases, in dollars, by tariff subdivision, projected to an annual basis.

RESPONSE:

Please see the attached PGW Schedule 2.

§53.52(b)(5) A calculation of the number of customers, by tariff subdivision, whose bills will be decreased.

RESPONSE:

Please see the Company's response to §53.52(a)(3), the base rates for firm and firm transportation customers will decrease.

§53.52(b)(6) A calculation of the total decreases, in dollars, by tariff subdivision, projected to an annual basis.

RESPONSE:

Please see the attached PGW Schedule 2.

Draft October 5, 2012

PGW Schedule 1

PGW
STATEMENT OF INCOME (UNAUDITED)
TWELVE MONTHS ENDED AUGUST 2012 AND 2011 WITH COMPARISONS
(Thousands of Dollars)

Line No.		<u>2012</u> <u>Actual</u>
	<u>Operating revenues</u>	
1	Non-heating	\$ 35,819
2	Gas transport service	29,324
3	Heating	547,403
4	Appliance & Other Revenues	8,240
5	Unbilled gas adjustment	(6,201)
6	Total gas revenues	<u>614,585</u>
7	Other operating revenues	8,356
8	Total operating revenues	<u>622,941</u>
	<u>Operating expenses</u>	
9	Natural gas	233,709
10	Other raw material	4
11	SUB-TOTAL FUEL	<u>233,713</u>
12	CONTRIBUTION MARGIN	389,228
13	Gas Processing	15,473
14	Field Services	33,466
15	Distribution	27,154
16	Collection	3,822
17	Appropriation for uncollectible reserve	34,702
18	Customer Services	11,486
19	Account Management	7,461
20	Marketing	6,575
21	Administrative & General	47,988
22	Health Insurance	43,771
23	Capitalized Fringe Benefits	(10,951)
24	Capitalized Admin. Charges	(6,046)
25	Pensions	23,972
26	Other Post-Employment Benefits	19,039
27	Taxes	6,995
28	BT Lite/SCI Costs	201
29	Cost Savings	-
30	Total operating expenses	<u>265,108</u>
31	Operating income before depreciation	124,120
32	Depreciation	44,676
33	Less depreciation distributed thru clearing accounts	(4,870)
34	Net depreciation	<u>39,806</u>
35	Total operating expenses	<u>538,627</u>
36	Operating income	84,314
37	Interest and other income	4,059
38	Income before interest	<u>88,373</u>
	Interest	
39	Long term debt	52,459
40	Other	16,878
41	Allowance for funds used during construction	(302)
42	Net interest expense	<u>69,035</u>
43	Net income	<u>\$ 19,338</u>

§53.52(b)(4) A calculation of the total increases, in dollars, by tariff subdivision, projected to an annual basis.

§53.52(b)(6) A calculation of the total decreases, in dollars, by tariff subdivision, projected to an annual basis.

Firm	Gas Procurement Charge (GPC)				Merchant Function Charge (MFC)					
	Volumes*	Exhibit HSG-1** Line 13	Base Rate Decrease	Exhibit HSG-1** Line 7	GPC Increase	Volumes*	Exhibit HSG-2** Line 22	Base Rate Decrease	Exhibit HSG-2** Line 17	MFC Increase
GS Residential	39,841,054	\$ (0.0052)	\$ (205,678)	\$ 0.0054	\$ 217,084	39,841,054	(0.4067)	\$ (16,203,357)	\$ 0.4067	\$ 16,203,357
GS Commercial	8,547,305	\$ (0.0052)	\$ (44,125)	\$ 0.0054	\$ 46,572	8,547,305	(0.0867)	\$ (741,051)	\$ 0.1060	\$ 906,014
GS Industrial	670,154	\$ (0.0052)	\$ (3,460)	\$ 0.0054	\$ 3,652	670,154	(0.0779)	\$ (52,205)	\$ 0.1150	\$ 77,068
GS PHA	209,424	\$ (0.0052)	\$ (1,081)	\$ 0.0054	\$ 1,141	209,424	(0.0795)	\$ (16,649)	\$ 0.0795	\$ 16,649
Municipal/MS	718,421	\$ (0.0052)	\$ (3,709)	\$ 0.0054	\$ 3,914	718,421	(0.0642)	\$ (46,123)	\$ 0.1159	\$ 83,265
PHA	593,669	\$ (0.0052)	\$ (3,065)	\$ 0.0054	\$ 3,235	593,669	(0.0795)	\$ (47,197)	\$ 0.0795	\$ 47,197
NGVS	-	\$ (0.0052)	\$ -	\$ 0.0054	\$ -	-	-	-	-	-
<u>Firm Transportation</u>										
GS Residential	-					-				
GS Commercial	1,906,837	\$ (0.0052)	\$ (9,844)			1,906,837	(0.08670)	\$ (165,323)		
GS Industrial	318,999	\$ (0.0052)	\$ (1,647)			318,999	(0.07790)	\$ (24,850)		
GS PHA	-					-				
Municipal/MS	579,122	\$ (0.0052)	\$ (2,990)			579,122	(0.06420)	\$ (37,180)		
PHA	-					-				
	<u>53,384,985</u>		<u>\$ (275,599)</u>		<u>\$ 275,598</u>	<u>53,384,985</u>		<u>\$ (17,333,934)</u>		<u>\$ 17,333,550</u>

*Volumes from PGW's most recent base rate case settlement agreement; Docket No. R-2009-2139884

** See the Testimony of Howard Gorman - PGW Statement No. 2.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF

KENNETH S. DYBALSKI

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R-2012-_____

Natural Gas Procurement Cost and Uncollectible Expense
Unbundling Filing

Philadelphia Gas Works

1 **Q. PLEASE STATE YOUR NAME AND POSITION WITH THE COMPANY.**

2

3 A. My name is Kenneth S. Dybalski. My position is Director - Gas Planning &
4 Rates, at the Philadelphia Gas Works.

5

6 **Q. HOW LONG HAVE YOU HELD THIS POSITION?**

7

8 A. I have been the Director - Gas Planning & Rates since 2006 and prior to that I was
9 the Manager of Gas Planning from 2001 to 2006.

10

11 **Q. WHAT ARE YOUR VARIOUS JOB RESPONSIBILITIES?**

12

13 A. In my present position, I am responsible for developing and coordinating short
14 and long term planning of gas demand, gas supply, raw material expense and
15 revenue; overseeing the preparation of sales, sendout, revenue and fuel expense
16 projections; developing peak day/hour load projections; overseeing the
17 development of the various filings before the Pennsylvania Public Utility
18 Commission (PUC) and Philadelphia Gas Commission (PGC), including the
19 quarterly and annual Gas Cost Rate (GCR) filings; preparing the Integrated
20 Resource Planning Report; and providing supporting documentation for gas costs
21 related to PGW's Operating Budget before the Philadelphia Gas Commission.

22

23 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.**

24

25 A. I have received a BS and MBA from Temple University in Philadelphia,
26 Pennsylvania.

27

1 **Q. HAVE YOU EVER PROVIDED TESTIMONY BEFORE THIS**
2 **COMMISSION?**

3

4 A. Yes. I submitted testimony for the PGW 1307f Annual GCR Filings in Docket
5 Nos. R-2012-2286447, R-2011-2224739, R-2010-20157062, R-2009-2088076,
6 and R-2008-2021348. I have also submitted testimony in PGW's most recent base
7 rate proceeding (Docket No. R-2009-2139884) and PGW's 2008 Extraordinary
8 Rate Request (Docket No. R-2008-2073938).

9

10 **Q. WHAT TOPIC ARE YOU ADDRESSING IN YOUR DIRECT**
11 **TESTIMONY?**

12

13 A. My testimony addresses the development of costs for the Gas Procurement Charge
14 ("GPC") by PGW.

15

16 **Q. PLEASE DESCRIBE THE GPC COST COMPONENTS.**

17

18 A. According to the PUC's Revised Final Rulemaking Order at Docket No. L-2008-
19 2069114 entered on June 23, 2011, the GPC is to be comprised of labor and
20 benefits costs which include the salaries and benefits attributable to the Company
21 employees participating in the procurement of natural gas commodity for PGC
22 customers, inclusive of natural gas supply bidding, contracting, hedging, credit
23 and risk management activities, and the associated gas procurement PGC
24 activities.

25

26 **Q. PLEASE DESCRIBE HOW LABOR AND BENEFITS COSTS WERE**
27 **DETERMINED.**

28

29 A. There are four functional categories of Company employees who perform or
30 support procurement: (1) gas supply, (2) accounting support, (3) internal legal

1 support, and (4) management support. The labor and benefits costs for the four
 2 functional categories were based on an analysis by each department to determine
 3 the number of annual hours spent on procurement. The annual hours were divided
 4 by 2,080 hours (which is the product of 40 hours per week multiplied by 52 weeks
 5 per year) in order to determine the number of full time equivalent employees
 6 needed for these functions. The labor costs for these employees are in FERC
 7 account 920, Administrative & General Salaries. The benefits costs are primarily
 8 in FERC account 926, Employee Pensions and Benefits. The benefits rate, which
 9 is 47.5% of labor costs, is computed as follows:

Item	FERC Account	Amount (\$000s)
Group Life Insurance		\$1,900
Health Insurance Active		20,335
Legal Services Fund		265
Deferred Compensation Plan		344
Tuition Refund Program		400
Payroll Taxes		8,319
Pension Payments		34,430
Pension Fund Withdrawals		(13,728)
Total Fringe Benefits		\$52,265
Payroll (Active, excluding taxes)		\$110,024
Benefit Rate		47.50%

11
 12
 13 **Q. IN THE FIRST CATEGORY OF GAS SUPPLY, HOW MANY FULL TIME**
 14 **EQUIVALENTS ARE NEEDED FOR PROCUREMENT AND WHAT IS**
 15 **THE TOTAL ANNUAL COST OF THIS CATEGORY?**

16
 17 **A.** PGW currently uses 2.8 full time employees or employee equivalents in gas
 18 supply for procurement. In determining cost, PGW used the average salary in the
 19 Gas Supply Department in the FY 2010 Budget which was the basis for the test
 20 year in the most recent base case proceeding. These salaries were then grossed up
 21 by 47.5% for benefits to derive the total labor and benefits associated with gas

1 supply. Total annual labor and benefits of \$241,724 are associated with these 2.8
2 gas supply employees. See Exhibit KSD-1, Line 1.

3
4 **Q. IN THE SECOND CATEGORY OF ACCOUNTING SUPPORT, HOW**
5 **MANY FULL TIME EQUIVALENTS ARE NEEDED FOR**
6 **PROCUREMENT AND WHAT IS THE TOTAL ANNUAL COST OF THIS**
7 **CATEGORY?**

8
9 A. PGW currently uses 0.13 full time employees or employee equivalents in
10 accounting support for procurement. In determining cost, PGW used the average
11 salary by job category in the Accounting Department in the FY 2010 Budget
12 which was the basis for the test year in the most recent base case proceeding.
13 These salaries were then grossed up by 47.5% for benefits to derive the total labor
14 and benefits associated with gas supply. Total annual labor and benefits of
15 \$10,467 are associated with these 0.13 gas supply employees. See Exhibit KSD-
16 1, Line 2.

17 **Q. IN THE THIRD CATEGORY OF INTERNAL LEGAL SUPPORT, HOW**
18 **MANY FULL TIME EQUIVALENTS ARE NEEDED FOR**
19 **PROCUREMENT AND WHAT IS THE TOTAL ANNUAL COST OF THIS**
20 **CATEGORY?**

21
22 A. PGW currently uses 0.02 full time employees or employee equivalents in legal
23 support for procurement. In determining cost, PGW used the average salary in the
24 Legal Department in the FY 2010 Budget which was the basis for the test year in
25 the most recent base case proceeding. These salaries were then grossed up by
26 47.5% for benefits to derive the total labor and benefits associated with gas
27 supply. Total annual labor and benefits of \$2,544 are associated with the 0.02
28 legal support employees. See Exhibit KSD-1, Line 3.

1 **Q. IN THE FOURTH CATEGORY OF MANAGEMENT SUPPORT, HOW**
2 **MANY FULL TIME EQUIVALENTS ARE NEEDED FOR**
3 **PROCUREMENT AND WHAT IS THE TOTAL ANNUAL COST OF THIS**
4 **CATEGORY?**

5
6 A. PGW currently uses 0.1 full time employees or employee equivalents in
7 management support for procurement. In determining cost, PGW used the average
8 salary for PGW Officers in the FY 2010 Budget which was the basis for the test
9 year in the most recent base case proceeding. These salaries were then grossed up
10 by 47.5% for benefits to derive the total labor and benefits associated with gas
11 supply. Total annual labor and benefits of \$20,862 are associated with the 0.1
12 management support employees. See Exhibit KSD-1, Line 4.

13
14 **Q. WHAT ASSUMPTIONS WERE MADE IN REGARD TO THE**
15 **COMPANY'S CHOICE PROGRAM ASSOCIATED WITH THE FOUR**
16 **CATEGORIES COMPRISING LABOR AND BENEFITS COSTS?**

17
18 A. Calculations of procurement costs for all four categories assume that there will be
19 some level of procurement activity required even with 100% Choice participation.
20 A level of procurement is required to fill and manage storage for purposes of
21 making bundled city gate supply sales to Choice suppliers as offered by the PGW
22 Choice tariffs in accordance with PGW's restructuring proceedings. Since PGW
23 does not release storage capacity to Choice suppliers but instead manages storage
24 capacity on behalf of Choice suppliers, PGW would continue to incur
25 procurement costs for filling and managing storage. Therefore, labor and benefits
26 costs related to procurement to fill storage are not included in the GPC.

27
28 **Q. HOW DID THE COMPANY ACCOUNT FOR WORKING CAPITAL FOR**
29 **GAS IN STORAGE INVENTORY?**

30

1 A. The Company is not proposing to remove costs for working capital for gas in
2 storage inventory from base rates. It was established in PGW's restructuring
3 proceeding that PGW will not release storage capacity to Choice suppliers. Since
4 PGW does not release storage capacity to Choice suppliers but instead manages
5 storage capacity on behalf of Choice suppliers, PGW bears all of the working
6 capital costs for gas that is stored on the PGW system and Choice suppliers do not
7 bear separate costs for this working capital. Instead, PGW gives Choice suppliers
8 the option to receive bundled city gate sales service at summer prices for a portion
9 of their gas supplies. This gives Choice suppliers the seasonal benefit associated
10 with storage of acquiring winter supplies at summer prices while preserving
11 PGW's ability to retain storage and peaking assets to ensure system reliability and
12 comply with FERC rules. Under this approach, Choice suppliers receive the
13 benefits of storage but do not actually own gas in storage on the PGW system or
14 have working capital costs related to storage inventory on the Company's system.
15 Since Choice suppliers on PGW's system do not incur working capital costs
16 related to gas in storage inventory but are able to receive the benefits of the
17 storage comparable to that received by PGC customers, it is appropriate for PGW
18 to leave these costs in base rates. Stated another way, if working capital costs were
19 removed from base rates and placed on PGC customers alone, shopping customers
20 would receive the benefits of PGW's storage system but would not pay working
21 capital costs for this storage inventory, resulting in a subsidy of Choice customers
22 by PGC customers. Therefore, it is appropriate for PGW to keep working capital
23 costs for storage inventory in base rates.

24

25 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

26

27 A. Yes

Exhibit KSD-1

PGW Unbundling - Gas Procurement

<u>Line</u>	<u>Function</u>	<u>Hours</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Total</u>
				<u>47.5%</u>	
1	Procurement	5,824.0	\$ 163,880	\$ 77,843	\$ 241,724
2	Accounting	276.0	\$ 7,096	\$ 3,371	\$ 10,467
3	Legal	37.5	\$ 1,725	\$ 819	\$ 2,544
4	Management	208.0	\$ 14,144	\$ 6,718	\$ 20,862
	TOTAL	6,345.5	\$ 186,846	\$ 88,752	\$ 275,597

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF

HOWARD S. GORMAN

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R-2012-_____

Natural Gas Procurement Cost and Uncollectible Expense
Unbundling Filing

Philadelphia Gas Works

1 **Q. PLEASE STATE YOUR NAME AND TITLE.**

2 A. My name is Howard S. Gorman. I am a Senior Associate Consultant for AUS
3 Consultants, Inc. and President of HSG Group, Inc.

4

5 **Q. PLEASE SUMMARIZE YOUR EDUCATION, PROFESSIONAL BACKGROUND
6 AND EXPERIENCE BEFORE THE COMMISSION.**

7 A. My education and professional background and my experience are before the
8 Commission are set out in Appendix A to my testimony. I have testified before the
9 Commission on numerous occasions, including on behalf of Philadelphia Gas Works
10 (“PGW”) in its most recent base rate case, Docket R-2009-2139884.

11

12 **Q. PLEASE STATE ON WHOSE BEHALF YOU ARE TESTIFYING AND THE
13 PURPOSE OF YOUR TESTIMONY.**

14 A. I am testifying on behalf of PGW. My testimony develops and presents the Gas
15 Procurement Charge (“GPC”) and the Merchant Function Charge (“MFC”) that PGW
16 proposes to implement, pursuant to the Pennsylvania Public Utility Commission’s
17 (“Commission”) Revised Final Rulemaking Order at Docket No. L-2008-2069114
18 entered on June 23, 2011 (“June 2011 Order”). My testimony also develops and presents
19 the credits to base rates required to ensure these charges are implemented on a revenue
20 neutral basis for PGW.

21

22 **Q. WHAT IS THE GPC?**

23 A. As required by the *June 2011 Order*, the costs of procuring natural gas supply are being
24 removed from the distribution rates that are applicable to firm sales service and firm
25 transportation customers (i.e., the distribution rates applicable to these customers are
26 being reduced). These costs will be recovered through the GPC, which will be charged
27 only to firm natural gas supply customers of PGW (i.e. firm sales service customers).
28 The testimony of PGW witness Mr. Dybalski provides a description of the specific costs
29 that are being removed.

30

31 **Q. WHAT IS THE MFC?**

1 A. As required by the *June 2011 Order*, uncollectible accounts expenses related to natural
2 gas supply (i.e., Gas Cost Rate or “GCR”) are being removed from the distribution rates
3 that are applicable to firm sales service and firm transportation customers (i.e., the
4 distribution rates applicable to these customers are being reduced). The expense will be
5 recovered through the MFC, which will be charged only to firm natural gas supply
6 customers of PGW.

7
8 Each time PGW updates its GCR in a section 1307(f) filing, the MFC will be recomputed
9 for each rate group by multiplying the GCR by the group’s uncollectible accounts ratio.

10
11 **Q. ARE YOU SUBMITTING ANY EXHIBITS TODAY?**

12 A. Yes, I am submitting two exhibits. Exhibit HSG-1 computes the GPC and the related
13 reduction to base distribution rates; the GPC is the same rate per mcf for all firm sales
14 service customers.

15
16 Exhibit HSG-2 computes the MFC and the related reduction to base distribution rates, as
17 well as the ratio of uncollectible expense to revenue for natural gas supply costs, for each
18 rate group. Each time PGW updates its GCR in a section 1307(f) filing, the MFC per
19 mcf will be recomputed for each rate group by multiplying the GCR by the group’s
20 uncollectible accounts ratio.

21
22 **Q. HOW WAS THE GPC RATE DEVELOPED?**

23 A. Exhibit HSG-1 presents the computation of the GPC rate. The total GPC cost included in
24 the revenue requirement in PGW’s Docket R-2009-2139884 is \$275,598 (line 3), as
25 presented in the testimony of Mr. Dybalksi. That amount is to be recovered through a
26 volumetric charge to all firm sales service customers. The GPC rate is equal to the total
27 cost divided by annual firm sales service volumes (line 5), and is *\$0.0054 per firm sales*
28 *service mcf sold* (line 7).

29
30 The implementation of the GPC must be revenue neutral for PGW, therefore the existing
31 distribution rates for firm sales service and firm transportation customers will be reduced

1 by \$0.0052 per each firm sales service and firm transportation mcf (line 13), which will
2 result in a revenue reduction to offset the GPC revenue.

3
4 The GPC rate of \$0.0054 per mcf is higher than the unbundling credit of \$0.0052 per mcf
5 because firm sales service volumes are lower than the total of firm sales service and firm
6 transportation volumes. In other words, gas procurement costs are being unbundled from
7 both firm sales service and firm transportation distribution rates, but these same costs are
8 only being recovered on a going forward basis from firm sales service customers.

9
10 **Q. HOW WERE THE MFC RATES DEVELOPED?**

11 **A.** The computation of the MFC rates is presented on Exhibit HSG-2. Pursuant to the
12 Commission's *June 2011 Order*, the MFC rates are rate group-specific. The rate groups
13 are GS Residential, GS Commercial, GS Industrial, GS Housing Authority, MS
14 Municipal and PHA Philadelphia Housing Authority (Note: GS Housing Authority and
15 PHA Philadelphia Housing Authority are combined in Exhibit HSG-2 under the column
16 heading "Housing Auth GS").

17
18 The first step was to compute the ratio of uncollectible accounts expense to revenue.
19 Uncollectible accounts expense comprises bad debt write-offs and forgiveness of CRP
20 arrearages. In the original Docket R-2009-2139884 filing, the portion related to write-
21 offs was (\$34,917,000, line 24), and was allocated by class based on the percentage of
22 actual write-offs for each rate group to total write-offs, for the years 2006-2008. These
23 amounts were adjusted downward by \$1,385,000 (lines 25-31) to produce the
24 uncollectible accounts expense related to write-offs that was included in the settlement
25 (\$33,532,000, line 2).

26
27 In the original filing, the portion related of uncollectible accounts expense related to
28 forgiveness of CRP arrearages was allocated based on firm sales service and firm
29 transportation volumes; the same amount and allocation are reflected in the MFC

1 (\$8,482,000, line 3). Total uncollectible accounts expense in base rates is \$42,014,000.¹

2 The following provides a reconciliation of the bad debt expense from the original filing to
3 the settlement agreement:

4	Bad Debt Write-offs - Original Filing	\$ 34,917,000
	Forgiveness of CRP Arrearages	<u>\$ 8,482,000</u>
	Bad Debt Expense - Original Filing	\$ 43,399,000
	Pro Forma Adjustment	<u>\$ (1,385,000)</u>
	Bad Debt Expense - Settlement Agreement	<u>\$ 42,014,000</u>

5
6 The second step is to compute the ratio of uncollectible accounts expense to revenue.

7 The revenue for each rate group and in total, from the settlement in Docket R-2009-
8 2139884, are shown on line 9. The ratio of uncollectible accounts expense (line 4) to
9 revenue (line 9) for each group is shown on line 11.

10
11 The last step is to compute the uncollectible accounts expense related to the natural gas
12 supply costs (reflected in the Gas Cost Rate or "GCR") that were in Docket R-2009-
13 2139884. For each rate group, the amount was computed by multiplying GCR revenue
14 (line 8) by the uncollectible accounts expense ratio (line 11), with the expense amounts
15 shown on line 15. The rate group-specific MFC rates were computed by dividing
16 uncollectible accounts expense related to natural gas supply costs (line 15) by firm sales
17 service volumes (line 13); the MFC rates per firm sales service mcf, based on the GCR in
18 the Docket R-2009-2139884 rate case, are shown on line 17.

19
20 The implementation of the MFC must be revenue neutral for PGW, therefore the existing
21 distribution rates will be reduced by the amounts on line 22 for each firm sales service
22 and firm transportation mcf. The reductions to the existing distribution rates will remain
23 the same regardless of the GCR rate, because the purpose is to remove the costs included
24 in the Docket R-2009-2139884 rate case.

25

¹ See *Pa.PUC vs. PGW*, Docket No. R-2009-2139884; Joint Petition for Settlement, PGW Statement in Support – Appendix A – Verified Statement of Joseph R. Bogdonavage. The Income Statement included with the verified statement shows Bad Debt Expense as filed in the amount of \$43,399M, a Pro Forma Adjustment in the amount of (\$1,385M) and the net Settlement Bad Debt Expense in the amount of \$42,014M.

1 Each time PGW updates its GCR in a section 1307(f) filing, the MFC amounts shown on
2 line 17 will be recomputed for each rate group, by multiplying the updated GCR per mcf
3 *sold* by the group's uncollectible accounts ratio (line 11); the result will be the updated
4 rate group MFC charge per mcf *sold*.

5

6 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

7 A. Yes

8

Philadelphia Gas Works
GAS PROCUREMENT CHARGE (GPC)
Budget for Year Ended August 31, 2010

Line	Description	Reference	Amount
1	Natural gas supply service, acquisition and management	PGW Statement 1	\$186,846
2	Benefits @	47.5% PGW Statement 1	88,752
3	Total GPC Costs	Sum Line 1 thru Line 2	\$275,598
4			
5	Annual firm sales service volumes, mcf	Proof of Revenue, Settlement (a)	50,580,027
6			
7	GPC per mcf - to be included in price to compare for firm sales service customers	Line 3 / Line 5	\$0.0054
8			
9	Annual firm sales service volumes, mcf	Proof of Revenue, Settlement (a)	50,580,027
10	Annual firm transportation volumes, mcf	Proof of Revenue, Settlement (a)	2,804,958
11	Annual firm sales service and firm transportation volumes, mcf	Proof of Revenue, Settlement (a)	53,384,985
12			
13	GPC (credit) - firm sales service and firm transportation per mcf delivery charge reduction	Line 3 / Line 11	(\$0.0052)
14			
15	(a) Docket R-2009-2139884		
16			

**RESUME OF
HOWARD S. GORMAN
SENIOR ASSOCIATE CONSULTANT – AUS CONSULTANTS, INC.
PRESIDENT – HSG GROUP, INC.**

SUMMARY

Mr. Gorman has more than 25 years of experience in the energy industry, including 15 years in rate and regulatory proceedings, and more than 30 years experience overall in accounting, finance and rate and regulatory matters.

Mr. Gorman has testified as an expert witness regarding utility revenue requirements, class cost of service, revenue allocation and rate design. He has testified as an expert witness before the Massachusetts Department of Public Utilities, New Jersey Board of Public Utilities, New York State Public Service Commission, Ontario Energy Board, Pennsylvania Public Utility Commission and Rhode Island Public Utilities Commission.

Mr. Gorman has performed financial analyses of energy infrastructure projects for acquisitions and in support of due diligence for financing, and has negotiated and completed construction and term loans, tax-exempt and taxable bonds and subordinated debt. His experience includes financial modeling, financial analysis and forecasting.

Mr. Gorman also has experience in financial accounting, as Controller and Treasurer of Trigen Energy Corporation, where he built the finance function, managed subsidiary controllers and supported an IPO with NYSE listing.

PROFESSIONAL EMPLOYMENT

2010 - Present	HSG Group, Inc. <ul style="list-style-type: none">• <i>President</i>	
1997 - 2010	Black & Veatch Corporation (R.J. Rudden Associates, Inc. before 2005) <ul style="list-style-type: none">• <i>Principal Consultant</i>	
1995 - 1997	Independent Consultant	
1987 – 1995	Trigen Energy Corporation <ul style="list-style-type: none">• 1987-1993 <i>Corporate Controller</i>; Trigen was formed in 1987• 1993-1995 <i>Treasurer</i>; Trigen had IPO with NYSE listing in 1994	
1982 - 1987	Coleco Industries, Inc. <ul style="list-style-type: none">• <i>Director, Treasury</i>	
1976 - 1979	Touche Ross & Co. <ul style="list-style-type: none">• <i>Staff</i>	<i>Accountant</i>

**RESUME OF
HOWARD S. GORMAN
SENIOR ASSOCIATE CONSULTANT – AUS CONSULTANTS, INC.
PRESIDENT – HSG GROUP, INC.**

PROFESSIONAL EXPERIENCE

Rate and Regulatory Support for Utilities

Mr. Gorman has provided rate and regulatory support for numerous electric and gas utilities in several jurisdictions, including performing the following:

- Developing utility revenue requirements
- Performing class cost allocation studies and marginal cost studies
- Recommending class revenue allocation
- Analyzing and recommending rate design structures
- Reviewing interaffiliate cost allocation methodology

A list of rate case dockets in which Mr. Gorman has provided expert testimony is presented in the table ‘**Expert Testimony**’ at the end of this resume.

Energy Project Analysis

Mr. Gorman has performed financial analyses of energy-related assets, including electric and gas distribution companies, power plants and transmission operators. These analyses included developing cash flows and financial statements for both regulatory and accounting purposes, and included review of assumptions, analysis of data, modeling, sensitivity testing and stress testing.

Among these analyses are: valuations of power plants, financial projections for cogeneration heat and power plants and energy companies for the purpose of acquisition, valuation of waste-to-energy assets, valuation of a publicly traded multi-jurisdiction utility, and assessment of strategic fit and valuation for a utility considering diversifying into energy-related services.

A list of projects in which Mr. Gorman has performed energy project analysis is presented in the table ‘**Financial Analysis to Support Energy Projects**’ at the end of this resume.

Energy Project Financing

Mr. Gorman has sourced, structured, negotiated and completed transactions including construction and term loans, tax-exempt bonds, taxable bonds, subordinated debt and asset-backed (receivables and inventory) revolving credit facilities.

Mr. Gorman has supported energy projects in connection with due diligence for financing, including contract review, financial modeling, supply analysis, forward price projections, and economic valuation with cash flow forecasting, and the identification, assessment and mitigation of financial and operating risks for the project and its investors.

**RESUME OF
HOWARD S. GORMAN
SENIOR ASSOCIATE CONSULTANT – AUS CONSULTANTS, INC.
PRESIDENT – HSG GROUP, INC.**

Financial Management

Mr. Gorman has extensive experience in financial accounting. As Controller and Treasurer of Trigen Energy Corporation, he built the finance and accounting function, developed reports, procedures and management tools, and managed subsidiary controllers across North America, including an IPO with NYSE listing (1994).

He managed the corporate insurance portfolios and the benefit plans for Trigen Energy Corporation and for Coleco Industries.

Computer Modeling and Decision Support

Mr. Gorman is an accomplished modeler with expertise in spreadsheet and database applications, as well as the use of programming tools. He has developed analytical tools to perform valuations, projections and simulations. These models have been applied to financial analysis, cost allocations, rate design and pricing, forecasting revenue requirements, numerous tax and accounting matters, supply modeling and optimizations. Several of these models have contained interactive modules for automated scenario testing and sensitivity analysis.

PUBLICATIONS AND PRESENTATIONS

“What Wall Street Needs From FERC,” published in R. J. Rudden Financial, LLC’s *Energy Capital Markets Report*, September 2002

“A Balanced Look at Balance Sheets,” published in R.J. Rudden Financial, LLC’s *Energy Capital Markets Report*, June 2002

“From Wires To Riches: Shareholder Value Creation In The T&D Business,” April 2002 (co-authored).

“Assessment of Retail Choice Programs,” presented at the American Gas Association Rate and Strategic Issues Committee Conference, March 2002

“Value Creation With Transmission Assets,” quoted in *Electrical World’s Special Edition Quarter 1, 2002*, March 2002

“The Remarkable Story on Enron,” published in Scudder’s *Annual End of Year Issue*, December 2001

EDUCATION

New York University, B.S., Accounting, 1976

Harvard Business School, MBA, 1981

**RESUME OF
HOWARD S. GORMAN
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PRESIDENT – HSG GROUP, INC.**

Expert Testimony Submitted by Howard S. Gorman				
Jurisdiction	Docket	Client	Date	Subject Matter
New York	12-E-0201	Niagara Mohawk Power Corporation	2012	Electric class cost of service; revenue allocation
Rhode Island	RIPUC 4323	Narragansett Electric	2012	Electric class cost of service
New York	11-E-0590	Village of Rockville Centre	2011	Electric revenue requirements; rate design; sales forecast
New York	11-G-0142	Chautauqua Utilities, Inc.	2011	Gas revenue requirements, rate design
Pennsylvania	R-2010-2179103	Kellogg Company (intervener)	2010	Water class cost of service; revenue allocation
Pennsylvania	R-2010-2179522	Duquesne Light Company	2010	Electric class cost of service; revenue allocation; rate design
Pennsylvania	R-2010-2172662	Wellsboro Electric Company	2010	Electric revenue requirements, class cost of service, revenue allocation, rate design
Pennsylvania	R-2010-2172665	Citizens' Electric Company of Lewisburg, PA	2010	Electric revenue requirements, class cost of service, revenue allocation, rate design
Pennsylvania	R-2010-2174470	Valley Energy, Inc.	2010	Gas revenue requirements, rate design
Pennsylvania	R-2010-2161592	PECO Energy (Gas)	2010	Gas class cost of service; revenue allocation; rate design
Pennsylvania	R-2010-2161575	PECO Energy (Electric)	2010	Electric class cost of service; revenue allocation; rate design
New York	10-E-0050	Niagara Mohawk Power Corporation	2010	Electric class cost of service

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Expert Testimony Submitted by Howard S. Gorman				
Jurisdiction	Docket	Client	Date	Subject Matter
New York	09-E-0862	Jamestown Board of Public Utilities	2009	Electric revenue requirements
Pennsylvania	R-2009 2139884	Philadelphia Gas Works	2009	Gas class cost of service; revenue allocation
Rhode Island	RIPUC 4065	Narragansett Electric	2009	Electric class cost of service; revenue allocation; rate design
Massachusetts	DPU 09-39	Massachusetts Electric and Nantucket Electric	2009	Electric revenue requirements; adjustment mechanisms; class cost of service; revenue allocation; rate design
Pennsylvania	R-2008-2028394	PECO Energy (Gas)	2008	Gas class cost of service; revenue allocation; rate design
Pennsylvania	R-00072350	Wellsboro Electric Company	2007	Electric revenue requirements; rate design
Pennsylvania	R-00072348	Citizens' Electric Company of Lewisburg, PA	2007	Electric revenue requirements; rate design
Pennsylvania	R-00072349	Valley Energy, Inc.	2007	Gas revenue requirements; rate design
Pennsylvania	R-00061931	Philadelphia Gas Works	2006	Gas class cost of service; revenue allocation; rate design
New York	06-E-0911	Village of Freeport	2006	Electric revenue requirements; rate design
Ontario	EB-2007-0905 et al	Ontario Power Generation Inc.	2006, 2010	Electric Cost allocation methodology
Pennsylvania	R-00061346	Duquesne Light Company	2006	Electric class cost of service; revenue allocation; rate design

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Expert Testimony Submitted by Howard S. Gorman				
Jurisdiction	Docket	Client	Date	Subject Matter
Ontario	EB-2005-0378 et al	Hydro One Networks Inc.	2005, 2006, 2008, 2009, 2010, 2012	Electric Transmission and Distribution Cost allocation; OH capitalization rates
New York	03-E-1568	Village of Rockville Centre	2003	Electric revenue requirements; rate design; sales forecast
New Jersey	ER020805 06 et al	Gerdau AmeriSteel aka Co-Steel (intervenor)	2002	Electric cost allocation and rate design; industrial rates
New Jersey	ER020503 03 et al	Gerdau AmeriSteel aka Co-Steel (intervenor)	2002	Electric cost allocation and rate design; industrial rates
Pennsylvania	M-00021612	Philadelphia Gas Works	2002	Gas rate unbundling
Pennsylvania	R-00017034	Philadelphia Gas Works	2002	Gas class cost of service
Pennsylvania	R-00006042	Philadelphia Gas Works	2001	Gas class cost of service; recovery of fixed costs