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February 7, 2013

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

VIA ELECTRONIC FILING

RE: Petition of Philadelphia Gas Works for Approval of Distribution System Improvement Charge; Docket No. P-2012-2337737

Dear Secretary Chiavetta:

Enclosed for filing with the Pennsylvania Public Utility Commission ("PUC" or "Commission") is the Petition to Intervene and Answer on behalf of the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG"), in the above-referenced proceeding.

As shown by the attached Certificate of Service, all parties to this proceeding are being duly served. Thank you.

Sincerely,

McNEES WALLACE & NURICK LLC

By 
Adeolu A. Bakare

Counsel to the Philadelphia Industrial and
Commercial Gas Users Group

AAB/leh
Enclosures

c: Chief Administrative Law Judge Charles E. Rainey, Jr. (via e-mail and First Class Mail)
Certificate of Service

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CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

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Adeolu A. Bakare

Counsel to the Philadelphia Industrial and
Commercial Gas Users Group

Dated this 7th day of February, 2013, at Harrisburg, Pennsylvania

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PHILADELPHIA GAS :
WORKS FOR APPROVAL OF : Docket No. P-2012-2337737
DISTRIBUTION SYSTEM :
IMPROVEMENT CHARGE :

**PETITION TO INTERVENE AND ANSWER
OF THE PHILADELPHIA INDUSTRIAL AND COMMERCIAL GAS USERS GROUP**

Pursuant to Sections 5.71 through 5.74 of the Pennsylvania Public Utility Commission's ("PUC" or "Commission") Regulations, 52 Pa. Code §§ 5.71 - 5.74, the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") hereby files this Petition to Intervene in the above-captioned proceeding. In addition, pursuant to Section 5.61(a) of the Commission's Regulations, 52 Pa. Code § 5.61(a), PICGUG hereby files this Answer¹ in response to the above-captioned Petition ("Petition") of Philadelphia Gas Works ("PGW" or "Company").

On January 18, 2013, PGW petitioned the Commission for approval of Supplement No. 58 to Gas Service Tariff – Pa. P.U.C. No. 2 ("Supplement No. 58"). Supplement No. 58 proposes to implement a Distribution System Improvement Charge ("DSIC") to recover "reasonable and prudent costs incurred to repair, improve, or replace eligible property in order to ensure and maintain adequate, efficient, safe, reliable and reasonable service." Petition, p. 7. PGW's Petition was filed pursuant to the Commission's Final Implementation Order entered August 2, 2012, at Docket No. M-2012-2293611 ("Implementation Order"). The Implementation Order set forth the Commission's procedures for complying with the

¹ Alternatively, PICGUG's filing should be treated by the Commission as a Complaint against PGW's proposal pursuant to Section 5.22 of the Commission's Regulations. See 52 Pa. Code § 5.22.

requirements of Act 11 of 2012 ("Act 11"), which provides natural gas distribution companies ("NGDCs") and City Natural Gas Distribution Operations ("City Gas Operations"), such as PGW, with legislative authority to petition for a DSIC. In accordance with Act 11, the Implementation Order permitted City Gas Operations to petition the Commission for a DSIC on or after January 1, 2013. See Implementation Order, p. 22.

Specifically, PGW's Petition proposes to apply the DSIC to all eligible property set forth in the Company's Petition for Approval of its Long-Term Infrastructure Improvement Plan ("LTIP"), which was filed with the PUC on December 3, 2012.² To calculate the DSIC, the Company will apply the formula approved for City Gas Operations in the Implementation Order, where annualized eligible costs and any reconciliation adjustment are divided by projected annual sales revenues. Petition, p. 9. Consistent with Act 11, eligible costs proposed for recovery through PGW's DSIC may include eligible distribution property and associated debt service, debt service coverage, and issuance costs. See 66 Pa. C.S. § 1357(c). The Company based its projected quarterly revenues on one-fourth of its projected annual sales volumes. See Petition, p. 9. PGW estimates that the initial DSIC will recover \$22 million annually. Based on PGW's reported annualized revenues of \$517,032,000, the proposed DSIC would recover an annual amount equal to approximately 4.25% of the Company's distribution revenues. PGW requests permission to implement the DSIC effective March 1, 2013. See id. at 10, PGW Statement No. 2, p. 10.

PGW's proposed DSIC will impose a surcharge on all of the Company's rate classes, including the Company's largest customers classes. It is therefore imperative that PGW's DSIC

² PICGUG filed Comments on PGW's LTIP on December 21, 2012. See Philadelphia Gas Works Long-Term Infrastructure Improvement Plan, Docket No. P-2012-2337737, Comments of the Philadelphia Industrial Commercial Gas Users Group (filed Dec. 21, 2012) (hereinafter "PICGUG LTIP Comments"). The Commission has not yet ruled on PGW's LTIP Petition.

be just and reasonable, consistent with Act 11, the Implementation Order, and all applicable statutes and regulations.

In support of its Petition to Intervene and Answer, PICGUG asserts the following:

I. PETITION TO INTERVENE

1. PICGUG is an ad hoc group of energy-intensive customers receiving service from PGW under both sales and transportation rate schedules. PICGUG members use substantial volumes of natural gas in their manufacturing and operational processes, and natural gas costs comprise a significant element of their respective costs of operation. Any modification to PGW's rates and terms of service may have a significant impact on PICGUG members' cost of doing business. Therefore, PICGUG members have an interest in this proceeding not represented by any other party of record.

2. For purposes of this proceeding, PICGUG includes the companies listed in Appendix A hereto. PICGUG will update Appendix A during the course of this proceeding as needed to reflect changes in its membership.

3. PICGUG members are concerned with issues regarding the terms and conditions of their natural gas distribution service. As a result, PICGUG has been actively involved in numerous PGW proceedings, including fully participating in PGW's 2012 1307(f) Purchased Gas Cost ("PGC") proceeding at Docket No. R-2012-2286447. As evidenced by PICGUG's participation in the PGC proceeding, any modification to PGW's distribution rates may directly impact the rates that the Company imposes on PICGUG members for service.

4. PICGUG members have an interest in this proceeding that is not represented by any other party of record; consequently, PICGUG satisfies the standards for intervention under Section 5.72 of the Commission's Regulations, 52 Pa. Code § 5.72.

5. The names and address of PICGUG's attorneys are:

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6. PICGUG requests that the names and address of its attorneys be added to the Commission's and all parties' service lists. All correspondence in this proceeding from the Commission should be directed to the attention of Charis Mincavage at the address listed above.

7. Therefore, consistent with 52 Pa. Code § 5.72(a), PICGUG has a significant interest in this proceeding that is not represented by any other party of record. Accordingly, PICGUG should be granted intervenor status in this proceeding.

II. ANSWER

8. An initial review of PGW's Petition indicates that various aspects of the proposed DSIC require monitoring and further investigation. PGW's requested effective date of March 1, 2013, does not allow for a complete investigation of the proposal by interested parties or the Commission. The Company's proposal to retroactively implement any Commission Order does not remedy the potential prejudice to parties wishing to investigate, modify, or oppose the Company's Petition. Additionally, PGW has proposed a "pay-as-you-go" cost recovery structure, which fails to comply with the Implementation Order and Act 11.

9. PGW requests that the Commission approve its proposed DSIC on an expedited basis to enable a March 1, 2013 effective date. Petition, p. 11. As acknowledged by PGW, the Commission cannot complete an investigation of the proposed DSIC prior to March 1, 2013. Id.

As a purported solution, PGW requests that the Commission approve the DSIC with the March 1, 2013, effective date, but subject to further investigation and hearings. Id. The Company argues that any modifications by the PUC can be implemented on a going forward basis, subject to refund. Id.

10. PICGUG is concerned that PGW's proposal would deprive parties of due process and violate the express terms of Act 11. Act 11 states that the Commission can approve a DSIC only after notice and hearing. 66 Pa. C.S. § 1353. Further, no cause exists for expedited treatment. Act 11 explicitly permits applicable entities to petition for approval of DSICs only after January 1, 2013. PGW possessed full knowledge of the timeframe and every opportunity to anticipate a Commission investigation of any proposed DSIC. Most importantly, unlike investor owned-utilities, PGW operates on a Cash-Flow basis. Accordingly, if a Commission Order modifies PGW's DSIC after implementation, it is unclear whether PGW could feasibly provide refunds for actual incurred costs without recovering the expenditures from customers through alternative means. Finally, based on the stated intention to incorporate modifications "on a going forward basis, subject to refund," it is similarly unclear whether PGW intends to provide retroactive refunds or merely prospective refunds following any Commission modification of a previously implemented DSIC. Therefore, PICGUG respectfully requests that the Commission deny PGW's request for expedited approval of the proposed DSIC.

11. PICGUG is also concerned with the Company's cost recovery methodology.³ PGW's LTIP indicated an intention to recover investments into distribution plant on a pay-as-you-go basis. PGW LTIP, p. 10. PICGUG's Comments observed the lack of specificity as to the terms and conditions of pay-as-you-go cost recovery and reserved the issue to be addressed

³ PICGUG previously raised its concern regarding this proposal as described in PGW's LTIP. See PICGUG LTIP Comments, p. 3.

within a DSIC proceeding. PICGUG LTIIP Comments, p. 3. Based on the proposed DSIC, the pay-as-you-go methodology apparently refers to PGW's proposal to account for reimbursable DSIC expenses on an annualized basis rather than a calculation of actual costs for distribution plant placed in service each quarter. PGW Statement No. 2, p. 8. As acknowledged by PGW, this proposal fails to comply with the Implementation Order and further violates the express provisions of Act 11. PGW Statement No. 1, p. 8.

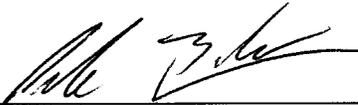
12. While the Commission's Implementation Order permits annualized revenues, PGW's proposal to annualize costs is unsupported by the Implementation Order and contrary to Act 11. The Implementation Order allowed utilities to calculate quarterly revenues based on actual quarterly revenue projections or, alternatively, based on one-fourth of projected annual revenues. Implementation Order, p. 40. The Commission authorized the alternative method to stabilize DSIC revenues for utilities where actual revenues vary by season. See id. PGW has adopted the Commission's alternate annualized revenue calculation, but additionally proposed to "recover the costs incurred as part of the accelerated replacement program on an annualized basis, instead of being reimbursed based on a calculation of actual costs for plant placed in service for each quarter." PGW Statement No. 1, p. 8 [Emphasis added]. As recognized by PGW, the Implementation Order declined to authorize annualized recovery of costs. Implementation Order, p. 24; see also PGW Statement No. 1, p. 8. Moreover, Act 11 itself clearly states that both initial and subsequent DSICs shall be calculated to recover eligible property actually placed in service during the prior quarter. See 66 Pa. C.S. §§ 1357(a)(1)(ii)-(a)(2). As PGW's request to annualize costs violates the express provisions of Act 11, the Commission must reject or modify PGW's proposed DSIC to ensure full compliance with the Act and the Implementation Order.

13. In addition to the issues identified above, PICGUG reserves the right to raise and address additional issues of concern during the course of the proceeding based on further review of the Petition, issues identified via discovery, and issues raised by other parties.

WHEREFORE, for the reasons stated above, the Philadelphia Industrial and Commercial Gas Users Group respectfully request that the Pennsylvania Public Utility Commission grant this Petition to Intervene, provide the Philadelphia Industrial and Commercial Gas Users Group with full-party status in this proceeding, and provide other such relief as it deems necessary.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

By 
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Counsel to the Philadelphia Industrial and
Commercial Gas Users Group

Dated: February 7, 2013

APPENDIX A

PHILADELPHIA INDUSTRIAL AND COMMERCIAL GAS USERS GROUP

Aria Health

Einstein Healthcare Network

Magee Rehabilitation Hospital

Philadelphia College of
Osteopathic Medicine

Thomas Jefferson University/
Thomas Jefferson University Hospitals, Inc.