

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

March 27, 2013

RECEIVED

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

MAR 27 2013

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 one CD containing PDFs of the following:

- 1) Joint Petition for Settlement of Philadelphia Gas Works' Natural Gas Procurement Cost and Uncollectible Expense Unbundling Filing;
- 2) Philadelphia Gas Works' Statement in Support;
- 3) Office of the Consumer Advocate's Statement in Support;
- 4) Office of the Small Business Advocate's Statement in Support; and
- 5) Philadelphia Industrial and Commercial Gas Users Group Letter of Non-opposition.

If you have any questions, 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, with the first and last names being most prominent.

Gregory J. Stunder

cc: Parties of record
Administrative Law Judge Christopher Pell

decrease, GPC rates and uncollectible percentages are set forth in Appendix A. In support of the Settlement, the Joint Petitioners state the following:

II. BACKGROUND

- 1) PGW is a City Natural Gas Distribution Operation providing service to more than 500,000 customers in the City and County of Philadelphia.
- 2) On November 13, 2012, PGW filed a tariff supplement proposing to unbundle natural gas procurement costs and gas supply related uncollectible expense from distribution rates and recover these costs through GPCs and merchant function charges (“MFC”) that will be included in the Company's Price-To-Compare (“PTC”). PGW made this filing pursuant to the Commission's Revised Final Rulemaking Order at Docket No. L-2008-2069104 entered on June 23, 2011 and the Commission's Secretarial Letter issued on May 25, 2012 in the same proceeding.
- 3) Along with the tariff supplement, PGW filed a Statement of Reasons, 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).
- 4) The OCA and OSBA filed Notices of Appearance and Complaints against the filing.
- 5) The Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”) filed a Petition to intervene.
- 6) On December 20, 2012, the Commission entered an Order suspending the tariff supplement by operation of law until June 21, 2013, unless permitted by Commission Order to become effective at an earlier date.
- 7) On December 21, 2012, the ALJ issued a Prehearing Order which set forth certain rules for the proceeding and directed parties to file prehearing memoranda by January 2, 2013.
- 8) Pursuant to the Prehearing Order, the parties filed prehearing memoranda on January 2, 2013.

- 9) A Prehearing Conference was held on January 4, 2013. The ALJ adopted a litigation schedule which was set forth in Prehearing Order #1 issued on January 9, 2013.
- 10) Pursuant to the litigation schedule, OCA and OSBA filed direct testimony on February 11, 2013. PGW and OCA filed rebuttal testimony on February 22, 2013. In addition, OSBA filed surrebuttal testimony on February 27, 2013. The Parties are requesting that the previously filed testimony and exhibits be stipulated into the record pursuant to a Stipulation of Evidence that is being filed contemporaneously with this Settlement.
- 11) The Joint Petitioners held settlement conferences in this proceeding. As a result of these conferences and the efforts of the Joint Petitioners to examine the issues raised by the parties, a Settlement in Principle was achieved by the Joint Petitioners prior to the date for the evidentiary hearings. On February 28, 2013, the Company advised the ALJ of the Settlement in Principle.
- 12) The Settlement is set forth in the following Section III.

III. SETTLEMENT

- 13) PGW's unbundling filing establishing a GPC,² MFC³ and PTC is approved as filed, with the following revisions and/or clarifications.
- 14) Procurement, accounting, legal and management labor and benefit costs associated with gas procurement activities are set at \$650,000 as reflected in Appendix A.
- 15) PGW will incorporate the GPC and the MFC into the Commodity Charge on PGW's bill.
- 16) The GPC, MFC and the PTC provisions in PGW's tariff shall become effective for service rendered on or after September 1, 2013.

² See Appendix A.

³ *Id.*

17) The Settling Parties stipulate to the admission of the filing, testimony and exhibits identified in Appendix "B" hereto.

IV. THE PUBLIC INTEREST

18) This Settlement was achieved by the Joint Petitioners after an extensive investigation of PGW's filing, including informal and formal discovery and the filing of direct, rebuttal and surrebuttal testimony by a number of the Joint Petitioners.

19) Acceptance of the Settlement avoids the necessity of further administrative and potential appellate proceedings at what would have been a substantial cost to the Joint Petitioners and PGW's customers.

20) Attached as Appendices "C" through "E" are Statements of Support submitted by PGW, OCA and OSBA setting forth the bases upon which they believe the Settlement is fair, just, and reasonable and, therefore, in the public interest. Also attached as Appendix "F" is a Letter of Non-Opposition submitted by PICGUG.

V. CONDITIONS OF SETTLEMENT

21) The Settlement is conditioned upon the Commission's approval of the terms and conditions contained in this Settlement without modification. If the Commission modifies the Settlement, any Joint Petitioner may elect to withdraw from the Settlement and may proceed with litigation and, in such event, the Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Joint Petitioners within five (5) business days after the entry of an Order modifying the Settlement.

- 22) The Joint Petitioners acknowledge and agree that this Settlement, if approved, shall have the same force and effect as if the Joint Petitioners had fully litigated this proceeding resulting in the establishment of Commission-made rates that are just and reasonable.
- 23) This Settlement is proposed by the Joint Petitioners to settle all issues in the instant proceeding. If the Commission does not approve the Settlement and the proceedings continue, the Joint Petitioners reserve their respective rights to present additional testimony and to conduct full cross-examination, briefing and argument. The Settlement is made without any admission against, or prejudice to, any position that any Party may adopt in the event of any subsequent litigation of these proceedings, or in any other proceeding.
- 24) The Joint Petitioners acknowledge that the Settlement reflects a compromise of competing positions and does not necessarily reflect any party's position with respect to any issues raised in this proceeding. This Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.
- 25) This Settlement is being presented only in the context of this proceeding in an effort to resolve the proceeding in a manner which is fair and reasonable. The Settlement is presented without prejudice to any position which any of the parties may have advanced and without prejudice to the position any of the parties may advance in the future on the merits of the issues in future proceedings except to the extent necessary to effectuate the terms and conditions of the Settlement. This Settlement does not preclude the parties from taking other positions in proceedings of other public utilities under Section 1308 of the Public Utility Code, 66 Pa.C.S. §1308, or any other proceeding.
- 26) If the ALJ adopts the Settlement without modification, the Joint Petitioners waive their rights to file Exceptions.

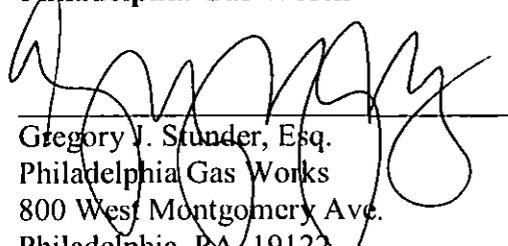
VI. CONCLUSION

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request as follows:

- 1) That Administrative Law Judge Christopher Pell and the Commission approve this Settlement, including all the terms and conditions thereof, without modification;
- 2) That the proceedings at Docket Nos. R-2012-2333993, C-2012-237124 and C-2012-2337594 be marked closed;
- 3) That the Commission enter an Order authorizing PGW to issue tariff supplements incorporating the terms and conditions of the Settlement.

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: March 27, 2013

RECEIVED

MAR 27 2013

**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

RECEIVED

MAR 27 2013

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

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Firm	Gas Procurement Charge (GPC)					Merchant Function Charge (MFC)					Uncollectible Percentages HSG-2S** Line 11
	Volumes*	Exhibit HSG-1** Line 13	Base Rate Decrease	Exhibit HSG-1** Line 7	GPC Increase	Volumes*	Exhibit HSG-2S** Line 22	Base Rate Decrease	Exhibit HSG-2S** Line 17	MFC Increase	
GS Residential	39,841,054	\$ (0.0122)	\$ (485,093)	\$ 0.0129	\$ 511,994	39,841,054	\$ (0.3417)	\$(13,613,688)	\$ 0.3417	\$ 13,613,688	4.68%
GS Commercial	8,547,305	\$ (0.0122)	\$ (104,069)	\$ 0.0129	\$ 109,841	8,547,305	\$ (0.0167)	\$ (142,740)	\$ 0.0204	\$ 174,365	0.28%
GS Industrial	670,154	\$ (0.0122)	\$ (8,160)	\$ 0.0129	\$ 8,612	670,154	\$ (0.0148)	\$ (9,918)	\$ 0.0219	\$ 14,676	0.30%
GS PHA	209,424	\$ (0.0122)	\$ (2,550)	\$ 0.0129	\$ 2,691	209,424	\$ -	\$ -	\$ -	\$ -	
Municipal/MS	718,421	\$ (0.0122)	\$ (8,747)	\$ 0.0129	\$ 9,232	718,421	\$ -	\$ -	\$ -	\$ -	
PHA	593,669	\$ (0.0122)	\$ (7,228)	\$ 0.0129	\$ 7,629	593,669	\$ -	\$ -	\$ -	\$ -	
NGVS	-	\$ (0.0122)	\$ -	\$ 0.0129	\$ -	-	\$ -	\$ -	\$ -	\$ -	
Subtotal	50,580,027					50,580,027					
Firm Transportation											
GS Residential	-					-					
GS Commercial	1,906,837	\$ (0.0122)	\$ (23,217)			1,906,837	\$ (0.0167)	\$ (31,844)			
GS Industrial	318,999	\$ (0.0122)	\$ (3,884)			318,999	\$ (0.0148)	\$ (4,721)			
GS PHA	-					-					
Municipal/MS	579,122	\$ (0.0122)	\$ (7,051)			579,122	\$ -	\$ -			
PHA	-					-					
Total	53,384,985		\$ (649,999)		\$ 649,999	53,384,985		\$(13,802,911)		\$ 13,802,729	
		Rounding	\$ (1)		\$ 1		Rounding	\$ 182			
			\$ (650,000)		\$ 650,000			\$(13,802,729)		\$ 13,802,729	

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

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

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

APPENDIX B

Stipulated Record

1. PGW's November 13, 2012 1308(a) Filing Information;
2. PGW's January 2, 2013 1308(a) Supplemental Filing Information;
3. PGW St. 1 and 1R (Dybalski);
4. PGW St. 2, 2S and 2R (Gorman);
5. OCA St. 1 and 1-R (Mierzwa); and
6. OSBA St. 1 and 2 (Knecht).

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

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Appendix C

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, et al.

v.

PHILADELPHIA GAS WORKS

:
:
:
:
:
:

Docket No. R-2012-2333993

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**PHILADELPHIA GAS WORKS
STATEMENT IN SUPPORT OF THE
JOINT PETITION FOR SETTLEMENT**

TO ADMINISTRATIVE LAW JUDGE CHRISTOPHER PELL:

I. INTRODUCTION

Philadelphia Gas Works ("PGW") hereby submit this Statement in Support of the Joint Petition for Settlement ("Settlement") entered into in the above-captioned proceeding by the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA") and PGW (collectively the "Joint Petitioners").¹

The Settlement, if approved, will resolve all issues in the above-captioned proceeding. PGW believes that the Settlement achieved in this proceeding is in the best interests of the Company, its customers and the parties. PGW made its 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

¹ The only other party in this proceeding, the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") does not oppose the Settlement and has submitted a letter of non-opposition to that effect.

noted that its primary goal with respect to gas supply cost unbundling was to create a level playing field for all market competitors. *June 2011 Order*, p. 24. In particular, the Commission sought to avoid situations where shopping customers pay twice for commodity related costs. *Id.* As explained in more detail below, PGW's primary goal with respect to their unbundling filing was to create a level playing field for competitors to avoid situations where shopping customers pay twice for commodity related costs. PGW also sought to avoid situations where non-shopping customers would pay costs for shopping customers or natural gas suppliers.

The Parties did not agree on all issues in this proceeding. However, the Parties made compromises to achieve a result that all Parties were able to agree with or agree not to oppose. The Settlement reflects a carefully balanced compromise of the interests of all of the Joint Petitioners. For these reasons and the reasons set forth below, the Settlement is just and reasonable and should be approved.

II. SPECIFIC SETTLEMENT TERMS

A. GAS PROCUREMENT CHARGE – LABOR AND BENEFITS COSTS

Under the Settlement, PGW agrees to unbundle \$650,000 of labor and benefits costs associated with gas procurement activities.² This is more than double the labor and benefits costs that PGW proposed to unbundle in its initial filing. In order to determine the initial labor and benefits costs associated with gas procurement activities, PGW conducted a detailed evaluation of employees conducting procurement activities to determine the number of full time

² See Settlement paragraph 14 and Appendix A.

equivalents ("FTEs") performing procurement activities. PGW St. No. 1, p. 3. PGW then applied the appropriate salary level, grossed up for benefits, to the FTEs to determine the labor and benefits costs associated with gas procurement activities.

In testimony, the OSBA argued that PGW's salaries and benefits charges were too low based on a cost comparison to other natural gas distribution companies. OSBA St. No. 1, p. 6. PGW disagreed with this comparison because it was not specific to PGW. However, as a compromise, PGW agreed to more than double the amount of salaries and benefits unbundled from base rates. PGW was willing to agree to this amount for Settlement purposes.

B. MERCHANT FUNCTION CHARGE

PGW and the Settling Parties agree that the Company will unbundle gas supply related uncollectible expense and establish a MFC as set forth in the Company's filing.³ The unbundling of the gas supply related uncollectible expense and the establishment of the MFC is consistent with the Commission's regulations (i.e. 52 Pa.Code § 62.223(c)), therefore, it is in the public interest.

C. BILL FORMAT

In its initial filing, PGW proposed to include the GPC and MFC in the distribution charge on customer bills. In testimony, the OSBA argued that the GPC and the MFC should be

³ See Settlement paragraph 13 and Appendix A.

RECEIVED

MAR 27 2013

included in the commodity charge on customer bills. OSBA St. No. 1, p. 12. Although PGW did not originally propose this bill format, it now agrees with OSBA and the Company included this provision for settlement purposes.⁴

III. CONCLUSION

As explained above, the Settlement is in the public interest and should be approved. The Settlement was achieved only after considerable investigation of PGW's gas procurement costs, through both discovery and submission of testimony by a number of Joint Petitioners in this proceeding. The Settlement, if approved by Administrative Law Judge Christopher Pell and the Commission, will reduce the amount of expense and effort that would be required by the Joint Petitioners and the Commission to continue to litigate this proceeding, including preparation for and participation in hearings, preparation of briefs, reply briefs, exceptions, and replies to exceptions.

The Settlement is the result of compromise. Each of the provisions set forth in the Settlement resolves a dispute fairly and without the expense and uncertainty associated with litigation. PGW fully supports the Settlement, and requests the presiding Administrative Law Judge and the Commission approve the Settlement without modification.

RECEIVED

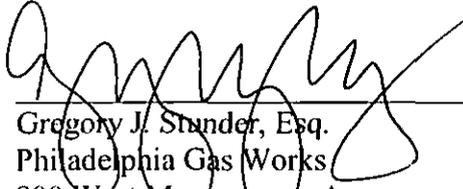
MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

⁴ See Settlement paragraph 15.

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: March 27, 2013

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Appendix D

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, et al.

v.

PHILADELPHIA GAS WORKS

:
:
: Docket No. R-2012-2333993
:
:
:

RECEIVED

MAR 27 2013

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

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

The Office of Consumer Advocate (OCA), one of the signatory parties to the proposed Joint Petition for Settlement (Settlement) resolving all issues related to Philadelphia Gas Works (PGW or Company), the Office of Small Business Advocate (OSBA), and the OCA in the above-captioned proceeding,¹ finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

I. INTRODUCTION

On November 13, 2012, PGW filed a tariff supplement (Supplement No. 55) 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) that will be included in the Company's Price to Compare

¹ The Philadelphia Industrial and Commercial Gas Users Group (PICGUG) is the only other party in this proceeding. PICGUG has indicated that it does not oppose the Settlement.

(PTC). This filing was made pursuant to 66 Pa.C.S. Section 1308(a) and the Commission's Revised Final Rulemaking Order and accompanying Regulations at Docket No. L-2008-2069114. Natural Gas Distribution Companies and the Promotion of Competitive Retail Markets, Docket No. L-2008-2069114 (Revised Final Rulemaking Order entered June 23, 2011) (June 2011 Order). In that Order, the Commission noted that its primary goal with respect to gas supply cost unbundling is to create a level playing field for all market competitors. PGW stated that Supplement No. 55 meets the Commission's objective to increase levels of customer shopping by establishing a more level playing field in terms of cost allocation. Statement of Reasons at 4.

On December 3, 2012, the OCA filed a Complaint against the proposed rate filing and entered its appearance in this case. On December 3, 2012, the OSBA filed a Complaint against PGW's filing. Also on December 3, 2012, the Philadelphia Industrial and Commercial Gas Users Group filed a Petition to Intervene. The case was assigned to the Office of Administrative Law Judge and further assigned to Administrative Law Judge (ALJ) Christopher P. Pell. On December 21, 2012, ALJ Pell issued a Prehearing Conference Order, and the Prehearing Conference was set in this matter for January 4, 2013. At that Prehearing Conference, a procedural schedule was adopted by the Parties and approved by the ALJ. Pursuant to that procedural schedule, Direct Testimony was filed by OCA and OSBA on February 11, 2013; Rebuttal Testimony was filed by the OCA and the Company on February 22, 2013; and the OSBA filed Surrebuttal Testimony on February 27, 2013.²

² The Parties have agreed to stipulate the testimony of all witnesses into the record. The Stipulation is being filed contemporaneously with the Joint Petition for Settlement.

Settlement discussions were ongoing and resulted in the proposed Settlement which resolves the issues raised by the Parties in this proceeding. For the reasons set forth below, the OCA submits that the Settlement is in the public interest.

II. TERMS AND CONDITIONS OF THE SETTLEMENT

The OCA filed its Complaint and entered into the proceeding to ensure that each element of the Company's filing was scrutinized. The OCA performed a thorough analysis and review of the filing to ensure that the gas supply procurement costs that were removed from base rates were proper and to determine if those items left in base rates were appropriate. The OCA also sought to ensure that distribution base rates were properly adjusted and that the GPC was set at a reasonable level. The OCA also sought to ensure that the Merchant Function Charge (MFC) was properly established to reflect the appropriate uncollectible expense removed from distribution rates. The OCA submits that the terms of the Settlement, as a whole, achieve these goals and that the rates resulting from the Settlement are just and reasonable and not unduly discriminatory or excessive.

Ratemaking Methodology (Settlement ¶13)

The OCA presented the Direct and Rebuttal Testimony of Jerome D. Mierzwa in this proceeding.³ Mr. Mierzwa analyzed PGW's filing and testified that the Company's proposal reasonably achieved the goals required by the Commission. Mr. Mierzwa summarized his findings, as follows:

My conclusions and recommendations are as follows:

³ OCA witness Mierzwa is a principal and Vice President of Exeter Associates, Inc. and has testified on gas-related issues in numerous proceedings before state and federal regulatory commissions. Mr. Mierzwa's experience is further detailed in his Direct Testimony. OCA St. 1 at 1-2.

- The Pennsylvania Public Utility Commission's Revised Final Rulemaking Order in Docket No. L-2008-2069114 requires natural gas distribution companies ("NGDC") to establish GPCs on a revenue neutral basis. PGW's proposed GPC and the related adjustment to base rates reasonably satisfies this requirement; and
- The Commission's Order in Docket No. L-2008-2069114 also requires NGDCs to establish MFCs on a revenue neutral basis. PGW's proposed MFC and the related adjustment to base rates reasonably satisfies this requirement.

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

OCA St. 1 at 3. As Mr. Mierzwa explained, the Company was required to meet the goals of establishing a GPC and MFC, and to adjust base rates accordingly, through a 1308(a) rate filing. OCA St. 1 at 6. Because the Company was adjusting rates outside of a base rate case setting, in which all elements of the Company's cost of service is scrutinized, single issue ratemaking becomes a concern. In addressing this concern, the Commission in its Order required that both the GPC and MFC must be established on a revenue neutral basis to avoid single issue ratemaking. June 2011 Order at 25, 29.

Under the Settlement, the methodology proposed by PGW in its initial filing to establish the GPC, MFC, and associated distribution rate base reductions remains in place. Settlement ¶13. As explained by OCA witness Mierzwa, the Company utilized costs and sales volumes that were approved in PGW's last base rate case in 2009. OCA St. 1 at 6-7. OCA witness Mierzwa testified that the Company's approach is reasonable and meets the Commission's requirements in this proceeding as detailed in the June 2011 Order. OCA St. 1 at 3, 7-11. In addition, OSBA witness Robert D. Knecht testified that he generally agreed with the underlying methodology proposed by the Company for setting its GPC and MFC rates. OSBA St. 1 at 4. The OCA submits that the Company's methodology reasonably matches costs and sales figures and reduces concerns regarding single issue ratemaking. For these reasons, and

those detailed in the testimony presented in this case, the OCA submits that the Settlement is in the public interest and should be approved.

GPC Related Costs (Settlement ¶14)

In its filing, the Company identified four cost categories that it proposes to include in the GPC that will be included in the Price to Compare. These elements include procurement, accounting, legal and management labor and benefit costs associated with procurement activities. Statement of Reasons at 7-10.

In response to the Company's filing, OSBA witness Knecht testified that the Company's projected GPC did not include a reasonable level of GPC-related costs. OSBA St. 1 at 4-12. OSBA witness Knecht testified that PGW adopted a narrow definition of labor, legal, and system costs related to the procurement function, resulting in an estimate for these costs that was substantially below the estimates made by other gas utilities. OSBA St. 1 at 3. Mr. Knecht prepared a schedule comparing PGW's GPC-related costs with other utilities as part of his Direct Testimony. OSBA St. 1, Exh. IEc-2.

Under the proposed Settlement, the agreed upon level of gas procurement related costs for the Company is \$650,000. Settlement at ¶14. The OCA submits that the Settlement reflects an appropriate level of GPC-related costs that is in line with the costs of other gas utilities as presented in OSBA witness Knecht's Direct Testimony. OSBA St. 1, Exh. IEc-2. The OCA submits that the GPC-related cost levels contained in the Settlement will further the Commission's goals of creating a level playing field for market participants and should be approved.

RECEIVED

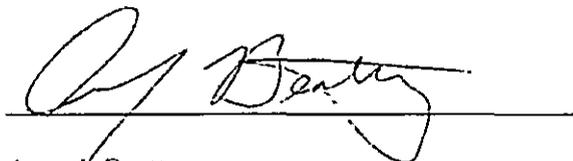
MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

III. CONCLUSION

For the foregoing reasons, the Office of Consumer Advocate submits that the terms and conditions of the Settlement are in the public interest and, therefore, should be approved.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Aron J. Beatty", is written over a horizontal line.

Aron J. Beatty
Assistant Consumer Advocate
PA Attorney I.D. # 86625
E-Mail: ABeatty@paoca.org

Counsel for:
Tanya J. McCloskey
Acting 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

Date: March 27, 2013
00167199.doc

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Appendix E

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PHILADELPHIA GAS WORKS
Supplement No- 55 to Gas Service
Tariff PA PUC No. 2

Docket No. R-2012-2333993

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

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

I. INTRODUCTION

The Small Business Advocate is authorized and directed to represent the interests of small business consumers in proceedings before the Pennsylvania Public Utility Commission ("Commission") under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. In order to discharge this statutory duty, the Office of Small Business Advocate ("OSBA") is participating as a party to this proceeding to ensure that the interests of small commercial and industrial ("Small C&I") customers of Philadelphia Gas Works ("PGW" or the "Company") are adequately represented and protected.

II. PROCEDURAL BACKGROUND

On November 13, 2012 PGW filed Supplement No. 55 to Gas Service Tariff - Pa. P.U.C. No. 2 pursuant to Pa. C.S. §1308(a) and the Commission's Revised Final Rulemaking Order and accompanying regulations at Docket No. L-2008-2069114 ("Order"). In accordance with the Commission's Order, the purpose of PGW's filing is

to remove natural gas procurement costs from base rates and recover them through separate surcharge mechanisms on a revenue neutral basis.

On December 19, 2012, the OSBA filed a Complaint and Public Statement.

A formal complaint was also filed by the Office of Consumer Advocate ("OCA"). The Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") filed Notice of Intervention on December 3, 2012.

Administrative Law Judge ("ALJ") Christopher P. Pell was assigned to this proceeding and issued a Prehearing Order on December 21, 2012, informing the parties that the initial Prehearing Conference on this case would be held on January 4, 2013. At the Prehearing Conference, the parties agreed to a procedural schedule.

The OSBA filed the Direct Testimony and Exhibits of Robert D. Knecht, on February 11, 2013 marked as OSBA Statement No. 1 and the Surrebuttal Testimony of Robert D. Knecht, on February 27, 2013, marked as OSBA Statement No. 2.

The parties successfully negotiated a settlement of all issues. By agreement of the parties, and with the consent of ALJ Pell, the procedural schedule was suspended and the evidentiary hearings scheduled for March 4 and 5, 2013 were cancelled. The parties have concurrently submitted a joint motion requesting that testimony be admitted into the record by stipulation.

The OSBA actively participated in the negotiations that led to the proposed settlement, and is a signatory to the Joint Petition For Settlement ("Joint Petition"). The OSBA submits this statement in support of the Joint Petition.

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

III. STATEMENT IN SUPPORT OF JOINT PETITION

In its filed testimony in this proceeding, PGW proposed to implement a merchant function charge ("MFC") and a gas procurement charge ("GPC"). Both charges are designed to recover costs related to the gas supply function, with the MFC being targeted at uncollectibles costs and the GPC targeted at other costs related to gas supply. Both charges will apply only to sales customers and are bypassable by shopping customers. MFC and GPC revenues are offset by base rate reductions, and are therefore revenue neutral. Costs and volumes used in the development of the MFC, GPC and base rate reductions are all based on those used in the Company's 2010 base rates case. The OSBA believes this approach is reasonable, since the last base rates case was relatively recent.

The OSBA reviewed the Company's MFC proposal and took no objection. The MFC is revenue neutral based on parameters as of the last base rates case, and it properly reflects the differences in uncollectible costs rates among the various rate classes.

In its filed testimony regarding the PGW's GPC proposal, the OSBA raised two issues of concern to Small C&I customers, involving the nature and magnitude of costs included in the GPC. More, specifically, OSBA was concerned that the labor and legal cost component of the GPC was substantially lower, on both an absolute dollar basis and on a cents per mcf basis, than all other NGDCs in Pennsylvania. The OSBA was also concerned that the Company's GPC proposal included no provision for working capital, despite the fact that the Commission's regulations explicitly contemplate including such costs in the GPC.

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

With respect to labor/legal costs, the Company proposed costs of \$276,000 or 0.54 cents per mcf, compared to a range among other NGDCs of 1.5 to 4.9 cents per mcf for those costs (Exhibit IEC-2). The settlement generally resolves OSBA's concerns in this respect, as it sets the labor/legal cost basis at \$650,000, (which is similar to the \$737,000 and \$788,000 at PECO and UGI), or 1.3 cents per Mcf. The OSBA observes further that this "black box" settlement provision does not explicitly resolve the contested issue as to whether Section 1307(f) legal costs are properly included in the GPC (the position of other NGDCs) or are properly excluded from the GPC (the position of PGW).

Regarding working capital costs, OSBA raised concerns about both storage gas working capital ("SGWC") and cash working capital ("CWC"). Regarding SGWC, OSBA agrees with PGW that both shopping and non-shopping customers benefit from SGWC. However, in contrast to PGW, the OSBA believes that such costs are gas supply costs and should be recovered through gas supply charges that apply to both non-shopping customers and shopping customers (or their NGSs). However, until such time as NGSs have an option to provide their own storage gas, the OSBA concludes that this issue is essentially academic, and declines to expend scarce resources in litigating this particular issue. The OSBA therefore accepts the Company's proposed treatment of SGWC, namely that it continue to be recovered in base rates.

The OSBA notes, however, that the ongoing collaborative with the NGSs periodically raises the issue of assigning storage capacity to NGSs, thereby allowing them to provide their own storage gas. Should such a change be made, the OSBA notes that this issue will need to be re-examined.

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Regarding gas supply CWC, OSBA concluded that PGW incurs CWC costs for its sales customers but not for its shopping customers. However, both types of customers currently pay for gas supply CWC, because those costs are currently embedded in base rates. PGW does not dispute this fact, but argues that it will begin to incur CWC for shopping customers when a purchase of receivables ("PoR") mechanism goes into place. The OSBA is skeptical about the potential for a near-term PoR, and observes that even with a PoR, PGW will incur substantially higher CWC costs for sales customers than for shopping customers. The OSBA must therefore conclude that PGW's proposal to keep all CWC in base rates serves to over-charge shopping customers and under-charge sales customers.

Nevertheless, the settlement adopts PGW's position. OSBA's reluctant acceptance of this method is based on two factors. First, small business customers can be either sales or shopping customers. Any increase in the cost basis for the GPC will increase rates for sales customers and decrease rates for shopping customers. As an advocate for small businesses, OSBA sees little value in expending scarce resources for a policy that would essentially result in a transfer among its clients. Second, the OSBA notes that no NGS is participating in the current proceeding. The OSBA therefore concludes that no NGS deems the CWC issue to be of sufficient importance to even participate in this proceeding. It is therefore difficult for the OSBA to believe that including CWC costs in the GPC would materially affect the competitiveness of NGSs.

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

IV. CONCLUSION

For the reasons set forth in the Joint Petition, as well as the additional factors enumerated in this statement, the OSBA supports the proposed Joint Petition and respectfully requests that ALJ Pell, and the Commission approve the Joint Petition in its entirety without modification.

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: March 27, 2013

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Appendix F

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU



100 Pine Street • PO Box 1166 • Harrisburg, PA 17108-1166
Tel: 717.232.8000 • Fax: 717.237.5300

Adeolu A. Bakare
Direct Dial: 717.237.5290
Direct Fax: 717.260.1744
abakare@mwn.com

March 27, 2013

Honorable Christopher Pell
Administrative Law Judge
Pennsylvania Public Utility Commission
801 Market Street, Suite 4063
Philadelphia, PA 19107

VIA E-MAIL AND FIRST CLASS MAIL

**RE: Philadelphia Gas Works Supplement No. 55 to Gas Service Tariff Pa. P.U.C. No. 2;
Docket No. R-2012-2333993**

Dear Judge Pell:

The Philadelphia Industrial and Commercial Gas Users Group ("PICGUG"), an intervenor in the above-referenced proceeding, hereby submits this letter to indicate that it does not oppose the Joint Petition for Settlement of Philadelphia Gas Works' Natural Gas Procurement Cost and Uncollectible Expense Unbundling Filing in the above-referenced proceeding.

As evidenced by the attached Certificate of Service, all parties to the proceeding are being served with a copy of this document. Thank you.

Sincerely,

McNEES WALLACE & NURICK LLC

By

A handwritten signature in black ink, appearing to read 'Adeolu A. Bakare', written over a horizontal line.

Adeolu A. Bakare

Counsel to the Philadelphia Industrial and
Commercial Gas Users Group

Imc

c: Rosemary Chiavetta, Secretary (via electronic filing)
Certificate of Service

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

www.mwn.com

HARRISBURG, PA • LANCASTER, PA • STATE COLLEGE, PA • COLUMBUS, OH • WASHINGTON, DC

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).

VIA E-MAIL AND FIRST-CLASS MAIL

Gregory J. Stunder, Esq.
Philadelphia Gas Works
800 West Montgomery Avenue
Philadelphia, PA 19122
greg.stunder@pgworks.com

Steven C. Gray, Esq.
Sharon E. Webb, Esq.
Elizabeth Rose Triscari, Esq.
Office of Small Business Advocate
1102 Commerce Building
300 North Second Street
Harrisburg, PA 17101
sgray@pa.gov
swebb@pa.gov
etriscari@pa.gov

Johnnie E. Simms, Esq.
Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
400 North Street
P.O. Box 3265
Harrisburg, PA 17105-3265
josimms@pa.gov

Tanya J. McCloskey, Esq.
Aron J. Beatty, Esq.
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101
tmccloskey@paoca.org
abeatty@paoca.org



Adeolu A. Bakare

Counsel to the Philadelphia Industrial and
Commercial Gas Users Group

Dated this 27th day of March, 2013, at Harrisburg, Pennsylvania

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

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 EMAIL and OVERNIGHT MAIL

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

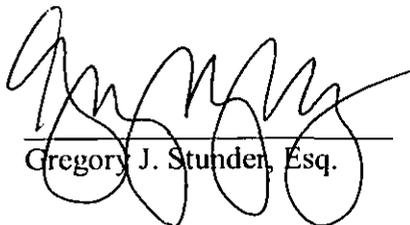
Adeolu Bakare, Esq.
McNEES, WALLACE, NURICK
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166
abakare@mwn.com

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

RECEIVED

MAR 27 2013

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU



Gregory J. Stunder, Esq.

Date: March 27, 2013

FedEx Tracking Number

8026 9840 4647

Form ID No. 0215

1 From
Date 2-27-13

Sender's Name Gregory S. Stinner, Esq. Phone 215 684-6878

Company PHILADELPHIA GAS WORKS

Address 800 W MONTGOMERY AVE

City PHILADELPHIA State PA ZIP 19122-2898

RECEIVED

2 Your Internal Billing Reference

MAR 27 2013

3 To Recipient's Name Rosemary P. Phipps Phone 215 581-1111

SECRETARY'S BUREAU

Company PA CWC

Address 1025 North Street Dept./Floor/Suite/Room 2004

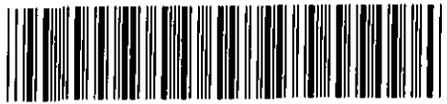
Address Commonwealth Keystone Bldg

City Harrisburg State PA ZIP 17102

HOLD Weekday
FedEx location address
REQUIRED. NOT available for
FedEx First Overnight

HOLD Saturday
FedEx location address
REQUIRED. Available ONLY for
FedEx Priority Overnight and
FedEx 2Day to select locations.

0104714559



8026 9840 4647

4 Express Package Service *To most locations.
NOTE: Service order has changed. Please select carefully.

Packages up to 150 lbs.
For packages over 150 lbs., use the
FedEx Express Freight US Airbill

- | Next Business Day | 2 or 3 Business Days |
|---|---|
| <input type="checkbox"/> FedEx First Overnight
Earliest next business morning delivery to select locations. Friday shipments will be delivered on Monday unless SATURDAY Delivery is selected. | <input type="checkbox"/> FedEx 2Day A.M.
Second business morning * Saturday Delivery NOT available. |
| <input type="checkbox"/> FedEx Priority Overnight
Next business morning * Friday shipments will be delivered on Monday unless SATURDAY Delivery is selected. | <input type="checkbox"/> FedEx 2Day
Second business afternoon * Thursday shipments will be delivered on Monday unless SATURDAY Delivery is selected. |
| <input checked="" type="checkbox"/> FedEx Standard Overnight
Next business afternoon * Saturday Delivery NOT available. | <input type="checkbox"/> FedEx Express Saver
Third business day * Saturday Delivery NOT available. |

- 5 Packaging *Declared value limit \$500.
- FedEx Envelope* FedEx Pak* FedEx Box FedEx Tube Other

- 6 Special Handling and Delivery Signature Options
- SATURDAY Delivery
NOT available for FedEx Standard Overnight, FedEx 2Day A.M., or FedEx Express Saver
- No Signature Required
Packages may be left without obtaining a signature for delivery.
- Direct Signature
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?
One box must be checked.
- No Yes (As per attached Shipper's Declaration) Yes (Shipper's Declaration not required) Dry Ice (Dry Ice, UN 1845 _____ 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 (Acct. No. in Section 7 will be billed) Recipient Third Party Credit Card Cash/Check

Total Packages Total Weight Credit Card Auth.

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

