



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

R-00027133C002

ISSUED: June 4, 2002

IN REPLY PLEASE  
 REFER TO OUR FILE  
 R-00027133  
 R-00027133C0001  
 R-00027133C0002

MARGARET FLORES ESQ  
 PHILADELPHIA GAS WORKS  
 800 WEST MONTGOMERY AVE  
 PHILADELPHIA PA 19122

DOCUMENT  
 FOLDER

Pennsylvania Public Utility Commission, et al  
 v  
 Philadelphia Gas Works

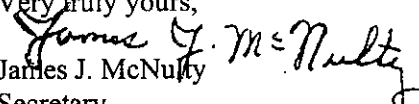
TO WHOM IT MAY CONCERN:

Enclosed is a copy of the Recommended Decision of Administrative Law Judge Allison K. Turner. This decision is being issued and mailed to all parties on the above specified date.

If you do not agree with any part of this decision, you may send written comments (called Exceptions) to the Commission. Specifically, an original and nine (9) copies of your signed exceptions **MUST BE FILED WITH THE SECRETARY OF THE COMMISSION 2<sup>ND</sup> FLOOR, KEYSTONE BUILDING, 400 NORTH STREET, HARRISBURG, PA OR MAILED TO P.O. BOX 3265, HARRISBURG, PA 17105-3265**, within fifteen (15) days of the issuance date of this letter. The signed exceptions will be deemed filed on the date actually received by the Secretary of the Commission or on the date deposited in the mail as shown on U.S. Postal Service Form 3817 certificate of mailing attached to the cover of the original document (52 Pa. Code §1.11(a)) or on the date deposited with an overnight express package delivery service (52 Pa. Code 1.11(a)(2), (b)). If your exceptions are sent by mail, please use the address shown at the top of this letter. A copy of your exceptions must also be served on each party of record. 52 Pa. Code §1.56(b) cannot be used to extend the prescribed period for the filing of exceptions/reply exceptions. A certificate of service shall be attached to the filed exceptions.

Replies to exceptions, if any, must be served on the Secretary of the Commission, in the manner described above, within seven (7) days of the date that the exceptions are due.

Exceptions and reply exceptions shall obey 52 Pa. Code 5.533 and 5.535 particularly the 40-page limit for exceptions and the 25-page limit for replies to exceptions. Exceptions should clearly be labeled as "EXCEPTIONS OF (name of party) - (protestant, complainant, staff, etc.)". Any reference to specific sections of the Administrative Law Judge's Recommended Decision shall include the page number(s) of the cited section of the decision. All timely filed exceptions and replies thereto will be attached to the decision for consideration at Public Meeting. Late filed exceptions and/or late filed replies might not be considered by the Commission.

Very truly yours,  
  
 James J. McNulty  
 Secretary

Encls.  
 Certified Mail  
 Receipt Requested  
 TAB

Non-Proprietary

PROPRIETARY INFORMATION

Docket Number R-00027133 C000

Name of Document RECOMMENDED DECISION

Date Document Received 6. 4. 2002

DOCUMENT CONTAINS

PROPRIETARY INFORMATION

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, et al.	:	Docket Nos. R-00027133
	:	R-00027133C0001
v.	:	R-00027133C0002
	:	
PHILADELPHIA GAS WORKS	:	

**RECOMMENDED DECISION  
(NON-PROPRIETARY)**

Before  
Allison K. Turner  
Administrative Law Judge

**Procedural History**

On February 1, 2002, the Philadelphia Gas Works (PGW) submitted required data in advance of its annual purchased gas cost filing pursuant to 66 Pa. C.S. §1307 and 52 Pa. Code §53.64.

PGW filed two successive Petitions for Waiver of the Commission's regulations on the timing of the mailing of billing insert notices of the rate change. OCA opposed the second waiver.

On March 1, 2002, PGW submitted Supplement No. 19 to Tariff Gas - Pa. P.U.C. No. 1 to become effective for services rendered on or after September 1, 2002. This annual gas cost rate (GCR) filing was made pursuant to 66 Pa. C.S. §1307(f), which authorizes certain natural gas distribution companies to make annual purchased gas cost filings with the Commission to reflect increases or decreases in natural gas costs. With

this filing, PGW also submitted a reconciliation of expenses previously incurred and revenues received, pursuant to 66 Pa. C.S. §1307(f)(3). Furthermore, PGW submitted data in support of its Tariff supplement, as well as the direct testimony of witnesses William C. Muntzer (PGW St. 1) and Patrick H. Durkin (PGW St. 2).

Eventually, as required by Commission regulations, PGW provided public notice of its proposed GCR rate in Supplement No. 19 through bill inserts and newspaper publications in PGW's service territory.

The Office of Trial Staff (OTS) filed a notice of appearance and the Office of Small Business Advocate (OSBA) filed a notice of intervention in the case. The Philadelphia Industrial and Commercial Gas Users Group (PICGUG) filed a motion to intervene which was unopposed and was granted by the ALJ. The Office of Consumer Advocate (OCA) and (hereafter CEPA et al.) filed complaints with the Commission against PGW, which were docketed at R-00027133C0001 and R-00027133C002 respectively.

By hearing notice dated February 5, 2002, a Prehearing Conference was scheduled for February 14, 2002, and the case was assigned to Administrative Law Judge Allison K. Turner (ALJ). The Prehearing Conference was held as scheduled, with the ALJ, PGW's local attorneys and counsel for CEPA, et al. on the phone in Philadelphia, and PGW's Harrisburg counsel and the remaining parties connected by phone in a Harrisburg hearing room. A transcript of 19 pages was filed.

On February 20, 2002, ALJ Turner issued a Prehearing Order that established the schedule and the procedures applicable to this proceeding.

The parties undertook discovery, both formal and informal. PGW provided responses to a total of 97 interrogatories served by the OCA and the OTS. The Parties commenced settlement discussions and were able to reach a Settlement.

On April 23, 2002, OTS filed the testimony and exhibits of Witnesses Weakley and Metro. The ALJ will admit OTS' testimony and exhibits to the record. OCA and OSBA each filed a letter stating that they would not be filing testimony in this case.

On April 30, 2002, PGW, OTS and OCA filed a Joint Petition for Settlement (Joint Petition or Settlement) with the Commission that resolves all contested issues pertaining to PGW's 2002-2003 annual GCR Filing. They also filed Statements in Support of the Settlement. The Joint Petition and its Appendices A (Gas Cost Rate), B (Proposed Gas Purchasing Program [Proprietary Document]), and C (Listing of Stipulated Record) accompanies this Recommended Decision as Attachment A. The Settling Parties desire to conclude these proceedings consistent with the terms and conditions of Settlement.

PGW has informed the Commission that the remaining parties to these proceedings, namely, the Office of Small Business Advocate (OSBA) the Philadelphia Industrial and Commercial Gas Users Group (PICGUG) and the Consumer Education and Protective Association (CEPA), the Association of Community Organizations for Reform Now (ACORN), the Tenants Action Group (TAG) and Action Alliance of Senior Citizens of Greater Philadelphia (Action Alliance) (collectively "CEPA, et al."), which parties are participating jointly in this proceeding, are not participating in this Settlement but have reviewed the Settlement, and they do not oppose the Settlement.

Simultaneously with the Settlement, PGW filed a Motion for Issuance of a Protective Order, with a proposed Order attached, requesting the ALJ as the presiding officer to issue the Order.

### **Summary of Settlement**

OCA in its Statement in Support provides a good summary of the Terms and Conditions of the Settlement:

The Settlement provides for a reduction in the GCR rate, to become effective September 1, 2002, from the proposed rate of \$2.0443/Mcf to \$2.0301/Mcf. This represents a decrease of \$0.142/Mcf from the rate that PGW proposed in its March 1, 2002 filing.

The Settlement provides for an increase in the total credit to the GCR from off-system sales and capacity releases. The Company will increase the total credit for off-system sales and capacity releases from the \$1.4 million utilized in the original filing to \$2.2 million.

As part of the settlement, the Company has agreed to implement a Gas Purchasing Program intended to minimize volatility in gas prices faced by ratepayers. The Company has also agreed that prior to filing its next 1307(f) proceeding, the Company will reevaluate its effective Liquefied Natural Gas daily vaporization rate to determine the appropriate level of LNG capacity to be utilized in making planning decisions.

Finally, the Company is expecting to receive a refund as a result of the settlement of the rate proceeding involving Transcontinental Gas Pipeline Corporation (Transco) which is currently pending at FERC. The Company has agreed to flow through this refund in the first quarterly GCR update after the settlement is approved. The Company will also adjust its projected capacity costs to reflect any reduction in Transco's rates that result from the settlement at FERC.

## **Discussion**

### **Settlement**

OTS addressed the need for PGW to include interest in its overcollection refunds to ratepayers, and the need for PGW to update its projected gas costs, capacity release and off-system sales. Although the parties agreed to accept the data underlying the filing as of March 1, 2002, PGW has agreed to account for actual experience and changes in forecasted natural gas prices and demand in its quarterly updates to be filed September 1 and December 1, 2002. Also, the parties agreed that PGW's present tariff should apply until the restructuring case, but PGW commits to full compliance with the Commission's interest requirement in its July 1, 2002 restructuring filing. OTS Statement in Support at 2-3

OCA supports the Settlement because it represents a decrease from the original proposed rate, provides for an increase in the total credit to the GCR from off-system sales and capacity releases from the \$1.4 million used in the original filing to \$2.2 million, the Company has agreed to implement a Gas Purchasing Program intended to minimize volatility in gas prices faced by rate payers, and to reevaluate its LNG daily evaporation rate prior to its next GCR filing, and has agreed to flow through to its ratepayers a refund that it will receive as a result of a settlement at FERC of a rate proceeding involving Transco. OCA Statement in Support at 2-3

PGW asserts that the Settlement terms certainly meet the Commission's goal in ensuring the least cost procurement policy consistent with PGW's obligation to provide safe, adequate and reliable service. PGW Statement in Support at 2-3

I agree with these statements and assertions, conclude that the Settlement is in the public interest, and therefore will recommend that the Commission adopt the Settlement.

### **The Protective Order**

The ALJ granted the Motion for a Protective Order limited to specific documents by a separate Protective Order. Appendix B to the Settlement is subject to this Protective Order, PGW's Gas Purchasing Plan (GPP), is marked as a Proprietary Document, and shall be so treated by the Commission.

### **Findings**

As a consequence of the Settlement terms and conditions, the Settling Parties requested that the ALJ and the Commission make the following findings of fact and such other findings as may be required as appropriate. The ALJ adopts the findings of fact and the findings submitted by the parties, and incorporates them in the Recommended Decision as follows:

#### **Findings of Fact**

1. PGW's gas distribution system is located in Southeastern Pennsylvania in the County and City of Philadelphia. Since this is not a gas producing area, PGW and its natural gas customers are dependent upon the interstate natural gas pipeline system to deliver natural gas into the PGW gas distribution system. (PGW St. 2 at 2).

2. PGW relies on the interstate pipeline for all natural gas supply, storage and transportation services, except for PGW's own on-system peak shaving

facilities. In this regard, PGW owns and operates liquefied natural gas (LNG) facilities that are used both to meet intraday, daily and seasonal supply needs as well as to meet peak day requirements. (PGW St. 2. at 2).

3. Texas Eastern Transmission Corporation (Texas Eastern) and Transco comprise the two interstate natural gas pipelines that deliver gas to PGW's city gates. In addition, Dominion Transmission, Inc., (DTI) (formerly CNG Transmission Corporation) Equitrans, Inc., and ANR Pipe Line Company provide natural gas storage services. These storage services require intermediate transportation services from Texas Eastern to deliver storage withdrawals to PGW's gas distribution system. (PGW St. 2 at 3).

4. PGW pursues a least cost procurement policy using a portfolio approach in both contract structure and pricing. The portfolio approach protects ratepayers from some of the risk of natural gas market volatility by utilizing a mix of first of the month index pricing, storage and winter only supply contracts as appropriate given market conditions. (PGW St. 2 at 4-5).

5. PGW also uses capacity release and off system sales when available as an additional cost saving strategy. The prices for these transactions are negotiated and, in both instances, all dollars are returned to customers through the GCR. (PGW St. 2 at 7).

6. The details of PGW's actual gas purchases for the 12 months ending December 31, 2001 and an estimate of gas purchases through August of 2003 are presented in the schedules attached to Item 53.64(c)(1) of PGW's February 1, 2002 Pre-filing and Tabs 3 and 4 of PGW's March 1, 2002 annual GCR filing.

7. Projected gas costs as reflected in this Settlement are based on peak-day capacity requirements at a 0-degree design day temperature. (PGW's February 1, 2002 Pre-filing, Item 53.64(c)(13)).

8. PGW is not affiliated with any pipeline or gas supply operation, nor does it have any contracts for local production and transactions with affiliates are not an issue in this proceeding pertaining to PGW's procurement practices. (PGW's February 1, 2002 Pre-filing at Item 53.65(5)).

### **Projected Period Findings**

9. Respect to the twelve-month period beginning September 1, 2002, the Commission finds, based upon evidence of record in this proceeding concerning PGW's projected purchases and purchasing policies, that the terms of Settlement to be adopted by the Commission are in full compliance with the provisions of Section 1318 of the Public Utility Code, including Sections 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2) and 1318(b)(3).

10. Upon evidence of record in this proceeding concerning PGW's projected gas purchases and gas purchasing policies, it appears that PGW's projected gas purchases and projected gas purchasing policies will comply with the standards of Section 1318 of the Public Utility Code. Nevertheless, it is expressly determined that this conclusion is made solely for the purpose of setting prospective rates that shall be subject to the standards of Section 1318 of the Public Utility Code, 66 Pa. C.S. §1318, and further review in an appropriate future proceeding. Except as specifically provided for in this Settlement, this finding is not intended in any way to limit or prevent OTS, OCA, OSBA, PICGUG, CEPA, et al., or any other affected party from reviewing, after such projected gas purchases actually have been made and gas purchasing practices actually have been implemented, whether PGW's gas purchases and gas purchasing practices

complied with Section 1318. If, in an appropriate future proceeding, gas purchases and gas purchasing practices from September 1, 2002 through August 31, 2003, were challenged, the Commission's findings shall not bar the examination of such purchases and practices, including, but not limited to, disallowance of, or reductions to, such costs, except as specifically addressed in the Settlement Agreement pertaining to the Gas Purchasing Program.

### **Conclusions of Law**

As a consequence of the Settlement terms and conditions, the Settling Parties requested that the ALJ and the Commission reach the following Conclusions of Law, and such other conclusions as may be required as appropriate. The ALJ adopts the Conclusions of Law submitted by the parties, and incorporates them in the Recommended Decision as follows, and also includes additional Conclusions of Law:

#### **Historic Reconciliation Period Standards**

1. With respect to PGW's gas purchases and gas purchasing practices during the twelve-month historic reconciliation period ended August 31, 2002, the Commission concludes that PGW has met the standards of Section 1318 of the Public Utility Code, 66 Pa. C.S. §1318, as required by Section 1307(f)(5) of the Public Utility Code, 66 Pa. C.S. §1307(f)(5), as to all actual purchased gas costs in the historic period. In reaching this conclusion, the Commission finds that, during the twelve months ended January 31, 2002:

- PGW has fulfilled the performance criteria that are generally applicable in 1307(f) proceedings.

- PGW has met the requirements of Section 1318(a) of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers; and
- PGW has met the requirements of Section 1318(b) of the Public Utility Code relating to purchases and services by affiliates.

2. The Settlement is in the public interest and should be adopted by the Commission.

4. PGW is pursuing a least cost fuel procurement policy consistent with PGW's obligation to provide safe, adequate and reliable service to its customers.

**RECOMMENDED ORDER**  
**(Subject to Commission Review and Approval)**

**AND NOW, THEREFORE, IT IS RECOMMENDED THAT:**

1. The gas cost rate (GCR) for Philadelphia Gas Works, to be effective September 1, 2002, is \$2.0301 per Mcf (including gross receipts tax), as calculated and represented as Appendix A to the Settlement which is in Attachment A to the Recommended Decision. This GCR rate is a decrease of \$-0.0142 per Mcf from the GCR as initially filed by PGW at this docket. This GCR rate is also a decrease from the previously-effective GCR rate of \$3.1307 per Mcf. Pursuant to the provisions of 52 Pa. Code §§53.64(i)(5)(iii), PGW may file quarterly adjustments to be effective September 1, 2002 and December 1, 2002.

2. PGW is hereby authorized to file a tariff supplement reflecting the rates described in Paragraph 1 above to be effective for service rendered on and after September 1, 2002, subject to quarterly adjustments as permitted by Commission regulations.

3. The Stipulated Testimony and Exhibits listed in Appendix C to the Joint Petition for Settlement are hereby admitted to the record at this docket. PGW shall, if it has not already, provide sufficient copies to the Secretary of the Commission for the Commission's public folders at this docket.

4. The Settling Parties agree to accept the underlying data and calculations submitted by PGW in its February 1, 2002 pre-filing and its March 1, 2002 annual filing with one exception pertaining to the appropriate projected credit to the GCR Factor resulting from gross capacity release and off system sales. In this regard, the \$2.2 million credit for gross capacity release and off system sales will be incorporated into the calculation of the GCR Factor. The resulting GCR Factor adopted by this Settlement is \$2.0301. This GCR Factor is predicated on PGW's gas cost projections at the time of the March 1, 2002 annual GCR filing. In accordance with 52 Pa. Code §53.64, PGW will submit a quarterly adjustment to the GCR Factor on September 1, 2002, and December 1, 2002, to be effective on one day's notice, to account for actual experience and changes in forecasted natural gas prices and demand.

5. PGW shall calculate the quarterly filing updates for the 2002-2003 GCR period in accordance with the Commission's regulations at 52 Pa. Code §53.64(i)(5). Furthermore, quarterly updates will be calculated as set forth in the following paragraphs.

6. PGW's quarterly filing shall use the actual over/under recovery level in existence as of October 31, 2002.

7. In forecasting natural gas prices for its GCR quarterly updates, PGW shall use: (1) the actual known prices for November 2001; (2) the most recent NYMEX futures closing prices, available at the time PGW begins the preparation of the December 1, 2002 quarterly filing, for the forecast months of December 2002, January 2003, and February 2003; (3) the simple monthly average of these recent NYMEX futures prices and the DRI-derived gas prices forecast for the remaining eight forecast months.

8. PGW reserves the right to propose alternative methodologies for forecasting natural gas prices in the event that, in PGW's best judgment, the calculation methodologies set forth in paragraph 7 above would produce unreasonable results. PGW agrees to provide the DRI forecast as soon as it is available and to notify the Parties prior to submitting a quarterly filing that implements an alternative forecasting methodology.

9. Commencing upon the date of execution of this Settlement, the Parties agree that PGW will follow the Gas Purchasing Program attached to the Joint Petition for Settlement.

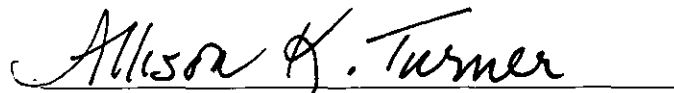
10. The Gas Purchasing Program is intended to reduce PGW's exposure to natural gas price volatility and to establish agreed to standards governing PGW's gas procurement practices.

11. In PGW's 2003-2004 annual GCR proceeding, no party shall be permitted to challenge the reasonableness, prudence or recoverability of gas costs associated with locked-in prices established in accordance with non-discretionary purchases solely on the basis that PGW should not have locked-in the price prior to applicable deadlines.

12. The Parties agree to monitor and review the appropriateness and effectiveness of the Gas Purchasing Program and revisit the Program in the context of

PGW's 2003-2004 annual GCR filing. The Settling Parties have also discussed the inclusion of longer-term gas purchasing standards in PGW's Gas Purchasing Program. PGW will continue to consider long term standards as it implements Appendix "B" and proceeds with restructuring. The Settling Parties agree to revisit this issue within the context of PGW's 2003-2004 annual GCR proceeding, however, the Parties agree that in the future all non-discretionary purchases will occur over a period of 12 months or greater.

13. The Commission hereby terminates its investigation at Docket No. R-00027133 and the file shall be marked closed, and that the complaints at Docket Nos. R-00027133C0001 and R-00027133C0002 shall be considered satisfied, and the files shall be marked closed.



Allison K. Turner  
Administrative Law Judge

Date: May 14, 2002

**ATTACHMENT A**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.	:	
	:	Docket Nos. R-00027133
v.	:	R-00027133C0001
	:	R-00027133C0002
PHILADELPHIA GAS WORKS	:	

**JOINT PETITION FOR SETTLEMENT OF  
PHILADELPHIA GAS WORKS'  
2002-2003 GCR PROCEEDING**

**TO ADMINISTRATION LAW JUDGE ALLISON K. TURNER:**

**I. INTRODUCTION**

Philadelphia Gas Works ("PGW"), the Commission's Office of Trial Staff ("OTS"), the Office of Consumer Advocate ("OCA"), (collectively "the Settling Parties")<sup>1</sup> hereby submit this Joint Petition for Settlement of Philadelphia Gas Works 2002-2003 GCR Proceeding as captioned above and respectfully request the following:

1. That Administrative Law Judge ("ALJ") Allison K. Turner recommend and the Commission approve this Settlement and all of its terms and conditions.

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<sup>1</sup> The remaining parties to this proceedings, the Office of Small Business Advocate ("OSBA") the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") and the Consumer Education and Protective Association ("CEPA"), the Association of Community Organizations for Reform Now ("ACORN"), the Tenants Action Group ("TAG") and Action Alliance of Senior Citizens of Greater Philadelphia ("Action Alliance") (collectively "CEPA, et al."), which parties are participating jointly in this proceeding, are not participating in this Settlement but have reviewed the Settlement and have informed the Settling Parties that they do not oppose the Settlement.

2. That the ALJ recommend and the Commission authorize PGW to file a tariff supplement to reflect rates and terms consistent with this Settlement and applicable to the Section 1307(f) purchased gas cost rate investigation at Docket No. R-00027133, to be effective for services rendered on or after September 1, 2002, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1, 2002, to reflect actual experience and changes in forecasted natural gas prices utilizing the methodology prescribed by paragraph III 1.(b).

3. That based on the data and testimony submitted in this case, the ALJ recommend and the Commission make the Findings of Facts and Conclusions of Law proposed at Sections IV and V below.

4. That the Commission terminate its investigation at Docket No. R-00027133 and mark closed the proceedings at Docket Nos. R-00027133, R-00027133C0001 and R-00027133C0002.

## **II. BACKGROUND**

1. On February 1, 2002, PGW submitted required data in advance of its annual purchased gas cost filing pursuant to 66 Pa. C.S. § 1307 and 52 Pa. Code § 53.64.

2. On March 1, 2002, PGW submitted Supplement No. 19 to Tariff Gas - Pa. P.U.C. No. 1 to become effective for services rendered on or after September 1, 2002. This annual gas cost rate ("GCR") filing was made pursuant to 66 Pa. C.S. § 1307(f), which authorizes certain natural gas distribution companies to make annual purchased gas cost filings with the Commission to reflect increases or decreases in natural gas costs. With this filing, PGW also submitted a reconciliation of expenses previously incurred and revenues received, pursuant to 66 Pa. C.S. § 1307(f)(3). Furthermore, PGW submitted data in support of its Tariff supplement, as

well as the direct testimony of witnesses William C. Muntzer (PGW St. 1) and Patrick H. Durkin (PGW St. 2).

3. As required by Commission regulations, PGW provided public notice of its proposed GCR rate in Supplement No. 19 through bill inserts and newspaper publications in PGW's service territory.

4. OTS and OSBA filed notices of appearance in the case. PICGUG filed a motion to intervene which was unopposed and was granted by the ALJ. OCA and CEPA et al. filed complaints with the Commission against PGW which were docketed at C0001 and C002 respectively.

5. A Prehearing Conference was held before ALJ Turner on February 14, 2002 and on February 20, 2002, ALJ Turner issued a Prehearing Order which established the schedule and the procedures applicable to this proceeding.

6. Discovery, both formal and informal, was undertaken by the parties. PGW provided responses to a total of 97 interrogatories served by the OCA and the OTS.

7. The Parties commenced settlement discussions and were able to reach a Settlement which resolves all issues pertaining to PGW's 2002-2003 annual GCR Filing.

8. The Parties desire to conclude these proceedings consistent with the terms and conditions of Settlement set forth below.

### **III. SETTLEMENT**

The undersigned parties, intending to be legally bound and for due consideration given, agree to the terms and conditions set forth below:

#### **1. PURCHASED GAS COST RATES**

(a) The Settling Parties agree to accept the underlying data and calculations submitted by PGW in its February 1, 2002 pre-filing and its March 1, 2002 annual filing with

one exception pertaining to the appropriate projected credit to the GCR Factor resulting from gross capacity release and off system sales. In this regard, the Parties agree that a \$2.2 million credit for gross capacity release and off system sales will be incorporated into the calculation of the GCR Factor. The resulting GCR Factor adopted by this Settlement is \$2.0301. This GCR Factor is predicated on PGW's gas cost projections at the time of the March 1, 2002 annual GCR filing. In accordance with 52 Pa. Code § 53.64, PGW will submit a quarterly adjustment to the GCR Factor on September 1, 2002, and December 1, 2002, to be effective on one days' notice, to account for actual experience and changes in forecasted natural gas prices and demand.

(b) PGW shall calculate the quarterly filing updates for the 2002-2003 GCR period in accordance with the Commission's regulations at 52 Pa. Code § 53.64(i)(5).

Furthermore, quarterly updates will be calculated as follows:

(i) PGW's quarterly filing shall use the actual over/under recovery level in existence as of October 31, 2002.

(ii) In forecasting natural gas prices for its GCR quarterly updates, PGW shall use: 1) the actual known prices for November 2001; 2) the most recent NYMEX futures closing prices, available at the time PGW begins the preparation of the December 1, 2002 quarterly filing, for the forecast months of December 2002, January 2003, and February 2003; and 3) the simple monthly average of these recent NYMEX futures prices and the DRI-derived gas prices forecast for the remaining eight forecast months.

(iii) PGW reserves the right to propose alternative methodologies for forecasting natural gas prices in the event that, in PGW's best judgment, the calculation methodologies set forth in subparagraph (ii) above would produce unreasonable results. PGW

agrees to provide the DRI forecast as soon as it is available and to notify the Parties prior to submitting a quarterly filing that implements an alternative forecasting methodology.

(c) The GCR Factor resulting from this Settlement reduces the GCR Factor proposed in PGW's annual filing.

(d) Attached as Appendix "A" hereto are the rates and underlying cost data relating to this Settlement.

## **2. GAS PURCHASING PROGRAM**

(a) Commencing upon the date of execution of this Settlement, the Parties agree that PGW will follow the Gas Purchasing Program attached hereto as Appendix "B".<sup>2</sup> The Gas Purchasing Program is intended to reduce PGW's exposure to natural gas price volatility and to establish agreed to standards governing PGW's gas procurement practices.

(b) In PGW's 2003 - 2004 annual GCR proceeding, no party shall be permitted to challenge the reasonableness, prudence or recoverability of gas costs associated with locked-in prices established in accordance with non-discretionary purchases under Appendix "B" solely on the basis that PGW should not have locked-in the price prior to applicable deadlines.

(c) The Parties agree to monitor and review the appropriateness and effectiveness of the Gas Purchasing Program set forth in Appendix "B" and revisit the Program in the context of PGW's 2003-2004 annual GCR filing. The Settling Parties have also discussed the inclusion of longer term gas purchasing standards in PGW's Gas Purchasing Program. PGW

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<sup>2</sup> The Gas Purchasing Program is extremely commercially sensitive and is marked proprietary and filed under seal. Consistent with the submission of this Joint Petition, the Settling Parties are seeking a Protective Order from the ALJ which appropriately protects Appendix "B."

will continue to consider longer term standards as it implements Appendix "B" and proceeds with restructuring. The Settling Parties agree to revisit this issue within the context of PGW's 2003-2004 annual GCR proceeding, however, the Parties agree that in the future all non-discretionary purchases will occur over a period of 12 months or greater.

### **3. TRANSCO SETTLEMENT**

A proceeding is currently pending before the Federal Energy Regulatory Commission ("FERC") involving Transcontinental Gas Pipe Line Corporation ("Transco") which is subject to likely settlement and which is expected to result in a large refund to PGW.<sup>3</sup> Upon issuance of a final, nonappealable Order by the FERC approving a Transco settlement and PGW's receipt of an refund resulting from that Order, PGW will reflect the full amount of any Transco refund received by PGW and adjust capacity costs in the GCR computation to reflect modifications in Transco rates in PGW's next quarterly GCR update.

### **4. INTEREST ON GCR OVERCOLLECTION/UNDERCOLLECTION**

Consideration of whether PGW's current tariff rule should continue or whether the Commission's rules on the assessment of interest on GCR overcollections and undercollections shall be treated as a restructuring issue. In this regard, PGW will commit to full compliance with the Commission's interest requirement in its July 1, 2002 restructuring filing and will account for that interest requirement in its March 1, 2003 annual GCR filing.

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<sup>3</sup> Re: *Transcontinental Gas Pipeline Corporation*. Docket No. RP01-25.

**5. LNG ISSUE**

Prior to making its 2003 GCR filing, the Company will reevaluate its effective LNG daily vaporization rate to determine the specific vaporization rate that represents the maximum sustainable level which can be produced with a reasonable degree of certainty.

**6. SECTIONS 11.2 AND 11.3 OF PGW'S TARIFF.**

The Parties agree to extend the language in Section 11.2(b) of PGW's Tariff (as most recently revised) for the 2002-2003 GCR Period, allowing PGW to file a revised Gas Cost Rate to be effective on one day's notice, in the event there is an increase or decrease in the Gas Cost Rate of 2% or more, except that the tariff will specify that PGW must petition the Commission to implement an update earlier than its regularly scheduled quarterly update. If the Company files a Petition for an early update, the Parties will not oppose a request for a reasonable response time and an expedited decision by the Commission. The Parties also agree to extend for the 2002-2003 GCR Period waiver of provisions set forth in Section 11.3 of PGW's Tariff .

**7. ADMISSION OF EVIDENCE**

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

**IV. PROPOSED FINDINGS OF FACT**

As a consequence of the Settlement terms and conditions set forth in Section III above, the Settling Parties request that the ALJ and the Commission made the following findings of fact and such other findings and conclusions as may be required as appropriate:

1. PGW's gas distribution system is located in Southeastern Pennsylvania in the County and City of Philadelphia. Since this is not a gas producing area, PGW and its natural gas

customers are dependent upon the interstate natural gas pipeline system to deliver natural gas into the PGW gas distribution system. (PGW St. 2 at 2).

2. PGW relies on the interstate pipeline for all natural gas supply, storage and transportation services, except for PGW's own on-system peak shaving facilities. In this regard, PGW owns and operates liquified natural gas ("LNG") facilities that are used both to meet intraday, daily and seasonal supply needs as well as to meet peak day requirements. (PGW St. 2 at 2).

3. Texas Eastern Transmission Corporation ("Texas Eastern") and Transco comprise the two interstate natural gas pipelines that deliver gas to PGW's city gates. In addition, Dominion Transmission, Inc., ("DTI") (formerly CNG Transmission Corporation) Equitrans, Inc., and ANR Pipe Line Company provide natural gas storage services. These storage services require intermediate transportation services from Texas Eastern to deliver storage withdrawals to PGW's gas distribution system. (PGW St. 2 at 3).

4. PGW pursues a least cost procurement policy using a portfolio approach in both contract structure and pricing. The portfolio approach protects ratepayers from some of the risk of natural gas market volatility by utilizing a mix of first of the month index pricing, storage and winter only supply contracts as appropriate given market conditions. (PGW St. 2 at 4-5).

5. PGW also uses capacity release and off system sales when available as an additional cost saving strategy. The prices for these transactions are negotiated and, in both instances, all dollars are returned to customers through the GCR. (PGW St. 2 at 7).

6. The details of PGW's actual gas purchases for the 12 months ending December 31, 2001 and an estimate of gas purchases through August of 2003 are presented in the schedules

attached to Item 53.64(c)(1) of PGW's February 1, 2002 Pre-filing and Tabs 3 and 4 of PGW's March 1, 2002 annual GCR filing.

7. Projected gas costs as reflected in this Settlement are based on peak-day capacity requirements at a 0 degree design day temperature. (PGW's February 1, 2002 Pre-filing, Item 53.64(c)(13)).

8. PGW is not affiliated with any pipeline or gas supply operation, nor does it have any contracts for local production and transactions with affiliates are not an issue in this proceeding pertaining to PGW's procurement practices. (PGW's February 1, 2002 Pre-filing at Item 53.65(5)).

## V. PROPOSED CONCLUSIONS OF LAW

### 1. HISTORIC RECONCILIATION PERIOD STANDARDS

With respect to PGW's gas purchases and gas purchasing practices during the twelve-month historic reconciliation period ended August 31, 2002, the Commission finds that PGW has met the standards of Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, as required by Section 1307(f)(5) of the Public Utility Code, 66 Pa. C.S. § 1307(f)(5), as to all actual purchased gas costs in the historic period. The Commission finds that, during the twelve months ended January 31, 2002:

(a) PGW has fulfilled the performance criteria which are generally applicable in 1307(f) proceedings.

(b) PGW has met the requirements of Section 1318(a) of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers; and

(c) PGW has met the requirements of Section 1318(b) of the Public Utility Code relating to purchases and services by affiliates.

## **2. PROJECTED PERIOD FINDINGS**

With respect to the twelve-month period beginning September 1, 2002, the Commission finds, based upon evidence of record in this proceeding concerning PGW's projected purchases and purchasing policies, that the terms of Settlement to be adopted by the Commission are in full compliance with the provisions of Section 1318 of the Public Utility Code, including Sections 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2) and 1381(b)(3).

Based upon evidence of record in this proceeding concerning PGW's projected gas purchases and gas purchasing policies, it appears that PGW's projected gas purchases and projected gas purchasing policies will comply with the standards of Section 1318 of the Public Utility Code. Nevertheless, it is expressly determined that this conclusion is made solely for the purpose of setting prospective rates that shall be subject to the standards of Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, and further review in an appropriate future proceeding. Except as specifically provided for in this Settlement, this finding is not intended in any way to limit or prevent OTS, OCA, OSBA, PICGUG, CEPA, et al., or any other affected party from reviewing, after such projected gas purchases actually have been made and gas purchasing practices actually have been implemented, whether PGW's gas purchases and gas purchasing practices complied with Section 1318. If, in an appropriate future proceeding, gas purchases and gas purchasing practices from September 1, 2002 through August 31, 2003, were challenged, the Commission's findings shall not bar the examination of such purchases and practices, including, but not limited to, disallowance of, or reductions to, such costs, except as specifically addressed in the Settlement Agreement pertaining to the Gas Purchasing Program.

## **VI. CONDITIONS OF SETTLEMENT**

1. The signatories to this Settlement, intending to be legally bound and for due consideration given, agree to terms and conditions set forth herein.

2. This Settlement will go into effect upon the Commission's entry of a final order approving the Settlement, in full and without modification. If the Commission rejects the Settlement, the Agreement automatically will terminate and be null and void with the exception of paragraph 3 below, which will continue in full force and effect. The Settlement also shall automatically become null and void (except for paragraph 3, below) if the Commission, in approving the Settlement, modifies any of its terms or conditions or adds any conditions, unless it is subsequently accepted by the aggrieved signatory party, or parties, as so modified. If the Commission approves the Settlement in full and without modification, the Stipulation:

- a) shall be deemed to resolve with prejudice all issues raised by the Settling Parties in this proceeding; and
- b) shall be implemented and shall be enforceable notwithstanding the pendency of a petition for reconsideration or a legal challenge to the Commission's approval, unless such implementation and enforcement of the Settlement is stayed or enjoined by the Commission, another regulatory agency, or a Court having competent jurisdiction over the matter.

3. This Settlement is made without admission against or prejudice to any factual or legal positions which any of the signatories hereto may assert in subsequent litigation in the event that the Commission does not issue a final Order approving this Settlement in full and without modification. If the Commission does not adopt this Settlement in accordance with the terms set forth herein, all parties reserve their full right to argue that the Commission is without the legal authority to order the implementation of all or part of the terms and

conditions set forth herein and no party shall be deemed to have waived or be estopped from asserting such a position before the Commission or before any court.

4. This Settlement Petition may be executed in counterparts, all of which shall constitute one agreement binding on all signatories, and shall have the same force and effect as an original instrument, notwithstanding that the signatories may not be signatories to the same original or the same counterpart.

5. The Parties agree to waive exception to the ALJ's recommended decision if the ALJ recommends that the Joint Petition for Settlement of Philadelphia Gas Works' 2002-2003 GCR Proceeding be approved without change or modification.

**VII. CONCLUSION**

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

1. That Administrative Law Judge Allison K. Turner and the Commission approve this Settlement including all terms and conditions thereof; and
2. That the Commission enter an order consistent with this Settlement, resolving and terminating the proceeding.

**Respectfully submitted,**

**Philadelphia Gas Works**

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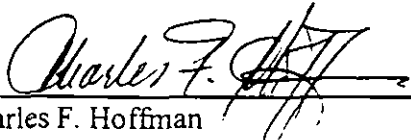
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**ATTACHMENT A**

PHILADELPHIA GAS WORKS  
GAS COST RATE

	1307 Filing 4 & 8 2002-2003 3/1/2002	PUC Settlement 2002-2003 Adjustment *	PUC Compliance 2002-2003 04/24/02
GCR = ((C-E) / S) - B			
where:			
S = Applicable Sales Volume (Mcf)	57,593,112		57,593,112
<i>Fuel</i>			
Net Natural Gas Expense	\$ 295,614,463	\$ (804,400)	\$ 294,810,063
Plus: Purchased Electric Expense	1,370,000		1,370,000
Total Applicable Fuel Expense	\$ 296,984,463	\$ (804,400)	\$ 296,180,063
<i>Non-Fuel</i>			
Conservation Programs	\$ 2,200,000	\$	\$ 2,200,000
CRP Discounts	18,497,290		18,497,290
Total Applicable Non-Fuel Expenses	\$ 20,697,290	\$ 0	\$ 20,697,290
C = Applicable Raw Material Expense	\$ 317,681,753	\$ (804,400)	\$ 316,877,353
E = Adjustment For: Natural Gas Refunds	\$ 0	\$	\$
Prior Year Reconciliations	16,815,624		16,815,624
Total Adjustment	\$ 16,815,624	\$ 0	\$ 16,815,624
C-E = Net Applicable Raw Material Expense	\$ 300,866,129	\$ (804,400)	\$ 300,061,729
B = Base Fuel Charge/Mcf	\$ 3.1800	\$	\$ 3.1800
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Degree Days	4,555		4,555

\* 1307 F Capacity Release Credit/Off System Sales increased from \$1,395,600 to \$2,200,000

**ATTACHMENT B  
PROPRIETARY**

**ATTACHMENT C**

## APPENDIX C

### Stipulated Record

1. PGW's February 1, 2002 Pre-Filing Information;
2. PGW's March 1, 2002 Annual GCR Filing;
3. PGW St. 1 (Muntzer);
4. PGW St. 2 (Durkin);
5. OTS St. 1 (Weakley) with Exhibit;
6. OTS St. 2 (Metro) with Exhibit.

agrees to provide the DRI forecast as soon as it is available and to notify the Parties prior to submitting a quarterly filing that implements an alternative forecasting methodology.

(c) The GCR Factor resulting from this Settlement reduces the GCR Factor proposed in PGW's annual filing.

(d) Attached as Appendix "A" hereto are the rates and underlying cost data relating to this Settlement.

## **2. GAS PURCHASING PROGRAM**

(a) Commencing upon the date of execution of this Settlement, the Parties agree that PGW will follow the Gas Purchasing Program attached hereto as Appendix "B".<sup>2</sup> The Gas Purchasing Program is intended to reduce PGW's exposure to natural gas price volatility and to establish agreed to standards governing PGW's gas procurement practices.

(b) In PGW's 2003 - 2004 annual GCR proceeding, no party shall be permitted to challenge the reasonableness, prudence or recoverability of gas costs associated with locked-in prices established in accordance with non-discretionary purchases under Appendix "B" solely on the basis that PGW should not have locked-in the price prior to applicable deadlines.

(c) The Parties agree to monitor and review the appropriateness and effectiveness of the Gas Purchasing Program set forth in Appendix "B" and revisit the Program in the context of PGW's 2003-2004 annual GCR filing. The Settling Parties have also discussed the inclusion of longer term gas purchasing standards in PGW's Gas Purchasing Program. PGW

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<sup>2</sup> The Gas Purchasing Program is extremely commercially sensitive and is marked proprietary and filed under seal. Consistent with the submission of this Joint Petition, the Settling Parties are seeking a Protective Order from the ALJ which appropriately protects Appendix "B."

will continue to consider longer term standards as it implements Appendix "B" and proceeds with restructuring. The Settling Parties agree to revisit this issue within the context of PGW's 2003-2004 annual GCR proceeding, however, the Parties agree that in the future all non-discretionary purchases will occur over a period of 12 months or greater.

### **3. TRANSCO SETTLEMENT**

A proceeding is currently pending before the Federal Energy Regulatory Commission ("FERC") involving Transcontinental Gas Pipe Line Corporation ("Transco") which is subject to likely settlement and which is expected to result in a large refund to PGW.<sup>3</sup> Upon issuance of a final, nonappealable Order by the FERC approving a Transco settlement and PGW's receipt of an refund resulting from that Order, PGW will reflect the full amount of any Transco refund received by PGW and adjust capacity costs in the GCR computation to reflect modifications in Transco rates in PGW's next quarterly GCR update.

### **4. INTEREST ON GCR OVERCOLLECTION/UNDERCOLLECTION**

Consideration of whether PGW's current tariff rule should continue or whether the Commission's rules on the assessment of interest on GCR overcollections and undercollections shall be treated as a restructuring a issue. In this regard, PGW will commit to full compliance with the Commission's interest requirement in its July 1, 2002 restructuring filing and will account for that interest requirement in its March 1, 2003 annual GCR filing.

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<sup>3</sup> Re: *Transcontinental Gas Pipeline Corporation*. Docket No. RP01-25.

**5. LNG ISSUE**

Prior to making its 2003 GCR filing, the Company will reevaluate its effective LNG daily vaporization rate to determine the specific vaporization rate that represents the maximum sustainable level which can be produced with a reasonable degree of certainty.

**6. SECTIONS 11.2 AND 11.3 OF PGW'S TARIFF.**

The Parties agree to extend the language in Section 11.2(b) of PGW's Tariff (as most recently revised) for the 2002-2003 GCR Period, allowing PGW to file a revised Gas Cost Rate to be effective on one day's notice, in the event there is an increase or decrease in the Gas Cost Rate of 2% or more, except that the tariff will specify that PGW must petition the Commission to implement an update earlier than its regularly scheduled quarterly update. If the Company files a Petition for an early update, the Parties will not oppose a request for a reasonable response time and an expedited decision by the Commission. The Parties also agree to extend for the 2002-2003 GCR Period waiver of provisions set forth in Section 11.3 of PGW's Tariff.

**7. ADMISSION OF EVIDENCE**

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

**IV. PROPOSED FINDINGS OF FACT**

As a consequence of the Settlement terms and conditions set forth in Section III above, the Settling Parties request that the ALJ and the Commission made the following findings of fact and such other findings and conclusions as may be required as appropriate:

1. PGW's gas distribution system is located in Southeastern Pennsylvania in the County and City of Philadelphia. Since this is not a gas producing area, PGW and its natural gas

customers are dependent upon the interstate natural gas pipeline system to deliver natural gas into the PGW gas distribution system. (PGW St. 2 at 2).

2. PGW relies on the interstate pipeline for all natural gas supply, storage and transportation services, except for PGW's own on-system peak shaving facilities. In this regard, PGW owns and operates liquefied natural gas ("LNG") facilities that are used both to meet intraday, daily and seasonal supply needs as well as to meet peak day requirements. (PGW St. 2 at 2).

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8. PGW is not affiliated with any pipeline or gas supply operation, nor does it have any contracts for local production and transactions with affiliates are not an issue in this proceeding pertaining to PGW's procurement practices. (PGW's February 1, 2002 Pre-filing at Item 53.65(5)).

## V. PROPOSED CONCLUSIONS OF LAW

### 1. HISTORIC RECONCILIATION PERIOD STANDARDS

With respect to PGW's gas purchases and gas purchasing practices during the twelve-month historic reconciliation period ended August 31, 2002, the Commission finds that PGW has met the standards of Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, as required by Section 1307(f)(5) of the Public Utility Code, 66 Pa. C.S. § 1307(f)(5), as to all actual purchased gas costs in the historic period. The Commission finds that, during the twelve months ended January 31, 2002:

(a) PGW has fulfilled the performance criteria which are generally applicable in 1307(f) proceedings.

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## **2. PROJECTED PERIOD FINDINGS**

With respect to the twelve-month period beginning September 1, 2002, the Commission finds, based upon evidence of record in this proceeding concerning PGW's projected purchases and purchasing policies, that the terms of Settlement to be adopted by the Commission are in full compliance with the provisions of Section 1318 of the Public Utility Code, including Sections 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2) and 1381(b)(3).

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## **VII. CONCLUSION**

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

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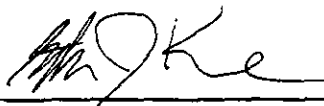
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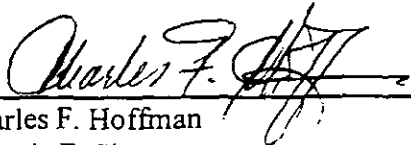
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**ATTACHMENT A**

**PHILADELPHIA GAS WORKS  
GAS COST RATE**

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P. is for proprietary services.

All lawyers

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