

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place  
Harrisburg, Pennsylvania 17101-1923  
(717) 783-5048  
800-684-6560 (in PA only)

FAX (717) 783-7152  
consumer@paoca.org

June 5, 2013

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

RE: Pennsylvania Public Utility Commission  
v.  
Philadelphia Gas Works 1307(f)  
Docket No. R-2013-2346376

Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Statement in Support of the Joint Petition for Settlement in the above-referenced proceeding.

Copies have been served as shown on the Certificate of Service.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Aron J. Beatty".

Aron J. Beatty  
Assistant Consumer Advocate  
PA Attorney I.D. #86625

Enclosures

cc: Hon. Christopher P. Pell, ALJ  
Certificate of Service

166065

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

|                                        |   |                           |
|----------------------------------------|---|---------------------------|
| Pennsylvania Public Utility Commission | : |                           |
|                                        | : |                           |
| v.                                     | : | Docket No. R-2013-2346376 |
|                                        | : |                           |
| Philadelphia Gas Works                 | : |                           |
|                                        | : |                           |

---

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

---

The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Petition for Settlement of Philadelphia Gas Works' 2013-2014 Gas Cost Rates (GCR) Proceeding (Joint Petition), finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

**I. BACKGROUND**

On January 31, 2013, Philadelphia Gas Works (PGW or the Company) filed advance information regarding its annual purchased gas cost rate (PGC) filing pursuant to Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f), and the Public Utility Commission's (Commission) Regulations at 52 Pa. Code §53.64. Thereafter, on March 1, 2013, PGW submitted Supplement No. 59 to Gas Service Tariff - Pa. P.U.C. No. 2 and Supplement No. 48 to Gas Supplier Tariff - Pa. P.U.C. No. 1 to become effective for services rendered on or after September 1, 2013.

On March 5, 2013, the OCA filed a Formal Complaint against the Company's proposed rates, seeking to ensure that such rates are not excessive, discriminatory, or otherwise

contrary to Commission regulation or policy. PGW's definitive filing on March 1, 2013, reflected a proposed decrease in the PGC rate from the March 1, 2013 rate, but an increase from the previous two quarters. PGW's proposed PGC rate to be effective September 1, 2013 is projected to be \$5.7615/Mcf, a decrease of \$0.6376/Mcf from the \$6.3991/Mcf rate in effect on March 1, 2013. The Company's PGC rate changed over the last three quarters (including March 2013), with a September 1, 2012 rate of \$5.2247/Mcf and a December 1, 2012 rate of \$5.7323/Mcf.

A prehearing conference was held before Administrative Law Judge (ALJ) Christopher Pell on March 19, 2013 and a procedural schedule was established for this proceeding.

The OCA retained the services of Jerome D. Mierzwa to assist the office in its review of the Company's gas purchasing practices. The OCA served the Direct and Surrebuttal Testimonies of Jerome Mierzwa on the parties in this proceeding and the ALJ on April 19, 2013 and May 9, 2013, respectively. After propounding extensive discovery and filing testimony, the OCA entered into settlement discussions with the Company and other parties. These settlement discussions resulted in the proposed Settlement set forth in the Joint Petition. The Settlement addresses issues relating to the Company's PGC rate filing, and for the reasons set forth below, the OCA submits that the Settlement is in the public interest.

## **II. TERMS AND CONDITIONS OF SETTLEMENT**

The Settlement contains several key provisions agreed to by the parties. The OCA submits that important provisions contained in the Settlement are designed to benefit ratepayers, and that the Settlement should be approved because it is in the public interest.

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

- Unless PGW can demonstrate by February 1, 2014 that maintaining its Texas Eastern Transmission ("Texas Eastern") FTS-2 firm transportation contract is beneficial and consistent with least cost gas procurement, the contract should be terminated;
- Unless PGW can demonstrate that maintaining its Dominion Transmission, Inc. ("DTI") Transmission storage contract and related Texas Eastern FTS-7 and FTS-8 transportation arrangements are beneficial and consistent with least cost gas procurement, the contracts should be terminated;
- PGW should refine its analysis of the benefits of its first-of-the-month priced daily swing supply contracts and should contract for additional supplies under similar arrangements only if its analysis demonstrates that there are benefits to doing so; and
- PGW should demonstrate that its off-system sales inactivity is consistent with least cost gas procurement.

OCA Direct Testimony at 3-4. The OCA submits that the Settlement reaches a reasonable resolution of the proceeding in a comprehensive manner and is in the public interest.

**The Texas Eastern FTS-2 Firm Transportation Contract:**

In prior PGC proceedings, the Company and parties agreed to study the level of capacity resources maintained by the Company. In its 2010-2011 PGC proceeding, PGW agreed to have a third party study its capacity resources to help ensure least cost procurement consistent with PGW's obligation to provide safe, adequate, and reliable service to customers. The Company contracted for Summit Energy Services to review its capacity resources. The Summit Report recommended that PGW eventually terminate its Equitrans storage if, after exploring asset management possibilities, it would be cost effective to terminate the contract. OCA Direct Testimony at 7. In its 2011-2012 PGC proceeding, the Company agreed to provide an action plan addressing the recommendations made in the Summit Energy Report. In its 2012-2013 PGC

proceeding, the parties agreed that the Company would terminate its Equitrans storage if, after exploring asset management possibilities, it would be cost effective to terminate the contract. Id. at 7-8.

In his testimony in this proceeding, OCA witness Mierzwa explained that the Company did in fact terminate the Equitrans storage contract and the related Equitrans STS-1 transportation arrangement. Id. at 8. However, the Company did not terminate its Texas Eastern FTS-2 firm transportation contract. Id. As a result, OCA witness Mierzwa recommended that the Company terminate its Texas Eastern FTS-2 storage-related transportation arrangement at the first available opportunity, unless the Company could show the benefits outweigh the costs of the service. Id.

Under the Settlement, PGW will move forward with its treatment of the Texas Eastern FTS-2 contract, as follows:

PGW shall provide notice to Texas Eastern of termination of the Texas Eastern FTS-2 firm transportation contract prior to March 31, 2014, unless:

- a) PGW presents an evaluation of the benefits and costs associated with the contract to the parties by February 1, 2014, demonstrating the reasonableness of maintaining the contract; and
- b) The parties, within 30 days of receiving the evaluation described in part (a), all agree that it is in the interests of ratepayers for PGW to maintain the Texas Eastern FTS-2 firm transportation contract.

Joint Petition for Settlement at § III.2.

The OCA submits that the Settlement provides for a reasonable resolution of this issue. Under this provision, ratepayers will benefit from potential capacity reductions that were identified in the Summit Report as an area of PGW's operations that have the potential to reduce costs to ratepayers. Under the Settlement, the Company has agreed to follow through with the

cost saving recommendations contained in the Summit Energy Study in order to reduce the cost of providing service to PGW's ratepayers and to ensure that its procurement meets its least cost obligation.

**The Dominion Transmission Storage Contract and Related Transportation Arrangements:**

In his Direct Testimony, OCA witness Mierzwa explained that PGW's current capacity resources are sufficient to meet the design peak day and design winter requirements of its firm customers without the DTI GSS storage and Texas Eastern FTS-7 and FTS-8 transportation arrangements. *Id.* at 11.

The Company, in rebuttal testimony, indicated that it needed to maintain the DTI GSS, FTS-7, and FTS-8 for security of supply and for marketing its LNG for truck sales. PGW St. 2R at 2. In his Surrebuttal Testimony, OCA witness Mierzwa responded that there is no analysis to support the Company's position as advocated in its rebuttal testimony. OCA Surrebuttal at 2-3.

Under the Settlement, PGW will present an evaluation of the benefits and costs associated with the DTI GSS, FTS-7, and FTS-8 contracts to the parties by September 15, 2013. Joint Petition for Settlement at § III.6.

The OCA submits that the Settlement provides for a reasonable resolution of this issue. Under this provision, ratepayers will benefit from a thorough review of potential capacity reductions that were identified in the Summit Report as an area of PGW's operations that have the potential to reduce costs to ratepayers.

**First Of Month Priced Daily Gas Supply Contracts:**

In his Direct Testimony, OCA witness Mierzwa explained that PGW's practice of fixing daily supply contracts at "First-Of-The-Month" (FOM) prices was the subject of a

settlement provision in PGW's 2012-2013 PGC proceeding. OCA Direct Testimony at 15-16. Part of that provision required PGW to present an analysis of the costs and benefits of maintaining first-of-the-month priced daily contracts in its 2013-2014 PGC proceeding. Id. According to OCA witness Mierzwa, PGW's analysis requires refinements to accurately capture the costs and benefits associated with PGW's FOM contracts. Id. at 16-19. OCA witness Mierzwa further explained that if the refined analysis did not indicate a cost-benefit under current and expected market conditions and PGW could not identify other offsetting non-cost benefits, it should discontinue contracting for daily swing supplies. Id. at 20. The Company did not address this issue in its rebuttal testimony.

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

PGW will refine its evaluation of the FOM daily swing supply contracts to show only PGW's purchases of FOM daily swing supply contract volumes compared to the daily index price for the same volumes. (See the recommendations and refinements presented in OCA St. 1 – the Direct Testimony of Jerome Mierzwa at pages 16-19.).

Joint Petition for Settlement at § III.4.

The OCA submits that the Settlement provides a reasonable resolution to this issue. Under the Settlement, the Company has agreed to refine its analysis of the costs and benefits associated with these purchases as recommended by OCA witness Mierzwa. This review will ensure that these types of contracts can be evaluated fairly, and provide a sound basis for determining the appropriateness of these contracts in the future. The parties will be able to further review the reasonableness of these contracts based on these refinements.

### III. CONCLUSION

For the foregoing reasons, the OCA submits that the terms and conditions of the Joint Petition for Settlement are in the public interest and the interest of Philadelphia Gas Works' ratepayers and should be approved.

Respectfully Submitted,



---

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

Brandon J. Pierce  
Assistant Consumer Advocate  
PA Attorney I.D. #307665  
E-Mail: [BPierce@paoca.org](mailto:BPierce@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  
Dated: June 5, 2013

00170001

CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission :  
 :  
 v. : Docket No. R-2013-2346376  
 :  
 Philadelphia Gas Works 1307(f) :  
 :

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Statement in Support of the Joint Petition for Settlement, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 5th day of June 2013.

SERVICE BY E-MAIL & INTER-OFFICE MAIL

Regina L. Matz, Esquire  
Bureau of Investigation and Enforcement  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

SERVICE BY E-MAIL & FIRST CLASS MAIL

Gregory J. Stunder, Esquire  
Philadelphia Gas Works  
800 West Montgomery Avenue  
Philadelphia, PA 19122

Sharon E. Webb, Esquire  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North Second Street  
Harrisburg, PA 17101

Jerome D. Mierzwa  
Exeter Associates, Inc.  
10480 Little Patuxent Parkway  
Columbia, MD 21044

Mr. Robert D. Knecht  
Industrial Economics Inc.  
2067 Massachusetts Ave.  
Cambridge, MA 02140

Charis Mincavage, Esq.  
Adeolu A. Bakare, Esq.  
McNees, Wallace & Nurick LLC  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166

SERVICE BY FIRST CLASS MAIL

Dolores Nottingham  
5618 Ridgewood St.  
Philadelphia, PA 19143



---

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

Brandon J. Pierce  
Assistant Consumer Advocate  
PA Attorney I.D. # 307665  
E-Mail: [BPierce@paoca.org](mailto:BPierce@paoca.org)

Counsel for  
Office of Consumer Advocate  
555 Walnut Street  
5th Floor, Forum Place  
Harrisburg, PA 17101-1923  
Phone: (717) 783-5048  
Fax: (717) 783-7152  
166045