



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

ISSUED: AUGUST 22, 2001

IN REPLY PLEASE
REFER TO OUR FILE
R-00016378

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DOCUMENT
FOLDER

- - - Pennsylvania Public Utility Commission

V.

Philadelphia Gas Works

TO WHOM IT MAY CONCERN:

Enclosed is a copy of the Recommended Decision of Administrative Law Judge Marlane R. Chestnut.

An original and nine (9) copies of signed exceptions to the decision, if any, **MUST BE FILED WITH THE SECRETARY OF THE COMMISSION, 2ND FLOOR, KEYSTONE BUILDING, 400 NORTH STREET, HARRISBURG, PA OR MAILED TO P.O. BOX 3265, HARRISBURG, PA 17105-3265**; a copy in the hands of the Office of Special Assistants Third Floor; and a copy in the hands of each party of record no later than **August 29, 2001** by 4:30 P.M. 52 Pa. Code §1.56(b) cannot be used to extend the prescribed period for the filing of exceptions. A certificate of service shall be attached to the filed exceptions.

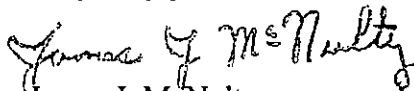
Exceptions shall obey 52 Pa. Code 5.533 and 5.535, particularly the 40-page limit for exceptions. Exceptions should be clearly labeled as "EXCEPTIONS OF (name of party) - (protestant, complainant, staff, etc.)".

Reply exceptions will not be accepted for filing and will not be entertained by the Commission.

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.

Parties are also requested to provide the Commission's Office of Special Assistants with a copy of exceptions/reply exceptions on a computer disk, 3 1/2" in size, in Microsoft Word 6.0 format. If Word 6.0 is not available, either Wordperfect 5.1 or ASCII format is acceptable.

Very truly yours,


James J. McNulty
Secretary

Encls.
Certified Mail
Receipt Requested
FG

See Attached Listing for Additional Parties of Record

R-00016378 Pennsylvania Public Utility Commission v. Philadelphia Gas Works

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RD ENR 8/29

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :

v. :

Philadelphia Gas Works :

Docket No. R-00016378

DOCKETED
MAY 2 2001

RECOMMENDED DECISION

Before
MARLANE R. CHESTNUT
Administrative Law Judge

**DOCUMENT
FOLDER**

I. HISTORY OF THE PROCEEDING

On May 1, 2001, Philadelphia Gas Works (PGW or respondent) made a preliminary filing with the Public Utility Commission (Commission) pursuant to 52 Pa. Code §53.64 regarding proposed changes in rates resulting from changes in the purchased gas costs and other elements of the company's Gas Cost Rate (GCR).¹ On May 2, 2001, the company supplemented its filing with additional supporting information.

On June 1, 2001, pursuant to its tariff, 66 Pa.C.S.A. §1307(f) and 52 Pa. Code §53.61 et seq., PGW filed its definitive GCR filing, Supplement No. 11 to Tariff Gas-Pa.P.U.C. No. 1, to become effective for service rendered on and after September 1, 2001. This tariff supplement proposed to decrease the GCR from \$6.6959 per Mcf to

¹ Pursuant to Section 11.5 of its tariff, PGW includes in its GCR certain non-gas costs associated with the Senior Citizen Discount Program, the Customer Responsibility Program and purchased electricity expense.

\$5.5958 per Mcf. The company also filed a reconciliation of previously incurred expenses and revenues and requested a waiver of Sections 11.2.b and 11.3 of its tariff.

By operation of law, the filing was suspended for a period of six months for an investigation into the lawfulness, justness and reasonableness of the proposed rates and to satisfy the requirements of Sections 1307, 1317 and 1318 of the Public Utility Code, 66 Pa.C.S.A. §§1307, 1317, and 1318.

As required by 52 Pa. Code §53.68, PGW provided public notice of the proposed tariff through bill inserts and newspaper publication in PGW's service territory.

On May 23, 2001, the Commission's Office of Trial Staff (OTS) entered an appearance. A Notice of Intervention and Public Statement were filed by the Office of Small Business Advocate (OSBA) on May 30, 2001.

By Hearing Notice dated June 5, 2001 a prehearing conference was scheduled for June 13, 2001. On June 6, 2001, I issued Prehearing Order #1, which set forth various procedural requirements relating to the scheduled prehearing conference.

On June 7, 2001 a Petition to Intervene was filed by the Philadelphia Industrial and Commercial Gas Users Group (PICGUG). On June 8, 2001, the Office of Consumer Advocate (OCA) filed a formal Complaint and Public Statement (C0001).

The prehearing conference was held as scheduled on June 13, 2001. Present, either in person or telephonically, were PGW, OTS, OSBA, OCA and PICGUG. At the prehearing conference, PICGUG's Petition to Intervene was granted, and a litigation and briefing schedule was adopted. On June 18, 2001, I issued Prehearing Order #2, which memorialized the matters discussed at the prehearing conference.

On June 15, 2001 a formal Complaint was filed by Consumer Education and Protective Association (CEPA), Association of Community Organizations for Reform Now (ACORN), the Tenants' Action Group (TAG) and the Action Alliance of Senior Citizens, collectively referred to as CEPA et al. This Complaint was docketed at C0002.

After the filing of the various parties' direct, rebuttal and surrebuttal testimony, the parties informed me that they had reached a settlement in principle of all issues, agreed to by all parties. Therefore, a brief hearing was held on August 8, 2001 (at which all parties, except OTS due to a building emergency, were present) to accept the following statements and exhibits into the record:

| Caption | Description | Attachments |
|----------------|--|--------------------------------------|
| PGW Exh. 1 | Vol. 1, 2: filing documents | |
| PGW St. 1.0 | Patrick Durkin, direct testimony | |
| PGW St. 2 | Craig White, supplemental direct testimony | Exh. CW-1 |
| OTS St. 1 | Paul Metro, direct testimony | OTS Exh. 1 |
| OCA St. 1 | Richard LeLash, direct testimony | Schedules 1-8 |
| PGW ST. 2.1 | Craig White, rebuttal testimony | App. A, Exhs. CW R-1 through CW -R-4 |
| OTS St. 1-SR | Paul Metro, surrebuttal testimony | |
| OCA St. 1-S | Richard LeLash, surrebuttal testimony | Schedules 1-S through 3-S |
| OSBA St. 1 | Robert Knecht, surrebuttal testimony | App. A, B |

A Joint Petition for Complete Settlement was filed on August 16, 2001. The joint petitioners include all parties: PGW, OTS, OCA, OSBA, PICGUG and CEPA et al. The Petition includes the proposed tariff pages effectuating the proposed settlement as well as statements in support from the various joint petitioners. The parties request

that the proposed settlement rates, terms and conditions become effective no later than September 1, 2001 or on one-day's notice after entry of the Commission's order.

As discussed in more detail below, the proposed settlement is manifestly reasonable and in the public interest and therefore should be approved by the Commission. The parties are to be commended for reaching a comprehensive agreement.

II. TERMS OF THE PROPOSED SETTLEMENT

The terms of the proposed settlement include the following:

1. **GCR Factor as of September 1, 2001.** The Company shall file an updated GCR factor to become effective September 1, 2001 that reflects a decrease in the Net GCR Expense set forth in PGW's June 1 Filing of \$70 million. In the event that the Commission does not approve this Settlement by September 1, 2001, PGW will proceed to implement the above reduction on one day's notice after the entry of an order approving the Settlement, effective for service rendered as of September 1, 2001. The effective GCR Rate as of September 1, 2001 will be \$4.3724. The reduction represents an annual savings to PGW's ratepayers of approximately \$135 million.

2. **Removal of \$7.0 Million of Interim Rate Settlement Bad Debt Expense and Compression Factor.** The revised factor of \$4.3724 described in Paragraph 1 above reflects the removal of the \$7.0 million of bad debt expense authorized as part of PGW's settlement with the Commission in Pa. PUC v. Philadelphia Gas Works, Docket No. R-00005654, and the compression factor authorized by the Commission in Pa. PUC v. Philadelphia Gas Works, Docket No. R-00005619.

3. **GCR Factor as of December 1, 2001.** For purposes of settling this GCR proceeding, the Parties agree to a GCR factor to become effective December 1, 2001 that reflects a total decrease in the Net GCR Expense set forth in PGW's June 1, 2001 definitive GCR Filing of \$106 million. The new GCR factor as of December 1, 2001 (projected to be \$3.6079) shall be updated and replaced by the GCR factor set forth in the Company's quarterly filing on December 1, 2001 described in paragraph 5 below.

4. **Tariff Supplements Resulting From the Settlement.** Attached as Appendix A are tariff supplements necessary to implement this proposed Settlement. Attached as Appendix B are the rates and underlying cost data relating to this proposed Settlement.

5. **GCR Factor Updated By PGW's December 1, 2001 Quarterly Filing.** The Company shall update its GCR at the time it makes its quarterly filing on December 1, 2001 to reflect the most current gas cost projections. The Parties agree that the December 1, 2001 quarterly filing shall be implemented on one day's notice. The GCR factor set forth in the Company's quarterly filing on December 1, 2001 shall replace the December 1, 2001 GCR factor projected to be \$3.6079 described in paragraph 3 above.

6. **The Formula To Be Used in Quarterly Filings for the 2001-2002 GCR Period.** PGW shall calculate the quarterly filing for December 2001 and the remaining quarterly updates for the 2001-2002 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:

- (A) PGW's December 1, 2001 quarterly filing shall use the actual over/under recovery level in existence as of October 31, 2001.
- (B) In forecasting natural gas prices for its GCR quarterly updates, PGW shall use: (i) the actual known prices for November 2001; (ii) the most recent NYMEX futures closing prices, available at the time PGW begins the preparation of the December 1, 2001 quarterly filing, for the forecast months of December 2001, January 2002, and February 2002; and (iii) the simple monthly average of these recent NYMEX futures prices and the DRI-derived gas price forecast for the remaining eight forecast months.
- (C) 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 5(B) 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.

7. **PGW's Quarterly Filings for the 2001-2002 GCR Period.** The Parties specifically agree that PGW will file quarterly updates of its 2001-2002 GCR on December 1, 2001, March 1, 2002, and June 1, 2002. In revising natural gas prices, these quarterly updates will be done in accordance with the Commission's Regulations at 52 Pa. Code §53.64(i)(5) and will use the formula set forth in Paragraphs 5 (B) and (C) above. Quarterly updates will become effective on one's day notice.

8. **GCR Annual Filings.** For PGW's 2002-2003 GCR and hence forward, the Company will submit its annual GCR filing on March 1. The pre-filing information required by the Commission's regulations will be submitted February 1. The effective date for PGW's 2002-2003 GCR and subsequent years will be September 1.

9. **Hedging.** The Company will continue to evaluate and assess its hedging policies and procedures in which it currently engages in an effort to mitigate the gas prices faced by PGW's ratepayers. The Company will continue to assist the parties in evaluating and understanding its hedging policies and procedures. If necessary, PGW will participate in workshops with the other Parties to discuss more specific aspects relating to the Company's hedging policies and procedures, including those relating to whether to use financial hedging. The Company will seek regulatory approval if it determines that financial hedging is feasible and beneficial.

10. **Latest Available Reports on Unaccounted-For Gas.** The Company will provide the latest available internally generated annual reports on its level of unaccounted-for gas as well as the Department of Transportation Office of Pipeline Safety (DOTOPS) Report.

11. **Capacity Entitlements.** The Company will continue to reevaluate its capacity entitlements and seek to eliminate as many fixed demand charges as possible without compromising the reliability and safety of its service and supply. As part of this evaluation, the Company will provide a memorandum to the parties clarifying the actual and effective vaporization and take-away capacities of its LNG facilities.

12. **LNG Transportation Costs.** The OCA will withdraw its adjustment for LNG Transportation costs. The other Parties agree not to seek a similar

adjustment for the 2001-2002 GCR Period. The Parties reserve the right, however, to raise the issue of the appropriateness of including such costs as a cost of gas in the GCR in future proceedings.

13. **CRP Issues.** PGW shall work with interested Parties to develop an appropriate outreach and communications program with the aim of increasing participation in FY2002 of PGW's CRP customers and other eligible PGW customers in the LIHEAP programs, especially the LIHEAP cash program. After the effective date of this Settlement, PGW shall describe its CRP program as a "customer assistance program" rather than a "payment arrangement program" in all PGW communications giving notice of the existence of the CRP program and/or describing its terms and conditions.

14. **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 2001-2002 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 petition the Commission to implement an update early. 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 2001-2002 GCR Period the provisions set forth in Section 11.3 of PGW's Tariff waiving the requirement for the 2000-2001 GCR period of adjusting the base cost at the time of the annual GCR filing to include at least ninety percent (90%) of the Company's experienced gas rates as of the end of the August billing period, plus such portion of the projected gas costs as the Commission shall permit.

III. DISCUSSION

The parties' position is that the proposed settlement provides a fair, just and reasonable resolution of the 1307(f) issues, is supported by the record and is in the public interest. I agree.

The settlement terms appear to be a fair and reasonable resolution of the various issues, and appropriately balance the interests of the company and its customers. It is important to note that this agreement was reached after substantial discovery and the filing of testimony, so that each party fully developed its position to its satisfaction.

As discussed in the various Statements in Support, the primary benefit of the settlement is that the company's ratepayers will be receiving a much larger decrease in their rates, due to reducing the current GCR of \$6.6959/Mcf to the settlement GCR of \$4.3724/Mcf, rather than the \$5.59581/Mcf as originally proposed. This produces an annual savings to the customers of approximately \$135M, which is a much greater reduction than the \$64M originally proposed by the company. In addition, the customers will be receiving the benefit of this decrease sooner than had the proceeding been fully litigated. Also, it is expected that the GCR which will become effective December 1, 2001 will reflect a further decrease, projected to be \$3.6079.² This represents an additional annual savings to PGW's customers of approximately \$36M.

Second, the settlement agreement removes \$7M of bad debt expense and the compression factor authorized previously by the Commission.

² The parties agreed that the December 2001 GCR will reflect the most current gas cost projections.

Third, there was agreement both on the timing and the formula to be used by PGW in its quarterly filings, as well as clarifying the filing dates for the company's next GCR filing. This will bring PGW into conformance with the other jurisdictional gas distribution companies.

In addition, the company made commitments to continue to evaluate and address with the parties issues of concern, specifically hedging, unaccounted-for gas, capacity entitlements, and CPR issues.

Finally, the OCA agreed to withdraw its proposed adjustment relating to LNG transportation costs, and the other parties agreed not to seek a similar adjustment for the 2001-2002 GCR period.

IV. FINDINGS OF FACT³

1. PGW is a group of real and personal assets owned by the City of Philadelphia and used for the acquisition, storage, processing, and distribution of natural gas within the City. PGW qualifies as a "city natural gas distribution operation" pursuant to Section 102 of the Public Utility Code, 66 Pa.C.S.A. §102. PGW provides natural gas supply and distribution services to over 520,000 customers.

2. PGW is managed by the Philadelphia Facilities Management Corporation, subject to oversight by the Philadelphia Gas Commission ("PGC") and, in some instances, Philadelphia City Council and the City's Director of Finance, pursuant to an Agreement for Management and Operation of Philadelphia Gas Works with the City of Philadelphia executed on December 29, 1972. On the same date, the Management

³ These Findings of Fact are taken from the proposed Findings of Fact contained in the Joint Petition.

Agreement was incorporated into and approved by an ordinance of Philadelphia City Council (No. 455 of 1972) ("Management Agreement Ordinance").

3. Prior to July 1, 2000, PGW operated under the jurisdiction of the PGC. The PGC fixed and regulated gas rates consistent with the standards set by the ordinances of the City, including the Management Agreement Ordinance and the City's Bond Ordinances, and other applicable law.

4. PGW's gas purchasing policy is designed to achieve a reasonable balance of long and short-term gas purchases in order to maintain system reliability and mitigate the gas prices faced by PGW's ratepayers (PGW St. 1, pp. 3-6).

5. The details of PGW's actual gas purchases for the 12 months ended March 31, 2001 are presented in Schedule 1 of Item 53.64(c)(1) of PGW's May 1 Pre-Filing.

6. PGW's estimates of gas purchases through November 30, 2002 were presented in Schedule 3 of Item 53.64(c)(1) of PGW's May 1 Pre-Filing and Schedule 3 of Item 53.64(c)(1) of PGW's June 1 Filing.

7. Texas Eastern Transmission Corporation ("Texas Eastern") and Transcontinental Gas Pipe Line Corporation ("Transco") comprise the two interstate natural gas pipelines that deliver gas to PGW's city gates (PGW St. 1, pp. 2-3). Evidence of record indicates that firm transportation contracts with these pipelines provide PGW the right to purchase gas supplies directly from producers and marketers and to use firm transportation capacity on the pipelines for delivery of the gas to PGW. To meet winter peak requirements, PGW also obtains storage services from Dominion Transmission Corporation ("Dominion"), Equitrans, L.P. ("Equitrans") and ANR Pipe Line Company

("ANR"). These storage services require intermediate transportation services from Texas Eastern. Evidence of record indicates that PGW has purchased all of its requirements on competitive terms (PGW St. 1, pp. 2-3).

8. PGW also meets peak day and seasonal supply needs by the use of its LNG facilities based on market pricing conditions. Evidence of record indicates that PGW is operating its LNG facilities prudently.

9. PGW has participated in significant rate and certificate proceedings before the FERC concerning interstate natural gas pipeline company rates and conditions of service which affect its costs and, therefore, its customers' costs. PGW has also participated in major FERC proceedings of Texas Eastern, Transco, Dominion, Equitrans and ANR (PGW's May 1 Pre-Filing, Item 53.64(c)(4) and 1317(a)(1); OCA St. 1.0, pp. 36-37).

10. In the past year, PGW has renegotiated the terms of long-term gas purchase contracts, reducing the supplier demand charges under one such contract by approximately \$1.2 million from 2001 through 2003 (PGW St. 1.0, p. 7; OCA St. 1.0, p. 35).

11. During the historic reconciliation period, PGW did not purchase any gas supply from an affiliated interest (PGW's May 1 Pre-Filing, Items 53.65(1), (3), and (4) and 1317(b)(2); OCA St. 1.0, p. 36).

12. PGW is not affiliated with any pipeline or gas supply operation, nor does it have any contracts for local production. Accordingly, PGW is not able, in the traditional sense, to withhold from the market any gas supplies which should be part of a least cost procurement. In the one context where PGW does have discretion concerning

supply utilization, that being its use of storage inventories, it has not historically withheld storage from use (OCA St. 1.0, p. 36; PGW's May 1 Pre-Filing, Item 53.65(5)).

13. Projected gas costs as reflected in this Settlement were based on peak-day capacity requirements at a 0 degree design day temperature as set forth in the record (PGW's May 1 Pre-Filing, Item 53.64(c)(13)).

14. During the April 2000 to March 2001 period, PGW's gas price hedging program resulted in lower gas costs for its ratepayers than they would have faced had no hedging been in place (OCA St. 1.0, pp. 13, 36).

15. While maintaining system reliability with respect to gas deliveries, PGW has been able to lower its overall GCR factor by obtaining capacity release and off-system margin credits and by lowering its fixed capacity costs through gas portfolio enhancements (OCA St. 1.0, pp. 13, 26, 35).

V. CONCLUSIONS OF LAW

1. Philadelphia Gas Works operates a gas distribution system in Pennsylvania and therefore is subject to the Commission's jurisdiction.

2. This proceeding is properly before the Commission.

3. PGW is pursuing a least cost fuel procurement policy that is consistent with PGW's obligation to provide safe, adequate and reliable service to its customers. 52 Pa. C.S.A. §§1318(a) and (b).

4. PGW has represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission (FERC). 66 Pa.C.S.A. §1318(a)(1).

5. PGW has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve it from terms in existing contracts with its gas suppliers which are or may be adverse to the interests of ratepayers. 66 Pa.C.S.A. §1318(a)(2).

6. PGW has taken all prudent steps necessary to obtain lower cost gas supplies on both long-term and short-term bases, both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies. 66 Pa.C.S.A. §1318(a)(3).

7. PGW has not withheld from the market or caused to be withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. 66 Pa.C.S.A. §1318(a)(4).

8. PGW has attempted to obtain less costly gas supplies on both short-terms and long-term bases from non-affiliated interests. 66 Pa.C.S.A. §1318(b)(1).

9. PGW has no contracts for the purchase of gas from affiliated interests which are not consistent with a least cost gas procurement policy. 66 Pa.C.S.A. §1318(b)(2).

10. Neither PGW nor any affiliated interest has withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. 66 Pa.C.S.A. §1318(b)(3).

11. The proposed settlement is in the public interest.

12. The proposed settlement Gas Cost Rate of \$4.3724 per Mcf is appropriate and reasonable.

VI. RECOMMENDED ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Joint Petition for Complete Settlement of Philadelphia Gas Works' 2001-2002 GCR Proceeding submitted by Philadelphia Gas Works, the Office of Trial Staff, the Office of Consumer Advocate; the Office of Small Business Advocate, the Philadelphia Industrial and Commercial Gas Users' Group, the Consumer Education and Protective Association, Association of Community Organizations for Reform Now, the Tenants' Action Group and the Action Alliance of Senior Citizens be adopted, including all terms and conditions.

2. That the proposed Supplement No. 11 to Tariff Gas-Pa.P.U.C. No. 1 filed by Philadelphia Gas Works not be permitted to go into effect.

3. That Philadelphia Gas Works be permitted to file a tariff or tariff supplement effective on one day's notice, consistent with the rates, terms and conditions set forth in Appendix A of the Joint Petition, utilizing a GCR of \$4.3724 per Mcf for service rendered on and after September 1, 2001, subject to quarterly adjustments as permitted by the Public Utility Code.

4. That Philadelphia Gas Works shall comply with all of the terms and conditions contained in the Joint Petition.

5. That Philadelphia Gas Work's request that Sections 11.2.b and 11.3 of its tariff be waived for the duration of its 2001-2002.GCR period be granted.

6. That the formal Complaint at Docket No. R-00016378C0001 is granted or denied consistent with this order.

7. That the formal Complaint at Docket No. R-00016378C0002 is granted or denied consistent with this order.

8. That upon acceptance and approval by the Commission of the tariffs(s) or tariff supplement(s) filed by Philadelphia Gas Works, consistent with this order, the Commission terminate its investigation at Docket No. R-00016378 and mark closed the records at Docket Nos. R-00016378, R-00016378C0001 and R-00016378C0002.

Date: August 16, 2001


MARLANE R. CHESTNUT
Administrative Law Judge

APPENDIX A

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, ET AL.

Docket No. R-00016378

v.

PHILADELPHIA GAS WORKS

JOINT PETITION FOR COMPLETE SETTLEMENT
OF PHILADELPHIA GAS WORKS' 2001-2002 GCR PROCEEDING

TO ADMINISTRATIVE LAW JUDGE MARLANE R. CHESTNUT:

I. INTRODUCTION

Philadelphia Gas Works ("PGW" or the "Company"), the Pennsylvania Public Utility Commission's ("Commission") Office of Trial Staff ("OTS"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), Philadelphia Industrial and Commercial Gas Users Group ("PICGUG"), and Consumer Education and Protective Association ("CEPA"), Association of Community Organizations for Reform Now ("ACORN"), the Tenants' Action Group ("TAG") and Action Alliance of Senior Citizens¹ (hereinafter "Parties"), parties to the above-captioned proceeding, hereby submit this Joint Petition for Complete Settlement of PGW's 2001-2002 GCR Proceeding ("Joint Petition" or "Settlement") and respectfully request:

¹ CEPA, ACORN, TAG, and Action Alliance of Senior Citizens are collectively referred to as "CEPA et al.")

1. That Administrative Law Judge Marlane R. Chestnut (the "ALJ") recommend and the Commission approve this Settlement and all its terms and conditions;

2. That the ALJ recommend and the Commission authorize PGW to file a tariff supplement to reflect rates, terms, and conditions consistent with this Settlement and applicable to the gas cost rate investigation at Docket No. R-00016378, to become effective no later than September 1, 2001 or, in the event that Commission approval is not obtained by September 1, 2001, the day after the issuance date of the Commission's Final Order approving the Settlement, subject to quarterly adjustments as set forth in this Settlement and as permitted by Commission regulation;

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

4. That the Commission terminate its investigation at Docket No. R-00016378.

II. BACKGROUND

1. On November 23, 2000, the Commission entered an Order in Pa. PUC v. Philadelphia Gas Works, Docket No. R-00005619, directing PGW, inter alia, to "file its 2001-2002 GCR filing with the Commission and upon the parties to this proceeding on or before June 1, 2001."

2. On February 22, 2000, the Commission entered an Order in Pa. PUC v. Philadelphia Gas Works, Docket Nos. R-00005619 and R-00005654, approving the terms of the Settlement between PGW and the Commission's Law Bureau in PGW's 2000-2001 Interim Rate and GCR Proceedings, including, but not limited to, allowing PGW "to recover \$7 million

through its GCR, compressed so as to be collected by August 31, 2001, to account for additional bad debt expense produced by dramatically higher than projected natural gas costs incurred by PGW.”

3. On May 1, 2001, PGW filed its preliminary supporting information for its proposed 2001-2002 Gas Cost Rate (“GCR”), as required by 66 Pa. C.S. § 1307(f) and 52 Pa. Code § 53.64 (the “May 1 Pre-Filing”).

4. On May 2, 2001, PGW supplemented its May 1 Pre-Filing with supporting information required under 52 Pa. Code § 53.64(i).

5. On May 30, 2001, OSBA filed a Notice of Intervention in this proceeding.

6. On June 1, 2001, PGW filed its Definitive GCR Filing -- identified as Supplement No. 11 to Tariff Gas – Pa. P.U.C. No. 1 -- setting forth PGW’s proposed GCR, effective for services rendered on or after September 1, 2001 (the “June 1 Filing”). This filing was made in accordance with PGW’s Tariff and is consistent with 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, the Company also filed a reconciliation of expenses previously incurred and revenues received, consistent with 66 Pa.C.S. § 1307(f)(3). PGW submitted data in support of its June 1 Filing, including the direct testimony of witness Patrick Durkin (PGW St. 1). PGW subsequently submitted supplemental direct and rebuttal testimony from witness Craig White (PGW Sts. 2 and 2.1).

7. In its June 1, 2001 Filing, PGW proposed to decrease its GCR effective September 1, 2001 from the current \$6.6959 to \$5.5958 per 1000 cubic feet.

8. As required by 52 Pa. Code § 53.68, PGW provided public notice of the proposed June 1 Filing rate through bill inserts and newspaper publication in PGW's service territory.

9. On June 6, 2001, ALJ Marlane R. Chestnut issued an Order scheduling a prehearing conference in this proceeding for June 13, 2001.
10. On June 7, 2001, PICGUG filed a Notice of Intervention in this proceeding.
11. On June 8, 2001, OCA filed a complaint against PGW's proposed June 1 Filing, now docketed at No. R-00016378.
12. On June 12, 2001, a prehearing conference was held in this proceeding, and ALJ Marlane R. Chestnut established a procedural schedule for discovery and hearings.
13. On June 15, 2001, CEPA et al. filed a complaint against PGW's proposed June 1 Filing.
14. Discovery, both formal and informal, was undertaken by the parties. PGW provided responses to a total of 67 formal data requests served by the OCA, OTS, and CEPA.
15. Further, as it had agreed to do, PGW provided the parties with an update to its GCR on July 16, 2001, using the latest available DRI forecast and NYMEX futures.
16. The Parties met several times to discuss and negotiate issues in this proceeding. As a result, the Parties were able to reach a settlement that resolves all contested issues in this proceeding.

III. SETTLEMENT

The terms of the Settlement are as follows:

1. GCR Factor as of September 1, 2001. The Company shall file an updated GCR factor to become effective September 1, 2001 that reflects a decrease in the Net GCR Expense set forth in PGW's June 1 Filing of \$70 million. In the event that the Commission does not approve this Settlement by September 1, 2001, PGW will proceed to implement the

above reduction on one day's notice after the entry of an order approving the Settlement, effective for service rendered as of September 1, 2001. The effective GCR Rate as of September 1, 2001 will be \$4.3724. The reduction represents an annual savings to PGW's ratepayers of approximately \$135 million.

2. **Removal of \$7.0 Million of Interim Rate Settlement Bad Debt Expense and Compression Factor.** The revised factor of \$4.3724 described in Paragraph 1 above reflects the removal of the \$7.0 million of bad debt expense authorized as part of PGW's settlement with the Commission in Pa. PUC v. Philadelphia Gas Works, Docket No. R-00005654, and the compression factor authorized by the Commission in Pa. PUC v. Philadelphia Gas Works, Docket No. R-00005619.

3. **GCR Factor as of December 1, 2001.** For purposes of settling this GCR proceeding, the Parties agree to a GCR factor to become effective December 1, 2001 that reflects a total decrease in the Net GCR Expense set forth in PGW's June 1, 2001 definitive GCR Filing of \$106 million. The new GCR factor as of December 1, 2001 (projected to be \$3.6079) shall be updated and replaced by the GCR factor set forth in the Company's quarterly filing on December 1, 2001 described in paragraph 5 below.

4. **Tariff Supplement Resulting From the Settlement.** Attached as Appendix "A" is the tariff supplement necessary to implement this proposed Settlement. Attached as Appendix "B" are the rates and underlying cost data relating to this proposed Settlement.

5. **GCR Factor Updated By PGW's December 1, 2001 Quarterly Filing.** The Company shall update its GCR at the time it makes its quarterly filing on December 1, 2001 to reflect the most current gas cost projections. The Parties agree that the December 1, 2001 quarterly filing shall be implemented on one day's notice. The GCR factor set forth in the

Company's quarterly filing on December 1, 2001 shall replace the December 1, 2001 GCR factor projected to be \$3.6079 described in paragraph 3 above.

6. The Formula To Be Used in Quarterly Filings for the 2001-2002 GCR

Period. PGW shall calculate the quarterly filing for December 2001 and the remaining quarterly updates for the 2001-2002 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:

(A). PGW's December 1, 2001 quarterly filing shall use the actual over/under recovery level in existence as of October 31, 2001.

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

(C). 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 5(B) 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.

7. PGW's Quarterly Filings for the 2001-2002 GCR Period. The Parties specifically agree that PGW will file quarterly updates of its 2001-2002 GCR on December 1, 2001, March 1, 2002, and June 1, 2002. In revising natural gas prices, these quarterly updates

will be done in accordance with the Commission's Regulations at 52 Pa. Code § 53.64 (i) (5) and will use the formula set forth in Paragraphs 5 (B) and (C) above. Quarterly updates will become effective on one's day notice.

8. GCR Annual Filings. For PGW's 2002-2003 GCR and hence forward, the Company will submit its annual GCR filing on March 1. The pre-filing information required by the Commission's regulations will be submitted February 1. The effective date for PGW's 2002-2003 GCR and subsequent years will be September 1.

9. Hedging. The Company will continue to evaluate and assess its hedging policies and procedures in which it currently engages in an effort to mitigate the gas prices faced by PGW's ratepayers. The Company will continue to assist the parties in evaluating and understanding its hedging policies and procedures. If necessary, PGW will participate in workshops with the other Parties to discuss more specific aspects relating to the Company's hedging policies and procedures, including those relating to whether to use financial hedging. The Company will seek regulatory approval if it determines that financial hedging is feasible and beneficial.

10. Latest Available Reports on Unaccounted-For Gas. The Company will provide the latest available internally generated annual reports on its level of unaccounted-for gas as well as the Department of Transportation Office of Pipeline Safety (DOTOPS) Report.

11. Capacity Entitlements. The Company will continue to reevaluate its capacity entitlements and seek to eliminate as many fixed demand charges as possible without compromising the reliability and safety of its service and supply. As part of this evaluation, the Company will provide a memorandum to the parties clarifying the actual and effective vaporization and take-away capacities of its LNG facilities.

12. LNG Transportation Costs. The OCA will withdraw its adjustment for LNG Transportation costs. The other Parties agree not to seek a similar adjustment for the 2001-2002 GCR Period. The Parties reserve the right, however, to raise the issue of the appropriateness of including such costs as a cost of gas in the GCR in future proceedings.

13. CRP Issues. PGW shall work with interested Parties to develop an appropriate outreach and communications program with the aim of increasing participation in FY2002 of PGW's CRP customers and other eligible PGW customers in the LIHEAP programs, especially the LIHEAP cash program. After the effective date of this Settlement, PGW shall describe its CRP program as a "customer assistance program" rather than a "payment arrangement program" in all PGW communications giving notice of the existence of the CRP program and/or describing its terms and conditions.

14. 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 2001-2002 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 2001-2002 GCR Period the provisions set forth in Section 11.3 of PGW's Tariff waiving the requirement for the 2000-2001 GCR period of adjusting the base cost at the time of the annual GCR filing to include at least ninety percent (90%) of the Company's experienced gas

rates as of the end of the August billing period, plus such portion of the projected gas costs as the Commission shall permit.

IV. PROPOSED FINDINGS OF FACT

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

1. PGW is a group of real and personal assets owned by the City of Philadelphia and used for the acquisition, storage, processing, and distribution of natural gas within the City. PGW qualifies as a "city natural gas distribution operation" pursuant to Section 102 of the Public Utility Code; 66 Pa. C.S. §102. PGW provides natural gas supply and distribution services to over 520,000 customers.

2. PGW is managed by the Philadelphia Facilities Management Corporation, subject to oversight by the Philadelphia Gas Commission ("PGC") and, in some instances, Philadelphia City Council and the City's Director of Finance, pursuant to an Agreement for Management and Operation of Philadelphia Gas Works with the City of Philadelphia executed on December 29, 1972. On the same date, the Management Agreement was incorporated into and approved by an ordinance of Philadelphia City Council (No. 455 of 1972) ("Management Agreement Ordinance").

3. Prior to July 1, 2000, PGW operated under the jurisdiction of the PGC. The PGC fixed and regulated gas rates consistent with the standards set by the ordinances of the City, including the Management Agreement Ordinance and the City's Bond Ordinances, and other applicable law.

4. PGW's gas purchasing policy is designed to achieve a reasonable balance of long and short-term gas purchases in order to maintain system reliability and mitigate the gas prices faced by PGW's ratepayers. (PGW St.1, pp. 3-6).

5. The details of PGW's actual gas purchases for the 12 months ended March 31, 2001 are presented in Schedule 1 of Item 53.64(c)(1) of PGW's May 1 Pre-Filing.

6. PGW's estimates of gas purchases through November 30, 2002 were presented in Schedule 3 of Item 53.64(c)(1) of PGW's May 1 Pre-Filing and Schedule 3 of Item 53.64(c)(1) of PGW's June 1 Filing.

7. Texas Eastern Transmission Corporation ("Texas Eastern") and Transcontinental Gas Pipe Line Corporation ("Transco") comprise the two interstate natural gas pipelines that deliver gas to PGW's city gates. (PGW St. 1, pp. 2-3). Evidence of record indicates that firm transportation contracts with these pipelines provide PGW the right to purchase gas supplies directly from producers and marketers and to use firm transportation capacity on the pipelines for delivery of the gas to PGW. To meet winter peak requirements, PGW also obtains storage services from Dominion Transmission Corporation ("Dominion"), Equitrans, L.P. ("Equitrans") and ANR Pipe Line Company ("ANR"). These storage services require intermediate transportation services from Texas Eastern. Evidence of record indicates that PGW has purchased all of its requirements on competitive terms. (PGW St. 1, pp. 2-3).

8. PGW also meets peak day and seasonal supply needs by the use of its LNG facilities based on market pricing conditions. Evidence of record indicates that PGW is operating its LNG facilities prudently.

9. PGW has participated in significant rate and certificate proceedings before the FERC concerning interstate natural gas pipeline company rates and conditions of service which

affect its costs and, therefore, its customers' costs. PGW has also participated in major FERC proceedings of Texas Eastern, Transco, Dominion, Equitrans and ANR (PGW's May 1 Pre-Filing, Item 53.64(c)(4) and 1317(a)(1); OCA St. 1.0, pp. 36-37).

10. In the past year, PGW has renegotiated the terms of long-term gas purchase contracts, reducing the supplier demand charges under one such contract by approximately \$1.2 million from 2001 through 2003. (PGW St. 1.0, p. 7; OCA St. 1.0, p. 35).

11. During the historic reconciliation period, PGW did not purchase any gas supply from an affiliated interest (PGW's May 1 Pre-Filing, Items 53.65(1), (3), and (4) and 1317(b)(2); OCA St. 1.0, p. 36).

12. PGW is not affiliated with any pipeline or gas supply operation, nor does it have any contracts for local production. Accordingly, PGW is not able, in the traditional sense, to withhold from the market any gas supplies which should be part of a least cost procurement. In the one context where PGW does have discretion concerning supply utilization, that being its use of storage inventories, it has not historically withheld storage from use. (OCA St. 1.0, p. 36; PGW's May 1 Pre-Filing, Item 53.65(5)).

13. Projected gas costs as reflected in this Settlement were based on peak-day capacity requirements at a 0 degree design day temperature as set forth in the record (PGW's May 1 Pre-Filing, Item 53.64(c)(13)).

14. During the April 2000 to March 2001 period, PGW's gas price hedging program resulted in lower gas costs for its ratepayers than they would have faced had no hedging been in place. (OCA St. 1.0, pp. 13, 36).

15. While maintaining system reliability with respect to gas deliveries, PGW has been able to lower its overall GCR factor by obtaining capacity release and off-system margin credits

and by lowering its fixed capacity costs through gas portfolio enhancements. (OCA St. 1.0, pp. 13, 26, 35).

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, 2001, it is requested that the Commission find 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. It is requested that the Commission find that, during the twelve months ended August 31, 2001:

- a. "PGW has fulfilled the performance criteria which are generally applicable in 1307(f) proceedings" (OCA St. 1.0, p. 13);
- 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, 2001, which is the period of time during which rates contained in this Settlement would be in effect, it is requested that the Commission find, based upon information presently available and based upon evidence of record in this proceeding concerning PGW's projected purchases and purchasing policies, that

the rate to be adopted by the Commission results from PGW's 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).

The Parties agree, based upon evidence of record in this proceeding concerning PGW's projected gas purchases and gas purchasing policies, that 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 understood and agreed that this Section of the Settlement, Section V.2, 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. Section V.2 of the Settlement 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, 2001, through August 30, 2002, were challenged, the Commission's findings based upon Section V.2 of the Settlement shall not bar the examination of such purchases and practices, including, but not limited to, disallowance of, or reductions to, such costs during the one-year period commencing September 1, 2001.

The Parties agree that future examination of the gas costs relating to the period September 1, 2001 through August 31, 2002, to determine whether PGW's experienced and projected gas purchases and gas purchasing practices complied with the standards set forth in Section 1318 of the Public Utility Code shall be permitted and that the Commission's adoption of

the findings under this Section V.2 shall not be construed to limit or prevent any disallowance or reduction of such costs.

VI. CONDITIONS OF SETTLEMENT

1. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification, addition or deletion. If the Commission fails to approve the Settlement without modification, then any of the Parties may elect to withdraw from this Settlement and may proceed with litigation. This Settlement is proposed by the Parties to settle certain issues in the instant proceeding and is made without any admission against, or prejudice to, any position which any Party may adopt during any subsequent litigation of this proceeding or any other proceeding.

2. It is understood and agreed among the Parties that this Settlement is the result of compromises by all Parties, and does not necessarily represent the position(s) that would be advanced by any party in the event this proceeding were to be litigated fully.

3. This Settlement is being presented only in the context of this GCR proceeding in an effort to resolve certain outstanding issues in a manner which is fair and reasonable. The Settlement reflects compromises on all sides, and is presented without prejudice to any position any of the parties may have advanced and without prejudice to the positions any of the parties may advance in the future on the merits of the issues.

4. PGW, OCA, OTS, OSBA, and CEPA et al. have prepared and attached to this Settlement, as Appendices "C," "D," "E," "F," and "G," respectively, statements in support setting forth the bases upon which they believe the Settlement is fair, just and reasonable and is, therefore, in the public interest. Most significantly, this Settlement will allow PGW to reduce its

GCR on September 1, 2001, even though under the litigation schedule, the actual reduction could have been delayed for at least three months. Thus, the Settlement will allow PGW to provide rate relief to its ratepayers as quickly as possible.

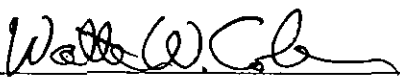
5. The Parties agree to waive exceptions to the ALJ's recommended decision if the ALJ recommends that the Joint Petition for Complete Settlement of Philadelphia Gas Works' 2001-2002 GCR Proceeding be approved without change or modification.

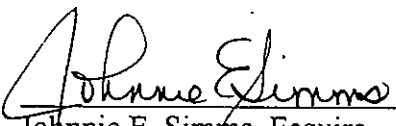
VII. CONCLUSION

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

- (1). That Administrative Law Judge Marlane R. Chestnut and the Commission approve this Settlement including all terms and conditions thereof;
- (2). That the Commission approve the necessary tariff supplements designed to be effective immediately pursuant to the terms set forth herein; and
- (3). That the Commission enter an order consistent with this Settlement, resolving and terminating the proceeding, after resolving all other outstanding complaints.

Respectfully submitted,


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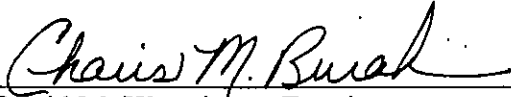
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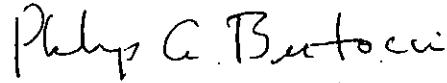


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APPENDIX A

PHILADELPHIA GAS WORKS

GAS SERVICE TARIFF



Issued by: Les A. Fyock
Vice President
Regulatory Affairs
PHILADELPHIA GAS WORKS
800 West Montgomery Avenue
Philadelphia, PA 19122

NOTICE

This Tariff Supplement Makes a Decrease in the Gas Cost Rate

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LIST OF CHANGES MADE BY THIS TARIFF

**THE GAS COST RATE CLAUSE - Section 11.2(b) – (Fourth Revised Page No. 71); Section 11.3 -
Definitions (Second Revised Page No. 72)**

Decreases the current effective Gas Cost Rate, extends the provision, allowing on an interim basis PGW to file a revised Gas Cost Rate and petition the Commission to implement an update early and extends the 90% of base cost gas waiver requirement for the Fiscal Year 2001-2002 GCR Period.

II. GAS COST RATE CLAUSE

11.1 PROVISION FOR ADJUSTMENT

The Gas Cost Rate shall be applied to each Mcf (1,000 cubic feet) of gas supplied under Rates Schedules GS, MS, PHA, and NGVS-Firm, except for gas usage under the Special Provisions – Air Conditioning of those rates.

11.2 COMPUTATION OF GAS COST RATE

- a. The Gas Cost Rate shall be computed to the nearest one-hundredth cent (0.01¢) in accordance with the formula set forth below:

$$GCR = ((C - E) / S) - B$$

- b. Each Gas Cost Rate so computed shall be applied to Customers' bills for twelve monthly billing periods commencing with September; provided, however, that for the 2001-2002 GCR period, that such rate may be revised on an interim basis subject to the following procedures: If there is known and measurable change in gas cost during the effective period of the Gas Cost Rate and the change would result in an increase or decrease in the Gas Cost Rate of 2% or more, PGW may file a petition with the Commission to implement an update early for a proposed revision to its Gas Cost Rate incorporating the recalculated rate, which revision shall become effective on one's days notice. Such filing shall be made in accordance with applicable provisions of 52 Pa Code § 53.64 (i)(5). (C)

The currently effective Gas Cost Rate is \$ 4.3724, for service on or after September 1, 2001. (D)

11.3 DEFINITIONS

GCR - Gas Cost Rate determined to the nearest one-hundredth cent (0.01¢) to be applied to each Mcf of gas supplied under Rate Schedules GS, MS, PHA, and NGVS-Firm, except for gas usage under the Special Provisions – Air Conditioning of those rates

C - the current cost of natural gas and other raw materials determined as follows: (a) for all types of gas, project the cost for each purchase (adjusted for net current gas stored) for the computation year plus (b) the arithmetical sum of (1) the projected book value of non-current gas at the beginning of the computation year minus (2) the projected book value of non-current gas at the end of the computation year.

E - experienced net over billings (or under billing) of the cost of natural gas and other raw materials as of the end of the computation year.

Additionally, supplier refunds received prior to the end of the August billing period will be included in the factor "E". Commencing with the Fiscal Year 1991-92 GCR calculation, supplier refunds anticipated to be received within the computation year will be included in Factor "E".

(C) - Change; (D) - Decrease

APPENDIX B

Philadelphia Gas Works

Levelized Gas Cost Rate

Fiscal Year 2001-2002

Formula:

$$GCR = ((C-E) / S) - B$$

where:

S = Applicable Sales Volume (Mcf) 57,888,620

Fuel

| | | |
|----------------------------------|----|--------------------|
| Net Natural Gas Expense | \$ | 455,116,479 |
| Plus: Purchased Electric Expense | | 1,370,000 |
| Total Applicable Fuel Expense | \$ | <u>456,486,479</u> |

Non-Fuel

| | | |
|------------------------------------|----|-------------------|
| Conservation Programs | \$ | 2,200,000 |
| CRP Discounts | | 37,696,008 |
| Total Applicable Non-Fuel Expenses | \$ | <u>39,896,008</u> |

C = Applicable Raw Material Expense \$ 496,382,487

| | | |
|---|----|---------------------|
| E = Adjustment For: Natural Gas Refunds | \$ | |
| Prior Year Reconciliations | | (12,375,397) |
| Total Adjustment | \$ | <u>(12,375,397)</u> |

| | | |
|--|----|--------------------|
| C-E = Net Applicable Raw Material Expense | \$ | 508,757,884 |
| Settlement Adjustment | | <u>70,000,000</u> |
| Adjusted Net Applicable Raw Material Expense | \$ | <u>438,757,884</u> |

B = Base Fuel Charge/Mcf 3.1800

Projected Unit Cost of Fuel 7.5793

| | | |
|--|----|------------|
| Recovery Test on: Applicable Sales Volume of (Mcf) | | 57,888,620 |
| @ GCR in effect 9/1/01 | \$ | 4.3724 |
| @ Base Fuel Rate Effective 9/1/90 | \$ | 3.1800 |

| | | |
|----------------------------|----|--------------------|
| GCR Charge | \$ | 254,673,569 |
| + Base Fuel Charge | \$ | <u>184,085,812</u> |
| = Total Projected Recovery | \$ | <u>438,759,381</u> |

| | | |
|-------------------------------------|----|--------------------|
| Compared To | | |
| Net Applicable Raw Material Expense | \$ | <u>438,757,884</u> |

| | | |
|-----------------------------|----|---------------------|
| = Net Over/(Under) Recovery | \$ | <u><u>1,497</u></u> |
|-----------------------------|----|---------------------|

Degree Days

4,555

Development of GCR Factor

Fiscal Year 2001-02 BUDGET YEAR w/\$70,000,000 ADJUSTMENT

| | | | |
|---------------------------------------|-----------------|----------------------|----------------------|
| Total Annual Applicable Sales | 57,888,620 | | |
| Base Fuel Factor | * | 3.18 | |
| Base Fuel Charge | | <u>184,085,812</u> | |
| Total Net Raw Material Expenses | + (438,757,884) | | |
| Over/(Under) Billing w/o GCR | | <u>(254,672,072)</u> | (254,672,072) |
| 50% of September Applicable Sales | 671,989 | | |
| Prior Fiscal Year's August GCR Factor | * | 6.6959 | |
| GCR Charge Resulting From | | <u>4,499,571</u> | 4,499,571 |
| Over/(Under) Billing to be Eliminated | | | <u>(250,172,501)</u> |
| Applicable Sales for 11.5 Months | 57,216,631 | | ö 57,216,631 |
| October thru August GCR Factor | | >>> | <u>4.3724</u> |
| Prior Fiscal Year's August GCR Factor | 6.6959 | | 6.6959 |
| Differential Divided by Two | | | <u>1.16175</u> |
| Lower of Two Above GCR Factors | | | + 4.3724 |
| September GCR Factor | | >>> | <u>5.53415</u> |
| September Applicable Sales | 1,343,978 | | * 1,343,978 |
| September GCR Charge | | | <u>7,437,776</u> |
| October thru August Applicable Sales | 56,544,642 | | |
| October thru August GCR Charge | 247,235,793 | | + 247,235,793 |
| | | | <u>254,673,569</u> |
| Over/(Under) Billing w/o GCR | | | <u>(254,672,072)</u> |
| Final Over/(Under) Billing | | | 1,496 |

CALCULATION OF RECOVERED CHARGES

Budget 2001-02

(Rate effective 9/1/01)

| | <u>MCFs</u> | <u>\$</u> | <u>MCFs</u> | <u>\$</u> | <u>Total 2001-02</u> | |
|--------------------------|-------------|------------------|-------------|--------------------|----------------------|--------------------|
| | | | | | <u>MCFs</u> | <u>\$</u> |
| Applicable Sales (MCFs) | | | | | 57,888,620 | |
| 50% of September | 671,989 | | | | | |
| Remainder (11.5 Months) | | | 57,216,631 | | | |
| Base Fuel Factor \$/MCF | 3.18 | | 3.18 | | | |
| Base Fuel Charge | | 2,136,925 | | 181,948,887 | | 184,085,812 |
| GCR Fuel Factor \$/Mcf | 6.6959 | | 4.3724 | | | |
| GCR Fuel Charge | | 4,499,571 | | 250,173,997 | | 254,673,569 |
| Total Projected Recovery | | <u>6,636,496</u> | | <u>432,122,884</u> | | <u>438,759,380</u> |

Development of GCR Factor

Fiscal Year 2000-2001 Budget Year W/\$106,000,000 ADJUSTMENT

| | | |
|---|----------------------|----------------------|
| Total Annual Applicable Sales | 57,888,620 | |
| Base Fuel Factor | * | 3.18 |
| Base Fuel Charge | <u>184,085,812</u> | |
| Total Net Raw Material Expenses | + (402,757,884) | |
| Over/(Under) Billing w/o GCR | <u>(218,672,072)</u> | (218,672,072) |
| September 1 Thru September 15 Appl Sales | . 671,989 | |
| Prior Fiscal Year's August GCR Factor | <u>6.6959</u> | |
| | 4,499,571 | <u>4,499,571</u> |
| | | (214,172,501) |
| Applicable Sales for 9-16-01 thru 12-15-01 | 10,125,770 | ö |
| 9-16-01 thru 12-15-01 GCR Factor | 4.3724 | <u>44,273,917</u> |
| | | (169,898,585) |
| Applicable Sales for 12-16-01 thru 08-31-02 | 47,090,861 | ö |
| 12-16-01 thru 8-31-02 GCR Factor | >>> | <u>47,090,861</u> |
| | | 3.6079 |
| Applicable Sales for 12-16-01 thru 08-31-02 | 47,090,861 | |
| 12-16-01 thru 8-31-02 GCR Charge | 169,899,117 | + <u>169,899,117</u> |
| | | 218,672,605 |
| Over/(Under) Billing w/o GCR | | <u>(218,672,072)</u> |

Final Over/(Under) Billing

533

CALCULATION OF RECOVERED CHARGES

Budget 2001-02

(Rate effective 12/1/01)

| | <u>MCFs</u> | <u>\$</u> | <u>MCFs</u> | <u>\$</u> | <u>MCFs</u> | <u>\$</u> | <u>Total 2001- 02</u> | |
|---|-------------|------------------|-------------|-------------------|-------------|--------------------|-----------------------|-----------|
| | | | | | | | <u>MCFs</u> | <u>\$</u> |
| Applicable Sales (MCFs) | | | | | | | 57,888,620 | |
| 50% of September 9/16 Thru December 15 12/16 Thru August 31 | 671,989 | | 10,125,770 | | 47,090,861 | | | |
| Base Fuel Factor \$/MCF | 3.18 | | 3.18 | | 3.18 | | | |
| Base Fuel Charge | | 2,136,925 | | 32,199,949 | | 149,748,938 | 184,085,812 | |
| GCR Fuel Factor \$/Mcf | 6.6959 | | 4.3724 | | 3.6079 | | | |
| GCR Fuel Charge | | 4,499,571 | | 44,273,917 | | 169,899,117 | 218,672,605 | |
| Total Projected Recovery | | <u>6,636,496</u> | | <u>76,473,865</u> | | <u>319,648,055</u> | <u>402,758,417</u> | |

APPENDIX C

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|------------------------------------|---|------------------------------|
| PENNSYLVANIA PUBLIC UTILITY | : | |
| COMMISSION, ET AL. | : | |
| | : | Docket No. R-00016378 |
| v. | : | |
| | : | |
| PHILADELPHIA GAS WORKS | : | |

**PHILADELPHIA GAS WORKS' STATEMENT IN SUPPORT OF
THE UNOPPOSED JOINT PETITION FOR COMPLETE SETTLEMENT
OF ITS 2001-2002 GCR PROCEEDING**

I. INTRODUCTION

Philadelphia Gas Works ("PGW" or "the Company") submits this Statement in Support of the unopposed Joint Petition for Complete Settlement of PGW's 2001-2002 Gas Cost Rate ("GCR") Proceeding ("Joint Petition") submitted in the above-captioned proceeding on August 16, 2001. For the reasons stated herein and in the Joint Petition, PGW believes that the settlement embodied in the Joint Petition is fair and reasonable and in the public interest. Therefore, PGW requests that Administrative Law Judge Marlane R. Chestnut and the Pennsylvania Public Utility Commission ("Commission") approve the Joint Petition and make the findings required by Sections 1317 and 1318 of the Public Utility Code, 66 Pa. C.S.A. §§ 1317 and 1318.

II. APPROVAL OF THE JOINT PETITION IS IN THE PUBLIC INTEREST

The Joint Petition is in the public interest because it fairly and reasonably resolves a number of significant issues affecting PGW and its customers. Most importantly, the proposed Settlement includes: substantial GCR reductions effective September 1, 2001 and December 1, 2001; removal of bad debt expense and compression

factor authorized by the Commission in prior proceedings; and the reasonableness of the Company's historical and projected gas costs. Significantly, PGW has voluntarily agreed to reduce its GCR on September 1, even though under the litigation schedule, the actual reduction could have been delayed for at least three months. PGW took this action in order to provide rate relief to PGW ratepayers as quickly as possible. The effect of the proposed rates on the typical customer bill is set forth in the schedule attached to this Statement as Exhibit "A." Other substantive areas covered by the proposed Settlement include, among others: (1) PGW's December 1, 2001 quarterly filing update; (2) the methodology to be used for quarterly filings for the 2001-2002 GCR Period; (3) the filing dates for PGW's quarterly filings for the 2001-2002 GCR Period and PGW's Annual Filings for PGW's 2002-2003 GCR and hence forward; (4) PGW's off-system sales and capacity release credits; (5) PGW's hedging policies; (6) PGW's unaccounted-for gas; (7) PGW's capacity entitlement; (8) PGW's LNG Transportation Costs; (9) PGW's CRP Program; and (10) Sections 11.2 and 11.3 of PGW's Tariff.

The proposed Settlement is even more significant because, as the parties have acknowledged, PGW is operating under distinctly different circumstances than other LDCs. Prior to July 1, 2000, PGW operated under the jurisdiction of the Philadelphia Gas Commission ("PGC"). The PGC fixed and regulated gas rates consistent with the standards set by the ordinances of the City, including the Management Agreement Ordinance and the City's Bond Ordinances, and other applicable law. On July 1, 2000, the PUC assumed jurisdiction over PGW pursuant to the Gas Choice Act, which makes most provisions of Title 66, the Public Utility Code, applicable to PGW, as a "city natural gas distribution operation," subject to the provisions of Section 2212, 66 Pa. C.S. § 2212(b). Section 2212(d) of the Gas Choice Act plainly provides that until such time as

a new tariff is filed by PGW and approved by the PUC in connection with a restructuring, PGW continues and “shall continue to provide natural gas supply and natural gas distribution services to its customers under the prior tariff and the policies or programs existing . . .” on July 1, 2000. 66 Pa. C.S. § 2212(d). Based on its “prior” tariff and the Gas Choice Act, PGW is authorized to request modifications of that tariff from the PUC.

The Settlement provides benefits to both the Company and its customers as follows:

- (a) **Historical Gas Costs.** The reasonableness of the Company's historical gas costs for the twelve-month period ending March 31, 2001 is affirmed by this agreement. See Joint Petition § V.1. Specifically, the Joint Petition concludes that PGW has satisfied the requirements of Section 1318 of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate, and reliable natural gas distribution service to its customers and that PGW has met the requirements of the Public Utility Code relating to affiliate purchases.
- (b) **Projected Gas Costs and Reductions.** The proposed Settlement also provides a reasonable basis for setting the Gas Cost Rate to become effective September 1, 2001 and December 1, 2001. See Joint Petition §§ III.1, III.2, and V.2.

Under the proposed Settlement, PGW will file an updated GCR factor to become effective September 1, 2001 that reflects a decrease in the Net GCR Expense as of June 1, 2001 of \$70 million. The effective GCR Rate as of September 1, 2001 will be \$4.3724. By agreeing to reduce its GCR on or about September 1, 2001, PGW will ensure that its ratepayers will see lower GCR rates approximately three (3) months earlier than they would have if the case had been fully litigated.

For purposes of settling this GCR proceeding, the parties agree to a GCR factor to become effective December 1, 2001 that reflects a total decrease in the Net GCR Expense as of June 1, 2001 of \$106 million. The new GCR factor as of December 1, 2001 is projected to be \$3.6079. This GCR factor, however, will be updated and replaced by the GCR factor set forth in the update that PGW will make in its quarterly filing on December 1, 2001 to reflect the most current gas cost projections.

Notwithstanding, to the extent that the forecast assumptions underlying the above do not hold, PGW reserves the right to make quarterly filings pursuant to the Commission's regulations for the purpose of recovering its

purchased gas costs. As a result, the proposed Settlement allows the Company to recover a reasonable estimate of its projected period purchased gas costs in a manner that protects the interests of the Company and its customers. Under Section V.2 of the Joint Petition, the Commission will continue to have the authority to review the actual cost incurred by the Company in a subsequent audit or 1307(f) proceeding.

- (c). **Removal of \$7.0 Million of Interim Rate Settlement Bad Debt Expense and Compression Factor** The proposed Settlement is also in the Company's and public interest because the September 1, 2001 update described in Paragraph (b) above has the effect of removing the \$7.0 million of bad debt expense authorized as part of PGW's settlement with the Commission in Pa. PUC v. Philadelphia Gas Works, Docket No. R-00005654, and the compression factor authorized by the Commission in Pa. PUC v. Philadelphia Gas Works, Docket No. R-00005619. Again, these reductions will occur on September 1, 2001 three months earlier than if the case had been litigation to a PUC decision.
- (d). **Establishing Methodologies and Filing Dates Relating to PGW's Quarterly for the 2001-2002 GCR Period and Annual Filings for PGW's 2002-2003 and Hence Forward.** The proposed Settlement is in the Company's interest and in the public interest because it establishes: (1) calculation methodologies for quarterly filings in its 2001-2002 GCR; (2) the filing dates for PGW's quarterly updates in its 2001-2002 GCR; and (3) the filing dates for PGW's annual filings for the 2002-203 GCR and hence forward.
- (e). **PGW's Hedging Policies.** Under the proposed Settlement, PGW will continue to evaluate and assess hedging policies and procedures in which it currently engages in an effort to continue to keep gas costs as low as possible. As the parties have acknowledged, PGW's hedging policies have benefited the Company's customers with more stability in their gas costs in the future and therefore less exposure to the volatility of natural gas prices.
- (f). **Capacity Entitlements.** The proposed Settlement is in the Company's interest and in the public interest because, in accordance with 66 Pa. C.S.A. § 1307(f), it will allow the Company to continue to maintain its system reliability with respect to gas deliveries, while at the same time obtaining capacity release and off-system credits to lower its overall GCR factor, and lowering its fixed capacity costs through gas portfolio enhancements.
- (g). **CRP Issues.** The proposed Settlement is the Company's interest and in the public interest because PGW has agreed to work with the parties to develop appropriate outreach and communications programs for eligible

low-income customer with regard to the LIHEAP program and especially cash grants.

Finally, the proposed Settlement not only achieves these positive results but also does so without requiring hearings, briefing and time consuming and expensive litigation.

For all the foregoing reasons, PGW supports the Joint Petition and urges the Administrative Law Judge and the Commission to approve it in its entirety.

Respectfully submitted,

BY: Wendell F. Holland
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MARGARET FLORES, ESQUIRE
Philadelphia Gas Works
800 W. Montgomery Avenue
Philadelphia, PA 19122

Attorneys for Philadelphia Gas Works

Dated: August 16, 2001

Effect on Typical Heating Customer Bill
Current Rates versus Updated GCR versus Pending Base Rate Case

| <i>Residential</i> | (1) | | (2) | | Change in Rates Effective 9/1/01 | | | Change in Rates Effective 12/1/01 | | | Change in Rates | | |
|--|--------|--------|--------------------|----------------|----------------------------------|-----------------------|----------------|-------------------------------------|-----------------------|----------------|------------------------------------|-----------------------|----------------|
| | | | | | Versus Current | | | Versus Current | | | Proposed Base Rate Case v. Current | | |
| | | | | | (\$70 Million Reduction) | | | (Additional \$36 Million Reduction) | | | (w/\$106 Million GCR Reduction) | | |
| Unit Costs | Annual | Unit | Current Rates | Change In Rate | GCR Update | Change In Annual Bill | Change In Rate | GCR Update | Change In Annual Bill | Change In Rate | Proposed Base Case Rates | Change In Annual Bill | Change In Rate |
| Base Fuel | 100.0 | Mcf | \$ 3.1800 | Na | \$ 3.1800 | \$ - | \$ - | \$ 3.1800 | \$ - | \$ - | \$ 3.1800 | \$ - | \$ - |
| Base Non-Fuel | 100.0 | Mcf | \$ 3.4330 | Na | \$ 3.4330 | \$ - | \$ - | \$ 3.4330 | \$ - | \$ - | \$ 3.7251 | \$ 0.29 | \$ 0.29 |
| GCR Factor | 100.0 | Mcf | \$ 6.6959 | Na | \$ 4.3724 | \$ (2.32) | \$ (2.32) | \$ 3.6079 | \$ (3.09) | \$ (3.09) | \$ 3.6079 | \$ (3.09) | \$ (3.09) |
| Customer Charge | 12 | Months | \$ 11.66 | Na | \$ 11.66 | \$ - | \$ - | \$ 11.66 | \$ - | \$ - | \$ 15.00 | \$ 3.34 | \$ 3.34 |
| Annual Bill/Effect on Annual Bill | | | \$ 1,470.81 | Na | \$ 1,238.46 | \$ (232.35) | -15.8% | \$ 1,162.01 | \$ (308.80) | -21.0% | \$ 1,231.30 | \$ (239.51) | -16.3% |

| <i>Commercial</i> | (1) | | (2) | | Change in Rates Effective 9/1/01 | | | Change in Rates Effective 12/1/01 | | | Change in Rates | | |
|--|--------|--------|--------------------|----------------|----------------------------------|-----------------------|----------------|-------------------------------------|-----------------------|----------------|------------------------------------|-----------------------|----------------|
| | | | | | Versus Current | | | Versus Current | | | Proposed Base Rate Case v. Current | | |
| | | | | | (\$70 Million Reduction) | | | (Additional \$36 Million Reduction) | | | (w/\$106 Million GCR Reduction) | | |
| Unit Costs | Annual | Unit | Current Rates | Change In Rate | GCR Update | Change In Annual Bill | Change In Rate | GCR Update | Change In Annual Bill | Change In Rate | Proposed Base Case Rates | Change In Annual Bill | Change In Rate |
| Base Fuel | 382.0 | Mcf | \$ 3.1800 | Na | \$ 3.1800 | \$ - | \$ - | \$ 3.1800 | \$ - | \$ - | \$ 3.1800 | \$ - | \$ - |
| Base Non-Fuel | 382.0 | Mcf | \$ 3.9400 | Na | \$ 3.9400 | \$ - | \$ - | \$ 3.9400 | \$ - | \$ - | \$ 4.5064 | \$ 0.57 | \$ 0.57 |
| GCR Factor | 382.0 | Mcf | \$ 6.6959 | Na | \$ 4.3724 | \$ (2.32) | \$ (2.32) | \$ 3.6079 | \$ (3.09) | \$ (3.09) | \$ 3.6079 | \$ (3.09) | \$ (3.09) |
| Customer Charge | 12 | Months | \$ 14.57 | Na | \$ 14.57 | \$ - | \$ - | \$ 14.57 | \$ - | \$ - | \$ 25.00 | \$ 10.43 | \$ 10.43 |
| Annual Bill/Effect on Annual Bill | | | \$ 5,452.51 | Na | \$ 4,564.94 | \$ (887.58) | -16.3% | \$ 4,272.90 | \$ (1,179.62) | -21.6% | \$ 4,614.42 | \$ (838.09) | -15.4% |

| <i>Industrial</i> | (1) | | (2) | | Change in Rates Effective 9/1/01 | | | Change in Rates Effective 12/1/01 | | | Change in Rates | | |
|--|---------|--------|---------------------|----------------|----------------------------------|-----------------------|----------------|-------------------------------------|-----------------------|----------------|------------------------------------|-----------------------|----------------|
| | | | | | Versus Current | | | Versus Current | | | Proposed Base Rate Case v. Current | | |
| | | | | | (\$70 Million Reduction) | | | (Additional \$36 Million Reduction) | | | (w/\$106 Million GCR Reduction) | | |
| Unit Costs | Annual | Unit | Current Rates | Change In Rate | GCR Update | Change In Annual Bill | Change In Rate | GCR Update | Change In Annual Bill | Change In Rate | Proposed Base Case Rates | Change In Annual Bill | Change In Rate |
| Base Fuel | 1,129.0 | Mcf | \$ 3.1800 | Na | \$ 3.1800 | \$ - | \$ - | \$ 3.1800 | \$ - | \$ - | \$ 3.1800 | \$ - | \$ - |
| Base Non-Fuel | 1,129.0 | Mcf | \$ 3.9400 | Na | \$ 3.9400 | \$ - | \$ - | \$ 3.9400 | \$ - | \$ - | \$ 4.6370 | \$ 0.70 | \$ 0.70 |
| GCR Factor | 1,129.0 | Mcf | \$ 6.6959 | Na | \$ 4.3724 | \$ (2.32) | \$ (2.32) | \$ 3.6079 | \$ (3.09) | \$ (3.09) | \$ 3.6079 | \$ (3.09) | \$ (3.09) |
| Customer Charge | 12 | Months | \$ 29.14 | Na | \$ 29.14 | \$ - | \$ - | \$ 29.14 | \$ - | \$ - | \$ 50.00 | \$ 20.86 | \$ 20.86 |
| Annual Bill/Effect on Annual Bill | | | \$ 15,947.83 | Na | \$ 13,324.60 | \$ (2,623.23) | -16.4% | \$ 12,461.48 | \$ (3,486.35) | -21.9% | \$ 13,498.71 | \$ (2,449.12) | -15.4% |

Notes:
 (1) Typical annual usage
 (2) As of August 2001
 (3) Assumes Full Award

APPENDIX D

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, :
 :
 v. : Docket No. R-00016378
 :
 The 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 Complete Settlement of Philadelphia Gas Works’ 2001-2002 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 May 1, 2001, The Philadelphia Gas Works (“PGW” or “Company”) filed advance information regarding its annual purchased gas cost rate (“GCR”) filing pursuant to Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f), and the Public Utility Commission’s (“Commission”) November 23, 2000 Order in Pa.P.U.C. v. Philadelphia Gas Works at Docket R-00005619 (“November 23 Order”). Thereafter, on June 1, 2001, PGW

filed Supplement No. 11 to Tariff Gas-Pa. P.U.C. No. 1, pursuant to Section 1307(f), the Commission's November 23 Order and applicable Commission regulations that establish procedures for investigating and determining the proper level of gas costs recoverable by certain jurisdictional gas utilities.

Supplement No. 11 reflected a proposed decrease in the GCR from the currently effective GCR rate of \$6.6959/Mcf to \$5.5958/Mcf, or approximately \$1.10/Mcf. On June 8, 2001, 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.

A prehearing conference was held before Administrative Law Judge Marlane R. Chestnut ("ALJ") on June 12, 2001 and a procedural schedule established for this proceeding. Pursuant to that schedule, the OCA submitted the prepared written Direct and Surrebuttal Testimony of Richard W. LeLash on July 10, 2001 and August 6, 2001 respectively.

Settlement discussions were held which resulted in the proposed Settlement set forth in the Joint Petition. For the reasons set forth below, OCA submits that the Settlement is in the public interest.

II. TERMS AND CONDITIONS OF SETTLEMENT

The Settlement provides for a reduction in the GCR rate, to become effective on September 1, 2001, from the current rate of \$6.6959/Mcf to \$4.3724/Mcf. This represents a decrease of \$2.3235/Mcf from the currently effective rate. This reduction represents an

annual savings to PGW's ratepayers of approximately \$135 million, which is a reduction of more than \$70 million from that proposed in the Company's original June 1 filing. The September 1 change in the GCR rate also reflects removal of the \$7 million for bad debt expense authorized by the Commission as part of the settlement of the Company's interim rates case in Pa.P.U.C. v. Philadelphia Gas Works, Docket No. R-00005654 and the compression factor authorized by the Commission in Pa.P.U.C. v. Philadelphia Gas Works, Docket No. R-00005619.

The Settlement also provides for the Company to implement a new GCR factor of \$3.6079 on December 1, 2001. This represents a projected additional annual savings to PGW's ratepayers of approximately \$36 million. The GCR factor to be implemented on December 1, however, will be updated to reflect the latest actual and projected information as of October 31, 2001. By updating the GCR factor to include the most current data, recent decreases in wholesale gas prices will be reflected in the rate that goes into effect on December 1, 2001.

The Parties have also agreed to a schedule for PGW to file quarterly updates to its GCR and a schedule for PGW's annual GCR filing. With these schedules in place, quarterly updates to PGW's GCR and the Company's annual GCR proceeding will conform with other NGDCs in Pennsylvania. PGW's quarterly updates will be done in accordance with Section 1307(f) of the Public Utility Code and the Commission's regulations governing updates to purchased gas costs.

As part of the settlement, the Company has also agreed to evaluate and assess

its hedging strategies in an effort to minimize volatility in gas prices faced by ratepayers. The Company will also continue to evaluate its capacity entitlements in an effort to eliminate as many fixed demand charges as possible while continuing to maintain reliability and safety of its natural gas supply service. As part of this evaluation, the Company will provide information to the parties about the actual and effective capabilities of its Liquefied Natural Gas facilities.

The Company is continuing to evaluate its lost and unaccounted for gas levels and as part of this settlement will provide reports to the parties on its findings.

Finally, the Company has agreed to work with the Parties to develop an appropriate outreach and communications program to its CRP customers with the aim of increasing the participation of PGW's low-income customers in LIHEAP programs. The Company has also agreed to describe its CRP program as a "customer assistance program" rather than a "payment arrangement program" in order to make it more understandable to eligible low-income customers.

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,



Stephen J. Keene
Senior Assistant Consumer Advocate

Counsel for:
Irwin A. Popowsky
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
(717) 783-5048

Dated: August 15, 2001

*65086

APPENDIX E

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

| | | |
|--|---|------------|
| Pennsylvania Public Utility Commission | : | |
| | : | |
| v. | : | Docket No. |
| | : | R-00016378 |
| | : | |
| Philadelphia Gas Works | : | |
| | : | |

STATEMENT OF THE OFFICE OF TRIAL STAFF
IN SUPPORT OF THE JOINT PETITION FOR
SETTLEMENT 2001-2002
GCR PROCEEDING

The Office of Trial Staff (“OTS”), one of the signatory parties to the Joint Petition for Settlement of the 2001-2002 GCR Proceeding (“Petition”), submits the following statement in support of the Settlement Petition and recommends the approval of the same.

I. INTRODUCTION

On or about May 1, the Philadelphia Gas Works (“PGW”) filed its preliminary supporting data for its 2001-2002 GCR Filing. On or about June 1, 2001, PGW filed its Definitive GCR Filing as Supplement No. 11 to Tariff Gas-

Pa. P.U.C. No. 1, setting forth PGW's proposed GCR, effective for services rendered on or after September 1, 2001 ("GCR Filing").

The GCR Filing was assigned to Administrative Law Judge Marlane R. Chestnut for resolution. On June 12, 2001, a prehearing conference was held and Administrative Law Judge Chestnut established a procedural schedule for evidentiary hearings.

Before and after the submission of direct testimony by the active parties, the parties have been engaged in numerous discussions regarding the issues in the proceeding. Based upon those discussions, the parties were able to negotiate a resolution of the issues in this proceeding. As a result of the settlement discussions, and, as will be discussed below, OTS submits that the approval of the proposed Settlement Agreement is in the public interest.

II. PURCHASED GAS COST RATES

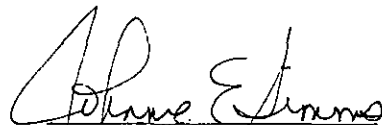
In its GCR Filing, PGW proposed to decrease its GCR effective September 1, 2001 from the current \$6.6959 to \$5.5958 per 1000 cubic feet. By virtue of the proposed Settlement, effective September 1, 2001, PGW's GCR rate will be \$4.3724, which is lower than the current \$6.6959 and proposed \$5.5958.

Moreover, on or about December 1, 2001, PGW's projected GCR rate for the 2001-2002 period will be \$3,6079. The agreed upon December 1, 2001 is lower than the Definitive Filing, and the September 1, 2001 reduction of GCR rate allows the customers to take advantage of decreasing gas costs at an earlier date

than otherwise contemplated with a fully litigated proceeding. OTS submits that the rates are in the public interest and should be adopted by the Commission.

WHEREFORE, for the foregoing reasons, the Office of Trial Staff respectfully submits that the proposed Settlement is in the public interest and in the best interest of ratepayers.

Respectfully submitted,



Johnnie E. Simms
Senior Prosecutor

Office of Trial Staff
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, Pa. 17105
(717) 787-1976

Dated: August 15, 2001

APPENDIX F

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION :
v. : DOCKET NO. R-00016378
PHILADELPHIA GAS WORKS :

OFFICE OF SMALL BUSINESS ADVOCATE
STATEMENT IN SUPPORT OF
JOINT PETITION FOR SETTLEMENT OF RATE INVESTIGATION

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, 73 Pa. C.S. 399.41 et seq. Pursuant to that statutory authority, the Office of Small Business Advocate ("OSBA") intervened in Docket No. R-00016378, the June 1, 2001 gas cost rate filing of Philadelphia Gas Works ("PGW" or the "Company"). The OSBA actively participated in the negotiations that led to the proposed settlement, and is a signatory to the Joint Petition for Complete Settlement ("Petition") filed on August 14, 2001.

The Petition sets forth a comprehensive list of issues that were resolved through the negotiation process. The following specific issues were of particular significance to the OSBA when it concluded that the Petition was in the best interests of PGW's small business customers:

1. The proposed Petition provides PGW's small business customers significant rate relief in the very near future. If this case were fully litigated, it is possible that small business ratepayers would continue to pay the current gas supply charges (the gas cost rate

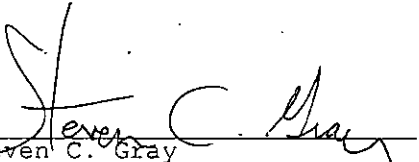
plus the base component) of \$9.8759 per Mcf through December 1, 2001. The Petition proposes to drop gas supply charges by \$2.3235 per Mcf to \$7.5524 per Mcf. This 23.5 percent reduction is effective on September 1, 2001.

2. In light of PGW's precarious financial position, the proposed Petition provides PGW the opportunity to have the Company's gas cost rate "trued up" in its compliance filing for this proceeding. This provision allows PGW to establish a gas cost rate effective December 1, 2001 that reflects the best available information regarding gas price forecasts for the coming year, and thus reduces PGW's risk of significantly under-recovering gas costs this winter. The OSBA notes that this provision also promotes economic efficiency by setting gas supply rates at the best estimate of gas supply costs.
3. The Petition establishes a gas supply forecast methodology for use by PGW in its future updates and filings. Specifically, PGW's gas price forecasting approach will now rely much more heavily on the market-based NYMEX data than it has in the past. The OSBA observes that including market based information is superior to the previous approach because: (a) the market information represents actual prices at which PGW could, if it so chose, lock in gas prices; and (b) most or all other Pennsylvania LDC's rely on such information in their gas cost filings.

4. The complete resolution of this gas cost rate proceeding, without the full hearing and briefing schedules, enables the OSBA to conserve its resources and avoid the uncertainties inherent in a fully litigated case. Additionally, the resolution of this gas cost rate proceeding on such favorable terms is particularly beneficial to the small business customers of PGW.

For the reasons set forth in the Petition itself, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed Petition and respectfully requests that the ALJ and the Commission approve the Petition in its entirety.

Respectfully submitted,



Steven C. Gray
Assistant Small Business Advocate

Date: August 15, 2001

APPENDIX G

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-00016378
 :
 Philadelphia Gas Works :

STATEMENT OF CEPA et al.
IN SUPPORT OF JOINT PETITION FOR SETTLEMENT

The Consumers Education and Protective Association (CEPA), the Association of Community Organizations for Reform Now (ACORN), Action Alliance of Senior Citizens of Greater Philadelphia and the Tenants' Action Group (TAG) (collectively "CEPA et al."), signatory parties to the Joint Petition for Complete Settlement of Philadelphia Gas Works' 2001-2002 GCR Proceeding ("Joint Petition"), submit the following statement in support of the Settlement pursuant to Section VI(4) thereof:

From the point of view of low income customers of the Philadelphia Gas Works, the most important effect of the Settlement is that if promptly approved, it will reduce overall residential gas rates as of September 1, 2001 by \$2.3235 per Mcf. On an annual basis, this reduction would translate into an overall reduction of 15.8% for the average residential heating customer. In comparison, the September 1, 2001 PECO Energy gas cost adjustment for customers in Philadelphia's neighboring suburbs produced only a 4% overall decrease.¹ This difference dramatizes the magnitude of the burden caused by both the \$7 million extraordinary bad debt allowance contained in PGW's current Gas Cost

¹ See "Typical gas customer's Peco bill will fall 4% next month," Philadelphia Inquirer, August 14, 2001.

Rate and the rate compression arising from PGW transitional circumstances. It further underscores the importance of a Settlement which elevates prompt gas cost relief above competing considerations.

The Settlement also contains provisions which assure that if natural prices do not spike in the next few months, PGW customers will be well positioned from December 1, 2001 going forward to benefit from the recent moderation in gas prices at the approach of the high usage winter heating season. The Settlement requires PGW to update its projected GCR factor effective December 1, 2001, and clarifies the procedures and standards according to which that update will take place. Settlement, §§III(3), III(5)-(7).

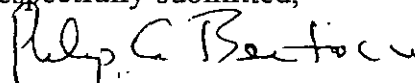
The fact unfortunately remains that gas prices are still very high. Over the winter of 2001, PGW's residential rates increased by over 50%. The decrease projected in this settlement, while welcome, should only emphasize that much more must be done to assure that gas service remains affordable for the large number of Philadelphian households that live close to or in poverty.

In this vein, the Settlement also contains provisions which will increase PGW's responsiveness to the intensified needs of low income customers. CEPA et al. have long contended that all PGW customers benefit when low income customers are enrolled in a program which ensures that they receive affordable bills. Experience shows that low income customers who receive bills they can afford pay more overall than they would under a system which blindly insists on full payment under standard one-size-fits-all residential rates. By agreeing to publicize its low income program as a "customer assistance program" rather than a "payment arrangement" program, PGW has taken a step which is in the public interest. Settlement, §III(13).

In the Settlement, PGW has also committed to work with interested parties to intensify its efforts to make sure that low income customers avail themselves of the benefits offered by the LIHEAP "cash" and LIHEAP "crisis" programs. Almost a quarter of the low income customers in PGW's customer assistance program did not assign their LIHEAP cash grant to PGW last year, with the result that they may be subject to a request to pay a substantial "LIHEAP Make-up Payment." CEPA et al. believe that "LIHEAP Make-up Payments" often undermine the whole purpose of PGW's customer assistance program, by making customer bills unaffordable. The Company's commitment to take some steps to address this problem is a further benefit of the Settlement. Settlement, §III(13).

For the foregoing reasons, as well as the reasons advanced by the OCA, CEPA et al. affirm that the terms and conditions of the Joint Petition for Settlement are in the public interest and the interest of the Philadelphia Gas Works' customers and should be approved.

Respectfully submitted,



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August 16, 2001

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing document in this matter docketed at R-00016378 upon the following parties by First Class U.S. Mail, postage prepaid, as follows:

Dated: August 16, 2001

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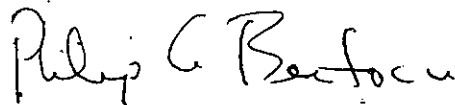
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I herby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

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