

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission : Docket No. R-2013-2355886
: :
v. : :
: :
Peoples TWP, LLC : :

STATEMENT IN SUPPORT
OF SETTLEMENT ON BEHALF OF THE
OFFICE OF CONSUMER ADVOCATE

The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Petition for Settlement (Settlement), finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

I. INTRODUCTION

On April 30, 2013, Peoples TWP, LLC (Peoples TWP or the Company) filed Original Tariff Gas - Pa. P.U.C. No. 8 (Tariff No. 8) at Docket No. R-2013-2355886. Peoples TWP provides natural gas service to approximately 60,000 residential, commercial, and industrial customers in Allegheny, Armstrong, Beaver, Butler, Clarion, Clearfield, Indiana, Jefferson, and Westmoreland counties in western Pennsylvania. The Company proposed to increase rates to produce additional annual operating revenues of approximately \$18.66 million, which is an overall increase of 23% in revenues.

APPENDIX E

Pursuant to Act 11 of 2012 (Act 11), the Company utilized a fully projected future test year in its filing. The Company's fully projected future test year ends on January 31, 2015, while rates under the Company's filing were to become effective on January 29, 2014.

On May 16, 2013, the Bureau of Investigation & Enforcement (I&E) filed a Notice of Appearance. On May 20, 2013, the Office of Consumer Advocate (OCA) filed a Formal Complaint, Public Statement, and Notice of Appearance. On May 21, 2013, the Office of Small Business Advocate (OSBA) filed a Formal Complaint, Public Statement, and Notice of Appearance. Between May 22, 2013 and July 15, 2013, 11 individuals filed Formal Complaints.

The proceeding was assigned to Administrative Law Judge Katrina L. Dunderdale. By Order entered June 13, 2013, the Commission suspended the implementation of Tariff No. 8 until January 29, 2014, and instituted an investigation into the lawfulness, justness, and reasonableness of the rates, rules, and regulations proposed in Tariff No. 8. A prehearing conference was held on June 21, 2013.

On July 31, 2013, the OCA submitted the direct testimony of Richard J. Koda, OCA Statement No. 1; Aaron L. Rothschild, OCA Statement No. 2; Jerome D. Mierzwa, OCA Statement No. 3; and Roger D. Colton, OCA Statement No. 4. On August 29, 2013, the OCA submitted the rebuttal testimony of Jerome D. Mierzwa, OCA Statement No. 3-R. On September 12, 2013, the OCA submitted the surrebuttal testimony of Richard J. Koda, OCA Statement No. 1-SR; Aaron L. Rothschild, OCA Statement No. 2-SR; Jerome D. Mierzwa, OCA Statement No. 3-SR; and Roger D. Colton, OCA Statement No. 4-SR. The Joint Petitioners agreed to stipulate to the admission of the OCA's testimony into the record, and the testimony was admitted at the evidentiary hearing on September 18, 2013.

II. SETTLEMENT TERMS AND CONDITIONS

Pursuant to the Commission’s policy of encouraging settlements that are in the public interest, the OCA, I&E, OSBA, and Peoples TWP (Joint Petitioners) held numerous settlement discussions. These discussions resulted in this proposed, comprehensive Settlement.

The terms and conditions of the Settlement are in the interest of Peoples TWP’s customers and in the public interest. The terms and conditions satisfactorily address issues raised in the OCA’s analyses of Peoples TWP’s filing. The OCA submits that the Settlement, taken as a whole, is a reasonable compromise in consideration of likely litigation outcomes before the Commission. Therefore, the OCA submits that the Settlement is in the interest of the Company’s customers and in the public interest. The OCA supports Commission approval of the Settlement without modification.

While the Settlement does not reach all the recommendations proposed by the OCA, the OCA recognizes that settlement is a product of compromise. The Commission encourages settlement; to do so it must recognize the balance of compromises struck by settling parties. The OCA does not address all issues addressed by the Settlement in this Statement in Support; the OCA does not oppose terms and conditions not expressly addressed herein. The OCA urges the Commission to weigh the Settlement as a whole. The OCA also looks to each party to discuss how the Settlement’s terms and conditions address their respective issues and how those parts of the Settlement support the public interest standard required for Commission approval.

A. Revenue Requirement

1. Revenue Requirement (Settlement ¶ 19)

The proposed Settlement provides for an overall distribution base rate increase of \$13.8 million, about \$4.86 million less than the rate increase amount originally requested by Peoples

TWP of \$18.66 million. Settlement ¶ 19. This rate increase reflects an increase in overall revenues of approximately 17% as compared to the Company's original request of a 23% increase in overall revenues. The OCA's recommended revenue increase in this proceeding was \$13.2 million. OCA St. 1 at 6.

Based on the OCA's analysis of the Company's filings, testimony by all parties, and discovery responses received, the rate increase under the proposed Settlement represents a result that would be within the range of likely outcomes in the event of full litigation of the case. The increase is appropriate and, when accompanied by other important conditions contained in the Settlement, yields a result that is just and reasonable.

2. Acquisition Credit (Settlement ¶ 20)

The Settlement also provides for the Company to implement the Acquisition Credit contained in the Acquisition Settlement at Docket No. A-2010-2210326, by providing base rate credits of \$2 million per year to customers over the next five years, until \$10 million in credits have been provided in accordance with the terms of the Acquisition Settlement. Settlement ¶ 20. The Acquisition Credit will provide the residential class with approximately \$1.7 million per year in credits. The residential customers will benefit from this credit through reduced bills over the next five years, which will lessen the effect of the rate increase for residential customers. Settlement Appendix A.

B. Revenue Allocation/ Rate Design

1. Revenue Allocation (Settlement ¶ 26, Appendix A)

In its filing, Peoples TWP proposed to allocate \$16.5 million of its proposed \$18.6 million revenue increase to residential customers. OCA St. No. 3 at 28. OCA witness Jerome D. Mierzwa reviewed the Company's revenue allocation proposal and the Company's cost of

service studies. See, OCA St. 3 at 5-30. OCA witness Mierzwa testified that the Company's revenue allocation placed too large a share of the increase on residential customers. OCA St. 3 at 28. Mr. Mierzwa further testified that, when the appropriate cost of service study was used as a guide and appropriate ratemaking principles were applied, residential customers should receive a smaller increase than proposed by the Company. OCA St. 3 at 28-29.

OSBA witness Knecht proposed several modifications to the Company cost of service studies. OSBA St. 1 at 6-22. Based on his preferred cost of service study, OSBA witness Knecht assigned a greater percentage of the revenue increase to residential customers than proposed by the Company. See, OSBA St. 1 at 34; see also, OSBA Exhibit IEc-S2.

As detailed in the Settlement, "Revenue allocation and rate design reflect a compromise and do not endorse any particular cost of service study or methodology." Settlement at ¶ 25. The agreed-upon allocation of the rate increase is included in the Proof of Revenues attached to the Settlement as Appendix A. Under the Settlement, residential customers will be assigned an increase of \$12.1 million in base rates, as compared to the \$16.5 million originally filed by the Company. Settlement, Appendix A. Under the Settlement, the average total monthly bill for a Peoples TWP residential customer using 84 McF of gas per year will rise from \$79.22 to \$94.94 or by 20%. See Settlement Appendix A. This is in lieu of the 28% increase that was originally proposed by Peoples TWP.

Based on the OCA's review of the cost of service studies presented in this proceeding and the varying revenue allocation proposals presented by other parties, the OCA views the Settlement to be within the range of reasonable outcomes that would result from the full litigation of this case. The OCA submits that the revenue allocation is reasonable and should be approved.

2. Rate Design (Settlement ¶ 31)

Under the Settlement, Peoples TWP monthly residential customer charge will increase from \$12.75 to \$15.75, rather than increase to \$20.00, as originally proposed by the Company. Settlement at ¶ 31; see generally, OCA St. 3 at 31-34. The commodity charges will also be increased to recover the necessary revenue increase from the Residential class.

In his Direct Testimony, OCA witness Mierzwa testified that the Company's calculated customer cost of \$34.51 was overstated, and that the proper calculation resulted in a customer cost of \$19.00. OCA St. 3 at 33, Schedule JDM-2. OCA witness Mierzwa explained, however, that an increase to \$19.00 was not reasonable or consistent with the principle of gradualism, and recommended a customer charge of \$15.50. Mr. Mierzwa explained the reason for the lower increase, as follows:

Q. ARE YOU RECOMMENDING THAT PTWP'S RESIDENTIAL MONTHLY CUSTOMER CHARGE BE INCREASED TO \$19.00?

A. No. Inclusive of gas costs, PTWP's revenue requirement claim in this proceeding reflects an increase of 22.8 percent for the average customer. Applying that increase to the current Residential customer charge of \$12.75 would increase that charge to approximately \$15.50. To promote gradualism, I recommend that PTWP's Residential customer charge be increased to \$15.50. This charge would make significant progress toward a cost based rate.

OCA St. 3 at 34.

In addition to the Company's proposed customer charge of \$20 and the OCA's proposed charge of \$15.50, I&E proposed a customer charge of \$17.70. I&E St. 3 at 59. The OCA submits that the agreed upon customer charge of \$15.75 is reasonable given OCA witness Mierzwa's customer cost calculation. The customer charge increase to \$15.75 is substantial and reflects significant movement toward customer costs while recognizing the need for gradualism

and the avoidance of rate shock. Additionally, by not unduly increasing the customer charge and reflecting costs in the commodity charge, customers have increased incentive to conserve, a benefit that is not realized through fixed customer charges. OCA St. 3 at 33.

The OCA submits that the residential rate design established through the Settlement is reasonable and consistent with sound ratemaking principles. These rate design changes result in a customer charge that is substantially below the charge originally proposed, and the charges are within the range of the likely outcomes in the event of full litigation of the case.

C. Universal Service and Conservation

1. Energy Help Fund/ Customer Assistance Program (Settlement ¶ 34)

The proposed Settlement provides for several changes to the Energy Help Fund, including renaming this program “Customer Assistance Program” (CAP). Settlement ¶ 34. Under the proposed Settlement the arrearage forgiveness credit will be revised to equal 1/36 of the CAP customer’s pre-program arrearage, and the Company agrees to grant arrearage forgiveness as full month equivalent bill payments are received. *Id.* The change in how arrearage forgiveness credits will be applied is beneficial to both CAP customers and the Company. As OCA witness Roger D. Colton testified, this change should allow CAP customers to “[...] retire the arrearages incurred while their bills were unaffordable so that CAP Participants can concentrate on paying only their current, affordable CAP bill”, and “[...] encourage CAP customers to continue making their utility bill payment each month and to allow them to see a “reward” for doing so.” OCA St. 4 at 13.

Under the proposed Settlement, CAP customers who receive LIHEAP benefits or are on a fixed income (Social Security, Pension or Disability) will now be required to recertify income every two years, as opposed to every three years, and all other CAP customers will be required to

recertify income annually. Settlement ¶ 34. Peoples TWP's CAP is a percentage of income program, thus a change in income can have a significant impact, both up and down, in a CAP bill. Recertifying income annually, or biannually in the limited situations agreed to in the proposed Settlement, will enable the Company to issue more accurate bills in terms of affordability. Accurate bills are important to both CAP customers and non-CAP customers. For CAP customers, affordable bills enable the CAP customers to pay their bills and maintain service. Residential non-CAP customers have an interest in CAP bills being accurate because the CAP shortfall -- the amount of a CAP customer's bill that is discounted -- is paid for by residential non-CAP customers. The proposed Settlement also provides that the Company will contract with Dollar Energy Fund to perform recertifications, which are currently done by Peoples TWP. Settlement ¶ 34.

The proposed Settlement also provides that delinquent CAP customers will not be removed from CAP, but instead will remain on CAP where they will be subject to active collection and termination. CAP customers will also not be assessed late payment penalties. These provisions are aimed towards keeping CAP customers in the program and keeping their bills affordable, which benefits the Company and ratepayers as it encourages CAP customers to continue to pay their bills.

2. LIURP Budget (Settlement ¶ 35)

The Settlement requires the Company to increase annual funding for LIURP from \$240,000 to \$255,000. Settlement ¶ 35. The Rider USP will continue to be the mechanism under which funding is recovered. Id. Further, any unspent amounts in the account will carry over to be used in subsequent years. Id. Finally, up to 20% of the LIURP budget may be used to assist customers whose income is within 151%-200% of the Federal Poverty Level. Id.

The OCA submits that these provisions are in the interest of the ratepayers. OCA witness Colton testified that if the Company only maintained its current budget of \$240,000, that the Company would not be able to meet the need for the service, as the current budget only allows the Company to weatherize fewer than 30 homes a year, and approximately 1,900 low-income customers meet the usage criteria of this program. OCA St. 4 at 22. Mr. Colton recommended that the Company increase its LIURP budget so that the Company could offer this service to an increased number of low-income customers. Id. Allowing the Company to devote up to 20% of LIURP funding to be used for customers with income between 151% and 200% of Poverty Level ensures this program remains available to additional customers who are reasonably likely not to be able to afford to home weatherization measures on their own.

3. Emergency Furnace and Line Repair Program (Settlement ¶ 36)

Peoples TWP proposed Emergency Furnace and Line Repair Program is adopted, with a budget of \$50,000 recovered through Rider USP- Universal Service Program. The benefits of such a program cannot be questioned, as broken furnaces present public health and safety problems. As OCA witness Colton testified, when their natural gas furnace is broken many low-income customers turn to portable electric space heaters, which present both safety problems and affordability problems with their electric bills. OCA St. 4 at 28. Allowing a small fund to assist low-income customers to repair their natural gas furnace is a step in reducing the use of portable electric space heaters as a primary heating source.

4. Identity Theft Program (Settlement ¶ 37)

OCA witness Colton identified several concerns related to the Company's handling of customer's personally identifiable information. OCA St. 4 at 30-35. Under the proposed Settlement, the Company agrees to refresh its Identity Theft Program consistent with applicable

state and federal law, and agrees to provide a copy to interested parties within six months after the conclusion of these proceedings. Settlement ¶ 37. It is in the public interest for Peoples TWP to maintain a current Identity Theft Program, as this is one measure to minimize risk of and protect customers from identity theft.

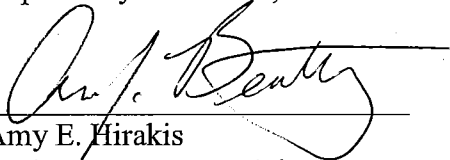
D. DSIC RELATED PROVISIONS

The Settlement provides that the DSIC for Peoples TWP shall be reset to 0.0% effective with the effective date of settlement rates in this proceeding. Settlement ¶ 37. This provision in the Settlement is in compliance with Section 1358(b) of the Public Utility Code, 66 Pa. C.S. § 1358 (b).

III. CONCLUSION

The OCA submits that the terms and conditions of the proposed settlement of this rate investigation represent a fair and reasonable resolution of the issues and claims arising in this proceeding. For the reasons stated in this Statement of Support, the OCA submits that the Settlement should be approved without modification.

Respectfully Submitted,



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