

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	DOCKET NO. R-2013-2355886
	:	
PEOPLES TWP LLC	:	

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

I. INTRODUCTION

The Office of Small Business Advocate (“OSBA”) is an agency of the Commonwealth of Pennsylvania authorized by the Small Business Advocate Act (Act 181 of 1988, 73 P.S. §§ 399.41 – 399.50) to represent the interests of small business consumers as a party in proceedings before the Pennsylvania Public Utility Commission (“Commission”).

II. PROCEDURAL HISTORY

On April 30, 2013, Peoples TWP, LLC (“Peoples TWP” or “Company”) submitted Original Tariff Gas – Pa. P.U.C. No. 8 (“Tariff No.8”), along with supporting information required by 52 Pa. Code §§ 53.51, *et seq.* The proposed Tariff, as originally filed, would have increased the distribution revenues of Peoples TWP by \$18.7 million per year based on a future test year ending December 31, 2013.

On May 16, 2013, I&E filed a Notice of Appearance. On May 20, 2013, the OCA filed a Notice of Appearance and, on May 22, 2013, filed a Formal Complaint.

On May 21, 2013, the OSBA filed a Formal Complaint and Public Statement in this proceeding. In its Complaint, the OSBA stated its desire to ensure that the Company's proposed Tariff would not result in rates and charges that were excessive, unjust, unreasonable, or discriminatory to small business customers, or otherwise contrary to Commission regulation or policy.

On June 13, 2013, the Commission entered an Order at this docket which suspended the proposed rate increase for investigation. As such, the filing was suspended by operation of law through January 29, 2014.

A prehearing conference was held on June 21, 2013, before Administrative Law Judge ("ALJ") Katrina L. Dunderdale, at which time a procedural schedule and discovery modifications were established and later confirmed in a Prehearing Order entered on June 24, 2013.

The OSBA has issued multiple rounds of discovery, submitted direct, rebuttal, and surrebuttal testimony, and also participated in the negotiations which have led to the Joint Petition for Settlement ("Settlement"). The OSBA is a signatory to the Settlement.

III. STATEMENT IN SUPPORT OF SETTLEMENT

The Settlement sets forth a comprehensive list of issues which were resolved through the negotiation process. The following issues were of significance to the OSBA when it concluded that the Settlement is in the best interests of the Company's small business customers.

**A. REVENUE REQUIREMENT
(Joint Petition ¶¶19-24)**

The OSBA took no active position regarding revenue requirement in this proceeding. However, based on the OSBA's review of the positions of the parties regarding revenue requirement, the OSBA supports the proposed increase of \$13.8 million as a reasonable compromise among the various positions.

**B. REVENUE ALLOCATION AND RATE DESIGN
(Joint Petition ¶¶25-33)**

The OSBA took an active position in this proceeding with respect to cost allocation, revenue allocation, and various rate design issues.

Substantially different philosophies regarding cost allocation were advanced by the various experts in this proceeding. The Settlement represents a compromise by the parties, and does not rely on any one particular cost allocation method. Nevertheless, the OSBA observes that, as a result of discovery propounded by OSBA in this proceeding, and in response to certain technical recommendations made by OSBA witness Mr. Knecht, the Company twice modified its cost allocation study (in response to OSBA-I-1 and in rebuttal testimony) to improve its accuracy. The OSBA hopes that these changes will be retained by the Company in future base rates proceedings.

Regarding revenue allocation issues, the primary issue in this proceeding was whether the Company's proposal to assign minimal increases to its "competitive" LGS customers was justified by the evidence that it filed. With respect to "gas-on-gas" competitive customers, the parties generally agreed to defer the issue to the concurrent generic proceeding on that topic at Docket Nos. P-2011-2277868 and I-2012-2320323. However, with respect to the issue of bypass and alternative fuel customers, both the

OCA and OSBA experts initially concluded in direct testimony that the Company's filing did not present sufficient information to justify setting rates to these customers well below allocated cost, regardless of which cost allocation methodology was adopted.

Nevertheless, during the course of the proceeding, the Company generally produced sufficient information for the OSBA to reasonably conclude that some discounts to large industrial customers were justified based on the information provided, for the purposes of this proceeding only. Thus, the Settlement generally reflects the Company's position with respect to revenue allocation to the LGS class. However, the Company has recognized that it must improve its efforts to justify setting rates below allocated costs, and it has agreed to substantially improve its analysis and record-keeping regarding any competitive discounts in Section E. Specifically, that provision requires that:

40. The Company agrees to establish more formal documentation of the need for, and level of, discounts offered to customers in competitive situations. The documentation will reflect information available to the Company regarding capital and operating costs for bypass (interstate and local alternatives) or alternative fuels and considered in determining whether to negotiate a discounted rate. Documentation will identify offers made in negotiations. Documentation will also identify risks and lost potential revenues if a customer decides to install and use alternative facilities to replace Peoples TWP service in whole or in part.

As to the other interclass revenue allocation issues, the OSBA submits that the Settlement is reasonably consistent with the OSBA's surrebuttal proposal, and well within the range of revenue allocation proposals on the table in this proceeding. For convenience, the OSBA prepared the table below showing the OSBA's estimate of the

implications of each of the various revenue allocation proposals in this case at the \$13.8 million Settlement rate increase. As shown, the Settlement values lie well within the range (particularly when the options assigning large increases to the LGS class are excluded), and that small business customers taking service under rates SGS and MGS are being treated fairly.

PEOPLES TWP LLC						
COMPARISON OF REVENUE ALLOCATION PROPOSALS AT SETTLEMENT INCREASE						
		Total	Residential Service	SGS	MGS	LGS Sub-Total
	Company Direct	13,800,000	12,143,920	1,158,182	0	497,898
	Company Rebuttal*	13,800,000	12,060,625	1,261,094	0	478,281
	OSBA Primary	13,800,000	11,273,627	177,371	(190,405)	2,539,407
	OSBA Alternative	13,800,000	12,795,012	452,471	104,871	447,646
	OSBA Surrebuttal	13,800,000	10,501,922	173,102	55,365	3,833,289
	OSBA Surrebuttal Alternative	13,800,000	12,301,758	495,097	486,918	516,227
	OCA Primary	13,800,000	8,151,353	-	261,731	5,386,917
	OCA Alternative	13,800,000	11,023,373	1,158,351	1,120,276	498,000
	I&E Scaleback	13,800,000	12,262,391	1,169,481	-	497,898
	Settlement	13,800,000	12,161,793	606,996	552,930	478,964

Regarding rate design, the OSBA also took issue with the proposed allocation of the annual \$2 million acquisition revenue credit (“ARC”). The Company proposed to allocate the \$2 million credit in proportion to the *revenue increase* approved in this proceeding, whereas the OSBA proposed to follow the specific language of the settlement in the acquisition proceeding which specified that the credit be allocated on *revenue*. (The parties agreed that competitive customers were to be ineligible for the ARC, consistent with the settlement of the acquisition proceeding.) The Settlement

adopts a compromise position between these two views, such that the ARC is allocated half based on the increase and half based on revenues. The OSBA believes this represents a reasonable compromise on this issue.

The OSBA also took issue with the Company’s calculation of the gas procurement charge (“GPC”), primarily because the Company failed to include a provision for storage gas working capital in contravention of established Commission policy. The Company proposed a GPC of 11.47 cents per Mcf. In rebuttal testimony, OCA witness Mr. Mierzwa agreed that the GPC should include a provision for working capital, and proposed a GPC of 14.41 cents per Mcf. In surrebuttal, Mr. Knecht advocated a GPC of 15.25 cents per Mcf. The Settlement adopts a GPC of 14.0 cents per Mcf, which the OSBA deems to be a reasonable scaleback of the OCA and OSBA positions to reflect the reduction in the overall revenue requirement, as well as being a reasonable compromise among the parties.

Finally, the OSBA expressed concern regarding the Company’s proposed monthly customer charges for the SGS and MGS classes. As shown in the table below, the Settlement represents a reasonable compromise between the Company’s position and the OSBA’s position.

SGS and MGS Customer Charges			
	PTWP Filed	OSBA	Settlement
SGS-I	40	35	35
SGS-II	70	55	65
MGS-I	80	70	75
MGS-II	200	150	175

**B. UNIVERSAL SERVICE AND CONSERVATION
(Joint Petition ¶¶34-37)**

The OSBA did not take an active position regarding universal service issues in this proceeding. Universal service programs benefit only the residential rate classes, and the costs of those programs are properly borne by those classes.

**D. DSIC-RELATED PROVISIONS
(Joint Petition ¶¶38-39)**

The OSBA did not take an active position regarding DSIC issues in this proceeding. In the OSBA's view, the Settlement is consistent with both the enabling legislation and Commission policy in that the DSIC percentage is set to zero with the implementation of the distribution rates arising out of this proceeding, and will remain at zero until the Company makes distribution plant investments that are not reflected in those rates. As stated in the Settlement, the DSIC will remain at zero until the Company's investment in eligible distribution plant exceeds that forecasted for the end of the fully projected future test year.

**E. OTHER PROVISIONS
(Joint Petition ¶¶40-42)**

As detailed in Section B of this statement in support, the OSBA strongly supports the Company's commitment to substantially improve its recordkeeping and analysis related to the competitive alternatives available to flex rate customers and the magnitude of the rate discount necessary to retain those customers. This provision is an integral part of the Settlement, and is necessary for the OSBA to accept the Company's proposal to assign minimal increases to LGS customers in this proceeding.

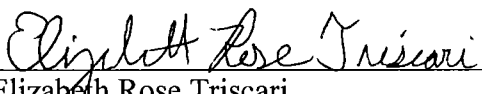
The OSBA does not oppose the other provisions listed in this section of the Settlement, but did not take an active position regarding these provisions in this proceeding.

IV. CONCLUSION

Because the OSBA's issues of principal concern were resolved, signing this Settlement enables the OSBA to conserve its resources and avoid the uncertainties inherent in fully litigating those issues.

Therefore, for the reasons set forth herein, the OSBA respectfully requests that ALJ Dunderdale and the Commission approve the Settlement without modification.

Respectfully submitted,


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