



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

IN REPLY PLEASE  
REFER TO OUR FILE

March 29, 2014

**Via E-Filing**

Secretary Rosemary Chiavetta  
Pennsylvania Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265

Re: Philadelphia Gas Works: 2014-2015 Gas Cost Rate Filing  
Docket No. R-2014-2404355

Dear Secretary Chiavetta:

Enclosed please find the Bureau of Investigation and Enforcement's (I&E)  
**Statement in Support** in the above-captioned proceeding.

Copies are being served on parties as identified in the attached certificate of  
service. If you have any questions, please contact me at (717) 783-6155.

Sincerely,

Regina L. Matz  
Prosecutor  
Bureau of Investigation and Enforcement  
PA Attorney I.D. #42498

RLM/snc  
Enclosure

cc: Certificate of Service  
ALJ Christopher P. Pell  
ALJ Darlene D. Heep

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Philadelphia Gas Works: : Docket No. R-2014-2404355  
2014-2015 Gas Cost Rate Filing :

**CERTIFICATE OF SERVICE**

I hereby certify that I am serving the foregoing **Statement in Support** dated May 29, 2014, in the manner and upon the persons listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party):

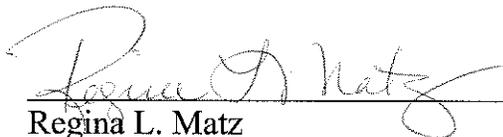
**Via Electronic Mail**

Gregory J. Stunder, Esquire  
Philadelphia Gas Works  
800 W. Montgomery Avenue  
Philadelphia, PA 19122  
[greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Aron J. Beatty, Esquire  
Brandon J. Pierce, Esquire  
Assistant Consumer Advocates  
Office of Consumer Advocate  
555 Walnut Street  
5th Floor Forum Place  
Harrisburg, PA 17101-1923  
[ABeatty@paoca.org](mailto:ABeatty@paoca.org)  
[BPierce@paoca.org](mailto:BPierce@paoca.org)

Sharon Webb, Esquire  
Assistant Small Business Advocate  
Office of Small Business Advocate  
300 North Second Street  
Suite 1102  
Harrisburg, PA 17101  
[swebb@pa.gov](mailto:swebb@pa.gov)

Charis Mincavage, Esquire  
Adeolu A. Bakare, Esquire  
McNees Wallace & Nurick LLC  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
[cmincavage@mwn.com](mailto:cmincavage@mwn.com)  
[abakare@mwn.com](mailto:abakare@mwn.com)



Regina L. Matz

Prosecutor

Bureau of Investigation and Enforcement  
PA Attorney I.D. #42498

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :

v.

Philadelphia Gas Works

:  
:  
:  
:

Docket No. R-2014-2404355

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**BUREAU OF INVESTIGATION AND ENFORCEMENT  
STATEMENT IN SUPPORT OF  
JOINT PETITION FOR SETTLEMENT**

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**TO ADMINISTRATIVE LAW JUDGES PELL AND HEEP:**

The Bureau of Investigation and Enforcement (I&E) of the Pennsylvania Public Utility Commission (Commission), through its Prosecutor, Regina L. Matz, hereby respectfully submits that the terms and conditions of the foregoing Joint Petition for Settlement (Joint Petition or Settlement) are in the public interest and represent a fair, just and reasonable balance of the interests of Philadelphia Gas Works (PGW or Company) and its customers. This request is based upon I&E's conclusion that the Settlement is in the public interest as supported by the following factors:

**I. BACKGROUND**

1. I&E is charged with the representation of the public interest in proceedings before the Commission relating to rates, rate-related services, and application

proceedings. In negotiated settlements, it is incumbent upon I&E to ensure that the public interest is served and to identify to what extent amicable resolution of any proceeding will benefit the public interest. Based upon I&E's analysis of the Company's Section 1307(f) filing, acceptance of this proposed Settlement is in the public interest and I&E requests that Administrative Law Judges Christopher Pell and Darleen Heep recommend and that the Commission approve the Settlement in its entirety.

2. On January 31, 2014, PGW submitted prefiled information regarding its 2014-2015 Purchased Gas Cost Rate filing pursuant to Section 1307(f) of the Public Utility Code. By filing dated February 28, 2014, PGW submitted its definitive filing to become effective for services rendered on or after September 1, 2014. The Company also filed its prepared Direct Testimony.

3. I&E filed its Notice of Appearance in this proceeding on February 11, 2014. The Office of Consumer Advocate (OCA) filed its Complaint on February 12, 2014; the Office of Small Business Advocate (OSBA) filed its Complaint on February 7, 2014. On February 12, 2014, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG) filed a Petition to Intervene.

4. ALJs Pell and Heep conducted a telephonic Prehearing Conference on March 17, 2014, at which time the parties agreed to a procedural schedule.

5. I&E and other parties undertook discovery with respect to PGW's filing. In particular, I&E reviewed issues including the Company's retainage, unaccounted for gas (UFG), capacity release, capacity requirements, peak day forecasts, the Company's computation of its C-factor and E-factor and migration riders, supplier refunds, interest

on over/undercollections, migration sales volumes, sales volumes projections, and compliance with prior Commission orders.

6. In accordance with the procedural schedule established at the prehearing conference, on April 14, 2014, I&E filed its direct case in this proceeding, which consisted of I&E Statement No. 1, the prepared written direct testimony of I&E witness Ethan H. Cline, and I&E Exhibit No. 1, the prepared exhibit to accompany Mr. Cline's direct testimony. By letter dated May 5, 2014, I&E notified the parties that it would not be filing surrebuttal testimony. In its testimony, I&E addressed the issues of PGW's unaccounted for gas, proposed retainage rate, and daily balancing service.

## **II. SETTLEMENT**

7. Pursuant to the Commission's policy at 52 Pa. Code § 5.231, which favors settlements over expensive and time consuming litigation, PGW, I&E, OCA, OSBA, and PICGUG, engaged in settlement discussions in order to address and resolve the issues identified by the parties in this proceeding. Joint Petitioners, comprising PGW, I&E, OCA, and OSBA, succeeded in achieving the full and complete settlement of all issues, of which this Statement in Support is a part. PICGUG does not oppose the settlement. I&E submits that the proposed Settlement is in the public interest and should be approved by the ALJs and the Commission for the following reasons:

### **A. PURCHASED GAS COST RATES**

8. I&E represents that the purchased gas costs that PGW incurred during the historic period adhered to a least cost fuel procurement policy. Adhering to a least cost procurement policy benefits ratepayers because the cost of gas directly impacts customer

gas bills. The rate adopted under this settlement complies with Section 1307(f) requirements, which means that customers pay the least amount possible for their commodity usage all while the Company remains under the obligation to provide safe, adequate, and reliable service. After review of the filing, the conduct of discovery, and further settlement discussions, I&E maintains that the Company's gas purchasing practices have satisfied its least cost procurement obligation.

9. I&E analyzed the Company's E-factor and found that it was calculated in accordance with established Commission practices. This review is critical because the proper calculation of the E-factor ensures that rates are adjusted appropriately. I&E is satisfied that the Company's E-factor calculation is appropriate and accurate. PGW's proposed E-factor, therefore, as confirmed in the settlement, satisfies the public interest.

10. Additionally, I&E reviewed the Company's projected gas costs and determined that based upon information available at this time, those costs are consistent with a least cost fuel procurement policy. The filing projects a decrease to residential PGC rates from the currently effective March 1, 2014 rate of \$6.0016 per Mcf<sup>1</sup> to a rate of \$5.9703 per Mcf effective September 1, 2014.<sup>2</sup> While those costs are subject to review in a future PGC proceeding, I&E maintains that ratepayers are protected in that PGW gains no unwarranted financial advantages through its projected gas purchases and projected gas purchasing policies.

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<sup>1</sup> This rate is as it appeared in PGW's March 1, 2014 quarterly filing, Supplement No. 72, issued February 28, 2014, filed concurrently with Supplement No. 71 in PGW's 2014-15 PGC filing.

<sup>2</sup> See Supplement No. 71, Seventieth Revised Page No. 2 and PGW St. 1 at 3.

11. Based upon its review of the Company's data submitted in advance of its annual purchased gas cost filing, the actual annual filing, the Company's responses to all parties' discovery, and the testimony prepared and filed in this proceeding, I&E concludes that PGW's 2014-15 PGC rates adopted in this Settlement benefit the public interest and should be approved.

**B. PRICE ANALYSIS AND BUYING ADVISORY SERVICE**

12. The Settlement allows PGW to continue to recover the Planalytics fee for price analysis and buying advisory services not to exceed \$125,000 for the 2014-2015 GCR period, with continued recovery beyond that period to be addressed in next year's 1307(f) proceeding. I&E agrees that continued recovery of this price analysis and buying advisory service is in the public interest. Section 1307(h) provides that risk management tools are included in the definition of gas costs. Therefore this cost, subject to the maximum \$125,000, is appropriately recovered from PGC customers as it assists the Company in mitigating the financial risk in its gas supply portfolio.

**C. OFF-SYSTEM SALES MARGIN, CAPACITY RELEASE CREDIT, AND ASSET MANAGEMENT MARGIN/CREDIT RETENTION**

13. Under the terms of the Settlement, PGW will retain 25% of all off-system sales margins, capacity release credits (excluding capacity released to firm transportation suppliers), and asset management margins/credits/fees with the remaining 75% applied as an offset to purchased gas costs. The retention period is September 1, 2014 to August 31, 2015, unless the Commission approves continuation. The Company also agrees to include an off-system sales margin, capacity release credit, and asset management

margins/credits/fees retention proposal for the PGC period beginning September 1, 2015 in its March 1, 2015 annual filing.

14. I&E maintains that continuing PGW's longstanding asset management sharing mechanism serves the public interest because it continues to provide the Company an incentive to maximize its efforts to increase capacity release and off-system sales activity and thereby reduce gas costs for PGC customers.

**D. DAILY AND MONTHLY IMBALANCING CHARGES**

15. The Settlement also addresses an issue regarding PGW's daily balancing service (Rate DB) brought to light through discovery. The revenue received from PGW's daily balancing service is used to offset the cost of purchasing gas, thus lowering the GCR customers pay.

16. In discovery I&E inquired of the Company's supply requirements for daily balancing service as a part of the Company's overall supply requirements and the number of Natural Gas Suppliers taking service under Rate DB. Through I&E's follow up to that discovery, PGW determined daily imbalance and monthly imbalance charges were being credited to income and revenue accounts instead of to the GCR. In its response to I&E-41 (I&E Ex. No. 1, Sch. 4), PGW made the following statement:

In preparing the response to this data request, PGW discovered that the daily imbalance surcharge revenues and the monthly supply pool imbalance in which the IT supplier purchases natural gas from PGW are not reflected in the GCR rate. The monthly supply pool imbalance in which PGW purchases natural gas from the IT supplier are reflected in the GCR rate (this purchase is included in the net cost of fuel). PGW also discovered that the accounting treatment of the daily imbalance surcharge revenues and

IT supplier purchases of natural gas from PGW is erroneous and the Company will begin the process of calculating the proper adjustment.<sup>3</sup>

17. In the Settlement PGW affirms that it will prospectively credit daily and monthly imbalance charges to the GCR, further agreeing to credit the GCR for all such imbalance charges from September 1, 2010 to August 30, 2014, including providing to parties a detailed accounting for all invoice charges, debits, credits, and other adjustments in this time period in its September 1, 2014, compliance filing and crediting gas costs in the September 1, 2014, quarterly GCR filing for the net invoice charges, debits, credits, and other adjustments.

18. This provision of the Settlement is in the public interest. It not only ensures that a proper accounting for imbalance charges will be made for the affected time period but also that all daily and monthly imbalance charges will be properly credited to the PGC and not the Company's income and revenue account, thereby reducing as appropriate the GCR.

### **III. CONCLUSION**

19. Based upon I&E's analysis of the filing, acceptance of this proposed Settlement is in the public interest because the resultant rates are just and reasonable and comply with the requirements of the Public Utility Code for purchased gas cost proceedings. Further, resolution of this case by settlement rather than litigation will avoid the substantial time and effort involved in continuing to formally pursue all issues in this

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<sup>3</sup> See I&E Statement No. 1, page 9.

proceeding at the risk of accumulating excessive expense which is ultimately passed on to ratepayers.

20. I&E further submits that the acceptance of the foregoing settlement will negate the need for any direct and cross-examination of witnesses, the preparation of Main Briefs, Reply Briefs, Exceptions and Replies to Exceptions, and the filing of possible appeals.

21. The Settlement is conditioned upon the Commission's approval of all terms and conditions contained therein and should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by the Company or I&E as provided therein.

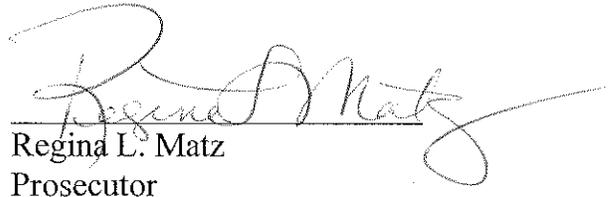
22. I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E might adopt during subsequent litigation in the event that the Settlement is rejected by the Commission or otherwise properly withdrawn by any of the Joint Petitioners.

23. If the ALJs recommend that the Commission adopt the Settlement as proposed, I&E agrees to waive the filing of Exceptions. However, I&E has not waived its rights to file Replies to Exceptions with respect to any modifications to the terms and conditions of the Settlement, or any additional matters, that may be proposed by the ALJs in their Recommended Decision. I&E also reserves the right to file Replies to Exceptions to any Exceptions that may be filed by the Company or any other party.

**WHEREFORE**, the Commission's Bureau of Investigation and Enforcement represents that it supports the Settlement as being in the public interest and respectfully

requests that Administrative Law Judges Pell and Heep recommend approval of, and the Commission subsequently approve, the foregoing Joint Petition for Settlement including all terms and conditions contained therein.

Respectfully submitted,

  
Regina L. Matz  
Prosecutor

Pennsylvania Public Utility Commission  
Bureau of Investigation and Enforcement  
Post Office Box 3265  
Harrisburg, Pennsylvania 17105-3265  
(717) 787-1976

Dated: May 29, 2014