

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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May 29, 2014

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

RE: Pennsylvania Public Utility Commission  
v.  
Philadelphia Gas Works 1307(f)  
Docket No. R-2014-2404355

Secretary Chiavetta:

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

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

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Brandon J. Pierce".

Brandon J. Pierce  
Assistant Consumer Advocate  
PA Attorney I.D. # 307665

Enclosures

cc: Honorable Christopher P. Pell  
Honorable Darlene D. Heep  
Ms. Kathy Niesborella, Legal Assistant  
([kniesborel@pa.gov](mailto:kniesborel@pa.gov))  
Certificate of Service

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2014-2404355
	:	
Philadelphia Gas Works	:	
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STATEMENT OF THE  
OFFICE OF CONSUMER ADVOCATE  
IN SUPPORT OF JOINT PETITION FOR SETTLEMENT

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The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Petition for Settlement of Philadelphia Gas Works' 2014-2015 Gas Cost Rates (GCR) Proceeding (Joint Petition), finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

**I. BACKGROUND**

On January 31, 2014, Philadelphia Gas Works (PGW or the Company) filed its pre-filing information required for its annual 2014-2015 Purchased Gas Cost (PGC) Rate filing pursuant to Sections 1307(f), 1317, 1318 and 2212 of the Public Utility Code, and Sections 53.64 and 53.65 of the Commission's Rules and Regulations. 66 Pa. C.S. §§ 1307(f), 1317, 1318, 2212; 52 Pa. Code §§ 53.64, 53.65. On February 7, 2014, the Office of Small Business Advocate (OSBA) filed a Verification, Public Statement, Notice of Appearance, and a Formal Complaint. On February 11, 2014, the Bureau of Investigation & Enforcement (I&E) filed a Notice of Appearance. On February 12, 2014, the OCA filed a Formal Complaint, Public

Statement, and Notice of Appearance. Also on February 12, 2014, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG) filed a Petition to Intervene.

On February 28, 2014, PGW filed its March 1, 2014 Section 1307(f) filing (March 1 or 1307(f) filing). In its March 1 filing, the Company proposed a PGC rate of \$5.9703 per Mcf to be effective September 1, 2014. The Company's PGC rate has changed over the last three quarters, with a September 1, 2013 rate of \$5.7484 per Mcf, a December 1, 2013 rate of \$5.4259 per Mcf, and a March 1, 2014 currently effective rate of \$6.0016 per Mcf.

On March 6, 2014, Administrative Law Judges Christopher P. Pell and Darlene D. Heep issued a Prehearing Conference Order. A Prehearing Conference was held before ALJs Pell and Heep on March 17, 2014 and a procedural schedule was established for this proceeding.

The OCA retained the services of Jerome D. Mierzwa to assist the office in its review of the Company's gas purchasing practices. The OCA served the Direct Testimony of Jerome D. Mierzwa on the ALJs and parties on April 14, 2014. After propounding extensive discovery and filing testimony, the OCA entered into settlement discussions with the Company and other parties. These settlement discussions resulted in the proposed Settlement set forth in the Joint Petition. The Settlement addresses issues relating to the Company's PGC rate filing, and for the reasons set forth below, the OCA submits that the Settlement is in the public interest.

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

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

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

1. PGW should demonstrate in its rebuttal testimony that maintaining all of its Texas Eastern Transmission (Texas Eastern) pipeline capacity is beneficial and consistent with least cost procurement, or in the alternative the Company should terminate one of the two Texas Eastern FT-1 firm transportation contracts which provide for the delivery of 18,000 Dth per day.
2. PGW should refine its analysis of the benefits of daily put gas supply contracts to include any increase in gas costs which it may incur as a result of a supplier electing to exercise the daily put option.
3. PGW's current sharing procedures for capacity release revenues should be consistent with those of other NGDCs, therefore revenues from the release of capacity to firm choice suppliers should be excluded from sharing.
4. PGW should correct the accounting treatment for the daily imbalance surcharges assessed to the suppliers of interruptible transportation (IT) customers, as well as the accounting treatment of IT supplier cash-outs.

OCA Direct Testimony at 3-4.

With regard to the first two issues, PGW provided comprehensive rebuttal testimony that addressed the issues raised by OCA witness Mierzwa. In his Rebuttal Testimony, PGW witness Raymond M. Snyder provided support for maintaining all of its Texas Eastern FT-1 firm transportation contracts. Mr. Snyder specifically addressed the need for the FT-1 firm contracts to supplement PGW's liquefied natural gas (LNG) inventory that is needed on the coldest heating season days. PGW Rebuttal Testimony at 1. Based on the additional testimony provided by Mr. Snyder, the OCA submits that the Company has addressed the issue as raised by OCA witness Mierzwa.

With regard to his second issue, OCA witness Mierzwa recommended that PGW refine its analysis of the benefits associated with its First of Month (FOM) baseload supply contracts—which provide for a discount to the FOM index price and include a daily put gas

option—to include any increase in gas costs which it may incur as a result of a supplier electing to exercise the daily put option. OCA Direct Testimony at 9.

In his Rebuttal Testimony, PGW witness Snyder presented a comparison of put gas supply purchases to daily index prices under Mr. Mierzwa's proposed methodology. See PGW Rebuttal Testimony at 8. Mr. Snyder's comparison showed that PGW benefitted from the put gas contracts in the amount of \$9,050 in total for the 2012-2013 and 2013-2014 contract terms. PGW Rebuttal Testimony at 7.

Based on the refined analysis provided by Mr. Snyder, the OCA submits that Mr. Snyder's Rebuttal Testimony provided the information necessary to determine that PGW's put gas supply contracts benefitted customers by providing savings over daily index prices. The Company has addressed this issue as raised by OCA witness Mierzwa. The OCA submits that PGW should maintain this purchasing strategy for the 2014-2015 GCR rate period.

With regard to the OCA's remaining two issues and as detailed below, the OCA submits that the Settlement reaches a reasonable resolution of the proceeding and is in the public interest.

**A. Joint Petition Section III.3: Sharing Procedures for Capacity Release Revenues**

In his Direct Testimony, OCA witness Mierzwa states that PGW's current sharing procedures for capacity release revenues are inconsistent with those of other NGDCs and should not be extended as proposed by PGW. OCA Direct Testimony at 7. The PGW capacity released to firm choice suppliers is required by the Company's supplier tariff and therefore, no marketing effort is required (which is part of the rationale for allowing companies to keep 25% of capacity release revenues for other customers). OCA Direct Testimony at 7. Mr. Mierzwa recommended

that to be consistent with the sharing procedures of other NGDCs, revenues from the release of capacity to firm choice suppliers should be excluded from sharing. OCA Direct Testimony at 7.

Under the terms of the Settlement, the Company has agreed to exclude the revenues associated with releasing capacity to firm transportation suppliers as follows:

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 Purchased Gas Cost period(s) beginning on September 1, 2015 in its March 1, 2015 annual 1307(f) filing.

Joint Petition for Settlement at § III.3.

The OCA submits that the Settlement provides for a reasonable resolution of this issue. Under this provision, ratepayers will benefit by receiving 100% credit for capacity release revenues generated by capacity released to the suppliers of firm transportation customers.

**B. Joint Petition Section III.4: Accounting Treatment for Daily Imbalance Surcharges Assessed to Suppliers of Interruptible Transportation (IT) customers and for IT supplier cash-outs**

In his Direct Testimony, OCA witness Mierzwa explained that PGW indicated that the accounting treatment for the daily imbalance surcharges assessed to the suppliers of IT customers, as well as the accounting treatment of IT supplier cash-outs, has been improper. OCA Direct Testimony at 10. Mr. Mierzwa recommended that in its rebuttal testimony, the Company should explain in detail these improper accounting procedures, the corrections to be made to these procedures, and quantify, with workpapers, the resulting adjustment to its GCR. OCA Direct Testimony at 11. Mr. Mierzwa also recommended that the Company identify the time during which the improper accounting procedures were followed. OCA Direct Testimony at 11.

In his Rebuttal Testimony, PGW witness Snyder explained that PGW has been accounting for IT pool imbalance charges by crediting these charges to income and revenue accounts instead of the GCR. PGW Rebuttal Testimony at 6. Mr. Snyder indicated that PGW will credit the GCR for both types of charges. PGW Rebuttal Testimony at 6.

Under the terms of the Settlement, PGW has agreed to credit these charges as follows:

PGW will prospectively credit daily and monthly imbalance charges to the GCR. Additionally, in settlement of this issue, the GCR will be credited for all daily and monthly imbalance charges from September 1, 2010 to August 30, 2014 as set forth in the Rebuttal Testimony of Raymond M. Snyder submitted in this proceeding on April 28, 2014. PGW will provide a detailed accounting for all invoice charges, debits, credits and other adjustments (for the aforementioned time period) in its September 1, 2014 compliance filing and the Company will credit gas costs in the September 1, 2014 quarterly GCR filing for the net invoice charges, debits, credits and other adjustments.

Joint Petition for Settlement at § III.4.

The OCA submits that the Settlement provides for a reasonable resolution of this issue. The IT pool imbalance charges will be credited to the GCR and the Company will present its final accounting of this issue in its September 1, 2014 compliance filing. This credit will reflect the proper allocation of costs and ensure that GCR costs are not included as base rate revenues for the Company.

**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,



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CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission :  
 :  
 v. : Docket No. R-2014-2404355  
 :  
 Philadelphia Gas Works 1307(f) :  
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I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate’s Statement in Support of the Joint Petition for Settlement, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 29th day of May 2014.

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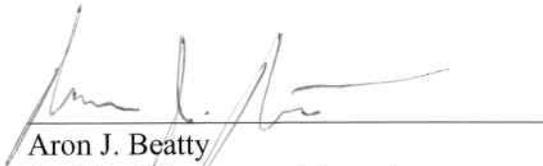
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