

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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May 28, 2015

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 Nos. R-2015-2465656
C-2015-2468121

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. Fierce", written over a horizontal line.

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

Enclosures

cc: Honorable Marta Guhl
Honorable Christopher P. Pell
Certificate of Service

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CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket Nos. R-2015-2465656
	:	C-2015-2468121
Philadelphia Gas Works 1307(f)	:	
	:	

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 28th day of May 2015.

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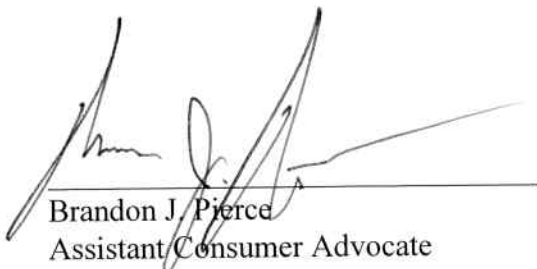
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2015-2465656
	:	
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 Settlement of Philadelphia Gas Works' 2015-2016 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 30, 2015, Philadelphia Gas Works (PGW or the Company) filed its pre-filing information required for its annual 2015-2016 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 the same date, PGW filed a Petition for Special Permission to Depart from the Requirements of 52 Pa. Code §§ 53.45(b), 53.64(c), 53.64(i)(5)(i), and 53.68(a). Further, PGW requested to provide estimated data for January 2015 and February 2015 in the March 1, 2015 quarterly 1307(f) filing instead of actual data for January 2015.

On February 11, 2015, the Bureau of Investigation & Enforcement (I&E) filed a Notice of Appearance. On February 13, 2015, the Office of Small Business Advocate (OSBA) filed a Verification, Public Statement, Notice of Appearance, and a Formal Complaint. On February 17, 2015, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG) filed a Petition to Intervene. On February 18, 2015, the Office of Consumer Advocate (OCA) filed a Formal Complaint, Public Statement, and Notice of Appearance.

On February 26, 2015, PGW filed its March 1, 2015 Section 1307(f) filing (March 1 or 1307(f) filing). In its March 1 filing, the Company proposed a PGC rate of \$4.4901 per Mcf to be effective September 1, 2015. The Company's PGC rate has changed over the last three quarters, with a September 1, 2014 rate of \$5.8670 per Mcf, a December 1, 2014 rate of \$5.9976 per Mcf, and a March 1, 2015 currently effective rate of \$4.7059 per Mcf.

On March 12, 2015, Administrative Law Judges (ALJs) Christopher P. Pell and Marta Guhl issued a Prehearing Conference Order. In that Order, the ALJs also granted, as unopposed, PGW's Petition for Special Permission to Depart from the Requirements of 52 Pa. Code §§ 53.45(b), 53.64(c), 53.64(i)(5)(i), and 53.68(a). A Prehearing Conference was held before ALJs Pell and Guhl on March 24, 2015 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, 2015. 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 a number of 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 two primary recommendations. Mr. Mierzwa summarized his recommendations as follows:

- Unless PGW can demonstrate in its rebuttal testimony that maintaining its Transcontinental Gas Pipe Line ("Transco") Eminence Storage Services ("ESS") arrangements is beneficial and consistent with least cost procurement, the Company should terminate these arrangements; and
- The monthly imbalance reconciliation procedures for interruptible transportation service for monthly deliveries in excess of usage by up to 2.5 percent should be modified. These excess deliveries are currently purchased by the Company at prices which can significantly exceed the price of other gas supplies available to the Company. PGW should modify the price for purchasing these excess deliveries to be more consistent with the price of other available supplies.

OCA Direct at 3.

The OCA submits that the Settlement adequately addresses the OCA's concerns, reaches a reasonable resolution of the proceeding, and is in the public interest.

A. Joint Petition Section III.3: Transco ESS Storages

OCA witness Mierzwa testified in his Direct Testimony that the Transco ESS storage was the Company's highest unit cost storage. OCA Direct at 5. Mr. Mierzwa illustrated the costs and benefits of the Transco storage numerically, stating, "it appears that the costs associated with the Transco ESS arrangements (\$1.83 per Dth) will significantly exceed the expected benefits (\$0.35 per Dth)." OCA Direct at 6. PGW provided rebuttal testimony that addressed the Transco ESS storage issue raised by OCA witness Mierzwa. In his Rebuttal Testimony, PGW

witness Raymond M. Snyder indicated that the Company was interested in discussing the issue further in the context of the PGC proceeding. PGW St. 2R at 1.

The Settlement provides that PGW will terminate the Transco ESS storage arrangements by providing notice on September 1, 2015 if the Settlement is approved by the Commission in August 2015. Settlement ¶ III.3. In the event that the Commission approves the Settlement after August 2015, PGW will terminate the Transco ESS storage arrangements at the earliest possible opportunity after the Settlement is approved. Settlement ¶ III.3. The Settlement also provides that PGW will retain the Transco ESS storage arrangements until March 31, 2016. Settlement ¶ III.3.

The OCA submits that this provision is in the interests of the ratepayers and the public interest because it terminates PGW's highest unit cost storage and is consistent with least cost procurement.

B. Joint Petition Section III.4: Evaluation of the Monthly Imbalance Reconciliation

OCA witness Mierzwa testified about his concern with the Company's Gas Service Tariff, which provides procedures for reconciling four monthly imbalance scenarios,¹ two when the supplier does not deliver enough gas and two when PGW purchases gas from a supplier because the supplier has delivered too much gas. Specifically, Mr. Mierzwa recommended changing the third procedure, which deals with the scenario in which PGW receives more gas than is used by up to 2.5 percent. OCA Direct at 7. In all four scenarios, the pricing is based on the "Daily Market Index Price." Mr. Mierzwa testified that the Daily Market Index Price, as defined by the Company, is reflective of market prices for gas delivered to PGW's system in the

¹ Those four scenarios are: 1) when monthly usage quantities exceed monthly receipts by up to 2.5 percent; 2) when monthly usage quantities exceed monthly receipts by more than 2.5 percent; 3) when monthly receipt quantities exceed monthly usage by up to 2.5 percent; and 4) when monthly receipt quantities exceed monthly usage by more than 2.5 percent. See PGW Gas Supply Tariff at 104.

Philadelphia area—a capacity-constrained region. OCA Direct at 8. However, PGW purchases much of its supply from the Gulf Region, and therefore, if the Company needs additional supplies during a peak period, it would pay Gulf Region prices, not Philadelphia market prices. OCA Direct at 8. Therefore, Mr. Mierzwa recommended that “for purchases by the Company which are less than 2.5 percent of deliveries, a Production Area Daily Market Index Price based on an average of daily Transco Zone 3 and Texas Eastern Zone ELA prices be utilized.” OCA Direct at 8.

In response, PGW witness Snyder’s Rebuttal Testimony explained that modifying the procedure for reconciling only one of the four monthly imbalance scenarios may be problematic. PGW St. 2R at 3. Mr. Snyder concluded by stating that PGW’s current procedures protected all GCR customers better by leaving the Daily Market Index Price definition the same for all four monthly imbalance scenarios. PGW St. 2R at 3.

The Settlement provides that PGW will provide, in its March 1, 2016 annual filing, an evaluation of the monthly imbalance reconciliation procedure addressed by Mr. Mierzwa’s Direct Testimony. Settlement ¶ III.4. The evaluation will focus on whether the imbalance reconciliation procedure at issue protects GCR customers within the context of all four monthly imbalance reconciliation procedures. Settlement ¶ III.4.

Based on the Rebuttal Testimony provided by Mr. Snyder and PGW’s commitment to provide an evaluation in its 2016 GCR filing, the OCA submits that the Company has addressed this issue as raised by OCA witness Mierzwa. Mr. Snyder’s Rebuttal Testimony and the Settlement provide the information and protections necessary to determine whether PGW’s current monthly imbalance procedures should remain in place going forward. The OCA submits

that, for these reasons, this Settlement provision is in the interests of ratepayers and in the public interest.

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,

/s/ Brandon J. Pierce

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