

**Philadelphia Gas Works**

Gregory J. Stunder



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Email: greg.stunder@pgworks.com

**VIA OVERNIGHT MAIL**

May 28, 2015

Rosemary Chiavetta  
Secretary  
PA Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor  
Harrisburg, PA 17120

Re: **Philadelphia Gas Works, Docket No. R-2015-2465656**

Dear Secretary Chiavetta:

Enclosed for filing are an original and one CD of the Joint Petition for Settlement of Philadelphia Gas Works' 2015-2016 GCR Proceeding along with Philadelphia Gas Works' Statement in Support of its 2015-2016 GCR Proceeding.

If you have any questions regarding this matter, please contact me. Thank you for your assistance with this matter.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gregory J. Stunder", is written over the typed name.

Gregory J. Stunder

cc: Parties of record  
Administrative Law Judge Christopher Pell  
Administrative Law Judge Marta Guhl

**RECEIVED**

MAY 28 2015

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, et al.	:	
	:	Docket No. R-2015-2465656
v.	:	
	:	
PHILADELPHIA GAS WORKS	:	

**JOINT PETITION FOR SETTLEMENT OF  
PHILADELPHIA GAS WORKS'  
2015-2016 GCR PROCEEDING**

**TO ADMINISTRATIVE LAW JUDGES CHRISTOPHER PELL AND MARTA GUHL:**

**I. INTRODUCTION**

Philadelphia Gas Works ("PGW" or the "Company"), the Bureau of Investigation and Enforcement ("I&E") and the Office of Consumer Advocate ("OCA") (collectively "the Settling Parties")<sup>1</sup> hereby submit this Joint Petition for Settlement of PGW's 2015-2016 GCR Proceeding ("Settlement"), as captioned above, and respectfully request the following:

- 1) That Administrative Law Judges ("ALJs") Christopher Pell and Marta Guhl recommend that the Commission approve this Settlement and all of its terms and conditions.
- 2) That the ALJs recommend and the Commission authorizes PGW to file a tariff supplement to reflect rates and terms consistent with this Settlement and applicable to the Section 1307(f) purchased gas cost rate investigation at Docket No. R-2015-2465656 to be effective for services rendered on or after September 1, 2015, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1,

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<sup>1</sup> The Office of Small Business Advocate ("OSBA") and the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") do not join in this Settlement but have authorized the Settling Parties to state their non-opposition to the Settlement.

2015 to reflect actual experience and changes in forecasted natural gas prices utilizing the methodology prescribed by paragraph III 1.(b).

- 3) That based on the data and testimony submitted in this case, the ALJs recommend and the Commission makes the Findings of Facts and Conclusions of Law proposed at Sections IV and V below.
- 4) That the Commission terminate its investigation and mark closed Docket No. R-2015-2465656.

## **II. BACKGROUND**

- 1) On February 1, 2015, PGW submitted required data in advance of its annual purchased gas cost ("PGC") filing pursuant to 66 Pa. C.S. § 1307 and 52 Pa. Code § 53.64.
- 2) On March 1, 2015, PGW submitted Supplement No. 79 to Gas Service Tariff - Pa. P.U.C. No. 2 and Supplement No. 58 to Gas Supplier Tariff - Pa. P.U.C. No. 1 to become effective for services rendered on or after September 1, 2015. This annual gas cost rate ("GCR") filing was made pursuant to 66 Pa. C.S. § 1307(f), which authorizes certain natural gas distribution companies to make annual purchased gas cost filings with the Commission to reflect increases or decreases in natural gas costs.
- 3) Furthermore, PGW submitted data in support of its Tariff supplement related to, *inter alia*, the GCR, the Price To Compare, a revision to the Universal Service Charge in accordance with any authorized GCR change and a proposal to continue its Other-Post Employment Benefits (OPEBs) at its current level. PGW also submitted the direct testimony of witnesses Kenneth Dybalski (**PGW ST. 1** re: Proposed 2015 Annual GCR Adjustment), Raymond Snyder (**PGW ST. 2** re: Proposed 2015 Annual GCR Adjustment) and William Patti (**PGW ST. 3** re: Proposed Continuation of OPEB Surcharge).

- 4) As required by Commission regulations, PGW provided public notice of its proposed GCR rate in Supplement No. 79 through bill inserts and newspaper publications in PGW's service territory.
- 5) I&E entered a notice of appearance in the case. PICGUG filed a Petition to Intervene, which was granted by the ALJs. OCA and OSBA filed complaints against PGW's tariff supplements and public statements.
- 6) A Prehearing Conference was held before ALJs Christopher Pell and Marta Guhl on March 24, 2015. The ALJs issued a Prehearing Order which established the schedule and the procedures applicable to this proceeding.
- 7) Discovery, both formal and informal, was undertaken by I&E, OCA, and OSBA. Formal discovery consisted of 42, 82, and 12 interrogatories propounded by these parties, respectively.
- 8) The Settling Parties commenced settlement discussions and were able to reach this Settlement which resolves all issues pertaining to PGW's 2015-2016 annual GCR Filing.

### **III. SETTLEMENT**

The undersigned Settling Parties, intending to be legally bound and for due consideration given, agree to the terms and conditions set forth below:

#### **1) PURCHASED GAS COST RATES**

- a) The Settling Parties agree to accept the underlying data and calculations submitted by PGW in its February 1, 2015 pre-filing and its March 1, 2015 annual filing. The PGC rate adopted by this Settlement is \$4.4901 per Mcf. This rate is predicated on PGW's gas cost projections at the time of the March 1, 2015 annual PGC filing. In accordance with 52 Pa. Code § 53.64, PGW will submit a quarterly adjustment to the PGC rate on or before September 1, 2015, to be effective on one day's notice, to account for actual

experience and changes in forecasted natural gas prices and demand, which will establish the PGC rate, effective September 1, 2015.

- b) PGW shall calculate the quarterly filing updates for the 2015-2016 PGC period in accordance with the Commission's regulations at 52 Pa. Code § 53.64(i)(5).
- c) Attached as Appendix "A" hereto are the rates relating to this Settlement.

## **2) LUGF AND RETAINAGE RATE RECONCILIATION**

PGW will provide an annual reconciliation of its retainage rate and lost and unaccounted for rate in its March 1 annual filing. Additionally, PGW will modify the "Unaccounted For Gas" definitions in its Gas Service and Gas Supplier Tariffs by inserting "(for the purpose of calculating retainage)" directly after the term "UNACCOUNTED FOR GAS".<sup>2</sup>

## **3) TRANSCO ESS STORAGES**

PGW will terminate the Transco ESS storage arrangements. To accomplish this, PGW will provide notice of termination to Transco on September 1, 2015 if the settlement agreement is approved by the PUC in August 2015, or at the first available opportunity thereafter if the settlement agreement is approved after August 2015. PGW will retain the storage arrangements until March 31, 2016.

## **4) EVALUATION OF THE MONTHLY IMBALANCE RECONCILIATION**

PGW will present, in its definitive March 1, 2016 annual filing, an evaluation of the Monthly Imbalance Reconciliation procedure set forth in sub-section (f)(3) on page 104 of PGW's Gas Service Tariff as to whether this sub-section, within the context of all Monthly

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<sup>2</sup> This modification of the definition constitutes a clarification only and is not intended to modify PGW's current retainage rate.

Imbalance Reconciliation procedures set forth in this section, adequately protects GCR customers.

## 5) OTHER SETTLEMENT ITEMS

- a) PGW is permitted to add the following to the definition of “E” on page 67 of PGW’s Gas Service Tariff No. 2: “Credit or recovery of the factor “E” is completed over the Company’s Fiscal Year.”<sup>3</sup>
- b) PGW is permitted to modify the Balancing Service Costs formula in order to effectively distribute the overcollection or undercollection of the Balancing Service Costs.<sup>4</sup>
- c) PGW is permitted to correct the Daily Delivery Quantity definition correction by changing the reference to “DDQ” in the definition to “DCQ”.<sup>5</sup>
- d) PGW is permitted to modify the Cogeneration Service character of service by removing the reference to No. 6 fuel oil posted price and the interruption ranking between Cogeneration and LBS.<sup>6</sup>
- e) PGW is permitted to include the OPEB surcharge as an applicable surcharge for Developmental Natural Gas Vehicle Service.<sup>7</sup>

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<sup>3</sup> See Stipulated Record – PGW St. 1 (Dybalski Direct Testimony p. 12) and March 1, 2015 Annual GCR Filing (Tab 1 – Gas Service Tariff No. 2, page 67).

<sup>4</sup> See Stipulated Record – PGW St. 1 (Dybalski Direct Testimony pp. 12-13) and March 1, 2015 Annual GCR Filing (Tab 1 – Gas Supplier Tariff No. 1, page 39).

<sup>5</sup> See Stipulated Record – PGW St. 1 (Dybalski Direct Testimony p. 13) and March 1, 2015 Annual GCR Filing (Tab 1 – Gas Supplier Tariff No. 1, page 10).

<sup>6</sup> See Stipulated Record – PGW St. 1 (Dybalski Direct Testimony p. 14) and March 1, 2015 Annual GCR Filing (Tab 1 – Gas Service Tariff No. 2, page 131).

- f)** 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, 2015 to August 31, 2016 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, 2016 in its March 1, 2016 annual 1307(f) filing.<sup>8</sup>
- g)** PGW is permitted to recover the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2015-2016 GCR period. Continued recovery of the fee beyond the 2015-2016 GCR period must be addressed in next year's Purchased Gas Cost proceeding.<sup>9</sup>
- h)** PGW's OPEB Rider recovery shall remain at \$16 million annually and PGW shall continue the annual deposit of this \$16 million; the Company will continue to make a minimum \$2.5 million annual contribution into the OPEB Trust (for an annual total of \$18.5 million).<sup>10</sup>

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<sup>7</sup> See Stipulated Record – PGW St. 1 (Dybalski Direct Testimony p. 12) and March 1, 2015 Annual GCR Filing (Tab 1 – Gas Service Tariff No. 2, page 135).

<sup>8</sup> See Stipulated Record – PGW St. 2 (Snyder Direct Testimony pp. 6-8).

<sup>9</sup> See Stipulated Record – PGW St. 2 (Snyder Direct Testimony pp. 8-9).

<sup>10</sup> See Stipulated Record – PGW St. 3 (Patti Direct Testimony).

## **6) ADMISSION OF EVIDENCE**

The Settling Parties stipulate to the admission of the filing, testimony and exhibits identified in Appendix "B" hereto.

## **VI. PROPOSED FINDINGS OF FACT**

As a consequence of the Settlement terms and conditions set forth in Section III above, the Settling Parties request that the ALJs and the Commission make the following findings of fact and such other findings and conclusions as may be required as appropriate:

- 1) PGW's gas distribution system is located in Southeastern Pennsylvania in the County and City of Philadelphia. Since this is not a gas producing area, PGW and its natural gas customers are dependent upon the interstate natural gas pipeline system to deliver natural gas into the PGW gas distribution system. (PGW ST. 2 at 2).
- 2) PGW relies on interstate pipelines for all natural gas supply, storage and transportation services, except for PGW's own on-system peak shaving facilities. In this regard, PGW owns and operates liquefied natural gas ("LNG") facilities that are used both to meet intraday, daily and seasonal supply needs as well as to meet peak day requirements. (PGW ST. 2 at 2).
- 3) Spectra Energy ("Spectra") and Williams Gas Pipeline are the two interstate natural gas pipelines that deliver gas to PGW's city gates. In addition, PGW uses natural gas storage services to meet winter peak requirements. (PGW ST. 2 at 2).
- 4) PGW pursues a least cost procurement policy using a portfolio approach in both contract structure and pricing. The portfolio approach protects ratepayers from some of the risk of natural gas market volatility by utilizing a mix of daily index priced swing contracts, physical

forward purchase contracts, storage, winter-only supply contracts, and LNG, as appropriate given market conditions, and to the extent PGW is not constrained by its financial condition. (PGW ST. 2 at 3).

- 5) PGW also uses capacity release and off-system sales when available. The prices for the off-system sales transactions are negotiated and 75% of associated credits and margins are returned to customers through the GCR.
- 6) The details of PGW's actual gas purchases for the 12 months ending December 31, 2014 and an estimate of gas purchases through August of 2016 are presented in the schedules attached to Item 53.64(c)(1) of PGW's February 1, 2015 Pre-filing and Tabs 3 and 4 of PGW's March 1, 2015 annual GCR filing.
- 7) Projected gas costs as reflected in this Settlement are based on peak-day capacity requirements at a 0 degree design day temperature. (PGW's February 1, 2015 Pre-filing, Item 53.64(c)(13)).
- 8) PGW is not affiliated with any pipeline or gas supply entity, nor does it have any contracts for local production. Therefore, transactions with affiliates are not an issue in this proceeding pertaining to PGW's procurement practices. (PGW's February 1, 2015 Pre-filing at Item 53.65(5)).
- 9) PGW did not, at this time, recommend any change to the funding amount for the OPEB Rider. Paragraph 20 of the Joint Petition for Settlement, which was approved by Order of the Commission (entered July 29, 2010) at Docket No. R-2009-2139884, provided that the funding amount used for the OPEB Rider "shall not change until reviewed and updated ... after the initial 5-year period." Settlement, at ¶ 20. The OPEB Rider was implemented on September 1, 2010, and the initial five-year period ends on August 31, 2015.

#### **IV. PROPOSED CONCLUSIONS OF LAW**

##### **1) Historical Reconciliation Period Standards**

With respect to PGW's gas purchases and gas purchasing practices during the twelve-month historical reconciliation period ended December 31, 2014,<sup>11</sup> it is requested that the ALJs and the Commission find that PGW has met the standards of Section 1318 of the Public Utility Code, 66 Pa.C.S. § 1318, as required by Section 1307(f)(5) of the Public Utility Code, 66 Pa.C.S. § 1307(f)(5), as to all actual purchased gas costs in the historical period. It is requested that the Commission find that, during the twelve months ended December 31, 2014, PGW met the requirements of Section 1318(a) of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers.

##### **2) Interim and Projected Period Findings**

- a) With respect to the eight-month interim period beginning on January 1, 2015, and with respect to the projected twelve-month period beginning September 1, 2015, when rates contained in this Settlement will be in effect, it is requested that the Commission find, based upon information presently available and based upon evidence of record in this proceeding concerning PGW's projected purchases and purchasing policies, that the rates to be adopted by the Commission result from PGW's compliance with all of the provisions of Section 1318 of the Public Utility Code.
- b) The Settling Parties agree, based upon evidence of record in this proceeding concerning PGW's projected gas purchases and gas purchasing policies, that PGW's projected gas purchases and projected gas purchasing policies may comply with the standards of

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<sup>11</sup> The reconciliation period for PGW in this proceeding is the twelve-month period ended December 31, 2014, in accordance with the Commission's regulations at 52 Pa. Code § 53.64(i)(1).

Section 1318 of the Public Utility Code. Nevertheless, it is expressly understood and agreed that this Section of the Settlement, Section V.2., is made solely for the purpose of setting prospective rates that shall be subject to the standards of Section 1318 of the Public Utility Code, 66 Pa.C.S. § 1318, and further review in an appropriate future proceeding. Section V.2. of the Settlement is not intended in any way to limit or prevent I&E or OCA from reviewing, after such projected gas purchases actually have been made and gas purchasing practices actually have been implemented, whether PGW's gas purchases and gas purchasing practices complied with Section 1318. If, in an appropriate future proceeding, gas purchases and gas purchasing practices from January 1, 2015 through August 31, 2015 were challenged, the Commission's findings based upon Section V of the Settlement shall not bar the examination of such purchases and practices, including, but not limited to, disallowance of, or reductions to, such costs during the eight-month interim period commencing January 1, 2015, and the twelve-month application period commencing September 1, 2015, and ending on August 31, 2016.

**V. CONDITIONS OF SETTLEMENT**

- 1) This Settlement will go into effect upon the Commission's entry of a final order approving the Settlement, in full and without modification. If the Commission rejects the Settlement, the Agreement automatically will terminate and be null and void with the exception of paragraph 3 below, which will continue in full force and effect. The Settlement also shall automatically become null and void (except for paragraph 3, below) if the Commission, in approving the Settlement, modifies any of its terms or conditions or adds any conditions, unless it is subsequently accepted by the aggrieved signatory party, or parties, as so modified. If the Commission approves the Settlement in full and without modification, the Stipulation:

- a) shall be deemed to resolve with prejudice all issues addressed by this Settlement; and
  - b) shall be implemented and shall be enforceable notwithstanding the pendency of a petition for reconsideration or a legal challenge to the Commission's approval, unless such implementation and enforcement of the Settlement is stayed or enjoined by the Commission, another regulatory agency, or a Court having competent jurisdiction over the matter.
- 2) This Settlement is made without admission against or prejudice to any factual or legal positions which any of the signatories hereto may assert in subsequent litigation in the event that the Commission does not issue a final Order approving this Settlement in full and without modification. If the Commission does not adopt this Settlement in accordance with the terms set forth herein, the Settling Parties reserve their full right to argue that the Commission is without the legal authority to order the implementation of all or part of the terms and conditions set forth herein and no party shall be deemed to have waived or be estopped from asserting such a position before the Commission or before any court.
  - 3) This Settlement Petition may be executed in counterparts, all of which shall constitute one agreement binding on all signatories, and shall have the same force and effect as an original instrument, notwithstanding that the signatories may not be signatories to the same original or the same counterpart.
  - 4) The Settling Parties will submit Statements in Support of this Settlement.
  - 5) The Settling Parties agree to waive exceptions to the ALJs' recommended decision if the ALJs recommend that the Joint Petition for Settlement of Philadelphia Gas Works' 2015-2016 GCR Proceeding be approved without change or modification.<sup>12</sup>

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<sup>12</sup> See Appendix C – Sample Ordering Paragraphs for the Recommended Decision.

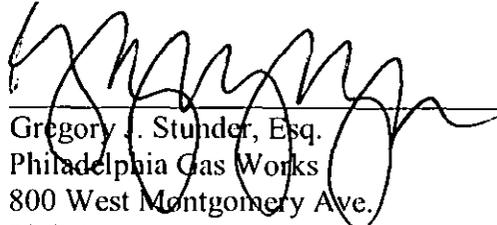
**CONCLUSION**

**WHEREFORE**, the Settling Parties, by their respective counsel, respectfully request as follows:

- 1) That Administrative Law Judges Christopher Pell and Marta Guhl and the Commission approve this Settlement including all terms and conditions thereof; and
- 2) That the Commission enter an order consistent with this Settlement, resolving and terminating the 2015-2016 GCR proceeding.

**Respectfully submitted,**

**Philadelphia Gas Works**



Gregory J. Stunder, Esq.  
Philadelphia Gas Works  
800 West Montgomery Ave.  
Philadelphia, PA 19122  
215-684-6878

Counsel for Philadelphia Gas Works

Dated: May 28, 2015

**Bureau of Investigation and Enforcement**

By Richard A. Kanaskie

Richard A. Kanaskie  
Deputy Chief Prosecutor  
Bureau of Investigation and Enforcement

PA Public Utility Commission  
400 North Street, P.O. Box 3265  
Harrisburg, PA 17105-3265

**Office of Consumer Advocate**

By \_\_\_\_\_

Aron J. Beatty  
Brandon J. Pierce  
Counsel for the Consumer Advocate

Office of Consumer Advocate  
555 Walnut Street, 5<sup>th</sup> Floor, Forum Place  
Harrisburg, PA 17101-1923

**Bureau of Investigation and Enforcement**

By \_\_\_\_\_  
Richard A. Kanaskie  
Deputy Chief Prosecutor  
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400 North Street, P.O. Box 3265  
Harrisburg, PA 17105-3265

**Office of Consumer Advocate**

By \_\_\_\_\_  
Aron J. Beatty  
Brandon J. Pierce  
Counsel for the Consumer Advocate

Office of Consumer Advocate  
555 Walnut Street, 5<sup>th</sup> Floor, Forum Place  
Harrisburg, PA 17101-1923

**Appendix A**

<b><u>Gas Cost Rate</u></b>	
	<b><u>9/1/2015</u></b>
Rate per Mcf	\$4.4901
<b><u>Universal Service Charge</u></b>	
	<b><u>9/1/2015</u></b>
Rate per Mcf	\$1.0947
<b><u>Other Post Employment Benefit Surcharge</u></b>	
	<b><u>9/1/2015</u></b>
Rate per Mcf	\$0.3183

## **APPENDIX B**

### **Stipulated Record**

1. PGW's February 1, 2015 Pre-Filing Information;
2. PGW's March 1, 2015 Annual GCR Filing;
3. PGW St. 1 and 1R (Dybalski);
4. PGW St. 2 and 2R (Snyder);
5. PGW St. 3 (Patti);
6. I&E Statement No. 1, Direct Testimony (Cline) and I&E Exhibit No. 1, Exhibit to accompany the Direct Testimony of Cline;
7. OCA Direct Testimony (Mierzwa).

Note: Testimony exhibits intended to be included in the record.

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, et al.	:	
	:	Docket No. R-2015-2465656
v.	:	
	:	
PHILADELPHIA GAS WORKS	:	

**Appendix C**

**Sample Ordering Paragraphs for the Recommended Decision**

That the Joint Petition for Settlement of the Philadelphia Gas Works' 2015-2016 GCR Proceeding submitted by the Philadelphia Gas Works, the Bureau of Investigation and Enforcement and the Office of Consumer Advocate at Docket No. R-2015-2465656 is approved.<sup>1</sup>

That the Philadelphia Gas Works is authorized to file a tariff supplement to reflect rates and terms consistent with the Settlement and applicable to the Section 1307(f) purchased gas cost rate investigation at Docket Nos. R-2015-2465656 to be effective for services rendered on or after September 1, 2015, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1, 2015, to reflect actual experience and changes in forecasted natural gas prices utilizing the methodology prescribed by paragraph III 1(b) of the Joint Petition.

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<sup>1</sup> The undersigned concur with the findings of fact and the conclusions of law as set forth in Sections IV. and V., respectively, of the Joint Petition for Settlement of the Philadelphia Gas Works' 2014-2015 GCR Proceeding.

That PGW will provide an annual reconciliation of its retainage rate and lost and unaccounted for rate in its March 1 annual filing. Additionally, PGW will modify the “Unaccounted For Gas” definitions in its Gas Service and Gas Supplier Tariffs by inserting “(for the purpose of calculating retainage)” directly after the term “UNACCOUNTED FOR GAS”.<sup>2</sup>

That PGW will terminate the Transco ESS storage arrangements (PGW will provide notice on September 1, 2015 if the settlement agreement is approved by the PUC in August 2015; PGW will retain the storage arrangements until March 31, 2016).

That PGW will present, in its definitive March 1, 2016 annual filing, an evaluation of the Monthly Imbalance Reconciliation procedure set forth in sub-section (f)(3) on page 104 of PGW’s Gas Service Tariff as to whether this sub-section, within the context of all Monthly Imbalance Reconciliation procedures set forth in this section, adequately protects GCR .

That PGW is permitted to make the following modifications to its Gas Service and Gas Supplier Tariffs:

---

<sup>2</sup> This modification of the definition constitutes a clarification only and is not intended to modify PGW's current retainage rate.

- a) Add the following to the definition of “E” on page 67 of PGW’s Gas Service Tariff No. 2: “Credit or recovery of the factor “E” is completed over the Company’s<sup>1</sup> Fiscal Year.”<sup>3</sup>
- b) Modify Balancing Service Costs formula in order to effectively distribute the overcollection or undercollection of the Balancing Service Costs.<sup>4</sup>
- c) Daily Delivery Quantity definition correction – change “DDQ” to the correct reference “DCQ”.<sup>5</sup>
- d) Cogeneration Service – remove reference to No. 6 fuel oil posted price (the posted price is no longer published) and remove interruption ranking between Cogeneration and LBS.<sup>6</sup>
- e) Developmental Natural Gas Vehicle Service – inclusion of the OPEB surcharge as an applicable surcharge.<sup>7</sup>

That 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

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<sup>3</sup> See Stipulated Record – PGW St. 1 (Dybalski Direct Testimony p. 12) and March 1, 2015 Annual GCR Filing (Tab 1 – Gas Service Tariff No. 2, page 67).

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<sup>7</sup> See Stipulated Record – PGW St. 1 (Dybalski Direct Testimony p. 12) and March 1, 2015 Annual GCR Filing (Tab 1 – Gas Service Tariff No. 2, page 135).

September 1, 2015 to August 31, 2016 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, 2016 in its March 1, 2016 annual 1307(f) filing.<sup>8</sup>

That PGW is permitted to recover the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2015-2016 GCR period. Continued recovery of the fee beyond the 2015-2016 GCR period must be addressed in next year's Purchased Gas Cost proceeding.<sup>9</sup>

That the OPEB Rider recovery shall remain at \$16 million annually and PGW shall continue the annual deposit of this \$16 million plus the Company's \$2.5 million contribution into the OPEB Trust (for an annual total of \$18.5 million).<sup>10</sup>

That the Philadelphia Gas Works' filing, the testimony and the accompanying exhibits submitted by the Philadelphia Gas Works, the Bureau of Investigation & Enforcement, and the Office of Consumer Advocate are admitted into evidence in this proceeding.

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<sup>8</sup> See Stipulated Record – PGW St. 2 (Snyder Direct Testimony pp. 6-8).

<sup>9</sup> See Stipulated Record – PGW St. 2 (Snyder Direct Testimony pp. 8-9).

<sup>10</sup> See Stipulated Record – PGW St. 3 (Patti Direct Testimony).

That the formal complaint filed by the Office of Consumer Advocate at C-2015-2468121 is deemed satisfied.

That the formal complaint filed by the Office of Small Business Advocate at C-2015-2468949 is deemed satisfied.

That the intervention of the Philadelphia Industrial and Commercial Gas Users Group is dismissed.

That the Commission Investigation at Docket No. R-2015-2465656 is terminated and marked closed.

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, et al.	:	
	:	Docket No. R-2015-2465656
v.	:	
	:	
PHILADELPHIA GAS WORKS	:	

**PHILADELPHIA GAS WORKS'S STATEMENT IN SUPPORT  
OF THE JOINT PETITION FOR SETTLEMENT  
OF ITS 2015-2016 GCR PROCEEDING**

Philadelphia Gas Works (“PGW” or “Company”) submits this Statement in Support of the Joint Petition for Settlement of its 2015-2016 Gas Cost Rate (“GCR”) Proceeding. PGW respectfully requests that Administrative Law Judges (“ALJs”) Christopher Pell and Marta Guhl and the Public Utility Commission approve the Joint Petition, make the findings required by the Public Utility Code, 66 Pa. C.S. §§ 1317 and 1318, and deem this settlement in the public interest.

**I. BACKGROUND**

On February 1, 2015, PGW submitted required data in advance of its annual GCR filing pursuant to 66 Pa. C.S. § 1307 and 52 Pa. Code § 53.64. On March 1, 2015, PGW submitted Supplement No. 79 to Gas Service Tariff - Pa. P.U.C. No. 2 and Supplement No. 58 to Gas Supplier Tariff - Pa. P.U.C. No. 1 to become effective for services rendered on or after September 1, 2015. This annual GCR filing was made pursuant to 66 Pa. C.S. § 1307(f), which authorizes certain natural gas distribution companies to make annual purchased gas cost filings with the Commission to reflect increases or decreases in natural gas costs.

The Bureau of Investigation and Enforcement (“I&E”) entered a notice of appearance in the case. The Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”) filed a

Petition to Intervene which was granted by the ALJ. The Office of Consumer Advocate (“OCA”) and Office of Small Business Advocate (“OSBA”) filed complaints against PGW’s filing.

A Prehearing Conference was held before ALJs Christopher Pell and Marta Guhl on March 24, 2015. The ALJs issued a Prehearing Order which established the schedule and the procedures applicable to this proceeding.

Discovery, both formal and informal, was undertaken by various parties. The Parties commenced settlement discussions and were able to reach a Settlement which resolves all issues pertaining to PGW’s 2015-2016 annual GCR Filing.<sup>1</sup>

**II. PGW IS PURSUING A LEAST COST FUEL PROCUREMENT POLICY CONSISTENT WITH PGW’S OBLIGATION TO PROVIDE SAFE, ADEQUATE AND RELIABLE SERVICE TO ITS CUSTOMERS.**

Currently, PGW pursues a least cost procurement policy consistent with PGW’s obligation to provide safe, adequate and reliable service by among other things:

- (1) using a portfolio approach in contract structure and pricing; and
- (2) utilizing capacity release credits, off system sales margins (when available) and asset management arrangement fees as an additional cost saving strategy and method for providing 75% of the credits, margins and fees as a reduction to purchased gas costs.<sup>2</sup>

The proposed settlement advances the above goal by:

- (1) Agreeing to terminate the Transco ESS storage arrangements<sup>3</sup>;

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<sup>1</sup> The OSBA and PICGUG do not join in this Settlement but have authorized the Settling Parties to state their non-opposition to the Settlement.

<sup>2</sup> Joint Petition for Settlement Paragraph III.5.f.

<sup>3</sup> Joint Petition for Settlement Paragraph III.3.

(2) Agreeing to continue using the Planalytics buying advisory services as part of the Company's overall strategy to comport with least cost procurement standards<sup>4</sup>; and

(3) Agreeing to provide an annual reconciliation of its retainage rate and lost and unaccounted for rate in its March 1 annual filing<sup>5</sup>; and

(4) Agreeing to evaluate the Company's Monthly Imbalance Reconciliation procedure (set forth in sub-section (f)(3) on page 104 of PGW's Gas Service Tariff as to whether this sub-section, within the context of all Monthly Imbalance Reconciliation procedures set forth in this section) adequately protects GCR customers.<sup>6</sup>

The Company's portfolio approach utilizes a mix of daily index priced swing contracts, physical forward purchase contracts, storage, winter-only supply contracts, and LNG to protect ratepayers from some of the risk of natural gas market volatility. The settlement agreement of the parties recognizes that PGW will also submit quarterly adjustments to the PGC factor in order to account for changes in forecasted price and demand. The foregoing will further assure that PGW is doing everything possible to reduce costs or improve cash flow and its financial strength.

Further, the settlement is in the public interest because the OPEB Rider recovery remains at \$16 million annually and PGW will continue the annual deposit of this \$16 million plus the Company will continue to make a minimum \$2.5 million annual contribution into the OPEB Trust (for an annual total of \$18.5 million).<sup>7</sup>

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<sup>4</sup> Joint Petition for Settlement Paragraph III.5.g.

<sup>5</sup> Joint Petition for Settlement Paragraph III.2.

<sup>6</sup> Joint Petition for Settlement Paragraph III.4.

<sup>7</sup> Joint Petition for Settlement Paragraph III.5.h.

Therefore, the above settlement terms certainly meet the Commission's goal in ensuring the least cost procurement policy consistent with PGW's obligation to provide safe, adequate and reliable service.

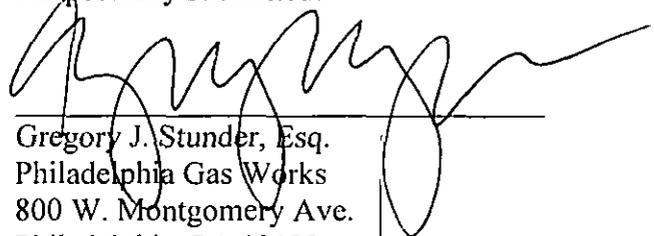
**III. APPROVAL OF THE JOINT PETITION IS IN THE PUBLIC INTEREST**

The Joint Petition is in the public interest because it fairly and reasonably resolves a number of significant issues affecting PGW and its customers and produces rates and surcharges that are just, reasonable and compliant with the Public Utility Code. All of the facts necessary to approve the settlement are included in the record of the proceeding through the filing and supporting data itself, the testimony, or the attachments to the settlement agreement submitted to the ALJ through the stipulation of the Parties.

**IV. CONCLUSION**

Having found that PGW pursues a least cost procurement policy consistent with PGW's obligation to provide safe, adequate and reliable service, that this settlement satisfies the Commission's requirements at Section 1317 and 1318 of the Code and is in the public interest, PGW supports the *Joint Petition* and urges ALJ Pell and the Commission to approve it in its entirety.

Respectfully submitted:



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Counsel for Philadelphia Gas Work

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of §1.54 (relating to service by a participant).

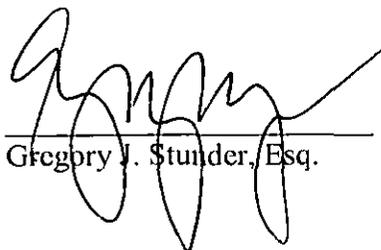
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Gregory J. Stunder, Esq.

Date: May 28, 2015

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