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

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2002.0049

April 26, 2002

Mr. Thomas Knudsen
Chief Operating Officer
Philadelphia Gas Works
800 W. Montgomery Avenue
Philadelphia, PA 19122

DOCKETED

MAY 9 2002

DOCUMENT
FOLDER

RE: Filing Requirements for Philadelphia Gas Works Restructuring Plan
Docket Number M-00021612

Dear Mr. Knudsen:

The Commission appreciates the continued cooperation of the officers and employees of Philadelphia Gas Works (PGW) in complying with the requirements imposed on city natural gas distribution operations by the Natural Gas Choice and Competition Act. This correspondence will address the filing requirements for PGW's restructuring plan that is due by July 1, 2002.

The Natural Gas Choice and Competition Act of 1999 mandated that natural gas distribution companies provide the Commission with certain restructuring filings pursuant to schedules determined by the Commission. The obligation as it relates to city natural gas distribution operations is specifically mentioned in section 2212(g). The Commission established the parameters of a restructuring filing by a natural gas distribution company in its Order of July 15, 1999 (Docket No. M-00991249). For PGW, additional obligations were created by 2212(h)(1), as well as Commission directives arising in the context of other PGW proceedings. For instance, some filing requirements were established by the Commission in its Order of October 4, 2001 (Docket No. R-00006042, et al.) through the deferral of certain issues to the restructuring proceeding.

The specific filing requirements pursuant to the above-referenced Orders and statutes are delineated below:

Order of July 15, 1999 (Docket No. M-00991249)

General Instructions

The natural gas distribution company's proposed restructuring plan must be accompanied by direct testimony, proposed sample tariffs, and adequate supporting documentation, calculations, cost studies and other information necessary to support the proposed new services and changes to existing tariffs and rates, including

provisions for supplier of last resort, universal service and energy conservation. Information should also be provided in Microsoft Excel version 5.0 format on a 3.5 inch diskette, Windows version. Each natural gas distribution company should also post a copy of its restructuring filing on its website.

A. Restructuring of Services

1. Address how existing tariffs and rates are to be unbundled with respect to the following services. For those services the company does not propose to unbundle at this time, please explain.
 - a. commodity Section 2203(3);
 - b. capacity Section 2203(3);
 - c. storage Section 2203(3);
 - d. balancing Section 2203(3); and
 - e. aggregator Section 2203(3).

2. Demonstrate the proposed methodology to identify and separate costs by the following categories:
 - a. Base Rates (non-gas costs);
 - b. Pipeline Capacity Costs (reservation and commodity costs);
 - c. Storage/peaking costs; and
 - d. Commodity Costs.

3. Demonstrate that the proposed sample tariffs are in compliance with the rate cap provisions of the Natural Gas Choice and Competition Act (Act), Section 2211(a). For calendar year 1998, or the company's most recently concluded fiscal year, provide workpapers and supporting documentation, at present tariff rates, for all actual sales and revenues for the selected year.

4. Demonstrate that the proposed sample tariffs are in compliance with the provisions of Section 2211(e) prohibiting intra-class or inter-class cost shifts.

5. Provide a month-by-month breakdown of actual Mcf throughput volumes by rate schedule, broken down by sales and transportation volumes for the selected year and the 12-month period immediately preceding the selected year. Additionally, provide annual summaries for the selected year and the 12-month period immediately preceding the selected year.

B. Customer Choice

1. With regard to customer billing (Section 2205(c)):
 - a. Explain the procedures the natural gas distribution company will use to receive accurate, timely billing data from natural gas suppliers and to address billing data problems;
 - b. Set forth any proposed natural gas distribution company billing charge to natural gas suppliers and its basis in incremental costs. Section 2205(3);
 - c. Provide a proposed billing format for retail gas customers who choose to receive a single bill from the natural gas distribution company for supply and distribution services; and
 - d. Provide a proposed billing format for retail gas customers who choose to be billed separately by the natural gas distribution company (distribution services) and their natural gas supplier (supply).
2. Set forth the natural gas distribution company's proposal to comply with its supplier of last resort obligations under Section 2207.
3. Set forth the procedures the natural gas distribution company intends to follow to:
 - a. resolve customer billing complaints; and
 - b. handle customer complaints regarding natural gas suppliers.

C. System Operations, Reliability Standards and Capacity Management

1. Demonstrate that the restructuring plan will maintain the standards and procedures for safety and reliability presently in effect as required by Section 2203(3).
2. Set forth the natural gas distribution company's proposed procedures for:
 - a. Requiring all natural gas suppliers to supply the natural gas distribution company with natural gas at locations, volumes, qualities and pressures that are adequate to meet the natural gas supplier's supply and reliability obligations as well as those of the natural gas distribution company (Section 2205(a)(2));
 - b. Assigning capacity to natural gas suppliers;
 - c. Nominations;

- d. Obtaining new and renewed capacity contracts (Section 2204(e));
 - e. Capacity contract mitigation parameters; (Section 2203(3), 2204(d)); and
 - e. Notice requirement and procedures for natural gas suppliers to exit system. Section 2207(i), (j), (k).
3. Provide a full explanation of how balancing service is to be provided on the natural gas distribution company's system. Explain any limitations associated with receiving customer gas supplies at any receipt point and explain how the company proposes to address any such limitations. Include a detailed system map that identifies receipt points and capacities for interconnecting gas suppliers.
 4. Set forth the natural gas distribution company's plan for post-July 1, 2002, assignment of gas supply contracts with Pennsylvania producers. (This item is optional since natural gas distribution companies may file after restructuring.) Section 2204(d)(7).

D. Natural Gas Suppliers

1. Set forth any penalties to be imposed upon natural gas suppliers for failure to deliver natural gas as required or for other violations of the natural gas distribution company's tariffs, if applicable. Section 2203(12).
2. Explain in detail all tariffs and/or procedures for operation of the natural gas distribution company's system in coordination with licensed natural gas suppliers. Section 2205(a).
3. Set forth the criteria used to establish the amount and type of bond or other security to be required of licensed natural gas suppliers. Section 2208(c)(1)(i).
4. Provide a proposed supplier tariff or a tariff addressing the interaction between the natural gas distribution company and licensed natural gas suppliers.

E. Marketing Standards

Set forth the proposed standards of conduct for natural gas distribution company marketing activities. Section 2209(h).

F. Universal Service and Energy Conservation Programs

1. Set forth and fully describe an initial comprehensive proposal and how an appropriate funding level should be determined to meet the natural gas distribution company's universal service and energy conservation obligations. Identify and explain any proposed changes to any and all current universal service and energy conservation programs. Section 2203(9). The proposal must address the following:
 - a. Needs assessment of the market for and acceptance of universal service programming in the territory. The needs assessment should include the number of identified low-income customers and an estimate of low-income customers, the number of identified payment troubled, low-income customers, an estimate of payment trouble, low-income customers, the number of customers who still need Low-Income Usage Reduction Program (LIURP) services and the cost to serve that number, and the enrollment size of Customer Assistance Programs (CAP) to serve all eligible customers.
 - b. Set forth the natural gas distribution company's current policies and programs on universal service and energy conservation. Section 2203(7).
 - (i) For each current component of universal service, state budgeted and actual expenditures associated with CAP, Customer Assistance and Referral Evaluation Services (CARES) programs, LIURP, and other universal service programs and administration of hardship funds during 2000 and 2001 by the company, along with funding or contribution by any third party source. To the extent the company included such costs in rates, please identify the amounts included in the most recent rate proceeding. State the total amount of Low-Income Heating Assistance Program (LIHEAP) revenue.
 - (ii) For each program, state the participation level.
 - (iii) For 2001, state the total estimated or actual collection operational costs associated with handling low-income customer accounts that are not included in the response to sections 1(a) or (c), or elsewhere in this section (b).

These costs include, in part, expenses associated with negotiating payment arrangements as well as physical termination and reconnection services.

- (iv) Identify how the plan reflects savings of traditional collection costs as a source of funding universal service and energy conservation activities. If the company does not propose collection savings as a source of universal service funding, explain why not.

- c. For 2001, state the dollar amount of the company's gross residential write-offs related to low-income customers or an estimate of the portion related to low-income customers. For 2001, state the company's definition of a residential account in arrears, the total number of residential accounts in arrears, the number of those accounts that are low-income, dollars in arrears owed by identified low-income customers and total number of dollars in arrears (identified and estimated). For 2001, state the estimated or actual dollar amount of cash working capital associated with-low income arrearages.

- d. Set forth how the natural gas distribution company intends to administer its universal service and energy conservation programs. Include details of any plans to use community-based organizations in the administration of universal service and energy conservation programs. Identify the current organizational structure which provided these services, including in-house and contract staff.

- e. Indicate whether the natural gas distribution company plans to establish a universal service program advisory panel to provide consultation and advice to the utility regarding the scope, design and administration of its universal service programs.

- f. Indicate how the company will fund its universal service and energy conservation activities, how it intends to determine funding levels for each program, whether it commits to fully expend such funds by program or by priority of program, and how it will determine the effectiveness of any program.

- (ii) The CAP Policy Statement at §69.265(4) defines eligibility.
 - (iii) Each natural gas distribution company may define eligibility for a CAP and CARES program. Generally, a natural gas distribution company may target CARES eligibility to special needs customers. Special needs customers may include those who have experienced a family crisis such as loss of income, divorce, disability, or major illness.
 - (iv) Each natural gas distribution company may define eligibility for a Hardship Fund. Most hardship funds typically target hardship funds to customers whose household verified incomes are at or below 150 percent of the poverty level. Administrators of hardship funds, not the natural gas distribution company, shall continue to determine if a customer meets the eligibility criteria.
- 4. Set forth the design details of how the natural gas distribution company will afford CAP participants access to competitive supply. These designs may include aggregation of low-income or CAP customers or other innovative approaches. Any program design that involves CAP participants acquiring supply in the competitive market should meet the following goals:
 - (i) effective case management;
 - (ii) avoidance of customer confusion;
 - (iii) effective use of universal service funding; and
 - (iv) maintaining customer affordability.
- 5. Set forth how the natural gas distribution company will ensure that CAP benefits are portable if a supplier of last resort is different from the natural gas distribution company.
- 6. Set forth and explain any proposed non-bypassable cost recovery mechanism for recovery of universal service and energy conservation costs. Section 2203(6). State whether the natural gas distribution company intends to defer recovery of any incremental costs pursuant to Section 2211(c).

G. Obligations to Employees

State how the natural gas distribution company intends to meet its employee transition obligations. Section 2203(13).

H. Collaborative Process

Describe the planned procedures for establishing and then operating a working group and collaborative process to seek resolution of operational and capacity issues related to customer choice as well as a working group to address broader issues relating to unbundling, customer choice and deregulation. Section 2204(f).

I. Consumer Education Program

1. Describe the natural gas distribution company's proposed consumer education and information program giving details on each planned activity and a description of the anticipated costs the natural gas distribution company intends to claim. Section 2206(d).
2. Describe the consumer education program cost recovery mechanism and state whether any part of the costs of this program will be deferred pursuant to Section 2211(c).

J. Recovery of Deferred Costs

1. Identify all categories of costs resulting from the implementation of Chapter 22. Section 2211(b)(1)
2. For each such cost, the natural gas distribution company intends to defer state:
 - a. The basis of the claim that the cost is incurred as a result of restructuring;
 - b. The provision of the Act under which the claim for recovery is made;
 - c. Date or time period at which the cost has been or is expected to be incurred;
 - d. The accounting protocols to be employed in recognizing and accruing these deferred charges; and

- e. Whether the natural gas distribution company intends to capitalize and amortize the deferred costs pursuant to Section 2211(b)(2), and, if so, the appropriate time period(s) for recovery.

K. Proposed Schedule for Implementation

Provide a detailed timetable for implementation of the natural gas distribution company's obligations under Chapter 22 including, but not limited to, such elements as consumer education activities, mailing information packets to customers, supplier selection dates and commencement of delivery by natural gas suppliers. Section 2204(a).

66 Pa.C.S. §2212(g) Restructuring and tariff filings

This sections provides that "A city natural gas distribution operation shall file with the commission an initial tariff and restructuring filing consistent with this chapter, and with any orders, rules or regulations adopted by the commission after the effective date of this chapter no later than July 1, 2002, and unless the city natural gas operation agrees, no earlier than December 31, 2001, pursuant to a schedule to be determined by the commission in consultation with a city natural gas operation."

66 Pa.C.S. §2212(h)(1) Restructuring proceedings

This section provides that "The city natural gas distribution operation shall file a plan to convert its existing information technology, accounting, billing, collection, gas purchasing and other operating systems and procedures to comply with the requirements applicable to jurisdictional natural gas utilities under this title and the applicable rules, regulations and procedures."

Order of October 4, 2001 (Docket No. R-00006042, et al)

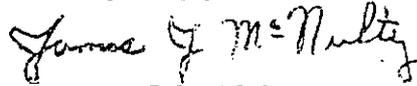
Paragraph 18: "That the Philadelphia Gas Works file a cost of service study for present and proposed rates during the restructuring proceeding."

Paragraph 19: "That the recommendation to transfer the electricity cost and the bad debt expenses, which are currently contained in Philadelphia Gas Works' Gas Cost Rate (GCR), to base rates is deferred until the restructuring proceeding."

Paragraph 20: "That the recommendation to transfer the other non-gas costs, such as the Customer Responsibility Program, the Conservation Works Program and the Senior Citizen Discount, from the GCR to base rates is deferred until the restructuring proceeding."

We look forward to your anticipated cooperation in completing the above-mentioned filing requirements and any others imposed by the Commission via a directive deferring certain issues to the restructuring proceeding. If you have any questions regarding these filings please contact Karen Moury of the Office of Executive Director at (717) 772-8883. The Commission shall expect PGW to file its restructuring plan by July 1, 2002.

Very truly yours,

A handwritten signature in cursive script that reads "James J. McNulty".

James J. McNulty
Secretary

cc: Parties in the Base Rate Proceeding at Docket No. R-00006042