

ORIGINAL

Philadelphia Gas Works

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VIA OVERNIGHT MAIL

June 1, 2007

James J. McNulty
Secretary
PA Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

DOCUMENT
FOLDER

RECEIVED

JUN - 1 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Re: Philadelphia Gas Works, Docket No. R-00072110

Dear Secretary McNulty:

Enclosed for filing are an original and three (3) copies of the Joint Petition for Settlement of Philadelphia Gas Works' 2007-2008 GCR Proceeding along with Philadelphia Gas Works' Statement in Support of its 2007-2008 GCR Proceeding.

PGW is requesting confidential treatment for Appendix B of the Joint Petition for Settlement due to its commercially sensitive nature. All pages of Appendix B have been marked "Confidential".

Additionally, enclosed are revised Gas Service Tariff pages originally filed in Tab 1 of the Company's March 1, 2007 1307(f) filing. The Gas Service Tariff pages were revised in order to correct the Supplement Number.

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

Respectfully submitted,

Gregory J. Stunder

cc: Parties of record
Administrative Law Judge Charles E. Rainey, Jr.

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JUN 06 2007

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, et al.

v.

PHILADELPHIA GAS WORKS

Docket No. R-00072110

RECEIVED

JUN - 1 2007

**JOINT PETITION FOR SETTLEMENT OF
PHILADELPHIA GAS WORKS'
2007-2008 GCR PROCEEDING**

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

TO ADMINISTRATION LAW JUDGE CHARLES E. RAINEY:

I. INTRODUCTION

1. Philadelphia Gas Works ("PGW"), the Office of the Trial Staff ("OTS"), the Office of Consumer Advocate ("OCA"), and the Office of Small Business Advocate ("OSBA") (collectively "the Settling Parties")¹ hereby submit this Joint Petition for Settlement of PGW's 2007-2008 GCR Proceeding, as captioned above, and respectfully request the following:

2. That Administrative Law Judge ("ALJ") Charles E. Rainey, Jr. recommend and the Commission approve this Settlement and all of its terms and conditions.

3. That the ALJ recommend and the Commission authorize 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 Nos. R-00072110 to be effective for services rendered on or after September 1, 2007, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1,

¹ Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") does not join in this Settlement, but has authorized the Settling Parties to state its non-opposition to the Settlement.

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2007 to reflect actual experience and changes in forecasted natural gas prices utilizing the methodology prescribed by paragraph III 1.(b).

4. That based on the data and testimony submitted in this case, the ALJ recommend and the Commission make the Findings of Facts and Conclusions of Law proposed at Sections IV and V below.

5. That the Commission terminate its investigation at Docket No. R-00072110 and mark closed the proceedings at Docket Nos. R-00072110.

II. BACKGROUND

1. On February 1, 2007 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, 2007, PGW submitted Supplement No. 16 to Gas Service Tariff (Supplement No. later changed to 17) - Pa. P.U.C. No. 2 and Supplement No. 15 to Gas Supplier Tariff - Pa. P.U.C. No. 1 to become effective for services rendered on or after September 1, 2007. 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. With this filing, PGW also submitted a reconciliation of expenses previously incurred and revenues received, pursuant to 66 Pa. C.S. § 1307(f)(3), as well as a recalculation of PGW's Restructuring Surcharge. Furthermore, PGW submitted data in support of its Tariff supplement, as well as the direct testimony of witnesses Kenneth Dybalski (**PGW ST. 1** re: Proposed 2007 Annual GCR Adjustment) and Douglas Moser (**PGW ST. 2** re: Proposed 2007 Annual GCR Adjustment).

3. As required by Commission regulations, PGW provided public notice of its proposed GCR rate in Supplement No. 16 (Supplement No. later changed to 17) through bill inserts and newspaper publications in PGW's service territory.

4. OTS entered a notice of appearance in the case. PICGUG filed a Petition to Intervene and it was granted by the ALJ. OCA and OSBA filed complaints against PGW's tariff supplements and public statements.

5. A Prehearing Conference was held before ALJ Rainey on March 15, 2007 and on the same date, ALJ Rainey issued a Prehearing Order which established the schedule and the procedures applicable to this proceeding.

6. Discovery, both formal and informal, was undertaken by OCA which propounded 39 interrogatories.

7. On April 16, 2007, testimony was submitted by OTS (OTS St. 1), OCA (OCA St. 1) and OSBA (OSBA St. 1).

8. The Settling Parties commenced settlement discussions and were able to reach a Settlement which resolves all issues pertaining to PGW's 2007-2008 annual GCR Filing.

III. SETTLEMENT

The undersigned 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, 2007 pre-filing and its March 1, 2007 annual filing. The PGC rate adopted by this Settlement is \$10.1812. This rate is predicated on PGW's gas cost projections at the time of the March 1, 2007 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, 2007, 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, 2007.

(b) PGW shall calculate the quarterly filing updates for the 2007-2008 GCR 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. GAS PURCHASING PROGRAM

(a) Commencing upon the date of execution of this Settlement, the Settling Parties agree that PGW will follow the Gas Purchasing Program attached hereto as Appendix "B".² The Gas Purchasing Program is intended to reduce PGW's exposure to natural gas price volatility and to establish agreed upon standards governing PGW's gas procurement practices.

(b) In PGW's 2008-2009 annual GCR proceeding, none of the Settling Parties shall be permitted to challenge the reasonableness, prudence or recoverability of gas costs associated with locked-in prices established in accordance with non-discretionary purchases in accordance with Appendix "B".

(c) The Settling Parties agree to monitor and review the appropriateness and effectiveness of the Gas Purchasing Program set forth in Appendix "B" and will revisit Gas Purchasing Program issues pertaining to fiscal year 2009-2010 and future years in the context of PGW's 2008-2009 annual GCR filing.

(d) The parties agree that PGW's obligation to follow the Gas Purchasing Program attached hereto as Appendix B is subject to PGW's incremental migration to transportation, financial constraints and/or credit limitations. PGW agrees that if incremental migration to transportation, financial constraints and/or credit limitations impact the Company's ability to carry out the Gas Purchasing Program, PGW will contact the

² The Gas Purchasing Program is extremely commercially sensitive and is marked confidential. As such, confidential treatment is requested in the Company's cover letter to Secretary McNulty.

stakeholders in order to discuss the modifications to the Gas Purchasing Program required by these factors.

(e) The Company agrees to report its hedging activities on a quarterly basis for a one-year period beginning September 1, 2007. The reports should show positions taken for each prospective month, with details on underlying positions segregated for discretionary and non-discretionary portions. This report will be provided to the Settling Parties who request a copy.

3. INTERIM INFORMATIONAL PRESENTATION

The Company will prepare the following for presentation to the parties in Fall 2007 (and the Company agrees to provide data requested by the parties during the presentation):

(a) supporting data for the ICF Report (which is provided in PGW's February 1, 2007 pre-filing at Tab 13) as to its demand requirements based on both design day and design winter criteria;

(b) the economics of both its Equitrans and WSS storage/transportation capacity with recommendations concerning retention, release, or permanent release;

(c) the Company's objectives (and expected cost impacts) for its current and forecasted interruptible sales, off-system sales and capacity releases, and reduction to capacity demand charges; and

(d) an update concerning the LNG Phase II project.

4. SECONDARY MARKET TRANSACTIONS

A determination concerning PGW's retention of the capacity release credits and off-system sales margin will be deferred to PGW's current base rate proceeding at Docket Number R-00061931. However, this Settlement shall not be precedent for the proposition that any future

changes in the retention of capacity release credits or the retention of off-system sales margin are to be addressed in base rates cases rather than in Section 1307(f) cases.

5. ASSET MANAGEMENT

The Company has discussed the management of its entire gas supply portfolio with a third party; the aforementioned negotiation resulted in an offer that is less than the amount the Company currently realizes in capacity release credits. Accordingly, no further provision for asset management is contained in this Settlement.

6. DOMINION TRANSMISSION

PGW agrees to take any reasonable steps which may be necessary (now and in the future) in order to assure that its PGC customers are included in the class if the West Virginia case (*Jacquet et al v. Dominion Transmission, Inc. et al*, Docket No. 2:05-cv-00548 (S.D. W.Va.)) survives the motion to dismiss and is given class action designation. PGW will report on its efforts in the West Virginia case as part of the PGW §1307(f) proceeding next year.

7. SETTLEMENT PROVISIONS

The parties agree that the provisions of the Settlement are applicable only to PGW and only to the issues raised in this 2007 1307(f) proceeding due to the Company's status as a municipal utility whose rates are set on the Cash Flow Method; therefore, the parties do not intend for this settlement to provide precedential value to investor owned utilities.

8. ADMISSION OF EVIDENCE

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

IV. 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 ALJ 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 the interstate pipeline 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 liquified 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 and Williams Gas Pipeline comprise the two interstate natural gas pipelines that deliver gas to PGW's city gates. In addition, Dominion Transmission Inc. (DTI), and Equitrans, Inc. (Equitrans) provide natural gas storage services that PGW uses to meet winter peak requirements. These storage services require intermediate transportation services from Spectra to deliver storage withdrawals to the PGW gas distribution system. (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 first of the month index pricing, storage injection and winter only supply contracts, as appropriate given market conditions. (PGW ST. 2 at 3).

5. PGW also uses capacity release and off system sales when available. The prices for these transactions are negotiated and, in both instances, all associated credits and margins are returned to customers through the PGC. PGW has proposed to change the regulatory treatment of revenue derived from off system sales and capacity release credits in its pending base rate proceeding at Docket Number R-00061931. (PGW St. 1 at 12).

6. The details of PGW's actual gas purchases for the 12 months ending December 31, 2006 and an estimate of gas purchases through August of 2008 are presented in the schedules attached to Item 53.64(c)(1) of PGW's February 1, 2007 Pre-filing and Tabs 3 and 4 of PGW's March 1, 2007 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, 2007 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 and, therefore, transactions with affiliates are not an issue in this proceeding pertaining to PGW's procurement practices. (PGW's February 1, 2007 Pre-filing at Item 53.65(5)).

V. PROPOSED CONCLUSIONS OF LAW

1. **Historical Reconciliation Period Standards**

a. With respect to PGW's gas purchases and gas purchasing practices during the twelve-month historical reconciliation period ended December 31, 2006³, it is requested that the ALJ and the Commission find that PGW has met the standards of Section 1318 of the

³ The reconciliation period for PGW's in this proceeding is the twelve-month period ended December 31, 2006, in accordance with the Commission's regulations at 52 Pa. Code § 53.64(i)(1).

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, 2006:

i. 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, 2007, and with respect to the projected twelve-month period beginning September 1, 2007, 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 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 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 OTS, OCA or OSBA 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, 2007 through August 31, 2008 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, 2007, and the twelve-month application period commencing September 1, 2007, and ending on August 31, 2008

VI. 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, all 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 within 10 days of submission to the Commission.

5. The Settling Parties agree to waive exceptions to the ALJ's recommended decision if the ALJ recommends that the Joint Petition for Settlement of Philadelphia Gas Works' 2007-2008 GCR Proceeding be approved without change or modification.

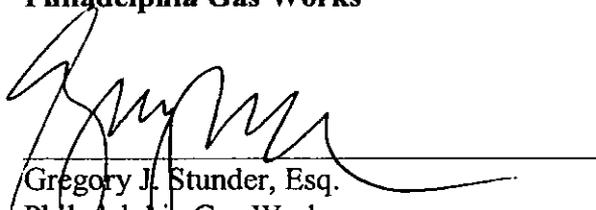
CONCLUSION

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

1. That Administrative Law Judge Charles E. Rainey 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 2007-2008 GCR proceeding.

Respectfully submitted,

Philadelphia Gas Works



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Dated: June 1, 2007

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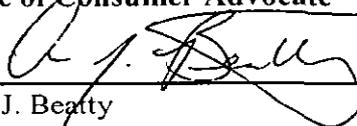
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Appendix A

<u>Gas Cost Rate</u>	
	<u>9/1/07</u>
Rate per Mcf	10.1812
<u>USC</u>	
	<u>9/1/07</u>
Rate per Mcf	2.2985
<u>Restructuring/Consumer Ed Surcharge</u>	
	<u>9/1/07</u>
Rate per Mcf	0.0272

APPENDIX C

Stipulated Record

1. PGW's February 1, 2007 Pre-Filing Information;
2. PGW's March 1, 2007 Annual GCR Filing;
3. PGW St. 1 (Dybalski);
4. PGW St. 2 (Moser);
5. OTS St. 1 (Yocca);
6. OCA St. 2 (Lelash);
7. OSBA St. 1 (Knecht).

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION, et al. :
 : Docket No. R-00072110
v. :
 :
PHILADELPHIA GAS WORKS :

**PHILADELPHIA GAS WORKS' STATEMENT IN SUPPORT
OF THE JOINT PETITION FOR SETTLEMENT
OF ITS 2007-2008 GCR PROCEEDING**

Philadelphia Gas Works ("PGW" or "Company") submits this Statement in Support of the Joint Petition for Settlement of its 2007-2008 Gas Cost Rate ("GCR") Proceeding. PGW respectfully requests that Administrative Law Judge ("ALJ") Charles E. Rainey, Jr. 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, 2007, 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, 2007, PGW submitted Supplement No. 16 to Gas Service Tariff - Pa. P.U.C. No. 2 (later revised to Supplement No. 17) and Supplement No. 15 to Gas Supplier Tariff - Pa. P.U.C. No. 1 to become effective for services rendered on or after September 1, 2007. 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. With this filing, PGW also submitted a reconciliation of expenses previously incurred and revenues received, pursuant to 66 Pa. C.S. § 1307(f)(3), as well as a recalculation of PGW's Restructuring Surcharge.

The Office of Trial Staff ("OTS") entered a notice of appearance in the case. The Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") filed a Petition to Intervene and it was granted by the ALJ. The Office of Consumer Advocate ("OCA") and Office of Small Business Advocate ("OSBA") filed complaints and public statements against PGW's filing.

A Prehearing Conference was held before ALJ Rainey on March 15, 2007 and on the same date, ALJ Rainey 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 2007-2008 annual GCR Filing.¹

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 and off system sales when available as an additional cost saving strategy and method for providing credit offsets to customers on the Company's purchased gas cost.

The proposed settlement advances the above goal by: (1) committing to a gas purchasing program that includes purchasing for both the 2007-08 and 2008-09 GCR periods; and (2) preparing the following for presentation to the parties in Fall 2007: (a) supporting data for the ICF Report as to its demand requirements based on both design day and design winter criteria;

¹ Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") does not join in this Settlement, but has authorized the Settling Parties to state their non-opposition to the Settlement.

(b) the economics of both its Equitrans and WSS storage/transportation capacity with recommendations concerning retention, release, or permanent release; (c) the Company's objectives (and expected cost impacts) for its current and forecasted interruptible sales, off-system sales and capacity releases, and reduction to capacity demand charges; and (d) an update concerning the LNG Phase II project.

The Company's portfolio approach utilizes a mix of first of the month index pricing, storage, and winter only supply contracts to protect ratepayers from some of the risk of natural gas market volatility. The Gas Purchasing Program submitted with this settlement is intended to reduce PGW ratepayers' exposure to price volatility by hedging some portion of the Company's *firm requirements* against significant swings in the price of natural gas and establish agreed to standards governing PGW's gas procurement practices. 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 cashflow and its financial strength.

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 for the reasons stated above. 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 of the Parties, 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 Rainey and the Commission to approve it in its entirety.

Respectfully submitted:



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PHILADELPHIA GAS WORKS
GAS SERVICE TARIFF



Issued by: Thomas Knudsen
President and CEO

PHILADELPHIA GAS WORKS
800 West Montgomery Avenue
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List of Changes Made by this Tariff Supplement**GAS COST RATE (GCR) – SECTION 1307f, II DEFINITIONS (PAGE No. 67)**

In the definition of "GAC," the "GAC" value effective September 1, 2007 decreases from \$0.02341 per Ccf to \$(0.06160) per Ccf.

In the definition of "IRC," the "IRC" value effective September 1, 2007 decreases from \$0.01429 per Ccf to \$0.01186 per Ccf.

In the definition of "SSC," the "SSC" value effective September 1, 2007 increases from \$1.08207 per Ccf to \$1.09158 per Ccf.

GAS COST RATE (GCR) – SECTION 1307f, III COMPUTATION OF GAS COST RATE (Page No. 68)

The Gas Cost Rate (GCR) effective September 1, 2007 decreases from \$1.09119 per Ccf to \$1.01812 per Ccf.

RESTRUCTURING AND CONSUMER EDUCATION SURCHARGE (PAGE No. 79)

The Restructuring and Consumer Education Surcharge effective September 1, 2007 decreases from \$0.00662 per Ccf to \$0.00272 per Ccf.

UNIVERSAL SERVICE CHARGE (PAGE No. 81)

The Universal Services Charge effective September 1, 2007 decreases from \$0.23954 per Ccf to \$0.22985 per Ccf.

GENERAL SERVICE – RATE GS (Page No. 83)

The GCR for Residential, Commercial, and Industrial Services decreases from \$1.09119 per Ccf to \$1.01812 per Ccf, effective September 1, 2007.

MUNICIPAL SERVICE – RATE MS (Page No. 87)

The GCR for Municipal Service decreases from \$1.09119 per Ccf to \$1.01812 per Ccf, effective September 1, 2007.

PHILADELPHIA HOUSING AUTHORITY SERVICE – RATE PHA (Page No. 90)

The GCR for Philadelphia Housing Authority Service decreases from \$1.09119 per Ccf to \$1.01812 per Ccf, effective September 1, 2007.



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GAS COST RATE (GCR) -- SECTION 1307(f)

I. PROVISION FOR ADJUSTMENT

The Gas Cost Rate shall be applied to each Mcf (1,000 cubic feet) for Firm Retail Sales Service Gas supplied under Rates Schedules GS, MS, PHA, and NGVS-Firm, except for Gas usage under the Special Provisions – Air Conditioning of those rates calculated in a manner set forth below, pursuant to 66 Pa.C.S. §1307(f). Such rates for Firm Sales Service Gas may be increased or decreased from time to time under the procedures set forth in Section II.B. below to reflect changes in the level of Gas costs incurred or projected to be incurred by PGW related to Sales Service.

II. DEFINITIONS

C - The current cost of Natural Gas and other raw materials determined as follows: (a) for all types of Gas, project the cost for each purchase (adjusted for net current Gas stored) for the computation year plus (b) the of (1) the projected book value of non-current Gas at the beginning of the computation year minus (2) the projected book value of non-current Gas at the end of the computation year. In addition to any cost authorized by the Commission, the cost of Natural Gas may include any item included in the definition of Natural Gas costs set forth in 66 Pa.C.S. § 1307(h) ("Definition"). The Factor "C" includes two components -- Commodity Costs and Demand Costs which are defined as follows: Commodity Costs - the actual cost of natural gas and purchased electric for firm customers that does not include the fixed costs associated with the transportation and storage of natural gas; and Demand Costs - the fixed costs associated with the transportation and storage of natural gas for firm customers.

Computation Year - The 12-month forecast period as identified in the Company's annual 1307 (f) filing and each quarterly GCR filing.

E - Experienced net over billing (or under billing) of the cost of Natural Gas and other raw materials applicable to the GCR reported in the most recent Section 1307(f) proceeding. Such over billings (or under billings) will be made with interest at the rate and method set forth by the Pennsylvania Public Utility Commission. Additionally, supplier refunds received prior to the end of the August billing period will be included in the Factor "E." The Factor "E" includes two components -- Commodity Costs and Demand Costs which are defined above in the Factor "C" definition.

Firm Sales Service - The service provided to Customers who receive firm supply service from PGW. The term does not include the service provided to Customers who receive interruptible supply service from PGW.

GAC - The "E" factor component of the GCR, representing the net overcollection or undercollection of Natural Gas and other raw materials costs. The currently effective GAC is \$(0.04811) per Ccf for Commodity Costs and \$(0.01349) per Ccf for Demand Costs, for service on or after September 1, 2007. The total Gac is \$(0.06160) per Ccf. (D)

GCR - Gas Cost Rate determined to the nearest one-hundredth cent (\$0.0001) to be applied to each Mcf of Gas supplied under Rates GS, MS, PHA, and NGVS-Firm, except for Gas usage under the Special Provisions – Air Conditioning of those rates and is equal to the SSC plus the GAC minus the IRC.

IRC - Interruptible Revenue Credit - The credit defined in Subsection VI below. The currently effective IRC is \$0.01186 per Ccf for service on or after September 1, 2007. (D)

Natural Gas or Gas - The volumes of gas purchased or manufactured by the Company that is delivered to the Company's Customers, plus such portion of the Company-used and unaccounted-for gas as the Commission permits, including, but not limited to, natural gas, liquefied natural gas, synthetic gas,

(D) - Decrease

PHILADELPHIA GAS WORKS

liquefied propane and naphtha.

S - Projected applicable Mcf of Gas to be billed to Customers during the computation year.

SSC-Sales Service Charge - The purchased Gas costs determined to the nearest $\frac{1}{100}$ of a cent (\$0.0001). The currently effective SSC is \$0.91726 per Ccf for Commodity Costs and \$0.17432 per Ccf for Demand Costs, for service on or after September 1, 2007. The total SSC is \$1.09158 per Ccf.

(I)
↓

(I) – Increase

III. COMPUTATION OF GAS COST RATE

A. The GCR shall be computed to the nearest one-thousandth cent (\$0.00001) in accordance with the formula set forth below as the terms are defined in Section II:

$$\begin{aligned} \text{SSC} &= \text{C/S} \\ \text{GAC} &= \text{E/S} \\ \text{GCR} &= \text{SSC} + \text{GAC} - \text{IRC} \end{aligned}$$

B. Each Gas Cost Rate so computed shall be applied to Customers' bills for twelve monthly billing periods commencing with September.

The currently effective Gas Cost Rate is \$1.01812 per Ccf, for service on or after September 1, 2007. (D)

IV. REPORTING REQUIREMENTS

A. The Company's rates are subject to quarterly adjustments for recovery of the Gas Cost Rate under procedures set forth in Section 1307 (f) of the Public Utility Code.

B. The filing of the Company's annual Section 1307(f) filing, annual Gas Cost Rate, effective during the billing period of September through August, shall be submitted to the Commission by March 1 of each year, with a February 1 pre-filing date.

C. The application of the Gas Cost Rate shall be subject to review and audit by the Commission at such intervals as the Commission shall determine.

D. If it shall be determined, from audit by the Commission, or by final order entered after notice and hearing, that the application of this clause has resulted in the overcollection or undercollection of revenues, then the Company shall apply such over/undercollection as a credit or debit against future Gas Cost Rates.

V. PROVISION FOR INCLUSION OF SPECIFIC NON-GAS EXPENSES

The computation of the Gas Cost Rate may include such Non-Gas expenses as may be authorized by this tariff and annually authorized by the Commission.

VI. INTERRUPTIBLE REVENUE CREDIT (IRC)

A. The GCR rate shall be credited with an Interruptible Revenue Credit (IRC) equal to the margin realized from interruptible sales under PGW's Interruptible Sales Tariff Rates: BPS, LBS; and CG (Total Margin Revenue).

B. The IRC shall be set each year in the Company's 1307(f) proceeding to reflect the Total Margin Revenue. The rate per Mcf shall be calculated by dividing the Total Margin Revenue by total applicable firm sales. For the period September 1, 2003 through August 31, 2004 the IRC shall be initially set to reflect the Total Margin Revenue authorized by the Commission in its final order at M-00021612 (entered March 31, 2003).

(D) - Decrease

RESTRUCTURING AND CONSUMER EDUCATION SURCHARGE

Non-Gas restructuring and consumer education costs will be recovered by a Restructuring and Consumer Education Surcharge applicable to all volumes of Gas delivered.

1. Computation of the Restructuring and Consumer Education Surcharge factors will be in accordance with the automatic adjustment procedures utilized under Section 1307 of the Public Utility Code and will be filed and approved in conjunction with the Company's annual Section 1307(f)-GCR filing.
2. Restructuring and Consumer Education costs recovered through the Surcharge mechanism are the Commission approved costs which the Company has or will incur to meet the requirements of the Natural Choice and Competition Act and applicable Commission regulations, orders and other regulatory requirements, other than those costs pertaining to universal service and energy conservation programs.
3. Once the surcharge is in place, PGW shall file reconciliation statements quarterly and shall submit a claim for over/under recovery on an annual basis, at the same time it submits its projected Restructuring costs and Restructuring Surcharge claim for the next year; provided however, that if a project for which costs were included in the Restructuring Surcharge is cancelled or delayed beyond the year in which the cost was originally scheduled to be incurred, the Company will withdraw the projected costs of that project from the Restructuring Surcharge in its next quarterly update. No interest will be included in such surcharge computations. The basic component of the surcharge will be determined by dividing the restructuring and consumer education costs approved for annual recovery by the estimated applicable throughput in Mcf.
4. The Restructuring and Consumer Education Surcharge shall remain in effect until restructuring and consumer education costs have been collected or as otherwise directed by the Commission.
5. The Restructuring and Consumer Education Surcharge is effective on and after September 1, 2005.

Current Restructuring and Consumer Education Surcharge = \$0.00272/Ccf

(D)

(D) – Decrease

UNIVERSAL SERVICE AND ENERGY CONSERVATION SURCHARGE

Universal service and energy conservation program and related costs will be recovered by a Universal Service and Energy Conservation Surcharge applicable to all volumes of Gas delivered.

1. The Surcharge will recover: 1) the discounts provided to Customers pursuant to the Customer Responsibility Program (CRP); 2) the discounts provided to Customers pursuant to the Senior Citizen Discount; 3) the costs of the Conservation Works Program (CWP); and, 4) for Customers entering the CRP program on or after September 1, 2003, past due arrearages forgiven pursuant to paragraph A (6) of the CRP/CAP Program Design Stipulation approved by the Commission by its order at M-00021612 (entered March 31, 2003).
2. Computation of the Universal Service and Energy Conservation Surcharge factors will be in accordance with the automatic adjustment procedures utilized under Section 1307(f) of the Public Utility Code and will be filed and approved in conjunction with the Company's annual Section 1307(f)-GCR filing.
3. Once the surcharge is in place it will be automatically adjusted effective March 1, June 1, September 1, and December 1 of each year in accordance with Section 1307(f) quarterly adjustment procedures. No interest will be included in such surcharge computations. The basic component of the surcharge will be determined by dividing the total universal service and energy conservation program costs approved for annual recovery by the estimated applicable throughput in Mcfs.
4. The Universal Service and Energy Conservation Surcharge shall take effect upon the effective date of this Tariff.

Current Universal Service and Energy Conservation Surcharge = \$ 0.22985/Ccf.

(D)

(D) - Decrease

GENERAL SERVICE - RATE GS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after September 1, 2007

AVAILABILITY

Available for any purpose where the Company's distribution mains adjacent to the proposed Gas Service location are, or can economically be made, suitable to supply the quantities of Gas or Transportation Services required.

RATES

CUSTOMER CHARGE (per Meter (except parallel meters)):

\$ 12.00 per month for Residential and Public Housing Authority Customers.
\$ 18.00 per month for Commercial and Municipal Customers
\$ 50.00 per month for Industrial Customers

Plus,

GCR (not applicable to GS Customers who transport gas through a qualified NGS):

\$ 1.01812 per Ccf for Residential and Public Housing (D)
\$ 1.01812 per Ccf for Commercial and Municipal Customers (D)
\$ 1.01812 per Ccf for Industrial Customers (D)

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

\$0.42124 per Ccf for Residential and Public Housing
\$0.43056 per Ccf for Commercial and Municipal Customers
\$0.43029 per Ccf for Industrial Customers

(B) Surcharges:

Universal Service and Energy Conservation Surcharge; and Restructuring and Consumer Education Surcharge.

(D) - Decrease

MUNICIPAL SERVICE - RATE MS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after September 1, 2007.

AVAILABILITY

Available to properties owned or occupied by the City of Philadelphia or the Board of Education, or any of their respective agencies or instrumentalities, for any type of Gas Service, unless purchased for resale to others, and where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required; provided, however, that the rate shall not be available to Commercial Tenants of any such property.

RATES

CUSTOMER

CHARGE (per Meter (except parallel meters):

\$ 18.00 per month

Plus,

GCR (not applicable to MS Customers who transport Gas through a qualified NGS):

\$1.01812 per Ccf

(D)

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

\$0.31470 per Ccf

(B) Surcharges:

Universal Service and Energy Conservation Surcharge; and The Restructuring and Consumer Education Surcharge.

Also,

The following Riders may apply:

(D) - Decrease

PHILADELPHIA HOUSING AUTHORITY SERVICE - RATE PHA

Rate: Applicable to all Retail Sales Service or Transportation Services rendered pursuant to this Rate Schedule on or after September 1, 2007

AVAILABILITY

Available for all Gas usage in multiple dwelling Residential buildings containing 10 or more dwelling units, owned and operated by the Philadelphia Housing Authority, where cooking shall be performed exclusively with Gas and where Gas Service shall be supplied through one or more single point metering arrangements at locations where the Company's distribution mains adjacent to the proposed Gas Service locations are, or can economically be made, suitable to supply the quantities of Gas required.

This rate is also available for all Gas usage in single and multiple dwelling Residential buildings, containing less than 10 dwelling units, provided, and only so long as, Gas is used exclusively for cooking, water heating and space heating for all such Residential buildings owned and operated by the Philadelphia Housing Authority, except (a) buildings operated by the Philadelphia Housing Authority, prior to the original effective date of this rate (January 1, 1969), and (b) buildings for which, in the judgment of the Company, such Gas Service cannot be provided economically.

RATES

CUSTOMER

CHARGE (per Meter (except parallel meters);

\$18.00 per month

Plus,

GCR (not applicable to PHA customers who transport gas through a qualified NGS):

\$ 1.01812 per Ccf

(D)

Plus

DISTRIBUTION CHARGE:

DISTRIBUTION CHARGE (consisting of item (A) and (B), below):

(A) Delivery Charge:

\$0 .42952 per Ccf

(B) Surcharges:

Universal Service and Energy Conversation Surcharge; and The Restructuring and Consumer Education Surcharge.

(D) – Decrease

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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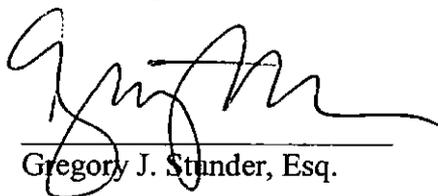
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Date: June 1, 2007