



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

IN REPLY PLEASE
REFER TO OUR FILE

May 18, 2016

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Pennsylvania Public Utility Commission v.
Philadelphia Gas Works - 1307(f)
Docket No. R-2016-2526700

Dear Secretary Chiavetta:

Please be advised that the Bureau of Investigation and Enforcement's (I&E)
Statement in Support of Settlement in this proceeding.

Copies are being served on all active parties of record as evidenced in the attached
Certificate of Service. If you have any questions, please contact me at (717) 787-8754.

Sincerely,

Gina L. Lauffer
Prosecutor
Bureau of Investigation and Enforcement
PA Attorney I.D. #313863

GLL/snc
Enclosure

cc: Certificate of Service
ALJ Marta Guhl

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION, et al.** :
: :
: Docket No. R-2016-2526700
: :
v. :
: :
PHILADELPHIA GAS WORKS :
:

**BUREAU OF INVESTIGATION AND ENFORCEMENT
STATEMENT IN SUPPORT OF JOINT PETITION FOR SETTLEMENT
PHILADELPHIA GAS WORKS' 2016-2017 GCR PROCEEDING**

TO ADMINISTRATIVE LAW MARTA GUHL:

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), by and through its Prosecutor, Gina L. Lauffer, hereby respectfully submits that the terms and conditions of the foregoing *Joint Petition for Settlement of Philadelphia Gas Works’ 2016-2017 GCR Proceeding* (“Joint Petition” or “Settlement”) are in the public interest and represent a fair, just, reasonable and equitable balance of the interest of Philadelphia Gas Works (“PGW”) and its customers. In support of this position, I&E offers the following enumerated Comments:

I. INTRODUCTION

1. I&E is charged with the representation of the public interest in proceedings relating to rates, rate-related services and application proceedings affecting the public interest held before the Commission.¹ Consequently, in all contested proceedings,

¹ 66 Pa. C.S. 308.2(a)(11); Docket No. M-2008-2071852, Final Procedural Order entered on August 11, 2011, p. 10.

including those resolved through negotiated settlements, it is incumbent upon I&E to ensure that the public interest is served and to comment on how the amicable resolution of any such proceeding will benefit the public interest. The request for approval of this Joint Petition is based on I&E's conclusion that the Settlement meets all the legal and regulatory standards necessary for approval. "The prime determinant in the consideration of a proposed Settlement is whether or not it is in the public interest."² I&E concludes that the Joint Petition meets this standard.

2. On January 29, 2016, PGW submitted pre-filed information regarding its 2016-2017 Purchased Gas Cost ("PGC") rate filing pursuant to the Public Utility Code.³ In conjunction with its pre-filed information, PGW also filed a Petition to Depart from certain Sections of 52 Pa. Code ("Petition for Special Permission") to request modification of requirements governing the timing of its bill inserts, public notice provisions, and the supporting data to be relied upon in its March 1, 2016 quarterly 1307f filing.⁴

3. By filing dated March 1, 2016, PGW submitted its annual gas cost rate filing to become effective for services rendered on or after September 1, 2016. PGW also filed its prepared Direct Testimony.

4. I&E filed a Notice of Appearance in this matter on February 12, 2016. Additionally, the Philadelphia Industrial & Commercial Gas Users Group ("PICGUG") filed a Petition to Intervene on February 11, 2016. The Office of the Small Business

² *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 PA PUC 1, 22 (1985).

³ 66 Pa. C.S. 1307(f).

⁴ PGW Petition to Depart at 1.

Advocate (“OSBA”) filed a Complaint (docketed at C-2016-2531350), Public Statement and Notice of Appearance on February 29, 2016, and the Office of the Consumer Advocate (“OCA”) filed a Formal Complaint (docketed at C-2016-2532678) and Public Statement on March 7, 2016.

5. A Prehearing Conference Order was entered on March 7, 2016, and the Order scheduled a telephonic prehearing conference for March 16, 2016, and it also granted PGW’s Petition for Special Permission.

6. Counsel for the following parties participated in the Prehearing Conference on March 16, 2016: PGW, I&E, the OCA, the OSBA and PICGUG (the “Parties”). Administrative Law Judge (“ALJ”) Marta Guhl presided, and during the Conference, PICGUG’s Petition to Intervene was granted and the Parties established a procedural schedule for this proceeding. On March 17, 2016, Prehearing Order #1 was entered.

7. Discovery was undertaken by the parties during the pendency of the proceeding.

8. In accordance with the procedural schedule, I&E served the following testimony and exhibit upon the parties on April 12, 2016: I&E Statement No. 1: the Direct Testimony of Lisa A. Gumby and I&E Exhibit No. 1: the Exhibit accompanying Ms. Gumby’s testimony.

9. On April 15, 2016, a formal complaint filed by Shanna Anderson was served, and it was docketed at C-2016-2540049.

10. In accordance with the Commission's policy favoring settlements over costly and time consuming litigation,⁵ PGW, I&E, and the OCA ("Joint Petitioners"),⁶ were successful in achieving a full and complete settlement of all issues by reviewing both discovery and testimony and by engaging in the settlement negotiation process.

11. I&E submits that the proposed Settlement is in the public interest and should be approved by the ALJ and the Commission for the following reasons:

II. SETTLEMENT

A. PURCHASED GAS COST RATES

Pursuant to the Joint Petition, PGW is adopting a GCR of \$3.7967 per Mcf effective September 1, 2016.⁷ While those costs are subject to review in a future PGC proceeding, I&E maintains that ratepayers are protected in that PGW gains no unwarranted financial advantages through its projected gas purchases and projected gas purchasing policies. As provided for in the Public Utility Code, "[n]o rates for a natural gas distribution utility shall be deemed just and reasonable unless the commission finds that the utility is pursuing a least cost fuel procurement policy...."⁸ The I&E review of all available information in this proceeding confirms this representation. A least cost fuel procurement policy protects ratepayers from unnecessary and imprudent gas costs and prevents the Company from making a profit on gas supplies provided to its Purchased Gas Cost ("PGC") customers. PGW's average costs reported to the Commission in its quarterly filings demonstrate the prudence of its purchasing practices.

⁵ 52 Pa. Code §5.231.

⁶ The OSBA and PICGUG do not oppose the Settlement, but do not join in it as Joint Petitioners.

⁷ Joint Petition at 4; Joint Petition at Appendix A.

⁸ 66 Pa. C.S. §1318.

The Settlement also provides that the natural gas costs that PGW expects to incur in the upcoming period will be based on PGW's adherence to its established least cost fuel procurement policy. Specifically, PGW's procurement approach attempts to shield customers from the risk of the gas market's volatility through using a mix of daily index priced swing contracts, physical forward purchase contracts, storage, winter-only supply contracts, and liquefied natural gas, as appropriate to market conditions.⁹ PGW's diligence in adhering to a least cost procurement strategy benefits customers directly in their gas bills. PGW's procurement strategy is in the public interest as it benefits ratepayers on an annual basis by ensuring that PGW will continually obtain gas on a reliable basis for its customers, at the most advantageous prices possible.

B. E-FACTOR INTEREST ADJUSTMENT

The I&E review of PGW's annual PGC filing includes an analysis of its claimed E-Factor to ensure that it was done in accordance with established Commission practices. The E-Factor represents the mechanism for addressing the experienced over/under collections, reconciling variations between the projected gas costs and actual gas costs, as well as variances between projected and actual sales. The E-Factor also serves as the vehicle to pass through miscellaneous revenues, including penalties and supplier refunds, and to calculate interest due to ratepayers or to PGW.

In this proceeding, PGW modified its purchased gas cost from \$3.7859 per Mcf to \$3.7967 per Mcf,¹⁰ resulting from the E-Factor adjustment recommended by I&E witness

⁹Joint Petition at 7.

¹⁰ Joint Petition at 4.

Gumby.¹¹ More specifically, Ms. Gumby recommended that PGW's proposed E-factor of (\$0.1529/Mcf) be reduced to (\$0.1422/Mcf) in accordance with a reduction of \$505,872 to PGW's calculated historic interest adjustment of \$1,055,832.¹² The reduction was necessary to account for an error in the interest time factor values that PGW used in its interest adjustment calculation, which should have been twelve months less than the timeframe PGW used in its filing.¹³

I&E is satisfied that, as modified by I&E's method of interest calculation, PGW's E-Factor calculations are appropriate and accurate and conform to proper regulatory practices. Furthermore, PGW has agreed to adopt I&E's recommended time factor calculation in all of its future GCR filings.¹⁴ I&E avers that this provision is in the public interest because proper calculation of the E-Factor protects both ratepayers and PGW by ensuring that rates are adjusted appropriately to reflect the impact that these factors have on purchased gas costs.

C. PLANALYTICS FEE FOR PRICE ANALYSIS AND BUYING ADVISORY SERVICE

Pursuant to the Settlement, PGW is permitted to continue to recover the Planalytics fee for price analysis and buying advisory services, not to exceed \$125,000 for the 2016-2017 GCR period.¹⁵ PGW's continued recovery of the Planalytics fee beyond this designated period must be addressed in next year's PGC proceeding. I&E agrees that PGW's permitted recovery of the price analysis and buying advisory service fee is in the

¹¹ I&E Statement No. 1 at 8-9.

¹² Id. at 7-8.

¹³ Id.

¹⁴ Joint Petition at 5.

¹⁵ Id.

public interest, as the Public Utility Code provides that risk management tools are included in the definition of gas costs.¹⁶ Therefore this cost, subject to a cap of \$125,000, is appropriately recovered from PGC customers to enable PGW to mitigate the financial risk in its gas supply portfolio.

D. OFF-SYSTEM SALES MARGIN, CAPACITY RELEASE CREDIT, AND ASSET MANAGEMENT MARGIN/CREDIT RETENTION

Under the terms of the Settlement, 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.¹⁷ I&E avers that permitting PGW to continue its longstanding asset management sharing mechanism serves the public interest because it benefits both PGW and its ratepayers. More specifically, PGW benefits from the arrangement by receiving a monetary incentive to maximize its efforts to increase capacity release and off-system sales activity. In turn, PGC customers benefit from PGW's efforts in the form of reduced gas costs.

E. 2016-2017 GCR PROCEEDING

The Joint Petitioners indicate that they do not object to PGW's request to use the public notice process and estimated data for the March 1 quarterly filing for its 2017-2018 GCR proceeding, as outlined in the Joint Petition.¹⁸ PGW's use of the public notice process and estimated data is consistent with the request made in its Petition for Special Permission to Depart from Certain Requirements of 52 Pa. Code Sections 53.45(b),

¹⁶ 66 Pa. C.S. 1307(h).

¹⁷ Joint Petition at 5.

¹⁸ Id. at 5-6.

53.64(c), 53.68(a) and 53.64(i)(5)(i), filed in this proceeding on January 29, 2016, which was unopposed and subsequently granted. The same request was also made and granted in several of PGW's past GCR proceedings, and the Joint Applicants' non-opposition to the request in advance of PGW's next GCR filing will save PGW time and resources by negating PGW's need to confer with the Joint Petitioners again on the same basis for PGW's next annual GCR filing.

III. CONCLUSION

12. The Settlement provides that PGW may place into effect the natural gas supply rates as proposed and identified in the appendices attached to the Joint Petition. The proposed rates are subject to quarterly updates, with limited exceptions, as required by the Commission's Regulations. The I&E analysis in this proceeding supports that these rates are just and reasonable, accurately reflect the costs of its purchased natural gas and are based on sound regulatory practices. As such, I&E opines that these rates are in the public interest and should be approved.

13. I&E and, apparently, the Parties to this proceeding, are in agreement that PGW will adhere to the purchasing plan as established by the data and calculations provided in PGW's testimony and associated exhibits, as no party has submitted evidence challenging any provision. The purchasing plan provides reasonable protections for ratepayers and enables the company to adhere to the regulatory requirements in acquiring supplies for its customers. PGW's projections and plans are reasonable and are in the public interest. Therefore, they should be adopted as presented.

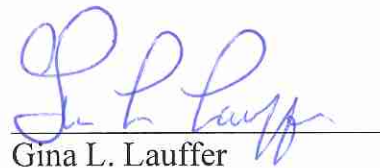
14. Although I&E did serve Direct Testimony in this proceeding, I&E fully supports the Settlement, which adopts the I&E position set forth in its testimony. Accordingly, I&E avers that all issues have been satisfactorily resolved through discovery and discussions with PGW and are incorporated in the settlement. Line by line identification of the ultimate resolution of every averment is not necessary, as I&E represents that the Settlement maintains the proper balance of the interests of all parties. I&E is satisfied that no further action is necessary and considers its investigation of this filing complete.

15. Based upon I&E's analysis of the filing, acceptance of this proposed Settlement is in the public interest because the provisions adequately protect the interests of all affected parties, including the signatories to this Joint Petition.

16. I&E is satisfied that the provisions and data contained in the PGW's annual PGC filing, as confirmed by this Joint Petition, accurately support the finding that PGW's purchased gas costs and its practices adequately protect the public interest.

WHEREFORE, the Commission's Bureau of Investigation and Enforcement represents that it supports the *Joint Petition for Settlement of Philadelphia Gas Works' 2016-2017 GCR Proceeding* as being in the public interest and respectfully requests that Administrative Law Judge Marta Guhl recommend, and the Commission subsequently approve, the foregoing Settlement, including all terms and conditions contained therein.

Respectfully Submitted,



Gina L. Lauffer
Prosecutor
PA Attorney I.D. #313863

Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265
(717) 787-1976

Dated May 18, 2016

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
:
v. : Docket No. R-2016-2526700
:
Philadelphia Gas Works 1307(f) :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Statement in Support of Settlement** dated May 18, 2016, in the manner and upon the persons listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party):

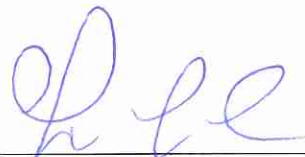
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