



PHILADELPHIA GAS WORKS

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June 7, 2017

Via E-Filing

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
2nd Floor, 1 North
400 North Street
Harrisburg, PA 17120

**Re: Philadelphia Gas Works 2017-2018 Gas Cost Rate Filing
Docket No. R-2017-2587526**

Dear Secretary Chiavetta:

On behalf of Philadelphia Gas Works (“PGW”), enclosed for electronic filing is the Joint Petition for Settlement of PGW’s 2017-2018 Gas Cost Rate Proceeding and PGW’s Statement in Support. Copies have been served in accordance with the attached Certificate of Service. Please contact me if you have questions.

Respectfully,

A handwritten signature in blue ink, appearing to read 'Brandon J. Pierce', is written over a horizontal line. The signature is stylized and cursive.

Brandon J. Pierce, Esquire

Enclosure

cc: Certificate of Service w/ enc.
Hon. Marta Guhl w/ enc.

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy the Joint Petition for Settlement of PGW's 2017-2018 Gas Cost Rate Proceeding and PGW's Statement in Support upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

VIA FIRST CLASS MAIL and EMAIL

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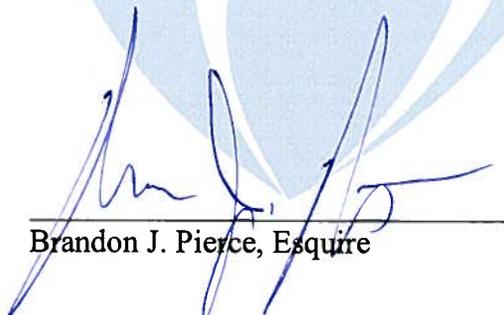
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Dated: June 7, 2017



Brandon J. Pierce, Esquire

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :
:
: Docket No. R-2017-2587526
:
v. :
:
PHILADELPHIA GAS WORKS :

**JOINT PETITION FOR SETTLEMENT OF
PHILADELPHIA GAS WORKS'
2017-2018 GAS COST RATE PROCEEDING**

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”)¹ hereby submit this Joint Petition for Settlement of PGW’s 2017-2018 Gas Cost Rate (“GCR”) Proceeding (“Settlement”), as captioned above, and respectfully request the following:

- 1) That Administrative Law Judge (“ALJ”) Marta Guhl recommend that the Commission approve this Settlement and all of its terms and conditions without modification.
- 2) That the ALJ recommends, 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-2017-2587526 to be effective for services rendered on or after September 1, 2017, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1, 2017, to reflect actual experience and changes in forecasted natural gas prices utilizing the methodology prescribed by paragraph III 1.(b).

¹ 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.

- 3) That based on the data and testimony submitted in this case, the ALJ recommends, 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 at Docket No. R-2017-2587526, deem the complaints at Docket Nos. C-2017-2588484 and C-2017-2589993 satisfied, and mark the proceedings closed.

II. BACKGROUND

- 1) On February 1, 2017, PGW filed its supporting information for the pre-filing for its annual 2017-2018 Gas Cost Rate (“GCR”) pursuant to 66 Pa. C.S. § 1307 and 52 Pa. Code § 53.64 (“February 1, 2017 Pre-filing”).
- 2) At that time, PGW also noted that – pursuant to the Commission’s approval in its 2016-2017 GCR – it intended to depart from certain requirements of 52 Pa. Code Sections 53.45(b), 53.64(c), 53.68(a) and 53.64(i)(5)(i) to address the timing of bill inserts, public notice and underlying data to be relied upon for the March 1, 2017 quarterly 1307(f) filing.
- 3) On February 7, 2017, I&E filed a notice of appearance.
- 4) On February 10, 2017, OSBA filed a Public Statement, a Notice of Appearance, and a Formal Complaint (docketed at C-2017-2588484).
- 5) On February 21, 2017, PICGUG filed a Petition to Intervene.
- 6) On February 21, 2017, the OCA filed a Public Statement, a Notice of Appearance, and a Formal Complaint (docketed at C-2017-2589993).
- 7) Per letter filed on February 22, 2017, PGW stated its intention not to file answers consistent with 52 Pa. Code § 5.61(d).

- 8) On March 1, 2017, PGW filed its Section 1307(f) filing which included proposed tariff revisions, supporting information regarding the computation of annual purchased gas costs for twelve months ending August 31, 2018,² and the direct testimony of Kenneth Dybalski (PGW St. 1) and Raymond Snyder (PGW St. 2). An Errata to PGW St. 2 was filed on March 8, 2017. This 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.
- 9) As required by Commission regulations and consistent with the 2016-2017 GCR Settlement, PGW provided public notice of its proposed GCR rate in Supplement No. 102 through bill inserts during the one-month billing cycle beginning on March 1, 2017, which concluded on March 31, 2017. Also, PGW published notice in the *Philadelphia Daily News*, *Philadelphia Inquirer*, and *Legal Intelligencer* on March 1, 2017; in the *Philadelphia Tribune* on March 3, 2017; and *Al Dia* on March 8, 2017.
- 10) A Prehearing Conference was held on March 15, 2017, in which all of the parties participated.
- 11) As set forth in Prehearing Order #1 dated March 16, 2017, during the prehearing conference, the Petition to Intervene of PICGUG was granted. In addition, discovery modifications and a litigation schedule were adopted.
- 12) Discovery, both formal and informal, was undertaken by I&E, OCA, and OSBA. Formal discovery consisted of 39, 82, and 11 interrogatories (not including subparts) propounded by these parties, respectively.

² The data in support of its Tariff supplement related to, *inter alia*, the GCR; the Price to Compare; and, the rates for various surcharges including the Restructuring and Consumer Education Surcharge, the Universal Service and Energy Conservation Surcharge, and the Other Post Employment Benefit Rider Surcharge.

- 13) Consistent with the litigation schedule, I&E and OCA served direct testimony on April 19, 2017. No other party elected to serve direct testimony.
- 14) Based on the review of the testimony in this matter and settlement discussions, a settlement was reached which resolves all issues pertaining to PGW's 2017-2018 annual GCR Filing.

III. SETTLEMENT

The undersigned Settling Parties, intending to be legally bound and for due consideration given, agree to accept the underlying data and calculations submitted by PGW in its February 1, 2017 pre-filing and its March 1, 2017 annual filing subject to the terms and conditions set forth below:

1) PURCHASED GAS COST RATES

- a) The GCR rate adopted by this Settlement is \$4.8158 per Mcf. This rate is predicated on PGW's gas cost projections at the time of the March 1, 2017 annual GCR filing. In accordance with 52 Pa. Code § 53.64, PGW will submit a quarterly adjustment to the GCR rate on or before September 1, 2017, 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 GCR rate, effective September 1, 2017.
- b) PGW shall calculate the quarterly filing updates for the 2017-2018 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) INTEREST RATE FOR OVER/UNDER COLLECTIONS

PGW will calculate the interest rate for over/under collections for the period September through November 2016 using the prime rate for commercial borrowing in effect sixty (60) days

prior to the filing of PGW's 2017-2018 GCR annual filing made on March 1, 2017, as reported in the Wall Street Journal.

3) INTEREST RATE FOR SUPPLIER REFUNDS

PGW, will, in future GCR proceedings, calculate supplier refunds at the rate of six percent (6%) unless and until the Commission makes an alternate ruling or such rate is changed by legislative or other legal process.

4) GAS SUPPLY PURCHASES

For gas supply purchases delivered using its Texas Eastern Transmission Corporation ("TETCO") and Transcontinental Gas Pipe Line ("Transco") firm transportation capacity, PGW will purchase supplies from the pipeline zone with the lowest delivered cost, reserving the right to make gas supply purchases from other zones for reasons related to availability and/or reliability.

5) RETAINAGE CHARGE

PGW will, on a going forward basis, modify its application of the retainage charge by calculating retainage by dividing delivered volumes by the formula (1 minus PGW's actual LUGF experience) consistent with the Company's Gas Supplier Tariff.

6) PLANALYTICS ENERGY BUYER SERVICES

PGW is permitted to continue to recover the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) on a going forward basis.

7) OFF-SYSTEM SALES MARGIN, CAPACITY RELEASE CREDIT AND ASSET MANAGEMENT MARGIN/CREDIT/FEE RETENTION

PGW is permitted to continue to retain 25% of capacity release credits (excluding capacity release to firm transportation suppliers), off-system sales margin, and asset management margin/credit/fees, with the remaining 75% applied as an offset to purchased gas costs.

8) NOTICE OF FUTURE ANNUAL GCRS AND USE OF ESTIMATED DATA FOR MARCH QUARTERLY GCR

a) Consistent with the Commission's July 21, 2016 Order at Docket No. R-2016-2526700 approving the parties' Settlement, at Ordering Paragraph 10, and as utilized by PGW in its February 1, 2017 pre-filing at Docket No. R-2017-2587526,³ PGW requests that the Commission permit PGW to continue to proceed as follows in its 2018-2019 GCR proceedings:

- (1) provide written notice to customers by bill insert in the one-month billing cycle commencing on the date of the annual 1307(f) filing, on March 1, of a tariff addendum and tariff or tariff supplement reflecting changes in purchased gas costs and ending no later than thirty (30) days after the filing of such tariff addendum and tariff or tariff supplement, instead of beginning such notice with the one-month billing cycle commencing thirty (30) days prior to the filing of the tariff addendum and tariff or tariff supplement as required by 52 Pa. Code § 53.68(a);
- (2) in company offices in which payments are accepted, provide public notice on the date of the annual 1307(f) filing, March 1, of a tariff addendum and tariff or tariff supplement reflecting changes in purchased gas costs, instead of thirty (30) days prior to the filing of such tariff addendum and tariff or tariff supplement as required by 52 Pa. Code §§ 53.68(a) and 53.45(b); and
- (3) provide estimated data for both January and February in the March 1 quarterly 1307(f) filing instead of providing actual data for January alone as required by 52 Pa. Code § 53.64(i)(5)(i).

b) The Settling Parties do not object to PGW's request to use the public notice process and estimated data for the March 1 quarterly filing for its 2018-2019 GCR proceeding.

9) ADMISSION OF EVIDENCE

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

³ PGW's request was last made in PGW's Petition for Special Permission filed on January 29, 2016 (and was also used in past proceedings).

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 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 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's Texas Eastern Transmission and Williams' Transco Gas Pipeline are the two interstate natural gas pipelines that deliver gas to PGW's city gates. In addition, PGW uses off-system 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, and LNG, as appropriate given market conditions, and to the extent PGW is not constrained by its financial condition. (PGW St. 2 at 2-6).

- 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. (PGW St. 2 at 6-8).
- 6) The details of PGW's actual gas purchases for the 12 months ending December 31, 2016, and an estimate of gas purchases through August of 2018 are presented in the schedules attached to Tab 1, Item 53.64(c)(1) of PGW's February 1, 2017 Pre-filing and Tabs 3 and 4 of PGW's March 1, 2017 Annual Filing, respectively.
- 7) Projected gas costs as reflected in this Settlement are based on peak-day capacity requirements at a 0 degree design day temperature. (Tab 12, Item 53.64(c)(13) of PGW's February 1, 2017 Pre-filing).
- 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. (Tabs 15, Item 53.65(1), PGW's February 1, 2017 Pre-filing).
- 9) PGW submitted supporting schedules as required by Section 53.64(a) in support of its GCR; the Price to Compare; and, the rates for various surcharges including the Restructuring and Consumer Education Surcharge, the Universal Service and Energy Conservation Surcharge, the Other Post Employment Benefit Rider Surcharges. (PGW St. 1 at 4-7)
- 10) PGW terminated two storage contracts with Transco. The two contracts were terminated on March 31, 2016, and October 31, 2016. (PGW St. 2 at 9-10).
- 11) PGW is in the process of testing the retail operations module of the new Integrated Gas Management System ("IGMS"). The in-service date is expected in the summer of 2017.

The new application will have the ability, with some added configuration, to allow third party suppliers to trade pool imbalance. (PGW St. 2 at 10).

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, 2016,⁴ it is requested that the ALJ 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, 2016, 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, 2017, and with respect to the projected twelve-month period beginning September 1, 2017, 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.

⁴ The reconciliation period for PGW in this proceeding is the twelve-month period ended December 31, 2016, in accordance with the Commission's regulations at 52 Pa. Code § 53.64(i)(1).

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 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 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, 2017, through August 31, 2017, 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, 2017, and the twelve-month application period commencing September 1, 2017, and ending on August 31, 2018.

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 V.3 below, which will continue in full force and effect. The Settlement also shall automatically become null and void (except for paragraph V.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) Each of the Settling Parties will submit a Statement in Support of this Settlement.

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' 2017-2018 GCR Proceeding be approved without change or modification.⁵

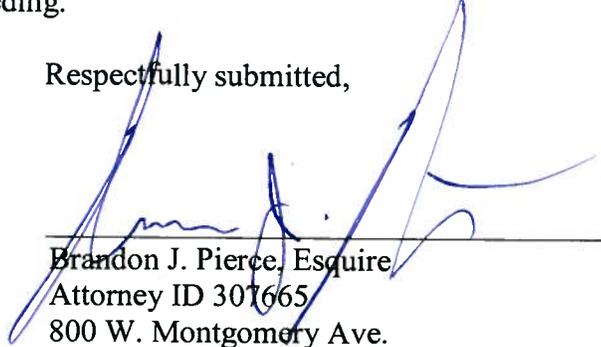
⁵ See Appendix C – Sample Ordering Paragraphs for the Recommended Decision.

VI. CONCLUSION

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

- 1) That Administrative Law Judge 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 2017-2018 GCR proceeding.

Respectfully submitted,



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215-684-6219

Counsel for Philadelphia Gas Works

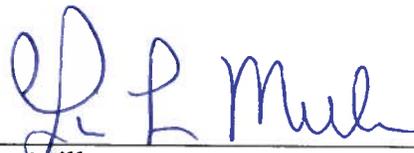
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Harrisburg, PA 17101-1921

Counsel for Office of Consumer Advocate



Gina Miller
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PA Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street, 2nd Floor
Harrisburg, PA 17120

Counsel for Bureau of Investigation & Enforcement

APPENDIX A

<u>Gas Cost Rate</u>	<u>9/1/2017</u>
Rate per Mcf	\$4.8158
<u>Universal Services Surcharge</u>	
	<u>9/1/2017</u>
Rate per Mcf	\$1.2484
<u>Other Post Employment Benefit Surcharge</u>	
	<u>9/1/2017</u>
Rate per Mcf	\$0.3757

APPENDIX B

Stipulated Record

- 1) PGW's February 1, 2017 Pre-filing Information;
- 2) PGW's March 1, 2017 Annual GCR Filing;
- 3) PGW St. 1, Direct Testimony of Kenneth S. Dybalski dated March 1, 2017;
- 4) PGW St. 2, Direct Testimony of Raymond M. Snyder dated March 1, 2017;
- 5) Bureau of Investigation & Enforcement St. 1, Direct Testimony of Christopher Keller and accompanying Exhibit 1; and
- 6) Office of Consumer Advocate St. 1, Direct Testimony of Jerome D. Mierzwa and accompanying Appendix A.

APPENDIX C

Sample Ordering Paragraphs for Recommended Decision

- 1) The Joint Petition for Settlement of Philadelphia Gas Works' 2017-2018 GCR Proceeding submitted by the Philadelphia Gas Works, the Bureau of Investigation and Enforcement and the Office of Consumer Advocate is approved.
- 2) Philadelphia Gas Works is authorized to file a tariff supplement to reflect rates and terms consistent with this order to be effective for services rendered on or after September 1, 2017, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1, 2017, to reflect actual experience and changes in forecasted natural gas prices.
- 3) Philadelphia Gas Works is permitted to calculate the interest rate for over/under collections for the period September through November 2016 using the prime rate for commercial borrowing in effect sixty (60) days prior to the filing of PGW's 2017-2018 GCR annual filing made on March 1, 2017, as reported in the Wall Street Journal.
- 4) Philadelphia Gas Works, is permitted, in future GCR proceedings, to calculate supplier refunds at the rate of 6% unless and until the Commission makes an alternate ruling or such rate is changed by legislative or other legal process.
- 5) For gas supply purchases delivered using its Texas Eastern Transmission Corporation ("TETCO") and Transcontinental Gas Pipe Line ("Transco") firm transportation capacity, Philadelphia Gas Works is authorized to purchase supplies from the pipeline zone with the lowest delivered cost, reserving the right to make gas supply purchases from other zones for reasons related to availability and/or reliability.
- 6) Philadelphia Gas Works is permitted, on a going forward basis, to modify its application of the retainage charge by calculating retainage by dividing delivered volumes by the

formula (1 minus PGW's actual LUGF experience) consistent with the Company's Gas Supplier Tariff.

- 7) Philadelphia Gas Works is permitted to continue to recover the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) on a going forward basis.
- 8) Philadelphia Gas Works is permitted to continue to retain 25% of capacity release credits, off-system sales margin and asset management margin/credit/fees with the remaining 75% applied as an offset to purchased gas costs.
- 9) Philadelphia Gas Works is permitted to proceed as follows in its 2018-2019 GCR proceedings:
 - (1) provide written notice to customers by bill insert in the one-month billing cycle commencing on the date of the annual 1307(f) filing, on March 1, of a tariff addendum and tariff or tariff supplement reflecting changes in purchased gas costs and ending no later than thirty (30) days after the filing of such tariff addendum and tariff or tariff supplement, instead of beginning such notice with the one-month billing cycle commencing thirty (30) days prior to the filing of the tariff addendum and tariff or tariff supplement as required by 52 Pa. Code § 53.68(a);
 - (2) in company offices in which payments are accepted, provide public notice on the date of the annual 1307(f) filing, March 1, of a tariff addendum and tariff or tariff supplement reflecting changes in purchased gas costs, instead of thirty (30) days prior to the filing of such tariff addendum and tariff or tariff supplement as required by 52 Pa. Code §§ 53.68(a) and 53.45(b); and
 - (3) provide estimated data for both January and February in the March 1 quarterly 1307(f) filing instead of providing actual data for January alone as required by 52 Pa. Code § 53.64(i)(5)(i).
- 10) The Commission investigation at Docket R-2017-2587526 is terminated and shall be marked closed.
- 11) The formal complaints at docket numbers C-2017-2588484 and C-2017-2589993 are deemed satisfied and shall be marked closed.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :
: Docket No. R-2017-2587526
v. :
:
PHILADELPHIA GAS WORKS :

**STATEMENT IN SUPPORT OF JOINT PETITION FOR SETTLEMENT
ON PHILADELPHIA GAS WORKS'
2017-2018 GAS COST RATE PROCEEDING**

Philadelphia Gas Works (“PGW” or the “Company”) offers this Statement In Support of the Joint Petition for Settlement (“Settlement”) of its 2017-2018 Gas Cost Rate (“GCR”) Proceeding. The Settlement is offered as a full resolution of the issues in the above-captioned proceeding. PGW supports approval of the Settlement without modification and respectfully requests that Administrative Law Judge (“ALJ”) Marta Guhl and the Pennsylvania Public Utility Commission (“PUC” or “Commission”) make the findings as required by Sections 1317 and 1318 of the Public Utility Code and approve this settlement as in the public interest.

I. BACKGROUND

On February 1, 2017, PGW filed its supporting information for the pre-filing for its annual 2017-2018 Gas Cost Rate (“GCR”) pursuant to 66 Pa. C.S. § 1307 and 52 Pa. Code § 53.64 (“February 1, 2017 Pre-filing”). At that time, PGW also noted that – pursuant to the Commission’s approval in its 2016-2017 GCR – it intended to depart from certain requirements of 52 Pa. Code Sections 53.45(b), 53.64(c), 53.68(a) and 53.64(i)(5)(i) to address the timing of bill inserts, public notice and underlying data to be relied upon for the March 1, 2017 quarterly 1307(f) filing.

On March 1, 2017, PGW filed its Section 1307(f) filing which included proposed tariff revisions, supporting information regarding the computation of annual purchased gas costs for twelve months ending August 31, 2018,¹ and the direct testimony of Kenneth Dybalski (PGW St. 1) and Raymond Snyder (PGW St. 2). An Errata to PGW St. 2 was filed on March 8, 2017. This 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 on February 7, 2017. On February 10, 2017, the Office of Small Business Advocate (“OSBA”) filed a Public Statement, a Notice of Appearance, and a Formal Complaint (docketed at C-2017-2588484). The Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”) filed a Petition to Intervene on February 21, 2017. The Office of Consumer Advocate (“OCA”) filed a Public Statement, a Notice of Appearance, and a Formal Complaint (docketed at C-2017-2589993) on February 21, 2017.

A Prehearing Conference was held on March 15, 2017, in which all of the parties participated. As set forth in Prehearing Order #1 dated March 16, 2017, during the prehearing conference, the Petition to Intervene of PICGUG was granted. In addition, discovery modifications and a litigation schedule were adopted. Discovery, both formal and informal, was undertaken by I&E, OCA, and OSBA. Formal discovery consisted of 39, 82, and 11 interrogatories (not including subparts) propounded by these parties, respectively. Consistent with the litigation schedule, I&E and OCA served direct testimony on April 19, 2017. No other party elected to serve direct testimony.

¹ The data in support of its Tariff supplement related to, *inter alia*, the GCR; the Price to Compare; and, the rates for various surcharges including the Restructuring and Consumer Education Surcharge, the Universal Service and Energy Conservation Surcharge, and the Other Post Employment Benefit Rider Surcharge.

Based on the review of the testimony in this matter and settlement discussions open to all parties, a settlement was reached that resolves all issues pertaining to PGW's 2017-2018 annual GCR Filing. All the facts necessary to approve the Settlement are included in the record of the proceeding through the filing and supporting data, the testimony, and the attachments to the Settlement that have been submitted to the ALJ through stipulation of the Parties.

II. THE SETTLEMENT SATISFIES PGW'S LEGAL OBLIGATIONS

Approval of this Settlement will result in PGW pursuing a least cost fuel procurement policy consistent with PGW's obligation to provide safe, adequate and reliable service. PGW accomplishes this by: (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 margin/credit/fees as an additional cost saving strategy. Fully 75% of the margin/credit/fees are used as a reduction to purchased gas costs. The Settlement adopts four modifications (two proposed by I&E and two by OCA) to PGW's filing that enhance the reasonableness of its GCR.

First, calculating the interest rate for over/under collections for the period September through November 2016 using the prime rate for commercial borrowing in effect sixty (60) days prior to the filing of PGW's 2017-2018 GCR annual filing made on March 1, 2017, as reported in the Wall Street Journal, is in the public interest. Using this calculation will ensure that PGW is utilizing the interest rate in effect at the appropriate time as prescribed by Act 47 of 2016 that amended section 1307 of the Public Utility Code.

Second, in future GCR proceedings, calculating supplier refunds at the rate of six percent (6%) unless and until the Commission makes an alternate ruling or such rate is changed by legislative or other legal process is in the public interest. Using this calculation will ensure that PGW is utilizing the interest rate in effect at the appropriate time as prescribed by law.

Third, for gas supply purchases delivered using its Texas Eastern Transmission Corporation (“TETCO”) and Transcontinental Gas Pipe Line (“Transco”) firm transportation capacity, PGW will purchase supplies from the pipeline zone with the lowest delivered cost, reserving the right to make gas supply purchases from other zones for reasons related to availability and/or reliability. This provision is in the public interest because it ensures that PGW will continue its obligation to purchase gas using least cost procurement for the benefit of its customers.

Fourth, by modifying its modify its application of the retainage charge by calculating retainage by dividing delivered volumes by the formula (1 minus PGW’s actual LUFGE experience) consistent with the Company’s Gas Supplier Tariff on a going forward basis, PGW will ensure that its retainage rate is accurately calculated, which is in the public interest.

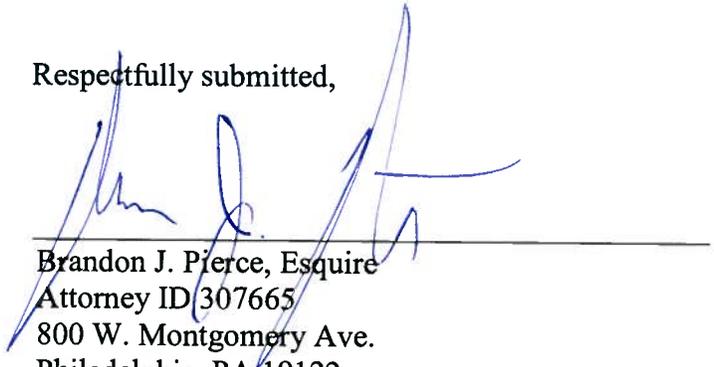
III. APPROVAL OF THE SETTLEMENT IS IN THE PUBLIC INTEREST

Approving PGW’s Petition with the changes set forth in the Settlement is consistent with the Commission’s goal of ensuring the least cost procurement policy and will result in rates and surcharges that are just, reasonable, and compliant with the Public Utility Code. In addition, the Settlement reduces the administrative burden and costs to resolve the issues. For all these reasons, the Settlement is in the public interest and should be adopted.

IV. CONCLUSION

PGW requests that ALJ Guhl and the Commission approve this Settlement, without modification, because it supports PGW's least cost procurement policy, satisfies the Commission's requirements at Sections 1317 and 1318 of the Public Utility Code, and is in the public interest.

Respectfully submitted,



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