

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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June 7, 2017

Rosemary Chiavetta, Secretary  
PA Public Utility Commission  
Commonwealth Keystone Bldg.  
400 North Street  
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v.  
Philadelphia Gas Works 1307(f)  
Docket No. R-2017-2587526

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Statement in Support to the Joint Petition for Settlement in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

/s/ Christy M. Appleby  
Christy M. Appleby  
Assistant Consumer Advocate  
PA Attorney I.D. # 85824

Attachment

cc: Honorable Marta Guhl, ALJ  
Certificate of Service  
234149

CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission :  
v. : Docket Nos. R-2017-2587526  
Philadelphia Gas Works 1307(f) :

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Statement in Support to the Joint Petition for Settlement, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 7th day of June 2017.

SERVICE BY INTER-OFFICE MAIL

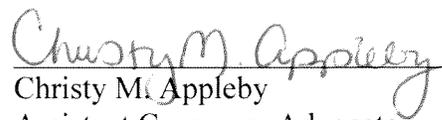
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Mr. Robert D. Knecht  
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2067 Massachusetts Ave.  
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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission,	:	
	:	
v.	:	Docket No. R-2016-2526700
	:	
Philadelphia Gas Works	:	

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STATEMENT OF THE  
OFFICE OF CONSUMER ADVOCATE  
IN SUPPORT OF SETTLEMENT

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The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Petition for Settlement of Philadelphia Gas Works' 2017-2018 GCR Proceeding (Settlement), finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

**I. INTRODUCTION**

On February 9, 2017, Philadelphia Gas Works (PGW or the Company) submitted its pre-filing information required for its annual gas cost rate (GCR) filing pursuant to Section 1307(f) of the Public Utility Code and Section 53.64 of the Commission's regulations. 66 Pa. C.S. § 1307(f); 52 Pa. Code § 53.64. On March 1, 2017, PGW filed its definitive 1307(f) filing. Relative to the March 1, 2017 rate of \$4.9430/Mcf, the Company's definitive filing anticipated a decrease of \$0.1278/Mcf, to a rate of \$4.8152/Mcf, to be effective September 1, 2017.

The Company's filing was assigned to the Office of Administrative Law Judge and further assigned to Administrative Law Judge Marta Guhl for investigation and the scheduling of

hearings to determine whether PGW's purchased gas costs comply with the standards set forth in the Public Utility Code.

On February 21, 2017, the OCA filed a Formal Complaint, Public Statement, and Notice of Appearance. On February 7, 2017, the Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance. On February 10, 2017, the Office of Small Business Advocate (OSBA) filed a Formal Complaint, Public Statement, and Notice of Appearance. On February 21, 2017, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG) filed a Petition to Intervene.

On March 15, 2017, a Prehearing Conference was held, at which time a procedural schedule was established and other preliminary matters were addressed. On April 19, 2017, the OCA submitted the Direct Testimony of Jerome D. Mierzwa. I&E also submitted the Direct Testimony of Christopher Keller.

In accordance with the Commission's Rules and Regulations at 52 Pa. Code § 5.321, the parties undertook discussions in an attempt to reach a settlement. On May 15, 2017, the parties informed ALJ Guhl that a settlement in principle had been reached on all issues. On May 16, 2017, ALJ Guhl issued Prehearing Order #3 that canceled the evidentiary hearings and required the parties to file a Stipulation of Testimony, Settlement, and Statements in Support by June 9, 2017.

The OCA submits that the terms and conditions of the Settlement are in the public interest and should be approved. The OCA addresses the key provisions of the Settlement as set forth below.

## II. SETTLEMENT

### A. GCR Rates

The OCA supports the GCR rates set forth in Appendix A. Settlement at ¶ III (1), Appendix A. The OCA submits that the GCR rates in Appendix A accurately represent the implementation of the terms of the Settlement.

### B. Gas Supply Purchases

PGW's Texas Eastern Transmission Corporation (Texas Eastern or TETCO) firm transportation (FT) capacity can be used to deliver natural gas supplies from the Gulf Coast production region or from the Marcellus Shale production region (Tetco Zone M-2) to the Company's citygate. PGW secured a portion of its Texas Eastern delivered supplies from both the Gulf Coast production region and the Zone M-2. See, OCA St. 1 at 8. Tetco Zone M-2 delivered gas supplies have been consistently less expensive than Tetco Gulf Coast delivered gas supplies. OCA St. 1 at 5-8. OCA witness Mierzwa recommended that the Company modify its purchasing strategy to procure greater supply in Tetco Zone M-2 to ensure that the Company will "adhere to its least-cost procurement obligation at all times for Texas Eastern delivered supply." OCA St. 1 at 8.

The OCA submits that the Settlement is a reasonable resolution to the issue. The Settlement provides:

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.

Settlement at ¶ III (4). The Settlement adopts the OCA's recommendation to ensure that a least cost procurement obligation is maintained, but at the same time, the Settlement provision will

allow the Company the flexibility, when needed, to procure supply outside the zone for reliability purposes. The OCA submits that this modification will lower future gas costs to the benefit of the Company's PGC customers.

C. Retainage Rate

In Direct Testimony, OCA witness Mierzwa identified an error in PGW's calculation of the recovery of the costs associated with Lost and Unaccounted For Gas (LUFG) from its transportation customers. OCA St. 1 at 9. LUFG costs are recovered through a retainage charge from transportation customers. OCA St. 1 at 9. Mr. Mierzwa testified that the Company "incorrectly determined retainage by dividing the retainage volumes by volumes used by the customer rather than the volume delivered to the customer." *Id.* at 10. Mr. Mierzwa explained that the retainage should be assessed on the quantity of gas delivered, or nominated, to an NGDC on behalf of the transportation customer, and not the quantity of gas actually used by the customer. *Id.*

Mr. Mierzwa recommended that the Company modify its application of the retainage charge by dividing delivered volumes by the formula (1 minus PGW's actual LUFG experience). The Settlement corrects the error in the calculation of the retainage charge and provides that:

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 LUFG experience) consistent with the Company's Gas Supplier Tariff.

Settlement at ¶ III (5). The OCA submits that the correction, on a going forward basis, is in the public interest to more accurately reflect the correct retainage rate for transportation customers.

D. Interest Calculation Adjustments

The Settlement adjusts the interest rate for over- and under-collections to the rate in effect sixty days prior to the March 1, 2017 GCR filing, as reported in the Wall Street Journal.

Settlement at ¶ III (2). The Settlement also requires PGW to calculate, in future GCR proceeding, supplier refunds at the rate of six percent. Settlement at ¶ III (3). These adjustments address the concerns of I&E witness Keller, who testified that the Company erred in using a prime rate for commercial borrowing of 3.75% instead of 3.50%. I&E St. 1 at 8. Mr. Keller testified that Act 47 requires that the prime rate for commercial borrowing in effect 60 days prior to the tariff filing. I&E St. 1 at 8. The OCA submits that the Settlement provision is in the public interest because it will ensure that over- and under-collections are calculated for the 2017-2018 GCR period in compliance with the requirements of Act 47.

Regarding supplier refunds, I&E witness Keller recommended that the Company calculate supplier refunds at the rate of six percent. I&E St. 1 at 8-10.<sup>1</sup> Mr. Keller testified that the standard of a six percent rate for supplier refunds in 1307(f) proceedings was set forth in the Re Gas Cost Rate No. 5 case and has not been changed by Act 47. I&E St. 1 at 10. Mr. Keller testified that no other natural gas distribution company uses a different interest rate to calculate supplier refunds. Id. The OCA submits Settlement is in the public interest because it will ensure that PGW's calculation of the supplier refunds are consistent with the standard set forth in Re Gas Cost Rate and with the interest rate used to calculate supplier refunds for all other natural gas distribution companies in 1307(f) proceedings.

E. Notice of Future Annual GCRs and Use of Estimated Data for March Quarterly GCR.

Consistent with the July 21, 2016 Order in PGW's 2016 1307(f) proceeding at Docket No. R-2016-2526700, the Company requests that the Commission allow the Company to follow the same procedure in its 2018-2019 gas cost rate proceeding:

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<sup>1</sup> Mr. Keller made the recommendation on a going-forward basis only because the difference in the calculation for the 2017-2018 GCR period was de minimus. I&E St. 1 at 11.

(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 the 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 date 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)(9).

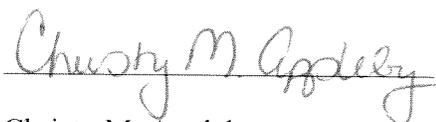
Settlement at ¶ III, (8)(a).

The OCA submits that these provisions were approved in the 2016-2017 GCR proceeding. The OCA does not oppose the Company's request that the Commission grant a similar process for the 2018-2019 1307(f) proceeding. Settlement at ¶ 8(b). The OCA supports, as in the public interest, the Settlement's limitation of this request to the 2018-2019 GCR proceeding.

### III. CONCLUSION

The Office of Consumer Advocate submits that the terms of the Settlement are in the public interest and in the interest of PGW's ratepayers. Based on the above reasons, the Office of Consumer Advocate submits that the proposed Settlement should be approved.

Respectfully Submitted,



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DATE: June 7, 2017  
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