

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2017-2587526
Office of Small Business Advocate	:	C-2017-2588484
Office of Consumer Advocate	:	C-2017-2589993
	:	
v.	:	
	:	
Philadelphia Gas Works	:	

RECOMMENDED DECISION

Before
Marta Guhl
Administrative Law Judge

I. INTRODUCTION

This Recommended Decision proposes the approval of the Joint Petition for Settlement offered by the parties in this matter to resolve all matters related to Philadelphia Gas Works' (PGW or Company) annual 1307(f) filing. The Decision recommends the approval of the Purchased Gas Costs Rates as indicated in Appendix A of the Joint Petition for Settlement. The Decision also recommends that PGW 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 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. The Decision recommends that in future GCR proceedings PGW calculate supplier refunds at the rate of six percent unless and until the Commission makes an alternate ruling or such rate is changed by legislative or other legal process. The Decision also recommends 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 LUGF experience) consistent with the Company's Gas Supplier Tariff. The Decision also recommends that for gas supply purchases delivered using its Texas Eastern Transmission Corporation and Transcontinental Gas Pipe Line 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. The Decision recommends the recovery of the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2017-2018 Gas Cost Rate period. The Decision also recommends that 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. Lastly, the Decision recommends that the procedures for the 2018-2019 1307(f) filing which are outlined in the Joint Settlement Petition be adopted by the Commission.

II. HISTORY OF THE PROCEEDING

On February 1, 2017, the Philadelphia Gas Works (PGW or company) filed its pre-filing information required for its annual 2017-2018 Gas Cost Rate Filing.

On February 7, 2017, Gina L. Miller, Esquire, filed a notice of appearance on behalf of the Commission's Bureau of Investigation and Enforcement (I&E).

On February 10, 2017, the Office of Small Business Advocate (OSBA) filed a Public Statement, a Notice of Appearance on behalf of Sharon Webb, Esq., and a formal Complaint. The Complaint was docketed by the Secretary's Bureau at Docket No. C-2017-2588484.

On February 21, 2017, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG) filed a Petition to Intervene in this proceeding.

On February 21, 2017, the Office of Consumer Advocate (OCA) filed a Public Statement, a Notice of Appearance on behalf of Christy M. Appleby, Esq., Harrison W. Breitman, Esq., and Aron J. Beatty, Esq., and a formal Complaint. The Complaint was docketed by the Secretary's Bureau at Docket No. C-2017-2589993.

On March 1, 2017, PGW filed its 2017-2018 Gas Cost Rate Filing.

The gas cost rate filing was assigned to the Office of Administrative Law Judge for resolution by hearings and for issuance of a Recommended Decision. The matter was assigned to me.

A prehearing conference in this matter was held on March 15, 2017. Counsel for PGW, I&E, OCA, OSBA, and PICGUG participated. On March 16, 2017, I issued Prehearing Order #1 which laid out the procedural schedule in this proceeding.

Consistent with the procedural schedule, I&E and OCA served direct testimony on April 19, 2017. No other party elected to serve direct testimony.

On May 2, 2017, counsel for PGW contacted my office via electronic mail to request that the due date for Rebuttal Testimony be held in abeyance while the parties continued

to discuss settlement in this matter. There was no objection to this request and I granted the request via Prehearing Order #2 dated May 5, 2017.

On May 15, 2017, counsel for PGW contacted my office via email to inform me that the parties had reached a settlement in the above matter. The parties requested that I suspend the procedural schedule and cancel the evidentiary hearings. I granted this request via Prehearing Order #3 dated May 16, 2017.

PGW, I&E and OCA were able to reach a Settlement which resolves all of the issues pertaining to PGW's 2017-2018 annual GCR filing. PGW, I&E and OCA (collectively the Settling Parties) filed the Settlement and Statements in Support of the Settlement on June 7, 2017. Although PICGUG and OSBA did not sign the Settlement, the Settling Parties indicated in the Settlement that both PICGUG and OSBA authorized them to state their non-opposition to the Settlement. The Settlement included a Stipulated Record which included: PGW's February 1, 2017 Pre-filing Information; PGW's March 1, 2017 Annual GCR Filing; PGW St. 1, Direct Testimony of Kenneth S. Dybalski dated March 1, 2017; PGW St. 2, Direct Testimony of Raymond M. Snyder dated March 1, 2017; I&E Statement No. 1, the Direct Testimony of Christopher Keller and I&E Exhibit No. 1, the Exhibit Accompanying the Direct Testimony of Christopher Keller; and the Direct Testimony of Jerome D. Mierzwa, OCA Statement No. 1 and accompanying Appendix A. The Stipulated Record will be admitted into the record through this Recommended Decision.

The record consists of a 17-page transcript, the Company's filings, the testimony and exhibits submitted by PGW, I&E and OCA, the Joint Petition for Settlement and appendices, and the parties' Statements in Support of the Settlement.

The record closed on June 7, 2017, the date that the parties filed the Joint Settlement Petition and Statements in Support.

III. FINDINGS OF FACT¹

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).

¹ The Findings of Fact are the Findings that the parties proposed in the Joint Petition which they requested that the Commission adopt.

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. DESCRIPTION AND TERMS OF THE JOINT PETITION FOR SETTLEMENT OF THE PHILADELPHIA GAS WORKS' 2017-2018 GCR PROCEEDING

The Joint Petition for Settlement is a twelve page document signed by three of the five active parties. Although PICGUG and OSBA did not sign the Settlement, the Settling Parties indicated in the Settlement that both PICGUG and OSBA authorized them to state their non-opposition to the Settlement.² Appendix A contains the rates agreed upon by the Settling Parties. Appendix B contains a list of documents in the stipulated record.

The essential terms of the Joint Petition for Settlement of the Philadelphia Gas Works' GCR proceeding are set forth in Section III of the Joint Petition. Settlement paragraphs 1-9 are as follows:

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.

² Joint Petition at 1, fn1.

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 LUFGE 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).

V. DISCUSSION

It is the policy of the Commission to encourage Settlements. 52 Pa.Code § 5.231. In its policy statement regarding Settlements in major rate cases the Commission provides in pertinent part:

In the Commission's judgment, the results achieved from a negotiated Settlement or stipulation, or both, in which the interested parties have had an opportunity to participate are often preferable to those achieved at the conclusion of a fully litigated proceeding.

52 Pa.Code § 69.401.

PGW, I&E and OCA have agreed to a Settlement that resolves all of the issues in this proceeding. The Settling Parties agree that the Settlement is in the public interest and complies with the Public Utility Code. PGW, I&E and OCA each provided statements in support of the Settlement, each requesting that the presiding officer and the Commission approve the Joint Petition for Settlement in its entirety.

A. SETTLEMENT AND STATEMENTS IN SUPPORT

1. Purchased Gas Cost Rates

The Purchased Gas Cost (PGC) 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 PGC filing. PGW shall calculate the quarterly filing updates for the 2017-2018 PGC period in accordance with the Commission's regulations at 52 Pa.Code § 53.64(i)(5). (Joint Petition for Settlement, Appendix A). The Settling Parties agreed that, in order to account for actual experience and changes in forecasted natural gas prices and demand, PGW will submit a quarterly adjustment to the PGC rate on or before September 1, 2017, to be effective on one day's notice, in accordance with 52 Pa.Code § 53.64.

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....”⁴ I&E’s 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 PGC customers. PGW’s average costs reported to the Commission in its quarterly filings demonstrate the prudence of its purchasing practices. (I&E Statement in Support at 4-5).

I&E contends that 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.⁵ 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. (I&E Statement in Support at 5).

PGW argues that 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 contends that it 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. (PGW Statement in Support at 3).

⁴ 66 Pa.C.S. § 1318.

⁵ Joint Petition at 7.

OCA indicates that the terms of the Settlement are in the public interest and in the interest of PGW's ratepayers but did not discuss the issue of the purchased gas cost rates specifically in its Statement in Support. (OCA Statement in Support at 3).

2. Interest Rate for Over/Under Collections

In the Settlement, PGW agreed 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 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.⁶

I&E noted that this term resolved an issue that was raised in the direct testimony of I&E witness Christopher Keller. In his testimony, I&E witness Keller indicated that the interest rates that PGW used in calculating its over/under collections were inconsistent with the interest rate identified in Act 47 of 2016.⁷ As Mr. Keller indicated, Act 47 provides, in part:

[r]efunds to customers shall be made with and recoveries from customers shall include interest at the prime rate for commercial borrowing in effect 60 days prior to the tariff filing made under paragraph (1) and as reported in a publicly available source identified by the commission or at an interest rate which may be established by the commission by regulation.⁸

Mr. Keller noted that PGW calculated its over/under collections by utilizing an interest rate of 3.50% for September, October, and November 2016, and 3.75% for the period December 2016 through August 2017.⁹ According to Mr. Keller, the use of 3.50% for September through November of 2016, was inappropriate, given that PGW filed its tariff on March 1, 2017, and that the prime rate for commercial borrowing within sixty days prior was 3.75%.¹⁰ For this reason, I&E recommended that PGW use an interest rate of 3.75% for the calculation of over/under

⁶ Joint Petition at 4-5, ¶2.

⁷ 66 Pa.C.S. §1307(f)(5); I&E St. No. 1, p. 5-7.

⁸ *Id.*

⁹ I&E St. No. 1, p. 6 (referencing PGW Book 2, Tab 2, Sch. 5(b)).

¹⁰ I&E St. No. 1, p. 7.

collections, producing a reduction of \$28,048 (\$362,341 - \$334,293) to PGW's calculated interest adjustment, based on Mr. Keller's testimony.¹¹ (I&E Statement of Support at 5-6).

I&E submits that PGW's agreement to calculate its over/under collections in the manner prescribed by Act 47 is in the public interest. I&E argues the public interest is served when utilities calculate over/under collections using the statutorily specified interest rate because such use eliminates subjective judgment in the calculation. Additionally, I&E contends that applying the interest rate specified by Act 47 promotes order and certainty in the resulting calculations, and promotes consistency of the regulated community. Accordingly, I&E asserts that adoption of this Settlement term is in the public interest. (I&E Statement in Support at 6-7).

PGW argues 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 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. PGW asserts that using this calculation will ensure that it is utilizing the interest rate in effect at the appropriate time as prescribed by Act 47 of 2016. (PGW Statement in Support at 3).

OCA submits that the Settlement provision is in the public interest because it will ensure that over/under collections are calculated for the 2017-2018 GCR period in compliance with the requirements of Act 47. (OCA Statement in Support at 5).

3. Interest Rate for Supplier Refunds

Pursuant to the Settlement, PGW has agreed in future GCR proceedings, to calculate supplier refunds at the rate of six percent unless and until the Commission makes an alternate ruling or such rate is changed by legislative or other legal process.¹²

¹¹ *Id.*, pp. 7-8.

¹² Joint Petition at 5, ¶3.

This term is a compromise between PGW and I&E. As I&E witness Keller explained, the calculation of supplier refunds impacts PGW's customers.¹³ In this case, Mr. Keller acknowledged that PGW calculated supplier refunds with an interest rate of 3.50% for September, October, and November 2016, and 3.75% for months December 2016 through August 2017.¹⁴ According to Mr. Keller, the interest rates that PGW employed in its calculation of supplier refunds did not comport with Commission precedent which set the interest rate to be applied for supplier refunds at 6%.¹⁵ I&E witness Keller recommended that PGW adjust the interest rate to six percent in its future GCR proceedings.¹⁶ (I&E Statement in Support at 7-8).

I&E argues that PGW's agreement to calculate supplier refunds with a 6% interest rate in future GCR proceedings serves the public interest in several ways. First, as I&E explained, supplier refunds are flowed back to customers who previously paid higher unadjusted charges, so ensuring that the refunds are correctly calculated is in the public interest. Additionally, applying the interest rate specified by the Commission promotes order and certainty in the resulting calculations, and promotes consistency of the regulated community. Finally, recognizing that the impact of making an adjustment to the interest in this proceeding would be de minimis avoids wasting PGW's resources, which would likely exceed the \$101 impact of the adjustment. At the same time, this term also ensures that PGW will honor the Commission's directive in future proceedings where the impact to customers could be of greater significance. Accordingly, I&E avers that this term is in the public interest. (I&E Statement in Support at 8).

PGW indicates that in future GCR proceedings, calculating supplier refunds at the rate of six percent 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. PGW argues that using this calculation will ensure that PGW is utilizing the interest rate in effect at the appropriate time as prescribed by law. (PGW Statement in Support at 3).

¹³ I&E St. No. 1, p. 8.

¹⁴ *Id.* at 9.

¹⁵ I&E St. No. 1, p. 10, citing *Re Gas Cost Rate No. 5*, 58 P.U.R. 4th 369, 377 (March 16, 1984).

¹⁶ I&E St. No. 1, pp. 9-10.

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. (OCA Statement in Support at 5).

4. Retainage Rate

The Settlement indicates 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.¹⁷

OCA indicates that its 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.¹⁸ OCA notes that LUFG costs are recovered through a retainage charge from transportation customers.¹⁹ 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."²⁰ 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.²¹ (OCA Statement in Support at 4).

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). OCA contends that the correction, on a going forward basis, is in the public interest to more accurately reflect the correct retainage rate for transportation customers. (OCA Statement in Support at 4).

¹⁷ Joint Petition at ¶ III (5).

¹⁸ OCA St. 1 at 9.

¹⁹ *Id.*

²⁰ *Id.* at 10.

²¹ *Id.*

PGW asserts that by modifying 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. (PGW Statement in Support at 4).

I&E makes no comment on the issue of the retainage rate in its Statement in Support.

5. Gas Supply Purchases

The Settlement provides that 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.²²

OCA argues that PGW's TETCO firm transportation 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. OCA notes that PGW secured a portion of its TETCO delivered supplies from both the Gulf Coast production region and the Zone M-2.²³ Further, OCA indicates that TETCO Zone M-2 delivered gas supplies have been consistently less expensive than TETCO Gulf Coast delivered gas supplies.²⁴ 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 TETCO delivered supply."²⁵ (OCA Statement in Support at 3).

²² Joint Petition at ¶ III (4).

²³ See, OCA St. 1 at 8.

²⁴ OCA St. 1 at 5-8.

²⁵ OCA St. 1 at 8.

OCA contends that the Settlement is a reasonable resolution to the issue. OCA notes that the Settlement adopts its 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. OCA asserts that this modification will lower future gas costs to the benefit of the Company's PGC customers. (OCA Statement in Support at 3-4).

PGW maintains that for gas supply purchases delivered using its TETCO and Transco firm transportation capacity, it 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. PGW argues that this provision is in the public interest because it will continue its obligation to purchase gas using least cost procurement for the benefit of its customers. (PGW Statement in Support at 4).

I&E makes no comment on this issue in its Statement in Support.

6. 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 \$125,000.²⁶

I&E agrees that PGW's permitted recovery of the price analysis and buying advisory service fee is in the public interest, as the Public Utility Code provides that risk management tools are included in the definition of gas costs.²⁷ I&E argues that subject to a cap of \$125,000, it is appropriately recovered from PGC customers to enable PGW to mitigate the financial risk in its gas supply portfolio. (I&E Statement in Support at 9).

Neither PGW nor OCA have any comments on this issue in their Statements in Support.

²⁶ Joint Petition at 5, ¶5.

²⁷ 66 Pa.C.S. 1307(h).

7. 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.²⁸ 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. (I&E Statement of Support at 9)

PGW argues that 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 states that it accomplishes this by 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. PGW asserts that this Settlement is in the public interest for this reason. (PGW Statement in Support at 3).

8. 2018-2019 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 2018-2019 GCR proceeding, as outlined in the Joint Petition.²⁹

I&E notes that PGW's use of the public notice process and estimated data is consistent with previous requests that PGW made and were granted in several of PGW's past GCR proceedings. I&E avers that 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

²⁸ Joint Petition at 5-6, ¶7.

²⁹ Joint Petition at 6, ¶8(a).

with the Joint Petitioners again on the same basis for PGW's next annual GCR filing. (I&E Statement in Support at 10).

OCA notes that these provisions were approved in the 2016-2017 GCR proceeding. OCA does not oppose the Company's request that the Commission grant a similar process for the 2018-2019 1307(f) proceeding. OCA supports, as in the public interest, the Settlement's limitation of this request to the 2018-2019 GCR proceeding. (OCA Statement in Support at 6).

PGW argues that allowing it to utilize the same customer notice procedures and data for next year's GCR reduces the administrative burden and costs to resolve the issues. (PGW Statement in Support at 4).

9. Settlement in General

I&E's 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. I&E states that the purchasing plan provides reasonable protections for ratepayers and enables the company to adhere to the regulatory requirements in acquiring supplies for its customers. I&E maintains that PGW's projections and plans are reasonable and are in the public interest. (I&E Statement in Support at 10). Although I&E did serve Direct Testimony in this proceeding, I&E indicates that it 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. I&E also indicates that it is satisfied that no further action is necessary and considers its investigation of this filing complete. Lastly, based upon its analysis of the filing, I&E maintains that acceptance of the proposed Settlement is in the public interest because the provisions adequately protect the interests of all affected parties. (I&E Statement in Support at 11).

PGW asserts that 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 Statement in Support at 4). PGW contends that this is accomplished 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. (PGW Statement in Support at 3). PGW also maintains that approving PGW's Petition with the changes as 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. Finally, PGW argues that the Settlement reduces the administrative burden and costs to resolve the issues. (PGW Statement in Support at 4).

OCA submits that the terms of the Settlement are in the public interest and in the interest of PGW's ratepayers. (OCA Statement in Support at 7).

B. ANALYSIS

In determining whether the parties' Settlement should be approved, one must decide whether the Settlement promotes the public interest. *See Pa. Pub. Util. Comm'n v. C.S. Water and Sewer Associates*, 74 Pa. PUC 767 (1991), *Pa. Pub. Util. Comm'n v. Philadelphia Electric Company*, 60 Pa. PUC 1 (1985).

The Settlement contains several provisions that are designed to advance the least cost procurement objective which ultimately benefits ratepayers. The PGC rate adopted by the Settlement is \$4.8158 per Mcf. In the Settlement, PGW agreed 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 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, pursuant to 66 Pa.C.S. § 1307(f)(5). The Settling Parties agreed to the recommendation of I&E's witness, regarding PGW use of an interest rate of 3.75% for the calculation of over/under collections, producing a reduction of \$28,048 (\$362,341 - \$334,293) to PGW's calculated interest adjustment. The Settling Parties also agree 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 LUGF experience) consistent with the Company's Gas Supplier Tariff. Pursuant to the Settlement, PGW has agreed in future GCR proceedings, to calculate supplier refunds at the rate of six percent unless and until the Commission makes an alternate ruling or such rate is changed by legislative or other legal process.

The Settlement provides that for gas supply purchases delivered using its TETCO and 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. The Settlement indicates that PGW will provide an annual reconciliation of its retainage rate and lost and unaccounted for rate in its March 1 annual filing. The Settlement specifies that PGW's current monthly imbalance procedures should remain in place going forward. Additionally, the Settlement also provides that 75% of all off-system sales margins, capacity release credits and asset management margins/credits/fees will be applied as an offset to purchased gas costs, which will directly benefit PGW's ratepayers. Moreover, the Settlement provides for PGW's continued retention of a price analysis and buying advisory service at a reasonable cost (subject to a maximum of \$125,000) in order to provide the Company with relevant market information to assist it when it makes gas purchases and mitigate the financial risks in its gas supply portfolio. No party opposed PGW's request to seek a waiver of the requirements of 52 Pa.Code §§ 53.45(b), 53.64(c), 53.64(i)(5)(i) and 53.68(a) for the 2018-2019 GCR proceeding. All parties agree that it would be efficient to use the proposed procedures for the 2018-2019 GCR proceeding. , These provisions of the agreement are designed to help PGW operate in a more efficient manner. Consequently, the parties have resolved the issues in this matter. After considering the Joint Petition for Settlement of Philadelphia Gas Works' 2017-2018 Proceeding as well as the savings achieved by not fully litigating this case, it is my opinion that the Settlement is fair, just, reasonable and in the public interest. Accordingly, I recommend that the Joint Petition for Settlement of Philadelphia Gas Works' 2017-2018 Proceeding be approved in its entirety and without modification.

VI. CONCLUSIONS OF LAW³⁰

1. The Commission has jurisdiction over the parties and subject matter of this proceeding. 66 Pa.C.S. §§1307(f), 1317 and 1318.

2. PGW has met the requirements of Section 1318 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.

3. PGW's rates for purchased gas costs, as the parties have agreed upon in this proceeding, during the relevant time period are just and reasonable and in compliance with 66 Pa.C.S. §1318.

4. With respect to PGW's gas purchases and gas purchasing practices during the twelve-month historical reconciliation period ended December 31, 2016, 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.

5. During twelve months ended December 31, 2016, PGW met the requirements of Section 1318(a) of the Public Utility Code, 66 Pa.C.S. § 1318(a), by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers.

6. With respect to the eight-month interim period beginning on January 1, 2017, and the projected twelve-month period beginning September 1, 2017, 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, 66 Pa.C.S. § 1318.

³⁰ Conclusions of Law Nos. 6 & 7 are Conclusions that the parties proposed in the Joint Petition which they requested that the Commission adopt.

7. If gas purchases and gas purchasing practices from January 1, 2017, through August 31, 2017, are 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.

8. To determine whether the parties' Settlement should be approved, one must decide whether the Settlement promotes the public interest. See *Pa. Pub. Util. Comm'n v. C.S. Water and Sewer Associates*, 74 Pa. PUC 767 (1991); *Pa. Pub. Util. Comm'n v. Philadelphia Electric Company*, 60 Pa. PUC 1 (1985).

9. The joint settlement petition is in the public interest.

VI. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Stipulation of the Record by the parties is adopted and PGW's February 1, 2017 Pre-filing Information, PGW's March 1, 2017 Annual GCR Filing, PGW St. 1, Direct Testimony of Kenneth S. Dybalski dated March 1, 2017, PGW St. 2, Direct Testimony of Raymond M. Snyder dated March 1, 2017, I&E Statement No. 1, the Direct Testimony of Christopher Keller and I&E Exhibit No. 1, the Exhibit Accompanying the Direct Testimony of Christopher Keller, and the Direct Testimony of Jerome D. Mierzwa, OCA Statement No. 1 and accompanying Appendix A are entered in the record at Docket No. R-2017-2587526.

2. That the Joint Petition for Settlement of the Philadelphia Gas Works' 2017-2018 Gas Cost Rate Proceeding, including all appendices and documents identified therein, is admitted into the record of the proceeding at Docket Number R-2017-2587526;

3. That the Joint Petition for Settlement of the Philadelphia Gas Works' 2017-2018 Gas Cost Rate Proceeding submitted by the Philadelphia Gas Works, the Bureau of Investigation and Enforcement, and the Office of Consumer Advocate at Docket No. R-2017-2587526 be approved;

4. That the Philadelphia Gas Works be authorized to file a tariff supplement to reflect rates and terms consistent with the Settlement and applicable to the Section 1307(f) purchased gas cost rate investigation at Docket No. R-2017-2587526 to be effective upon at least one day's notice after entry of the Commission's order approving the Settlement 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) of the Joint Petition;

5. That the Philadelphia Gas Works shall calculate the quarterly filing updates for the 2017-2018 Gas Cost Rate period in accordance with the Commission's regulations at 52 Pa.Code § 53.64(i)(5);

6. That Philadelphia Gas Works will provide an annual reconciliation of its retainage rate and lost and unaccounted for rate in its March 1 annual filing;

7. That the Philadelphia Gas Works will provide, in its March 1, 2018 annual filing, an evaluation of the monthly imbalance reconciliation procedure. The evaluation will focus on whether the imbalance reconciliation procedure at issue protects GCR customers within the context of all four monthly imbalance reconciliation procedures;

8. That the 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;

9. That the 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;

10. That the 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;

11. That for gas supply purchases delivered using its Texas Eastern Transmission Corporation and Transcontinental Gas Pipe Line firm transportation capacity, the 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;

12. That the Philadelphia Gas Works shall recover the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2017-2018 Gas Cost Rate period. Continued recovery of the fee beyond the 2017-2018 Gas Cost Rate period must be addressed in next year's Purchased Gas Cost proceeding;

13. That the Philadelphia Gas Works shall retain 25% of all off-system sales margins, capacity release credits and asset management margins/credits/fees with the remaining 75% applied as an offset to purchased gas costs. The retention period is September 1, 2017 to August 31, 2018 unless the Commission approves continuation. The Company shall include an off-system sales margin, capacity release credit and asset management margins/credits/fees

retention proposal for the Purchased Gas Cost period(s) beginning on September 1, 2018 in its March 1, 2018, annual 1307(f) filing;

14. That the Philadelphia Gas Works be 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)

15. That the formal Complaint filed by the Office of Consumer Advocate at C-2017-2589993 be deemed satisfied;

16. That the formal Complaint filed by the Office of Small Business Advocate at C-2017-2588484 be deemed satisfied;

