



COMMONWEALTH OF PENNSYLVANIA

September 25, 2017

E-FILED

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

**Re: Pennsylvania Public Utility Commission v. Philadelphia Gas Works 2017
Base Rate Filing / Docket No. R-2017-2586783**

Dear Secretary Chiavetta:

Enclosed for filing are the Exceptions to the Recommended Decision, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-docketed proceeding. As evidenced by the enclosed Certificate of Service, copies will be served on all known parties in this case.

If you have any questions, please contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Sharon E. Webb'.

Sharon E. Webb
Assistant Small Business Advocate
Attorney ID No. 73995

Enclosures

cc: Mr. Robert D. Knecht
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC
UTILITY COMMISSION**

v.

PHILADELPHIA GAS WORKS

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**DOCKET NOS. R-2017-2586783
C-2017-2593497**

**EXCEPTIONS
ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE**

**Sharon E. Webb
Assistant Small Business Advocate
Attorney ID No. 73995**

**For: John R. Evans
Small Business Advocate**

**Office of Small Business Advocate
300 North Second Street, Suite 202
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Dated: September 25, 2017

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I. INTRODUCTION-PROCEDURAL HISTORY

On February 27, 2017, Philadelphia Gas Works (“PGW” or the “Company”) filed Tariff Supplement 100 to Gas Service Tariff – Pa. P.U.C. No. 2 (“Supplement No. 100”) to become effective February 28, 2017. The proposed Tariff, if approved by the Commission, would have increased the retail distribution rates of PGW by \$70 million per year.

The Office of Small Business Advocate (“OSBA”) filed a Complaint on March 13, 2017.

On March 16, 2017, the Pennsylvania Public Utility Commission (“Commission” or “PUC”) suspended Supplement No. 100 until November 28, 2017, in order to conduct an investigation into the lawfulness, justness, and reasonableness of PGW’s proposed rate increase. In addition, the Commission ordered that the investigation include consideration of the lawfulness, justness, and reasonableness of PGW’s existing rates. The matter was assigned to Administrative Law Judges (“ALJs”) Marta Guhl and Christopher P. Pell.

On March 29, 2017, a prehearing conference was held before ALJ Guhl and ALJ Pell.

The following parties are the known, active parties involved in this proceeding: the OSBA; the Office of Consumer Advocate (“OCA”); the Bureau of Investigation and Enforcement (“I&E”); Action Alliance of Senior Citizens of Greater Philadelphia (“Action Alliance”); Tenant Union Representative Network (“TURN”); the Philadelphia Industrial and Commercial Users Group (“PICGUG”); and the Retail Energy Supply Association (“RESA”).

Public input hearings were held on May 9 and May 10, 2017.

On May 16, 2017, the OSBA submitted the direct testimony of Robert D. Knecht.

On June 9, 2017, the OSBA submitted the rebuttal testimony of Mr. Knecht.

On June 22, 2017, the OSBA submitted the surrebuttal testimony of Mr. Knecht.

Evidentiary hearings were held before the ALJs on June 28, 2017.

Prior to the evidentiary hearings, the parties notified the ALJs that they had reached a settlement on many of the issues and that all parties had waived cross examination on all issues.

The testimony of OSBA Witness Knecht was moved into the record at the June 28th evidentiary hearing.

The OSBA and other parties to the proceeding submitted main and reply briefs pursuant to the procedural schedule set forth in the ALJs' June 30, 2017 Briefing Order.

ALJs Pell and Guhl's Recommended Decision ("R.D.") was issued on September 8, 2017.

The OSBA respectfully submits this exception to the ALJs' R.D.

II. EXCEPTION

The ALJs erred in concluding that PGW's current allocation of universal service costs, which includes recovery from the commercial and industrial classes, should be retained. (R.D. at 110-111)

A. OSBA's Proposal

When PGW became subject to the Commission's jurisdiction, the Company was allocating the costs of its universal service programs to all customer classes. Without deciding the merits of that allocation, the Commission has allowed PGW to continue to charge non-residential customers for universal service costs even though only residential customers are eligible for the Company's universal service programs.

In this proceeding, the OSBA proposed that non-residential customers be relieved of having to contribute toward PGW's universal service costs collected through the Universal Service and Energy Conservation Surcharge ("USEC"). Specifically, the OSBA proposed to decouple the issue of cost responsibility for the USEC from the issue of the overall allocation of revenue responsibility among the rate classes.

To that end, Mr. Knecht set forth a detailed change in the cost allocation and rate design methodology that would ultimately have no impact on residential rates in the context of this proceeding.¹

¹ OSBA Statement No. 1 at 36

B. The Recommended Decision

The ALJs rejected the recommendation of the OSBA to phase out the allocation of universal service costs to non-residential customers.² As their rationale for rejecting the OSBA's proposal, the ALJs stated, in part:

We note that there is nothing in PGW's allocation of universal service costs to all firm customers that violates the Public Utility Code or the Commission's regulations. Moreover, PGW's allocation of universal service costs and related rate design has been found to be just, reasonable and in the public interest in several past proceedings.

Due to the size of PGW's universal service program, the number of participants in its universal service programs and the amount of universal service costs already allocated to the residential customers, a total realignment of its USC costs to the residential rate class, together with the \$42 million rate increase under the Partial Settlement, is not appropriate at this time. The parties that oppose reallocation of the universal service costs in this proceeding estimated that exempting firm commercial and industrial customers would transfer an additional \$11.6 million in universal service costs to the residential class, and that transferring these costs would increase PGW's proposed overall rate increase for residential customers by 2.3%. It appears that this would result in an overall rate increase for residential customers of about 8.6% (2.3% plus 6.3%).

We must also take into consideration the fact that a substantial number of PGW's low-income customers have service involuntarily disconnected for non-payment. Specifically, the percent of households experiencing an involuntary disconnect for nonpayment has increased to nearly 13%, and the percentage of low-income customers in arrears has nearly tripled from 5.1% in 2013 to 13.1% in 2015. Moreover, the percentage of total residential accounts in arrears that are associated with low income customers has increased from 12% in 2013 to 26% in 2015. Based on the evidence in this proceeding, we find that low-income customers will be disproportionately impacted by

² R.D. at 110

the OSBA's proposed shift of costs to residential customers.³

At the outset, it should be noted that the OSBA is sensitive to the concerns of low income customers. However, it is also particularly concerned that some of the small business owners it represents are paying for USEC in their homes, and then a second time in their businesses. Thus, the OSBA's proposal shifts USEC costs with no impact to residential or low-income customers.

Incorrectly, the ALJs seem to be inferring that OSBA's proposal instead somehow runs afoul of the principles of rate shock and gradualism. However, the impact of both rate shock and gradualism, while moving rate responsibility for universal service costs to the residential class, are considered in the overall revenue allocation for the proceeding.

The OSBA's proposal results in the same overall increase for all rate classes as agreed to in the Joint Petition. Unfortunately, the ALJs simply have their facts wrong. There is no \$11.6 million incremental impact from the OSBA proposal. There is no 2.3 percent incremental impact from the OSBA proposal. There is no additional revenue burden for residential customers, be they low-income or non-low-income customers, and therefore there is no basis for the ALJs speculations that this change will increase disconnections for non-payment. Rate shock cannot be a reason not to adopt the OSBA's

³ R.D. at 110-111

recommendation in this proceeding because all parties have agreed that the revenue allocation in the Joint Petition is reasonable.

As such, the issue of whether universal service costs should continue to be borne by non-residential customers can and should be evaluated on its merits in this proceeding, without the constraints of avoidance of rate shock and rate gradualism.⁴ Unfortunately, the ALJs completely fail to make that evaluation.

The ALJs also appear to erroneously rely on the fact that a tiny portion of universal service costs serve to benefit some non-residential rate classes. They state:

We also note that there is the issue of the Commission approved LIME program that benefits tenant buildings that are commercial accounts. The Commission recognized the need to address small businesses and low-income customers in the form of multi-family energy efficiency measures in PGW's service territory. The Commission specifically carved out within the LIME program a benefit to these small business customers. We agree that this new benefit to small business customers must also be considered in light of OSBA's proposal.⁵

While it is unclear from the ALJs' use of the passive voice how they actually did consider this factor, the OSBA fully agrees that any universal service costs that benefit non-residential customer classes should be allocated to and recovered from those rate classes. Mr. Knecht explicitly addressed this issue in his surrebuttal testimony, in a manner consistent with an earlier recommendation from the OCA witness.⁶ This change can be easily accomplished by shifting these costs to the EE&C programs, and recovering them

⁴ M.B. at 14

⁵ R.D. at 111

⁶ OSBA Statement No. 1-SR at 3

from the charges to the appropriate classes. This issue is simply a red herring, and has no material impact on the OSBA's proposal.

C. Rate Impact on Residential Customers

Contrary to the ALJs' implication, the OSBA's proposal for the USEC is revenue neutral within the context of this proceeding. As set forth more fully in the testimony of OSBA's witness Mr. Knecht and in the OSBA's Main Brief, the OSBA's proposal to shift the cost of the USEC to the residential class on a revenue neutral basis would require the following:

[T]he Commission would start with the proof of revenues as presented in the Partial Settlement in Exhibit 2. The Commission would then eliminate the \$1.1335 per mcf USEC charges for all non-residential firm service customers, and increase the volumetric delivery charges by 1.1335 per mcf. In effect, the revenue responsibility for those classes would remain unchanged. Similarly, the Commission would increase the USEC for the residential classes to the value necessary to recover all USEC costs. This value would be modestly different from the \$1.5597 per mcf calculated by Mr. Knecht, due to the effect of changes in loads resulting from the use of 20-year weather normalization in the Joint Petition. The residential class delivery charge would then be reduced by the magnitude of the increase in the USEC.⁷

The Commission has declined to harmonize PGW's treatment of the USEC with the practices of other Pennsylvania utilities on the grounds that the impact on the residential class would violate the principles of gradualism and the avoidance of rate shock. In this proceeding, Mr. Knecht recommended simply accepting the Company's

⁷ R.D. at 83 citing OSBA M.B. at 15-16. See also, OSBA Statement No. 1 at 36

overall revenue allocation proposal for the residential class, thereby rendering any claims of rate shock moot.⁸ Unless the Company's revenue allocation proposal were determined to violate the rate gradualism principle, Mr. Knecht's proposal necessarily passes that test.

As shown in Exhibit IEC-S2 pages 1 and 7, both the Company and Mr. Knecht proposed to assign an increase of \$59.0 million to the residential rate class. The Company proposed to do so in a rate design with a USEC of \$1.1335 per mcf, a delivery charge of \$6.7275 per mcf, and MFC/GPC charges of \$0.2393, or a combined volumetric rate of \$8.1003 per mcf. In contrast, Mr. Knecht proposed to achieve the \$59 million with a USEC of \$1.5597 per mcf, a delivery charge of \$6.3645 per mcf, and MFC/GPC charges of \$0.1761 per mcf, or the identical combined rate of \$8.1003 per mcf.⁹ Similarly, Mr. Knecht proposed that USEC revenues for the other firm service classes be set to zero, but with offsetting large percentage increases to the volumetric delivery charges.

The revenue allocation in the Joint Petition for Partial Settlement now supersedes the Company's original revenue allocation proposal. Nevertheless, the OSBA proposes that, if the Commission adopts the OSBA's proposal to recover all USEC costs from the residential class, it do so on a revenue neutral basis consistent with the mechanism laid out by Mr. Knecht.¹⁰ Thus, the issue to be resolved in this litigation is *whether revenue allocation should be effectuated by retaining the existing USEC charge mechanism, or*

⁸ M.B. at 14-15; *See also* Statement No. 1 at 48

⁹ Mr. Knecht adjusted the residential MFC/GPC rates to reflect errors acknowledged by PGW. OSBA Statement No. 1-SR at 23

¹⁰ It is OSBA's interpretation of the Partial Settlement that this was the understanding of the parties.

*by modifying the USEC charges in conjunction with balancing adjustments to the volumetric distribution charges.*¹¹

D. Commission Precedent Provides No Basis for Treating PGW Differently

PGW is a municipal natural gas distribution company (“NGDC”), which was previously regulated by the Philadelphia Gas Commission, a local agency of the City of Philadelphia.¹² On June 22, 1999, the Natural Gas Choice and Competition Act (“Gas Choice Act”), 66 Pa. C.S. §§2201-2212, was enacted to provide a competitive and non-discriminatory market for natural gas supply services within the Commonwealth.¹³ Pursuant to the Act, the Commission assumed jurisdiction over the natural gas services provided by PGW on July 1, 2000.¹⁴ On July 1, 2002, PGW filed its Restructuring Petition in order to meet the requirements of the Gas Choice Act.¹⁵

Prior to becoming subject to the Commission’s jurisdiction, PGW allocated its universal service costs to all firm sales service rate classes.¹⁶ PGW did *not* allocate any

¹¹ OSBA M.B. at 11

¹² OSBA M.B. at 8, citing *Pennsylvania Public Utility Commission v. Philadelphia Gas Works*, Docket Nos. M-00021612, M-00021612C0001, M-00021612C002, and M-00021612C000 (Order entered March 31, 2003) at 5 (“Restructuring Order”)

¹³ OSBA Main Brief at 11; *See also* Restructuring Order at 2

¹⁴ OSBA Main Brief at 11; *See also* Restructuring Order at 5

¹⁵ OSBA Main Brief at 11; *See also* Restructuring Order at 2

¹⁶ OSBA Main Brief at 11; citing Restructuring Order at 64 and *Customer Assistance Programs: Funding Levels and Cost Recovery Mechanisms Final Investigatory Order*, Docket No. M-00051923 (Order entered December 18, 2006) at 31

universal service costs to either PGW's interruptible sales service rate classes or to PGW's large volume transportation service rate classes ("GTS/IT").¹⁷

During PGW's Restructuring Proceeding, the Company proposed to continue to collect universal service costs from all firm sales service customer classes.¹⁸ The Commission agreed that universal service costs should continue to be allocated to all firm sales service rate classes.¹⁹ Specifically, the Commission stated, "These [universal service] costs have traditionally been included in PGW's gas cost rate ('GCR') and that such a cost allocation [to the residential classes only] would involve massive cost shifting between classes prohibited by Sections 2211(e) and (h) of the Act. This is a restructuring proceeding and not a base rate case. Therefore, the record does not contain a cost study that would support a shift in rate design."²⁰

The issue of how PGW's universal service costs should be allocated among rate classes arose again in *Investigation into Financial and Collections Issues Regarding the Philadelphia Gas Works*, Docket Nos. P-00042090, R-00049157, M-00021612, P-00032061, and P-00042117 (Order entered October 27, 2004) at 23-24. However, the Commission stated in that proceeding that it did not "intend to address [universal service] cost allocation. Cost allocation is an issue best left to a base rate proceeding. At PGW's

¹⁷ OSBA M.B. at 12. If PGW had any smaller retail "Choice" customers who took gas supply service from an alternative natural gas supplier ("NGS"), these customers would also be assigned universal service costs. PGW Exhibit HSG-6T indicates that all retail customers take gas supply service from PGW. For convenience, this brief refers to PGW's policy as allocating universal service costs to all firm sales service customers.

¹⁸ OSBA Main Brief at 12; *See also* Restructuring Order at 62

¹⁹ OSBA Main Brief at 12; *See also* Restructuring Order at 64

²⁰ OSBA Main Brief at 12; *See also* Restructuring Order at 64

next base rate proceeding, the OSBA will have sufficient opportunity to raise the issue of the proper size of PGW's CRP [Customer Responsibility Program] and argue its position regarding the proper cost allocation for Universal Service Programs."

Subsequently, the Commission concluded in *Customer Assistance Programs: Funding Levels and Cost Recovery Mechanisms Final Investigatory Order*, Docket No. M-00051923 (Order entered December 18, 2006) at 31-32, that universal service costs should be borne only by the residential class. Admittedly, the Commission did not reach a determination in that proceeding about the allocation of PGW's universal service costs. The Commission recognized that there were "a few exceptions" relative to allocating CAP costs exclusively to the residential class. In a footnote, the Commission specifically identified PGW as one of those exceptions, noting that "PGW's cost allocation was determined prior to the Commission's oversight of the Company."²¹ However, the Commission did *not* conclude that PGW should be a *permanent* exception to Commission policy. Rather, the Commission merely observed that PGW's current policy represented an exception to the Commission's generic policy. Furthermore, the Commission expressed no intention to rescind its prior decision to defer the matter to PGW's next base rates proceeding.

ALJs Pell and Guhl recommend the continuation of the recovery of universal service costs from non-residential firm customer in the present proceeding in part because, "...[]PGW's allocation of universal service costs has been found to be just,

²¹*Customer Assistance Programs: Funding Levels and Cost Recovery Mechanisms Final Investigatory Order*, Docket No. M-00051923 (Order entered December 18, 2006) at 31.

reasonable and in the public interest in *several* past proceedings.”²² However, the first base rates case, and thus the first opportunity that the OSBA had to address the recovery of universal service charges from non-residential firm customers was in the 2006 extraordinary rate relief proceeding.²³

In that proceeding while ALJs and the Commission found that the issue of shifting the cost responsibility for the PGW’s universal service programs was ripe for disposition since the record included a cost of service study (“COSS”), the ALJs declined to make changes to the allocation of USEC cost recover on the basis of rate shock and gradualism. Specifically, the ALJs found, and the Commission agreed as follows:

We agree with the ALJs’ reasoning that a realignment of the costs in this proceeding would simply overburden the residential classes given that we are adopting the ALJs’ recommendation regarding allocation of the \$25 million increase. Because that substantial realignment goes far to bring all rate classes closer to a cost of service basis, we find that our decision on this one issue is consistent with the principles enunciated in *Lloyd*. As we have noted, *Lloyd* has not eliminated the principles of rate shock and gradualism, but it has required that we be guided primarily by cost of service. In the over-all context of this proceeding, one can hardly argue that application of the principles of gradualism and rate shock concerns to this one issue depart from *Lloyd* given the revenue allocation approach adopted for the primary \$25 million increase.²⁴

Following the 2006 emergency rate relief proceeding, PGW filed a follow-up base rates proceeding in 2009.²⁵ However, the 2009 base rates case was resolved via

²² R.D. at 110 (*emphasis added*)

²³ PA PUC v PGW Docket No. R-00061931 (Order entered September 28, 2007) at 88

²⁴ PA PUC v PGW Docket No. R-00061931 (Order entered September 28, 2007) at 88

²⁵ PA PUC v. PGW Docket No. R-2009-2139884

settlement. As part of the settlement of the 2009 case, the OSBA agreed not to pursue the argument that universal service costs should not be borne by non-residential firm service customers any further in that proceeding.

Moreover, the 2009 settlement specifically provided that the withdrawal of any argument by a party to the Settlement, *e.g.*, the OSBA's argument against non-residential customers' paying for universal service, is without prejudice and allows the OSBA to raise its argument about the allocation of universal service costs in a future proceeding.²⁶

PGW has been under the Commission's jurisdiction for seventeen years, since July 1, 2000. It should be subject to the Commission's generic policy. In numerous proceedings, the Commission has affirmed that universal service cost recovery should be restricted only to the residential class.²⁷ The ALJs in the extraordinary relief case even

²⁶ PA PUC v. PGW Docket No. R-2009-2139884, Settlement at Paragraph 38

²⁷ For a generic statement of Commission policy, *see Customer Assistance Programs: Funding Levels and Cost Recovery Mechanisms Final Investigatory Order*, Docket No. M-00051923 (Order entered December 18, 2006) at 31-32. For examples of gas cases in which the Commission has allocated universal service costs only to residential customers, *see Pennsylvania Public Utility Commission v. Equitable Gas Company*, Docket No. R-901595, 73 Pa. PUC 301 (Order entered November 21, 1990) at 340; *Pennsylvania Public Utility Commission v. Valley Energy, Inc.*, Docket Nos. R-00049345 and R-00049345C0001 (Order entered April 21, 2005); *Petition by Equitable Gas Company for Authorization To Use a Portion of an Equitrans, LP Refund To Benefit Low Income Customers*, Docket No. P-00052192 (Order entered December 15, 2005); *Application of UGI Utilities, Inc., UGI Utilities Newco, Inc., and Southern Union Company for approval of: 1) the transfer by sale of all property used or useful in providing natural gas service to the public to UGI Corporation; 2) the immediate retransfer of all such property, by UGI Corporation, including gas supply and pipeline and storage capacity contracts, by UGI Corporation to UGI Newco Utilities, Inc.; 3) the initiation by UGI Utilities Newco, Inc. of natural gas service in all territory in this Commonwealth where Southern Union Company does or may provide natural gas service; 4) the abandonment by Southern Union Company of all natural gas service in this Commonwealth; and 5) transfer by UGI Corporation of all stock of UGI Utilities Newco, Inc. to UGI Utilities, Inc.*, Docket Nos. A-120011F2000, A-125146F5000, and A125146 (Order entered August 18, 2006) at 31-32 ("*UGI/PGE Merger*"); and *Pennsylvania Public Utility Commission v. PPL Gas Utilities Corporation*, Docket Nos. R-00061398, R-00061398C0001, R-00061398C0002, R-00061398C0003, and R-00061398C0004 (Order entered February 8, 2007) ("*PPL Gas*") at 116. For an example of electric cases in which the Commission has allocated universal service costs only to residential customers, *see Pennsylvania Public Utility Commission v. PPL Electric Utilities Corporation*, Docket No. R-00049255 (Order entered December 22, 2004) at 97-98; and *Pennsylvania Public Utility Commission v. Metropolitan Edison Company and Pennsylvania Electric Company, Petition of Metropolitan Edison Company for Approval of a Rate Transition Plan, Petition of Pennsylvania Electric Company for Approval of a Rate Transition Plan*, and

agreed that the Commission is moving towards having the costs of universal service programs assigned only to residential customers.²⁸

The issue of the allocation of universal service program costs is ripe and should be addressed based on the merits of this case. The OSBA does not dispute PGW's status as a municipally owned natural gas distribution company. However, the *only* relevant issue in this proceeding is whether PGW's distinction as a municipally owned utility provides justification for a significant continued departure from Commission policy and precedent. PGW offers no argument whatsoever, nor does the recommended decision provide justification, as to why PGW's status as a municipally-owned utility justifies a cost allocation which violates the basic principles of cost causation as determined by the Commission in a wide variety of cases.

The issue of allocation for universal service costs was raised in PPL's 2004 distribution rate case. In response to OCA's effort to spread the costs to all rate classes, the Commission expressly held that universal service program costs should be funded only by the residential class.²⁹

More recently, the Commonwealth Court held in *Lloyd v. Pennsylvania Public Utility Commission*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006), *appeals denied*, 916 A.2d 1104 (Pa. 2007), that cost of service is the "polestar" of ratemaking concerns. In *Lloyd*,

RE: *Merger Savings*, Docket Nos. R-00061366, R-00061366C0001, R-00061366C0002, R-00061366C0003, R-00061366C0005, R-00061366C0013, R-00061367, R-00061367C0001, R-00061367C0002, R-00061367C0003, R-00061367C0005, R-00061367C0007, R-00061367C0008, P-00062213, P-00062214, A-110300F0095, and A-110400F0040 (Order entered January 11, 2007)

²⁸ PA PUC v PGW Docket No. R-00061931, R.D. at 80

²⁹ *Pennsylvania Public Utility Commission, et al. v. PPL Electric Utilities Corporation*, Docket No. R-00049255 (Order entered December 22, 2004), at 98.

the Commonwealth Court held that the Commission may consider the effects of gradualism, but that the utility *must have a plan* for eliminating interclass subsidies over time.³⁰ Consequently, the ALJs' approval of the recovery of universal service costs from PGW's non-residential firm service customers violates *Lloyd*.

Furthermore, the instant proceeding is PGW's third base rate case after its Restructuring Proceeding. Thus, the OSBA respectfully submits that the issue as to whether universal service costs should be borne by non-residential customers can and should be evaluated on its merits in this proceeding, and should not be constrained by non-existent gradualism and rate shock concerns.

E. Multi-Family Program Benefits to Non-Residential Rate Classes Do Not Justify Rejecting the OSBA Proposal

In reaching their recommended decision on this issue, the ALJs apparently give some consideration to the fact that a very small portion of the universal service costs relate to the Company's "LIME" program, which provides a benefit to master-metered multi-family residences which take service under a non-residential rate schedule. However, Mr. Knecht directly addressed the OSBA's position in his surrebuttal testimony:

In this respect, I believe that [OCA expert witness] Mr. Colton is correct. Including these costs in the USEC Surcharge was addressed at Docket No. P-2014-2459362. In that proceeding, Mr. Colton opposed including those costs in the USEC Surcharge and argued that they should be recovered from the class which benefits from those costs. I submitted rebuttal testimony in support of this cost allocation position.³¹ I retain that view. Those costs should be allocated to the class which benefits from the program. I

³⁰ 904 A.2d at 1020-1021, (*emphasis added*)

³¹ See OSBA Statement No. 2, Docket No. P-2014-2459362, submitted July 21, 2015.

have made an estimate of the impact of that modification in the update to my CSAS attached as Exhibit IEc-S1.³² In the overall context of PGW's universal service costs, this cost item is quite small.³³

Three aspects of Mr. Knecht's position merit attention. First, the costs for this program are tiny. As shown, the annual costs are some \$250,000, compared to overall universal service costs of \$55 million. It is simply nonsensical to establish a policy for allocating this vast sum based on a minor cost item.

Second, the OSBA fully agrees that these costs should be considered and should be allocated directly to the classes which benefit. These costs could easily be assigned to and recovered from the appropriate energy efficiency and conservation ("EE&C") program charge to the non-residential customer classes.

Third, the OSBA's proposed treatment of these costs is, in fact, consistent with a position advanced by the OCA expert in an earlier proceeding. Thus, this issue is nothing but a red herring. Its impact is *de minimis*, and the specific costs can be easily recovered directly from the customer classes which benefit, consistent with the long-standing policy that costs be assigned to and recovered from the classes that cause the costs to be incurred. There is no need to throw the Commission's entire regulatory policy under the bus for this very small cost item.

³² Based on my workpapers from the Company's last EE&C proceeding, the estimated costs for the low-income multi-family programs averaged about \$250,000 per year over the five-year period in the forecast. I therefore excluded those from the other universal service costs, and assigned them to the GS Commercial class.

³³ OSBA Statement No. 1-SR at 3

III. CONCLUSION

Wherefore, the OSBA respectfully requests that the Commission grant the OSBA's Exception and phase out the funding of PGW's universal service costs by non-residential classes.

Respectfully submitted,



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Dated: September 25, 2017

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.

Philadelphia Gas Works

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:
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:
:
:

**Docket No. R-2017-2586783
C-2017-2593497**

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email and/or First-Class mail (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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