



PHILADELPHIA GAS WORKS

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May 31, 2018

Via E-Filing

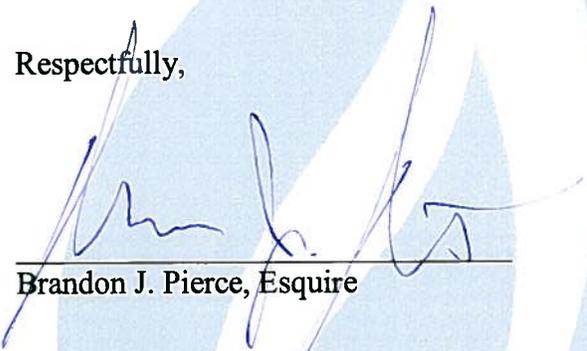
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
2nd Floor, 1 North
400 North Street
Harrisburg, PA 17120

**Re: Philadelphia Gas Works 2018-2019 Purchased Gas Cost Rate Filing
Docket No. R-2018-2645938**

Dear Secretary Chiavetta:

On behalf of Philadelphia Gas Works ("PGW"), enclosed for electronic filing is the Joint Petition for Settlement of PGW's 2018-2019 Purchased Gas Cost Rate Proceeding and PGW's Statement in Support. Copies have been served in accordance with the attached Certificate of Service. Please contact me if you have questions.

Respectfully,

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

Brandon J. Pierce, Esquire

Enclosure

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

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy the Joint Petition for Settlement of PGW's 2018 - 2019 Purchased Gas Cost Rate Proceeding and PGW's Statement in Support upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

VIA FIRST CLASS MAIL and EMAIL

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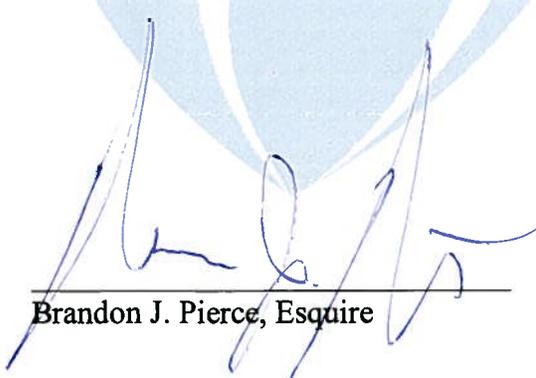
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Dated: May 31, 2018



Brandon J. Pierce, Esquire

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION, et al. :
 : Docket No. R-2018-2645938
 :
 v. :
 :
PHILADELPHIA GAS WORKS :

**JOINT PETITION FOR SETTLEMENT OF
PHILADELPHIA GAS WORKS'
2018-2019 GCR PROCEEDING**

I. INTRODUCTION

Philadelphia Gas Works (“PGW” or the “Company”), the Bureau of Investigation and Enforcement (“I&E”) and the Office of Consumer Advocate (“OCA”) (collectively “the Settling Parties”)¹ hereby submit this Joint Petition for Settlement of PGW’s 2018-2019 Gas Cost Rate (“GCR”) Proceeding (“Settlement”), as captioned above, and respectfully request the following:

- 1) That Administrative Law Judge (“ALJ”) Marta Guhl recommend that the Commission approve this Settlement and all of its terms and conditions.
- 2) That the ALJ recommends and the Commission authorizes PGW to file a tariff supplement to reflect rates and terms consistent with this Settlement and applicable to the Section 1307(f) purchased gas cost rate investigation at Docket No. R-2018-2645938 to be effective for services rendered on or after September 1, 2018, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1, 2018 to reflect actual experience and changes in forecasted natural gas prices utilizing the methodology prescribed by paragraph III 1.(b).

¹ The Office of Small Business Advocate (“OSBA”) and the Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”) do not join in this Settlement but have authorized the Settling Parties to state their non-opposition to the Settlement.

- 3) That based on the data and testimony submitted in this case, the ALJ recommends and the Commission makes the Findings of Facts and Conclusions of Law proposed at Sections IV and V below.
- 4) That the Commission terminate its investigation at Docket No. R-2018-2645938, deem the complaints at Docket Nos. C-2018-2647156 and C-2018-3000048 satisfied, and mark the proceedings closed.

II. BACKGROUND

- 1) On February 1, 2018, PGW filed its supporting information for the pre-filing for its annual 2018-2019 Gas Cost Rate (“GCR”) pursuant to 66 Pa. C.S. § 1307 and 52 Pa. Code § 53.64 (“February 1, 2018 Pre-filing”)
- 2) At the same time, PGW noted that – pursuant to the Commission’s approval in its 2017-2018 GCR² – it intended to depart from certain requirements of 52 Pa. Code Sections 53.45(b), 53.64(c), 53.68(a) and 53.64(i)(5)(i) to address the timing of bill inserts, public notice and underlying data to be relied upon for the March 1, 2018 quarterly 1307(f) filing.
- 3) I&E entered a Notice of Appearance on February 6, 2018.
- 4) OSBA and OCA filed complaints on February 12, 2018, and February 21, 2018, respectively. The OSBA complaint is docketed at C-2018-2647156 and the OCA complaint is docketed at C-2018-3000048. Per letter filed on February 28, 2018, PGW stated its intention not to file answers consistent with 52 Pa. Code § 5.61(d).
- 5) On February 14, 2018, the Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”) filed a Petition to Intervene.

² *Pennsylvania Public Utility Commission, et. al. v. Philadelphia Gas Works 2017-2018 Gas Cost Rate Filing*, Docket No. R-2017-2587526, Final Order entered August 3, 2017 at 4.

- 6) On March 1, 2018, PGW filed its Section 1307(f) filing, which included proposed tariff revisions, supporting information regarding the computation of annual purchased gas costs for twelve months ending August 31, 2019 and the direct testimony of Kenneth Dybalski (PGW St. 1) and Raymond Snyder (PGW St. 2) (“March 1, 2018 Annual Filing”). This filing was made pursuant to 66 Pa. C.S. § 1307(f), which authorizes certain natural gas distribution companies to make annual purchased gas cost filings with the Commission to reflect increases or decreases in natural gas costs.
- 7) PGW provided public notice of its proposed GCR rate in Supplement No. 110 through bill inserts during the one-month billing cycle beginning on March 1, 2018 which concluded on March 31, 2018. Also, PGW published notice in *The Philadelphia Daily News*, *The Philadelphia Inquirer*, *Al Dia*, *The Philly Tribune*, *The Northeast Times*, *The South Philly Review*, *Philadelphia Weekly*, and *The Star*.
- 8) A Prehearing Conference Order was entered on March 8, 2018 and an Initial Prehearing Conference was held on March 16, 2018.
- 9) As set forth in Prehearing Order #1 dated March 27, 2018, during the prehearing conference, the Petition to Intervene of PICGUG was granted. In addition, discovery modifications and a litigation schedule were adopted.
- 10) Discovery, both formal and informal, was undertaken by I&E and OCA. Formal discovery consisted of approximately 55 and 118 interrogatories (including subparts) propounded by these parties, respectively.
- 11) Consistent with the litigation schedule, on April 16, 2018: (1) OCA served Statement No. 1, the Direct Testimony of Jerome D. Mierzwa; and, (2) I&E served I&E Statement No. 1, the Direct Testimony of Christopher Keller and I&E Exhibit No. 1, the Exhibit to Accompany the Direct Testimony of Christopher Keller. No other party elected to serve direct testimony.

- 12) On May 2, 2018, PGW served PGW Statement 2R, the Rebuttal Testimony of Raymond M. Snyder. No other party served rebuttal testimony.
- 13) On May 7, 2018, OCA served Statement No. 1-S, the Surrebuttal Testimony of Jerome D. Mierzwa. No other party served surrebuttal testimony.
- 14) Based on the review of the testimony in this matter and settlement discussions open to all parties, a settlement was reached which resolves all issues pertaining to PGW's 2018-2019 annual GCR Filing.

III. SETTLEMENT

The undersigned Settling Parties, intending to be legally bound and for due consideration given, agree to accept the underlying data and calculations submitted by PGW in its January 31, 2018 pre-filing and its March 1, 2018 annual filing subject to the terms and conditions set forth below:

1) PURCHASED GAS COST RATES

- a) The GCR rate adopted by this Settlement is \$4.0369 per Mcf. This rate is predicated on PGW's gas cost projections at the time of the March 1, 2018 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, 2018, 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, 2018.
- b) PGW shall calculate the quarterly filing updates for the 2018-2019 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) INTERSTATE PIPELINE PENALTY CREDITS

The parties agree that PGW has demonstrated that all received interstate pipeline penalty credits have been credited to PGW's GCR customers. PGW will continue to apply all received interstate pipeline penalty credits to its GCR customers in the future.

3) CHOICE SUPPLIER CAPACITY RELEASE CHARGES

PGW agrees to include a proposal in next year's 2019-2020 GCR proceeding to charge Choice suppliers for released capacity based on PGW's weighted average cost of Tetco and Transco capacity, or to demonstrate why such an approach is not appropriate for PGW. Parties are free to support, oppose, or take no position on PGW's proposal.

4) MONTHLY IMBALANCE RECONCILIATION PROCEDURES

PGW agrees to present an analysis in next year's 2019-2020 GCR proceeding of the impact of its interruptible transportation ("IT") reconciliation procedures for the period September 2017 – August 2018 consistent with that presented in the Rebuttal Testimony of Mr. Raymond Snyder in this proceeding. Parties are free to propose changes to the Company's existing IT reconciliation procedures in next year's proceeding.

5) 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) for the 2018-2019 GCR period. Continued recovery of the fee beyond the 2018-2019 GCR period must be addressed in next year's Purchased Gas Cost proceeding.

6) 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.

7) NOTICE OF FUTURE ANNUAL GCRs AND USE OF ESTIMATED DATA FOR MARCH QUARTERLY GCR

a) The parties agree that PGW is requesting in this Settlement that the Commission permit

PGW to continue to proceed as follows in its 2019-2020 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 2019-2020 GCR proceeding.

8) ADMISSION OF EVIDENCE

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

IV. PROPOSED FINDINGS OF FACT

As a consequence of the Settlement terms and conditions set forth in Section III above, the Settling Parties request that the ALJ and the Commission make the following findings of fact and such other findings and conclusions as may be required as appropriate:

- 1) The GCR is a mechanism used to flow through the costs of natural gas and other raw materials in a timely and equitable manner. (PGW St. 1 at 7-9). The pricing methodology utilized by PGW relies on actual prices for January 2018 and the NYMEX Futures close data (as of January 16, 2018) for February 2018 through August 2019. (PGW St. 1 at 9-10).
- 2) 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).
- 3) PGW relies on interstate pipelines for all natural gas supply, storage and transportation services, except for PGW’s own on-system peak shaving facilities. PGW owns and operates two 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). PGW also uses off-system natural gas storage services to meet winter peak requirements. (PGW St. 2 at 2).

- 4) Spectra Energy's Texas Eastern Transmission ("TETCO") and Williams' Transco Gas Pipeline ("Transco") are the two interstate natural gas pipelines that deliver gas to PGW's city gates. (PGW St. 2 at 2). In Fiscal Year 2018, PGW purchases 100% from Market Zone M2 from TETCO consistent with the 2017-2018 GCR settlement commitment to purchase from the pipeline zone with the lowest delivered costs. (PGW St. 2 at 9).
- 5) PGW returns to GCR customers amounts that are received from the pipelines resulting from penalties the pipelines assess to other customers (or shippers) taking service from the pipeline. (PGW St. 2R at 1-3).
- 6) PGW charges its Choice suppliers for the capacity the suppliers receive on each pipeline. For Transco, the suppliers are charged the max rate from Zone 3 to Zone 6. For Tetco, the suppliers are charged 100% of the path rate calculation in accordance with the Texas Eastern Capacity Release formula. (PGW St. 2R at 4).
- 7) PGW is not affiliated with any pipeline or gas supply entity, nor does it have any contracts for local production. (PGW St. 2 at 5).
- 8) PGW pursues a least cost procurement policy using a portfolio approach in both contract structure and pricing. The portfolio approach allows PGW to remove some of the volatility in purchasing natural gas supplies for its ratepayers. PGW does this by utilizing a mix of (1) daily index priced swing contracts, (2) physical forward purchase contracts, (3) storage, and (4) LNG, as appropriate given market conditions, and to the extent PGW is not constrained by its financial condition. (PGW St. 2 at 3-5).
- 9) PGW utilizes Planalytics to provide price analysis and buying advisory service as part of its efforts to obtain gas at least cost. Planalytics provides a comprehensive amount of information useful in the procurement process. (PGW St. 2 at 8-9).

- 10) To ensure system reliability while seeking to procure gas at the least cost, PGW physically sources the gas in accordance with its firm pipeline paths and pays a demand charge. PGW reviews these contracts on a regular basis and initiates renegotiations if appropriate to protect its customers' interests. (PGW St. 2 at 5).
- 11) PGW also uses capacity release and off-system sales when available. The prices for the off-system sales are negotiated and 75% of associated credits and margins are returned to customers through the GCR. (PGW St. 2 at 6-8). The ratepayers and the utility receive benefits from this policy because it creates an incentive to maximize efforts to make off-system sales and capacity release transactions, thereby increasing the amounts applied to the gas cost rate and the lesser portion retained by the utility. (PGW St. 2 at 8).
- 12) The details of PGW's actual gas purchases for the 12 months ending December 31, 2017 are presented in the schedules attached to Tab 1, Item 53.64(c)(1) of PGW's February 1, 2018 Pre-filing. The details of PGW's forecast for the period of January 1, 2018 through August 31, 2019 are presented in Tabs 3 and 4 of PGW's March 1, 2018 Annual Filing. (PGW St. 1 at 7).
- 13) 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, 2018 Pre-filing).
- 14) 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)

15) PGW has a suite of four imbalance reconciliation procedures that work together to protect PGW's GCR customers. (PGW St. 1R at 5-6). The average cashout price for FY 2017 was \$2.78 which is a reasonable price. (PGW St. 1-R at 7, PGW Exhibit RMS-4R).

V. PROPOSED CONCLUSIONS OF LAW

1) Historical Reconciliation Period Standards

With respect to PGW's gas purchases and gas purchasing practices during the twelve-month historical reconciliation period ended December 31, 2017,³ it is requested that the ALJ and the Commission find that PGW has met the standards of Section 1318 of the Public Utility Code, 66 Pa.C.S. § 1318, as required by Section 1307(f)(5) of the Public Utility Code, 66 Pa.C.S. § 1307(f)(5), as to all actual purchased gas costs in the historical period. It is requested that the Commission find that, during the twelve months ended December 31, 2017, PGW met the requirements of Section 1318(a) of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers.

2) Interim and Projected Period Findings

a) With respect to the eight-month interim period beginning on January 1, 2018, and with respect to the projected twelve-month period beginning September 1, 2018, when rates contained in this Settlement will be in effect, it is requested that the Commission find, based upon information presently available and based upon evidence of record in this proceeding concerning PGW's projected purchases and purchasing policies, that the rates to be adopted by the Commission result from PGW's compliance with all of the provisions of Section 1318 of the Public Utility Code.

³ The reconciliation period for PGW in this proceeding is the twelve-month period ended December 31, 2017, in accordance with the Commission's regulations at 52 Pa. Code § 53.64(i)(1).

b) The Settling Parties agree, based upon evidence of record in this proceeding concerning PGW's projected gas purchases and gas purchasing policies, that PGW's projected gas purchases and projected gas purchasing policies comply with the standards of Section 1318 of the Public Utility Code. Nevertheless, it is expressly understood and agreed that this Section of the Settlement, Section V.2., is made solely for the purpose of setting prospective rates that shall be subject to the standards of Section 1318 of the Public Utility Code, 66 Pa.C.S. § 1318, and further review in an appropriate future proceeding. Section V.2. of the Settlement is not intended in any way to limit or prevent I&E or OCA from reviewing, after such projected gas purchases actually have been made and gas purchasing practices actually have been implemented, whether PGW's gas purchases and gas purchasing practices complied with Section 1318. If, in an appropriate future proceeding, gas purchases and gas purchasing practices from January 1, 2018 through August 31, 2018 were challenged, the Commission's findings based upon Section V of the Settlement shall not bar the examination of such purchases and practices, including, but not limited to, disallowance of, or reductions to, such costs during the eight-month interim period commencing January 1, 2018, and the twelve-month application period commencing September 1, 2018, and ending on August 31, 2019.

VI. CONDITIONS OF SETTLEMENT

1) This Settlement will go into effect upon the Commission's entry of a final order approving the Settlement, in full and without modification. If the Commission rejects the Settlement, the Agreement automatically will terminate and be null and void with the exception of paragraph VI.3 below, which will continue in full force and effect. The Settlement also shall automatically become null and void (except for paragraph VI.3, below) if the Commission, in approving the Settlement, modifies any of its terms or conditions or adds any conditions,

unless it is subsequently accepted by the aggrieved signatory party, or parties, as so modified.

If the Commission approves the Settlement in full and without modification, the Stipulation:

- a) shall be deemed to resolve with prejudice all issues addressed by this Settlement; and
 - b) shall be implemented and shall be enforceable notwithstanding the pendency of a petition for reconsideration or a legal challenge to the Commission's approval, unless such implementation and enforcement of the Settlement is stayed or enjoined by the Commission, another regulatory agency, or a Court having competent jurisdiction over the matter.
- 2) This Settlement is made without admission against or prejudice to any factual or legal positions which any of the signatories hereto may assert in subsequent litigation in the event that the Commission does not issue a final Order approving this Settlement in full and without modification. If the Commission does not adopt this Settlement in accordance with the terms set forth herein, the Settling Parties reserve their full right to argue that the Commission is without the legal authority to order the implementation of all or part of the terms and conditions set forth herein and no party shall be deemed to have waived or be estopped from asserting such a position before the Commission or before any court.
- 3) This Settlement Petition may be executed in counterparts, all of which shall constitute one agreement binding on all signatories, and shall have the same force and effect as an original instrument, notwithstanding that the signatories may not be signatories to the same original or the same counterpart.
- 4) Each of the Settling Parties will submit a Statement in Support of this Settlement.

- 5) The Settling Parties agree to waive exceptions to the ALJ's Recommended Decision if the ALJ recommends that the Joint Petition for Settlement of Philadelphia Gas Works' 2018-2019 GCR Proceeding be approved without change or modification.⁴

VII. CONCLUSION

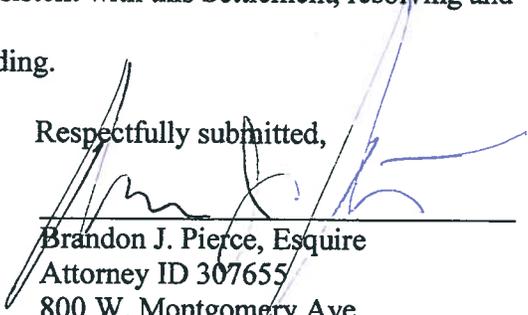
WHEREFORE, the Settling Parties, by their respective counsel, respectfully request as follows:

- 1) That Administrative Law Judge Marta Guhl and the Commission approve this Settlement including all terms and conditions thereof; and
- 2) That the Commission enter an order consistent with this Settlement, resolving and terminating the 2018-2019 GCR proceeding.

Respectfully submitted,

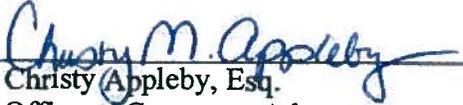
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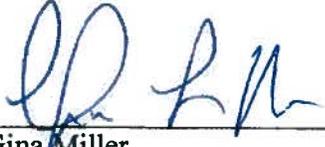
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Counsel for Office of Consumer Advocate



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Harrisburg, PA 17120

Counsel for Bureau of Investigation & Enforcement

⁴ See Appendix C – Sample Ordering Paragraphs for the Recommended Decision.

APPENDIX A

<u>Gas Cost Rate</u>	<u>9/1/2018</u>
Rate per Mcf	\$4.0369
<u>Universal Services Surcharge</u>	
	<u>9/1/2018</u>
Rate per Mcf	\$1.4818
<u>Other Post Employment Benefit Surcharge</u>	
	<u>9/1/2018</u>
Rate per Mcf	\$0.3264

APPENDIX B

Stipulated Record

- 1) PGW's February 1, 2018 Pre-filing Information;
- 2) PGW's March 1, 2018 Annual GCR Filing;
- 3) PGW St. 1, Direct Testimony of Kenneth S. Dybalski dated March 1, 2018
- 4) PGW St. 2, Direct Testimony of Raymond M. Snyder dated March 1, 2018
- 5) OCA St. 1, Direct Testimony of Jerome D. Mierzwa dated April 16, 2018
- 6) I&E Statement No. 1, Direct Testimony of Christopher Keller and I&E Exhibit No. 1, the Exhibit to Accompany the Direct Testimony of Christopher Keller dated April 16, 2018
- 7) PGW St. 1R, Rebuttal Testimony of Raymond M. Snyder dated May 2, 2018
- 8) OCA St. 1-S, Surrebuttal Testimony of Jerome D. Mierzwa dated May 7, 2018

APPENDIX C

Sample Ordering Paragraphs for Recommended Decision

- 1) The Joint Petition for Settlement of Philadelphia Gas Works' 2018-2019 GCR Proceeding submitted by the Philadelphia Gas Works, the Bureau of Investigation and Enforcement, and the Office of Consumer Advocate is approved.
- 2) Philadelphia Gas Works is authorized to file a tariff supplement to reflect rates and terms consistent with this order to be effective for services rendered on or after September 1, 2018, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1, 2018, to reflect actual experience and changes in forecasted natural gas prices.
- 3) Philadelphia Gas Works is permitted to continue to recover the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2018-2019 GCR period. Continued recovery of the fee beyond the 2018-2019 GCR period must be addressed in next year's Purchased Gas Cost proceeding.
- 4) Philadelphia Gas Works is permitted to continue to retain 25% of capacity release credits, off-system sales margin and asset management margin/credit/fees with the remaining 75% applied as an offset to purchased gas costs.
- 5) PGW is directed to include a proposal in next year's 2019-2020 GCR proceeding to charge Choice suppliers for released capacity based on PGW's weighted average cost of Tetco and Transco capacity, or to demonstrate why such an approach is not appropriate for PGW.
- 6) PGW is directed to present an analysis in next year's 2019-2020 GCR proceeding of the impact of its interruptible transportation ("IT") reconciliation procedures for the period September 2017 – August 2018.

7) Philadelphia Gas Works is permitted to proceed as follows in its 2019-2020 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).

5) The Commission investigation at Docket R-2018-2645938 is terminated and shall be marked closed.

6) The formal complaints at docket numbers C-2018-2647156 and C-2018-3000048 are deemed satisfied and shall be marked closed.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.	:	
	:	
	:	Docket No. R-2018-2645938
v.	:	
	:	
PHILADELPHIA GAS WORKS	:	

**STATEMENT IN SUPPORT OF JOINT PETITION FOR SETTLEMENT
ON PHILADELPHIA GAS WORKS’ 2018-2019 GCR PROCEEDING**

Philadelphia Gas Works (“PGW” or the “Company”) offers this Statement In Support of the Joint Petition for Settlement (“Settlement”) of its 2018-2019 Gas Cost Rate (“GCR”) Proceeding. The Settlement is offered as a full resolution of the issues in the above-captioned proceeding. PGW supports approval of the Settlement without modification and respectfully requests that Administrative Law Judge (“ALJ”) Marta Guhl and the Commission make the findings as required by Sections 1317 and 1318 of the Public Utility Code and approve this Settlement as in the public interest.

I. BACKGROUND

On February 1, 2018, PGW filed its supporting information for the pre-filing for its annual 2018-2019 Gas Cost Rate (“GCR”) pursuant to 66 Pa. C.S. § 1307 and 52 Pa. Code § 53.64 (“February 1, 2018 Pre-filing”). At the same time, PGW noted that—pursuant to the Commission’s approval in its 2017-2018 GCR¹—it intended to depart from certain requirements of 52 Pa. Code Sections 53.45(b), 53.64(c), 53.68(a) and 53.64(i)(5)(i) to address the timing of bill inserts, public notice, and underlying data to be relied upon for the March 1, 2018 quarterly

¹ *Pennsylvania Public Utility Commission, et. al. v. Philadelphia Gas Works 2017-2018 Gas Cost Rate Filing*, Docket No. R-2017-2587526, Final Order entered August 3, 2017 at 4.

1307(f) filing. On March 1, 2018, PGW filed its Section 1307(f) filing, which included proposed tariff revisions, supporting information regarding the computation of annual purchased gas costs for twelve months ending August 31, 2019, and the direct testimony of Kenneth Dybalski (PGW St. 1) and Raymond Snyder (PGW St. 2) (“March 1, 2018 Annual Filing”).

The Bureau of Investigation and Enforcement (“I&E”) entered a Notice of Appearance on February 6, 2018. The Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”) filed a Petition to Intervene on February 14, 2018. The Office of Consumer Advocate (“OCA”) filed a Formal Complaint (docketed at C-2018-3000048) and Public Statement on February 21, 2018. The Office of Small Business Advocate (“OSBA”) filed a Complaint (docketed at C-2018-2647156), Public Statement and Notice of Appearance on February 28, 2018.

A Prehearing Conference Order was entered on March 8, 2018, and an Initial Prehearing Conference was held on March 16, 2018. Prehearing Conference Order #1 was entered on March 27, 2018, which granted the Petition to Intervene of PICGUG, and adopted discovery modifications and a litigation schedule. Discovery, both formal and informal, was undertaken by I&E and OCA. Formal discovery consisted of approximately 55 and 118 interrogatories, including subparts, propounded by these parties, respectively. Consistent with the litigation schedule, OCA and I&E both served direct testimony on April 16, 2018. PGW served rebuttal testimony on May 2, 2018. On May 7, 2018, OCA served surrebuttal testimony. No other testimony was served.

Based on the review of the testimony in this matter and settlement discussions open to all parties, a settlement was reached that resolves all issues pertaining to PGW’s 2018-2019 annual GCR Filing. All the facts necessary to approve the settlement are included in the record of the

proceeding through the filing and supporting data, the testimony, and the attachments to the Settlement which have been submitted to the ALJ through stipulation of the parties.

II. THE SETTLEMENT SATISFIES PGW'S LEGAL OBLIGATIONS

Approval of this Settlement will result in PGW pursuing a least cost fuel procurement policy consistent with PGW's obligation to provide safe, adequate, and reliable service. PGW accomplishes this by: (1) using a portfolio approach in contract structure and pricing; and (2) utilizing capacity release credits, off-system sales margins (when available) and asset management margin/credit/fees as an additional cost saving strategy. Fully 75% of the margin/credit/fees are used as a reduction to purchased gas costs. The Settlement addresses three issues that were identified by the parties in this proceeding and proposes a reasonable settlement of each.

First, the Settlement recognizes that PGW has demonstrated that all received interstate pipeline penalty credits have been credited to PGW's GCR customers. Consistent with the Settlement, PGW will continue to apply all received interstate pipeline penalty credits to its GCR customers in the future. This settlement term addresses concerns raised by both OCA and I&E regarding how PGW credits pipeline penalty payments to GCR customers.

Second, PGW agrees to address OCA's concerns related to Choice supplier capacity release charges by including a proposal in next year's 2019-2020 GCR proceeding to charge Choice suppliers for released capacity based on PGW's weighted average cost of Tetco and Transco capacity or to demonstrate why such an approach is not appropriate for PGW. Parties are free to support, oppose, or take no position on PGW's proposal. Although PGW's current charges to Choice suppliers are reasonable because they are the maximum rates on each of the interstate pipelines that PGW can charge for the capacity that it has released to the suppliers, PGW has agreed to further examine the concerns raised by OCA.

Third, PGW agrees to address OCA's concerns regarding its current monthly imbalance reconciliation procedures by providing an analysis in next year's 2019-2020 GCR proceeding of the impact of its interruptible transportation ("IT") reconciliation procedures for the period September 2017 – August 2018. PGW's analysis to date has shown that the current methodology has been, and continues to be, reasonable and PGW does not, at this time, support revising these procedures. As part of this Settlement, however, PGW has agreed to provide OCA with the specified data and parties retain the right to propose changes in the context of next year's proceeding. This is a reasonable resolution of this issue.

Finally, the Settlement contains other important terms which are consistent with Commission-approved settlements from PGW's prior GCR proceedings, including: (1) permitting PGW to continue to recover the Planalytics fee; (2) permitting PGW 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; and, (3) permitting PGW to utilize the same customer notice procedures and type of data for next year's GCR (which is consistent with past practice). The continued approval of these settlement terms enables PGW to continue to provide maximum value for its ratepayers.

III. APPROVAL OF THE SETTLEMENT IS IN THE PUBLIC INTEREST

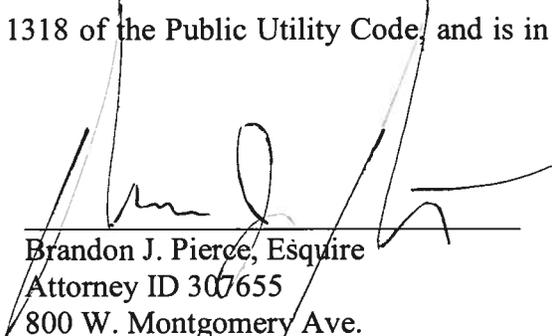
Approving PGW's Petition with the changes as set forth in the Settlement is consistent with the Commission's goal of ensuring the least cost procurement policy and will result in rates and surcharges that are just, reasonable, and compliant with the Public Utility Code. In addition, the Settlement reduces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

IV. CONCLUSION

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

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