

COMMONWEALTH OF PENNSYLVANIA



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May 31, 2018

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

Re: Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works 1307(f)
Docket No. R-2018-2645938

Dear Secretary Chiavetta:

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

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

A handwritten signature in blue ink that reads "Aron J. Beatty".

Aron J. Beatty
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Enclosures:

cc: Honorable Marta Guhl
Certificate of Service
*250506

CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission :
v. : Docket No. R-2018-2645938
Philadelphia Gas Works – 1307(f) :

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

Dated this 31st day of May 2018.

SERVICE BY E-MAIL & INTER-OFFICE MAIL

The Honorable Marta Guhl
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission,

v.

Philadelphia Gas Works

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Docket No. R-2018-2645938

STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF SETTLEMENT

The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Petition for Settlement of Philadelphia Gas Works' 2018-2019 GCR Proceeding (Settlement), finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

I. INTRODUCTION

On February 1, 2018, Philadelphia Gas Works (PGW or Company) submitted its pre-filing information required for its annual gas cost rate (GCR) filing pursuant to Section 1307(f) of the Public Utility Code and Section 53.64 of the Commission's regulations. 66 Pa. C.S. § 1307(f); 52 Pa. Code § 53.64. On March 1, 2018, PGW filed its definitive 1307(f) filing. Relative to the March 1, 2018 rate of \$3.8857/Mcf, the Company's definitive filing anticipated an increase of \$0.1512/Mcf, to a rate of \$4.0369/Mcf, to be effective September 1, 2018.

The Company's filing was assigned to the Office of Administrative Law Judge and further assigned to Administrative Law Judge Marta Guhl for investigation and the scheduling of hearings to determine whether PGW's purchased gas costs comply with the standards set forth in the Public Utility Code.

On February 21, 2018, the OCA filed a Formal Complaint, Public Statement, and Notice of Appearance. On February 6, 2018, the Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance. On February 12, 2018, the Office of Small Business Advocate (OSBA) filed a Formal Complaint, Public Statement, and Notice of Appearance. On February 14, 2018, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG) filed its Petition to Intervene.

On March 16, 2018, a Prehearing Conference was held, at which time a procedural schedule was established and other preliminary matters were addressed. On April 16, 2018, the OCA submitted the Direct Testimony of Jerome D. Mierzwa. I&E also submitted the Direct Testimony of Christopher Keller. On May 2, 2018, the Company submitted the Rebuttal Testimony of Raymond M. Snyder. On May 7, 2018, the OCA submitted the Surrebuttal Testimony of Mr. Mierzwa.

In accordance with the Commission's Rules and Regulations at 52 Pa. Code § 5.321, the parties undertook discussions in an attempt to reach a settlement. On May 8, 2018, the parties informed ALJ Guhl that a settlement in principle had been reached on all issues. ALJ Guhl canceled the evidentiary hearings. ALJ Guhl required that the parties file the Settlement by May 31, 2018. The Settlement includes Appendix B, the Stipulated Record, for admission into the evidentiary record.

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

II. SETTLEMENT

A. GCR Rates

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

B. Interstate Pipeline Penalty Credits

OCA witness Mierzwa and I&E witness Keller questioned in their respective Direct Testimonies whether PGW had credited interstate pipeline refunds to its GCR customers. OCA St. 1 at 11; I&E St. 1 at 2-5. PGW had received approximately \$144,500 in pipeline penalty credits, and it was not clear from the information provided in the filing whether the Company had shared the credits with ratepayers. OCA St. 1 at 11. As a general practice in Pennsylvania, penalty credits are provided as a reduction to purchased gas costs. Id. In Rebuttal Testimony, PGW witness Snyder confirmed that the Company had allocated pipeline refunds to GCR customers. PGW St. 2R at 1-3; see also, OCA St. 1-S at 2-3. The Settlement recognizes Mr. Snyder's testimony in the Settlement and provides:

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.

Settlement at ¶ III (2).

C. Choice Supplier Capacity Release Charges

PGW maintains firm transportation (FT) capacity on two interstate pipelines: (1) Texas Eastern Transmission (Tetco) and (2) Transcontinental Gas Pipe Line (Transco). OCA St. 1 at 3, 4-7. PGW releases a portion of its Tetco and Transco FT capacity to suppliers serving the Company's Choice transportation customers. OCA St. 1 at 3, 7. In Direct Testimony, OCA

witness Mierzwa identified a concern that the rates assessed to Choice suppliers are less than the weighted average cost PGW pays for the Tetco and Transco FT capacity. OCA St. 1 at 7-9. Mr. Mierzwa recommended that suppliers be assessed charges for released FT capacity based on PGW's weighted average cost of Tetco and Transco capacity. OCA St. 1 at 3, 7-8. The estimated impact of assessing Choice suppliers charges for Tetco and Transco FT-release capacity based on the weighted average cost of gas would be to increase the applicable Tetco charges by approximately \$280,000 per year, and applicable Transco charges by approximately \$70,000 per year. OCA St. 1 at 8.¹

PGW witness Snyder disagreed and stated that if Choice suppliers were charged the weighted average cost of gas for Tetco and Transco capacity, Choice suppliers would be paying costs of capacity that they are not otherwise assigned. PGW St. 2R at 4; OCA St. 1-S at 3-4. Mr. Snyder also identified a concern that none of the Choice suppliers had participated in this proceeding. PGW St. 2R at 4; OCA St. 1-S at 4. As OCA witness Mierzwa stated in his Surrebuttal Testimony, Mr. Mierzwa did not agree with Mr. Snyder's conclusions. OCA St. 1-S at 3-4.

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

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.

Settlement at ¶ III (3). Importantly, the Settlement will allow for further analysis of the impact on both Choice suppliers and GCR customers using more complete annual data. In the 2019-2020 filing, PGW will either provide a proposal to change its current methodology of charging Choice

¹ Mr. Mierzwa noted that these cost differences will increase as the number of customers participating in Choice increase. OCA St. 1 at 8.

customers for the cost of Tetco and Transco capacity or otherwise provide an analysis regarding why the approach would not be appropriate for PGW. Settlement at ¶ III (3). All parties have reserved their rights to address the issue in the next GCR proceeding. The OCA submits that this provision is in the public interest to provide the parties with additional and more complete information to fully address this issue in the next GCR proceeding.

D. Monthly Imbalance Reconciliation Procedures

In Direct Testimony, OCA witness Mierzwa recommended modifications to the current monthly imbalance reconciliations procedures for interruptible transportation service applicable for monthly deliveries in excess of usage by up to 3.5%. OCA St. 1 at 3, 9. As Mr. Mierzwa testified:

Pursuant to page 104 of PGW's Gas Service Tariff, monthly deliveries (receipt quantities) that exceed monthly usage by up to 3.5 percent are purchased by the Company at a Daily Market Index Price. The Daily Market Index Price reflects an average of daily Tetco Zone M-3 and Transco Zone 6 Non-New York index prices during the month. These index prices are reflective of market prices for gas delivered to PGW's system in the Philadelphia area.

OCA St. 1 at 10 (footnotes omitted). Under the current imbalance reconciliation rules, deliveries in excess of usage by 3.5% or less are purchased by the Company at an average of daily Tetco Zone M-3 and Transco Zone 6 Non-New York index prices during the month. In January 2018, the application of these procedures resulted in the Company purchasing gas at a price of \$15.04 per Dth when alternative supplies were available in the \$3.00 to \$4.00 per Dth range. OCA St. 1 at 11. In Rebuttal Testimony, PGW witness Snyder presented an analysis that evaluated the period from September 2016 through August 2017 but did not include the January 2018 time period. OCA St. 1-S at 5-6.

The Settlement provides:

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.

Settlement at ¶ III (4). The OCA submits that the analysis will allow the parties to evaluate in the next GCR proceeding the impact of its interruptible transportation reconciliation procedures, including the January 2018 transaction that resulted in the purchase of \$15.04 per Dth gas when lower cost supplies were available. The September 2017-August 2018 time period provided for in the Settlement will allow the parties to evaluate the impact of the interruptible transportation reconciliation procedures in the full context of the GCR year. The OCA submits that the parties have reserved their respective rights to address this issue further in the 2019-2020 GCR proceeding. The OCA submits that this provision is in the public interest, and will provide the parties with additional information to more fully address this issue in the next GCR proceeding.

E. Notice Of Future Annual GCRs And Use Of Estimated Data For March Quarterly GCR

Consistent with the July 21, 2016 Order in PGW's 2016 1307(f) proceeding at Docket No. R-2016-2526700 and the August 3, 2017 Order in PGW's 2017 1307(f) proceeding at Docket No. R-2017-2587526, the Company requests that the Commission allow the Company to follow the same procedure in its 2019-2020 gas cost rate proceeding;

- (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 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;
- (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).

Settlement at ¶ III (7)(a).

The OCA submits that these provisions were approved in the 2016-2017 GCR proceeding and the 2017-2018 GCR proceeding. The OCA does not oppose the Company's request that the Commission grant a similar process for the 2019-2020 1307(f) proceeding. Settlement at ¶ III (7)(b). The OCA supports, as in the public interest, the Settlement's limitation of this request to the 2019-2020 GCR proceeding.

III. CONCLUSION

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

Respectfully Submitted,



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DATE: May 31, 2018

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