

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2018-2645938
Office of Small Business Advocate	:	C-2018-2647156
Office of Consumer Advocate	:	C-2018-3000048
	:	
v.	:	
	:	
Philadelphia Gas Works	:	

RECOMMENDED DECISION

Before
Marta Guhl
Administrative Law Judge

INTRODUCTION

This Recommended Decision recommends the approval of the Joint Petition for Settlement offered by the parties in this matter to resolve all issues related to Philadelphia Gas Works' (PGW or Company) annual 1307(f) filing. The Decision recommends the approval of the Purchased Gas Costs Rates (GCR) as indicated in Appendix A of the Joint Petition for Settlement. The GCR rate adopted by the Settlement is \$4.0369 per Mcf, which is lower than the GCR from the 2017 Settlement of \$4.8158 per Mcf. The rate adopted by the Settlement is the same as what was requested by PGW in its annual filing dated March 1, 2018.

The Decision also recommends that PGW continue to apply all received interstate pipeline penalty credits to its GCR customers in the future. The Decision recommends that PGW include a proposal in its 2019-2020 GCR proceeding to either (1) charge Choice suppliers for released capacity based on PGW's weighted average cost of Tetco and Transco capacity; or (2) demonstrate why such an approach is not appropriate for Philadelphia Gas Works. The Decision recommends that PGW present an analysis in the 2019-2020 GCR proceeding of the impact of

its interruptible transportation reconciliation procedures for the period September 2017 – August 2018 consistent with that presented in the Rebuttal Testimony of Raymond M. Snyder in this proceeding. The Decision also recommends the recovery of the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2016-2017 Gas Cost Rate period. The Decision also recommends that PGW 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 2019-2020 1307(f) filing which are outlined in the Joint Petition for Settlement be adopted by the Commission.

I. HISTORY OF THE PROCEEDING

On February 1, 2018, Philadelphia Gas Works filed its pre-filing information required for its annual 2018-2019 Gas Cost Rate Filing.

On February 6, 2018, Gina L. Miller, Esquire, filed a notice of appearance on behalf of the Commission's Bureau of Investigation and Enforcement (I&E).

On February 12, 2018, 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-2018-2647156.

On February 14, 2018, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG) filed a Petition to Intervene in this proceeding.

On February 21, 2018, 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-2018-3000048.

On March 1, 2018, PGW filed its 2018-2019 Gas Cost Rate Filing. It also served the direct testimony of Kenneth S. Dybalski and Raymond M. Snyder on the same date.

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 Administrative Law Judge Marta Guhl.

A prehearing conference in this matter was held on March 16, 2018. Counsel for PGW, I&E, OCA, OSBA, and PICGUG participated. On March 27, 2018, I issued Prehearing Order #1 which set the litigation schedule and granted PICGUG's Petition to Intervene as well as modified the discovery rules.

Consistent with the procedural schedule, I&E and OCA served direct testimony on April 16, 2018. No other party elected to serve direct testimony.

On May 2, 2018, PGW served the rebuttal testimony of Raymond M. Snyder.

On May 7, 2018, OCA served the surrebuttal testimony of Jerome D. Mierzwa.

On May 7, 2018, counsel for PGW contacted my office via email to inform my office that the parties had agreed that the hearing on May 8, 2018, was no longer necessary and could be cancelled. They also requested additional time to complete the cross-examination matrix. I granted that request via email.

The parties engaged in settlement discussions. As a result of these settlement discussions, PGW, I&E and OCA (collectively "the Settling Parties") were able to reach a settlement which resolves all of the issues pertaining to PGW's 2018-2019 annual GCR filing. On May 8, 2018, counsel for PGW contacted my office via email to inform my office that the parties had reached a settlement in the above matter. The parties indicated that the hearing on May 9, 2018, was no longer necessary, and requested that the hearing be cancelled. I granted

this request in Prehearing Order #2 dated June 8, 2018. The hearings scheduled for May 8 and May 9, 2018 were cancelled.

The Settling Parties filed the Joint Petition for Settlement (Joint Petition or Settlement) and Statements in Support of the Settlement on May 31, 2018. 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: (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) I&E Statement No. 1, the Direct Testimony of Christopher Keller and I&E Exhibit No. 1, and the Exhibit Accompanying the Direct Testimony of Christopher Keller dated April 16, 2018; (6) Direct Testimony of Jerome D. Mierzwa, OCA Statement No. 1 dated April 16, 2018; (7) PGW Statement 1R, Rebuttal Testimony of Raymond M. Snyder dated May 2, 2018; and (8) OCA Statement 1-S, Surrebuttal Testimony of Jerome D. Mierzwa dated May 7, 2018, and accompanying Appendix A. The Stipulated Record is recommended for adoption 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 May 31, 2018, the date that the parties filed the Joint Settlement Petition and Statements in Support.

II. FINDINGS OF FACT¹

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

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

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 cash out price for FY 2017 was \$2.78 which is a reasonable price. (PGW St. 1-R at 7, PGW Exhibit RMS-4R).

III. 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 13-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. Appendix A contains the rates agreed upon by the Settling Parties. Appendix B contains a list of documents in the stipulated record. Appendix C contains proposed Ordering Paragraphs.

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 1-8 are as follows:

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. DISCUSSION

Section 1307(f)(5) of the Public Utility Code (Code), 66 Pa. C.S. §1307(f)(5), requires that the Commission determine the portion of PGW’s historic period actual gas costs which meet the least cost fuel procurement standards set forth in Section 1318 of the Code, 66 Pa. C.S. §1318. In addition, Section 1318 findings must be made with respect to new GCR to be established in this proceeding. Section 1317 of the Code, 66 Pa. C.S. §1317, requires the submission of certain information to enable the Commission to make a least cost fuel procurement policy evaluation.

In determining whether PGW is pursuing a least cost fuel procurement policy under Section 1318 of the Code, the specific findings in §1318(a)(1) through (4) must be made as follows: (1) that the utility has fully and vigorously represented its ratepayers’ interests before the Federal Energy Regulatory Commission (FERC); (2) that the utility has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with its gas suppliers which are or may be adverse to ratepayer interests; (3) that the utility has taken all prudent steps necessary to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies; and, (4) that the utility has not withheld from the market or caused to be withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy.

In this case, the parties have reached a settlement. 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

Pursuant to the Joint Petition, PGW is adopting a GCR of \$4.0369 per Mcf effective September 1, 2018.² 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, 2018, 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..."³ I&E indicates that its review of the information in this proceeding confirms that a least cost fuel procurement policy is being followed. I&E asserts that a least cost fuel procurement policy protects ratepayers from unnecessary and imprudent gas costs and prevents

² Joint Petition at p. 4, ¶1(a); Joint Petition at Appendix A.

³ 66 Pa. C.S. § 1318.

the Company from making a profit on gas supplies provided to its GCR customers. I&E maintains that 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 also argues that the Settlement 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. I&E contends that 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, and liquefied natural gas, as appropriate to market conditions.⁴ I&E asserts that PGW's diligence in adhering to a least cost procurement strategy benefits customers directly in their gas bills. Further, I&E argues that 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 it pursuing a least cost fuel procurement policy consistent with its obligation to provide safe, adequate, and reliable service. PGW notes 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 also asserts that fully 75% of the margin/credit/fees are used as a reduction to purchased gas costs. (PGW Statement in Support at 3).

OCA supports the GCR rates. OCA contends that the GCR rates in Appendix A accurately represent the implementation of the terms of the Settlement. (OCA Statement in Support at 3).

⁴ Joint Petition at p. 8, ¶8.

2. Interstate Pipeline Penalty Credits

The Settlement includes the following term regarding PGW's treatment of received interstate pipeline penalty credits, which are funds that PGW receives from transmission companies in its course of providing natural gas service to ratepayers:

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.⁵

I&E submits that the term memorializes PGW's appropriate treatment of pipeline credits, which was unclear at the outset of this case but clarified through the record as the case progressed. More specifically, as I&E witness Christopher Keller explained in his direct testimony, he interpreted PGW's response to an I&E interrogatory, I&E-28, to indicate that while PGW received a total of \$144,581 in pipeline penalty credits⁶ in the prior GCR period, the credits were sent to the Company separately and therefore not included in the filing. Mr. Keller understood PGW's response to mean that PGW did not share the credits with ratepayers, which directly conflicted with his recommendation that PGW should be required to return all pipeline penalty credits to ratepayers through the GCR rate.⁷ Notably, OCA witness Jerome Mierzwa also pointed to PGW's response to I&E-RE-28 as an indication that PGW did not reflect penalty credits in its GCR filing, noting that while it was unclear how PGW treated the penalty credits, they should be reflected as a reduction to purchased gas costs.⁸ (I&E Statement in Support at 6).

I&E notes that in response to the direct testimonies of I&E and the OCA, PGW issued a revised response to I&E-28,⁹ which presented clearer and more concise information. Through the revised response, and his rebuttal testimony, PGW witness Raymond M. Snyder

⁵ Joint Petition at p. 5, ¶2.

⁶ \$1,944 of the \$144,581 was comprised of interest (I&E Ex. No. 1, Sch. 1, p. 2).

⁷ I&E St. No. 1, pp. 2-4; I&E Ex. No. 1, Sch. 1.

⁸ OCA St. No. 1, pp. 11-12.

⁹ See PGW St. No. 2R, pp. 2-3; Exhibit RMS-1R.

explained that PGW had, in fact, returned pipeline penalty credits to customers as required. PGW's initial response to I&E-28 was simply intended to convey that in certain identified cases, credited amounts had been wired to PGW separately instead of being credited on invoices. I&E contends that the initial response was intended to simply reflect the manner in which PGW received the credits, but PGW ultimately indicated that its GCR customers were credited for interstate pipeline penalties as follows:

For the non-Transco credits, the amounts were credited to PGW's invoices for the months March, May, and November 2017. The credits reduced PGW's net fuel cost for the invoice period in an amount equal to the pipeline penalty credit received. For the Transco credits, the amounts were wired to PGW and confirmed by an email from Transco. PGW then applied those funds as credits to its Natural Gas Account, thus reducing the cost of natural gas to PGW's GCR customers by the amount of the penalty credit.¹⁰

Upon review of PGW's detailed explanation, I&E agrees that PGW has properly credited its GCR customers for interstate pipeline penalty credits. Furthermore, I&E maintains that the settlement term memorializes PGW's continuing commitment to apply all received interstate pipeline penalty credits to its GCR customers in the future. I&E asserts that the settlement is in the public interest because it ensures that PGW's GCR customers will continue to share in the pipeline penalty credits. (I&E Statement in Support at 6-7).

PGW argues that the Settlement recognizes that it demonstrated that all received interstate pipeline penalty credits have been credited to PGW's GCR customers. Consistent with the Settlement, PGW asserts it will continue to apply all received interstate pipeline penalty credits to its GCR customers in the future. PGW also notes that the settlement term addresses concerns raised by both OCA and I&E regarding how PGW credits pipeline penalty payments to GCR customers. (PGW Statement in Support at 3).

OCA notes that its witness, Jerome Mierzwa, and I&E witness, Christopher Keller, questioned in their respective direct testimony whether PGW credited interstate pipeline

¹⁰ PGW St. No. 2R, p. 3; PGW Ex. RMS-2R; PGW RMS-3R.

refunds to its GCR customers.¹¹ OCA indicates that PGW 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.¹² As a general practice in Pennsylvania, OCA maintains that penalty credits are provided as a reduction to purchased gas costs.¹³ In Rebuttal Testimony, PGW witness Raymond Snyder confirmed that the Company had allocated pipeline refunds to GCR customers.¹⁴ (OCA Statement in Support at 3).

3. Choice Supplier Capacity Release Charges

As part of this Settlement, PGW has agreed to include a proposal in its next GCR proceeding to either (1) charge Choice suppliers for released capacity based on PGW's weighted average cost of Tetco and Transco capacity; or (2) demonstrate why such an approach is not appropriate for PGW.¹⁵ In either case, the Joint Petitioners reserve the right to support, oppose or to take no position regarding PGW's ultimate proposal.

Although I&E did not take a position on this issue, I&E notes that the issue developed through OCA witness Jerome Mierzwa's testimony indicating that the rates assessed to Choice suppliers were less than the weighted average cost that PGW pays for Tetco and Transco FT capacity. Mr. Mierzwa explained that Choice suppliers should not pay less for Tetco and Transco FT capacity than PGW's GCR customers pay; instead, Choice suppliers should be assessed for released capacity based upon PGW's weighted average cost for that capacity.¹⁶ In response, PGW witness Raymond Snyder explained that the rates that PGW charges to Choice suppliers are reasonable because they take into account the maximum rates on each of the interstate pipelines that govern how much PGW can charge for the capacity that it has released to the suppliers. Additionally, I&E asserts that PGW only charges suppliers for the capacity that is released to them, and the weighted average cost of Tetco and Transco includes costs for capacity and therefore would not be appropriate. (I&E Statement in Support at 8).

¹¹ OCA St. 1 at 11; I&E St. 1 at 2-5.

¹² OCA St. 1 at 11.

¹³ *Id.*

¹⁴ PGW St. 2R at 1-3; *see also*, OCA St. 1-S at 2-3.

¹⁵ Joint Petition, p. 5, ¶ 3.

¹⁶ OCA St. No. 1, pp. 7-8.

In resolution of this matter, I&E indicates that PGW and OCA agreed to the above-referenced term, committing PGW to take either of the following actions as part of its next GCR proceeding: (1) charge Choice suppliers for released capacity based on PGW's weighted average cost of Tetco and Transco capacity; or (2) demonstrate why such an approach is not appropriate for PGW.¹⁷ Although I&E did not take a position regarding this term, I&E supports this term because it was necessary to facilitate the global settlement of this matter and it does not preclude the Joint Petitioners from further investigating and raising this issue in future GCR proceedings. (I&E Statement in Support at 8-9).

PGW notes that it 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. PGW indicates that 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 states that it has agreed to further examine the concerns raised by OCA. (PGW Statement in Support at 3).

OCA notes that its witness, Mr. 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.¹⁸ Mr. Mierzwa recommended that suppliers be assessed charges for released FT capacity based on PGW's weighted average cost of Tetco and Transco capacity.¹⁹ OCA argues that 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.²⁰ (OCA Statement in Support at 3-4).

¹⁷ Joint Petition, p. 5, ¶ 3.

¹⁸ OCA St. 1 at 7-9.

¹⁹ OCA St. 1 at 3, 7-8.

²⁰ OCA St. 1 at 8.

OCA submits that the Settlement is a reasonable resolution to the issue. OCA argues that 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 customers for the cost of Tetco and Transco capacity or otherwise provide an analysis regarding why the approach would not be appropriate for PGW. All parties have reserved their rights to address the issue in the next GCR proceeding. OCA maintains 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. (OCA Statement in Support at 4-5).

4. Monthly Imbalance Reconciliation Procedures

Pursuant to the Settlement, the Joint Petitioners have agreed to the following term, which represents a compromise between PGW and the OCA:

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.²¹

Although I&E did not take a position regarding this issue, I&E supports this term because it was necessary to facilitate the global settlement of this matter and it does not limit the Joint Petitioners' remedies in future GCR proceedings. (I&E Statement in Support at 11).

OCA notes that its witness, Jerome Mierzwa, recommended modifications to PGW's current monthly imbalance reconciliation procedures for interruptible transportation service applicable for monthly deliveries in excess of usage by up to 3.5%.²² Under the current imbalance reconciliation rules, OCA contends that 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-

²¹ Joint Petition at p. 5, ¶4.

²² OCA St. 1 at 3, 9.

New York index prices during the month. OCA indicates that 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.²³ In Rebuttal Testimony, PGW witness Raymond M. Snyder presented an analysis that evaluated the period from September 2016, through August 2017, but did not include the January 2018, time period.²⁴ (OCA Statement in Support at 4).

OCA asserts that the analysis will allow the parties to evaluate in the next GCR proceeding the impact of PGW's 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. OCA contends that 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. OCA maintains that the parties have reserved their respective rights to address this issue further in the 2019-2020 GCR proceeding. Lastly, OCA argues 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. (OCA Statement in Support at 6).

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 contends that its 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 the Settlement, however, PGW agrees to provide OCA with the specified data and the parties retain the right to propose changes in the context of next year's proceeding. PGW argues that this is a reasonable resolution of the issue. (PGW Statement in Support at 4).

²³ OCA St. 1 at 11.

²⁴ OCA St. 1-S at 5-6.

5. 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 \$125,000.²⁵

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.²⁶ I&E argues this cost, subject to a cap of \$125,000, is appropriately recovered from GCR customers to enable PGW to mitigate the financial risk in its gas supply portfolio. (I&E Statement in Support at 11).

PGW argues that the continued approval of this settlement term enables it to continue to provide maximum value for its ratepayers. (PGW Statement in Support at 4).

OCA does not have any comments on this issue in its Statement in Support.

6. 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.²⁷

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, I&E argues that PGW benefits from the arrangement by receiving a monetary incentive to maximize its efforts to increase capacity release and off-system sales activity. I&E contends that

²⁵ Joint Petition at 5, ¶5.

²⁶ 66 Pa. C.S. § 1307(h).

²⁷ Joint Petition at p. 6, ¶6.

GCR customers benefit from PGW's efforts in the form of reduced gas costs. (I&E Statement of Support at 11-12).

PGW argues that the continued approval of these settlement terms enables it to continue to provide maximum value for its ratepayers. PGW asserts that approval of this Settlement will result in it pursuing a least cost fuel procurement policy consistent with PGW's obligation to provide safe, adequate, and reliable service. PGW contends that this Settlement is in the public interest for this reason. (PGW Statement in Support at 3, 4).

7. 2019-2020 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 2019-2020 GCR proceeding, as outlined in the Joint Petition.²⁸

I&E notes that PGW's request simply outlines a process for its commitment to ensure that customers receive advance notice of its next GCR proceeding and advises of its intent to provide certain estimated data. Additionally, PGW's use of the public notice process and estimated data is consistent with previous requests that PGW made and which 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 with the Joint Petitioners again on the same basis for PGW's next annual GCR filing. (I&E Statement in Support at 12).

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

²⁸ Joint Petition at 6, ¶7(a).

PGW argues that the continued approval of these settlement terms enables it to continue to provide maximum value for its ratepayers. (PGW Statement in Support at 4).

9. Settlement in General

I&E argues that the Settlement provides that PGW may place into effect the natural gas supply rates as proposed and identified in the appendices attached to the Joint Petition. The proposed rates are subject to quarterly updates, with limited exceptions, as required by the Commission's Regulations. The I&E analysis in this proceeding supports that these rates are just and reasonable, accurately reflect the costs of PGW's purchased natural gas and are based on sound regulatory practices. I&E asserts that these rates are in the public interest and should be approved. (I&E Statement in Support at 12-13).

I&E is in agreement that PGW will adhere to the purchasing plan as established by the data and calculations provided in PGW's testimony and associated exhibits, as modified by the Settlement. 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 contends that PGW's projections and plans are reasonable and are in the public interest. I&E fully supports the Settlement, which addressed and resolved the concerns raised in I&E's testimony. I&E avers that all issues have been satisfactorily resolved through discovery and discussions with PGW and are incorporated in the Settlement. I&E maintains it is satisfied that no further action is necessary and considers its investigation of this filing complete. Based upon I&E's analysis of the filing, I&E asserts that acceptance of this proposed Settlement is in the public interest because the provisions adequately protect the interests of all affected parties, including the signatories to this Joint Petition. I&E notes that it is satisfied that the provisions and data contained in the PGW's annual GCR filing, as confirmed by this Joint Petition, accurately support the finding that PGW's purchased gas costs and its practices adequately protect the public interest. (I&E Statement in Support at 13-14).

PGW argues that approving its 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. Further, PGW maintains that the Settlement reduces the administrative burden and costs to resolve the issues. PGW asserts that for all these reasons, the Settlement is in the public interest and should be adopted. (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 8).

10. Disposition

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 clearly designed to advance the least cost procurement objective which ultimately benefits ratepayers. The GCR rate adopted by the Settlement is \$4.0369 per Mcf, which is lower than the GCR from 2017 of \$4.8158 per Mcf. The rate adopted by the Settlement is the same as what was requested by PGW in its annual filing. In the Settlement, 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. The Settling Parties agreed that PGW will include a proposal in its next GCR proceeding to either (1) charge Choice suppliers for released capacity based on PGW's weighted average cost of Tetco and Transco capacity; or (2) demonstrate why such an approach is not appropriate for PGW. In either case, the Joint Petitioners reserve the right to support, oppose or to take no position regarding PGW's ultimate proposal. PGW also agreed 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. The settling

parties are free to propose changes to the Company's existing IT reconciliation procedures in next year's proceeding.

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. 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 2019-2020 GCR proceeding. All parties agree that it would be efficient to use the proposed procedures for the 2019-2020 GCR proceeding. Clearly, the 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' 2018-2019 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' 2018-2019 Proceeding be approved in its entirety and without modification.

V. CONCLUSIONS OF LAW²⁹

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

2. There is sufficient evidence of record to make the findings required by Section 1318 of the Public Utility Code, 66 Pa. C.S. §1318.

²⁹ Conclusions of Law Nos. 4, 5, 6 & 7 are Conclusions that the parties proposed in the Joint Petition which they requested that the Commission adopt.

3. 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.

4. 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.

5. With respect to PGW's gas purchases and gas purchasing practices during the twelve-month historical reconciliation period ended December 31, 2017, 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.

6. During the twelve months ended December 31, 2017, 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.

7. With respect to the eight-month interim period beginning on January 1, 2018, and the projected twelve-month period beginning September 1, 2018, 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.

8. If gas purchases and gas purchasing practices from January 1, 2018, through August 31, 2018, 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, 2018, and the twelve-month application period commencing September 1, 2018, and ending on August 31, 2019.

9. 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).

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

VII. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Stipulation of the Record by the parties is adopted and PGW's February 1, 2018, Pre-filing Information; PGW's March 1, 2018, Annual GCR Filing; PGW St. 1, Direct Testimony of Kenneth S. Dybalski dated March 1, 2018; PGW St. 2, Direct Testimony of Raymond M. Snyder dated March 1, 2018; 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 dated April 16, 2018; Direct Testimony of Jerome D. Mierzwa, OCA Statement No. 1 dated April 16, 2018; PGW Statement 1R, Rebuttal Testimony of Raymond M. Snyder dated May 2, 2018; and OCA Statement 1-S, Surrebuttal Testimony of Jerome D. Mierzwa dated May 7, 2018, and accompanying Appendix A are entered in the record at Docket No. R-2018-2645938.

2. That the Joint Petition for Settlement of the Philadelphia Gas Works' 2018-2019 Gas Cost Rate Proceeding, including all appendices and documents identified therein, is admitted into the record of the proceeding at Docket Number R-2018-2645938;

3. That the Joint Petition for Settlement of the Philadelphia Gas Works' 2018-2019 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-2018-2645938 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-2018-2645938 to be effective upon at least one day's notice 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) of the Joint Petition;

5. That the Philadelphia Gas Works shall calculate the quarterly filing updates for the 2018-2019 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 continue to apply all received interstate pipeline penalty credits to its GCR customers in the future;

8. That the Philadelphia Gas Works will include a proposal in its 2019-2020 GCR proceeding to either (1) charge Choice suppliers for released capacity based on PGW's weighted average cost of Tetco and Transco capacity; or (2) demonstrate why such an approach is not appropriate for the Philadelphia Gas Works. In either case, the other parties reserve the right to support, oppose or to take no position regarding the Philadelphia Gas Works' ultimate proposal;

9. That the Philadelphia Gas Works will present an analysis in the 2019-2020 GCR proceeding of the impact of its interruptible transportation reconciliation procedures for the period September 2017 – August 2018 consistent with that presented in the Rebuttal Testimony of Raymond M. Snyder in this proceeding. That the Parties are free to propose changes to the Philadelphia Gas Works' existing IT reconciliation procedures in next year's proceeding;

10. That the Philadelphia Gas Works shall recover the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2018-2019 Gas Cost Rate period. Continued recovery of the fee beyond the 2018-2019 Gas Cost Rate period must be addressed in next year's Purchased Gas Cost proceeding;

11. 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, 2018, to August 31, 2019, 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, 2019, in its March 1, 2019, annual 1307(f) filing;

12. That the Philadelphia Gas Works be 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).

13. That the formal Complaint filed by the Office of Consumer Advocate at C-2018-3000048 be deemed satisfied;

14. That the formal Complaint filed by the Office of Small Business Advocate at C-2018-2647156 be deemed satisfied;

15. That the intervention of the Philadelphia Industrial and Commercial Gas Users Group is dismissed; and

16. That the Commission Investigation at Docket No. R-2018-2645938 be terminated and marked closed.

Date: June 18, 2018

/s/
Marta Guhl
Administrative Law Judge