

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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| Pennsylvania Public Utility Commission | : | |
| | : | |
| v. | : | R-2018-3001568 |
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| PECO Energy Company | : | |
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| Office of Consumer Advocate | : | |
| | : | |
| v. | : | C-2018-3002523 |
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| PECO Energy Company | : | |
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| Office of Small Business Advocate | : | |
| | : | |
| v. | : | C-2018-3001972 |
| | : | |
| PECO Energy Company | : | |

RECOMMENDED DECISION

Before
Eranda Vero
Administrative Law Judge

I. **HISTORY OF THE PROCEEDING**

On April 27, 2018, PECO Energy Company (PECO or the Company) made a preliminary filing with the Public Utility Commission (Commission) pursuant to 52 Pa.Code §§ 53.64 and 53.65 regarding proposed changes in rates resulting from changes in the purchased gas costs and other elements of the company's Purchased Gas Cost (PGC) rate.

On May 31, 2018, pursuant to 66 Pa.C.S.A. § 1307(f), 52 Pa. Code § 53.61 *et seq.* and the Schedule of Filing Dates established by the Commission, PECO filed its definitive PGC filing, PGC No. 35, proposed Supplement No. 6 to Tariff Gas-Pa.P.U.C. No. 3, to become effective for service rendered on and after December 1, 2018.¹ This tariff supplement proposed to increase residential PGC rates from \$5.1015/Mcf to \$5.1409/Mcf, an increase of \$0.0394/Mcf. The Company also filed a reconciliation of previously incurred expenses and revenues received. In support of its filing, PECO submitted data and information including the direct testimony of witnesses Carlos P. Thillet (PECO Statement No. 1) and Anthony P. DiFelice (PECO Statement No. 2) with supporting exhibits.

As required by 52 Pa. Code § 53.68, PECO provided public notice of the proposed tariff through bill inserts and newspaper publication in PECO's service territory.

By operation of law, the filing was suspended for a period of six months for an investigation into the lawfulness, justness and reasonableness of the proposed rates and to satisfy the requirements of Sections 1307, 1317 and 1318 of the Public Utility Code, 66 Pa.C.S.A. §§ 1307, 1317, and 1318.

On May 17, 2018, the Office of Small Business Advocate (OSBA) filed a Complaint (docketed at C-2018-3001972), a Public Statement and Notice of Appearance for Elizabeth Rose Triscari, Esq.

Also, on May 17, 2018, a Petition to Intervene was filed by the Philadelphia Area Industrial Energy Users Group (PAIEUG).

A Notice of Appearance, dated May 31, 2018, was filed on behalf of the Commission's Bureau of Investigation and Enforcement (I&E) for Carrie B. Wright, Esq.

¹ The last public meeting date prior to December 1, 2018, is on November 8, 2018.

By Notice dated June 4, 2018, a telephonic prehearing conference was scheduled for June 11, 2018, and the matter was assigned to me. On June 1, 2018, I issued a Prehearing Conference Order containing various procedural requirements relating to the scheduled prehearing conference.

On June 6, 2018, the Office of Consumer Advocate (OCA) filed a Complaint (docketed at C-2018-3002523), a Public Statement, and a Notice of Appearance for Aron J. Beatty, Esq., Christy Appleby, Esq., and Anthony Daub, Certified Legal Intern.

The prehearing conference was held as scheduled on June 11, 2018. Present through counsel were PECO, I&E, OCA, OSBA, and PAIEUG. PAIEUG's Petition to Intervene was granted, discovery rules were adopted, and a litigation and briefing schedule was established. On June 12, 2018, I issued a Protective Order. The actions taken at the prehearing conference were memorialized in a Prehearing Order dated June 15, 2018.

On June 29, 2018, the parties informed me that they had reached a settlement on all issues in the matter and requested that the litigation schedule be suspended and the hearings on July 27 and 30, 2018, be cancelled. I notified the parties via e-mail that I would grant their request.

On August 2, 2018, a Joint Petition for Complete Settlement (Joint Petition or Settlement) was filed and served. Signatories to the Joint Petition include PECO, I&E, OCA, and OSBA (collectively, settling parties or joint petitioners). PAIEUG authorized the settling parties to represent its non-opposition to the Joint Petition. Each of the settling parties provided a Statement in Support appended to the Petition.

Also, on August 2, 2018, the settling parties filed a Stipulation and Motion for Admission of Testimony and Exhibits. The settling parties stipulated to the authenticity of the statements and exhibits listed in the Stipulation, waived the opportunity to conduct cross-examination and requested that the statements and exhibits be admitted into the record. By

Order Granting Motion for Admission of Testimony and Exhibits dated August 29, 2018, the Stipulation, statements and exhibits were admitted into the record of this proceeding.

The record in this proceeding consists of the transcript of the prehearing conference, PECO's filing, and the statements and exhibits sponsored by the parties (and the related Stipulation) which were admitted into the record through the August 29, 2018, Order. The Joint Petition for Complete Settlement, with its appendices, will be admitted into the record through this Recommended Decision.

The parties' position is that the proposed settlement provides a fair, just and reasonable resolution of the 1307(f) issues, is supported by the record, and is in the public interest. I agree. The settlement terms appear to be a fair and reasonable resolution of the various issues, and appropriately balance the interests of the Company and its customers. The parties, and the counsel representing them, are to be commended for their outstanding efforts and diligence in this proceeding. Therefore, the Joint Petition should be approved without modification by the Commission as expeditiously as possible.

II. THE PROPOSED SETTLEMENT

The Joint Petition for Complete Settlement is a document signed by the Company, OCA, OSBA, and I&E. Appendix A of the Joint Petition contains the rates and underlying cost data resulting from the settlement that are applicable to the Commodity Charge (CC), the Gas Cost Adjustment Charge (GCA), the Balancing Service Charge (BSC) and the Balancing Charge (BC). Appendix B is the Pro Forma Tariff page showing the changes to the firm and interruptible supply reservation charges for Rate CGS (City Gate Sales Services). The revised Ratable Hedging Program execution schedule is attached as Appendix C. Appendix D is Pro Forma Tariff pages showing the changes to the retainage volume adjustment rate. Appendix E is PECO's Statement in Support. Appendix F is I&E's Statement in Support. Appendix G is OCA's Statement in Support. Appendix H is OSBA's Statement in Support.

The principal terms and conditions of the proposed settlement, contained in Paragraphs 17-25, Section III of the Joint Petition, are as follows:

17. Purchased Gas Cost Rates

a) Attached as Appendix A to this Joint Petition are the rates and underlying cost data resulting from the Settlement that are applicable to the Commodity Charge (“CC”), the Gas Cost Adjustment Charge (“GCA”), the Balancing Charge (“BC”), and the Balancing Service Charge (“BSC”). These rates are predicated on the Company’s current gas cost projections and are the same as originally filed in this proceeding. To the extent that actual experience and changes in forecasted natural gas prices and demand would alter the CC, GCA and the BSC rates, PECO reserves the right to file quarterly adjustments to be effective September 1, 2018, December 1, 2018, and thereafter in accordance with 52 Pa. Code § 53.64.²

b) Attached as Appendix B to this Joint Petition is the pro forma tariff page showing the changes to the firm and interruptible supply reservation charges for Rate CGS (“City Gate Sales Services”). PECO reserves the right to update Rate CGS and the Rate Transportation Service-Firm (“TS-F”) standby sales service demand charge, as shown in Appendix A, Exhibit APD-1, to be effective December 1, 2018, to the extent that actual experience and changes in forecasted natural gas prices and demand may alter these rates.

18. Balancing Charge Rate

Under the terms of the 2008 Gas Base Rate Case Settlement, the Company is required to update the Balancing Charge as part of its annual 1307(f) filing. As set forth in Exhibit CPT-1 accompanying PECO Statement No. 1, the Direct Testimony of Carlos P. Thillet in the PGC 35 Filing (and also included in Appendix A), the Company is proposing a Balancing Charge of \$0.0074 per Mcf to become effective on December 1, 2018, which is \$0.0001 per Mcf more than the currently effective Balancing Charge.

² Pursuant to the terms of the settlement of the Company’s gas base rate case at Docket No. R-2008-2028394, the BC may be updated and revised only as part of PECO’s annual PGC filing.

19. Gas Price Hedging

a) In accordance with Paragraphs 19(c) and (d) of the 2016 Joint Petition for Complete Settlement (“2016 Joint Petition”)^[3] and Paragraph 19(c) of the 2017 Joint Petition for Complete Settlement (“2017 Joint Petition”)^[4], PECO has complied with the terms of the Ratable Hedging Program for all hedges made through April 2018, and will continue to do so. Pursuant to the Ratable Hedging Program’s execution schedule, PECO issued Requests for Proposals (“RFPs”) for 14 execution periods through April 2018 (these periods appear in blue highlight in Exhibit CPT-4 accompanying PECO Statement No. 1, the Direct Testimony of Carlos P. Thillet, in the PGC 35 Filing). In all but one case, having satisfied the conditions in Paragraphs 19(c) and (d) of the 2016 Joint Petition, PECO entered into transactions with the respondents who could provide supply at the lowest cost for the specified volumes on a fixed price basis. For the Year 3 Summer, August 2017 execution period, PECO did not receive the requisite three respondents to its RFP, and therefore did not make the hedges for that period. PECO has purchased 21.4 Dth of hedged gas under the program at a weighted average cost of \$2.351 per Dth from inception through April 2018 as reflected in the table below (*see* Table CPT-9 in PECO Statement No. 1, the Direct Testimony of Carlos P. Thillet, in the PGC 35 Filing). Accordingly, PECO’s purchases under the Ratable Hedging Program through April 2018 have been in compliance with the Ratable Hedging Program execution schedule.

^[3] *Pa. Pub. Util. Comm’n v. PECO Energy Company*, Docket No. R-2016-2545925 (Final Opinion and Order entered October 20, 2016).

^[4] *Pa. Pub. Util. Comm’n v. PECO Energy Company*, Docket No. R-2017-2602611 (Final Order entered October 5, 2017).

| Ratable Hedging Program | | | |
|---|-------------------|-----------------|-------------------|
| Executed Hedges - Inception through April 2018 | | | |
| Execution Month | DTH | \$/DTH | Total \$ |
| November 2016 | 4,062,600 | \$ 1.892 | 7,684,760 |
| December 2016 | 1,198,400 | \$ 2.041 | 2,445,335 |
| January 2017 | 1,198,400 | \$ 2.030 | 2,432,752 |
| February 2017 | 1,958,200 | \$ 2.706 | 5,299,666 |
| March 2017 | 906,000 | \$ 2.660 | 2,409,960 |
| April 2017 | 599,200 | \$ 2.200 | 1,318,240 |
| May 2017 | 1,958,200 | \$ 2.800 | 5,482,340 |
| July 2017 | 906,000 | \$ 2.662 | 2,411,590 |
| August 2017 | 1,958,200 | \$ 2.533 | 4,959,813 |
| November 2017 | 2,417,200 | \$ 2.553 | 6,171,052 |
| December 2017 | 599,200 | \$ 2.120 | 1,270,304 |
| February 2018 | 599,200 | \$ 2.080 | 1,246,336 |
| March 2018 | 1,818,000 | \$ 2.556 | 4,647,180 |
| April 2018 | 1,198,400 | \$ 2.063 | 2,471,700 |
| Total - All Executed Transactions | 21,377,200 | \$ 2.351 | 50,251,028 |

b) In the PGC 35 Filing, PECO is requesting that the Ratable Hedging Program be extended for an additional year. Extending the program for an additional year (“Year 5”) will add Summer and Winter periods with volumes at the same bifurcated volumetric level, and with execution periods similar to those used in years two, three and four of the current execution schedule. The Parties have agreed to extend the program for an additional year. The revised Ratable Hedging Program execution schedule is attached as Appendix C.

20. **Lost And Unaccounted For Gas Monitoring And Reporting**

While no further LUGF reporting obligations are required, consistent with its reporting in prior PGC proceedings, PECO has provided a three-year weighted average for the period ending March 31, 2018, and June 30, 2018 in the following tables, as part of the PGC 35 Filing.

PECO LUGF Calculation 2016-2018 PGC (3-Year Average)

| | Sendout (in Mcf) | Billed Sales (in Mcf) | LUGF |
|---------------------------------|-----------------------------|----------------------------------|-------------|
| 12 months ending 3/31/16 | 79,770,991 | 79,844,715 | -0.1% |
| 12 months ending 3/31/17 | 86,172,223 | 82,948,993 | 3.7% |
| 12 months ending 3/31/18 | 90,208,866 | 87,792,365 | 2.7% |
| 36 months ending 3/31/18 | 256,152,080 | 250,586,072 | 2.2% |

| PECO LUGF Calculation 2018 PGC | | | | |
|---------------------------------------|-----------------------|----------------------------|-------------|----------------------------|
| | Sendout in MCF | Billed Sales in MCF | LUGF | Pre-Heater Fuel |
| 12 months ending 6/30/2016 | 81,559,578 | 79,147,887 | 3.0% | 87,874 |
| 12 months ending 6/30/2017 | 84,650,787 | 83,476,660 | 1.4% | 92,152 |
| 12 months ending 6/30/2018 | 92,561,301 | 90,641,031 | 2.1% | 102,553 |
| 36 months ending 6/30/2018 | 258,771,666 | 253,265,578 | 2.1% | 282,579 |

| Retainage Calculation for 2018 PGC | | | | |
|---|---|--------------------------------|---------------------------|-----------------------------------|
| | Sendout in MCF + Pre-Heater Fuel | Billed Sales in MCF | Retainage Rate | Pre-Heater Company Use |
| 36 months ending 6/30/2018 | 259,054,245 | 253,265,578 | 2.2% | 282,579 |

21. Retainage

In accordance with Paragraph 21 of the 2017 Joint Petition, the retainage volume adjustment for transportation service customers for the 12 months beginning December 1, 2017 and ending November 30, 2018 is 2.7%. The retainage volume adjustment will be 2.2% for the 12 months beginning December 1, 2018 and ending November 30, 2019, as shown on the tariff pages attached hereto as Appendix D, which was calculated based on the weighted three-year average of LUGF plus the portion of Company-use gas attributable to preheater gate station usage for the period ending June 30, 2018.

22. Off-System Sales/Capacity Release Sharing

Pursuant to the 2017 Joint Petition, the off-system sharing mechanism was extended at the 25% rate through November 30, 2020. In the instant proceeding, the Parties agree that PECO will further extend the off-system sharing mechanism through November 30, 2021.

23. Reallocation of BSC and SSC Fuel Costs

The Company has complied with its obligations regarding the reallocation of the BSC and SSC Fuel Costs as agreed in the 2017 Joint Petition, as explained in both PECO Statement No. 1, the Direct Testimony of Carlos P. Thillet, and PECO Statement No. 2, the Direct Testimony of Anthony P. DiFelice, in the PGC 35 Filing.

a) In compliance with Paragraph 23(a) of the 2017 Joint Petition, PECO eliminated the approximately \$1.4 million in interest remaining as of December 1, 2017 associated with the over and under collections of the reallocated costs for both the BSC and SSC from the total interest balances at November 30, 2017.

b) In compliance with Paragraph 23(b) of the 2017 Joint Petition, PECO has begun refunding the BSC reallocation balance amount to BSC customers over the one-year period beginning December 1, 2017 and ending November 30, 2018.

c) In accordance with the two-year recovery period requirement in Paragraph 23(c), recovery of the remaining estimated reallocation balance for the SSC commenced on December 1, 2017. The remaining balance on December 1, 2018 was determined for the PGC 35 Filing and will continue to be recovered during the PGC 35 application period of December 1, 2018 through November 30, 2019.

d) In compliance with Paragraph 23(d) of the 2017 Joint Petition, PECO provided testimony regarding corrective actions and progress made to ensure that the errors that led to the misallocation issue addressed in the PGC 34 proceeding do not reoccur.

24. **Interest Rate for Over- and Under-Collections**

In compliance with Paragraph 24 of the 2017 Joint Petition, PECO applied the prime rate in effect 60 days prior to the annual PGC filing date to the over- and under-collection balances for the PGC period December 1, 2017 through November 30, 2018. Going forward, as previously agreed, PECO will use the prime rate for commercial borrowing in effect 60 days prior to the annual PGC filing (which occurs on or before June 1 of each year) to determine interest on the over- and under-collection balances existing through November 30 of the year in which the PGC filing is made.

25. **LNG And Propane Winter Utilization Reporting**

As requested by I&E and OCA, and for purposes of settlement, PECO has agreed, in its next annual 1307(f) filing, to report on its investigation of the viability of the following six (6) potential long- and short-term solutions to meet customer demand during the heating season, including peak day demand, as identified in PECO Statement No. 1, the Direct Testimony of Carlos P. Thillet (at pages 28-31), in the PGC 35 Filing, or as suggested by I&E, and identify how each fits into PECO's overall procurement strategy:

- a) Participation by Low Volume Transportation Gas Choice Program suppliers in the Additional Capacity Resource Requirement ("ACCR") Program;
- b) PECO's continued evaluation of participation in pipeline open seasons as a way of securing additional cost-effective Firm Transportation to PECO's city gate;
- c) Acquisition of additional peaking supply contracts;
- d) Investment in PECO's on-system LNG assets;
- e) Participation by the Company in the Vineland LNG Storage and Peak Shaving Facility; and
- f) Contracting by the Company for winter propane and LNG call options.

In addition, the Settlement contains the standard provision in Section VI: that the settlement agreement is made without prejudice to each party's litigation position; that it is conditioned upon the Commission's approval of the agreement without modification; and that if

the Commission fails to grant approval of the Joint Petition or modifies any material term or condition of the settlement any party may elect to withdraw from the settlement upon written notice to the Commission and the other parties within five business days of the entry of the Commission order, and in that case, the settlement will be of no force and effect and each party reserves its right to fully litigate the case. See, Paragraphs 38-43.

III. FINDINGS OF FACT

I am adopting the following findings of fact that were included in the Joint Petition:

1. PECO operates a natural gas distribution system in the southeastern portion of Pennsylvania subject to the jurisdiction of the Commission. (PECO St. 1, p. 4-5).
2. PECO's gas purchasing policy is designed to achieve a reasonable balance of long and short-term gas purchases that assures system supply reliability at the least cost. (PECO St. 1, pp. 11-12).
3. The details of PECO's actual gas purchases for the twelve months ending March 31, 2018 are presented in Section 1 of PECO's Advance Filing. (PECO Adv. Filing § 1).
4. PECO receives almost all of its gas supply directly into its distribution system from Texas Eastern Transmission, LP ("Texas Eastern"), Transcontinental Gas Pipe Line Corporation ("Transco"), and Eastern Shore Natural Gas Company. (PECO St. 1, p. 5). Evidence of record shows that firm transportation contracts with these pipelines provide PECO the ability to purchase gas supplies directly from producers and marketers and to use firm transportation capacity on the pipelines for delivery of the gas to PECO. (PECO St. 1, pp. 5, 32; PECO Adv. Filing §§ 2, 3 and 8). PECO also obtains natural gas storage services from Dominion Transmission, Inc. ("DTI"). (PECO St. 1, p. 5). Evidence of record shows that PECO has purchased all of its requirements on competitive terms. (PECO St. 1, pp. 32-36).

5. PECO participated in significant rulemaking, rate and certificate proceedings before the Federal Energy Regulatory Commission (“FERC”) concerning interstate natural gas pipeline company rates and conditions of service that affect its costs and, therefore, its customers’ costs. PECO also participated in major FERC proceedings of the interstate pipelines from which it receives transportation and storage service. (PECO Adv. Filing § 5).

6. In the past year, PECO renewed several storage and transportation service agreements, after unsuccessfully soliciting competitive alternatives. (PECO St. 1, pp. 32-34).

7. During the past year, PECO issued a non-binding response to the Adelphia Project Open Season because of an anticipated future need for additional delivered capacity to the Brookhaven and Chester/Tilghman Street gate stations. The Company’s analysis is continuing. In addition, pursuant to the 2015 Joint Petition for Complete Settlement (2015 Joint Petition)⁵, Docket No. R-2015-2480969, PECO was approved for up to 27,500 Dth per day of firm transportation capacity with Texas Eastern for the M2M project, which PECO now anticipates will be placed in-service in November of 2019. (PECO St. 1, pp. 35-36).

8. During the historic reconciliation period, after a competitive bid process, PECO purchased gas from Constellation, an affiliated interest, having obtained pre-approval from the Commission to enter into agreements with Exelon Corporation affiliates to purchase supply. The Commission approved the Constellation Agreement, which contained a report of the transactions, including pricing and the executed terms and conditions.⁶ (PECO St. 1, pp. 6-7).

9. PECO did not withhold supplies or capacity from the market. (PECO St. 1, p. 7).

⁵ *Pa. Pub. Util. Comm’n v. PECO Energy Company*, Docket No. R-2015-2480969 (Final Order entered October 22, 2015).

⁶ Pursuant to 66 Pa.C.S.A. § 2102(b), because the Commission did not enter an order of rejection within 30 days after submittal of the October 26, 2017 filing, the Constellation Agreement was deemed approved.

10. Projected gas costs, as reflected in the Settlement, are based on peak-day capacity requirements at a 0-degree design day temperature, as fully set forth in the record. (PECO Adv. Filing § 16; PECO St. 1, pp. 10-11).

IV. DISCUSSION

Section 1307(f)(5) of the Public Utility Code (Code), 66 Pa.C.S. § 1307(f)(5), requires that the Commission determine that PECO's historic period actual gas costs 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 the new PGC rates to be established in this proceeding. Since PECO did not purchase transportation and/or storage services from an affiliate, it is not necessary that the Commission make findings under Section 1318(b) of the Public Utility Code, 66 Pa.C.S. § 1318(b).

In determining whether PECO is pursuing a least cost fuel procurement policy as required by Section 1318, the Commission must make the following specific findings: (1) that the utility has fully and vigorously represented its ratepayers' interests before the Federal Energy Regulatory Commission; (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 program.

PECO, I&E, OCA and OSBA have agreed to a settlement that resolves all of the issues in this proceeding. Each of the joint petitioners has provided statements in support of the Settlement which explain why the Settlement is in the public interest. PAIEUG is not opposed to the 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 at 52 Pa.Code § 69.401:

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.

Settlements lessen the time and expense the parties must expend litigating a case and at the same time conserve administrative hearing resources. A settlement, which allows the parties to avoid the substantial costs of preparing and serving testimony and the cross-examination of witnesses in lengthy hearings, the preparation and service of briefs, reply briefs, exceptions and reply exceptions, together with the briefs and reply briefs necessitated by any appeal of the Commission's decision, yields significant expense savings for the company's customers. That is one reason why settlements are encouraged by long-standing Commission policy.

In order to accept a settlement, the Commission must determine that the proposed terms and conditions are in the public interest. *Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Opinion and Order entered October 4, 2004); *Pa. Pub. Util. Comm'n v. C S Water and Sewer Assoc.*, 74 Pa. PUC 767 (1991).

The Joint Petition will be examined in accordance with the above principles.

As discussed in more detail below, the proposed settlement is manifestly reasonable and in the public interest and therefore should be approved without modification by the Commission. It represents a just and fair compromise, by all active parties, who represent a variety of interests, of the serious issues that arose in this proceeding. The fact that all parties joined in the proposed settlement is significant. The parties are to be commended for reaching a comprehensive, consensus agreement. This conclusion is based on my analysis of the following key terms of the Settlement.

First, the Settlement accepts PECO's originally-filed forecast of purchased gas costs and its purchased gas cost rates. See, Joint Petition, ¶ 17. The Settlement will benefit customers because the proposed purchased gas cost rate of \$5.1409/Mcf appears to be the result of a least cost procurement policy. The evidence presented by PECO and examined by the parties shows that PECO has satisfied 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 natural gas distribution service to its customers and that PECO has met the requirements of the Public Utility Code relating to affiliate purchases. The settlement also provides a reasonable basis for calculating and setting the GCA, CC and BSC and the BC to become effective December 1, 2018. The parties' acceptance of the proposed PGC is based on their determination that PECO's historic period gas costs were obtained on a least cost procurement basis, that the E-factor was calculated in accordance with established Commission practices and the fact that the projected costs are subject to future review. A least cost procurement policy protects ratepayers from unnecessary and imprudent gas costs and prevents the Company from making a profit on gas supplies provided to its PGC customers.

Second, the Settlement provides for compliance with the terms of the 2008 Gas Base Rate Settlement, which required PECO to update the balancing charge as part of its annual 1307(f) filing. See, Joint Petition, ¶ 18. In accordance with the testimony of Carlos P. Thillet in the 2018 PGC case, the Company is proposing a Balancing Charge of \$0.0074 per Mcf to become effective on December 1, 2018, which is \$0.0001 per Mcf more than the currently effective Balancing Charge. Joint Petition, ¶ 18, PECO St. 1, p. 8.

Third, PECO's gas price hedging program has evolved over time, in response to changing market conditions and shopping levels. Prior to February 2017, PECO employed both Volumetric and Ratable Hedging programs aimed at mitigating the Company's exposure to natural gas price volatility. The Company's Volumetric Hedging Program has now concluded, with the result that PECO now hedges a lower percentage of its overall gas requirements.

PECO's current hedging program, the Ratable Hedging Program, was approved by the Commission as part of the settlement as set forth in the 2016 Joint Petition for Complete

Settlement (2016 Joint Petition), Docket No. R-2016-2545925 and extended for an additional year as part of the settlement as set forth in the 2017 Joint Petition for Complete Settlement (2017 Joint Petition), Docket No. R-2017-2602611. PECO St. 1, p. 38. The Ratable Hedging Program requires PECO to hedge 20% of its projected purchase volume requirement, through gas purchases made between 3 and 24 months in advance of delivery. *Id.* To date, the Company reports that it purchased 21.4 million Dths of hedged gas supplies under the Ratable Hedging Program, at an average price of \$2.351 per Dth. PECO St. 1, p. 39.

The settling parties agree that the Company has complied with the requirements set forth in Paragraphs 19(c) and (d) of the 2016 Joint Petition and Paragraph 19(c) of the 2017 Joint Petition. PECO has made all required hedges per its Ratable Hedging Program through April 2018 and will continue to do so. Joint Petition, ¶ 19(a). The Company proposes to extend the Ratable Hedging Program for an additional year. Joint Petition, ¶ 19(b). This will add Summer and Winter periods to a fifth year (Year 5) with volumes at the same bifurcated volumetric level, and with execution periods similar to those used in years two, three, and four of the current execution schedules as set forth below:

| Year 5 Summer | | Execution Periods | | | | | |
|----------------|-------------|-------------------|---------------|---------------|---------------|--------------|--------------|
| | Total Daily | Apr '19 | Aug '19 | Dec '19 | Apr '20 | Aug '20 | Dec '20 |
| Delivery Month | Hedged DTH | 24 Months Out | 20 Months Out | 16 Months Out | 12 Months Out | 8 Months Out | 4 Months Out |
| Apr '21 | 16,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 |
| May '21 | 16,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 |
| Jun '21 | 16,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 |
| Jul '21 | 16,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 |
| Aug '21 | 16,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 |
| Sep '21 | 16,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 |
| Oct '21 | 16,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 |

| Year 5 Winter | | Execution Periods | | | | | |
|----------------|-------------|-------------------|---------------|---------------|---------------|--------------|--------------|
| | Total Daily | Nov '19 | Mar '20 | Jul '20 | Nov '20 | Mar '21 | Jul '21 |
| Delivery Month | Hedged DTH | 24 Months Out | 20 Months Out | 16 Months Out | 12 Months Out | 8 Months Out | 4 Months Out |
| Nov '21 | 36,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 |
| Dec '21 | 36,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 |
| Jan '22 | 36,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 |
| Feb '22 | 36,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 |
| Mar '22 | 36,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 |

Appendix C to the Joint Petition.

PECO employs hedging as an additional tool to purchase natural gas on a basis that reasonably ensures system reliability at the least cost. PECO St. No. 1, p. 37. The extension of the Ratable Hedging Program for an additional year will continue to provide some measure of price stability in the Company’s portfolio and protect the Company from paying above market prices. Therefore, the changes to PECO’s current hedging program are reasonable and in the best interest of PECO’s PGC customers.

Fourth, PECO has voluntarily provided the parties with the average lost and unaccounted for gas (LUFG) percentage for the twelve-month periods ending March 31, 2018 and June 30, 2018, and the three-year weighted average LUFG percentage for the period ending June 30, 2018. The results of the calculations are provided in the tables below:

PECO LUFG Calculation 2016-2018 PGC (3-Year Average)

| | Sendout (in Mcf) | Billed Sales (in Mcf) | LUFG |
|---------------------------------|-----------------------------|----------------------------------|-------------|
| 12 months ending 3/31/16 | 79,770,991 | 79,844,715 | -0.1% |
| 12 months ending 3/31/17 | 86,172,223 | 82,948,993 | 3.7% |
| 12 months ending 3/31/18 | 90,208,866 | 87,792,365 | 2.7% |
| 36 months ending 3/31/18 | 256,152,080 | 250,586,072 | 2.2% |

| PECO LUFG Calculation 2018 PGC | | | | |
|---------------------------------------|-----------------------|----------------------------|-------------|----------------------------|
| | Sendout in MCF | Billed Sales in MCF | LUFG | Pre-Heater Fuel |
| 12 months ending 6/30/2016 | 81,559,578 | 79,147,887 | 3.0% | 87,874 |
| 12 months ending 6/30/2017 | 84,650,787 | 83,476,660 | 1.4% | 92,152 |
| 12 months ending 6/30/2018 | 92,561,301 | 90,641,031 | 2.1% | 102,553 |
| 36 months ending 6/30/2018 | 258,771,666 | 253,265,578 | 2.1% | 282,579 |

See Joint Petition, ¶ 20. These calculations are consistent with the methodology set forth in Paragraph 20(c) of the 2015 Joint Petition, Docket No. R-2015-2480969.

Fifth, in accordance with Paragraph 21 of the 2017 Joint Petition, the retainage volume adjustment for transportation service customers is 2.7% for the 12 months beginning December 1, 2017 and ending November 30, 2018. Joint Petition, ¶ 21.

Additionally, the Joint Petition provides that the retainage volume adjustment rate for transportation service customers will be 2.2% for the twelve months beginning December 1, 2018 and ending November 30, 2019. This agreed upon retainage rate was calculated based on the weighted three-year average of LUFG (2.1%) plus the portion of Company-use gas attributable to preheater gate station usage (0.1%) for the period ending June 30, 2018, as shown on the tariff pages attached to the Joint Petition as Appendix D. Joint Petition, ¶ 21.

The present filing continues the retainage calculations negotiated in a previous PGC proceeding initiated by PECO at Docket No. R-2015-2480969. The establishment of the proper retainage levels is necessary to ensure that transportation customers contribute an adequate, but not excessive, amount of gas to compensate for the corresponding system-wide LUFG. Proper retainage levels equalize the responsibilities of the rate classifications, protects all ratepayers by ensuring equitable contributions to account for LUFG, and guards PGC customers and transportation customers against unwarranted subsidies. I find that this calculation methodology is in the public interest and, as noted at Docket No. R-2015-2480969, moves the Company towards parity with other Natural Gas Distribution Companies in the Commonwealth and towards compliance with 52 Pa.Code § 59.111.

Sixth, the 2017 Joint Petition extended the off-system sharing mechanism at the 25% rate through November 30, 2020. In the present case, PECO agrees to extend further the off-system sharing mechanism at the 25% rate through November 30, 2021. The extension will permit PECO to enter into longer-term asset management agreements, which may provide for greater value (*i.e.*, a larger credit toward gas costs) for PGC customers. I find the one-year extension of the off-system sharing mechanism is reasonable and therefore in the best interest of PECO's small business customers.

Seventh, as a result of two errors discovered during the analysis and verification of the data for inclusion in the PGC 34 Filing, PECO determined the BSC costs to be overstated and the Sales Service Charge (SSC) costs to be understated (by approximately \$25.7 million) for the period January 2015 to January 2017. 2017 Joint Petition, ¶ 23. The Settlement continues PECO's commitment from the 2017 1307(f) proceeding at Docket No. R-2017-2602611⁷ to correct these two errors. Joint Petition, ¶¶ 23(a)-(d); *see also* 2017 Joint Petition, ¶¶ 23(a)-(d), App. G.

Pursuant to Paragraph 23 of the 2017 Joint Petition, the Parties agreed that PECO: (i) will not refund/collect the approximately \$1.4 million in interest remaining as of December 1, 2017 associated with the over and under collections of the reallocated costs for both the BSC and SSC; (ii) will refund the revised BSC reallocation balance amount (after accounting for partial refund associated with the June 1, 2017 tariff filing and less the \$1.4 million in interest) to BSC customers over a one-year period, effective December 1, 2017; (iii) will recover the revised SSC reallocation balance amount (after accounting for partial recovery from the June 1, 2017 tariff filing and less the \$1.4 million in interest) from SSC customers over a two-year period, from December 1, 2017 through November 30, 2019; and (iv) will provide testimony in its next annual PGC filing regarding corrective actions and progress made to prevent a recurrence of this issue. Joint Petition, ¶23.

In accordance with Paragraph 23(a) of the 2017 Joint Petition, PECO eliminated the interest balances as of November 30, 2017 associated with the SSC/BSC reallocation balances for the SSC and the BSC from the total interest balances at November 30, 2017. PECO St. No. 2, Exhibit APD-3, p. 13 shows the elimination for the SSC, and Exhibit APD-4, p. 11, shows the elimination for the BSC.

In accordance with Paragraph 23(b) of the 2017 Joint Petition, the BSC reallocation interest over-collection balance of \$1,602,257 was deducted from the interest over-collection balance of \$1,486,358 to produce an adjusted interest under-collection balance of

⁷ *Pa. Pub. Util. Comm'n v. PECO Energy Company*, Docket No. R-2017-2602611 (Final Order entered October 5, 2017).

\$115,899 at November 30, 2017. PECO St. No. 2, Exhibit APD-4, p. 6. That balance is also used to determine the estimated interest balance for the BSC to be returned to customers during the PGC 35 application period.

In accordance with Paragraph 23(c) of the 2017 Joint Petition, recovery of the SSC reallocation balance amount (after accounting for partial recovery from the June 1, 2017 tariff filing and less the \$1.4 million in interest) commenced on December 1, 2017. PECO St. No. 2, Exhibit APD-3, p. 12, provides the development of this balance, an under-collection balance of \$21,917,898. The remaining estimated reallocation balance for the SSC as of November 30, 2018 (an under-collection balance of \$10,079,684) will be recovered during the PGC 35 application period of December 1, 2018 through November 30, 2019. PECO St. No. 2, p. 15.

Additionally, in compliance with Paragraph 23(d) of the 2017 Joint Petition, PECO provided testimony regarding corrective actions and progress made to ensure that the errors that led to the misallocation issue addressed in the PGC 34 proceeding do not reoccur. PECO St. No. 1, p. 45.

The Company will continue to refund the BCS reallocation balance through November 30, 2018. Joint Petition at ¶ 23(b). In accordance with the two-year recovery period for the SSC reallocation balance, the remainder of the balance “will continue to be recovered during the PGC 35 application period of December 1, 2018 through November 30, 2019.” Joint Petition at ¶ 23(c). The settling parties agree that these Settlement terms help to ensure that PECO’s ratepayers who overpaid receive a refund in a timely manner.

Eighth, the amendment to 66 Pa.C.S.A. § 1307(f)(5) requires that “[r]efunds to customers shall be made with and recoveries from customers shall include interest at the prime rate for commercial borrowing in effect 60 days prior to the tariff filing made under paragraph (1) . . .” In compliance with the provisions of 66 Pa.C.S.A. § 1307(f)(5) and with the terms of Paragraph 24 of the 2017 Joint Petition, in the filing at hand PECO applied the prime rate in effect 60 days prior to the annual PGC filing date to the over- and under-collection balances for

the PGC period December 1, 2017 through November 30, 2018. Going forward, as previously agreed, PECO will use the prime rate for commercial borrowing in effect 60 days prior to the annual PGC filing (which occurs on or before June 1 of each year) to determine interest on the over- and under-collection balances existing through November 30 of the year in which the PGC filing is made. The settling parties support the continuation of this proposal in the hope that there will be no issues or confusion on this topic going forward.

Ninth, PECO utilizes a number of different supply sources to meet customer demand during the heating season, including peak day demand, which sources included peaking supplies such as LNG and propane. PECO Advance Filing, §§ 16 and 22. As requested by I&E and OCA, and for purposes of settlement, PECO has agreed, in its next annual 1307(f) filing, to report on its investigation of the viability of the following six (6) potential long- and short-term solutions to meet customer demand during the heating season, including peak day demand, as identified in PECO Statement No. 1, the Direct Testimony of Carlos P. Thillet (at pages 28-31), in the PGC 35 Filing and identify how each fits into PECO's overall procurement strategy:

- (1) Participation by Low Volume Transportation Gas Choice Program suppliers in the Additional Capacity Resource Requirement (ACCR) Program;
- (2) PECO's continued evaluation of participation in pipeline open seasons as a way of securing additional cost-effective Firm Transportation to PECO's city gate;
- (3) Acquisition of additional peaking supply contracts;
- (4) Investment in PECO's on-system LNG assets;
- (5) Participation by the Company in the Vineland LNG Storage and Peak Shaving Facility; and
- (6) Contracting by the Company for winter propane and LNG call options.

Joint Petition, pp. 9-10. PECO's investigation of the viability of these potential long- and short-term solutions will help the parties to evaluate in the next 1307(f) proceeding whether any changes to PECO's procurement strategy need to be made. Further, it will help PECO ensure

that there is enough supply to meet customer demands during the heating season including peak days.

Finally, acceptance of the settlement will negate the need for further litigation, including possible appeals. The avoidance of further rate case expense serves the interests of PECO, the parties, and PECO's customers.

After considering the Joint Petition for Complete Settlement, including the proposed PGC, the various agreements described above, and the savings achieved by not litigating the case fully, it is my opinion that the settlement is fair, just, reasonable and in the public interest. I wish to commend the parties. The agreement shows the diligence and good faith effort every party expended to arrive at a reasonable, workable arrangement. The fact that the settlement agreement is unopposed is further evidence of its reasonableness. Accordingly, I recommend that the Joint Petition for Complete Settlement be approved without modification by the Commission.

V. CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the parties and subject matter of this proceeding.

2. PECO is pursuing a least cost fuel procurement policy that is consistent with PECO's obligation to provide safe, adequate and reliable service to its customers. 66 Pa.C.S.A. §§ 1318(a) and (b).

3. PECO has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission. 66 Pa.C.S.A. § 1318(a)(1).

4. PECO 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 the interest of PECO's ratepayers. 66 Pa.C.S.A. § 1318(a)(2).

5. PECO has taken all prudent steps necessary to obtain lower gas cost 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. 66 Pa.C.S.A. § 1318(a)(3).

6. PECO has not withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. 66 Pa.C.S.A. § 1318(a)(4).

7. PECO has attempted to obtain less costly gas supplies which should have been utilized as part of a least cost fuel procurement policy. 66 Pa.C.S.A. § 1318(b)(1).

8. PECO has no contracts for the purchase of gas from affiliated interests which are not consistent with a least cost fuel procurement policy. 66 Pa.C.S.A. § 1318(b)(2).

9. Neither PECO nor any affiliated interest has withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. 66 Pa.C.S.A. § 1318(b)(3).

10. The rates to be adopted by the Commission result from PECO's compliance with the provisions of Section 1318 of the Public Utility Code. 66 Pa.C.S.A. §§ 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2) and 1318(b)(3).

11. To determine whether the parties' settlement should be approved, the Commission must decide whether the settlement promotes the public interest. *Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Opinion and Order entered October 4, 2004); *Pa. Pub. Util. Comm'n v. C S Water and Sewer Assoc.*, 74 Pa. PUC 767 (1991).

12. The Joint Petition for Complete Settlement, including the rates, terms and conditions contained in Appendices A, B and C filed with the Commission on August 2, 2018, is just, reasonable and in the public interest.

13. A compliance filing consistent with the Joint Petition for Complete Settlement filed on August 2, 2018, between PECO, I&E, OCA, and OSBA should be permitted to become effective for service rendered by PECO on and after December 1, 2018.

VI. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Joint Petition for Complete Settlement submitted by PECO Energy Company, the Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate at Docket Nos. R-2018-3001568, C-2018-3002523 and C-2018-3001972 is adopted, including all terms and conditions.

2. That PECO Energy Company is authorized to file a tariff supplement to reflect rates and terms consistent with the Joint Petition for Complete Settlement and applicable to the Section 1307(f) purchased gas cost rate investigation at Docket No. R-2018-3001568 to be effective for services rendered on or after December 1, 2018, subject to quarterly adjustments as permitted by the Commission's regulations.

3. That upon the filing of the tariff supplement by PECO Energy Company acceptable to the Commission as conforming with this Order and the Joint Petition for Complete Settlement and after entry of the Commission's Order approving the Joint Petition for Complete Settlement, the purchased gas cost rate established therein shall become effective, on at least one day's notice, for service rendered on and after December 1, 2018.

4. That admitted into the record of this proceeding are: (1) PECO's Advance Filing, consisting of Sections 1-22; (2) PECO's Definitive Filing, Statement Nos. 1 and 2,

