

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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| Pennsylvania Public Utility Commission | : | R-2019-3007636 |
| Office of Small Business Advocate | : | C-2019-3007819 |
| Office of Consumer Advocate | : | C-2019-3007837 |
| | : | |
| 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 pursuant to 66 Pa. C.S. § 1307(f). 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 \$4.9887 per Mcf, which is higher than the GCR from the 2018 Settlement of \$4.0369 per Mcf. The rate adopted by the Settlement is the same as what was requested by PGW in its annual filing dated March 1, 2019.

The Settlement requires that PGW revise the release location on Transco to Zone 2 to City Gate (currently Zone 3 to City Gate). In conjunction, the Decision recommends that PGW revise the release location on TETCO to approximately 70% ELA to City Gate and 30% STX to City Gate, to the best of PGW's ability based on operational constraints, under contract

800232 (CDS). The Decision also recommends that PGW present an updated study with next year's GCR filing that supports the validity of its peak day methodology.

Further, the Settlement also requires that PGW will review and address the Office of Consumer Advocate's issues regarding the weather normalization process and consider revising the process as part of the calculation for the 2019 credit and will report on the weather normalization process as part of the Universal Service and Energy Conservation Plan stakeholder process in the meeting to be scheduled in 2019 or 2020 to discuss the Conservation Incentive Program. The Decision also recommends that PGW will report on the Conservation Incentive Program and the Conservation Incentive Program stakeholder process in its next filed Universal Service and Energy Conservation Plan (2021-2023). Moreover, the Decision recommends that PGW will recover its 2017 and 2018 Conservation Incentive Program credit expenses in the total amount of \$1,123,300 and will amortize recovery of those costs over a two-year period and will recover its Conservation Incentive Program costs for 2019 and on a going-forward basis.

Lastly, the Settlement requires the recovery of the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2019-2020 GCR 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 2020-2021 1307(f) filing, which are outlined in the Joint Petition for Settlement, be adopted by the Commission.

HISTORY OF THE PROCEEDING

On February 1, 2019, Philadelphia Gas Works (PGW or company) filed its pre-filing information required for its annual 2019-2020 Gas Cost Rate Filing. As part of its pre-filing, PGW indicated that pursuant to the Pennsylvania Public Utility Commission's (Commission) August 2, 2018 Order at Docket No. R-2018-2587526, PGW intends to depart from the requirements of 52 Pa.Code §§ 53.45(b), 53.64(c), 53.64(i)(5)(i) and 53.68(a). Specifically, PGW indicated that it will notify individual customers by bill insert during a one-

month billing cycle beginning on March 1, 2019 and concluding not later than March 31, 2019. PGW also indicated that it will provide public notice, in company offices that accept payments, of the tariff addendum and tariff supplement concerning PGW's 2019-2020 gas cost rate on March 1, 2019. Furthermore, PGW indicated that it will provide estimated data for January 2019 and February 2019 in the March 1, 2019, quarterly 1307(f) filing instead of actual data for January 2019.

On February 5, 2019, Gina L. Miller, Esquire, filed a Notice of Appearance on behalf of the Commission's Bureau of Investigation and Enforcement (I&E).

On February 8, 2019, 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-2019-3007819.

On February 11, 2019, the Office of Consumer Advocate (OCA) filed a Public Statement, a Notice of Appearance on behalf of Harrison W. Breitman, Esq. and Lauren M. Burge, Esq., and a formal Complaint. The Complaint was docketed by the Secretary's Bureau at Docket No. C-2019-3007837.

On February 19, 2019, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG) filed a Petition to Intervene in this proceeding. The Petition was granted at the Prehearing Conference and memorialized in Prehearing Order #1.

On March 1, 2019, PGW filed its 2019-2020 Gas Cost Rate Filing.

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 the undersigned Administrative Law Judge (ALJ).

By Call-In Telephone Prehearing Conference Notice dated March 5, 2019, a telephonic prehearing conference was scheduled for Wednesday, March 27, 2019, at 10:00 a.m.

I issued a Prehearing Conference Order dated March 5, 2019, which laid out the procedures for the prehearing conference.

On March 18, 2019, I&E filed an expedited Motion to Strike. I&E requested that the presiding officer strike the portions of PGW's gas cost filing that included the proposal to establish a new Rate LNG-N.¹ I&E also requested that any portions of PGW's witness testimonies that include this proposal also be stricken from the record. I&E indicated that this is not proper because it goes beyond the scope of the proceedings, would be prejudicial to the ratepayers, and would confuse the issues in this proceeding.

Via electronic mail dated March 19, 2019, I advised the parties that the deadline to file a response or answer to the Motion to Strike was March 21, 2019.

On March 21, 2019, both OCA and PGW filed Answers to the Motion to Strike. OCA agreed with I&E's position on the issue. PGW contended that the proposal was within the scope of Section 1307(f) of the Public Utility Code and would not cause undue prejudice or confusion in the proceedings. OSBA and PICGUG did not file any responses to the Motion to Strike.

On March 25, 2019, PGW, I&E, OCA, OSBA and PICGUG filed Prehearing Conference Memorandums in accordance with the March 5, 2019, Prehearing Conference Order.

On March 26, 2019, I issued an Interim Order regarding the expedited Motion to Strike, which granted the Motion to Strike in this matter.

¹ LNG stands for liquified natural gas.

A prehearing conference in this matter was held on March 27, 2019. Counsel for PGW, I&E, OCA, OSBA, and PICGUG participated. On April 8, 2019, I issued Prehearing Order #1 which laid out the procedural schedule in this proceeding.

Consistent with the procedural schedule, I&E and OCA served direct testimony on April 16, 2019. No other party elected to serve direct testimony.

On May 2, 2019, PGW served the rebuttal testimony of Raymond M. Snyder.

On May 8, 2019, OCA served the surrebuttal testimony of Jerome D. Mierzwa.

On May 8, 2019, counsel for PGW contacted my office via electronic mail to inform me that the parties had reached a settlement in the above matter. The parties indicated that they wished to cancel the May 9 and 10, 2019 hearings. I granted this request via electronic mail.

On May 16, 2019, I issued Prehearing Order # 2 which established a change in the litigation schedule and indicated that the parties were to file the Joint Petition for Settlement and Statements in Support by May 28, 2019. The Order also indicated that the hearings on May 9-10, 2019, were cancelled.

On May 28, 2019, PGW, I&E and OCA (collectively the “Settling Parties”) filed a Joint Petition for Settlement of Philadelphia Gas Works’ 2019-2010 GCR Proceeding (Joint Petition or Settlement) and Statements in Support of the Settlement. 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, 2019 Pre-filing Information; (2) PGW’s March 1, 2019, Annual GCR Filing; (3) PGW St. 1, Direct Testimony of Kenneth S. Dybalski, dated March 1, 2019; (4) PGW St. 2, Direct Testimony of Raymond M. Snyder and accompanying Exhibit RMS-1, dated March 1, 2019 (as modified by Interim Order dated March 26, 2019); (5) PGW St. 3, Direct Testimony of Denise Adamucci and accompanying

Exhibit DA-1, dated March 1, 2019; (6) PGW St. 4, Direct Testimony of Florian Teme and accompanying Exhibit FT-1, dated March 1, 2019; (7) OCA St. 1, Direct Testimony of Jerome D. Mierzwa, and all accompanying schedules and appendices, dated April 16, 2019; (8) I&E Statement No. 1, Direct Testimony of Ethan H. Cline, and I&E Exhibit No. 1, the Exhibit to Accompany the Direct Testimony of Ethan H. Cline, dated April 16, 2019; (9) I&E Statement No. 2, Direct Testimony of Christopher M. Henkel, and I&E Exhibit No. 2, the Exhibit to Accompany the Direct Testimony of Christopher M. Henkel, dated April 16, 2019; (10) PGW St. 2R, Rebuttal Testimony of Raymond M. Snyder, dated May 2, 2019; and (11) OCA St. 1-S, Surrebuttal Testimony of Jerome D. Mierzwa, and all accompanying schedules and appendices, dated May 7, 2019. The Stipulated Record is recommended for adoption through this Recommended Decision.

The record consists of a 17-page transcript from the prehearing conference, 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 28, 2019, the date that the parties filed the Joint Settlement Petition and Statements in Support.

FINDINGS OF FACT²

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 7-8). The pricing methodology utilized by PGW relies on actual prices for January 2019 and the NYMEX Futures close data (as of January 16, 2019) for February 2019 through August 2020. (PGW St. 1 at 8).

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

² The Findings of Fact are the Findings that the parties proposed in the Joint Petition which they requested that the Commission adopt.

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 2019, PGW purchases 100% from Market Zone M2 from TETCO. (PGW St. 2 at 9).

5. PGW charges its Choice suppliers for the capacity that is released to the suppliers. 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 2).

6. 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).

7. 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).

8. 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).

9. To ensure system reliability while seeking to procure gas at the last 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).

10. 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. 1 at 10-11; PGW St. 2 at 6-8). Beginning with the 2019-2020 GCR period, asset management margins (which are received when PGW enters into a contract with a third party to manage all or part of a storage contract or firm pipeline transportation contract) are included as a part of these calculations. (PGW St. 2 at 6-7). 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).

11. The details of PGW's actual gas purchases for the 12 months ending December 31, 2018, are presented in the schedules attached to Tab 1, Item 53.64(c)(1) of PGW's February 1, 2019, Pre-filing. The details of PGW's forecast for the period of January 1, 2019 through August 31, 2020, are presented in Tabs 3 and 4 of PGW's March 1, 2019, Annual Filing.

12. 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, 2019 Pre-filing).

13. PGW uses a two-step process to arrive at the appropriate level of usage per customer to factor in weather variations. (PGW St. 1 at 9-10).

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 3-7).

15. Pursuant to PUC regulation, PGW is required to file a proposed triennial Universal Service and Energy Conservation Plan (“USECP”). PGW’s currently effective “2017-2020 USECP” covers the program plan period of January 1, 2017 through December 31, 2020 and was approved by the Commission on October 5, 2017. (PGW St. 3 at 2).

16. PGW’s General Service Tariff – Pa P.U.C. No. 2 includes a Commission-approved Universal Service and Energy Conservation (“USC”) Surcharge which is currently designed to recover certain costs associated with PGW’s universal service programs. (PGW St. 3 at 3-4). The USC factors are computed in accordance with the automatic adjustment procedures utilized under Section 1307(f) of the Public Utility Code and are submitted for approval as part of PGW’s annual GCR filing. (PGW St. 1 at 6; PGW St. 3 at 4).

17. PGW’s pilot Conservation Incentive Program (“CIP”) was approved in its 2014-2016 USECP and permits eligible participants in PGW’s low-income customer assistance program (CRP) to receive a bill credit of \$100 if they achieve the specified usage reduction requirements. A customer’s weather normalized usage is relied upon for calculating whether or not the customer is eligible to receive a credit pursuant to PGW’s pilot CIP. (PGW St. 3 at 5).

18. CIP credits were provided for 2016, 2017 and 2018. (PGW St. 3 at 5-7). The total amount of credits provided for 2017 and 2018 equal \$1,123,300. (PGW St. No. 3 at 6-7). PGW’s currently approved 2017-2020 USECP remains in effect through December 31, 2020. Therefore, PGW anticipates issuing incentive credits for 2019 and 2020. (PGW St. 3 at 7). PGW has not made any decision yet about whether to propose continuing the pilot CIP beyond December 31, 2020. (PGW St. 3 at 7).

19. As approved in PGW’s 2017 base rate case, PGW’s tariff includes a Technology and Economic Development (“TED”) Rider as well as a Back-Up Service (“BUS”) Rate. No customers are utilizing the TED rider and information related to the number of customers, sales levels, and costs incurred for the BUS customers is provided in Exhibit FT-1. (PGW St. 4 at 2-3).

I. 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 15-page document signed by three of the five active parties. As noted above, 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 \$4.9887 per Mcf. This rate is predicated on PGW’s gas cost projections at the time of the March 1, 2019 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, 2019, 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, 2019.

b) PGW shall calculate the quarterly filing updates for the 2019-2020 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) CHOICE SUPPLIER CAPACITY RELEASE CHARGES

- a) PGW agrees to revise the release location on Transco to Zone 2 to City Gate (currently Zone 3 to City Gate). Releases from this location will begin on or about November 1, 2019. Charges shall be set at maximum pipeline rates.
- b) PGW agrees to revise the release location on TETCO to approximately 70% ELA to City Gate and 30% STX to City Gate, to the best of PGW's ability based on operational constraints, under contract 800232 (CDS). Releases from these locations will begin on or about November 1, 2019. Charges shall be calculated set at maximum pipeline rates.

3) STUDY IN SUPPORT OF PEAK DAY METHODOLOGY

PGW agrees to present an updated study with next year's GCR filing that supports the validity of PGW's peak day methodology.

4) CONSERVATION INCENTIVE PROGRAM (CIP)

- a) PGW agrees to review and address the OCA's issues regarding the weather normalization process and consider revising the process as part of the calculation for the 2019 credits.
- b) PGW will report on the weather normalization process as part of the USECP stakeholder process in the meeting to be scheduled in 2019 or 2020 to discuss the CIP.
- c) PGW agrees to report on the CIP and the CIP stakeholder process in its next filed USECP (2021-2023).
- d) The OCA retains its right to address issues related to the CIP weather normalization process in future proceedings to include the issues raised during the testimony of this proceeding.
- e) PGW is permitted to recover its 2017 and 2018 CIP credit expenses in the total amount of \$1,123,300 and agrees to amortize recovery of those costs over a two-year period. PGW is also permitted to recover its CIP costs for 2019 and on a going-forward basis. PGW will revise its tariff consistent with Exhibit DA-1 to reflect recovery of the CIP costs. PGW will begin billing for the CIP credit by December 1, 2019.

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 2019-2020 GCR period. Continued recovery of the fee beyond the 2019-2020 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 2020-2021 GCR proceedings:

(1) provide written notice to customers by bill insert in the one-month billing 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 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 2020-2021 GCR proceeding.

8) ADMISSION OF EVIDENCE

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

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 \$4.9887 per Mcf effective September 1, 2019.³ 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, 2019, 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. I&E notes that 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

³ Joint Petition at p. 5, ¶1(a); Joint Petition at Appendix A.

cost fuel procurement policy....”⁴ I&E indicates that its review of all available information in this proceeding confirms this representation. I&E argues that a least cost fuel procurement policy protects ratepayers from unnecessary and imprudent gas costs and prevents the Company from making a profit on gas supplies provided to its GCR customers. Moreover, I&E contends 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.⁵ 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 66 Pa. C.S. § 1318.

⁵ Joint Petition at p. 9, ¶7; PGW St. No. 2, pp. 8-9.

2. Choice Supplier Capacity Release Charges

As part of this Settlement, the parties agreed to the following terms in resolution of issues that OCA raised during the course of this case:

- a) PGW agrees to revise the release location on Transco to Zone 2 to City Gate (currently Zone 3 to City Gate). Releases from this location will begin on or about November 1, 2019. Charges shall be set at maximum pipeline rates.
- b) PGW agrees to revise the release location on TETCO to approximately 70% ELA to City Gate and 30% STX to City Gate, to the best of PGW's ability based on operational constraints, under contract 800232 (CDS). Releases from these locations will begin on or about November 1, 2019. Charges shall be calculated set at maximum pipeline rates.⁶

Although I&E did not take a position regarding the issues resolved by the above terms, I&E supports the above terms because they were necessary to facilitate the global resolution of this proceeding. (I&E Statement in Support at 6).

PGW asserts that it agreed to these terms to address OCA's concerns related to Choice supplier capacity release charges by revising the release locations on both the Transco and TETCO pipelines. PGW notes that this change represents a compromise between PGW's and OCA's filed testimony positions and is reasonable because it recognizes both the importance of ensuring that actual costs are charged as well as the operational processes that PGW must undertake with regard to releasing the capacity and billing for it. (PGW Statement in Support at 3).

OCA notes that its witness Mierzwa identified a concern that the rates assessed to Choice suppliers are less than the weighted average cost PGW pays for the Tetco and Transco FT capacity.⁷ Mr. Mierzwa recommended that suppliers be assessed charges for released FT capacity based on PGW's weighted average cost of Tetco and Transco capacity.⁸ (OCA Statement in Support at 3).

⁶ Joint Petition, p. 5, ¶ 2.

⁷ OCA St. 1 at 8-10.

⁸ OCA St. 1 at 3, 8-9.

OCA maintains that the Settlement revises the release locations to move the Company closer to the weighted average cost for gas. All parties have reserved their rights to address the issue in the next GCR proceeding. OCA submits that this provision is in the public interest since it will provide the parties with additional and more complete information which will enable them to fully address this issue in the next GCR proceeding. (OCA Statement in Support at 4).

3. Study in Support of Peak Day Methodology

Pursuant to the Settlement, the Joint Petitioners have agreed to the following term: PGW agrees to present an updated study with next year's GCR filing that supports the validity of PGW's peak day methodology.⁹

This term resolved an issue that was raised in the direct testimony of I&E witness Cline. I&E notes that its witness Cline expressed concern with the age and accuracy of the 2006 ICF International PGW Natural Gas Supply Study (2006 Study) that PGW relied upon to support its peak day methodology. I&E indicates that the 2006 Study is a supply analysis that reviews PGW's design and peak day estimation methodologies, analyzes PGW's use of pipeline storage capacity, evaluates the effect of PGW's expanding LNG capabilities, and develops recommendations for optimal allocation of PGW's gas supply assets.¹⁰ (I&E Statement in Support at 6).

I&E notes that the 2006 Study is almost 13 years old, as it was completed in August 2006.¹¹ Due to the 2006 Study's age, I&E argues that it may no longer be accurate as it relates to the projection of the percentage of Liquefied Natural Gas represented in the overall U.S. gas supply, the impact of shale gas on natural gas supply and prices, the cost of gas, changes in weather on the estimate design year, and the availability of pipeline capacity.¹² I&E's witness Cline recommended that PGW provide an update to the 2006 Study as part of its next purchased gas cost proceeding in

⁹ Joint Petition at p. 5, ¶3.

¹⁰ I&E St. No. 1, p. 2; PGW Item 53.64(c)(13), 2006 Study, p. 2.

¹¹ I&E St. No. 1, p. 2.

¹² I&E St. No. 1, pp. 3-6.

order to ensure that its peak day analysis would be based on more accurate assumptions and up-to-date data.¹³ (I&E Statement of Support at 6-7).

I&E maintains that PGW has agreed to provide an updated study with its GCR filing for next year, thereby adopting witness Cline's recommendation. I&E argues that PGW's commitment to providing an updated study is in the public interest because it will improve the accuracy and validity of PGW's peak methodology, which will in turn promote a more accurate prediction of future gas demands. I&E submits that both PGW and its customers benefit from ensuring that PGW's projected gas demands are as accurate as possible in order to ensure that PGW purchases enough gas to meet its customers' needs without incurring unnecessary and imprudent costs for excess purchases. (I&E Statement in Support at 7).

PGW maintains that this term in the Settlement addresses I&E's concern regarding the age of PGW's peak day methodology study. PGW notes that it will present an updated study as part of its 2020-2021 annual 1307(f) filing. PGW argues that by submitting an updated study, it will provide the Commission and interested stakeholders more current information upon which to evaluate PGW's peak day methodology. (PGW Statement in Support at 4).

OCA does not comment on this issue in its Statement in Support.

4. Conservation Incentive Program (CIP)

Pursuant to the Settlement, the Joint Petitioners have agreed to the following term, which represents a compromise between PGW, I&E and OCA¹⁴:

- a) PGW agrees to review and address the OCA's issues regarding the weather normalization process and consider revising the process as part of the calculation for the 2019 credits.

¹³ I&E St. No. 1, pp. 3-6.

¹⁴ Joint Petition at p. 6, ¶ 4.

- b) PGW will report on the weather normalization process as part of the USECP stakeholder process in the meeting to be scheduled in 2019 or 2020 to discuss the CIP.
- c) PGW agrees to report on the CIP and the CIP stakeholder process in its next filed USECP (2021-2023).
- d) The OCA retains its right to address issues related to the CIP weather normalization process in future proceedings to include the issues raised during the testimony of this proceeding.
- e) PGW is permitted to recover its 2017 and 2018 CIP credit expenses in the total amount of \$1,123,300 and agrees to amortize recovery of those costs over a two-year period. PGW is also permitted to recover its CIP costs for 2019 and on a going-forward basis. PGW will revise its tariff consistent with Exhibit DA-1 to reflect recovery of the CIP costs. PGW will begin billing for the CIP credit by December 1, 2019.

I&E states that PGW proposed to add a new cost element to its GCR in the form of a Universal Service and Energy Conservation Surcharge designed to recover certain Universal Service and Energy Conservation Plan (USECP) costs including discounts provided to eligible Customer Responsibility Program (CRP) participants.¹⁵ I&E also notes that PGW proposed to recover the cost of bill credits that qualifying CRP participants could receive in the amount of \$100 (“CIP Credits”) for achieving usage reductions for the prior November to April period as follows:

- Reduction by 10% or more of their weather normalized usage during the prior November through April period for customers who did not receive PGW provided weatherization services in the prior two years; or
- Reduction by 20% or more of their weather normalized usage during the prior November through April period for customers who did receive PGW provided weatherization services in the prior two years.¹⁶

(I&E Statement in Support at 7-8).

¹⁵ I&E St. No. 2, p. 2.

¹⁶ I&E St. No. 2, p. 3; PGW Statement No. 3, p. 5, lines 3-20.

I&E indicates that the Commission previously approved PGW's pilot CIP on November 13, 2014, for the term of its 2014-2016 USECP and again October 5, 2017, in conjunction with PGW's 2017-2020 USECP, meaning that the CIP program is effective through 2020.¹⁷ I&E states that PGW claimed a total of \$1,610,000 in CIP credits. I&E also indicates that PGW's \$1,610,000 claim was comprised of \$337,100 for FY 2017; \$786,200 for FY 2018 and \$487,300 for FY 2019.¹⁸ I&E notes that PGW witness Adamucci nonetheless opined that full recovery of those credits is appropriate and that pending the Commission's approval, PGW wanted to recover those as well.¹⁹ I&E avers that along with its \$1,610,000 claim for 2017-2019 CIP credits, PGW has sought to recover its 2016 credit expense as well.²⁰ (I&E Statement in Support at 8-9).

I&E argues, through its witness Henkel, that while PGW's 2019 CIP credit expense claim of \$487,300 for 2019 was timely and therefore appropriate for recovery in this case, the claims of \$786,200 and \$337,100 for FYs 2018 and 2017, respectively, should be rejected by the Commission because they are not components of expenses associated with PGW's 2019 recoverable gas costs. I&E asserts that PGW's CIP credit expenses for FY 2018 and FY 2017 are untimely and should have been filed with its respective annual FY 2018 and 2017 GCR filings, and to the extent that PGW sought to recover its 2016 credit expense as part of this case, such recovery would also be untimely; therefore, along with the 2018 and 2017 claims, it should be denied.²¹ I&E avers that allowing the untimely claim expenses from 2016 to 2018 to be recovered through PGW's current GCR filing would result in accumulated expenses that would impact its rates upwards. I&E contends that allowance of the untimely claims here would potentially result in recovery of costs from PGW ratepayers who were not PGW customers when the costs accrued.²² (I&E Statement in Support at 9).

In recognition of the concerns implicated by PGW's untimely CIP expense claims, I&E indicated that PGW's USECP surcharge be adjusted to remove the 2018 and 2017

¹⁷ I&E St. No. 2, p. 4; PGW St. No. 3, pp. 5-7.

¹⁸ PGW St. No. 3, pp. 6-7; PGW Item 53.64(a), Schedule 9(b).

¹⁹ PGW St. No. 3, p. 10.

²⁰ I&E St. No. 2, p. 5.

²¹ I&E St. No. 2, p. 6.

²² I&E St. No. 2, p. 6.

CIP expenses, therefore reducing the rate from the claimed \$1.5383 per Mcf to \$1.5158 per Mcf.²³ However, I&E argues that, should the Commission permit PGW's recovery of the 2018 and 2017 CIP credit expenses, its witness Henkel recommended that PGW amortize those expenses over a three-year period in order to reduce the impact of recovery upon ratepayers.²⁴ I&E maintains that PGW should submit an annual report showing participants' gas usage for the year that they received a CIP credit and the following year afterward in order to help evaluate the effectiveness of the CIP credit program.²⁵ (I&E Statement in Support at 9-10).

I&E contends that PGW's agreement to report on the CIP in its next USECP proceeding will ensure that PGW, parties, and the Commission will have the information necessary to gauge the effectiveness of the CIP pilot in order to assist in the determination of whether the CIP program is beneficial in usage reduction and should be continued. I&E maintains that the public interest is protected by this term because if PGW's reporting yields information that reveals that its CIP program is not proving to be effective in usage reduction and therefore is not beneficial to PGW's ratepayers, or, if, alternatively, it proves to be cost-effective and does benefit ratepayers, parties and the Commission will be able to make informed decisions about the continuation of the CIP beyond the existing pilot period. (I&E Statement in Support at 11).

I&E also argues that the parties' agreement for PGW to recover its 2017 and 2018 CIP credit expenses in the total amount of \$1,123,300, amortized over a two-year period, and to recover its 2019 expenses on a going-forward basis, protects the public interest in several ways. I&E asserts that permitting recovery of the expenses in this manner protects PGW's operations by permitting it to recover a valid expense that it incurred. I&E also avers that this resolution protects ratepayers by extending the 2017 and 2018 recovery period by amortizing recovery of these expenses over two years, which will mitigate accumulated expenses and the impact on rates. I&E submits that these terms strike a balance that protects the public interest by (1) permitting PGW the opportunity to implement and recover costs from the CIP pilot program

²³ I&E St. No. 2, pp. 7-8.

²⁴ I&E St. No. 2, pp. 9-10.

²⁵ I&E St. No. 2, p. 10.

approved by the Commission for PGW's current USECP term; (2) protects ratepayers from an increased impact on rates; and (3) promotes accountability of PGW's programming. (I&E Statement in Support at 11-12).

OCA notes that its witness Mierzwa raised concerns regarding PGW's calculation of weather-normalized usage for purposes of determining eligibility for the bill credits.²⁶ OCA states that its witness recommended that PGW's weather-normalization process be addressed at the Commission-ordered stakeholder meeting where the Pilot CIP is to be evaluated and discussed, and that the Company be required to file a report with the Commission presenting the findings of the stakeholders.²⁷ (OCA Statement in Support at 4-5).

OCA argues that these provisions address the concerns raised by OCA witness Mierzwa in his Direct Testimony and retains the OCA's right to address issues related to the CIP in future proceedings. OCA also asserts that these provisions are 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 5).

PGW notes that it agrees to address I&E's and OCA's concerns regarding PGW's Pilot CIP. PGW avers that it agreed to review and address concerns about the weather normalization process and consider revising the process as part of the calculation for the 2019 credits. Further, PGW indicates that it will report on the weather normalization process as part of the USECP stakeholder process in the meeting to be scheduled in 2019 or 2020 to discuss the CIP pursuant to the Commission's approval of PGW's 2017-2020 USECP.²⁸ PGW asserts it will also report on the Pilot CIP and the Pilot CIP stakeholder process in its next filed USECP (2021-2023). PGW also notes it is permitted to recover its 2017 and 2018 Pilot CIP credit expenses in the total amount of \$1,123,300 and agrees to amortize recovery of those costs over a two-year period. PGW states that it is permitted to recover its Pilot CIP costs for 2019 and on a going-

²⁶ OCA St. 1 at 13.

²⁷ *Id.* at 14.

²⁸ *Philadelphia Gas Works Universal Service and Energy Conservation Plan for 2012-2020 Submitted in Compliance with 52 Pa. Code § 62.4*, Docket No. M-2016-2542415, Order approving revised 2017-2020 USECP entered October 5, 2017.

forward basis. PGW argues that these terms represent a reasonable resolution of the Pilot CIP issue because it enables PGW to receive cost recovery related to the Pilot CIP and utilizes the already established USECP processes to provide an avenue for further study and evaluation of the Pilot to inform PGW's decision regarding the future of the program. (PGW Statement in Support at 4).

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 \$125,000.²⁹

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.³⁰ I&E asserts that 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 12).

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 5).

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.³¹

²⁹ Joint Petition at 6, ¶5.

³⁰ 66 Pa.C.S. 1307(h).

³¹ Joint Petition at p. 6-7, ¶6.

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 GCR customers benefit from PGW's efforts in the form of reduced gas costs. (I&E Statement of Support at 12-13).

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 5).

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

7. 2020-2021 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 2020-2021 GCR proceeding, as outlined in the Joint Petition.³²

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, I&E asserts that 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 13).

³² Joint Petition at 7, ¶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 5).

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

8. Settlement in General

The Settling Parties agree that this Settlement will go into effect upon the Commission's entry of a final order approving the Settlement, in full and without modification. If the Commission rejects the Settlement, the Agreement automatically will terminate and be null and void, with the exception of paragraph VI.3, which will continue in full force and effect. The Settlement also shall automatically become null and void (except for paragraph VI.3) if the Commission, in approving the Settlement, modifies any of its terms or conditions or adds any conditions, unless it is subsequently accepted by the aggrieved signatory party, or parties, as so modified. If the Commission approves the Settlement in full and without modification, the Stipulation:

- a) shall be deemed to resolve with prejudice all issues addressed by this Settlement; and
- b) shall be implemented and shall be enforceable notwithstanding the pendency of a petition for reconsideration or a legal challenge to the Commission's approval, unless such implementation and enforcement of the Settlement is stayed or enjoined by the Commission, another regulatory agency, or a Court having competent jurisdiction over the matter.

The Settling Parties agree that this Settlement is made without admission against or prejudice to any factual or legal positions which any of the signatories hereto may assert in subsequent litigation in the event that the Commission does not issue a final Order approving this Settlement in full and without modification. If the Commission does not adopt this Settlement in accordance with the terms set forth herein, the Settling Parties reserve their full right to argue that the Commission is without the legal authority to order the implementation of all or part of the terms and conditions set forth herein and no party shall be deemed to have waived or be estopped from asserting such a position before the Commission or before any court. The Settling

Parties also agree to waive exceptions to the Recommended Decision if the Joint Petition for Settlement of Philadelphia Gas Works' 2019-2020 GCR Proceeding is approved without change or modification.³³

Further, I&E asserts 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. I&E notes that its analysis in this proceeding supports that these rates are just and reasonable, accurately reflect the costs of its purchased natural gas and are based on sound regulatory practices. I&E argues that these rates are in the public interest and should be approved. (I&E Statement in Support at 13-14).

I&E also avers that 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 and should be adopted as presented. (I&E Statement in Support at 14).

I&E states that it fully supports the Settlement, which addresses and resolves the issues and concerns raised in I&E's testimony. Accordingly, 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 that a line by line identification of the ultimate resolution of every averment is not necessary, as I&E represents that the Settlement maintains the proper balance of the interests of all parties. I&E argues that it is satisfied that no further action is necessary and considers its investigation of this filing complete. (I&E Statement in Support at 14-15).

I&E indicated 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 15).

³³ See Appendix C – Sample Ordering Paragraphs for the Recommended Decision.

Moreover, PGW argues that approving PGW's Petition with the changes as set forth in the Settlement is consistent with the Commission's goal of ensuring the least cost procurement policy and will result in rates and surcharges that are just, reasonable, and compliant with the Public Utility Code. PGW maintains that the Settlement reduces the administrative burden and costs to resolve the issues. PGW avers that the Settlement is in the public interest and should be adopted. (PGW Statement in Support at 5).

Lastly, 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 6).

9. Disposition

The benchmark for determining the acceptability of a settlement is whether the proposed terms and conditions are in 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 \$4.9887 per Mcf, which is higher than the GCR from 2018 of \$4.0369 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 will revise the release locations to move the Company closer to the weighted average cost for gas. The Settling Parties also agreed PGW's commitment to providing an updated peak day methodology is in the public interest because it will improve the accuracy and validity of PGW's peak day methodology, which will in turn promote a more accurate prediction of future gas demands. Further, the Settlement indicates that PGW's weather-normalization process be addressed at the Commission-ordered stakeholder meeting where the Pilot CIP is to be evaluated and discussed, and the Company will be required to file a report with the Commission presenting the findings of the stakeholders. This addresses OCA's concerns. The Settlement also addresses I&E's issues regarding the CIP credit in that PGW's recovery of the 2018 and 2017 CIP credit expenses will be amortize over a two-year

period in order to reduce the impact of recovery upon ratepayers. Under the Settlement, PGW will also submit an annual report showing participants' gas usage for the year that they received a CIP credit and the following year afterward in order to help evaluate the effectiveness of the CIP credit program. Lastly, according to the Settlement, PGW will report on the CIP in its next USECP proceeding, which will ensure that PGW, the parties, and the Commission will have the information necessary to gauge the effectiveness of the CIP pilot in order to assist in the determination of whether the CIP program is beneficial in usage reduction and should be continued.

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 2020-2021 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' 2019-2020 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' 2019-2020 Proceeding be approved in its entirety and without modification.

CONCLUSIONS OF LAW³⁴

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.

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, 2018, 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, 2018, 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, 2019, and the projected twelve-month period beginning September 1, 2019, the rates to be

³⁴ Conclusions of Law Nos. 4, 5, 6, 7 & 8 are Conclusions that the parties proposed in the Joint Petition which they requested that the Commission adopt.

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, 2019, through August 31, 2019, 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, 2019, and the twelve-month application period commencing September 1, 2019, and ending on August 31, 2020.

9. The benchmark for determining the acceptability of a settlement is whether the proposed terms and conditions are in 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.

ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Stipulation of the Record by the parties is adopted and Philadelphia Gas Works' February 1, 2018, Pre-filing Information; Philadelphia Gas Works' 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' 2019-2020 Gas Cost Rate Proceeding, including all appendices and documents identified therein, is admitted into the record of the proceeding at Docket Number R-2019-3007636;

3. That the Joint Petition for Settlement of the Philadelphia Gas Works' 2019-2020 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-2019-3007636 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-2019-3007636 to be effective upon at least one day's notice for services rendered on or after September 1, 2019, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1, 2019, 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 2019-2020 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 revise the release location on Transco to Zone 2 to City Gate (currently Zone 3 to City Gate). Releases from this location will begin on or about November 1, 2019. Charges shall be set at maximum pipeline rates;

8. That the Philadelphia Gas Works will revise the release location on TETCO to approximately 70% ELA to City Gate and 30% STX to City Gate, to the best of PGW's ability based on operational constraints, under contract 800232 (CDS). Releases from these locations will begin on or about November 1, 2019. Charges shall be calculated set at maximum pipeline rates;

9. That the Philadelphia Gas Works will present an updates study with next year's GCR filing that supports the validity of its peak day methodology;

10. That the Philadelphia Gas Works will review and address the Office of Consumer Advocate's issues regarding the weather normalization process and consider revising the process as part of the calculation for the 2019 credit;

11. That the Philadelphia Gas Works will report on the weather normalization process as part of the Universal Service and Energy Conservation Plan stakeholder process in the meeting to be scheduled in 2019 or 2020 to discuss the Conservation Incentive Program;

12. That the Philadelphia Gas Works will report on the Conservation Incentive Program and the Conservation Incentive Program stakeholder process in its next filed Universal Service and Energy Conservation Plan (2021-2023);

13. That the Office of Consumer Advocation retains its right to address issues related to the Conservation Incentive Program weather normalization process in future proceedings to include the issues raised during the testimony in this proceeding;

14. That the Philadelphia Gas Works will recover its 2017 and 2018 Conservation Incentive Program credit expenses in the total amount of \$1,123,300 and will amortize recovery of those costs over a two-year period;

15. That the Philadelphia Gas Works will recover its Conservation Incentive Program costs for 2019 and on a going-forward basis;

16. That the Philadelphia Gas Works will revise its tariff consistent with Exhibit DA-1 to reflect recovery of the Conservation Incentive Program costs and will begin billing for the Conservation Incentive Program credit by December 1, 2019;

17. That the Philadelphia Gas Works shall recover the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2019-2020 Gas Cost Rate period. Continued recovery of the fee beyond the 2019-2020 Gas Cost Rate period must be addressed in next year's Purchased Gas Cost proceeding;

18. 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, 2019, to August 31, 2020, 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, 2020, in its March 1, 2020, annual 1307(f) filing;

19. That the Philadelphia Gas Works be permitted to proceed as follows in its 2020-2021 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

