

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	R-2019-3009624
	:	
PECO Energy Company	:	
Office of Consumer Advocate	:	
	:	
v.	:	C-2019-3009951
	:	
PECO Energy Company	:	
Office of Small Business Advocate	:	
	:	
v.	:	C-2019-3010147
	:	
PECO Energy Company	:	

RECOMMENDED DECISION

Before
F. Joseph Brady
Administrative Law Judge

INTRODUCTION

This Decision recommends 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 be approved by the Public Utility Commission and that PECO Energy Company be 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-2019-3009624 to be effective

for services rendered on or after December 1, 2019, subject to quarterly adjustments as permitted by the Commission's regulations.

HISTORY OF THE PROCEEDING

On April 30, 2019, 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 16, 2019, the Office of Consumer Advocate (OCA) filed a Complaint (docketed at C-2019-3009951), a Public Statement, and a Notice of Appearance for Christy M. Appleby, Esq., and Lauren M. Burge, Esq.

On May 28, 2019, the Office of Small Business Advocate (OSBA) filed a Complaint (docketed at C-2019-3010147), a Public Statement and Notice of Appearance for Shelby A. Linton-Keddie, Esq.

On May 29, 2019, the Philadelphia Area Industrial Energy Users Group (PAIEUG) filed a Petition to Intervene.

On May 31, 2019, 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. 36, proposed Supplement No. 19 to Tariff Gas-Pa.P.U.C. No. 3, to become effective for service rendered on and after December 1, 2019.¹ 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.

¹ The last public meeting date prior to December 1, 2019, is on November 14, 2019.

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 June 3, 2019, a Notice of Appearance was filed by Carrie B. Wright, Esq. on behalf of the Commission's Bureau of Investigation and Enforcement (I&E).

On June 5, 2019, a Notice and Prehearing Conference Order were issued, scheduling a Telephonic Prehearing Conference for Wednesday June 12, 2019, at 10:00 a.m.

On June 10, 2019, Prehearing Memoranda were filed by PECO, the OCA, the OSBA, PAIEUG, and the I&E.

A Telephonic Prehearing Conference was held on June 12, 2019. Counsel for PECO, the OCA, the OSBA, PAIEUG, and the I&E participated.

On June 18, 2019, Prehearing Order No. 2 was issued memorializing the matters decided and agreed upon by the parties attending the June 12, 2019, Prehearing Conference.

On July 2, 2019, 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 scheduled for July 29-30, 2019, be cancelled. I issued an Order granting the parties' request on July 2, 2019.

On August 14, 2019, 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 14, 2019, 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 28, 2019, the Stipulation, statements and exhibits were admitted into the record of this proceeding.²

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 28, 2019, 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, it is recommended that the Joint Petition be approved without modification by the Commission as expeditiously as possible.

² The statements and exhibits set forth therein consisted of PECO's Advance Filing Sections 1-22, which was filed with the Commission and served on April 30, 2019 and PECO Statement Nos. 1 and 2 and accompanying Exhibits (CPT-1 through CPT-5, and APD-1 through APD-5), which were filed with the Commission and served on May 31, 2019.

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 Ratable Hedging Program execution schedule is attached as Appendix C. Appendix D is the 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 17-26, 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, 2019, December 1, 2019, and thereafter in accordance with 52 Pa. Code § 53.64.³

(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

³ 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.

Rate Transportation Service-Firm (“TS-F”) standby sales service demand charge, as shown in Appendix A, Exhibit APD-1, to be effective December 1, 2019, 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 36 Filing (and also included in Appendix A), the Company is proposing a Balancing Charge of \$0.0076 per Mcf to become effective on December 1, 2019, which is \$0.0002 per Mcf more than the currently effective Balancing Charge.

19. **Gas Price Hedging**

(a) PECO has complied with the terms of the Ratable Hedging Program for all hedges made through April 2019 and will continue to do so. Pursuant to the Ratable Hedging Program’s execution schedule and since the Company’s reporting in last year’s PGC proceeding, PECO issued Requests for Proposals (“RFPs”) for 13 execution periods through April 2019 (these periods appear in yellow highlight in Exhibit CPT-5 accompanying PECO Statement No. 1, the Direct Testimony of Carlos P. Thillet, in the PGC 36 Filing, whereas those periods highlighted in blue reflect the same information as reported in last year’s PGC proceeding). PECO entered into transactions with the respondents who could provide supply at the lowest cost for the specified volumes on a fixed price basis.⁴ For the period May 2018 through April 2019, PECO purchased 9.05 MMDth of hedged gas under the program at a weighted average cost of \$3.3647 per Dth as reflected in the table below (*see* Table CPT-7 in PECO Statement No. 1, the Direct Testimony of Carlos P. Thillet, in the PGC 36 Filing). Accordingly, PECO’s purchases under the Ratable Hedging Program through April 2019 have been in compliance with the Ratable Hedging Program execution schedule.

⁴ There is one execution period shown on Exhibit CPT-5 highlighted in purple. This simply reflects that 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.

Ratable Hedging Program			
Executed Hedges April 2018 through April 2019			
Execution Month	DTH	\$/DTH	Total \$
July 2018	1,818,000	\$ 4.0644	\$ 7,389,150.00
August 2018	1,198,400	\$ 2.0000	\$ 2,396,800.00
November 2018	1,818,000	\$ 4.3107	\$ 7,836,900.00
December 2018	1,198,400	\$ 2.1425	\$ 2,567,572.00
March 2019	1,818,000	\$ 4.2430	\$ 7,713,810.00
April 2019	1,198,400	\$ 2.1225	\$ 2,543,604.00
Total	9,049,200	\$ 3.3647	\$ 30,447,836.00

* Note: There were no hedges executed in May and June.

(b) In the PGC 36 Filing, PECO is requesting that the Ratable Hedging Program be extended for an additional year. Extending the program for an additional year (“Year 6”) will add Summer and Winter periods with volumes at the same bifurcated volumetric level, and with execution periods similar to those used in prior years. The Parties have agreed to extend the program for an additional year. The revised Ratable Hedging Program execution schedule is attached as Appendix C.⁵

20. Lost And Unaccounted For Gas Monitoring And Reporting

While no further LUFG 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, 2019, and June 30, 2019 in the following tables, as part of the PGC 36 Filing.

PECO LUFG Calculation 2017-2019 PGC (3-Year Average)

	Sendout (in Mcf)	Billed Sales (in Mcf)	LUFG
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%
12 months ending 3/31/19	95,084,080	94,269,784	0.9%
36 months ending 3/31/19	271,465,169	265,011,142	2.4%

⁵ The Parties and PAIUEG acknowledge that the delivery months in CPT-8 (as included in PECO Statement No. 1, the Direct Testimony of Carlos P. Thillet) inadvertently related to Year 5 months, and that those delivery months have been corrected in Appendix C, and that they are in agreement with the Year 6 schedule as reflected in Appendix C.

PECO LUFG Calculation 2019 PGC				
	Sendout in MCF	Billed Sales in MCF	LUFG	Pre-Heater Fuel
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
12 months ending 6/30/2019	92,894,553	91,349,781	1.7%	105,526
36 months ending 6/30/2019	270,106,641	265,467,472	1.7%	300,231

Retainage Calculation for 2019 PGC 36				
	Sendout in MCF + Pre-Heater Fuel	Billed Sales in MCF	Retainage Rate	Pre-Heater Company Use
36 months ending 6/30/2019	270,406,872	265,467,472	1.8%	300,231

21. **Retainage**

In accordance with Paragraph 21 of the 2018 Joint Petition, the retainage volume adjustment for transportation service customers for the 12 months beginning December 1, 2018 and ending November 30, 2019 is 2.2%. The retainage volume adjustment will be 1.8% for the 12 months beginning December 1, 2019 and ending November 30, 2020, as shown on the tariff pages attached hereto as Appendix D, which was calculated based on the weighted three-year average of LUFG plus the portion of Company-use gas attributable to preheater gate station usage for the period ending June 30, 2019.

22. **Off-System Sales/Capacity Release Sharing**

Pursuant to the 2018 Joint Petition, the off-system sharing mechanism was extended at the 25% rate through November 30, 2021. In the instant proceeding, the Parties agree that PECO will further extend the off-system sharing mechanism through November 30, 2022.

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 PECO Statement No. 2, the Direct Testimony of Anthony P. DiFelice, in the PGC 35 Filing. 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 as of November 20, 2018 was determined for the PGC 36 Filing to be an under-collection balance of \$10,695,191, which will continue to be recovered during the PGC 35 application period of December 1, 2018 through November 30, 2019. Accordingly, the Company has complied with the two-year recovery period requirement, its only remaining obligation under the 2017 Joint Petition with respect to the reallocations.

24. Interest Rate for Over- and Under-Collections

In compliance with Paragraph 24(b) of the 2017 Joint Petition, PECO applied the prime rate in effect 60 days prior to the annual PGC filing date to the monthly over- and under-collections for the PGC period December 1, 2018 through November 30, 2019. 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 monthly over- and under-collections through November 30 of the year in which the PGC filing is made.

25. LNG And Propane Winter Utilization Reporting

As agreed in Paragraph 25 of the 2018 Joint Petition, PECO reported on its investigation of the viability of the six (6) potential long- and short-term solutions to meet customer demand during the heating season, including peak day demand, and identified how each fits into PECO's overall procurement strategy. As requested by I&E, the Company will continue that reporting for five (5) of the six (6) originally identified potential long- and short-term solutions, as set forth below.⁶

- (a) 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;
- (b) Acquisition of additional peaking supply contracts;
- (c) Investment in PECO's on-system LNG assets;
- (d) Participation by the Company in the Vineland LNG Storage and Peak Shaving Facility; and

⁶ PECO will no longer be required to report on Participation by Low Volume Transportation Gas Choice Program suppliers in the Additional Capacity Resource Requirement ("ACCR") Program.

- (e) Contracting by the Company for winter propane and LNG call options.

26. Assignment of Texas Eastern Capacity

At the request of OCA and as agreed by the Parties, effective December 1, 2019, PECO agrees to revise the capacity releases associated with the Low Volume Transportation (“LVT”) program as follows:

(a) The capacity releases associated with the LVT program will be priced at a weighted average maximum demand cost commensurate with the Company’s STX, ETX, ELA, WLA and M1-M3 demand quantities for contracts TETCO FT-1 800231, 910510 and the CDS contract, all as found on page 3 of Section 7 of the Advance Information; and

(b) The LVT program capacity will be released on FT contract 910510 with an ELA to M3 path. Should the LVT program continue to grow, such that the capacity required for the LVT program exceeds the capacity available on contract 910510, the Company will then release similar capacity on contract 800231 with the an ELA to M3 path, which capacity releases will be priced at a weighted average demand cost as described in Paragraph 26(a) above.

In addition, the Settlement contains the following standard provisions 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 39-45.

FINDINGS OF FACT

I am adopting the following findings of fact that were included at ¶¶ 28-37 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, p. 10).
3. The details of PECO's actual gas purchases for the twelve months ending March 31, 2019 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, 26; 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. 26-28).
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. 20-21, 27-28).

7. During the past year, PECO reviewed five (5) open seasons to determine whether participation in the project could help PECO meet its projections for increased firm demand or offer a reliable least-cost alternative to an existing transportation or storage contract nearing expiration. (PECO St. 1, p. 20). Of those projects reviewed, one project met PECO's evaluation criteria. This project would allow PECO to procure an additional 77,500 Dth/d of Path 3 capacity, which delivery rights will allow PECO to mitigate possible future contractual and distribution system operational constraints and will also reduce commodity price volatility. Based upon PECO's current analysis, if both the TETCO M2M project⁷ and this project come online before the winter of 2023, the majority of the peak-day supply gap would be eliminated through firm requirements. The Company is continuing to evaluate participation in this project. (PECO St. 1, pp. 20-21).⁸

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.⁹ (PECO St. 1, pp. 6-7).

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

⁷ PECO's participation in the M2M project for 27,500 Dth of firm transportation per day was discussed in a prior PGC proceeding, Docket No. R-2015-2480969. The project is now expected to come online before the winter of 2020-2021.

⁸ Additional information regarding this project was provided confidentially to the Parties and PAIUEG in the Company's response to discovery request OCA-II-3.

⁹ 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 filing (docketed on November 13, 2018), 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. 9-10).

DISCUSSION

A. Introduction

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. 66 Pa.C.S. § 1318(a).

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 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 no party opposes the 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 and accompanying statements in support.

B. Purchased Gas Cost Rates

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 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, BSC and the BC to become effective December 1, 2019. See Joint Petition, ¶ 17(a) and Appendix A. These rates in dollars per Mcf are as follows:

	Rates GR and CAP (\$/Mcf)	Rate GC and the Excess Off-Peak Use Rider (\$/Mcf)	Rates OL, L and MV-F (\$/Mcf)
CC	\$4.2056	\$4.1736	\$4.1611
GCA	\$0.3561	\$0.3561	\$0.3561
BSC	\$0.3673	\$0.3673	\$0.3673
Total PGC Rate Effective December 1, 2019	\$4.9290	\$4.8970	\$4.8845

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. I find this is in the public interest.

C. Balancing Charge Rate

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 \$0.0076 per Mcf to become effective on December 1, 2019, which is \$0.0002 per Mcf more than the currently effective Balancing Charge. Joint Petition, ¶ 18, PECO St. 1, p. 8. I find this update to the balancing charge is reasonable and in the public interest.

D. Gas Price Hedging

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 and for another year in the 2018 Joint Petition for Complete Settlement (2018 Joint Petition), Docket No. R-2018-3001568. PECO St. 1, p. 29. The Ratable Hedging Program requires PECO to hedge approximately 20% of its projected purchase volume requirement, through gas purchases made between 3 and 24 months in advance of delivery. *Id.* at 30. For the period of May 2018 through April 2019, the Company reports that it purchased 9.05 million Dths of hedged gas supplies under the Ratable Hedging Program, at an average price of \$3.3647 per Dth. PECO St. 1, pp. 30-31.

The settling parties agree that the Company has complied with the requirements set forth in the 2016, 2017, and 2018 Joint Petitions. PECO has made all required hedges per its Ratable Hedging Program through April 2019 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 sixth year (“Year 6”) with volumes at the same bifurcated volumetric level, and with execution periods similar to those used in years two, three, four and five of the current execution schedule as set forth below:

Year 6 Summer		Execution Periods					
	Total Daily	Apr '20	Aug '20	Dec '20	Apr '21	Aug '21	Dec '21
Delivery Month	Hedged DTH	24 Months Out	20 Months Out	16 Months Out	12 Months Out	8 Months Out	4 Months Out
Apr '22	16,800	2,800	2,800	2,800	2,800	2,800	2,800
May '22	16,800	2,800	2,800	2,800	2,800	2,800	2,800
Jun '22	16,800	2,800	2,800	2,800	2,800	2,800	2,800
Jul '22	16,800	2,800	2,800	2,800	2,800	2,800	2,800
Aug '22	16,800	2,800	2,800	2,800	2,800	2,800	2,800
Sep '22	16,800	2,800	2,800	2,800	2,800	2,800	2,800
Oct '22	16,800	2,800	2,800	2,800	2,800	2,800	2,800

Year 6 Winter		Execution Periods					
	Total Daily	Nov '20	Mar '21	Jul '21	Nov '21	Mar '22	Jul '22
Delivery Month	Hedged DTH	24 Months Out	20 Months Out	16 Months Out	12 Months Out	8 Months Out	4 Months Out
Nov '22	36,000	6,000	6,000	6,000	6,000	6,000	6,000
Dec '22	36,000	6,000	6,000	6,000	6,000	6,000	6,000
Jan '23	36,000	6,000	6,000	6,000	6,000	6,000	6,000
Feb '23	36,000	6,000	6,000	6,000	6,000	6,000	6,000
Mar '23	36,000	6,000	6,000	6,000	6,000	6,000	6,000

The revised Ratable Hedging Program execution schedule is attached as 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. 29. 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, I find the changes to PECO’s current hedging program are reasonable and in the best interest of PECO’s PGC customers.

E. Lost and Unaccounted-For Gas Monitoring and Reporting

Fourth, PECO has voluntarily provided the parties with the average lost and unaccounted for gas (LUG) percentage for the three-year periods ending March 31, 2019 and June 30, 2019. The results of the calculations are provided in the tables below:

PECO LUG Calculation 2017-2019 PGC (3-Year Average)

	Sendout (in Mcf)	Billed Sales (in Mcf)	LUG
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%
12 months ending 3/31/19	95,084,080	94,269,784	0.9%
36 months ending 3/31/19	271,465,169	265,011,142	2.4%

PECO LUG Calculation 2019 PGC				
	Sendout in MCF	Billed Sales in MCF	LUG	Pre-Heater Fuel
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
12 months ending 6/30/2019	92,894,553	91,349,781	1.7%	105,526
36 months ending 6/30/2019	270,106,641	265,467,472	1.7%	300,231

Retainage Calculation for 2019 PGC 36				
	Sendout in MCF + Pre-Heater Fuel	Billed Sales in MCF	Retainage Rate	Pre-Heater Company Use
36 months ending 6/30/2019	270,406,872	265,467,472	1.8%	300,231

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. I find the Company's LUG percentages are reasonable.

F. Retainage Volume Adjustment Rate

Fifth, some portion of the gas introduced into PECO's distribution system becomes LUGF. Transportation customers arrange to have gas delivered to PECO's "City Gate" for delivery to them through PECO's distribution system. PECO, like all other natural gas distribution companies, has tariff rules applicable to transportation service providing that some portion of the gas delivered to its City Gate will be deemed to be LUGF. The portion of the gas deemed to be LUGF for transported volumes is considered "retainage" and is expressed as a percentage.

In accordance with Paragraph 21 of the 2018 Joint Petition, the retainage volume adjustment for transportation service customers is 2.2% for the 12 months beginning December 1, 2018 and ending November 30, 2019. Joint Petition, ¶ 21.

Additionally, the Joint Petition provides that the retainage volume adjustment rate for transportation service customers will be 1.8% for the twelve months beginning December 1, 2019 and ending November 30, 2020. This agreed upon retainage rate 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, 2019, 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 LUGF. Proper retainage levels equalize the responsibilities of the rate classifications, protects all ratepayers by ensuring equitable contributions to account for LUGF, 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.

G. Off-System Sales/Capacity Release Sharing

Sixth, the 2018 Joint Petition extended the off-system sharing mechanism at the 25% rate through November 30, 2021. In the present case, PECO agrees to extend further the off-system sharing mechanism at the 25% rate through November 30, 2022. 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.

H. Reallocation of BSC and SSC Fuel Costs

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 that the BSC was overstated and the commodity/demand cost had been understated (by approximately \$25.7 million) for the period January 2015 to January 2017. 2017 Joint Petition, ¶ 23. The Company has complied with its obligations regarding the reallocation of the BSC and SSC Fuel Costs as agreed in the 2017 Joint Petition.

In accordance with the two-year recovery period requirement in Paragraph 23(c) of the 2017 Joint Petition, recovery of the remaining estimated reallocation balance for the SSC commenced on December 1, 2017. The remaining balance as of November 20, 2018 was determined for the PGC 36 Filing to be an under-collection balance of \$10,695,191, which will continue to be recovered during the PGC 35 application period of December 1, 2018 through November 30, 2019. Joint Petition, ¶ 23; see also 2017 Joint Petition, ¶¶ 23(a)-(d), App. G. Accordingly, I find the Company has complied with the two-year recovery period requirement, its only remaining obligation under the 2017 Joint Petition with respect to the reallocations, which is in the public interest.

I. Interest Rate for Over- and Under-Collections

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, 2018 through November 30, 2019. 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. I find that this proposal meets the requirements set forth in 66 Pa.C.S.A. § 1307(f)(5) and thus are reasonable and in the public interest.

J. LNG And Propane Winter Utilization Reporting

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 liquid natural gas (LNG) and propane. PECO Advance Filing, §§ 16 and 22. As agreed in Paragraph 25 of the 2018 Joint Petition, PECO reported on its investigation of the viability of the six (6) potential long- and short-term solutions to meet customer demand during the heating season, including peak day demand, and identified how each fits into PECO’s overall procurement strategy. As requested by I&E and OCA, and for purposes of settlement, the Company will continue that reporting for five (5) of the six (6) originally identified potential long- and short-term solutions, as set forth below:¹⁰

¹⁰ PECO will no longer be required to report on Participation by Low Volume Transportation Gas Choice Program suppliers in the Additional Capacity Resource Requirement (“ACCR”) Program.

- (1) 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;
- (2) Acquisition of additional peaking supply contracts;
- (3) Investment in PECO's on-system LNG assets;
- (4) Participation by the Company in the Vineland LNG Storage and Peak Shaving Facility; and
- (5) Contracting by the Company for winter propane and LNG call options.

Joint Petition, p. 9.

I find that 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.

K. Low Volume Transportation Program

Finally, under the Company's current rates, the low volume transportation (LVT) program firm service capacity is priced at less than the weighted average demand cost that PECO pays for long-haul firm service capacity to serve PGC customers. Thus, the LVT program customers effectively pay less for long-haul firm service capacity than PGC customers. However, effective December 1, 2019, PECO agrees to revise the capacity releases associated with the Low Volume Transportation ("LVT") program as follows:

- (A) The capacity releases associated with the LVT program will be priced at a weighted average maximum demand cost commensurate with the Company's STX, ETX, ELA, WLA and M1-M3 demand quantities for contracts TETCO FT-1 800231, 910510 and the CDS contract, all as found on page 3 of Section 7 of the Advance Information; and

(B) The LVT program capacity will be released on FT contract 910510 with an ELA to M3 path. Should the LVT program continue to grow, such that the capacity required for the LVT program exceeds the capacity available on contract 910510, the Company will then release similar capacity on contract 800231 with the an ELA to M3 path, which capacity releases will be priced at a weighted average demand cost as described in Paragraph (A) above.

Joint Petition, ¶ 26. I find the proposed language will ensure that LVT and PGC customers pay the same weighted average demand cost and should be approved as in the public interest.

L. Conclusion

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 conclusion 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.

CONCLUSIONS OF LAW

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

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 14, 2019, is just, reasonable and in the public interest.

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 No. R-2019-3009624 be adopted, including all terms and conditions;

2. That PECO Energy Company be 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-2019-3009624 to be effective for services rendered on or after December 1, 2019, 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, 2019;

