

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2020-3017934
Office of Consumer Advocate	:	C-2020-3018205
Office of Small Business Advocate	:	C-2020-3018856
	:	
v.	:	
	:	
Philadelphia Gas Works	:	

RECOMMENDED DECISION

Before
Darlene Heep
Administrative Law Judge

INTRODUCTION

This decision recommends the approval of the Joint Petition for Settlement (“Settlement”) filed by Philadelphia Gas Work (“PGW”), the Bureau of Investigation and Enforcement (“I&E”), and the Office of Consumer Advocate (“OCA”) (collectively “the Settling Parties”). The Settlement resolves all the issues in dispute regarding the annual Gas Cost Rate (“GCR”) filing by PGW pursuant to 66 Pa. C.S. § 1307(f). The Settling Parties have agreed to a purchased GCR of \$4.2529 per Mcf, based on PGW’s gas cost projections at the time of the March 2, 2020 Annual Filing.¹ The Office of Small Business Advocate (“OSBA”) and the Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”) do not oppose the Settlement. The last public meeting before the 6-month statutory deadline of September 2, 2020 is August 27, 2020. This decision recommends approval of the Settlement because it is in the

¹ PGW’s GCR on September 1, 2019 was \$4.6030 / Mcf and this rate was increased in PGW’s first quarterly GCR filing on December 1, 2019 to \$4.7175. PGW’s second quarter GCR filing, submitted with this filing, decreases the GCR to \$3.9009 effective March 1, 2020. PGW St 1 at 5.

public interest and is consistent with the requirements of the Public Utility Code, 66 Pa. C.S. §§ 1307(f) and 1318.

Under the Settlement, 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. For 2020 fiscal year (“FY”) upstream sales of PGW-owned natural gas that would not have occurred but for the availability of excess liquefied natural gas (“LNG”) that use interstate pipeline capacity for delivery/displacement, PGW will remove the weighted average cost of gas (“WACOG”) per DTH and Sales Service demand charge and then credit an additional 25% to the GCR and 75% to the base rate.

PGW will continue its practice of reaching out to suppliers to contract for baseload gas supplies to serve GCR customers in advance of releasing capacity to Choice suppliers. However, if PGW is unable to contract for baseload supply prior to the release of capacity on Texas Eastern Transmission Pipeline (“TETCO”) pursuant to current capacity release procedures, then PGW agrees to moving the capacity release on the 24 inch pipe starting in the South Texas (“STX”) TETCO Supply zone for November 2020.

Load Balance Charge issues are also addressed. The Time Factor for the March-19 Load Balancing Charge interest calculation will be corrected to 16/12 and incorporated in PGW’s September 1, 2020 GCR filings. A revised Load Balancing Charge will include 50% of the Williams’ Transco Gas Pipeline (“Transco”) Firm Transportation capacity costs necessary to deliver gas supplies withdrawal from storage under Transco Rate WSS (“Washington Storage Service”) in the calculation. Projected pipeline storage fuel injection and withdrawal charges will be included in the Load Balancing Charge calculation. These charges and the Transco Firm Transportation capacity costs in item 19b will be subject to reconciliation.

Also in the Settlement, PGW is permitted to continue to recover the Planalytics fee for price analysis and buying advisory services for the 2020-2021 GCR period. Continued recovery of the fee beyond the 2020-2021 GCR period must be addressed in next year’s

Purchased Gas Cost proceeding. The parties also agreed to methods of notice of future GCR and the use of estimated data for the March Quarterly GCR.

HISTORY OF THE PROCEEDING

On January 30, 2020, PGW filed with the Pennsylvania Public Utility Commission (“Commission”) its supporting information for the pre-filing for its annual 2020-2021 GCR pursuant to 66 Pa. C.S. § 1307 and 52 Pa. Code § 53.64 (“January 30, 2020 Pre-filing”). PGW also noted that, pursuant to the Commission’s approval in its 2019-2020 GCR,² the company intended to depart from certain requirements of 52 Pa. Code §§ 53.45(b), 53.64(c), 53.68(a) and 53.64(i)(5)(i), to address the timing of bill inserts, public notice and underlying data to be relied upon for the March 1, 2020 quarterly 1307(f) filing.

I&E entered a Notice of Appearance on February 6, 2020. On February 11, 2020, OCA filed a complaint, docketed at C-2020-3018205. On February 21, 2020, OSBA filed a complaint, docketed at C-2020-3018856. By a letter filed on February 24, 2020, PGW stated its intention not to file answers to these complaints, consistent with 52 Pa. Code § 5.61(d). On February 12, 2020, PICGUG filed a Petition to Intervene.

On March 2, 2020, PGW filed its Section 1307(f) filing, which included proposed tariff revisions, information regarding the computation of annual purchased gas costs for twelve months ending August 31, 2021 (including PGW’s load balancing charges) and the direct testimony of Kenneth Dybalski (PGW St. 1), John C. Zuk (PGW St. 2), and Denise Adamucci (PGW St. 3) (“March 2, 2020 Annual Filing”).

Public notice of the proposed GCR rate was provided through bill inserts during March of 2020, beginning on March 2, 2020. Notice was also published in *The Philadelphia Daily News*, *The Philadelphia Inquirer*, *Al Dia*, *The Philly Tribune*, *The Northeast Times*, *The South Philly Review*, *Philadelphia Weekly*, and *The Star*.

² *Pa. Pub. Util. Comm’n, et. al. v. Philadelphia Gas Works 2019-2020 Gas Cost Rate Filing*, Docket No. R-2019-3007636 (Final Order entered August 8, 2019) at 4-5 (Ordering Paragraph No 19).

A Prehearing Conference Order was issued on February 28, 2020 and an Initial Prehearing Conference was held on March 9, 2020. The Prehearing Order issued on March 13, 2020 granted the Petition to Intervene of PICGUG and adopted discovery modifications and a litigation schedule discussed with the parties.

Evidentiary hearings were scheduled for May 12 and May 13, 2020.

The parties engaged in discovery. In accordance with the litigation schedule, on April 17, 2020, OCA served Statement No. 1, the Direct Testimony of Jerome D. Mierzwa. No other party served direct testimony.

On May 4, 2020, PGW served PGW Statement 1R, the Rebuttal Testimony of Raymond M. Snyder and PGW Statement 2R, the Rebuttal Testimony of John C. Zuk. No other party served rebuttal testimony.

On May 11, 2020, OCA served Statement No. 1-S, the Surrebuttal Testimony of Jerome D. Mierzwa. No other party served surrebuttal testimony.

Also on May 11, 2020, the parties advised the undersigned that they were attempting to reach a settlement and would only require one day of hearing. The May 12, 2020 hearing date was cancelled.

On May 12, 2020, the parties advised the undersigned that they reached a settlement, and the remaining hearing date of May 13, 2020 was cancelled. On June 5, 2020, the instant “Joint Petition for Settlement of Philadelphia Gas Works’ 2020-2021 GCR Proceeding” was filed which was signed by PGW, I&E, and OCA. The Joint Petition included a stipulation of the Settling Parties to the admission of the GCR filing, testimony and exhibits identified in Appendix “B” of the Joint Petition.³

³ Joint Petition at p. 9, ¶22

PICGUG and OSBA did not sign the Settlement. However, the Settling Parties stated that both PICGUG and OSBA authorized them to state their non-opposition to the Settlement.⁴

FINDINGS OF FACT

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 9-10).

2. The pricing methodology utilized by PGW relies on actual prices for January 2020 and the NYMEX Futures close data (as of January 15, 2020) for the 19 forecast months of February 2020 through August 2021. (PGW St. 1 at 11).

3. PGW's gas distribution system is located in Southeastern Pennsylvania in the County and City of Philadelphia, an area that is not gas producing; consequently, PGW and its natural gas customers are dependent upon the interstate natural gas pipeline system to deliver natural gas into the PGW gas distribution system. (PGW St. 2 at 2).

4. PGW relies on interstate pipelines for all natural gas supply, storage and transportation services, except for PGW's on-system peak shaving facilities. (PGW St. 2 at 2).

5. 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).

6. PGW also uses off-system natural gas storage services to meet winter peak requirements. (PGW St. 2 at 2).

⁴ Joint Petition at p. 1, n.1

7. Enbridge'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).

8. In 2020, PGW bought 82% of their winter baseload gas supplies out of TETCO Zone M-2 and 18% of their winter baseload out of TETCO Zone ETX. PGW bought 100% of their swing contracts out of TETCO Zone M-2. (PGW St. 2 at 11).

9. PGW charges its Choice suppliers for the capacity that is released to the suppliers - for Transco, the suppliers are charged the max rate and 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 6; OCA St. 1 at 11-12),

10. PGW charges its Choice suppliers for the capacity that is released to the suppliers. (PGW St. 2R at 6; OCA St. 1 at 11)

11. PGW is not affiliated with any pipeline or gas supply entity and does not have any contracts for local production. (PGW St. 2 at 5).

12. PGW pursues a least cost procurement policy using a portfolio approach in both contract structure and pricing, allowing PGW to remove some of the volatility in purchasing natural gas supplies for its ratepayers, which it does 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 5-8).

13. PGW utilizes Planalytics to provide price analysis and buying advisory service as part of its efforts to obtain gas at least cost and to obtain a comprehensive amount of information useful in the procurement process. (PGW St. 2 at 10-11).

14. To ensure system reliability while seeking to procure gas at the least cost, PGW physically sources the gas in accordance with its firm pipeline paths and pays demand charges; PGW reviews these contracts on a regular basis and initiates renegotiations if appropriate to protect its customers' interests. (PGW St. 2 at 5).

15. PGW also uses capacity release and off-system sales when available and 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 14; PGW St. 2 at 8-9).

16. The details of PGW's actual gas purchases for the 12 months ending December 31, 2019 are in the schedules attached to Tab 1, Item 53.64(c)(1) of PGW's January 30, 2020 Pre-filing.

17. The details of PGW's forecast for the period of January 1, 2020 through August 31, 2021 are presented in Tabs 3 and 4 of PGW's March 2, 2020 Annual Filing.

18. Projected gas costs as reflected in this Settlement are based on design peak-day capacity requirements at a 0 degree design day temperature. (Tab 12, Item 53.64(c)(13) of PGW's January 30, 2020 Pre-filing).

19. 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 12-13).

20. 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 5-8).

21. Pursuant to Commission regulation, PGW is required to file a proposed triennial Universal Service and Energy Conservation Plan ("USECP") and 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 3).

22. PGW’s General Service Tariff – Pa P.U.C. No. 2 includes a Commission-approved Universal Service and Energy Conservation (“USC”) Surcharge, currently designed to recover certain costs associated with PGW’s universal service programs. (PGW St. 3 at 7).

23. 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 7; PGW St. 3 at 7).

24. PGW’s pilot Conservation Incentive Program (“CIP”) approved in its 2014-2016 USECP 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 8-9).

25. In the 2019-2020 GCR proceeding, PGW was permitted to recover its 2017 and 2018 CIP credit expenses (to be amortized over a two-year period) as well as its costs for 2019 and on a going forward basis. (PGW St. 3 at 8).

26. PGW has recovered the costs of the 2017 and 2018 CIP credit incentives through the GCR quarterly filings and costs of the 2019 CIP credit incentives will also be recovered. (PGW St. 3 at 8).

27. In the Amended USECP, PGW does not propose to continue the CIP Pilot beyond the initially approved program period of 2020. (PGW St. 3 at 5).

28. PICGUG and OSBA do not oppose the Joint Petition for Settlement. (Joint Petition at 1, n. 1).

DESCRIPTION AND TERMS OF THE JOINT PETITION FOR SETTLEMENT

The Joint Petition for Settlement is a 16-page document. 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 of the Settlement are set forth in Section III of the Joint Petition. (See Settlement at 6-9). The Settlement paragraphs are as follows:⁵

16) PURCHASED GAS COST RATES

a) The GCR rate adopted by this Settlement is \$4.2529 per Mcf. This rate is predicated on PGW's gas cost projections at the time of the March 2, 2020 Annual Filing. In accordance with 52 Pa. Code § 53.64, PGW will submit a quarterly adjustment to the GCR rate on or before September 1, 2020, 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, 2020.

b) PGW shall calculate the quarterly filing updates for the 2020-2021 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.

17) OFF-SYSTEM SALES MARGIN, CAPACITY RELEASE CREDIT AND ASSET MANAGEMENT MARGIN/CREDIT/FEE RETENTION

a) 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.

b) For FY 2020 upstream sales of PGW-owned natural gas that would not have occurred but for the availability of excess LNG that use interstate pipeline capacity for delivery/displacement, PGW will remove the WACOG per DTH and Sales Service demand charge then credit an additional 25% to the GCR and 75% to the base rate. All parties reserve the right to propose different treatment for such sales in future GCR proceedings.

⁵ Paragraph numbering in this decision is maintained to be consistent with the Settlement documentation.

18) CHOICE SUPPLIER CAPACITY RELEASE CHARGES

a) PGW has and will continue to reach out to suppliers to contract for baseload gas supplies to serve GCR customers in advance of releasing capacity to Choice suppliers. However, if PGW is unable to contract for baseload supply prior to the release of capacity on Texas Eastern Transmission (“TETCO”) pursuant to current capacity release procedures, then PGW agrees to moving the capacity release on the 24 in pipe starting in the South Texas (“STX”) TETCO Supply zone for November 2020.

19) PGW LOAD BALANCING CHARGE

a) The Time Factor for the March-19 Load Balancing Charge interest calculation will be corrected to 16/12 and incorporated in PGW’s September 1, 2020 GCR filings.

b) Revised Load Balancing Charge will include 50% of the Williams’ Transco Gas Pipeline (“Transco”) Firm Transportation capacity costs necessary to deliver gas supplies withdrawal from storage under Transco Rate WSS (Washington Storage Service) in the calculation

c) Projected pipeline storage fuel injection and withdrawal charges will be included in the Load Balancing Charge calculation. These charges and the Transco Firm Transportation capacity costs in item 19b will be subject to reconciliation

20) PLANALYTICS ENERGY BUYER SERVICES

a) PGW is permitted to continue to recover the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2020-2021 GCR period. Continued recovery of the fee beyond the 2020-2021 GCR period must be addressed in next year’s Purchased Gas Cost proceeding.

21) 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 2021-2022 GCR proceedings:

i. 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 ta*riff 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);

ii. 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

iii. 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 2021-2022 GCR proceeding.

The Settling Parties have also agreed to certain Conditions, which are set forth in Section VI of the Joint Petition (see Settlement at 14-16). These conditions are:

- a. The 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 c below, which will continue in full force and effect. The Settlement also shall automatically become null and void (except for paragraph c below) 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:
 - i. shall be deemed to resolve with prejudice all issues addressed by this Settlement; and
 - ii. 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.
- b. The 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.

- c. The Settlement Petition may be executed in counterparts, all of which shall constitute one agreement binding on all signatories, and shall have the same force and effect as an original instrument, notwithstanding that the signatories may not be signatories to the same original or the same counterpart.
- d. The Settling Parties agree to waive exceptions to the ALJ's Recommended Decision if the ALJ recommends that the Joint Petition for Settlement of Philadelphia Gas Works' 2020-2021 GCR Proceeding be approved without change or modification.

Joint Petition for Settlement Paragraphs 43-45, 47.

The Settling Parties have also stipulated to the admission of the filing, testimony and exhibits identified in Appendix "B" to the Joint Settlement. The stipulated record documents are:

Stipulated Record

- 1) PGW's January 30, 2020 Pre-filing Information;
- 2) PGW's March 2, 2020 Annual GCR Filing;
- 3) PGW St. 1, Direct Testimony of Kenneth S. Dybalski, dated March 2, 2020;
- 4) PGW St. 2, Direct Testimony of John C. Zuk, dated March 2, 2020;
- 5) PGW St. 3, Direct Testimony of Denise Adamucci, dated March 2, 2020;
- 6) OCA St. 1, Direct Testimony of Jerome D. Mierzwa, and all accompanying schedules and appendices, dated April 17, 2020;
- 7) PGW St. 2R, Rebuttal Testimony of Raymond M. Snyder, dated May 4, 2020;
- 8) PGW St. 2R, Rebuttal Testimony of John C. Zuk, dated May 4, 2020;
- 9) OCA St. 1-S, Surrebuttal Testimony of Jerome D. Mierzwa, and all accompanying schedules, dated May 11, 2020.

This Stipulated Record will be admitted into the record in the Ordering paragraphs below.

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. 66 Pa. C.S. § 1318(a)(1)-(4).

In this case, the parties have reached a settlement. It is the policy of the Commission to encourage settlements. 52 Pa.Code § 5.231. “The prime determinant in the consideration of a proposed Settlement is whether or not it is in the public interest.”⁶ In its policy statement regarding settlements in major rate cases the Commission provides in pertinent part:

⁶ *Pa. Pub. Util. Comm’n v. Philadelphia Electric Company*, 60 Pa. PUC 1, 22 (1985).

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.

SETTLEMENT AND STATEMENTS IN SUPPORT

1. Purchased Gas Cost Rates

Pursuant to the Joint Petition, PGW is adopting a GCR of \$4.2529 per Mcf as set forth in Appendix A of the Joint Petition. OCA also supports this rate. OCA Statement in Support ("St. S.") at 3. I&E notes that the GCR projected for 2020-2021 is lower than the level PGW projected for 2019-2020. This rate is supported by I&E because lower gas costs will benefit both PGW and its customers. Additionally, while gas costs are subject to review in a future GCR proceeding, 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 St. S. at 4.

I&E also states that PGW's average costs reported to the Commission in its quarterly filings demonstrate the prudence of its purchasing practices, and further, that PGW will adhere to its established least cost fuel procurement policy. This will 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.⁷ I&E St. S. at 5.

2. Off-System Sales and Capacity Release Credit

OCA raised concerns regarding sales pursuant to an arrangement with Tioga LNG, LLC (“Tioga”). In particular, OCA asserted that PGW intended to provide GCR customers with a credit of approximately 20% rather than the tariff required 75% of revenues under an off-system sales arrangement with Tioga.⁸ Although PGW does not agree that the Tioga transaction is an off-system arrangement that requires the 75%/25% sharing mechanism, PGW agreed to address OCA’s concerns. PGW St. S. at 3.

Under the terms of the Settlement, PGW will remove the WACOG per DTH and Sales Service demand charge and then credit an additional 25% to the GCR and 75% to the base rate. Also, under the Settlement, all parties reserve the right to propose different treatment for such sales in future GCR proceedings.⁹

OCA submits that this is a reasonable compromise at this time and that GCR customers will see additional benefits from the Company’s Tioga transactions. OCA St. S. at 3-4. I&E states that this will be a benefit to both PGW and the ratepayers. I&E St. S. at 5. PGW also notes that this compromise permits flexibility for future proceedings. PGW St. S at 3.

3. Choice Supplier Capacity Release Charges

OCA also had concerns regarding the 2019 GCR Settlement Capacity Assignment Procedures. PGW maintains firm transportation (“FT”) capacity on two interstate pipelines: (1) Tetco and (2) Transco. OCA St. 1 at 3, 7-10. PGW releases a portion of its Tetco and Transco

⁷ Joint Petition at p. 10, ¶29; PGW St. 2 at pp. 5-8.

⁸ Statement of OCA Witness Jerome D. Mierzwa, OCA St. 1 at 5-6.

⁹ Joint Petition at p. 7, ¶17(a).

FT capacity to suppliers serving the Company's Choice transportation customers. OCA St. 1 at 3, 11. The settlement approved in PGW's 2019 GCR proceeding ("2019 Settlement") adopted provisions which would assess Choice suppliers' charges for the released capacity equal to PGW's weighted average cost of Texas Eastern and Transco FT capacity. OCA St. 1 at 3, 12.

Implementation of the 2019 GCR Settlement resulted in unexpected increased costs due to lack of supplier participation. Particularly, GCR customers were required to utilize ETX Gulf Coast gas supplies, rather than less expensive Marcellus Shale supply. OCA St. 1 at 13.

While PGW does not anticipate a similar situation will occur, PGW will reach out to suppliers to contract for baseload gas supplies to serve GCR customers in advance of releasing capacity to Choice suppliers. Under the settlement terms, if PGW is unable to contract for baseload supply prior to the release of capacity release on Tetco pursuant to current capacity release procedures, then PGW agrees to move the capacity release to the 24-inch line starting in the STX TETCO supply zone for November 2020.¹⁰

OCA avers that this is in the public interest because by including capacity release on the 24-inch TETCO pipeline (*see*, OCA St. 1 at 13-14), GCR customers will not have to bear full responsibility for higher gulf region supplies if they are required to meet demands. OCA St. S. at 4-5. I&E supports this portion of the Settlement as necessary to facilitate the global resolution of this proceeding.

4. PGW Load Balancing Charge

OCA and I&E raised issues pertaining to the Load Balancing Charge. In reviewing GCR filing Item 53.6(a), Schedule 13(b), I&E identified an error in the Time Factor for PGW's March 19 Load Balancing interest calculation. Specifically, PGW's interest calculation was 34/12 while the correct calculation by I&E, and not disputed by PGW, is 16/12.

¹⁰ Joint Petition for Settlement, ¶18.a.

OCA proposed modifications to the Load Balancing Charge Calculation after considering that PGW uses Transco's Washington Storage Service to ensure that it has sufficient capacity resources to meet its design day load requirements but does not include the transportation service that is needed to deliver gas. OCA also advanced that PGW should begin adjusting Choice supplier imbalances to reflect injection and withdrawal fuel charges.

In resolution of these issues, the parties agreed as follows:

- a) The Time Factor for the March-19 Load Balancing Charge interest calculation will be corrected to 16/12 and incorporated in PGW's September 1, 2020 GCR filings.
- b) Revised Load Balancing Charge will include 50% Firm Transportation capacity costs in the calculation.
- c) Projected pipeline storage fuel injection and withdrawal charges will be included in the load balancing calculation.¹¹

OCA supports these changes as in the public interest by producing a more reasonable Load Balancing Charge in the future. OCA St. S. at 6. I&E asserts that ensuring the integrity and accuracy of PGW's interest calculation protects taxpayers and therefore is in the public interest. I&E St. S at 7.

5. Planalytics Energy Buyer Services

Pursuant to the Settlement, PGW may continue to recover the Planalytics fee for price analysis and buying advisory services, not to exceed \$125,000.¹² I&E finds this in the public interest because it allows PGW to mitigate the financial risk in its gas supply portfolio and also recovery of this cost risk management is allowed by the Public Utility Code.¹³ OCA did not provide comment on this provision.

¹¹ Joint Petition at p. 7, ¶19.

¹² Joint Petition at 6, ¶5.

¹³ 66 Pa. C.S. 1307(h).

6. Notice of Future Annual GCRs and Use of Estimated Data for March Quarterly GCR

PGW seeks to use bill inserts, public notice processes and estimated data for the March 1 quarterly filing for its 2021-2022 GCR proceedings.¹⁴ None of the Settling Parties disagree with this approach. I&E notes that it ensures that customers will receive advance notice of the next PGW GCR proceeding and will advise of the intent of PGW to provide certain estimated data and is consistent with PGW's use of the public notice process and estimated data in past PGW GCR proceedings. I&E further avers that agreeing to this procedure at this time will save PGW time and resources of conferring with the Settling Parties again on this issue for PGW's next annual GCR filing. I&E St. S at 8.

OCA noted that in previous PGW GCR proceedings, the Commission has allowed PGW to use such procedures. OCA does not oppose this provision as written, limited to 2021-2022 GCR proceedings.¹⁵ OCA St. S. at 6-7.

DISPOSITION

A settlement is acceptable if the 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 terms and conditions of this settlement meet that standard.

All parties agree, and the record supports, that in accordance with the Settlement, PGW will engage in a least cost procurement policy that will result in rates and surcharges that are just, reasonable, and compliant with the Public Utility Code. The Settlement reduces the administrative burden and costs to resolve the issues.

¹⁴ Joint Petition at 8, ¶21.

¹⁵ *Id.*

PGW proposed, and the parties have settled upon, a Purchased Gas Costs Rate of \$4.2529 per Mcf, which is lower than the level PGW projected for 2019-2020, affected by the decrease in costs compared to the prior year. PGW St. 1 at 11. This is clearly in the public interest.

The Settling Parties expressly intend to reserve rights with respect to future proceedings and filings. As stated in the Joint Petition for Settlement:

The Settling Parties agree, based upon evidence of record in this proceeding concerning PGW's projected gas purchases and gas purchasing policies, that PGW's projected gas purchases and projected gas purchasing policies comply with the standards of Section 1318 of the Public Utility Code. Nevertheless, it is expressly understood and agreed that this Section of the Settlement, Section V.42., is made solely for the purpose of setting prospective rates that shall be subject to the standards of Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, and further review in an appropriate future proceeding. Section V.42. of the Settlement is not intended in any way to limit or prevent I&E or OCA from reviewing, after such projected gas purchases actually have been made and gas purchasing practices actually have been implemented, whether PGW's gas purchases and gas purchasing practices complied with Section 1318. If, in an appropriate future proceeding, gas purchases and gas purchasing practices from January 1, 2020 through August 31, 2020 were 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, 2020, and the twelve-month application period commencing September 1, 2020, and ending on August 31, 2021.

Joint Petition at 11-12. This does not affect the efficacy of this Settlement however, as it resolves all issues raised during these proceedings.

The parties have reached a reasonable compromise on the treatment of the Tioga sales arrangement and Capacity Assignment Procedures that seeks to alleviate increased costs. As PGW notes, the capacity assignment compromise also avoids "the complicated issues that could occur from attempting to recoup the prior increased costs by reducing refunds Choice Suppliers are entitled to receive as a result of a FERC settlement." PGW St. S. at 3.

Additionally, the Settlement addresses the concerns of both I&E and OCA with respect to the Load Balancing Charge, correcting a calculation and allowing PGW to recover costs incurred for storage and peaking assets without unreasonable cost shifting.

PGW may also continue to consult a price analysis and buying advisory service at a reasonable cost (subject to a maximum of \$125,000). This will provide PGW with relevant market information to assist it when it makes gas purchases.

The Joint Petition for Settlement of Philadelphia Gas Works' 2020-2021 Proceeding, as well as the savings of time and expenditures by not fully litigating this case, establish that the Settlement is fair, just, reasonable and in the public interest. Accordingly, it is recommended that the Commission approve the Joint Petition for Settlement of Philadelphia Gas Works' 2020-2021 GCR Proceeding in its entirety and without modification.

CONCLUSIONS OF LAW

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 support the findings required by Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318.
3. For purposes of this proceeding, 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. 66 Pa. C.S. § 1318.
4. PGW's rates for purchased gas costs during the relevant time period, as the parties have agreed upon in this proceeding, 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, 2019, 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, 2019, 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, 2020, and the projected twelve-month period beginning September 1, 2020, based on information currently available, the rates to be adopted result from PGW's compliance with all of the provisions of Section 1318 of the Public Utility Code, 66 Pa.C.S. § 1318.

8. For purposes of this proceeding, PGW's projected gas purchases and projected gas purchasing policies comply with the standards of Section 1318 of the Public Utility Code. 66 Pa.C.S. § 1318.

9. The proposed terms and conditions in the Settlement are in the public interest, meeting the benchmark for acceptability. *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).

ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the documents in the Stipulated Record are admitted into the record of this proceeding at Docket Number R-2020-3017934, which are as follows:

- 1) PGW's January 30, 2020 Pre-filing Information;
- 2) PGW's March 2, 2020 Annual GCR Filing;
- 3) PGW St. 1, Direct Testimony of Kenneth S. Dybalski, dated March 2, 2020;
- 4) PGW St. 2, Direct Testimony of John C. Zuk, dated March 2, 2020;
- 5) PGW St. 3, Direct Testimony of Denise Adamucci, dated March 2, 2020;
- 6) OCA St. 1, Direct Testimony of Jerome D. Mierzwa, and all accompanying schedules and appendices, dated April 17, 2020;
- 7) PGW St. 2R, Rebuttal Testimony of Raymond M. Snyder, dated May 4, 2020;
- 8) PGW St. 2R, Rebuttal Testimony of John C. Zuk, dated May 4, 2020;
- 9) OCA St. 1-S, Surrebuttal Testimony of Jerome D. Mierzwa, and all accompanying schedules, dated May 11, 2020.

2. That the Joint Petition for Settlement of Philadelphia Gas Works' 2020-2021 GCR Proceeding submitted by the Philadelphia Gas Works, the Bureau of Investigation and Enforcement and the Office of Consumer Advocate be approved.

3. That Philadelphia Gas Works be authorized to file a tariff supplement to reflect rates and terms consistent with this order to be effective for services rendered on or after September 1, 2020, subject to quarterly adjustments permitted by Commission regulations at 52

Pa. Code § 53.64(i)(5), including a quarterly adjustment to be effective on September 1, 2020, to reflect actual experience and changes in forecasted natural gas prices.

4. That Philadelphia Gas Works be 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.

5. That for fiscal year 2020 upstream sales of Philadelphia Gas Works-owned natural gas that would not have occurred but for the availability of excess LNG that use interstate pipeline capacity for delivery/displacement, Philadelphia Gas Works be authorized to remove the WACOG per DTH and Sales Service demand charge then credit an additional 25% to the GCR and 75% to the base rate, all parties retaining the right to propose different treatment for such sales in future GCR proceedings

6. That Philadelphia Gas Works be directed to continue to reach out to suppliers in advance of the capacity release to invite bids; however, if PGW does not get any bids, PGW be authorized to move capacity release on the 24-inch pipe starting in STX for November 2020.

7. That PGW be permitted to revise its Load Balancing Charge to include 50% Firm Transportation costs in the calculation and to include pipeline storage fuel injection and withdrawal charges in the calculation.

8. That Philadelphia Gas Works be permitted to continue to recover the Planalytics fee for price analysis and buying advisory services (not to exceed \$125,000) for the 2020-2021 GCR period. Continued recovery of the fee beyond the 2020-2021 GCR period must be addressed in next year's Purchased Gas Cost proceeding

9. That Philadelphia Gas Works be permitted to proceed as follows in its 2021-2022 GCR proceedings:

(a) 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);

(b) 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

(c) 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).

10. That this Settlement does not in any way limit or prevent I&E or OCA from reviewing, or bar from examination, in future proceedings, after such projected gas purchases actually have been made and gas purchasing practices actually have been implemented, whether PGW's gas purchases and gas purchasing practices complied with Section 1318.

11. That the Commission investigation at Docket R-2020-3017934 be terminated and shall be marked closed.

12. That the formal complaints at docket numbers C-2020-3018205 and C-2020-3018856 be deemed satisfied and shall be marked closed.

Date: June 29, 2020

/s/
Darlene Heep
Administrative Law Judge