

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2020-3019661
Office of Consumer Advocate	:	C-2020-3019817
Office of Small Business Advocate	:	C-2020-3020250
	:	
v.	:	
	:	
PECO Energy Company 1307(f) – Gas Division	:	

RECOMMENDED DECISION

Before
F. Joseph Brady
Administrative Law Judge

INTRODUCTION

This Decision recommends the Joint Petition for Complete Settlement submitted by PECO Energy Company (PECO or the Company) and the Office of Consumer Advocate (OCA) (hereinafter referred to individually as “Party” or collectively as “Settling Parties”),¹ be approved by the Pennsylvania Public Utility Commission (Commission) and that PECO 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 (PGC) rate investigation at Docket No. R-2020-3019661 to be effective for services rendered on or after December 1, 2020, subject to quarterly adjustments as permitted by the Commission’s regulations. The Joint Petition for Complete Settlement is supported by substantial evidence and is in the public interest.

¹ The Commission’s Bureau of Investigation and Enforcement (I&E), the Office of Small Business Advocate (OSBA), and the Philadelphia Area Industrial Energy Users Group (PAIEUG) (hereinafter referred to individually as “Party”, collectively as the “Non-Settling Parties”, and together with the Settling Parties, the “Parties”) also participated in this proceeding and have authorized the Settling Parties to represent their respective non-opposition to this Joint Petition for Complete Settlement.

HISTORY OF THE PROCEEDING

On April 30, 2020, PECO made a preliminary filing with the 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 18, 2020, the OCA filed a Complaint (docketed at C-2020-3019817), a Public Statement, and a Notice of Appearance for Phillip D. Demanchick, Esq., and Aron J. Beatty, Esq.

On May 18, 2020, a Petition to Intervene was filed by the PAIEUG.

On May 19, 2020, a Notice of Appearance was filed by Carrie B. Wright, Esq., on behalf of the I&E.

On May 20, 2020, Notices of Appearance were filed by Courtney L. Schultz, Esq. and Shane P. Simon, Esq. on behalf of PECO.

On May 29, 2020, 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. 37, proposed Supplement No. 28 to Tariff Gas-Pa.P.U.C. No. 3, to become effective for service rendered on and after December 1, 2020.² The Company also submitted data and information including the direct testimony with supporting exhibits of witnesses: Carlos P. Thillet (PECO Statement No. 1); Scott J. Hughes (PECO Statement No. 2); and Anthony P. DiFelice (PECO Statement No. 3).

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.

² The last public meeting date prior to December 1, 2020, is on November 19, 2020.

PECO's 1307(f) filing was assigned to the undersigned for investigation and scheduling of hearings to determine whether PECO's gas costs comply with the standards set forth in the Public Utility Code.

On June 2, 2020, a Notice and Prehearing Conference Order were issued, scheduling a Telephonic Prehearing Conference for Thursday, June 11, 2020, at 1:00 p.m.

On June 4, 2020, the OSBA filed a Complaint (docketed at C-2020-3020250), a Public Statement and Notice of Appearance for Daniel G. Asmus, Esq. and Sharon E. Webb, Esq.

On June 9, 2020, Prehearing Memoranda were filed by PECO, the OCA, the OSBA, the PAIEUG, and the I&E.

A Telephonic Prehearing Conference was held on June 11, 2020. Counsel for PECO, the OCA, the OSBA, the PAIEUG, and the I&E participated.

On June 30, 2020, Prehearing Order No. 2 was issued memorializing the matters decided and agreed upon by the Parties attending the June 11, 2020, Prehearing Conference.

On July 22, 2020, the Parties informed me that they had reached a settlement in principle in the matter and requested that the litigation schedule be suspended, and the hearings scheduled for August 10-11, 2020, be cancelled. I issued an Order granting the Parties' request on July 23, 2020.

On August 17, 2020, a Joint Petition for Complete Settlement (Joint Petition or Settlement) was filed and served. PECO and the OCA were the two signatories to the Joint Petition and both provided a Statement in Support appended to the Joint Petition. The OSBA, the I&E, and the PAIEUG authorized the Settling Parties to represent their non-opposition to the Joint Petition.

Also on August 17, 2020, 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 20, 2020, the Stipulation, statements and exhibits were admitted into the record of this proceeding.³

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 20, 2020 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.

THE PROPOSED SETTLEMENT

The Joint Petition for Complete Settlement is signed by the Company and the OCA. 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

³ 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, 2020; PECO Statement Nos. 1, 2, and 3 and accompanying Exhibits (CPT-1 through CPT-2, SJH 1, and APD-1 through APD-5), which were filed with the Commission and served on May 29, 2020; and OCA Statement No. 1 and accompanying Schedules (JDM-1 through JDM-3), which was filed with the Commission and served on July 10, 2020.

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). Appendix C is the Pro Forma Tariff pages showing the changes to the retainage volume adjustment rate. The Ratable Hedging Program execution schedule is attached as Appendix D. Appendix E is PECO's Statement in Support. Appendix F is the OCA'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.⁴ 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, 2020, December 1, 2020, and thereafter in accordance with 52 Pa. Code § 53.64.⁵

(b) Attached as Appendix B to this Joint Petition is the pro forma tariff page showing the changes to the firm and interruptible supply reservation charges for Rate CGS ("City Gate Sales Services"). PECO reserves the right to update Rate CGS and the Rate Transportation Service-Firm ("TS-F") standby sales service demand charge, as shown in Appendix A, Exhibit APD-1, to be effective December 1, 2020, to the extent that actual experience and changes in forecasted natural gas prices and demand may alter these rates.

⁴ The Company's BC rate has been updated to reflect the agreed upon changes to the calculation of the rate resulting from the settlement of the PGC 37 Filing.

⁵ 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.

18. **Balancing Charge Rate**

(a) 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 Section 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 37 Filing (and also included in Appendix A), the Company proposed a Balancing Charge of \$0.0079 per Mcf to become effective on December 1, 2020, which is \$0.0003 per Mcf more than the currently effective Balancing Charge.

In the course of responding to discovery, PECO learned and disclosed that it had made an error in the Balancing Charge calculation. Specifically, the fixed storage cost component of the calculation was incorrect – those costs should have been \$17,999,000, not \$13,560,527 as reflected in Exhibit CPT-1. Once corrected, instead of \$.0079, the Balancing Charge is \$0.0104. In addition, the Company also discovered that the same error had been made in its PGC 36 Filing resulting in a slight overstatement of the currently effective Balancing Charge.⁶

(b) In this case, through the Direct Testimony of Jerome D. Mierzwa (OCA Statement No. 1, pp. 8-9, and as reflected in Schedule JDM-3 thereto), OCA has proposed that the Balancing Charge calculation be revised to include:

(i) the costs associated with the interstate pipeline transportation arrangements required to deliver gas to and from storage; and

(ii) aggregate daily HVT imbalances experienced during the summer months, as opposed to only the winter months as is the current practice.

(c) The Settling Parties have agreed to adopt OCA's recommendations for this case and on a going forward basis, which results in a Balancing Charge of \$0.0209. However, the Settling Parties have further agreed to reduce the Balancing Charge effective December 1, 2020 by \$0.0006 to offset the over-collection resulting from the recently discovered error in the calculation of the Balancing Charge in the PGC 36 Filing. Accordingly, the Balancing Charge, effective December 1, 2020 will be \$0.0203.

⁶ The Balancing Charge for the PGC 36 Filing, and which is currently in effect, should have been \$0.0070, not \$0.0076, representing a \$0.0006 per Mcf over-recovery. *See* Appendix A.

19. Retainage

(a) In accordance with Paragraph 21 of the 2019 Joint Petition, the retainage volume adjustment for transportation service customers for the 12 months beginning December 1, 2019 and ending November 30, 2020 is 1.8%, which was calculated based on the weighted three-year average of LUGF plus the portion of Company-use gas attributable to preheater gate station usage for the period ending June 30, 2019.

(b) In this case, through the Direct Testimony of Jerome D. Mierzwa (OCA Statement No. 1, pp. 5-6), OCA has proposed that, on a going forward basis, the Company remove Direct Pipeline (“DPL”) customer sendout and volumes delivered from the retainage rate calculation. The Settling Parties have agreed to make this adjustment to the retainage rate calculation for the PGC 37 Application Period (as defined below) and also on a going forward basis.

(c) The retainage volume adjustment will be 2.2% for the 12 months beginning December 1, 2020 and ending November 30, 2021, as shown on the tariff pages attached hereto as Appendix C and in the table below.

Retainage Calculation for 2020 (PGC 37)				
	Sendout in MCF + Pre- Heater Fuel	Billed Sales in MCF	Retainage Rate	Pre-Heater Company Use
36 months ending 6/30/2020	254,108,525	248,559,072	2.2%	305,573

20. Gas Price Hedging

(a) PECO has complied with the terms of the Ratable Hedging Program for all hedges made through April 2020, 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 12 execution periods through April 2020 (these periods appear in yellow highlight in Exhibit SJH accompanying PECO Statement No. 2, the Direct Testimony of Scott J. Hughes, in the PGC 37 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.⁷ For the period May 2019 through April 2020, PECO purchased 8.44 MMDth of hedged gas under the program at a weighted average cost of \$3.1269 per Dth as reflected in the table below (*see* Table SJH-1 in PECO Statement No. 2, the Direct Testimony of Scott J. Hughes, in the PGC 37 Filing). Accordingly, PECO’s purchases under the Ratable Hedging Program through April 2020 have been in compliance with the Ratable Hedging Program execution schedule.

Ratable Hedge Program			
Executed Hedges July 2019 through April 2020			
Execution Month	DTH	\$/DTH	Total \$
July 2019	1,818,000	\$ 3.8901	\$ 7,072,140
August 2019	1,198,400	\$ 1.8265	\$ 2,188,878
November 2019	1,812,000	\$ 3.9650	\$ 7,184,580
December 2019	1,198,400	\$ 1.8030	\$ 2,160,715
March 2020	1,812,000	\$ 3.6250	\$ 6,568,500
April 2020	599,200	\$ 2.0200	\$ 1,210,384
Total	8,438,000	\$ 3.1269	\$26,385,197

*Note: There were no hedges executed in May 2019 and June 2019 per the Ratable Hedging Schedule (*see* Exhibit SJH-1), and PECO did not execute the scheduled April 2020 hedge for the Summer 2022 period, because it did not receive the required minimum of three qualified responses.

(b) In the PGC 37 Filing, PECO requested that the Ratable Hedging Program be extended for an additional year, but that hedging associated with summer purchases be eliminated on a going forward basis. Extending the program for an additional year (“Year 7”) will add Winter periods with volumes at the same bifurcated volumetric level, and with execution periods similar to those used in prior years.

(c) Specifically, the Settling Parties have agreed:

(i) to extend the Ratable Hedging program for an additional year;

(ii) to the elimination of four (4) of the remaining five (5) execution periods in the Year 6 Summer, as shown on Exhibit SJH-1, page 2: December 2020, April 2021, August 2021, and December 2021; and

⁷ There is one execution period shown on Exhibit SJH-1 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.

(iii) that PECO will no longer engage in hedging for summer purchases, but will continue with the current winter hedging schedule of 36,000 Dth/day.

(d) The revised Ratable Hedging Program execution schedule is attached as Appendix D.

21. 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 periods ending March 31, 2020 and June 30, 2020 in the following tables, as part of the PGC 37 Filing.

PECO LUFG Calculation 2018-2020 PGC (3-Year Average)

	Sendout (in Mcf)	Billed Sales (in Mcf)	LUFG
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%
12 months ending 3/31/20	84,510,551	84,400,524	0.1%
36 months ending 3/31/20	269,803,497	266,462,673	1.2%

PECO LUFG Calculation PGC 37				
	Sendout in MCF	Billed Sales in MCF	LUFG	Pre-Heater Fuel
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
12 months ending 6/30/2020	85,885,333	84,063,725	2.1%	97,494
36 months ending 6/30/2020	271,341,187	266,054,537	1.9%	305,573

22. Off-System Sales/Capacity Release Sharing

Pursuant to the 2019 Joint Petition, the off-system sharing mechanism was extended at the 25% rate through November 30, 2022. In the instant proceeding, the Settling Parties agree that PECO will further extend the off-system sharing mechanism through November 30, 2023.

23. 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, 2019 through November 30, 2020. 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.

24. LNG And Propane Winter Utilization Reporting

(a) As agreed in Paragraph 25 of the 2019 Joint Petition, PECO reported on its investigation of the viability of the five (5) potential long- and short-term solutions (as set forth below) to meet customer demand during the heating season, including peak day demand, and identified how each fits into PECO's overall procurement strategy:

(i) 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;

(ii) Acquisition of additional peaking supply contracts;

(iii) Investment in PECO's on-system LNG assets;

(iv) Participation by the Company in the Vineland LNG Storage and Peak Shaving Facility; and

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

(b) PECO has complied with its obligations under the 2019 Joint Petition. PECO has no further reporting obligations with respect to this commitment.

25. Assignment of Texas Eastern Capacity

In compliance with its commitments under Paragraph 26 of the 2019 Joint Petition, effective December 1, 2019, PECO revised

the capacity releases associated with the Low Volume Transportation (“LVT”) program as follows:

(a) The capacity releases associated with the LVT program were 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 was released on FT contract 910510 with an ELA to M3 path. The capacity required for the LVT program did not exceed the capacity available on contract 910510, as such, the Company did not need to release similar capacity on contract 800231, which has an ELA to M3 path, and which capacity releases would have been priced at a weighted average demand cost as described in Paragraph 25(a) above.

26. Admission of Evidence

The Parties agree to waive cross-examination of each other’s witnesses and that the testimony and exhibits identified in sections (a) and (b) below may be admitted into evidence by stipulation and motion. To that end, the Parties have prepared and are filing a separate Motion, with attached Stipulation, requesting that ALJ Brady admit such testimony and exhibits into the record:

(a) PECO’s Advance Filing consisting of Sections 1-22, which was filed with the Commission and served on April 30, 2020, as explained in Paragraph No. 5, *supra*;

(b) PECO Statement Nos. 1, 2 and 3 with accompanying Exhibits (CPT-1 and CPT-2, SJH-1, and APD-1 through APD-5), which were filed with the Commission and served on May 29, 2020, as explained in Paragraph No. 9, *supra*.

(c) OCA Statement No. 1 with accompanying Schedules (JDM-1 through JDM-3), which was filed with the Commission and served on July 10, 2020, as explained in Paragraph 14, *supra*.

In addition, the Settlement contains the following standard settlement provisions in Section VI: that the Settling Parties acknowledge and agree that this Settlement shall have the same force and effect as if the Parties fully litigated this proceeding; 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*, Joint Petition, ¶¶ 38-44.

FINDINGS OF FACT

I am adopting the following findings of fact that were included at paragraphs 27-36 in the Joint Petition, *in verbatim*:

1. PECO operates a natural gas distribution system in the southeastern portion of Pennsylvania subject to the jurisdiction of the Commission. (PECO St. 1, pp. 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, 2020 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, 30-31 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. 30-32).

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). PECO's efforts in this regard directly reduced costs for its PGC customers (PECO St. 1, pp. 33-35).

6. In the past year, PECO renewed several storage and transportation service agreements, after unsuccessfully soliciting competitive alternatives (PECO St. 1, pp. 22-23, 31-33).

7. During the past year, PECO reviewed four (4) 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. 21). Of those projects reviewed, three projects met PECO's evaluation criteria and were targeted by PECO for addition to its portfolio, while the other is the subject of continued evaluation. The first project is the Regional Energy Access (REA) project, with a projected in-service date of December 2023. This would add 100,000 Dth/day of REA firm transportation capacity, thereby enabling PECO to move gas from receipt points in the Leidy Pennsylvania Marcellus Shale production area to delivery points on PECO's distribution system. The Texas Eastern and Dominion project includes FT capacity on Texas Eastern and underground storage capacity on Dominion. The contracts became effective May 1, 2020 and provide for a path from GSS Storage to PECO's city gate for 14,000 Dth, and lower the projected design day gap and the reliance on delivered supply to remedy that gap. (PECO St. 1, p. 22). The third opportunity was for a permanent firm transportation capacity release from Transco Zone 2 to Zone 6, but PECO was not awarded the firm transportation. (PECO St. 1, p. 23). In addition, because several conditions precedent have not been met by Texas Eastern,

PECO is no longer including the service from the TETCO M2M project⁸ in its planning at this time. (PECO St. 1, pp. 23).⁹

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.¹⁰ (PECO St. 1, pp. 6-7).

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

10. Projected gas costs, as reflected in this 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.

⁸ PECO's participation in the M2M project for 27,500 Dth of firm transportation per day was discussed in the last five PGC proceedings.

⁹ Additional information regarding this project was provided confidentially to the Parties and the PAIUEG in the Company's response to discovery request OCA-II-3.

¹⁰ 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 August 15, 2019), the Constellation Agreement was deemed approved.

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 policy. 66 Pa.C.S. § 1318(a).

PECO and the OCA have agreed to a settlement that resolves all the issues in this proceeding. Both of the Settling Parties have provided statements in support of the Settlement which explain why the Settlement is in the public interest. The I&E, the OSBA, and the PAIEUG are 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.¹¹ *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 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 Code relating to affiliate purchases. A least cost procurement policy protects ratepayers from unnecessary and imprudent gas costs and prevents the Company from making a profit on gas

¹¹ The Company's PGC Rates are comprised of the Commodity Charge ("CC"), the Gas Cost Adjustment Charge ("GCA"), and the BSC.

supplies provided to its PGC customers. The settlement also provides a reasonable basis for calculating and setting the GCA, CC, BSC and the BC to become effective December 1, 2020. 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 ¹²	\$3.8272	\$3.7981	\$3.7867
GCA	\$0.1199	\$0.1199	\$0.1199
BSC	\$0.3882	\$0.3882	\$0.3882
Total PGC Rate Effective December 1, 2020	\$4.3353	\$4.3062	\$4.2948

To the extent that actual experience and changes in forecasted natural gas prices and demand would alter such rates, PECO reserved the right to file quarterly adjustments to be effective September 1, 2020 and December 1, 2020, and thereafter in accordance with 52 Pa. Code § 53.64. For the December 1, 2020 filing, the PGC rates will be updated as noted above. As a result, I find the Settlement allows the Company to recover a reasonable estimate of its projected period purchased gas costs in a manner that protects the interests of the Company and its customers. In addition, under Paragraph 37(b)(ii) of the Joint Petition, the Commission will continue to have the authority to review the actual costs incurred by the Company in a subsequent audit or Section 1307(f) proceeding.

Further, I find the Settlement also provides a reasonable basis for calculating and setting the firm and interruptible supply reservation charges for Rate CGS (City Gate Sales Services) to become effective December 1, 2020. See Joint Petition, ¶17(b) and Appendix B. As agreed in the Joint Petition, PECO reserved the right to update Rate CGS and the Rate TS-F (Gas Transportation Service-Firm) standby sales service demand charge, as shown in Appendix A of the Joint Petition (PECO St. No. 3, Exhibit APD-1), to become effective December 1, 2020, to the extent that actual experience and changes in forecasted natural gas prices and demand would alter those rates.

¹² Including Gas Procurement Charge (“GPC”) and Merchant Function Charge (“MFC”).

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. Originally, the Company proposed a Balancing Charge of \$0.0079 per Mcf to become effective on December 1, 2020 (\$0.0003 per Mcf more than the currently effective Balancing Charge). However, during discovery, PECO disclosed that it had made an error in the Balancing Charge calculation. Specifically, the fixed storage cost component of the calculation was incorrect – those costs should have been \$17,999,000, not \$13,560,527 as reflected in Exhibit CPT-1. Correction of this error resulted in a Balancing Charge of \$0.0104 instead of \$0.0079. Further, the Company discovered that the same error had been made in its PGC 36 Filing (docket no. R-2019-3009624), resulting in a slight overstatement of the currently effective Balancing Charge.¹³

In this proceeding, the OCA proposed that the Balancing Charge calculation be revised to include: (i) the costs associated with the interstate pipeline transportation contracts required to deliver gas to and from storage; and (ii) the aggregate daily High Volume Transportation (“HVT”) program imbalances experienced during the summer months, as opposed to only the winter months as is the current practice. *See*, Direct Testimony of Jerome D. Mierzwa (OCA Statement No. 1, pp. 8-9, and as reflected in Schedule JDM-3 thereto).

The Settling Parties have agreed to adopt the OCA’s recommendations for this case and on a going forward basis, which results in a Balancing Charge of \$0.0209. *See*, Joint Petition, ¶ 18(c). The Settling Parties have further agreed to reduce the Balancing Charge effective December 1, 2020 by \$0.0006 to offset for the over-collection resulting from the recently discovered error in the calculation of the Balancing Charge in the PGC 36 Filing. *Id.* Accordingly, the Balancing Charge, effective December 1, 2020 will be \$0.0203. *Id.*, *see also* PECO St. 1, pp. 5-7.

¹³ The Balancing Charge for the PGC 36 Filing, and which is currently in effect, should have been \$0.0070, not \$0.0076, representing a \$0.0006 per Mcf over-recovery. *See* Appendix A to Joint Petition.

I agree with the Settling Parties that this update to the balancing charge will result in a more appropriate matching of the costs incurred to serve PGC customers and the costs to serve the needs of the HVT customers directly relating to transportation and storage costs in the Balancing Charge. Thus, I find it 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. PECO has complied with the terms of the Ratable Hedging Program for all hedges made through April 2020 and will continue to do so. In the current PGC 37 Filing, PECO requested that the Ratable Hedging Program be extended for an additional year, but that hedging associated with summer purchases be eliminated on a going forward basis. *See*, Joint Petition, ¶ 20(b). Extending the program for an additional year ("Year 7") will add Winter periods with volumes at the same bifurcated volumetric level, and with execution periods similar to those used in prior years.

Specifically, the Settling Parties have agreed: (i) to extend the Ratable Hedging program for an additional year; (ii) to the elimination of four (4) of the remaining five (5) execution periods in the Year 6 Summer, as shown on Exhibit SJH-1, page 2: December 2020, April 2021, August 2021, and December 2021; and (iii) that PECO will no longer engage in hedging for summer purchases, but will continue with the current winter hedging schedule of 36,000 Dth/day. The revised Ratable Hedging Program execution schedule is attached to the Joint Petition as Appendix D. *See*, Joint Petition, ¶ 20(c).

PECO employs hedging as an additional tool to purchase natural gas on a basis that reasonably ensures system reliability at the least cost. The extension of the Ratable Hedging Program for an additional year with the foregoing modifications 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 (LUGF) percentage for the three-year periods ending March 31, 2020 and June 30, 2020. The results of the calculations are provided in the tables below:

PECO LUGF Calculation 2018-2020 PGC (3-Year Average)

	Sendout (in Mcf)	Billed Sales (in Mcf)	LUGF
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%
12 months ending 3/31/20	84,510,551	84,400,524	0.1%
36 months ending 3/31/20	269,803,497	266,462,673	1.2%

PECO LUGF Calculation PGC 37				
	Sendout in MCF	Billed Sales in MCF	LUGF	Pre-Heater Fuel
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
12 months ending 6/30/2020	85,885,333	84,063,725	2.1%	97,494
36 months ending 6/30/2020	271,341,187	266,054,537	1.9%	305,573

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, ¶ 21. 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 LUGF 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 LUFG. The portion of the gas deemed to be LUFG for transported volumes is considered "retainage" and is expressed as a percentage.

The establishment of the proper retainage levels is necessary to ensure that transportation customers contribute an adequate, but not excessive, amount of gas to compensate for the corresponding system-wide LUFG. Proper retainage levels equalize the responsibilities of the rate classifications, protects all ratepayers by ensuring equitable contributions to account for LUFG, and guards PGC customers and transportation customers against unwarranted subsidies.

In accordance with Paragraph 21 of the 2019 Joint Petition, the retainage volume adjustment for transportation service customers is 1.8% for the 12 months beginning December 1, 2019 and ending November 30, 2020. *See*, Joint Petition, ¶ 19(a).

In this case, through the direct testimony of Mr. Mierzwa, the OCA pointed out that currently the sendout and delivered volumes of direct pipeline (DPL) customers are included in PECO's retainage rate. *See*, OCA St. 1, p. 5. As stated by OCA witness Mierzwa, including these customers in the retainage rate calculation is unreasonable because DPL customers are not assessed the retainage rate themselves and results in a rate that does not allow PECO to fully recover its losses. *Id.* at pp. 5-6. This shortfall would then be inappropriately recovered from PGC customers. *Id.* Accordingly, the Joint Petition provides that, on a going forward basis, the DPL customer sendout and volumes delivered will be removed from the retainage volume adjustment rate calculation. As a result, the retainage volume adjustment rate will be 2.2% for the 12 months beginning December 1, 2020 and ending November 30, 2021, as shown on the tariff pages attached to the Joint Petition as Appendix C. *See*, Joint Petition, ¶ 19(c).

I find that this calculation methodology is in the public interest and 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 2019 Joint Petition extended the off-system sharing mechanism at the 25% rate through November 30, 2022. In the present case, PECO agrees to extend further the off-system sharing mechanism at the 25% rate through November 30, 2023. *See*, Joint Petition, ¶ 22. 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. Interest Rate for Over- and Under-Collections

Seventh, 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, 2019 through November 30, 2020. *See*, Joint Petition, ¶ 23. 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. *Id.* 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 is reasonable and in the public interest.

I. LNG And Propane Winter Utilization Reporting

Eighth, 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. As agreed in Paragraph 25 of the 2019 Joint Petition, PECO reported on its investigation of the viability of the following five (5) 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: (i) 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, (ii) acquisition of additional peaking supply contracts, (iii) investment in PECO's on-system LNG assets; (iv) participation by the Company in the Vineland LNG Storage and Peak Shaving Facility, and (v) contracting by the Company for winter propane and LNG call options. *See*, Joint Petition, ¶ 23(a). The Settling Parties agree that PECO has no further reporting obligations with respect to this commitment. *See*, Joint Petition, ¶ 24(b).

J. 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. Consistent with its commitments under Paragraph 26 of the 2019 Joint Petition, effective December 1, 2019, PECO agreed to revise the capacity releases associated with the LVT program as follows:

- (a) The capacity releases associated with the LVT program were 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 was released on FT contract 910510 with an ELA to M3 path. The capacity required for the LVT program did not exceed the capacity available on contract 910510, as such, the Company did not need to release similar capacity on contract 800231, which has an ELA to M3 path, and

which capacity releases would have been priced at a weighted average demand cost.

See, Joint Petition, ¶ 25. I find the foregoing revisions will ensure that LVT and PGC customers pay the same weighted average demand cost and should be approved as in the public interest.

K. 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, especially during a global pandemic. 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) and 1318.

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)-(4) and 1318(b)(1)-(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, C, and D, filed with the Commission on August 17, 2020, 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—Gas Division and the Office of Consumer Advocate at Docket No. R-2020-3019661 be admitted into the record;

2. That the Joint Petition for Complete Settlement submitted by PECO Energy Company—Gas Division and the Office of Consumer Advocate at Docket No. R-2020-3019661 be adopted, including all terms and conditions;

3. That PECO Energy Company—Gas Division 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-2020-3019661 to be effective for services rendered on or after December 1, 2020, subject to quarterly adjustments as permitted by the Commission’s regulations;

4. That upon the filing of the tariff supplement by PECO Energy Company—Gas Division 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, 2020;

