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May 10, 2022

Via Electronic Filing

Rosemary Chiavetta, Secretary
PA Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Philadelphia Gas Works 2022-2023 1307(f) Gas Cost Rate Filing
Docket Nos. R-2022-3030686, C-2022-3030978, C-2022-3030971

Dear Judges Pell and Ashton:

On behalf of Philadelphia Gas Works ("PGW") enclosed please find the Joint Petition for Settlement along with PGW and the Office of Consumer Advocate's Statements in Support in the above-referenced matters. Copies to be served in accordance with the attached Certificate of Service.

Sincerely,

/s/ Lauren M. Burge
Lauren M. Burge

LMB/lww

Enclosure

cc: Hon. Christopher P. Pell w/enc.
Hon. Arlene Ashton w/enc.
Cert. of Service w/enc.

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of Philadelphia Gas Works' Joint Settlement Petition and Statements in Support, upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

Via Email Only

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Dated: May 10, 2022

/s/ Lauren M. Burge
Lauren M. Burge, Esq.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-2022-3030686
	:	
	:	
Office of Consumer Advocate	:	Docket No. C-2022-3030978
Office of Small Business Advocate	:	Docket No. C-2022-3030971
	:	
v.	:	
	:	
	:	
Philadelphia Gas Works	:	

**JOINT PETITION FOR SETTLEMENT OF
PHILADELPHIA GAS WORKS'
2022-2023 GCR PROCEEDING**

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Dated: May 10, 2022

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I. INTRODUCTION

Philadelphia Gas Works (“PGW” or the “Company”) and the Office of Consumer Advocate (“OCA”) (collectively “the Settling Parties”)¹ hereby submit this Joint Petition for Settlement of PGW’s 2022-2023 Gas Cost Rate (“GCR”) Proceeding (“Settlement”), as captioned above, and respectfully request the following:

1. That Administrative Law Judges (“ALJs”) Christopher P. Pell and Arlene Ashton recommend that the Commission approve this Settlement and all of its terms and conditions without modification;

2. That the ALJs recommend, and the Commission authorizes, PGW to file a tariff supplement to reflect rates and terms consistent with this Settlement and applicable to the Section 1307(f) purchased gas cost rate investigation at Docket No. R-2022-3030686, to be effective for services rendered on or after September 1, 2022, subject to quarterly adjustments permitted by Commission regulations, including a quarterly adjustment to be effective on September 1, 2022, to reflect actual experience and changes in forecasted natural gas prices utilizing the methodology prescribed by Section III.A. of this Settlement;

3. That based on the data and testimony submitted in this case, the ALJs recommend, and the Commission makes, the Findings of Facts and Conclusions of Law proposed at Sections IV and V below; and

4. That the Commission deem the complaints at Docket Nos. C-2022-3030978 and C-2022-3030971 satisfied, and mark the proceedings closed.

¹ While, the Commission’s Bureau of Investigation and Enforcement (“I&E”), the Office of Small Business Advocate (“OSBA”), and the Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”) do not join in this Settlement, each has authorized the Settling Parties to state their non-opposition to the Settlement.

II. BACKGROUND

5. On February 1, 2022, PGW filed its supporting information for the pre-filing for its 2022-2023 GCR Filing. PGW indicated that it would submit its annual GCR filing on or before March 1, 2022.

6. On February 17, 2022, OCA filed a Complaint, Public Statement and Notice of Appearance on behalf of Christy M. Appleby, Esq. and Aron J. Beatty, Esq.² The Complaint was docketed at C-2022-3030978.

7. Also on February 17, 2022, the Office of Small Business Advocate (“OSBA”) filed a Verification, Public Statement, and Notice of Appearance on behalf of Sharon E. Webb, Esq., and a formal Complaint.³ The Complaint was docketed at C-2022-3030971.

8. Also on February 17, 2022, Gina L. Miller, Esq., and Scott B. Granger, Esq., entered a Notice of Appearance on behalf of the Commission’s Bureau of Investigation and Enforcement (I&E) (Mr. Granger subsequently withdrew his appearance).

9. On February 24, 2022, the Philadelphia Industrial and Commercial Users Group (“PICGUG”) filed a Petition to Intervene in this proceeding.

10. On March 1, 2022, PGW filed its Section 1307(f) filing for 2022-2023, which included: proposed tariff revisions (Supplement No. 149 to PGW’s Gas Service Tariff – Pa P.U.C. No. 2 and Supplement No. 100 to PGW’s Gas Supplier Tariff – Pa P.U.C. No. 1); supporting information regarding the computation of annual purchased gas costs for the twelve months ending August 31, 2023; and the Direct Testimony of Florian Teme (“PGW St. 1”) and Ryan E. Reeves (“PGW St. 2”).

² Consistent with 52 Pa. Code § 5.61(d), PGW did not file an answer to OCA’s Complaint.

³ Consistent with 52 Pa. Code § 5.61(d), PGW did not file an answer to OSBA’s Complaint.

11. The gas cost rate filing was assigned to the Office of Administrative Law Judge for resolution by hearings and for issuance of a Recommended Decision. The matter was assigned to Deputy Chief Administrative Law Judge Christopher P. Pell and Administrative Law Judge Arlene Ashton.

12. On March 2, 2022, ALJs Pell and Ashton issued a Prehearing Conference Order setting a telephonic Prehearing Conference for March 10, 2022.

13. On March 7, 2022, PGW submitted a Revised Schedule 53.64(c)12.

14. On March 8, 2022, Gray's Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. ("Vicinity") filed a Petition to Intervene in this proceeding.

15. Pursuant to the Prehearing Conference Order, the Parties filed Prehearing Memorandums on March 8, 2022, and a telephonic Prehearing Conference was held on March 10, 2022. Counsel for PGW, I&E, OCA, OSBA, PICGUG and Vicinity participated. PICGUG's and Vicinity's Petitions to Intervene were granted, and a procedural schedule was established. These procedural matters were reflected in Prehearing Order #1, issued on March 15, 2022.

16. On March 10, 2022, PGW submitted a revised Page 82 of Tariff Supplement No. 149 to Gas – Pa P.U.C. No. 2 to correct an error in the supplement number on that page.

17. On March 14, 2022, PGW filed a Motion for Protective Order ("Motion") pursuant to 52 Pa. Code §§ 5.362(a) and 5.365 in the above captioned proceeding. On March 17, 2022, the Motion was granted by the ALJs.

18. On April 1, 2022, OCA filed the Direct Testimony of Jerome D. Mierzwa ("OCA St. 1").

19. On April 13, 2022, PGW filed the Rebuttal Testimony of Ryan E. Reeves ("PGW St. 2-R"), as well as a revised Exhibit FT-2.

20. On April 18, 2022, OCA filed the Surrebuttal Testimony of Jerome D. Mierzwa (“OCA St. 1-SR”).

21. On April 20, 2022, PGW filed the Rejoinder Testimony of Ryan E. Reeves (“PGW St. 2-RJ”).

22. Also on April 20, 2022, counsel for PGW sent ALJs Pell and Ashton an e-mail, reporting that all Parties had agreed to waive cross-examination on all witnesses and to stipulate the filed testimony into the record. Counsel also requested that the initial hearing day – April 21, 2022 – be cancelled. The ALJs granted that request.

23. On April 22, 2022, an evidentiary hearing was held at which the previously filed testimony of PGW and OCA was admitted into the record. The ALJs also directed the parties to file this Joint Petition for Settlement no later than May 11, 2022.

24. On April 27, 2022, counsel for PGW reported that the Parties had reached a settlement on all issues.

25. This Settlement addresses all issues pertaining to PGW’s 2022-2023 annual GCR Filing.

III. SETTLEMENT

The undersigned Settling Parties agree to accept the underlying data and calculations submitted by PGW in its February 1, 2022 Pre-filing and its March 1, 2022 Annual Filing subject to the terms and conditions set forth below:

A. PGW Calculation of Off System Sales Cost of Gas

1. For the 2022-23 period and going forward (and unless Section b applies):

- (a) PGW will calculate the cost of gas used for an off-system sale (“OSS”) as the Weighted Average Cost of Flowing Gas (WACOFG) on the day on which the OSS is made.

- (b) Notwithstanding (a), above, if PGW: (1) purchases natural gas specifically for resale as an OSS; or (2) identifies a specific purchase of natural gas that PGW then determines (prior to the sale) should be sold via an OSS for price mitigation purposes, it will utilize that specific cost of that gas (including any associated incremental transmission costs) as the cost of gas to calculate the off system sales margin.
- (c) PGW's calculation of net margin for the Historic Period (FY 2021-22) shall not be revised.

B. PGW LNG

- 1. For the next three years, PGW will provide a report to the Parties thirty (30) days after the end of each Winter Heating Season detailing the amount of LNG sales (if any) made and the amount of profit realized. The report will include the cost of gas and other inputs into the profit calculation.
- 2. In its next base rate case, PGW will provide affirmative testimony indicating whether and where it has included a projection of LNG sales and/or profits, their levels and calculation in its revenue requirement calculation.
- 3. The parties reserve the right to raise LNG sales issues in future PGC proceedings.

C. PGW Hedging

1. Within thirty (30) days after the entry of a PUC Order approving this Settlement, PGW shall submit to the Parties a Report on PGW's Gas Purchasing Strategy for the 2022-2023 Heating Season, which report will discuss PGW's consideration and utilization of hedging. For the 2023-24 Heating Season, PGW shall prepare a Hedging Plan which shall include a review of its timing and layering of purchases as part of a hedging plan that could benefit customers by distributing cost changes over multiple quarters.
 - (a) PGW shall consider comments or suggestions for modification or refinement of the Hedging Plan and any Party may raise concerns or proposals for modification in PGW's GCR proceeding.

D. Planalytics Energy Buyer Services

1. PGW shall continue to be authorized to recover in the GCR the annual fee for subscribing to the Planalytics Gas Buying Analysis Service except that PGW shall be authorized to substitute a comparable service, at the same or lower cost, for Planalytics if, in its discretion, another service better meets its need for natural gas purchasing analysis and advice. PGW will report on any such change in its next GCR proceeding.

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

1. The parties agree that PGW is requesting in this Settlement that the Commission permit PGW to continue to proceed as follows in its 2023-2024 GCR proceedings and subsequent recurring proceedings, unless

contested by any party, in which case PGW, at its discretion may litigate the issue:

- (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).

2. 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 2023-2024 GCR proceeding and in subsequent GCR proceedings, unless and until the Commission enters an Order rescinding such authority.

IV. PROPOSED FINDINGS OF FACT

As a consequence of the Settlement terms and conditions set forth in Section III above, the Settling Parties request that the ALJ and the Commission make the following findings of fact and such other findings and conclusions as may be required as appropriate:

27. 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 8). The pricing methodology utilized by PGW relies on actual prices for January 2022 and the NYMEX Futures close data (as of January 15, 2022) for the 19 forecast months of February 2022 through August 2023. (PGW St. 1 at 10).

28. PGW's gas distribution system is located in Southeastern Pennsylvania in the County and City of Philadelphia. Since this is not a gas producing area, PGW and its natural 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).

29. PGW relies on interstate pipelines for all natural gas supply, storage and transportation services, except for PGW's own on-system peak shaving facilities. PGW owns and operates two liquefied natural gas ("LNG") facilities that are used both to meet intraday, daily and seasonal supply needs as well as to meet peak day requirements. (PGW St. 2 at 2). PGW also uses off-system natural gas storage services to meet winter peak requirements. (PGW St. 2 at 2).

30. 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). In FY 2022, 100% of baseload and swing supply purchases on the TETCO pipeline were from Market Zone M-2. (PGW St. 2 at 10).

31. PGW is not affiliated with any pipeline or gas supply entity, nor does it have any contracts for local production. (PGW St. 2 at 5).

32. PGW pursues a least cost procurement policy consistent with its obligation to provide safe, adequate and reliable service to its customers, using a portfolio approach in both contract structure and pricing. The portfolio approach allows PGW to remove some of the volatility in purchasing natural gas supplies for its ratepayers. PGW does this by utilizing a mix of: (1) daily index priced swing contracts, (2) physical forward purchase contracts, (3) storage, and (4) LNG, as appropriate given market conditions, and to the extent PGW is not constrained by its financial condition. (PGW St. 2 at 2-5).

33. PGW utilizes Planalytics, as well as other services, to provide price analysis and buying advisory service as part of its efforts to obtain gas at least cost. (PGW St. 2 at 9-10).

34. 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).

35. PGW also uses capacity release and off-system sales when available. The prices for the off-system sales are negotiated and 75% of associated credits and margins are returned to customers through the GCR. (PGW St. 2 at 7-8). The ratepayers and the utility receive benefits from this policy because it creates an incentive to maximize efforts to make off-system sales and

capacity release transactions, hereby reducing the overall cost of gas supply and the resulting gas cost rate. (PGW St. 2 at 8).

36. The details of PGW's actual gas purchases for the 12 months ending December 31, 2021 are presented in the schedules attached to Tab 3, Item 53.64(c)(1) of PGW's March 1, 2022 Annual Filing. The details of PGW's forecast for the period of January 1, 2022 through August 31, 2023 are also presented in PGW's March 1, 2022 Annual Filing.

37. 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 February 1, 2022 Pre-filing).

38. 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 11-12).

39. 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 ("USC"), the Other Post Employment Benefit Rider Surcharges. (PGW St. 1 at 5-6).

40. PGW's USC provides for the recovery of PGW's Customer Responsibility Program ("CRP") discounts; Senior Citizen Discounts; the costs of the Enhanced Low Income Retrofit Program ("ELIRP"); CRP arrearage forgiveness; and the Conservation Incentive Credit. (PGW St. 1 at 7).

V. PROPOSED CONCLUSIONS OF LAW

A. Historical Reconciliation Period Standards

41. With respect to PGW's gas purchases and gas purchasing practices during the twelve-month historical reconciliation period ended December 31, 2021,⁴ it is requested that ALJs Pell and Ashton and the Commission find that 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. It is requested that the Commission find that, during the twelve months ended December 31, 2021, PGW met the requirements of Section 1318(a) 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.

B. Interim and Projected Period Findings

42. With respect to the eight-month interim period beginning on January 1, 2022, and with respect to the projected twelve-month period beginning September 1, 2022, when rates contained in this Settlement will be in effect, it is requested that the Commission find, based upon information presently available and based upon evidence of record in this proceeding concerning PGW's projected purchases and purchasing policies, that the rates to be adopted by the Commission result from PGW's compliance with all of the provisions of Section 1318 of the Public Utility Code.

43. 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.B.43., is made solely for the purpose of setting prospective rates that

⁴ The reconciliation period for PGW in this proceeding is the twelve-month period ended December 31, 2020, in accordance with the Commission's regulations at 52 Pa. Code § 53.64(i)(1).

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. This Section V.B.43. of the Settlement is not intended in any way to limit or prevent I&E, OSBA 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, 2022 through August 31, 2023 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, 2022, and the twelve-month application period commencing September 1, 2022, and ending on August 31, 2023.

VI. CONDITIONS OF SETTLEMENT

44. This Settlement will go into effect upon the Commission's entry of a final order approving the Settlement, in full and without modification. If the Commission rejects the Settlement, the Agreement will automatically terminate and be null and void with the exception of paragraph VI.45. below, which will continue in full force and effect. The Settlement also shall automatically become null and void (except for paragraph VI.45. 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:

- (a) shall be deemed to resolve with prejudice all issues addressed by this Settlement;
- and

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

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

46. This 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.

47. Statements in Support of this Settlement are attached hereto as Appendices C-D.

48. The Settling Parties agree to waive exceptions to the ALJs' Recommended Decision if the ALJs recommend that the Joint Petition for Settlement of Philadelphia Gas Works' 2022-2023 GCR Proceeding be approved without change or modification.⁵

⁵ See Appendix C – Sample Ordering Paragraphs for the Recommended Decision.

VII. CONCLUSION

WHEREFORE, the Settling Parties, by their respective counsel, respectfully request as follows:

1. That Administrative Law Judges Christopher P. Pell and Arlene Ashton and the Commission approve this Settlement including all terms and conditions thereof; and
2. That the Commission enter an order consistent with this Settlement, resolving and terminating the 2022-2023 GCR proceeding.

Respectfully submitted,



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Attorneys for
Office of Consumer Advocate

Dated: May 10, 2022

VII. CONCLUSION

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1. That Administrative Law Judges Christopher P. Pell and Arlene Ashton and the Commission approve this Settlement including all terms and conditions thereof; and
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Attorneys for
Office of Consumer Advocate

Dated: May 11, 2022

Appendix A

APPENDIX A

<u>Gas Cost Rate</u>	<u>9/1/2022</u>
Rate per Mcf	\$5.6048
<u>Universal Services Surcharge</u>	<u>9/1/2022</u>
Rate per Mcf	\$1.5869
<u>Other Post Employment Benefit Surcharge</u>	<u>9/1/2022</u>
Rate per Mcf	\$0.3333
<u>Load Balancing Charge</u>	<u>9/1/2022</u>
Rate per Mcf	\$59.7588

Appendix B

APPENDIX B

Sample Ordering Paragraphs for Recommended Decision

- 1) The Joint Petition for Settlement of Philadelphia Gas Works' 2022-2023 GCR Proceeding submitted by the Philadelphia Gas Works and the Office of Consumer Advocate is approved.
- 2) Philadelphia Gas Works is 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, 2022, 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, 2022, to reflect actual experience and changes in forecasted natural gas prices.
- 3) 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.
- 4) Philadelphia Gas Works is permitted to continue to be authorized to recover in the GCR the annual fee for subscribing to the Planalytics Gas Buying Analysis Service except that PGW shall be authorized to substitute a comparable service, at the same or lower cost, for Planalytics if, in its discretion, another service better meets its need for natural gas purchasing analysis and advice. PGW will report on any such change in its next GCR proceeding.
- 5) Philadelphia Gas Works is permitted to proceed as follows in its 2023-2024 GCR and subsequent recurring proceedings, unless contested by any party in which case PGW, at its discretion may litigate the issue.
 - (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).
- 6) The Commission terminates its investigation at Docket No. R-2022-3030686, deems the complaints at Docket Nos. C-2022-3030978 and C-2022-3030971 satisfied, and marks the proceedings closed.

Appendix C

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:		
	:	Docket No.	R-2022-3030686
	:		
	:		
Office of Consumer Advocate	:	Docket No.	C-2022-3030978
Office of Small Business Advocate	:	Docket No.	C-2021-3030971
	:		
	:		
v.	:		
	:		
Philadelphia Gas Works	:		

**STATEMENT IN SUPPORT OF JOINT PETITION FOR SETTLEMENT
OF PHILADELPHIA GAS WORKS’ 2022-2023 GCR PROCEEDING**

Philadelphia Gas Works (“PGW” or the “Company”) offers this Statement In Support of the Joint Petition for Settlement (“Settlement”) of its 2022-2023 Gas Cost Rate (“GCR”) Proceeding. The Settlement is offered as a full resolution of all issues in the above-captioned proceeding. PGW respectfully requests that Administrative Law Judges Christopher P. Pell and Arlene Ashton (“ALJs”) and the Commission: (1) approve the Settlement without modification as in the public interest; and (2) make the findings as required by Sections 1317 and 1318 of the Public Utility Code.

I. BACKGROUND

On February 1, 2022, PGW filed its supporting information for the pre-filing for its annual 2022-2023 Gas Cost Rate (“GCR”).¹ On March 1, 2022, PGW filed its Section 1307(f) filing which included: proposed tariff revisions (Supplement No. 149 to PGW’s Gas Service Tariff – Pa P.U.C. No. 2 and Supplement No. 100 to PGW’s Gas Supplier Tariff – Pa P.U.C. No.

¹ A detailed procedural history of this matter is set out in Section II of the Settlement. For the sake of brevity, PGW is summarizing the procedural history herein.

1); supporting information regarding the computation of annual purchased gas costs for the twelve months ending August 31, 2023; and the Direct Testimony of Florian Teme (“PGW St. 1”) and Ryan E. Reeves (“PGW St. 2”).

On April 1, 2022, the Office of Consumer Advocate (“OCA”) filed the Direct Testimony of Jerome D. Mierzwa (“OCA St. 1”).

On April 13, 2022, PGW filed the Rebuttal Testimony of Ryan E. Reeves (“PGW St. 2-R”), as well as a revised Exhibit FT-2.

On April 18, 2022, OCA filed the Surrebuttal Testimony of Jerome D. Mierzwa (“OCA St. 1-SR”).

On April 20, 2022, PGW filed the Rejoinder Testimony of Ryan E. Reeves (“PGW St. 2-RJ”).

Also on April 20, 2022, counsel for PGW sent ALJs Pell and Ashton an e-mail, reporting that all Parties had agreed to waive cross-examination on all witnesses and to stipulate the filed testimony into the record. Counsel also requested that the initial hearing day on April 21, 2022 be cancelled. The ALJs granted that request.

On April 22, 2022, an evidentiary hearing was held at which the previously filed testimony of PGW and OCA was admitted to the record. On April 27, 2022, counsel for PGW reported that the Parties had reached a settlement on all issues. The ALJs directed the Parties to file the Joint Petition for Settlement and statements in support no later than May 11, 2022.

PGW submits this Statement in Support of the Settlement in this proceeding. All the facts necessary to approve the settlement are included in the record of the proceeding through the filing and supporting data, the testimony, and the attachments to the Settlement.

II. THE SETTLEMENT SATISFIES PGW’S LEGAL OBLIGATIONS

Approval of this Settlement will result in PGW pursuing a least cost fuel procurement policy consistent with the Company’s obligation to provide safe, adequate, and reliable service. PGW accomplishes this by: (1) using a portfolio approach in contract structure and pricing; and (2) using capacity release credits, off-system sales margins (when available) and asset management margin/credit/fees/ as an additional cost-saving strategy. Seventy-five percent (75%) of the margin/credit/fees are used as a reduction to purchased gas costs. The Settlement addresses issues that were identified by OCA in this proceeding (the only entity that submitted testimony) and proposes a reasonable settlement of each.

Off-System Sales Cost Calculation

First, PGW has agreed to a method for calculating the cost of gas for off-system sales in order to resolve OCA’s concerns.² For the 2022-2023 period and going forward, PGW will calculate the cost of gas used for an off-system sale using the Weighted Average Cost of Flowing Gas (“WACOFG”) on the day the off-system sale is made.³ This method will apply except when PGW purchases gas specifically for resale as an off-system sale, or identifies a specific natural gas purchase that it then determines (prior to the sale) should be sold via an off-system sale for price mitigation purposes. In these instances, the Company will use the specific cost of that gas (including any associated incremental transmission costs) as the cost of gas used to calculate the off-system sales margin.⁴ This change only applies on a going forward basis, and PGW’s calculation of net margin for FY 2021-2022 will not be revised.⁵ These terms provide a

² Joint Petition at ¶ III.A.

³ Joint Petition at ¶ III.A.1.a.

⁴ Joint Petition at ¶ III.A.1.b.

⁵ Joint Petition at ¶ III.A.1.c.

reasonable resolution of concerns raised by OCA witness Mierzwa regarding the Company's method for calculating the cost of gas associated with off-system sales.

This Settlement term was a compromise of the PGW and OCA positions on this issue. Since 2020, PGW has calculated the cost of gas used to determine the off-system sales margin as PGW's weighted average cost of gas ("WAGOG"). In PGW's opinion, the WACOG better reflects the overall cost of gas and smooths out any highs or lows. OCA witness Mierzwa suggested that the cost of an off-system sale would be better represented by the highest priced gas purchased on the day on which an off-system sale is made. The compromise settlement term would essentially merge the two positions, using gas prices on the day on which a sale is made, on the theory that those gas prices have a greater effect on whether a sale is made, but also recognizing that the highest priced purchase on a particular day is not necessarily relevant to a gas purchase on that day. Further, the highest priced gas purchased on a particular day will not be known until the day is completed. Therefore, when PGW is making an off-system sale from its overall supply, the highest daily price is unlikely to be relevant to the off-system sale (except by chance). PGW was also willing to create a special rule for two distinct situations: (1) when PGW purchases gas specifically for resale as an off-system sale; or (2) identifies a specific natural gas purchase that it then determines (prior to the sale) should be sold via an off-system sale for price mitigation purposes. In these two instances, the price of gas for a specific sale is more relevant than an average price for the day.

LNG Sales

The Settlement also addresses issues raised by OCA regarding PGW's LNG sales. For the next three years, PGW has agreed to provide a report to the Parties within 30 days after the end of each winter heating season detailing the amount of any LNG sales (if any) and the amount

of profit realized. These reports will provide the Parties with information about the sales themselves as well as the cost of gas and how PGW calculated the amount of profits from any LNG sales.⁶ Additionally, in its next base rate case, PGW has agreed to submit testimony on whether and where it has included a projection of LNG sales and/or profits, their levels and calculations, as part of its revenue requirement calculation.⁷ These terms will provide additional information to the parties for their review of any LNG sales by PGW in the future and provide a reasonable resolution of OCA's concerns in this proceeding. OCA was concerned that PGW was engaging in LNG sales without crediting GCR customers for the use of any GCR assets used for such sales. PGW, on the other hand, pointed out that LNG costs are recovered in base rates and not in the GCR, that the LNG sales in which it is currently engaged are pursuant to its Rate LNG-N in its Tariff and that the sales do not cause PGW to incur any incremental GCR costs. PGW also pointed out that it credits base rates for 100% of any LNG sale profits. For that reason, it was a reasonable compromise to not make any adjustment to credit the GCR for LNG sales and to permit the parties to monitor these sales and profits on a going forward basis.

PGW Hedging

Regarding PGW's hedging practices, the Company has agreed to provide a report to the Parties on PGW's gas purchasing strategy for the 2022-2023 heating season, including the consideration and utilization of hedging. PGW will submit this report within 30 days after entry of a final PUC Order approving the settlement.⁸ Subsequently, for the 2023-2024 heating season, PGW will prepare a Hedging Plan including a review of the timing and layering of

⁶ Joint Petition at ¶ III.B.1.

⁷ Joint Petition at ¶ III.B.2.

⁸ Joint Petition at ¶ III.C.1.

purchases that could benefit customers by distributing cost changes over multiple quarters.⁹

PGW also agreed to consider comments or suggestions on this plan from the Parties, and the Parties may address the plan in the Company's next GCR proceeding.¹⁰

This settlement provision addresses OCA's concerns regarding hedging by PGW and furthers the Company's least cost gas procurement. The OCA was concerned that in the face of projected increased volatility of natural gas prices (after years in which gas prices stayed constant or went down) PGW had not developed a plan to attempt reduce volatility. PGW, for its part, pointed out that utilizing forward purchases, or physical hedging, had always been a part of its gas supply "tool box" and it had carefully considered again utilizing physical hedging now that it appeared that gas price volatility was reemerging. So that the Parties could confirm that hedging was being considered by PGW, the Company agreed to provide a report on its purchasing strategy for this coming heating season (it was too late to adequately study and create a formal policy for this coming heating season); PGW agreed to prepare a formal plan for next heating season. Prior to finalizing the report, PGW will share a draft with the Parties and consider any comments.

Other Gas Supply Terms

In addition to these specific areas, the Settlement contains other important terms which are consistent with Commission-approved settlements from PGW's prior GCR proceedings. The Settlement permits PGW to continue to recover in the GCR the annual fee for subscribing to the Planalytics Gas Buying Analysis Service. The Settlement also allows PGW to substitute a comparable service at the same or lower cost if another service better meets the Company's need

⁹ *Id.*

¹⁰ Joint Petition at ¶ III.C.1.a.

for gas purchasing analysis and advice, and to report on any such change in the next GCR proceeding.¹¹

Modified Customer Notice and Data Requirements for Future GCRs

Further, the Settlement permits PGW to utilize the same customer notice procedures and type of data for next year's GCR as it utilized here, and to which no party objected. These modified procedures, which are consistent with longstanding practice,¹² are made necessary because of PGW's need to utilize its fiscal year (September 1 through August 31) as its GCR period. Since this term regarding notice procedures has been consistently approved in PGW's GCR settlements over a number of years, the Settlement allows the Company to continue using these customer notice procedures and type of data in its 2023-2024 GCR proceeding and in subsequent GCR proceedings going forward, unless and until the Commission enters an Order directing otherwise.¹³ The continued approval of these settlement terms enables PGW to continue to provide the most timely information and to minimize costs for its ratepayers.

III. FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Petition for Settlement sets forth a series of proposed findings of fact, conclusions of law and ordering paragraphs. These are required by Section 1318 of the Public Utility Code which states that “[n]o rates for a natural gas distribution utility shall be deemed just and reasonable unless the commission finds that the utility is pursuing a least cost fuel procurement policy, consistent with the utility's obligation to provide safe, adequate and reliable service to its customers,” and that the Commission is required to make “specific findings” in that required,

¹¹ Joint Petition at ¶ III.D.1.

¹² Joint Petition at ¶ III.E.1.

¹³ Joint Petition at ¶ III.E.2.

including findings in four specific areas.¹⁴ The findings, conclusions and ordering paragraphs offered in the Settlement are the standard terms used in PGW's annual GCR proceedings, supported by the record and satisfy the requirements of Section 1318 specifically and the Public Utility Code in general. They should be accepted by the ALJs and the Commission.

IV. APPROVAL OF THE SETTLEMENT IS IN THE PUBLIC INTEREST

Approving PGW's 1307(f) filing with the changes as set forth in the Settlement is consistent with the Commission's goal of ensuring the least cost procurement policy and will result in rates and surcharges that are just, reasonable, and compliance with the Public Utility Code. In addition, the Settlement reduces the administrative burden and costs to resolve the issues. For all these reasons, the Settlement is in the public interest and should be adopted.

¹⁴ 66 Pa. C.S. §1318(a).

V. CONCLUSION

PGW respectfully requests that ALJs Pell and Ashton and the Commission approve this Settlement without modification, because it supports PGW's least cost procurement policy, satisfies the Commission's requirements at Sections 1317 and 1318 of the Public Utility Code, and is in the public interest.

Respectfully submitted,



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Dated: May 10, 2022

Appendix D

On February 17, 2022, the OCA filed a Formal Complaint, Public Statement, and Notice of Appearance. Also on February 17, 2022, the Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance, and the Office of Small Business Advocate (OSBA) filed a Formal Complaint, Public Statement, and Notice of Appearance. On February 24, 2022, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG) filed its Petition to Intervene. Gray's Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. (Vicinity) filed its Petition to Intervene on March 8, 2022.

On April 1, 2022, the OCA submitted the Direct Testimony of Jerome D. Mierzwa. PGW submitted Rebuttal Testimony on April 13, 2022. On April 18, 2022, the OCA submitted Surrebuttal Testimony. On April 20, 2022, PGW submitted written Rejoinder Testimony.

In accordance with the Commission's Rules and Regulations at 52 Pa. Code § 5.321, the parties undertook discussions in an attempt to reach settlement. Cross-examination was waived by all parties, and the April 21, 2022 hearing was canceled. A hearing was held on April 22, 2022, for the purposes of submission of testimony into the evidentiary record. On April 27, 2022, the parties informed the ALJs that a settlement had been reached on all issues.

The OCA submits that the terms and conditions of the Settlement are in the public interest and should be approved. The OCA addresses the key provisions of the Settlement as set forth below.

II. SETTLEMENT

A. GCR Rates

The OCA supports the GCR rates set forth in Appendix A. Settlement at Appendix A. The OCA submits that the GCR rates in Appendix A accurately represent the implementation of the terms of the Settlement.

B. Calculation of Off-System Sales Cost of Gas

In Direct Testimony, OCA witness Mierzwa identified a concern that PGW calculated the net margins associated with its off-system sales by subtracting the cost of gas associated with each sale from the revenues generated by each sale. OCA St. 1 at 6. Specifically, PGW calculated the cost of gas based on the weighted average commodity cost of gas for the month during which each transaction occurred by the quantity of gas sold off-system. OCA St. 1 at 6. OCA witness Mierzwa testified that the off-system sales margins should be calculated based on the incremental cost of gas purchased by PGW on the day each off-system sale occurred. OCA St. 1 at 7. Mr. Mierzwa's approach is the approach currently followed by each NGDC in Pennsylvania that is subject to Section 1307(f). OCA St. 1 at 7.

The Settlement provides that from the 2022-2023 period going forward, PGW will generally calculate the cost of gas used for an off-system sale (OSS) as the weighted average cost of flowing gas on the day on which the off-system sale is made. Settlement at ¶ A.1(a). If the Company purchases natural gas specifically for resale as an off-system sale or identified that a specific purchase of natural gas that "PGW then determines (prior to the sale) should be sold via an OSS for price mitigation purposes," the Company will utilize the specific cost of that gas, including any associated incremental transmission costs, as the cost of the gas in order to calculate the off-system sales margins. Settlement at ¶ A.1(b). The calculations of the net margins for PGW's historic period (FY21-22) will not be changed. Settlement at ¶ A.1(c).

The Settlement provisions represent a reasonable resolution of the issue. As OCA witness Mierzwa recommended, the Settlement will utilize the weighted average cost of flowing gas for off-system sales on the day in which the sale is made. The approach will be consistent with the

approach used for other Pennsylvania utilities, and more accurately reflect the value of such transactions. The Settlement provisions should be approved as in the public interest.

C. PGW Liquefied Natural Gas (LNG)

In Direct Testimony, OCA witness Mierzwa identified concerns that GCR customers received no benefit from LNG off-system sales that were withdrawn from the Company on-system LNG facilities. OCA St. 1 at 8-9. In the LNG off-system sales, PGW had retained 100% of the margins of the sale. OCA St. 1 at 9. Mr. Mierzwa recommended that a portion of the margins be allocated to GCR customers because the LNG that PGW liquefied and injected into its LNG facilities was delivered to PGW under firm interstate pipeline transportation arrangements paid for by GCR customers. OCA St. 1 at 9. In Rebuttal Testimony, PGW witness Reeves testified that eventually all of the costs associated with maintaining and operating PGW's two LNG facilities are recovered through base rates and not the GCR. PGW St. 2-R at 5-9; OCA St. 1SR at 5. Mr. Reeves testified that PGW does not agree that it would be appropriate to credit any of the margins from off-system LNG sales to GCR customers. PGW St. 2-R at 5-9; OCA St. 1SR at 5.

The Settlement provides that for the next three years, PGW will provide a report to the parties 30 days after the end of each winter heating season that will detail the amount of LNG sales made and the amount of profits realized. Settlement at ¶ B.1. The report will also include the cost of gas and other inputs into the profit calculation. Settlement at ¶ B.1. In the next base rate proceeding, the Company will provide affirmative testimony that will indicate whether and where it has included a projection of LNG sales and/or profits, their levels and calculation in its revenue requirement calculation. Settlement at ¶ B.2. All parties reserve the right to address the LNG sales issues in future proceedings. Settlement at ¶ B.3.

The Settlement will allow the parties to track the volume of similar LNG sales transactions to determine the scope of the issue. As the Company has argued that the costs are embedded in base rates, the affirmative testimony will allow the parties to assess the level of costs included in the Company's revenue calculation and to determine whether an alternative should be considered in a future proceeding. The Settlement provisions provide a reasonable resolution of the issue and should be approved as in the public interest.

D. PGW Hedging and Planalytics Energy Buyer Services (Settlement at ¶¶ C.1-D.1)

In his Direct Testimony, OCA witness Mierzwa identified a concern that PGW had historically only hedged a small portion of its natural gas portfolio. OCA St. 1 at 11. Mr. Mierzwa was concerned about the small percentage of hedging for the natural gas portfolio because the recent increase in natural gas commodity prices has been accompanied by an increase in the volatility of those prices. OCA St. 1 at 12-13. OCA witness Mierzwa also noted that PGW has generally not relied upon the buying suggestions of its Planalytics subscription. OCA St. 1 at 14. Mr. Mierzwa recommended that PGW implement a more formal and structured Hedging Plan in order to help the Company to address future potential volatility in an increasing market. OCA St. 1 at 14. OCA witness Mierzwa recommended that the Company establish monthly purchase percentage targets and review the timing and layering of purchases as a part of a comprehensive Hedging Plan. OCA St. 1 at 14.

The Settlement provides that within 30 days of a Commission Order on the Settlement, PGW will submit to the parties a report on PGW's Gas Purchasing Strategy for the 2022-2023 heating season. Settlement at ¶ C.1. The report will include a discussion of PGW's consideration and utilization of hedging. Settlement at ¶ C.1. For the 2023-2024 heating season, PGW will prepare a Hedging Plan that will include a "review of its timing and layering of purchases as part

of a hedging plan that could benefit customers by distributing cost changes over multiple quarters.” Settlement at ¶ C.1. As a part of the Settlement, PGW agrees to consider comments or suggestions for modification or refinement of the Hedging Plan. Settlement at ¶ C.1(a). Any party may raise concerns or proposals for modification to the Hedging Plan in PGW’s gas cost rate proceeding. Settlement at ¶ C.1(a).

In addition, the Settlement provides that the Company may continue to recover the costs of subscribing to Planalytics Gas Buying Analysis Services through the GCR. PGW is authorized under the Settlement to substitute the Planalytics services for a comparable service at the same or lower cost if another service better meets the Company’s needs for natural gas purchasing analysis and advice. Settlement at ¶ D. This provision of the Settlement will allow PGW the flexibility to utilize the gas buying software, at the same or lower cost, that will best allow PGW to implement its Hedging Plan.

The Settlement addresses the concerns raised by OCA witness Mierzwa in this case. The comprehensive Hedging Plan will allow for the layering of purchases to provide greater price stability in the future by distributing cost changes over multiple quarters. Parties will have the opportunity to review and comment on the proposed Hedging Plan in the next GCR proceeding. The Settlement provisions should be approved as in the public interest.

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

As part of the Settlement, PGW requests that the Commission allow the Company to follow the same notice procedures in its 2023-2024 gas cost rate proceeding and subsequent proceedings, unless contested by a party, as it has in its recent GCR proceedings, as follows:

- (1) provide written notice to customers by bill insert in the one-month billing cycle commencing on the date of the annual 1307(f) filing, on March 1, of a tariff addendum and tariff or tariff supplement reflecting changes in purchased gas costs

and ending no later than thirty (30) days after the filing of such tariff addendum and tariff or tariff supplement, instead of beginning such notice with the one-month billing cycle commencing thirty (30) days prior to the filing of the tariff addendum and tariff or tariff supplement as required by 52 Pa. Code § 53.68(a);

(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).

Settlement at ¶ E.1. The Settlement also provides that if any party contests the notice provisions in subsequent proceedings, PGW may, at its discretion, elect to litigate the issue. Settlement at ¶ E.1.

The OCA submits that similar provisions have been approved in many of the Company's prior 1307(f) filings. Given the lengthy history of the Commission's approvals of similar provisions, the proposal in this case is to continue the historic process going-forward unless contested by a party. The OCA supports, as in the public interest, continuation of this process in this proceeding and on a going-forward basis unless contested by a party.

III. CONCLUSION

The Office of Consumer Advocate submits that the terms of the Settlement are in the public interest and in the interest of PGW's ratepayers. Based on the above reasons, the Office of Consumer Advocate submits that the proposed Settlement should be approved.

Respectfully Submitted,

/s/ Christy M. Appleby

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DATE: May 10, 2022