

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2022-3030686
Office of Consumer Advocate	:	C-2022-3030978
Office of Small Business Advocate	:	C-2022-3030971
	:	
v.	:	
	:	
Philadelphia Gas Works	:	

RECOMMENDED DECISION

Before
Christopher P. Pell
Deputy Chief Administrative Law Judge

and

Arlene Ashton
Administrative Law Judge

INTRODUCTION

This Decision recommends that the “Joint Petition for Settlement of Philadelphia Gas Works’ 2022-2023 GCR Proceeding” filed on May 10, 2022, by Philadelphia Gas Works and the Office of Consumer Advocate be approved by the Commission. Therefore, we recommend that the Joint Petition for Settlement of Philadelphia Gas Works’ 2022-2023 Proceeding be approved in its entirety and without modification, that PGW be authorized to file a tariff supplement to reflect rates and terms consistent with the settlement terms 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 as permitted by Commission regulations. The Joint Petition is unopposed by any other party, supported by substantial evidence and in the public interest.

HISTORY OF THE PROCEEDING

On February 1, 2022, Philadelphia Gas Works (PGW or Company) filed its pre-filing information required for its 2022-2023 Gas Cost Rate (GCR) Filing with the Pennsylvania Public Utility Commission (Commission).

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

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

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 on March 25, 2022.

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

On March 1, 2022, PGW filed its 2022-2023 GCR 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); 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 Statement No. 1") and Ryan E. Reeves ("PGW Statement No. 2"). The Company proposed reducing the GCR effective September 1, 2022, from \$0.56123 per Ccf to \$0.56048 per Ccf.¹

¹ Supplement No. 149 to PGW's Gas Service Tariff – Pa P.U.C. No. 2 at 2.

The GCR 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.

On March 2, 2022, we issued a Prehearing Conference Order, setting a Prehearing Conference for March 10, 2022, and directing the parties to comply with various procedural requirements in connection with the scheduled prehearing conference.

In accordance with the Prehearing Conference Order, PGW, I&E, OCA, OSBA, and PICGUG submitted prehearing memoranda to the presiding officers on March 8, 2022.

Also on March 8, 2022, Gray's Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. (collectively Vicinity) filed a Petition to Intervene in this proceeding, as well as a Prehearing Memorandum.

We held a prehearing conference in this matter on March 10, 2022. Counsel for PGW, I&E, OCA, OSBA, PICGUG and Vicinity participated.

No party opposed the Petitions to Intervene filed by PICGUG and Vicinity. Accordingly, we granted their Petitions to Intervene during the Prehearing Conference and memorialized their status in our March 15, 2022, Prehearing Order #1. Therefore, the active parties to this proceeding are: PGW, OCA, OSBA, I&E, PICGUG and Vicinity.

In our March 15, 2022, Prehearing Order #1, we also established the procedural schedule and the procedures applicable to this proceeding.

On March 14, 2022, PGW filed a Motion for Protective Order pursuant to the provisions of 52 Pa. Code §5.365(a). By Prehearing Order #2 dated March 17, 2022, we granted PGW's Motion for Protective Order.

By Initial Telephonic Hearing Notice dated March 24, 2022, call-in telephonic evidentiary hearings were scheduled for April 21-22, 2022.

The Parties engaged in formal and informal discovery.

On April 1, 2022, OCA served the Direct Testimony of Jerome D. Mierzwa, OCA Statement No. 1. Also on April 1, 2022, I&E and Vicinity each submitted correspondence indicating that they would not be serving direct testimony. Neither PICGUG nor OSBA served direct testimony.

On April 13, 2022, PGW served the Rebuttal Testimony of Ryan E. Reeves, Statement No. 2-R and Revised Exhibit FT-2. OCA, OSBA, I&E, PICGUG and Vicinity submitted correspondence indicating that they would not be serving rebuttal testimony.

On April 19, 2022, OCA served Surrebuttal Testimony of Jerome D. Mierzwa, OCA Statement No. 1- SR. I&E, OSBA, Vicinity and PICGUG each submitted correspondence indicating that they would not be serving surrebuttal testimony.

Also on April 19, 2022, we emailed the Parties the cross-examination matrix for the hearings in this proceeding and directed the Parties to complete the cross-examination matrix and return it by 2:00 p.m. on April 20, 2022.

On April 20, 2022, PGW served the Rejoinder Testimony of Ryan E. Reeves, PGW Statement No. 2-RJ.

On April 20, 2022, Lauren Burge, Esq., counsel for PGW, contacted us on behalf of the Parties to request that the hearing scheduled for April 21, 2022, be cancelled to afford the Parties more time to discuss the possibility of settlement. We granted this request via email on April 20, 2022.

On April 21, 2022, Dan Clearfield, Esq., counsel for PGW, contacted us to advise that settlement discussions were ongoing. Mr. Clearfield further advised that the Parties had agreed to waive cross-examination of other party witnesses.

The April 22, 2022, evidentiary hearing was held as scheduled. We excused all party witnesses from appearing at the hearing since all Parties waived cross-examination and we did not have questions for them. PGW and OCA each moved to have their witnesses' testimonies and exhibits entered into the record. As there were no objections, we admitted PGW's and OCA's witnesses' testimonies and exhibits into the record during the hearing.

On April 26, 2022, we issued our Briefing Order.

The Parties continued to engage in settlement discussions. As a result of these settlement discussions, PGW and OCA (Settling Parties) were able to reach a settlement which resolves all of the issues pertaining to PGW's 2022-2023 annual GCR filing.

On May 10, 2022, the Settling Parties filed their Joint Petition for Settlement of Philadelphia Gas Works' 2022-2023 GCR Proceeding (Joint Petition or Settlement) and Statements in Support of the Settlement. The terms of the settlement were set forth in Section III of the Settlement. PICGUG, I&E, OSBA, PICGUC and Vicinity did not join the Settlement; however, the Settling Parties indicated that PICGUG, I&E and OSBA authorized them to state their non-opposition to the Settlement.²

On May 10, 2022, I&E filed a letter with the Secretary confirming that it neither supported nor opposed the Settlement reached by the Settling Parties.

On May 11, 2022, PICGUG and Vicinity each filed a letter with the Secretary confirming that it neither supported nor opposed the Settlement reached by the Settling Parties.

² Joint Petition for Settlement at 5, n.1.

The record consists of a 44-page transcript, the Company's filing, the testimony, and exhibits submitted by PGW and OCA, the Joint Petition for Settlement and appendices, and the Settling Parties' Statements in Support of the Settlement. OSBA did not file any statement in response to the filing of the Joint Petition.

The record closed on May 11, 2022, the date that PICGUG and Vicinity filed their letters with the Secretary's Bureau.

The statutory deadline for the Commission to take action on this matter is September 1, 2022. The last reasonable public meeting date is August 4, 2022.

FINDINGS OF FACT

1. The Gas Cost Rate is a mechanism used to flow through the costs of natural gas and other raw materials in a timely and equitable manner. (PGW Statement No. 1 at 8).

2. The pricing methodology utilized by Philadelphia Gas Works 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 Statement No. 1 at 10).

3. 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 Statement No. 2 at 2).

4. PGW relies on the interstate pipeline for all-natural gas supply, storage, and transportation services, except for PGW's own on-system peak shaving facilities. In this regard, PGW owns and operates liquified 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

Statement No. 2 at 2). In addition, PGW uses natural gas storage services to meet winter peak requirements. (PGW Statement No. 2 at 2).

5. Enbridge's Texas Eastern Transmission (TETCO) and Williams Gas Pipeline are the two interstate natural gas pipelines that deliver gas to PGW's city gates. In FY 2022, 100% of baseload and swing supply purchases on the TETCO pipeline were from Market Zone M-2. (PGW Statement No. 2 at 10).

6. PGW is not affiliated with any pipeline or gas supply entity, nor does it have any contracts for local production. (PGW Statement No. 2 at 5).

7. PGW pursues a least cost procurement policy using a portfolio approach in both contract structure and pricing. The portfolio approach protects ratepayers from some of the risk of natural gas market volatility by utilizing a mix of daily index priced swing contracts, physical forward purchase contracts, storage, winter-only supply contracts, and LNG, as appropriate given market conditions, and to the extent PGW is not constrained by its financial condition. (PGW Statement No. 2 at 3).

8. 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 Statement No. 2 at 9-10).

9. 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 Statement No. 2 at 5).

10. PGW also uses capacity release and off-system sales when available. The prices for the off-system sales transactions are negotiated and 75% of associated credits and margins are returned to customers through the GCR. (PGW Statement No. 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, thereby reducing the overall cost of gas supply and the resulting gas cost rate. (PGW Statement No. 2 at 8).

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

12. Projected gas costs as reflected in this Settlement are based on peak-day capacity requirements at a 0-degree design day temperature. (Tab 12, Item 53.64(c)(13) of PGW's February 1, 2022, Pre-filing).

13. PGW uses a two-step process to arrive at the appropriate level of usage per customer to factor in weather variations. (PGW Statement No. 1 at 11-12).

14. PGW submitted supporting schedules as required by Section 53.64(a) in support of its GCR; the Price to Compare; and the rates for various surcharges including the Restructuring and Consumer Education Surcharge, the Universal Service and Energy Conservation Surcharge (USC), the Other Post Employment Benefit Rider Surcharges. (PGW Statement No. 1 at 5-6).

15. 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 Statement No. 1 at 7).

DESCRIPTION AND TERMS OF THE JOINT PETITION FOR SETTLEMENT
OF THE PHILADELPHIA GAS WORKS' 2022-2023 GCR PROCEEDING

The Joint Petition is a 14-page document signed by two of the six Parties. Although I&E, OSBA, PICGUG and Vicinity did not sign the Joint Petition for Settlement, the Settling Parties indicated in the Settlement that I&E, OSBA and PICGUG authorized them to state their non-opposition to the Settlement. Appendix A contains the rates agreed upon by the

Settling Parties. Appendix B contains proposed ordering paragraphs. Appendix C contains a Statement in Support of the Settlement by PGW. Appendix D contains a Statement in Support of the Settlement by OCA.

The essential terms of the Settlement of the Philadelphia Gas Works' GCR proceeding are set forth in Section III of the Joint Petition for Settlement. These settlement terms are verbatim as follows:

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.

Joint Petition at 4-8.

DISCUSSION

Section 1307(f)(5) of the Public Utility Code (Code), 66 Pa.C.S. § 1307(f)(5), requires that the Commission determine that PGW'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 Purchased Gas Cost (PGC) rates to be established in this proceeding. *Id.*

In determining whether PGW 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).

PGW and OCA have agreed to a Settlement that resolves all of the issues in this proceeding. The Settling Parties agree that the Settlement is in the public interest and complies with the Public Utility Code. PGW and OCA each provided statements in support of the Settlement, each requesting that the presiding officers and the Commission approve the Joint Petition for Settlement in its entirety. I&E, PICGUC and Vicinity have each provided a statement indicating that it neither supported nor opposed the settlement reached by the Settling Parties. OSBA has not indicated any opposition 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:

In the Commission's judgment, the results achieved from a negotiated Settlement or stipulation, or both, in which the interested parties have had an opportunity to participate are often preferable to those achieved at the conclusion of a fully litigated proceeding.

52 Pa. Code § 69.401.

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 & Sewer Assocs.*, 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 of the Settling Parties. This conclusion is based on our analysis of the following key terms of the Settlement and accompanying Statements in Support.

A. SETTLEMENT AND STATEMENTS IN SUPPORT

1. Purchased Gas Cost Rates

The GCR rates are set forth in Appendix A to the Joint Petition for Settlement. Settlement at Appendix A.

OCA maintains that that the GCR rates in Appendix A accurately represent the implementation of the terms of the Settlement. OCA Statement in Support at 2. OCA further maintains that the terms of the Settlement are in the public interest and in the interest of PGW's ratepayers and should be approved. OCA Statement in Support at 8.

2. Off-System Sales Cost Calculation

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.³ 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.⁴ 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.⁵ OCA noted that Mr. Mierzwa's approach is the approach currently followed by each Natural Gas Distribution Company (NGDC) in Pennsylvania that is subject to Section 1307(f).⁶ OCA Statement in Support at 3.

In the Settlement, PGW agreed to a method for calculating the cost of gas for off-system sales in order to resolve OCA's concerns.⁷ For the 2022-2023 period and going forward, PGW will calculate the cost of gas used for an off-system sale (OSS) using the Weighted Average Cost of Flowing Gas (WACOFG) on the day the OSS is made.⁸ This method will apply except when PGW purchases gas specifically for resale as an OSS, or identifies a specific natural gas purchase that it then determines (prior to the sale) should be sold via an OSS 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.⁹ This change only applies on a going forward basis, and PGW's calculation of net margin for FY 2021-2022 will not be revised.¹⁰ PGW asserts that these terms provide a reasonable resolution of the concerns raised by OCA witness Mierzwa regarding the Company's method for calculating the cost of gas associated with OSS. PGW Statement in Support at 3-4.

PGW notes that 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 OSS margin as PGW's WACOG. In PGW's opinion, the WACOG better reflects the overall

³ OCA Statement No. 1 at 6.

⁴ OCA Statement No. 1 at 6.

⁵ OCA Statement No. 1 at 7.

⁶ OCA Statement No. 1 at 7.

⁷ Joint Petition at ¶ III.A.

⁸ Joint Petition at ¶ III.A.1.a.

⁹ Joint Petition at ¶ III.A.1.b.

¹⁰ Joint Petition at ¶ III.A.1.c.

cost of gas and smooths out any highs or lows. OCA witness Mierzwa suggested that the cost of an OSS would be better represented by the highest priced gas purchased on the day on which an OSS 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 OSS from its overall supply, the highest daily price is unlikely to be relevant to the OSS (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) when PGW 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. PGW Statement in Support at 4.

OCA submits that 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. OCA Statement in Support at 3-4.

3. 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.¹¹ Additionally, in its next base rate case, PGW has agreed to submit testimony on

¹¹ Joint Petition at ¶ III.B.1.

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.¹² 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 Statement in Support at 4-5.

OCA notes that 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.¹³ In the LNG off-system sales, PGW had retained 100% of the margins of the sale.¹⁴ 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.¹⁵ 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.¹⁶ 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.¹⁷ OCA Statement in Support at 4.

OCA opines that 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

¹² Joint Petition at ¶ III.B.2.

¹³ OCA Statement No. 1 at 8-9.

¹⁴ OCA Statement No. 1 at 9.

¹⁵ OCA Statement No. 1 at 9.

¹⁶ PGW Statement No. 2-R at 5-9; OCA Statement No. 1SR at 5.

¹⁷ PGW Statement No. 2-R at 5-9; OCA Statement No. 1SR at 5.

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. OCA also argues that the Settlement provisions provide a reasonable resolution of the issue and should be approved as in the public interest. OCA Statement in Support at 5.

4. Planalytics and PGW Hedging

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 for gas purchasing analysis and advice, and to report on any such change in the next GCR proceeding.¹⁸ PGW Statement in Support at 6-7. OCA expressed its support for these provisions of the Settlement. OCA Statement in Support at 6.

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 Commission Order approving the settlement.¹⁹ Subsequently, for the 2023-2024 heating season, PGW will prepare a Hedging Plan including a review of the timing and layering that could benefit customers by distributing cost changes over multiple quarters.²⁰ 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.²¹ PGW Statement in Support at 5-6.

PGW maintains that this settlement provision addresses OCA's concerns regarding hedging by PGW and furthers the Company's least cost gas procurement policy. 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 to

¹⁸ Joint Petition at ¶ III.D.1.

¹⁹ Joint Petition at ¶ III.C.1.

²⁰ *Id.*

²¹ Joint Petition at ¶ III.C.1.a.

reduce volatility. PGW, for its part, pointed out that utilizing forward purchases, or physical hedging, had always been a part of its gas supply “toolbox” 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. PGW Statement in Support at 6.

In his Direct Testimony, OCA witness Mierzwa identified a concern that PGW had historically only hedged a small portion of its natural gas portfolio.²² 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.²³ OCA witness Mierzwa also noted that PGW has generally not relied upon the buying suggestions of its Planalytics subscription.²⁴ 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.²⁵ 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.²⁶ OCA Statement in Support at 5.

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.

²² OCA Statement No. 1 at 11.

²³ OCA Statement No. 1 at 12-13.

²⁴ OCA Statement No. 1 at 14.

²⁵ OCA Statement No. 1 at 14.

²⁶ OCA Statement No. 1 at 14.

Accordingly, the OCA submits that these Settlement provisions should be approved as in the public interest. OCA Statement in Support at 6.

5. Modified Customer Notice and Data Requirements for Future GCRs

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,²⁷ 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.²⁸ PGW submits that the continued approval of these settlement terms enables PGW to continue to provide the most timely information and to minimize costs for its ratepayers. PGW Statement in Support at 7.

The OCA noted 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 supported, as being in the public interest, continuation of this process in this proceeding and on a going-forward basis unless contested by a party. OCA Statement in Support at 7.

6. Settlement in General

In further support of the Settlement, PGW indicated that approval of this Settlement will result in PGW pursuing a least cost fuel procurement policy consistent with the

²⁷ Joint Petition at ¶ III.E.1.

²⁸ Joint Petition at ¶ III.E.2.

Company's obligation to provide safe, adequate, and reliable service. PGW also argued that the Settlement addresses the issues identified by OCA in this proceeding and proposes a reasonable settlement of each. PGW Statement in Support at 3. Furthermore, PGW stated that approving PGW's 1307(f) filing with the changes as set forth in the Settlement: (a) is consistent with the Commission's goal of ensuring the least cost procurement policy, (b) will result in rates and surcharges that are just, reasonable, and in compliance with the Public Utility Code, and (c) reduces the administrative burden and costs to resolve the issues. PGW Statement in Support at 8.

For its part, OCA opined that it found the terms and conditions of the Settlement Agreement in the public interest. OCA Statement in Support at 1. OCA submitted that the important provisions contained in the Settlement are designed to benefit ratepayers, and that the Settlement should be approved because it is in the public interest. OCA Statement in Support at 2.

The Settlement contains several provisions that are clearly designed to advance the least cost procurement objective which ultimately benefits ratepayers. The 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. The PGC rate adopted by the Settlement is \$5.6048 per Mcf.

The Settlement indicates that PGW will pursue a least cost fuel procurement policy consistent with the Company's obligation to provide safe, adequate, and reliable service 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. Additionally, the Settlement also provides that 75% of all off-system sales margins, capacity release credits and asset management margins/credits/fees will be applied as an offset to purchased gas costs, which will directly benefit PGW's ratepayers.

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. OCA's

support indicating that the terms and conditions of the Settlement are in the public interest and should be approved is convincing.

After considering the Joint Petition for Settlement of Philadelphia Gas Works' 2022-2023 Proceeding as well as the savings achieved by not fully litigating this case, it is our opinion that the Settlement is fair, just, reasonable and in the public interest. Accordingly, we recommend that the Joint Petition for Settlement of Philadelphia Gas Works' 2022-2023 Proceeding be approved in its entirety and without modification.

CONCLUSIONS OF LAW

1. With respect to PGW's gas purchases and gas purchasing practices during the twelve-month historical reconciliation period ended December 31, 2021, 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.

2. During twelve months ended December 31, 2021, PGW met the requirements of Section 1318(a) of the Public Utility Code, 66 Pa.C.S. § 1318(a), by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate, and reliable service to its customers.

3. With respect to the eight-month interim period beginning on January 1, 2022, and the projected twelve-month period beginning September 1, 2022, 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, 66 Pa.C.S. § 1318.

4. A Settlement should be approved, if it is fair, just, reasonable, and promotes the public interest. *See, Pa. Pub. Util. Comm'n v. C S Water & Sewer Assocs.*, 74 Pa. PUC 767 (1991); *Pa. Pub. Util. Comm'n v. Phila. Elec. Co.*, 60 Pa. PUC 1 (1985).

5. The Joint Petition for Settlement of Philadelphia Gas Works' 2022-2023 GCR Proceeding filed with the Commission on May 10, 2022, is just, reasonable and in the public interest. *Pa. Pub. Util. Comm'n v. C S Water & Sewer Assocs.*, 74 Pa. PUC 767 (1991); *Pa. Pub. Util. Comm'n v. Phila. Elec. Co.*, 60 Pa. PUC 1 (1985).

ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Joint Petition for Settlement of the Philadelphia Gas Works' 2022-2023 Gas Cost Rate Proceeding, including all appendices and documents identified therein, is admitted into the record of the proceeding at Docket No. R-2022-3030686.

2. That the Joint Petition for Settlement of the Philadelphia Gas Works' 2022-2023 Gas Cost Rate Proceeding submitted by the Philadelphia Gas Works and the Office of Consumer Advocate at Docket No. R-2022-3030686 be approved in its entirety without modification.

3. That the Philadelphia Gas Works be authorized to file a tariff supplement, on at least one day's notice to the Commission, to reflect rates and terms consistent with the terms of the Joint Petition for Settlement of the of the Philadelphia Gas Works' 2022-2023 Gas Cost Rate Proceeding filed May 10, 2022 and 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.

4. That the Philadelphia Gas Works be permitted to retain 25% of capacity release credits (excluding capacity release to firm transportation suppliers), off-system sales

margin and asset management margin/credit/fees with the remaining 75% applied as an offset to purchased gas costs.

5. That the Philadelphia Gas Works shall 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 Purchased Gas Cost proceeding.

6. That Philadelphia Gas Works be 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).

7. That the formal Complaint filed by the Office of Consumer Advocate at Docket No. C-2022-3030978 be deemed satisfied.

8. That the formal Complaint filed by the Office of Small Business Advocate at Docket No. C-2022-3030971 be dismissed.

9. That the Commission Investigation at Docket No. R-2022-3030686 be terminated and marked closed.

Date: June 7, 2022

/s/
Christopher P. Pell
Deputy Chief Administrative Law Judge

/s/
Arlene Ashton
Administrative Law Judge