1 -----Grays Ferry Cogeneration | 2 Partnership and Vicinity | Energy Philadelphia, Inc., | Docket No.: 3 | C-2021-3029259 v. Philadelphia Gas Works 4 Company 5 Further Call-In Telephonic| Hearing ------6 Page 216 - 253 7 Judge's Chambers State Office Building 8 801 Market Street Philadelphia, PA 9 Tuesday, December 6, 2022 10 Commencing at 10:00 a.m. 11 INDEX TO EXHIBITS Docket No. C-2021-3029259 12 13 Hearing Date: December 6, 2022 14 15 NUMBER FOR IDENTIFICATION IN EVIDENCE 16 Gray's Ferry Exhibit 1 17 226 Verified statement _ _ _ 18 PGW Exhibit 1 19 Verified statement 229 _ _ _ 20 21 22 23 24 25

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

:

Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc., Complainants, v.

Docket No. C-2021-3029259

Philadelphia Gas Works,

Respondent.

VERIFIED STATEMENT

In January 1996, Grays Ferry Cogeneration Partnership ("Grays Ferry") signed a Service Contract with the Philadelphia Authority for Industrial Development ("PAID") – a City of Philadelphia entity capable of signing this long-term Contract on behalf of Philadelphia Gas Works ("PGW"), the City's municipally owned gas utility ("Contract"). The Contract is an integral part of Grays Ferry's natural gas transportation assets. The Contract has an expiration date of 12/31/2022 and due to considerable uncertainty about renewal prospects, and potentially long lead times needed for certain remedies, Vicinity initiated negotiations with PGW in 2017. Those discussions were not successful in resolving the critical issues and Grays Ferry found it necessary to file the subject complaint to address several components of the Contract and seek a Commission order requiring PGW to provide service at reasonable rates and contract terms.

The Contract was intended as a surrogate for Vicinity constructing and operating its own pipeline that would have bypassed PGW entirely and instead allowed Vicinity to take service directly from Texas Eastern Transportation Company's ("TETCO") Philadelphia Lateral. The



most significant issues the Contract addresses include: the service that PGW is obligated to provide, namely high pressure delivery of gas using a section of repurposed pipeline in conjunction with a newly constructed section; that Vicinity was obligated to pay for the construction of the new line and repurposing the existing line; that Vicinity would balance its deliveries with TETCO and would not be responsible for PGW's system lost or unaccounted for gas; capacity issues for moving gas on the Philadelphia Lateral, which is a segment of interstate pipeline owned and operated by TETCO that allows delivery of gas into South Philadelphia; and Vicinity's need in certain limited instances to purchase a bundled sales service. Several of the Contract services, such as the Alternate Receipt Service -- which is a volume swap arrangement that allows Vicinity to receive gas in the winter months through the Philadelphia Lateral and the dedicated pipeline, while simultaneously delivering the same quantity of gas for PGW's use to the Skippack Lateral – are not typical public utility-type services but are necessary elements of the service PGW has provided under the Contract.

As the Contract was nearing its end, beginning in 2017 and again in 2021, Vicinity approached PGW regarding revised terms and conditions for renewal of the initial Contract. PGW failed to provide any firm proposal until October 2021. Once PGW did so, and it became clear that a meeting of the minds was improbable, Vicinity filed a Formal Complaint with the Commission, seeking assistance in attaining reasonable rates, or, alternatively, providing an irrefutable basis for Vicinity to renew its plans to bypass PGW. Vicinity is proceeding on both paths. Nonetheless, the primary request for relief in this matter is that the Commission revise or reform the existing Contract to reflect revised rates that are nonetheless reasonable and appropriate for the service provided. The authority to do so is found in Section 508 of the Public Utility Code. 66 Pa. C.S. § 508.

A revised contract that recognizes the unique status that Vicinity has attained on the PGW system is a must where: Vicinity is the largest customer; it takes service over a dedicated 4 mile pipeline constructed/refurbished for its use and for which it paid; and it balances its own load on the interstate pipeline and has an agreement with PGW that allows them to swap volumes; all of which point to the need for a customized flexible contract. Without the ability to employ section 508, the Commission's authority to address the various components of the Contract could be limited. These limitations could prevent Vicinity from continuing to receive the array of services it bargained for in 1996 that are critical to its business model that supports its own role as a public utility provider of thermal services to critical needs customers including hospitals and other institutions. Accordingly, the inability of the Commission to employ Section 508 will be disastrous for Vicinity and the harm irreparable.

With the Contract set to expire, and the likelihood of a Commission decision prior to December 31, 2022 high unlikely, Vicinity needs relief now, before the Contract expires, to extend the Contract beyond December 31, 2022 until such time as the Commission can rule on the merits of Vicinity's pending complaint. This brief extension of the Contract will assure that the Commission is able to give full consideration to the contract reformation relief Vicinity has requested and implement whatever relief the Commission finds it to be just and reasonable and in the public interest.

Critically, there is no harm to anyone if the Commission grants this request for interim emergency relief and extends the Contract until such time as the Commission can rule on the merits of Vicinity's pending complaint. Vicinity has agreed that any change in rates eventually ordered by the Commission should be effective as of January 1, 2023, thereby assuring that PGW and its other ratepayers will be made whole to the extent an increase in the existing rate is ordered. There is no harm to the public at large and no harm to Vicinity's customers, who would have otherwise been obliged to pay any new steam rate based upon a change to natural gas delivery rates, as approved by the Commission. In short, there is no downside to granting the extension of the Contract until such time as the Commission can rule on the merits of Vicinity's pending complaint.

I, James L. Crist, certify that I am authorized to and do make this Verification on behalf of Vicinity Energy Philadelphia, Inc, ("VEPI") and Grays Ferry Cogeneration Partnership, LLC ("Grays Ferry"), that the facts set forth in the foregoing document are true and correct to the best of my knowledge, information, and belief, and that I expect VEPI and Grays Ferry to be able to prove same at any hearing hereof. I understand that false statements made therein are made subject to the penalties in 18 Pa. C.S. §4904, relating to unsworn falsifications to authorities

DATED:

James L. Crist

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Grays Ferry Cogeneration Partnership and	:	
Vicinity Energy Philadelphia, Inc.,	:	Docket No. C-2021-3029259
Complainants,	:	
v.	:	
Philadelphia Gas Works,	:	
Respondent.	:	

VERIFIED STATEMENT OF

JOHN C. ZUK

REGARDING PETITION FOR INTERIM EMERGENCY RELIEF

My name is John C. Zuk. I am the Senior Vice President of Gas Management for Philadelphia Gas Works ("PGW"). I previously testified in this proceeding on behalf of PGW, submitting testimony marked as PGW St. 1R.

I am presenting this Verified Statement in opposition to the request for emergency relief filed by Grays Ferry Cogeneration Partnership ("Grays Ferry") and Vicinity Energy Philadelphia, Inc, ("VEPI") (collectively GFCP/VEPI). I have reviewed both the Petition and the Verified Affidavit of VEPI's General Counsel Robert L. Arendell. Much of what is set forth below is already on the record in the Complaint proceeding, which is awaiting decision by the Administrative Law Judge.

By way of background, in January 1996, prior to the regulation of PGW by the Commission, the predecessors in interest of GFCP and VEPI entered into a series of service agreements with the Philadelphia Authority for Industrial Development ("PAID") (which were mirrored in agreements between PAID and the City of Philadelphia ("City")) for the provision of natural gas service by PGW ("1996 Contracts"). The Contracts had a term of twenty-five years and will terminate at the end of 2022.

PGW was not and is not a party to any of the 1996 Contracts. PGW is operated and managed by a nonprofit corporation, the Philadelphia Facilities Management Corporation ("PFMC"), that has the sole authority to enter into agreements that bind PGW. PFMC was not a party to the 1996 Contracts either.



Beginning July 1, 2000, regulatory jurisdiction over PGW, including as to rates and service, was transferred from the local Philadelphia Gas Commission to this Commission. As part of PGW's 2003 restructuring plan, PGW proposed, and the Commission approved, the establishment of tariffs for PGW, which included incorporation of the terms of the 1996 Contracts into a specific rate schedule – Rate GTS-Firm Service ("Rate GTS-F").¹ By incorporating the rates, terms and conditions in the Contracts into its Tariff PGW became bound to fulfil the obligations just as it is for any tariffed rate.

To reflect the fact that this rate schedule was only available to customers with legacy contracts, Rate GTS-F was closed to new customers and made available only to those customers who were being served under a contract existing at the time – September 1, 2003 – and only for the life of those contracts. Rate GTS-F incorporates the 1996 Contracts' delivery rate of \$0.08 per Mcf and other terms that have been applied now for twenty-five years.

None of the rates, terms and conditions of the 1996 Contracts were determined to reflect just, reasonable and non-discriminatory rates, terms and conditions pursuant to the Public Utility Code. They were simply "grandfathered" into the tariff structure of PGW's restructurings for the duration of the agreements with the intent of reforming them at the end of the contract term.

PGW and GFCP/VEPI entered into discussion in 2021 to address services and rates going forward. GFCP/VEPI peremptorily discontinued the discussions and filed this complaint with the Commission. PGW was (and is) open to continued discussions.

Given that the Complaint case will not be resolved before contract termination, PGW has offered two different proposals to GFCP/VEPI that would bridge the gap between January 1, 2023 and a Commission decision in the Complaint case ("Gap Period").

In order to ensure the continuation of service to GFCP/VEPI and their customers during the Gap Period, PGW filed Supplement No. 156^2 on November 1, 2022 to maintain the status quo during the pendency of the Complaint litigation ("Extension Tariff").³ Specifically, the supplement extends the period of the current Rate GTS-F – and incorporates and *maintains all the rates, terms and conditions of service currently being provided to GFCP/VEPI – until the entry of a Commission decision in the Complaint* case ("Extension Tariff") as follows:

Existing terms and conditions are extended for all customers taking service as of December 31, 2022 on this rate until the earlier of April 30, 2023 or the Pennsylvania Public Utility Commission issues a final decision in Docket No. C-2021-3029259. All rates and charges incurred after January 1, 2023 are subject to being rebilled as directed by the Pennsylvania Public Utility Commission so as to effectuate the final decision in Docket No. C-2021-3029259 on January 1, 2023.

A copy of the tariff page is attached to my Statement at **Exhibit 1**.

¹ PGW Gas Service Tariff – Pa. P.U.C. No. 2 at Original Pages 118 to 123 ("Rate GTS-F").

² Supplement No. 156 to PGW's Gas Services Tariff Pa. P.U.C. No. 2, filed November 1, 2022, with an effective date of January 1, 2023.

³ Docketed at R-2022-3036472.

PGW requested that the Extension Tariff supplement be approved by the Commission in order to provide a specific tariff basis on which to continue to provide GFCP/VEPI with the rates, terms and conditions of service that they are receiving today – until the PUC rules on their Complaint case and determines new rates, terms and conditions to be applied going forward. PGW has also asked that the PUC permit PGW to rebill GFCP/VEPI at the rates, terms and conditions adopted by the Commission starting January 1, 2023.

On November 11, 2022, GFCP and VEPI filed formal complaints, not contesting the Extension Tariff, but rather seeking alternative relief in the form of a forced extension of the 1996 Contracts ("Second Complaints").⁴ PGW has both answered those complaints and filed Preliminary Objections in the nature of a motion to dismiss. These pleadings are pending at the Commission.

In light of the opposition of GFCP/VEPI to the Extension Tariff, PGW next offered to enter into a new, temporary agreement with Grays Ferry and Vicinity pursuant to PGW's Tariff Rule 2.3⁵ that would:

1. Continue to apply *all the rates, terms and conditions of service under which PGW) currently provides service* to Vicinity and Grays Ferry pursuant to Rate GTS-F;

2. Until a Commission determination of the proper rates to be charged; and

3. At which time PGW will rebill the rates applied during the Rate Gap Period for all service received on and after January 1, 2023 to reflect the Commission's determination of new rates.

GFCP/VEPI also rejected this suggestion and, again, demanded that PGW instead extend the 1996 Contracts. A copy of the correspondence between PGW and GFCP/VEPI is attached as **Exhibit 2**.

Either one of these solutions would ensure that GFCP/VEPI would continue to receive all of the service under the same terms and conditions that they do today until a final PUC decision (at which time the rates, terms and conditions of service determined to be just and reasonable would be imposed). Both PGW and GFCP/VEPI agree that it is appropriate to rebill the rates eventually determined by the Commission back to January 1, 2023.⁶

PGW assures the Commission that there is no way, even in the absence of any agreement or Commission ruling, that PGW will interrupt existing services during the Gap Period (unless circumstances not related to this case, such as a force majeure event or a system wide curtailment

⁴ Docketed at C-2022-3036774 and C-2022-3036783.

⁵ PGW's Rule 2.3 states that "[c]ontracts stipulating the negotiated non-scheduled rates and/or terms of Gas Service may also be entered into between the Company and Customer when the Company, in its sole discretion, deems such offerings to be economically advantageous to the Company." PGW Tariff No. 2, pg. 18. PGW believes that Rule 2.3 provides tariff authority to enter into a temporary continuation agreement with GFCP/VEPI. As stated previously: "PGW has no shareholders or earnings to retain, the advantage to the Company is really the advantage of existing customers."PGW ST. 3R, page 13.

⁶ Verified Affidavit of Robert L. Arendell, page 3 ("Vicinity has agreed that any change in rates eventually ordered by the Commission should be effective as of January 1, 2023, thereby assuring that PGW and its other ratepayers will be made whole to the extent an increase in the existing rate is ordered.")

occurred). It has never threatened to do so. PGW will continue to provide all of the services that GFCP/VEPI now receive, including Alternative Receipt Service, pending the PUC decision. While PGW would prefer that an extension of current rates, terms and conditions be by agreement or Commission action, it will do nothing to destabilize its services during the Gap Period. If no interim determination is put into place, the Commission can review and make a determination of the proper rates, terms and conditions of service for the Gap Period and apply those determinations as of January 1, 2023.

There is no adverse consequence to GFCP/VEPI caused by the previously agreed to expiration of the 1996 Contracts.⁷ All of the services that GFCP/VEPI have claimed are in the 1996 Contracts and that are important to their operations can and will be provided during the Gap Period. Moreover, all of these same services have been addressed in the Complaint case and the Commission has the power to order them without extending the terminating 1996 Contracts.

These services mentioned by Mr. Arendell as "critical" to their operation are:

- 1. High pressure delivery of gas
- 2. Vicinity was obligated to pay for the construction of the new line and repurposing the existing line;
- 3. That Vicinity would balance its deliveries with TETCO and would not be responsible for PGW's system lost or unaccounted for gas;
- 4. Capacity issues for moving gas on the Philadelphia Lateral, and
- 5. Vicinity's need in certain limited instances to purchase a bundled sales service.

Also directly mentioned is Alternate Receipt Service ("ARS") -- which is "not typical public utility-type services but are necessary elements of the service PGW has provided under the Contract." All of these services were discussed and debated in the testimony and hearing held in August 2022.

In the Complaint case, PGW's service to GFCP/VEPI, specifically the "high pressure of gas," and the costs of providing that service was the primary focus of the proceeding.⁸ The parties to that proceeding presented testimony and briefed the issues surrounding the gas transportation service provided by PGW to GFCP/VEPI, especially the delivery charge component of that service.⁹ GFCP/VEPI's Complaint specifically requested, among other things, that the Commission find that the rate PGW offered to GFCP/VEPI during discussions "post 2022 is unjust and unreasonable; [r]equire PGW to continue to provide Grays Ferry with firm transportation service; [and] [r]equire PGW to execute a new contract under Rate GTS-Firm

⁷ Verified Affidavit of Robert L. Arendell, page 3 ("Without the ability to employ section 508, the Commission's authority to address the various components of the Contract *could* be limited. These limitations *could* prevent Vicinity from continuing to receive the array of services it bargained for in 1996 that are critical to its business model that supports its own role as a public utility provider of thermal services to critical needs customers including hospitals and other institutions." (emphasis added)).

⁸ Item 2, the payment for the construction of a new line to serve GFCP/VEPI has already taken place and is no longer a "service" that PGW provides. PGW serves GFCP/VEPI from its own facilities, including a pipeline that was initially financed by GFCP/VEPI but which PGW now owns and operates.

⁹ See GFCP/VEPI Statement JC-1 at 11–13; PGW Main Brief at 44–48.

for that service at a rate that is just and reasonable."¹⁰ As a result, all of the testimony on the record in the Complaint case discusses PGW's provision of transportation service to GFCP/VEPI and the costs both under the 1996 Contracts and after their expiration on December 31, 2022.¹¹ Consequently, one of the issues that will be decided by the Commission in the Complaint case is the just and reasonable rate for "high pressure delivery of gas".

Similarly, the issue included in the Verified Statement that "[GFCP/VEPI] was obligated to pay for the construction of the new line and repurposing the existing line" was fully addressed by all the parties in the original Complaint proceeding initiated by GFCP/VEPI. The direct and surrebuttal testimony filed on behalf of GFCP/VEPI specifically raised the cost of the pipeline paid by GFCP/VEPI to argue that the proposed \$0.75/Dth transportation delivery service rate resulting from PGW's cost of service study was unsupported.¹² PGW responded in its rebuttal and surrebuttal testimonies and explained that, while GFCP/VEPI paid a negotiated developer/customer contribution for PGW's construction of the Two Mile Line and Naphtha Line over a ten year period, PGW has continuously owned and operated both of the lines.¹³ In addition, OSBA and OCA presented testimony regarding the calculation of the cost of service.¹⁴ Thus the effect on going forward rates, if any, of GFCP/VEPI's initial contribution in aid of construction will be an issue decided by the Commission in this proceeding.

The terms in the 1996 Contracts identified in the Verified Statement "that [GFCP/VEPI] would balance its deliveries with TETCO and would not be responsible for PGW's system lost or unaccounted for gas" (LUFG) was also fully addressed in the Complaint case. In his direct testimony, GFCP/VEPI witness Crist identified "imbalance charges" and "lost and unaccounted for gas" as items in PGW's initial offer with which GFCP/VEPI took issue.¹⁵ PGW then addressed these allegations in its rebuttal testimony and explained why such provisions should be included in a new rate provided by PGW to GFCP/VEPI after the expiration of Rate GTS-F and the 1996 Contracts.¹⁶ The OCA likewise addressed these issues and concluded that GFCP/VEPI should be assessed balancing and lost and unaccounted for gas charges in any new rate after December 31, 2022.¹⁷ Therefore, any final determination in this proceeding will include a determination of the just and reasonable balancing rules and LUFG charges for GFCP/VEPI.

Further, the "capacity issues" identified in the Verified Statement were fully developed in the record of the Complaint case. Under the 1996 Contracts, PGW provides capacity release to GFCP/VEPI in the summer months and Alternative Receipt Service ("ARS") during the winter months. The provision of summer capacity release under the 1996 Contracts was fully addressed

¹⁰ GFCP/VEPI Formal Complaint at 13.

¹¹ GFCP/VEPI Statement JC-1 at 20–22; GFCP/VEPI Statement JC-1SR at __; PGW St. 4R at 1–8, Ex. CEH-1; PGW St. 4SR at 1–4; OCA St. 1R at 5–7, Ex. JDM-2; OCA St. 1S at 1–2, Ex. JDM-3; OSBA Statement No. 1-R at 8–12.

¹² GFCP/VEPI Statement JC-1 at 12–13, 21, 26; GFCP/VEPI Statement JC-1SR at 2, 11–15, 18.

¹³ PGW St. 1R at 7–8, 16–17;

¹⁴ OCA St. 1R at 5–7, Ex. JDM-2; OCA St. 1S at 1–2, Ex. JDM-3; OSBA Statement No. 1-R at 8–12.

¹⁵ GFCP/VEPI Statement JC-1 at 17–19.

¹⁶ PGW St. 1R at 22–23.

¹⁷ OCA St. 1R at 8–9; OCA Main Brief at 13–14.

in the Complaint case.¹⁸ GFCP/VEPI contended in the Complaint case that they no longer required summer capacity release under the terms of the 1996 Contracts,¹⁹ which PGW took no issue with.²⁰ Issues related to ARS during the winter were addressed in depth by GFCP/VEPI, PGW, OCA, and OSBA in the Complaint case, especially with respect to treatment of ARS in determining the cost for PGW to serve GFCP/VEPI.²¹ Therefore, the appropriate structure of capacity release and/or the continued provision of an ARS type service will be resolved as part of the Complaint case.

The provisions in the 1996 Contracts regarding GFCP/VEPI's purchase of bundled sales service was likewise addressed in the Complaint case. Because GFCP/VEPI raised the bundled sales service term of the 1996 Contracts in their Complaint, all of the parties that filed testimony addressed this provision of the 1996 Contracts.²² GFCP/VEPI and PGW both addressed the charge for bundled sales service using the Weight Average Cost of Gas ("WACOG") plus a fee of \$0.61/Dth per the terms of the 1996 Contracts.²³ Moreover, GFCP/VEPI testified that they have no objection to using PGW's Gas Cost Rate ("GCR") for any future rate for sales service gas.²⁴ Therefore, again, this issue will be determined in the Complaint case as part of the Commission's determination of going forward just and reasonable rates for GFCP/VEPI, and no extension of the existing contract is necessary or warranted.

PGW's testimony in the Complaint case made clear that one of the options that was available to the Commission was to order that, going forward, GFCP/VEPI could be served on a new special rate. That special rate could be structured to include all the rates, terms and conditions of service that are currently being provided to GFCP/VEPI, including ARS, special balancing or LUFG provisions, etc.

To be clear, in the Complaint case, PGW has argued that GFCP/VEPI has not justified a special rate. Further, even if the PUC disagrees and determines that GFCP/VEPI should be served on a new special rate, the rates for such service should reflect cost of service and be set in a just and reasonable manner.

But this survey of the issues to be decided in the Complaint case establishes that all of the rates, terms and conditions of service that GFCP/VEPI currently enjoy are teed up for resolution at the complaint docket. Therefore, even without the extension of the 1996 Contracts,

²² See GFCP/VEPI Statement JC-1 at 17; PGW St. 1R at 21–22; PGW St. 2R at 11–12, Ex. RER-2; OCA St. 1R at 5; OSBA Statement No. 1-R at 9–12; OSBA Statement No. 1-S at 4.

²⁴ GFCP/VEPI Statement JC-1 at 17.

¹⁸ GFCP/VEPI Statement JC-1 at 14–16, 19, 23–24; PGW St. 2R at 12–13; OCA St. 1R at 7.

¹⁹ GFCP/VEPI Statement JC-1 at 19; GFCP/VEPI Main Brief at 21; PGW Main Brief at 49; PGW Reply Brief at 16–18.

²⁰ PGW St. 1R at 23; PGW Main Brief at 49; PGW Reply Brief at 16–18.

²¹ GFCP/VEPI Statement JC-1 at 16–17, 19, 23; GFCP/VEPI Statement JC-1SR at 5, 16–22; GFCP/VEPI Main Brief at 21–22, 33–42; GFCP/VEPI Reply Brief at 19–21, 24, 34–36; PGW St. 1R at 20; PGW St. 2R at 8–11, Ex. RER-2; PGW St. 3R at 6; PGW St. 4R at 6–8; PGW St. 2SR at 1–4; PGW St. 5SR at 2–3; PGW St. 2FSR at 1–4; PGW Main Brief at 6–7, 12, 24–26, 46–48, 59–60, 68–70; PGW Reply Brief at 11–15, 18–19, 45–46; OCA St. 1R at 4, 6, 8–9; OCA Main Brief at 9–13; OSBA Statement No. 1-R at 4–5, 9–10; OSBA Statement No. 1-S at 2–3; OSBA Main Brief at 10–11, 13–14, 18–19.

²³ GFCP/VEPI Statement JC-1 at 17; PGW St. 1R at 21–22; PGW St. 2R at 11–12; *see also* OCA St. 1R at 3, 5; OSBA Statement No. 1-R at 10; OSBA Statement No. 1-S at 4.

GFCP/VEPI will not lose the right to argue that its going forward rates, terms and conditions of service should be maintained in their present configuration.

For this reason, PGW disagrees that there is any emergency or need for immediate action, and GFCP/VEPI will not suffer irreparable harm if the 1996 Contracts are allowed to expire on their own terms.

Dated: December 5, 2022

Signed: <u>/s/ John C. Zuk</u>