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July 27, 2023

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

VIA ELECTRONIC FILING

RE: Pennsylvania Public Utility Commission v. Philadelphia Gas Works; Docket No. R-2023-3037933

Dear Secretary Chiavetta:

Attached for filing with the Pennsylvania Public Utility Commission is the Main Brief of the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG"), in the above-referenced proceeding.

As evidenced by the attached Certificate of Service, all parties to this proceeding are being duly served with a copy of this document. Thank you.

Sincerely,

Charis Mincavage

Charis Mincavage
MCNEES WALLACE & NURICK LLC

c: Administrative Law Judge Eranda Vero (via e-mail)
Administrative Law Judge Arlene Ashton (via e-mail)
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

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Dated this 27th day of July, 2023, at Harrisburg, Pennsylvania

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2023-3037933
Philadelphia Gas Works	:	

MAIN BRIEF OF THE PHILADELPHIA INDUSTRIAL AND COMMERCIAL GAS USERS GROUP

Einstein Healthcare Network
Newman and Co., Inc.
Philadelphia College of Osteopathic Medicine
Temple University
Thomas Jefferson University

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Dated: July 27, 2023

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I. INTRODUCTION AND PROCEDURAL HISTORY

A. Introduction

Philadelphia Gas Works ("PGW" or the "Company") provides natural gas service to approximately 517,500 customers in the City of Philadelphia. PGW is requesting approval of an increase in its annual base rate operating revenues of $85.8 million, or 10.3%, on a total revenue basis, to become effective on November 28, 2023.

As discussed more fully herein, the critical area of dispute from the perspective of the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") is the fact that PGW, along with several of the other parties to this proceeding, seeks to treat Rate Interruptible Transportation ("IT") as "effectively firm" for purposes of the Company's Cost of Service Study ("COSS") while still requiring these same customers to maintain the equipment and processes needed to allow PGW to call an interruption of Rate IT at any time and in PGW's sole discretion. As a result of this inequity, Rate IT customers would be required to shoulder a rate increase of 1.35 times the system average increase while also incurring the costs of maintaining the equipment and ability to interrupt their processes at PGW's sole discretion.

In other words, several parties to this proceeding seek to "have their cake and eat it, too" by treating Rate IT customers as firm when non-Rate IT customers benefit from a ratemaking perspective, while also treating Rate IT customers as interruptible when non-Rate IT customers benefit from a service perspective. Because this inequitable treatment does not adhere to cost causation requirements, results in inappropriate discrimination to Rate IT customers, and violates Pennsylvania Public Utility Commission ("PUC" or "Commission") precedent, the Commission must require PGW to modify its COSS to account for Rate IT's interruptibility. Upon doing so, Rate IT's contributions to PGW's cost of service indicate that Rate IT is significantly above its cost to serve. Accordingly, in order to ensure that Rate IT is allocated just and reasonable rates in this proceeding, Rate IT should receive a rate reduction, or at a minimum, not receive any rate increase in this proceeding.

B. Procedural History

On February 27, 2023, PGW filed with the Commission Supplement No. 159 to Gas Service Tariff – Pa. P.U.C. No. 2 ("Supplement No. 159"), requesting approval of an increase in its annual base rate operating revenues of $85.8 million, or 10.3%, on a total revenue basis, to become effective on April 28, 2023.[1]

On March 17, 2023, PICGUG filed a Complaint in this proceeding. PICGUG is an *ad hoc* group of large volume customers receiving natural gas utility service from PGW under sales and transportation rate schedules, including Rate Schedule IT. PICGUG's membership is set forth on the cover of this Main Brief.

By Order entered April 20, 2023, the Commission suspended Supplement No. 159 by operation of law until November 28, 2023, and instituted an investigation into the lawfulness, justness, and reasonableness of PGW's proposed Rate Case Filing. Additionally, the Commission assigned this proceeding to Administrative Law Judges ("ALJs") Eranda Vero and Arlene D. Ashton for the purposes of scheduling hearings and the issuance of a Recommended Decision. On April 28, 2023, the ALJs convened a Prehearing Conference, in which the procedural schedule for this proceeding was developed.

On February 27, 2023, PICGUG received the Company's Direct Testimony. PICGUG received PGW's Supplemental Direct Testimony on May 5, 2023. Pursuant to the procedural

[1] *Pa. Pub. Util. Comm'n v. Philadelphia Gas Works*, Docket No. R-2023-3037933 (filed Feb. 27, 2023) ("Rate Case Filing").

schedule, on May 31, 2023, PICGUG submitted Direct Testimony and received Direct Testimony from the following parties: the Office of Consumer Advocate ("OCA"); the Office of Small Business Advocate ("OSBA"); the Bureau of Investigation and Enforcement ("I&E"); the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA") and the Tenant Union Representative Network ("TURN") (together, "CAUSE-PA/TURN"); Greys Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. (collectively, "Vicinity"); and POWER Interfaith.

On June 26, 2023, PICGUG submitted Rebuttal Testimony and received Rebuttal Testimony from the Company; the OCA; the OSBA; Vicinity; and POWER Interfaith. On July 7, 2023, PICGUG submitted Surrebuttal Testimony and received Surrebuttal Testimony from the following parties: PGW; OCA; OSBA; I&E; CAUSE-PA/TURN; Vicinity; and POWER Interfaith. On July 10, 2023, PICGUG received Rejoinder Testimony from the Company.

Evidentiary hearings were held in this proceeding on July 11-12, 2023, for the purposes of presenting testimony and performing cross-examination. During the hearings, the parties confirmed the process for submitting briefs. Pursuant to the remaining procedural schedule and the ALJs' Briefing Order, PICGUG submits this Main Brief to address certain issues raised in this proceeding.

II. LEGAL STANDARDS

A. Burden of Proof

Section 332(a) of the Public Utility Code,[2] provides that the proponent of a rule or order has the burden of proof. Under Section 315, "[i]n any proceeding… involving any proposed or existing rate of any public utility… the burden of proof to show that the rate involved is just and

[2] 66 Pa. C.S. § 332(a).

reasonable shall be upon the utility."[3] As the proponent of a changes to its rates, terms, and conditions of service for Rate IT customers, PGW bears the burden of proof in this proceeding and, therefore, the duty to establish facts by a "preponderance of the evidence."[4] Additionally, any finding of fact necessary to support the Commission's adjudication must be based upon substantial evidence.[5] More is required than a mere trace of evidence or a suspicion of the existence of a fact sought to be established.[6]

B. Just and Reasonable Rates

Pursuant to the Public Utility Code, "[e]very rate made, demanded or received by any public utility…shall be just and reasonable, and in conformity with regulations or orders of the commission."[7] In addition, "[n]o public utility shall, as to rates, make or grant any unreasonable preference or advantage to any person, corporation, or municipal corporation, or subject any person, corporation, or municipal corporation to any unreasonable prejudice or disadvantage."[8] Moreover, "[n]o public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service."[9] Finally, "[n]o public utility shall, as to rates…subject any person, corporation, or municipal corporation to any unreasonable

[3] *Id.* § 315(a).

[4] *Se-Ling Hosiery, Inc. v. Margulies*, 70 A.2d 854 (Pa. 1950)*; Samuel J. Lansberry, Inc. v. Pa. P. U. C.*, 578 A.2d 600 (Pa. Cmwlth. 1990).

[5] 2 Pa. C.S. § 704; *Mill v. Pa. P. U. C.*, 447 A.2d 1100 (Pa. Cmwlth. 1982); *Edan Transportation Corp. v. Pa. P.U.C.*, 623 A.2d 6 (Pa. Cmwlth. 1993).

[6] *Norfolk and Western Ry. v. Pa. P. U. C.*, 413 A.2d 1037 (Pa. 1980); *Erie Resistor Corp. v. Unemployment Compensation Bd. of Review*, 166 A.2d 96 (Pa. Super. 1960); *Murphy v. Commonwealth, Dept. of Public Welfare, White Haven Center*, 480 A.2d 382 (Pa. Cmwlth. 1984).

[7] 66 Pa. C.S. § 1301.

[8] *Id*. § 1304.

[9] *Id*.

prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service."[10]

III. SUMMARY OF ARGUMENT

As discussed more fully herein, PGW's COSS inappropriately treats Rate IT as "firm" while still requiring Rate IT customers to maintain the flexibility of being able to interrupt at PGW's sole discretion. In other words, Rate IT is being subjected to inappropriate rate discrimination by being treated as firm for ratemaking purposes but being treated as interruptible from a service perspective. To that end, PGW's COSS must be modified to reflect Rate IT's interruptibility, especially in light of the fact that PGW is not proposing any changes to the Rate IT tariff.

Similarly, PGW's COSS should be modified to classify approximately 20% of PGW's distribution mains costs as customer-related in order to ensure cost causation principles are being appropriately addressed. Moreover, PGW should be required to provide its Peak Design Day Demand for customer class as part of its next base rate proceeding to ensure accurate data is appropriately included in the COSS.

Once PGW's COSS appropriately reflects Rate IT's interruptibility, Rate IT is significantly above its cost to serve. Modifying the classification of distribution mains costs as customer-related would only further increase the subsidization by Rate IT of other classes. Moreover, PGW's proposal to allocate any revenues recovered from Vicinity to classes above their cost to serve must also apply to Rate IT, as Rate IT is significantly above its cost to serve. As such, in order to ensure just and reasonable rates, Rate IT customers should receive a rate decrease in this proceeding, or, at a minimum, no rate increase.

[10] *Id.*

IV. ARGUMENT

A. Revenue Requirement

1. Overall Position on Rate Increase

In this proceeding, PGW is seeking to increase its natural gas revenues by $85.5 million. While PICGUG did not present any testimony on this specific issue, PICGUG recognizes that several other parties, including the OCA and I&E, have raised significant concerns regarding whether such an increase is appropriate. Specifically, these parties have questioned, among other things, whether PGW's proposed revenues, expenses, and financial metrics are appropriate.[11] PICGUG agrees that the PUC must fully review PGW's request, including the issues raised by I&E and OCA, to ensure that any rate increase request is just and reasonable.

B. Expenses

PICGUG takes no position on this issue.

C. Rate Structure

1. Cost of Service Study

With three exceptions, PGW's COSS generally comports with cost allocation practices. First, and most importantly, PGW's COSS fails to accurately recognize the interruptible nature of the delivery service provided by Rate IT customers. Rather, PGW treats interruptible customers as firm service for purposes of the COSS, while still requiring these customers to perform as interruptible for purposes of receiving service. Because this treatment is contrary to cost causation principles and results in undue discrimination to Rate IT customers, PGW's COSS must be

[11] *See Direct Testimony of D.C. Patel,* I&E Statement No. 1 ("I&E St. 1"), pp. 2-5; *Direct Testimony of Dante Mugrace,* OCA St. 1 ("OCA St. 1"), pp. 4-8.

modified to recognize the Rate IT class' interruptibility.[12] Second, PGW uses Peak Day Demand rather than Peak Design Day Demand when applying the Average & Excess ("A&E") method. Although the use of Peak Day Demand is contrary to cost-causation principles, PGW has indicated in this proceeding that its Peak Design Day Demand data is unavailable. In order to address this issue, PGW should be required to provide Peak Design Day Demand data as part of its next base rate filing.[13] Finally, PGW's COSS improperly classifies all distribution mains costs to demand. Contrary to PGW's inappropriate classification, allocating a portion of distribution mains costs on a customer basis is consistent with accepted regulatory practice and cost causation practices. As such, PGW's COSS should be modified to classify a portion (*i.e.*, 20%) of distribution mains as a customer-related costs.[14]

A COSS is an analysis used to determine each class's responsibility for a utility's costs. In other words, it determines whether the revenue a class generates covers the class's cost of service.[15] A COSS separates a utility's total costs into portions incurred on behalf of each customer class. Most of a utility's costs are incurred jointly to serve many customers. For purposes of revenue allocation and rate design, customers are grouped into homogenous classes according to their usage patterns and service characteristics.[16]

As a result, because a COSS is used for rate allocation and rate design, it is imperative that the COSS comport with appropriate cost allocation practices. If such practices are not followed,

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[12] *See* Section IV.C.1.a., *infra.*

[13] *See* Section IV.C.1.b., *infra.*

[14] *See* Section IV.C.1.c., *infra*.

[15] *See Direct Testimony and Exhibits of Billie LaConte,* PICGUG Statement No. 1 ("PICGUG St. 1"), p. 6.

[16] *Id.*

customers may be subject to rates that do not adequately reflect the customers' cost to serve. As discussed more fully below, PGW's COSS contains three major flaws that must be corrected in order to ensure adequate cost causation principles are recognized among the Company's rate classes.

a) PGW's COSS Inappropriately Treats Rate IT Customers as Firm Service, While Still Requiring Rate IT Customers to Meet PGW's Interruptibility Tariff Requirements.

PGW is proposing to use the same methodology to allocate delivery costs to Rate IT customers as the Company uses to allocate delivery costs to gas sales customers that receive firm delivery service. Pursuant to PGW's Tariff, however, Rate IT customers are required to continue to meet and maintain certain interruptibility requirements. Accordingly, because PGW plans to continue to treat Rate IT customers as interruptible from a service perspective, this class of customers must also be treated as interruptible from a cost of service perspective.

As set forth in PGW's Tariff, Rate IT customers are "subject to curtailment or interruption at any time."[17] Pursuant to PGW's Tariff, "the Company may curtail (reduce) or interrupt deliveries to the [Rate IT] Customer whenever, at the Company's sole discretion, it determines that the availability capacity in all or a portion of its system is projected to be insufficient to meet the requirements of all Customers or in the event a NGS fails to meet delivery obligations."[18] In fact, a Rate IT customer must "maintain the ability to curtail or interrupt usage upon eight hours' notice" and, in the event of a system emergency, "upon notice by the Company, the Customer shall use its best efforts to curtail or interrupt usage upon less than eight hours' notice."[19] In order to meet these

[17] PGW Gas Tariff – Pa P.U.C. No. 2, Original Pg. No. 111 (eff. Sept. 1, 2003).

[18] PGW Gas Tariff – Pa P.U.C. No. 2, Original Pg. No. 112 (eff. Sept. 1, 2003).

[19] *Id*.

requirements, a Rate IT customer "must: (1) have installed and operable alternative fuel equipment, including appropriate fuel storage capacity, capable of displacing the daily quantity of Gas subject to curtailment or interruption; or (2) in the alternative demonstrate to the Company's sole satisfaction the ability to manage its business without the use of Gas during periods of curtailment or interruption."[20] Moreover, if the Company determines that a Rate IT customer has used a quantity of gas in excess of the quantity authorized, the Company may impose various penalties, including physically restricting the flow of gas to the customer's premises or imposing a monetary penalty.[21] Finally, Rate IT customers are subject to daily balancing, which means they do not require any storage service, resulting in these customers being fully interruptible at all times.[22]

For purposes of PGW's COSS, the Company is claiming that, because Rate IT customers have only been interrupted once in approximately the past twenty years, Rate IT customers should be treated as firm service customers.[23] PGW is not proposing to make any changes to the provisions of Rate IT, but rather, plans to continue to require Rate IT customers to adhere to the aforementioned terms and conditions, including demonstrating the ability to interrupt at any time per PGW's sole discretion.[24] Accordingly, Rate IT customers will continue to be subject to additional operational requirements that are not required for firm customers. In order to be able to

[20] *Id.*

[21] *Id.*

[22] PICGUG St. 1, p. 8.

[23] Similarly, neither the OCA (with respect to its A&E models) nor the OSBA recognize the terms and conditions of Rate IT, under which transportation service is fully interruptible at any time and at PGW's sole discretion. *See Rebuttal Testimony of Billie LaConte*, PICGUG Statement No. 1R ("PICGUG St. 1R"), pp. 4, 6. Thus, the OCA and OSBA revised A&E COSSs must also be rejected because of this failure.

[24] PICGUG St. 1, p. 12.

interrupt at PGW's sole discretion, Rate IT customers must either install operable alternative fuel equipment, including storage capacity, capable of displacing the daily quantity of gas subject to curtailment or interruption or manage their business to reduce load commensurate with the quantify of gas subject to curtailment or interruption.[25]

By treating Rate IT as firm service simply for purposes of the COSS, and not making any changes to the requirements of Rate IT, PGW is doing nothing more than seeking to utilize a value of service proposition for Rate IT in its COSS. Specifically, PGW is assigning Rate IT the "value" of firm service in the COSS, while requiring Rate IT to maintain its interruptibility (and incur the accompanying costs) to serve PGW's system needs. Per the Commonwealth Court of Pennsylvania, cost of service is the "polestar" of utility ratemaking.[26] While revenue allocation is not an exact science, the primary objective of a COSS is to allocate costs in the manner they are incurred, consist with cost causation principles.[27] If the PUC approves a COSS that fails to account for the fact that Rate IT customers stand ready to interrupt upon notice, thereby not impacting PGW's peak demand, the PUC will be effectively rejecting cost causation principles.

Rather, in order to reflect the true cost to serve Rate IT, PGW's COSS must be adjusted so that no peak-related costs are allocated to the Rate IT class.[28] While PGW is properly using the A&E method to allocate demand-related costs in its COSS, PGW is inappropriately allocating

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[25] *Id.*

[26] *Lloyd v. Pa. Publ. Util. Comm'n,* 904 A.2d 1010, 1020 (Pa. Commw. Ct. 2006) ("*Lloyd").*

[27] *See Colorado Interstate Gas Co. v. Fed. Power Comm'n*, 324 U.S. 581, 589 (1945); *Pa. Pub. Util. Comm'n v. PPL Elec. Utils. Corp.*, Docket No. R-2010-2161694, Recommended Decision, p. 63 (issued Oct. 15, 2010); *see also Pa. Pub. Util. Comm'n v. Metro. Edison Co. and Pa. Elec. Co*., Docket Nos. R-00061366 and R-00061367, Opinion and Order, p. 234 (entered Jan. 11, 2007).

[28] PICGUG St. 1, p. 12.

peak-related costs to Rate IT.[29] Under the A&E methodology, the COSS weights average daily throughput by the system load factor and extra demand by one minus the system load factor. The system load factor is the total average daily throughput divided by the product of system Peak Day Demand and 365 days. In order to correctly account for Rate IT, the appropriate adjustment would set the Rate IT class's extra demand to zero.[30]

This adjustment would be consistent with the approach PGW should have used if the Company had recognized the true interruptible nature of Rate IT.[31] When asked about the recognition of interruptible customers, PGW stated that if "a customer's flow is truly interruptible, the customer would not be allocated excess demand capacity in the allocation of costs related to distribution mains." In turn, this "adjustment would show that the Company would not supply gas to these customers during a peak event."[32] The purpose of Rate IT is to ensure PGW can deliver firm gas to its sales customers during a peak event by interrupting Rate IT service during such an event. Because Rate IT customers' flow is "truly interruptible" (*i.e.*, they must maintain the ability to interrupt at PGW's sole discretion per the terms of the Company's tariff), Rate IT does not contribute to peak events.[33] Thus, Rate IT's extra demand in the COSS must be set to zero.[34]

In order to do so, Factor 3 in PGW's COSS must be revised. Factor 3 is used to allocate capacity-related distribution mains. Adjusting Factor 3 by setting the Rate IT class's excess

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[29] *See Direct Testimony of Constance E. Heppenstall*, PGW St. No. 5 ("PGW St. 5"), p. 3.

[30] *See* PICGUG St. 1, p. 13.

[31] *Id*.

[32] *See* PICGUG St. 1, Exhibit__(BSL-3) ("Ex. BSL-3"), p. 2.

[33] PICGUG St. 1, p. 13.

[34] *Id*.

demand to zero recognizes the interruptible nature of the gas delivery service provided to Rate IT.[35] Thus, the Commission should revise PGW's COSS to use a Factor 3 that sets Rate IT's excess demand to zero.[36]

Moreover, reflecting Rate IT's class interruptibility in the COSS also requires an adjustment to the load-factor weighting. Under the A&E methodology, A&E weights: (1) average daily throughput by the system load factor; and (2) extra demand by one minus the system load factor. The system load factor is the total average daily throughput divided by the product of system Peak Day Demand and 365 days.[37] Importantly, the Commission approved the aforementioned A&E weighting methodology in the PECO Energy Company – Gas Division ("PECO Gas") 2020 base rate proceeding.[38]

Confusingly, PGW's COSS uses a 50% load weighting factor based upon a claim of "precedent,"[39] even though PGW agrees that the A&E methodology weights the annual throughput by a utility's load factor and one minus the load factor for the excess demand.[40] In addition, PGW agrees that using the actual load factor allocates less costs to interruptible customers.[41]

Weighting the average demand by actual load factor recognizes that customers with higher load factors have stable daily demand, and, therefore, require less investment and operational

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[35] *Id*., p. 14, Exhibit__BSL-5 ("Ex. BSL-5"), p. 1.

[36] *Id*., Exhibit__(BSL-7) ("Ex. BSL-7"), p. 1.

[37] PICGUG St. 1, p. 13.

[38] *Pa. Pub. Util. Comm'n v. PECO Energy Co. – Gas Division*, Docket No. R-2020-3018929, Opinion and Order, pp. 229-30 (entered June 22, 2021).

[39] Both OSBA and OCA also use 50/50 weighting factors even though these factors are arbitrary and lack foundation. PICGUG St. 1R, pp. 4-6.

[40] PGW St. 5, p. 5; *Rebuttal Testimony of Constance E. Heppenstall*, PGW St. No. 5-R ("PGW St. 5-R"), p. 13-14.

[41] *Id.*

resources to meet their gas demands.[42] Moreover, weighting the average demand by the correct load factor not only adheres to the A&E methodology, but also follows very recent PUC precedent. Once Factor 3 is correctly revised to set the Rate IT class' extra demand to zero, the load factor for PGW's average annual daily throughput excluding the Rate IT class would be 23.0059% instead of 50%.[43]

As part of this proceeding, PICGUG has provided a COSS that appropriately treats Rate IT as fully interruptible, consistent with the terms and conditions of Rate IT. In other words, PICGUG's COSS sets the Rate IT class extra demand to zero and adjusts the load-factor weighting accordingly.[44] Moreover, PICGUG's revised COSS clearly demonstrates that Rate IT is subsidizing PGW's other rate classes once the interruptible nature of Rate IT's delivery service is recognized.[45] When Rate IT is recognized as fully interruptible, Rate IT provides a relative rate of return of 2.06.[46] Put another way, Rate IT is providing almost a $3.5 million interclass subsidy.[47]

In addition, OCA supports PGW's unreasonable COSS under the philosophy that interruptible customers are "rarely interrupted"[48] while OSBA accepts PGW's argument that

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[42] PICGUG St. 1, p. 14.

[43] *Id*., Ex. BSL-5.

[44] *Id*., Ex. BSL-7.

[45] PICGUG St. 1, p. 22.

[46] *Id*., p. 23.

[47] *Id.*

[48] OCA Witness Watkins performed two COSSs in this proceeding, one using the Peak and Average ("P&A") methodology and one using the A&E methodology. While PICGUG opposes the use of the P&A methodology because this methodology inappropriately double counts average demand, Mr. Watkins's P&A COSS seems to correctly recognize the interruptible nature of Rate IT, as it does not include Rate IT's peak demand when calculating the peak demand allocation factor for distribution mains. *See* PICGUG St. 1R, p. 3.

because Rate IT should be treated as firm for the COSS because they have not been interrupted for "many years."[49] In addition to ignoring cost causation principles, this treatment results in an unreasonable prejudice or disadvantage against Rate IT, while also creating an unreasonable difference as to rates between classes of service contrary to the requirements of Section 1304 of the Public Utility Code.[50]

While PGW claims that Rate IT is "technically interruptible," the Company's "technicality" in actuality requires that Rate IT remain unequivocally interruptible.[51] Indeed, the very concepts of being "technically interruptible," as PGW argues, or "essentially firm," per OSBA, are fabricated and nonsensical.[52] A customer is either subject to curtailment or not. Rate IT customers must meet stringent requirements, the same of which are <u>not</u> required for firm service customers, to be eligible for interruptible service.[53] Even more importantly, it is PGW's discretionary right to interrupt, rather than the actual frequency of interruptions, that define a customer's status as interruptible.[54] Importantly, PGW has no obligation to serve interruptible customers on peak days, and those customers must stand at the ready to be interrupted each and every day, unlike PGW's firm service customers who are guaranteed service on peak demand days.[55]

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[49] *See Direct Testimony of Glenn A. Watkins*, OCA St. 3 ("OCA St. 3"), p. 7; *see Direct Testimony of Robert D. Knecht*, OSBA Statement No. 1 ("OSBA St. 1"), p. 29.

[50] *See* 66 Pa. C.S. § 1304 (stating "[n]o public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service.").

[51] *Surrebuttal Testimony and Exhibit of Billie LaConte*, PICGUG Statement No. 1S ("PICGUG St. 1S"), p. 2.

[52] *See* PICGUG St. 1S, pp. 2, 11.

[53] *Id.*

[54] *Id.*

[55] *Id.*, p. 3.

Moreover, PGW's Rate IT does not allow a customer to switch to Rate IT without demonstrating that the customer first has the capability of withstanding interruption. To that tend, the rates charged by PGW for Rate IT should take into consideration the capability offered by Rate IT customers whom PGW would call upon in the event of extreme weather or unplanned system failure if needed in order to ensure reliable service to the PGW's firm service customers.[56] Thus, while not often needed, the ability of customers on Rate IT to maintain the ability to interrupt is the "safety net" that keeps PGW from having to curtail service to firm customers involuntarily during extreme weather or unplanned emergencies. Moreover, if PGW were to call upon Rate IT customers during such an event and Rate IT customers did not interrupt because they are considered only "technically interruptible" or "firm under the COSS," most likely PGW, OCA, and OSBA would argue that such action is a violation of PGW's tariff.

By treating Rate IT as firm for purposes of the COSS but as interruptible for the requirements of PGW's tariff, Rate IT customers are being unduly discriminated against for purposes of this proceeding. Specifically, treating this class as firm for purposes of the COSS completely devalues the efforts undertaken by Rate IT customers on a daily, monthly, and annual basis to be prepared for curtailment on PGW's system in order to ensure that other, firm service customers receive the natural gas for which they are correctly accounted for in PGW's COSS. If PGW, OCA, and OSBA seek to treat Rate IT as firm for purposes of the COSS, then PGW's tariff must also be modified to remove any mandatory requirements for interruption by these customers, as well as to remove any accompanying penalties for failing to interrupt. If, however, Rate IT customers are expected to maintain the processes needed to be available to interrupt at the sole discretion of PGW, this interruptibility must be reflected in any resulting COSS.

[56] *See Rebuttal Testimony of James L. Crist, P.E., Vicinity* Statement No. 1-R ("Vicinity St. 1-R"), pp. 12-13.

b) PGW's Use of the Peak Day Demand Rather than Peak Design Day Demand in Applying the A&E Method Is Contrary to Cost Causation.

As noted previously, PGW is utilizing the A&E Methodology for purposes of its COSS. While use of the A&E methodology is appropriate (assuming the Rate IT class is appropriately treated as interruptible), PGW is inappropriately utilizing Peak Day Demand to derive the excess demand to be used in applying the A&E methodology. Because Peak Day Demand is contrary to cost-causation principles, this portion of the COSS must be adjusted to utilize the Peak Design Day Demand.

Peak Day Demand represents the contribution of each customer class to the day when PGW experienced its maximum gas deliveries.[57] PGW must have sufficient pipeline capacity available, however, to meet its customers' demand on a Peak Design Day, resulting in Peak Design Day Demand exceeding Peak Day Demand.[58] For PGW, the Peak Design Day is a day on which the average mean temperature is 0 degrees Fahrenheit; however, the Peak Day Demand used in PGW's COSS was based on a mean temperature of 13 degrees Fahrenheit. A larger quantity of gas would be supplied on a day when the mean temperature in PGW's service territory is 0 degrees Fahrenheit than on a day when the mean temperature is 13 degrees Fahrenheit. Thus, PGW's use of the Peak Day Demand understates the allocation of demand-related costs to the more weather sensitive customer classes.[59]

Importantly, Design Day Demand is more consistent with cost causation because a gas distribution utility must size its distribution mains based on the quantity of gas that would be

[57] PICGUG St. 1, p. 15.

[58] *Id.*

[59] *Id.*

supplied on the Peak Design Day, which appropriately recognizes the more weather-sensitive customer classes.[60] Unfortunately, PGW does not have the Design Day Demand for each customer class.[61] Importantly, PGW also agrees that Design Day Demand by customer class is necessary.[62] For those reasons, the PUC should require PGW provide its Design Day Demand by customer class for purposes of the Company's next base rate proceeding.

c) PGW Improperly Classifies All Distribution Mains to Demand, Which Is Contrary to Both Cost-Causation Principles and Accepted Practice.

As part of its COSS, PGW proposes that all natural gas distribution mains be allocated to customer classes using the A&E method, resulting in no distribution mains being classified as customer-related costs under PGW's COSS. Because this process is contrary to both cost-causation principles and accepted practice, PGW's COSS must be corrected. Specifically, approximately 20% of PGW's distribution mains costs should be classified as customer-related cost.

Distribution mains are the various pipes used to deliver natural gas to end-use customers. These associated costs are booked to FERC Account No. 376.[63] Under its COSS, PGW is proposing that all gas distribution mains costs be allocated to customer classes using the A&E method; however, no distribution mains were classified a customer-related costs.[64] PGW's decision is inappropriate, as a portion of distribution mains costs must be classified as customer-related for several reasons.

[60] *Id.*

[61] *Id.*, Ex. BSL-3.

[62] PGW St. 5-R, p. 14.

[63] PICGUG St. 1, p. 16.

[64] *Id*.

First, gas distribution utilities must make minimum investments in facilities, including distribution mains and service laterals, just to connect a customer to the gas delivery system. This investment is completely independent of the level of the peak demand of the customer.[65] To the extent that this component of the distribution mains costs is a function of the requirement to connect the customer and support the deliverability of natural gas, regardless of the customer's size, it is appropriate and consistent with cost causation to allocate the cost of those facilities to service classes based on the number of customers.[66]

Second, allocating a portion of distribution mains costs on a customer basis is consistent with accepted regulatory practice. The NARUC Gas Rate Design ("GRD") and Gas Distribution Rate Design ("GDRD") manuals discuss several methodologies and approaches to cost allocation. With respect to the allocation of distribution main costs, the NARUC GDRD manual provides that: "[a] portion of the costs associated with the distribution system may be included as customer cost."[67] The Manual further states that "[o]ne argument for inclusion of distribution related items in the customer cost classification is the 'zero[inch] or minimum size main theory.'"[68] Similarly, the GRD Manual indicates that the cost associated with distribution mains is typically functionalized on a demand and customer basis.[69]

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[65] *Id.*

[66] *Id.*, p. 17.

[67] PICGUG St. 1, p. 16. (*citing National Association of Regulatory Utility Commissioners*, Gas Distribution Rate Design Manual (June 1989), p. 22.).

[68] *Id*.

[69] *Id.* (*citing National Association of Regulatory Utility Commissioners*, Gas Rate Design (Aug. 1981), p. 28.).

Third, acceptance of this practice is further demonstrated in the Gas Rate Fundamentals published by the American Gas Association Rate Committee.[70] According to this publication, "the required length and capacity of distribution mains are a function of both the number of customers and their demands on the distribution system and may be classified as having both customer and capacity components."[71]

Finally, PGW does not have any unique characteristics indicating that the same cost-causation principles generally applied to all other local gas distribution companies should not be applied to PGW. By not following cost-causation principles, however, PGW has misallocated costs. Specifically, PGW's COSS fails to allocate proper cost responsibility to the various customer classes. The inequity of classifying no gas distribution mains as customer related creates significant and inappropriate shifting of cost responsibility within PGW's COSS.[72]

For example, assume a single industrial customer exists on PGW's system with a peak demand of 500 dekatherms ("Dth"). Assume elsewhere on the system exists a neighborhood of 1,000 residential customers with an aggregated peak demand of 500 Dth. In order to connect all of those residential customers to the system, PGW would obviously have to invest in far more footage of distribution mains in comparison to PGW's investment in distribution mains to connect the single industrial customer. The extra investment in distribution mains, however, is due solely to the number of customers on the system, not the peak demand of those customers.[73]

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[70] Gas Rate Fundamentals is also referenced in the testimony of PGW's COSS witness. *See* PGW St. 5, p. 3.

[71] PICGUG St. 1, p. 18 (*citing American Gas Association Rate Committee*, Gas Rate Fundamentals, Third Edition (1978), p. 160.).

[72] PICGUG St. 1, p. 19.

[73] *Id.*, pp. 19-20.

Thus, the customer-related portion of distribution mains should be allocated based on the number of customers taking distribution level gas delivery service.[74] In order to correct this inequity, approximately 20% of PGW's distribution mains should be classified as a customer-related cost. This 20% recommendation is derived from the best available data provided by PGW in the current proceeding, as well as additional data provided by PGW in its last base rate proceeding.[75] Specifically, Table 1 compares the costs per linear foot of 6-inch plastic pipe to the average cost per linear foot of all pipe installed by PGW.[76] According to PGW, 6-inch plastic pipe is the typical installed main to serve customers.[77] The ratio of the average cost per linear foot of 6-inch plastic pipe to all distribution mains is 36%; however, reducing this result to 20% ensures conservative treatment of this calculation.[78]

Oddly, PGW seems to agree that "a certain portion of the costs mains could be allocated to the customer cost function," but then seems to indicate that more robust analysis would be required to determine the allocation.[79] The OCA disagrees with allocating a portion of distribution mains costs using a customer component via a claim that a customer would not connect to PGW's system if they would not utilize gas, so the utility does not incur any minimum costs to connect a

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[74] *Id*., p. 20.

[75] In PGW's 2020 base rate proceeding, PICGUG requested the cost per foot for all types of mains, and PGW provided that information; however, in this proceeding, while PICGUG also requested the cost per foot for all mains by size and type, and the footage by diameter and material type, PGW did not provide the total cost by diameter type, thereby preventing PICGUG from determining the cost per foot by diameter and type. As a result, PICGUG is relying, in part, on the information provided by PGW in the Company's last base rate proceeding. *See* PICGUG St. 1, p. 21 and Ex. BSL-3.

[76] PICGUG St. 1, p. 20, Table 1.

[77] *See id*., Ex. BSL-3.

[78] *See id*., p. 21.

[79] *See* PGW St. 5-R, pp. 13-14.

customer.[80] Under this claim, the OCA effectively tries to ignore the fact that PGW must make minimum investments in facilities, including distribution mains and service laterals just to connect a customer to the gas delivery system.[81] Unlike OCA, however, the OSBA incorporates a customer component into its mains allocation recommendation. Specifically, OSBA recognizes that a natural gas utility will need to install more feet of distribution main to serve 50 residential customers, with a design day demand of 1.5 Mcf per day, than the utility would to serve one commercial customer with peak demand of 75 Mcf per day.[82] In other words, the cost of serving 50 residential customers is more than serving one commercial customer, and that cost must be recognized by including a customer component when allocating mains.[83]

For the reasons set forth above, a customer component is required when allocating mains costs. To do otherwise fails to adhere to cost causation principles by ignoring the minimum investment natural gas utilities must make to connect a customer to the delivery system. For purposes of this proceeding, PGW's COSS should be modified to allow for 20% of the distribution mains costs to be classified as a customer-related cost, which is a conservative estimate based upon the data provided herein. In order to more accurately address these costs going forward, PGW should be required to undertake a robust analysis of this issue and present its findings as part of its next base rate proceeding.

[80] *See Rebuttal Testimony of Glenn A. Watkins*, OCA St. 3R ("OCA St. 3R"), p. 2.

[81] PICGUG St. 1S, p. 8.

[82] OSBA St. 1, p. 26.

[83] PICGUG St. 1R, p. 7.

d) Addressing the flaws in PGW's COSS results in Rate IT being significantly above its cost to serve.

Because PGW is not proposing any changes to the terms of service provided to Rate IT, PGW's COSS must be revised to reflect the interruptibility of this service. Upon revision, the corrected COSS demonstrates that Rate IT is subsidizing other customer classes.[84] Moreover, further revising the COSS to classify 20% of distribution mains as customer-related costs increases that subsidization further.[85] Accordingly, and as discussed more fully in Section IV.C.2., *infra*, Rate IT should receive a rate decrease or at least no rate increase.

Specifically, by revising Factor 3 of PGW's COSS to treat Rate IT as fully interruptible, Rate IT's relative rate of return increases to 2.06, resulting in Rate IT providing the other classes with a subsidy of approximately $3.5 million.[86] Moreover, revising the COSS to allocate 20% of distribution mains costs as customer-related results in Rate IT maintain a relative rate of return of 2.52. In turn, Rate IT's subsidization of the other rate classes increases to over $4 million.[87]

Because cost causation principles require that customers only be charged for costs they incur, Rate IT should not be charged as though they are receiving firm service when these same customers are required to adhere to substantive and costly requirements set forth in the Company's tariff to remain on Rate IT. To increase Rate IT's rates further (much less 1.35 times the system average as proposed by PGW), would result in unjust, unreasonable, and undue discrimination to Rate IT customers. Accordingly, PGW's COSS must be modified to ensure that the service provided to Rate IT is captured on a cost causal basis.

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[84] *See* PICGUG St. 1, Ex. BSL-7.

[85] *See id*., Exhibit__(BSL-8) ("Ex. BSL-8").

[86] *See* PICGUG St. 1, p. 23, Table 2.

[87] *Id.*

e) OCA's Allegations Regarding the COSS Findings of PICGUG Witness Billie LaConte are Misleading.

In his Surrebuttal Testimony, OCA Witness Glenn Watkins offers unsupported and misleading statements concerning the COSS findings of PICGUG Witness Billie LaConte. As such, OCA's claims regarding this issue should be summarily dismissed.

Specifically, Mr. Watkins pontificates as follows:

> *However, with the exception of PICGUG witness LaConte, all studies in this case show relatively similar results. Ms. LaConte's studies are clear outliers and are based on methods that have been rejected by the Commission.*[88]

Mr. Watkins' comments here are misleading and overbroad. As discussed at length above, Mr. Watkins' argument ignores the proverbial elephant in the room, as PGW, OCA, and OSBA have all offered COSS analyses treating Rate IT customers as firm customers.[89] Additionally, Mr. Watkins has since clarified that his comments about the Commission rejecting Ms. LaConte's "studies" are limited solely to her proposed allocation of distribution mains, not the entirety of her COSS analyses.[90]

Importantly, the substance of the distribution mains proposals is separately addressed in Section IV.C.1.c., *supra*. With regard to the broader claim that all of Ms. LaConte's studies are outliers that have been rejected by the Commission, Mr. Watkins' claim lacks support and should be disregarded.

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[88] OCA St. 3R, p, 1.

[89] *See infra*.

[90] *See* PICGUG St. 1S, Exhibit__(BSL-1S) ("Ex. BSL-1S").

f) Both OCA and OSBA Propose Modifications to the COSS that would only Generate Additional Flaws in PGW's COSS.

In addition to the flaws embedded in PGW's as-filed COSS, the OCA and OSBA also propose several modifications to PGW's COSS that would create additional problems in attempting to correctly determine the cost to serve customers. Specifically, OCA proposes modifications related to use of a P&A methodology, while OSBA proposes modifications addressing the allocation of Universal Service Plan costs. Each of these proposals must be rejected for the reasons discussed more fully herein.

(i) OCA's Reliance on a Peak and Average Model to Support PGW's Proposed COSS Double Counts Average Demand, which Unreasonably Benefits the Residential Customer Class.

In response to PGW's proposed COSS, OCA proposes two COSS models. Notably, OCA's witness insists his proposal includes four different analyses, which actually accounts only for the fact that OCA ran each its two models both with and without revenues from Vicinity.[91] Section IV.C.1.a, *supra*, addresses the failure of OCA's A&E model to assign zero excess demand costs to interruptible customers.[92] Ironically, OCA's P&A model recognizes the interruptibility of IT customers and assigns them zero costs for peak load.[93] Unfortunately, however, OCA's P&A model also suffers from a distinct, but equally disqualifying, flaw.

As recently recognized by the Commission, the P&A method can understate the cost responsibility for Residential customers. OCA's P&A model "considers both peak day demands

[91] *Surrebuttal Testimony of Glenn A. Watkins*, OCA St. 3SR ("OCA St. 3SR"), p. 3. Under PGW's proposal, Vicinity's costs would increase with this additional revenue being allocated to non-Rate IT customer classes.

[92] *See supra, Section II.1.a.*

[93] OCA St. 3, p. 14.

and annual throughput (average day demand)."[94] PICGUG Witness Ms. LaConte noted that use of the P&A method results in a double count because peak demand includes average demand.[95] Ms. LaConte further observed that the Commission came to the same conclusion in a recent rate case involving PECO Gas, where the Commission found that "due to residential customers having temperature-sensitive demand and corresponding law-load factors, double-counting average demand understates the residential cost of service while overstating the cost of service of more efficient gas users."[96] Ms. LaConte concluded that this double counting distorts results from the P&A model. Accordingly, and while for different reasons, both OCA's P&A and A&E models are flawed and cannot be relied upon by the Commission.

While Mr. Watkins attempts to defend his P&A analysis, he fails to distinguish the present circumstances from those observed by the Commission in *PECO Gas.* Mr. Watkins argues that his P&A method does not double count average demand costs because peak demand is a fundamentally different concept from throughput or average daily demand.[97] This statement is a *non-sequitur* as it does not change the fact that the peak demand measured on the peak or design day will always include the average demand.[98] As acknowledged by Mr. Watkins in his Direct Testimony, it is only the A&E method that measures the *difference* between average day demand and excess demand.[99]

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[94] *Id*.

[95] PICGUG St. 1R, p. 3.

[96] PICGUG St. 1R (*citing Pa. Pub. Util. Comm'n v. PECO Energy Co. – Gas Division*, Docket No. R-2020-3018929, Opinion and Order, pp. 229-230 (entered June 22, 2021) ("*PECO Gas*")).

[97] OCA St. 3SR, p. 3.

[98] PICGUG St. 1R, p. 3.

[99] OCA St. 3, p. 10.

Therefore, consistent with its prior finding in *PECO Gas,* the Commission should reject OCA's P&A model as unjust and unreasonable.

(ii) OSBA's proposal to extend cost recovery for PGW's Universal Service Plan costs is arbitrary, inconsistent with PGW's past practice, and contrary to Commission policy.

OSBA proposes fundamental changes to the allocation of PGW's Universal Service Plan costs that are rooted in an unfortunate mischaracterization of prior policy decisions made by the Commission to address circumstances unique to PGW.[100] As the arguments advanced by OSBA lack context and are fundamentally inconsistent with the Commission's existing policies for cost recovery of low-income programs, the OSBA's proposal to expand cost recovery of PGW's Universal Service Plan to include Rate IT customers must be rejected.

Currently, PGW continues to recover the costs of its Universal Service Plan from all firm sales customers. However, OSBA argues that cost recovery for PGW's Universal Service Plan should be expanded to include Rate IT customers because of changed circumstances.[101] Mr. Knecht claims "Rate IT customers were traditionally exempted from the USEC charge, because the Rate IT rates were ostensibly market-based and thus set at the maximum level."[102] Notably, Mr. Knecht provides no citations for this claim. Regardless, the Commission should dismiss OSBA's recommendation as inconsistent with the policy basis underlying the current cost recovery practice authorized for PGW's Universal Service Plan costs.

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[100] In Surrebuttal Testimony, OSBA Witness Mr. Knecht discussed the possibility of closing Rate IT to new customers and eventually transitioning Rate IT to a firm sales rate. As this concept was belatedly introduced in Surrebuttal Testimony, there is no evidentiary record to support it. Further, Mr. Knecht confirmed on cross-examination that these references were not intended as proposals for this rate case. *Pa. Pub. Util. Comm'n v. Philadelphia Gas Works*, Initial Evidentiary Hearing (Call In) Transcript, 420:5-18, Docket No. R-2020-3018929 (July 11, 2023). Accordingly, PICGUG will not address these statements other than to assert they should be given no weight.

[101] OSBA St. 1, pp. 33-34.

[102] *Id.*, p. 33.

It is undisputed that the Commission generally limits recovery of Universal Service Plan costs to residential customers based on cost causation principles.[103] In fact, during the initial base rate case following the Commission's exercise of jurisdiction over PGW, OSBA argued in favor of the Commission applying its standard policy to PGW and limiting cost recovery for its Universal Service Plan to Residential customers.[104] However, based on the challenging demographics in Philadelphia and the unique situation of the PUC exercising jurisdiction over a historically locally regulated municipal utility, the Commission rejected proposals to modify PGW's existing cost recovery structure and directed PGW to continue its pre-PUC practice of allocating Universal Service Plan costs to all firm sales customers.[105] Accordingly, the Commission granted PGW a specific exemption from the standard PUC policy limiting recovery of Universal Service Plan costs to Residential customers, in order to allow PGW to preserve its status quo methods and mitigate unreasonable rate impacts for its Residential customers.

Now, OSBA proposes that the Commission adopt a further modification that conflicts with both PGW's past practice and Commission policy. The Commission should dismiss OSBA's proposal to arbitrarily expand a narrowly constructed exemption to its cost recovery policies for low-income programs. PGW should be directed to continue recovering its low-income program costs from firm sales customers.

2. Revenue Allocation

Class revenue allocation is the process of determining how any change in a utility's base revenue that the Commission approves should be spread to each customer class that a utility

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[103] PICGUG St. 1S, p. 14.

[104] *Id. (citing Pa. Pub. Util. Comm'n v. Philadelphia Gas Works*, 2007 Pa. PUC LEXIS 46, *135, *142-143.).

[105] *Id.*

serves.[106] As discussed more fully in Section IV.C.1., *supra*, PGW's COSS contains several faults, which must be corrected. Based upon PGW's faulty COSS, the Company is proposing a 29.30% increase to Rate IT, which is 1.35 times the proposed system average of 16.28%.[107] Once PGW's COSS is corrected to reflect the fact that Rate IT customers must maintain the ability to interrupt at any point, the Company's COSS clearly shows that Rate IT is providing a substantially above-average rate of return at present rates.[108] If PGW's COSS is further modified to revise the allocation of distribution mains, Rate IT's subsidization of the other rate classes expands even further.[109] Because Rate IT is already substantially above its allocated cost to serve, Rate IT should actually receive a rate decrease in this proceeding; however, PICGUG recognizes the rules of gradualism and submits that, for purposes of this proceeding, Rate IT should at least not be increased above current rates.[110] Finally, proposed revenue allocation for Rate IT should be reduced to account for a proportional share of "Other Revenue," reflecting any additional revenues PGW receives from the Grays Ferry Cogeneration Partnership/Vicinity Energy Philadelphia, Inc. ("Vicinity").

Due to the aforementioned flaws inherent in PGW's analysis, the Company's COSS provides an incorrect Relative Rate of Return ("RROR") for Rate IT. A relative rate of return ("RROR") is the ratio of each class' rate of return[111] to the overall average rate of return. An RROR

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[106] PICGUG St. 1, p. 26.

[107] *See* PGW St. 5, Schedule A, p. 1.

[108] PICGUG St. 1, p. 23.

[109] *Id.*

[110] *Id.*, p. 29.

[111] Rate of Return ("ROR") is the ratio of operating income to the allocated rate base. Operating income is the difference between operating revenues at current rates and allocated operating expenses adjusted for the allocation of

above 100 means that a class is providing a rate of return higher than the system average, while an RROR below 100 indicates that a class is providing a below-system average rate of return.[112] An interclass subsidy is the term used to measure the difference between the revenues required from each class to achieve the system rate of return and the revenues actually being recovered. A negative amount indicates that a class is being subsidized each year (*i.e.*, the revenues are below cost at the system rate of return), while a positive amount indicates that a class is subsidizing the service provided to other classes (i.e., revenues are above cost).[113]

Once the flaws in PGW's COSS are corrected, Rate IT's correct RROR is significantly higher than any other customer class.[114] In order to correct this inequality, Rate IT should actually receive a rate **decrease** ranging from 9.3% (if the COSS is only corrected to account for Rate IT's interruptibility) to 17.5% (if the COSS is further corrected to classify 20% of distribution main costs as customer related).[115] In addition, these percentage reductions do not account for the error in PGW's COSS that incorrectly uses Peak Day Demand. Most likely, re-running of PGW's COSS to account for Peak Design Day Demand would result in a further rate reduction to Rate IT.

Because Rate IT is already substantially above its allocated cost of service, Rate IT is providing a rate of return that is substantially higher than the rate of return that PGW is seeking in this proceeding. Although the appropriate means by which to ensure that interruptible rates are truly receiving cost-based rates would be to decrease the current rates for Rate IT customers,

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demand. If a class is presently providing revenues sufficient to recover its cost of service at the current system rate of return, the class will have an ROR equal to or greater than the overall ROR. PICGUG St. 1, p. 24.

[112] PICGUG St. 1, p. 24.

[113] *Id.*

[114] *Id.*, p. 23, Tables 2 and 3.

[115] *Id.*, p. 29.

PICGUG recognizes the need for gradualism and, for that reason, recommends simply that Rate IT receive no rate increase in this proceeding.[116] If, however, the PUC reduces PGW's proposed rate increase, the first $1 million of that reduction should be allocated to Rate IT to bring this class closer to its cost to serve.[117] Thereafter, the decrease should be applied proportionately to each rate class.[118]

Assuming *arguendo*, however, that the PUC determines that PGW's COSS should not be corrected, PICGUG submits that any rate increase provided to Rate IT should not exceed the approved system average increase.[119] While cost of service is the polestar for ratemaking purposes in Pennsylvania, the PUC has also held that the principle of gradualism must be considered.[120] If the PUC determines that interruptible rates should not be based upon the cost to serve, but rather, PGW's decision to base these rates on what PGW believes is the "value" provided to these customers, then the principle of gradualism must be recognized.

Additionally, the revenue allocation for Rate IT should be further reduced to account for any additional revenue PGW receives from Vicinity. As recounted by PICGUG Witness LaConte, PGW submitted Supplemental Direct Testimony to include Vicinity in its COSS and estimate the costs PGW incurs to provide both transportation and Alternative Rate Service to Vicinity's.[121] The inclusion of Vicinity in the COSS has emerged as a highly contested issue in this proceeding,

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[116] *Id*.

[117] *Id*., 29-30.

[118] *Id*., 30.

[119] *Id*.

[120] *See Pa. Pub. Util. Comm'n, et al. v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597, Opinion and Order, pp. 118-9 (entered Dec. 28, 2012).

[121] PICGUG St. 1, p. 25.

concerning both the appropriate rate to be charged to Vicinity and the extent to which Vicinity utilizes PGW's distribution system to justify any allocation of PGW's distribution mains cost to Vicinity.[122] As the record shows, because Vicinity benefits from PGW's distribution system,[123] PICGUG recommends that any additional revenue from Vicinity be recorded as "Other Revenue" and applied to proportionately reduce the rate increases for all other rate classes, including Rate IT.[124]

Accordingly, in order to ensure just and reasonable rates that do not unduly discriminate against the Rate IT class, interruptible transportation customers should receive a rate decrease in this proceeding in an effort to bring this class closer to its cost to serve. Recognizing the principles of gradualism, however, Rate IT should at least receive no rate increase to so that the subsidization by this class to firm service customers does not increase further. And finally, the revenue allocation to Rate IT should reflect any additional revenues from Vicinity, which shall be recorded as Other Revenue to reduce costs for all customers.

3. Rate Design

a) Customer Charges

PICGUG takes no position on PGW's proposed customer charge for any of the rate classes at this time.

b) Other Tariff Changes

PICGUG takes no position on any other tariff changes proposed by PGW at this time.

[122] *See* OSBA St. 1, pp. 46-47.

[123] *Rebuttal Testimony of Ryan E. Reeves*, PGW St. 8-R ("PGW St. 8-R"), p. 7.

[124] PICGUG St. 1, p. 25.

D. GFCP/VEPI – Class GS-XLT

PICGUG takes no position on this issue, except that revenue allocation issues related to Vicinity are addressed in Section II.C.2, *supra*.

E. Customer Service Issues

PICGUG takes no position on this issue.

F. Low-Income Customer Service Issues

PICGUG takes no position on this issue.

G. Pipeline Replacement/Alternatives

PICGUG takes no position on this issue.

H. Miscellaneous Issues

PICGUG takes no position on any additional miscellaneous issues at this time.

V. CONCLUSION

WHEREFORE, the Philadelphia Industrial Commercial Gas Users Group respectfully requests that the Pennsylvania Public Utility Commission:

(1) Only grant PPGW a requested rate increase in the amount necessary, if any, to ensure just and reasonable rates for all PGW customers;

(2) Modify PGW's proposed Cost of Service Study to reflect Rate IT's interruptible nature;

(3) Require PGW provide its Peak Design Day Demand by customer class for purposes of the Company's next base rate proceeding;

(4) Modify PGW's proposed Cost of Service Study to classify approximately 20% of PGW's distribution mains costs as customer-related costs;

(5) Ensure any additional revenues PGW receives from Vicinity are reflected to all rate classes, including Rate IT;

(6) Provide for a rate decrease, or at a minimum, no rate increase to Rate IT, as Rate IT is already above its cost to serve;

(7) If, assuming *arguendo*, the PUC does not modify PGW's COSS to account for Rate IT's interruptibility, allocate to Rate IT no more than the system average increase; and

(8) Maintain PGW's current allocation of Universal Service Plan costs to only firm sales customers.

Respectfully submitted,

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Dated: July 27, 2023

APPENDIX A

PROPOSED FINDINGS OF FACT

1. Rate IT customers are "subject to curtailment or interruption at any time." PGW Gas Tariff – Pa P.U.C. No. 2, Original Pg. No. 111 (eff. Sept. 1, 2003).
2. Pursuant to PGW's Tariff, "the Company may curtail (reduce) or interrupt deliveries to the [Rate IT] Customer whenever, at the Company's sole discretion, it determines that the availability capacity in all or a portion of its system is projected to be insufficient to meet the requirements of all Customers or in the event a NGS fails to meet delivery obligations." PGW Gas Tariff – Pa P.U.C. No. 2, Original Pg. No. 111 (eff. Sept. 1, 2003).
3. A Rate IT customer must "maintain the ability to curtail or interrupt usage upon eight hours notice" and, in the event of a system emergency, "upon notice by the Company, the Customer shall use its best efforts to curtail or interrupt usage upon less than eight hours notice." PGW Gas Tariff – Pa P.U.C. No. 2, Original Pg. No. 111 (eff. Sept. 1, 2003).
4. If PGW determines that a Rate IT customer has used a quantity of gas in excess of the quantity authorized, the Company may impose various penalties, including physically restricting the flow of gas to the customer's premises or imposing a monetary penalty. PGW Gas Tariff – Pa P.U.C. No. 2, Original Pg. No. 111 (eff. Sept. 1, 2003).
5. Rate IT customers are subject to daily balancing, which means they do not require any storage service, resulting in these customers being fully interruptible at all times. PICGUG St. 1, p. 8.
6. PGW is not proposing to make any changes to the provisions of Rate IT, but rather, plans to continue to require Rate IT customers to adhere to the aforementioned terms and conditions, including demonstrating the ability to interrupt at any time per PGW's sole discretion. PICGUG St. 1, p. 12.
7. While PGW is properly using the A&E method to allocate demand-related costs in its COSS, PGW is inappropriately allocating peak-related costs to Rate IT. PGW St. 5, p. 3.
8. It is PGW's right to interrupt, which is at PGW's sole discretion, rather than the actual frequency of interruptions, that define a customer's status as interruptible. *See* PICGUG St. 1S, pp. 2, 11.
9. Because Rate IT customers' flow is "truly interruptible" (*i.e.*, they must maintain the ability to interrupt at PGW's sole discretion per the terms of the Company's tariff), Rate IT does not contribute to peak events. PICGUG St. 1, p. 13.
10. PICGUG has provided a COSS that appropriately sets the Rate IT class extra demand to zero and adjusts the load-factor weighting accordingly. PICGUG St. 1, Ex. BSL-7.

11. When Rate IT is recognized as fully interruptible, Rate IT provides a relative rate of return of 2.06, which results in a $3.5 million interclass subsidy. PICGUG St. 1, pp. 22-23.

12. For PGW, the Peak Design Day is a day on which the average mean temperature is 0 degrees Fahrenheit; however, the Peak Day Demand used in PGW's COSS was based on a mean temperature of 13 degrees Fahrenheit. PICGUG St. 1, p. 15.

13. A larger quantity of would be supplied on a day when the mean temperature in PGW's service territory is 0 degrees Fahrenheit than on a day when the mean temperature is 13 degrees Fahrenheit. PICGUG St. 1, p. 15.

14. PGW's use of the Peak Day Demand understates the allocation of demand-related costs to the more weather sensitive customer classes. PICGUG St. 1, p. 15.

15. To the extent that a component of the distribution mains costs is a function of the requirement to connect the customer and support the deliverability of natural gas, regardless of the customer's size, it is appropriate and consistent with cost causation to allocate the cost of those facilities to service classes based on the number of customers. PICGUG St. 1, p. 17.

16. Allocating a portion of distribution mains costs on a customer basis is consistent with accepted regulatory practice. PICGUG St. 1, p. 16. (*citing National Association of Regulatory Utility Commissioners*, Gas Distribution Rate Design Manual (June 1989), p. 22; *National Association of Regulatory Utility Commissioners*, Gas Rate Design (Aug. 1981), p. 28).

17. According to the Gas Rate Fundamentals published by the American Gas Association Rate Committee, "the required length and capacity of distribution mains are a function of both the number of customers and their demands on the distribution system and may be classified as having both customer and capacity components." PICGUG St. 1, p. 18. (*citing American Gas Association Rate Committee*, Gas Rate Fundamentals, Third Edition (1978), p. 160).

18. Under its COSS, PGW is proposing that all gas distribution mains costs be allocated to customer classes using the A&E method; however, no distribution mains were classified as customer-related costs. PICGUG St. 1, p. 16.

19. In order to correct this inequity, approximately 20% of PGW's distribution mains should be classified as a customer-related cost. PICGUG St. 1, p. 21.

20. OCA Witness Glenn Watkins clarified that his comments about the Commission rejecting Ms. LaConte's "studies" are limited solely to her proposed allocation of distribution mains, not the entirety of her COSS analyses. PICGUG St. 1S, Exhibit__(BSL-1S).

21. Use of the P&A method results in a double count because peak demand includes average demand. PICGUG St. 1R, p. 3.

22. During the initial base rate case following the Commission's exercise of jurisdiction over PGW, the Commission rejected proposals to modify PGW's existing cost recovery

structure and directed PGW to continue its pre-PUC practice of allocating Universal Service Plan costs to all firm sales customers. PICGUG St. 1S, p. 14 *citing Pa. Pub. Util. Comm'n v. Philadelphia Gas Works*, 2007 Pa. PUC LEXIS 46, *135, *142-143.

23. Based upon its faulty COSS, PGW is proposing a 29.30% increase to Rate IT, which is 1.35 times the proposed system average of 16.28%. *See* PGW St. 5, Schedule A, p. 1.

24. Once the flaws in PGW's COSS are corrected, Rate IT's correct RROR is significantly higher than any other customer class. PICGUG St. 1, p. 23, Tables 2 and 3.

25. From a COSS perspective, Rate IT should receive a rate decrease ranging from 9.3% (if the COSS is only corrected to account for Rate IT's interruptibility) to 17.5% (if the COSS is further corrected to classify 20% of distribution main costs as customer related). PICGUG St. 1, p. 29.

26. Recognizing the principle of gradualism, at a minimum, Rate IT should receive no rate increase in this proceeding. PICGUG St. 1, p. 29.

27. Because Vicinity benefits from PGW's distribution system, any additional revenue from Vicinity must be recorded as "Other Revenue" and applied to proportionately reduce the rate increases for all other rate classes, including Rate IT. PICGUG St. 1, p. 25.

APPENDIX B

PROPOSED CONCLUSIONS OF LAW

1. Section 332(a) of the Public Utility Code provides that the proponent of a rule or order has the burden of proof. 66 Pa. C.S. § 332(a).
2. As the proponent of a changes to its rates, terms, and conditions of service for Rate IT customers, PGW bears the burden of proof in this proceeding and, therefore, the duty to establish facts by a "preponderance of the evidence. *Se-Ling Hosiery, Inc. v. Margulies*, 70 A.2d 854 (Pa. 1950*); Samuel J. Lansberry, Inc. v. Pa. P. U. C.*, 578 A.2d 600 (Pa. Cmwlth. 1990).
3. Any finding of fact necessary to support the Commission's adjudication must be based upon substantial evidence. 2 Pa. C.S. § 704; *Mill v. Pa. P. U. C.*, 447 A.2d 1100 (Pa. Cmwlth. 1982); *Edan Transportation Corp. v. Pa. P.U.C.*, 623 A.2d 6 (Pa. Cmwlth. 1993).
4. Pursuant to the Public Utility Code, "[e]very rate made, demanded or received by any public utility…shall be just and reasonable, and in conformity with regulations or orders of the commission. 66 Pa. C.S. § 1301.
5. Per Section 1304 of the Code "[n]o public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service." 66 Pa. C.S. § 1304.
6. Per Section 1304 of the Code "[n]o public utility shall, as to rates…subject any person, corporation, or municipal corporation to any unreasonable prejudice or disadvantage." 66 Pa. C.S. § 1304.
7. Per the Commonwealth Court of Pennsylvania, cost of service is the "polestar" of utility ratemaking. *Lloyd v. Pa. Publ. Util. Comm'n*, 904 A.2d 1010, 1020 (Pa. Commw. Ct. 2006) ("*Lloyd").*
8. In order to account for cost causation requirements in ratemaking, the Commission must modify PGW's proposed COSS to reflect Rate IT's interruptibility. *Lloyd* 904 A.2d at 1020.
9. If Rate IT's allocation is based upon a COSS treating Rate IT as firm, Rate IT would be subjected to unreasonable prejudice and disadvantage because Rate IT would be required to still maintain PGW's interruptibility requirements in its Tariff.
10. Because a corrected COSS shows Rate IT as above its cost to serve, Rate IT should receive a rate decrease or, at a minimum, no rate increase.

APPENDIX C

PROPOSED ORDERING PARAGRAPHS

1. Only grant PGW a requested rate increase in the amount necessary, if any, to ensure just and reasonable rates for all PGW customers.
2. Modify PGW's proposed Cost of Service Study to reflect Rate IT's interruptible nature.
3. Require PGW provide its Design Day Demand by customer class for purposes of the Company's next base rate proceeding.
4. Modify PGW's proposed Cost of Service Study to classify approximately 20% of PGW's distribution mains costs as customer-related costs.
5. Ensure any additional revenues PGW receives from Vicinity are reflected to all rate classes, including Rate IT.
6. Provide for a rate decrease, or at a minimum, no rate increase to Rate IT, as Rate IT is already above its cost to serve.
7. If, assuming *arguendo*, the PUC does not modify PGW's COSS to account for Rate IT's interruptibility, allocate to Rate IT no more than the system average increase.
8. Maintain PGW's current allocation of universal service plan costs to only firm sales customers.