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August 7, 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 Reply 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
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 7th day of August, 2023, at Harrisburg, Pennsylvania

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY BRIEF OF THE
PHILADELPHIA INDUSTRIAL AND COMMERCIAL GAS USERS GROUP

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

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Dated: August 7, 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 initially discussed in the Main Brief of the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG"), the critical disputed issue of concern for 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. Essentially, these parties have created a set of alternative facts under which the defining element of interruptible service becomes nothing more than whether the customers have actually been interrupted as opposed to the utility's ability to call an interruption at any time. As a result of this inequitable construct, Rate IT customers would be required to shoulder a rate increase of 1.35 times the system average increase while PGW and the remaining customers would continue to benefit from the operational flexibility resulting from Rate IT customers maintaining the equipment and ability to interrupt their processes at PGW's sole discretion.

Unfortunately, as evidenced by the Main Briefs filed herein, several parties continue to seek to "have their cake and eat it, too." Because PICGUG's Main Brief discusses in detail the fact that 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, PICGUG's Reply Brief will focus on responding to specific arguments raised by parties regarding PGW's Cost of Service Study ("COSS") and the resulting revenue allocation.

Revising PGW's COSS to account for the continued interruptibility of Rate IT customers reveals 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

In addition to the procedural history set forth more fully in PICGUG's Main Brief, on July 27, 2023, PICGUG filed a Main Brief ("M.B.") and received Main Briefs from PGW, 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.

Pursuant to the procedural schedule established in this proceeding, PICGUG hereby submits this Reply Brief to address cost of service and revenue allocation issues raised by PGW, OCA, OSBA, and I&E.[1]

II. LEGAL STANDARDS

The Burden of Proof and Just and Reasonable Rates sections set forth in PICGUG's Main Brief are incorporated by reference as if stated in full herein.

[1] PICGUG's Reply Brief seeks to respond to specific arguments raised in the Main Briefs of several parties. PICGUG's decision not to respond to all arguments raised by all of the parties in their Main Briefs does not indicate that PICGUG agrees with these positions.

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. Moreover, although several parties have argued in their Main Briefs that various portions of PGW's COSS should follow cost-of-service principles, none of these same parties have provided any argument to substantiate why cost-of-service principles should be rejected solely for Rate IT. Rather, these parties continue to request a specific carve-out for application of cost causation to Rate IT on what seems to be the sole basis of this carve-out benefitting non-Rate IT customers.

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. As set forth more fully herein, evidence provided in this proceeding by several parties requires the PUC to reexamine precedent to reflect cost causation principles. Moreover, PGW should be required to provide its Peak Design Day Demand by customer class as part of its next base rate proceeding to ensure accurate data is appropriately included in the COSS. Importantly, PGW does not assign Rate IT customers load as part of its Peak Design Day Demand, but rather, uses Peak Day Demand data, during which PGW chose, at its sole discretion, to serve Rate IT customers even though these customers stood at the ready to interrupt if needed. Thus, failure to provide Peak Design Day Demand data as part of this proceeding results in a less than accurate picture of Rate IT's contribution to PGW's peak demand.

Finally, the Commission should reject the OSBA's proposal to modify PGW's COSS by allocating Universal Service Plan Costs to Rate IT customers. For purposes of this proposal, OSBA seems to be in the minority, with several parties raising concerns regarding this change. As such, the Commission should require PGW to retain the status quo regarding this cost allocation.

Once PGW's COSS appropriately reflects Rate IT's interruptibility, Rate IT is significantly above its cost to serve. Further modifying the COSS to classify distribution mains costs as partially customer-related would reveal the full extent of existing subsidization of other classes by Rate IT. Because none of the parties present any arguments in their Main Briefs that support rejecting cost causation principles, including Commonwealth Court precedent on which these principles are based, PICGUG's COSS revisions and revenue allocation proposals should be approved, and Rate IT should not be allocated any rate increase in this proceeding. To the extent the Commission approves a rate increase lower than that proposed by PGW, it should apply PICGUG's proposed first-dollar-relief scale back.

IV. ARGUMENT

A. Revenue Requirement

PICGUG addressed PGW's revenue requirement request in its Main Brief.

B. Expenses

PICGUG takes no position on this issue.

C. Rate Structure

1. Cost of Service Study

For decades, the Commission has reinforced the importance of cost-based ratemaking as the guiding principle or "polestar" of rate setting process. However, in stark contrast to cost-of-service principles, three parties to this proceeding are advocating to allocate costs to Rate IT customers based on the value of the service to the customers rather than the cost of the service to the utility. No party to this case disputes that Rate IT customers are interruptible and do not contribute to PGW's Peak Design Day Demand. Regardless, PGW, OCA (with respect to its Average and Excess ("A&E") method), and OSBA all argue that Rate IT customers should be assigned costs for excess demand because PGW has not issued a call for interruption of Rate IT customers since 2004. Because ratemaking in Pennsylvania is based on cost to serve, not value of service propositions, these arguments must be rejected, and PGW's COSS must be modified to recognize the Rate IT class' interruptibility.[2]

Similarly, PGW must be directed to provide Peak Design Day Demand data in its next base rate case. As part of its effort to overstate Rate IT's cost responsibility, PGW uses Peak Day Demand rather than Peak Design Day Demand when applying the A&E method. Although PGW previously noted in its Rebuttal Testimony that this data should be provided, PGW's Main Brief seems to argue that lack of data in this proceeding renders this argument moot. Unfortunately, failure to supply this data as part of this proceeding distorts the fact that Rate IT's load is not calculated for purposes of the Company's Peak Design Day Demand. In order to correct any false assumptions, PGW must be required to provide Peak Design Day Demand data as part of its next base rate filing.[3]

PGW's COSS further 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 discussed more fully herein, several parties to this proceeding provide robust evidence warranting the PUC's reexamination of older precedent regarding this issue. Upon reviewing this evidence,

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

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

and adhering to cost causation principles, it is clear that PGW's COSS should be modified to classify a portion (*i.e*., 20%) of distribution mains as customer-related costs.[4]

Finally, the Commission must reject OSBA's proposal to assign Universal Service Plan costs to Rate IT customers. As noted by several parties in this proceeding, this proposal conflicts with both PGW past practices and Commission policy and should be given no weight.

a) *None of the Parties to this Proceeding Adequately Support their Proposals to Exempt Rate IT Customers from Cost Causation Principles.*

As discussed above, parties to this proceeding seek to set cost of service principles aside and allocate costs to Rate IT based on alternative facts where Rate IT customers are now to be treated as firm customers **only** for cost-of-service purposes. Despite the glaring inconsistency of treating a class subject to interruption at any time as a class that is entitled to firm service at all times, three parties, PGW, OCA, and OSBA, have advanced this flawed argument. The Commission must reject outright any effort to disadvantage Rate IT customers by ignoring the undisputed reality that Rate IT customers remain subject to interruption at any time. Rather, the PUC must require PGW to set rates based on a COSS that correctly reflects Rate IT customers' interruptibility.

PGW, OCA, and OSBA each propagate this baseless theory in their respective Main Briefs. PGW, with respect to its calculation of the A&E method, states "that the IT class average and excess usage was included in the calculation as these customers have only been interrupted once (in 2004) in almost 20 years and cannot be truly considered as interruptible for cost allocation purposes."[5] OCA, while accounting for the interruptibility of Rate IT customers in its Peak and

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

[5] PGW M.B., pp. 36-37.

Average ("P&A") method, also develops an A&E analysis that allocates excess demand costs to Rate IT customers.[6] OSBA offers a more nuanced, but equally deficient argument. OSBA concurs with PGW and OCA that interruptible customers should pay the same rates as firm customers because they have not actually been interrupted in many years.[7] However, OSBA ultimately proposes a value-based cost of service analysis, arguing that the otherwise applicable cost-of-service for Rate IT (which OSBA sets as equal to firm service) should be discounted to account for any demonstrable, avoided costs benefitting the other firm customers or any demonstrable costs incurred by Rate IT customers to comply with the interruptibility requirements.[8] Because PGW has not developed a record of such "value," OSBA concludes that the Commission must determine what "rate discounts" interruptible customers should receive to compensate them for their interruptibility.[9]

Each of these arguments flies in the face of cost-of-service ratemaking principles. As has been clearly and unequivocally stated "…PGW's distribution system is designed to meet customers' *design day demands,* warranting treatment of the cost of excess capacity as a *primary cost driver* rather than as an incremental cost."[10] This renders the focus of parties on historical interruptions completely irrelevant. Whether PGW interrupts every 20 years or every 20 days, the

[6] OCA M.B., p. 49.

[7] OSBA M.B., p. 16.

[8] *Id*. at 17.

[9] *Id*.

[10] PGW M.B., p. 36 (Emphasis added).

fact remains that interruptible customers do not contribute to design day demand because PGW, at any time, can direct interruption of these customers at its sole discretion.[11]

Notably, PGW itself does not contest the general principle that interruptible load is properly excluded from its calculation of excess demand. 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."[12] Notwithstanding that seemingly clear proclamation, PGW proceeds to create an arbitrary paradigm where load that is indisputably fully interruptible at all times no longer qualifies as interruptible load because of a historic period where interruptions were not called. Just as the Commission would not remove a fire escape after a period without incident, the Commission should recognize the continued availability of interruptible service from Rate IT customers, regardless of the historical frequency of interruptions. Accordingly, PGW's and OCA's reliance on the historical record of interruptions as the basis for including or assigning cost responsibility for excess usage to Rate IT customers is severely misplaced.

OSBA's emphasis on the value of service over the cost of service is also misplaced. OSBA argues that Rate IT customers should be treated as firm by default, but granted discounts for avoided costs.[13] The Commonwealth Court of Pennsylvania has firmly established that cost of

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[11] PICGUG M.B., p. 8. Although not offered in responding to the COSS and revenue allocation issues raised by PICGUG, PGW addressed its discretionary authority to call interruptions in response to arguments from Vicinity seeking interruptible status. PGW M.B., p. 54. Specifically, PGW claims it "could interrupt at any time, including for economic reasons." *Id.* While PGW reserves broad discretion to interrupt qualified customers, PGW must first make a threshold finding that "the available capacity in all or a portion of its system is projected to be insufficient to meet the requirements of all Customers" or "an NGS fails to meet delivery obligations." Supplement No. 159 to Gas Service Tariff – Pa. P.U.C. No. 2, p. 112. Accordingly, PGW's discretionary power to interrupt extends only to operational purposes, not economic reasons.

[12] PICGUG St. No. 1, p. 13 (*citing* PGW St. No. 5, Direct Testimony of Constance E. Heppenstall at 3). Note that the above-quoted statement was also referenced in PICGUG's Main Brief, but the citation was inadvertently omitted.

[13] OSBA M.B., p. 17.

service, not value of service, is the "polestar" of utility ratemaking.[14] OSBA's argument initially fails for the same reason as PGW's and OCA's arguments, i.e., the premise of treating Rate IT customers as firm service customers to assign costs for excess demand ignores the reality that PGW's Peak Design Day Demand cost of service excludes interruptible load.[15] OSBA's additional backwards effort to recognize the interruptibility of Rate IT customers, by seeking to determine avoided costs for other customers or incurred costs for the Rate IT customers, misses the mark by failing to account for the cost-of-service impact of PGW being able to call upon Rate IT customers as needed to interrupt their service during a peak design day in order to ensure that PGW's firm service customers are not interrupted.

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. The COSS analysis proposed by PGW and generally supported by OCA and OSBA must be modified to exclude Rate IT from any assignment of excess demand costs. As detailed in PICGUG's Main Brief, correcting PGW's COSS to account for the interruptibility of Rate IT customers requires adjusting Factor 3 in PGW's COSS to set excess demand for Rate IT to zero and weighting the average demand by load factor.[16] PICGUG has provided revised COSS analyses showing the results of these adjustments.[17] The Commission must reject the COSS recommendations from PGW, OSBA, and OCA with regards to Rate IT and approve the adjustments set forth in PICGUG's Main Brief.

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

[15] PGW M.B., p. 36.

[16] *See* PICGUG M.B., p. 13.

[17] *Id.; see also* PICGUG St. 1, Exhibits__(BSL-7) & (BSL-8).

b) *PGW's Claim of Not Providing Peak Design Day Demand Data Is Not a Reason to Use Peak Day Demand Data, which Would Violate Cost Causation Principles.*

As discussed above, PGW has proposed to treat Rate IT customers as firm service customers for cost-of-service purposes. Confusingly, PGW also readily acknowledges that interruptible customers should be excluded from assignment of costs from peak events. The disconnect underlying PGW's seemingly incongruent statements comes from its unsupported reliance on Peak Day Demand rather than Peak Design Day Demand to assign costs through PGW's use of the A&E method for its COSS.

Notably, PGW does not actually disagree that customers should be allocated costs based on Peak Design Day Demand. In its Main Brief, PGW concurs with the recommendations of PICGUG witness LaConte and OSBA witness Knecht that Peak Design Day Demand is the appropriate metric to assign costs for a gas utility's COSS.[18] In explaining the Company's continued use of Peak Day Demand, PGW clarified that "[a]lthough PGW witness Heppenstall agreed with Mr. Knecht and LaConte in concept, she explained that PGW does not have the data to determine the design day peak demands by customer class, which is why historic peak usage was used."[19]

The Commission cannot allow PGW to discriminate against Rate IT customers by acknowledging that Rate IT customers do not contribute to its excess demand costs on Peak Design Days, but then avoiding use of Peak Design Days by relying on Peak Day Demand. PGW stated that if "a customer's flow is truly interruptible, the customer would not be allocated excess demand

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[18] PGW M.B., p. 39.

[19] *Id.* at 39-40.

capacity in the allocation of costs related to distribution mains."[20] PGW has also confirmed that "…even though PGW does not include interruptible load in calculating its peak design day demand, 'PGW does provide gas during the period of Interruptible class' peak day demand. Therefore, the cost allocation should reflect that service."[21] In other words, PGW has created a results-oriented analysis intended to redefine the "interruptible service" as "recently interrupted service." The fact that PGW has served interruptible load on peak demand days in no way alters the reality that PGW's Peak Design Day Demand does not include interruptible load. Accordingly, just as the Commission should adjust PGW's COSS to account for the interruptibility of Rate IT customers, the Commission must further direct PGW to provide its Design Day Demand by customer class for purposes of the Company's next base rate proceeding.

c) *Arguments for Classifying All Distribution Mains to Demand Ignore Both Cost-Causation Principles and Accepted Practice.*

In addition to failing to appropriately account for the interruptibility of Rate IT, PGW also proposes to allocate distribution mains cost exclusively to demand. The record in this proceeding contains persuasive evidence supporting allocation of a portion of distribution mains cost on per-customer basis, and none of the arguments put forth by parties in Main Briefs provide appropriate basis for ignoring cost causation principles. Rather than relying solely on its own non-binding precedent, the Commission should evaluate the evidentiary record in this proceeding and approve the 20% customer-based allocation proposed by PICGUG witness LaConte or, alternatively, approve the 25% per customer allocation proposed by OSBA witness Knecht.

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[20] PICGUG St. No. 1, p. 13 (*citing* PGW St. No. 5, Direct Testimony of Constance E. Heppenstall at 3). Note that above-quoted statement was also referenced in PICGUG's Main Brief, but the citation was inadvertently omitted.

[21] PGW M.B., p. 39.

While the Commission has expressed reluctance to approve a per-customer component for distributions mains cost in prior cases, the record in this proceeding reflects strong support for the proposal.[22] PICGUG sponsored testimony from witness LaConte, which reviews the principle of minimum investment and notes that some portion of the facilities serving each customer is necessary regardless of the customer's demand.[23] Additionally, PICGUG cited various authoritative sources supporting allocation of distribution mains on a per customer basis as an accepted and typical regulatory practice.[24] OSBA witness Knecht also supports a per-customer allocation of distribution mains, finding it necessary to account for economies of scale of extending the distribution to serve large customers relative to smaller customers.[25] Notably, Mr. Knecht offers an alternative methodology of calculating the per-customer component, preferring the zero-intercept method to Ms. LaConte's minimum system method.[26] Importantly, even PGW witness Heppenstall substantively agrees that the per-customer allocation of distribution mains is appropriate and consistent with cost causation principles, but declines to adopt it solely because of the Commission's precedent.

While the Commission endeavors to maintain consistency across its rulings, it should not be so tied to its own non-binding precedent that prior rulings override credible testimony from expert witnesses. In supporting PGW's 100% demand-based allocation for distributions mains cost, OCA reviews multiple Commission cases since the 1980s where the Commission denied

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[22] PGW M.B., p. 38.

[23] PICGUG M.B., p. 18

[24] *Id.*

[25] OSBA M.B., p. 15.

[26] *Id.*

approval for customer-based allocation of distribution mains cost.[27] PICGUG submits that the Commission should heavily weigh the testimony from PICGUG, OSBA, and even PGW witnesses in this case supporting use a customer component. The Commission should also weigh the ample industry authorities supporting some allocation of distributions mains on a per-customer basis, including the NARUC Gas Rate Design ("GRD") and Gas Distribution Rate Design ("GDRD") manuals and the Gas Rate Fundamentals published by the American Gas Association Rate Committee.[28]

For the reasons set forth above, 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. Alternatively, PICGUG would support approval of OSBA's zero-intercept method, which would result in 25% of the distributions mains costs being classified as customer-related. In any event, 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.

d) *OSBA has not Provided any Credible or Persuasive Basis for Expanding Recovery of PGW's Universal Service Plan Costs to Rate IT.*

In addition to proposing to reflect the assignment of excess demand costs to Rate IT for COSS purposes, OSBA also proposes to expand recovery of PGW's Universal Service Plan costs to interruptible customers.[29] Importantly, no other party to this proceeding supports Mr. Knecht's proposal. As fully set forth in the PICGUG Main Brief, the Commission entered an Order, in the

[27] OCA M.B., p. 56.

[28] PICGUG M.B., pp. 18-19.

[29] OSBA M.B., p. 23.

initial proceedings exercising jurisdiction over PGW, that excepted PGW from the Commission's policy limiting cost recovery for low-income customers to Residential customers.[30] The Commission waived application of the standard policy to preserve PGW's preexisting policy of recovering low-income program costs from all firm sales customers.[31] While the Commission may at some point revisit bringing PGW into compliance with the PUC's policy of limiting cost recovery of low-income programs to Residential customers, as OSBA has reserved the right to propose,[32] OSBA has not established a persuasive basis to further deviate from the Commission's longstanding policy. Accordingly, the Commission should not assign any costs of PGW's Universal Service Plan to Rate IT.

2. Revenue Allocation

The revenue allocation positions taken by parties in this proceeding almost exclusively fallout from the position these parties take with respect to PGW's COSS. For the reasons detailed in Section IV.C.1.a of PICGUG's Main Brief, as well as Section IV.C.1.a., *supra*, the Commission must reject the alternative reality posited by PGW, OCA, and OSBA that would result in a revenue allocation based on a COSS that discriminates against a certain category of customers. The Commission must similarly reject the scale back position from I&E, which also relies on PGW's flawed COSS. In other words, if the PUC uses PGW's COSS, which treats interruptible customers as if they were not interruptible **only** for COSS purposes, the Commission would be ignoring cost of service principles solely for this class of customers, contrary to PUC statutory requirements.

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[30] PICGUG M.B., p. 26-27.

[31] *Id.*

[32] OSBA M.B., p. 21.

The witnesses for PGW, OCA, OSBA, and I&E all unreasonably rely on the aforementioned fictional construct of treating interruptible customers as firm in the COSS in order to claim that Rate IT is paying rates below cost of service.[33] If the Commission approves PGW's faulty COSS, Rate IT customers will experience a 29.30% increase, which is 1.35 times the proposed system average of 16.28%.[34] The OCA's proposed revenue allocation is not materially different from PGW's, and the OSBA's proposed revenue allocation would result in a 26.3% increase for Rate IT, still well above system average.[35]

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.[36] The first revised COSS prepared by PICGUG witness LaConte, which excludes Rate IT for assignment of excess demand costs, shows a Relative Rate of Return ("RROR") for Rate IT of 2.06.[37] The second revised COSS prepared by Ms. LaConte, which excludes Rate IT for assignment of excess demand costs <u>and</u> incorporates the 20% per customer allocation for distribution mains, shows a RROR for Rate IT 2.52.[38] These revised COSSs illustrate the true cost-of-service for Rate IT customers and the subsidies currently benefiting the other customer classes.[39] Although the appropriate means by which to ensure cost-

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[33] PGW M.B, p. 44; OSBA M.B., p. 26; OCA M.B., p. 59 (finding PGW's proposed revenue allocation to be "not unreasonable").

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

[35] OSBA M.B., pp. 26-27; OCA M.B., p. 59.

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

[37] PICGUG St. 1, Exhibit__(BSL-7).

[38] PICGUG St. 1, Exhibit__(BSL-8).

[39] In its Main Brief, PGW observes that PICGUG did not propose a full revenue allocation showing which customer classes would absorb the revenue shortfall stemming from PGW's as-filed increase for Rate IT as compared to PICGUG's recommendation. PGW Main Brief, p. 44. PICGUG submits that the revised COSSs showing the impact

based rates would be to decrease the current rates for Rate IT customers, PICGUG recognizes the need for gradualism and, for that reason, recommends simply that if the Commission approves PGW's as-filed revenue requirement, Rate IT receive no rate increase in this proceeding.[40]

Although not presenting an alternative revenue allocation proposal, I&E also discriminates against Rate IT customers by proposing a scale back offering first-dollar-relief as necessary to keep the Residential class at or above unity.[41] I&E asserts that "[t]his scale back proposal is appropriate because the Relative Rate of Return ("RROR") for the residential class is 1.15, which is higher than any other rate class."[42] However, I&E's observations are based on PGW's flawed COSS. As demonstrated above, correcting PGW's COSS to reflect the interruptibility of Rate IT and the 20% customer component of distribution mains expense shows Rate IT is far above its cost to serve.

PGW argues that no justification exists for departing from a standard proportional scale back from Rate IT. However, as acknowledged by PGW, its scale back proposal relies on the argument that Rate IT should be treated as firm for cost-of-service purposes.[43] As this position has been demonstrated to be completely unfounded, PGW's opposition to PICGUG's proposed scale back should be similarly disregarded. The Commission should also recall that the only reason PGW allocated excess demand costs to Rate IT in its COSS is because PGW has not

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of its proposed adjustments provide a basis for addressing any necessary reallocations to other customer classes. In light of the various and unique revenue allocation proposals in this proceeding, PICGUG limited its recommendation to Rate IT in order to provide flexibility for the Commission to address the revenue allocation to other customer classes.

[40] *Id*.

[41] I&E M.B., p. 23.

[42] *Id*.

[43] PGW M.B., p. 45.

provided parties with Peak Design Day Demand data. Rather, PGW is choosing to rely solely on Peak Day Demand data, which reflects PGW deciding to use its sole discretion and not interrupt Rate IT customers during that timeframe (even though Rate IT customers stood at the ready with equipment and processes to interrupt if called upon by PGW). Assuming *arguendo*, however, if the Commission declines to modify PGW's COSS to account for the interruptibility of Rate IT and allows PGW to continue distorting the COSS results by omitting Peak Design Day Demand data, it would be most appropriate to provide alternative relief to Rate IT through a targeted scale back.

Accordingly, if 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.[44] Thereafter, the decrease should be applied proportionately to each rate class.[45] While the targeted scale back for Rate IT is still appropriate even if the Commission modifies PGW's COSS to account for the interruptibility of Rate IT, it becomes paramount if the Commission declines to modify PGW's CCOSS.

Along those same lines, and assuming *arguendo* that the Commission chooses to follow PGW's faulty COSS for purposes of rate allocation, PICGUG also submits that any rate increase provided to Rate IT should not exceed the approved system average increase.[46] 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.[47] A conservative approach is warranted here if Rate

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[44] *Id*. at 29-30.

[45] *Id*. at 30.

[46] *Id*.

[47] *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).

IT is going to subjected to being treated as firm for COSS purposes, while still being required to meet PGW's tariff provisions regarding interruptibility requirements.[48]

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.

D. GFCP/VEPI – Class GS-XLT

The OSBA has argued that revenue from Vicinity does not rely on PGW's "low pressure distribution system" while PGW has argued that Vicinity benefits from the distribution system and must be allocated a share of PGW's overhead costs as well as costs for its Alternative Receipt Service.[49] PICGUG does not take a position on the distribution costs to be assigned to Vicinity, but, as part of this proceeding, PGW has proposed that any resulting revenue from Vicinity should be applied to all classes, except Rate IT, because, according to PGW's faulty COSS, Rate IT is above its cost to serve.[50] Because removing Rate IT from this proposal would inappropriately discriminate against Rate IT customers, PICGUG submits that any additional distribution 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.[51]

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[48] Along that same vein, as discussed more fully in Section IV.D., *infra*, any "revenue" resulting in changes to the rate paid by Vicinity to PGW should be allocated to all other customers classes, including Rate IT.

[49] *See* OSBA M.B. p. 33; *cf.* PGW M.B. pp. 55-58; 62.

[50] PGW M.B., p. 43.

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

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 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 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.

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