

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2024-3048767
Office of Consumer Advocate	:	C-2024-3049088
Office of Small Business Advocate	:	C-2024-3049496
	:	
v.	:	
	:	
PECO Energy Company 1307(f) – Gas Division	:	

RECOMMENDED DECISION

Before
F. Joseph Brady
Administrative Law Judge

INTRODUCTION

This Decision recommends the Pennsylvania Public Utility Commission (Commission) approve, without modification, the Joint Petition for Complete Settlement (Joint Petition or Settlement) submitted by PECO Energy Company (PECO or the Company), the Bureau of Investigation and Enforcement (I&E), and the Office of Consumer Advocate (OCA) (hereinafter “Settling Parties”).¹ The statutory deadline is December 1, 2024. Thus, the last reasonable public meeting for the Commission to act is November 7, 2024.

¹ The Office of Small Business Advocate (OSBA), and the Philadelphia Area Industrial Energy Users Group (PAIEUG) also participated in this proceeding and have authorized the Settling Parties to represent their respective non-opposition to this Joint Petition for Complete Settlement.

Under the Joint Petition, the Settling Parties have agreed to the Purchased Gas Cost (PGC) Rates proposed by PECO in its PGC filings. Accordingly, the Total PGC Rates effective December 1, 2024, in dollars per Mcf, will be as follows: Rates GR (General Service- Residential) and CAP (Customer Assistance Program) are \$4.8127; Rate GC (General Service - Commercial and Industrial) is \$4.8002; and Rates OL (Outdoor Lighting), L (Large High Load Factor Service) and MV-F (Motor Vehicle Service- Firm) are \$4.7963. These numbers are adjustable based on experience and changes in prices and demand.

Also, the Settling Parties have agreed to accept the Balancing Charge proposed by PECO of \$0.0225 per Mcf effective December 1, 2024. The retainage volume adjustment for transportation service customers will be 3.4% for the period ending November 30, 2025.

Further, the Settling Parties have agreed to extend by one year, the Ratable Hedging Program. The Settling Parties also report that PECO had Lost and Unaccounted for Gas (LUFG) of 3.1% for the 36-month period ending March 31, 2024 and 3.1% LUFG for the 36-month period ending June 30, 2024.

Additionally, the Settlement provides that PECO will continue to pursue the purchase of Renewable Natural Gas (RNG) in a manner that is consistent with its least-cost procurement strategy for natural gas.

Lastly, the Settling Parties have agreed that PECO will be permitted to continue to receive 25% of all margin revenues from off-system sales transactions and capacity release transactions through November 30, 2027.

This Recommended Decision approves the Settlement without modification because it is in the public interest and is supported by substantial evidence.

HISTORY OF THE PROCEEDING

On April 30, 2024, PECO made a preliminary filing with the Commission pursuant to 52 Pa. Code §§ 53.64 and 53.65 regarding proposed changes in rates resulting from changes in the purchased gas costs and other elements of the company's PGC rate.

On May 6, 2024, Notices of Appearance were filed by Courtney L. Schultz, Esq. and Shane P. Simon, Esq. on behalf of PECO.

On May 16, 2024, a Petition to Intervene was filed by the PAIEUG.

On May 17, 2024, the OCA filed a Complaint (docketed at C-2024-3049088), a Public Statement, and a Notice of Appearance for Melanie Joy El Atieh, Esq., and Emily A. Farren, Esq.

On May 22, 2024, a Notice of Appearance was filed by Steven C. Gray, Esq. on behalf of the OSBA.

On May 31, 2024, pursuant to 66 Pa.C.S. § 1307(f), 52 Pa. Code § 53.61–53.69, and the Schedule of Filing Dates established by the Commission, PECO filed its definitive PGC filing, PGC No. 41, Supplement No. 15 to Tariff Gas-Pa.P.U.C. No. 5, to become effective for service rendered on and after December 1, 2024.²

As required by 52 Pa. Code § 53.68, PECO provided public notice of the proposed tariff through bill inserts and newspaper publication in PECO's service territory.

² The last reasonable public meeting date prior to December 1, 2024, is on November 7, 2024.

By operation of law, the filing was suspended for a period of six months for an investigation into the lawfulness, justness and reasonableness of the proposed rates and to satisfy the requirements of Sections 1307, 1317 and 1318 of the Public Utility Code, 66 Pa.C.S. §§ 1307, 1317, and 1318.

By Notice dated June 5, 2024, a Telephonic Prehearing Conference was scheduled for June 24, 2024, and the matter was assigned to me.

A Prehearing Order was issued on June 6, 2024, advising the parties of the date and time of the scheduled Prehearing Conference and informing them of the procedures applicable to this proceeding.

On June 10, 2024, the OSBA filed a Complaint (docketed at C-2024-3049496) and a Public Statement.

On June 21, 2024, Prehearing Memoranda were filed by PECO, the OCA, the OSBA, PAIEUG, and the I&E.

A Telephonic Prehearing Conference was held on June 24, 2024. Counsel for PECO, the OCA, the OSBA, PAIEUG, and the I&E participated.

On July 15, 2024, Prehearing Order No. 2 was issued memorializing the matters decided and agreed upon by the parties attending the June 24, 2024 Prehearing Conference.

On August 9, 2024, a Joint Petition for Complete Settlement was filed and served. PECO, the I&E, and the OCA were the signatories to the Joint Petition, and all provided a Statement in Support appended to the Joint Petition. The OSBA, and the

PAIEUG authorized the Settling Parties to represent their non-opposition to the Joint Petition.

Also on August 9, 2024, the Settling Parties filed a Stipulation and Motion for Admission of Testimony and Exhibits. The Settling Parties stipulated to the authenticity of the statements and exhibits listed in the Stipulation, waived the opportunity to conduct cross-examination and requested that the statements and exhibits be admitted into the record. By Order Granting Motion for Admission of Testimony and Exhibits dated August 14, 2024, the Stipulation, statements, and exhibits were admitted into the record of this proceeding.³ The record also closed on this date.

The record in this proceeding consists of the transcript of the Prehearing Conference, PECO's filing, and the statements and exhibits sponsored by the Settling Parties (and the related Stipulation) which were admitted into the record through the August 14, 2024 Order.

The Settling Parties' position is that the proposed settlement provides a fair, just, and reasonable resolution of the 1307(f) issues, is supported by the record, and is in the public interest. I agree. The settlement terms appear to be a fair and reasonable resolution of the various issues, and appropriately balance the interests of the Company and its customers. The Parties, and the Counsel representing them, are to be commended for their outstanding efforts and diligence in this proceeding. Therefore, it is recommended that the Joint Petition be approved without modification by the Commission.

³ The statements and exhibits set forth therein consisted of the following: PECO's Advance Filing Sections 1-22, which was filed with the Commission and served on April 30, 2024; PECO Statement Nos. 1, 2, 3, and 4 and accompanying Exhibits (SJH-1; JSD-1 and JSD-2; and APD-1 through APD-4), which were filed with the Commission and served on May 31, 2024; and OCA Statement No. 1, which was served upon the parties on July 10, 2024.

THE PROPOSED SETTLEMENT

The Joint Petition for Complete Settlement is signed by PECO, the I&E, and the OCA. Appendix A of the Joint Petition contains the rates and underlying cost data resulting from the settlement that are applicable to the Commodity Charge (CC), the Gas Cost Adjustment Charge (GCA), the Balancing Charge (BC) and the Balancing Service Charge (BSC). Appendix B is the *Pro Forma* Tariff pages showing the changes to the retainage volume adjustment rate. The Ratable Hedging Program execution schedule is attached as Appendix C. Appendix D is PECO's Statement in Support. Appendix E is the OCA's Statement in Support. Appendix F is the I&E's Statement in Support.

The principal terms and conditions of the proposed settlement are contained in Section III, Paragraphs 17-25, of the Joint Petition. For ease of reference, the settlement terms are cited below *in verbatim*, with subheadings and paragraph numbering retained as they appear in the Joint Petition.⁴ The settlement terms are as follows:

17. **Purchased Gas Cost Rates**

(a) Attached as Appendix A to this Joint Petition are the rates and underlying cost data resulting from the Settlement that are applicable to the Commodity Charge ("CC"), the Gas Cost Adjustment Charge ("GCA"), the Balancing Charge ("BC"), and the Balancing Service Charge ("BSC"). These rates are predicated on the Company's current gas cost projections and are the same as originally filed in this proceeding. To the extent that actual experience and changes in forecasted natural gas prices and demand would alter the CC, GCA and the BSC rates, PECO reserves the right to file quarterly adjustments to be effective

⁴ The footnotes contained in this section and the Findings of Fact section of this Decision are original, but the numbering has been changed to be consistent with the footnote numbering used throughout the entire Recommended Decision.

September 1, 2024, December 1, 2024, and thereafter in accordance with 52 Pa. Code § 53.64.⁵

(b) PECO reserves the right to update the Rate Transportation Service-Firm (“TS-F”) standby sales service demand charge, as shown in Appendix A, Exhibit APD-1, to be effective December 1, 2024, to the extent that actual experience and changes in forecasted natural gas prices and demand may alter these rates.

18. **Balancing Charge Rate**

(a) Under the terms of the 2008 Gas Base Rate Case Settlement, PECO is required to update the Balancing Charge as part of its annual Section 1307(f) filing. As set forth in Exhibit JSD-1 accompanying PECO Statement No. 3, the Direct Testimony of Julie S. Drezner in the PGC 41 Filing (and also included in Appendix A), PECO proposed a Balancing Charge of \$0.0225 per Mcf to become effective on December 1, 2024, which is \$0.0022 per Mcf less than the currently effective Balancing Charge.

(b) The Settling Parties have agreed to adopt PECO’s as-filed Balancing Charge. Accordingly, the Balancing Charge, effective December 1, 2024 will be \$0.0225 per Mcf.

(c) As part of this Settlement, PECO will investigate and prepare a study of the feasibility of including applicable storage-related costs in the calculation of its High Volume Transportation (“HVT”) balancing charge, as set forth in the Testimony of Jerome D. Mierzwa (OCA St. No. 1) pp. 4-6. PECO will provide a copy of the study which shall explain how the investigation was conducted and report the results of this investigation in its next PGC filing (PGC 42) in the pre-filing made on or about April 30, 2025. PECO will provide all workpapers and calculations supporting the study at the time of pre-filing to all parties to this proceeding.

⁵ Pursuant to the terms of the settlement of the Company’s gas base rate case at Docket No. R-2008-2028394 (the “2008 Gas Base Rate Case”), the BC may be updated and revised only as part of PECO’s annual PGC filing.

19. Retainage Rate

(a) In accordance with Paragraph 18 of the 2023 Joint Petition for Complete Settlement,⁶ the retainage volume adjustment for transportation service customers for the 12 months beginning December 1, 2023 and ending November 30, 2024 is 3.0%, which was calculated based on the weighted three-year average of LUFG plus the portion of Company-use gas attributable to preheater gate station usage for the period ending June 30, 2023.

(b) PECO also agreed that the retainage volume adjustment for the twelve-month period ending November 30, 2025 would be calculated based on the weighted three-year average of LUFG plus the portion of Company-use natural gas attributable to preheater gate station usage for the period ending June 30, 2024.

(c) The Settling Parties have agreed to adopt the retainage rate of 3.4%, which was calculated in accordance with the requirements in the 2023 Joint Petition (as shown below), for the period ending November 30, 2025. Attached as Appendix B are the associated tariff pages.

Adjusted Retainage Calculation for 2024 PGC - Pre-Heater Company Use Added Back In				
	Sendout in MCF + Pre- Heater Fuel	Billed Sales in MCF	Retainage Rate	Pre-Heater Company Use
36 months ending 6/30/2024	242,627,572	234,270,694	3.4%	293,496

20. Gas Price Hedging

(a) PECO has complied with the terms of the Ratable Hedging Program for all hedges made through April 2024 and will continue to do so. Pursuant to the Ratable Hedging Program's execution schedule and since the Company's reporting in last year's PGC proceeding, PECO issued Requests for Proposals ("RFPs") for six execution periods through March 2024 (these periods appear in yellow highlight in Exhibit SJH-1

⁶ See *Pennsylvania Pub. Util. Comm'n. v. PECO Energy Co.*, Docket No. R-2023-3040285, Order Adopting Joint Petition for Complete Settlement, dated October 19, 2023 (hereinafter referred to as the "2023 Joint Petition").

accompanying PECO Statement No. 2, the Direct Testimony of Scott J. Hughes, in the PGC 41 Filing, whereas those periods highlighted in blue reflect the same information as reported in prior years' PGC proceedings). PECO entered into transactions with the respondents who could provide supply at the lowest cost for the specified volumes on a fixed price basis.⁷ For the period April 2023 through March 2024, PECO purchased 5.44 MMDth of hedged gas under the program at a weighted average cost of \$4.9812 per Dth as reflected in the table below (*see* Table SJH-1 in PECO Statement No. 2, the Direct Testimony of Scott J. Hughes, in the PGC 41 Filing).

(b) Accordingly, PECO's purchases under the Ratable Hedging Program through March 2024 have been in compliance with the Ratable Hedging Program execution schedule.

Ratable Hedging Program Executed Hedges April 2023 through March 2024			
Execution Month	DTH	\$/DTH	Total \$
July 2023	1,818,000	\$5.4372	\$9,884,850
November 2023	1,812,000	\$5.4600	\$9,893,520
March 2024	1,812,000	\$4.0450	\$7,329,540
Total	5,442,000	\$4.9812	\$27,107,910

(c) In the PGC 41 Filing, PECO requested that the Ratable Hedging Program be extended for an additional year, as modified in the 2020 Joint Petition,⁸ whereby hedging associated with summer purchases was eliminated on a going forward basis. Extending the program for an additional year ("Year 11") will add Winter periods with volumes at the same bifurcated

⁷ There is an execution period shown on Exhibit SJH-1 highlighted in grey. This simply reflects that for the Year 6 Summer, August 2020, execution period, PECO did not receive the requisite three respondents to its RFP, and therefore did not make the hedges for that period. The additional dark grey highlighting indicates summer months during which PECO no longer hedges gas.

⁸ *See Pennsylvania Pub. Util. Comm'n. v. PECO Energy Co.*, Docket No. R-2020-019661, Order Adopting Joint Petition for Complete Settlement, dated October 8, 2020 (hereinafter referred to as the "2020 Joint Petition").

volumetric level, and with execution periods similar to those used in prior years.

(d) Specifically, the Settling Parties have agreed to extend the Ratable Hedging program for an additional year, which will continue with the current winter hedging schedule of 36,000 Dth/day.

(e) The revised Ratable Hedging Program execution schedule is attached as Appendix C.

21. Renewable Natural Gas (“RNG”)

(a) PECO will continue pursuing reliable sources of RNG supply via interconnections with RNG producers to bring RNG onto PECO’s gas system.

(b) Should PECO acquire RNG, it will do so in a manner that is consistent with its least-cost procurement strategy for natural gas, *e.g.*, it will pursue the least cost RNG, and will undertake commercially reasonable efforts to minimize the cost impact to PECO’s PGC customers from the costs associated with purchasing RNG.

22. Lost And Unaccounted for Gas (“LUFG”) Monitoring And Reporting

While no further LUFG reporting obligations are required, consistent with its reporting in prior PGC proceedings, in the PGC 41 Filing PECO has voluntarily reported a three-year weighted average for the periods ending March 31, 2024 and June 30, 2024, consistent with the previous reporting mechanism set forth in the 2015 Joint Petition for Complete Settlement.⁹

	Sendout in Mcf	Billed Sales in Mcf	LUFG
12 Months Ending 3/31/22	88,449,680	84,691,996	4.2%

⁹ See *Pennsylvania Pub. Util. Comm’n. v. PECO Energy Co.*, Docket No. R-2015-2480969, Order Adopting Joint Petition for Complete Settlement, dated October 22, 2015 (hereinafter referred to as the “2015 Joint Petition”).

	<u>Sendout in Mcf</u>	<u>Billed Sales in Mcf</u>	<u>LUFG</u>
12 Months Ending 3/31/23	86,824,606	84,280,413	2.9%
12 Months Ending 3/31/24	84,316,700	82,592,318	2.0%
36 Months Ending 3/31/24	259,590,986	251,564,727	3.1%

PECO LUFG Calculation 2022-2024 PGC (3-Year Average)

	<u>Sendout in Mcf</u>	<u>Billed Sales in Mcf</u>	<u>LUFG</u>
12 Months Ending 6/30/22	89,110,220	85,950,211	3.5%
12 Months Ending 6/30/23	84,884,281	82,956,376	2.3%
12 Months Ending 6/30/24	84,814,048	81,832,437	3.5%
36 Months Ending 6/30/24	258,808,549	250,739,024	3.1%

23. Off-System Sales/Capacity Release Sharing

Pursuant to the 2023 Joint Petition, the off-system sharing mechanism was extended at the 25% rate through November 30, 2026. In the instant proceeding, the Settling Parties agree that PECO will further extend the off-system sharing mechanism through November 30, 2027.

24. Interest Rate for Over- and Under-Collections

In compliance with Paragraph 24(b) of the 2017 Joint Petition for Complete Settlement,¹⁰ PECO applied the prime rate in effect sixty (60) days prior to the annual PGC filing date to the monthly over- and under-collections for the PGC period December 1, 2023 through November 30, 2024. Going forward, as previously agreed, PECO will use the prime rate for commercial borrowing in effect 60 days prior to the annual PGC filing (which occurs on or before June 1 of each year) to determine interest on the monthly over- and under-collections through November 30 of the year in which the PGC filing is made.

25. Admission of Evidence

The Parties agree to waive cross-examination of each other's witnesses and that the testimony and exhibits identified in

¹⁰ See *Pennsylvania Pub. Util. Comm'n. v. PECO Energy Co.*, Docket No. R-2017-2602611, Order Adopting Joint Petition for Complete Settlement, dated October 5, 2017 (hereinafter referred to as the "2017 Joint Petition").

sections (a) and (b) below may be admitted into evidence by stipulation and motion. To that end, the Parties have prepared, and are filing, a separate Motion, with attached Stipulation, requesting that ALJ Brady admit such testimony and exhibits into the record:

(a) PECO's Advance Filing consisting of Sections 1-22, which was filed with the Commission and served on April 30, 2024, as explained in Paragraph No. 5, *supra*;

(b) PECO Statement Nos. 1, 2, 3, and 4 with accompanying Exhibits (SJH-1; JSD-1 and JSD-2; and APD-1 through APD-4), which were filed with the Commission and served on May 31, 2024, as explained in Paragraph No. 9, *supra*; and

(c) OCA Statement No. 1, which was served on July 10, 2023, as explained in Paragraph No. 14, *supra*.

Joint Petition, ¶¶ 17-25.

In addition, the Settlement contains the following standard settlement provisions in Section VI: that the Settling Parties acknowledge and agree that this Settlement shall have the same force and effect as if the Parties fully litigated this proceeding; that it is conditioned upon the Commission's approval of the agreement without modification; and that if the Commission fails to grant approval of the Joint Petition or modifies any material term or condition of the settlement any party may elect to withdraw from the settlement upon written notice to the Commission and the other Parties within five business days of the entry of the Commission order, and in that case, the settlement will be of no force and effect and each party reserves its right to fully litigate the case. *See*, Joint Petition, ¶¶ 37-43.

FINDINGS OF FACT

I am adopting the following findings of fact that were included in Section IV, Paragraphs 26-35, of the Joint Petition, *in verbatim* with paragraph numbering retained as they appear in the Joint Petition:¹¹

26. PECO operates a natural gas distribution system in the southeastern portion of Pennsylvania subject to the jurisdiction of the Commission. (PECO St. 1, p. 3).

27. PECO's gas purchasing policy is designed to achieve a reasonable balance of long and short-term gas purchases that assures system supply reliability at the least cost. (PECO St. 1, p. 7).

28. The details of PECO's actual gas purchases for the twelve months ending March 31, 2024, are presented in Section 1 of PECO's Advance Filing. (PECO Adv. Filing § 1).

29. PECO receives almost all of its gas supply directly into its distribution system from Texas Eastern Transmission, LP ("Texas Eastern"), Transcontinental Gas Pipe Line Corporation ("Transco"), Adelphia Gateway, and Eastern Shore Natural Gas Company. (PECO St. 1, p. 4). Evidence of record shows that firm transportation contracts with these pipelines provide PECO the ability to purchase gas supplies directly from producers and marketers and to use firm transportation capacity on the pipelines for delivery of the gas to PECO. (PECO St. 1, pp. 4, 7-8; PECO Adv. Filing §§ 2, 3 and 8). PECO also obtains natural gas storage services from Eastern Gas Transmission and Storage, Inc., Texas Eastern, and Transco. (PECO St. 1, p. 4). Evidence of record shows that PECO has purchased all of its requirements on competitive terms. (PECO St. 1, pp. 8-11).

¹¹ See, note 3, *supra*.

30. PECO participated in significant rulemaking, rate and certificate proceedings before the Federal Energy Regulatory Commission (FERC) concerning interstate natural gas pipeline company rates and conditions of service that affect its costs and, therefore, its customers' costs. PECO also participated in major FERC proceedings of the interstate pipelines from which it receives transportation and storage service. (PECO Adv. Filing § 5). PECO's efforts in this regard directly reduced costs for its PGC customers (PECO St. 3, pp. 9-11).

31. In the past year, PECO renewed several storage and transportation service agreements, after unsuccessfully soliciting competitive alternatives (PECO St. 3, pp. 6-8).

32. PECO continued to review pipeline open seasons and capacity to determine whether participation in a project could help PECO meet its projections for increased firm demand or offer a reliable least-cost alternative to an existing transportation or storage contract nearing expiration. (PECO St. 3, p. 9).

33. During the historic period, PECO did not purchase natural gas from any affiliated interest. (PECO St. 1, p. 5).

34. PECO did not withhold supplies or capacity from the market. (PECO St. 1, p. 5).

35. Projected natural gas costs, as reflected in this Settlement, are based on peak-day capacity requirements at a 0-degree design day temperature, as fully set forth in the record. (PECO Adv. Filing § 16; PECO St. 1, p. 7).

DISCUSSION

A. Introduction

Section 1307(f)(5) of the Public Utility Code (Code), 66 Pa.C.S. § 1307(f)(5), requires that the Commission determine that PECO's historic period actual gas costs meet the least cost fuel procurement standards set forth in Section 1318 of the Code, 66 Pa.C.S. § 1318. In addition, Section 1318 findings must be made with respect to the new PGC rates to be established in this proceeding.

In determining whether PECO is pursuing a least cost fuel procurement policy as required by Section 1318, the Commission must make the following specific findings: (1) that the utility has fully and vigorously represented its ratepayers' interests before the Federal Energy Regulatory Commission; (2) that the utility has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with its gas suppliers which are or may be adverse to ratepayer interests; (3) that the utility has taken all prudent steps necessary to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies; and (4) that the utility has not withheld from the market or caused to be withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. 66 Pa.C.S. § 1318(a).

PECO, the I&E, and the OCA have agreed to a settlement that resolves all the issues in this proceeding. Each of the Settling Parties have provided statements in support of the Settlement which explain why the Settlement is in the public interest. The OSBA and the PAIEUG are not opposed to the Settlement.

It is the policy of the Commission to encourage settlements. 52 Pa. Code § 5.231. In its policy statement regarding settlements in major rate cases, the Commission provides in pertinent part at 52 Pa. Code § 69.401:

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

Settlements lessen the time and expense the parties must expend litigating a case and at the same time conserve administrative hearing resources. A settlement, which allows the parties to avoid the substantial costs of preparing and serving testimony and the cross-examination of witnesses in lengthy hearings, the preparation and service of briefs, reply briefs, exceptions and reply exceptions, together with the briefs and reply briefs necessitated by any appeal of the Commission's decision, yields significant expense savings for the company's customers. That is one reason why settlements are encouraged by long-standing Commission policy.

In order to accept a settlement, the Commission must determine that the proposed terms and conditions are in the public interest. *Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Opinion and Order entered Oct. 4, 2004); *Pa. Pub. Util. Comm'n v. C S Water & Sewer Assocs.*, 74 Pa.P.U.C. 767 (1991). The Joint Petition will be examined in accordance with the above principles.

As discussed in more detail below, the proposed settlement is reasonable and in the public interest and therefore should be approved without modification by the Commission. It represents a just and fair compromise by all active Parties who represent a variety of interests, of the serious issues that arose in this proceeding. The fact that no party

opposes the settlement is significant. This conclusion is based on my analysis of the following key terms of the Settlement and accompanying statements in support.

B. Analysis

1. Purchased Gas Cost Rates

The Settlement accepts PECO’s originally filed forecast of PGC and its PGC rates.¹² *See*, Joint Petition, ¶ 17. The Settlement will benefit customers because the evidence presented by PECO and examined by the Parties shows that PECO has satisfied the requirements of Section 1318 of the Code by pursuing a least cost fuel procurement policy, consistent with its obligation to provide safe, adequate, and reliable natural gas distribution service to its customers, and that PECO has met the requirements of the Code relating to affiliate purchases. A least cost procurement policy protects ratepayers from unnecessary and imprudent gas costs and prevents the Company from making a profit on gas supplies provided to its PGC customers. The settlement also provides a reasonable basis for calculating and setting the GCA, CC, BSC and the BC to become effective December 1, 2024. *See*, Joint Petition, ¶ 17(a) and Appendix A. These rates in dollars per Mcf are as follows:

	Rates GR and CAP (\$/Mcf)	Rate GC (\$/Mcf)	Rates OL, L and MV-F (\$/Mcf)
CC	\$4.3386	\$4.3261	\$4.3222
GCA	\$0.1493	\$0.1493	\$0.1493
BSC	\$0.3248	\$0.3248	\$0.3248
Total PGC Rate Effective December 1, 2024	\$4.8127	\$4.8002	\$4.7963

¹² The Company’s PGC Rates are comprised of the Commodity Charge, the Gas Cost Adjustment Charge, and the Balancing Service Charge.

To the extent that actual experience and changes in forecasted natural gas prices and demand would alter such rates, PECO reserved the right to file quarterly adjustments to be effective September 1, 2024 and December 1, 2024, and thereafter in accordance with 52 Pa. Code § 53.64. For the December 1, 2024 filing, the PGC rates will be updated as noted above. As a result, I find the Settlement allows the Company to recover a reasonable estimate of its projected period purchased gas costs in a manner that protects the interests of the Company and its customers. Additionally, under Paragraph 36(b)(iii) of the Joint Petition, the Commission will continue to have the authority to review the actual costs incurred by the Company in a subsequent audit or Section 1307(f) proceeding.

Further, I find it reasonable that the Settlement reserves PECO's right to update Rate TS-F (Gas Transportation Service-Firm) standby sales service demand charge, as shown in Appendix A of the Joint Petition (PECO St. No. 4, Exhibit APD-1), to become effective December 1, 2024, to the extent that actual experience and changes in forecasted natural gas prices and demand would alter those rates.

2. Balancing Charge Rate

The Settlement provides for compliance with the terms of the 2008 Gas Base Rate Settlement, which required PECO to update the balancing charge as part of its annual 1307(f) filing. *See*, Joint Petition, ¶ 18. The Settling Parties have agreed to adopt PECO's as-filed Balancing Charge of \$0.0225 per Mcf to become effective on December 1, 2024, which is \$0.0022 per Mcf less than the currently effective Balancing Charge. *See*, Joint Petition, ¶ 18(a) and Appendix A.

Further, PECO will investigate and prepare a study of the feasibility of including applicable storage-related costs in the calculation of its High Volume Transportation (HVT) balancing charge. PECO will provide a copy of the study which shall explain how the investigation was conducted and report the results of this investigation in its

next PGC filing (PGC 42) in the pre-filing made on or about April 30, 2025. PECO will provide all workpapers and calculations supporting the study at the time of pre-filing to all parties to this proceeding.

I find the unopposed update to the balancing charge reasonable and in the public interest.

3. Retainage

A portion of the gas introduced into PECO's distribution system becomes LUFG. Transportation customers arrange to have gas delivered to PECO's "City Gate" for delivery to them through PECO's distribution system. PECO, like all other natural gas distribution companies, has tariff rules applicable to transportation service providing that some portion of the gas delivered to its City Gate will be deemed to be LUFG. The portion of the gas deemed to be LUFG for transported volumes is considered "retainage" and is expressed as a percentage.

The establishment of the proper retainage levels is necessary to ensure that transportation customers contribute an adequate, but not excessive, amount of gas to compensate for the corresponding system-wide LUFG. Proper retainage levels equalize the responsibilities of the rate classifications, protects all ratepayers by ensuring equitable contributions to account for LUFG, and guards PGC customers and transportation customers against unwarranted subsidies.

In accordance with Paragraph 18 of the 2023 Joint Petition for Complete Settlement,¹³ the retainage volume adjustment for transportation service customers is 3.0%

¹³ See, *Pa. Pub. Util. Comm'n v. PECO Energy Co.*, Docket No. R-2023-3040285 (Order entered Oct. 19, 2023) (Adopting Joint Petition for Complete Settlement) (2023 Joint Petition).

for the 12 months beginning December 1, 2023, and ending November 30, 2024. This figure was calculated based on the weighted three-year average of LUFG plus the portion of Company-use gas attributable to preheater gate station usage for the period ending June 30, 2023. The Company also agreed that the retainage volume adjustment for the twelve-month period ending November 30, 2025, would be calculated based on the weighted three-year average of LUFG plus the portion of Company-use natural gas attributable to preheater gate station usage for the period ending June 30, 2024. Accordingly, the Settling Parties agreed that the retainage volume adjustment will be 3.4% for the period ending November 30, 2025, as shown on the tariff pages attached to the Joint Petition as Appendix B. *See, Joint Petition, ¶ 19.*

I find that this calculation methodology is in the public interest and keeps the Company in parity with other Natural Gas Distribution Companies in the Commonwealth and is in compliance with 52 Pa. Code § 59.111.

4. Gas Price Hedging

PECO's current hedging program, the Ratable Hedging Program, was approved by the Commission as part of the settlement as set forth in the 2016 Joint Petition for Complete Settlement,¹⁴ and extended for an additional three years as part of the settlement as set forth in the 2017, 2018,¹⁵ and 2019 Joint Petitions for Complete Settlement. The program was extended further and modified to eliminate summer hedging

¹⁴ *See, Pa. Pub. Util. Comm'n v. PECO Energy Co.*, Docket No. R-2016-2545925, (Order entered Oct. 6, 2016) (Adopting Joint Petition for Complete Settlement) (2016 Joint Petition).

¹⁵ *See, Pa. Pub. Util. Comm'n v. PECO Energy Co.*, Docket No. R-2018-3001568, (Order entered Oct. 4, 2018) (Adopting Joint Petition for Complete Settlement) (2018 Joint Petition).

in the 2020 Joint Petition. The program was extended, adding an additional year in each of the settlements as set forth in the 2021, 2022, and 2023 Joint Petitions.

PECO has complied with the terms of the Ratable Hedging Program for all hedges made through April 2024 and will continue to do so. *See*, Joint Petition, ¶ 20(a). In its PGC 41 Filing, the Company proposed that the Ratable Hedging Program be extended for an additional year. The Settling Parties have agreed to extend the Ratable Hedging Program for an additional year, which will continue with the current winter hedging schedule of 36,000 Dth/day. The revised Ratable Hedging Program execution schedule is attached to the Joint Petition as Appendix C.

PECO employs hedging as an additional tool to purchase natural gas on a basis that reasonably ensures system reliability at the least cost. The extension of the Ratable Hedging Program for an additional year will continue to provide some measure of price stability in the Company's portfolio and protect the Company from paying above market prices. Therefore, I find PECO's current hedging program is reasonable and in the best interest of PECO's PGC customers.

5. Renewable Natural Gas

The Settlement provides that PECO will continue pursuing reliable sources of RNG supply via interconnections with RNG producers to bring RNG onto PECO's gas system. *See*, Joint Petition, ¶ 21. If PECO acquires RNG at market-based prices (as intended), based on its investigation into supply and pricing over the past year, it anticipates that it will be more expensive than purchasing natural gas at market-based prices. Should PECO acquire RNG, PECO agrees to do so in a manner that is consistent with its least-cost procurement strategy for natural gas. Additionally, PECO agreed that if it purchases RNG, it will undertake commercially reasonable efforts to minimize the cost impact to PGC customers.

The Commission supports the development of RNG as an energy resource and further supports its incorporation into the purchased gas portfolios of Pennsylvania’s natural gas utilities, provided it is compatible with the quality and other technical specifications established by the utilities for use on their systems and provided its purchase is consistent with a least cost fuel procurement policy in accordance with the Public Utility Code. *See*, 66 Pa.C.S. § 1318. Here, PECO commits that any purchase of RNG would comport with its least cost fuel procurement obligations and that it would undertake efforts towards minimizing costs. With these safeguards in place, I find this portion of the settlement reasonable and in the public interest.

6. Lost and Unaccounted-For Gas Monitoring and Reporting

PECO has voluntarily provided the Parties with the average LUFG percentage for the three-year periods ending March 31, 2024, and June 30, 2024. The results of the calculations are provided in the tables below:

PECO LUFG Calculation 2022-2024 PGC (3-Year Average)

	<u>Sendout in Mcf</u>	<u>Billed Sales in Mcf</u>	<u>LUFG</u>
12 Months Ending 3/31/22	88,449,680	84,691,996	4.2%
12 Months Ending 3/31/23	86,824,606	84,280,413	2.9%
12 Months Ending 3/31/24	84,316,700	82,592,318	2.0%
36 Months Ending 3/31/24	259,590,986	251,564,727	3.1%

	<u>Sendout in Mcf</u>	<u>Billed Sales in Mcf</u>	<u>LUFG</u>
12 Months Ending 6/30/22	89,110,220	85,950,211	3.5%
12 Months Ending 6/30/23	84,884,281	82,956,376	2.3%
12 Months Ending 6/30/24	84,814,048	81,832,437	3.5%
36 Months Ending 6/30/24	258,808,549	250,739,024	3.1%

See, Joint Petition, ¶ 22. These calculations are consistent with the methodology set forth in Paragraph 20(c) of the 2015 Joint Petition at Docket No. R-2015-2480969. I find the Company’s LUFG percentages, as a whole, are reasonable.

7. Off-System Sales/Capacity Release Sharing

The 2023 Joint Petition extended the off-system sharing mechanism at the 25% rate through November 30, 2026. In the present case, PECO agrees to further extend the off-system sharing mechanism at the 25% rate through November 30, 2027. *See*, Joint Petition, ¶ 23. The extension will permit PECO to enter into longer-term asset management agreements, which may provide for greater value (*i.e.*, a larger credit toward gas costs) for PGC customers. I find the one-year further extension of the off-system sharing mechanism is reasonable and therefore in the best interest of PECO’s customers.

8. Interest Rate for Over- and Under-Collections

The amendment to 66 Pa.C.S. § 1307(f)(5) requires that “[r]efunds to customers shall be made with and recoveries from customers shall include interest at the prime rate for commercial borrowing in effect 60 days prior to the tariff filing made under paragraph (1)[.]” In compliance with the provisions of 66 Pa.C.S. § 1307(f)(5) and with the terms of Paragraph 24(b) of the 2017 Joint Petition, in the filing at hand, PECO applied the prime rate in effect 60 days prior to the annual PGC filing date to the over-collection and under-collection balances for the PGC period of December 1, 2023, through November 30, 2024. *See*, Joint Petition, ¶ 24. Going forward, PECO will use the prime rate for commercial borrowing in effect 60 days prior to the annual PGC filing (which occurs on or before June 1 of each year) to determine interest on the over-collection and under-collection balances existing through November 30 of the year in which the PGC filing is made. *Id.* I find that this proposal meets the requirements set forth in 66 Pa.C.S. § 1307(f)(5) and thus is reasonable and in the public interest.

C. Conclusion

To assist in its review of the PECO filing, the OCA noted that it retained the services of Jerome D. Mierzwa, a principal in the firm Exeter Associates who has extensive experience in the natural gas industry generally and in reviewing Pennsylvania natural gas distribution company PGC filings. The OCA also issued four sets of interrogatories to PECO in this matter and submitted the Direct Testimony of Mr. Mierzwa on July 10, 2024.

The parties began settlement discussions while discovery was ongoing and prior to the submission deadline for Rebuttal Testimony, the OCA determined that it would not be submitting rebuttal testimony as it had identified no further significant concerns with the PECO filing as modified by the parties during settlement discussions. *See*, Appendix E; OCA Statement in Support, p. 2. The OCA concluded that the proposed Settlement is in the public interest and in the interests of the residential natural gas customers of PECO.

Likewise, I&E represented that all issues have been satisfactorily resolved through discovery and discussions with the Company or are incorporated or considered in the resolution proposed in the Settlement. *See*, Appendix F; I&E Statement in Support, pp. 4-5. It is I&E's position that the Settlement exemplifies the benefits to be derived from a negotiated approach and maintains the proper balance of the interests of all parties. *Id.* I&E states that it is satisfied that no further action is necessary and considers its investigation of this rate filing complete. *Id.*

After considering the Joint Petition for Complete Settlement, including the proposed PGC and the various agreements described above, it is my conclusion that approval of the Joint Petition is recommended because it is in the public interest, resolves the issues in this case, fairly balances the interests of PECO and its ratepayers, and is in accordance with the requirements of Sections 1307 and 1318 of the Public Utility Code. 66

Pa.C.S. §§ 1307 and 1318. PECO is pursuing a least cost fuel procurement policy, consistent with the utility's obligation to provide safe, adequate, and reliable service to its customers. Additionally, the Joint Petition will save all parties and the public the cost of litigation and, further, the parties representing the public and customers do not find that the settlement is detrimental to the interests of customers and member of the public. Accordingly, I recommend that the Joint Petition for Complete Settlement be approved without modification by the Commission pursuant to 66 Pa.C.S. § 1307(f).

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the Parties and subject matter of this proceeding. 66 Pa.C.S. §§ 1307(f), 1318.

2. There is sufficient evidence in the record to make the findings required by Section 1318 of the Public Utility Code. 66 Pa.C.S. § 1318.

3. PECO is pursuing a least cost fuel procurement policy that is consistent with PECO's obligation to provide safe, adequate, and reliable service to its customers. 66 Pa.C.S. §§ 1318(a), (b).

4. PECO has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission. 66 Pa.C.S. § 1318(a)(1).

5. PECO has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with its gas suppliers which are or may be adverse to the interest of PECO's ratepayers. 66 Pa.C.S. § 1318(a)(2).

6. PECO has taken all prudent steps necessary to obtain lower gas cost supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies. 66 Pa.C.S. § 1318(a)(3).

7. PECO has not withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. 66 Pa.C.S. § 1318(a)(4).

8. PECO has attempted to obtain less costly gas supplies which should have been utilized as part of a least cost fuel procurement policy. 66 Pa.C.S. § 1318(b)(1).

9. PECO has no contracts for the purchase of gas from affiliated interests which are not consistent with a least cost fuel procurement policy. 66 Pa.C.S. § 1318(b)(2).

10. Neither PECO nor any affiliated interest has withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. 66 Pa.C.S. § 1318(b)(3).

11. The rates to be adopted by the Commission result from PECO's compliance with the provisions of Section 1318 of the Public Utility Code. 66 Pa.C.S. §§ 1318(a)(1)-(4), (b)(1)-(3).

12. To determine whether the Parties' settlement should be approved, the Commission must decide whether the settlement promotes the public interest. *Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Opinion and Order entered Oct. 4, 2004); *Pa. Pub. Util. Comm'n v. C S Water & Sewer Assocs.*, 74 Pa.P.U.C. 767 (1991).

13. The Joint Petition for Complete Settlement, including the rates, terms and conditions contained in Appendices A, B, and C, filed with the Commission on August 9, 2024, is just, reasonable and in the public interest.

ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Joint Petition for Complete Settlement submitted by PECO Energy Company – Gas Division, the Pennsylvania Public Utility Commission’s Bureau of Investigation and Enforcement, and the Office of Consumer Advocate at Docket Nos. R-2024-3048767, C-2024-3049088, and C-2024-3049496, and filed on August 9, 2024, be approved without modification.

2. That PECO Energy Company – Gas Division be authorized to file a tariff supplement, on at least one day’s notice to the Commission, to reflect rates and terms consistent with the Joint Petition for Complete Settlement and applicable to the Section 1307(f) purchased gas cost rate investigation at Docket No. R-2024-3048767 to be effective for services rendered on or after December 1, 2024, subject to quarterly adjustments as permitted by the Commission’s regulations.

3. That upon the filing of the tariff supplement by PECO Energy Company – Gas Division acceptable to the Commission as conforming with this Recommended Decision and Order and the Joint Petition for Complete Settlement Section 1307(f) Rate Investigation, and after entry of the Commission’s Order approving the Joint Petition for Complete Settlement, the purchased gas cost rate established therein shall become effective for service rendered on and after December 1, 2024.

