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June 16, 2011

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

**VIA HAND DELIVERY**

**RE: Natural Gas Distribution Companies and Promotion of Competitive Retail Markets;  
Docket No. L-2008-2069114**

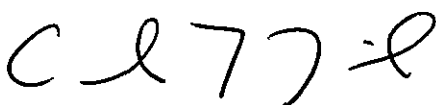
Dear Secretary Chiavetta:

Please find enclosed for filing with the Pennsylvania Public Utility Commission ("PUC" or "Commission") an original and fifteen (15) copies of the Comments of Valley Energy, Inc., in the above-referenced proceeding.

Please date stamp the extra copy of this transmittal letter and Comments, and kindly return them to our messenger for our filing purposes.

Very truly yours,

McNEES WALLACE & NURICK LLC

By   
Carl J. Zwick

Counsel to Valley Energy, Inc.

CJZ/sds  
Enclosure

c: David E. Screven, Esq., Law Bureau (via E-mail and Hand Delivery)  
Richard Wallace, Bureau of Audits (via E-mail and Hand Delivery)

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Natural Gas Distribution Companies and : Docket No. L-2008-2069114  
Promotion of Competitive Retail Markets :

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**COMMENTS OF VALLEY ENERGY, INC.**

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Counsel to Valley Energy, Inc.

Dated: June 16, 2011

## I. INTRODUCTION

The Pennsylvania Public Utility Commission ("PUC" or "Commission") initiated this proceeding to ensure that retail customers of natural gas will be able to choose among Natural Gas Suppliers ("NGSs") on reasonable and nondiscriminatory terms, while maintaining the safety and reliability of natural gas distribution service.<sup>1</sup> Valley Energy, Inc. ("Valley" or "Company") submitted Comments in this proceeding on September 9, 2010, to provide the PUC with the Company's concerns with the proposed regulations set forth in the Commission's August 10, 2010, Advance Notice of Final Rulemaking Order.<sup>2</sup>

Valley's Comments expressed its position that, if the Commission's intent is to apply the proposed regulations to all Natural Gas Distribution Companies ("NGDCs") alike regardless of size, then Valley could substantially comply with the proposed regulations with certain necessary modifications. Specifically, Valley pointed out that the proposed regulations should reflect the differences in the Public Utility Code and PUC regulations that apply to smaller NGDCs that are categorized as "Group I" Gas Utilities in comparison to the larger NGDCs that submit gas cost rate filings under Section 1307(f).<sup>3</sup> Valley also commented that the Commission may intend to apply its proposed regulations only to Section 1307(f) gas utilities, and thus not require Group I Gas Utilities to file quarterly gas cost filings or to unbundle the gas procurement cost charge and merchant function charge ("MFC").<sup>4</sup> Valley requested further clarification from the Commission in its Final Rulemaking Order.<sup>5</sup>

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<sup>1</sup> See *Natural Gas Distribution Companies and Promotion of Competitive Retail Markets*, Docket No. L-2008-2069114, Advance Notice of Final Rulemaking Order (Order entered Aug. 10, 2010), p. 1.

<sup>2</sup> See generally Valley Comments.

<sup>3</sup> See Valley Comments, pp. 3-4. As defined by the Commission, a "Section 1307(f) Gas Utility" is "[a] natural gas distributor with gross intrastate annual operating revenues in excess of \$40 million." 52 Pa. Code § 53.63(1). A "Group I Gas Utility," on the other hand, is defined as "[a] natural gas utility with gross intrastate annual operating revenues of between \$2.5 million and \$40 million." *Id.* at § 53.63(2).

<sup>4</sup> See Valley Comments, p. 4.

<sup>5</sup> *Id.*

On January 13, 2011, the Commission entered its Final Rulemaking Order in this proceeding.<sup>6</sup> Based on input from the Independent Regulatory Review Commission ("IRRC"), and the comments submitted to the IRRC, the PUC voluntarily withdrew the Final Rulemaking Order to give consideration to the various clarification issues raised by the IRRC and comments. The Commission, by Secretarial Letter dated June 9, 2011, proposes the adoption of certain clarifications to the proposed regulations set forth in the Final Rulemaking Order. The Commission invited interested parties to submit comments regarding the proposed changes by June 16, 2011. Valley submits these Comments to express the Company's overall support for the Commission's clarifications to the proposed regulations, as Valley believes these changes address the concerns set forth by the Company in its September 9, 2010, Comments.

## II. COMMENTS

Valley currently has a limited number of accounts receiving supply from NGSs, most of which are for the largest customers on the system; however, that small number of accounts purchasing from NGSs use approximately 70% of the total throughput of customers on the system. To date, NGSs have expressed little interest in serving smaller commercial and residential customers on the system.

The Company uses a third-party gas procurement manager and collects the costs of that service through its Gas Cost Rate ("GCR"). Although Valley's employees perform some gas supply functions such as the processing of payments to wholesale suppliers and coordination with NGSs serving on the system, the vast majority of the procurement, scheduling, nomination, and reconciliation activities are performed by a third party. Valley's use of a third party for gas management and other activities requires the use of a reconciliation mechanism for these costs to

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<sup>6</sup> See *Natural Gas Distribution Companies and Promotion of Competitive Retail Markets*, Docket No. L-2008-2069114, Final Rulemaking Order (Order entered Jan. 13, 2011).

ensure that Valley fully recovers its reasonable costs of providing natural gas supply service to its customers. The Company is currently permitted to fully reconcile its projected and actual gas procurement expenses in its annual Section 1307 filing.

Valley believes the PUC's proposed changes to these future regulations clarify that the Commission is not seeking to require Group 1 Gas Utilities, including Valley, to file quarterly gas cost filings or to implement further unbundling.<sup>7</sup> The Commission's proposed changes to Proposed Section 62.223, specifically the use of the term "PGC,"<sup>8</sup> confirms that the Commission intends the quarterly filing requirements to apply only to Section 1307(f) gas utilities. Thus, as a Group I Gas Utility, Valley will continue its current practice of making annual gas cost filings under Section 1307(e) of the Public Utility Code.<sup>9</sup>

The Company also believes that the PUC's inclusion of the term "PGC" in Proposed Section 62.223 confirms the Commission is limiting the applicability of this Section to 1307(f) NGDCs; Group I Gas Utilities, which do not file gas cost rate changes on a quarterly basis under Section 1307(f), would not be required by the new regulation to unbundle natural gas procurement costs and uncollectible expenses from base rates and shift them to the Price to Compare ("PTC"). Limiting the new regulation to only 1307(f) NGDCs would not limit any authority the Commission may have under the Public Utility Code to require further unbundling for Group 1 Gas Utilities at a later time. Valley will continue to recover the procurement expenses through its GCR, with annual reconciliation. As a result, Valley will maintain its current practice of making its best projection of the Company's gas procurement-related costs for the future year in its annual Section 1307 proceeding, followed by a full reconciliation of these

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<sup>7</sup> See Proposed 52 Pa. Code § 62.223(a)(1).

<sup>8</sup> "PGC" is an acronym for Purchased Gas Cost, and is defined as "[n]atural gas costs which are collected, with adjustments, by NGDCs from customers under 66 Pa. C.S. § 1307(f)." *Id.* at § 62.222.

<sup>9</sup> 66 Pa. C.S. § 1307(e).

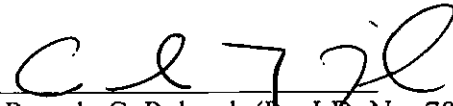
gas procurement expenses in the subsequent annual Section 1307 filing. As a small NGDC with a low tolerance to withstand financial risks, Valley appreciates the Commission's clarification to allow the Company to continue the annual reconciliation of these costs.

### III. CONCLUSION

The Commission's issuance of regulations to make it easier for consumers to compare natural gas prices offered by NGDCs and NGSs is a critical step for the Commonwealth to promote competition in the retail gas market. Valley appreciates the Commission's vigilance in balancing the interests of NGDCs of all sizes.

Respectfully submitted,

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