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| PUC logo | COMMONWEALTH OF PENNSYLVANIAPENNSYLVANIA PUBLIC UTILITY COMMISSIONP.O. BOX 3265, HARRISBURG, PA 17105-3265 | **IN REPLY PLEASE REFER TO OUR FILE** |

 April 13, 2011

 **R-2008-2073938**

# **TO ALL PARTIES:**

**Re: *Pa. PUC v. Philadelphia Gas Works*, Collaborative Process**

 **re Alternative Supplier of Last Resort**

On November 14, 2008, Philadelphia Gas Works (PGW) filed a petition with the Commission requesting emergency rate relief, pursuant to 66 Pa.C.S. §§ 1308, 1308(e), 2212(c) and 52 Pa. Code § 5.41. Interstate Gas Supply and Dominion Retail intervened in the Commission-instituted emergency rate proceeding and sponsored testimony recommending that most or all of PGW’s load should be transitioned to competitive suppliers in order to “eliminate PGW’s largest single borrowing need, i.e., the need to borrow $600 to $700 million a year to buy gas for its customers.”

The Commission, in its final order at the above docket number, concurred with Interstate Gas Supply and Dominion Retail and concluded that “[w]e believe it is important that PGW explore any and all means of reducing the financial risks and costs of its utility business.”

As directed by the Commission, PGW initiated a collaborative to explore the potential for establishment of an alternative supplier of last resort to improve its financial position. Most parties to PGW’s emergency rate proceeding participated in the collaborative process, specifically: PGW, the Office of the Trial Staff (OTS), the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), Philadelphia Industrial and Commercial Gas Users Group, Action Alliance of Senior Citizens of Greater Philadelphia (Action Alliance), the Tenant Union Representative Network, Philadelphia Housing Authority, and representatives of the natural gas suppliers including Interstate Gas Supply, Dominion Retail, Gasmark and Hess.

During the first three meetings of the collaborative process, the parties discussed several potential models for transitioning most or all of PGW’s customers to competitive supply. Additionally, parties such as the OCA expressed their concern that some or all of the potential models may not comport with the least cost fuel procurement requirements set forth in 66 Pa.C.S. § 1318.

On July 23, 2009, the collaborative process participants received a proposal from Interstate Gas Supply, Dominion Retail and Hess (hereinafter “Supplier Proposal”).

On October 21, 2009, PGW filed a Status Report that outlined the history of the Commission-ordered collaborative process and indicated that the talks were stalled. On November 4, 2009, Reply Comments were filed by the collaborative participants. Since that time, the Commission, *inter alia*, approved, on April 15, 2010, a policy statement regarding application of the cash flow method to PGW and, on July 29, 2010, approved the proposed settlement in PGW’s 2009 base rate case. Accordingly, it is now appropriate to consider the presently stalled collaborative process regarding an alternative default supplier of last resort.

As an initial matter, however, we wish to express our appreciation for the efforts made by the collaborative participants to date. However, based upon PGW’s Status Report and the replies thereto, it is the position of the Commission that a continuation of the collaborative process, under the current format, will not be productive. Notwithstanding, we believe that the adoption of an alternative provider of last resort may still present the opportunity to reduce the risks and costs associated with PGW’s operations.

 While the Commission is cognizant of the recent improvements in both PGW’s operations and PGW’s financial status, we remain convinced that it would be reasonable and prudent to consider an alternative supplier approach as part of a strategic plan for the company, *if there is still interest by the suppliers.*Because of the concerns raised by the collaborative participants regarding the operation and benefits of the Supplier Proposal, and its compliance with the least cost procurement standard, we will refer the Supplier Proposal to the Office of Administrative Law Judge (OALJ) for an on the record proceeding in which the suppliers will bear the burden of proof.

 If the suppliers wish to pursue the matter before the OALJ, the suppliers should be prepared to supplement their proposal and provide evidence to address the following concerns and policy preferences of the Commission. Specifically, the Supplier Proposal should:

* Satisfy the least cost procurement requirements of the Public Utility Code;
* Use a balanced supply portfolio that uses existing storage assets to level purchases and reduce seasonal volatility;
* Use a customer assignment process that results in a single clearing price paid by all members of the same customer class (e.g., such as a declining block auction used in default service electric procurements);
* Include a detailed implementation plan for review by all parties;
* Include contingency plans for what happens to affected customers if an alternative supplier defaults on its obligation. For example, the affected customers could be reassigned to the remaining suppliers.

Finally, the parties are encouraged to work cooperatively, and pursue reasonable opportunities for settlement. If the suppliers do not wish to pursue this matter before the OALJ, the suppliers should advise the Commission by **May 13, 2011**, and the proceeding will be marked closed.

The contact person for this matter is Assistant Counsel Stanley E. Brown, 717‑783-3968.

 Sincerely,

 Rosemary Chiavetta

 Secretary

cc: All Parties of Record at Docket No. R-2008-2073938

All Parties of Record at Docket No. R-2009-2139884

Karen Moury, Director of Operations

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