**BEFORE THE**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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| Joint Application of Peoples Natural Gas Company LLC, Peoples TWP LLC, and Equitable Gas Company, LLC for All of the Authority and the Necessary Certificates of Public Convenience (1) to Transfer All of the Issued and Outstanding Limited Liability Company Membership Interest of Equitable Gas Company, LLC to PNG Companies LLC, (2) to Merge Equitable Gas Company, LLC with Peoples Natural Gas Company LLC, (3) to Transfer Certain Storage and Transmission Assets of Peoples Natural Gas Company LLC to Affiliates of EQT Corporation, (4) to Transfer Certain Assets between Equitable Gas Company, LLC and Affiliates of EQT Corporation, (5) for Approval of Certain Ownership Changes Associated with the Transaction, (6) for Approval of Certain Associated Gas Capacity and Supply Agreements, and (7) for Approval of Certain Changes in the Tariff of Peoples Natural Gas Company LLC. | **: : : : : : : : : :**  **:**  **:**  **: :**  **:**  **:**  **:**  **:**  **:**  **:**  **:**  **:**  **:**  **:** | Docket Nos. A-2013-2353647  A-2013-2353649  A-2013-2353651 |

**INITIAL DECISION**

Before

Mark A. Hoyer

Administrative Law Judge

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I. HISTORY OF THE PROCEEDINGS

On March 19, 2013, Peoples Natural Gas Company LLC (“Peoples”), Peoples TWP LLC (“Peoples TWP”), and Equitable Gas Company, LLC (“Equitable”) (hereinafter collectively referred to as the “Joint Applicants”) filed a Joint Application with the Pennsylvania Public Utility Commission (“Commission”) requesting all necessary approvals pursuant to Sections 1102(a)(3), 1317(d), 2102(a), and 2204(e)(4) of the Public Utility Code (“Code”), 66 Pa.C.S. §§ 1102(a)(3), 1317(d), 2102(a), and 2204(e)(4), authorizing and approving: (1) the transfer of 100% of the issued and outstanding limited liability company membership interests in Equitable, an indirect subsidiary of EQT Corporation (“EQT”), to PNG Companies LLC (“PNG”), an indirect subsidiary of SteelRiver Infrastructure Fund North America LP (“SRIFNA”); (2) the merger of Equitable with Peoples, a wholly-owned subsidiary of PNG, and the operation of Equitable as an operating division of PNG; (3) the transfer of certain storage and transmission assets of Peoples to EQT; (4) the transfer of certain assets and/or the exchange of certain services between EQT and Equitable; (5) certain PNG ownership changes associated with the Transaction; (6) the associated gas capacity, storage, interconnects, leases, and supply service agreements among Peoples, Peoples TWP, Equitable, and/or EQT set forth in the Joint Application; and (7) certain changes in Peoples’ tariff necessary to carry out the transactions (hereinafter, collectively the “Transaction”). *See* Joint Applicants Exhibit MKO-1.

On March 21, 2013, a Secretarial Letter was issued directing the Joint Applicants to publish notice of the Transaction once in a newspaper having a general circulation in the area involved and file proof of publication with the Commission. On April 2, 2013, the Joint Applicants filed proofs of publication indicating that the notice prescribed by the Commission’s Secretary had been published in the *Pittsburgh Post-Gazette* and in the *Tribune-Review*. Notice of the Joint Application was published in the *Pennsylvania Bulletin* on March 30, 2013. *See* 43 Pa.B. 1814.

On April 8, 2013, the Commission’s Bureau of Investigation and Enforcement (“I&E”) entered a Notice of Appearance. On April 10, 2013, the Office of Small Business Advocate (“OSBA”) filed a Notice of Intervention, Protest, Public Statement, and Notice of Appearance. On April 11, 2013, the Office of Consumer Advocate (“OCA”) filed a Notice of Intervention, Protest, and Public Statement.

Protests and Petitions to Intervene were filed by the following: Dominion Retail, Inc. and Interstate Gas Supply, Inc. (“the NGS Parties”); Utility Workers Union of America, Local 666 (“UWUA”); The Pennsylvania State University (“PSU”); Snyder Brothers, Inc. (“Snyder Brothers”); United Steelworkers International Union, Local 12050 (“United Steelworkers”); International Brotherhood of Electrical Workers, Local 1956 (“IBEW”); Peoples-Equitable Merger Intervenors (PEMI”); Pennsylvania Independent Oil & Gas Association (“PIOGA”); Retail Energy Supply Association; United States Steel Corporation (“US Steel”); Dominion Transmission, Inc., and; Citizens for Pennsylvania’s Future (“PennFuture”).[[1]](#footnote-1)

On April 24, 2013, a Prehearing Conference Order was issued scheduling a Prehearing Conference for Thursday, May 9, 2013. A Prehearing Conference was held as scheduled. A Prehearing Order setting forth, *inter alia*, the procedure to be followed and the litigation schedule was issued on May 14, 2013.

On June 12, 2013, a First Interim Order Directing Publication of Public Input Hearing was issued. This Order directed the Joint Applicants to publish notice of a telephonic Public Input Hearing scheduled for Wednesday, July 10, 2013 and file proofs of publication with the Commission’s Secretary. On or about July 9, 2013, the Joint Applicants filed proofs of publication indicating that the notice prescribed had been published in the *Pittsburgh Post-Gazette* and in the *Tribune-Review*.

On July 3, 2013, a Second Interim Order was issued which, among other things, revised the litigation schedule.

On July 10, 2013, a telephonic Public Input Hearing was held.

On September 10, 2013, the Joint Applicants filed a Motion for a Protective Order. At the hearing on September 11, 2013, the Motion for a Protective Order was granted and a Protective Order memorializing what was ordered at the hearing was issued on September 13, 2013. The Protective Order contained a list of the admitted evidence subject to the Protective Order. *See* Protective Order, Appendix A.

An evidentiary hearing was held on September 11, 2013. The parties in attendance moved their respective testimonies and exhibits into the record and the same were admitted, subject to the aforementioned Protective Order. The remaining PennFuture Issues were litigated at the evidentiary hearing. As a result of settlement discussions, the Joint Applicants, I&E, OCA, OSBA, PIOGA, NGS Parties, Snyder Brothers and US Steel reached a settlement in principle prior to the September 11, 2013 evidentiary hearing that fully resolved all issues related to the Transaction (“Transaction Issues”), except for PennFuture’s proposal that the Joint Applicants be required to implement a five-year, $220 million demand side management (“DSM”) plan as a condition of the Commission’s approval of the Transaction (“PennFuture Issues”).[[2]](#footnote-2) On September 25, 2013, a Joint Petition for Approval of Non-Unanimous Settlement executed by the Joint Applicants, I&E, OCA, OSBA, PIOGA, NGS Parties, Snyder Brothers and US Steel was filed.

Following the conclusion of the evidentiary hearing, the Joint Applicants and PennFuture continued to engage in additional settlement discussions in an effort to resolve the remaining PennFuture Issues. On October 2, 2013, a Joint Petition for Approval of Settlement between the Joint Applicants and Citizens for Pennsylvania’s Future (“PennFuture”) was filed. I directed the parties to these settlements to confer to discuss the two settlement agreements (Joint Petition for Approval of Non-Unanimous Settlement and Joint Petition for Approval of Settlement between the Joint Applicants and Citizens for Pennsylvania’s Future) for the purpose of consolidating them into one joint petition for my consideration and the consideration of the Commission. The parties agreed to do so and on October 7, 2013, a Joint Petition for Settlement of All Issues (hereinafter referred to as “Settlement”) was filed.[[3]](#footnote-3)

On October 7, 2013, the Joint Applicants filed an Unopposed Petition to Withdraw Settlements pursuant to Section 5.94(a) of the Pennsylvania Public Utility Commission’s (“Commission”) regulations, 52 Pa.Code § 5.94(a) and requested that the Joint Petition for Approval of Non-Unanimous Settlement filed on September 25, 2013, and the Joint Petition for Approval of Settlement Between the Joint Applicants and Citizens for Pennsylvania’s Future filed on October 2, 2013, be withdrawn in their entirety and replaced with the Joint Petition for Settlement of All Issues filed on October 7, 2013.

On October 31, 2013, a Third Interim Order was issued approving the withdrawal of the Joint Petition for Approval of Non-Unanimous Settlement filed on September 25, 2013, and the Joint Petition for Approval of Settlement Between the Joint Applicants and Citizens for Pennsylvania’s Future filed on October 2, 2013. The record was also closed by the Third Interim Order.

II. THE PUBLIC INPUT HEARING

On July 10, 2013, a telephonic Public Input Hearing was held. Four witnesses testified. The testimony is summarized below.

State Representative William C. Kortz from Dravosburg, Pennsylvania, who represents the 38th District, Allegheny County, Pennsylvania, testified that he supports the merger. He believes Peoples has a very good management team with the experience, knowledge and plan to make the Transaction work. He believes the advantages of the merger are many, such as reducing overlap of services and reducing the capital cost for infrastructure replacements. He also believes the merger will create synergies of the various departments merged like accounting, HR (Human Resources), IT (Information Technology), purchasing, legal, treasury and the management team. Representative Kortz had safety-related questions regarding the proposed transfer of high pressure transmission pipeline from Peoples to EQT. He also expressed concerns regarding lost and unaccounted for gas and for displaced workers. He believes there should be some help for displaced workers in the Transaction. He also mentioned that pipeline maps should be exchanged and updated so that the best information regarding the location of underground gas pipes is available. Tr. 55-59.

James R. Behr, an employee of Energy Savers, Inc., who resides at 226 Elcott Drive, Sewickley, Pennsylvania, testified that he is not a customer of any of the Joint Applicant distribution companies but he works with customers of both Peoples and Equitable. He testified that he is opposed to the acquisition Transaction for several reasons. First, he opposes the sale of Peoples’ midstream assets to EQT because these assets were developed and paid for by ratepayers and any profits should remain with the utility and be used to lower rates. In addition, he is concerned that the sale of these assets will remove these assets from the Commission’s jurisdiction. He testified that the Transaction will eliminate competition. He is concerned that the proposed Transaction will eventually result in higher rates for competitive customers. He disputes the claim that there are savings to be had by abandoning one distribution pipeline and connecting all customers to a single distribution pipeline on streets where there are both Peoples and Equitable pipelines. He believes the significant cost of connecting customer service lines to a distribution pipeline on the other side of the street was not considered. He believes each utility has different operating pressures and that the installation cost of regulators would add to the cost of system connection. Also, he believes connection would result in customer service line failures because of increased gas pressure. Finally, he testified that Equitable’s inner-city payment problems would cause rate increases for Peoples’ customers. Tr. 60-65.

James M. Eichenlaub, who resides at 611 Murray Street, Sewickley, Pennsylvania, testified that he is not a customer of any of the Joint Applicant distribution companies. He is employed by the Builders Association of Metropolitan Pittsburgh and the Apartment Association of Metropolitan Pittsburgh. He testified that he is concerned that the merger will create a single-source monopoly for gas service and that this is not in the best interests of consumers because pricing and service competition will be eliminated. He has concerns about how the merger will change Peoples’ pricing once it is the lone service provider. He questioned whether rates will be increased to cover the cost of the acquisition of assets. Like witness Behr, Mr. Eichenlaub questioned whether savings would be realized by eliminating duplicate main lines on streets because customers would need to pay to reconnect to lines that are not necessarily parallel. He believes this reconnection cost issue would be a greater issue for large-unit apartment buildings that provide multiple service connections. He expressed concern that the merger will have a negative impact on employment and community involvement. Finally, he testified that he believes the Commission should carefully review the Joint Application to ensure that consumers are protected, and concerns over service and pricing should be the overiding factor considered. Tr. 66-72.

Judith L. Cardosi, who resides at 5 Beaver Road, Pittsburgh, Pennsylvania, is employed by The Economy Village Condominium Association. She testified that she is not personally a customer of one of the Joint Applicant distribution companies but The Economy Village Condominium Association is a customer of Equitable. She testified that she is opposed to the acquisition of Equitable by Peoples because she is fearful the merger will reduce competition and ultimately lead to an increase in natural gas prices. Tr. 73-74.

III. FINDINGS OF FACT

1. Peoples is a limited liability company formed under the laws of the Commonwealth of Pennsylvania for the purpose of providing natural gas transmission, distribution, and supplier of last resort services subject to the Commission’s regulatory jurisdiction. Peoples is a wholly-owned subsidiary of PNG, which is an indirect subsidiary of SRIFNA. On February 1, 2010, PNG closed on its purchase of all of the issued and outstanding shares of capital stock of Peoples, which acquisition was approved by the Commission. *Joint Application for Approval of the Transfer of the Issued and Outstanding Shares of Capital Stock of the Peoples Natural Gas Company*, Docket No. A-2008-2063737 (November 19, 2009) (Joint Application, p. 6).

2. Peoples is a “public utility” and a “natural gas distribution company” as those terms are defined in Code Sections 102 and 2202, 66 Pa.C.S. §§ 102, 2202. Peoples provides natural gas services to approximately 360,000 customers throughout its certificated territory, which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Blair, Butler, Cambria, Clarion, Fayette, Greene, Indiana, Lawrence, Mercer, Somerset, Venango, Washington, and Westmoreland. Peoples’ service territory is shown on the map attached as “Appendix B” to the Joint Application (Joint Application, pp. 6‑7).

3. Peoples has paid all special and general assessments made against it pursuant to Code Section 510, 66 Pa.C.S. § 510. Peoples will remain responsible through its Equitable division for the payment of any and all lawful special and general assessments related to Equitable’s facilities that the Commission may make against it, pursuant to Code Section 510 (Joint Application, p. 7).

4. Peoples TWP is a limited liability company formed under the laws of the Commonwealth of Pennsylvania for the purpose of providing natural gas transmission, distribution, and supplier of last resort services subject to the Commission’s regulatory jurisdiction. Peoples TWP is a wholly-owned subsidiary of LDC Holdings II, which is an indirect subsidiary of SRIFNA. On May 24, 2011, LDC Holdings II closed on its purchase of all of the issued and outstanding shares of capital stock of TWP, which acquisition was approved by the Commission. *Joint Application of T.W. Phillips Gas and Oil Company, TWP INC., and LDC Holdings II LLC for approval of a change of control of T.W. Phillips and Oil Company from TWP INC. to LDC Holdings II LLC, an indirect subsidiary of SteelRiver Infrastructure Fund North America LP*, Docket No. A-2010-2210326 (May 23, 2011) (Joint Application, p. 7).

5. Peoples TWP is a “public utility” and a “natural gas distribution company” as those terms are defined in Code Sections 102 and 2202, 66 Pa.C.S. §§ 102, 2202. Peoples TWP provides natural gas services to approximately 60,300 customers throughout its service territory, which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson, and Westmoreland. Peoples TWP’s service territory is shown on the map attached as “Appendix C” to the Joint Application (Joint Application, pp. 7-8).

6. Peoples TWP has paid all special and general assessments made against it pursuant to Code Section 510, 66 Pa.C.S. § 510. Peoples TWP will remain responsible for the payment of any and all lawful special and general assessments that the Commission may make against it, pursuant to Code Section 510 (Joint Application, p. 8).

7. Equitable is a limited liability company formed under the laws of the Commonwealth of Pennsylvania for the purpose of providing natural gas transmission, distribution, and supplier of last resort services subject to the Commission’s regulatory jurisdiction. Equitable was a regulated operating division of Equitable Resources, Inc., prior to a holding company reorganization approved by the Commission at Docket No. A-121100F0006, which became effective July 1, 2008. Equitable is a direct, wholly-owned subsidiary of Distribution Holdco, LLC (“Holdco”), which, in turn, is a wholly-owned subsidiary of EQT Corporation. EQT Corporation is the ultimate parent of the entire EQT family of companies (Joint Application, p. 8).

8. Equitable is a “public utility” and a “natural gas distribution company” as those terms are defined in Code Sections 102 and 2202, 66 Pa.C.S. §§ 102, 2202. Equitable provides natural gas services to approximately 260,000 customers throughout its Pennsylvania certificated territory, which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Butler, Clarion, Greene, Indiana, Jefferson, Washington, and Westmoreland. Equitable’s service territory is shown on the map attached as “Appendix D” to the Joint Application (Joint Application, p. 8).

9. Equitable has paid all special and general assessments made against it pursuant to Code Section 510, 66 Pa.C.S. § 510. After Closing of the Proposed Transaction, Peoples will be responsible for the payment of any and all lawful special and general assessments that the Commission may make against Equitable, pursuant to Code Section 510 (Joint Application, p. 9).

10. SteelRiver Infrastructure Associates LLC, the general partner of SRIFNA, and its affiliated investment management entities (collectively “SteelRiver”) manage infrastructure investments throughout North America, with capital under management in excess of $3.8 billion (Joint Application, p. 9).

11. In addition to Peoples and Peoples TWP, SteelRiver owns Diversified Port Holdings LLC (formerly ICS Holdings), a leading operator of break bulk sea ports in Florida, Louisiana, and Alabama; Trans Bay Cable LLC, a 400 megawatt high-voltage direct current electric submarine cable connecting the city of Pittsburg, California and San Francisco; and Patriot Rail Corp., a leading operator of short line and regional freight railroads in the United States, which includes 13 railroads with over 500 total rail miles traversing 13 states. SteelRiver also manages, and is a member of, the consortium that owns the controlling interest (80%) of Natural Gas Pipeline Company of America LLC, which is among the largest domestic natural gas pipelines and storage systems in the United States, with over 9,200 miles of gas transmission pipelines and 13 storage facilities with approximately 600 Bcf of total storage capacity and approximately 260 Bcf of working gas capacity (Joint Application, p. 9).

12. SteelRiver management has experience in dealing with various federal and state regulatory authorities, including the Federal Energy Regulatory Commission (“FERC”), the Federal Communications Commission, the U.S. Department of Justice, the Federal Trade Commission, and the Department of Defense (Joint Application, p. 9).

13. SRIFNA is an independent investment fund specializing in infrastructure assets. SRIFNA invests for the long-term in infrastructure businesses that provide essential services. Investors in SRIFNA include public employee and other pension plans and insurance companies located throughout North America and Europe (Joint Application, p. 10).

14. LDC Funding LLC (“LDC Funding”) is a Delaware limited liability company and a wholly-owned direct subsidiary of SRIFNA. LDC Funding directly owns a 100% interest in LDC Holdings LLC (“Holdings”), which in turn owns a 100% interest in PNG. LDC Funding also directly owns a 100% interest in LDC Holdings II LLC (“Holdings II”), which in turn owns a 100% interest in Peoples TWP (Joint Application, p. 10).

15. PNG is a limited liability company organized, validly existing, and in good standing under the laws of Delaware. PNG directly owns a 100% interest in Peoples. PNG is a wholly-owned subsidiary of Holdings, an indirect subsidiary of SRIFNA (Joint Application, p. 10).

16. Through its subsidiaries PNG and Holdings II, SRIFNA has owned, and SteelRiver has managed, Peoples since February 2010 and Peoples TWP since June 2011. Both utilities have improved in their operations and customer service performance under SteelRiver management. In addition, both utilities’ capital expenditures have increased significantly compared to their spending levels prior to being acquired by SRIFNA (Joint Application, p. 10).

17. Peoples and Peoples TWP have added over 300 new Pennsylvania-based jobs under SteelRiver management (Joint Application, p. 10).

18. Upon Closing of the Transaction, it is anticipated that Equitable will be merged into Peoples, with Peoples as the surviving entity. A new parent company of LDC Funding will be included in the indirect ownership of Equitable and Peoples coincident with the Closing of the Transaction. The new parent company will continue to be 100% owned by SteelRiver managed funds (Joint Application, pp. 10-11).

19. EQT Corporation is a Pennsylvania corporation acting as a holding company for various energy related businesses and enterprises it owns directly or indirectly. EQT conducts its business through three business segments that are generally described as: EQT Production, EQT Midstream and Distribution (Joint Application, p. 11).

20. The EQT Production business segment is one of the largest natural gas producers in the Appalachian Basin with 6.0 Tcfe of proved reserves across 3.5 million gross acres, including 540,000 acres in the Marcellus Shale play, as of December 31, 2012 (Joint Application, p. 11).

21. The EQT Midstream business segment provides, among other things, gathering, transmission and storage services for EQT Production’s produced gas and also provides significant similar services to independent third parties in the Appalachian Basin. EQT Midstream, through its various legal entities, owns and/or operates approximately 10,300 miles of gathering pipeline, 700 miles of transportation pipeline and 32 Bcf of working gas capacity (Joint Application, p. 11).

22. Equitrans, L.P. (“Equitrans”), which is a Pennsylvania limited partnership, is a company within the EQT Midstream segment. Equitrans provides services that are subject to the jurisdiction of the FERC. Equitrans is a “natural gas company” within the definition of Section 2(6) of the Natural Gas Act, 15 U.S.C. § 717a(6), and is engaged in the business of gathering, storing, and transporting natural gas in interstate commerce. Equitrans’ mainline system is located in northern West Virginia and southwestern Pennsylvania. Equitrans provides open-access transportation service under its blanket transportation certificate, including to local distribution companies serving the City of Pittsburgh and surrounding areas, pursuant to rates, terms, and conditions set forth in its FERC filed tariff (Joint Application, p. 12).

23. Equitrans is currently owned by Equitrans Investments, LLC and Equitrans Services, LLC, both directly held subsidiaries of EQT Midstream Partners, LP (“EQM”). EQM is a growth-oriented limited partnership formed by EQT to own, operate, acquire and develop midstream assets in the Appalachian Basin. EQM provides significant midstream services to companies through two primary assets: the Equitrans Transmission and Storage System and the Equitrans Gathering System. EQM, through Equitrans, operates a 700 mile FERC-regulated, interstate pipeline system and more than 2,000 miles of FERC rate-regulated, low-pressure gathering lines (Joint Application, p. 12).

24. Another EQT company within the EQT Midstream business segment is EQT Gathering, LLC (“EQT Gathering”), which is a Delaware limited liability company that owns and operates an extensive network of gathering assets that are not subject to FERC jurisdiction. EQT Gathering provides gathering services to third parties as well as to EQT Production (Joint Application, p. 12).

25. EQT Energy, LLC, (“EQT Energy”), also part of the EQT Midstream business segment, works to optimize the portfolio of EQT’s assets from physical production through gathering assets and contractual pipeline assets. As the marketing and trading arm of EQT, EQT Energy’s services include optimization of capacity and storage assets and natural gas liquids marketing. Managing more than 20 Bcf of storage related assets creates the scale to extract value for the assets and provide a high level of reliability to its customers. With activity on all major pipelines through the region, including Texas Eastern Transmission, Columbia Gas Transmission, National Fuel Gas Supply, Tennessee Gas Pipeline, Dominion Transmission, and Transco, EQT Energy has access to all Northeast wholesale markets. EQT Energy supports EQT Production as well as third party producers and non-regulated customers across the Mid-Atlantic and Northeastern United States. By coordinating the logistics, gas control and gas sales functions for EQT Production’s assets and purchases from third party producers, EQT Energy provides a diversified supply portfolio of Appalachian production for Mid-Atlantic and Northeastern United States end users. On behalf of EQT Production, EQT Energy also manages EQT’s firm production capacity portfolio, providing delivered supply to these same markets. Packaged together, these services provide flexible and reliable supply in excess of 500,000 Dth/day. EQT Energy also engages in retail gas sales to commercial and industrial customers within its operational footprint (Joint Application, p. 13).

26. The Distribution segment of EQT, through Equitable, distributes and/or sells natural gas to residential, commercial and industrial customers in southwestern Pennsylvania, West Virginia, and eastern Kentucky; operates a small gathering system in Pennsylvania; and provides off-system sales activities which include the purchase and delivery of gas to customers (Joint Application, p. 13).

27. Distribution Holdco, LLC (“Holdco”) owns all of the issued and outstanding limited liability company membership interests of Equitable and Equitable Homeworks, LLC. EQT Corporation owns all of the issued and outstanding limited liability company membership interests in Holdco (Joint Application, p. 14).

28. Equitable Homeworks, LLC offers various heating and cooling protection programs, line protection programs and restoration programs within Pennsylvania. As part of the Transaction, Holdco also will sell, convey, transfer, assign, and deliver to PNG all of the issued and outstanding membership interests in EQT Homeworks, LLC, an unregulated entity (Joint Application, p. 14).

29. At the Closing, Equitable will be merged into Peoples, with Peoples as the surviving entity and Equitable initially operated as a new separate operating division of Peoples (Joint Applicants Statement No. 2, p. 12).

30. The Transaction provides for (1) the payment of cash (including investments by Peoples in assets to be transferred from Peoples to EQT), (2) the transfer of certain assets by Peoples to EQT, (3) the exchange of certain assets between EQT and Equitable, and (4) certain other supply, capacity, interconnect, and service agreements (Joint Applicants Statement No. 2, pp. 12-13).

31. By re-aligning PNG’s and EQT’s assets and businesses with their respective principle business interest, the Transaction will permit Peoples to achieve the following substantial affirmative benefits: (1) an opportunity to avoid capital costs by avoiding duplicative replacement of overlapping cast iron and bare steel mains owned by the Joint Applicants; (2) the opportunity to achieve significant operational and management efficiencies; (3) the opportunity to improve retail supply competition by combining the Peoples and Equitable markets and instituting uniform policies and practices for supply choice; and (4) the opportunity to expand development of Pennsylvania natural gas and related infrastructure through a series of supply and capacity agreements that will increase access to and capacity to use Pennsylvania produced natural gas (Joint Applicants Statement No. 2, p. 17).

32. As part of the Transaction, Peoples will transfer certain transmission pipeline and storage assets to EQT, which will be owned by Allegheny Valley Connector, LLC (“AVC” or the “AVC pipeline”) and operated by Equitrans, L.P. (Joint Applicants Ex. MKO-1, Appendix A, Exhibit A; Joint Applicants Statement No. 3-R, p. 4).

33. The EQT Asset Exchange Agreement, as modified by the terms of the Settlement, provides for the transfer of various assets between certain EQT entities in order to realign those assets consistent with the goal of providing Equitable with the assets needed to focus on continuing to provide distribution services in a safe, reliable and cost-effective manner, while transferring from Equitable those assets that are not needed for that purpose. (Joint Applicants Ex. MKO-1, Appendix A, Ex. L; Settlement ¶ 99).

34. Combining Peoples and Equitable is expected to avoid replacement of the two companies’ overlapping pipeline systems resulting in significant amounts of avoided capital expenditures that would otherwise be needed to maintain and/or replace duplicative pipelines (Joint Applicants Statement No. 2, p. 18).

35. There are many miles of duplicative pipelines on the Peoples, Peoples TWP, and Equitable systems, a significant number of which are located on the same streets. The Transaction will help both Peoples and Equitable avoid the need to replace duplicative pipelines (Joint Applicants Statement No. 2, p. 18).

36. The estimated avoided pipeline replacement cost is $162 million. This estimate was prepared and presented on the record by an independent expert with access to detailed information and maps containing actual pipeline locations, ages and type of pipeline material, and recent pipeline replacement costs experienced by the Joint Applicants. There is approximately $750,000 in current year pipeline extension costs for new or improved services that can be expected to be avoided. There are approximately $50,000 in annual leak surveillance costs that can be expected to be avoided as coincidental pipe is eliminated (Joint Applicants Statement No. 11, p. 4).

37. Peoples commits to continue its acceleration of replacing higher risk pipe with a revised focus solely on its distribution and gathering assets. Peoples will file a revised Long Term Infrastructure Improvement Plan (“LTIIP”) that will address how Peoples will avoid the replacement of duplicative pipe following the merger. The LTIIP must provide for a level of investment for the Peoples Division for the period 2015 through 2019 that is consistent in aggregate amount with the annual average amount of $80 million under Peoples’ Commission approved current LTIIP. Peoples also will accelerate capital expenditures for the Equitable Division from $33 million in 2014 to at least $45 million in 2017, 2018 and 2019 as evidenced by the filing of a revised LTIIP or Asset Optimization Plan (Settlement ¶¶ 34, 62).

38. Peoples will initially operate Peoples’ and Equitable’s facilities as separate operating divisions with separate rates (Joint Applicants St. 2, p. 15).

39. Post-Closing, Peoples will maintain separate accounting for the Peoples Division and Equitable Division operations sufficient to provide all Commission required financial statements. PNG also will provide the Commission and statutory parties with reasonable access to the books and records, officers and staff of PNG and its subsidiaries (Settlement ¶¶ 47-48).

40. Costs will be allocated between the Peoples and Equitable Divisions using procedures and factors approved under Peoples’ approved affiliated interest agreements. (Settlement ¶ 53).

41. Peoples will merge the operations and management of the Peoples Division and the Equitable Division upon the Closing into a single management and operations unit. This will allow the utilities to commence the process of eliminating the existing redundancies and inefficiencies resulting from separate ownership and operation (Joint Applicants Statement 2, p. 16).

42. After Closing, Peoples will combine accounting, treasury, human resources, information technology, purchasing, legal, and rates functions for both the Peoples Division and the Equitable Division during a transition process. This should reduce the overall management and administrative costs of the merged utilities over time (Joint Applicants Statement No. 2, pp. 20-21).

43. Peoples estimates that the synergy savings from merging the operations and management of the Peoples Division and the Equitable Division will be at least $10 to $20 million annually, net of costs to achieve, and will be achieved in two to four years from Closing (Joint Applicants Statement No. 2-R, p. 21; OCA Statement No. 1, p. 26).

44. Peoples will begin a review of the existing transportation program processes and procedures on Equitable and convene a collaborative, which will include all interested stakeholders, within 12 months following the Closing to develop a strategy to promote retail supply competition in the combined Peoples/Equitable service areas. Peoples further agrees to a target filing date of possible tariff changes resulting from this collaborative within three months following the date the collaborative is convened (Settlement ¶¶ 81, 92).

45. Peoples agrees to implement the transportation policies and procedures that have permitted Peoples to encourage retail supply competition. Within six months following Closing, Peoples will implement an Energy Choice outreach program for Equitable customers and begin using the Peoples’ Electronic Data Transfer/Electronic Bulletin Board/Nominations System and related processes. (Settlement ¶ 93).

46. Within 30 days following Closing, Peoples will provide Aged Receivables reporting on behalf of suppliers that are receiving commodity billing services from the Peoples Division. Peoples also will, within one year of the date of Closing, review and seek to revise the Purchase of Receivables program of Equitable and take steps necessary to make it consistent in design and rate structure with that of the Peoples Division (Settlement ¶¶ 94, 96).

47. Within six months of approval of the Settlement, Peoples will convene a collaborative to include input of interested stakeholders, to discuss all aspects of a proposed new and moving customer referral program within 12 months of Closing (Settlement ¶ 95).

48. Peoples and EQT have agreed to certain measures to ensure that suppliers, marketers, and producers continue to have access to sufficient transportation and storage capacity on the transferred assets. These measures are designed to help ensure that natural gas suppliers, marketers, and producers can continue to deliver local gas directly into the Allegheny Valley Connector (“AVC”) assets and to deliver gas off system. Peoples has also agreed to provide natural gas suppliers with access to a similar level of balancing flexibilities and banking, balancing and advancing (“BB&A”) benefits that they enjoy today (Settlement ¶¶ 83-84, 88, 101).

49. Peoples and PIOGA have agreed to undertake an initiative using the Peoples Division PES Project Review Committee (“PRC”) funds to create interconnections between the Equitable and Peoples Divisions that are designed to increase the use of local gas supplies and add more flexibility for suppliers on both systems (Settlement ¶ 87).

50. SteelRiver has operated other significant regulated infrastructure assets, including Diversified Port Holdings LLC, Trans Bay Cable, Patriot Rail, and Natural Gas Pipeline Company of America and effectively managed technical issues that have arisen with regard to these entities (Joint Applicants Statement No. 1, p. 23).

51. The Commission previously found SteelRiver and PNG to be legally fit in both the Peoples and the Peoples TWP acquisition proceedings. Since SteelRiver took control of Peoples on February 1, 2010, and Peoples TWP on May 23, 2011, these companies have not experienced any significant issues in complying with the Pennsylvania Public Utility Code and the Commission’s regulations and orders. SteelRiver and PNG are in compliance with all federal and state laws, and have never been prosecuted or indicted for criminal activity in this country or any other country. SteelRiver does not do business in countries that have been designated by the United States Department of State as state sponsors of terrorism (Joint Applicants Statement No. 1, p. 24).

52. The Commission has previously found SteelRiver to be financially fit in the Peoples and Peoples TWP acquisition proceedings. SteelRiver has not experienced any significant changes in its approach to investments. SteelRiver seeks a stable, steady and fair return on an investment to be held for a significant period of time (Joint Applicants Statement No. 1, p. 17).

53. SteelRiver’s and PNG’s immediate attention will be given to customer service, financial and regulatory management, human resource programs, and the accelerated replacement of dated infrastructure (Joint Applicants Statement No. 1, p. 19).

54. SteelRiver and its portfolio companies have internal corporate governance policies and requirements and are subject to an internal code of conduct that explicitly lays out standards and requirements relating to conduct in the workplace and interactions with stakeholders and business partners. SteelRiver’s affiliated investment advisor is also subject to the reporting and regulatory requirement of the Investment Advisors Act of 1940, 15 U.S.C. §§ 80b-1, *et seq.* (Joint Applicants Statement No. 1, pp. 10-11).

55. SteelRiver and Peoples intend to be a long-term owner of Equitable. SteelRiver is currently a long-term owner and manager of major infrastructure assets, including utility, energy, and transmission businesses. Through the acquisition of Equitable and the previous acquisition of Peoples and Peoples TWP, SteelRiver is demonstrating a long-term commitment to western Pennsylvania (Joint Applicants Statement No. 1, p. 11).

56. SteelRiver will continue to maintain Peoples’ corporate headquarters in Peoples’ service area and in or near Pittsburgh, Pennsylvania. Peoples agrees not to move its headquarters outside of Peoples’ service territory for at least a ten-year period after Closing and will only do so after that time upon application to and approval by the Commission (Settlement ¶ 58).

57. Peoples will maintain field offices in its service territory and staffing levels that are sufficient to provide safe and reliable service (Settlement ¶ 59).

58. Services that are currently performed for Equitable outside of the Equitable service area in Pennsylvania, such as call center support, customer billing and payment and customer relations, will be returned to the Peoples service area within five years after Closing (Settlement ¶ 79).

59. For a period of not less than five years, Peoples will provide corporate contributions and community support in southwestern Pennsylvania in a total amount that is at least equivalent to the amount provided by Peoples ($1.0 million) and Equitable ($400,000) in 2012 (Settlement ¶ 78).

60. Peoples shall not do the following except as approved by the Commission upon a showing of net benefit to retail customers:

(a) guarantee the debt or credit instruments of PNG, LDC Holdings, LDC Funding, or any affiliate not regulated by the Commission;

(b) mortgage utility assets on behalf of PNG, LDC Holdings, LDC Funding, or any affiliate other than in conjunction with financing provided by PNG to Peoples; or

(c) loan money or otherwise extend credit to PNG, LDC Holdings, LDC Funding, or any affiliate for a term of one year or more (Settlement ¶ 43).

61. After Closing, Peoples will maintain reasonable accounting controls and pricing protocols to govern transactions with affiliates, and provide the Commission and the statutory parties with reasonable access to the books, records and personnel of Peoples’ affiliates where necessary for the Commission to adequately review Peoples’ purchases of goods or services from affiliates (Settlement ¶ 46).

62. Peoples will seek Commission approval of all new or amended agreements with affiliates consistent with Chapter 21 of the Public Utility Code (Settlement ¶ 50).

63. Peoples’ cost allocations between its Peoples and Equitable Divisions and affiliates will follow the standards and allocation methodologies that have been previously approved by the Commission, at Docket No. G-2012-2290014, with regard to affiliate charges under the Peoples Service Corporation, LLC Agreement (Settlement ¶ 53).

64. Peoples agrees that post-Closing the capital structure of Peoples will be maintained at an approximate level of 50% debt and 50% equity (Settlement ¶ 30).

65. Peoples agrees not to request a capital structure for ratemaking purposes which is outside the range of capital structures employed by comparable gas distribution companies (Settlement ¶ 38).

66. For a four-year period following Closing, Peoples must provide thirty (30) days prior notice to the Commission and the statutory parties if it intends to make a distribution to PNG which distribution will cause its actual debt ratio, excluding working capital facilities, to exceed 55% of total capitalization (Settlement ¶ 39).

67. LDC Holdings’ consolidated long term debt ratio as a percent of total capitalization shall not exceed 60% for any period longer than one year absent approval from the Commission (Settlement ¶ 40).

68. Peoples’ dividends to PNG are limited to a level that maintains a maximum debt ratio of 55%, excluding working capital facilities, unless approved by the Commission (Settlement ¶ 42).

69. After Closing, Peoples must maintain separate accounting for the Peoples Division and Equitable Division operations sufficient to provide all Commission required financial reporting. Separate accounting records must also be maintained for operations in West Virginia and Kentucky (Settlement ¶ 47).

70. PNG and its subsidiaries are required to provide the statutory parties with a copy of any reports filed with the US Securities and Exchange Commission upon request (Settlement ¶ 51).

71. SRIFNA is financially strong and capable of maintaining and enhancing the level of service and customer satisfaction provided by Equitable, and supporting improvements to service where appropriate. (Joint Applicants Statement No. 1, pp. 4-5, 9).

72. In June of 2012, Equitable submitted a filing to the Commission seeking to acquire the Goodwin and Tombaugh gathering systems from unregulated affiliates of Equitable and EQT. *See* In re Equitable Gas Company, LLC, Docket Nos. R-2012-2312577, G‑2012-2312597, and C-2012-2315323.

73. In 2012, the Goodwin gathering system had 83% unaccounted for gas (“UFG”) and the Tombaugh gathering system had 63% UFG (I&E Ex. No. 2, Sch. 5).

74. Four hundred forty-five (445) leaks were discovered on the Goodwin and Tombaugh systems at the conclusion of the leak survey completed on May 14, 2013 (I&E Ex. No. 2, Sch. 2).

75. Joint Applicants do not currently know what it will cost to repair the two gathering systems and bring UFG into an acceptable range (I&E St. No. 2, pp. 9-10).

76. The Goodwin and Tombaugh systems will be initially transferred to a new entity, PNG Gathering LLC. The Settlement provides for the assessment and improvement of the Goodwin and Tombaugh Systems, funded by a $5 million contribution from EQT for the initial analysis, testing and improvements/repairs made during this initial inspection, subject to the oversight of the Commission’s Gas Safety Division. After the initial assessment is complete Peoples must submit a filing to the Commission with a recommendation as to whether the gathering systems should be transferred to Peoples (Settlement at ¶ 61).

77. EQT has committed to continuing to repair leaks before Closing and will provide monthly reporting of leak repairs to the Commission’s Gas Safety Division (Settlement ¶ 65).

78. Peoples must present a filed plan to the Commission, after consultation with the Commission’s Gas Safety Division, OCA and OSBA, estimating the additional funds necessary, if any, to provide safe and reliable service from the Goodwin and Tombaugh systems. In the filed plan, Peoples must make a recommendation whether to proceed with rehabilitation of all or some of the systems and/or with abandonment of some or all of the customers served off the systems. The plan will be subject to the Commission’s review and approval (Settlement ¶ 65).

79. As part of the Transaction, the Joint Applicants have entered into or expect to enter into the following agreements with EQT and its subsidiaries that require Commission approval: Sunrise Transportation Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit B); Sunrise Transportation and Storage Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit C); Peoples NAESB (Joint Applicants Ex. MKO-1, Appendix A, Exhibit D); PTWP Northern Lateral Capacity Lease (Joint Applicants Ex. MKO-1, Appendix A, as Exhibit H); PTWP Northern Lateral Transportation Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit I); Peoples Asset Transportation and Storage Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit K); Equitable NAESB (Joint Applicants Ex. MKO-1, Appendix A, Exhibit M); and Extension Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit N). The details of these agreements are explained in Joint Applicants Statement Nos. 3 and 5. These agreements are necessary to facilitate the transition of ownership, ensure sufficient capacity to meet current and projected customer demand, and increase use of Pennsylvania produced gas (Joint Applicants Statement Nos. 3 and 5).

80. Peoples will not claim, in any future rate proceedings, Transaction and Transition Costs to complete the Transaction and any related tax effect for such items shall also be excluded in setting rates (Settlement ¶ 27).

81. Peoples will not defer any Transaction or Transition Costs, such costs shall be borne exclusively by Peoples’ shareholders (Settlement ¶ 29).

82. EQT will not claim any Transaction and Transition Costs in any rates under the FERC-regulated agreements for services to be provided to Peoples from the storage and pipeline assets transferred from Peoples to EQT (Settlement ¶ 27).

83. After Closing, approximately $93 million in rate base assets as of December 31, 2012 will be transferred from Peoples to EQT (Joint Applicants Statement No. 2, pp. 12-13; Joint Applicants Statement No. 3, pp. 14-15).

84. The existing base rates of Peoples will be reduced on one day’s notice following the Closing to reflect the transfer of Peoples’ transmission and storage capacity to EQT (Settlement ¶ 30).

85. Peoples’ DSIC rate will be reduced at Closing to reflect any amounts included in DSIC related to improvements made by Peoples to the transferred assets from December 31, 2013 to the Closing (Settlement ¶ 34).

86. The Peoples Division PGC rates to sales and transportation customers will be adjusted on one day’s notice following the Closing to reflect the charges for services to be provided to Peoples by EQT’s FERC-regulated pipeline, AVC. The Peoples’ base rate and DSIC reductions and the increase in PGC charges for AVC pipeline services to sales and transportation customers are designed to produce essentially no change in charges to customers. The Peoples Division and Equitable Division PGC rates shall be adjusted to reflect the new agreements for capacity and supply through the normal process of quarterly and annual filings under

Section 1307(f) of the Public Utility Code, 66 Pa.C.S. § 1307(f) (Settlement ¶ 35; Joint Applicants Statement No. 4, pp. 7-21).

87. The Peoples Division adjusted base rates and Equitable’s current base rates adopted for the Equitable Division will be capped until January 1, 2018, unless there are substantial changes in regulation or federal tax rates or policy (Settlement ¶ 31).

88. Peoples agrees that, if it files a general base rate case with new rates becoming effective after the expiration of the rate cap ending January 1, 2018, but prior to January 1, 2019, Peoples will demonstrate that its claim includes at least $15 million of synergy savings resulting from the Transaction (Settlement ¶ 31).

89. Peoples will not request a capital structure for ratemaking purposes outside the range of capital structures employed by comparable gas distribution companies (Settlement ¶ 38).

90. Peoples will commit to achieve and maintain specific quality of service metrics for its Peoples and Equitable Divisions:

(a) Call Center: 82% calls answered within 30 seconds;

(b) Call Center: Average Busy-out Rate less than 0.25%;

(c) Call Center: Average Call Abandonment Rate that is no higher than 3% for 2014-2016 and 2.5% for 2017-2018;

(d) Percent response within 60 minutes to emergency calls of at least 98.5% for 2014-2016 and 99% for 2017-2018; and,

(e) Peoples TWP agrees to extend the customer service metrics agreed to in the SteelRiver acquisition of Peoples TWP, at Docket No. A-2010-2210326, for an additional two years commencing January 1, 2014.

(Settlement ¶ 66, Appendix D).

91. Peoples will provide a report to the statutory parties each calendar year following assumption of customer service functions by the staff of Peoples or its affiliates regarding its achievement of the service quality metrics. Such reports shall continue for three calendar years after assumption of such functions by the staff of Peoples or its affiliates. If the Company has not achieved an identified metric, the report will explain the reasons for the failure and the Company’s detailed plan to reach the service quality metric. Peoples will then convene a collaborative with OCA, I&E and the OSBA to discuss such report (Settlement ¶ 67).

92. Peoples will establish a Universal Service Advisory Group that will include community based organizations (“CBOs”), Low-Income Advocates, the OCA and other interested stakeholders and will meet quarterly to discuss all universal service issues, including recommendations concerning: Low Income Usage Reduction Program (“LIURP”), LIURP eligibility, Earned Income Tax Credit (“EITC”) concerns, and landlord issues that may present a barrier to customer participation (Settlement ¶ 73).

93. Peoples will develop and employ best practices from the experience of Peoples and Equitable under their universal service programs and those of other companies identified by the Universal Service Advisory Group (Joint Applicants Statement No. 4-R, p. 28).

94. After Closing, Peoples will continue to fund Equitable’s Customer Assistance Program (“CAP”) consistent with its needs analysis approved in conjunction with Equitable’s currently approved Universal Services Plan (Settlement ¶ 72).

95. Peoples will manage Equitable’s CAP program similar to that of Peoples in that it will partner with an agency that: (a) can substantially increase the number of intake sites; (b) is an administrator of utility CAP programs for the electric distribution companies or natural gas distribution companies in their territory; (c) recruits and partners with multi-service agencies; and, (d) uses a case management system to track and monitor referrals and enrollments into utility programs (Settlement ¶ 74).

96. The shareholders of Peoples and Peoples TWP commit to increase their total donation (administrative and matching) to the Dollar Energy Fund by 10% for the next five years following Closing. Peoples will review possible ways to increase outreach to customers to

attempt to increase customer contributions and will provide a report to the Commission and OCA (Settlement ¶ 76).

97. Peoples will increase expenditures for the Peoples (by $150,000 per year) and Equitable Divisions (by $100,000 per year) on LIURP in the first four years after Closing. Peoples TWP also will increase expenditures (by $25,000 per year) on LIURP for a period of four years, 2014 through 2017. These increases will be funded by shareholders for the four-year period. Any funds not used in one year will roll-over into the next calendar year. Funding on this basis will continue until the effective date of rates set in the next base rate proceeding (Settlement ¶ 77).

98. SteelRiver and Peoples do not expect any of the current union workers in the operations area to lose their positions under the combined companies. In addition, because of the number of anticipated retirements expected at Peoples, having the highly skilled Equitable union work force being added to Peoples’ employee base will enhance the company’s ability to continue to provide a high level of safe and reliable services while still meeting all of the operational needs to run a large combined system (Joint Applicants Statement No. 2, p. 28).

99. Peoples has committed to maintain levels of total compensation and benefits for any of the Equitable employees it retains at levels comparable to those in effect immediately prior to Closing for at least one year after the Closing date (Joint Applicants Statement No. 2, p. 29).

100. The collective bargaining agreement with Equitable’s union employees will continue in effect unless a new agreement or arrangement is mutually agreed upon (Settlement ¶ 60; Joint Applicants Statement No. 2, p. 29).

101. For a period of four years after Closing, Peoples will provide one year of job placement assistance from date of termination for any employees of Equitable or Peoples who will be in need of such assistance due to the planned reorganizations of the workforce. Such job placement assistance will be consistent in kind and quality with the best practices of similar industries (Settlement ¶ 61).

IV. DISCUSSION

A. The Transaction

1. Acquisition and Merger of Equitable

Holdco currently owns all of the authorized, issued, and outstanding limited liability membership interests of Equitable. Under the terms of the Master Purchase Agreement (“MPA”), Holdco will sell, convey, transfer, assign, and deliver to PNG all of the issued and outstanding membership interests of Equitable. At the Closing of the proposed Transaction (“Closing”), Equitable will be merged with and into Peoples, with Peoples as the surviving entity. Initially, Equitable will be operated as a new separate operating division of Peoples. Joint Application, p. 14.

The Transaction includes (1) the payment of cash (including certain investments by Peoples in midstream assets to be transferred from Peoples to EQT), (2) the transfer of certain assets by Peoples to EQT, and (3) the exchange of certain assets between EQT and Equitable. The Transaction also includes certain other commercial supply, capacity, lease, interconnect, and service agreements. Among other things, Peoples and Equitable are seeking Commission approval of the acquisition and merger of Equitable pursuant to Code Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3). Joint Application, p. 15.

2. Ownership Changes

The cash component of the consideration to acquire Equitable from EQT is a base price of $720 million, as adjusted pursuant to the terms of the MPA. PNG plans to finance the consideration through a combination of equity capital and third party debt financing. In order to finance the purchase price for Equitable, SteelRiver has formed a new managed fund, SteelRiver LDC Investments LP (“SRLDCI”). SRLDCI, SRIFNA, and other SteelRiver managed funds will jointly own 100% of LDC Funding through a new entity. This will require the creation of a new indirect parent of Peoples and Peoples TWP to own LDC Funding. SteelRiver will also raise additional debt capital. Joint Application, p. 15.

As explained above, Peoples currently is the wholly owned subsidiary of PNG, PNG is the wholly owned subsidiary of Holdings, and Holdings is the wholly owned subsidiary of LDC Funding. Peoples TWP is the wholly owned subsidiary of Holdings II, which is the wholly owned subsidiary of LDC Funding. Therefore, LDC Funding is the indirect parent of both Peoples and Peoples TWP. Joint Application, p. 15.

Currently, LDC Funding is a wholly owned subsidiary of SRIFNA, which holds 100% of the voting interest in LDC Funding. Upon Closing of the Proposed Transaction, SRIFNA proposes to transfer 100% of its securities in LDC Funding to the newly created LDC Ventures LLC (“LDC Ventures”). Simultaneous with the transfer, a new SteelRiver managed fund, SRLDCI, will contribute cash to LDC Ventures and LDC Ventures will transfer the cash to LDC Funding to finance the proposed acquisition of Equitable. Immediately after the transfers by SRIFNA and SRLDCI, LDC Ventures will wholly own and hold 100% of the voting interests in LDC Funding, the indirect parent of Peoples and Peoples TWP. Joint Application, p. 16.

To finance the acquisition of Equitable, SRIFNA will simultaneously transfer a portion of its interest in LDC Ventures to SRLDCI. SRIFNA, SRLDCI and other SteelRiver managed funds will continue to own 100% of LDC Ventures, LDC Funding and therefore Peoples (including its Equitable division) and Peoples TWP. No single investor will hold an interest of 20% or more directly or indirectly in LDC Ventures, LDC Funding or Peoples (including its Equitable division), or Peoples TWP. Upon Closing, SRIFNA will hold a majority voting interest and other SteelRiver managed funds will hold the remaining interest in LDC Ventures, the new indirect parent of Peoples and Peoples TWP. The post-Closing structure is shown in “Appendix G” attached to the Joint Application. Joint Application, p. 16.

In exchange for its interest in LDC Ventures, SRLDCI has made capital commitments that will be used to finance PNG’s acquisition of Equitable, including the payment of Transaction expenses, as contemplated by the Transaction. In connection with the execution and delivery of the MPA, SteelRiver and PNG have obtained fully underwritten commitments from leading third-party financing institutions for the necessary debt facilities sufficient to fund the balance of the cash purchase price payable to EQT. Joint Application, p. 16.

Peoples and Peoples TWP herein are seeking Commission approval of the ownership changes described above to the PNG related entities pursuant to Code Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3). Joint Application, p. 17.

3. Transfer of Assets of Peoples to EQT

As part of the consideration for the Transaction, Peoples will transfer certain transmission pipeline and storage assets to EQT, pursuant to the Asset Exchange Agreement (“AEA”) between PNG and EQT. The total assets to be transferred from Peoples to EQT will be approximately $93 million in rate base as of December 31, 2012 (estimated) and additional rate base improvements for transferred facilities prior to the Closing. Attached as “Exhibit A” to the MPA is a copy of the AEA. *See* Joint Application, Appendix A, Exhibit A. Joint Application, p. 17.

Under the AEA, Exhibit C-1, Peoples will transfer approximately 15 Bcf of gas storage capacity and associated pipelines, valves, fittings, regulation, well heads, real property interests, and associated storage facilities to EQT. The gas storage facilities to be transferred to EQT include the following:

Gamble Hayden Storage Facilities - approximately 3,998 total acres and include an estimated 1.224 Bcf of base gas and 502,860 Mcf of native gas;

Webster Storage Facilities - approximately 2,084 total acres and include an estimated 612,000 Mcf of base gas and 8,568 Mcf of native gas;

Truittsburg Storage Facilities - approximately 3,164 total acres and includes an estimated 1.53 Bcf of base gas and 18,870 Mcf of native gas; and

Rager Storage Facilities - approximately 9,560 total acres and include an estimated 0 Mcf of base gas and 9.193 Bcf of native gas.

Peoples also will transfer approximately 200 miles of high pressure transmission pipeline to EQT, together with associated interstate pipeline interconnect facilities, relay compressor facilities, information technology assets, and other miscellaneous facilities as listed on Exhibit C-1 of the AEA. Joint Application, pp. 17-18.

After Closing, the transferred storage and transmission assets will be operated by a FERC regulated entity. Through various commercial agreements, the transferred assets will be used by EQT to interconnect Pennsylvania produced gas to the Peoples and Peoples TWP systems. The Joint Applicants claim these interconnections will allow Peoples, Peoples TWP, and Equitable to have greater access to Pennsylvania produced gas. Further, according to them, these interconnections will allow more Pennsylvania produced gas to be transported to the interstate market. Joint Application, p. 18.

Peoples herein is seeking Commission approval of the transfer of its assets to EQT pursuant to Code Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3). Joint Application, p. 18.

4. Asset Transfers between and among EQT

The Joint Applicants claim the EQT Asset Exchange Agreement provides for the transfer of various assets between certain EQT entities in order to realign those assets consistent with the goal of providing Equitable with the assets needed to focus on continuing to provide distribution services in a safe, reliable and cost-effective manner, while transferring from Equitable those assets that are not needed for that purpose. The EQT Asset Exchange Agreement is attached as Exhibit L to the MPA. *See* Joint Application, Appendix A, Ex. L. The specific assets to be transferred and the applicable transferor and transferee are specified in Schedules A-1 through A-19 of the EQT Asset Exchange Agreement. Joint Application, p. 18.

The specific assets to be transferred to Equitable under the EQT Asset Exchange Agreement include certain pipeline as well as certain gathering system related assets (*i.e.*, Tombaugh Pipeline, Goodwin Pipeline, M-85 Pipeline, H-153 Pipeline, M-23 Pipeline and M-30 Pipeline), the North Shore Lease, the Crooked Creek Facility, various intellectual property (*i.e.*, “Equitable Homeworks”, “Reliable By Nature”, and “Equitable Gas” and related goodwill), software license agreements, non-competition agreements, various vehicles, and other miscellaneous licenses and agreements. Joint Application, pp. 18-19.

The specific assets to be transferred by Equitable to other EQT affiliates include the D-494 and D-497 lines, D-497 Gas Gathering Agreement, certain production rights, the Allegheny County Training Facility, the Allegheny County Refueling Station, the Clarksburg Facility, the Waynesburg Facility, various vehicles, miscellaneous contracts, and certain radio towers (including associated assets). Joint Application, p. 19.

According to the Joint Applicants, the various Equitable assets proposed to be transferred under the EQT Asset Exchange Agreement to EQT affiliates have been specifically identified as not needed to provide regulated distribution service to retail customers. On the other hand, the Joint Applicants claim the assets proposed to be transferred to Equitable are more appropriate and better suited to the provision of traditional regulated distribution service. Thus, after the Closing, Equitable will be able to continue to provide service to customers on gathering systems in a manner similar to how service currently is provided by Equitable and its affiliates. The Joint Applicants assert that the intent of these assets exchanges is to move forward with each of the to-be unaffiliated companies holding the assets that best fit within its business prospectively. Accordingly, the Joint Applicants claim these transfers will better align these assets with the services they are providing to customers throughout the entire supply chain. Joint Application p. 19.

Equitable is seeking Commission approval of the EQT Asset Exchange Agreement and the assets and services proposed to be transferred/exchanged therein between itself and its affiliates pursuant to Code Section 2102(a), 66 Pa.C.S. § 2102(a) and Code Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3). Joint Application, p. 20.

5. Commercial Agreements

As part of the Transaction, the Joint Applicants have entered into or expect to enter into the following arms-length commercial agreements with EQT and its subsidiaries, all of which were filed under seal as highly confidential, to facilitate the transition of ownership, ensure sufficient capacity to meet current and projected customer demand, and increase use of Pennsylvania produced gas: Sunrise Transportation Agreement, attached as Exhibit B to the MPA; Sunrise Transportation and Storage Agreement, attached as Exhibit C to the MPA; Peoples NAESB (North American Energy Standards Board), attached as Exhibit D to the MPA; Derry Interconnect Agreement, attached as Exhibit E to the MPA; Ginger Hill Interconnect, attached as Exhibit F to the MPA; Derry Transportation Agreement, attached as Exhibit G to the MPA; PTWP Northern Lateral Capacity Lease, attached as Exhibit H to the MPA; PTWP Northern Lateral Transportation Agreement, attached as Exhibit I to the MPA; Armstrong Interconnect Agreement, attached as Exhibit J to the MPA; Peoples Asset Transportation and Storage Agreement, attached as Exhibit K to the MPA; Equitable NAESB, attached as Exhibit M to the MPA; Extension Agreement, attached as Exhibit N to the MPA; Interim Operational Balancing Agreement, attached as Exhibit O to the MPA; Master Tower Lease and Sublease Agreement, attached as Exhibit P to the MPA; and Transition Services Agreement, attached as Exhibit Q to the MPA. *See* Joint Application, Appendix A. Joint Application p. 20.

Pursuant to these agreements, Peoples and Peoples TWP will, according to the Joint Applicants, receive various FERC regulated services related to the transferred assets and the Sunrise Pipeline operated by Equitrans.[[4]](#footnote-4) The Joint Applicants claim EQT has significant expertise in optimizing transmission and storage assets, which will benefit the customers of Peoples and Peoples TWP. According to the Joint Applicants, the agreements secure the provision of adequate and reliable service to Peoples and Peoples TWP and their respective customers well into the future while also promoting the continued development of Pennsylvania produced gas. Consistent with EQT’s business strategy over the last several years to shift its focus toward production, exploration, storage, gathering, and transportation, the Joint Applicants claim these agreements position EQT to further build out its midstream assets with additional investment that will enhance third party access to robust transportation facilities. Joint Application, pp. 20-21.

The service territories of Equitable, Peoples, and Peoples TWP are positioned directly on top of Marcellus Shale natural gas supply. According to the Joint Applicants, this location will provide them great opportunities to continue to take advantage of the Marcellus Shale natural gas resource. In an effort to increase the Joint Applicants’ access to and capacity to use Pennsylvania produced natural gas, the Joint Applicants have entered into a series of commercial agreements that provide for the interconnections, capacity, transportation, and supply arrangements with EQT. The Joint Applicants claim the Transaction and these agreements will increase the potential for Peoples, Peoples TWP, Equitable, and their respective customers to continue to rely primarily on Pennsylvania produced gas.[[5]](#footnote-5) The Joint Applicants assert that the commercial agreements also will facilitate transportation of Pennsylvania produced gas to the interstate market. Joint Application, pp. 21-22.

6. Other Regulatory Approvals

EQT and PNG plan to complete the Transaction as soon as possible after all regulatory approvals have been obtained. In addition to approval from this Commission, the Transaction also requires approval from the West Virginia Public Service Commission and the Kentucky Public Service Commission for the assets that are being transferred in those states. Joint Application, p. 59.

Following the Closing, Equitable, as a division of Peoples, will be subject to Peoples’ affiliated interest agreements. Any other agreement between affiliated interests for sharing of services or employees will be separately filed with the Commission pursuant to Code Section 2102, 66 Pa.C.S. § 2102. Joint Application, p. 60.

The Transaction is subject to federal clearances under the Hart-Scott-Rodino Antitrust Improvements Act, and the transfer of certain licenses of Equitable will require the approval of the Federal Communications Commission. In addition, FERC approvals will be needed in connection with certain aspects of the Transaction, including some of the asset transfers. Joint Application, p. 60.

B. Post-Merger Operation of Peoples with Equitable

In conjunction with or following the Closing, PNG plans to merge Equitable with Peoples. Peoples plans to initially operate Equitable as a separate operating division for accounting purposes. Post-Closing, PNG plans to keep a separate set of accounting records for both Peoples and Equitable. Both sets of accounting records will separately track all of the required financial statements. According to the Joint Applicants, this will facilitate the Commission’s oversight of the two utility companies’ operations, financial results, reports and records. Separate billings to customers with the approved Commission tariff rates will be timely and accurately produced and maintained. The Transaction requires PNG to utilize its current SAP financial software system to maintain detailed timekeeping and separate capital records by division. While the day-to-day operations of Peoples and Equitable will be combined, the Joint Applicants claim that complete and accurate accounting records will be maintained on the SAP financial system to ensure compliance with all Commission requirements. Joint Application, p. 22.

PNG plans to merge the operations and management of Peoples and Equitable upon the Closing into a single management and operations unit. According to the Joint Applicants, this will allow the utilities to commence the process of eliminating the existing redundancies and inefficiencies resulting from separate ownership and operation. Joint Application, p. 22.

Today, Peoples and Equitable each have a complete and separate set of managers and administrators. After Closing, PNG plans to combine accounting, treasury, human resources, information technology, purchasing, legal, and rates functions for both companies during a transition process. The Joint Applicants claim this will reduce the overall management and administrative costs of the merged utilities over time. According to the Joint Applicants, increased operational efficiencies are expected to be realized in the Transaction by the gradual elimination of inefficiencies related to overlapping service territories. In Allegheny County alone, there are 10 service centers between the two utilities today, according to the Joint Applicants. After Closing, the Joint Applicants intend to reduce this number over time without negatively impacting service to customers. The Joint Applicants assert that timely customer service will improve by significantly reducing (if not eliminating) customer uncertainty about which company’s pipes are in need of repair, marking, or leak testing. Joint Application, pp. 22‑23.

C. Settlement

Peoples is a “public utility” and a “natural gas distribution company” as those terms are defined in Code Sections 102 and 2202 66 Pa.C.S. §§ 102, 2202. Peoples provides natural gas services to approximately 360,000 customers throughout its certificated territory, which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Blair, Butler, Cambria, Clarion, Fayette, Greene, Indiana, Lawrence, Mercer, Somerset, Venango, Washington, and Westmoreland. Settlement, p. 2.

Peoples TWP is a “public utility” and a “natural gas distribution company” as those terms are defined in Code Sections 102 and 2202, 66 Pa.C.S. §§ 102, 2202. Peoples TWP provides natural gas services to approximately 60,300 customers throughout its service territory, which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson, and Westmoreland. Settlement, pp. 2-3.

Equitable is a “public utility” and a “natural gas distribution company” as those terms are defined in Code Sections 102 and 2202, 66 Pa.C.S. §§ 102, 2202. Equitable provides natural gas services to approximately 260,000 customers throughout its Pennsylvania certificated territory, which includes all or portions of the following Pennsylvania counties: Allegheny, Armstrong, Beaver, Butler, Clarion, Greene, Indiana, Jefferson, Washington, and Westmoreland. Settlement, p. 3.

The Settlement filed on October 7, 2013, consolidated, in one document, two settlements that were previously filed. The Settlement considered here includes a section entitled “A. Settlement of Transactional Issues” on pages 8-36 of the Settlement and a section entitled “B. Settlement of PennFuture Issues” on pages 36-38 of the Settlement. For purposes of clarity each section will now be summarized in separate subsection.

1. Settlement of Transactional Issues

The Joint Applicants, I&E, OCA, OSBA, PIOGA, NGS Parties, Snyder Brothers, and US Steel join in Paragraphs 24 through 106 of the Settlement, which fully resolve all the Transaction Issues related to the Transaction proposed in the Joint Application.[[6]](#footnote-6)

a. Financial Conditions

With respect to any acquisition premiums, the Settlement provides that the existence of an acquisition premium for ratemaking purposes will be determined under the Uniform System of Accounts (Account 114). Any acquisition premium recorded on Peoples’[[7]](#footnote-7) books will be permanently excluded from rate base in establishing future rates subject to the Commission’s jurisdiction. Regarding storage and pipeline assets transferred from Peoples to EQT that will provide services to Peoples pursuant to FERC-regulated agreements, the Joint Applicants will not include any acquisition premium in such rates. Settlement, p. 8.

The Settlement also addresses Transaction and Transition Costs and how the same would be treated after the Closing of the Transaction (the “Closing”). Peoples will not claim, in any future rate proceedings, Transaction and Transition Costs to complete the Transaction and any related tax effect for such items shall also be excluded in setting rates. Regarding storage and pipeline assets transferred from Peoples to EQT that will provide services to Peoples pursuant to FERC-regulated agreements, the Joint Applicants will not include any Transaction or Transition Costs in such rates. Peoples’ debt costs will be established in future rate proceedings. It will be Peoples’ burden to demonstrate that its debt costs are reasonable. All parties reserve their right to review and challenge any debt cost claim. Peoples will not defer any Transaction or Transition Costs identified in Paragraph 27 of the Settlement. Such costs shall be borne exclusively by Peoples’ shareholders. Settlement, pp. 8-9.

Pursuant to the Settlement, the existing base rates of the Peoples Division shall be reduced on one day’s notice following the Closing to reflect the transfer of Peoples’ transmission and storage assets to EQT as set forth in the Application Appendix K (Exhibit MKO-1) (“Peoples Adjusted base rates”) consistent with Paragraph 34 of the Settlement and as set forth in “Appendix A” to the Settlement. Peoples agrees that post-Closing the capital structure of Peoples will be maintained at an approximate level of 50% debt and 50% equity. Settlement, p. 9.

Regarding rates, the Settlement provides that Peoples Adjusted base rates, as defined in the Settlement, and Equitable’s current base rates, adopted for the Equitable Division, will be capped until January 1, 2018, unless there are substantial changes in regulation or federal tax rates or policy. The Settlement does not prohibit changes in rates pursuant to the State Tax Adjustment Surcharge, the Universal Service Charge, Distribution System Improvement Charge (“DSIC”) or Purchased Gas Cost (“PGC”) Charges. Under the terms of the Settlement, if Peoples determines that it needs to file a general base rate case with new rates becoming effective after the expiration of the rate cap ending January 1, 2018, but prior to January 1, 2019, Peoples agrees to demonstrate, consistent with the reports required by Paragraph 45 of the Settlement,[[8]](#footnote-8) that its claim includes at least $15 million of synergy savings resulting from the Transaction. If such demonstration is not made, any difference will be imputed in setting rates in the general base rate case. Settlement, pp. 9-10.

The Settlement addresses the potential impact of the Commission’s Investigation at Docket No. I-2012-2320323. If the Commission determines in the Investigation at Docket No. I-2012-2320323, that all natural gas distribution companies that offer discounted distribution rates must absorb all or a portion of gas on gas discounts by the effective date of Peoples’ or Peoples TWP’s next general rate proceeding, Peoples and Peoples TWP agree to impute revenues for those competitive service customers whose rate discounts are solely the result of competition between the Joint Applicants (Peoples, Peoples TWP and Equitable), to the extent required, and at the levels proscribed, by the Commission’s action at Docket No. I-2012-2320323, in the test period used to establish rates. Peoples or Peoples TWP are not prohibited from contending in such proceeding that the tariff rates for classes of customers receiving such discounts be set at the cost to serve tariff rate. Peoples agrees to phase out gas-on-gas competition consistent with the rebuttal testimony of Peoples’ witness Joseph A. Gregorini in this proceeding. Settlement, p. 10.

The Settlement provides that, effective with the Closing, the Peoples Division and Equitable Division rates for collections under the DSIC mechanism will be frozen at the current levels until such time as Peoples files a new combined Long Term Infrastructure Improvement Program (“LTIIP”) plan or Asset Optimization plan for 2015 through 2019 that addresses the effects of the Transaction including how redundant facilities will be handled. The Settlement requires Peoples’ revised LTIIP to take into account the transferred assets and the improvements to be made to those assets. The Settlement further requires that Peoples’ DSIC rate be reduced at Closing to reflect any amounts included in DSIC related to improvements to plant transferred to EQT. The Settlement further requires this DSIC clause, set forth in Paragraph 34 of the

Settlement, to be read in conjunction with Paragraph 62 of the Settlement as to the additional threshold that must be met for the Equitable Division to employ its DSIC.[[9]](#footnote-9)

According to the Settlement, the Peoples Division PGC (“Purchase Gas Cost”) rates to sales and transportation customers will be adjusted on one day’s notice following the Closing to reflect the charges for services to be provided by Equitrans, L.P. (“Equitrans”) on the Allegheny Valley Connector (“AVC”) and adjustments to retainage rates approved in Peoples 1307(f)-2013 proceeding to remove retainage to be charged on the transferred assets as set forth in “Appendix B” to the Settlement. The Settlement provides that the Peoples Division rates shall be adjusted to reflect costs under the new agreements for capacity and supply on an actual basis in quarterly PGC filings and in the next Peoples’ Division annual PGC filing pursuant to Section 1307(f) of the Public Utility Code. The Peoples rates shall continue to be subject to reconciliation to actual costs pursuant to Section 1307(f) of the Public Utility Code. Peoples agrees to demonstrate that it is managing these agreements to comply with its least cost procurement obligation in its annual Section 1307(f) filings. The Settlement provides that Peoples will have the right to conduct an annual audit of the computation of any charges under the AVC agreement with the cooperation of EQT and provide that report to I&E, OCA and OSBA. Settlement, p. 11.

With respect to the AVC agreement, PNG/Peoples and EQT agree that the AVC agreement for the services to Peoples from the transferred assets shall have an initial term of 20 years and shall provide Peoples with a Right of First Refusal. Settlement, p. 11.

The Settlement provides that Peoples or PNG shall issue and maintain separately issued debt held by investors not affiliated with SteelRiver or its affiliates, unless the Commission determines that ratepayers will experience a net benefit from any other Company proposal. Peoples agrees not to request a capital structure for ratemaking purposes which is outside the range of capital structures employed by comparable gas distribution companies. All Signatory Parties to the Settlement reserve their right to review and challenge any proposed capital structure. Settlement, p. 11.

For a four-year period following Closing, Peoples agrees to provide thirty (30) days prior notice to the Commission, the OCA, I&E, and OSBA if it intends to make a distribution to PNG which distribution will cause its actual debt ratio, excluding working capital facilities, to exceed 55% of total capitalization. Settlement, p. 12.

According to the Settlement, LDC Holdings’ consolidated long term debt ratio as a percent of total capitalization shall not exceed 60% for any period longer than one year absent approval from the Commission. Any request for approval will be considered on an expedited basis, if so requested. Settlement, p. 12.

The Settlement also addresses “ring fencing.” Peoples and Peoples TWP will be ring fenced from other companies owned by SteelRiver managed funds as described in the Joint Application. Peoples’ dividends to PNG shall be limited to a level that maintains a maximum debt ratio of 55%, excluding working capital facilities, unless approved by the Commission. Peoples shall not do the following except as approved by the Commission upon a showing of net benefit to retail customers:

(a) guarantee the debt or credit instruments of PNG, LDC Holdings, LDC Funding, or any affiliate not regulated by the Commission;

(b) mortgage utility assets on behalf of PNG, LDC Holdings, LDC Funding, or any affiliate other than in conjunction with financing provided by PNG to Peoples; or

(c) loan money or otherwise extend credit to PNG, LDC Holdings, LDC Funding, or any affiliate for a term of one year or more.

Settlement, p. 12.

The Settlement requires SteelRiver to seek approval of the Commission of any future consolidation or merger of Peoples and Peoples TWP. Prior to the first base rate filing after Closing, the Settlement requires Peoples to provide annual reports to the Commission and the parties to this proceeding describing and quantifying the levels of merger savings actually being achieved. Settlement, pp. 12-13.

b. Books and Records

Under the terms of the Settlement, Peoples is required to maintain reasonable accounting controls and pricing protocols to govern transactions with affiliates, and provide the Commission, I&E, OCA and OSBA reasonable access to the books, records and personnel of Peoples’ affiliates where necessary for the Commission to adequately review Peoples’ purchases of goods or services from those affiliates. Peoples agrees to maintain separate accounting for the Peoples Division and Equitable Division operations sufficient to provide all Commission required financial statements. Additionally, separate accounting records must be maintained for operations in West Virginia and Kentucky pursuant to the Settlement. Settlement, p. 13.

The Settlement also addresses access to books and records, as well to information. Upon written request, PNG and its subsidiaries must provide the Commission, I&E, OCA and the OSBA reasonable access to the books and records, officers and staff of PNG and its subsidiaries. However, nothing in the Settlement constitutes a waiver by PNG or its subsidiaries of its right to raise traditional discovery objections to any such requests, including, but not limited to, objections on the basis of relevance and privilege. In addition, the Settlement provides that before responding to any such requests, PNG and its subsidiaries shall be permitted to require the imposition of protections they deem necessary to prohibit disclosure of proprietary or confidential information. Settlement, p. 13.

Peoples and its parents agree to provide, upon request, to the Commission, I&E, OCA and OSBA, in connection with rate proceedings and other proceedings before the Commission presentations given to common stock, bond, or bond rating analysts, that directly, or indirectly pertain to Peoples. Settlement, p. 13.

Peoples agrees to seek Commission approval of all new or amended agreements with affiliates consistent with Chapter 21 of the Public Utility Code. Settlement, p. 14.

The Settlement requires PNG and its subsidiaries to provide I&E, OCA and OSBA with a copy of any reports filed with the US Securities and Exchange Commission upon request. In addition, for the five (5) calendar years following Closing, Peoples must provide an annual report to the Commission as to the status of all material commitments made in any settlement. Settlement, p. 14.

c. Corporate Cost Allocations

The Settlement provides that Peoples’ cost allocations between its Peoples and Equitable Divisions and affiliates will follow the standards and allocation methodologies that have been previously approved by the Commission, at Docket No. G-2012-2290014, with regard to affiliate charges under the Peoples Service Corporation, LLC Agreement. The Settlement requires Peoples’ corporate cost allocations to include a rent charge for the percentage of space occupied by employees who provide services to an affiliate, and a supplies charge for supplies the employee may use in providing services to affiliates. Under the terms of the Settlement, Peoples’ corporate cost allocations must provide that all charges by PNG to Peoples be at cost, provided that nothing in the Settlement shall affect Peoples’ burden of proof under 66 Pa.C.S. § 2106. Settlement, p. 14.

d. Management

The Settlement provides that SteelRiver will not permit a change in ownership in Peoples or Peoples TWP without prior Commission approval, if such change would result in a change in control under the then-applicable Commission standards. The Settlement requires the CEO of Peoples to continue to be a member of the governing board of PNG. Also, SteelRiver must continue to maintain Peoples’ corporate headquarters in Peoples’ service area and in or near Pittsburgh, Pennsylvania. Peoples agrees not to move its headquarters outside of Peoples’ Pennsylvania service territory for at least a ten-year period after Closing and can only do so after that time upon application to and approval by the Commission. Settlement, pp. 14-15.

In the Settlement, Peoples commits to maintain field offices in its service territory and staffing levels that are sufficient to provide safe and reliable service. Peoples agrees to provide annual reports to the Commission, I&E, OSBA, and OCA regarding field offices and staffing levels in its service territory for a period of five years. Peoples also commits to the protection of jobs for workers covered by collective bargaining agreements, as set out and discussed in the Direct Testimony of Morgan K. O’Brien. Settlement, p. 15.

For a period of four years after Closing, the Settlement requires Peoples to commit to offering one year of job placement assistance from date of termination for any employees of Equitable or Peoples who will be in need of such assistance due to the planned reorganizations of the workforce. Such job placement assistance is required to be consistent in kind and quality with the best practices of similar industries. Settlement, p. 15.

e. Reliability, Pipe Replacement and Lost and Unaccounted for Gas

In the Settlement, Peoples commits to continue its acceleration of replacing higher risk pipe with a revised focus solely on its distribution and gathering assets. Peoples’ revised LTIIP to be filed in 2014 pursuant to Paragraph 34 of the Settlement will provide for a level of investment for the Peoples Division for the period 2015 through 2019 that is consistent in aggregate amount with the annual average amount of $80 million under Peoples’ Commission approved current LTIIP. Peoples agrees to accelerate capital expenditures for the Equitable Division from $33 million in 2014 to at least $45 million in 2017, 2018 and 2019 as evidenced by the filing of a revised LTIIP or Asset Optimization Plan. According to the Settlement, this clause must be read in conjunction with Paragraph 34 of the Settlement. Peoples also agrees to annually provide updates to those plans consistent with the Commission requirements. Settlement, pp. 14-15.

Until the effective date of Peoples next general rate proceeding, Peoples agrees to continue operating expenditures for the Peoples and Equitable Divisions for leak detection and repair at least at 2012 levels unless it is appropriate to reduce such expenditures due to development and acquisition of improved and/or lower cost methods of leak detection. The Settlement requires that Peoples’ and Equitable’s best practices to reduce lost and unaccounted for gas be adopted. Settlement, p. 15.

In the Settlement, the Joint Applicants agree that Section 5.7 of the Asset Exchange Agreement concerning EQT’s option to acquire rights of way will be removed from the Transaction and EQT acknowledges that it has none of the rights set forth therein. Settlement, p. 15.

There was much concern raised in the testimony in this proceeding regarding the transfer of the Goodwin and Tombaugh Gathering Systems (“Gathering Systems”). The Settlement provides that the Gathering Systems will be transferred in the following manner:

(1) EQT will continue to repair leaks on the Gathering Systems before Closing, provide to the Bureau of Investigation and Enforcement’s Gas Safety Division (“Gas Safety Division”) monthly reports of leaks repaired within 10 days of the end of each month and provide the Gas Safety Division with access to verify leaks repaired.

(2) The Gas Safety Division will be provided access to the Gathering Systems to inspect for safety concerns during the period up to Closing.

(3) On Closing, the Gathering Systems will be transferred to a new subsidiary of PNG (“PNG Gathering LLC”).

(4) At Closing, EQT will provide $5 million to PNG Gathering for use in connection with the Gathering Systems as described further in subparagraph e. below (the “EQT Contribution”).

(5) Peoples and PNG Gathering will use the EQT Contribution to assess and improve the Gathering Systems facilities as described below.

(a) Peoples will assess the Gathering Systems facilities and develop and implement an initial plan, in conjunction with the Gas Safety Division, to address improvements;

(b) The Gas Safety Division will be permitted to access the Gathering Systems facilities to conduct safety inspections and to observe and verify improvements.

(c) A summary of activities Peoples expects to be able to complete is provided in “Appendix C” to the Settlement.

(6) After completion of the assessment, Peoples and PNG Gathering will present a plan to the Commission, after consultation with the Gas Safety Division, OCA and OSBA, estimating the additional funds necessary, if any, to provide safe and reliable service from the Gathering Systems. At the time it presents the plan to the Commission, Peoples also will serve PIOGA. In such filed plan, Peoples and PNG Gathering will make a recommendation whether to proceed with rehabilitation of all or some of the Gathering Systems and/or with abandonment of some or all of the customers served off the Gathering Systems.

(a) The Signatory Parties agree that the Gathering Systems may be transferred to Peoples if the amount of additional investment necessary to provide safe and reliable service from the Gathering Systems is equal to or less than the sum of the remaining portion of the EQT Contribution, the estimated $12 million cost to convert customers to alternative fuels, the estimated incremental rate base investment of $6 million that would be supported by revenues from the approximately 1,500 customers served by the Gathering Systems, and any additional investment supported by incremental revenues on the Gathering Systems facilities. The parties agree that the remainder of the EQT contribution, the $12 million conversion cost and the estimated $6 million in customer revenues comprise the economic test of whether the Gathering Systems are transferred to Peoples. If the economic test is satisfied and the Commission approves transfer of the Gathering Systems, Peoples Equitable Division will be permitted to include in rate base the investments it makes to improve the Gathering Systems other than the EQT Contribution.

(b) If the economic test is not satisfied because the amount of additional investment necessary to provide safe and reliable service from the Gathering Systems is more than the sum of the remaining portion of the EQT Contribution, the estimated $12 million cost to convert customers to alternative fuels, the estimated incremental rate base investment of $6 million that would be supported by revenues from the approximately 1,500 customers served by the Gathering Systems, and any additional investment supported by incremental revenues on the Gathering Systems facilities, Peoples will make a recommendation not to further invest in the Gathering Systems. In such a scenario, all other parties expressly reserve the right to present their own recommendations to the Commission as to the disposition of the Gathering Systems.

(7) If the Commission does not approve the transfer of the Gathering Systems to Peoples, Peoples reserves the right to recover costs to convert customers served by the Gathering Systems facilities to alternative fuels on approval of abandonment by the Commission.

Settlement, pp. 16-19.

f. Customer Service

Peoples agrees to commit to achieve and maintain the following levels of performance in the following customer service metrics in each of the next five years for its Peoples and Equitable Divisions:

(1) percent of calls answered within 30 seconds of at least 82%,

(2) busy-out rate of no more than 0.25%,

(3) call abandonment rate that is no higher than 3% for 2014, 2015 and 2016, and 2.5% for 2017 and 2018,

(4) percent response within 60 minutes to emergency calls of at least 98.5% for 2014, 2015 and 2016 and 99% for 2017 and 2018.

(5) Peoples TWP agrees to extend for an additional two years commencing January 1, 2014, the customer service metrics from the Joint Settlement of the SteelRiver acquisition of Peoples TWP, at Docket No. A-2010-2210326, which are attached … as “Appendix D” (to the Settlement).

Settlement, pp. 19-20.

The Settlement requires Peoples to provide a report to OCA, I&E, and OSBA each calendar year following assumption of such functions by the staff of Peoples or its affiliates regarding its achievement of the service quality metrics. Such reports shall continue for three calendar years after assumption of such functions by the staff of Peoples or its affiliates. The report will outline the actual metrics achieved and additional actions expected to be taken in the following year to further improve customer service. If the Company has not achieved an identified metric, the report must also include the reasons for the failure and the Company’s detailed plan to reach the service quality metric. Peoples must then convene a collaborative with OCA, I&E and the OSBA to discuss such report. If, following such a collaborative, I&E, OCA or OSBA request a proceeding before the Commission, Peoples will not oppose the initiation of such a proceeding. The Settlement provides that the Commission may, upon motion of any Signatory Party or upon its own motion, open a formal proceeding. Settlement, p. 20.

The Settlement requires Peoples to commit to assess and identify areas of necessary improvement to customer service for Equitable customers and submit that analysis to the Commission, OCA, I&E and OSBA within 180 days of Closing for their review and comment. This review must additionally outline cost effective systems for improvement of customer service and expected service improvements. Settlement, p. 20.

Nothing in the Settlement is intended to restrict Peoples’ right to request recovery of new systems to improve service, including as a consequence of an existing system’s age, obsolescence or other requirements, as appropriate, in future rates. Any such request must be subject to review for reasonableness and prudence in accordance with rate making principles. No party waives any right to request that the Commission order penalties in any proceeding convened to investigate Peoples’ noncompliance with the service metrics. Nothing contained in the Settlement is intended to limit the authority of the Commission, the Bureau of Consumer Services, the Gas Safety Division, or other Bureaus of the Commission to perform their duties and make recommendations, including recommendations regarding civil penalties, for failure of Peoples to perform in any of the areas covered by the service quality metrics. Settlement, pp. 20‑21.

g. Universal Service

Peoples is required to continue to fund Equitable’s Customer Assistance Program (“CAP”) consistent with its needs analysis approved in conjunction with Equitable’s currently approved Universal Services Plan. Settlement, p. 21.

The Settlement provides that Peoples must commit to establishing a Universal Service Advisory Group, consistent with the recommendations provided in the Direct Testimony of OCA witness Nancy Brockway. The Group must include community-based organizations (“CBOs”), Low-Income Advocates, the OCA and other interested stakeholders. The Group must meet quarterly to discuss all universal service issues including recommendations concerning Low Income Usage Reduction Program (“LIURP”), LIURP eligibility, Earned Income Tax Credit (“EITC”) concerns and landlord issues that may present a barrier to customer participation. Settlement, p. 21.

Peoples is required by the Settlement to manage Equitable’s CAP program similar to that of Peoples in that it will partner with an agency that: (a) can substantially increase the number of intake sites; (b) is an administrator of utility CAP programs for the electric distribution companies (“EDCs”) or natural gas distribution companies (“NGDCs”) in their territory; (c) recruits and partners with multi-service agencies; and, (d) uses a case management system to track and monitor referrals and enrollments into utility programs. Settlement, p. 21.

In the Settlement, Peoples is permitted to continue to recover CAP costs under Equitable’s existing recovery mechanism for CAP costs. Peoples may propose changes to the recovery mechanism, which any Signatory Party to the Settlement may oppose, for review by the Commission. The provisions of Paragraph 31 of the Settlement do not limit implementation of any change to Peoples’ recovery mechanism. Settlement, p. 22.

Peoples agrees that the shareholders of Peoples and Peoples TWP will commit to increase their total donation (administrative and matching) to the Dollar Energy Fund by 10% for the next five years following Closing. Pursuant to the Settlement, Peoples must review possible ways to increase outreach to customers to attempt to increase customer contributions and must provide a report to the Commission and the OCA. Settlement, p. 22.

In the Settlement, Peoples agrees to increase expenditures on LIURP in the first four years after Closing. Specifically, commencing January 1, 2014, the Peoples Division LIURP must be funded at the level of $1,250,000 per year (an increase of $150,000 per year). The Equitable Division must add $100,000 per year for the first four years after the merger closes to the funding of its LIURP program, for a total LIURP budget of $800,000 per year in each of those four years. The Settlement requires these increases to be funded by shareholders for the four-year period. For Peoples TWP, shareholders must fund an additional $25,000 per year over the LIURP budget approved and recoverable in the current Peoples TWP base rate proceeding for a period of four years, 2014 through 2017. Pursuant to the Settlement, any funds not used in one year will roll-over into the next calendar year. Funding on this basis will continue until the effective date of rates set in the next base rate proceeding. Settlement, p. 22.

h. Community Commitment

The Settlement provides that, for a period of not less than five years, Peoples must provide corporate contributions and community support in southwestern Pennsylvania in a total amount that is at least equivalent to the amount provided by Peoples ($1.0 million) and Equitable ($400,000) in 2012. The Settlement requires services that are currently performed for Equitable outside of the Equitable service area in Pennsylvania, such as call center support, customer billing and payment and customer relations, to be returned to the Peoples service area within five years. Also, the Settlement requires Peoples to continue to comply with the Commission’s diversity policy, 52 Pa.Code §§ 69.801-69.809. Settlement, pp. 22-23.

i. Retail Supply Competition

Peoples is required by the terms of the Settlement to convene a collaborative conference with interested parties, including the OCA, I&E, OSBA and interested natural gas suppliers (“NGSs”), within 12 months of Closing in order to develop a strategy to further promote retail natural gas supply competition in the Peoples/Equitable service areas. Settlement, p. 23.

j. Gas Purchasing and Interconnections

Peoples agrees that in order to encourage and support customer choice, the Company’s upstream pipeline capacity and certain gas commodity supplies shall be made available for release by Peoples and Equitable Divisions to suppliers serving priority one customers. The Settlement provides that, consistent with its current methodology, all demand related costs for its gas supply contracts shall be assessed to all retail customers and P-1 (Priority One) transportation customers. Peoples further agrees that the actual pipeline capacity path upstream of Peoples, other than the AVC system, shall be designated by the Company from its available capacity and Peoples will endeavor to accommodate a P-1 supplier’s request for particular upstream pipeline capacity on a first-come first-served basis. To the extent that the P‑1 supplier receives an assignment of Peoples’ Equitrans Sunrise pipeline capacity, Peoples must also provide P-1 suppliers with an option to purchase from Peoples firm gas supplies under the Peoples and Equitable - EQT NAESB (North American Energy Standards Board) Agreements. According to the Settlement, this will allow P-1 suppliers to purchase supplies at DTI (Dominion Transmission, Inc.) South Point prices. Settlement, pp. 23-24.

The Settlement also addresses AVC receipt and delivery points. All existing upstream interstate receipt and delivery points that flow in and out of the AVC, including Truittsburg and Rural Valley, will be maintained and not taken out of service by Equitrans. To the extent EQT seeks to discontinue any of the existing points, it must provide Peoples with adequate advance notice of such action and reasonably demonstrate that said receipt or delivery points are no longer used or useful, prior to seeking any necessary approvals from the Federal Energy Regulatory Commission (“FERC”). Settlement, p. 24.

Additionally, the Settlement provides that all existing AVC receipt and delivery points that are used to serve the Peoples Division on-system customers and Peoples’ Production Enhancement Services (“PES”) agreements will be assigned an MDQ (maximum daily quantity), the sum of which will not exceed the specified total contract MDQ for services under the Peoples Asset Transportation and Storage Agreement, and designated as primary firm points as defined by the Equitrans FERC gas tariff, and will not be subject to interruption by a lower priority status as set forth more fully in that tariff. The Settlement provides that the Peoples firm delivery points and associated MDQs will be aggregated under a single city gate nomination point for contractual and administrative purposes. Prior to adding new receipt and delivery points, EQT is required to evaluate the proposed facilities in accordance with Section 6.34 of the Equitrans FERC gas tariff, including an analysis of the impact of its ability to meet its existing service obligations, and EQT must seek any approvals from FERC that are necessary. Settlement, pp. 24-25.

Peoples and EQT agree to add the existing receipt points and delivery points and capacities as an addendum to the AVC Transportation and Storage Agreement. Settlement, p. 25.

The Settlement also addresses maximum allowable operating pressures (“MAOP”) and operating pressures generally. EQT confirms that it has no immediate plans to increase the operating pressures or regulator set points on the AVC system. To the extent in the future EQT plans to modify AVC system operating pressures or regulator set points, EQT must provide AVC shippers with advance notice of four months for any projects that are projected to increase operating pressures greater than 15%. Settlement, p. 25.

EQT agrees that it will provide AVC shippers one month prior notice of any planned filing with the FERC to increase the MAOP of AVC transmission pipelines. Peoples agrees that it will intervene, as needed, in any such FERC filing to protect its interests and the interests of its customers concerning the delivery of gas supplies into AVC receipts points that are fed from the Peoples’ upstream facilities. Settlement, p. 25.

In response to a prior notice of a planned increase or an actual increase in operating pressure, regulator set points or MAOP on the AVC transmission pipeline system, Peoples agrees to construct or modify the Peoples Division facilities to ensure that locally produced gas delivered at AVC receipts points – that are fed from the Peoples Division pipeline system – is able to flow into the AVC pipeline system. Peoples also agrees to construct or modify its dehydration and other related facilities to ensure that the quality of the locally produced gas delivered at AVC receipts points – that are fed from the Peoples Division pipeline system – meet the required gas quality standards contained in the AVC tariff. Settlement, pp. 25-26.

Peoples agrees to construct or modify such facilities, as described in the preceding paragraph, using Peoples Division PES PRC (project review committee) funds. The first funds spent or allocated shall be sourced from the current Peoples Division PES PRC capital spending shortfall. If additional funds are required, Peoples must utilize available annual funding from the PES revenues that was established and approved in Peoples’ 2012 rate case for gathering lost and unaccounted for gas (“UFG”) remediation efforts or gathering system upgrades (“2012 PA PES Funding”) provided that such funding also qualifies as “gathering UFG remediation efforts or gathering system upgrades” as established in the 2012 rate case. Further, to the extent that PRC or 2012 PA PES Funding is insufficient to cover the costs of these facilities, Peoples agrees to make the necessary expenditures, provided they are necessary to ensure continued compliance with a least-cost procurement policy and enhanced retail supply competition on the Peoples’ system. Settlement, pp. 26-27.

With respect to negotiated rates, Peoples and EQT agree to modify the AVC Transportation and Storage Agreement so that all currently existing interconnection points used to serve the Peoples Division on-system and existing Peoples Division PES commitments will be subject to the negotiated rates under the Peoples Asset Transportation and Storage Agreement and will not be subject to maximum recourse rates. Settlement, p. 27.

The Settlement provides that, other than the release of AVC storage (former Rate ST and ST-SW storage) to NP-1 suppliers, suppliers on the Peoples Division will receive a net zero cost release of AVC storage and transportation capacity required to supply their on-system customers and off-system PES requirements. Per the FERC AVC tariff, suppliers will be responsible for the ACA (annual charge adjustment) charge and fuel charges on AVC. Shippers on AVC will be assessed a fuel charge for use of AVC storage and an AVC transportation fuel charge of 2.5% on volumes transported on AVC. These fuel rates will be subject to periodic adjustment to reflect actual UFG, fuel and losses on the AVC system. Effective upon Closing, the Peoples Division retainage rates must be adjusted to remove the volumes of fuel that will be recovered on the AVC system. Settlement, p. 27.

In the Settlement, Peoples agrees to assign and release AVC storage to NP-1 suppliers of the Peoples Division at a rate of $.83/Mcf. Peoples agrees that this release rate will not be subject to change until the effective date of new rates resulting from Peoples’ next base rate case. Settlement, p. 28.

Peoples and NGSs acknowledge that there may be situations whereby suppliers have existing contracts to sell commodity supplies to their customers at the Peoples Division existing city gates. Peoples and suppliers further acknowledge that as a result of the transfer of Peoples’ midstream assets to EQT and the resulting alteration in city gate delivery points, it will be necessary, during the present term of such contracts, for Peoples to adjust the monthly commodity sales volumes charged by the affected suppliers to reflect the retainage volumes assessed to suppliers by EQT on the transferred assets, for the limited purpose of preserving the pre-asset transfer delivery points, and thus the benefits of the sale of such commodity supplies for customers and suppliers. Peoples agrees that it will also work with the NGSs to explore other alternatives to effectively address the situation described above and modify its tariff if required. Peoples further agrees that prior to Closing it will notify affected customers in writing of this situation, and that it will work with the affected suppliers and their customers on an ongoing basis to support and justify the monthly volume adjustments described above. In the event that a customer challenges any such adjustments, the Settlement requires Peoples to assist the affected supplier in defense of the adjustment. Settlement, pp. 28-29.

Subject to Paragraph 83(a) of the Settlement, Peoples and EQT agree that the following existing interstate supply points will not be eliminated during the term of the Peoples Asset Transportation and Storage Agreement.

(i) DTI- City Gate 20200

(ii) TGP- Pitt Terminal 20199

(iii) Equitrans- Ginger Hill- 11142

(iv) Tetco M2- Rockwood 70051

(v) Tetco M3- Ebensburg 70323

(vi) National Fuel- PNGCG

(vii) Truittsburg

(viii) Rural Valley

Settlement, p. 29.

k. NP-1 Supplier Balancing Service

In order to address the perceived change in balancing flexibilities and increase in cash-out risk as a result of the transfer of the storage assets, Peoples agrees to offer to NP-1 suppliers of the Peoples Division a new service that will allow NP-1 suppliers, at the end of the calendar month following the monthly trading period, to transfer in-place AVC storage volumes with Peoples using the NP-1 supplier’s assigned and available storage capacity. Peoples agrees to work with NP-1 suppliers to develop allowable parameters governing such storage transfers with the intent to provide NP-1 suppliers with a similar level of balancing flexibilities currently provided to NP-1 suppliers prior today. Settlement, p. 29.

l. Local Gas Opportunities

Peoples agrees that it will endeavor, wherever operationally feasible, to utilize locally produced gas supplies. In the event a new tap request or tap volume increase into the Peoples Division system is unavailable due to capacity restraints in the Peoples Division system, Peoples agrees to: (a) Identify opportunities to displace gas that is being sourced from interstate pipelines with local supplies produced into the Peoples Division system; (b) Identify areas of possible new production for redelivery to an alternate section of the Peoples Division distribution system through the AVC or other means to displace gas sourced from interstate pipelines.

Immediately upon Closing, Peoples agrees to undertake an initiative using the Peoples Division PES PRC funds to create interconnections between the Equitable and Peoples Divisions that are designed to increase the use of local gas supplies and add more flexibility for suppliers on both systems. Peoples also agrees that it will, consistent with its least cost mandate and where operationally feasible, examine ways to facilitate the movement of incremental local gas supplies between the Peoples and Equitable Divisions through gas displacement arrangements. Settlement, p. 30.

m. BB&A Service

Peoples agrees to implement a restructured banking, balancing, and advancing (“BB&A”) service to allow NP-1 suppliers of the Peoples Division to maintain access to the same benefits from the BB&A storage service that they receive today. Peoples agrees to modify its proposed tariff (Tariff Page 34 and 34A of Joint Applicants Exhibit No. JAG-3) so that the carrying costs charged to NP-1 suppliers shall be based on Peoples’ actual short-term debt cost rate. Peoples also agrees to provide the NGSs with an example and an estimate of the benefits to be derived under Peoples’ proposal. Settlement, pp. 30-31.

n. Peoples PES Program

Peoples agrees to extend the term of the existing PES and Equitable Gas AGS (Appalachian Gathering Service) producer agreements until the effective date of new base rates in Peoples’ next base rate case filing. After Closing, Peoples agrees to collaborate with PIOGA and its members to review information regarding both systems, use of moisture control equipment, pipeline maps, current producer bottlenecks, areas needed for expansion due to additional gas, and to allocate its modeler resources for utilizing the agreed PES/Equitable Project Review Committee annual expenditure. Settlement, p. 31.

Six months prior to the filing of Peoples’ next base rate case, Peoples agrees to initiate discussions with PIOGA regarding a revised PES program on the Peoples, Peoples TWP and Equitable systems, (including PES/Rate AGS or other related fees). Notwithstanding this commitment, Peoples and Peoples TWP agree after Closing: (i) that Peoples will seek approval through the 1307(f) process to apply to the Peoples TWP and Equitable systems the PES agreement provisions permitting the release of older low-producing wells (Section 4.04.a., b. & c. and Section 4.05, as applicable) and (ii) that prior to enforcing Peoples TWP gas quality requirements on individual PIOGA member producers, Peoples will initiate discussions with PIOGA for addressing gas quality issues on a system-wide basis. Settlement, p. 31.

Peoples agrees that prior to termination of the existing off-system capacity agreement (Rural Valley and Truittsburg) between Peoples and DTI on April 1, 2016, it will work with PIOGA to replace the DTI capacity contract with a lower cost capacity contract or explore other off-system alternatives that will eliminate the need for an off-system DTI capacity contract. According to the Settlement, these options will result in lower overall pipeline capacity costs and an associated decrease in fees charged to PES participants effective April 1, 2016. Settlement, pp. 31-32.

o. Enhanced Retail Choice

Peoples agrees that following Closing, it will begin a review of the existing transportation program process on Equitable and convene a collaborative, that will include all interested stakeholders, within 12 months following Closing to develop a strategy to promote retail supply competition on the Peoples/Equitable service areas. Peoples agrees that this collaborative will consider the adoption of a local gas aggregation service on Equitable and changes to the Equitable Division balancing provisions. Peoples further agrees to a target filing date of possible tariff changes resulting from this collaborative within three months following the date the collaborative is convened. Settlement, p. 32.

Peoples agrees that within six months following Closing, Peoples will implement an Energy Choice outreach program for Equitable customers and begin using the Peoples’ Electronic Data Transfer/Electronic Bulletin Board/Nominations System and related processes. Settlement, p. 32.

Peoples agrees that within 30 days following Closing, it will provide Aged Receivables reporting on behalf of suppliers that are receiving commodity billing services from the Peoples Division. Settlement, p. 32.

Peoples agrees that within six months of approval of this settlement it will convene a collaborative to include input of interested stakeholders, to discuss all aspects of a proposed new and moving customer referral program within 12 months of Closing that is substantially similar to those approved by the Commission in the recent Retail Markets Investigation. If there is substantial agreement among the stakeholders, Peoples will file a proposed new and moving customer referral program with the Commission within 14 months of Closing. All stakeholders and other interested parties will have the right to file comments in response to the filing. Settlement, p. 32.

Peoples agrees that within one year of the date of Closing, it will review and seek to revise the Purchase of Receivables program of Equitable and take steps necessary to make it consistent in design and rate structure, with that of the Peoples Division. To the extent the adoption of certain aspects of Peoples’ Purchase of Receivables Program requires billing system modifications for the Equitable Division, those aspects of the Peoples’ Purchase of Receivables Program will not be implemented until the planned conversion of the Equitable Division to Peoples’ billing system. Settlement, p. 33.

p. Carnegie Gathering System

Effective upon Closing, the Settlement provides that PIOGA’s confidential Rate AGS agreement with Equitable will apply to the Carnegie Gathering System, which shall be owned and operated by Equitable. The confidential Rate AGS agreement does not apply to the Goodwin and Tombaugh Systems. Settlement, p. 33.

q. Goodwin Gathering System

In the Settlement, Peoples agrees that the existing Goodwin gathering rates will apply, but parties moving gas on the Goodwin system will be charged on the “net” deliveries after gas is retained by Peoples and Equitable Divisions. Peoples also agrees to begin implementing immediately after Closing its UFG reduction measures on the Goodwin system that are outlined in the Joint Applicants Statement No. 5S or other measures otherwise agreed to by Peoples in the settlement of this proceeding. These UFG reduction measures including leak detection, leak repair and resolving meter issues will be prioritized to drive meaningful results that will be reflected in the ongoing monthly retainage charges on the Goodwin system.  Peoples will provide PIOGA with information gathered and provided to Commission’s Gas Safety Division. All gathering fees collected will be used to maintain and improve the Goodwin and Tombaugh systems. Settlement, p. 33.

r. EQT Asset Exchange Agreement

In the Settlement, EQT agrees that those assets identified in the EQT Asset Exchange Agreement in Schedules A-1, A-2, A-3, A-4, A-5, A-13, A-14 and A-17 will be transferred to Equitable Gas Company, LLC, if the Transaction is consummated. Settlement, p. 34.

s. Retainage on Transferred Assets

The Settlement provides that, other than the release of AVC storage (former Rate ST and ST-SW storage) to NP-1 suppliers, suppliers on the Peoples Division will receive a net zero cost release of AVC storage and transportation capacity required to supply their on-system customers and off-system PES requirements. Per the FERC AVC tariff, suppliers will be responsible for the ACA (annual charge adjustment) charge and fuel charges on AVC. Shippers on AVC will be assessed a fuel charge for use of AVC storage and an AVC transportation fuel charge of 2.5% on volumes transported on AVC. These fuel rates will be subject to periodic adjustment to reflect actual UFG, fuel and losses on the AVC system. Effective upon Closing, the Peoples Division retainage rates must be adjusted to remove the volumes of fuel that will be recovered on the AVC system. Settlement, p. 27.

In the Settlement, Peoples agrees to assign and release AVC storage to NP-1 suppliers of the Peoples Division at a rate of $.83/Mcf. Peoples agrees that this release rate will not be subject to change until the effective date of new rates resulting from Peoples’ next base rate case. Settlement, p. 28.

Peoples and NGSs acknowledge that there may be situations whereby suppliers have existing contracts to sell commodity supplies to their customers at the Peoples Division existing city gates. Peoples and suppliers further acknowledge that as a result of the transfer of Peoples’ midstream assets to EQT and the resulting alteration in city gate delivery points, it will be necessary, during the present term of such contracts, for Peoples to adjust the monthly commodity sales volumes charged by the affected suppliers to reflect the retainage volumes assessed to suppliers by EQT on the transferred assets, for the limited purpose of preserving the pre-asset transfer delivery points, and thus the benefits of the sale of such commodity supplies for customers and suppliers. Peoples agrees that it will also work with the NGSs to explore other alternatives to effectively address the situation described above and modify its tariff if required. Peoples further agrees that prior to Closing it will notify affected customers in writing of this situation, and that it will work with the affected suppliers and their customers on an ongoing basis to support and justify the monthly volume adjustments described above. In the event that a customer challenges any such adjustments, the Settlement requires Peoples to assist the affected supplier in defense of the adjustment. Settlement, pp. 28-29.

t. Capacity on Transferred Assets

In the Settlement, Peoples agrees to assign sufficient AVC capacity to NGSs and Producers on the transferred Peoples’ transmission and storage assets, considering producer meters and customer volumes, for both system supply and off-system transportation. Specifically, Peoples agrees to the following:

(1) Suppliers that have access to AVC system storage will be provided with sufficient AVC transportation and storage capacity to fill and empty their allocated share of AVC storage;

(2) Suppliers that are purchasing existing local gas that is delivered directly into the AVC system without first moving through the Peoples Division lines, will be provided with sufficient AVC system transportation capacity to move their estimated supplies to the Peoples Division city-gates; and

(3) Suppliers that are moving excess local production to off-system points at Truittsburg or Rural Valley, consistent with the terms of the existing PES agreement, will be provided with sufficient AVC system transportation capacity to move gas to these points.

Settlement, p. 34.

u. Homeworks

Peoples agrees that it shall maintain separate accounting records for Equitable Homeworks, LLC (“Homeworks”)[[10]](#footnote-10) and to allocate costs and expenses to Homeworks in accordance with the standards and allocation methodologies that have been previously approved by the Commission, at Docket No. G-2012-2290014, with regard to affiliate charges under the Peoples Service Corporation, LLC Agreement. Settlement, p. 35.

Peoples agrees that it will not use the name of Peoples or Equitable in any Homeworks related marketing materials provided to customers. Settlement, p. 35.

The Settlement provides that within six months after Closing, Peoples agrees to provide Product and Services Billing on behalf of other NGSs on the Peoples Division system. Any customer specific information for Product and Services customers that are billed by Peoples on behalf of other NGSs shall not be shared with any individual that is responsible for the sales or marketing of Homeworks products. Also, Peoples agrees that it will not provide any preferential treatment to Homeworks regarding any customer leads received through the Peoples Division or Equitable Division call center and will not offer Homeworks services to customers for warranty or other related services in calls received from customers for other purposes without also offering the same information and/or opportunities to other providers of the same or similar services. Peoples will not provide any customer information or marketing opportunities to Homeworks without also offering the same information and/or opportunities to other providers of the same or similar services. Settlement, p. 35.

Peoples also agrees that following the Closing, it will undertake a review of the Equitable billing system to determine if Product and Services Billing on behalf of other NGSs on Equitable Division system is feasible. Settlement, p. 36.

v. New Tap Requests

Peoples agrees to continue to work with suppliers on the Peoples Division to resolve any ongoing tap requests on a reasonable and expedited basis.

2. Settlement of PennFuture Issues

Subject to the Commission’s approval of the Settlement of the PennFuture Issues concerning the study of demand side management (“DSM”) Programs and a Peoples’ subsequent DSM filing, PennFuture does not oppose the Settlement of the Transaction Issues discussed above. Settlement, p. 36.

a. Study of DSM Programs

The Settlement requires that within 36 months of Closing, Peoples must organize and engage in a collaborative of DSM stakeholders. This group will include OCA, OSBA, I&E, PennFuture, any interested party to this proceeding, and any interested large customer of Peoples. Notice of the commencement of the collaborative and of an opportunity to participate must be provided. The stakeholders are required to provide recommendations concerning the scope of the study and qualifications of a third-party independent contractor to perform the study. Settlement, pp. 36-37.

No later than 42 months after the Closing, Peoples must select and retain an experienced, third-party independent contractor to conduct a study and develop recommended approaches to a cost-effective Energy Efficiency and Conservation Plan for Peoples’ customers. No later than 45 months after the Closing, Peoples will provide a copy of the study to the DSM stakeholders and the parties to this proceeding. The cost of the study must be funded by Peoples, and Peoples cannot seek recovery of the study cost in rates. The study must include the following:

(1) Identify potential programs for each rate class of customers;

(2) Evaluate different levels of funding and the expected benefits derived by the various levels;

(3) Include analysis of programs offered by other gas program administrators, either utility or non-utility, including but not limited to, Philadelphia Gas Works, Columbia Gas, National Grid operating in New York and Massachusetts, Northeast Utilities, UIL, Vermont Gas, Wisconsin Focus on Energy, Pacific Gas & Electric, and Southern California Gas; and

(4) Include a review of actual costs to implement programs as well as the actual energy savings realized in these programs.

Settlement, p. 37.

b. DSM Filing

No later than 48 months after the Closing, Peoples must make a filing with the Commission that will seek approval to implement an Energy Efficiency and Conservation Plan that falls within the range of recommendations supported by the DSM study and provides a cost recovery mechanism acceptable to Peoples. A copy of the filing must be served on the DSM stakeholders and the parties to this proceeding. The Settlement provides that any party to this proceeding will be free to support the filing, seek modifications to the filing or oppose the filing before the Commission. Settlement, pp. 37-38.

D. Public Interest Analysis-Transaction Issues

Section 1102(a)(3) of the Code, 66 Pa.C.S. § 1102(a)(3), provides, in pertinent part, that the Commission’s prior approval, evidenced by a certificate of public convenience, is required:

For any public utility or an affiliated interest of a public utility . . . to acquire from, or to transfer to, any person or corporation . . . by any method or device whatsoever, including the sale or transfer of stock and including a consolidation, merger, sale or lease, the title to, or the possession or use of, any tangible or intangible property used or useful in the public service.

To provide direction for future applicants, the Commission issued a Statement of Policy on October 22, 1994, to establish clear standards regarding the circumstances under which a transfer of voting interest constitutes a change in *de facto* control of the utility, which provides, in pertinent part, as follows:

(1) A transaction or series of transactions resulting in a new controlling interest is jurisdictional when the transaction or transactions result in a different entity becoming the beneficial holder of the largest voting interest in the utility or parent, regardless of the tier. A transaction or series of transactions resulting in the elimination of a controlling interest is jurisdictional when the transaction or transactions result in the dissipation of the largest voting interest in the utility or parent, regardless of the tier.

(2) For purposes of this section, a controlling interest is an interest, held by a person or group acting in concert, which enables the beneficial holders to control at least 20% of the voting interest in the utility or its parent, regardless of the remoteness of the transaction. In determining whether a controlling interest is present, voting power arising from a contingent right shall be disregarded.

52 Pa.Code § 69.901. Thus, Commission approval is required for any transaction that creates or eliminates a controlling interest and results in a different entity becoming the largest voting interest in a public utility company. The determination of the interests involved in a transaction considers all tiers of interest in the utility or parent of the utility and, thus, both direct and indirect ownership interests in a utility are considered under the Commission’s Policy Statement.

The Commission may issue a certificate of public convenience upon a finding that “the granting of such certificate is necessary or proper for the service, accommodation, convenience, or safety of the public.” 66 Pa.C.S. § 1103(a). This standard requires the Commission to find that the Proposed Transaction will “affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way.” *City of York v. Pa. Pub. Util. Comm’n*, 449 Pa. 136, 151, 295 A.2d 825, 828 (1972). The “substantial public interest” standard is satisfied by a simple preponderance of the evidence of benefits, and such burden can be met by showing a likelihood or probability of public benefits that need not be quantified or guaranteed. *Popowsky v. Pa. Pub. Util. Comm’n*, 594 Pa. 583, 611, 937 A.2d 1040, 1057 (2007). Further, the substantial public benefit test does not require that every customer receive a benefit from the Proposed Transaction. *Popowsky*, at 617-18, 937 A.2d at 1061.

This Transaction requires the approval of the Commission as evidenced by its issuance of a certificate of public convenience. 66 Pa.C.S. §1102(a)(3). Even where the Commission finds sufficient public benefit to find that the granting of a certificate of public convenience is necessary or proper for the service, accommodation, convenience, or safety of the public without imposing any conditions, the Commission nevertheless has discretion to impose conditions which it deems to be just and reasonable. 66 Pa.C.S. §1103(a). However, the Commission has refrained from exercising the power to impose conditions when the proposed Transaction provides affirmative public benefits unless the record indicates service deficiencies or infrastructure deterioration to the point of impairing the technical, managerial, or financial fitness of the merging companies. *Joint Application of SBC Communications, Inc. and AT&T Corp. Together with its Certificated Pennsylvania Subsidiaries for Approval of Merger*, Docket Nos. A-311163F0006, A-310213F0008, A‑310258F0005, Opinion and Order adopted and entered October 6, 2005.

Competitive impact is a substantial component of a rational net public benefits evaluation in a merger context. *Popowsky v. Pa. Public Utility Comm’n*, 937 A.2d 1040 (Pa. 2007). The Commission will not approve a merger if the merger or acquisition “is likely to result in anticompetitive or discriminatory conduct, including unlawful exercise of market power, which will prevent retail electricity customers in this Commonwealth from obtaining the benefits of a properly functioning and workable competitive retail electricity market.” 66 Pa.C.S. §2811(e).

1. Public Benefits of the Transaction/Settlement

At the Closing, Equitable will be merged into Peoples, with Peoples as the surviving entity and Equitable initially operated as a new separate operating division of Peoples. Joint Applicants Statement No. 2, p. 12. The Transaction provides for (1) the payment of cash (including investments by Peoples in assets to be transferred from Peoples to EQT), (2) the transfer of certain assets by Peoples to EQT, (3) the exchange of certain assets between EQT and Equitable, and (4) certain other supply, capacity, interconnect, and service agreements. Joint Applicants Statement No. 2, pp. 12-13. The Transaction is designed to better align PNG and EQT with their respective principle business activities. The Transaction will allow Peoples to focus on state regulated distribution of natural gas to its customers. It also will allow EQT to focus on the exploration, production, storage, gathering, and transportation of natural gas. Joint Applicants Statement in Support, pp. 8-9.

As part of the Transaction, Peoples will transfer certain transmission pipeline and storage assets to EQT, which will be owned by Allegheny Valley Connector, LLC (“AVC” or the “AVC pipeline”) and operated by Equitrans, L.P. Joint Applicants Ex. MKO-1, Appendix A, Exhibit A; Joint Applicants Statement No. 3-R, p. 4. Similarly, the EQT Asset Exchange Agreement, as modified by the terms of the Settlement, provides for the transfer of various assets between certain EQT entities in order to realign those assets consistent with the goal of providing Equitable with the assets needed to focus on continuing to provide distribution services in a safe, reliable and cost-effective manner, while transferring from Equitable those assets that are not needed for that purpose. Joint Applicants Ex. MKO-1, Appendix A, Ex. L; Settlement ¶ 99. Joint Applicants Statement in Support, p. 9.

EQT, with the pipeline and storage assets acquired from Peoples and the transfer of its distribution business to PNG, will be focused primarily on transportation, storage, exploration, gathering, and production activities. The transferred assets will be used by EQT to serve the Peoples’ system and to move more local production to the interstate market, which will encourage local production and improve competition by providing access to additional sources of local natural gas. This re-alignment of business interests is consistent with the goals of EQT’s public shareholders interested in investing in such activities. Joint Applicants Statement No. 3, pp. 9-10. Joint Applicants Statement in Support, p. 9.

By re-aligning PNG’s and EQT’s assets and businesses with their respective principle business interest, the Transaction will permit Peoples to achieve the following substantial affirmative benefits: (1) an opportunity to avoid capital costs by avoiding duplicative replacement of overlapping cast iron and bare steel mains owned by the Joint Applicants; (2) the opportunity to achieve significant operational and management efficiencies; (3) the opportunity to improve retail supply competition by combining the Peoples and Equitable markets and instituting uniform policies and practices for supply choice; and (4) the opportunity to expand development of Pennsylvania natural gas and related infrastructure through a series of supply and capacity agreements that will increase access to and capacity to use Pennsylvania produced natural gas. Joint Applicants Statement No. 2, p. 17. Joint Applicants Statement in Support, pp. 9-10.

An important substantial affirmative benefit of the Transaction is the avoided capital costs by combining Peoples and Equitable. Combining the two companies is expected to avoid replacement of the two companies’ overlapping pipeline systems resulting in significant amounts of avoided capital expenditures that would otherwise be needed to maintain and/or replace duplicative pipelines. Joint Applicants Statement No. 2, p. 18. Joint Applicants Statement in Support, p. 10.

Presently, there are many miles of duplicative pipelines on the Peoples, Peoples TWP, and Equitable systems, a significant number of which are located on the same streets. The Transaction will help both Peoples and Equitable avoid the need to replace duplicative pipelines. Joint Applicants Statement No. 2, p. 18. The estimated avoided pipeline replacement cost is $162 million. This estimate was prepared and presented on the record by an independent expert with access to detailed information and maps containing actual pipeline locations, ages and type of pipeline material, and recent pipeline replacement costs experienced by the Joint Applicants. In addition, there is approximately $750,000 in current year pipeline extension costs for new or improved services that can be expected to be avoided. Finally, there are approximately $50,000 in annual leak surveillance costs that can be expected to be avoided as coincidental pipe is eliminated. Joint Applicants Statement No. 11, p. 4. Joint Applicants Statement in Support, p. 10.

The ability to avoid these replacement costs should result in a lower total rate base than would be the case if the companies were not combined. These savings will reduce the amount of future rate increases, which is a substantial benefit to the customers of both Peoples and Equitable. It also will avoid undue inconvenience to the general public by avoiding the duplicative disruption that would otherwise occur if the companies were to stay separate. Joint Applicants Statement No. 2, p. 19. Joint Applicants Statement in Support, p. 10.

In addition, under the terms of the Settlement, Peoples commits to continue its acceleration of replacing higher risk pipe with a revised focus solely on its distribution and gathering assets. Peoples will file a revised Long Term Infrastructure Improvement Plan (“LTIIP”) that will address how Peoples will avoid the replacement of duplicative pipe following the merger. Pursuant to the Settlement, this LTIIP will provide for a level of investment for the Peoples Division for the period 2015 through 2019 that is consistent in aggregate amount with the annual average amount of $80 million under Peoples’ Commission approved current LTIIP. Peoples also will accelerate capital expenditures for the Equitable Division from $33 million in 2014 to at least $45 million in 2017, 2018 and 2019 as evidenced by the filing of a revised LTIIP or Asset Optimization Plan. Settlement ¶¶ 34, 62. Joint Applicants Statement in Support, p. 11.

The undersigned Administrative Law Judge (“ALJ”) concludes that the combination of the avoidance of having to replace duplicative pipe with the acceleration of pipe replacement should result in both systems becoming more cost efficient, safer and more reliable at an earlier date.

Another substantial affirmative benefit of the Transaction will be the operational and management efficiencies that are expected to be realized over a transition period by operating Equitable as a division of Peoples. Peoples will initially operate Peoples’ and Equitable’s facilities as separate operating divisions with separate rates. Joint Applicants St. 2, p. 15. Post-Closing, Peoples will maintain separate accounting for the Peoples Division and Equitable Division operations sufficient to provide all Commission required financial statements. PNG also will provide the Commission and statutory parties with reasonable access to the books and records, officers and staff of PNG and its subsidiaries. Settlement ¶¶ 47-48. Costs will be allocated between the Peoples and Equitable Divisions using procedures and factors approved under Peoples’ approved affiliated interest agreements. Settlement ¶ 53. Joint Applicants Statement in Support, pp. 11-12.

However, Peoples will merge the operations and management of the Peoples Division and the Equitable Division upon the Closing into a single management and operations unit. This will allow the utilities to commence the process of eliminating the existing redundancies and inefficiencies resulting from separate ownership and operation. Joint Applicants Statement 2, p. 16. After Closing, Peoples will combine accounting, treasury, human resources, information technology, purchasing, legal, and rates functions for both the Peoples Division and the Equitable Division during a transition process. This will reduce the overall management and administrative costs of the merged utilities over time. Joint Applicants Statement No. 2, pp. 20-21. Joint Applicants Statement in Support, p. 12.

Peoples estimates that the synergy savings from merging the operations and management of the Peoples Division and the Equitable Division will be at least $10 to $20 million annually, net of costs to achieve, and should be achieved in two to four years from Closing. Joint Applicants Statement No. 2-R, p. 21; OCA Statement No. 1, p. 26. Joint Applicants Statement in Support, p. 12.

Therefore, the undersigned ALJ concludes that the Transaction, as modified by the Settlement, should result in substantial synergy savings for the Peoples and Equitable Divisions and ultimately should result in lower rates for their customers than would be the case under separate ownership of the companies.

Under the terms of the Settlement, Peoples will begin a review of the existing transportation program processes and procedures on Equitable and convene a collaborative, which will include all interested stakeholders, within 12 months following the Closing to develop a strategy to promote retail supply competition in the combined Peoples/Equitable service areas. Peoples further agrees to a target filing date of possible tariff changes resulting from this collaborative within three months following the date the collaborative is convened. Settlement ¶¶ 81, 92. Joint Applicants Statement in Support, p. 13.

Although Equitable and Peoples both have active natural gas suppliers (“NGSs”) serving customers on their systems, competition has been more robust on Peoples’ system than on Equitable’s system. Under the terms of the Settlement, Peoples agrees to implement the transportation policies and procedures that have permitted Peoples to encourage retail supply competition. Within six months following Closing, Peoples will implement an Energy Choice outreach program for Equitable customers and begin using the Peoples’ Electronic Data Transfer/Electronic Bulletin Board/Nominations System and related processes. Settlement ¶ 93. Joint Applicants Statement in Support, p. 13.

Under the Settlement, within 30 days following Closing, Peoples will provide Aged Receivables reporting on behalf of suppliers that are receiving commodity billing services from the Peoples Division. Settlement ¶ 94. Peoples also will, within one year of the date of Closing, review and seek to revise the Purchase of Receivables program of Equitable and take steps necessary to make it consistent in design and rate structure with that of the Peoples Division. Settlement ¶ 96. Joint Applicants Statement in Support, p. 14.

Also, within six months of approval of the Settlement, Peoples will convene a collaborative to include input of interested stakeholders, to discuss all aspects of a proposed new and moving customer referral program within 12 months of Closing. Settlement ¶ 95. A new and moving customer program is intended to alert new and moving customers of their opportunity to choose a retail supplier and facilitate that process when they contact the company to establish service. This program is consistent with the Commission’s recently completed Investigation into Pennsylvania’s Retail Electricity Market at Docket No. I-2011-2237952, as well as the Commission’s recently announced investigation concerning retail natural gas competition. *Investigation of Pennsylvania’s Retail Natural Gas Supply Market*, Docket No. I‑2013-2381742 (Sept. 12, 2013). Joint Applicants Statement in Support, p. 14.

Finally, under the terms of the Settlement, Peoples and EQT have agreed to certain measures to ensure that suppliers, marketers, and producers continue to have access to sufficient transportation and storage capacity on the transferred assets. Settlement ¶¶ 83, 101. These measures are designed to help ensure that NGSs, marketers, and producers can continue to deliver local gas directly into the AVC assets and to deliver gas off system. Peoples has also agreed to provide NGSs with access to a similar level of balancing flexibilities and BB&A benefits that they enjoy today Settlement ¶¶ 84, 88. Peoples and PIOGA also have agreed to undertake an initiative using the Peoples Division PES PRC funds to create interconnections between the Equitable and Peoples Divisions that are designed to increase the use of local gas supplies and add more flexibility for suppliers on both systems. Settlement ¶ 87. Joint Applicants Statement in Support, pp. 14-15.

For the aforementioned reasons, the undersigned ALJ concludes that the Transaction, as modified by the Settlement, should not result in anti-competitive or discriminatory conduct in the retail market for natural gas in Pennsylvania. The Transaction should not have any adverse effect on the retail natural gas market in Pennsylvania. To the contrary, it should have a positive effect on retail competition.[[11]](#footnote-11)

Another affirmative benefit of the Transaction is that it will encourage further development of Pennsylvania produced gas by creating the opportunity to use existing and new pipelines to move Pennsylvania produced gas to the customers of Peoples and Equitable, and to allow excess local gas to flow to the interstate market. The Transaction will provide EQT with $720 million of new capital, as well as revenue streams from the commercial agreements, that will be invested in EQT’s core business to, among other things, help further develop Pennsylvania production and pipeline capacity to move more local natural gas to the Joint Applicants and the interstate market. Some of that significant investment by EQT in Pennsylvania is spurred by the commercial agreements themselves. For instance, it is EQT’s current expectation that it will meet the substantial production requirements under the commercial agreements through its own production, which will require EQT to deploy substantial capital to drill and produce gas from existing and new wells. Joint Applicants Statement No. 3R, p. 10. Similarly, and as discussed below, it is anticipated that EQT will invest multi-millions of dollars in the assets being transferred from Peoples to EQT in order to not only maintain service to Peoples but to help move more Pennsylvania produced gas to other markets. These investments are a significant benefit for the natural gas competitive market. Joint Applicants Statement in Support, p. 15.

Moreover, these types of investments are beneficial to the Commonwealth because they also will infuse local gas producing communities with additional resources as a result of production and related activities. There is a ripple effect from these investments as other industries supported by EQT’s investments (i.e. service providers, local businesses within EQT’s supply chain, etc.) create employment opportunities, which, in turn, provide people with additional wages to be spent in Pennsylvania. Joint Applicants Statement No. 3, p. 12. Similarly, EQT makes significant royalty payments to Pennsylvania landowners/mineral owners and additional gas production efforts by EQT contribute to the Marcellus Shale impact fee payments under Act 13. (*Id*.) Thus, these types of significant investments by EQT in Pennsylvania should stimulate the economy and provide substantial economic benefits to the public. Joint Applicants Statement No. 2, pp. 22-24; Joint Applicants Statement No. 3, p. 13. Joint Applicants Statement in Support, pp. 15-16.

As explained above, Peoples will transfer certain transmission pipeline and storage assets to EQT as part of the Transaction. These assets fit within the growth opportunities for EQT and provide it with the needed existing infrastructure, when coupled with EQT’s additional investment and expertise, to further the exploration, production, transport and storage of locally available gas. Joint Applicants Statement No. 3, p. 13. These transferred assets will not only help avoid what could have been duplicative investments by EQT, but also provide a solid platform for EQT to make additional capital investments in order to move more Marcellus and other locally available gas to Peoples’ end-users as well as the interstate markets. EQT plans to invest multi-millions of dollars in these assets in order to not only maintain the level of service to Peoples but also expand the capabilities of these assets to move more Pennsylvania produced gas to other markets. Thus, these midstream assets, when infused with the additional investment and expertise of EQT, will be critical to facilitate the exploration, production, transportation, and use of gas that is not currently occurring in that area. Joint Applicants Statement No. 3, p. 14. Joint Applicants Statement in Support, p. 16.

As part of the Transaction, the Joint Applicants have entered into a series of agreements that provide for interconnections, capacity, transportation, and supply arrangements with EQT.[[12]](#footnote-12) EQT currently is the only pipeline that has both the requisite pipeline paths to provide the pipeline capacity and access to local production needed to meet Peoples’ procurement strategy. Joint Applicants Statement No. 2-R, p. 15. Combined, these agreements will provide long-term access to a continuous supply of local Pennsylvania produced natural gas. These agreements will diversify Peoples’ current heavy reliance on storage by approximately 50% by replacing storage on Dominion Transmission, Inc. and increasing reliance on Pennsylvania produced gas. Further, the NAESB agreements provide a call option that will allow the Peoples and Equitable Divisions to call on supply on 24 hours’ notice at a market indexed price. These agreements will create a firm and secure supply of Pennsylvania produced gas on peak winter days. Joint Applicants Statement No. 5, pp. 5-7, 23; Joint Applicants Statement No. 5-R, p. 3. By allowing Peoples, Peoples TWP, Equitable, and their respective customers to rely primarily on Pennsylvania produced gas, these agreements will encourage the development of Pennsylvania produced gas and produce significant community benefits. Joint Applicants Statement in Support, p. 17.

Under the terms of the Settlement, Peoples agreed that it will endeavor, wherever operationally feasible, to utilize locally produced gas supplies. Settlement ¶ 85. Peoples will identify opportunities to displace gas that is being sourced from interstate pipelines with local supplies produced into the Peoples Division system, as well as to identify areas of possible new production for redelivery to an alternate section of the Peoples Division distribution system through the AVC or other means to displace gas sourced from interstate pipelines. Settlement ¶ 86. Peoples also has agreed to undertake an initiative using the Peoples Division PES PRC funds to create interconnections between the Equitable and Peoples Divisions that are designed to increase the use of local gas supplies and add more flexibility for NGSs on both systems. Peoples also agreed that it will, consistent with its least cost mandate and where operationally feasible, examine ways to facilitate the movement of incremental local gas supplies between the Peoples and Equitable Divisions through gas displacement arrangements. Settlement ¶ 87. Joint Applicants Statement in Support, pp. 17-18.

The undersigned ALJ concludes that the Transaction should have a positive impact on the local community and the economy of the Commonwealth. As explained above, the Transaction should enhance production of Pennsylvania gas and expansion of pipeline infrastructure. This should result in new jobs within the Commonwealth. Increased production of Pennsylvania gas and the expansion of pipeline infrastructure also should support communities in western Pennsylvania by increasing tax revenues at both the state and local government levels. Joint Applicants Statement No. 2, pp. 22-24; Joint Applicants Statement No. 3, p. 13.

Under the terms of the Settlement, SteelRiver will continue to maintain Peoples’ corporate headquarters in Peoples’ service area and in or near Pittsburgh, Pennsylvania. Peoples agrees not to move its headquarters outside of Peoples’ service territory for at least a ten-year period after Closing and will only do so after that time upon application to and approval by the Commission. Settlement ¶ 58. Peoples also will maintain field offices in its service territory and staffing levels that are sufficient to provide safe and reliable service. Settlement ¶ 59. Services that are currently performed for Equitable outside of the Equitable service area in Pennsylvania, such as call center support, customer billing and payment and customer relations, will be returned to the Peoples’ service area within five years. Settlement ¶ 79. Finally, for a period of not less than five years, Peoples will provide corporate contributions and community support in southwestern Pennsylvania in a total amount that is at least equivalent to the amount provided by Peoples and Equitable in 2012. Settlement ¶ 78. Joint Applicants Statement in Support, pp. 18‑19. The undersigned ALJ concludes that the above-mentioned terms of the Settlement are in the public interest and will benefit western Pennsylvania and Peoples’ customers.

Under the terms of the Settlement, Peoples will not claim, in any future rate proceedings, Transaction and Transition Costs to complete the Transaction and any related tax effect for such items shall also be excluded in setting rates. Settlement ¶ 27. Peoples also will not defer any Transaction or Transition Costs, such costs shall be borne exclusively by Peoples’ shareholders. Settlement ¶ 29. Likewise, EQT will not claim any Transaction and Transition Costs in any rates under the FERC-regulated agreements for services to be provided to Peoples from the storage and pipeline assets transferred from Peoples to EQT. Settlement ¶ 27. Joint Applicants Statement in Support, p. 19.

As explained above, approximately $93 million in rate base assets as of December 31, 2012 will be transferred from Peoples to EQT. Joint Applicants Statement No. 2, pp. 12-13; Joint Applicants Statement No. 3, pp. 14-15. Under the terms of the Settlement, the existing base rates of Peoples will be reduced on one day’s notice following the Closing to reflect the transfer of Peoples’ transmission and storage capacity to EQT. Settlement ¶ 30. Peoples’ DSIC rate also will be reduced at Closing to reflect any amounts included in DSIC related to improvements made by Peoples to the transferred assets from December 31, 2013 to the Closing. Settlement ¶ 34. The Peoples Division PGC rates to sales and transportation customers will be adjusted on one day’s notice following the Closing to reflect the charges for services to be provided to Peoples by EQT’s FERC-regulated pipeline, AVC. The Peoples’ base rate and DSIC reductions and the increase in PGC charges for AVC pipeline services to sales and transportation customers are designed to produce essentially no change in charges to customers. The Peoples Division and Equitable Division PGC rates shall be adjusted to reflect the new agreements for capacity and supply through the normal process of quarterly and annual filings under Section 1307(f) of the Public Utility Code, 66 Pa.C.S. § 1307(f). Settlement ¶ 35; Joint Applicants Statement No. 4, pp. 7-21. Joint Applicants Statement in Support, pp. 19-20.

The Peoples Division adjusted base rates and Equitable’s current base rates adopted for the Equitable Division will be capped until January 1, 2018, unless there are substantial changes in regulation or federal tax rates or policy. Settlement ¶ 31. Further, Peoples agrees that, if it files a general base rate case with new rates becoming effective after the expiration of the rate cap ending January 1, 2018, but prior to January 1, 2019, Peoples will demonstrate that its claim includes at least $15 million of synergy savings resulting from the Transaction. Settlement ¶ 31. In addition, Peoples will not request a capital structure for ratemaking purposes outside the range of capital structures employed by comparable gas distribution companies. Settlement ¶ 38. Joint Applicants Statement in Support, p. 20. The undersigned ALJ concludes that these provisions provide substantial benefits to customers by providing both base rate stability and guaranteed synergy savings.

Effective with the Closing, the Peoples Division and Equitable Division rates for collections under the DSIC mechanism will be frozen at the current levels until such time as Peoples files a new combined LTIIP or Asset Optimization plan for 2015 through 2019 that addresses the effects of the Transaction including how redundant facilities will be handled. Peoples revised LTIIP will take into account the transferred assets and the improvements to be made to those assets. Settlement ¶ 34. Joint Applicants Statement in Support, p. 20.

The undersigned ALJ concludes that the combination of the base rate caps, synergy savings, commitments to infrastructure investments and the authorization to continue to apply charges to both Divisions under the DSIC mechanism will allow Peoples’ to maintain the Peoples’ Division accelerated infrastructure investment and accelerate investment for the Equitable Division.

In order to achieve approval of the Transaction from the Federal Trade Commission Peoples committed to maintain gas-on-gas discounts for Peoples and Equitable’s customers for five years after Closing. Under the terms of the Settlement, Peoples agrees to phase out gas-on-gas competition. Settlement ¶ 33. The combination of Peoples and Equitable will be a major step in eliminating gas-on-gas competition and moving customers that have discounted rates to cost of service rates. Peoples is committed to moving tariff rates for these customers to cost of service in the first distribution rate case following the five-year extension to offset the effect of the loss of these discounts to customers. Joint Applicants Statement 4-R, pp. 8-9. Joint Applicants Statement in Support, p. 21.

The Transaction likely will result in rates for Peoples’ and Equitable’s customers that will be lower than if the companies remained on a stand-alone basis. One of the primary benefits of the Transaction is the avoidance of duplicative capital costs that would otherwise be required by Peoples and Equitable individually. Combining the two companies is expected to avoid the duplicative replacement of overlapping pipeline facilities, resulting in significant amounts of avoided capital expenditures that otherwise would be needed to maintain and/or replace duplicative pipelines. Another significant benefit of the combination of Peoples and Equitable would be more efficient operations. Over a period of years beginning with the Closing, operating efficiencies are expected to be achieved through the consolidation of administrative functions, field operations and offices throughout the overlapping territories, consolidated leak detection and One-Call processes, lower contractor costs, and improved productivity through implementation of standardized operations processes and use of mobile dispatch and GPS technology across all operating districts. Joint Applicants Statement No. 2, pp. 18-19. Joint Applicants Statement in Support, pp. 21-22. Over time, the undersigned ALJ concludes these savings should result in rates lower than if the companies continued to be owned and operated on a stand-alone basis.

Another substantial affirmative benefit of the Transaction, as modified by the Settlement, is that Peoples will commit to achieve and maintain specific quality of service metrics for its Peoples and Equitable Divisions:

(a) Call Center: 82% calls answered within 30 seconds;

(b) Call Center: Average Busy-out Rate less than 0.25%;

(c) Call Center: Average Call Abandonment Rate that is no higher than 3% for 2014-2016 and 2.5% for 2017-2018;

(d) Percent response within 60 minutes to emergency calls of at least 98.5% for 2014-2016 and 99% for 2017-2018; and,

(e) Peoples TWP agrees to extend the customer service metrics agreed to in the SteelRiver acquisition of Peoples TWP, at

Docket No. A-2010-2210326, for an additional two years commencing January 1, 2014.

Settlement ¶ 66, Appendix D. Joint Applicants Statement in Support, p. 22.

Peoples will provide a report to the statutory parties each calendar year following assumption of such functions by the staff of Peoples or its affiliates regarding its achievement of the service quality metrics. Such reports shall continue for three calendar years after assumption of such functions by the staff of Peoples or its affiliates. If the Company has not achieved an identified metric, the report will explain the reasons for the failure and the Company’s detailed plan to reach the service quality metric. Peoples will then convene a collaborative with OCA, I&E and the OSBA to discuss such report. Settlement ¶ 67. Joint Applicants Statement in Support, p. 22.

Peoples committed to improve customer service when SRIFNA purchased Peoples and has met or exceeded the goals established and/or approved by the Commission as a condition of that acquisition. Joint Applicants Statement No. 7, p. 13. Peoples has committed to assess and identify areas for improvement of customer service for Equitable customers within 180 days of Closing. Its review will outline cost effective systems for improvement of customer service and expected service improvements. Settlement ¶ 68. Joint Applicants Statement in Support, p. 23. The undersigned ALJ concludes that the customer service metrics and post-Closing requirements regarding customer service performance agreed to in the Settlement are in the public interest and should improve Peoples’ overall customer service after the Closing.

The undersigned ALJ concludes that another substantial benefit of the Transaction, as modified by the Settlement, is Peoples’ commitment to improve programs offered to assist its income disadvantaged customers and other customers that may have difficulty paying their bills. Under the terms of the Settlement, Peoples will establish a Universal Service Advisory Group that will include community based organizations (“CBOs”), Low-Income Advocates, the OCA and other interested stakeholders and will meet quarterly to discuss all universal service issues, including recommendations concerning: Low Income Usage Reduction Program (“LIURP”), LIURP eligibility, Earned Income Tax Credit (“EITC”) concerns, and landlord issues that may present a barrier to customer participation. Settlement ¶ 73. Peoples will develop and employ best practices from the experience of Peoples and Equitable under their universal service programs and those of other companies identified by the Universal Service Advisory Group. Joint Applicants Statement No. 4-R, p. 28. Joint Applicants Statement in Support, p. 23.

Peoples will continue to fund Equitable’s Customer Assistance Program (“CAP”) consistent with its needs analysis approved in conjunction with Equitable’s currently approved Universal Services Plan. Settlement ¶ 72. Peoples will manage Equitable’s CAP program similar to that of Peoples in that it will partner with an agency that: (a) can substantially increase the number of intake sites; (b) is an administrator of utility CAP programs for the electric distribution companies or natural gas distribution companies in their territory; (c) recruits and partners with multi-service agencies; and, (d) uses a case management system to track and monitor referrals and enrollments into utility programs. Settlement ¶ 74. Joint Applicants Statement in Support, pp. 23-24.

Under the terms of the Settlement, the shareholders of Peoples and Peoples TWP will commit to increase its total donation (administrative and matching) to the Dollar Energy Fund by 10% for the next five years following Closing. Peoples will review possible ways to increase outreach to customers to attempt to increase customer contributions and will provide a report to the Commission and OCA. Settlement ¶ 76. Joint Applicants Statement in Support, p. 24.

Finally, under the terms of the Settlement, Peoples will increase expenditures for the Peoples (by $150,000 per year) and Equitable Divisions (by $100,000 per year) on LIURP in the first four years after Closing. Peoples TWP also will increase expenditures (by $25,000 per year) on LIURP for a period of four years, 2014 through 2017. These increases will be funded by shareholders for the four-year period. Any funds not used in one year will roll-over into the next calendar year. Funding on this basis will continue until the effective date of rates set in the next base rate proceeding. Settlement ¶ 77. Joint Applicants Statement in Support, p. 24.

With regard to the effect of the Transaction, as modified by the Settlement, on employees, SteelRiver and Peoples claim they are committed to local management and local staff. A substantial affirmative benefit of the Transaction is the opportunity to utilize the experience and knowledge of existing Equitable employees by integrating them into the Peoples’ organization to maintain the current level of service. SteelRiver and Peoples do not expect any of the current union workers in the operations area to lose their positions under the combined companies. In addition, because of the number of anticipated retirements expected at Peoples, having the highly skilled Equitable union work force being added to Peoples’ employee base will enhance the company’s ability to continue to provide a high level of safe and reliable services while still meeting all of the operational needs to run a large combined system. Joint Applicants Statement No. 2, p. 28. Joint Applicants Statement in Support, p. 25.

Under the terms of the Settlement, Peoples commits to maintain field offices in its service territory and staffing levels that are sufficient to provide safe and reliable service. Settlement ¶ 59. Further, in order to maintain the skilled workforce currently in place at Equitable, Peoples has committed to maintain levels of total compensation and benefits for any of the Equitable employees it retains at levels comparable to those in effect immediately prior to Closing for at least one year after the Closing date. Joint Applicants Statement No. 2, p. 29. Also, the collective bargaining agreement with Equitable’s union employees will continue in effect unless a new agreement or arrangement is mutually agreed upon. Settlement ¶ 60; Joint Applicants Statement No. 2, p. 29. Joint Applicants Statement in Support, p. 25.

Finally, for a period of four years after Closing, Peoples will provide one year of job placement assistance from date of termination for any employees of Equitable or Peoples who will be in need of such assistance due to the planned reorganizations of the workforce. Such job placement assistance will be consistent in kind and quality with the best practices of similar industries. Settlement ¶ 61. Joint Applicants Statement in Support, p. 25.

The undersigned ALJ concludes that, for the reasons discussed in the preceding three paragraphs, the Transaction, as modified by the Settlement, will produce substantial affirmative benefits for the employees of Peoples and Equitable.[[13]](#footnote-13)

2. Technical, Legal and Financial Fitness to Own and Operate Equitable

Under Sections 1102 and 1103 of the Code, 66 Pa.C.S. §§ 1102, 1103, the Joint Applicants must demonstrate that the party to whom the assets and service obligations are being transferred is technically, legally, and financially fit. *See Seaboard Tank Lines*, 502 A.2d 762, 764 (Pa. Cmwlth. 1985); *Warminster Township Mun. Auth. v. Pa. Pub. Util. Comm’n*, 138 A.2d 240, 243 (Pa. Super. 1958). At the Closing, as modified by the terms and conditions of the Settlement, Equitable will be merged with and into Peoples, with Peoples as the surviving entity. Initially, Equitable will be operated as a new separate operating division of Peoples and indirectly by SRIFNA. For the reasons explained below, the undersigned ALJ concludes Peoples and SRIFNA are technically, legally, and financially fit to own and operate Equitable, as required by Section 1102 and 1103 of the Code.

The Commission previously found SteelRiver to be technically fit in both the Peoples and Peoples TWP acquisition proceedings. SteelRiver has not experienced any significant changes in its management and technical expertise since the Commission approved the acquisitions and SteelRiver took control of Peoples on February 1, 2010, and Peoples TWP on May 23, 2011. The acquisitions have strengthened SteelRiver’s management team by providing leaders in gas distribution businesses with significant Pennsylvania experience. SteelRiver has assembled a team with experience in regulated and unregulated infrastructure activities. Further, SteelRiver currently is operating Peoples and Peoples TWP, Commission-regulated public utilities, in the public interest having met all commitments made in both acquisition proceedings and substantially increased infrastructure spending for both companies. Joint Applicants Statement No. 1, p. 23. Joint Applicants Statement in Support, pp. 28-29.

SteelRiver also owns and manages other significant regulated infrastructure assets, including Diversified Port Holdings LLC, Trans Bay Cable, Patriot Rail, and Natural Gas Pipeline Company of America. SteelRiver has operated these entities and effectively managed technical issues that have arisen with regard to these entities. Joint Applicants Statement No. 1, p. 23. Joint Applicants Statement in Support, p. 29.

Regarding legal fitness, The Commission previously found SteelRiver and PNG to be legally fit in both the Peoples and the Peoples TWP acquisition proceedings. Since SteelRiver took control of Peoples on February 1, 2010, and Peoples TWP on May 23, 2011, these companies have not experienced any significant issues in complying with the Pennsylvania Public Utility Code and the Commission’s regulations and orders. SteelRiver and PNG are in compliance with all federal and state laws, and have never been prosecuted or indicted for criminal activity in this country or any other country. SteelRiver does not do business in countries that have been designated by the United States Department of State as state sponsors of terrorism. Joint Applicants Statement No. 1, p. 24. Joint Applicants Statement in Support, p. 29.

SteelRiver has engaged outside law firms to handle specialized matters, including on-going compliance with the Commission’s regulations, rules, and orders. Additionally, SteelRiver has access to an internal team of legal counsel responsible for ensuring compliance with all applicable laws. Joint Applicants Statement No. 1, p. 24. Joint Applicants Statement in Support, p. 29.

And finally, regarding the question of financial fitness, the Commission has previously found SteelRiver to be financially fit in the Peoples and Peoples TWP acquisition proceedings. Since the Commission approved the acquisitions, SteelRiver has not experienced any significant changes in its approach to investments. SteelRiver and its investors are financially strong and generally risk adverse. SteelRiver investors, who are primarily pension funds and insurance companies, have a conservative approach to investments and their conservative investment philosophy is reflected in the goals of SteelRiver. SteelRiver, on behalf of its investors, seeks a stable, steady and fair return on an investment to be held for a significant period of time. Joint Applicants Statement No. 1, p. 17. Joint Applicants Statement in Support, pp. 29-30.

SteelRiver and SRIFNA’s ownership and operation of Peoples and Peoples TWP demonstrates their commitment to invest significant capital resources to further improve customer service, customer satisfaction, and pipeline infrastructure, while maintaining reasonable and competitive rates. Under SteelRiver management, given access to capital through SRIFNA’s capital investments and cost effective debt raisings, Peoples and Peoples TWP have met, and in some cases exceeded, all of the commitments agreed to in the applicable acquisition proceedings. Moreover, Peoples has successfully completed two general rate proceedings following completion of the SRIFNA acquisition enabling Peoples to continue to invest in its gas distribution system to improve customer service on an accelerated basis relative to periods preceding SteelRiver’s ownership. SteelRiver and SRIFNA’s ownership and operation of Peoples and Peoples TWP demonstrate that SteelRiver, its managed funds, and PNG are financially fit to own and operate Equitable. The Joint Applicants claim that, similar to Peoples and Peoples TWP, access to significant capital resources under SteelRiver’s ownership will be available to support Equitable’s ongoing operations and implement changes where improvements are appropriate. Joint Applicants Statement No. 1, p. 18. Joint Applicants Statement in Support, p. 30.

3. The Penn Estates Criteria

In addition to the public benefit test, the Commission also considers the following ten public interest factors when determining whether to grant a certificate of public convenience: (1) capital to be allocated to ongoing operating and maintenance expenses; (2) corporate governance/Sarbanes-Oxley compliance; (3) the expected term of ownership; (4) experience as an owner and an operator of utilities; (5) the community presence; (6) the nature and objectives of the various affiliated relationships involved; (7) the fees paid to and services performed by affiliates; (8) limits on use of leverage and other capital structure protections; (9) transparency on corporate structure issues; and (10) creditworthiness. *See Application of Penn Estates Utilities, Inc., Utilities, Inc. of Pennsylvania and Utilities, Inc. -- Westgate for Approval of Stock Transfer Leading to a Change in Control of their Parent Corporation, Utilities, Inc.*, Docket Nos. A‑210072F0003, *et al.*, 2006 Pa. PUC LEXIS 88, 252 P.U.R.4th 131 (October 2, 2006). The Transaction here, as modified by the Settlement, must satisfy these ten public interest considerations.

With regard to the first factor, SteelRiver has significant experience and success in accessing capital and financial markets and this access has been one of the key attributes of its successful infrastructure management and growth. Access to significant capital resources through SteelRiver ownership will enhance the ability to further improve customer satisfaction, service provided to customers, and its pipeline infrastructure, while maintaining reasonable and competitive rates. Overall, SteelRiver’s and PNG’s immediate attention will be given to customer service, financial and regulatory management, human resource programs, and the accelerated replacement of dated infrastructure. Joint Applicants Statement No. 1, p. 19. Joint Applicants Statement in Support, p. 31.

Further, as explained above, the Transaction will result in avoided capital needed to replace duplicative/overlapping pipelines on the Peoples and Equitable systems. PNG and SteelRiver are committed to a cost-effective program of reinvestment with best available technologies and organizational practices. Joint Applicants Statement in Support, p. 31.

With respect to the second factor, SteelRiver and its portfolio companies have internal corporate governance policies and requirements and are subject to an internal code of conduct that explicitly lays out standards and requirements relating to conduct in the workplace and interactions with stakeholders and business partners. SteelRiver’s affiliated investment advisor is also subject to the reporting and regulatory requirement of the Investment Advisors Act of 1940, 15 U.S.C. §§ 80b-1, *et seq.* Joint Applicants Statement No. 1, pp. 10-11. SteelRiver and Peoples do not have Sarbanes-Oxley reporting requirements. Although avoidance of these reporting requirements will shield ratepayers from the associated costs, protection will still be provided by the internal code of conduct, annual audits, and the filing by Peoples and Equitable of all required financial statements with lenders and the Commission. Joint Applicants Statement in Support, pp. 31-32.

The third factor is the expected term of ownership. SteelRiver and Peoples intend to be a long-term owner of Equitable. SteelRiver is currently a long-term owner and manager of major infrastructure assets, including utility, energy, and transmission businesses. Through the acquisition of Equitable and the previous acquisition of Peoples and Peoples TWP, SteelRiver is demonstrating its continued long-term commitment to western Pennsylvania. Joint Applicants Statement No. 1, p. 11. Joint Applicants Statement in Support, p. 32.

With respect to the fourth factor, SRFINA has substantial experience in owning utilities. Equitable will be acquired by PNG, which is an indirect subsidiary of SRIFNA and operated by SteelRiver. SteelRiver is a financially strong, diversified owner and manager of utility and infrastructure assets in the United States, including Peoples and Peoples TWP. The ability to access the resources and personnel at SteelRiver provides a solid background in long-term infrastructure ownership, management, and operation. Joint Applicants Statement No. 1, pp. 9, 22-23. Joint Applicants Statement in Support, p. 32.

Under the terms of the Settlement, SteelRiver will continue to maintain Peoples’ corporate headquarters in Peoples’ service area and in or near Pittsburgh, Pennsylvania. Peoples agrees not to move its headquarters outside of Peoples’ service territory for at least a ten-year period after Closing and will only do so after that time upon application to and approval by the Commission. Settlement ¶ 58. Peoples also will maintain field offices in its service territory and staffing levels that are sufficient to provide safe and reliable service. Settlement ¶ 59. Services that are currently performed for Equitable outside of the Equitable service area in Pennsylvania, such as call center support, customer billing and payment and customer relations, will be returned to the Peoples service area within five years. Settlement ¶ 79. Finally, for a period of not less than five years, Peoples will provide corporate contributions and community support in southwestern Pennsylvania in a total amount that is at least equivalent to the amount provided by Peoples ($1.0 million) and Equitable ($400,000) in 2012. Settlement ¶ 78. Thus, the Joint Applicants have established that a community presence (the fifth factor) will be maintained post-Closing. Joint Applicants Statement in Support, pp. 32-33.

The sixth factor examines the nature and objectives of the various affiliated relationships involved. Based on the evidence, there will not be complex affiliated relationships resulting from the Closing of the Transaction, as modified by the Settlement. Peoples, including its Equitable Division, and Peoples TWP will be ring fenced from other companies owned by SteelRiver managed funds as described in the Joint Application. Settlement ¶ 41. Under the terms of the Settlement, Peoples shall not do the following except as approved by the Commission upon a showing of net benefit to retail customers:

(a) guarantee the debt or credit instruments of PNG, LDC Holdings, LDC Funding, or any affiliate not regulated by the Commission;

(b) mortgage utility assets on behalf of PNG, LDC Holdings, LDC Funding, or any affiliate other than in conjunction with financing provided by PNG to Peoples; or

(c) loan money or otherwise extend credit to PNG, LDC Holdings, LDC Funding, or any affiliate for a term of one year or more.

Settlement ¶ 43. These ring-fencing measures will shelter Peoples, Equitable, and Peoples TWP if any of SRIFNA’s other investments become subject to adverse economic circumstances.

Peoples also will maintain reasonable accounting controls and pricing protocols to govern transactions with affiliates, and provide the Commission and the statutory parties with reasonable access to the books, records and personnel of Peoples’ affiliates where necessary for the Commission to adequately review Peoples’ purchases of goods or services from affiliates. Settlement ¶ 46. Peoples will seek Commission approval of all new or amended agreements with affiliates consistent with Chapter 21 of the Public Utility Code. Settlement ¶ 50. Joint Applicants Statement in Support, pp. 33-34.

The seventh factor to be examined is the fees paid to and services performed by affiliates. The Settlement provides that Peoples will seek Commission approval of all new or amended agreements with affiliates consistent with Chapter 21 of the Public Utility Code. Settlement ¶ 50. Peoples’ cost allocations between its Peoples and Equitable Divisions and affiliates will follow the standards and allocation methodologies that have been previously approved by the Commission, at Docket No. G-2012-2290014, with regard to affiliate charges under the Peoples Service Corporation, LLC Agreement. Settlement ¶ 53. Joint Applicants Statement in Support, p. 34.

The eighth factor examines the limits on the use of leverage and other capital structure protections. Under the terms of the Settlement, Peoples agrees that post-Closing the capital structure of Peoples will be maintained at an approximate level of 50% debt and 50% equity. Settlement ¶ 30. Peoples agrees not to request a capital structure for ratemaking purposes which is outside the range of capital structures employed by comparable gas distribution companies. Settlement ¶ 38. For a four-year period following Closing, Peoples must provide thirty (30) days prior notice to the Commission and the statutory parties if it intends to make a distribution to PNG which distribution will cause its actual debt ratio, excluding working capital facilities, to exceed 55% of total capitalization. Settlement ¶ 39.

Further, LDC Holdings’ consolidated long term debt ratio as a percent of total capitalization shall not exceed 60% for any period longer than one year absent approval from the Commission. Settlement ¶ 40. Finally, Peoples’ dividends to PNG are limited to a level that maintains a maximum debt ratio of 55%, excluding working capital facilities, unless approved by the Commission. Settlement ¶ 42. Joint Applicants Statement in Support, p. 34.

The Settlement satisfies the ninth factor which requires transparency on corporate structure issues. Peoples must maintain reasonable accounting controls and pricing protocols to govern transactions with affiliates and between Peoples’ divisions, and provide the Commission and statutory parties with reasonable access to the books, records and personnel of Peoples’ affiliates where necessary for the Commission to adequately review Peoples’ purchases of goods or services from affiliates. Settlement ¶ 46. Peoples also must maintain separate accounting for the Peoples Division and Equitable Division operations sufficient to provide all Commission required financial reporting. Separate accounting records must also be maintained for operations in West Virginia and Kentucky. Settlement ¶ 47. Finally, PNG and its subsidiaries are required to provide the statutory parties with a copy of any reports filed with the US Securities and Exchange Commission upon request. Settlement ¶ 51. Joint Applicants Statement in Support, p. 35.

The tenth and final factor is creditworthiness. PNG is an indirect subsidiary of LDC Funding, which is a direct, wholly-owned subsidiary of SRIFNA. SRIFNA is a financially strong, diversified owner and manager of utility and infrastructure assets, including Peoples and Peoples TWP, that is capable of maintaining and enhancing the level of service and customer satisfaction provided by Equitable, and supporting improvements to service where appropriate. SteelRiver currently manages infrastructure investments throughout North America, with capital under management in excess of $3.8 billion. Joint Applicants Statement No. 1, pp. 4-5, 9.

The undersigned ALJ concludes, after reviewing the record evidence, that the Joint Applicants have proved that the Transaction, as modified by the Settlement, satisfies the *Penn Estates* criteria.

E. Settlement of the PennFuture Issues-Public Interest Analysis

In this proceeding, PennFuture proposed that the Peoples and Equitable Divisions adopt a five-year, $220 million DSM plan. Under PennFuture’s proposed DSM plan, the Peoples and Equitable Divisions would be required to achieve incremental annual gas savings reaching a projected cumulative savings target of 39.1 million therms annually by 2018. PennFuture St. No. 1, p. 23. PennFuture’s proposed DSM plan claims that the Peoples and Equitable Divisions can provide net gas cost benefits of over $100 million to select customers by adopting a DSM program that would charge all customers $220 million over the next five years. PennFuture St. 1, p. 10.[[14]](#footnote-14) Joint Applicants Statement in Support, p. 36.

The Joint Applicants questioned the efficacy of the PennFuture DSM proposal because of the lack of independent analysis of the Peoples and Equitable systems and service territories to determine whether a DSM program could achieve the savings projected by PennFuture. As elicited through cross-examination, PennFuture did not undertake an independent study or analysis specific to the Peoples and Equitable service territories to determine the proper size and scope of a DSM plan or whether a $220 million expenditure would produce the level of usage reductions projected in PennFuture’s proposed DSM plan. Tr. 120. Specifically, PennFuture did not study the following aspects of the service territories of the Peoples and Equitable Divisions: (1) what would be the avoided cost of gas in the Peoples and Equitable Divisions’ service territories resulting from any reduced usage Tr. 120; (2) the housing stock or the estimated number of homes that could be retrofitted annually Tr. 121; 124; (3) the number of rental units or the number of rental units where the tenant is responsible for paying the gas bill Tr. 123; (4) the age of commercial structures Tr. 122; (5) the amount of energy efficiency installations that previously have been completed by industrial customers Tr. 122; or (6) the number of qualified contractors necessary to complete the work required to achieve set specific savings targets Tr. 125. Joint Applicants Statement in Support, p. 36.

In order to provide for an analysis that addresses PennFuture’s DSM proposal and to develop a DSM plan with the proper size and scope for the Peoples and Equitable service territories, the Joint Applicants and PennFuture agreed to the following:

109. Within 36 months of Closing, Peoples will organize and engage in a collaborative of demand side management (“DSM”) stakeholders. This group will include OCA, OSBA, I&E, PennFuture, any interested party to this proceeding, and any interested large customer of Peoples.

(a) Notice of the commencement of the collaborative and of an opportunity to participate will be provided.

(b) The stakeholders will provide recommendations concerning the scope of the study and qualifications of a third-party independent contractor to perform the study.

110. No later than 42 months after the Closing, Peoples will select and retain an experienced, third-party independent contractor to conduct a study and develop recommended approaches to a cost-effective Energy Efficiency and Conservation Plan for Peoples’ customers. The cost of the study will be funded by Peoples, and Peoples will not seek recovery of the study cost in rates. The study will:

(a) Identify potential programs for each rate class of customers;

(b) Evaluate different levels of funding and the expected benefits derived by the various levels;

(c) Include analysis of programs offered by other gas program administrators, either utility or non-utility, including but not limited to, Philadelphia Gas Works, Columbia Gas, National Grid operating in New York and Massachusetts, Northeast Utilities, UIL, Vermont Gas, Wisconsin Focus on Energy, Pacific Gas & Electric, and Southern California Gas; and

(d) Include a review of actual costs to implement programs as well as the actual energy savings realized in these programs.

111. No later than 45 months after the Closing, Peoples will provide a copy of the study to the DSM stakeholders and the parties to this proceeding.

112. No later than 48 months after the Closing, Peoples will make a filing with the Commission that will seek approval to implement an Energy Efficiency and Conservation Plan that falls within the range of recommendations supported by the DSM study and provides a cost recovery mechanism acceptable to Peoples.

113. A copy of the filing will be served on the DSM stakeholders and the parties to this proceeding.

114. Any party to this proceeding will be free to support the filing, seek modifications to the filing or oppose the filing before the Commission.

(Settlement ¶¶ 109-114). Joint Applicants Statement in Support, pp. 37-38.

These PennFuture Settlement provisions will provide important information regarding the proper size and scope of a DSM plan for the Peoples and Equitable Divisions that can be implemented in a cost-effective manner. These provisions also will allow interested parties to participate in the development of an appropriate and cost-effective DSM plan that is specifically tailored for the Peoples and Equitable service territories. The parties to this proceeding will retain the right to comment on and oppose the DSM filing. Further, and importantly, these provisions of the PennFuture Settlement provide for the development of the proper size and scope of a DSM plan for each rate class. Joint Applicants Statement in Support, p. 38.

The undersigned ALJ concludes that the provisions of the Settlement addressing the PennFuture Issues discussed above are in the public interest and should provide a post-Closing road map for the development of a comprehensive DSM plan.

F. Goodwin and Tombaugh Gathering Systems

In June of 2012, Equitable submitted a filing to the Commission seeking to acquire the Goodwin and Tombaugh gathering systems from unregulated affiliates of Equitable and EQT. *See* *In re Equitable Gas Company, LLC,* Docket Nos. R-2012-2312577, G-2012-2312597, and C-2012-2315323. In that matter, a non-unanimous settlement was reached between Equitable, OSBA and OCA. I&E opposed the settlement and the matter was fully litigated before Administrative Law Judge Mary D. Long. In her Recommended Decision, ALJ Long denied the Application and the settlement. Subsequently, Equitable filed a Petition to Withdraw the matter in its entirety, or alternatively to consolidate the matter with the current Merger Application. The Commission granted Equitable’s request. OCA Statement in Support, p. 15.

As part of the Transaction here, the Goodwin and Tombaugh gathering systems were proposed to be transferred from EQT to Peoples. This matter has been the subject of great controversy between the parties. In 2012, the Goodwin gathering system had 83% UFG and the Tombaugh gathering system had 63% UFG. I&E Ex. No. 2, Sch. 5. Additionally, 445 leaks were discovered on the two systems at the conclusion of the leak survey completed on May 14, 2013. I&E Ex. No. 2, Sch. 2. The Joint Applicants do not currently know what it will cost to repair the two gathering systems and bring UFG into an acceptable range. I&E St. No. 2, pp. 9‑10. I& E Statement in Support, p. 16.

The Goodwin and Tombaugh systems are primarily gathering systems developed to aggregate producer supplies from wells and deliver that product to customers. Over time production on these systems has declined and the balance between customer usage and supply became insufficient to meet the customer’s needs. Interconnects were built to provide supplemental gas supply transported on interstate pipelines and delivered to Goodwin and Tombaugh only when local gas supply was unable to keep up with customer demand. Without this additional supply, current Equitable customers connected to these field lines and interconnected distribution pipelines would be without service. These distribution pipelines connected to Goodwin and Tombaugh have no alternative supply source and could not have gas service without these interconnects. Joint Applicants Statement No. 5-S, p. 3. Joint Applicants Statement in Support, p. 26.

As a path to resolve these concerns, the Signatory Parties agreed to certain provisions in the Settlement. The Settlement provides that the gathering systems will be initially transferred to a new entity, PNG Gathering LLC. The Settlement further provides for the assessment and improvement of the Goodwin and Tombaugh Systems, funded by a $5 million contribution from EQT for the initial analysis, testing and improvements/repairs made during this initial inspection, subject to the oversight of the Commission’s Gas Safety Division. After the initial assessment is complete Peoples will submit a filing to the Commission with a recommendation as to whether the gathering systems should be transferred to Peoples. Settlement at ¶ 61. EQT has committed to continuing to repair leaks before Closing and will provide monthly reporting of leak repairs to the Commission’s Gas Safety Division. Settlement ¶ 65. Further, the Settlement provides for Peoples to present a plan to the Commission, after consultation with the Commission’s Gas Safety Division, OCA and OSBA, estimating the additional funds necessary, if any, to provide safe and reliable service from these systems. In such filed plan, Peoples will make a recommendation whether to proceed with rehabilitation of all or some of the systems and/or with abandonment of some or all of the customers served off the systems. The plan will be subject to the Commission’s review and approval. Settlement ¶ 65. This approach provides a reasonable basis for Peoples’ staff experienced in repairing gathering lines and reducing lost and unaccounted for gas, working with the Commission’s Gas Safety Division, to evaluate these systems and recommend to the Commission how to proceed. Joint Applicants Statement in Support, pp. 27-28.

The undersigned ALJ concludes that the Settlement provisions addressing the Goodwin and Tombaugh gathering systems represent a reasonable resolution of a difficult issue and provide protection for Peoples’ ratepayers. As such, these Settlement provisions (Settlement pp. 16-19 and Appendix C) are in the public interest.

V. CONCLUSION

The Commission encourages parties in contested on-the-record proceedings to settle cases. *See,* 52 Pa.Code § 5.231. Settlements eliminate the time, effort and expense of litigating a matter to its ultimate conclusion, which may entail review of the Commission’s decision by the appellate courts of Pennsylvania. Such savings benefit not only the individual parties, but also the Commission and all ratepayers of a utility, who otherwise may have to bear the financial burden such litigation necessarily entails.

By definition, a “settlement” reflects a compromise of the parties’ positions, which arguably fosters and promotes the public interest. When parties in a proceeding reach a settlement, the principal issue for Commission consideration is whether the agreement reached suits the public interest. *Pa. Pub. Util. Comm’n v. CS Water and Sewer Associates*, 74 Pa. PUC 767, 771 (1991). In their supporting statements, the Signatory Parties conclude, after

extensive discovery, exchanging and reviewing written testimony and numerous exhibits, and conducting lengthy settlement discussions, that this Settlement resolves those contested issues of interest to them in this case. The Signatory Parties declare this Settlement is in the public interest and it should be approved for the reasons expressed in the foregoing sections of this decision.

Accordingly, the undersigned ALJ concludes that in its totality, the benefits of the proposed Transaction, as modified by the Settlement, outweigh the negative impacts and the same is in the public interest. The requisite approvals will be granted in the numbered ordering paragraphs to follow.

VI. CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter and the parties to this proceeding. 66 Pa.C.S. §§ 501, *et seq*.
2. The Joint Applicants bear the burden of proving that they are entitled to the relief they are seeking in this application proceeding. 66 Pa.C.S. § 332(a).
3. The degree of proof required to establish a case before the Public Utility Commission is by a preponderance of the evidence. *Se-Ling Hosiery v. Margulies*, 364 Pa. 45, 70 A.2d 854 (1954); *Samuel J. Lansberry, Inc. v. Pa. Pub. Util. Comm’n*, 578 A.2d 600 (Pa. Cmwlth. 1990); and *Feinstein v. Philadelphia Suburban Water Company*, 50 Pa. PUC 300 (1976).
4. Joint Applicants have demonstrated by a preponderance of the evidence that the proposed Transaction, as described in the Joint Application and as subject to the terms and conditions contained in the Joint Petition for Approval of Settlement of All Issues, is necessary or proper for the service, accommodation, convenience or safety of the public, as required by Section 1103 of the Public Utility Code, 66 Pa.C.S. § 1103.
5. Joint Applicants have demonstrated by a preponderance of the evidence that the proposed Transaction, as described in the Joint Application and as subject to the terms and conditions contained in the Joint Petition for Approval of Settlement of All Issues, will affirmatively promote the public interest in a substantial way, as required by *City of York v. Pa. Pub. Util. Comm’n*, 449 Pa. 136, 295 A.2d 825 (1972).
6. Joint Applicants have established by a preponderance of the evidence that the proposed Transaction, as described in the Joint Application and as subject to the terms and conditions contained in the Joint Petition for Approval of Settlement of All Issues, will not result in any anti-competitive or discriminatory conduct, including unlawful exercise of market power in the retail natural gas market, as required by Section 2210(a)(1) of the Natural Gas Choice and Competition Act, 66 Pa.C.S. § 2210(a)(1).
7. Joint Applicants have established by a preponderance of the evidence that the proposed Transaction, as described in the Joint Application and as subject to the terms and conditions contained in the Joint Petition for Approval of Settlement of All Issues, will not produce any unreasonable adverse effect on the employees of Equitable, Peoples or Peoples TWP or on any authorized collective bargaining agent representing those employees, as required by Section 2210(a)(2) of the Natural Gas Choice and Competition Act, 66 Pa.C.S. § 2210(a)(2).
8. Based on the record developed in this proceeding and a thorough review of the positions of the parties, the Joint Application, subject to the terms and conditions contained in the Joint Petition for Approval of Settlement of All Issues, is in the public interest.

9. Joint Applicants have established by a preponderance of the evidence that the following agreements, as described in the Joint Application and as subject to the terms and conditions contained in the Joint Petition for Approval of Settlement of All Issues are necessary to facilitate the transition of ownership, ensure sufficient capacity to meet current and projected customer demand, and increase use of Pennsylvania produced gas following the Close of the proposed Transaction: Sunrise Transportation Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit B); Sunrise Transportation and Storage Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit C); Peoples NAESB (Joint Applicants Ex. MKO-1, Appendix A, Exhibit D); PTWP Northern Lateral Capacity Lease (Joint Applicants Ex. MKO-1, Appendix A, as Exhibit H); PTWP Northern Lateral Transportation Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit I); Peoples Asset Transportation and Storage Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit K); Equitable NAESB (Joint Applicants Ex. MKO-1, Appendix A, Exhibit M); and Extension Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit N). 66 Pa. C.S. § 2204(e)(4).

10. Joint Applicants have established by a preponderance of the evidence that Peoples NAESB (Joint Applicants Ex. MKO-1, Appendix A, Exhibit D) and Equitable NAESB (Joint Applicants Ex. MKO-1, Appendix A, Exhibit M) agreements, as described in the Joint Application and as subject to the terms and conditions contained in the Joint Petition for Approval of Settlement of All Issues, initially satisfy the Code requirements governing least cost fuel procurement plans, subject to Commission review in Peoples’ and Equitable’s respective annual Section 1307(f) proceedings. 66 Pa.C.S. §§ 1307(f), 1317, 1318.

11. Joint Applicants have established by a preponderance of the evidence that the EQT Asset Exchange Agreement, as described in the Joint Application and as subject to the terms and conditions contained in the Joint Petition for Approval of Settlement of All Issues, an affiliated interest agreement, is reasonable and consistent with the public interest. 66 Pa.C.S. §§ 2101, 2102.

VII. ORDER

THEREFORE,

IT IS ORDERED:

1. That the Joint Petition for Approval of Settlement of All Issues submitted by Peoples Natural Gas Company LLC, Peoples TWP LLC, Equitable Gas Company, LLC, the Bureau of Investigation and Enforcement of the Pennsylvania Public Utility Commission, the Office of Consumer Advocate, the Office of Small Business Advocate, Pennsylvania Independent Oil & Gas Association, Dominion Retail, Inc. and Interstate Gas Supply, Inc., Snyder Brothers, Inc., United States Steel Corporation, and Citizens for Pennsylvania’s Future, at Docket No. A-2013-2353647, A-2013-2353649 and A-2013-2353651, including all terms and conditions, is incorporated herein and hereby approved.
2. That the Joint Application of Peoples Natural Gas Company LLC, Peoples TWP LLC, Equitable Gas Company, LLC requesting all necessary approvals pursuant to 66 Pa.C.S. §§ 1102(a)(3), 1317(d), 2102(a), and 2204(e)(4), authorizing: (1) the transfer of 100% of the issued and outstanding limited liability company membership interests in Equitable Gas Company, LLC, an indirect subsidiary of EQT Corporation, to PNG Companies LLC, an indirect subsidiary of SteelRiver Infrastructure Fund North America LP; (2) the merger of Equitable Gas Company, LLC with Peoples Natural Gas Company LLC, a wholly-owned subsidiary of PNG Companies LLC, and the operation of Equitable Gas Company, LLC as an operating division of PNG Companies LLC; (3) the transfer of certain storage and transmission assets of Peoples Natural Gas Company LLC to EQT Corporation; (4) the transfer of certain assets and/or the exchange of certain services between EQT Corporation and Equitable Gas Company, LLC; (5) certain PNG Companies LLC ownership changes associated with the transaction; (6) the associated gas capacity, storage, interconnects, leases, and supply service agreements among Peoples Natural Gas Company LLC, Peoples TWP LLC, Equitable Gas Company, LLC, and/or EQT Corporation set forth in the Joint Application; and (7) certain changes in Peoples Natural Gas Company LLC’s tariff necessary to carry out the transactions, is hereby approved, subject to the terms and conditions of the Joint Petition for Approval of Settlement of All Issues.
3. That all required certificates of public convenience be issued evidencing the Pennsylvania Public Utility Commission’s approval of the Joint Application, subject to the terms and conditions of the Joint Petition for Approval of Settlement of All Issues.
4. That Peoples Natural Gas Company LLC’s existing base rates shall be reduced on one day’s notice following the Closing to reflect the transfer of Peoples Natural Gas Company LLC’s transmission assets and storage capacity to EQT Corporation approved in ordering paragraphs 1, 2 and 3 above.
5. That any protest or petition to intervene filed in this proceeding that is not satisfied or withdrawn pursuant to the terms of the Joint Petition for Approval of Settlement of All Issues is hereby denied.
6. That the dockets at Docket Nos. A-2013-2353647, A-2013-2353649 and A-2013-2353651 are hereby marked closed.

Date: November 1, 2013 /s/

Mark A. Hoyer

Administrative Law Judge

1. The Retail Energy Supply Association and Dominion Transmission, Inc. subsequently withdrew their respective Petitions to Intervene. Retail Energy Supply Association and Dominion Transmission, Inc. are no longer parties to this proceeding. [↑](#footnote-ref-1)
2. PSU, PEMI, UWUA, IBEW, United Steelworkers, and PennFuture were not parties to the settlement of the Transaction Issues but did not oppose the settlement of the Transaction Issues. [↑](#footnote-ref-2)
3. I&E, OCA, OSBA, PIOGA, NGS Parties, Snyder Brothers, US Steel, PSU, PEMI, UWUA, IBEW, and United Steelworkers are not parties to the settlement of the PennFuture Issues but do not oppose the settlement of the PennFuture Issues. PSU, PEMI, UWUA, IBEW, United Steelworkers and PennFuture are not parties to the settlement of the Transaction Issues but do not oppose the settlement of the Transaction Issues. [↑](#footnote-ref-3)
4. The Sunrise Pipeline is a new 41.5 mile interstate pipeline that extends from Greene County, Pennsylvania to Wetzel County, West Virginia. According to the Joint Applicants, the Sunrise Pipeline will facilitate the continued development of Marcellus Shale natural gas by providing producers with a comprehensive solution to deliver their gas to the interstate market. [↑](#footnote-ref-4)
5. According to the Joint Applicants, for tax reasons, Equitable currently does not purchase gas from its affiliate producer as explained below. [↑](#footnote-ref-5)
6. PSU, PEMI, UWUA, IBEW, and United Steelworkers do not join in the Settlement of the Transaction Issues on pages 8-36 of the Settlement, but have no objection to these provisions (paragraphs 24-106). As set forth in Paragraph 108 of the Settlement, PennFuture does not object to the Settlement of the Transaction Issues provided the Settlement of the PennFuture Issues on pages 36-38, paragraphs 107 through 114 of the Settlement, are approved. [↑](#footnote-ref-6)
7. For purposes of the Settlement, “Peoples” refers to the merged assets of Peoples Natural Gas Company LLC and Equitable Gas Company LLC following the Closing of the transaction to be operated as the Peoples Division and Equitable Division of Peoples. [↑](#footnote-ref-7)
8. Paragraph 45 of the Settlement provides that, prior to the first base rate filing after Closing, Peoples shall provide annual reports to the Commission and the parties to this proceeding describing and quantifying the levels of merger savings actually being achieved. [↑](#footnote-ref-8)
9. Paragraph 62 of the Settlement provides:

   Peoples commits to continue its acceleration of replacing higher risk pipe with a revised focus solely on its distribution and gathering assets. Peoples revised LTIIP to be filed in 2014 . . .will provide for a level of investment for the Peoples Division for the period 2015 through 2019 that is consistent in aggregate amount with the annual average amount of $80 million under Peoples’ Commission approved current LTIIP. Peoples will accelerate capital expenditures for the Equitable Division from $33 million in 2014 to at least $45 million in 2017, 2018 and 2019 as evidenced by the filing of a revised LTIIP or Asset Optimization Plan. This clause must be read in conjunction with Paragraph 34 herein. Peoples will annually provide updates to those plans consistent with the Commission requirements. [↑](#footnote-ref-9)
10. Equitable Homeworks, LLC offers various heating and cooling protection programs, line protection programs and restoration programs within Pennsylvania. As part of the transaction, Holdco also will sell, convey, transfer, assign, and deliver to PNG all of the issued and outstanding membership interests in Equitable Homeworks, LLC, an unregulated entity. [↑](#footnote-ref-10)
11. Under Section 2210(a)(1) of the Code, the Commission, in conjunction with the proper exercise of its authority to approve the acquisition of a natural gas utility, is to consider whether such Transaction is likely to result in anticompetitive or discriminatory conduct, including unlawful exercise of market power, which will prevent retail customers from obtaining the benefits of a properly functioning and effectively competitive retail natural gas market. 66 Pa.C.S. § 2210(a)(1). [↑](#footnote-ref-11)
12. As part of the Transaction, the Joint Applicants have entered into or expect to enter into the following arms-length agreements with EQT and its subsidiaries that require Commission approval: Sunrise Transportation Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit B); Sunrise Transportation and Storage Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit C); Peoples NAESB (Joint Applicants Ex. MKO-1, Appendix A, Exhibit D); PTWP Northern Lateral Capacity Lease (Joint Applicants Ex. MKO-1, Appendix A, as Exhibit H); PTWP Northern Lateral Transportation Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit I); Peoples Asset Transportation and Storage Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit K); Equitable NAESB (Joint Applicants Ex. MKO-1, Appendix A, Exhibit M); and Extension Agreement (Joint Applicants Ex. MKO-1, Appendix A, Exhibit N). The details of these agreements are explained in Joint Applicants Statement Nos. 3 and 5. As explained therein, these agreements are necessary to facilitate the transition of ownership, ensure sufficient capacity to meet current and projected customer demand, and increase use of Pennsylvania produced gas. [↑](#footnote-ref-12)
13. Under Section 2210(a)(2) of the Code, in conjunction with its consideration of the disposition of assets of natural gas distribution companies, the Commission is to consider the effects of the Transaction on employees. 66 Pa.C.S. § 2210(a)(2). [↑](#footnote-ref-13)
14. Customers would be expected to contribute an additional $60 million, resulting in total costs of $284 million. PennFuture St. 1, p. 9. [↑](#footnote-ref-14)