

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

**Joint Application of Peoples
Natural Gas Company LLC,
Peoples TWP LLC and
Equitable Gas Company**

**Public Meeting: November 14, 2013
2353647-ALJ
Docket No. A-2013-2353647, et al.**

STATEMENT OF COMMISSIONER CAWLEY

Before us is the Joint Application of 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”) for the sale of Equitable to the owners of Peoples and Peoples TWP.

Many of the aspects of this very complex transition are positive, including (1) synergy savings from merging the operations and management of the Peoples Division and the Equitable Division estimated at \$10 to \$20 million annually, (2) savings of \$50,000 in annual leak surveillance costs, (3) estimated avoided pipeline replacement of overlapping cast iron and bare steel mains capital cost of \$162 million, and (4) approximately \$750,000 in current year pipeline extension costs for new or improved services that can be expected to be avoided. For these reasons, rate payers should benefit in future savings from these efficiencies. Furthermore, Peoples has proven to have very effective management over its operations historically, with lower distribution and purchase gas costs relative to Equitable’s pipeline system.

However, this Joint Application will also result in the transfer of Peoples’ on-system storage¹ and certain high pressure, larger diameter distribution pipeline assets² to Equitable’s Midstream unregulated affiliate. In addition, Peoples’ critical Dominion Transmission, Inc. (DTI) storage and transportation upstream off-system storage assets used to support Peoples’ historical least cost purchase gas cost (PGC) strategies, will be replaced by a bundled firm sales service, once again to be provided by Equitable’s unregulated affiliate, which, by its very nature, lacks the original flexibility afforded by these previous unbundled storage and transportation contracts on DTI. Because of Peoples’ very effective PGC asset portfolio, strongly anchored in local production, and a very strong natural gas on-system and off-system storage position, Peoples was successful in providing gas supply service over 30% less expensively than Equitable.

Going forward, as noted by the NGS Parties,³ Equitable’s midstream assets lack the same level of critical market liquidity that exists on DTI that provides the level of competitive pricing and options necessary to establish effective least cost purchase strategies. Furthermore, the NGS Parties note that protective

¹ Includes 15 Bcf of storage.

² Represents pipeline assets assigned to the Allegheny Valley Connector, LLC.

³ NGS Parties are Dominion Retail, Inc., and Interstate Gas Supply, Inc.

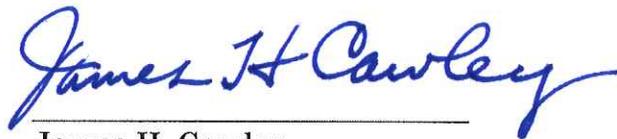
mechanisms used to offset some of the loss of these critical storage and pipeline assets will expire after 20 years, with no price protections thereafter. In short, the Joint Application will, to a strong degree, tether Peoples to Equitable's affiliated Midstream assets and unregulated wholesale natural gas affiliates.

Based on these competitive realities, I strongly urge Peoples to closely examine long term, least cost opportunities to loosen these tethers to restore the strong market liquidity and storage opportunities inherent in its pre-Equitable asset environment, and to do likewise with its recently acquired Equitable NGDC assets. If it is unsuccessful in this effort, the above-described cost synergies may well be absorbed or overwhelmed by increased purchase gas costs. To put this into perspective, a 30.9% increase in purchase gas costs for Peoples and Peoples TWP is close to \$49 million annually.

In the end, however, I am convinced that Peoples will aggressively pursue all opportunities to undo the effects of Equitable's asset acquisitions, and once again restore the optimal level of strategic interstate pipeline interconnections, natural gas storage, and local production assets which have made it a leader in terms of least cost purchasing for its jurisdictional sales service, and for the low prices the natural gas suppliers have provided to its customers based on this strategic asset contracting and development plan.

Peoples is also to be commended for its commitment to accelerated infrastructure investment, customer choice enhancements, expansion of local call center sourcing, and expansion of its low income usage reduction programs. For these reasons, I support the Joint Application.

November 14, 2013
Date



James H. Cawley
Commissioner