



17 North Second Street  
12th Floor  
Harrisburg, PA 17101-1601  
717-731-1970 Main  
717-731-1985 Main Fax  
www.postschell.com

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Anthony D. Kanagy

akanagy@postschell.com  
717-612-6034 Direct  
717-731-1985 Direct Fax  
File #: 159533

January 9, 2015

***VIA ELECTRONIC FILING***

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor North  
P.O. Box 3265  
Harrisburg, PA 17105-3265

**Re: Pennsylvania Public Utility Commission v. Peoples Natural Gas Company LLC -  
Equitable Division  
Docket No. R-2014-2429606**

**Pennsylvania Public Utility Commission v. Peoples Natural Gas Company LLC  
Docket No. R-2014-2429610**

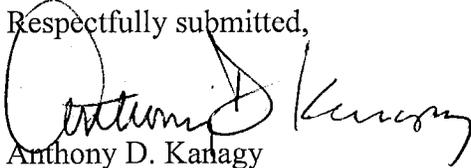
**Pennsylvania Public Utility Commission v. Peoples TWP LLC  
Docket No. R-2014-2429613**

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Dear Secretary Chiavetta:

Enclosed please find the Joint Petition for Approval of Settlement of All Issues in the above-captioned proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,



Anthony D. Kanagy

ADK/skr  
Enclosure

cc: Certificate of Service  
Honorable Conrad A. Johnson

**CERTIFICATE OF SERVICE**  
**(Docket Nos. R-2014-2429610,**  
**R-2014-2429606 and R-2014-2429613)**

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

**VIA E-MAIL AND FIRST CLASS MAIL**

Darryl A. Lawrence, Esquire  
Amy E. Hirkakis, Esquire  
Kristine E. Robinson, Esquire  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place, 5<sup>th</sup> Floor  
Harrisburg, PA 17101-1923

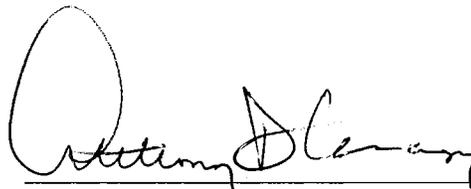
Sharon Webb, Esquire  
Elizabeth R. Triscari, Esquire  
Office of Small Business Advocate  
Commerce Building, Suite 202  
300 N. Second Street  
Harrisburg, PA 17101

Scott B. Granger, Esquire  
Phillip C. Kirchner, Esquire  
Pennsylvania Public Utility Commission  
Bureau of Investigation & Enforcement  
Commonwealth Keystone Building  
400 North Street – 2 West  
P.O. Box 3265  
Harrisburg, PA 17105-3265

Brian Kalcic  
Excel Consulting  
225 S. Meramec Avenue, Suite 720-T  
St. Louis, MO 63105  
*Consultant for OSBA*

Glenn A. Watkins  
Technical Associates, Inc.  
9030 Stony Point Parkway, Suite 580  
Richmond, VA 23235  
*Consultant for OCA*

DATED: January 9, 2015



Anthony D. Kanagy

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2014-2429610
Peoples Natural Gas Company LLC	:	
	:	
	:	
Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2014-2429606
Peoples Natural Gas Company LLC –	:	
Equitable Division	:	
	:	
	:	
Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2014-2429613
Peoples TWP LLC	:	

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**JOINT PETITION FOR APPROVAL OF SETTLEMENT OF ALL ISSUES**

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TO ADMINISTRATIVE LAW JUDGE CONRAD A. JOHNSON:

**I. INTRODUCTION**

Peoples Natural Gas Company LLC (“Peoples”), Peoples Natural Gas Company LLC – Equitable Division (“Peoples-Equitable Division”), and Peoples TWP LLC (“Peoples TWP”),<sup>1</sup> the Bureau of Investigation and Enforcement (“I&E”)<sup>2</sup> of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”), all parties to the above-captioned proceeding (hereinafter, singularly “Party” and collectively “Parties”), hereby file this “Joint Petition for Approval of

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<sup>1</sup> Hereinafter, Peoples, Peoples-Equitable Division, and Peoples TWP will collectively be referred to as the “Peoples Companies” or “Companies.”

<sup>2</sup> I&E has filed a Combined Statement in Support and Statement of Non-Opposition of the Bureau of Investigation and Enforcement to the Joint Petition for Approval of Settlement of All Issues (“I&E Statement”) attached hereto as Appendix E. I&E supports settlement of all issues according to the terms as set forth herein except the proposed maximum payment term of 25 years, to which I&E does not oppose. See generally, I&E Statement attached hereto for a full discussion. See also, paragraph 31(b) infra.

Settlement of All Issues” (“Settlement”) and respectfully request that the Honorable Administrative Law Judge Conrad A. Johnson (the “ALJ”) and the Commission approve the Settlement without modification. This Settlement represents a full settlement of all issues in the instant proceeding. In support of the Settlement, the Parties state the following:

## **II. BACKGROUND**

1. Peoples, Peoples-Equitable Division, and Peoples TWP are affiliated natural gas distribution companies subject to the Commission’s regulatory jurisdiction. The Companies provide natural gas distribution, supply and transportation service to approximately 700,000 customers in western Pennsylvania.

2. On June 26, 2014, Peoples filed supplement No. 40 to Tariff Gas – Pa. P.U.C. No. 45, Peoples-Equitable Division filed Supplement No. 8 to Tariff Gas – Pa. P.U.C. No. 46, and Peoples TWP filed Supplement No. 8 to Tariff Gas – Pa. P.U.C. No. 8. Through these tariff supplements, the Peoples Companies propose five-year pilot Service Expansion Tariff Programs (“SET Programs”), which are intended to reduce the financial barriers faced by potential customers interested in receiving natural gas service in areas where such service is currently unavailable. The SET Programs will provide customers with an alternative to the upfront lump sum contribution in aid of construction (“CIAC”) amounts currently required under the Companies’ tariffs when potential customers request an extension of facilities to serve their home or business. Under the SET Programs, customers will have the option to make flat monthly payments in lieu of an upfront CIAC payment.

3. On June 26, 2014, along with their proposed tariff supplements, the Companies served the Direct Testimony of Joseph A. Gregorini, Peoples Statement No. 1; Peoples-Equitable Statement No. 1; Peoples TWP Statement No. 1.

4. The OSBA filed Complaints, Verifications and Public Statements on July 16, 2014. The Companies filed Answers to the OSBA Complaints on August 15, 2014.

5. On July 25, 2014, the OCA filed Complaints, Public Statements and Notices of Appearance. The Companies filed Answers to the OCA Complaints on August 7, 2014.

6. On August 21, 2014, the Commission issued an Order suspending the proposed tariff filings until February 25, 2015 and initiating an investigation into those filings.

7. I&E filed Notices of Appearance on August 22, 2014.

8. On August 22, 2014, the Commission issued a Notice Scheduling an Initial Prehearing Conference for September 2, 2014. A corrected Prehearing Conference Notice was sent on August 25, 2014. The date and time for the Prehearing Conference were not revised.

9. Also on August 25, 2014, the ALJ issued a Prehearing Conference Order scheduling the Telephonic Prehearing Conference for September 2, 2014, and directing the parties to file Prehearing Memoranda before 3:00 pm on August 29, 2014.

10. An initial prehearing conference was held before the ALJ on September 2, 2014. The active parties filed prehearing memoranda identifying potential issues and witnesses. A litigation schedule was established at the prehearing conference.

11. On September 2, 2014, the ALJ issued a Prehearing Order consolidating the proceedings and setting the dates for the filing of written testimony, holding the evidentiary hearings and submitting briefs.

12. The Companies served responses to Interrogatories from the OSBA, OCA and I&E.

13. On September 23, 2014, the Parties other than the Peoples Companies served direct testimony and accompanying exhibits. I&E served the Direct Testimony of Lisa A. Boyd,

I&E Statement No. 1, and I&E Exhibit No. 1 at one docket and the Direct Testimony of Emily Sears, I&E Statement No. 1, and I&E Exhibit No. 1 at the other two dockets.<sup>3</sup> The OCA served the Direct Testimony of Glenn A. Watkins, OCA Statement No. 1. The OSBA served the Direct Testimony of Brian Kalcic, OSBA Statement No. 1.

14. On October 14, 2014, the Peoples Companies served the Rebuttal Testimony of Joseph A. Gregorini, Peoples Companies Statement No. 1-R.

15. Also on October 14, 2014, certain Parties other than the Peoples Companies served rebuttal testimony. The OCA served the Rebuttal Testimony of Glenn A. Watkins, OCA Statement No. 1-R. The OSBA served the Rebuttal Testimony of Brian Kalcic, OSBA Statement No. 2.

16. On October 22, 2014, the Peoples Companies served the Surrebuttal Testimony of Joseph A. Gregorini, Peoples Companies Statement No. 1-Sur. The OSBA served the Surrebuttal Testimony of Brian Kalcic, OSBA Statement No. 3. I&E served the Surrebuttal Testimony and Exhibit of Emily Sears, I&E Statement No. 1-SR; I&E Exhibit No. 1-SR at Docket No. R-2014-2429613.<sup>4</sup> The OCA served the Surrebuttal Testimony of Glenn A. Watkins, OCA Statement No. 1-SR.

17. Also on October 22, 2014, counsel for the Companies requested that the ALJ suspend and reset the hearing and briefing dates and offered to extend the suspension period in order to allow the parties additional time to attempt to resolve the issues in this proceeding by settlement.

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<sup>3</sup> I&E served the testimony of Lisa A. Boyd in the case of Peoples Natural Gas Company LLC, Docket No. R-2014-2429610, and the testimony of Emily Sears in the cases of Peoples Natural Gas Company LLC - Equitable Division, Docket No. R-2014-2429606, and Peoples TWP LLC, Docket No. R-2014-2429613.

<sup>4</sup> See n. 2, *supra*.

18. On October 23, 2014, the ALJ issued a First Interim Order revising the litigation schedule, directing counsel for the Companies to file, by October 31, 2014, supplements extending the effective date of the proposed SET Programs to April 24, 2015, and setting a January 28, 2015 deadline for submitting a joint settlement petition and statements in support of the settlement.

19. A Notice rescheduling the evidentiary hearing for December 10-11, 2014 was issued by the Commission on October 23, 2014.

20. In compliance with the ALJ's October 23, 2014 Order, on October 27, 2014, Peoples filed Supplement No. 46 to Tariff Gas – Pa. P.U.C. No. 45 at Docket No. R-2014-2429610, extending the suspension period of Supplement No. 40 until April 24, 2015; Peoples-Equitable Division filed Supplement No. 15 to Tariff Gas – Pa. P.U.C. No. 46 at Docket No. R-2014-2429606, extending the suspension period of Supplement No. 8 until April 24, 2015; and Peoples TWP filed Supplement No. 14 to Tariff Gas – Pa. P.U.C. No. 8 at Docket No. R-2014-2429613, extending the suspension period of Supplement No. 8 until April 24, 2015.

21. The Parties undertook extensive settlement discussions prior to the scheduled evidentiary hearing. As a result of these extensive efforts, the Parties reached a settlement in principle that fully resolved all of the issues raised in this proceeding.

22. On December 8, 2014, counsel for the Peoples Companies advised the ALJ that the Parties had reached a settlement in principle of all issues in the proceeding.

23. An evidentiary hearing was held on December 10, 2014. At the evidentiary hearing, the Parties moved their respective testimonies and exhibits into the record.

24. At the December 10, 2014 evidentiary hearing, the ALJ directed the Parties to file the Settlement and Statements in Support by 12:00 pm on January 9, 2015.

25. The Settlement agreed to by the Parties is set forth in the following Section III.

### **III. SETTLEMENT**

26. The following terms of this Settlement reflect a carefully balanced compromise of the interests of all of the Parties in this proceeding. The Parties unanimously agree that the Settlement, which resolves all the Parties' issues, is in the public interest. The Parties respectfully request that Peoples Companies' pilot SET Programs be approved with the following modifications.

#### **A. CIAC DETERMINATION**

27. The Peoples Companies will modify their existing tariffs such that all mainline extension evaluations to determine an applicant's CIAC amount (including the Non-Special Utility category) will be based on a DCF model. The Peoples Companies will discontinue the use of an annual revenue (3x or 5x) standard. Pro Forma Tariffs for each of the Peoples Companies are provided in Appendices A-C.

28. Each Peoples Company's DCF Model will reflect the following parameters:

- (a) The cost for the applicant's meter and regulating equipment will be included as a project investment cost.
- (b) All CIAC evaluations will be based on an "authorized cost of capital" determined using the following components:
  - (1) A 50% Debt / 50% Equity capitalization structure (or other applicable capitalization structure as authorized by the Commission);
  - (2) The Company's actual embedded cost of long-term debt; and
  - (3) The PUC authorized return on equity. If a company specific authorized return on equity is not available, the effective PUC authorized DSIC ROE rate shall be used.
- (c) The presumed revenue stream from residential applicants will be extended from 25 years to 40 years.

- (d) The determination of income taxes will include a deduction for interest costs consistent with the capitalization and debt cost rates outlined above.
- (e) The applicant's projected non-gas revenues will not be subject to escalation since the driver for future ongoing base rate increases will be infrastructure replacement costs that are unrelated to the investment required to serve applicants.
- (f) Incremental O&M expenses that include meter reading and billing costs will be included in the DCF model and such incremental O&M will be subject to an escalation factor where appropriate.
- (g) A "year-end" assumption shall be used for revenues and O&M expenses discounting purposes.

**B. RIDER SET PROPOSAL – 5-YEAR PILOT PROGRAM**

29. Each of the Peoples Company's Rate SET will be targeted to residential conversion customers and individual residential customers. The Peoples Companies reserve the right to utilize Rate SET for select commercial and builder/developer circumstances where, absent the availability of Rate SET, the potential applicant would not pursue natural gas service from the Company.

30. Rate SET mainline extension projects shall be evaluated on an individual project basis. Any required customer investment for each project shall be allocated to residential and commercial customers based on the class based amount of Company supported investment for the project.

31. Residential Customers – The following provisions shall be applicable to residential natural gas customers that elect not to pay the customer share of the extension costs through an up-front CIAC or elect not to pay customer owned service line costs up-front during the 5-year term of Rate SET Pilot program:

- (a) Such residential customers will be charged a monthly fixed fee of \$55 until the outstanding principal balance of such residential customers' portion of the mainline extension project cost is zero.

- (b) The maximum amount of customer share of extension costs financed shall not result in a payment period of more than 25 years. Customers may pay the portion of the customer share of extensions costs up front that is necessary to bring the amount financed down to 25 years.<sup>5</sup>
- (c) Residential applicants who have the Company install the customer owned service line will have an option to pay the costs of the service line through an additional monthly fee of \$15.00. The costs for the customer owned service lines will be determined by project and will further reflect the SET interest component to the extent such costs are not paid up-front. Applicants shall continue to pay the \$15 monthly fee until the outstanding principal balance of customer owned service line costs is zero.
- (d) The Rate SET monthly fixed fee will include an interest component that will be determined based on (a) the “authorized cost of capital” rate (consistent with the provisions in paragraph 28) at the time that the Rate SET mainline extension is constructed and (b) the outstanding unpaid SET principal balance associated with the residential portion of each SET project investment. The interest component shall include a gross-up for income taxes. The difference between the total residential Rate SET fee revenues recovered for a particular mainline extension project and the calculated interest component costs for the residential portion of the project will be treated as principal payment.
- (e) Once the Rate SET principal revenues paid by all residential customers associated with a particular mainline extension project equal the total outstanding SET principal balance owed to the Company for the residential portion of the mainline extension project, the participating residential customers will no longer be charged the applicable Rate SET monthly fixed fee.
- (f) The pilot program will continue for a five-year term or until the effective date of new rates arising from the first base rate case filed by the Company following approval of this program, whichever occurs first. Such rate case filing will address the investment and customer participation levels for this program and will provide all parties with the opportunity to address possible revisions to the program. Per the terms of the approved settlement in the Equitable acquisition case (Docket No. A-2013-2353647, et al.), Peoples and Peoples-Equitable Division cannot put into effect new base rates prior to January 1, 2018.

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<sup>5</sup> I&E is not joining the settlement with respect to the 25 year term for residential customers but has agreed not to oppose this provision.

32. Commercial Customers - The monthly Rate SET fee applicable to commercial customers will not be based on a standard fixed monthly fee but shall be determined based on the following parameters:

- (a) A principal amount based on the revised DCF model described above in paragraph 28;
- (b) An interest rate based on an “authorized cost of capital” defined above in paragraph 28;
- (c) A gross-up for income taxes; and
- (d) A twenty-year loan period provided, however, that in some cases a longer loan period may be used that shall not exceed the presumed revenue stream period for commercial applicants as reflected in the CIAC determination. A loan period greater than twenty-years shall only be applicable to certain commercial customers that are reasonably expected to remain on the system greater than a twenty year period from the service initiation date.
- (e) Should Rate SET commercial customer(s) be served from a main line extension project that also serves residential Rate SET customers, the commercial and residential portions of the customers’ share of investment costs and the Rate SET revenues collected shall be separately tracked.

33. Builder/Developer Projects - Projects to extend lines to new developments may be included in the SET Pilot provided that the Developer signs an agreement with the Company that requires the Developer to notify home buyers that they will be subject to charges under the SET Pilot. Developers also shall be required to have purchasers of residential lots sign a form, similar to a Truth-in-Lending Disclosure Statement, containing the disclosure information set forth in paragraph 36 of Section D below.

**C. HOUSE LINE AND APPLIANCE FINANCING**

34. Peoples and Peoples TWP will not offer financing for house lines and appliances but reserve the right to file for a financing option in the future.

#### **D. DISCLOSURES AND REPORTING**

35. The Company agrees to provide participating customers with a disclosure statement that informs the customer of its right to pay off the remaining balance of the amount financed at any time with no penalty and estimates the:

- (a) Upfront amount due;
- (b) monthly payment amount;
- (c) maximum term of the financing agreement;
- (d) annual financing interest rate;
- (e) total of payments including both the total amount of principal to be repaid and the total amount of interest to be paid over the term of the financing agreement; and
- (f) total number of payments.

36. The Company agrees to report the following information to the Commission, I&E, OCA, and OSBA during the pilot period as recommended by OCA in direct testimony:

- (a) investment per project including the economic model results and surcharge calculation details;
- (b) total distance of SET main installed;
- (c) number of customers by class connected by project and number of subsequent connections to SET extensions;
- (d) SET revenues received by principal and interest;
- (e) annual SET participant average use per customer (by class);
- (f) average SET participant investment cost per customer (by class);
- (g) the number of existing residential homes and businesses along SET extensions who have not yet connected (to the extent that such information is available);
- (h) direct program expenses;
- (i) data on collections, including efforts for unpaid surcharge amounts;

- (j) the number of applicants turned down for insufficient credit (if applicable).

#### **E. RATEMAKING PROVISIONS**

37. Rate SET investment costs shall include the cost of a main line extension, company service line, meter/regulating equipment and installation.

38. Rate SET investment costs shall be included in rate base in the Company's next base rate proceeding.

39. The principal portion of customer payments made under Rate SET shall be applied as a reduction to rate base.

40. The financing portion of customer payments made under Rate SET will be credited to the cost of service as compensation to other ratepayers for carrying costs incurred by the Company.

41. In their next general base rate case filing, the Peoples Companies will assign the customer portion of Rate SET investment costs and the related revenues to the appropriate rate class. Rate SET investment costs shall be allocated to the classes consistent with the assignment of the initial Rate SET customer investment costs.

#### **IV. TARIFFS**

42. Appendices A-C to this Petition contain the pro forma tariff pages showing the SET Program rules for each of the Peoples Companies as modified by the terms of this Settlement.

#### **V. THE SETTLEMENT IS IN THE PUBLIC INTEREST**

43. Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements reduce the time and expense the parties must expend litigating a case and, at the same time, conserve precious administrative resources. The Commission has indicated that settlement

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results are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See id.* § 69.401. In order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Order entered Oct. 4, 2004); *Pa. Pub. Util. Comm'n v. C.S. Water and Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991). As will be detailed in the Parties' Statements in Support, the instant Settlement is in the public interest.

44. Approval of the Settlement will reduce the time and expenses that the Parties, and the Commission, must expend on the proceedings.

45. There were no customer protests or complaints against the SET pilot program set forth in the Joint Petition. The Settlement resolves all issues in the instant proceeding.

46. The Parties will further supplement the reasons that the Settlement is in the public interest in their Statements in Support, which are attached hereto as Appendices D through G.

## **VI. CONDITIONS OF THE SETTLEMENT**

47. The Settlement is conditioned upon the Commission's approval of the terms and conditions contained in this Settlement without modification. If the Commission modifies the Settlement, any Party may elect to withdraw from the Settlement and may proceed with litigation and, in such event, the Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Parties within five (5) business days after the entry of an Order modifying the Settlement.

48. This Settlement is proposed by the Parties to settle all issues in the instant proceeding. If the Commission does not approve the Settlement and the proceedings continue, the Parties reserve their respective procedural rights to present rejoinder testimony, conduct hearings, briefing and argument of their respective positions. The Settlement is made without

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any admission against, or prejudice to, any position that any Party may adopt in the event of any subsequent litigation of these proceedings, or in any other proceeding.

49. The Parties acknowledge that the Settlement reflects a compromise of competing positions and does not necessarily reflect any Party's position with respect to any issues raised in this proceeding. This Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.

50. If the ALJ adopts the Settlement without modification, the Parties waive their rights to file Exceptions.

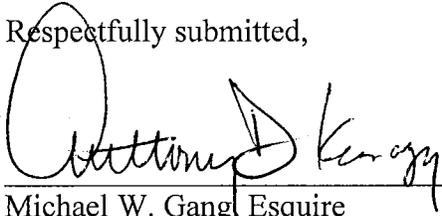
**VII. CONCLUSION**

52. WHEREFORE, the Peoples Companies, I&E, OCA, and OSBA, by their respective counsel, respectfully request as follows:

(a) That the Honorable Administrative Law Judge Conrad A. Johnson recommend approval of, and the Pennsylvania Public Utility Commission approve, this Joint Petition for Approval of Settlement of All Issues, including all terms and conditions thereof without modification, and

(b) That Peoples Natural Gas Company LLC, Peoples Natural Gas Company LLC – Equitable Division and Peoples TWP LLC, be authorized to file the Pro Forma Tariff Supplements in Appendices A-C to become effective on one day's notice following approval of this Joint Petition for Approval of Settlement of All Issues.

Respectfully submitted,



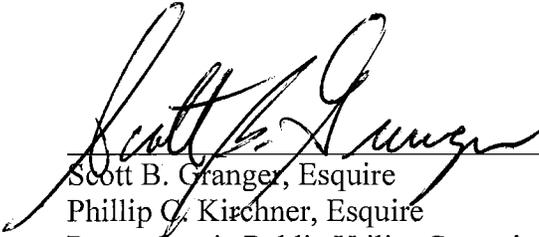
Michael W. Gangl, Esquire  
Anthony D. Kanagy, Esquire  
Post & Schell, P.C.  
17 North Second Street, 12th Floor  
Harrisburg, PA 17101-1601  
E-mail: mgangl@postschell.com  
E-mail: akanagy@postschell.com

*Counsel for Peoples Natural Gas Company LLC,  
Peoples Natural Gas Company LLC – Equitable  
Division, and Peoples TWP LLC*

1/9/2015

Date

William H. Roberts II, Esquire  
Peoples Natural Gas Company LLC  
375 North Shore Drive, Suite 600  
Pittsburgh, PA 15212  
E-mail: william.h.robertsII@peoples-  
gas.com



Scott B. Granger, Esquire  
Phillip C. Kirchner, Esquire  
Pennsylvania Public Utility Commission  
Bureau of Investigation & Enforcement  
Commonwealth Keystone Building  
400 North Street, 2nd Floor West  
PO Box 3265  
Harrisburg, PA 17105-3265  
E-mail: sgranger@pa.gov  
E-mail: phikirchne@pa.gov

*Counsel for the Bureau of Investigation &  
Enforcement*

1/8/2015  
Date



Darryl A. Lawrence, Esquire  
Amy E. Hirakis, Esquire  
Kristine E. Robinson, Esquire  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place, 5th Floor  
Harrisburg, PA 17101-1923  
E-mail: ahirakis@paoca.org  
E-mail: krobinson@paoca.org

*Counsel for the Office of Consumer Advocate*

1/9/2015  
Date



Sharon E. Webb, Esquire  
Elizabeth R. Triscari, Esquire  
Office of Small Business Advocate  
300 North Second Street, Suite 1102  
Harrisburg, PA 17101  
E-mail: swebb@pa.gov  
E-mail: etriscari@pa.gov

*Counsel for the Office of  
Small Business Advocate*

1/8/2015  
Date

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# Appendix A

**PEOPLES NATURAL GAS COMPANY LLC**

**RATES AND RULES  
GOVERNING THE  
FURNISHING OF  
NATURAL GAS SERVICE  
TO RETAIL  
GAS CUSTOMERS**

Service Expansion Tariff Revision filed in compliance with the  
settlement at R-2014-2429610

**ISSUED:**

**BY: Morgan K. O'Brien  
President  
375 North Shore Drive, Suite 600  
Pittsburgh, PA 15212**

**EFFECTIVE:**

PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. X TO GAS-PA PUC NO. 45  
X REVISED PAGE NO. 2  
CANCELLING X REVISED PAGE NO. 2

LIST OF CHANGES

Rule 4 – Connections for Service – Extension of Faculties and Pilot Rider L, Service Expansion Tariff ("SET") are modified to reflect the terms of the settlement filed at R-2014-2429610.

ISSUED:

EFFECTIVE:

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ISSUED:

EFFECTIVE:

**RULES AND REGULATIONS****4. CONNECTIONS FOR SERVICE - EXTENSION OF FACILITIES****( C )**

The applicant hereby undertakes to furnish, be responsible for, and pay the necessary costs of service pipe, fixtures, fittings, valves, regulators, and appliances to make the necessary connections between the Company's lines and the place of consumption or the agreed upon delivery point to the applicant and keep the same in good repair, in a skillful and workmanlike manner, furnishing at his own expense said materials, and the labor, care, and supervision necessary and proper to safely conduct and burn the gas, but the applicant shall not otherwise make changes in or interfere with said pipes and appliances and material. The arrangement and location of all piping and appliances (including meters) shall be subject to the approval of the Company, but the Company shall not be responsible in any manner for the selection, maintenance, or use of said pipes and appliances, or for said labor, care, or supervisions, and shall have no duty or obligation with respect to the same. To facilitate this process, the Company makes available a manual entitled "Service Line Installation Standards'."

The Company shall make the necessary connections between its curb cock or shutoff valve and the applicant's service pipe, provide a meter and the necessary fittings, and connect the meter.

The meter and all pipe fittings and appliances furnished by the Company on the premises shall remain the property of the Company, and the Company shall have the right at all reasonable times to enter in and upon the premises for reading and change of meters, inspection, and reclaiming of its property.

The Company will extend its facilities to a new point of delivery within its service territory if, in its judgment and consistent with Commission regulations, the service to such new point of delivery will have no adverse effect upon the availability of gas to meet the present and reasonably foreseeable volume and pressure needs of existing customers. The Company may condition the extension of facilities upon the applicant's providing a contribution in aid of construction (CIAC), the amount of which will be determined by the Company and consistent with any parameters approved or required by the Commission.

If the Company requests a CIAC from an applicant and additional customers are added to the extended facilities financed by the applicant's CIAC within three years of the date of completion of the facilities, and the applicant is not utilizing the option under Rider L to pay for the CIAC, the applicant who paid the CIAC will be entitled to a pro rata refund during the three-year period immediately following completion of the extension.

Any CIAC, ratepayer advance, or other like amounts received from the ratepayer which shall constitute taxable income as defined by the Internal Revenue Service may include a gross up for federal income taxes. To the extent that federal taxes are not included in the CIAC, they shall be segregated in a deferred account for inclusion in rate base in a future rate case proceeding.

Where evidence is found that Company facilities or service lines, meters, or other appurtenances on the ratepayer's premises have been tampered with, the ratepayer shall be required to bear all costs incurred by the Company for investigations and inspections and for such protective equipment as, in the judgment of the Company, may be necessary. In addition, where the tampering has resulted in improper measurement of the service supplied, the ratepayer shall be required to pay for such natural gas service, including interest at the late-payment charge rate, based on the Company's estimate, from available information, of the amount of gas used but not registered by the Company's meters.

**ISSUED:****EFFECTIVE:**

**RULES AND REGULATIONS****4. CONNECTIONS FOR SERVICE - EXTENSION OF FACILITIES (continued)**

The ratepayer shall pay the Company for any repairs to or any loss of the Company's property on the premises when such repairs are necessitated, or loss occasioned, by negligence on the part of the ratepayer or failure to comply with the rules and regulations under which service is furnished.

**5. DISCONTINUANCE AND TERMINATION OF SERVICE**

The authorized agents of the Company shall at all reasonable times have free access to the premises of the ratepayer with the right to shut off the gas and remove its property from the premises for any of the following reasons: failure to permit access to meters, service connections or other property of the Company for the purpose of replacement, maintenance, repair or meter reading; nonpayment of any undisputed delinquent bills due for existing or any previous service; tampering with the meter or connections; fraudulent representation in relation to the consumption of gas; removal of applicant from the premises; selling or delivering gas to other occupants of the premises without application to the Company; failure to make or increase any deposit; failure to provide a guarantee of payment or establish credit; want of supply or waste of gas from ratepayer's lines or appliances; failure to comply with amortization or settlement agreements; and failure to comply with or violation of Tariff Rules and Regulations. However, service may not be discontinued or terminated under any circumstances except under Commission Regulations or PA Statute in effect and applicable at the time of such contemplated discontinuance.

The Company may immediately terminate service for any of the following actions by the customer: unauthorized use of the service delivered on or about the affected dwelling; fraud or material misrepresentation of the customer's identity for the purpose of obtaining service; tampering with meters or other public utility's equipment; or violating tariff provisions on file with the Commission so as to endanger the safety of a person or the integrity of the public utility's delivery system. Upon termination for such reasons, the Company will make a good faith attempt to provide a post termination notice to the customer or a responsible person at the affected premises, and, in the case of a single meter, multiunit dwelling, the Company will conspicuously post the notice at the dwelling, including in common areas when possible.

Unless otherwise authorized by the Commission, after November 30 and before April 1, the Company will not terminate service to customers with household incomes at or below the qualifying level as determined by Commission regulation of PA Statute

The Company may terminate service for nonpayment of billings for service provided under this tariff or for NGS supply charges purchased by the Company under the purchase of receivables provisions set forth in Rate SBS of the Company's Supplier Tariff.

If service is terminated, the same ratepayer, whether an applicant or ratepayer as defined in the Commission's regulations or PA Statutes, shall pay a reasonable turn-on fee for resumption of service at the same address after termination. The turn-on fee for Residential ratepayers is \$50. The turn-on fee for Commercial ratepayers is \$80. The turn-on fee for Industrial ratepayers shall be an amount equal to the customer charge for each month of the intervening period since service was terminated.

For requests for discontinuance of service the Company shall determine whether the ratepayer is requesting discontinuance of service at their current location or discontinuance of supply from their current NGS. If the ratepayer requests to discontinue supply service, the Company shall refer the ratepayer to such NGS.

**6. TERMINATION OF RATEPAYER'S CONTRACT**

In case an execution shall be issued against a ratepayer, or in case the premises described or referred to in the contract as the place at which gas is to be delivered or consumed, or the personal property upon said premises shall be levied upon under execution, or in case of any acts of assignment, filing of involuntary or voluntary petitions in bankruptcy, or any action in court for the reorganization of any corporation, partnership, or other ratepayer, the contract, at the option of the Company, shall cease and terminate, and all claims for retail or transportation service previously provided or amounts purchased from a NGS through the purchase of receivables provisions set forth in Rate SBS of the Company's Supplier Tariff shall become forthwith due and payable without notice from said Company to the extent permissible under applicable bankruptcy statutes and Commission regulations.

**PILOT RIDER L  
SERVICE EXPANSION TARIFF ("SET")**

(C)

The Company, at its discretion, may offer service under this rider to a residential or commercial Applicant or group of Applicants who agree to undertake the necessary costs of extending the Company's facilities to serve the Applicant(s) as determined under Rule 4 of the Rules and Regulations Section of this tariff. This Rider provides the Applicant(s) with an option to pay the calculated contribution in aid of construction ("CIAC") described in Rule 4 through monthly payments as determined below. This Rider also provides residential Applicant(s) with the option to make payments for the cost of the customer owned service line.

This Rider is established as a Pilot and will close for new participation five years after this rate is approved by the Commission.

The charges under this Rider will be fixed and applied on a monthly basis beginning with the first bill issued after service has been established and continuing until the principal amount(s) have been repaid.

The SET principal is equal to the calculated contribution in aid of construction required from the applicant(s) and will be calculated for each service extension project based on the projected revenue and costs for each extension. A separate principal amount and monthly fee will be established for residential and commercial customers within each gas extension project area based on the expected revenues and costs for the residential and commercial customers. The fixed monthly charge will be applicable to any customer located at any premise within each new extension project area. If additional customers are added to the Company's extended facilities upon which SET charges are already in place, the additional customers will pay the established SET charge until the total class-based SET principal amount has been repaid. At that time, the SET charge will expire for all customers within each class-based portion of the project.

**Commercial Customers Service Expansion Charge**

The Company will use the process described in Rule 4 of this tariff to determine the CIAC amount required in order to justify a requested extension of the Company's facilities. If it is determined that CIAC is required and the customer opts for SET payments, the CIAC will be recovered from the Customer through a monthly flat rate calculated as follows:

**Formula:** The formula for calculation of the commercial Rider L monthly charge is as follows:

$$\text{SET Charge} = \frac{\text{SET principal} [\text{FIN}(1+\text{FIN})\text{TIME}]}{[(1+\text{FIN})\text{TIME}-1]}$$

Where:

SET Principal = amount equal to the calculated contribution in aid of construction required from the commercial Applicant(s)..

FIN = Finance charges applied to SET Principal. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus a gross up for income taxes. To the extent that no overall weighted cost of capital was established in the most recent rate case, the weighted cost of capital reflected in its most recent Distribution System Improvement Charge filing shall be utilized.

TIME = Represents the number of months over which the SET principal and applicable return will be recovered. This period will typically be 240 months, but may be a different period if otherwise agreed upon by the Applicant and the Company.

ISSUED:

EFFECTIVE:

**PILOT RIDER L**  
**SERVICE EXPANSION TARIFF ("SET") (cont.)**

(C)

**Residential Customer Service Expansion Charge**

The Company will use the process described in Rule 4 of this tariff to determine the CIAC amount required in order to justify a requested extension of the Company's facilities. If it is determined that CIAC is required, and the customer opts for the SET payments, the SET principal will be paid through a monthly flat fee of \$55. The monthly fee will continue to be charged until the SET principal for the Residential portion of each extension project has been paid.

Under this Rider, the residential Applicant(s) shall have the option to pay the cost of the applicant's portion of the service line through a fee of \$15 per month. The fee will be charged until the principal balance of customer owned service line costs for each project have been repaid.

**Application of the Rider L monthly charge(s) is as follows:**

The SET payments for all applicants of a specific extension project will be aggregated by class and applied first to finance charges (FIN) applied to the beginning of the month SET Principal for that class at the financing rate determined below. The remaining SET payment amounts will be applied to the beginning of the month SET principal until the original SET principal balance is paid in full.

For residential customers who opted for a monthly fee related to the applicant's portion of their service line, the monthly payment will be applied first to finance charges (FIN) applied to the beginning of the month unpaid service line principal for each project at the rate determined below. The remaining payment amount will be applied to the beginning of the month service line principal for each project.

SET Principal = the original CIAC amount for the extension as determined under Rule 4.

FIN = Finance charges applied to the beginning of the month SET principal balance. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus a gross up for income taxes. To the extent that no overall weighted cost of capital was established in the most recent rate case, the weighted cost of capital reflected in its most recent Distribution System Improvement Charge filing shall be utilized.

**Late-Payment Charge:** A late-payment charge of 1.50 percent per month for ratepayers shall be applied for failure to make payment in full for all charges billed by the Company by the due date shown on the bill. This charge is to be calculated on the overdue portion of charges under this Rider.

ISSUED:

EFFECTIVE:

Supplement No. X 38  
Gas—PA PUC No. 45

**PEOPLES NATURAL GAS COMPANY LLC**

**RATES AND RULES  
GOVERNING THE  
FURNISHING OF  
NATURAL GAS SERVICE  
TO RETAIL  
GAS CUSTOMERS**

Service Expansion Tariff Proposal Revision filed in compliance with  
the settlement at R-2014-2429610

**ISSUED:**

**BY: Morgan K. O'Brien  
President  
375 North Shore Drive, Suite 600  
Pittsburgh, PA 15212**

**EFFECTIVE:**

PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. ~~33~~ X TO GAS-PA PUC NO. 45  
~~X THIRTY-SIXTH REVISED PAGE NO. 2~~  
CANCELLING ~~X THIRTY-FIFTH REVISED PAGE NO. 2~~

LIST OF CHANGES

~~Rule 4 – Connections for Service – Extension of Faculties and Pilot Rider L, Service Expansion Tariff (“SET”) is introduced through the filing of this tariff supplementare modified to reflect the terms of the settlement filed at R-2014-2429610. The Table of Contents, page 5, has been updated to reflect the addition of this Rider. Language changes were added to page 20, Rule 4, to refer to the Pilot Rider L.~~

ISSUED:

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EFFECTIVE:

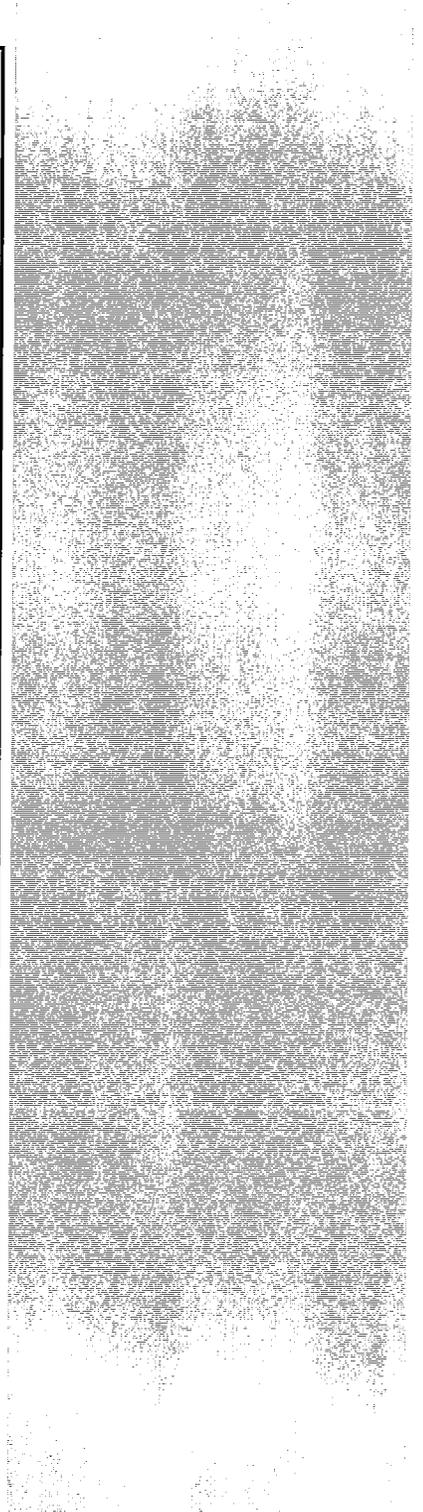


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ISSUED:

EFFECTIVE:

RULES AND REGULATIONS4. CONNECTIONS FOR SERVICE - EXTENSION OF FACILITIES \_\_\_\_\_ ( C )

The applicant hereby undertakes to furnish, be responsible for, and pay the necessary costs of service pipe, fixtures, fittings, valves, regulators, and appliances to make the necessary connections between the Company's lines and the place of consumption or the agreed upon delivery point to the applicant and keep the same in good repair, in a skillful and workmanlike manner, furnishing at his own expense said materials, and the labor, care, and supervision necessary and proper to safely conduct and burn the gas, but the applicant shall not otherwise make changes in or interfere with said pipes and appliances and material. The arrangement and location of all piping and appliances (including meters) shall be subject to the approval of the Company, but the Company shall not be responsible in any manner for the selection, maintenance, or use of said pipes and appliances, or for said labor, care, or supervisions, and shall have no duty or obligation with respect to the same. To facilitate this process, the Company makes available a manual entitled "Service Line Installation Standards."

The Company shall make the necessary connections between its curb cock or shutoff valve and the applicant's service pipe, provide a meter and the necessary fittings, and connect the meter.

The meter and all pipe fittings and appliances furnished by the Company on the premises shall remain the property of the Company, and the Company shall have the right at all reasonable times to enter in and upon the premises for reading and change of meters, inspection, and reclaiming of its property.

The Company will extend its facilities to a new point of delivery within its service territory if, in its judgment and consistent with Commission regulations, the service to such new point of delivery will have no adverse effect upon the availability of gas to meet the present and reasonably foreseeable volume and pressure needs of existing customers, ratepayers and the request for service is not for special utility service. "Special utility service" shall include (a) a request for utility service when the applicant has an installed alternate fuel capability; (b) a request for utility service when the applicant is already receiving natural gas service from another Pennsylvania public utility; (c) a request for utility service from an applicant located in an area in which another natural gas utility is authorized to serve the applicant; (d) a request for utility service by a builder or developer of a residential lot plan who is requesting an extension of the Company's facilities in anticipation of future homeowners need for natural gas supplies; and (e) any request for service by an applicant who, in the Company's view, is unlikely to remain on the Company's system for a sufficient period of time to justify the extension. In the case of requests for "special utility service," the Company may condition the extension of facilities upon the applicant's providing a contribution in aid of construction (CIAC), the amount of which will be determined by the Company, and consistent with any parameters approved or required by the Commission.

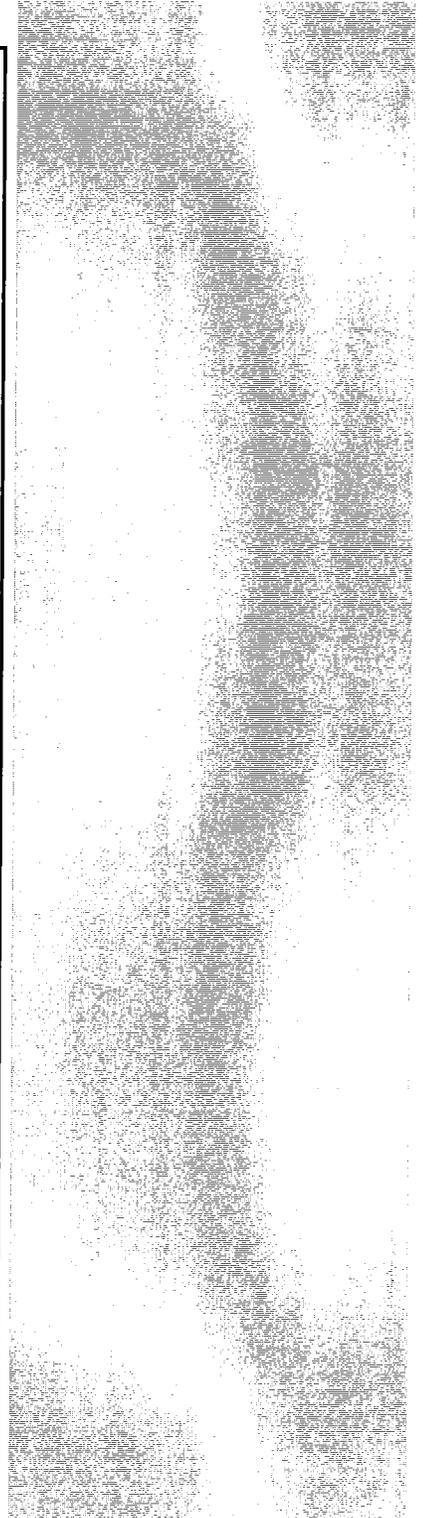
Even if an applicant's request is not for "special utility service," the Company may request a CIAC to the extent that the applicant's projected contributions to the Company's fixed or non-gas costs over the three years immediately following the completion of the extension do not cover the full cost of the extension; provided that the full cost of the extension shall not include the cost of the applicant's meter or service line which shall be borne by the Company. If the Company requests a CIAC from an applicant whose request is not for "special utility service," and the applicant is not utilizing the option under Rider L to pay for the CIAC, and additional customers are added to the extended facilities financed by the applicant's CIAC within three years of the date of completion of the facilities, and the applicant is not utilizing the option under Rider L to pay for the CIAC, the applicant who paid the CIAC will be entitled to a pro rata refund during the three-year period immediately following completion of the extension.

Any CIAC, ratepayer advance, or other like amounts received from the ratepayer which shall constitute taxable income as defined by the Internal Revenue Service may include a gross up for federal income taxes. To the extent that federal taxes are not included in the CIAC, they shall be segregated in a deferred account for inclusion in rate base in a future rate case proceeding.

Where evidence is found that Company facilities or service lines, meters, or other appurtenances on the ratepayer's premises have been tampered with, the ratepayer shall be required to bear all costs incurred by the Company for investigations and inspections and for such protective equipment as, in the judgment of the Company, may be necessary. In addition, where the tampering has resulted in improper measurement of the service supplied, the ratepayer shall be required to pay for such natural gas service, including interest at the late-payment charge rate, based on the Company's estimate, from available information, of the amount of gas used but not registered by the Company's meters.

ISSUED: September 28, 2012

EFFECTIVE:



**RULES AND REGULATIONS****4. CONNECTIONS FOR SERVICE - EXTENSION OF FACILITIES (continued)**

The ratepayer shall pay the Company for any repairs to or any loss of the Company's property on the premises when such repairs are necessitated, or loss occasioned, by negligence on the part of the ratepayer or failure to comply with the rules and regulations under which service is furnished.

**5. DISCONTINUANCE AND TERMINATION OF SERVICE**

The authorized agents of the Company shall at all reasonable times have free access to the premises of the ratepayer with the right to shut off the gas and remove its property from the premises for any of the following reasons: failure to permit access to meters, service connections or other property of the Company for the purpose of replacement, maintenance, repair or meter reading; nonpayment of any undisputed delinquent bills due for existing or any previous service; tampering with the meter or connections; fraudulent representation in relation to the consumption of gas; removal of applicant from the premises; selling or delivering gas to other occupants of the premises without application to the Company; failure to make or increase any deposit; failure to provide a guarantee of payment or establish credit; want of supply or waste of gas from ratepayer's lines or appliances; failure to comply with amortization or settlement agreements; and failure to comply with or violation of Tariff Rules and Regulations. However, service may not be discontinued or terminated under any circumstances except under Commission Regulations or PA Statute in effect and applicable at the time of such contemplated discontinuance.

The Company may immediately terminate service for any of the following actions by the customer: unauthorized use of the service delivered on or about the affected dwelling; fraud or material misrepresentation of the customer's identity for the purpose of obtaining service; tampering with meters or other public utility's equipment; or violating tariff provisions on file with the Commission so as to endanger the safety of a person or the integrity of the public utility's delivery system. Upon termination for such reasons, the Company will make a good faith attempt to provide a post termination notice to the customer or a responsible person at the affected premises, and, in the case of a single meter, multiunit dwelling, the Company will conspicuously post the notice at the dwelling, including in common areas when possible.

Unless otherwise authorized by the Commission, after November 30 and before April 1, the Company will not terminate service to customers with household incomes at or below the qualifying level as determined by Commission regulation of PA Statute

The Company may terminate service for nonpayment of billings for service provided under this tariff or for NGS supply charges purchased by the Company under the purchase of receivables provisions set forth in Rate SBS of the Company's Supplier Tariff.

If service is terminated, the same ratepayer, whether an applicant or ratepayer as defined in the Commission's regulations or PA Statutes, shall pay a reasonable turn-on fee for resumption of service at the same address after termination. The turn-on fee for Residential ratepayers is \$50. The turn-on fee for Commercial ratepayers is \$80. The turn-on fee for Industrial ratepayers shall be an amount equal to the customer charge for each month of the intervening period since service was terminated.

For requests for discontinuance of service the Company shall determine whether the ratepayer is requesting discontinuance of service at their current location or discontinuance of supply from their current NGS. If the ratepayer requests to discontinue supply service, the Company shall refer the ratepayer to such NGS.

**6. TERMINATION OF RATEPAYER'S CONTRACT**

In case an execution shall be issued against a ratepayer, or in case the premises described or referred to in the contract as the place at which gas is to be delivered or consumed, or the personal property upon said premises shall be levied upon under execution, or in case of any acts of assignment, filing of involuntary or voluntary petitions in bankruptcy, or any action in court for the reorganization of any corporation, partnership, or other ratepayer, the contract, at the option of the Company, shall cease and terminate, and all claims for retail or transportation service previously provided or amounts purchased from a NGS through the purchase of receivables provisions set forth in Rate SBS of the Company's Supplier Tariff shall become forthwith due and payable without notice from said Company to the extent permissible under applicable bankruptcy statutes and Commission regulations.

PILOT RIDER L  
SERVICE EXPANSION TARIFF ("SET")

(C)

The Company, at its discretion, may offer service under this rider to a residential or commercial Applicant or group of Applicants who agree to undertake the necessary costs of extending the Company's facilities to serve the Applicant(s) as determined under Rule 4 of the Rules and Regulations Section of this tariff. This Rider provides the Applicant(s) with an option to pay the calculated contribution in aid of construction ("CIAC") described in Rule 4 through monthly payments as determined below. This Rider also provides residential Applicant(s) with the option to make payments for the cost of the customer owned service line.

~~over a period not to exceed twenty years beginning with the first bill issued after service has been established. This Rider also provides the Applicant(s) with the option to include the cost of the customer owned service line in the CIAC amount.~~

This Rider is established as a Pilot and will close for new participation ~~on June 29, 2010 unless an extension is five years~~ after this rate is approved by the Commission.

The charges under this Rider will be a fixed and applied on a charge per bill assessed on a monthly basis beginning with the first bill issued after service has been established and continuing until the principal amount(s) have been repaid.

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The SET principal is equal to the calculated contribution in aid of construction required from the applicant(s) and will be calculated for each service extension project based on the projected revenue and costs for each extension. A separate principal amount and monthly fee will be established for residential and commercial customers within each gas extension project area based on the expected revenues and costs for the residential and commercial customers. The fixed monthly charge will be applicable to any customer located at any premise within each new extension project area. If additional customers are added to the Company's extended facilities upon which SET charges are already in place, the additional customers will pay the established SET charge until the total class-based SET principal amount has been repaid. At that time, the SET charge will expire for all customers within each class-based portion of the project.

Commercial Customers Service Expansion Charge

Calculation of the Service Expansion Tariff Charge

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The Company will use the process described in Rule 4 of this tariff to determine the CIAC amount required in order to justify a requested extension of the Company's facilities. ~~Under this Rider, the Applicant(s) shall have the option to include the cost of the customer owned service line in determining the CIAC amount. If it is determined that CIAC is required and the customer opts for SET payments, the CIAC will be recovered from the Customer, following the extension of service, through a monthly flat rate fee calculated as follows:~~

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Formula: The formula for calculation of the commercial Rider L monthly charge is as follows:

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$$\text{SET Charge} = \frac{\text{CIAC} \cdot \text{SET principal}}{[(1+\text{FIN})^{\text{TIME}} - 1]}$$

Where:

CIAC-SET Principal = amount equal to the calculated contribution in aid of construction required from the commercial Applicant(s), including any agreed to amounts for the costs associated with the Customer owned service line.

FIN = Finance charges applied to CIAC-SET Principal. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus a gas-extension-incentive adjustment authorized by the Commission a gross up for income taxes. To the extent that no overall weighted cost of capital was established in the most recent rate case, the weighted cost of capital reflected in its most recent Distribution System Improvement Charge filing shall be utilized.

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TIME = ~~Represents~~ **Represents** the number of months over which the CIAC-SET principal and applicable return will be recovered. -This period will typically be 240 months, but may be a different ~~lesser~~ **period** amount if otherwise agreed upon by the Applicant and the Company.

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The SET amount will be calculated for each service extension project and will differ by project based on the projected revenues and costs for each gas extension project. The fixed monthly charge will be applicable to any customer located at the premise within each new gas extension project area. A separate monthly fee will be established for residential and commercial customers within each gas extension project area based on the expected revenues and costs for the residential and commercial customers. If additional customers are added to the Company's extended facilities upon which SET charges are already in place, the additional customers will pay the established SET charge until the total CIAC2 and applicable return for the extension of facilities has been met. At that time, the SET charge will expire for all customers of the project.

ISSUED: \_\_\_\_\_

EFFECTIVE:

PILOT RIDER L  
SERVICE EXPANSION TARIFF ("SET") (cont.)

(C)

**Residential Customer Service Expansion Charge**

The Company will use the process described in Rule 4 of this tariff to determine the CIAC amount required in order to justify a requested extension of the Company's facilities. If it is determined that CIAC is required, and the customer opts for the SET payments, the SET principal will be paid through a monthly flat fee of \$55. The monthly fee will continue to be charged until the SET principal for the Residential portion of each extension project has been paid.

Under this Rider, the residential Applicant(s) shall have the option to pay the cost of the applicant's portion of the service line through a fee of \$15 per month. The fee will be charged until the principal balance of customer owned service line costs for each project have been repaid.

Application of the Rider L monthly charge(s) is as follows:

The SET payments for all applicants of a specific extension project will be aggregated by class and applied first to finance charges (FIN) applied to the beginning of the month SET Principal for that class at the financing rate determined below. The remaining SET payment amounts will be applied to the beginning of the month SET principal until the original SET principal balance is paid in full.

For residential customers who opted for a monthly fee related to the applicant's portion of their service line, the monthly payment will be applied first to finance charges (FIN) applied to the beginning of the month unpaid service line principal for each project at the rate determined below. The remaining payment amount will be applied to the beginning of the month service line principal for each project.

SET Principal = the original CIAC amount for the extension as determined under Rule 4.

FIN = Finance charges applied to the beginning of the month SET principal balance. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus a gross up for income taxes. To the extent that no overall weighted cost of capital was established in the most recent rate case, the weighted cost of capital reflected in its most recent Distribution System Improvement Charge filing shall be utilized.

**Late-Payment Charge:** A late-payment charge of 1.50 percent per month for ratepayers shall be applied for failure to make payment in full for all charges billed by the Company by the due date shown on the bill. This charge is to be calculated on the overdue portion of charges under this Rider.

ISSUED:

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## Appendix B

Supplement No. X  
TO  
GAS - PA. P.U.C. NO. 46

Peoples Natural Gas Company LLC  
EQUITABLE Division

RATES and RULES  
FOR  
GAS SERVICE IN  
CITY OF PITTSBURGH  
AND TERRITORY ADJACENT THERETO  
(For Lists of Communities Served, see Page No. 4)

Pilot Rider H  
Service Expansion Tariff Proposal  
Revision Filed In Compliance With The Settlement At R-2014-2429610

ISSUED:

By: Morgan K. O'Brien  
President  
Peoples Natural Gas Company, LLC  
375 North Shore Drive, Suite 600  
Pittsburgh, PA 15212

EFFECTIVE:

PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. X  
TO GAS - PA. P.U.C. NO. 46  
REVISED PAGE NO. 2  
CANCELING REVISED PAGE NO. 2

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LIST OF CHANGES MADE BY THIS TARIFF SUPPLEMENT

Rule 1.2 - Applicants for Service Extension of Mains and Pilot Rider H, Service Expansion Tariff (SET) are modified to reflect the terms of the settlement filed at R-2014-2429610.

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ISSUED:

EFFECTIVE:

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RULES AND REGULATIONS - (CONTINUED)

1.1 Meters and Fittings (Continued)

(f) Nothing contained in this Rule shall preclude the customer from installing additional meters behind the Company's meter for the purpose of measuring, controlling and/or determining the flow of gas to the customer's premises. The cost of such additional meters, including the installation thereof shall be borne by the customer and such installation shall comply with subsection (e) above.

(g) Exceptions to the requirements of subsections (a) through (e) may be permitted by the Company upon special circumstances and upon good cause shown.

1.2 Applications For Service Extension of Mains

(C)

The Company will extend its facilities to a new point of delivery within its service territory if, in its judgment and consistent with Pennsylvania Public Utility Commission regulations, the service to such a new point of delivery will have no adverse effect upon the availability of gas to meet the present and reasonably foreseeable volume and pressure needs of existing customers. The Company may condition the extension of facilities upon the applicant's providing a contribution in aid of construction (CIAC), the amount which will be determined by the Company and consistent with any parameters approved by the Commission.

If the Company requests a CIAC from an applicant and the applicant is not utilizing the option under Rider H to pay for the CIAC, and additional customers are added to the extended facilities financed by the applicant's CIAC within three years of the date of completion of the facilities, the applicant who paid the CIAC will be entitled to a pro-rated refund during the three-year period immediately following completion of the extension.

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RULES AND REGULATIONS - (CONTINUED)

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(C)

1.3 Other Service Conditions

In the case of an industrial or commercial customer, the Company may condition the acceptance of a particular application for the initiation or increase of service, whether or not an extension of facilities is required to provide such service, by the establishment of guarantees of revenues or other appropriate conditions, including, but not limited to, the setting of maximum daily volumes to be provided, when such application involves the commitment of a gas supply to provide the service requested or involves conditions of service different from that normally provided to its other customers.

The Company, at its sole discretion, will maintain the necessary facilities to provide a back-up service to a customer for switching purposes between Natural Gas Distribution Companies or alternative fuels. The charge for facilities providing such a back-up service will be the Company's highest allowable monthly service charge per meter, plus the applicable volumetric charge per Mcf consumed.

The Company also reserves the right to charge a tap fee to recover the costs of constructing all facilities related to providing the backup service.

In the case of residential service, prior to providing utility service, the Company may require the Applicant to provide the names of each adult occupant residing at the location and proof of their identity.

1.4 Service Pipes and Fittings

The customer shall, at the customer's own expense, furnish and install all service pipes, fixtures, fittings, valves and appliances, and all materials necessary for meter installations, as required by the Company, between the Company's curb box and the point of consumption of the gas except as otherwise provided in Rule 1; maintain all of the same in good condition and repair, and renew the same when necessary, furnishing such materials, labor and supervision as may be necessary to transport and burn the gas with safety, and shall be liable for any failure to do so.

1.5 Subject to Company Inspection/Duty of Customer to Maintain

The character and arrangement of the facilities through which the gas is transported from the Company's curb box to the point of consumption shall be subject to the inspection and approval of an authorized agent of the Company, but the Company shall not be responsible in any manner for the installation, use and maintenance of those facilities, and shall have no duty or obligation with respect to the care, maintenance or supervision of the facilities.

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**PILOT RIDER H**  
**SERVICE EXPANSION TARIFF ("SET")**

(C)

The Company, at its discretion, may offer service under this rider to a residential or commercial Applicant or group of Applicants who agree to pay the costs as determined by the Company of extending the Company's facilities to serve the Applicant(s) under Rule 1.2 of the Rules and Regulations Section of this tariff. This Rider provides the Applicant(s) with an option to pay the contribution in aid of construction ("CIAC") determined in accordance with Rule 1.2 through monthly payments as determined below. This Rider also provides residential Applicant(s) with the options to make payments for the cost of the customer owned service line.

This Rider is established as a Pilot and will close for new participation five years after this rate is approved by the Commission.

The charges under this Rider will be fixed and applied on a monthly basis beginning with the first bill issued after service has been established and continuing until the principal amount(s) have been repaid.

The SET principal is equal to the calculated contribution in aid of construction required from the applicant(s) and will be calculated for each service extension project based on the projected revenue and costs for each extension. A separate principal amount and monthly fee will be established for residential and commercial customers within each gas extension project area based on the expected revenues and costs for the residential and commercial customers. The fixed monthly charge will be applicable to any customer located at any premise within each new extension project area. If additional customers are added to the Company's extended facilities upon which SET charges are already in place, the additional customers will pay the established SET charge until the total class-based SET principal amount has been repaid. At that time, the SET charge will expire for all customers within each class-based portion of the project.

**Commercial Customers Service Expansion Charge**

The Company will use the process described in Rule 1.2 of this tariff to determine if a CIAC is required in order to justify a requested extension of the Company's facilities. Under this Rider, if it is determined that CIAC is required, and the customer opts for SET payments, the CIAC will be recovered from the Customer through a monthly flat rate calculated as follows:

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ISSUED:

EFFECTIVE:

**PILOT RIDER H**  
**SERVICE EXPANSION TARIFF ("SET") (cont.)**

(C)

Formula: The formula for calculation of the commercial Rider H monthly charge is as follows:

$$\text{SET Charge} = \frac{\text{SET principal} [\text{FIN}(1+\text{FIN})\text{TIME}]}{[(1+\text{FIN}) \text{TIME}-1]}$$

Where:

SET Principal = amount equal to the calculated contribution in aid of construction required from the commercial Applicant(s).

FIN = Finance charges applied to SET Principal. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus a gross up for income taxes. To the extent that no overall weighted cost of capital was established in the most recent rate case, the weighted cost of capital reflected in the Company's most recent Distribution System Improvement Charge filing shall be utilized.

TIME = Represents the number of months over which the SET principal and applicable return will be recovered. This period will typically be 240 months, but may be a different period if otherwise agreed upon by the Applicant and the Company.

**Residential Customer Service Expansion Charge**

The Company will use the process described in Rule 1.2 of this tariff to determine the CIAC amount required in order to justify a requested extension of the Company's facilities. If it is determined that CIAC is required, and the customer opts for the SET payments, the SET principal will be paid through a monthly flat fee of \$55. The monthly fee will continue to be charged until the SET principal for the Residential portion of each extension project has been paid.

Under this Rider, the residential Applicant(s) shall have the option to pay the cost of the applicant's portion of the service line through a fee of \$15 per month. The fee will be charged until the principal balance of customer owned service line costs for each project have been repaid.

ISSUED:

EFFECTIVE:

PILOT RIDER H  
SERVICE EXPANSION TARIFF ("SET") (cont.)

(C)

Application of the Rider H monthly charge(s) is as follows:

The SET payments for all applicants of a specific extension project will be aggregated by class and applied first to finance charges (FIN) applied to the beginning of the month SET Principal for that class at the financing rate determined below. The remaining SET payment amounts will be applied to the beginning of the month SET principal until the original SET principal balance is paid in full.

For residential customers who opted for a monthly fee related to the applicant's portion of their service line, the monthly payment will be applied first to finance charges (FIN) applied to the beginning of the month unpaid service line principal for each project at the rate determined below. The remaining payment amount will be applied to the beginning of the month service line principal for each project.

SET Principal = the original CIAC amount for the extension as determined under Rule 1.2.

FIN = Finance charges applied to the beginning of the month SET principal balance. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus a gross up for income taxes. To the extent that no overall weighted cost of capital was established in the most recent rate case, the weighted cost of capital reflected in its most recent Distribution System Improvement Charge filing shall be utilized.

Late-Payment Charge: A late-payment charge of 1.50 percent per month for ratepayers shall be applied for failure to make payment in full for all charges billed by the Company by the due date shown on the bill. This charge is to be calculated on the overdue portion of charges under this Rider.

ISSUED:

EFFECTIVE:

Supplement No. X  
TO  
GAS - PA. P.U.C. NO. 46

Peoples Natural Gas Company LLC  
EQUITABLE Division

RATES and RULES  
FOR  
GAS SERVICE IN  
CITY OF PITTSBURGH  
AND TERRITORY ADJACENT THERETO  
(For Lists of Communities Served, see Page No. 4)

Pilot Rider H  
Service Expansion Tariff Proposal  
Revision Filed In Compliance With The Settlement At R-2014-2429610

ISSUED:

By: Morgan K. O'Brien  
President  
Peoples Natural Gas Company, LLC  
375 North Shore Drive, Suite 600  
Pittsburgh, PA 15212

EFFECTIVE:

PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. X  
TO GAS - PA. P.U.C. NO. 46  
~~EIGHTH-REVISED~~ PAGE NO. 2  
CANCELING ~~FIFTH-REVISED~~ PAGE NO. 2

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LIST OF CHANGES MADE BY THIS TARIFF SUPPLEMENT

~~Pilot Rider H - Service Expansion Tariff ("SET") is introduced through the filing of this tariff supplement. The Table of Contents, page 3, has been updated to reflect the addition of this Rider. Language changes were added to page 10, Rule 1.2 to refer to Pilot Rider H. Rule 1.2 - Applicants for Service Extension of Mains and Pilot Rider H, Service Expansion Tariff (SET) are modified to reflect the terms of the settlement filed at R-2014-2429610.~~

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ISSUED:

EFFECTIVE:

## RULES AND REGULATIONS - (CONTINUED)

## 1.1 Meters and Fittings (Continued)

(f) Nothing contained in this Rule shall preclude the customer from installing additional meters behind the Company's meter for the purpose of measuring, controlling and/or determining the flow of gas to the customer's premises. The cost of such additional meters, including the installation thereof shall be borne by the customer and such installation shall comply with subsection (e) above.

(g) Exceptions to the requirements of subsections (a) through (e) may be permitted by the Company upon special circumstances and upon good cause shown.

## 1.2 Applications For Service Extension of Mains

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The Company will extend its facilities to a new point of delivery within its service territory if, in its judgment and consistent with Pennsylvania Public Utility Commission regulations, the service to such a new point of delivery will have no adverse effect upon the availability of gas to meet the present and reasonably foreseeable volume and pressure needs of existing ratepayers customers, and the request is not for special utility service. "Special utility service" shall include ~~(a) a request for utility service when the applicant has an installed alternative fuel capability; (b) a request for utility service when the applicant is already receiving natural gas service from another Pennsylvania public utility; (c) a request for utility service from an applicant located in an area in which another natural gas utility is authorized to serve the applicant; (d) a request for utility service by a builder or developer of a residential lot plan who is requesting an extension of the Company's facilities in anticipation of future homeowners' need for natural gas supplies; (e) any request for service by an applicant who, in the Company's view, is unlikely to remain on the Company's system for a sufficient period of time to justify the extension.~~ In the case of requests for a "special utility service," the Company may condition the extension of facilities upon the applicant's providing a contribution in aid of construction (CIAC), the amount which will be determined by the Company and consistent with any parameters approved by the Commission.

~~Even if an applicant's request is not for a "special utility service," the Company may request a CIAC to the extent that the applicant's projected contributions to the Company's costs over the three years immediately following the completion of the extension do not cover the full cost of the extension; provided that the full cost of the extension shall not include the cost of the meter or company (main to curb) service line which shall be borne by the Company. If the Company If the Company requests a CIAC from an applicant and the applicant is not utilizing the option under Rider H to pay for the CIAC, and additional customers are added to the extended facilities financed by the applicant's CIAC within three years of the date of completion of the facilities, the applicant who paid the CIAC will be entitled to a pro-rated refund during the three-year period immediately following completion of the extension.~~

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PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. 8X  
TO GAS - PA, P.U.C. NO. 46  
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CANCELLING ORIGINAL-PAGE NO. 10

RULES AND REGULATIONS - (CONTINUED)

1.2 Applications For Service Extension of Mains (Continued)

~~If the Company requests a CIAC from an applicant and whose request is not for "special utility service," the applicant is not utilizing the option under Rider H to pay for the CIAC, and additional volumes customers are added to the extended facilities financed by the applicant's CIAC within three years of the date of completion of the facilities, the applicant who paid the CIAC will be entitled to a prorated refund during the three year period immediately following completion of the extension.~~

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1.3 Other Service Conditions

In the case of an industrial or commercial customer, the Company may condition the acceptance of a particular application for the initiation or increase of service, whether or not an extension of facilities is required to provide such service, by the establishment of guarantees of revenues or other appropriate conditions, including, but not limited to, the setting of maximum daily volumes to be provided, when such application involves the commitment of a gas supply to provide the service requested or involves conditions of service different from that normally provided to its other customers.

The Company, at its sole discretion, will maintain the necessary facilities to provide a back-up service to a customer for switching purposes between Natural Gas Distribution Companies or alternative fuels. The charge for facilities providing such a back-up service will be the Company's highest allowable monthly service charge per meter, plus the applicable volumetric charge per Mcf consumed.

The Company also reserves the right to charge a tap fee to recover the costs of constructing all facilities related to providing the backup service.

In the case of residential service, prior to providing utility service, the Company may require the Applicant to provide the names of each adult occupant residing at the location and proof of their identity.

1.4 Service Pipes and Fittings

The customer shall, at the customer's own expense, furnish and install all service pipes, fixtures, fittings, valves and appliances, and all materials necessary for meter installations, as required by the Company, between the Company's curb box and the point of consumption of the gas except as otherwise provided in Rule 1; maintain all of the same in good condition and repair, and renew the same when necessary, furnishing such materials, labor and supervision as may be necessary to transport and burn the gas with safety, and shall be liable for any failure to do so.

1.5 Subject to Company Inspection/Duty of Customer to Maintain

The character and arrangement of the facilities through which the gas is transported from the Company's curb box to the point of consumption shall be subject to the inspection and approval of an authorized agent of the Company, but the Company shall not be responsible in any manner for the installation, use and maintenance of those facilities, and

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PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. X  
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PILOT RIDER H  
SERVICE EXPANSION TARIFF ("SET")

(C)

The Company, at its discretion, may offer service under this rider to a residential or commercial Applicant or group of Applicants who agree to pay the costs as determined by the Company of extending the Company's facilities to serve the Applicant(s) under Rule 1.2 of the Rules and Regulations Section of this tariff. This Rider provides the Applicant(s) with an option to pay the contribution in aid of construction ("CIAC") determined in accordance with Rule 4-1.2 over a period not to exceed twenty years beginning with the first bill issued after service has been established. This Rider also provides the Applicant(s) with the option to include the cost of the customer owned service line in the CIAC amount through monthly payments as determined below. This Rider also provides residential Applicant(s) with the options to make payments for the cost of the customer owned service line.

This Rider is established as a Pilot and will close for new participation on June 29, 2019 unless an extension is five years after this rate is approved by the Commission.

The charges under this Rider will be a fixed and applied on a charge per bill assessed on a monthly basis beginning with the first bill issued after service has been established and continuing until the principal amount(s) have been repaid.

The SET principal is equal to the calculated contribution in aid of construction required from the applicant(s) and will be calculated for each service extension project based on the projected revenue and costs for each extension. A separate principal amount and monthly fee will be established for residential and commercial customers within each gas extension project area based on the expected revenues and costs for the residential and commercial customers. The fixed monthly charge will be applicable to any customer located at any premise within each new extension project area. If additional customers are added to the Company's extended facilities upon which SET charges are already in place, the additional customers will pay the established SET charge until the total class-based SET principal amount has been repaid. At that time, the SET charge will expire for all customers within each class-based portion of the project.

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Calculation of the SET Charge Commercial Customers Service Expansion Charge

The Company will use the process described in Rule 1.2 of this tariff to determine if a CIAC is required in order to justify a requested extension of the Company's facilities and the amount of any such CIAC. Under this Rider, the Applicant(s) shall have the

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PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. X

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~~option to include the cost of the customer-owned service line in determining the CIAC amount. Under this Rider, if it is determined that CIAC is required, and the customer opts for SET payments, the CIAC will be recovered from the Customer through a monthly flat rate fee calculated as follows:~~

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PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. X  
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PILOT RIDER H

SERVICE EXPANSION TARIFF ("SET") (cont.)

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Formula: The formula for calculation of the commercial Rider H monthly charge is as follows:

$$\text{SET Charge} = \frac{\text{CIAC-SET principal [FIN(1+FIN)TIME]}}{[(1+FIN) \text{ TIME}-1]}$$

Where:

~~CIAC-SET Principal~~ = - amount equal to the calculated contribution in aid of construction required from the commercial Applicant(s), including, at Applicant's option, the costs associated with the customer owned service line.

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FIN = Finance charges applied to SET Principal. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus a gross up for income taxes. To the extent that no overall weighted cost of capital was established in the most recent rate case, the weighted cost of capital reflected in the Company's most recent Distribution System Improvement Charge filing shall be utilized.

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TIME = Represents the number of months over which the SET principal and applicable return will be recovered. This period will typically be 240 months, but may be a different period if otherwise agreed upon by the Applicant and the Company.

Residential Customer Service Expansion Charge

The Company will use the process described in Rule 1.2 of this tariff to determine the CIAC amount required in order to justify a requested extension of the Company's facilities. If it is determined that CIAC is required, and the customer opts for the SET payments, the SET principal will be paid through a monthly flat fee of \$55. The monthly fee will continue to be charged until the SET principal for the Residential portion of each extension project has been paid.

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PEOPLES NATURAL GAS COMPANY LLC

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Under this Rider, the residential Applicant(s) shall have the option to pay the cost of the applicant's portion of the service line through a fee of \$15 per month. The fee will be charged until the principal balance of customer owned service line costs for each project have been repaid.

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PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. X

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TO GAS - PA. P.U.C. NO. 46

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CANCELLING ORIGINAL PAGE NO. 84A4

for that class at the financing rate determined below. The remaining SET payment amounts will be applied to the beginning of the month SET principal until the original SET principal balance is paid in full.

For residential customers who opted for a monthly fee related to the applicant's portion of their service line, the monthly payment will be applied first to finance charges (FIN) applied to the beginning of the month unpaid service line principal for each project at the rate determined below. The remaining payment amount will be applied to the beginning of the month service line principal for each project.

SET Principal = the original CIAC amount for the extension as determined under Rule 1.2.

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FIN = Finance charges applied to the beginning of the month SET principal balance. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus a gross up for income taxes. To the extent that no overall weighted cost of capital was established in the most recent rate case, the weighted cost of capital reflected in its most recent Distribution System Improvement Charge filing shall be utilized.

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Late-Payment Charge: A late-payment charge of 1.50 percent per month for ratepayers shall be applied for failure to make payment in full for all charges billed by the Company by the due date shown on the bill. This charge is to be calculated on the overdue portion of charges under this Rider.

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EFFECTIVE:

PEOPLES NATURAL GAS COMPANY LLC

SUPPLEMENT NO. X

TO GAS - PA. P.U.C. NO. 46

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CANCELING SUPPLEMENT NO. X

TO GAS - PA. P.U.C. NO. 46

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CANCELLING ORIGINAL PAGE NO. 84A4

PILOT RIDER H  
SERVICE EXPANSION TARIFF ("SET") (cont.)

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~~FIN~~ = Finance charges applied to CIACSET Principal. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus the Commission authorized gas extension incentive adjustment in effect at the time of the extension gross up for income taxes. To the extent that no overall weighted cost of capital was established in the most recent rate case, the weighted cost of capital reflected in the Company's most recent Distribution System Improvement Charge filing shall be utilized.

~~TIME~~ = Represents the number of months over which the CIAC SET principal and applicable return will be recovered. This period will typically be 240 months, but may be a lesser different amount period if otherwise agreed upon by the Applicant and the Company.

The SET charge will be calculated for each service extension project and will differ by project based on the projected revenue and costs for each gas extension project. The fixed monthly charge will be applicable to the ratepayer of any premises connected to the extended facilities within each new gas extension project area provided, however, that if the ratepayer is not the owner of the premises, initial responsibility for payment of the SET charge shall apply to the ratepayer without relieving the owner of ultimate liability for payment. A separate monthly fee will be established for residential and commercial customers within each gas extension project area based on the projected revenues and costs for the residential and commercial customers. If additional customers are added to the Company's extended facilities upon which SET charges are already in place, the additional customers will pay the established SET charge until the total CIAC and applicable return for the extension of facilities has been paid. At that time, the SET charge will expire for all customers of the project.

Application of the Rider H monthly charge(s) is as follows:

The SET payments for all applicants of a specific extension project will be aggregated by class and applied first to finance charges (FIN) applied to the beginning of the month SET Principal

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## Appendix C

SUPPLEMENT X  
TO  
TARIFF GAS - PA PUC NO. 8

PEOPLES TWP LLC

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RATES, RULES AND REGULATIONS  
FOR NATURAL GAS SERVICE  
IN TERRITORY DESCRIBED HEREIN

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ISSUED:

EFFECTIVE:

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PILOT RIDER SET  
SERVICE EXPANSION TARIFF PROPOSAL  
REVISION FILED IN COMPLIANCE WITH THE SETTLEMENT AT R-2014-2429610

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ISSUED BY:

JOSEPH A. GREGORINI  
VICE PRESIDENT - RATES AND REGULATORY AFFAIRS  
PEOPLES TWP LLC  
205 NORTH MAIN STREET  
BUTLER, PENNSYLVANIA 16001

PEOPLES TWP LLC

SUPPLEMENT NO. X  
TO  
TARIFF GAS – PA PUC NO. 8  
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CANCELING REVISED PAGE NO. 1

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**LIST OF CHANGES MADE BY THIS TARIFF**

This Tariff Supplement revises Pilot Rider SET (Service Expansion Tariff) and Rule 3 are modified to reflect the terms of the settlement filed at R-20147-2429610.

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ISSUED:

EFFECTIVE: ,

**RULES AND REGULATIONS (Continued)**

**3. EXTENSION OF FACILITIES**

**(C)**

- A. Subject to the provisions of Rule No. 2 hereof, the Company will extend its facilities to a new point of delivery within its service territory if, in its judgment and consistent with Commission regulations, the service to such new point of delivery will have no adverse effect upon the availability of gas to meet the present and reasonably foreseeable volume and pressure needs of existing Customers. The Company may condition the extension of facilities upon the applicant's providing a contribution in aid of construction, ("CIAC"), the amount of which will be determined by the company and consistent with any parameters approved by the Commission.
  
- B. If the Company requests a CIAC from an Applicant and additional Customers are added to the extended facilities financed by the Applicant's CIAC within three (3) years after the date of completion of the facilities, and the applicant is not utilizing the option under Rider SET to pay for the CIAC, the Applicant who paid the CIAC will be entitled to a pro rata refund during the three year period immediately following completion of the extension..
  
- C. Any CIAC, Customer advance, or other like amounts received from the Customer which shall constitute taxable income as defined by the Internal Revenue Service will have the federal income taxes segregated in a deferred account for inclusion in rate base in a future rate case proceeding. Such income taxes associated with a CIAC will not be charged to the specific contributor of the capital.

**PILOT RIDER SET  
SERVICE EXPANSION TARIFF ("SET")**

(C)

The Company, at its discretion, may offer service under this rider to a residential or commercial Applicant or group of Applicants who agree to pay the costs as determined by the Company of extending the Company's facilities to serve the Applicant(s) under Rule 3 of the Rules and Regulations Section of this tariff. This Rider provides the Applicant(s) with an option to pay the contribution in aid of construction ("CIAC") determined in accordance with Rule 4 through monthly payments as determined below. This Rider also provides residential Applicant(s) with the option to make payments for the cost of the customer owned service line.

This Rider is established as a Pilot and will close for new participation five years after this rate is approved by the Commission.

The charges under this Rider will be fixed and applied on a monthly basis beginning with the first bill issued after service has been established and continuing until the principal amount(s) have been repaid.

The SET principal is equal to the calculated contribution in aid of construction required from the applicant(s) and will be calculated for each service extension project based on the projected revenue and costs for each extension. A separate principal amount and monthly fee will be established for residential and commercial customers within each gas extension project area based on the expected revenues and costs for the residential and commercial customers. The fixed monthly charge will be applicable to any customer located at any premise within each new extension project area. If additional customers are added to the Company's extended facilities upon which SET charges are already in place, the additional customers will pay the established SET charge until the total class-based SET principal amount has been repaid. At that time, the SET charge will expire for all customers within each class-based portion of the project.

**Commercial Customers Service Expansion Charge**

The Company will use the process described in Rule 3 of this tariff to determine if a CIAC is required in order to justify a requested extension of the Company's facilities and the amount of any such CIAC. If it is determined that CIAC is required and the customer opts for SET payments, the CIAC will be recovered from the Customer through a monthly flat rate calculated as follows:

Formula: The formula for calculation of the commercial Rider L monthly charge is as follows:

$$\text{SET Charge} = \frac{\text{SET principal} [\text{FIN}(1+\text{FIN})\text{TIME}]}{[(1+\text{FIN}) \text{TIME}-1]}$$

Where:

SET Principal = amount equal to the calculated contribution in aid of construction required from the commercial Applicant(s).

FIN = Finance charges applied to the Set Principal. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus a gross up for income taxes. To the extent that no overall weighted cost of capital was established in the most recent rate case, the weighted cost of capital reflected in the Company's most recent Distribution System Improvement Charge filing shall be utilized.

TIME = Represents the number of months over which the SET principal and applicable return will be recovered. This period will typically be 240 months, but may be a different period if otherwise agreed upon by the Applicant and the Company.

**PILOT RIDER SET (Cont.)  
SERVICE EXPANSION TARIFF ("SET")**

(c)

**Residential Customer Service Expansion Charge**

The Company will use the process described in Rule 4 of this tariff to determine the CIAC amount required in order to justify a requested extension of the Company's facilities. If it is determined that CIAC is required, and the customer opts for the SET payments, the SET principal will be paid through a monthly flat fee of \$55. The monthly fee will continue to be charged until the SET principal for the Residential portion of each extension project has been paid.

Under this Rider, the residential Applicant(s) shall have the option to pay the cost of the applicant's portion of the service line through a fee of \$15 per month. The fee will be charged until the principal balance of customer owned service line costs for each project have been repaid.

**Application of the Rider L monthly charge(s) is as follows:**

The SET payments for all applicants of a specific extension project will be aggregated by class and applied first to finance charges (FIN) applied to the beginning of the month SET Principal for that class at the financing rate determined below. The remaining SET payment amounts will be applied to the beginning of the month SET principal until the original SET principal balance is paid in full.

For residential customers who opted for a monthly fee related to the applicant's portion of their service line, the monthly payment will be applied first to finance charges (FIN) applied to the beginning of the month unpaid service line principal for each project at the rate determined below. The remaining payment amount will be applied to the beginning of the month service line principal for each project.

SET Principal = the original CIAC amount for the extension as determined under Rule 3.

FIN = Finance charges applied to the beginning of the month SET principal balance. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus a gross up for income taxes. To the extent that no overall weighted cost of capital was established in the most recent rate case, the weighted cost of capital reflected in its most recent Distribution System Improvement Charge filing shall be utilized.

Late-Payment Charge: A late-payment charge of 1.50 percent per month for ratepayers shall be applied for failure to make payment in full for all charges billed by the Company by the due date shown on the bill. This charge is to be calculated on the overdue portion of charges under this Rider.

SUPPLEMENT ~~78X~~  
TO  
TARIFF GAS - PA PUC NO. 8

PEOPLES TWP LLC

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RATES, RULES AND REGULATIONS  
FOR NATURAL GAS SERVICE  
IN TERRITORY DESCRIBED HEREIN

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ISSUED:

EFFECTIVE:

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PILOT RIDER SET  
SERVICE EXPANSION TARIFF PROPOSAL  
REVISION FILED IN COMPLIANCE WITH THE SETTLEMENT AT Rr-2014-2429610

ISSUED BY:

JOSEPH A. GREGORINI  
VICE PRESIDENT - RATES AND REGULATORY AFFAIRS  
PEOPLES TWP LLC  
205 NORTH MAIN STREET  
BUTLER, PENNSYLVANIA 16001

PEOPLES TWP LLC

SUPPLEMENT NO. X  
TO  
TARIFF GAS – PA PUC NO. 8  
REVISED PAGE NO. 1  
CANCELING REVISED PAGE NO. 1

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LIST OF CHANGES MADE BY THIS TARIFF

This Tariff Supplement ~~introduces~~revises Pilot Rider SET (Service Expansion Tariff) and Rule 3 are modified to reflect the terms of the settlement filed at R-20147-2429610. ~~makes changes to the Rider- USP Surchage resulting from the Quarterly Recalculation and Adjustment for the period ended March 31, 2014. As a result, the Tariff rates have been changed.~~

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RULES AND REGULATIONS (Continued)

## 3. EXTENSION OF FACILITIES

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A. Subject to the provisions of Rule No. 2 hereof, the Company will extend its facilities to a new point of delivery within its service territory if, in its judgment and consistent with Commission regulations, the service to such new point of delivery will have no adverse effect upon the availability of gas to meet the present and reasonably foreseeable volume and pressure needs of existing Customers, and the request is not for "Special Utility Service", as defined below. The Company may condition the extension of facilities upon the applicant's providing a contribution in aid of construction ("CIAC"), the amount of which will be determined by the company and consistent with any parameters approved by the Commission.

B. ~~"Special Utility Service" shall include (a) a request for utility service when the Applicant has an installed alternate fuel capability; (b) a request for utility service when the Applicant is already receiving natural gas service from another Pennsylvania natural gas distribution company ("NGDC"); (c) a request for utility service from an Applicant located in an area in which another NGDC is authorized to serve the Applicant; (d) a request for utility service by a builder or developer of a residential lot plan who is requesting an extension of the Company's facilities in anticipation of future homeowners' need for utility service; (e) any request for service by an Applicant who, in the Company's view, is unlikely to remain on the Company's system for a sufficient period of time to justify the extension; and (f) any request for utility service by an Applicant which would be a commercial or industrial Customer. In the case of requests for Special Utility Service, the Company may condition the extension of facilities upon the Applicant's providing a contribution in aid of construction ("CIAC"), the amount of which will be determined by the Company.~~

C. ~~Even if the Applicant's request is not for Special Utility Service, the Company may request a CIAC to the extent that the Applicant's projected contributions to the Company's fixed or non-gas costs over the five (5) years immediately following the completion of the extension do not cover the full cost of the main line extension. Whether or not a request for a main line extension constitutes Special Utility Service, the Company may also require a refundable deposit from an Applicant. If, in the Company's judgment, a refundable deposit is needed as an incentive for the Applicant to complete within a reasonable period of time a proposed development and/or to actually connect to and begin to use the Company's utility service. The terms and condition of such refundable deposit arrangements shall be established at the Company's discretion.~~

D. ~~If the Company requests a CIAC from an Applicant whose request is not for Special Utility Service, and additional Customers are added to the extended facilities financed by the Applicant's CIAC within five (5) years after the date of completion of the facilities extension, and the applicant is not utilizing the option under Rider SET to pay for the CIAC, the Applicant who paid the CIAC will be entitled to a pro rata refund based on the total load being served by the extended facilities during the three year period immediately following completion of the extension.~~

E. ~~Any CIAC, Customer advance, or other like amounts received from the Customer which shall constitute taxable income as defined by the Internal Revenue Service will have the federal income taxes segregated in a deferred account for inclusion in rate base in a future rate case proceeding. Such income taxes associated with a CIAC or Customer advance will not be charged to the specific contributor of the capital.~~

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PEOPLES TWP LLC

SUPPLEMENT NO. X  
TO  
TARIFF GAS – PA PUC NO. 8  
REVISED PAGE NO. 102  
CANCELLING CANCELING-ORIGINAL PAGE NO. 102

PILOT RIDER SET  
SERVICE EXPANSION TARIFF ("SET")

(C)

The Company, at its discretion, may offer service under this rider to a residential or commercial Applicant or group of Applicants who agree to pay the costs as determined by the Company of extending the Company's facilities to serve the Applicant(s) under Rule 343 of the Rules and Regulations Section of this tariff. This Rider provides the Applicant(s) with an option to pay the contribution in aid of construction ("CIAC") determined in accordance with Rule 4 over a period not to exceed twenty years beginning with the first bill issued after service has been established. This Rider also provides the Applicant(s) with the option to include the cost of the customer-owned service line in the CIAC amount through monthly payments as determined below. This Rider also provides residential Applicant(s) with the option to make payments for the cost of the customer owned service line.

This Rider is established as a Pilot and will close for new participation on June 29, 2019 unless an extension is five years after this rate is approved by the Commission.

The charges under this Rider will be a fixed and applied on a charge per bill assessed on a monthly basis beginning with the first bill issued after service has been established and continuing until the principal amount(s) have been repaid.

The SET principal is equal to the calculated contribution in aid of construction required from the applicant(s) and will be calculated for each service extension project based on the projected revenue and costs for each extension. A separate principal amount and monthly fee will be established for residential and commercial customers within each gas extension project area based on the expected revenues and costs for the residential and commercial customers. The fixed monthly charge will be applicable to any customer located at any premise within each new extension project area. If additional customers are added to the Company's extended facilities upon which SET charges are already in place, the additional customers will pay the established SET charge until the total class-based SET principal amount has been repaid. At that time, the SET charge will expire for all customers within each class-based portion of the project.

Commercial Customers Service Expansion Charge  
Calculation of the SET Charge

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The Company will use the process described in Rule 3 of this tariff to determine if a CIAC is required in order to justify a requested extension of the Company's facilities and the amount of any such CIAC. Under this Rider, the Applicant(s) shall have the option to include the cost of the customer-owned service line in determining the CIAC amount. If it is determined that CIAC is required and the customer opts for SET payments, Under this Rider, if it is determined that CIAC is required, the CIAC will be recovered from the Customer through a monthly flat rate fee calculated as follows:

Formula: The formula for calculation of the commercial Rider L monthly charge is as follows:

$$\text{SET Charge} = \frac{\text{CIAC-SET principal} \cdot [\text{FIN}(1+\text{FIN})^{\text{TIME}}]}{(1+\text{FIN})^{\text{TIME}} - 1}$$

Where:

CIAC-SET Principal = amount equal to the calculated contribution in aid of construction required from the commercial Applicant(s), including, at Applicant's option, the costs associated with the Customer-owned service line.

FIN = Finance charges applied to CIAC<sup>2</sup>the Set Principal. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus

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PEOPLES TWP LLC

SUPPLEMENT NO. X  
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PILOT RIDER SET  
SERVICE EXPANSION TARIFF ("SET")

(C)

The Company, at its discretion, may offer service under this rider to a residential or commercial Applicant or group of Applicants who agree to pay the costs as determined by the Company of extending the Company's facilities to serve the Applicant(s) under Rule 3 of the Rules and Regulations Section of this tariff. This Rider provides the Applicant(s) with an option to pay the contribution in aid of construction ("CIAC") determined in accordance with Rule 4 over a period not to exceed twenty years beginning with the first bill issued after service has been established. This Rider also provides the Applicant(s) with the option to include the cost of the customer-owned service line in the CIAC amount through monthly payments as determined below. This Rider also provides residential Applicant(s) with the option to make payments for the cost of the customer owned service line.

This Rider is established as a Pilot and will close for new participation on June 29, 2019 unless an extension is five years after this rate is approved by the Commission.

The charges under this Rider will be a fixed and applied on a charge per bill assessed on a monthly basis beginning with the first bill issued after service has been established and continuing until the principal amount(s) have been repaid.

The SET principal is equal to the calculated contribution in aid of construction required from the applicant(s) and will be calculated for each service extension project based on the projected revenue and costs for each extension. A separate principal amount and monthly fee will be established for residential and commercial customers within each gas extension project area based on the expected revenues and costs for the residential and commercial customers. The fixed monthly charge will be applicable to any customer located at any premise within each new extension project area. If additional customers are added to the Company's extended facilities upon which SET charges are already in place, the additional customers will pay the established SET charge until the total class-based SET principal amount has been repaid. At that time, the SET charge will expire for all customers within each class-based portion of the project.

Commercial Customers Service Expansion Charge  
Calculation of the SET Charge

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The Company will use the process described in Rule 3 of this tariff to determine if a CIAC is required in order to justify a requested extension of the Company's facilities and the amount of any such CIAC. Under this Rider, the Applicant(s) shall have the option to include the cost of the customer-owned service line in determining the CIAC amount. If it is determined that CIAC is required and the customer opts for SET payments, under this Rider, if it is determined that CIAC is required, the CIAC will be recovered from the Customer through a monthly flat rate fee calculated as follows:

Formula: The formula for calculation of the commercial Rider L monthly charge is as follows:

$$\text{SET Charge} = \frac{\text{CIAC-SET principal} [\text{FIN}(1+\text{FIN})\text{TIME}]}{[(1+\text{FIN}) \text{ TIME}-1]}$$

Where:

CIAC-SET Principal = amount equal to the calculated contribution in aid of construction required from the commercial Applicant(s), including, at Applicant's option, the costs associated with the Customer-owned service line.

FIN = Finance charges applied to CIAC/the Set Principal. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus

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EFFECTIVE:

**PILOT RIDER SET (Cont.)  
SERVICE EXPANSION TARIFF ("SET")**

(c)

~~additional customers will pay the established SET charge until the total CIAC and applicable return for the extension of facilities has been paid. At that time, the SET charge will expire for all customers of the project.~~

**Residential Customer Service Expansion Charge**

~~The Company will use the process described in Rule 4 of this tariff to determine the CIAC amount required in order to justify a requested extension of the Company's facilities. If it is determined that CIAC is required, and the customer opts for the SET payments, the SET principal will be paid through a monthly flat fee of \$55. The monthly fee will continue to be charged until the SET principal for the Residential portion of each extension project has been paid.~~

~~Under this Rider, the residential Applicant(s) shall have the option to pay the cost of the applicant's portion of the service line through a fee of \$15 per month. The fee will be charged until the principal balance of customer owned service line costs for each project have been repaid.~~

**Application of the Rider L monthly charge(s) is as follows:**

~~The SET payments for all applicants of a specific extension project will be aggregated by class and applied first to finance charges (FIN) applied to the beginning of the month SET Principal for that class at the financing rate determined below. The remaining SET payment amounts will be applied to the beginning of the month SET principal until the original SET principal balance is paid in full.~~

~~For residential customers who opted for a monthly fee related to the applicant's portion of their service line, the monthly payment will be applied first to finance charges (FIN) applied to the beginning of the month unpaid service line principal for each project at the rate determined below. The remaining payment amount will be applied to the beginning of the month service line principal for each project.~~

~~SET Principal = the original CIAC amount for the extension as determined under Rule 3.~~

~~FIN = Finance charges applied to the beginning of the month SET principal balance. This finance rate shall equal the overall weighted cost of capital authorized by the Commission for the Company in its most recent base rate case plus a gross up for income taxes. To the extent that no overall weighted cost of capital was established in the most recent rate case, the weighted cost of capital reflected in its most recent Distribution System Improvement Charge filing shall be utilized.~~

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**Late-Payment Charge:** A late-payment charge of 1.50 percent per month for ratepayers shall be applied for failure to make payment in full for all charges billed by the Company by the due date shown on the bill. This charge is to be calculated on the overdue portion of charges under this Rider.

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# Appendix D

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2014-2429610
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Peoples Natural Gas Company LLC	:	
	:	
Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2014-2429606
	:	
Peoples Natural Gas Company LLC – Equitable Division	:	
	:	
Pennsylvania Public Utility Commission	:	
	:	Docket No. R-2014-2429613
	:	
v.	:	
	:	
Peoples TWP LLC	:	

**PEOPLES NATURAL GAS COMPANY LLC,  
PEOPLES NATURAL GAS COMPANY LLC – EQUITABLE DIVISION  
AND PEOPLES TWP LLC  
STATEMENT IN SUPPORT OF JOINT PETITION FOR APPROVAL  
OF SETTLEMENT OF ALL ISSUES**

William H. Roberts II, Esquire  
Peoples Natural Gas Company LLC  
375 North Shore Drive, Suite 600  
Pittsburgh, PA 15212  
E-mail: [william.h.robertsII@peoples-gas.com](mailto:william.h.robertsII@peoples-gas.com)

Michael W. Gang, Esquire  
Anthony D. Kanagy, Esquire  
Post & Schell, P.C.  
17 North Second Street, 12th Floor  
Harrisburg, PA 17101-1601  
E-mail: [mgang@postschell.com](mailto:mgang@postschell.com)  
E-mail: [akanagy@postschell.com](mailto:akanagy@postschell.com)

Date: January 9, 2015

*Counsel for Peoples Natural Gas Company  
LLC, Peoples Natural Gas Company LLC –  
Equitable Division, and Peoples TWP LLC*

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**I. INTRODUCTION AND BACKGROUND**

Peoples Natural Gas Company LLC (“Peoples”), Peoples Natural Gas Company LLC – Equitable Division (“Peoples-Equitable”) and Peoples TWP LLC (“Peoples TWP”) (collectively referred to as the “Peoples Companies” or “Companies”) hereby file this Statement in Support of the Joint Petition for Approval of Settlement of All Issues (“Settlement”) in the above-captioned proceeding. The Settlement requests all necessary approvals to implement the Service Expansion Tariff (“SET”) Pilot Program for each Company, as modified by the Settlement, which is designed to reduce barriers for eligible new customers to receive gas service. Under the SET Program, as modified by the Settlement, eligible customers will be able to pay their share of the cost of the extension of service over time as opposed to paying a large upfront contribution in aid of construction (“CIAC”). This will reduce economic barriers for eligible customers and provide these customers with a better opportunity to receive gas service.

Peoples-Equitable is a division of Peoples. In addition, Peoples TWP is an affiliate of Peoples. The Peoples Companies filed their proposed SET Programs with the Pennsylvania Public Utility Commission (“Commission”) on June 26, 2014. The Bureau of Investigation and Enforcement (“I&E”), the Office of Consumer Advocate (“OCA”) and the Office of Small Business Advocate (“OSBA”) also participated in the proceeding.

The Parties engaged in discovery, filed written testimony, held numerous settlement conferences, and exchanged settlement proposals and counter-proposals. As a result of these conferences and efforts, the Parties reached a settlement in principle that fully resolved all issues raised in this proceeding. On December 8, 2014, the Peoples Companies advised the Honorable Administrative Law Judge Conrad A. Johnson (“ALJ”) that the Parties had reached a settlement in principle of all issues in the proceeding. On December 16, 2014, the ALJ issued an Order

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suspending the procedural schedule and directed the Parties to file the Settlement by January 9, 2015.

The Peoples Companies submit that the Settlement is in the public interest and should be approved. The Settlement, if approved, will resolve all of the issues raised by the Parties in this proceeding. The Settlement was achieved only after a comprehensive investigation of the proposed SET Pilot Program. The Peoples Companies responded to formal and informal discovery requests. The Parties served four rounds of testimony, including the Peoples Companies' direct testimony, the other Parties' direct testimony, rebuttal testimony and surrebuttal testimony. The Parties participated in numerous settlement discussions and formal negotiations, which ultimately led to the Settlement.

The Settlement reflects a carefully balanced compromise of the interests of the Peoples Companies, their customers, and the statutory advocates. For the reasons more fully explained below, the proposed SET Pilot Program, as modified by the Settlement, is in the best interest of, and will produce substantial benefits for customers. Therefore, the Peoples Companies respectfully request that the ALJ recommend that the Commission approve, and that the Commission approve, the SET Pilot Program, subject to the terms and conditions contained in the Settlement, without modification. The Peoples Companies submit this Statement in Support to explain why the Settlement is in the public interest.

## **II. COMMISSION POLICY FAVORS SETTLEMENT**

Commission policy promotes settlements. See 52 Pa. Code § 5.231. Settlements reduce the time and expense that parties must expend litigating a case and, at the same time, conserve precious administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. See 52 Pa. Code § 69.401. In order to accept a settlement, the Commission must first determine that the

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proposed terms and conditions are in the public interest. *Pa. PUC v. York Water Co.*, Docket No. R-00049165 (Oct. 4, 2004); *Pa. PUC v. C.S. Water and Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991). For the following reasons, the Peoples Companies believe that the proposed SET Pilot Program, as modified by the Settlement, is just, reasonable, and in the public interest and, therefore, should be approved without modification.

### **III. THE SETTLEMENT IS IN THE PUBLIC INTEREST**

#### **A. INTRODUCTION**

The SET Program, as modified by the Settlement, will provide eligible customers with a better opportunity to obtain gas service than is currently available under the Companies' tariffs and will provide substantial public benefits. Key benefits include:

- The Peoples Companies have agreed to modify their CIAC formula, which will eliminate or substantially reduce CIAC contributions for all customers.
- The SET Program will mitigate economic barriers for eligible customers to receive gas service by allowing them to pay their share of the cost of the extension over time.
- The SET Program will allow eligible new residential and commercial customers to receive the economic benefits of natural gas service.
- The Settlement provides for the same fixed monthly SET fee of \$55 for all residential customers, with a varying payment term. This is different from the Peoples Companies' original proposal for a monthly SET fee that varied by project with a fixed payment term. The Companies believe that the same fixed payment for all residential customers will allow the Company to deliver a consistent and more effective marketing message and be easier for customers to

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understand. Moreover, the level of the fixed fee together with an extended maximum payment term of 25 years will allow more projects to qualify for the SET Program.

- The settlement also eliminates an additional financial and psychological barrier facing service expansion customers by providing customers with an option to pay customer owned service line costs through a \$15 per month charge.
- The Peoples Companies are not limiting the amount of annual investment funds available for the SET Program.
- Broader use of natural gas provides environmental benefits and benefits to Pennsylvania's economy.

#### **B. CIAC DETERMINATION**

Under the Peoples Companies' tariffs, there are currently two different methodologies for determining a customer's CIAC amount. If a customer's request for service is classified as "non-special utility service," the Companies use a 3-times or 5-times annual revenue standard to determine the customer's CIAC amount. For both Peoples and Peoples-Equitale, if the expected non-gas cost revenue contribution of a new customer for three years is less than the cost to extend service, the customer must pay the difference as a CIAC. For Peoples TWP, five times annual non-gas cost revenues is used to determine whether a non-special utility service customer must pay a CIAC.

If the customer's request for service is classified as "special utility service," the Companies use a discounted cash flow ("DCF") analysis to determine the customer's CIAC amount. The vast majority of extension requests are classified as "special utility service" requests.

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In this proceeding, the OCA proposed several fundamental changes to how the Companies determine customer CIAC amounts. First, OCA proposed that the Companies stop using the 3-times or 5-times revenue standard for non-special utility service extensions and use a DCF approach for all extensions. (OCA St. No. 1, p. 14.) The OCA also proposed several modifications to the Companies' DCF Model, arguing that:

- Meters and regulators should not be considered within the modeling considerations;
- A 40-year time period should be used for modeling purposes instead of a 25-year period;
- The Companies' DCF model should not assume projects are financed with 100% equity;
- The income tax calculation should reflect an interest deduction consistent with the Companies approved capital structure and cost of debt;
- The DCF model should reflect estimated increased revenues at the same rate as operation and maintenance ("O&M") expenses;
- O&M expense levels should only include short-run incremental costs of reading the meter and preparing/sending customers' bills;
- The mid-point of a year should be used for discounting purposes;
- A 10% rate of return is excessive.

(OCA St. No. 1, pp. 17-19.)

The Settlement reflects a compromise of the Peoples Companies' and OCA's positions with respect to the CIAC determination. Under the Settlement, the Peoples Companies have agreed to discontinue the use of an annual revenue (3-times or 5-times) standard for determining

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customer CIAC amounts and will instead rely on a DCF model for all CIAC calculations. This will provide a consistent methodology for determining CIAC amounts for all new customers and eliminate or substantially reduce CIAC contributions for non-special utility service applicants.

The Parties agreed that the Companies will include the cost for the applicant's meter and regulating equipment as a project investment cost. As explained by the Company's witness, Mr. Gregorini, this is appropriate because these are capital costs that the Companies incur when extending service, and excluding them from the extension costs included in the model would understate the cost of the extension. (Peoples Companies St. No. 1-R, p. 15.) The Settlement also adopts the Companies' positions that: (1) non-gas revenues will not be subject to escalation in the model; (2) incremental O&M expenses will be included in the model and will be subject to an escalation factor where appropriate; and (3) a year-end assumption shall be used for revenues and O&M expenses.

The Settlement adopts the OCA positions with respect to using a 40-year period for DCF modeling purposes instead of a 25-year period and including a deduction for interest costs in the determination of income taxes.

The Settlement also provides that all CIAC evaluations will be based on an authorized cost of capital using the following components:

- (1) A 50% Debt / 50% Equity capitalization structure (or other applicable capitalization structure as authorized by the Commission);
- (2) The Company's actual embedded cost of long-term debt; and
- (3) The PUC authorized return on equity. If a company specific authorized return on equity is not available, the effective PUC authorized DSIC ROE rate shall be used.

(Settlement ¶ 28.)

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The changes to the CIAC methodology under the Settlement will eliminate or significantly reduce CIAC amounts for customers. The Peoples Companies believe that the Settlement provisions with respect to determination of customer's CIAC amount are reasonable and should be adopted. While Parties could disagree on specific provisions, the Peoples Companies believe that the CIAC provisions, when taken as a whole, are reasonable and will provide customers with lower overall CIAC requirements than would be provided under the Companies' existing tariffs.

**C. RIDER SET PROPOSAL**

Under their original SET proposal, the Companies proposed to calculate the SET payment by individual extension projects. The Companies proposed to develop a flat monthly fee on a project by project basis that would only be applicable to new customers served by each extension. The Companies explained that the monthly fee was expected to remain fixed over a 20-year recovery period, but that the fee may be eliminated if the principal balance was paid off prior to the end of the 20-year period as a result of connections of additional customers. The Companies also proposed not to set a maximum monthly SET fee. (Peoples St. No. 1, pp. 3-8.) In addition, the Companies proposed that the SET Program would be available to both residential and commercial customers. (Peoples St. No. 1, p. 9.)

In testimony, the OCA expressed concerns that the SET Program would only have a small impact on making natural gas service more available to consumers in the Companies' service territories. (OCA St. No. 1, p. 13.) OCA's primary concern was that the SET payment amount and overall CIAC contribution for customers was too high under the Companies' proposal. (OCA St. No. 1, p. 21.)

The Settlement addresses OCA's customer cost concerns in several different ways. First, as explained above, it eliminates or reduces customers' overall CIAC amounts. In addition, the

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Settlement adopts a monthly fixed SET fee of \$55 for residential customers for all residential projects. The term of payment of the SET fee will be determined on a project by project basis. However, the maximum term of the SET fee for residential customers will be 25 years. All residential SET customers will pay the \$55 fee per month but customers will pay the fee for different terms of not more than 25 years based upon the customers' share that is necessary for a particular project. The \$55 SET fee for residential customers in a project area will end as soon as the customers' principal balance for the project is paid off. The Companies believe that one fixed payment for all residential customers will allow the Company to send a consistent and more effective marketing message and be easier for customers to understand. Further, the \$55 fee is still well below the average monthly savings of \$188 per month for customers using propane and \$130 per month for customers using fuel oil. (Peoples St. No. 1, p. 7.)

These Settlement provisions are reasonable because they establish a fixed SET payment of \$55 for residential customers as opposed to the Companies' original proposal to have a fee that varied by project with no set maximum amount. In addition, the 25-year maximum term will allow more projects to qualify for the SET Program than would qualify under a 20-year maximum term. Moreover, the 25-year maximum term is not substantially longer than the 20-year maximum term originally proposed by the Company and is also shorter than a conventional 30-year mortgage. The Company notes that the term of Columbia's extension program is 20 years.

The OCA opposed the Company's proposal to finance the customer owned service line. (OCA St. No. 1, p. 23.) I&E proposed to limit financing for customer owned service lines to \$2,500 and for a period of 20 years. (I&E St. No. 1, p. 23.)

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In rebuttal testimony, the Company explained that the installation of a customer service line can be expensive and can create a psychological barrier to implementing a service extension. (Peoples St. No. 1-R, p. 21.) In addition, the Company explained that the customer service line should be installed with the main and the Company service line for both safety and efficiency. The Peoples Companies believe that the Settlement provision allowing customers to pay customer owned service line costs through a \$15 per month charge is in the public interest because it will further mitigate economic barriers for customers to participate in the SET Program.

The Settlement further provides that Residential applicants who have the Company install the customer owned service line will be able to pay the costs of the service line through an additional monthly fee of \$15. Settlement ¶ 31(c). The service line costs will also be determined by project and will also reflect the SET interest component.

The Settlement also provides that the Rate SET monthly fixed fee will include an interest component that will be determined based on (a) the “authorized cost of capital” rate (consistent with the provisions in paragraph 28) at the time that the Rate SET mainline extension is constructed, and (b) the outstanding unpaid SET principal balance associated with the residential portion of each SET project investment. This is consistent with how the overall CIAC amount is determined. The interest component shall include a gross-up for income taxes. The difference between the total residential Rate SET fee revenues recovered for a particular mainline extension project and the calculated interest component costs for the residential portion of the project will be treated as principal payment. This provision clarifies how the SET payment will be calculated and reflects a compromise of parties’ positions.

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The Settlement also clarifies the SET Pilot Program will continue for a five-year term or until the effective date of new rates arising from the first base rate case filed by the Company following approval of this program, whichever occurs first. Such rate case filing will address the investment and customer participation levels for this program and will provide all parties with the opportunity to address possible revisions to the program. Per the terms of the approved settlement in the Equitable acquisition case (Docket No. A-2013-2353647, et al.), Peoples and Peoples-Equitable Division cannot put into effect new base rates prior to January 1, 2018. (See Settlement ¶ 31(f).)

The Settlement also allows the Company to offer the SET Program to commercial customers. (Settlement ¶¶ 29, 32.) The SET payment for commercial customers will not be based on a fixed monthly fee, but will be based on the principal and interest amounts set forth in Paragraph 28 of the Settlement and a 20-year repayment period. The Peoples Companies reserve the right to use a repayment period of longer than 20 years for commercial customers that are reasonably expected to remain on the system greater than a 20-year period. Examples would include schools and municipal buildings. The Settlement provisions for commercial customers are in the public interest because commercial customers may have significantly different usage and business requirements than residential customers. The Settlement provisions for commercial customers will allow the Company flexibility in addressing the unique service characteristics of commercial customers.

The Settlement also allows the Company to use the SET Program for new developments. (Settlement ¶ 33.) In testimony, the OCA expressed concerns that potential new homeowners in developments may not be aware of the terms of the SET Program. (OCA St. No. 1, p. 23.) The Settlement addresses this concern by requiring the developer to sign an agreement with the

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Company that requires the Developer to notify home buyers that they will be subject to charges under the SET Program. Developers also shall be required to have purchasers of residential lots sign a form, similar to a Truth-in-Lending Disclosure Statement, containing the disclosure information set forth in paragraph 36 of the Settlement. This provision is in the public interest because it allows developers and homeowners in new developments to take advantage of the SET Program while at the same time ensuring that the homeowners are fully aware of the SET Program terms and conditions. This is consistent with the Commission's decision in the Columbia Gas extension proceeding. *Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2014-2407345, Order entered October 23, 2014, p. 36.

**D. HOUSE LINE AND APPLIANCE FINANCING**

In this proceeding, the Peoples Companies proposed to offer customers on-bill house line and appliance financing to further mitigate barriers to taking gas service. The Companies explained that their on-bill financing program would provide customers with the ability to spread these costs over time and to pay them monthly as part of their ongoing gas service bill. (Peoples Companies St. No. 1-R, p. 6.) The OCA opposed this proposal. (OCA St. No. 1, p. 24.)

The Settlement provides that the Peoples Companies will not offer financing for house lines and appliances at this time but reserve all rights for the Companies to file to provide a financing option in the future. (Settlement ¶ 34.) The Peoples Companies were willing to agree to this provision in order to achieve a settlement in this proceeding. The Companies also note that they are working with local banks to provide an additional option for customers to help mitigate this barrier.

**E. DISCLOSURES AND REPORTING**

In testimony, the OCA proposed that the Company provide a disclosure statement to customers regarding certain terms and conditions of the SET Program. (OCA St. No. 1, p. 25.)

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Under the Settlement, the Peoples Companies agree to provide participating customers with a disclosure statement that informs the customers of its right to pay off the remaining balance of the amount financed at any time with no penalty and estimates the:

- (a) Upfront amount due;
- (b) monthly payment amount;
- (c) maximum term of the financing agreement;
- (d) annual financing interest rate;
- (e) total of payments including both the total amount of principal to be repaid and the total amount of interest to be paid over the term of the financing agreement; and
- (f) total number of payments.

This Settlement provision is in the public interest because it ensures that SET customers will be provided with notice of the essential SET financing terms and conditions.

Likewise, both I&E and OCA proposed that the Companies provide an annual report regarding SET Program details. (I&E St. No. 1, p. 24; OCA St. No. 1, pp. 25-26.) Under the Settlement the Companies agree to report the following information to the Commission, I&E, OCA, and OSBA during the pilot period:

- (a) investment per project including the economic model results and surcharge calculation details;
- (b) total distance of SET main installed;
- (c) number of customers by class connected by project and number of subsequent connections to SET extensions;
- (d) SET revenues received by principal and interest;
- (e) annual SET participant average use per customer (by class);
- (f) average SET participant investment cost per customer (by class);

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- (g) the number of existing residential homes and businesses along SET extensions who have not yet connected (to the extent that such information is available);
  - (h) direct program expenses;
  - (i) data on collections, including efforts for unpaid surcharge amounts; and
  - (j) the number of applicants turned down for insufficient credit (if applicable).

(Settlement ¶ 36.)

The Peoples Companies believe that gathering data and reporting on the SET Pilot Program is important to its future success. Including the foregoing data in the annual report to the Commission and Parties will aid the Parties and the Commission in determining how the program is performing and in identifying potential adjustments that may be required in order to make the program more successful.

#### **F. RATEMAKING PROVISIONS**

The Settlement also clarifies the following ratemaking provisions:

- (a) Rate SET investment costs shall include the cost of a main line extension, company service line, meter/regulating equipment and installation;
- (b) Rate SET investment costs shall be included in rate base in the Company's next base rate proceeding;
- (c) The principal portion of customer payments made under Rate SET shall be applied as a reduction to rate base;
- (d) The financing portion of customer payments made under Rate SET will be credited to the cost of service as compensation to other ratepayers for carrying costs incurred by the Company; and
- (e) In their next general base rate case filing, the Peoples Companies will assign the customer portion of Rate SET investment costs and the related revenues to the appropriate rate class. Rate SET investment costs shall be allocated to

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the classes consistent with the assignment of the initial Rate SET customer investment costs.

(Settlement ¶¶ 37-41.)

The ratemaking provisions of the Settlement provide clarity with regard to how the SET Program investment will be treated in the Companies' future base rate proceedings. These provisions are important and in the public interest because they will avoid potential controversy in future proceedings.

**G. THE SET PILOT PROGRAM WILL PROVIDE SUBSTANTIAL PUBLIC BENEFITS**

The SET Pilot Program will provide substantial public benefits by allowing new customers that could not otherwise afford to pay large up-front CIAC amounts to receive the benefits of natural gas service. Natural gas is currently one of the cleanest, most abundant and least expensive energy sources in Pennsylvania and across the United States. Over the past several years, the production of natural gas in the United States has increased substantially due to the extraction of gas from shale formations. One of the biggest shale formations, the Marcellus Shale, is located in large part in the western and northern portions of Pennsylvania.

The massive influx of new gas production has caused a substantial decrease in the price of natural gas, which has caused a significant divergence between natural gas and alternate fuel prices in recent years. This substantial price difference means that Pennsylvania consumers currently heating with oil and other heating sources who can gain access to natural gas distribution service have the opportunity to save substantial sums of money over time. (OCA St. No. 1, p. 8.) The increase in new gas production and the substantial decrease in the price of natural gas are projected to remain relatively stable for the foreseeable future. (OCA St. No. 1, pp. 8-9.)

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There are also significant environmental benefits associated with converting homes and businesses using fuel oil or coal as their primary heating fuel, which are less beneficial to the environment, to natural gas. (OCA St. No. 1, pp. 9-10.) Further, the increased use of natural gas in Pennsylvania helps to support Pennsylvania's natural gas industry, which is now a significant force in Pennsylvania's economy, and which also helps fund beneficial projects within the Commonwealth through Act 14 impact fees.

The SET Program will extend the use of natural gas to new customers in Pennsylvania, helping them to save fuel costs, will provide environmental benefits and will benefit Pennsylvania's economy.

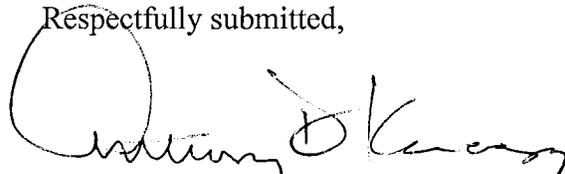
#### **IV. CONCLUSION**

Based on the foregoing, the Settlement is in the public interest and should be approved without modification. The SET Pilot Program as modified by the Settlement, will affirmatively promote the public interest in a substantial way.

The SET Pilot Program, subject to the terms and conditions contained in the Settlement will: (1) allow eligible new customers to obtain natural gas service without paying a large up-front contribution; (2) not burden existing customers with the costs of line extensions; and (3) make gas service more readily available, thereby producing energy cost savings and other benefits for SET customers.

WHEREFORE, Peoples Natural Gas Company LLC, Peoples Natural Gas Company LLC – Equitable Division, and Peoples TWP LLC respectfully request that Administrative Law Judge Conrad A. Johnson recommend approval of, and that the Pennsylvania Public Utility Commission approve the SET Pilot Program subject to the terms and conditions of the Joint Petition for Approval of Settlement of All Issues without modification.

Respectfully submitted,



William H. Roberts II, Esquire (ID # 54724)  
Peoples Natural Gas Company LLC  
375 North Shore Drive, Suite 600  
Pittsburgh, PA 15212  
E-mail: william.h.robertsII@peoples-gas.com

Michael W. Gang, Esquire (ID # 25670)  
Anthony D. Kanagy, Esquire (ID # 85522)  
Post & Schell, P.C.  
17 North Second Street, 12th Floor  
Harrisburg, PA 17101-1601  
E-mail: mgang@postschell.com  
E-mail: akanagy@postschell.com

Date: January 9, 2015

*Counsel for Peoples Natural Gas Company  
LLC, Peoples Natural Gas Company LLC –  
Equitable Division, and Peoples TWP LLC*

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## Appendix E

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility :  
Commission :  
v. : R-2014-2429610  
Peoples Natural Gas Company LLC :

Pennsylvania Public Utility :  
Commission :  
v. : R-2014-2429606  
Peoples Natural Gas Company LLC - :  
Equitable Division :

Pennsylvania Public Utility :  
Commission :  
v. : R-2014-2429613  
Peoples TWP LLC :

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**COMBINED STATEMENT IN SUPPORT AND  
STATEMENT OF NON-OPPOSITION  
OF THE BUREAU OF INVESTIGATION AND ENFORCEMENT  
TO THE JOINT PETITION FOR APPROVAL OF SETTLEMENT OF ALL  
ISSUES**

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**TO ADMINISTRATIVE LAW JUDGE CONRAD A. JOHNSON:**

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”) files this Combined Statement in Support and Statement of Non-Opposition by and through its Prosecutor, Scott B. Granger, and hereby respectfully submits that the terms and conditions of the foregoing Joint Petition for Approval of Settlement of All Issues (“Joint Petition” or “Settlement”) are in the

public interest and represent a fair, just, and reasonable balance of the interests of Peoples Natural Gas Company LLC (“Peoples”); Peoples Natural Gas Company LLC – Equitable Division (“Equitable”); and, Peoples TWP LLC (“TWP”) (hereinafter collectively “Peoples” or the “Company”), their customers, and the parties identified herein.

## **I. BACKGROUND**

1. I&E is charged with representing the public interest in Commission proceedings related to rates, rate-related services, and applications affecting the public interest. In negotiated settlements, it is incumbent upon I&E to identify how amicable resolution of any such proceeding benefits the public interest and to ensure that the public interest is served. Based upon I&E’s analysis of Peoples Service Expansion Tariff filing, acceptance of this proposed Joint Petition is in the public interest and I&E recommends that the Administrative Law Judges and the Commission approve the Settlement in its entirety.

2. On June 26, 2014, the three Peoples natural gas companies: Peoples Natural Gas Company, LLC; Peoples Natural Gas Company LLC – Equitable; and, Peoples TWP LLC all filed supplements to their existing natural gas tariffs.

3. Peoples filed Supplement No. 40 to Tariff Gas – PA PUC No. 45. Equitable filed Supplement No. 8 to Tariff Gas – PA PUC No. 46. And, TWP filed Supplement No. 8 to Tariff Gas – PA PUC No. 8 (collectively the “Supplements”).

4. All of the Supplements filed by the Company were proposed to be effective August 25, 2014.

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5. In the Supplements, the Company proposed a five (5) year pilot program entitled "Service Expansion Tariff" ("SET") to reduce the financial barriers faced by potential customers who are interested in receiving natural gas service in areas where natural gas service is currently unavailable.

6. I&E filed its Notice of Appearance regarding these proceedings at the above referenced dockets on August 22, 2014.

7. The Office of Consumer Advocate ("OCA") has filed a Formal Complaint at Docket No. C-2014-2434196.

8. The Office of Small Business Advocate ("OSBA") has filed a Formal Complaint at Docket No. C-2014-2435583. (Hereinafter, Peoples, I&E, OCA, and OSBA are collectively the "Parties").

9. All statutory parties undertook thorough discovery in this proceeding.

10. ALJ Johnson held a telephonic Prehearing Conference on September 2, 2014. The parties agreed to a schedule for the conduct of the case including the service of testimony among the parties and the dates for evidentiary hearings. As no evidence of the need for public input hearings was presented nor a request for one made, none was scheduled or held.

11. In accordance with the procedural schedule established at the prehearing conference, I&E served to all active parties 6 pieces of testimony and the accompanying 6 exhibits from two I&E witnesses addressing the proposed SET. By company, I&E filed the following testimony:

Peoples Natural Gas -- Docket No. R-2014-2429610

I&E Statement No 1, (Peoples), Witness: Lisa A. Boyd

I&E Exhibit No. 1, (Peoples), Witness: Lisa A. Boyd

I&E Statement No.1-SR, (Peoples), Witness Lisa A. Boyd

I&E Exhibit No. 1-SR, (Peoples), Witness: Lisa A. Boyd

Peoples Natural Gas – Equitable Division – Docket No. R-2014-2429606

I&E Statement No 1, (Equitable), Witness: Emily Sears

I&E Exhibit No. 1, (Equitable), Witness: Emily Sears

I&E Statement No.1-SR, (Equitable), Witness Emily Sears

I&E Exhibit No. 1-SR, (Equitable), Witness: Emily Sears

Peoples TWP LLC – Docket No. R-2014-2429613

I&E Statement No 1, (TWP), Witness: Emily Sears

I&E Exhibit No. 1, (TWP), Witness: Emily Sears

I&E Statement No.1-SR, (TWP), Witness: Emily Sears

I&E Exhibit No. 1-SR, (TWP), Witness: Emily Sears

12 In accordance with Commission policy favoring settlements at 52 Pa. Code § 5.231, I&E participated in multiple in-person and telephonic settlement discussions with the Company and the other Parties to the proceeding. Following extensive settlement negotiations, the parties reached a Settlement of all issues. I&E now files this Combined Statement in Support and Statement of Non-Opposition to the Joint Petition.

13. An evidentiary hearing was held on December 10, 2014, and at the hearing the Parties' testimony and exhibits were admitted into the record by stipulation with accompanying signed affidavits or affirmations of the sponsoring witnesses.

## II. TERMS AND CONDITIONS OF SETTLEMENT

14. “The prime determinant in the consideration of a proposed Settlement is whether or not it is in the public interest.”<sup>1</sup> The Commission has recognized that a settlement “reflects a compromise of the positions held by the parties of interest, which, arguably fosters and promotes the public interest.”<sup>2</sup>

15. I&E submits that the Settlement in the instant proceeding balances the interests of the Company, its customers, and the Parties in a fair and equitable manner and presents a resolution for the Commission’s adoption that best serves the public interest. Furthermore, the negotiated Settlement demonstrates that compromises are evident throughout the Stipulation. Accordingly, for the specific reasons articulated below, and in order to achieve the full scope of benefits addressed in the Settlement, I&E requests that the Settlement be approved by ALJ Johnson and the Commission without modification.

### A. Contribution in Aid of Construction (“CIAC”) Determination (Joint Petition ¶¶ 27-28).

#### 1. Proposed Settlement Terms.

In the Joint Petition, Peoples and the Parties agree, subject to the provisions set forth below, the Peoples Companies will modify its existing tariffs such that all mainline extension evaluations to determine an applicant’s CIAC amount (including the Non-

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<sup>1</sup> *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 PA PUC 1, 22 (1985).

<sup>2</sup> *Pennsylvania Public Utility Commission v. C S Water and Sewer Associates*, 74 PA PUC 767, 771 (1991).

Special Utility category) will be based on a DCF model. The Peoples Companies will discontinue the use of an annual revenue (3x or 5x) standard. Pro Forma Tariffs for each of the Peoples Companies are provided in Appendices A-C attached to the Joint Petition. *See, Joint Petition, ¶ 27.*

Each Peoples Company's DCF Model will reflect the following parameters:

- (a) The cost for the applicant's meter and regulating equipment will be included as a project investment cost.
- (b) All CIAC evaluations will be based on an "authorized cost of capital" determined using the following components:
  - (1) A 50% Debt / 50% Equity capitalization structure (or other applicable capitalization structure as authorized by the Commission);
  - (2) The Company's actual embedded cost of long-term debt; and
  - (3) The PUC authorized return on equity. If a company specific authorized return on equity is not available, the effective PUC authorized DSIC ROE rate shall be used.
- (c) The presumed revenue stream from residential applicants will be extended from 25 years to 40 years.
- (d) The determination of income taxes will include a deduction for interest costs consistent with the capitalization and debt cost rates outlined above.
- (e) The applicant's projected non-gas revenues will not be subject to escalation since the driver for future ongoing base rate increases will be infrastructure replacement costs that are unrelated to the investment required to serve applicant.
- (f) Incremental O&M expenses that include meter reading and billing costs will be included in the DCF model and such incremental O&M will be subject to an escalation factor where appropriate.
- (g) A "year-end" assumption shall be used for revenues and O&M expenses discounting purposes.

*See*, Joint Petition, ¶ 28.

2. *I&E's Response to the Joint Petition.*

In response to the settlement terms proposed in the Joint Petition, I&E recognizes that this Settlement is the result of compromises by all of the Parties. I&E also recognizes that this Joint Petition does not necessarily represent the position(s) that would be advanced by I&E in the event this proceeding were to be fully litigated.

Nevertheless, I&E witnesses recommended in direct testimony that the Commission approve Peoples' as filed proposal with certain recommended changes as discussed in direct. *See*, I&E Statement No. 1 (Peoples), pp. 3-24; I&E Statement No. 1 (Equitable), pp. 3-25; and, I&E Statement No. 1 (TWP), pp. 3-25. I&E witnesses stated that Peoples' proposed SET is similar in design to the extension financing tariff recently proposed in *Pennsylvania PUC v. Columbia Gas of Pennsylvania, Inc.* at Docket No. R-2014-2407345. Furthermore, it is also in the spirit of the effort underway in the Pennsylvania Legislature to achieve natural gas distribution system expansion via the proposed Senate Bill No. 738 (I&E Exhibit No. 1, Sch. 1 (Peoples) (Equitable) and (TWP)). And finally, the I&E proposed recommendations to Peoples' as filed Supplements discussed above were made in an effort to bring a level of standardization to gas extension financing offerings. *See*, I&E Statement No. 1 (Peoples), p. 3; I&E Statement No. 1 (Equitable), p. 3; and, I&E Statement No. 1 (TWP), p. 3.

The Company's witnesses responded in rebuttal testimony and addressed I&E's recommendations. After reviewing the Company's' rebuttal responses, I&E witnesses

stated in surrebuttal that they believe the Company has adequately supported the DCF model currently utilized by Peoples and set forth in Company witness Joseph A. Gregorini's rebuttal testimony (Company Statement No. 1-R, pp. 11-16). In fact, given the variable useful lives of the infrastructure components included in the economic evaluation, I&E believes that the Company's as proposed 25-year recovery model seemed reasonable. *See*, I&E Statement No. 1-SR (Peoples), pp. 5-6; I&E Statement No. 1-SR (Equitable), pp. 5-6; and, I&E Statement No. 1-SR (TWP), pp. 5-6.

Therefore, and in consideration of all of the above, I&E supports the settled upon terms regarding the Company's CIAC determination. Furthermore, I&E believes that the Settlement terms are consistent with prior Commission decisions<sup>3</sup>; that they provide stability and guidance to the Companies; and provide protection from volatility; all of which are consistent with protecting the public interest and maintaining a balance of the interests of the Parties.

**B. Rider SET Proposal – 5-Year Pilot Program  
(Joint Petition ¶¶ 29-33).**

*1. Proposed Settlement Terms.*

In the Settlement, Peoples and the Parties agree that each of the Peoples Company's Rate SET will be targeted to residential conversion customers and individual residential customers. The Peoples Companies reserve the right to utilize Rate SET for

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<sup>3</sup> *See, Pennsylvania PUC v. Columbia Gas of Pennsylvania, Inc.* ORDER entered October 23, 2014 at Docket No. R-2014-2407345.

select commercial and builder/developer circumstances where, absent the availability of Rate SET, the potential applicant would not pursue natural gas service from the Company. Rate SET mainline extension projects shall be evaluated on an individual project basis. Any required customer investment for each project shall be allocated to residential and commercial customers based on the class based amount of Company supported investment for the project. See, Joint Petition, ¶¶ 29-30.

*(a). Residential Customers.*

The following provisions shall be applicable to residential natural gas customers that elect not to pay the customer share of the extension costs through an up-front CIAC or elect not to pay customer owned service line costs up-front during the 5-year term of Rate SET Pilot program:

Such residential customers will be charged a monthly fixed fee of \$55 until the outstanding principal balance of such residential customers' portion of the mainline extension project cost is zero.

The maximum amount of customer share of extension costs financed shall not result in a payment period of more than 25 years. Customers may pay the portion of the customer share of extensions costs up front that is necessary to bring the amount financed down to 25 years.<sup>4</sup>

Residential applicants who have the Company install the customer owned service line will have an option to pay the costs of the service line through an additional monthly fee of \$15.00. The costs for the customer owned service lines will be determined by project and will further reflect the SET interest component to the extent such costs are not paid up-front. Applicants shall continue to pay the \$15 monthly fee until the outstanding principal balance of customer owned service line costs is zero.

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<sup>4</sup> I&E is not joining the settlement with respect to the 25 year term for residential customers but has agreed not to oppose this provision.

The Rate SET monthly fixed fee will include an interest component that will be determined based on (a) the “authorized cost of capital” rate (consistent with the provisions in paragraph 28) at the time that the Rate SET mainline extension is constructed and (b) the outstanding unpaid SET principal balance associated with the residential portion of each SET project investment. The interest component shall include a gross-up for income taxes. The difference between the total residential Rate SET fee revenues recovered for a particular mainline extension project and the calculated interest component costs for the residential portion of the project will be treated as principal payment.

Once the Rate SET principal revenues paid by all residential customers associated with a particular mainline extension project equal the total outstanding SET principal balance owed to the Company for the residential portion of the mainline extension project, the participating residential customers will no longer be charged the applicable Rate SET monthly fixed fee.

The pilot program will continue for a five-year term or until the effective date of new rates arising from the first base rate case filed by the Company following approval of this program, whichever occurs first. Such rate case filing will address the investment and customer participation levels for this program and will provide all parties with the opportunity to address possible revisions to the program. Per the terms of the approved settlement in the Equitable acquisition case (Docket No. A-2013-2353647, et al.), Peoples and Peoples-Equitable Division cannot put into effect new base rates prior to January 1, 2018.

*See, Joint Petition, ¶ 31.*

*(b). Commercial Customers.*

The monthly Rate SET fee applicable to commercial customers will not be based on a standard fixed monthly fee but shall be determined based on the following parameters:

A principal amount based on the revised DCF model described above in paragraph 28;

An interest rate based on an “authorized cost of capital” defined above in paragraph 28;

A gross-up for income taxes; and

A twenty-year loan period provided, however, that in some cases a longer loan period may be used that shall not exceed the presumed revenue stream period for commercial applicants as reflected in the CIAC determination. A loan period greater than twenty-years shall only be applicable to certain commercial customers that are reasonably expected to remain on the system greater than a twenty year period from the service initiation date.

Should Rate SET commercial customer(s) be served from a main line extension project that also serves residential Rate SET customers, the commercial and residential portions of the customers' share of investment costs and the Rate SET revenues collected shall be separately tracked.

*See, Joint Petition, ¶ 32.*

*(c). Builder/Developer Projects.*

Projects to extend lines to new developments may be included in the SET Pilot provided that the Developer signs an agreement with the Company that requires the Developer to notify home buyers that they will be subject to charges under the SET Pilot. Developers also shall be required to have purchasers of residential lots sign a form, similar to a Truth-in-Lending Disclosure Statement, containing the disclosure information set forth in paragraph 36 of Section D below.

*See, Joint Petition, ¶ 32.*

*2. I&E's Response to the Joint Petition.*

In response to the terms proposed in the Joint Petition, I&E recognizes that this Settlement is the result of compromises by all of the Parties. I&E also recognizes that this Joint Petition does not necessarily represent the position(s) that would be advanced by I&E in the event this proceeding were to be fully litigated.

The fixed monthly fee of \$55 to be charged to residential customers participating in the SET pilot was heavily negotiated by the Parties. I&E supports the \$55 fixed monthly fee as set forth in the Joint Petition.

The maximum payment period of 25 years was also heavily negotiated by the Parties. I&E was in favor of a maximum payment period of only 20 years throughout the negotiations. However, in accordance with the Commission's policy favoring settlements; and, in deference to the Commission's stated desire to provide an alternative payment option for customers requesting distribution line extensions in underserved and unserved areas,<sup>5</sup> I&E ultimately chose to not oppose (rather than support) the Companies' desire to set the maximum term at 25 years.

The issue regarding the treatment of customer owned service lines was also heavily negotiated. Ultimately the Parties settled on an optional \$15 monthly fee separate and apart from the SET \$55 fixed monthly fee project financing. I&E supports this treatment of the customer owned service lines. I&E has maintained its disagreement with inclusion of the customer owned service lines in the Company's rate base throughout this matter. *See*, I&E Statement No. 1 (Peoples), p. 10-11; I&E Statement No. 1 (Equitable), p. 10-11; and, I&E Statement No. 1 (TWP), p. 10-11. *See also*, I&E Statement No. 1-SR (Peoples), pp. 10-12 and 18; I&E Statement No. 1-SR (Equitable), pp. 10-12 and 19; and, I&E Statement No. 1-SR (TWP), pp. 10-12 and 19.

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<sup>5</sup> *See*, STATEMENT OF COMMISSIONER PAMELA A. WITMER, dated October 23, 2014, *Pennsylvania PUC v. Columbia Gas of Pennsylvania, Inc.* at Docket No. R-2014-2407345. *See also*, STATEMENT OF COMMISSIONER JAMES H. CAWLEY, dated October 23, 2014, *Pennsylvania PUC v. Columbia Gas of Pennsylvania, Inc.* at Docket No. R-2014-2407345.

Regarding the financing rate, the I&E witnesses recommended utilizing the weighted cost of capital to establish the financing rate. This financing rate is consistent with the financing rate recommended by the Administrative Law Judge in the Recommended Decision in *Pennsylvania PUC v. Columbia Gas of Pennsylvania, Inc.* pilot gas extension financing program, Rider NAS (New Area Service), at Docket No. R-2014-2407345. See, I&E Statement No. 1 (Peoples), pp. 12-13; I&E Statement No. 1 (Equitable), pp. 13-14; and, I&E Statement No. 1 (TWP), pp. 12-14. Furthermore, in surrebuttal, the I&E witnesses reaffirmed their recommendation to utilize the Company's weighted cost of capital for the base SET financing rate. See, I&E Statement No. 1-SR (Peoples), p. 14; I&E Statement No. 1-SR (Equitable), p. 14; and, I&E Statement No. 1-SR (TWP), p. 14.

Regarding the tax multiplier portion of the \$55 fixed monthly fee, after reviewing the Company's clarification of how the rate base will be adjusted for received principal payments, the I&E witnesses agree that a tax multiplier is appropriate to further minimize the potential for subsidization of the uneconomic extension costs by existing ratepayers. See, I&E Statement No. 1-SR (Peoples), p. 14-16; I&E Statement No. 1-SR (Equitable), p. 15-17; and, I&E Statement No. 1-SR (TWP), p. 14-17.

Therefore, and in consideration of all of the above, I&E supports and/or does not oppose the settled upon terms regarding the Rider SET Proposal – 5 Year Pilot Program. Furthermore, I&E believes that the terms proposed in the Joint Petition are consistent

with prior Commission decisions<sup>6</sup> and the Commission's stated desire to provide an alternative payment option for customers requesting distribution line extensions in underserved and unserved areas;<sup>7</sup> provide stability and guidance to the Companies; and provide protection from volatility; all of which are consistent with protecting the public interest and maintaining a balance of the interests of the Parties.

**C. House Line and Appliance Financing  
(Joint Petition ¶ 34).**

*1. Proposed Settlement Terms.*

In the Settlement, the Parties agree that Peoples and Peoples TWP will not offer financing for house lines and appliances but reserve the right to file for a financing option in the future. *See*, Joint Petition, ¶ 34.

*2. I&E's Response to the Joint Petition.*

I&E supports the Company's decision regarding house line and appliance financing as set forth in the Joint Petition.

**D. Disclosures and Reporting  
(Joint Petition ¶¶ 35-36).**

*1. Proposed Settlement Terms.*

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<sup>6</sup> *See, Pennsylvania PUC v. Columbia Gas of Pennsylvania, Inc.* ORDER entered October 23, 2014 at Docket No. R-2014-2407345.

<sup>7</sup> *See*, Footnote 5, *supra*.

The Company agrees to provide participating customers with a disclosure statement that informs the customer of its right to pay off the remaining balance of the amount financed at any time with no penalty and estimates the:

- (a) Upfront amount due;
- (b) monthly payment amount;
- (c) maximum term of the financing agreement;
- (d) annual financing interest rate;
- (e) total of payments including both the total amount of principal to be repaid and the total amount of interest to be paid over the term of the financing agreement; and
- (f) total number of payments.

*See, Joint Petition, ¶ 35.*

Furthermore, the Company agrees to report the following information to the Commission, I&E, OCA, and OSBA during the pilot period as recommended by OCA in direct testimony:

- (a) investment per project including the economic model results and surcharge calculation details;
- (b) total distance of SET main installed;
- (c) number of customers by class connected by project and number of subsequent connections to SET extensions;
- (d) SET revenues received by principal and interest;
- (e) annual SET participant average use per customer (by class);
- (f) average SET participant investment cost per customer (by class);
- (g) the number of existing residential homes and businesses along SET extensions who have not yet connected (to the extent that such information is available);
- (h) direct program expenses;
- (i) data on collections, including efforts for unpaid surcharge amounts;
- (j) the number of applicants turned down for insufficient credit (if applicable).

*See, Joint Petition, ¶ 36.*

2. *I&E's Response to the Joint Petition.*

In response to the settlement terms proposed in the Joint Petition, I&E recognizes that this Settlement is the result of compromises by all of the Parties. I&E also recognizes that this Joint Petition does not necessarily represent the position(s) that would be advanced by I&E in the event this proceeding were to be fully litigated.

I&E witnesses proposed the reporting requirements set forth in the Joint Petition. *See*, I&E Statement No. 1 (Peoples), pp. 23-24; I&E Statement No. 1 (Equitable), pp. 24-25; and, I&E Statement No. 1 (TWP), pp. 24-25. The Companies accepted I&E's recommended reporting requirements for the Pilot Rider L - Service Expansion Tariff (Company Statement No. 1-R, pp. 27-28). *See*, I&E Statement No. 1-SR (Peoples), p. 2; I&E Statement No. 1-SR (Equitable), p. 2; and, I&E Statement No. 1-SR (TWP), p. 2

Therefore, I&E supports the settled upon terms regarding disclosures and reporting. Furthermore, I&E believes that they are consistent with prior Commission decisions<sup>8</sup>; that they provide stability and guidance to the Companies; and provide protection from volatility; all of which are consistent with protecting the public interest and maintaining a balance of the interests of the Parties.

**E. Ratemaking Provisions  
(Joint Petition ¶¶ 37-41).**

*1. Proposed Settlement Terms.*

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<sup>8</sup> *See, Pennsylvania PUC v. Columbia Gas of Pennsylvania, Inc.* ORDER entered October 23, 2014 at Docket No. R-2014-2407345.

Rate SET investment costs shall include the cost of a main line extension, company service line, meter/regulating equipment and installation. Rate SET investment costs shall be included in rate base in the Company's next base rate proceeding. The principal portion of customer payments made under Rate SET shall be applied as a reduction to rate base. The financing portion of customer payments made under Rate SET will be credited to the cost of service as compensation to other ratepayers for carrying costs incurred by the Company. *See*, Joint Petition, ¶¶ 37-40.

In their next general base rate case filing, the Peoples Companies will assign the customer portion of Rate SET investment costs and the related revenues to the appropriate rate class. Rate SET investment costs shall be allocated to the classes consistent with the assignment of the initial Rate SET customer investment costs. *See*, Joint Petition, ¶ 41.

2. *I&E's Response to the Joint Petition.*

In response to the settlement terms proposed in the Joint Petition, I&E recognizes that this Settlement is the result of compromises by all of the Parties. I&E also recognizes that this Joint Petition does not necessarily represent the position(s) that would be advanced by I&E in the event this proceeding were to be fully litigated.

The I&E witnesses are in general agreement with the ratemaking provision terms as set forth in the Joint Petition, stating in direct testimony that the Company's proposed ratemaking treatment is consistent with other Natural Gas Distribution Company

(“NGDC”) proposals. *See*, I&E Statement No. 1 (Peoples), pp. 11-12; I&E Statement No. 1 (Equitable), p. 12; and, I&E Statement No. 1 (TWP), pp. 11-12.

Therefore, I&E supports the settled upon terms regarding the ratemaking provisions set forth in the Joint Petition. Furthermore, I&E believes that they are consistent with prior Commission decisions<sup>9</sup>; that they provide stability and guidance to the Companies; and provide protection from volatility; all of which are consistent with protecting the public interest and maintaining a balance of the interests of the Parties.

**E. Tariffs  
(Joint Petition ¶ 42).**

*1. Proposed Settlement Terms.*

Appendices A-C to the Joint Petition contain the pro forma tariff pages showing the SET Program rules for each of the Peoples Companies as modified by the terms of this Settlement. *See*, Joint Petition, Appendices A-C.

*2. I&E's Response to the Joint Petition.*

All of the Parties have had the opportunity to review the Tariffs as attached to the Joint Petition at Appendices A-C. I&E supports the Tariffs as much as they are reflective of the terms set forth in the Joint Petition.

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<sup>9</sup> *See, Pennsylvania PUC v. Columbia Gas of Pennsylvania, Inc.* ORDER entered October 23, 2014 at Docket No. R-2014-2407345.

### **III. THE SETTLEMENT SATISFIES THE PUBLIC INTEREST**

16. I&E represents that all issues raised in testimony have been satisfactorily resolved through discovery and discussions with the Company or are incorporated or considered in the resolution proposed in the Settlement. The very nature of a settlement requires compromise on the part of all parties. This Settlement exemplifies the benefits to be derived from a negotiated approach to resolving what can appear at first blush to be irreconcilable regulatory differences. The Parties have carefully discussed and negotiated all issues raised in this proceeding, and specifically those addressed and resolved in this Settlement. Further line-by-line identification of the ultimate resolution of the disputed issues beyond those presented in the Settlement is not necessary as I&E represents that the Settlement maintains the proper balance of the interests of all parties. I&E is satisfied that no further action is necessary, and I&E considers its investigation of this Service Expansion Tariff filing complete.

17. Based upon I&E's analysis of the filing, resolution of this case by settlement rather than litigation avoids the substantial time and effort involved in continuing to formally pursue all issues in this proceeding at the risk of accumulating excessive expense and regulatory uncertainty.

18. I&E further submits that the acceptance of this Settlement negates the need for evidentiary hearings, which would compel the extensive devotion of time and expense for the preparation, presentation, and cross-examination of multiple witnesses, the preparation of Main and Reply Briefs, the preparation of Exceptions and Replies, and the

potential of filed appeals, all yielding substantial savings for all parties and ultimately all customers. Moreover, the Settlement provides regulatory certainty with respect to the disposition of issues and final resolution of this case which all of the Parties agree benefits their discrete interests.

19. The Settlement is conditioned upon the Commission's approval of all terms without modification. Should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by the Companies, I&E, or any other party.

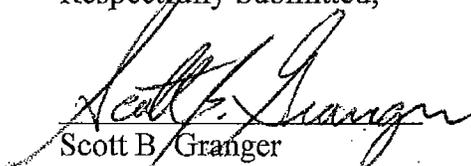
20. This Settlement is being presented only in the context of this Service Expansion Tariff proceeding in an effort to resolve certain outstanding issues in a manner that is fair and reasonable. I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E might adopt during subsequent litigation in the event that the Settlement is rejected by the Commission or otherwise properly withdrawn by any other parties to the Joint Petition. Furthermore, the Joint Petition reflects compromises on all sides, and is presented without prejudice to the positions that any of the parties may advance in the future on the merits of the issues.

21. If ALJ Johnson recommends that the Commission adopt the Joint Petition as proposed, I&E agrees to waive the filing of Exceptions. However, I&E does not waive its right to file Replies to Exceptions with respect to any modifications to the terms and conditions of the Joint Petition or any additional matters that may be proposed by ALJ

Johnson in his Recommended Decision. I&E also does not waive the right to file Replies in the event *any* party files Exceptions.

**WHEREFORE**, the Commission's Bureau of Investigation and Enforcement represents that it supports and/or does not oppose the terms set forth in the Joint Petition as being in the public interest and respectfully requests that Administrative Law Judge Conrad A. Johnson recommends, and the Commission approve, the terms and conditions contained in the Joint Petition.

Respectfully Submitted,



Scott B. Granger

Prosecutor

PA Attorney I.D. # 63641

Bureau of Investigation and Enforcement  
Pennsylvania Public Utility Commission  
Post Office Box 3265  
Harrisburg, Pennsylvania 17105-3265  
(717) 787-1976

Dated: January 9, 2015

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## Appendix F

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2014-2429610
Peoples Natural Gas Company LLC	:	
	:	
	:	
Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2014-2429606
Peoples Natural Gas Company LLC –	:	
Equitable Division	:	
	:	
	:	
Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2014-2429613
Peoples TWP LLC	:	

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STATEMENT OF THE  
OFFICE OF CONSUMER ADVOCATE  
IN SUPPORT OF THE JOINT PETITION  
FOR APPROVAL OF SETTLEMENT  
OF ALL ISSUES

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The Office of Consumer Advocate (OCA), a signatory party to the Joint Petition for Approval of Settlement of All Issues (Settlement) in the above-captioned proceeding, respectfully requests that the terms and conditions of the Settlement be approved by Administrative Law Judge Conrad A. Johnson (ALJ Johnson) and the Pennsylvania Public Utility Commission (Commission). It is the position of the OCA that the proposed Settlement is in the public interest and in the interests of the customers of Peoples Natural Gas Company LLC (Peoples), Peoples Natural Gas Company LLC- Equitable Division (Peoples-Equitable), and Peoples TWP LLC (Peoples TWP) (collectively, the Companies).

**I. INTRODUCTION**

On June 26, 2014, Peoples TWP filed Supplement No. 8 to Tariff Gas – Pa. P.U.C. No. 8;

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Peoples-Equitable filed Supplement No. 8 to Tariff Gas – Pa. P.U.C. No. 46; and Peoples filed Supplement No. 40 to Tariff Gas – Pa. P.U.C. No. 45. The Companies proposed to implement a pilot program entitled Pilot Rider Service Expansion Tariff (Rider SET) intended to reduce the financial barriers faced by consumers seeking natural gas service in areas where natural gas is currently unavailable. The Companies proposed that the Rider SET pilot program would be available to residential customers and commercial customers who seek natural gas service. The Rider SET would be an alternative to the Companies’ current main extension tariff.

As proposed, customers who receive a natural gas main extension through Rider SET would not be required to pay an upfront contribution in aid of construction (CIAC), as is the usual practice in Pennsylvania. Instead, the customer would have the option to have the Companies apply a monthly surcharge to the customer’s bills to be paid for not more than a period of 20 years. The Rider SET monthly surcharges would vary by project, but all customers within a project and within the same customer class would have the same surcharge. The Companies proposed that the surcharge amount would be based on the amount of the “uneconomic” portion of each main extension project.

The OCA filed Formal Complaints and Public Statements in these proceeding on July 25, 2014 to help ensure that the proposed Rider SETs contained adequate consumer protections and did not result in rates and charges that were excessive, unjust or unreasonable, discriminatory, or otherwise contrary to Commission regulation or policy. The Office of Small Business Advocate (OSBA) filed a Formal Complaint and Public Statement on July 16, 2014. The Commission’s Bureau of Investigation & Enforcement (I&E) filed a Notice of Appearance on August 22, 2014.

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The Commission assigned the case to ALJ Johnson for scheduling of hearings. A prehearing conference was held on September 2, 2014, at which time ALJ Johnson consolidated the three proceedings and established a litigation schedule. The parties filed direct testimony on September 23, 2014; rebuttal testimony on October 14, 2014; and surrebuttal testimony on October 22, 2014.

Hearings were initially scheduled for October 27-28, 2014. The Companies, however, requested additional time to amicably resolve the proceeding, and ALJ Johnson granted their request, rescheduling the hearings for December 10-11, 2014. Additionally, the Companies filed Supplement No. 46 to Tariff Gas – PA PUC No. 40, extending the effective date of the proposed Service Expansion Tariff from February 25, 2015 until April 24, 2015.

Pursuant to the Commission’s policy of encouraging settlements, the OCA, I&E, OSBA, and the Companies engaged in extensive settlement discussions, resulting in the Settlement. By stipulation of the parties, the OCA admitted the following testimony and accompanying exhibits into the record at the hearing on December 10, 2014:

- OCA Statement No. 1, the Direct Testimony of Glenn A. Watkins, and accompanying exhibits marked as GAW-1 and GAW-2;
- OCA Statement No. 1R, the Rebuttal Testimony of Glenn A. Watkins; and
- OCA Statement No. 1S, the Surrebuttal Testimony of Glenn A. Watkins.

While the Settlement may not address every recommendation proposed by the OCA, the OCA submits that the terms and conditions of the Settlement are in the interest of the Companies’ customers, future customers of the Companies, and in the public interest. The OCA submits the following in support of the Settlement:

## **II. SETTLEMENT PROVISIONS**

As explained in OCA witness Watkins testimony, the expansion of natural gas distribution infrastructure in Pennsylvania to serve new customers has been limited due to the fact that the economic costs of expanding distribution mains often exceed the perceived benefits. OCA St. 1 at 2. Residential customers are often reluctant or unable to convert to natural gas due, in part, to the upfront CIAC requirements. OCA St. 1 at 4. As explained by OCA witness Watkins, residential customers within the Companies' service area could realize significant savings if natural gas was available to them. OCA St. 1 at 8. The Rider SET for each Company provides an additional option for potential new customers to finance main extensions and connect to natural gas service. To that extent, the OCA supports the general objective of this program.

A. CIAC DETERMINATION (Settlement at A)

The Settlement provides that the Companies will utilize a DCF model to determine an applicant's CIAC amount and make several modifications to the current DCF model. By doing so, the Settlement better ensure that the economics of a main extension are properly analyzed and that a reasonable CIAC calculation results for residential customers.

As explained by OCA witness Glenn A. Watkins, under the Companies' current tariffs, the Companies utilize two separate standards, depending on whether the project is characterized as a "non-special utility service" or a "special utility service," to determine whether a CIAC deposit is required and, if so, how much. OCA St. 1 at 13. For "non-special utility services," the Companies measure expected revenue contributions over a period of three or five years<sup>1</sup> against the projected total project capital expenditures to extend mains and connect the new customer.

Id. If the expected revenue amount is less than the cost to extend service, the customer will be

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<sup>1</sup> Peoples and Peoples-Equitable currently use a three year standard, while Peoples TWP uses a five year standard.

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required to pay the difference as a CIAC deposit. Id. For “special utility service” projects, the Companies utilize a Discounted Cash Flow (DCF) model. Id.

In his direct testimony, OCA witness Watkins testified that it is not reasonable to use a three to five times annual revenue standard to determine CIAC requirements. OCA St. 1 at 14. Mr. Watkins explained that under the Companies’ current tariffs, they would recover their investment for “non special utility service” projects over the course of three to five years, even though natural gas distribution mains have a service life of 40 to 50 years. Id. On the other hand, Mr. Watkins determined that the Companies’ DCF model, with a few modifications, strikes a reasonable balance between ease of use and accuracy. Id. Therefore, Mr. Watkins recommended that the Companies rely exclusively on the DCF model approach. Id.

OCA witness Watkins also expressed concern with the Companies’ DCF model due to the inclusion of meter and regulating equipment costs in their CIAC analysis; the Companies’ current presumed use of a 25 year revenue stream from residential customers; the assumption that projects are financed with 100% equity; the practice of escalating O&M expenses, but not revenues, over the life of the project; the dollar level of variable O&M expenses per customer; the mathematical formulae used to discount cash inflows and outflows; and the use of a 10% required rate of return. OCA St. 1 at 16-17.

The Settlement addresses some of the issues raised by OCA witness Watkins regarding the Companies’ current practice of determining an applicant’s CIAC amount. Consistent with Mr. Watkins recommendation, the Settlement provides that the Companies will discontinue the use of the three to five year annual revenue standard and will determine an applicant’s CIAC amount based on a DCF model. Settlement at ¶ 27.

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Additionally, the settlement provides for several modifications to the DCF model. Importantly, under the Settlement, the presumed revenue stream from residential applicants will be extended from 25 years to 40 years. Settlement at ¶ 28. As explained in the testimony of OCA witness Watkins, because the service life of mains is at least 40 years, a model that only considers 25 years understates the present value of cash inflows relative to the present value of cash outflows, overstating the CIAC. OCA St. 1 at 18. This provision is in the public interest, because it modifies the CIAC model to more accurately reflect the useful life of the plant in question, lowering the CIAC. See Id. Other modifications to the DCF formula reflected in the Settlement will also aid in better evaluating the economics of main extension projects.

**B. RIDER SET PROPOSAL- 5-YEAR PILOT PROGRAM (Settlement at B)**

In his direct testimony, OCA witness Watkins raised several concerns with the Rider SET proposal. Mr. Watkins testified that the Companies' proposed interest rate of 13.5%, which would be equal to a combination of the Companies' authorized after tax cost of capital, plus an incentive add-on of 200 basis points, the sum of which would be grossed up to a before tax basis, could result in limited participation and success for the program, because many homeowners could finance the CIAC with a home equity loan at an interest rate of around 3%. OCA St. 1 at 21. Therefore, Mr. Watkins recommended that the Companies utilize an SET financing interest rate between 3.5% and 4.5%. OCA St. 1 at 22. Additionally, Mr. Watkins recommended that the Rate SET should not be made available to large commercial customers or to real estate developers, as large commercial customers generally have sufficient access to capital markets for financing and developers could install new mains and pass the costs on to potentially uninformed new homeowners. OCA St. 1 at 22-23.

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The Settlement provisions regarding the Rider SET proposal address several of the concerns raised by Mr. Watkins. First, the Settlement provides that residential customers will be charged a monthly fixed fee of \$55 until the outstanding balance of such residential customers' portion of the mainline extension project cost is zero. Settlement at ¶ 31. The Settlement also limits the payback period. *Id.* These provisions provide certainty of amount for the customers who choose to participate in the program.

Additionally, the Settlement provides that each of the Companies' Rate SETs will be targeted to residential conversion customers and individual residential customers. Settlement at ¶ 31. While the Settlement also allows the Companies to offer the program to some commercial companies and developers, it provides that developers extending lines to new developments are required to notify the home buyers that they will be subject to charges under the SET Pilot. Settlement at ¶ 29. Thus, the Settlement adequately addresses the OCA's concern that new homebuyers will be uninformed of those charges.

Additionally, the Settlement removes the 200 basis points in the interest rate equation, which will lower the interest rate for participating customers. Settlement at ¶ 31. As discussed below, the Settlement also requires the Companies to provide participating customers with disclosure statements, informing them of important conditions of the program. Settlement at ¶ 35.

#### C. HOUSE LINE AND APPLIANCE FINANCING (Settlement at C)

OCA witness Watkins testified that the Companies' proposal to offer "on-bill" financing of natural gas plumbing and appliances is not prudent public policy, because it enables a natural gas distribution company (NGDC) to act as a bank. OCA St. 1 at 24. The Settlement addresses this concern, and provides that Peoples and Peoples TWP will not offer financing for house lines

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and appliances but reserve the right to file for a financing option in the future. Settlement at ¶ 34.

D. DISCLOSURES AND REPORTING (Settlement at D)

Additionally, the Settlement is in the public interest, because it requires the Companies to provide participating customers with a disclosure statement, informing them of essential conditions of the program, including an estimation of the following: upfront amount due; monthly payment amount; maximum term of the financing agreement; annual financing interest rate; total amount of payments including both the total amount of principal to be repaid and the total amount of interest to be paid over the term of the financing agreement; and the total number of payments and notifying them of their right to pay off the remaining balance at any time with no penalty. Settlement at ¶ 35. This provision benefits the public by ensuring that customers are fully informed about the underlying cost elements of the program so they can make an informed decision about participating.

As recommended by OCA witness Watkins, the Settlement also contains a reporting provision. See Settlement at ¶ 36. This requirement will help the Commission and the parties to monitor the program and ensure benefits for residential customers and the public.

III. CONCLUSION

For the reasons outlined in this Statement in Support, the OCA submits that the Settlement should be approved without modification.

Respectfully Submitted,



Darryl Lawrence  
Senior Assistant Consumer Advocate  
PA Attorney I.D. # 93682  
E-Mail: [DLawrence@paoca.org](mailto:DLawrence@paoca.org)  
Amy E. Hirakis  
Assistant Consumer Advocate  
PA Attorney I.D. # 310094  
E-Mail: [AHirakis@paoca.org](mailto:AHirakis@paoca.org)  
Kristine E. Robinson  
PA Attorney I.D. # 316479  
E-Mail: [KRobinson@paoca.org](mailto:KRobinson@paoca.org)  
Assistant Consumer Advocates

Counsel for:  
Tanya J. McCloskey  
Acting Consumer Advocate

Office of Consumer Advocate  
555 Walnut Street  
5th Floor, Forum Place  
Harrisburg, PA 17101-1923  
Telephone: (717) 783-5048  
Facsimile: (717) 783-7152  
January 9, 2015

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## Appendix G

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION** :  
 :  
 :  
 v. : **DOCKET NO. R-2014-2429610**  
 :  
**PEOPLES NATURAL GAS COMPANY, LLC** :

**PENNSYLVANIA PUBLIC UTILITY COMMISSION** :  
 :  
 :  
 v. : **DOCKET NO. R-2014-2429606**  
 :  
**PEOPLES NATURAL GAS COMPANY, LLC,** :  
**EQUITABLE DIVISION** :

**PENNSYLVANIA PUBLIC UTILITY COMMISSION** :  
 :  
 :  
 v. : **DOCKET NO. R-2014-2429613**  
 :  
**PEOPLES TWP LLC** :

**STATEMENT OF THE OFFICE OF SMALL BUSINESS ADVOCATE  
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT OF ALL ISSUES**

**I. INTRODUCTION**

The Office of Small Business Advocate (“OSBA”) is authorized to represent the interests of small business customers of utility services before the Pennsylvania Public Utility Commission (“Commission”) pursuant to the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 – 399.50 (“the Act”). In order to discharge this statutory

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duty, the Office of Small Business Advocate (“OSBA”) is participating as a party to this proceeding to ensure that the interests of the customers of Peoples Natural Gas Company, LLC (“Peoples”), Peoples Natural Gas Company, LLC – Equitable Division (“Peoples-Equitable”), and Peoples TWP LLC (“Peoples TWP”) (together, the “Companies”) are adequately represented and protected.

## **II. PROCEDURAL BACKGROUND**

On June 26, 2014, the Companies each filed supplements to their respective tariffs proposing a five-year pilot program entitled Service Expansion Tariff (“SET”). The tariff proposals, if approved by the Commission, would provide customers with an alternative to fulfilling any Contribution in Aid of Construction (“CIAC”) requirement (for facilities extensions to provide natural gas service) solely through a one-time upfront payment. Under the tariff proposals, customers would have the option to make monthly payments over a period of up to twenty years in lieu of a one-time upfront CIAC payment.

The OSBA filed a formal complaint in each of the above-captioned proceedings on July 16, 2014.

On July 25, 2014, the Office of Consumer Advocate (“OCA”) filed a formal complaint in each of the above-captioned proceedings.

On August 22, 2014, the Commission’s Bureau of Investigation and Enforcement (“I&E”) entered a notice of appearance.

Administrative Law Judge (“ALJ”) Conrad A. Johnson was assigned to this proceeding and issued a Prehearing Conference Order on August 25, 2014, informing the parties that a telephonic Prehearing Conference on this case would be held on September 2, 2014. At the prehearing conference, a procedural schedule was agreed upon. ALJ Johnson issued a

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prehearing order on September 2, 2014 establishing the procedural schedule and consolidating the cases.

Extensive discovery was conducted by the parties prior to and subsequent to the Prehearing Conference.

The OSBA submitted the Direct Testimony, Rebuttal Testimony, and Surrebuttal Testimony of Brian Kalcic on September 23, 2014, October 14, 2014, and October 22, 2014, respectively.

On October 22, 2014, counsel for the Companies requested that the ALJ postpone the hearing and briefing dates and offered to extend the suspension period in order to facilitate further settlement negotiations. On October 23, 2014, the ALJ issued a First Interim Order rescheduling the evidentiary hearing for December 10-11, 2014, directing counsel for the Companies to file, by October 31, 2014, supplements extending the effective date of the proposed SET Programs to April 24, 2015, and setting January 28, 2015, as the deadline for submitting a joint settlement petition and statements in support of the settlement.

The parties engaged in extensive settlement negotiations and successfully negotiated a settlement in principle of all issues.

An evidentiary hearing was held on December 10, 2014, at which time the parties' respective testimonies and exhibits were admitted into the record and the ALJ directed the parties to file a joint petition for settlement and statements in support by 12:00 pm on January 9, 2015.

The OSBA actively participated in the negotiations that led to the proposed settlement, and is a signatory to the Joint Petition for Approval of Settlement of All Issues ("Joint Petition"). The OSBA submits this statement in support of the Joint Petition.

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### **III. STATEMENT IN SUPPORT OF THE JOINT PETITION**

The Joint Petition sets forth a comprehensive list of issues that were resolved through the negotiation process. The issues of on-bill financing for house lines and appliances, calculation of the CIAC within the context of the SET program, revenue neutrality with respect to general ratepayers were of significance to the OSBA when it concluded that the Joint Petition was in the best interests of the Companies' small business customers.

#### **A. On-Bill Financing for House Lines and Appliances (Joint Petition, ¶34)**

In Direct Testimony, OSBA witness Brian Kalcic recommended that the Commission reject the Companies' proposal to provide an on-bill financing option to potential customers to cover the additional (in-house) costs of converting to natural gas service.<sup>1</sup> The Joint Petition is consistent with this recommendation and therefore the OSBA determines it is in the best interest of the Companies' small business customers.

#### **B. Calculation of CIAC (Joint Petition, ¶¶ 27-28)**

The Companies' initial proposal for both Residential and Commercial new customers was to give the option of making a flat monthly CIAC payment over 20 years instead of a one-time upfront payment. The CIAC would be calculated separately by customer class based upon expected revenue stream of the two groups.<sup>2</sup>

The Companies proposed to calculate the CIAC by using the overall weighted cost of capital authorized by the Commission in the respective Company's most recent base rate proceeding plus an incentive adjustment of 200 basis points. In the case where an authorized rate of return is not available, the weighted cost of capital reflected in its most recent Distribution

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<sup>1</sup> OSBA Statement No. 1 at 1, 5.

<sup>2</sup> Peoples Companies Statement No. 1 at 9.

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System Improvement Charge (DSIC) filing plus the incentive adjustment would be used.<sup>3</sup>

In the Companies' view, the incentive adjustment is appropriate because: 1) the Companies would provide 100% of the funding needed to support successful and meaningful conversions to natural gas; 2) the Companies would provide an on-bill financing option to potential customers to cover the additional costs of installing house (gas) lines and natural gas equipment; and 3) the Companies would face added financial risk since it would not terminate residential customers for non-payment of the charges associated with the on-bill financing option.<sup>4</sup>

However, OSBA witness Brian Kalcic rejected the Companies' rationale for the proposed incentive adjustment.<sup>5</sup> Mr. Kalcic disagreed that the Companies' agreement to provide 100% funding for the pilot program justifies an incentive adjustment because the pilot program, as filed, does not place the Companies at any risk for a return on and of their SET-related investment, since the cost of such facilities would be included in rate base in the Companies' next base rate proceeding.<sup>6</sup> Moreover, as described in Section A above, Mr. Kalcic disagreed that the Companies should be permitted to function as a commercial lending institution making consumer loans with utility capital with the on-bill financing option to cover the additional costs of installing house (gas) lines and natural gas equipment.<sup>7</sup>

OCA witness Glenn A. Watkins recommended that the Companies use their weighted average cost of long-term and short-term debt as a surrogate for their approved return on equity

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<sup>3</sup> OSBA Statement No. 1 at 5.

<sup>4</sup> Peoples Companies' response to I&E-II-13.

<sup>5</sup> OSBA Statement No. 1 at 5.

<sup>6</sup> Peoples Companies' response to OCA-II-5.

<sup>7</sup> OSBA Statement No. 1 at 5.

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in their respective economic (or discounted cash flow (“DCF”)) analysis to determine whether a CIAC is needed in connection with a service extension project. This would reduce the discount rate used in the Companies’ DCF analysis and therefore make all SET extension projects appear more economic, *i.e.*, reduce the required CIAC. Mr. Kalcic disagreed with this recommendation because it would shift the costs associated with a reduction in CIAC from new SET customers to general ratepayers (in the form of an increase in SET-related rate base). As explained in Section C below, the OSBA’s position is that general ratepayers should not be required to subsidize SET service expansion projects.

Mr. Watkins also argued that the Companies’ proposed financing rate of approximately 13.5% is too high and will discourage participation in the program.<sup>8</sup> He recommended that the Commission establish the SET financing rate between 3.5% and 4.5%.<sup>9</sup> Mr. Kalcic disagreed with that recommendation because reducing the SET financing rate would reduce the revenues contributed by SET customers that are used as an offset to the Companies’ SET-related revenue requirement. As a result, general ratepayers would be required to provide a further subsidy to SET expansion projects.

Mr. Watkins also recommended that meters and regulating equipment be excluded from the Companies’ DCF analysis. Mr. Kalcic disagreed because the Companies must install a meter and regulating equipment in order to extend service to new customers. As such, the cost of such investment should be included in the Companies’ analysis in order to determine if a CIAC is required. Otherwise, excluding such costs from the SET analysis would inappropriately shift those costs to general ratepayers.

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<sup>8</sup> OCA Statement No. 1 at 22.

<sup>9</sup> *Id.*

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Pursuant to the Joint Petition, all CIAC evaluations will be based on the Companies' authorized cost of capital, without the 200 basis point incentive adjustment as recommended by Mr. Kalcic. In addition, Mr. Watkins' recommendations described above (and opposed by Mr. Kalcic) are not adopted in the settlement. Therefore, because the CIAC will be determined consistent with the OSBA's recommendations, the OSBA determines that it is in the best interest of the Companies' small business customers.

**C. Revenue Neutrality (Joint Petition, ¶¶32(e) and 41)**

In Direct Testimony, OSBA witness Brian Kalcic explained that the proposed SET payments would be revenue neutral to existing general ratepayers, if and only if the future SET payment stream is not delayed or interrupted, for which there is no guarantee.<sup>10</sup> If a Commercial customer goes out of business, or a Residential customer fails to pay his/her bill in full for any reason, the Companies would not receive a SET payment. As previously discussed, the Companies' proposal would treat the principle portion of SET payments as a customer advance to reduce rate base, and credit the financing portion toward its overall cost of service. However, in the event that SET payments are discontinued, there would be no corresponding offset to rate base or the Companies' overall revenue requirement. Therefore, existing general ratepayers would bear the cost associated with the interruption of the SET payment stream.<sup>11</sup>

Accordingly, Mr. Kalcic recommended that in the event the SET program is approved, the Commission should direct the Companies to impute SET revenues, as needed, during the term of any SET payment period, to ensure that general ratepayers are made whole for any interruption in actual SET payments.

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<sup>10</sup> OSBA Statement No. 1 at 4.

<sup>11</sup> *Id.* at 6.

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I&E witness Emily Sears acknowledged that “existing ratepayers can and will subsidize financed uneconomic extensions that are included in rate base” if SET payments turn out to be inadequate to cover the carrying costs associated with the Companies’ SET-related investment.<sup>12</sup> However, Ms. Sears did not propose any modifications to the Companies’ SET proposal to prevent this type of subsidization. Instead, Ms. Sears stated that any impact on existing ratepayers could be addressed at the end of the pilot program or during a base rates proceeding when actual accounting date is available.<sup>13</sup> Mr. Kalcic agreed that resolution of the issue could be postponed so long as general ratepayers would not ultimately be required to subsidize SET expansion projects.

The Companies’ witness Mr. Gregorini opposed Mr. Kalcic’s recommendation that the Commission direct the Companies to impute SET revenues, as needed, to ensure that general ratepayers are made whole for any interruption or shortfall in SET payments. Mr. Gregorini argued that: 1) the OSBA’s concern about a possible shortfall in SET payments/revenues is unfounded, since “there is real property to which a civil judgment obtained [by the Companies] for nonpayment will attach,” which enhances the likelihood of ultimate payments; 2) there is no reason to distinguish the SET program from those instances in which the Companies undertake an economic extension of service, where there exists no requirement that the Companies impute revenues in case of nonpayment of bills; and 3) the Companies have voluntarily proposed to implement the SET program, and the Companies’ “incentive to implement and promote the program will be significantly reduced if the Companies are at risk for recovery of costs.”<sup>14</sup>

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<sup>12</sup> I&E Statement No. 1 at 9-12.

<sup>13</sup> *Id.*

<sup>14</sup> Peoples Companies Statement No. 1-R at 25-26.

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With respect to the first point, Mr. Kalcic agreed that pursuing a civil judgment is theoretically possible, but would not be feasible given the costs versus the potential judgment. Moreover, the Companies have absolutely no incentive to pursue collection of delinquent SET payments once SET-related investment is included in rate base.<sup>15</sup> On the second point, in the case of an economic expansion, general ratepayers are not at risk for non-payment of a CIAC. Additionally, a new customer served by an economic expansion is more likely to pay the monthly bill simply because that bill is lower, *i.e.*, it does not include a SET surcharge.<sup>16</sup> Finally, with regard to Mr. Gregorini's third point, the fact that the Companies object to being at risk for recovery of SET costs suggests that they agree that there is a real risk that SET costs will not be recovered in a timely fashion.<sup>17</sup>

Subsequent to the submittal of testimony in this proceeding and during settlement negotiations, the Commission issued an order in *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2014-2407345 ("Columbia Order"), rejecting a similar revenue neutrality argument made by the OSBA with respect to the pilot natural gas service expansion program proposed by Columbia Gas of Pennsylvania.<sup>18</sup> Given the Columbia Order, the OSBA determined further litigation of this issue would not be an efficient use of resources and was induced to compromise on this point in order to reach a settlement in this proceeding.

Accordingly, paragraph 32(e) of the Joint Petition provides that:

Should Rate SET commercial customer(s) be served from a main  
line extension project that also serves residential Rate SET

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<sup>15</sup> OSBA Statement No. 3 at 1-2.

<sup>16</sup> *Id.* at 2.

<sup>17</sup> *Id.*

<sup>18</sup> *PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2014-2407345, (Opinion and Order entered October 23, 2014) at 84.

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customers, the commercial and residential portions of the customers' share of investment costs and the Rate SET revenues collected shall be separately tracked.<sup>19</sup>

Furthermore, paragraph 41 of the Joint Petition provides that:

In their next general base rate case filing, the Peoples Companies will assign the customer portion of Rate SET investment costs and the related revenues to the appropriate rate class. Rate SET investment costs shall be allocated to the classes consistent with the assignment of the initial Rate SET customer investment costs.<sup>20</sup>

Thus, the Joint Petition ensures that even though there may be subsidization by general ratepayers of the costs of SET expansion projects, at least there will not be inter-class subsidization as between costs for Residential and Commercial SET expansion projects. Because the Joint Petition is consistent with the Columbia Order and protects against inter-class subsidization of SET expansion projects, the OSBA determines it is in the best interest of the Companies' small business customers.

#### **D. Judicial Efficiency**

Lastly, settlement of this proceeding avoids the litigation of complex, competing proposals and saves the possibly significant costs of further administrative proceedings. Such costs are borne not only by the Joint Petitioners, but ultimately by the Companies' customers as well. Avoiding further litigation of this matter will serve judicial efficiency, and will allow the OSBA to more efficiently employ its resources in other areas.

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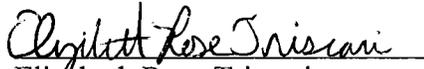
<sup>19</sup> Joint Petition at ¶32(e).

<sup>20</sup> Joint Petition at ¶41.

**IV. CONCLUSION**

For the reasons set forth in the Joint Petition, as well as the additional factors enumerated in this statement, the OSBA supports the proposed Joint Petition and respectfully requests that ALJ Johnson and the Commission approve the Joint Petition in its entirety without modification.

Respectfully submitted,

  
Elizabeth Rose Triscari  
Deputy Small Business Advocate  
Attorney ID #306921

For:

John R. Evans  
Small Business Advocate

Office of Small Business Advocate  
300 North Second Street, Suite 202  
Harrisburg, PA 17101  
(717) 783-2525  
(717) 783-2831 (fax)

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