

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION :
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 v. : Docket No. R-2018-3006818
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 PEOPLES NATURAL GAS COMPANY LLC :
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**PREPARED DIRECT TESTIMONY OF
JOSEPH A. GREGORINI,
SENIOR VICE PRESIDENT, CHIEF OPERATING OFFICER
PEOPLES NATURAL GAS COMPANY LLC**

DATE SERVED: January 28, 2019
DATE ADMITTED: _____

Peoples Statement No. 2

**PREPARED DIRECT TESTIMONY OF
JOSEPH A. GREGORINI**

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. My name is Joseph A. Gregorini. My business address is 375 North Shore Drive,
3 Pittsburgh, Pennsylvania 15212.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Peoples Natural Gas Company LLC (“Peoples” or “Company”) as
7 Senior Vice President, Chief Operating Officer.

8

9 **Q. PLEASE STATE BRIEFLY YOUR EDUCATIONAL BACKGROUND AND**
10 **EMPLOYMENT EXPERIENCE.**

11 A. I graduated from The Pennsylvania State University in November 1982 with a Bachelor of
12 Science Degree in Mineral Economics. In January 1983, I began full-time employment
13 with the Federal Energy Regulatory Commission (“FERC”) as an Economist in the
14 Allocation and Rate Design Branch of the Office of Pipeline and Producer Regulation.
15 While at the FERC, I participated as a member of the FERC staff in various kinds of
16 proceedings, including base rate and certificate proceedings.

17 In July 1986, I left the FERC and joined Equitable Gas Company (“Equitable”) as
18 an Energy Planner in Equitable’s Energy Planning Department.

19 In August 1987, I joined Peoples as a Rate Analyst and was promoted to Senior
20 Rate Analyst in March 1989. In these positions, my responsibilities have included the

1 preparation and coordination of rate case components and other filings and the preparation
2 of Peoples' cost of service and rate design studies.

3 In December 1997, I was promoted to the position of Supervisor, Rates and
4 Regulatory Affairs. In 1999, my position was reclassified to Manager, Pricing and
5 Regulatory Affairs. In April of 2010, I was promoted to Peoples' Vice President, Rates
6 and Regulatory Affairs. In 2016, I was promoted to Senior Vice President of Rates,
7 Reliability, and Sales. Currently, my role is Senior Vice President, Chief Operating Officer.
8 In that capacity, I am responsible for directing Gas Operations, Customer Operations, and
9 Gas Reliability (Gas Supply, Gas Control, GIS/Planning, and Safety/Training) as well as
10 overseeing the Company's Sales and Marketing and efforts.

11
12 **Q. PLEASE LIST THE FILING REQUIREMENTS THAT YOU ARE SPONSORING**
13 **AS WITNESS.**

14 A. Please refer to Appendix A for a complete list of the filing requirements for which I am the
15 responsible witness.

16
17 **Q. WHAT ARE YOUR RESPONSIBILITIES FOR PURPOSES OF THIS**
18 **PROCEEDING?**

19 A. My responsibilities which I will describe in separate sections of my testimony are:

- 20 1. Safety Programs
- 21 2. Peak Day and Annual Gas Supply Plan
- 22 3. Local Production - Gathering and Cost Recovery
- 23 4. Operations Capital Work Plan

- 1 5. UFG Mitigation
- 2 6. Other Operations Initiatives
- 3 7. Extension of Facilities – Tariff Modification

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5

SAFETY PROGRAMS

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7 **Q. PLEASE DESCRIBE SOME OF THE COMMITMENTS PEOPLES HAS MADE**
8 **TO THE SAFE OPERATION OF ITS PIPELINE SYSTEM.**

9 A. One of Peoples’ core values is Safety. This means that, in every strategic or operational
10 issue that we consider, we incorporate the expected effect on Safety in our decision-making
11 process. We want Safety to permeate our Company’s culture so our employees are thinking
12 of Safety at all times, at home, on their way to and from work, and while they are on the
13 job. We want them to focus on their own personal safety as well as that of our customers
14 and of the operation of our pipeline system.

15 One way we have done this is to include a Safety component in everyone’s
16 incentive compensation goals. In addition, all Operations Department employees also have
17 a pipeline compliance component included in their performance expectations and incentive
18 compensation goals. We also have engaged our Compliance Process Managers, Safety
19 Department, and the entire Operations leadership team on a regular basis by conducting
20 weekly safety conference calls where injuries, accidents, operating guidelines (Job
21 Procedures and Standard Operating Procedures or “SOPs”), line hit damages, and near miss
22 safety incidents are reviewed. In addition, we have implemented procedures for ongoing
23 safety observations of work activities by supervisors and rapid dissemination of injury

1 details to the all field leadership and union personnel. We also work closely with our union
2 to solve all safety related issues and to communicate and advance safety initiatives
3 throughout the organization. A component of this is management's and employees'
4 commitment to operational and safety training at our Training Center where employees
5 obtain hands-on experience through controlled simulations of emergency events and other
6 real life situations that enhance their safety awareness and hone their emergency response
7 capability. We have also perfected our compliance work tracking system. This system
8 schedules our prescribed, routine maintenance, compliance check work and provides for
9 information system tracking of our planning and progress.

10
11 **Q. PLEASE DESCRIBE THE COMPANY'S EMPLOYEE SAFETY PROGRAM.**

12 A. Peoples' Employee Safety Program is multi-dimensional and includes numerous activities
13 focused on accident prevention and compliance with applicable safety regulations. Safety
14 is supported through active participation by operations leadership, a strong union
15 management partnership, and engagement with industry organizations.

16 The three cornerstones of Peoples' Employee Safety Program are:

- 17 • Training and Education - where technical skills, emergency response, and
18 specialized safety training is provided to employees, contractors, and external
19 partners.
- 20 • Awareness and Communication – where weekly and monthly safety meetings, pre-
21 job briefings, safety alerts, and intranet website resources are used to inform and
22 refresh safety messaging.

- 1 • Investigations, Observations, and Safety Analysis – where safety incidents and
2 risks are thoroughly investigated, discussed, trended, and mitigated.

3 Finally, and in recognition of the success of safety prioritization and program
4 implementation, Peoples was the recipient of two Energy Association of Pennsylvania’s
5 Job Safety Awards in 2018, the Motor Vehicle Fleet Safety Achievement Award and the
6 Safety Improvement Award.

7
8 **Q. EARLIER YOU MENTIONED THE COMPANY’S TRAINING PROGRAM,
9 COULD YOU DESCRIBE IT IN MORE DETAIL.**

10 **A.** Peoples operates an in house training facility in McKeesport, PA that provides multi-week
11 introductory training for new hires, training for employees entering new job classifications,
12 initial and refresher operator qualification (OQ) training on covered tasks performed by
13 each field classification for both employees and contractors, and supplemental training for
14 field personnel. By providing training internally, as opposed to using a 3rd party vendor,
15 Peoples is able to ensure training captures company-specific processes and procedures and
16 allows us to provide direct oversight of rigorous testing methods.

17 In addition to providing training to employees and contractors, the training team
18 also conducts community outreach sessions for audiences beyond those affiliated with
19 Peoples. These sessions include:

- 20 • First Responder Training: Emergency training for local volunteer fire departments
21 • Natural Gas Construction Heat Installation Training
22 • Natural gas utility and pipeline field skills training: This program is to prepare a
23 new potential workforce for a career in the gas and pipeline industry.

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Q. ARE THERE OTHER NOTEWORTHY SAFETY RELATED INITIATIVES THAT YOU WOULD LIKE TO DISCUSS?

A. Yes. Peoples has initiated steps to begin implementation of an enterprise-wide safety management system. The Company has also recently begun a self-review of its system and job procedures and SOPs in light of the unfortunate events that occurred in Boston, Massachusetts in September 2018 involving over-pressurization of a low-pressure pipeline system.

Q. PLEASE DESCRIBE THE SAFETY MANAGEMENT SYSTEM INITIATIVE

A. Safety Management Systems (SMSs) involve a systematic approach to managing safety; including the structures, policies, and procedures an organization uses to direct and control its activities. Because SMSs have proven to be successful in many industries (aviation, nuclear power, and chemical manufacturing industries to name a few), pipeline operators in partnership with American Petroleum Institute (API), U.S. Pipeline and Hazardous Materials Safety Administration (PHMSA), and state regulators developed API Recommended Practice 1173 to bring the benefits of SMSs to pipeline operations. API 1173 provides pipeline operators the framework to review an existing SMS or develop and implement a new pipeline SMS. The framework builds upon an operator’s existing practices by drawing upon industry experiences, lessons learned, and existing standards. Particular emphasis is placed on proactive thinking of what can go wrong in a systematic manner, clarifying safety responsibilities throughout the pipeline operator’s organization

1 (including contractor support), and the important role of top management and leadership
2 at all levels.

3 Peoples has recognized the value of adopting API 1173 and developed three phases
4 over a 2-year timeline for implementing an SMS. Phase 1 of the program focuses on
5 developing the SMS team that will conduct an assessment and gap analysis of the current
6 overall safety program versus the API 1173 recommendations. The assessment will identify
7 and prioritize the focus areas for developing the plans and resources to fill the gaps, and
8 assess impacts to the organization. Phase 2 involves executing the implementation plan;
9 assessing the impacts to the organization; resolving process changes; and evaluating work
10 load distribution. Phase 3 establishes the ongoing responsibilities and support, the actions
11 for continuous improvement, and the methodology for tracking and communicating
12 progress. Full implementation of the program is estimated to be 4Q 2020.

13
14 **Q. PLEASE DESCRIBE THE BOSTON INCIDENT SELF-REVIEW**

15 A. The Boston, MA pipeline incident involved the over-pressurization of a low pressure
16 distribution system, supplied by multiple underground regulating stations reducing
17 pressure from a higher pressure system, in an urban residential and commercial area.
18 Because Peoples has many similar distribution systems, we proactively decided to initiate
19 a Self-Review of all relevant facilities, tasks, job procedures, and emergency plans that
20 reference Over Pressure Protection (OPP). The objectives of the review were to conduct
21 an asset profile of all low pressure systems; a thorough review all SOPs and Job Aids that
22 involve OPP; propose and consider SOP enhancements in light of the incident; develop

1 immediate/short term/long term action plans for operations; and update Communications
2 and Incident Management Plans as necessary.

3 As a result of the Self Review, Peoples implemented several immediate action plans
4 and SOP changes, conducted a complete field inventory of all underground regulating
5 facilities and sensing lines, and developed emergency simulations and table top exercises
6 to simulate a similar large scale incident. We are also evaluating the operational benefits
7 of revising engineering standards for the designs of new regulating stations to include a
8 redundant form of OPP; considering the retrofit of existing regulating stations to install
9 redundant OPP; and evaluating all low pressure distribution systems for full relief capacity
10 to prevent over pressurization.

11
12 **Q. PLEASE DESCRIBE THE COMPANY EFFORTS TO REDUCE FACILITY**
13 **DAMAGES.**

14 A. Peoples is consistently implementing measures to improve our line locating
15 performance. Among the recently implemented measures are routine root cause
16 investigations and operations-wide conference calls, involving all construction, field
17 operations and field customer service managers and supervisors to review utility fault
18 damages as “lessons learned” exercises. Peoples has also invested in state of the art
19 locating equipment such as marker balls, “snake” service line locators and a vacuum
20 excavator to improve line locating performance. Five vacuum excavation vehicles are
21 scheduled for delivery in 2019, with additional vehicles to be added in 2020.

22 A significant step toward reducing facility damages and improving our line locating
23 performance occurred in 2014 through early 2015 as we transitioned all Peoples

1 companies' line locating work in house to be performed solely by Peoples' employees. As
2 shown in the chart below, this initiative has resulted in year-over-year improvements in our
3 rate of utility fault damage ("UFD") percentage. UFDs are those situations where the utility
4 operator is responsible (e.g. inaccurate mapping, line marking errors) for a damage
5 occurring to its own facility.
6

<u>Year</u>	<u>UFD Rate</u>
2013	22.3%
2014	19.8%
2015	16.5%
2016	16.2%
2017	16.0%
2018	15.9%

7
8 **Q. PLEASE DESCRIBE HOW ACT 50, THE ONE-CALL LAW, HAS AFFECTED**
9 **THE COMPANY'S DAMAGE PREVENTION EFFORTS?**

10 A. The Act 50 One-Call laws have brought several procedural changes to Peoples. These
11 changes include additional damage reporting to PA One Call and the PUC including --
12 damages incurred to our facilities by outside parties and damages caused to other party's
13 facilities by our personnel -- and maintenance of the locations of abandoned pipelines on
14 our maps so that we are able to more effectively locate abandoned pipelines. In addition to
15 these ACT 50 related changes and in support of ways to reduce risk across our system,
16 Peoples also recently performed an in-depth damage prevention process review that

1 involved, among other things, a best practices review. As a result of this analysis the
2 Company will:

- 3 1. use construction inspectors to further ensure safe digging practices by our
4 contractors;
- 5 2. use the newly acquired vacuum excavator equipment to determine facility locations
6 when normal locating practices are inconclusive;
- 7 3. make additional facility information available to the job site;
- 8 4. provide refresher training for locators that will also provide a forum for sharing best
9 practices; and
- 10 5. develop education on safe excavation practices and intervention procedures to be
11 used in response to routine offenders.

12
13 **Q. PLEASE DESCRIBE WHAT THE COMPANY HAS DONE AND PLANS TO DO**
14 **GOING FORWARD TO MANAGE THE RISKS ASSOCIATED WITH LEAKAGE.**

15 A. Let me start by mentioning that Peoples has in place extensive leak management SOPs that
16 are designed to ensure safe and reliable delivery of natural gas to our customers. Peoples
17 recently implemented additional enhanced operating procedures to further ensure safety
18 across the system. These enhancements include adoption of: 1) the Gas Piping Technology
19 Committee (“GPTC”) Leak Classification and Action Criteria for Grade 1, 2, and 3 leaks;
20 2) newer operating procedures designed to identify and replace shorter sections of leak
21 prone pipelines instead of repairing those sections; and 3) procedures on the handling of
22 Grade 1 leaks (potentially most hazardous leaks) which require that Grade 1 leaks only be
23 vented as a last resort, Peoples’ Operations Management personnel being directly involved

1 and consulted in Grade 1 leak situations, and vented Grade 1 leaks being monitored on a
2 daily basis during frost/frozen ground conditions. Later in my testimony I also describe
3 other effective leak mitigation measures that include the accelerated replacement of older
4 higher-risk bare steel pipelines under our Long Term Infrastructure Improvement Plan
5 (“LTIIIP”) and our Unaccounted for Gas (“UFG”) mitigation plan.

6
7 **PEAK DAY AND ANNUAL GAS SUPPLY PLAN**

8
9 **Q. AS THE WITNESS SUPPORTING THE ANNUAL AND PEAK REQUIREMENTS**
10 **AND SUPPLY VOLUME PROJECTIONS USED IN THIS FILING, PLEASE**
11 **GENERALLY DESCRIBE HOW PEOPLES FORMULATES ITS ANNUAL GAS**
12 **SUPPLY PLAN.**

13 **A.** Each year, Peoples Natural Gas projects its total system requirements and available sources
14 of supply. On the requirements side of the analysis, Peoples develops throughput
15 projections by various requirements categories including usage by class of customer. The
16 Company then adds monthly projections for company use and lost and unaccounted for gas
17 to arrive at total projected system requirements on a monthly basis.

18 Certain operational considerations play a role in the requirements analysis. For
19 example, there are portions of Peoples Division’s service territory that are not physically
20 interconnected with the main portion of Peoples’ facilities, particularly in the Grove City
21 area. Similarly, there are portions of Equitable Division’s service territory that require
22 support from specific interstate pipeline delivery points at times of high demand. As a
23 result, Peoples needs to project specifically the requirements that it will have in those areas

1 in order to assure that it will have supplies available from the particular sources of supply
2 that it is able to call on to serve those areas.

3 On the supply side of the analysis, Peoples pursues a least-cost reliable-service
4 strategy through a combination of local and interstate assets and supplies. Local assets
5 include an on-system storage facility and the gathering system, which allows Peoples to
6 enhance the delivery of gas supplies produced locally in western Pennsylvania. The
7 Company's interstate assets are comprised of a portfolio of transportation and storage
8 services with five interstate pipelines that provides Peoples with access to a variety of
9 supply source locations. Using this gas supply portfolio, Peoples uses an economic
10 dispatch approach that also takes into account reliability, operational requirements, and
11 contractual obligations. Under that approach, Peoples reviews the cost of its various
12 sources of supply and plans to use those that are least costly. The Company starts by base
13 loading local supplies; that is, using local gas first. From there the Company then turns to
14 the existing pipeline supply assets and existing gas supply agreements. These include the
15 firm transportation and storage service agreements with interstate pipelines and the long-
16 term firm gas supply commodity agreement with EQT Energy.

17
18 **Q. HOW DOES PEOPLES TYPICALLY DETERMINE ITS CUSTOMERS'**
19 **REQUIREMENTS AND ASSOCIATED GAS SUPPLIES ON A DESIGN PEAK**
20 **DAY?**

21 A. Peoples uses a forecasting model that employs a number of variables including
22 temperature, wind speed, and historical consumption levels. The values accorded the
23 temperature and wind speed variables are minus 9 degrees Fahrenheit and 15.8 miles per

1 hour respectively. The values assigned to consumption levels and the other variables
2 change over time. Using send-out data for the four years ended May 2018 the Company
3 calculated a total system peak day design requirements of 1,282 MMcf per day.
4

5 **Q. WILL THE COMPANY SUPPLY THE ENTIRETY OF THE 1,282 MMCF FOR**
6 **ITS CUSTOMERS?**

7 A. No. Peoples is responsible to ensure supplies of 1,014 MMcf to meet sales and Priority
8 One customer's design day requirements as well as other system usage requirements. The
9 supply of 1,014 MMcf per day reflects a combination of local gas volumes (29.3 MMcf),
10 on-system storage design day supply (32.0 MMcf), and interstate delivered suppliers
11 (952.7 MMcf). The remaining supplies (268.4 MMcf) will be acquired by third-party
12 suppliers to satisfy the usage requirements of Non-Priority One transportation customers.
13

14 **Q. PLEASE DESCRIBE HOW LOCAL GAS PURCHASES FROM CONVENTIONAL**
15 **WELLS ARE USED TO SATISFY SYSTEM GAS SUPPLY NEEDS.**

16 A. Peoples and natural gas suppliers operating on our system use natural gas produced from
17 local shallow wells as a base load supply to meet customer's usage requirements.
18 However, since 2012, local gas produced and delivered from conventional wells into the
19 Company's system has declined year-over-year. In 2012, Peoples (including the Equitable
20 Division) received supplies from conventional wells totaling approximately 48.3 BCF. In
21 2017, a total of approximately 30.1 Bcf of conventional production was delivered into the
22 Peoples' systems. Over this six-year period, this represents a total decline of 18.2 Bcf, or

1 38%. A reversal of this ongoing decline is not expected. The conventional production
2 volume level for the 11 months ended November 30, 2018 is 27.7 Bcf.

3
4 **Q. DOES PEOPLES HAVE A POLICY REGARDING ADDITIONAL MARCELLUS**
5 **SHALE WELL PRODUCTION?**

6 A. Peoples' current role in the development of Marcellus Shale has been to provide producers
7 of unconventional gas with similar access to both on-system and off-system markets as
8 provided to conventional producers. Peoples has been able to accept Marcellus Shale
9 production into its systems on a case by case basis, using the same analysis for Marcellus
10 Shale production tap requests that it uses for conventional production tap requests. The
11 analysis includes (i) the location and quantity of gas supply, (ii) the unused pipeline
12 capacity at the proposed injection point, (iii) the anticipated gas quality and the investment
13 required to resolve gas quality issues, and (iv) the impact of the production on existing base
14 load supplies from local and interstate alternatives.

15 Peoples' market fundamentally benefits from having access to additional direct
16 feed local Marcellus Shale production. It provides a replacement supply for declining
17 conventional production volumes. Also, local gas supplies, including gas produced into the
18 Peoples' system from both conventional and Marcellus wells, represent a lower cost supply
19 than interstate delivered gas. Peoples plans to remain involved in finding opportunities to
20 utilize Marcellus Shale gas produced in Peoples' service territory, and that activity will
21 continue to benefit Peoples' market.

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23 **LOCAL PRODUCTION - GATHERING AND COST RECOVERY**

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Q. PLEASE DESCRIBE GENERALLY THE TRADITIONAL GATHERING PIPELINE SYSTEM.

A. Both the Peoples and Equitable Divisions have distribution systems that serve customers in and near the natural gas production regions of Pennsylvania. In fact, it was natural gas from the western Pennsylvania gas fields that originally served the customers of both Divisions.

Gathering systems are pipeline facilities that have the primary purpose of moving conventionally produced gas from production fields to transmission and distribution facilities for delivery to end use customers. In contrast, distribution pipelines generally are a system of mains and service lines that primarily function to deliver natural gas to individual homes and businesses. However, in some instances, customers and small distribution systems are connected directly to gathering systems in rural areas where it is not economic to extend pipelines from the major distribution centers because of the low density of potential customers.

In addition to gathering pipelines, gathering systems also typically include compression facilities and equipment to monitor and treat the gas. Gathering compressors are used to increase the flow of local production by raising the gathering pipeline pressure to the pressure of the pipeline that the gathering pipeline feeds into, typically a transmission pipeline or higher pressure gathering pipeline or higher pressure distribution pipeline. Gas monitoring and treatment is another part of a gathering system. Peoples requires producers to remove water and other contaminants from the gas delivered to the gathering system. In some cases,

1 the gas is further treated by Peoples at compressor stations where dehydration facilities are
2 installed to remove water prior to delivering gas to transmission or distribution systems.

3 There are also situations where Peoples receives locally produced gas directly into its
4 distribution and transmission systems. This production can be from both conventional and
5 unconventional sources.

6
7 **Q. DO GAS PRODUCERS BENEFIT FROM GATHERING SYSTEMS?**

8 A. Yes. Producers benefit from gathering lines because, in most cases, it is their only means
9 to get their gas production to a market. The gas produced into the gathering systems
10 originates from conventional wells. Generally, gathering systems cannot be used to receive
11 and deliver higher pressure gas produced from unconventional sources such as Marcellus
12 Shale.

13
14 **Q. DO CUSTOMERS BENEFIT FROM LOCAL PRODUCTION AND GATHERING
15 SYSTEMS?**

16 A. Yes. Customers receive a notable cost savings benefit from local production delivered into
17 the Peoples' systems. Production directly feeding utility pipelines avoids costly interstate
18 pipeline charges, which include fixed reservation charges for interstate pipeline reservation
19 space, usage charges to cover variable interstate pipeline costs and retainage to cover gas loss
20 and gas used in interstate pipeline operations. In some cases, gas purchased in the interstate
21 market may require more than one interstate pipeline contract to bring gas to Peoples' city-
22 gate.

1 **Q. HAS THE COMPANY PREPARED A COMPARISON OF THE COST PER MCF**
2 **OF DELIVERING GAS THROUGH INTERSTATE PIPELINES TO THE COST**
3 **OF DELIVERING GAS THROUGH THE GATHERING SYSTEM?**

4 A. Yes. Peoples Natural Gas Exhibit No. JAG-1 provides this comparison for the projected
5 twelve months ended October 31, 2020 (Fully Projected Future Test Year - "FPFTY"). It
6 shows that gas produced into and delivered through the gathering systems is notably less
7 costly than gas procured on and delivered from Peoples' interstate pipeline suppliers. The
8 total average cost of gas delivered via the gathering system for the FPFTY is estimated at
9 \$2.81 per Mcf. The total average cost of gas delivered via the interstate systems for the
10 FPFTY is estimated at \$3.37 per Mcf. This results in an estimated cost savings of \$0.56
11 per Mcf or \$7.0 million per year for the local gas purchased by Peoples' for our on-system
12 customers alone. Customers that purchase local gas supplies from third party marketers
13 can reasonably be expected to receive a similar cost per Mcf savings benefit. As noted in
14 Peoples Natural Gas Exhibit No. JAG-1, this analysis reflects the various costs incurred by
15 Peoples' ratepayers for the FPFTY which include: the projected average commodity cost
16 of gas delivered to the Peoples' system; Peoples' costs to own and operate the gathering
17 systems (including gathering UFG); and interstate pipeline costs for capacity, retainage,
18 and delivery. Mr. Feingold calculated and presented testimony in support of the projected
19 non-gas costs incurred by Peoples to own and operate the gathering systems.

20
21 **Q. DOES INTERSTATE PIPELINE GAS AND LOCAL GAS SERVE THE SAME**
22 **PURPOSES?**

1 A. While both supply sources provide the gas supply needed by the customer, pipeline gas is
2 much more flexible in that it is provided to the Company at significantly higher pressure
3 which is required in peak periods of usage and for injection into storage. The amount of
4 pipeline gas entering the Company’s system can also more easily be adjusted up or down
5 to meet the daily gas consumption swings due to weather. In addition, pipeline gas
6 generally meets higher quality standards relating to containing impurities and water and
7 creates fewer operational problems.

8
9 **Q. HOW SHOULD THE BASE RATE COSTS OF THE GATHERING SYSTEM BE**
10 **RECOVERED?**

11 A. Gathering system costs are incurred to provide a market for supplies produced by local
12 wells and to provide cost effective gas supplies to customers. In my opinion, it is
13 appropriate for both producers and customers to share in paying these costs.

14
15 **Q. WHAT FACTORS SHOULD BE CONSIDERED IN ALLOCATING THESE**
16 **COSTS BETWEEN CUSTOMERS AND LOCAL SUPPLIERS?**

17 A. As I have noted previously, customers benefit from obtaining local gas at a cost lower than
18 interstate pipeline gas. The gathering system lowers the amount of interstate pipeline
19 capacity that is required to serve customers and lowers pipeline demand costs recovered
20 from all sales and transportation customers. In addition, customers served directly from
21 the gathering system receive their service from gathering pipelines and not distribution
22 pipelines. Finally, some of Peoples Natural Gas’ distribution areas are served only by local
23 gas from the gathering systems.

1 Producers derive substantial benefit from the gathering facilities as it is their source
2 to a market. In addition, Peoples Natural Gas operates its gathering and distribution
3 systems to facilitate the introduction of lower pressure gas from conventional wells into its
4 system.

5 While it is difficult to quantify these benefits, it is clear that both producers and
6 customers benefit from the gathering systems.

7
8 **Q. HOW DOES PEOPLES PROPOSE TO RECOVER THE COSTS OF THE**
9 **GATHERING SYSTEMS?**

10 A. There is a practical limit to how much of the gathering system costs can be recovered from
11 producers. Currently, the average price that producers received for their gas when
12 purchased by Peoples for system supply is \$2.27/Mcf for the twelve months ended
13 September 30, 2018. The projected average market price that producers will receive for
14 their gas purchased by Peoples for system supply is \$2.16/Mcf for the projected twelve
15 months ended October 31, 2020 (FPFTY). These prices are low by historical standards and
16 it is likely that this has contributed to the reduction of production from conventional wells
17 since 2012.

18 Given the relatively low historic and projected prices for local gas and the historical
19 and ongoing declines in conventional production, the Company is concerned that without
20 a change to the current gathering fee structure paid by producers, we will continue to
21 experience declines in local gas available to customers on our system.

22 Peoples currently charges amounts to producers for gathering system costs through
23 gathering fees on its Equitable Division and through the PA Production Enhancement

1 Service (“PA PES”) program fees on the Peoples Division. The Company proposes to
2 terminate these charges and fees and institute a uniform gathering service rate for all
3 conventional gas production that will start at a base level and increase as the price of gas
4 increases. The proposal is set forth in a new tariff rate schedule – Appalachian Gathering
5 Service -- that is attached to my testimony as Peoples Natural Gas Exhibit No. JAG-2.
6

7 **Q. PLEASE EXPLAIN THESE EXISTING GATHERING PROGRAMS AND THE**
8 **ASSESSMENT OF CHARGES TO PRODUCERS.**

9 A. The current structure for assessing gathering related charges on the Equitable Division and
10 Peoples Division differ.

11 At the Equitable Division and well before Equitable Gas Company was acquired
12 and merged with Peoples in 2013, a gathering tariff service and fee structure was approved
13 by the Commission and put in place. That service, which currently exists today, is provided
14 under Rate AGS – Appalachian Gathering Service. Under Rate AGS any conventional
15 natural gas producers desiring to produce gas into and transport gas on the distribution or
16 gathering systems are subject to a gathering rate and a gas retainage charge. It is not a
17 voluntary program. All producers transporting conventional local production on the system
18 are subject to gathering rates and retainage charges which are determined through
19 negotiation. For the HTY 12-month period ending September 30, 2018, Peoples recovered
20 \$7.2 million in gathering rate revenues on the Equitable Division.

21 Unlike the Equitable Division, the Peoples Division does not have a tariffed
22 gathering service. Instead, the Peoples Division operates the PA PES program which
23 represents a series of voluntary agreements that Peoples entered into with many, but not

1 all, natural gas producers on the Peoples system. The voluntary PA PES program, which
2 began in 2002, is designed to increase the flow of locally produced gas into the Peoples
3 systems through the installation and operation of compression facilities, dehydration
4 equipment and strategic delivery interconnections with other systems. For the HTY 12-
5 month period ending September 30, 2018, Peoples recovered \$7.0 million in PA PES
6 gathering rate revenues from participating producers on the Peoples Division. I should also
7 note that in the most recent 1307(f) 2018 case at Docket Nos. R-2018-2645278 and R-
8 2018-3000236, Peoples Division received Commission approval to begin assessing a
9 retainage charge of 2% to all conventional well producers.

10
11 **Q. PLEASE EXPLAIN THE COMPANY'S PROPOSAL TO INSTITUTE A**
12 **UNIFORM GATHERING RATE FOR CONVENTIONAL GAS PRODUCTION.**

13 A. Before I describe the mechanics of the gathering pricing proposal I would like to point out
14 that our gathering rate proposal is designed to bring together the existing and differing
15 programs of the two Divisions and set a producer paid gathering fee structure that attempts
16 to establish a reasonable and ongoing producer revenue contribution (to offset the
17 customer's share of gathering costs) that also does not create an economic disincentive for
18 conventional gas producers to continue to produce low cost gas supplies into the Peoples'
19 systems. This proposal eliminates the voluntary aspect of the legacy Peoples' PA PES
20 program. All conventional gas producers will be required to pay the same uniform
21 gathering fee for any gas produced into and transported on the distribution or gathering
22 systems. The proposal also will adjust and tie the gathering rate to market natural gas
23 prices so that if we experience future market price increases from the current historically

1 low levels, producers will receive higher prices for their gas produced into the Peoples
2 systems and in turn will be able to increase revenue contributions to help offset the
3 gathering system costs borne by customers in future Peoples rate cases. As set forth and
4 described in Peoples Natural Gas Exhibit No. JAG-2, a gathering rate will be assessed to
5 any party desiring to transport gas through the gathering system, as well as deliver locally
6 produced gas directly into the Company's distribution or transmission systems.

7 Lastly I'd like to point out that this proposal addresses the recovery of gathering
8 related non-gas costs and does not address the assessment of gas retainage charges to
9 producers. Peoples plans to continue to assess the gas retainage rates currently charged to
10 producers. Any revisions to the current gas retainage charges will be addressed in ongoing
11 1307(f) purchased gas cost proceedings.

12
13 **Q. WHAT IS THE GATHERING RATE STRUCTURE APPLICABLE TO GAS**
14 **DELIVERED INTO THE GATHERING SYSTEMS OR CONVENTIONAL GAS**
15 **PRODUCED AND DELIVERED INTO THE DISTRIBUTION OR**
16 **TRANSMISSION SYSTEMS?**

17 A. That gathering rate will be based on a minimum charge of \$0.26/Mcf and will be subject
18 to monthly adjustment as natural gas market prices change. The monthly gathering rate
19 will be set at a level equal to the higher of \$0.26/Mcf or 12.4% of the first of the month
20 Dominion South Point Appalachia Index market price as published in Platts, Gas Daily.
21 The maximum gathering rate will be set equal to the fully allocated gathering cost of
22 service rate. As determined by Peoples witness Feingold, the maximum gathering cost of
23 service rate for the FPFTY is \$0.76/Mcf.

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Q. WHAT IS THE PROPOSED LEVEL OF THE GATHERING CHARGE PER MCF FOR GAS DELIVERED INTO THE GATHERING SYSTEMS OR CONVENTIONAL GAS PRODUCED AND DELIVERED INTO THE DISTRIBUTION OR TRANSMISSION SYSTEMS AND HOW MUCH REVENUE DOES THE COMPANY PROJECT TO RECOVER IN THE FULLY PROJECTED FUTURE TEST YEAR?

A. Based on latest projected average Dominion South Point Appalachia Index market price for the FPFTY of \$2.10/Dth and the gathering rate parameters discussed above, a uniform gathering rate of \$0.26/Mcf would be applicable for the FPFTY period. The annual volume projection of conventional production that will be subject to the gathering fee for the FPFTY is 31.3 Bcf. This volume projection was based on recent actual production levels adjusted to reflect current production decline trends. The resulting revenues to be paid for by conventional well producers for the FPFTY is \$8.2 million.

Q. YOU MENTIONED EARLIER IN YOU TESTIMONY THAT PEOPLES ALSO RECEIVES UNCONVENTIONAL SUPPLIES INTO ITS SYSTEMS. ARE THERE GATHERING FEES ASSESSED TO PRODUCERS BY PEOPLES FOR UNCONVENTIONAL SUPPLIES AND IF SO WHAT ARE THE EXPECTED ANNUAL REVENUES?

A. Yes. As set forth in the new tariff rate schedule – Appalachian Gathering Service (Peoples Natural Gas Exhibit No. JAG-2), Peoples will charge a rate for gathering natural gas produced from unconventional sources that will be determined through negotiation. It’s

1 important that this rate be negotiable because Peoples needs to compete with midstream
2 and interstate pipelines to acquire this gas supply. Marcellus producers generally have
3 multiple options to get their gas to market. Based on the negotiated rate currently charged
4 to existing unconventional producers and the associated expected annual volumes
5 produced from unconventional sources for the FPFTY, Peoples projects to generate
6 \$740,763 in annual gathering fees from unconventional gas producers for the FPFTY
7 period.

8
9 **Q. BASED UPON THE COMPANY'S FPFTY PROJECTION OF RECOVERIES**
10 **UNDER THE GATHERING CHARGES TO CONVENTIONAL AND**
11 **UNCONVENTIONAL PRODUCERS HOW MUCH OF THE GATHERING COSTS**
12 **WILL BE RECOVERED?**

13 A. The Company projects that it will recover \$8.9 million, or approximately 33% of the \$26.6
14 million in costs for the gathering system identified by Mr. Feingold.

15
16 **Q. HOW DOES THE COMPANY PROPOSE TO RECOVER THE REMAINDER OF**
17 **THE GATHERING COSTS THAT ARE NOT PROJECTED TO BE RECOVERED**
18 **FROM PRODUCERS?**

19 A. We have directed Mr. Feingold to allocate the remaining costs to the various customer
20 classes. He uses a volumetric allocation factor to assign gathering plant and associated
21 expenses to customer classes based on the percentage of annual gas volumes in each class
22 supplied by Pennsylvania gas producers.

23 .

1 **OPERATIONS - CAPITAL WORK PLAN**

2

3 **Q. PLEASE DESCRIBE THE COMPANY’S PIPELINE REPLACEMENT**
4 **PROGRAM.**

5 A. In 2011, Peoples began a comprehensive infrastructure replacement program that targets
6 the removal and replacement of all cast iron and unprotected bare steel pipelines and
7 associated services. On September 22, 2017, Peoples filed a combined distribution Long-
8 Term Infrastructure Improvement Plan (“LTIIIP”) for the Peoples Division, Equitable
9 Division, and Peoples Gas (Formerly Peoples TWP) for 2017-2021 outlining the planned
10 pipeline replacement for the aforementioned time period. In addition, within the filing, the
11 Peoples Companies committed to replace all currently identified at risk¹ distribution pipe
12 by 2034. The current combined LTIIIP, which covers the distribution systems, was
13 approved by the PUC in January 2018.

14

15 **Q. WHAT APPROACH IS PEOPLES TAKING TO CARRY OUT THE PIPELINE**
16 **REPLACEMENT PLAN?**

17 A. Peoples is undertaking a hybrid contractor and employee approach to carry out the plan.
18 Peoples uses contractors to install mains, service and perform restoration, while the
19 Company’s employees perform the work they are expert in, such as inspections, tie-ins,
20 and work involving live gas. This hybrid approach is the most efficient and cost effective
21 method for the Company as Peoples will avoid the significant upfront investment in
22 pipeline installation equipment, facilities, and fleet. Peoples has negotiated five-year

¹ At risk pipe is unprotected bare steel, cast iron, copper, wrought iron or any other at-risk pipe.

1 contracts with two of our largest contractors in the areas with the most construction and
2 have negotiated three-year contracts with others in outlying areas. In addition, Peoples has
3 hired 118 additional construction related employees since December 2016.

4
5 **Q. HOW MANY MILES OF PIPE HAVE BEEN RETIRED RECENTLY FROM THE**
6 **PEOPLES SYSTEM UNDER ITS PIPELINE REPLACEMENT PROGRAM?**

7 A. Between 2013 and 2018, the Company retired the following miles of pipelines under the
8 replacement programs.

9

YEAR	PEOPLES	EQUITABLE	TOTAL
2013	38.8	20.1	58.9
2014	30.7	22.4	53.1
2015	35.0	30.9	65.9
2016	37.6	25.8	63.4
2017	47.5	40.5	88.0
2018	99.0	47.0	146.0

10
11 From 2013 through 2018, Peoples has replaced and/or retired 475 miles of pipelines
12 at both the Peoples and Equitable Divisions under pipeline replacement programs.

13
14 **Q. HOW MANY MILES OF PIPE DOES PEOPLES PLAN TO REPLACE IN IN ITS**
15 **CURRENTLY APPROVED LTIP?**

1 A. In the Company’s current LTIP, Peoples proposed the following replacement miles for the
2 years 2018-2021.

3

YEAR	PEOPLES	EQUITABLE	TOTAL
2018	73	53	126
2019	59	66	125
2020	63	63	126
2021	68	54	122

4

5 It’s important to note that Peoples exceeded its 2018 LTIP mileage goal of 126
6 miles by actual removing 146 miles of higher risk pipelines.

7

8 **Q. HOW MUCH DOES PEOPLES PROPOSE TO SPEND ON LTIP PROJECTS AND**
9 **HOW MANY MILES OF PIPE DOES PEOPLES PROPOSE TO REPLACE IN 2019**
10 **AND 2020?**

11 A. In the currently approved LTIP Peoples expects to replace 125 miles in 2019 and 126
12 miles 2020. The LTIP categories and associated capital spending for 2019 and 2020 in
13 our currently approved LTIP are shown immediately below

1

Approved LTIP Spending

LTIP Categories	2019	2020
Pipeline Replacements	\$168.2 m	\$171.7 m
Metering - ERT Program	\$7.0 m	\$7.0 m
Others – Regulators	\$2.5 m	\$2.5 m
Other Metering	\$6.0 m	\$6.0 m
Tracking and Traceability	<u>\$2.8 m</u>	<u>\$0.0 m</u>
Total Approved LTIP	\$186.5 m	\$187.2 m

2 **Q. PLEASE GENERALLY DESCRIBE THE OPERATIONS GROUP’S PART OF**
3 **PEOPLES’ CAPITAL BUDGET.**

4 A. Peoples Natural Gas Company’s Capital Budget for calendar years 2019 and 2020 totals
5 \$257.4 M and \$280.9 M respectively. The Operations portion of these funding levels,
6 which covers everything except Fleet, Facilities, Tools, Work Equipment and IT/Telecom
7 related expenditures, is 87% of the total budget or \$222.5 M and \$244.0 M respectively.
8 The majority of the Operations capital budget is dedicated to completing the Company’s
9 LTIP and the Gathering UFG reduction plan. Over the 2-year period, these plans will
10 result in the replacement/abandonment of 312 miles of pipeline, replacement of 37,250
11 company owned service lines and 9,661 customer owned service lines, changing out 24,000
12 meters, upgrading/replacing 80 regulating stations, completing the Smart Meter Program
13 at the Peoples Division, upgrading approximately 124,000 old 40G ERT devices at the
14 Equitable Division to 500 G technology and moving an additional 500 inside meters per
15 year outside.

1 Another 5% of the Operation's capital budget is targeted to other non-LTIIP
2 maintenance and compliance activities to maintain safe and reliable operations. Activities
3 include compressor station overhauls and enhancements, regulating station odorization,
4 and new pipeline interconnects.

5 The remaining portion of the Operation's capital budget, is focused on extending
6 our pipeline facilities and installing new meters to serve new customers.

7
8 **Q. WHAT ARE THE FTY AND FPFTY AMOUNTS FOR THE OPERATIONS**
9 **PORTION OF THE CAPITAL BUDGET?**

10 A. The Peoples' total Capital Budget spend for the FTY and FPFTY are \$276.8 M and \$296.6
11 M respectively. The Operation's portion of the FTY and FPFTY capital budget is \$234.7
12 M and \$256.3 M or approximately 85% which is consistent with the calendar budget levels.
13 Also consistent with the calendar year budgets, is the composition of the Operation's
14 budget of LTIIP & UFG Gathering Plans at 87%, new customer facilities investment at 9%
15 and the balance for non-LTIIP related maintenance and compliance activities.

16
17 **Q. PLEASE DESCRIBE THE COST SAVINGS IN PIPELINE REPLACEMENT**
18 **THAT THE COMPANY HAS REALIZED DUE TO THE MERGER BETWEEN**
19 **PEOPLES AND EQUITABLE?**

20 A. One of the benefits of the merging the Peoples and Equitable businesses was the ability to
21 avoid the replacement of duplicative pipelines in our overlapping service territories. The
22 Company estimates that by avoiding the replacement of duplicative pipelines it saved over
23 \$41 million in capital expenditures through 2017, about \$10 million per year. Peoples also

1 experienced meaningful cost savings in 2018 as well but because we are still analyzing the
2 results of 2018 pipeline replacement activities, the exact cost savings estimate for 2018 is
3 not available at this time.

4
5 **Q. PLEASE DESCRIBE THE COMPANY'S INITIATIVE TO IMPLEMENT**
6 **ENCODER RECEIVER TRANSMITTER (ERT) METERING TECHNOLOGY.**

7 A. In 2016, the Peoples Division began a five-year plan to implement ERT technology on all
8 customer meters. The technology is used to transmit data from meters over a short range
9 so a utility vehicle can collect meter data without a worker physically reading each meter.
10 Since then, Peoples has accelerated the program and projects to finish these installations
11 by December 2019, which is during the beginning of the Fully Projected Future Test Year.
12 Peoples will also begin a multi-year program in 2020 to replace older generation ERT
13 equipment that is aging and have battery units that are near the end of their useful lives.

14 As shown above, Peoples' LTIP capital work plan includes \$7.0 million in 2019
15 and \$7.0 million in 2020 for investment related to the ERT program.

16
17 **Q. HOW IS PEOPLES ADDRESSING THE GOODWIN-TOMBAUGH GATHERING**
18 **SYSTEMS?**

19 A. The Goodwin-Tombaugh systems are gathering systems that were acquired from EQT
20 Corporation by Peoples' parent company in December 2013 as part of the acquisition of
21 Equitable. Consistent with the terms of the Commission approved settlement in the
22 acquisition case, at closing these gathering systems were transferred to a new unregulated
23 sister company of Peoples – PNG Gathering LLC. These systems are not owned by

1 Peoples but Peoples has been the system operator since closing. Beginning in 2014,
2 Peoples undertook immediate steps to establish safe and reliable operations of both
3 gathering systems. These steps included: clearing and mowing of right-of-ways (“ROWS”);
4 GPS and GIS mapping all Goodwin-Tombaugh asset records (lines, producer taps,
5 customers, interconnections and other facilities); replacement and installation of line
6 markers; incorporating Goodwin-Tombaugh facilities into the Peoples’ damage prevention
7 program; and establishment of numerous odor inspection sites with ongoing (quarterly)
8 odorization surveys. Since that time Peoples has performed ongoing maintenance and
9 compliance activities such as: ROW mowing, line walling and leak surveys; managing,
10 classifying and repairing leaks under its normal compliance program; identifying and
11 abandoning zero flow production meters; certain remediation pipeline projects; and
12 ongoing updates to mapping data as a result of field verifications. In addition to these
13 maintenance/compliance activities Peoples has been undertaking an ongoing assessment
14 program to develop a long-term plan regarding the possible remediation of some or all of
15 these systems. In the very near future, Peoples will be meeting with the state parties
16 including Commission staff, the Office of Consumer Advocate and the Office of Small
17 Business Advocate to discuss and review Peoples’ proposed plan and recommendations.
18 Following those discussions Peoples will present to and file a plan with the Commission.
19 Peoples has not included any operating/maintenance or capital costs in claim in this rate
20 case.

21
22 **UNACCOUNTED FOR GAS (“UFG”) MITIGATION**

1 **Q. PLEASE DESCRIBE WHAT THE OPERATIONS GROUP IS DOING TO**
2 **ADDRESS THE REDUCTION OF THE COMPANY’S UFG.**

3 A. The Peoples’ gathering systems are the largest contributor to UFG. Accordingly, Peoples
4 presented in the 2018 1307(f) proceeding (R-2018-2645278 and R-2018-3000236) its plan
5 to aggressively implement a UFG Mitigation Plan to Address Gathering Pipelines. Some
6 of the plan components include:

- 7 1. Establishment of a dedicated and ongoing UFG team to identify and implement
8 effective UFG mitigation measures on the gathering and distribution systems;
- 9 2. Segmentation program to enhance the identification of mitigation target areas on
10 the gathering systems;
- 11 3. Find-it/Fix-it program - Peoples is transitioning to a program to annually leak
12 survey bare steel gathering lines and prioritize for repair any found leaks;
- 13 4. The accelerated removal and replacement of 115 miles of at-risk gathering
14 pipelines for the 2018 – 2021 period;
- 15 5. Mapping and Gas Measurement enhancements; and
- 16 6. Enhancements to theft-of-service processes and procedures.

17
18 **Q. IN ADDITION TO THE UFG MITIGATION PLAN, HAS PEOPLES SET**
19 **TARGETS REGARDING GATHERING UFG?**

20 A. Yes. In the Settlement of Peoples’ 2018 1307(f) proceeding, R-2018-2645278 and R-2018-
21 3000236, the Company agreed to a gathering UFG target of 9.0% for the twelve months
22 ending August 31, 2019, 8.5% for the year ending August 31, 2020, and 7.5% for the year
23 ending August 31, 2021.

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OTHER OPERATIONS INITIATIVES

Q. ARE THERE ANY OPERATIONAL INITIATIVES THAT YOU WOULD LIKE TO DISCUSS?

A. Yes. Some of these are a result of state or federal regulatory initiatives while some are Company driven initiatives to improve the overall customer experience. They include:

- Inside Meter Programs – In May 2014, the Commission adopted a final rulemaking order that amended § 59.18 (relating to meter, regulator and service line location) to be consistent with Federal regulations. One of the major requirements resulting from these regulations is that many existing meters currently located inside of a building must be relocated outside. The regulations require that Gas utilities shall have 20 years from the effective date of this regulation to complete replacement of existing facilities in compliance with the requirements. Peoples estimates that it has approximately 4,800 inside meters that will need to be relocated outside by 2034. Of these inside meters, we estimate that about 800 meters have been or will be associated with pipeline replacement projects and have or will be relocated outside as part of the pipeline replacement work under the existing approved LTIP. The remaining eligible inside meters, which total about 4,000, will be relocated outside as part of a 10-year program that will begin in 2019. Peoples plans to relocate approximately 400 – 500 of these non-LTIP inside meters per year over the 10 year program.

1 Projected capital expenditures associated with the non-LTIIP meters relocation
2 project is \$1.6 million in 2019 and \$1.7 million in 2020.

- 3 • DOT Transmission Integrity Rule 2.0 – This DOT rulemaking which is known as
4 the “Transmission Integrity Mega Rule” is expected to be issued in three separate
5 final rulemakings in 2019 and 2020. It is expected to require additional pipeline
6 assessments in areas beyond high consequence areas that weren’t previously in
7 scope. This rule may also result in integrity assessments for pipe and fittings that
8 don’t have reliable records documenting previous pressure tests and material
9 attributes. We will continue to monitor developments with this rule and will be
10 prepared to change our strategy and operations moving forward to ensure
11 compliance with any new regulations that are established.
- 12 • DOT Tracking and Traceability – Peoples wants to be prepared to support the
13 upcoming DOT Tracking & Traceability rule that requires pipe and related
14 components be tracked and traced through bar coding technology. It will allow
15 Peoples to track the location where pipe and components are installed, the date of
16 installation and the parties involved with installation. It will also trace important
17 information associated with the pipe and components including manufacturer,
18 production data, lot information, material, size, pressure and temperature ratings
19 and other related data. Peoples projects to incur a total of \$5.03 million in capital
20 expenditures from late 2018 through 2019 for necessary hardware and software in
21 support of this program.
- 22 • Customer Experience - In July 2018, Peoples began a pilot program of offering
23 customers the ability to schedule appointments within a two-hour timeframe in

1 the Waynesburg and Ginger Hill locations. The Company has continued to
2 expand these offerings throughout other locations and plans a full roll out of this
3 program in all areas by the second quarter of 2019. Customers have responded
4 positively to the program. In addition, this program improved the Company's
5 Can't Get In ("CGI") rate. The CGI rate for the two-hour appointment orders is
6 less than half of standard orders.

7 Further, last year we implemented a pilot program in some of our shop
8 locations where our field customer service employees are now able to take
9 customer payments when they are at a customer's home working a credit order.
10 This avoids the inconvenience of terminating and then reestablishing service for
11 those customers able and willing to make a payment to avoid possible
12 termination. We look to expand this program in 2019.

13 Our field employees engage with customers on a daily basis. We provide
14 them with resources such as customer friendly handouts regarding natural gas
15 pipelines and business cards with our 1-800-400-WARM phone line to
16 encourage customers to call and get help with their gas bill. Particularly when
17 they arrive at a home of a customer facing termination or whose service is off
18 due to lack of payment, our employees encounter customers in real need of
19 support. We recognize that customers who struggle to pay the gas bill often
20 struggle to manage other basic necessities such as rent, food or medical
21 care. Our employees were very concerned for the customers they were
22 encountering and wanted to find a way to help. As a result, we created a
23 program we call "Help At Peoples Now" or HAPN. Under this program we

1 established a dedicated phone line that all field employees could use, while still
2 at the customer's home, to reach someone in our Customer Relations
3 department. Our Customer Relations team can immediately step into action,
4 helping customers access Peoples CAP or Emergency Furnace & Line Repair
5 Program or connect them to other resources such as food pantries, community
6 agencies and programs of other utilities. This employee partnership has great
7 benefits, not only to the customers who receive invaluable assistance, but to the
8 employees involved as well.

9
10 **EXTENSION OF FACILITIES – TARIFF MODIFICATION**

11
12 **Q. PLEASE DESCRIBE PEOPLES' CURRENT MAIN EXTENSION POLICY.**

13 A. As detailed in section 4 of existing Peoples Natural Gas' tariff, the Company uses an
14 economic analysis when a customer requests the Company to extend its facilities to serve
15 them. This analysis compares the net present value ("NPV") of the customer's projected
16 future revenue to the cost the Company would incur to add that customer. If the projected
17 revenues are greater than the projected costs, the Company will extend facilities without
18 cost to the customer. However if projected costs are greater than projected revenues,
19 Peoples requires the customer to pay a contribution in aid of construction (CIAC) or as an
20 alternative, at the Company's discretion, the customer may take service under Pilot Rider
21 MLX, Mainline Extension Service. The CIAC is the amount required to make the
22 analysis whole. Peoples performs the same analysis if multiple potential customers asked
23 to be served off a single extension of facilities.

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Q. PLEASE EXPLAIN RATE MLX.

A. Under Rate MLX, customers pay a higher delivery rate, as noted in the tariff, in lieu of providing a CIAC for Peoples to extend facilities to serve them. The Company selects the rate tier based upon the minimum delivery rate required for Peoples to cover the investment costs to extend facilities. All customers taking service from the extension pay the same MLX delivery rate.

Q. SINCE THE PURPOSE OF MLX IS TO ENABLE MORE PEOPLE TO ELECT NATURAL GAS SERVICE, WHY IS PEOPLES CONSIDERING A MODIFICATION TO ITS CURRENT MAINLINE EXTENSION POLICY AT THIS TIME?

A. One of the more significant barriers for residential customers to receive or convert to natural gas is the CIAC. While Rider MLX helps to reduce this barrier by spreading the cost of a customer contribution over a period of time, it does not reduce the overall cost a customer must pay to have the Company extend its main to serve them. Given the plentiful supply of low-cost gas from Marcellus Shale in Pennsylvania, this is an ideal opportunity to help more people convert to natural gas and enjoy the cost savings of this efficient natural resource.

Q. WHAT DOES PEOPLES PROPOSE TO ASSIST POTENTIAL CUSTOMERS WHO WISH TO USE NATURAL GAS?

1 A. To help more Pennsylvanians enjoy the benefits of natural gas, Peoples is proposing a tariff
2 change that, alone and in combination with MLX, will further encourage more people to elect
3 natural gas service. We are proposing an allowance of 150 feet of main line per residential
4 applicant without the need for an economic analysis in normal situations. This proposal also
5 is designed to simplify the calculation and application of the main line extension policy which
6 currently is based on a detailed economic evaluation. Our proposal will make the rules for
7 extending service to residential customers more transparent and easier to understand. It will
8 also simplify the administrative calculation in determining and establishing residential
9 customer contributions.

10

11 **Q. DOES THE COMPANY CURRENTLY OFFER ANY FOOTAGE ALLOWANCE**
12 **FOR CUSTOMERS TO CONNECT TO PEOPLE’S SYSTEM?**

13 A. No, the Company does not currently offer customers any mains footage allowance to connect
14 to its natural gas system. Currently, all extensions are evaluated based on a detailed economic
15 evaluation.

16

17 **Q. IS THE COMPANY AWARE OF ANY NGDCS WHO OFFER A FOOTAGE**
18 **ALLOWANCE TO RESIDENTIAL CUSTOMERS?**

19 A. Yes, the Company’s affiliate, Delta Gas, offers 100 feet of main line allowance per customer
20 in Kentucky. In West Virginia, where Peoples WV operates, gas utilities are required to
21 extend mains 100 feet for each customer, at no cost to the customer. In addition, Columbia
22 Gas of Pennsylvania offers a 150 foot per customer main line allowance, Valley Energy offers
23 a combination of up to 200 feet of service per customer and or main extension per customer.

1 Also, Columbia Gas of Ohio, Columbia Gas of Maryland, Delmarva Power (DE), Duke
2 Energy (OH) and Dominion East (OH) are some of the many companies who offer extensions
3 of mainline without charge to applicants.
4

5 **Q. WHAT IS PEOPLES' MAIN EXTENSION TARIFF CHANGE PROPOSAL?**

6 A. Peoples proposed tariff change would only apply to residential extensions. For each
7 residential applicant that requests a main line extension, Peoples would install the first 150
8 feet of main line without charge to the customer in normal situations. At the discretion of the
9 Company, certain projects, which contain abnormal underground conditions, such as crossing
10 a stream or state highway, or visible ledge, or rock that will affect excavation or excessive
11 permitting fees would not be eligible for the 150 foot allotment. For those projects without
12 the abnormal conditions, as more applicants join in a single project to extend gas facilities,
13 the Company will be able to install greater length of main without charge to the applicants.
14 For example, on a single project with four customers electing to receive natural gas, the
15 Company will install up to 600 feet of main line without requiring a CIAC.

16 For extension projects greater than 150 feet per customer, the Company will determine
17 the required customer contribution by subtracting 150 feet per customer from the actual
18 average foot per customer associated with the specific mainline extension project. That
19 difference would then be multiplied by the actual cost per foot associated with the extension
20 project to determine the customer contribution required for each customer within the project
21 area. For example, if a residential customers required a 200 foot line extension, the Company
22 would calculate the contribution amount based on the cost to extend facilities by 50 feet. The
23 applicants would be required to pay this up front or through Rider MLX.

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Q. HOW DID THE COMPANY DETERMINE 150 FEET WAS THE APPROPRIATE OFFER?

A. Please see Exhibit JAG-3. Peoples calculated the miles of road and housing units in its service territory and found that there was an average of 128 feet of road per every housing unit. Since Peoples is also pursuing a program to expand gas service into rural areas, the Company also calculated the miles of road and housing units for the Company’s rural area outside of Allegheny County and found that there was an average of 180 feet of road per every housing unit in the more rural areas of the Company’s service territory. By offering a 150 foot allowance to each applicant, the Company is providing an allowance equivalent to the average distance of extending its main from one housing unit to the next within its service territory.

Q. WHAT WILL BE THE RATEMAKING TREATMENT OF THE ALLOWANCE?

A. The cost of all facilities installed will be included in rate base in future proceedings and revenues will be reflected for the new customers added in future proceedings. If further customers are connected to facilities constructed within the allowance, no credit would be provided to the original customers added as part of the extension. If a CIAC is required, and new customers are later added to the extension, the Company’s existing rules regarding provision of a credit under its main extension rules will continue to apply. Peoples is not reflecting any additional revenues or capital in this case for the main line allowance proposed in this case.

1 **Q. WILL THIS PROPOSAL REPLACE THE USE OF THE COMPANY’S PILOT**
2 **RIDER MLX?**

3 A. No, Peoples will continue to offer Rider MLX to customers as an option for customers who
4 require an extension greater than 150 feet and those not eligible under the 150 foot provision.

5
6 **Q. PLEASE SUMMARIZE YOUR TARIFF CHANGE PROPOSAL.**

7 A. Peoples proposes to adopt a streamlined approach that will extend its main 150 feet without
8 charge to an applicant for each applicant that applies for a line extension. In this way, the
9 Company is simplifying the process for the customer and addressing a barrier many
10 applicants face when they wish to select natural gas as their heating source, the cost of the
11 main line extension. The proposal will make it easier for applicants to select natural gas
12 service.

13
14 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15 A. Yes. I reserve the right to supplement my testimony as other issues arise during the course
16 of this proceeding. Thank you.

APPENDIX A

Exhibit

Filing Requirement

Ex. 10, Sch. 3	53.53.III.E.22
Ex. 12, Sch. 1	53.53.III.E.5
Ex. 12, Sch. 2	53.53.III.E.18
Ex. 12, Sch. 3	53.53.III.E.23
Ex. 12, Sch. 4	53.53.III.E.24
Ex. 12, Sch. 5	53.53.III.E.26
Ex. 12, Sch. 6	53.53.III.E.30
Ex. 12, Sch. 7	53.53.III.E.36
Ex. 12, Sch. 10	53.53.IV.B.11
Ex. 12, Sch. 11	53.53.I.C.1
Ex. 12, Sch. 12	53.53.III.E.28
Ex. 12, Sch. 15	53.53.III.E.3
Ex. 12, Sch. 16	53.53.IV.B.14
Ex. 13, Sch. 7	53.53.III.E.27
Ex. 15, Sch. 2	53.53.I.C.2
Ex. 15, Sch. 3	53.53.IV.B.8
Ex. 17, COS-10	COS 10
Ex. 17, COS-11	COS 11
Ex. 17, COS-12	COS 12
Ex. 17, COS-14	COS 14
Ex. 17, COS-16	COS 16
Ex. 17, COS-17	COS 17
	Supp-ROR10

Cost Comparison - Local Gas Purchased and Delivered via Gathering vs. Interstate Supplied Deliveries (Peoples Natural Gas)

		Local Gas via Gathering			Interstate Gas*	
Index - DTI Appalachian Index Cost per Dth 1/		\$	2.10 / Dth			
Commodity Cost 2/	103% of Index	\$	2.1630 / Mcf		\$	2.1840 / Mcf
Gathering UFG (A) or Interstate Retainage (B)	8.9%	\$	0.1934 / Mcf	A	2.58%	\$ 0.0564 / Mcf
Producer Contribution - Gathering Retainage 3/	-2.10%	\$	(0.0454) / Mcf			
Delivery Cost to City-Gate		\$	-		\$	0.0885 / Mcf
Gathering System Cost (A) or Interstate Capacity (B)		\$	0.7600 / Mcf	A	\$	1.0398 / Mcf
Producer Contribution - Gathering Fee 4/		\$	(0.2600) / Mcf		\$	-
Total Delivered Cost		\$	2.8109 / Mcf		\$	3.3687 / Mcf
					\$ 0.5577 Local Gas Discount	

* Based on weighted average cost of all existing Peoples interstate FT and storage contracts.

1/ DTI Appalachian Index Price as estimated for the FPPTY - November 2019 through October 2020

2/ Commodity Cost for Local Purchases is 103% DTI App Index and interstate supplies are converted from Dth to Mcf at 1.04 system average Btu.

3/ Gathering retainage level recovered from producers on the Peoples Division and Equitable Division.

4/ Gathering Fee is the producer paid fee under Peoples' proposed Appalachian Gathering Service rate schedule for the FPPTY - November 2019 - October 2020.

APPALACHIAN GATHERING SERVICE

AVAILABILITY

Service under this rate schedule is available to any party desiring to transport gas through the gathering system, as well as to deliver gas directly into the Company's distribution and transmission system, provided that:

- (1) a Master Interconnect and Measurement Agreement (MIMA) has been executed between the Company and the party; and
- (2) the party is in compliance with the MIMA, the provisions of this Rate Schedule and with all other provisions of this Tariff.

RATES

The gathering rate (\$/Mcf) will be set on a monthly basis in an amount equal to 12.4% of the beginning of the month price (\$/Dth) published in Platts, Gas Daily publication, under the heading (C) Appalachia, Dominion, South Point, but in no event shall be less than \$0.26 per MCF, plus applicable retainage. The gathering rate shall not exceed the fully allocated cost of service associated with gathering system, as determined in the most recent base rate case proceeding.

Gathering of natural gas from unconventional sources (including but not limited to horizontally drilled Marcellus and Utica shale gas and landfill gas), shall be negotiated and agreed to within the MIMA.

TERM

The terms for gathering service shall be a set forth in the MIMA.

CHARACTER OF SERVICE

The Company's only obligation under this Rate Schedule shall be to receive gas from any gathering receipt point and to permit that gas to flow against the existing pressure in the Company's facilities. Peoples shall not be obligated to lower such line pressure by compression or otherwise to accommodate receipts from local Appalachian producers under this Rate Schedule. Service under this Rate Schedule shall be subject to Operational Flow Orders pursuant to Item 23 of the Rules and Regulations of this Tariff. Nothing in this Rate Schedule shall limit the Company's right to interrupt service or to take other action as may be required to alleviate conditions, which threaten the integrity of its system.

<u>County</u>	<u>Number of Housing Units</u>	<u>Miles of Road</u>	<u>Feet Between Homes</u>
Allegheny County	600,795	5,789	50.9
Armstrong County	32,786	1,820	293.2
Beaver County	79,508	1,689	112.2
Blair County	56,856	1,225	113.8
Butler County	83,224	2,368	150.3
Cambria County	65,972	1,771	141.7
Clarion County	20,554	1,446	371.5
Fayette County	63,763	2,146	177.7
Greene County	16,713	1,504	475.2
Indiana County	38,995	2,106	285.2
Jefferson County	22,700	1,397	324.9
Lawrence County	41,244	1,200	153.6
Mercer County	52,268	2,038	205.9
Somerset County	38,458	2,217	304.4
Venango County	27,591	1,379	263.9
Washington County	95,896	2,877	158.4
Westmoreland County	170,475	3,672	113.7
Rural Average - Excluding Allegheny County	907,003	30,857	179.6
Total Average	1,507,798	36,646	128.3

Sources:

<http://www.dot.state.pa.us/public/pubsforms/Publications/PUB%20600.pdf>

https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=PEP_2017_PEPANNHU&prodType=table