


COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560

 @pa_oca

 /pennoca

FAX (717) 783-7152
consumer@paoca.org

July 9, 2019

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission
v.
Peoples Natural Gas Company, LLC
Docket No. R-2018-3006818

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Main Brief in the above proceeding.

Copies have been served on the parties as indicated on the enclosed Certificate of Service.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "J.D. Moore".

J.D. Moore
Assistant Consumer Advocate
PA Attorney I.D. # 326292
E-Mail: JMoore@paoca.org

Enclosures:

cc: Honorable Joel Cheskis
Certificate of Service
*275494

CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission :
v. : Docket No. R-2018-3006818
Peoples Natural Gas Company LLC :

I hereby certify that I have this day served a true copy of the following documents, the Office of Consumer Advocate's Main Brief, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 9th day of July 2019.

SERVICE BY E-MAIL and INTER-OFFICE MAIL

Erika L. McLain, Esquire
Carrie B. Wright, Esquire
Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

SERVICE BY E-MAIL and FIRST CLASS MAIL, POSTAGE PREPAID

Michael W. Gang, Esquire
Anthony D. Kanagy, Esquire
Devin T. Ryan, Esquire
Post & Schell, PC
17 North Second Street, 12th Floor
Harrisburg, PA 17101

David P. Zambito, Esquire
Jonathan P. Nase, Esquire
Cozen O'Connor
17 North Second Street
Suite 1410
Harrisburg, PA 17101

William H. Roberts II, Esquire
Andrew Wachter
Peoples Natural Gas Company, LLC
375 North Shore Drive
Pittsburgh, PA 15212

Erin Fure, Esquire
Office of Small Business Advocate
300 North Second Street
Suite 202
Harrisburg, PA 17101

Patrick M. Cicero, Esquire
John W. Sweet, Esquire
Elizabeth M. Marx, Esquire
118 Locust Street
Harrisburg, PA 17101

Tishekia Williams, Esquire
Michael Zimmerman, Esquire
Emily M. Farah, Esquire
Duquesne Light Company
411 Seventh Avenue, 15th Floor
Pittsburgh, PA 15219

Daniel Clearfield, Esquire
Carl Shultz, Esquire
Eckert, Seamans, Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101

Brian Kalcic
Excel Consulting
225 South Meramec Avenue
Suite 720-T
St. Louis, MO 63105

Vasiliki Karandrikas, Esquire
Pamela C. Polacek, Esquire
Errin T. McCaulley Jr., Esquire
McNees, Wallace & Nurick, LLC
100 Pine Street
Harrisburg, PA 17108-1166

Theodore J. Gallagher, Esquire
NiSource Corporate Services Company
Energy Distribution Group Legal
121 Champion Way
Suite 100
Canonsburg, PA 15317

Todd S. Stewart, Esquire
Timothy K. McHugh, Esquire
Hawke, McKeon & Sniscak, LLP
100 North Tenth Street
Harrisburg, PA 17101

Joseph L. Vullo, Esquire
Burke, Vullo, Reilly, Roberts
1460 Wyoming Avenue
Forty Fort, PA 18704

Michael A. Gruin, Esquire
Donald R. Wagner, Esquire
Stevens & Lee
17 North Second Street, 16th Floor
Harrisburg, PA 17101

Thomas J. Sniscak, Esquire
Hawke, McKeon & Sniscak, LLP
100 North Tenth Street
Harrisburg, PA 17101

Tanya C. Leshko, Esquire
Buchanan, Ingersoll & Rooney, PC
409 North Second Street
Suite 500
Harrisburg, PA 17101-1357

Linda R. Evers, Esquire
Stevens & Lee
111 North Sixth Street
Reading, PA 19601

Kevin J. Moody, Esquire
Pennsylvania Independent Oil & Gas
Association
212 Locust Street
Suite 300
Harrisburg, PA 17101

Charis Mincavage, Esquire
Alessandra L. Hylander, Esquire
James Crist, Esquire
McNees, Wallace & Nurick, LLC
100 Pine Street
Harrisburg, PA 17108-1166

Scott Rubin
333 Oak Lane
Bloomsburg, PA 17815

Diane Burgraff
37 Whittakers Mill Road
Williamsburg, VA 23185

SERVICE BY FIRST CLASS MAIL, POSTAGE PREPAID

Michael J. Healey, Esquire
Healey, Block & Hornack, PC
247 Fort Pitt Boulevard, 4th Floor
Pittsburgh, PA 15222

Robert J. DeGregory, Esquire
United Steelworkers
5 Gateway Center
Pittsburgh, PA 15222

Severo C. Miglioretti
115 Shearer Road
New Kensington, PA 15068

Daniel Killmeyer
184 McKay Road
Saxonburg, PA 16056

Charles F. Hagins
420 Goucher Street
Johnstown, PA 15905

Sean D. Ferris
406 Laurie Drive
Penn Hills, PA 15235

Samuel Givens
132 Thunderbird Drive
McKeesport, PA 15135

/s/ J.D. Moore

J.D. Moore
Assistant Consumer Advocate
PA Attorney I.D. # 326292
E-Mail: JMoore@paoca.org

Christy M. Appleby
Assistant Consumer Advocate
PA Attorney I.D. # 85824
E-Mail: CApplby@paoca.org

Harrison W. Breitman
Assistant Consumer Advocate
PA Attorney I.D. # 320580
E-Mail: HBreitman@paoca.org

Barrett C. Sheridan
Assistant Consumer Advocate
PA Attorney I.D. # 61138
E-Mail: BSheridan@paoca.org

Darryl A. Lawrence
Senior Assistant Consumer Advocate
PA Attorney I.D. # 93682
E-Mail: DLawrence@paoca.org
*275493

Counsel for:
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152
Dated: July 9, 2019

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket Nos. R-2018-3006818
v.	:	C-2019-3007711
	:	C-2019-3007698
Peoples Natural Gas Company, LLC	:	C-2019-3007752
	:	C-2019-3007635
	:	C-2019-3007959
	:	C-2019-3007904
	:	C-2019-3008506

MAIN BRIEF OF THE
OFFICE OF CONSUMER ADVOCATE

Darryl A. Lawrence
Senior Assistant Consumer Advocate
PA Attorney I.D. # 93682
E-Mail: DLawrence@paoca.org

Barrett C. Sheridan
Senior Assistant Consumer Advocate
PA Attorney I.D. # 61138
E-Mail: BSheridan@paoca.org

Christy M. Appleby
Assistant Consumer Advocate
PA Attorney I.D. # 85824
E-Mail: CAppleby@paoca.org

Harrison W. Breitman
Assistant Consumer Advocate
PA Attorney I.D. # 320580
E-Mail: HBreitman@paoca.org

J.D. Moore
Assistant Consumer Advocate
PA Attorney I.D. # 326292
E-Mail: JMoore@paoca.org

Counsel for:
Tanya J. McCloskey
Acting Consumer Advocate

Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
(717) 783-5048
Dated: July 9, 2019

TABLE OF CONTENTS

I. INTRODUCTION4
 A. Procedural History5
 B. Burden of Proof.....7
II. SUMMARY OF ARGUMENT8
III. ARGUMENT9
IV. CONCLUSION.....16

APPENDICES

Appendix A: Proposed Findings of Fact, Conclusions of Law, and Ordering Paragraphs of the Office of Consumer Advocate

TABLE OF AUTHORITIES

	Page(s)
Cases	
<u>Berner v. Pa. P.U.C.</u> 382 Pa. 622, 116 A.2d 738 (1955).....	8
<u>Brockway Glass v. Pa. P.U.C.</u> 63 Pa. Commw. 238, 437 A.2d 1067 (1981)	7
<u>Burleson v. Pa. P.U.C.</u> 461 A.2d 1234 (Pa. 1983).....	8
<u>Lower Frederick Twp. v. Pa. P.U.C.</u> 48 Pa. Commw. 222, 409 A.2d 505 (1980)	7
<u>Pa. P.U.C. v. PPL Elec. Util. Corp.</u> 237 P.U.R. 4th 419 (2004).....	8
<u>University of Pa. v. Pa. P.U.C.</u> 86 Pa. Commw. 410, 485 A.2d 1217 (1984).....	8
Administrative Decisions	
<u>Pa. P.U.C. v. Equitable Gas Co.</u> 57 Pa. P.U.C. 423 (1983).....	8
<u>Pa. P.U.C. v. Columbia Gas of Pa.</u> Docket No. R-2015-2468056, Opinion and Order (June 19, 2015).....	14, 15
<u>Pa. P.U.C. v. Peoples Nat. Gas Co. LLC</u> Docket No. R-2016-2542918, Interim Order (Oct. 3, 2016)	10
Statutes	
66 Pa. C.S. § 315(a)	7

I. INTRODUCTION

Peoples Natural Gas Company, LLC (Peoples or the Company) is a natural gas distribution company (NGDC) headquartered in Pittsburgh, Pennsylvania. Peoples operates in three different states and serves approximately 625,000 residential, commercial, and industrial customers in seventeen counties throughout southwestern Pennsylvania. Peoples last filed for a general rate increase in 2012.

On January 28, 2019, Peoples filed Retail Tariff Gas – PA PUC No. 47 with the Pennsylvania Public Utility Commission (Commission) to become effective on March 29, 2019. In its initial filing, Peoples proposed, *inter alia*, a modification to the Company's current main line extension policy (Extension Policy). In its filing, the Company proposed to provide potential residential customers an allowance of 150 feet of mains extension per customer without charge to the new customer in order to encourage more residential customers to connect to the Company's system.

The OCA did not oppose Peoples' proposed Extension Policy. While the existing mains extension policy was designed to encourage the delivery of low-cost natural gas to unserved and underserved areas of the Commonwealth, the number of applicants for mains extensions have so far disappointed. The Company's proposed Extension Policy presents an opportunity for more residential customers to apply for a mains extension and be able to benefit from the delivery of low-cost natural gas service in the Commonwealth. The Office of Small Business Advocate (OSBA), however, opposed the Company's Extension Policy and recommended that it be rejected. Specifically, the OSBA claims that the proposed Extension Policy will benefit new residential customers at the expense of existing general customers.

For the reasons set forth below, the OCA submits that the Company has met its burden of

proof that the proposed Extension Policy will provide a benefit to customers seeking to obtain access to low-cost natural gas service in unserved and underserved areas within the Commonwealth without negatively affecting the Company's current customers. As such, the OSBA's challenge to the Extension Policy should be dismissed and the Company's proposal should be adopted as filed.

A. Procedural History

On January 28, 2019, Peoples filed Retail Tariff Gas – PA PUC No. 47 with the Pennsylvania Public Utility Commission (Commission) to become effective on March 29, 2019. Using a Fully Forecasted Future Test Year ending October 31, 2020, Retail Tariff Gas – PA PUC No. 47 sought to consolidate the retail rates and tariffs of the Peoples and Equitable Divisions and proposed an overall rate increase of \$94.9 million per year, or approximately 14% on a total annual revenue basis.

On February 7, 2019, the OCA filed a Formal Complaint and Public Statement against the proposed rate increase, the Commission's Bureau of Investigation and Enforcement (I&E), and the OSBA filed Notices of Appearance. The Community Action Association of Pennsylvania (CAAP) and the Coalition for Affordable Utility Service and Energy Efficiency in Pennsylvania (CAUSE-PA) filed Petitions to Intervene on February 15, 2019. The Natural Gas Supplier Parties and the Retail Energy Supply Association (NGS/RESA) filed a Petition to Intervene on February 22, 2019. On February 25, 2019, the Utility Workers Union of America, Local 612 and Duquesne Light Company filed Petitions to Intervene. The Pennsylvania Independent Oil & Gas Association (PIOGA) filed a Petition to Intervene on February 26, 2019.

On February 28, 2019, the Commission issued an Order initiating an investigation into the lawfulness, justness, and reasonableness of the proposed rate increase in this filing and suspended

the effective date of Retail Tariff Gas – PA. P.U.C. No. 47 until October 29, 2019, by operation of law. The case was assigned to Deputy Chief Administrative Law Judge Joel H. Cheskis, and a Prehearing Conference was scheduled for March 14, 2019. The Snyder Brothers, Inc., VEC Energy, LLC, and Snyder Armclaf Gas Co., LP (collectively SBI) filed a Petition to Intervene on March 5, 2019, and Equitrans, LP filed a Petition to Intervene on March 7, 2019. Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Business Marketing, LLC (collectively Direct Energy) filed a Petition to Intervene on March 12, 2019. On March 13, 2019, the Peoples Industrial Intervenors (PII) filed a Petition to Intervene.

In accord with the Scheduling Order issued by Judge Cheskis on March 19, 2019, the OCA submitted the Direct Testimony of Dante Mugrace, OCA Statement No. 1;¹ Kevin O'Donnell, OCA Statement No. 2; Glenn Watkins, OCA Statement No. 3;² and Roger Colton, OCA Statement No. 4 on April 29, 2019. Direct Testimony was also filed by PII, Duquesne Light, CAAP, I&E, SBI, OSBA, Direct Energy, and CAUSE-PA.

On May 28, 2019, the OCA submitted the Rebuttal Testimony of Glenn Watkins, OCA Statement No. 3-R. Rebuttal Testimony was also filed by I&E, OSBA, Peoples, and PII. The OCA filed the Supplemental Direct Testimony of Glenn Watkins, OCA Statement No. 3-Supp³ on May 29, 2019.

On June 12, 2019, the OCA submitted the Surrebuttal Testimony of Dante Mugrace, OCA

¹ OCA Statement No. 1 included a Public version and a Confidential version that were served in accordance with the Protective Order adopted in this matter.

² OCA Statement No. 3 included a Public version and a Highly Confidential version that were served in accordance with the Protective Order adopted in this matter.

³ OCA Statement No. 3-Supp included a Public version and a Highly Confidential version that were served in accordance with the Protective Order adopted in this matter.

Statement 1-SR;⁴ Kevin O'Donnell, OCA Statement 2-SR; Glenn Watkins, OCA Statement 3-SR;⁵ and Roger Colton, OCA Statement 4-SR. Surrebuttal Testimony was also filed by I&E, OSBA, CAUSE-PA, PII, SBI, Duquesne Light, and Peoples.

Throughout the course of this matter the Parties engaged in numerous settlement discussions. As a result of those discussions, the Parties were able to achieve a unanimous settlement⁶ on all issues in this case, except for the Company's proposed Extension Policy. Accordingly, the OCA addresses the proposed Extension Policy in this Main Brief.

B. Burden of Proof

Peoples bears the burden of proof to establish the justness and reasonableness of every element of its requested rate increase. As set forth in Section 315(a) of the Public Utility Code:

Reasonableness of rates – In any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceedings upon the complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.

66 Pa. C.S. § 315(a). The Commonwealth Court interprets this principle as follows:

Section 315(a) of the Public Utility Code, 66 Pa. C.S. § 315(a), places the burden of proving the justness and reasonableness of a proposed rate hike squarely on the utility. It is well-established that the evidence adduced by a utility to meet this burden must be substantial.

Lower Frederick Twp. v. Pa. P.U.C., 48 Pa. Commw. 222, 226-27, 409 A.2d 505, 507 (1980) (citations omitted); See also Brockway Glass v. Pa. P.U.C., 63 Pa. Commw. 238, 437 A.2d 1067 (1981).

⁴ OCA Statement No. 1-SR included a Public version and a Highly Confidential version that were served in accordance with the Protective Order adopted in this matter.

⁵ OCA Statement No. 3-SR included a Public version and a Highly Confidential version that were served in accordance with the Protective Order adopted in this matter.

⁶ The OCA is submitting its Statement in Support of the Settlement in accord with the procedural schedule, on July 9, 2019.

The Pennsylvania Supreme Court has stated that the party with the burden of proof has a formidable task to show that the Commission may lawfully adopt its position. Even where a party has established a prima facie case, the party with the burden must establish that “the elements of that cause of action are proven with substantial evidence which enables the party asserting the cause of action to prevail, precluding all reasonable inferences to the contrary.” Burleson v. Pa. P.U.C., 461 A.2d 1234, 1236 (Pa. 1983). Thus, a utility has an affirmative burden to establish the justness and reasonableness of every component of its rate request.

Pennsylvania law is clear that there is no similar burden for a party proposing an adjustment to a utility base rate filing. See e.g., Berner v. Pa. P.U.C., 382 Pa. 622, 116 A.2d 738 (1955). In Berner, the Pennsylvania Supreme Court stated:

[T]he appellants did not have the burden of proving that the plant additions were improper, unnecessary or too costly; on the contrary, that burden is, by statute, on the utility to demonstrate the reasonable necessity and cost of the installations and that is the burden which the utility patently failed to carry.

Berner, 382 Pa. at 631, 116 A.2d at 744. The Commission recognizes this standard in its rate determinations. Pa. P.U.C. v. Equitable Gas Co., 57 Pa. P.U.C. 423, 471 (1983). See also University of Pa. v. Pa. P.U.C., 86 Pa. Commw. 410, 485 A.2d 1217 (1984); Pa. P.U.C. v. PPL Elec. Util. Corp., 237 P.U.R. 4th 419 (2004).

Peoples must affirmatively demonstrate the reasonableness of every element of its claims and demonstrate that its proposed rates are just, reasonable, and in the public interest. The record in this matter shows that Peoples has satisfied its statutory burden, as the OCA discusses herein.

II. SUMMARY OF ARGUMENT

Peoples has met its burden of proof in this case by demonstrating that the Extension Policy will provide a benefit to customers seeking to obtain access to low-cost natural gas service in unserved and underserved areas within the Commonwealth without negatively affecting the

Company's current customers. In this proceeding, the Company provided substantial evidence demonstrating that the Extension Policy is consistent with the law, Commission precedent and represents sound public policy. The OSBA's arguments in opposition to the Company's proposal are misplaced.

Peoples' Extension Policy is consistent with the mains extension programs that have been proposed by other NGDCs in the Commonwealth, is supported in this matter by substantial evidence, represents sound public policy and should be approved by the Commission.

III. ARGUMENT

Peoples has met its burden of proof in this case that the Extension Policy will provide a benefit to customers seeking to obtain access to low-cost natural gas service in unserved and underserved areas within the Commonwealth without negatively affecting the Company's current customers.

The Company's current mains extension policy involves an economic test as explained by Peoples' witness Joseph Gregorini:

[T]he Company uses an economic analysis when a customer requests the Company to extend its facilities to serve them. This analysis compares the net present value ("NPV") of the customer's projected future revenue to the cost the Company would incur to add that customer. If the projected revenues are greater than the projected costs, the Company will extend facilities without cost to the customer. However if projected costs are greater than projected revenues, Peoples requires the customer to pay a contribution in aid of construction (CIAC) or as an alternative, at the Company's discretion, the customer may take service under Pilot Rider MLX, Mainline Extension Service. The CIAC is the amount required to make the analysis whole.

Peoples St. 2 at 36.

As Mr. Gregorini explained, if the current economic test revealed that a CIAC was needed the customer could elect to pay the CIAC upfront. Alternatively, the customer could choose to spread out the cost of the CIAC amount over time by charging the customer a higher delivery rate

through Rider MLX instead of requiring the customer to pay for the main extension with an up-front CIAC payment. Peoples St. 2 at 37.⁷

In his Direct Testimony, Mr. Gregorini explained that the CIAC amount, as a whole, was a significant barrier to incentivizing residential customers to receive a main extension and convert to natural gas service. Peoples St. 2 at 37. The Company's proposed change to the Extension Policy would reduce this barrier by providing "an allowance of 150 feet of main line per residential applicant without the need for an economic analysis in normal situations." Peoples St. 2 at 38. In other words, "Peoples would install the first 150 feet of main line without charge to the customer in normal situations." Peoples St. 2 at 39. The Company's current Extension Policy does not provide for a standard mains extension allowance. Peoples St. 2 at 38.

Mr. Gregorini explained that the modified Extension Policy would only apply to residential consumers. Peoples St. 2 at 39. Should abnormal conditions, "such as crossing a stream or state highway, or visible ledge, or rock that will affect excavation or excess permitting fees[.]" be present, a customer may not be eligible for the 150 foot allowance. Peoples St. 2 at 39. If the residential customer is eligible, however, the first 150 feet of main provided by the Company would be without charge to the customer and would offset any amounts of main exceeding 150 feet. Peoples St. 2 at 39.

As Mr. Gregorini explained, "if a residential customers[sic] required a 200 foot line extension, the Company would calculate the contribution amount based on the cost to extend facilities by 50 feet." Peoples St. 2 at 39. The customer in this situation would only be required to pay for 50 feet of main either as an up-front CIAC payment or over time through Rider MLX.

⁷ Rider MLX was first approved by this Commission in 2016 to provide natural gas service to unserved and underserved areas in the Commonwealth and was intended to replace the Company's then existing Service Expansion Program, or Rider SET. Pa. PUC v. Peoples Nat. Gas Co. LLC, Docket No. R-2016-2542918, Interim Order (Oct. 3, 2016); Pa. PUC v. Peoples Nat. Gas Co. LLC, Docket No. R-2016-2542918, Order (Nov. 9, 2016).

Peoples St. 2 at 39. Mr. Gregorini also clarified that the proposed changes would not affect a customer's ability to apply for a main extension using Rider MLX as that would continue being "an option for customers who require an extension greater than 150 feet and those not eligible under the 150 foot provision." Peoples St. 2 at 41. To be clear, the proposed Extension Policy does not alter or modify any provisions of Rider MLX.

In response to the Company's proposed change to the Extension Policy, the OSBA stated that the proposed modification would effectively increase the allowable investment level for residential applicants because, under the existing mains extension policy, a residential applicant using 86.9 Mcf⁸ per year would have an allowable investment amount of up to \$5,906.20. OSBA St. 1 at 16. The cost to provide residential applicants with an extension of 150 feet of main, in contrast, is \$6,774.00. OSBA St. 1 at 16 (using Peoples' 2018 project costs). The OSBA claimed that the allowance of 150 feet of main would cause existing general customers to unjustifiably subsidize a portion of the cost of main allowances provided to new residential applicants. OSBA St. 1 at 16-17. Under the current Extension Policy, a residential customer's allowable investment amount is determined by crediting the customer with forty years of net revenue contributions. OSBA St. 1 at 17. The OSBA argued that, because the proposed Extension Policy would lower the overall CIAC requirement for residential applicants, the modification would extend the payback period beyond the current forty year timeline. Id. The OSBA concluded by questioning why an assumed revenue stream of beyond 40 years was required and recommended that the proposed modification to the Extension Policy be rejected. Id.

The OCA submits that one of the flaws in the OSBA's argument here is the failure to

⁸ It is the OCA's understanding that 86.9 Mcf is the average annual usage for residential customers across the Peoples system. In evaluating a mains extension request, Peoples uses this average number to assess whether a CIAC is required or not.

consider the entire group of residential customers whose projected revenues exceed the projected cost to extend main and thus do not require a CIAC at all. When these customers are examined alongside the residential customers that do require a CIAC, no shifting of costs to non-residential customers occurs. As Mr. Gregorini explained in his Rebuttal Testimony:

[Peoples] examined all historical residential mainline extensions for the years 2017 and 2018, including those that required a CIAC and those that did not. We first looked at the projects that did not require a CIAC. Over this 2-year period we entered into 123 agreements to add 3,297 residential customers **that did not require a CIAC**. No CIAC was required for these projects because the cost for each of these projects was below the calculated economic allowable investment associated with each project. The average cost per customer for these projects that did not require a CIAC was \$2,945. We then examined the residential projects for 2017 and 2018 that required a CIAC because the cost for each of these projects was above the calculated economic allowable investment associated with each project. Over this 2-year period we entered into 43 agreements to add 111 residential customers **that did require a CIAC**. For this second group we then calculated what the “allowable” project costs would be if we adopted our proposed 150-foot rule instead of using our current allowable investment model. What this showed was that for these customers under our proposed 150-foot rule the average “allowable” project costs would have been \$6,594. Admittedly and to Mr. Kalcic’s point, this amount is above the calculated allowable under our current mainline extension policy. However, when viewed together with the average project cost per customer of \$2,945 for those 3,297 residential customers in 2017 and 2018 projects that did not require a CIAC, the average “allowable” project cost per residential customer under our 150 foot rule would have been only \$3,064. This amount is significantly less than the average allowable investment for residential customers using proposed rates under our current line extension policy, which is \$5,906. It is also significantly less than the average allowable investment for residential customers using present rates under our current line extension policy, which is \$4,177 for the Peoples Division and \$4,049 for the Equitable Division. What this recent experience demonstrates is that our 150-foot rule proposal would not result in any cost subsidies when applied to all residential customers’ extensions. It shows that not only are the economics sound and will not cause any unjustified cost shifting but our proposal will also be more transparent to the customer, easier to implement and result in the addition of more new residential customers that will be a benefit to not only the newly added customers but also all existing customers.

Peoples St. 2-R at 3-4 (emphasis in original).

In Surrebuttal Testimony, the OSBA argued that the Company’s current allowable investment amount of \$5,906.20 for the residential customer using 86.9 Mcf per year is equal to

an allowance of 131 feet of main per customer, not 150 feet.⁹ OSBA St. 1-S at 7. As such, the OSBA concluded that the remaining 19 feet of main in this scenario, or \$868, would be shifted to general ratepayers instead of the residential applicants receiving a main extension. OSBA St. 1-S at 7. In response to Mr. Gregorini's combining of the customers that required a CIAC and the customers that do not require a CIAC, the OSBA argued that the purpose of a mains extension policy is to evaluate whether a particular project is economic prior to construction, not afterwards as an average and combined with other completed extension projects. OSBA St. 1-S at 8.

The OSBA's argument in this matter is narrow in scope and fails to consider all relevant factors. If, for example, new residential customers that were added to Peoples' system through the Extension Policy were high-use customers, then all of the Company's general service customers stand to benefit—both residential and commercial customers alike—because these new, high-use customers would be contributing more to the incremental cost of connecting them to the system and to the costs of the existing system.

Further, utility systems in general all contain various subsidies if examined in a microcosm as the OSBA does here. Many new customers connect to the existing natural gas system in towns and cities where mains extensions are not an issue as the main passes in front of their residence or business. One could argue that these customers are being unfairly subsidized by their surrounding natural gas consuming neighbors who may have been paying for the upkeep and maintenance of that system for many years. As Mr. Gregorini effectively showed, considering all residential customers who connect to the system as a whole shows there is no subsidy issue.

In addition, rigidly adhering to a mathematical analysis as the OSBA has done in this matter effectively places blinders on the mains extension analysis. Main extension policies should not

⁹ The OSBA achieved this result by taking the Company's allowable investment amount of \$5,906.20 and dividing this amount by the Company's 2018 extension cost of \$45.16 per foot of main.

only be supported by sound economics, but these policies must also recognize the practical realities of main extension projects, such as the geography, demographics and composition of a utility's service territory. The OSBA's analysis focuses solely on its mathematical computations. Here, the Company not only included sound economics to support the modification to the Extension Policy but also considered the actual geography and composition of Peoples' service territory. As Mr. Gregorini explained:

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.

Peoples St. 2 at 40. Peoples has thoroughly contemplated the economics, future impact on ratemaking, and the composition of its service territory in evaluating the proposed modification to its existing Extension Policy, and the Company has provided substantial evidence to support the modified Extension Policy.

As a matter of public policy, areas of the Commonwealth that are unserved or underserved by natural gas stand to benefit from the price competitiveness and availability of natural gas. Recognizing the benefit that low-cost natural gas can provide to residential ratepayers, other utilities have sought—and been approved—similar mains extension policies. Columbia Gas, for example, currently provides an allowance of 150 feet of main per customer to connect new residential applicants through its main line extension policy. See Columbia Gas of PA, Supplement No. 251 to Tariff Gas – Pa. P.U.C. No. 9, at Eighth Revised Page No. 48 ¶ 8.1; Pa. PUC v. Columbia Gas of Pa., Docket No. R-2015-2468056, Opinion and Order at 14, 22 (June 19,

2015). The Partial Settlement subsequently reached in that proceeding included Columbia's proposal to provide 150 feet of main per customer to new residential applicants. Pa. PUC v. Columbia Gas of Pa., Docket No. R-2015-2468056, Opinion and Order at 14-15 (Dec. 3, 2015). In approving the Partial Settlement, the Commission specifically found that Columbia's proposal would provide a benefit to Columbia's customers. Pa. PUC v. Columbia Gas of Pa., Docket No. R-2015-2468056, Opinion and Order at 21-22 (Dec. 3, 2015).

Finally, considering the record as a whole, the OSBA has failed to provide compelling evidence in support of its argument. The OSBA's argument is based on a mathematical construct and numerous assumptions as to the usage patterns of new residential customers. As Mr. Gregorini showed in his testimony, the OSBA's argument is one-sided as the focus is on only those customers who receive a full 150 foot extension, pay no CIAC, and use 86.9 Mcf per year or less. As the record shows, however, the composition of residential applicants is not so confined. Accordingly, the OSBA has failed to counter the substantial evidence that the Company has supplied in support of its Extension Policy.

The Extension Policy proposed by Peoples is consistent with prior mains extension policies that have been proposed by other NGDCs and approved by the Commission. The Company's proposed modification to the Extension Policy should similarly be approved in this proceeding.

IV. CONCLUSION

Peoples has met its burden of proof in this case by demonstrating that the Extension Policy will provide residential customers with an enhanced opportunity to benefit from low-cost natural gas service in unserved and underserved areas within the Commonwealth without negatively affecting the Company's current customers. Peoples' proposed Extension Policy appropriately balances the needs of the Company's existing customers and new customers. The OCA respectfully requests that Peoples' Extension Policy be approved as proposed by the Company in its filing.

Respectfully Submitted,



J.D. Moore
Assistant Consumer Advocate
PA Attorney I.D. # 326292
E-Mail: JMoore@paoca.org

Christy M. Appleby
Assistant Consumer Advocate
PA Attorney I.D. # 85824
E-mail: CAppleby@paoca.org

Darryl A. Lawrence
Senior Assistant Consumer Advocate
PA Attorney I.D. # 93682
E-mail: DLawrence@paoca.org

Harrison W Breitman
Assistant Consumer Advocate
PA Attorney I.D. # 320580
E-Mail: HBreitman@paoca.org

Barrett C. Sheridan
Senior Assistant Consumer Advocate
PA Attorney I.D. # 61138
E-mail: BSheridan@paoca.org

Counsel for:
Tanya J. McCloskey
Acting Consumer Advocate

Office of Consumer Advocate
555 Walnut St., 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152
Dated: July 9, 2019
#275541

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket Nos. R-2018-3006818
v.	:	C-2019-3007711
	:	C-2019-3007698
Peoples Natural Gas Company, LLC	:	C-2019-3007752
	:	C-2019-3007635
	:	C-2019-3007959
	:	C-2019-3007904
	:	C-2019-3008506

PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW,
AND ORDERING PARAGRAPHS
OF THE OFFICE OF CONSUMER ADVOCATE

PROPOSED FINDINGS OF FACT

1. On January 28, 2019, Peoples Natural Gas Company (Peoples or the Company) filed Retail Tariff Gas – Pa. P.U.C. No. 47 and Supplier Tariff Gas – Pa. P.U.C. No. S-3 to become effective on March 29, 2019. Peoples St. 1 at 5.
2. In the Company’s initial filing, Peoples used a Fully Forecasted Future Test Year ending October 31, 2020. Peoples St. 7 at 4; OCA St. 1 at 4, 6.
3. Peoples proposed an increase to the Company’s overall rates of \$94.9 million per year, or approximately 14% on a total annual revenue basis. OCA St. 1 at 5.
4. Peoples currently has a main line extension policy. Peoples St. 2 at 36; OCA St. 3-R at 2.
5. In the Company’s initial filing of Retail Tariff Gas – Pa. P.U.C. No. 47, the Company proposed to modify the extension policy. Peoples St. 2 at 38.
6. All issues in this proceeding with the exception of the Company’s proposed new Extension Policy have been resolved through settlement. See Joint Petition for Approval of Settlement Stipulation.
7. Under the current extension policy, the Company performs an economic analysis to compare the net present value of a customer’s projected future revenue stream to the cost

- that the Company would incur to connect to the customer to Peoples' natural gas distribution system. Peoples St. 2 at 36.
8. All main extension applications are evaluated with an economic analysis before the Company decides to extend a main to the prospective customer. Peoples St. 2 at 38.
 9. If the economic analysis performed pursuant to the current extension policy demonstrates that the projected future revenues a customer would provide are greater than the cost the Company would incur to connect that customer, no contribution-in-aid-of-construction (CIAC) payment is required from the customer. Peoples St. 2 at 36; OSBA St. 1 at 14.
 10. If the economic analysis performed pursuant to the extension policy demonstrates that the projected future revenues a customer would provide are less than the cost the Company would incur to connect that customer, the customer must pay a CIAC. Peoples St. 2 at 36; OSBA St. 1 at 14.
 11. The CIAC amount owed by a customer may be paid either as a one-time payment or over time through Rider MLX. Peoples St. 2 at 36; OSBA St. 1 at 15.
 12. If a customer chooses to pay the CIAC over time through Rider MLX, the customer will pay a higher delivery rate instead of a one-time payment. Peoples St. 2 at 37.
 13. All customers taking service from the same mains extension through Rider MLX pay the same MLX higher delivery rate. Peoples St. 2 at 37.
 14. The Extension Policy, as currently designed, has been unsuccessful at incentivizing prospective residential customers to receive a main extension and take natural gas service from Peoples. OCA St. 3-R at 2.
 15. In its initial filing, the Company proposed a modification to the extension policy (Extension Policy) which would provide an allowance of 150 feet of main per customer without the need to perform an economic analysis in normal situations. In effect, the Company would install the first 150 feet of main without charge to the customer in normal situations. Peoples St. 2 at 38; OSBA St. 1 at 15.
 16. The proposed allowance of 150 feet of main per customer would apply only to prospective residential customers. Peoples St. 2 at 38-39; OCA St. 3 at 1.
 17. Peoples currently does not offer a standard mains footage allowance to any of the Company's customers. Peoples St. 2 at 38.
 18. The proposed Extension Policy is intended to encourage more residential customers to receive a main extension and connect to Peoples natural gas distribution system. Peoples St. 2 at 37-38.
 19. Other NGDCs within the Commonwealth and outside of the Commonwealth currently

- provide main footage allowances. Peoples St. 2 at 38-39; OCA St. 3-R at 3.
20. Should abnormal conditions exist, a customer may not be eligible for receiving the first 150 feet of main without cost to the customer. Peoples St. 2 at 39.
 21. Abnormal conditions may include crossing streams or rivers, encountering visible ledges or rocks that may affect excavation conditions, or excessive permitting fees. Peoples St. 2 at 39.
 22. The 150 feet of main allowance will offset main extensions that require more than 150 feet. For example, should a customer that is eligible for the 150 feet main allowance require 200 feet of main, the customer will only need to pay a CIAC equal to 50 feet of main. Peoples St. 2 at 39; OSBA St. 1 at 15.
 23. Should a customer eligible for the 150 feet of main allowance require more than 150 feet of main, the customer may pay the offset CIAC amount either as an up-front payment or through Rider MLX. Peoples St. 2 at 39.
 24. Peoples calculated the average distance of road per housing unit in the Company's service territory to assist its determination that an allowance of 150 feet of main per customer was an appropriate main allowance distance. Peoples St. 2 at 40.
 25. Peoples calculated the average distance of road per housing unit in the Company's service territory specifically in rural areas outside of Allegheny County to assist its determination that an allowance of 150 feet of main per customer was an appropriate main allowance distance. Peoples St. 2 at 40.
 26. The proposed 150 feet of main allowance represents an average distance of extending a main from one housing unit to the next within the Company's service territory. Peoples St. 2 at 40.
 27. The cost of installed main and the revenues associated with new customers will be included in the Company's future rate base proceedings. Peoples St. 2 at 40.
 28. No rate credit will be provided to original customers added as part of a particular extension if further customers are later connected to facilities constructed within the 150 feet allowance. Peoples St. 2 at 40.
 29. Should a CIAC be required and customers are later added to a particular extension, Peoples' existing rules governing a rate credit will continue to apply. Peoples St. 2 at 40.
 30. Rider MLX will continue to be an option for potential customers if the customer requires an extension beyond 150 feet. Peoples St. 2 at 41.
 31. Rider MLX will continue to be an option for potential customers even if the customer is not eligible for the 150 foot allowance. Peoples St. 2 at 41.

PROPOSED CONCLUSIONS OF LAW

1. Peoples has the burden of establishing the justness and reasonableness of every element of its requested rate increase. 66 Pa. C.S. § 315(a); Lower Frederick Twp. v. Pa. P.U.C., 48 Pa. Commw. 222, 226-27, 409 A.2d 505, 507 (1980) (citations omitted).
2. Peoples may satisfy its burden of proof by a preponderance of the evidence. Samuel J. Lansberry, Inc. v. Pa. P.U.C., 134 Pa. Commw. 218, 221-22, 578 A.2d 600, 602-03 (1989).
3. Peoples must provide substantial evidence to support its proposed Extension Policy. Burleson v. Pa. P.U.C., 461 A.2d 1234, 1236 (Pa. 1983).
4. Peoples has met its burden of proof by a preponderance of the evidence that the Company's proposed Extension Policy represents sound public policy and is in the public interest.
5. Peoples has provided substantial evidence to demonstrate that the proposed Extension Policy will provide the benefit of low-cost natural gas service to new residential customers without negatively affecting the Company's existing customers.
6. The Extension Policy is in the public interest because the Extension Policy is intended to expand low-cost natural gas service to unserved and underserved areas of the Commonwealth.
7. An analysis of a utility's mains extension policy requires looking at topics such as geography, demographics and the composition of a utility's service territory in addition to the program's economics.

PROPOSED ORDERING PARAGRAPHS

It is hereby ORDERED THAT:

1. That Peoples' 150-foot main line extension proposal is approved without modification.
2. With resolution of the issue reserved for litigation as well as approval of the Joint Petition for Approval of Settlement Stipulation, the investigation into this matter is terminated and the matter is marked closed.

DATE: _____

Joel H. Cheskis
Deputy Chief Administrative Law Judge

#275541