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July 22, 2019

VIA ELECTRONIC FILING


Rosemary Chiavetta, Secretary
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400 North Street, 2nd Floor North
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Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

Enclosed for filing is the Reply Brief of Peoples Natural Gas Company LLC. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,



Devin Ryan

DTR/jl
Enclosures

cc: Honorable Joel H. Cheskis
Certificate of Service

CERTIFICATE OF SERVICE

Docket No. R-2018-3006818

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

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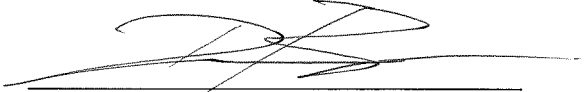
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos.	R-2018-3006818
Office of Consumer Advocate	:		C-2019-3007711
Office of Small Business Advocate	:		C-2019-3007752
Daniel Killmeyer	:		C-2019-3007635
Charles Hagins	:		C-2019-3007698
Sean D. Ferris	:		C-2019-3007904
Samuel Givens	:		C-2019-3007959
Peoples Industrial Intervenors	:		C-2019-3008506
	:		
v.	:		
	:		
Peoples Natural Gas Company LLC	:		

**REPLY BRIEF OF
PEOPLES NATURAL GAS COMPANY LLC**

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I. INTRODUCTION

Peoples Natural Gas Company LLC (“Peoples Natural” or the “Company”) hereby submits its Reply Brief in the above-captioned 2019 base rate case proceeding.

As explained in the Company’s Main Brief and demonstrated by the Joint Petition for Approval of Settlement Stipulation (“Settlement”) filed on July 9, 2019, most of the issues in the base rate proceeding have been resolved through the Settlement. There is only one issue reserved for litigation—whether the Company’s proposal to adopt a standard allowance of 150 feet of main line per residential customer to establish new service should be approved.

On July 9, 2019, Peoples Natural, the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”) submitted their Main Briefs.

In their Main Briefs, Peoples Natural and OCA supported the Company’s proposed standard allowance of 150 feet of main line per residential customer to establish new service. OSBA was the only party who submitted a Main Brief in opposition to the Company’s proposal.

Herein, Peoples Natural submits its Reply Brief, which is focused on addressing any arguments or issues raised by OSBA’s Main Brief that were not previously addressed by the Company.

II. SUMMARY OF ARGUMENT

In its Main Brief, OSBA presents several flawed arguments in opposition to Peoples Natural’s proposal to implement a 150-foot main line allowance for each residential applicant to establish new service. All of OSBA’s arguments in its Main Brief should be rejected.

First, Peoples Natural’s proposal does not, as alleged by OSBA, violate cost causation principles by creating a “cross-class subsidy.” The record demonstrates that the Company’s proposal will not create a subsidy, let alone a “cross-class subsidy,” to be paid by existing

customers. Nevertheless, even assuming *arguendo* that a subsidy will be created, the critical flaw with OSBA's position is its assumption that such a subsidy will be borne by "general ratepayers." OSBA, however, completely fails to demonstrate that any portion of such a subsidy would be assigned to non-residential customers under normal cost allocation principles. Moreover, Peoples Natural did not reflect any additional revenues or capital in this case for its 150-foot main line allowance proposal. Therefore, if OSBA has concerns about how these extension costs to be incurred following approval of the allowance are allocated and recovered by Peoples Natural, OSBA can review the Company's residential extensions and propose to allocate extension costs as it deems appropriate in Peoples Natural's next base rate proceeding.

Second, OSBA erroneously claims that the Company's proposal would create an unreasonable preference to residential applicants and would subject general ratepayers to an unreasonable disadvantage in violation of 66 Pa. C.S. § 1304 by making those ratepayers subsidize residential applicants' line extensions. As noted above, Peoples Natural's proposal will not create any subsidy to be paid by existing customers. Moreover, to the extent OSBA disagrees with Peoples Natural's proposal applying exclusively to residential applicants, OSBA opposed OCA's recommendation to expand Peoples Natural's 150-foot main line allowance proposal to non-residential applicants. As a result, OSBA cannot now claim that the Company's proposal is unreasonably preferential or discriminatory because it applies only to residential applicants. Additionally, even assuming that there is any difference, preference, or advantage in rates created by Peoples Natural's proposal, such difference, preference, or advantage is reasonable and, therefore, does not violate 66 Pa. C.S. § 1304.

Third, OSBA incorrectly asserts that the Company's proposal should be rejected because Peoples Natural's current policy is reasonable and appropriate. Although the Company does not

dispute that its current policy is reasonable and appropriate, that fact should not restrict Peoples Natural from implementing improvements to its policy. Indeed, the Company's proposal is supported by substantial quantitative evidence and will provide several benefits to residential customers.

For these reasons, and as explained in more detail below, the arguments in OSBA's Main Brief should be rejected, and the Company's proposed standard allowance of 150 feet of main line per residential customer to establish new service should be approved.

III. REPLY ARGUMENT

Peoples Natural has proposed a streamlined approach to install the first 150 feet of main line without charge for each residential applicant that applies for a line extension in normal situations. (PNG MB at 12-13.) As explained in Peoples Natural's Main Brief, the Company's main line extension proposal should be approved because it: (1) will help reduce barriers to customers converting to natural gas service and enable them to take advantage of plentiful low-cost natural gas supplies; (2) will supplement the Company's Pilot Rider MLX, Mainline Extension Service ("Rider MLX"); (3) is a streamlined approach that is less administratively burdensome and easier for customers to understand; (4) is consistent with industry practice, including the main line extension policies of other Pennsylvania natural gas distribution companies ("NGDCs"); and (5) will not require existing customers to subsidize main extensions for new customers. (PNG MB at 1-2, 8-17.) The OCA also submitted a Main Brief in support of the Company's proposal. (OCA MB at 4-5, 8-15.)

OSBA is the only party who opposes the Company's proposal. In its Main Brief, OSBA presents several arguments in its effort to prevent Peoples Natural from adopting this streamlined

and beneficial proposal to modify the Company's residential main line extension policy. (OSBA MB at 5-10.) As explained below, OSBA's arguments wholly lack merit and should be rejected.

A. PEOPLES NATURAL'S MAIN LINE EXTENSION PROPOSAL IS IN THE PUBLIC INTEREST AND SHOULD BE APPROVED

1. The Company's Proposal Does Not Violate Cost Causation Principles and Will Not Create a Cross-Class Subsidy

OSBA's principal argument is that the Company's proposal allegedly violates cost causation principles by creating a "cross-class subsidy." (OSBA MB at 6-9.) According to OSBA, Peoples Natural's proposal will result in residential applicants paying reduced contributions in aid of construction ("CIACs") toward the extension of the Company's natural gas service. (OSBA MB at 8-9.) OSBA claims that "general ratepayers" will then have to pay for the remaining uneconomic portions of the line extensions. (OSBA MB at 7-9.) Therefore, OSBA alleges that the Company's proposal violates cost causation principles by having "general ratepayers" pay for residential applicants' line extensions. (OSBA MB at 7-9.)

OSBA's argument is without merit. As explained in detail in Peoples Natural's Main Brief, the Company's proposal will not create any subsidy, let alone a cross-class subsidy, by existing customers. (PNG MB at 16-17.) Based on historical analysis, the average project cost per residential customer under the Company's proposal was only \$3,064, which is substantially lower than the average allowable investment under the current policy of \$5,906 (when using proposed rates) and \$4,177 for Peoples Division and \$4,049 for Equitable Division (when using current rates). (PNG MB at 17.) Since the average project cost is lower than the average allowable investment, Peoples Natural's proposal will benefit new customers without harming existing customers. (PNG MB at 17.)

In addition, OSBA's analysis of a potential subsidy is too narrow. Based on the average Fully Projected Future Test Year ("FPFTY") residential usage of 86.9 Mcf, OSBA argues that

the revenues from a residential applicant will only support an “allowable investment” of \$5,906.20. (OSBA St. No. 1-S, pp. 6-8.) OSBA then claims that the \$5,906.20 is equivalent to an allowance of 131 feet, not 150 feet. (OSBA St. No. 1-S, p. 7.) However, every residential applicant’s circumstances are different. In fact, a residential applicant could have much higher projected usage than 86.9 Mcf/yr, which would result in above-average revenues and support a longer main extension without the need for a CIAC.¹ In those situations, the above-average revenues could offset the reduced costs contributed by other applicants to their main extensions.

Moreover, even if existing customers would have to pay a subsidy under the Company’s proposal, which Peoples Natural denies, OSBA erroneously assumes that the subsidy will be paid by “general ratepayers.” OSBA completely fails to demonstrate that any portion of such a subsidy would be assigned to non-residential customers under normal cost allocation principles. Further, OSBA argued that the Company should assign any uneconomic costs to the residential class if Peoples Natural’s proposal is approved by the Commission. (OSBA St. No. 1-S, pp. 9-10.) As OSBA witness Kalcic testified:

If the Company’s proposed main extension rule for residential customers should go forward as a matter of public policy rather than project economics, I would recommend that the Commission order the Company to directly assign the cost of otherwise uneconomic residential extension projects to the residential class in Peoples[?] next base rate proceeding.

In that way, the cost of subsidizing residential extension projects would be borne solely by residential customers.

(OSBA St. No. 1-S, pp. 9-10.) Peoples Natural believes that when the costs of extending mains for residential service under the proposed rule are reviewed on a total basis in comparison to total

¹ OCA states in its Main Brief that the Company’s economic analysis for each customer is based upon the average annual usage of 86.9 Mcf. (OCA MB at 11 n.8.) To clarify, Peoples Natural’s current policy compares the net present value of the customer’s future revenue to the cost the Company would incur to add that customer based upon the customer’s individual circumstances, including the customer’s projected usage. (Peoples St. No. 2, p. 36.) This can result in the footage per customer varying significantly based upon projected customer usage and estimated construction costs. (See Peoples Natural’s Answer to OSBA-II-1, attached to OSBA St. No. 1.)

additional revenues, there will be no subsidy, as shown by the historic data. Nevertheless, if there is some minor subsidy that is not assigned to the residential class through normal allocation processes for mains, the Commission can address the allocation of such costs in a future base rate proceeding.

Further, Peoples Natural did not reflect any additional revenues or capital in this case for its 150-foot main line allowance proposal. (Peoples St. No. 2, p. 40.) If the proposed rule is approved and if OSBA has concerns about how Peoples Natural allocates and recovers these extension costs, OSBA can review the Company's residential extensions and propose to allocate amounts it contends as excess extension costs as it deems appropriate in Peoples Natural's next base rate case. (PNG MB at 19.) Now, however, is not the appropriate time for OSBA to challenge how these costs will be allocated and recovered by Peoples Natural, particularly given that the Company's proposal will not affect the small business customers that OSBA is charged with representing.²

2. OSBA's Argument that Peoples Natural's Proposal Would Create an Unreasonable Preference for Residential Applicants in Violation of 66 Pa. C.S. § 1304 Completely Lacks Merit

OSBA also contends that the Company's proposal would create an "unreasonable preference to the residential applicants" and would subject "general ratepayers to an unreasonable disadvantage in violation of 66 Pa. C.S. § 1304."³ (OSBA MB at 8.) In essence,

² Notably, OCA, who represents the interests of residential customers, supports the Company's proposal. (OCA MB at 9-15.)

³ Section 1304 of the Public Utility Code provides, in pertinent part:

No public utility shall, as to rates, make or grant any unreasonable preference or advantage to any person, corporation, or municipal corporation, or subject any person, corporation, or municipal corporation to any unreasonable prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of

OSBA alleges that general ratepayers would be discriminated against by having to subsidize the residential applicants' line extensions. (OSBA MB at 8.)

OSBA's argument completely lacks merit. First, as explained previously, Peoples Natural's proposal will not create any subsidy, let alone a cross-class subsidy, to be paid by existing customers. *See* Section III.A.1., *supra*. Therefore, the Company's proposal will not prejudice or disadvantage "general ratepayers" and will not grant a preference or advantage to residential applicants.

Second, while OSBA disagrees with Peoples Natural's proposal applying exclusively to residential applicants, OCA actually recommended expanding Peoples Natural's 150-foot main line allowance proposal to non-residential applicants. (OCA St. No. 3-R, pp. 1-2.) Peoples Natural did not oppose this recommendation. (Peoples St. No. 2-SR, p. 2.) OSBA, however, opposed OCA's recommendation to expand the 150-foot main line allowance to non-residential applicants. (OSBA St. No. 1-S, pp. 8-9.) Thus, OSBA cannot now claim that the Company's proposal is unreasonably preferential or discriminatory because it applies only to residential applicants.

Third, OSBA fails to recognize that utilities can establish a difference, preference, or advantage in rates, so long as that difference, preference, or advantage is not "unreasonable." 66 Pa. C.S. § 1304. Therefore, OSBA's claim that the Company's proposal violates Section 1304 of the Public Utility Code completely hinges on whether this alleged difference, preference, or advantage in rates is unreasonable. Here, Peoples Natural has presented substantial evidence demonstrating that the 150-foot main line allowance proposal is reasonable and in the public

service. . . . This section does not prohibit the establishment of reasonable zone or group systems, or classifications of rates

66 Pa. C.S. § 1304.

interest. (PNG MB at 11-17.) The Company's proposal: (1) will reduce barriers to residential customers receiving natural gas service and taking advantage of Pennsylvania's abundant supply of low-cost natural gas; (2) can supplement Peoples Natural's Rider MLX; (3) is a streamlined approach that is easier and simpler for residential customers to understand; (4) is consistent with other NGDCs' main line extension policies; (5) is supported by the Company's analysis of the average road length per housing unit in its service territory; and (6) will not create any subsidy or cost shift to existing customers based upon the Company's historic experience. (PNG MB at 11-17.)

Moreover, adopting the 150-foot main line allowance for residential customers is reasonable, given that, as OSBA has recognized, it can be more expensive for residential customers to switch to natural gas service than non-residential customers. (OSBA St. No. 1-S, pp. 8-9.) Specifically, OSBA witness Kalcic testified that "a non-residential customer would earn an extension allowance under Peoples' current economic model analysis that would provide for a main extension *greater than* 150 feet in length." (OSBA St. No. 1-S, p. 9) (emphasis in original). Therefore, non-residential applicants generally can be located farther from the Company's facilities and still pay no CIAC toward the Company's natural gas main line extension to establish service. (OSBA St. No. 1-S, pp. 7, 9.) Thus, it is appropriate for Peoples Natural gas to modify its main extension policy to reduce residential applicants' more substantial barriers to receiving natural gas service.

3. The Fact that Peoples Natural's Current Main Line Extension Policy Is Reasonable and Appropriate Does Not Prohibit the Company from Making Improvements to that Policy

OSBA also avers that the Company's 150-foot main line allowance proposal should be denied because Peoples Natural's current main line extension policy is reasonable and appropriate. (OSBA MB at 9-10.) As alleged support, OSBA claims that a main line extension

policy must “prevent the Company from going forward with an *uneconomic* extension project” and that the Company’s current policy meets that goal. (OSBA MB at 9-10) (emphasis in original). To OSBA, Peoples Natural has not provided “valid economic” support that its proposal will prevent the Company from moving forward with uneconomic extensions of service. (OSBA MB at 10.)

OSBA’s argument should be rejected. As a preliminary matter, Peoples Natural does not dispute that its current main line extension policy is reasonable and appropriate. However, that fact does not constrain Peoples Natural from proposing improvements to its policy that will benefit residential customers. Here, as explained previously, Peoples Natural’s 150-foot main line allowance proposal will provide substantial benefits to residential applicants without harming existing customers. *See* Section III.A.1-2.

Furthermore, OSBA completely overlooks the substantial quantitative evidence presented by Peoples Natural that supports the 150-foot main line allowance proposal for residential applicants. As explained in Peoples Natural’s Main Brief, the Company provided details on its recent historical experience with all residential main line extensions (both those with and without CIACs). (PNG MB at 16-17.) When evaluating the extension costs for all of these customers together, the average project cost per residential customer was only \$3,064. (PNG MB at 17.) This is substantially less than the average allowable investment for residential customers under the Company’s current policy at both current and proposed rates. (PNG MB at 17.) Moreover, Peoples Natural presented undisputed evidence that: (1) there was an average of 128 feet of road per every housing unit in the Company’s service territory; and (2) for more rural areas outside of Allegheny County, there was an average of 180 feet of road per every housing unit. (PNG MB at 15-16.) Thus, the 150-foot allowance is approximately the average distance of extending a

natural gas main from one housing unit to the next in the Company's service territory. (PNG MB at 16.)

For these reasons, and as further explained in Peoples Natural's Main Brief, the Company's proposal to implement a 150-foot main line allowance for each residential applicant to establish new service should be approved, and OSBA's arguments in opposition to the Company's proposal should be rejected.

IV. CONCLUSION

WHEREFORE, as explained above and in Peoples Natural Gas Company LLC's Main Brief, the Company respectfully requests that Administrative Law Judge Joel H. Cheskis recommend and the Pennsylvania Public Utility Commission issue an Order approving the proposed 150-foot standard allowance of main line for residential applicants to establish new service.

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