

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2018-3006818
Office of Consumer Advocate	:	C-2019-3007711
Office of Small Business Advocate	:	C-2019-3007752
Charles Hagins	:	C-2019-3007698
Daniel Killmeyer	:	C-2019-3007635
Samuel Givens	:	C-2019-3007959
Sean D. Ferris	:	C-2019-3007904
Peoples Industrial Intervenors	:	C-2019-3008506
Ann D. Bugosh	:	C-2019-3008884
James Boudreau	:	C-2019-3008800
	:	
v.	:	
	:	
Peoples Natural Gas Company, LLC	:	

RECOMMENDED DECISION

Before
Joel H. Cheskis
Deputy Chief Administrative Law Judge

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I. INTRODUCTION

In this case, the parties have proposed a unanimous settlement of all issues regarding a natural gas distribution company's request to increase base rates, except for one issue that is not included in the settlement and remains contested. This decision recommends that the Joint Petition for Approval of Settlement Stipulation be approved in its entirety without modification because it is in the public interest and supported by substantial evidence. In general, in lieu of the originally requested increase of \$94.9 million per year, or an increase of 14.23%, the settlement provides the company an increase of \$59.5 million per year, or an increase of 8.92% over present rates. In addition, with regard to the lone contested issue, this decision finds that the company's proposal to modify its main line extension policy is just and reasonable, supported by substantial evidence and should be adopted as part of this proceeding. The suspension period for this matter ends on October 29, 2019.

II. HISTORY OF THE PROCEEDING

On January 28, 2019, Peoples Natural Gas Company LLC (Peoples, Peoples Natural 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 March 29, 2019, containing proposed changes in rates, rules and regulations calculated to produce \$94.9 million (14.2%) in additional fully-projected future test year annual revenues.

If the entire request is approved, the total bill for a Peoples Division residential customer using 86 Mcf per year would increase from \$74.24 to \$84.73 per month or by 14.1%. The total bill for a Peoples Division commercial customer using 238 Mcf per year would increase from \$150.79 to \$172.56 per month or by 14.4%. The total bill for a Peoples Division industrial customer using 3,224 Mcf per year would increase from \$1,684.32 to \$1,957.16 or by 16.2%. The total bill for an Equitable Division residential customer using 86 Mcf per year would increase from \$70.79 to \$84.73 per month or by 19.7%. The total bill for an Equitable Division commercial customer using 238 Mcf per year would increase from \$158.79 to \$172.56

per month or by 8.7%. The total bill for an Equitable Division industrial customer using 3,224 Mcf per year would decrease from \$2,140.64 to \$2,050.63 per month or by 4.2%.

On February 7, 2019, the Office of Small Business Advocate (OSBA) filed a notice of appearance, a formal complaint, a public statement and a verification and the Office of Consumer Advocate (OCA) filed a formal complaint and public statement in response to the filing. Also on February 7, 2019, the Commission's Bureau of Investigation and Enforcement (I&E) filed a notice of appearance.

Petitions to intervene were filed by: the Community Action Association of Pennsylvania (CAAP); the Coalition for Affordable Utility Service and Energy Efficiency in Pennsylvania (CAUSE-PA); Dominion Energy Solutions, Inc. and Shipley Choice LLC d/b/a Shipley Energy (collectively, the NGS parties); the Retail Energy Supply Association (RESA); the Utility Workers Union of America, Local 612 (UWUA); Duquesne Light Company (Duquesne); the Pennsylvania Independent Oil and Gas Association (PIOGA); Snyder Brothers, Inc., VEC Energy LLC and Snyder Armclar Gas Co, LP (collectively Snyder Brothers); Equitrans, L.P. (Equitrans); and Direct Energy Business, LLC, Direct Energy Services, LLC and Direct Energy Business Marketing, LLC (Direct Energy). In addition, formal complaints were filed by the Peoples Industrial Intervenors (PII) and the following customers of Peoples: Sean D. Ferris, Samuel Givens, Charles F. Hagins and Daniel Killmeyer.¹ Various additional consumers of Peoples filed an opposition to the rate increase.

On February 28, 2019, the Commission suspended the filing by operation of law until October 29, 2019 pursuant to Section 1308(d) of the Public Utility Code, unless permitted by the Commission to become effective at an earlier date. The Commission added that investigation and analysis of the proposed tariff filings and the supporting data indicate that the proposed changes in rates, rules and regulations may be unlawful, unjust, unreasonable and

¹ Formal complaints were also filed by Ann D. Bugosh (C-2019-3008884) and James Boudreau (C-2019-3008800). By letters dated April 12, 2019 and April 17, 2019, counsel for Peoples indicated that both complainants requested to be removed from the service list and that the parties no longer serve them any correspondence and documents from this proceeding. Neither complainant, however, sought to withdraw their formal complaint. Since both complainants had notice and an opportunity to be heard with regard to the matters raised in this case and chose not to participate, their formal complaints will be dismissed as part of this decision.

contrary to the public interest. The Commission determined that the investigation shall include consideration of the lawfulness, justness and reasonableness of the company's existing rates, rules and regulations and assigned the case to the Office of Administrative Law Judge for the prompt scheduling of hearings as may be necessary culminating in the issuance of a Recommended Decision.

As a result, on March 4, 2019, a hearing notice was issued establishing an initial in-person prehearing conference for this matter for Thursday, March 14, 2019 and assigning me as the presiding officer. A prehearing conference order was issued March 4, 2019 setting forth various rules that would govern the prehearing conference.

The prehearing conference convened on March 14, 2019, as scheduled. On March 19, 2019, a scheduling order was issued memorializing the various matters agreed upon at the prehearing conference. This included formally granting the various petitions to intervene and consolidating the various formal complaints. Notably, the following procedural schedule was adopted:

Other parties' Direct Testimony	April 29, 2019
All parties' Rebuttal Testimony	May 28, 2019
All parties' Surrebuttal Testimony	June 12, 2019
Hearings/Oral Rejoinder	June 18-20, 2019 and June 25, 2019
Main Briefs	July 9, 2019
Reply Briefs	July 22, 2019

In addition, a discussion was held regarding public input hearings. The parties also agreed to various modifications to the Commission's discovery regulations and the need for a protective order governing the treatment of information alleged to be proprietary. Finally, the parties were also reminded that the Commission strongly encourages settlement and were encouraged to commence settlement discussions as early as possible.

Subsequently, three additional petitions to intervene were filed – by Baker Gas, Inc. (Baker Gas) on March 28, 2019; by Marco Drilling, Inc. (Marco) on March 29, 2019; and by MDS Energy Development, LLC (MDS) on April 2, 2019. No objections were received in response to any of the petitions to intervene. Therefore, those petitions were granted via order dated April 18, 2019.

Pursuant to the agreement of the parties, public input evidentiary hearings were held in the service territory on April 23, 2019 in Johnstown, PA and on April 24, 2019 in Monroeville, PA. On April 23, 2019, five people testified. On April 24, 2019, three people testified.

Pursuant to the procedural schedule, direct testimony was pre-served on April 29, 2019 by OSBA, CAUSE-PA, PII, Direct Energy, OCA, I&E and Snyder Brothers. On May 28, 2019, rebuttal testimony was pre-served by Peoples, I&E, OSBA, OCA, Duquesne and PII. On June 12, 2019, surrebuttal testimony was pre-served by Peoples, I&E, OSBA, OCA, CAUSE-PA, PII and Snyder Brothers. Finally, on June 17, 2019, Peoples pre-served rejoinder testimony. Some of these pieces of testimony contained information alleged to be proprietary or highly confidential.

In addition, throughout the litigation of this proceeding, various motions were filed and corresponding orders issued. Initially, on May 3, 2019, Peoples filed a motion for Protective Order. That motion was granted in part and denied in part via order dated May 13, 2019. Second, on May 10, 2019, Peoples filed a motion to dismiss objections and compel discovery answers to Duquesne. That motion was denied via order dated May 20, 2019. Finally, on May 17, 2019, Peoples filed a motion to dismiss objections and compel discovery to Snyder Brothers. That motion was granted in part and denied in part via order dated May 29, 2019.

On June 17, 2019, the parties indicated via email that they had reached a settlement in principle of the revenue requirement and that other issues, such as rate design and revenue allocation, were still being negotiated by the parties. As a result, the parties requested that the hearings scheduled for June 18th and 19th be cancelled to allow for additional time to

resolve the remaining issues. The request to cancel the first two days of the hearing was granted informally via email and formally via cancellation notice dated June 17, 2019.

On June 20, 2019, the evidentiary hearing convened as scheduled. One witness was presented for cross examination and the pre-served testimony of multiple witnesses was admitted via stipulation with cross examination having been waived. The parties indicated that they continue to attempt to resolve all remaining issues prior to the final remaining day of hearings on June 25, 2019.

On June 24, 2019, the parties indicated via email that a settlement had been achieved on additional issues, that the parties had waived cross examination of the remaining witnesses and that the pre-served testimony of the remaining witnesses would also be admitted via stipulation. The parties further indicated that they continue to work on settling the remaining unsettled issue.

As a result, the evidentiary hearings reconvened in this matter on June 25, 2019. The pre-served testimony of the remaining witnesses was admitted via stipulation and the parties provided an update regarding the status of settlement discussions. In particular, the parties indicated that a full settlement amongst all the parties had been reached on all of the issues except for one issue regarding main line extensions which would be briefed.

Therefore, a procedure was agreed upon for the remainder of the proceeding that was memorialized via briefing order dated June 27, 2019 with regard to the remaining contested issue. Pursuant to that order, Peoples, OCA and OSBA each filed main briefs on July 9, 2019 and reply briefs on July 22, 2019.

Also pursuant to the procedure agreed upon during the June 25, 2019 hearing, the parties agreed that the settlement and all accompanying attachments and statements in support of the settlement would be filed on July 9, 2019 and that any opposition to the settlement would be filed no later than July 22, 2019.

As a result, on July 9, 2019, a Joint Petition for Approval of Settlement Stipulation (settlement) was submitted by Peoples, I&E, OCA, OSBA, Direct Energy, PIOGA, CAAP, CAUSE-PA and Snyder Brothers. The NGS parties, Equitrans, Baker Gas, Marco, MDS, RESA, PII and UWUA indicated that they do not oppose the settlement. Attached to the settlement were various documents, including a revised retail tariff in both clean and redlined versions (Appendix A), a revised Supplier Tariff in both clean and redlined versions (Appendix B), revenue allocation (Appendix C), proof of revenues and final settlement rates (Appendix D), the Tax Cuts and Jobs Act refund allocation (Appendix E), Proposed Findings of Fact (Appendix F), Proposed Conclusions of Law (Appendix G), Proposed Ordering Paragraphs (Appendix H) and statements in support of the settlement from each of the settling parties.²

Finally, on July 10, 2019, a letter was sent to each of the consumers who filed formal complaints ensuring that they had received a copy of the settlement and that they were aware of their opportunity to submit comments or objections regarding the settlement, even if they had already provided input in this proceeding, and how to do so if they were so inclined. The letter indicated that any comments or objections should be submitted no later than July 22, 2019. The letter concluded by noting the process that will be followed for the remainder of the proceeding. No comments or objections were received by any of the formal consumer complainants.

The record closed in this case on July 22, 2019, the date reply briefs were submitted and the deadline for any objections to the settlement to be filed. The suspension period for this matter ends on October 29, 2019. For the reasons discussed further below, this decision recommends that the settlement filed on July 9, 2019 be approved in its entirety without modification because it is in the public interest and supported by substantial evidence. In addition, this decision recommends that Peoples' main line extension proposal be adopted because it is just and reasonable and supported by substantial evidence.

² By letter dated July 29, 2019, Peoples filed an amendment to the tariff attached as Appendix A to the settlement after it discovered that several of the settlement rates were not included in the settlement tariff, although they were contained in the proof of revenues. Peoples noted that it is making the filing to avoid future confusion with the filing of a future compliance filing and that all parties agree or have no objection to the amendment.

III. FINDINGS OF FACT

A. Settlement

The settling parties have proposed the following findings of fact with regard to the settlement that will be adopted herein with only minor editorial modifications:

1. Peoples Natural Gas Company LLC (“Peoples Natural” or the “Company”) is a “public utility” and “natural gas distribution company” (“NGDC”) as those terms are defined in Sections 102 and 2202 of the Public Utility Code, 66 Pa.C.S.A. §§ 102, 2202.

2. Peoples Natural provides natural gas sales, transportation, and supplier of last resort services to approximately 620,000 customers through its Peoples and Equitable Divisions throughout the Divisions’ certified service territories, which includes all or a portion of the following Pennsylvania Counties: Allegheny, Armstrong, Beaver, Blair, Butler, Cambria, Clarion, Fayette, Greene, Indiana, Jefferson, Lawrence, Mercer, Somerset, Venango, Washington, and Westmoreland.

3. On January 28, 2019, Peoples Natural filed with the Commission its 2019 Base Rate Case Filing (“Filing”), which consisted of Retail Tariff Gas – PA PUC No. 47, Supplier Tariff Gas – PA PUC No. S-3, responses to filing requirements and standard data requests, and supporting direct testimony and exhibits. In Retail Tariff Gas – PA PUC No. 47, Peoples Natural proposed to combine the retail rates and tariffs of its Peoples and Equitable Divisions and proposed an overall net distribution rate increase of \$94.9 million per year.³ In Supplier Tariff Gas – PA PUC No. S-3, Peoples Natural proposed to combine the supplier tariff provisions of its Peoples and Equitable Divisions.

³ The Company’s proposed net distribution rate increase was adjusted to approximately \$94.6 million in Peoples’ rebuttal testimony. (See Peoples St. No. 3-R, p. 5.)

4. At the hearing held on June 25, 2019, the parties advised Administrative Law Judge Joel H. Cheskis (the “ALJ”) that the parties had achieved a Settlement of all issues except the Company’s proposal to implement a 150 foot per residential customer allowance to extend mains to establish new service (“Reserved Issue”).

5. The Settlement is supported by Peoples Natural, the Commission’s Bureau of Investigation & Enforcement (I&E”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), Direct Energy Business, LLC, Direct Energy Services, LLC and Direct Energy Business Marketing, LLC (collectively “Direct Energy”), Duquesne Light Company (“Duquesne Light”), Pennsylvania Independent Oil and Gas Association (“PIOGA”), Community Action Association of Pennsylvania (“CAAP”), Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”), and Snyder Brothers, Inc., VEC Energy LLC and Snyder Armclar Gas Company LP (“collectively, “Snyder Brothers”).

6. The other parties in the proceeding, including Dominion Energy Solutions, Inc. (“DES”) and Shipley Choice LLC d/b/a Shipley Energy (“Shipley”) (collectively, the “NGS Parties”), Equitrans LP, (“Equitrans”), Baker Gas, Inc. (“Baker Gas”), Marco Drilling, Inc. (“Marco”), MDS Energy Development, LLC (“MDS”), the Retail Energy Supply Association (“RESA”), and Peoples Industrial Intervenors (“PII”), have indicated that they do not oppose the Settlement.

7. All active parties in this proceeding either support or do not oppose the Settlement.

8. There are four *pro se* customer complaints in this proceeding: Charles Hagins, C-2019-3007698; Daniel Killmeyer, C-2019-3007635; Samuel Givens, C-2019-3007959; and Sean D. Ferris, C-2019-3007904. These customer complainants have not been active parties.

9. The Settlement reflects a carefully balanced compromise of the interests of all of the Joint Petitioners.

10. Under the Settlement, Peoples Natural will be permitted to increase annual revenues by amounts designed to produce increased operating revenues of \$59.5 million annually, net of current Distribution System Improvement Charge (“DSIC”) and Tax Cuts and Jobs Act (“TCJA”) surcharges, based upon the level of operations for the twelve months ended October 31, 2020. This amount reflects the roll in of the negative TCJA surcharges and the current DSIC charges for the Peoples Natural and Equitable Divisions. Peoples Natural’s base rates in this proceeding will be designed to increase distribution revenues by \$63,384,103, as a result of approval of elimination of connection fees, pooling fees, and other miscellaneous charges, netting to the \$59.5 million increase in annual operating revenues. (Settlement ¶ 28.)

11. Peoples Natural’s continuing investment in its infrastructure has driven the need for an increase in base rates. The Company is experiencing higher costs resulting from increases in both its plant in service and its labor complement. Without a base rate increase, Peoples Natural’s revenues will no longer be adequate to cover its costs to provide service and to provide an opportunity to earn a fair rate of return on the Company’s investment. (Peoples St. No. 1, p. 22.)

12. Absent rate relief, the Company would earn a return on equity substantially lower than the Company’s proposed return on equity (“ROE”) of 11.25% in this proceeding. (Peoples St. No. 9, pp. 1-2, 52-53.)

13. During the course of the proceeding, the differences between the parties’ litigation positions changed. In rebuttal testimony, the Company’s proposed net distribution rate increase was adjusted from approximately \$94.9 million to approximately \$94.6 million. (See Peoples St. No. 3-R, p. 5.) In surrebuttal testimony, I&E revised its proposed revenue requirement increase from approximately \$44 million to approximately \$46 million, whereas OCA revised its position regarding the Company’s revenue requirement from a proposed

increase of approximately \$22.9 million to a proposed decrease of approximately \$15.0 million. (See I&E St. No. 1, p. 3; I&E St. No. 1-SR, p. 3 OCA St. No. 1, p. 5; OCA St. No. 1-SR, p. 1.)

14. The revenue increase under the Settlement represents a compromise of the parties' competing litigation positions. The increase under the Settlement is within the range proposed by the parties, is in the public interest, and should be adopted without modification.

15. Currently, Peoples Natural's Peoples Division has two separate tariffs on file with the Commission: (1) Retail Tariff, Gas – PA PUC No. 45, which contains the rules and regulations, rate schedules, and rates applicable to services for the end-use customers; (2) Supplier Tariff, Gas – PA PUC No. S-2, which contains the rules and regulations, rate schedules, and rates applicable to services for natural gas suppliers (“NGSs”) that operate on the system. (Peoples St. No. 5, p. 22.)

16. Peoples Natural's Equitable Division has one tariff on file with the Commission, *i.e.*, Gas – PA PUC No. 46, which contains the rules, regulations, and rate schedules for both end-use customers and NGSs. (Peoples St. No. 5, p. 22.)

17. Peoples Natural proposed to merge the Peoples Division and Equitable Division tariffs into two combined tariffs (one for Retail service and one for Supplier service) that are applicable to both entities going forward. (Peoples St. No. 5, p. 22.)

18. Under the Settlement, the separate current rates of the Peoples and Equitable Divisions will be merged into a single retail tariff and a single supplier tariff. (Settlement ¶¶ 34-35.) Further, through the merger of these rates and tariffs, Peoples Natural's books and records for the 12 months ended December 31, 2019, and thereafter will be on a consolidated basis, and the Company will only submit reports and filings on a consolidated basis as of the effective date of rates in this proceeding. (Settlement ¶ 36.)

19. Peoples Natural has been accounting for Post-Retirement Benefits other than Pensions (“PBOPs”) for the Fully Projected Future Test Year (“FPFTY”) on the same basis

that these costs are recovered in rates, meaning on an accrual basis consistent with FAS 106 and the Commission's Order entered at Docket No. R-00953318. Peoples Natural has complied with that order and deposited the amounts into dedicated trust accounts in response to the Commission's Order entered at Docket No. R-00943111. Moreover, the rate proceeding at Docket No. R-2010-2201702 further allowed Peoples Natural to include \$1,337,486, the funding deficiency for these costs at time of the acquisition by Steel River, over a 10-year amortization period. (Peoples St. No. 3, p. 16.)

20. In this proceeding, Peoples Natural proposed to track actual PBOP costs and amortize the cumulative difference between actual and projected costs in the Company's next base rate proceeding. The amount to be tracked is \$982,654, and the tracking will exclude the \$1,337,486 funding deficiency for these costs mentioned previously. (Peoples St. No. 3, p. 17.)

21. The Settlement provides that Peoples Natural's FPFTY claim of PBOP expense of \$982,654 and its continued 10-year amortization of \$1,337,486 per year are approved. Peoples Natural also will continue to defer the difference between the annual PBOP expense calculated pursuant to FASB Accounting Standards Codification ("ASC") 715 and the annual PBOP pay-as-you-go expense included in rates of \$982,654. Only the amounts attributable to operation and maintenance will be deferred and recognized as a regulatory asset or liability and will be expensed or credited in future rate proceedings over an amortization period to be determined in the next base rate proceeding. (Settlement ¶ 38.)

22. Peoples Natural presented multiple cost of service studies in this proceeding based upon pro forma revenues and costs for the FPFTY at present and proposed rates. These cost of service studies used different allocation methods, as explained in the direct testimony of Peoples witness Feingold. (Peoples St. No. 11, pp. 7-8, 10-12.)

23. Appendix C provides the class revenue increases along with total revenues at Settlement rates by class. Appendix D to the Settlement sets forth the monthly changes in

customer charges and distribution rates by class included in the Settlement rates and a proof of revenues. (Appx. C and D to Settlement; Settlement ¶ 39.)

24. The Company originally proposed increasing the residential customer charge to \$20.00, which was an increase of \$6.05 for Peoples Division's current charge of \$13.95 and an increase of \$6.75 per month for Equitable Division's current charge of \$13.25. (Peoples St. No. 11, p. 46.)

25. OCA submitted testimony arguing that the proposed residential customer charge should be increased to \$14.00, whereas CAUSE-PA and CAAP advocated for no increase to the residential customer charge. (Peoples St. No. 11-R, pp. 46-47; OCA St. No. 3, p. 34; CAUSE-PA St. No. 1, p. 44; CAAP St. No. 1, p. 3.)

26. Under the Settlement, the proposed customer charge for the Residential class will be \$14.50, which is \$5.50 lower than Peoples Natural's originally proposed residential customer charge and is \$0.50 higher than the OCA's proposed residential customer charge of \$14.00. (Settlement ¶ 40; Peoples St. No. 11, p. 46; OCA St. No. 3, p. 34.)

27. Presently, Peoples Natural customers can make payment through various channels, such as mail, web, and automated telephone ("IVR"). While the cost of processing the majority of these payments is borne by customers via their base rates, the costs associated with third party payment processing for certain web, IVR, and walk-in payments are borne by the individual customers making such payments. (Peoples St. No. 3, p. 26.)

28. The Company proposed to pay all costs associated with customer payments directly to its service providers and recover such costs from all customers via base rates. (Peoples St. No. 3, p. 26.)

29. Under the Settlement, the Company's proposal to pay third party fees for customer payments by credit card, walk in payment, and debit card payments is approved. (Settlement ¶ 41.)

30. The Price to Compare (“PTC”) for Priority 1 customers consisting of natural gas supply charges (a Commodity Charge and a Gas Cost Adjustment Charge (“GCA”)), a Merchant Function Charge (“MFC”) and a Gas Procurement Charge (“GPC”) (Rider G) are included in the Settlement Rates. (Settlement ¶ 42.)

31. The Settlement Rates set forth the portion of the revenue requirement to be recovered via the MFC (2.49% of purchased gas costs for residential customers and 0.21% of purchased gas costs for small general service, medium general service and large general service) in Rider E and the GPC in Rider G. The GPC shall equal \$0.0801 per Mcf. (Settlement ¶ 43.)

32. Peoples Natural’s proposal to revise and update its Purchase of Receivables (“POR”) discount rate and MFC to match the current write-off factor used to derive the Company’s bad debt revenue requirement and to revise and update the administrative rider designed recover incremental POR implementation costs is implemented in the Settlement Rates. (Settlement ¶ 44; Peoples Exhibit No. CAS-3, p. 49; Peoples St. No. 11, p. 60.)

33. The Settlement also provides that any shortfall in recovery of the uncollectible expenses and administrative costs of the POR program will not be recovered from sales customers. (Settlement ¶ 45.)

34. The Settlement also incorporates Peoples Natural’s proposal to eliminate the existing pooling fees applicable to NP-1 and P-1 pools. (Settlement ¶ 46; Peoples St. No. 5, p. 24.)

35. Further, under the Settlement, Peoples Natural’s proposal to deliver the required daily gas supplies for Pool Operators that have a peak demand of 2,000 Dth or less in lieu of capacity assignment is approved, except that proposal will be modified to be a voluntary option as recommended by Direct Energy witness Magnani. (Settlement ¶ 47; Peoples St. No. 5, pp. 24-25; Direct Energy St. No. 1, p. 5.)

36. The Settlement addresses several low-income customer issues raised by certain parties. (Settlement ¶¶ 48-65; *see* CAAP St. No. 1, pp. 7-8; CAUSE-PA St. No. 1, pp. 44-46; OCA St. No. 4, pp. 4-5.)

37. Specifically, consistent with CAUSE-PA's recommendations, the Settlement provides that Peoples Natural: (1) will waive High Bill Investigation Fees for customers at or below 150% of the federal poverty level; (2) will cease charging any High Bill Investigation Fees for a foreign load investigation; and (3) will revise its tariff to provide that the reconnection fee will be waived for all customers with income at or below 150% of the federal poverty level. (Settlement ¶¶ 48-49, 64; CAUSE-PA St. No. 1, p. 44.)

38. In addition, Peoples Natural will integrate the Universal Service Riders of the Peoples and Equitable Divisions in a manner that does not adversely affect either one of the divisions, will increase its annual Low Income Usage Reduction Program ("LIURP") budget by \$650,000 (divided proportionately between the Peoples and Equitable Divisions, will develop a written plan for how it will ensure that funding for its LIURP will be equitably distributed between divisions, and will host an in-person collaborative about the proposed plan. (Settlement ¶¶ 50-52; *see* CAUSE-PA St. No. 1, pp. 26-30)

39. Under the Settlement, the Company also commits to maintaining its existing business relationship with community-based organizations ("CBOs"), subject to each individual CBO's continued performance in conformance with the Company's Universal Service and Energy Conservation Plan ("USECP") rules and their contract with the Company. (Settlement ¶ 53.)

40. Further, the Settlement provides that Peoples Natural will update its training materials to clarify that additional medical certificate renewals, beyond the first three certificates, are available to customers who continue to pay their current charges or budget bill amount while protected by a medical certificate. When customers submit a medical certificate, Peoples Natural's customer service staff will inform customers about how to obtain medical

certificate renewals beyond the first three certificates. (Settlement ¶¶ 54-55; *see* CAUSE-PA St. No. 1, pp. 41-42.)

41. Moreover, as the Company committed to implementing in its rejoinder testimony, Peoples Natural will automatically review its residential accounts at least once every six months to ensure it is not holding deposits for customers who are confirmed low income. If the Company discovers that deposits are being held, Peoples Natural will refund those deposits to customers within 30 days. (Settlement ¶ 56; *see* CAUSE-PA St. No. 1-SR, p. 19; Peoples St. No. 12-RJ, p. 4.)

42. Under the Settlement, Peoples Natural also agrees to memorialize, in its USECP, the steps that Peoples Natural has indicated it has already taken to bolster Customer Assistance Program (“CAP”) enrollment that were recommended by CAUSE-PA in its direct testimony. (Settlement ¶ 57; *see* CAUSE-PA St. No. 1, p. 45.)

43. Consistent with the Company’s rebuttal testimony, Peoples Natural will revise its Universal Service cost recovery tariff to reflect a bad debt offset of 3.86% for all CAP participation exceeding 32,300. Peoples Natural also will no longer track CAP participation separately for its two divisions. (Settlement ¶ 58; Peoples St. No. 5-R, pp. 16-17.)

44. Furthermore, Peoples Natural will adopt a procedure under which it will not disconnect service to a confirmed low-income customer for nonpayment without first providing a stand-alone Plain English notice to that customer of the customer’s right to enter into CAP and an explanation of CAP’s arrearage forgiveness benefits. (Settlement ¶ 59; *see* OCA St. No. 4, p. 5.)

45. Also under the Settlement, Peoples Natural will adopt a process providing that upon request to enter into Budget Billing, a customer in arrears should be placed on Budget Billing while spreading their arrears over a period consistent with the PUC regulation applicable to the individual customer. (Settlement ¶ 60; *see* OCA St. No. 4, p. 5.)

46. For the purposes of cold weather protections, the Company should adopt income verification language that mirrors the tariff language of Columbia Gas of Pennsylvania, Inc. and/or the FirstEnergy Companies to provide greater flexibility to establish income eligibility. (Settlement ¶ 61.)

47. Concerning CAP outreach, Peoples Natural will present the issue to its Universal Service Advisory Group (“USAG”) no later than October 2019. Subsequent to this discussion, Peoples Natural will present the recommendations of the USAG to the Commission in either its next round of comments regarding the Peoples Natural’s USECP, or its next base rate case, whichever comes first. The additional questions of: (1) why customers do not respond to written shutoff notices that inform customers in arrears of the need to contact the Company in order to avoid the disconnection of service; and (2) why customers do not successfully complete deferred payment agreements, will also be presented to the USAG within the same time line and with the same proviso. (Settlement ¶¶ 62-63; *see* OCA St. No. 4, p. 5.)

48. Additionally, the Settlement states that Peoples Natural and Duquesne Light will collaborate on their CAPs with the objective to enhance the experience for their mutual low-income customers, including enabling data and document sharing to reduce barriers to enrollment; develop a universal CAP application; and investigate methods of shared recertification that decreases the number of CAP customers removed from CAP for failure to recertify. (Settlement ¶ 65.)

49. The TCJA reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent, which resulted in tax savings that are to be refunded to ratepayers. (Peoples St. No. 4, pp. 14, 17-18.)

50. Under the Settlement, within 120 days of the effective date of rates in this proceeding, Peoples Natural will provide the refund of tax savings with interest associated with the TCJA for the period of January 1, 2018 through June 30, 2018 in a one-time bill credit, which is estimated at \$16.6 million plus interest calculated at the residential mortgage lending rate that is effective on the last day of the month prior to the refund. The one-time bill credit will

also include any accumulated over/under recovery associated with the TCJA tax change from January 1, 2018 until rates go into effect for the current proceeding. The previous language will be incorporated into Peoples Natural's Rider TCJA and will go into effect on the effective date of new rates in the current proceeding, and Rider TCJA will terminate once the one-bill credit is provided to customers. (Settlement ¶ 66.)

51. In this case, Peoples Natural did not project any incremental gas sales or revenue associated with serving new combined heat and power ("CHP") systems pursuant to its proposed Energy Efficiency and Conservation Plan ("EE&C Plan") that is currently pending before the Commission at Docket No. M-2017-2640306. (Duquesne Light St. No. 1, p. 4.)

52. The Settlement provides that Peoples Natural will petition to withdraw its proposed EE&C Plan and will convene a stakeholder group with the statutory advocates and Duquesne Light to review any new proposal at least 120 days prior to filing, if such a proposal is filed in the future. Further, the Settlement includes certain conditions on Peoples Natural's ability to include CHP projects in a future EE&C Plan. (Settlement ¶ 67; *see* Duquesne Light St. No. 1, p. 5.)

53. Peoples Natural and Duquesne Light disputed whether electricity should be considered a competitive alternative for the purposes of Peoples Natural offering flexed gas rates. (Duquesne Light St. No. 1, pp. 5-7; Peoples St. No. 5-R, pp. 8-10.)

54. Under the Settlement, electricity delivered by an electric distribution company shall not constitute a competitive alternative for purposes of natural gas flex rate eligibility or amount, unless the electric distribution company offers an electric flexed distribution rate to the customer. (Settlement ¶ 68.)

55. Further, consistent with Duquesne Light's recommendation, the Settlement states that Peoples Natural shall provide the highest curtailment priority available under applicable law, no lower than Category 2a or its equivalent, to operational facilities of

electric distribution companies, including the six Duquesne Light operational facilities identified in Duquesne Light witness Harchick. (Settlement ¶ 69; Duquesne Light St. No. 3, p. 7.)

56. As set forth in its proposed tariff rate schedule Rate - Appalachian Gathering Service (“Rate AGS”), Peoples Natural proposed instituting a uniform gathering rate for conventional gas production that would start at a base level and increase as the price of gas increases. This gathering rate would be based on a minimum charge of \$0.26/Mcf and would be subject to monthly adjustment as natural gas market prices change. The monthly gathering rate would be set at a level equal to the higher of \$0.26/Mcf or 12.4% of the first of the month Dominion South Point Appalachia Index market price as published in Platts, Gas Daily. The maximum gathering rate would be set equal to the fully allocated gathering cost of service rate, which Peoples witness Feingold averred is \$0.76/Mcf for the FPFTY. (Peoples St. No. 2, pp. 20, 22; Peoples Exhibit No. JAG-2.)

57. Under the Settlement, Peoples Natural’s proposed changes to Rate AGS are approved as modified by the terms of the Settlement, which include: (1) conditions on the Rate AGS fee applicable for incremental conventional production; (2) the withdrawal of the indexing feature without prejudice, in Rate AGS from 12.4% to 0%; (3) continuation on the applicable water vapor standards for normal ongoing operations for the Peoples and Equitable Divisions; and (4) the Company’s commitment to accept local gas as a priority over interstate gas. (Settlement ¶ 70.)

58. Peoples Natural offers discounted delivery rates to commercial and industrial customers when the Company determines that they have more than one service option available to them. By retaining these customers, Peoples Natural maintains that the customers support important operational needs of the Company’s system and offset the cost of service for other customers. (Peoples St. No. 5, pp. 13-14.)

59. One of the principal issues in this case concerned the support provided by the Company for the discounts it has provided to certain customers. (*See* OCA St. No. 3-Supp, p. 2; Peoples St. No. 2-SR; Peoples St. No. 5-SR.)

60. The Settlement provides that on combination of the Peoples and Equitable Divisions, the entire Company will be subject to the requirements of the Equitable Gas Company 2008 base rate settlement provision concerning justifying discounts in future base rate proceedings. (Settlement ¶ 72.)

61. In addition, where a bypass of the Company's facilities is the customer's competitive option, the Company will work with the customer in future negotiations to develop an analysis of the likely construction cost of the bypass facilities and apply that estimate in determining, through negotiations, the discounted rate offered to the customer. This information will be provided on a confidential basis in the Company's initial filing in future base rate proceedings. Further, Peoples Natural has agreed to provide a confidential annual report to the Statutory Advocates that contains details on each customer's discounted rate. Finally, in future base rate proceedings, Peoples Natural will provide, on a confidential basis, sworn affidavits from all discount customers attesting to the facts and reasons for the discounts. (Settlement ¶ 73.)

B. Contested Issue

62. Peoples currently has a main line extension policy. Peoples St. 2 at 36; OCA St. 3-R at 2.

63. 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.

64. 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.

65. 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 the customer to Peoples' natural gas distribution system. Peoples St. 2 at 36.

66. 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.

67. 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.

68. 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.

69. 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.

70. 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.

71. All customers taking service from the same mains extension through Rider MLX pay the same MLX higher delivery rate. Peoples St. 2 at 37.

72. 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.

73. 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.

74. 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.

75. Peoples currently does not offer a standard mains footage allowance to any of the Company's customers. Peoples St. 2 at 38.

76. 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.

77. 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.

78. 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.

79. 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.

80. 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.

81. 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.

82. 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.

83. 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.

84. 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.

85. 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.

86. 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.

87. 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.

88. 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.

89. 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.

IV. DISCUSSION

A. Legal Standard

In this proceeding, the parties have submitted a unanimous settlement of all the issues, except for one. Therefore, certain legal standards apply to the review of the settlement whereas other legal standards apply to the lone contested issue.

With regard to the settlement, Commission policy promotes settlements. 52 Pa. Code § 5.231. Settlements lessen the time and expense the parties must expend litigating a case and at the same time conserve administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. 52 Pa. Code § 69.401. The focus of inquiry for determining whether a proposed settlement should be recommended for approval is not a “burden of proof” standard, as is utilized for contested matters. Pa. Pub. Util. Comm’n v. City of Lancaster – Bureau of Water, Docket Nos. R-2010-2179103 (Opinion and Order entered July 14, 2011) (Lancaster). Instead, the benchmark for determining the acceptability of a settlement or partial settlement is whether the proposed terms and conditions are in the public interest. Id.; *citing*, Warner v. GTE North, Inc., Docket No. C-00902815 (Opinion and Order entered April 1, 1996) (Warner); Pa. Pub. Util. Comm’n v. CS Water and Sewer Associates, 74 Pa. PUC 767 (1991).

With regard to the lone contested issue, as a general matter, the Commission applies certain principles in deciding any general rate increase case brought pursuant to 66 Pa. C.S. § 1308(d). A public utility seeking a general rate increase is entitled to an opportunity to earn a fair rate of return on the value of the property dedicated to public service. Pennsylvania Gas and Water Co. v. Pa. Pub. Util. Comm’n, 341 A.2d 239 (Pa. Cmwlth. 1975). In determining what constitutes a fair rate of return, the Commission is guided by the criteria set forth in Bluefield Water Works and Improvement Co. v. Public Service Comm’n of West Virginia, 262

U.S. 679 (1923) (Bluefield) and Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591 (1944). In Bluefield the United States Supreme Court stated:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

Bluefield, 262 U.S. at 692-3.

It is also generally accepted that the public utility seeking a general rate increase has the burden of proof to establish the justness and reasonableness of every element of the rate increase request pursuant to Section 1308(d) of the Public Utility Code. 66 Pa. C.S. § 1308(d). Section 315 of the Public Utility Code sets forth the standard to be met by the public utility:

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 proceeding upon 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); *see also*, Lower Frederick Twp. v. Pa. Pub. Util. Comm'n, 409 A.2d 505, 507 (Pa. Cmwlth. 1980).

In a general rate increase proceeding, the burden of proof does not shift to parties challenging a requested rate increase. The utility has the burden of establishing the justness and

reasonableness of every component of its rate request throughout the rate proceeding. Other parties to the proceeding do not have the burden of proof to justify an adjustment to the public utility's filing. In this regard, the Pennsylvania Supreme Court in Berner v. Pa. Pub. Util. Comm'n, 116 A.2d 738, 744 (Pa. 1955) 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.

However, a public utility, in proving that its proposed rates are just and reasonable, does not have the burden to affirmatively defend claims it has made in its filing that no other party has questioned. In Allegheny Center Assocs. v. Pa. Pub. Util. Comm'n, 570 A.2d 149, 153 (Pa. Cmwlth. 1990), the Pennsylvania Commonwealth Court stated: “While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.”

As a result, with regard to the lone contested issue, Peoples has the burden to demonstrate that its proposal is just and reasonable.

B. Settlement

a. Terms of the settlement

In the settlement, the parties agreed to resolve all outstanding issues, except for one reserved issue, and to seek Commission approval for the matters settled. The relevant terms of the settlement are as follows with the paragraph numbers listed as they appear in the original settlement filed with the Commission:

A. REVENUE REQUIREMENT

28. Peoples Natural will be permitted to increase annual revenues by amounts designed to produce increased operating revenues of \$59.5 million annually, net of current Distribution System Improvement Charge (“DSIC”) and Tax Cuts and Jobs Act (“TCJA”) surcharges, based upon the level of operations for the twelve months ended October 31, 2020. This amount reflects the roll in of the negative TCJA surcharges and the current DSIC charges for the Peoples Natural and Equitable Divisions. Peoples Natural’s base rates in this proceeding will be designed to increase distribution revenues by \$63,384,103, as a result of approval of elimination of connection fees, pooling fees, and other miscellaneous charges, netting to the \$59.5 million increase in annual operating revenues.

29. The level of revenue requirement included in this Settlement reflects the resolution of the parties’ positions in the dispute regarding the application of 66 Pa.C.S. § 1301.1 in this case.

30. As of the effective date of rates in this proceeding, Peoples Natural will be eligible to include plant additions in the DSIC once the total eligible account balances exceed the levels projected by the Company in this proceeding at October 31, 2020. The foregoing provision is included solely for purposes of calculating the DSIC and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in any Fully Projected Future Test Year (“FPFTY”) filing.

31. For purposes of calculating its DSIC, Peoples Natural shall use the equity return rate for gas utilities contained in the Commission’s most recent Quarterly Report on the Earnings of Jurisdictional Utilities and shall update the equity return rate each quarter consistent with any changes to the equity return rate for gas utilities contained in the most recent Quarterly Earnings Report, consistent with 66 Pa. C.S. § 1357(b)(3), until such time as the DSIC is reset pursuant to the provisions of 66 Pa. C.S. § 1358(b)(1).

32. Peoples Natural will file a Total Company Pennsylvania jurisdictional report showing capital expenditures, plant additions and retirements, by month, for the Future Test Year (“FTY”) ending September 30, 2019, and the FPFTY ending October 31, 2020, by January 31 of each of the years following the test years. In Peoples Natural’s next base rate proceeding, the Company will

prepare a comparison of its actual rate base additions for the twelve months ending October 31, 2020, to its projections in this case. However, it is recognized by Joint Petitioners that this is a black box settlement that is a compromise of the Joint Petitioners' positions on various issues.

33. Changes resulting from the enactment of the TCJA created differences in the deferred tax rates that were used prior to January 1, 2018, creating excess accumulated deferred income taxes. Peoples Natural will begin amortizing the total excess ADIT using the Average Rate Assumption Method ("ARAM") upon the effective date of new rates. The remaining unamortized excess ADIT balance will continue as a reduction to rate base in all future proceedings until the full amount is returned to ratepayers.

B. MERGER OF PEOPLES NATURAL AND EQUITABLE DIVISION RATES AND TARIFFS

34. As proposed by the Company in its filing, the Settlement provides for merger of the separate current rates of the Company's Peoples and Equitable Divisions into a single set of rate schedules and rates which are contained in a combined retail tariff, attached as Appendix A.

35. The Settlement also provides for a single supplier tariff, which is attached as Appendix B.

36. With the combination and rates and tariffs of the Company's Divisions, the Settlement terminates the requirement of maintaining separate book and records for the Companies' Peoples and Equitable Divisions as of the effective date of rates in this proceeding. Peoples Natural's books and records for the 12 months ended December 31, 2019 and thereafter will be on a consolidated basis. Further, all reports and filings submitted to the Commission will no longer be provided by division and will only be reported on a consolidated basis as of the effective date of rates in this proceeding.

C. POST EMPLOYMENT AND POST RETIREMENT BENEFITS

37. Peoples Natural has been granted approval in Docket No. R-00943252 to continue to recover FAS 112 (Post-employment benefit costs) on a pay-go basis. Peoples Natural will continue to recover these costs in rates consistent with that prior Commission order.

38. Peoples Natural's claim for Post-Retirement Benefits other than Pensions ("PBOPs") for the FPFTY of \$982,654 for current expense and continued 10-year amortization of \$1,337,486 per year, to recover the funding deficiency previously approved at Docket No. R-2010-2201702, is approved. The Settlement revenue increase includes these amounts and these amounts will be paid to a dedicated trust account previously established by Peoples Natural for this purpose. Peoples Natural will continue to defer the difference between the annual PBOP expense calculated pursuant to FASB Accounting Standards Codification ("ASC") 715 and the annual PBOP pay-as-you-go expense included in rates of \$982,654. Only the amounts attributable to operation and maintenance will be deferred and recognized as a regulatory asset or liability and will be expensed or credited in future rate proceedings over an amortization period to be determined in the next base rate proceeding.

D. CLASS REVENUE REQUIREMENTS/RATE DESIGN

39. The class revenue increases and revenue allocation at settlement rates, which are designed to produce the \$63.4 million increase in distribution rates and the \$59.5 million net increase in revenues, are as set forth in Appendix C, along with total revenues at settlement rates by class. The monthly changes in customer charges and distribution rates by class included in the settlement rates and proof of revenues is provided in Appendix D.

40. The customer charge for the Residential class will be \$14.50.

E. CREDIT CARD PAYMENTS BY CUSTOMERS

41. The Company's proposal to pay third party fees for customer payments by credit card, walk in payment, and debit card payments is approved.

F. PRICE TO COMPARE ("PTC") AND PURCHASE OF RECEIVABLES ("POR") PROGRAM

42. The PTC for Priority 1 customers consisting of natural gas supply charges (a Commodity Charge and a Gas Cost Adjustment Charge ("GCA")), a Merchant Function Charge ("MFC") and a Gas Procurement Charge ("GPC") (Rider G) are included in the settlement rates.

43. The Settlement Rates set forth the portion of the revenue requirement to be recovered via the MFC (2.49% of purchased gas costs for residential customers and 0.21% of purchased gas costs for small general service, medium general service and large general service) in Rider E and the GPC in Rider G. The GPC shall equal \$0.0801 per Mcf.

44. Peoples Natural's proposal to revise and update its POR discount rate and MFC to match the current write-off factor used to derive the Company's bad debt revenue requirement and to revise and update the administrative rider designed recover incremental POR implementation costs is implemented in the Settlement Rates.

45. Any shortfall in recovery of the uncollectible expenses and administrative costs of the POR program will not be recovered from sales customers.

G. POOLING AND BILLING FEES

46. The Company's existing pooling fees applicable to NP-1 and P-1 pools will be eliminated.

47. Peoples Natural's proposal to deliver the required daily gas supplies for Pool Operators that have a peak demand of 2,000 Dth or less in lieu of capacity assignment is approved with the modification that it will be a voluntary option.

H. LOW INCOME CUSTOMER ISSUES

48. Peoples Natural will waive High Bill Investigation Fees for customers at or below 150% of the federal poverty level.

49. Regardless of income level, Peoples Natural will cease charging any High Bill Investigation Fees for a foreign load investigation.

50. Peoples Natural will integrate the Universal Service Riders of the Peoples and Equitable Divisions in a manner that does not adversely affect either one of the divisions. Within 90 days of the effective date of rates in this proceeding, Peoples Natural will develop a written plan for how it will ensure that funding for its Low Income Usage Reduction Program ("LIURP") will be equitably distributed between divisions. The plan will be circulated to all parties and shared with Commission staff at the Bureau of Consumer Services, and will include data about the actual spending for the program in each rate division over the last

three years, as well as information about the estimated and confirmed low income populations in each rate district.

51. Within 120 days of the effective date of rates in this proceeding, Peoples Natural will host an in-person collaborative meeting with interested parties to this proceeding and other stakeholders, including the Bureau of Consumer Services, to answer questions about its proposed plan. The parties and stakeholders will be given the opportunity to provide feedback and recommendations for revisions to Peoples Natural's proposed plan. If the parties are able to reach consensus, Peoples Natural's proposal to consolidate its universal service program budgets into a single budget for each program will be approved. If the parties are unable to reach consensus, Peoples Natural will file a separate Petition with the Commission seeking approval of its plan for consolidation of its universal service program budgets.

52. Peoples Natural will increase its annual LIURP budget by \$650,000, divided proportionately between Peoples and Equitable Divisions. These costs will be recoverable under the Universal Service Rider. Any unspent funds at the end of each year will roll over and be added to the budget for the following year.

53. The Company commits to maintaining its existing business relationship with CBOs, subject to each individual CBO's continued performance in conformance with the Company's Universal Service and Energy Conservation Plan ("USECP") rules and their contract with the Company.

54. Within 60 days of the effective date of rates, Peoples Natural will update its training materials to clarify that additional medical certificate renewals, beyond the first three certificates, are available to customers who continue to pay their current charges or budget bill amount while protected by a medical certificate. Peoples Natural will share its updated training materials with the parties to this proceeding.

55. Peoples Natural's customer service staff will inform customers upon submission of a medical certificate that they can continue to renew their medical certificates so long as they continue to pay their current bill or budget bill, but if they fail to do so they are limited to three certificates.

56. Peoples Natural agrees to automatically review its residential accounts at least once every six months to ensure it is not holding deposits for customers who are confirmed low income.

If it discovers that deposits are being held, Peoples Natural will refund those deposits to customers within 30 days.

57. Peoples Natural agrees to memorialize, in its USECP, the steps that Peoples Natural has indicated it has already taken to bolster Customer Assistance Program (“CAP”) enrollment that were recommended by CAUSE-PA in its direct testimony.

58. Peoples Natural will revise its Universal Service cost recovery tariff to reflect a bad debt offset of 3.86% for all CAP participation exceeding 32,300. Peoples Natural will no longer track CAP participation separately for its two divisions.

59. Within 6 months, Peoples Natural will adopt a procedure under which it will not disconnect service to a confirmed low-income customer for nonpayment without first providing a stand-alone Plain English notice to that customer of the customer’s right to enter into CAP and an explanation of CAP’s arrearage forgiveness benefits. Peoples Natural will develop the Plain English notice in collaboration with its Universal Service Advisory Group.

60. Peoples Natural will adopt a process providing that upon request to enter into Budget Billing, a customer in arrears should be placed on Budget Billing while spreading their arrears over a period consistent with the Commission regulation applicable to the individual customer.

61. For the purposes of cold weather protections, the Company should adopt income verification language that mirrors the tariff language of Columbia Gas of Pennsylvania, Inc. and/or the FirstEnergy Companies to provide greater flexibility to establish income eligibility.

62. Peoples Natural’s proposal to present the issue of CAP outreach to its Universal Service Advisory Group (“USAG”) no later than October 2019 is accepted, provided that subsequent to this discussion, Peoples Natural will present the recommendations of the USAG to the Commission in either its next round of comments regarding the Peoples Natural’s USECP, or its next base rate case, whichever comes first.

63. The additional questions of: (1) why customers do not respond to written shutoff notices that inform customers in arrears of the need to contact the Company in order to avoid the disconnection of service; and (2) why customers do not

successfully complete deferred payment agreements, will also be presented to the USAG within the same time line and with the same proviso.

64. Peoples Natural will revise its tariff to explicitly provide that the reconnection fee will be waived for all customers with income at or below 150% of the federal poverty level.

65. Peoples Natural and Duquesne Light will collaborate on their CAPs with the objective to enhance the experience for their mutual low-income customers, including enabling data and document sharing to reduce barriers to enrollment; develop a universal CAP application; and investigate methods of shared recertification that decreases the number of CAP customers removed from CAP for failure to recertify.

I. MISCELLANEOUS PROVISIONS

66. Within 120 days of the effective date of rates in this proceeding, in following the Commission's Temporary Rates Order entered May 17, 2018 at Docket No. R-2018-2641242 and Commission Order entered on June 14, 2018 at Docket No. R-2018-3006818, Peoples Natural will provide the refund of tax savings with interest associated with the TCJA for the period of January 1, 2018 through June 30, 2018 in a one-time bill credit. The one-time bill credit is estimated at \$16.6 million, plus interest calculated at the residential mortgage lending rate specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101 et seq.) in effect on the last day of the month prior to the refund to customers. The one-time bill credit will also include any accumulated over/under recovery associated with the TCJA tax change from January 1, 2018 until rates go into effect for the current proceeding. The previous language will be incorporated into Peoples Natural's Rider TCJA and will go into effect on October 29, 2019, the effective date of new rates in the current proceeding. The bill credit will be allocated to customer classes in the manner set forth in Appendix E. Once the one-bill credit is provided to customers the Rider TCJA will terminate.

67. Peoples Natural will petition to withdraw the Petition for Approval of its Energy Efficiency and Conservation Plan ("EE&C Plan") that is currently pending before the Commission at Docket No. M-2017-2640306. This withdrawal assumes full compliance with all prior settlement agreements related to the requirement to file the EE&C Plan. Peoples Natural will convene a stakeholder

group with the statutory advocates and Duquesne Light to review any new proposal at least 120 days prior to filing, if such a proposal is filed in the future. Peoples Natural further agrees that:

- a) Peoples Natural will not make any revised EE&C filing with the Commission that includes any new proposal to incent Combined Heat and Power (“CHP”) development prior to June 1, 2021.
- b) Any proposal made by Peoples Natural to incent or otherwise fund CHP development using customer dollars will be made in a distribution base rate case.
- c) In addition, any proposal filed after June 1, 2021, will include a discussion on the total resource economic test, in addition to societal, environmental, non-energy impacts (“NEIs”), or non-electric aspects for the CHP projects.
- d) Any such CHP proposal shall provide Duquesne Light with a reasonable opportunity to provide further customer incentives under its Act 129 EE&C programs for those CHP projects located in Duquesne Light’s service territory. Duquesne Light agrees that upon approval of this settlement by the Commission it shall endeavor to enhance the visibility of available incentives to potential CHP customers. Duquesne Light also agrees that it will include CHP as an available custom measure in the next Phase of its Act 129 EE&C program, if any. Duquesne Light will invite Peoples Natural to participate in its EE&C stakeholder planning process.
- e) Any change in applicable state law, Commission regulation or order would pre-empt this provision of the settlement. Duquesne Light reserves the right to challenge any aspect of a revised EE&C filing, or other filing related to the development of CHP.

68. Electricity delivered by an electric distribution company shall not constitute a competitive alternative for purposes of natural gas flex rate eligibility or amount, unless the electric distribution company offers an electric flexed distribution rate to the customer.

69. The Company shall provide the highest curtailment priority available under applicable law, no lower than Category 2a or its

equivalent, to operational facilities of electric distribution companies. Such operational facilities shall include the six Duquesne Light operational facilities identified in Duquesne Light Statement No. 3, Direct Testimony of Jason Harchick.

J. RATE APPALACHIAN GATHERING SERVICE

70. The Company's proposal to establish rate Appalachian Gathering service is approved as modified below:

a) In order to encourage conventional producers to stay on Peoples Natural's gathering system and increase production, the following tariff language addition to Rate AGS is approved:

(1) If a conventional producer adds incremental conventional production to the Peoples Natural's system, that producer's incremental production shall qualify for a reduced Rate AGS fee equal to 50% of the effective monthly Rate AGS fee.

(2) Incremental conventional production is any conventional production that is not connected to the Company's facilities as of June 15, 2019 and shall not include any existing production delivered to Peoples Natural's system and subsequently acquired by the producer from any other producer. Incremental conventional production shall also include increased production volumes from existing conventional wells as a result of well stimulation or similar actions. The level of incremental production volumes from existing wells shall be determined by the Company based on supporting information provided to the Company by the producer.

b) Peoples Natural withdraws the proposed escalator to Rate AGS without prejudice to proposing a rate increase and/or rate escalator in a future base rate proceeding.

c) The water vapor standards for normal ongoing operations on the Peoples Division shall follow the Production Enhancement Services ("PES") agreement standards currently in place on the Peoples Division. The water vapor standards for normal ongoing operations on the Equitable Division shall be the prevailing water vapor standards as of June 1, 2019. However, Peoples Natural

reserves the right to require more stringent water vapor standards in limited and specific situations where Peoples Natural has determined through water vapor testing that the water vapor levels at identified production meter points are affecting customer service or creating operational issues.

d) Peoples Natural will make every effort to accept local gas as a priority over Interstate gas.

e) These terms will remain in effect until the effective date of new base rates as a result of Peoples Natural's next base rate case.

K. MAIN LINE EXTENSION PROPOSAL

71. The Company's proposed changes to its main line extension policy are reserved for litigation.

L. COMPETITIVE RATE DISCOUNTS

72. On combination of the Peoples and Equitable Divisions as contemplated by this Settlement, the entire Company will be subject to the requirements of the Equitable Gas Company 2008 base rate settlement provision concerning justifying discounts in future base rate proceedings, which provides as follows:

B.3. Equitable will agree to maintain a highly confidential log of negotiated delivery service agreements available for review by the OTS, the OCA and the OSBA. The log will contain the following information related to negotiated agreements:

Customer number, effective date of the agreement, the reason(s) for offering a negotiated delivery agreement, supporting work papers relied upon to substantiate the negotiated agreement, and an analysis which evaluates the contribution to overall fixed costs provided by each customer.

73. In implementing this provision in circumstances where a bypass of the Company's facilities is the customer's competitive option, the Company will work with the customer in future negotiations to develop an analysis of the likely construction cost of the bypass facilities and apply that estimate in determining, through negotiations, the discounted rate offered to the customer. This information will be included as a part of the confidential

materials presented in the Company's initial filing in future base rate proceedings. The Company will also provide a confidential annual report to the Statutory Advocates listing all customers that currently are receiving a discounted rate due to any of the reasons contained herein. The confidential report will provide information regarding whether the customer is being offered the discounted rate due to gas-on-gas competition, potential bypass, economic reasons or alternative fuel reasons. The Company should include in its analysis the annual log information. In future base rate proceedings, the confidential materials presented as part of the Company's filing will include sworn affidavits from all discount customers as to the facts and reasons for the discounts as set forth in the Company supplied materials.

Settlement at 8-20.

In addition, the settlement is conditioned on the normal terms and conditions contained in most settlements submitted to the Commission. For example, if the Commission modifies the settlement any party signing on to the settlement may elect to withdraw from the settlement and proceed with litigation. Id. at 21. Furthermore, the settlement is made without any admission against or prejudice to any position that any party may adopt in the event of subsequent litigation of this proceeding or any other proceeding. Id. The parties have also agreed that the settlement may not be cited as precedent in any future proceeding except to the extent required to implement the settlement. Id. at 22. The settlement is also presented without prejudice to any position that any signer may have advanced and without prejudice to a position that may be advanced in the future on the merits of the issues raised. Id. Finally, the parties agreed to waive their right to file exceptions if it is recommended that the settlement be adopted without modification. Id.

b. Public Interest

In the settlement, the parties agreed that the settlement is in the public interest because the settlement was achieved after an extensive investigation of the rate base filing, including formal and informal discovery and submission of multiple rounds of testimony that has been admitted into the record. The parties also noted that accepting the settlement will avoid the necessity of further administrative and possible appellate hearings which would have been at a

substantial cost. Finally, the parties also noted in the settlement that each party that signed the settlement submitted its own statement in support of the settlement setting forth the basis upon which it believes the settlement to be fair, just and reasonable and therefore in the public interest.

In its statement in support of the settlement, Peoples stated that the settlement is in the public interest and supported by substantial evidence. Peoples noted that the settlement allows for a \$59.5 million increase in operating revenue and \$63.4 million increase in distribution revenue and that the company proposed an increase in operating revenue of \$94.9 million. Peoples discussed the proposed increase in rates advocated by I&E and OCA in this proceeding in relation to the allowed return on equity, among other things, associated with those proposals. In doing so and recognizing that the settlement is a “black box” settlement, Peoples noted that the \$59.5 million settlement increase is both just and reasonable and fully supported by substantial evidence and that resolution of this important issue without continued litigation is in the public interest. Peoples concluded its support of the settled revenue requirement by noting that the settlement addresses the operation of the distribution system improvement charge (DSIC), the flowback of excess deferred income tax under the Tax Cuts and Jobs Act (TCJA) and provides a process to review in future proceedings whether Peoples achieves its rate base estimates in this case.

With regard to the issues other than revenue requirement included in the settlement, Peoples noted that the settlement is in the public interest because it completes the acquisition by Peoples of the Equitable Gas Company by merging rates into a single rate schedule in a single tariff, a single supplier tariff and books and records. Peoples noted that this will eliminate duplicative filings and confusion from customers. Peoples also noted the provisions regarding class revenue requirements and rate design in the settlement. Peoples presented a chart comparing the competing positions taken in this proceeding on these issues and noted that the settlement revenue allocation represents a reasonable balance of the positions of the joint petitioners and is supported by substantial evidence. This also includes benefits to customers who shop for electricity and the elimination of various fees.

Finally, Peoples also addressed other provisions in the settlement in support of its position that the settlement is in the public interest and should be approved in its entirety. Such additional provisions include post-employment and post-retirement benefits, elimination of third-party fees for credit card payments, updates to the price to compare (PTC), elimination of pooling fees, an array of changes related to low-income customers, a one-time credit for the reduction in income tax rates under the TCJA, clarification of the priority of services to electric distribution companies, withdrawal of Peoples' Energy Efficiency and Conservation Plan (EE&C Plan), various issues related to the addition of the Appalachian Gathering Service (AGS) tariff that require the gathering system costs to be shared by both producers and consumers and an agreement to work more closely with parties and customers to provide clearer information regarding competitive rate discounts.

In its statement in support of the settlement, I&E stated that the settlement is in the public interest because it provides for an overall increase of \$59.5 million in revenues instead of the originally requested \$94.9 million. I&E added that, based on its analysis of the company's filing and responses to discovery, the rate increase under the settlement represents a result that is within the range of likely outcomes if the case was fully litigated. I&E then noted the benefits of black box settlements. I&E also referred to the provisions in the settlement regarding the DSIC and the FPFTY in support of its position that the settlement is in the public interest. I&E noted that the provisions regarding DSIC allow the company the opportunity to meet its obligation regarding safe and reliable service while giving the customers a defined period of time during which they will be relieved from paying DSIC costs whereas the FPFTY provisions allow for the evaluation and confirmation of the accuracy of Peoples' projections.

I&E also noted several other provisions in its statement in support of the settlement why the settlement is in the public interest. This includes the merger of Peoples' and Equitable's rates into a single set of rate schedule and rate which will eliminate the need for separate books and records; provisions regarding post-retirement benefits other than pensions (PBOBs) that will continue to recover a funding deficiency from 2010; a residential class customer charge of \$14.50 which I&E believes is in the range of reasonable outcomes that would result from full litigation of this case; no separate processing charges for bill payments using

debit card, credit card or walk-in payment locations; a refund of the TCJA savings through a one-time bill credit; and, the agreement for Peoples to provide certain information justifying competitive discounts in its next base rate case filing. I&E also noted that it took no position on some of the issues resolved in the settlement including low-income issues and the Appalachian Gathering Service issues but that otherwise the issues that it has raised in the proceeding have been satisfactorily resolved.

In its statement in support of the settlement, the OCA stated that the settlement is in the public interest because the \$59.5 million net of DSIC and TCJA surcharges that Peoples will be allowed to recover under the settlement is \$35.4 million less than the amount originally requested by the company. The OCA also noted that Peoples will begin to amortize the total excess accumulated deferred income tax (ADIT) using the Average Rate Assumption Method (ARAM). The OCA also noted that the settlement is a black box settlement and that, based on an analysis of the company's filing, discovery responses received and testimony by all parties, the revenue increase under the settlement represents a result that would be within the range of likely outcomes in the event of full litigation of the case. When coupled with the other provisions of the settlement, the OCA contends that the agreed upon increase is in the public interest.

The OCA also noted in its statement in support the merger of Peoples and Equitable rates and tariffs as being in the public interest since the company will have a single system-wide set of rate schedules for both Peoples and Equitable customers. The OCA added that the revenue increase to residential customers was reduced from the originally proposed \$79.8 million to \$46.9 million in the settlement and is also in the range of likely litigated outcomes. The OCA added that the customer charge in the settlement balances Peoples' need to recover its customer costs while also not imposing an unnecessarily high fixed and unavoidable charge on the customers. The OCA also referenced the numerous provisions of the settlement regarding the low-income and universal service issues that will be implemented that are in the public interest. In particular, the OCA noted the increase in funding for the company's weatherization program by \$650,000, as well as allowing for the waiver of certain fees for low-income customers, changes to the medical certification process and improvements to the

collaboration between Peoples and Duquesne regarding customer assistance program issues. Finally, the OCA noted in its statement in support that the settlement is in the public interest because of the refunds of TCJA savings, including interest, to customers via a negative surcharge and the requirement for Peoples to keep detailed records with regard to discounted rates in its next base rate filing.

In its statement in support of the settlement, the OSBA stated that the settlement is in the public interest because, at a time when all types of utility services are becoming more expensive, the reduction in the overall revenue increase from the requested \$94.9 million to the agreed upon \$59.5 million per year will benefit all of Peoples' customers, including the company's small business customers. The OSBA also cited to the provisions regarding Rate SGS for small general service and Rate MGS for medium general service. The OSBA noted the settlement provides for meaningful movement toward rate parity for SGS transitional industrial customers and reasonably limits the percentage increase in rate MGS customer charges in the Peoples Division. Next, the OSBA noted that the settlement is in the public interest because of the modifications to the proposal for the rate Appalachian Gathering Service, noting it is a compromise of competing interests, will encourage conventional producers to stay on the gathering system and increase production and will require producers to contribute to the cost of the gathering system. Finally, the OSBA noted that it is satisfied with the company's agreement to keep a highly confidential log of negotiated delivery service agreements in light of the Commission's recent Opinion and Order entered June 13, 2019 regarding "gas-on-gas" competition.

In its statement in support of the settlement, Direct Energy stated that the settlement is in the public interest because it adequately addresses the concerns raised by Direct Energy regarding Peoples' proposal to change the capacity for Priority One Pool Operators who have a peak day demand of 2,000 Dth per day or less. Direct Energy noted the specifics of the company's proposal and the concerns about the proposal raised by its witness and stated that the settlement provides that Peoples' proposal to deliver the required daily gas supplies for Pool Operators that have a peak demand of 2,000 Dth or less in lieu of capacity assignment will be a voluntary option, as Direct Energy's witness recommended. Direct Energy contended that doing

so will allow natural gas suppliers to continue to manage energy costs, prevent volatility of prices and operate the pool without risk of increasing costs for consumers.

In its statement in support of the settlement, Duquesne stated that the settlement is in the public interest because it adequately addresses Duquesne's concerns. First, the settlement provides a commitment for Peoples to collaborate with Duquesne on issues related to the two companies' customer assistance programs (CAP) which will positively impact the public by allowing more customers to benefit from CAP. Second, Duquesne noted that the settlement resolves its concerns with Peoples' Combined Heat and Power (CHP) initiatives since Peoples agreed to withdraw its petition for approval of its EE&C Plan that is currently pending before the Commission that includes the CHP. Duquesne noted that requirements of the settlement will ensure that the CHP is cost effective and transparent. Third, Duquesne noted that the settlement resolves Duquesne's concerns with flex rate contracts and the lack of clarity regarding what constitutes a competitive alternative for purposes of determining customer eligibility for flex rate contracts. Finally, Duquesne stated that the settlement satisfactorily resolves Duquesne's concerns with Peoples' gas curtailment policies by clarifying that operational facilities of electric distribution companies will receive the highest curtailment priority available under law.

In its statement in support of the settlement, PIOGA stated that the settlement is in the public interest because of the modifications to Peoples' rate AGS proposal agreed to by Peoples and Snyder Brothers. PIOGA stated that these modifications decrease the likelihood that Peoples' revised structure for assessing gathering related charges on its systems will create an economic disincentive for conventional producers to produce low cost gas supplies into the Peoples' system. PIOGA noted that the settlement fixes the gathering charge under Rate AGS at \$0.26/Mcf and that Peoples also agreed to make every effort to accept local gas as a priority over interstate gas. PIOGA concluded that the record shows that the Rate AGS settlement provisions are just and reasonable, in the public interest and consistent with Commission regulations, noting that Commission regulations promote the development of Pennsylvania natural gas because it will achieve benefits that accrue to gas utilities and their customers.

In its statement in support of the settlement, CAAP stated that the settlement is in the public interest because Peoples agreed to increase its annual funding for LIURP, the low-income usage reduction program. CAAP also noted that Peoples committed in the settlement to continue its existing relationships with community-based organizations (CBO) in its universal service programs. CAAP noted that the settlement as it relates to these issues addresses the concerns raised by CAAP in this proceeding and will provide a substantial benefit to low income customers by providing additional conservation measures to those customers that will result in lower energy use and utility costs for those vulnerable customers. CAAP added that those additional measures that promote conservation will benefit the public generally.

In its statement in support of the settlement, CAUSE-PA stated that the settlement is in the public interest because the settlement addresses the ability of low income natural gas customers in Peoples' service territory to access safe and affordable natural gas service, balances the interests of the parties and fairly resolves a number of important issues raised by CAUSE-PA and other parties. CAUSE-PA noted that the settlement takes rate affordability into account by using structural rate design to limit the disproportionate burdens on low income households and through enhancements to Peoples' universal service programs that better match need households with available assistance and reducing price pressures. CAUSE-PA noted that it did not take a position on a variety of issues, including revenue requirement, the merger of Peoples and Equitable, Rate AGS or the competitive rate discount, among other things. CAUSE-PA did, however, take a position on class revenue requirements/rate design, credit card payments by customers and low-income customer issues.

With regard to class revenue requirement/rate design, CAUSE-PA noted that the settlement is in the public interest because limiting the amount of fixed charge increases will help ensure that low-income customers can still mitigate the impact of the rate increase through energy conservation. CAUSE-PA also supported the proposal to pay third party fees for customer payments because these fees disproportionately impact low-income customers because they take up a larger percentage of a customer's monthly income and therefore disproportionately add to the household's energy burden. CAUSE-PA also noted in its statement in support the many provisions in the settlement regarding low-income customers that are in the

public interest. This includes, among other things, waiving the \$75 high bill investigation fee for customers under 150% of the federal poverty level and not charge a fee for a foreign load investigation; increased funding of LIURP by \$650,000 per year; modification of the medical certificate practices to ensure the company does not wrongfully deny medically vulnerable customers the extended medical certificates they are entitled to; agreeing to automatically review residential accounts every six months to ensure that the company is not holding deposits for confirmed low-income customers; reducing barriers to winter termination protections that will reduce the number of low-income households resorting to dangerous heating methods; waive the reconnection fee for customers who are at or below 150% of the federal poverty level; memorialize its CAP outreach procedures; and maintain existing relationships with CBOs to ensure continuity of service of the company's low-income program so low-income customers seeking assistance continue to know where to find it.

Finally, in its statement in support of the settlement, Snyder Brothers stated that the settlement is in the public interest because it revises Rate AGS to address some of the issues Snyder Brothers raised in this proceeding and represents a reasonable compromise from each party. Snyder Brothers noted that the revised Rate AGS allows conventional producers of natural gas to receive a 50% reduction to their Rate AGS fees for "incremental production" that is added to the People system. Snyder Brothers added that the proposed indexing feature in Rate AGS that would have changed Rate AGS fees based on the market price of natural gas, has been withdrawn by Peoples and the applicable rate will be set at \$0.26 Mcf plus applicable retainage. Snyder Brothers also noted that the proposed seven-pound water vapor standard has been eliminated by the settlement and that the settlement recognizes the value of local gas to Peoples' end-use customers by committing to make every effort to accept local gas a priority over interstate gas and, therefore, benefit from the price differential between locally gathered gas and interstate pipeline delivered gas.

c. Disposition

Having reviewed the various filings, including the pre-served testimony, the settlement and the statements in support of settlement, it is clear that the settlement is in the

public interest, supported by substantial evidence and should be adopted in its entirety without modification. *See, Lancaster, Warner, supra.*

As an initial matter, the settlement is in the public interest because the originally requested increase of \$94.5 million has been reduced to a total of \$59.5 million annually. This is a savings of approximately \$35 million per year that Peoples' customers will not be required to pay each year. This amount factors in calculation of the distribution system improvement charge (DSIC) and the changes resulting from the enactment of the Tax Cut and Jobs Act (TCJA) that created differences in the deferred tax rates that were used prior to January 1, 2018. The parties are commended for factoring in the changes arising from the TCJA as part of this settlement which will be refunded with interest through a one-time bill credit estimated at \$16.6 million. The \$59.5 million amount appears to be a reasonable compromise amongst the parties given the other revenue requirement figures proposed in this proceeding and within the likely range of outcomes had this case been fully litigated. Although there is no stay out period during which Peoples agrees not to file another base rate case thereby providing further rate relief to customers, the agreed upon \$59.5 million is in the public interest because it is \$35 million less than what was requested in Peoples' original filing. Therefore, Peoples' customers will continue to receive safe and adequate service at just and reasonable rates.

The settlement is also in the public interest and should be approved without modification because it merges the separate current rates of the company's Peoples and Equitable divisions into a single set of rate schedules and rates which are contained in a combined retail tariff. This provision of the settlement is in the public interest because all reports and filings submitted to the Commission will no longer be provided by division and will only be reported on a consolidated basis. This provision will make things simpler for the company, the Commission and consumers and is in the public interest.

The settlement is also in the public interest and should be approved in its entirety without modification because of the benefits it provides to consumers beyond paying less of an increase for natural gas service.

One of the benefits to consumers of the settlement is the approval of Peoples' proposal to pay third party fees for customer payments by credit card, walk in payment and debit card payments. Consumers are accustomed to not being charged an additional fee for using their credit card, for example, to make various other purchases and payments. Eliminating that fee when using a credit card to pay Peoples for natural gas service is in the public interest.

In addition, there are several provisions in the settlement that benefit low-income consumers that also warrant adopting the settlement as being in the public interest. For example, Peoples will, among other things, waive high bill investigation fees for customers at or below the federal poverty level which will allow low income customers to ensure they are not being over charged but are being billed accurately. Peoples will increase its annual LIURP budget by \$650,000 divided evenly between the Peoples and Equitable divisions with the costs recoverable through the universal service rider. This provision is in the public interest because it will increase the number of customers who can benefit from the LIURP program. Peoples will update its training materials to make clarifications regarding additional medical certificate renewals which will enable more consumers to maintain service when they have a medical necessity. Peoples will review its residential accounts at least once every six months to ensure that it is not holding deposits for customers who are confirmed low income to ensure that low income consumers are not improperly being asked for a deposit. Peoples will take steps to bolster its CAP enrollment which will also allow more consumers to benefit from the program and receive natural gas service. Peoples will provide a stand-alone plain English notice to customers regarding CAP prior to termination developed in conjunction with the Universal Service Advisory Group which will decrease the number of customers that are improperly terminated. Peoples will modify the budget billing process and make tariff revisions regarding waiver of the reconnection fee for customers at or below 150% of the federal poverty level which will allow more low-income consumers to keep and maintain natural gas service. All of these provisions of the settlement will increase the number of low-income customers who could benefit from Peoples' CAPs, increase those benefits and increase efficiency and ease of use of the Peoples' system for all affected parties. All of this is in the public interest.

Additional provisions in the settlement that impact other parties to this proceeding that receive service from Peoples are also in the public interest. For example, Peoples has agreed to eliminate pooling fees and deliver the required daily gas supplies for pool operators that have a peak demand of 2,000 Dth or less in lieu of capacity assignment on a voluntary basis. Peoples has also agreed to withdraw its Petition for Approval of its Energy Efficiency and Conservation Plan (EE&C) that is currently pending before the Commission and convene a stakeholder group with OCA, I&E, OSBA and Duquesne to review any new filing at least 120 days prior to filing if such a proposal is filed in the future. This provision is in the public interest because it will improve Peoples' Combined Heat and Power (CHP) service. The settlement is also in the public interest because it includes several modifications to the proposed Rate AGS. These provisions will encourage conventional producers to stay on Peoples' gathering system and increase production. Peoples will be required to make every effort to accept local gas as a priority over interstate gas. This is in the public interest because it will promote the production of gas produced by Pennsylvania producers. Finally, the settlement is in the public interest because the entire company will be subject to the requirements of the Equitable Gas Company 2008 base rate settlement provisions concerning justifying competitive discounts in future base rate proceedings. This provision is in the public interest because it will provide information from all discount customers as to the facts and reasons for the discounts.

As a result, the settlement is in the public interest not just because it provides a substantial reduction in the overall revenue requirement, resulting in a savings of \$35 million per year, but also because of the specific provisions in the settlement that provide benefits to all of Peoples' customers.

In addition, as is the case with all settlements, the settlement should be approved as being in the public interest because the settlement will save the parties from expending substantial time and expense involved with further litigation. Although the parties exchanged substantial discovery and submitted several rounds of pre-served testimony, including oral rejoinder, and there has been some hearing time, additional costs would have included extensive hearings, extensive briefs, exceptions and possible appeals amongst the multitude of parties involved in this proceeding. Even though one issue is still being litigated, minimizing such

expenditures reduces the costs that Peoples, and others, might ultimately pass on to the ratepayers, and also conserves the resources of all other parties involved in these proceedings and preserves Commission resources as well.

The settlement is also in the public interest and should be approved without modification because it resolves the complaints filed by various consumers who contested the original filing. As noted above, each of the complainants was provided a copy of the settlement and given the opportunity to object to it. No objections were received and therefore the complainants were deemed to not oppose the settlement. Therefore, these complaints will be closed as part of the ordering paragraphs below.

The settlement should be approved as being in the public interest because the parties have exchanged voluminous pre-served testimony and have engaged in extensive discovery and other litigation-related efforts in order to properly investigate and resolve the issues presented, much of which was admitted into the record via stipulation. These efforts demonstrate that the initial filings of the company and the responses to the filings have been thoroughly vetted and considered by all concerned parties. These efforts also demonstrate that the parties are satisfied that there are no unresolved evidentiary issues at this point of the proceeding. As a result, the settlement is therefore in the public interest and should be approved without modification.

Finally, it is noted that the parties have reached what is referred to as a “black box” settlement where the settlement provides for an increase in the utility’s revenues but does not indicate the specifics of how the parties calculated the increase. The Commission has permitted “black box” settlements as a means of promoting settlements in contentious base rate proceedings. Pa. Pub. Util. Comm’n v. Wellsboro Electric Co., Docket No. R-2010-2172662 (Order entered January 13, 2011); Pa. Pub. Util. Comm’n v. Citizens’ Electric Co. of Lewisburg, Docket No. R-2010-2172665 (Order entered January 13, 2011). The Commission has observed that determining a utility’s revenue requirement is a calculation that involves many complex and interrelated adjustments affecting expenses, depreciation, rate base, taxes and the utility’s cost of capital. Reaching an agreement among the parties on each component can be difficult and

impractical. As a result of this complexity, the Commission supports the use of “black box” settlements. Pa. Pub. Util. Comm’n v. Peoples TWP LLC, Docket No. R-2013-2355886 (Opinion and Order entered December 19, 2013). The submission of a black box settlement in this case is reasonable.

In conclusion, record evidence in this proceeding demonstrates that the settlement submitted in this case is in the public interest, supported by substantial evidence and should be adopted in its entirety without modification.

C. Contested Issue

a. Position of the Parties

In its initial filing in this proceeding, Peoples 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. Peoples M.B. at 12; *citing*, Peoples St. No. 2 at 39, 41. Peoples indicated that, at its discretion, certain projects that contain abnormal underground conditions, such as crossing a stream or state highway, or visible ledge, or rock that will affect excavation or excessive permitting fees, would not be eligible for the 150-foot allotment. Id. Peoples added that, when there are no abnormal conditions, and as more applicants join in a single project to extend gas facilities, Peoples can install a greater length of main without charge to the residential applicants. Id. If the extension project is greater than 150 feet per customer, Peoples will determine the required customer contribution by subtracting 150 feet per customer from the average foot per customer associated with the specific main line extension project. Id.

Peoples’ current main line extension policy uses an economic analysis when a customer requests the company to extend its natural gas facilities to serve that customer. Id. at 11; *citing*, Peoples St. No. 2 at 36. Peoples compares the net present value of the customer’s projected future revenue to the cost the company would incur to add that customer and extend the facilities to the customer without cost if the projected revenues exceed the projected costs or, if the projected costs exceed the projected revenue, require the customer to pay a contribution in aid of construction (CIAC) equal to the revenue deficiency or pay the required contribution over

time pursuant to Rider MLX. Id. Peoples noted that the main line extension proposal is not intended to replace Rider MLX which will continue to be offered to customers as an option to pay the contribution for the extension over time. Id. at 13; *citing*, Peoples St. No. 2 at 41.

Peoples argued that its proposal to install the first 150 feet of main line without charge for each residential applicant is in the public interest, supported by substantial evidence and should be approved. Peoples noted that the proposal will reduce barriers to customers receiving natural gas service by reducing the overall cost a residential applicant must pay for a line extension. Id. at 13-14; *citing*, Peoples St. No. 2-R at 3-4. Peoples noted the plentiful supply of low-cost gas from the Marcellus Shale that more people could convert to. Id. Peoples added that its proposal will supplement Rider MLX and provide greater flexibility to customers in determining how to pay for the required contributions. Id. at 14. Peoples also claimed that its proposal should be approved because it is a streamlined approach that is simpler and easier for customers to understand and is consistent with other natural gas distribution companies' main line extension policies (*e.g.*, Columbia Gas of Pennsylvania, Inc. and the FirstEnergy Companies). Id. at 14-15.

Peoples provided an analysis of the average road length per housing unit in support of its proposal. Id. at 15-17. Peoples noted that the average miles of road and housing units in its service territory was 128 feet of road per every housing unit. Id. at 15; *citing*, Peoples Exh. JAG-3. For more rural areas outside of Allegheny County, there was an average of 180 feet of road per every housing using. Id. at 15-16, *citing*, Peoples Exh. JAG-3. Therefore, Peoples is providing an allowance that is approximately the average distance of extending its main from one housing unit to the next in its service territory and, in doing so, is essentially in the process of replacing significant portions of its aged distribution lines. Id. at 16. Peoples added that its proposal is consistent with the basic ratemaking concept that the individual cost to serve a customer is not assigned to that individual customer but is done on an average basis for each class. Id. Peoples further noted that its proposal will not create any subsidy or cost shift to existing customers based upon the company's historic experience. Peoples noted that for the 3,297 residential customers in 2017 and 2018 that did not require CIAC for their main line extension, the average project cost per customer was \$2,945, but for the 111 residential

customers that did require CIAC the allowable project costs under the 150-foot main line extension proposal would have been \$6,594 per customer. Id. at 16-17; *citing*, Peoples St. No. 2-R at 3-4. Peoples argued that its historic analysis demonstrates that the 150-foot proposal will benefit newly added customers without harming existing customers. Id. at 17.

OSBA, however, opposed Peoples' proposed changes to its main line extension policy. OSBA argued that the proposal violates cost causation principles. OSBA M.B. at 6-8. OSBA noted that the intent of the proposal is to make it easier for residential applicants to acquire natural gas service by reducing the overall level of the CIAC that would otherwise be required of residential customers under Peoples' existing main extension policy. Id. at 7. OSBA added that the proposal to reduce the required level of residential CIACs going forward undermines the purpose of CIAC which is to offset that part of the cost of an extension that is not otherwise supported by the customer's expected revenue stream over a 40-year period. Id., *citing*, OSBA St. No. 1 at 14, 16. OSBA argued that adopting the proposed modification would not lower Peoples' cost of extending service to residential customers but would merely excuse the residential customer from paying a portion of that cost. Id. OSBA cited to the Commonwealth Court's decision in Lloyd v. Pa. Pub. Util. Comm'n, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006), *alloc. denied*, 916 A.2d 1104 (Pa. 2007) (Lloyd), as well as Section 1304 of the Public Utility Code, 66 Pa.C.S. § 1304, for the principle that cost causation is a basic tenant in utility law ratemaking in support of its position. Id. at 8.

In addition, OSBA argued that Peoples' proposal impermissibly creates a cross-class subsidy, noting that the difference between the current allowable investment amount and Peoples' proposal equates to a reduction in a residential applicant's otherwise required CIAC of \$868 and that \$868 will be paid by general ratepayers. Id. at 8-9, *citing*, Lloyd, OSBA St. No. 1 at 16 and OSBA St. No. 1-S at 7. Therefore, OSBA argues that the proposal to have general ratepayers pay a portion of the cost of main line extensions for residential customers should be rejected because it creates a cross-subsidization. Id. at 9. Instead, OSBA argues that Peoples' current main line extension policy is reasonable and appropriate. Id. at 9-10. OSBA noted that the current 40 years of net revenue contributions for purposes of determining the customer's allowable investment amount should be more than sufficient time for a customer to payback the

initial service extension costs incurred by Peoples without requiring a CIAC. Id. at 10, *citing*, OSBA St. No. 1 at 17. OSBA concluded that Peoples has failed to provide any valid economic argument in support of its proposal. Id.

The OCA also briefed this issue. The OCA has argued that Peoples has met its burden of proof in this case by demonstrating that the proposed main line 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. OCA M.B. at 8-9. The OCA points to an economic test as explained by Peoples' witness Joseph Gregorini noting that, if the current economic test revealed that a CIAC was needed, the customer could pay that CIAC up front or spread the cost of the CIAC over time by charging a higher delivery rate through Rider MLX. Id. at 9-10. The OCA noted that 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 but the proposed changes reduce this barrier through the 150-foot allowance. Id. at 10.

In response to the OSBA's concerns, the company argued that OSBA's arguments against the proposal should be rejected because no subsidy or cost shift to existing customers will be created. Peoples M.B. at 18; *see also*, Peoples R.B. at 4-6. Peoples noted that the record demonstrates that the allowable project cost per residential customer under the proposal is substantially lower than the average allowable investment under the current policy. Id. Peoples argued that, therefore, the proposal will benefit new customers without harming existing customers. Peoples R.B. at 4. Peoples added that even if existing customers would be required to pay a cost subsidy for new residential customers' extensions, the costs for these new residential customers will be assigned to the residential class and the small business class will not pay any subsidy. Peoples M.B. at 18-19. Peoples argued that the proposal can be reviewed in the company's next base rate proceeding. Id. at 19.

Furthermore, Peoples responded that OSBA's contention that Peoples' analysis of all the historical residential main line extensions in 2017 and 2018 should be disregarded because Mr. Gregorini demonstrated that there will be no subsidy or cost shift to existing customers when

properly viewing the impact of Peoples' proposal in this matter. Id. In its reply brief, Peoples argued that OSBA's analysis of a potential subsidy is too narrow, noting that every residential applicant's circumstances are different. Peoples R.B. at 4-5. Peoples added that the OSBA failed to demonstrate that any portion of a subsidy, which Peoples denied would exist, would be assigned to non-residential customers under normal cost allocation principles. Id. at 5. Peoples argued that if there is a 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. Id. at 6.

Peoples also argued that OSBA's argument that the proposal would create an unreasonable preference for residential applicants in violation of Section 1304 of the Code lacks merit. Id. at 6-8. Peoples reiterated its position that there is no subsidy created and that there will not be a disadvantage created for general ratepayers. Id. at 7. Peoples added that the OSBA opposed the OCA's recommendation to expand the company's proposal to non-residential applicants and, therefore, the OSBA cannot now claim that the proposal is unreasonably discriminatory because it only applies to residential applicants. Id. Finally, Peoples refuted the OSBA's argument that the proposal is a violation of Section 1304 by stating that any advantage created is not "unreasonable," noting the many benefits of the proposal, and that it is reasonable for Peoples to reduce residential applicants' barriers to receiving natural gas because those barriers are greater for residential applicants than non-residential applicants. Id. at 7-8.

Peoples also refuted OSBA's argument that its proposal will not be more transparent by noting that the new process is simple and straightforward and will be easier for customers to understand. Peoples M.B. at 19-20. The company noted that the OSBA's arguments fail to recognize that the company's proposal will reduce barriers to customers receiving natural gas service and is consistent with other NGDC's main line extension policies. Id. at 20. Finally, Peoples refuted OSBA's opposition to the proposal and should be denied because the current main line extension policy is reasonable and appropriate by arguing that it agrees that its current policy is reasonable but it can still make improvements to that policy and that OSBA overlooks the substantial quantitative evidence presented by the company that

supports the 150-foot main line allowance proposal for residential applicants. Peoples R.B. at 9-10; *see also*, Peoples M.B. at 15-17.

In its reply brief, the OSBA argued that the OCA is ignoring the testimony of its own witness, Mr. Watkins, who agreed with OSBA witness Kalcic that Peoples' proposal would in fact shift costs to general ratepayers. OSBA R.B. at 6, *citing*, OSBA St. 1-S at 9. The OSBA also argued that viewing extension costs on an average basis creates a skewed perspective, noting that the purpose of the main extension rule is to determine, before construction, whether a project is economic and, if not, to assign the uneconomic costs to a customer in the form of a CIAC. *Id.* at 6-7. The OSBA also noted that the OCA's argument that the OSBA position is too narrow should be rejected because it advocates for the current policy to remain in place which ensures extension projects are economic from a general ratemaking perspective. *Id.* at 7.

The OSBA also argued that, while it is true under the company's proposal that the cost paid by a residential customer will be reduced, the overall cost of a main line extension project is not reduced and the OSBA cannot support a proposal that shifts a portion of the uneconomic cost of residential main extensions from residential applicants to general ratepayers, referring again to its prior arguments regarding cost causation and cross-class subsidies. *Id.*; *see also*, OSBA M.B. at 6-9. The OSBA continued to advocate for the current company main extension policy noting that it is skeptical that the new policy is simpler and easier to understand arguing that even if the new proposal is easier for customers to understand that does not mean it is in the public interest. *Id.* at 8-9.

The OSBA also responded to Peoples' argument that the costs for new residential customers will be assigned to the residential class by noting that Peoples has failed to explain how such costs would be directly assigned to the residential class and that OSBA would support recovering any costs that are uneconomic under the company's existing extension rule from the residential class in future base rate proceedings if the new policy is approved. *Id.* at 9-10.

Finally, the OSBA also responded in its reply brief to the OCA's arguments regarding burden of proof by arguing that no burden has shifted to OSBA because Peoples has failed to meet its burden on this issue. Id. at 10-11.

The OCA responded to the OSBA's argument against the main line extension proposal by noting that one of the flaws in the OSBA's argument is the failure to consider the entire group of residential customers whose projected revenues exceed the projected cost to extend the main and thus do not require a CIAC at all. OCA M.B. at 11-12. The OCA noted that, when these customers are examined along-side the residential customers that do not require a CIAC, no shifting of costs to non-residential customers occurs. Id. at 12, *quoting*, Peoples St. 2-R at 3-4. The OCA argued that the OSBA position that the new policy would shift \$868 to general ratepayers instead of to the residential applicants receiving a main extension is narrow in scope and fails to consider all relevant factors. Id. at 13; *citing*, OSBA St. 1-S at 7; *see also*, OCA R.B. at 5. For example, the OCA noted that all of Peoples' general service customers stand to benefit if the new residential customers were high-use customers. Id. The OCA also noted that "utility systems in general all contain various subsidies if examined in a microcosm as the OSBA does here" and that "rigidly adhering to a mathematical analysis as the OSBA has done in this matter effectively places blinders on the mains extension analysis." Id.; *see also*, OCA R.B. at 6. The OCA noted the public policy benefits of Peoples' proposal. Id. at 14-15.

The OCA also responded to OSBA's argument that Peoples' main line extension proposal violates Section 1304 of the Public Utility Code by noting that the text of Section 1304 clearly indicates that preferences or advantages provided to a particular class are not *per se* discriminatory, but the preference or advantage must be *unreasonable*. OCA R.B. at 7 (emphasis in original); *see also*, Phila. Elec. Co. v. Pa. Pub Util. Comm'n, 470 A.2d 654, 657 (Pa. Cmwlth. 1984). The OCA added that the OSBA has failed to provide sufficient evidence to demonstrate that residential applicants would receive an advantage at the expense of general ratepayers as the OSBA's argument is premised on an incomplete set of facts. Id. at 8.

The OCA also noted that the proposed main extension line policy is easier for potential customers to understand and simplifies the main extension process, and that the

proposed policy is in line with the main line extension policies of other NGDCs within the Commonwealth. Id. at 9. The OCA added that OSBA's argument should be rejected because expanding the availability of low-cost natural gas to areas within the Commonwealth that are currently unserved and underserved is in the public interest as a matter of policy. Id. at 10. Finally, the OCA argued that the OSBA's reliance on Lloyd is premature and misplaced because no allocations have been made yet and the proposal does not specify how costs will be allocated in future rate cases. Id. at 10-11.

b. Disposition

Record evidence in this proceeding demonstrates that Peoples has satisfied its burden of proof that its main line extension policy proposal is in the public interest, supported by substantial record evidence and should be adopted.

I agree with Peoples and the OCA that the company installing the first 150 feet of main line without charge for each residential applicant that applies for a line extension, unless there are abnormal underground conditions such as crossing a stream or highway, among other things, is just and reasonable. This includes Peoples' proposal that, as more applicants join a single project to extend gas facilities, the company will install a greater length of main without charge to the residential applicants and that any amount required beyond 150 feet could be paid by the applicant upfront or through Rider MLX.

Peoples' proposal will increase the number of residential customers who are able to receive natural gas service by eliminating the first \$5,906 of cost to have the main line extended. Natural gas service is a reliable and economic source of heat and has become increasingly available as a result of the increased access to Marcellus Shale in Pennsylvania. Peoples correctly argued that, through the combined benefit of the proposal and Rider MLX, Peoples will be able to further encourage customers to convert to natural gas and capitalize on the plentiful supply of low-cost gas supplies. In addition, the OCA correctly noted that, 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. These are

significant benefits that warrant approving the policy changes proposed by Peoples in this proceeding.

In contrast, the arguments raised by OSBA against adopting Peoples' proposal are without merit and will be rejected. In particular, OSBA's argument that Peoples' proposal would lead to shifting a portion of the actual cost of extending service from residential applicants to general ratepayers by reducing the applicant's CIAC is without merit and will be rejected. As an initial matter, OSBA's argument assumes that a subsidy will be created in the first place. It is unclear in the record that there will be a subsidy, or a shift of costs, for other customers to pay.

The OSBA argued that the 2018 extension cost was \$45.16 per foot which when multiplied by 150 would result in a cost allowance per project of \$6,774 but in actuality the current \$5,906.20 allowable investment is equivalent to 131 feet, not 150 feet, and that the difference between the two allowance figures equates to a reduction in a residential applicant's otherwise required CIAC of \$868 that will have to be paid by general ratepayers. OSBA M.B. at 9. Yet, record evidence demonstrates that a historical examination of all of Peoples residential main line extensions in 2017 and 2018 shows that the average allowable project cost per residential customer under the proposal is substantially lower than the average allowable investment under the current policy and therefore no subsidy or cost shift will be created. *See*, Peoples M.B. at 18. Most projects in that period did not require CIAC under the current policy. *Id.* at 19. In this situation, using historical averages is not unreasonable until actual, empirical data can be obtained.

Furthermore, I agree with the OCA that it is the general nature of utility ratemaking that the types of issues that are involved when evaluating Peoples' main line extension proposal in this proceeding should be viewed on a wider perspective. As the OCA argued:

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 main 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 gas consuming neighbors who may have been paying for the upkeep and maintenance of that system for many years. As [Peoples witness] Mr. Gregorini effectively showed, considering all residential customers who connect to the system as a whole shows there is no subsidy issue.

OCA M.B. at 13. New customers taking service in locations where main extensions have not been an issue could be said to have been subsidized by all the existing customers that have contributed to the existing system for years. OCA R.B. at 6. While this wider perspective is not without its limitations, it is appropriate in this case and consistent with fundamental traditional utility ratemaking principles to evaluate Peoples' proposal with this wider perspective.

This is particularly true given that Peoples has indicated that, even if existing customers would be required to pay a cost subsidy for new residential customers' extensions, the costs for these new residential customers will be assigned to the residential class, and the small business class will not pay any subsidy. *See*, Peoples M.B. at 18-19. Although there is no cite to the record in support of this position, the parties can review the company's residential extensions in Peoples' next base rate proceeding to ensure that the costs are allocated appropriately and to modify the rule on a prospective basis, if necessary. *Id.* at 19; *see also*, Peoples R.B. at 6. I agree that given the substantial benefit to all residential customers of the main line extension modifications proposed by Peoples in this proceeding, and the uncertainty that a subsidy will even be created, that it is reasonable to proceed in this manner at this time. Again, proceeding in this manner at this time is consistent with the wider perspective that is consistent with fundamental traditional utility ratemaking principles.

Even if there was a cross-subsidy, I disagree with OSBA that such a cross-subsidy would be a violation of Section 1304 of the Public Utility Code. 66 Pa.C.S. § 1304. Section 1304 provides, in pertinent part:

§ 1304. Discrimination in rates

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

66 Pa.C.S. § 1304. Nothing in Section 1304, however, demands exact specificity. *See e.g.,* Mill v. Pa. Pub. Util. Comm'n, 447 A.2d 1100, 1102 (Pa. Cmwlth. 1982); Philadelphia Electric Co. v. Pa. Pa. Pub. Util. Comm'n, 470 A.2d 654, 657-659 (Pa. Cmwlth. 1984); Building Owners and Managers Assoc. v. Pa. Pa. Pub. Util. Comm'n, 470 A.2d 1092, 1095-1096 (Pa. Cmwlth. 1984). All that Section 1304 requires is that any discrimination in rates not be unreasonable. In this situation, to the extent there is any discrimination present in Peoples' main line extension proposal offered in this proceeding, such discrimination is not unreasonable, especially in light of light of the public benefit of making Marcellus Shale more accessible and the concomitant benefits associated with that, as discussed above, as well as Peoples' willingness to review the matter in its next base rate case.

Similarly, with regard to OSBA's reliance on Lloyd, this argument will also be rejected. As the OSBA noted, the Commonwealth Court in Lloyd determined that the cost of service should be the "polestar" criterion for setting rates and that it is fundamentally unfair to force a customer to pay for a cost which that customer did not cause or from which that customer does not receive a benefit. *See*, OSBA M.B. at 8, *citing*, Lloyd, *supra*. In this case, however, to the extent that cost of service is the guiding principle, or polestar, in ratemaking does not mean that other issues should not also be a factor. This would include the public policy benefits present in Peoples' main line extension proposal. Likewise, adopting Peoples' main line extension policy proposed in this case would not be "fundamentally unfair" to small business customers because they are not receiving a benefit from the proposal because of these additional public policy benefits associated with Peoples' proposal that also benefit small business customers.

Furthermore, Peoples has agreed that, to the extent that there is any cross-class subsidy, the parties can review the company's residential extensions in Peoples' next base rate proceeding to ensure that the costs are allocated appropriately and to modify the rule on a prospective basis, if necessary. In doing so, the guidelines articulated in Lloyd can be addressed. Even so, to the extent that a portion of the costs to change Peoples' main line extension policy is passed through to general ratepayers, the amount to be passed through is small and offset by the public benefits that all ratepayers share by promoting the use and availability of natural gas.

Lastly, OSBA's argument that Peoples' main line extension proposal in this case should be denied because the company's current main line extension policy is reasonable and appropriate will also be rejected. Although Peoples' current main line extension policy may, in fact, be reasonable, it is also reasonable to create additional opportunities for consumers to enjoy natural gas given the recent advent of Marcellus Shale that previously was not otherwise available. While Peoples current main line extension policy may have been reasonable and appropriate prior to the time when Marcellus Shale became accessible and during its infancy, it is reasonable and appropriate for Peoples to modify its main line extension policy as part of this proceeding to further incent consumers to obtain access to this resource.

For these reasons, I find that record evidence in this proceeding demonstrates that Peoples has satisfied its burden of proof that its proposal to change its main line extension policy is in the public interest, supported by substantial record evidence and should be adopted.

D. Conclusion

In this case, the parties have proposed a unanimous settlement of all issues regarding Peoples' request to increase base rates, except for one issue that is not included in the settlement and remains contested. This decision recommends that the settlement be approved in its entirety without modification because it is in the public interest and supported by substantial evidence. In addition, with regard to the lone contested issue, this decision finds that the company's proposal to modify its main line extension policy is just and reasonable and

supported by substantial evidence; therefore, I recommend it be adopted as part of this proceeding.

V. CONCLUSIONS OF LAW

A. Settlement

The settling parties have proposed the following conclusions of law with regard to the settlement that will be adopted herein with only minor editorial modifications:

1. The Commission has jurisdiction over the subject matter and the parties to this proceeding. 66 Pa. C.S. §§ 1301, 1308(d).
2. Under Section 1301 of the Public Utility Code, a public utility's rates must be just and reasonable. 66 Pa. C.S. § 1301.
3. The Commission possesses a great deal of flexibility in its ratemaking function. *See Popowsky v. Pa. PUC*, 665 A.2d 808, 812 (Pa. 1995). "In determining just and reasonable rates, the [Commission] has discretion to determine the proper balance between the interests of ratepayers and utilities." *Id.*
4. The term "just and reasonable" is not intended to confine the ambit of regulatory discretion to an absolute or mathematical formula; rather, the Commission is granted the power to balance the prices charged to utility customers and returns on capital to utility investors. *Pa. PUC v. Pa. Gas & Water Co.*, 424 A.2d 1213, 1219 (Pa. 1980), *cert. denied*, 454 U.S. 824, 102 S. Ct. 112, 70 L. Ed. 2d 97 (1981).
5. Commission policy promotes settlements. 52 Pa. Code § 5.231. Settlements lessen the time and expense the parties must expend litigating a case and at the same time conserve administrative resources.

6. Settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. 52 Pa. Code § 69.401.

7. The Commission encourages black box settlements. Pa. PUC v. Aqua Pa., Inc., Docket No. R-2011-2267958, at 26-27 (Order entered June 7, 2012); Pa. PUC v. Peoples TWP LLC, Docket No. R-2013-2355886, at 27 (Order entered Dec. 19, 2013) (“Peoples TWP LLC”); Statement of Chairman Robert F. Powelson, Implementation of Act 11 of 2012, Docket No. M-2012-2293611, Public Meeting, August 2, 2012.

8. In order to accept a settlement, the Commission must determine that the proposed terms and conditions are in the public interest. Pa. PUC v. UGI Utilities, Inc. – Gas Division, Docket Nos. R-2015-2518438, *et al.* (Order entered Oct. 14, 2016); Pa. PUC v. Philadelphia Gas Works, Docket No. M-00031768 (Order entered Jan. 7, 2004).

9. The Petitioners have the burden to prove that the settlement is in the public interest. Pa. PUC v. Pike Cnty. Light & Power (Electric), Docket Nos. R-2013-2397237, C-2014-2405317, *et al.* (Order entered Sept. 11, 2014).

10. The decision of the Commission must be supported by substantial evidence. 2 Pa. C.S. § 704.

11. “Substantial evidence” is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion. More is required than a mere trace of evidence or a suspicion of the existence of a fact sought to be established. Norfolk & Western Ry. Co. v. Pa. PUC, 489 Pa. 109, 413 A.2d 1037 (1980); Erie Resistor Corp. v. Unemployment Comp. Bd. of Review, 194 Pa. Superior Ct. 278, 166 A.2d 96 (1961); Murphy v. Comm., Dept. of Public Welfare, White Haven Center, 85 Pa. Commonwealth Ct. 23, 480 A.2d 382 (1984).

12. The rates and terms of service set forth in the settlement are supported by substantial evidence and are in the public interest. Therefore, consistent with the terms and conditions set forth in the settlement, Peoples Natural’s proposed rate increase should be granted.

B. Contested Issue

13. Peoples has the burden of establishing the justness and reasonableness of every element of its request 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).

14. 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).

15. Peoples must provide substantial evidence to support its proposed Extension Policy. Burleson v. Pa. P.U.C., 461 A.2d 1234, 1236 (Pa. 1983).

16. 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.

17. 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.

VI. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Peoples Natural Gas Company, LLC shall not place into effect the rates contained in Retail Tariff Gas – Pa. P.U.C. No. 47 and Supplier Tariff Gas – Pa. P.U.C. No. S-3 which was filed on January 28, 2019 at docket number R-2018-3006818.

2. That the Joint Petition for Approval of Settlement Stipulation filed at docket number R-2018-3006818 on July 9, 2019 is approved in its entirety and without modification.

3. That the Peoples Natural Gas Company, LLC shall be permitted to file tariff supplements incorporating the terms of the settlement and changes to its rates, rules and regulations as set forth in appendices A and B to the Joint Petition for Approval of Settlement Stipulation filed on July 9, 2019 at docket number R-2018-3006818 to become effective on at least one day's notice after entry of the Commission's order approving the settlement, which tariff supplements increase Peoples Natural Gas Company, LLC's rates so as to produce an increase in annual revenue of not more than \$59.5 million.

4. That the proposal of the Peoples Natural Gas Company, LLC for 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 is hereby approved in its entirety and without modification.

5. That after the Peoples Natural Gas Company, LLC files the required tariff supplement set forth in Paragraph 3 of this Order, the investigation concerning the Peoples Natural Gas Company, LLC at docket number R-2018-3006818 shall be terminated and marked closed.

6. That the complaint filed by the Office of Consumer Advocate against the Peoples Natural Gas Company, LLC at docket number C-2019-3007711 shall be deemed satisfied and marked closed.

7. That the complaint filed by the Office of Small Business Advocate against the Peoples Natural Gas Company, LLC at docket number C-2019-3007752 shall be deemed satisfied and marked closed.

8. That the complaint filed by Charles Hagins against the Peoples Natural Gas Company, LLC at docket number C-2019-3007698 shall be deemed satisfied and marked closed.

