



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

---

Devin Ryan

dryan@postschell.com  
717-612-6052 Direct  
717-731-1981 Direct Fax  
File #: 171313

August 27, 2019

***VIA ELECTRONIC FILING***


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

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

Dear Secretary Chiavetta:

Enclosed is the Reply of Peoples Natural Gas Company LLC to the Exception of the Office of Small Business Advocate for filing in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,



Devin Ryan

DTR/jl  
Enclosures

cc: Honorable Joel H. Cheskis  
Office of Special Assistants (*ra-OSA@pa.gov*)  
Certificate of Service

## CERTIFICATE OF SERVICE

Docket No. R-2018-3006818

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

### VIA E-MAIL & FIRST CLASS MAIL

Christy M. Appleby, Esquire  
Darryl Lawrence, Esquire  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place, 5<sup>th</sup> Floor  
Harrisburg, PA 17101-1923

Erika L. McLain, Esquire  
Carrie B. Wright, Esquire  
PA Public Utility Commission  
Bureau of Investigation & Enforcement  
Commonwealth Keystone Building  
400 North Street, 2<sup>nd</sup> Floor West  
PO Box 3265  
Harrisburg, PA 17105-3265

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

Todd S. Stewart, Esquire  
Hawke McKeon & Sniscak LLP  
100 N. 10<sup>th</sup> Street  
Harrisburg, PA 17101  
*Natural Gas Supplier Parties and  
The Retail Energy Supply Association*

Scott J. Rubin, Esquire  
333 Oak Lane  
Bloomsburg, PA 17815  
*Utility Workers Union of America, Local 612*

Patrick M. Cicero, Esquire  
John W. Sweet, Esquire  
Elizabeth R. Marx, Esquire  
Pennsylvania Utility Law Project  
118 Locust Street  
Harrisburg, PA 17101  
*Coalition for Affordable Utility Services and  
Energy Efficiency in Pennsylvania*

Kevin J. Moody, Esquire  
Pennsylvania Independent Oil & Gas  
Association  
212 Locust Street, Suite 600  
Harrisburg, PA 17101-1510  
*PIOGA*

Joseph L. Vullo, Esquire  
Burke Vullo Reilly Roberts  
1460 Wyoming Avenue  
Forty Fort, PA 18704  
*Community Action Association of Pennsylvania*

Linda R. Evers, Esquire  
Donald R. Wagner, Esquire  
Stevens & Lee  
111 N. Sixth Street  
Reading, PA 19601  
*Duquesne Light Company*

Michael A. Gruin, Esquire  
Timothy K. McHugh, Esquire  
Stevens & Lee  
17 N. 2<sup>nd</sup> Street, 16<sup>th</sup> Floor  
Harrisburg, PA 17101  
*Duquesne Light Company*

Emily M. Farah, Esquire  
Tishekia Williams, Esquire  
Michael Zimmerman, Esquire  
Duquesne Light Company  
411 7<sup>th</sup> Avenue, 15<sup>th</sup> Floor  
Pittsburgh, PA 16219  
*Duquesne Light Company*

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

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

Pamela C. Polacek, Esquire  
Vasiliki Karandrikas, Esquire  
Errin McCaulley, Esquire  
McNees Wallace & Nurick LLC  
100 Pine Street, PO Box 1166  
Harrisburg, PA 17108  
*Snyder Brothers, Inc.*  
*VEC Energy LLC*  
*Snyder Armclar Gas Co., LP*  
*Baker Gas, Inc.*  
*Marco Drilling, Inc.*  
*MDS Energy Development, LLC*

Daniel Clearfield, Esquire  
Carl R. Shultz, Esquire  
Kristine E. Marsilio, Esquire  
Eckert Seamans Cherin & Mellott, LLC  
213 Market Street, 8<sup>th</sup> Floor  
Harrisburg, PA 17101  
*Direct Energy*

Charis Mincavage, Esquire  
Alessandra L. Hylander, Esquire  
McNees Wallace & Nurick LLC  
100 Pine Street, PO Box 1166  
Harrisburg, PA 17108  
*Peoples Industrial Intervenors*

Glenn Watkins  
Technical Associates, Inc.  
1503 Santa Rosa Road, Suite 130  
Richmond, VA 23229  
*OCA Consultant*

Dante Mugrace  
PCMG & Associates  
90 Moonlight Court  
Toms River, NJ 08753  
*OCA Consultant*

Kevin O'Donnell  
Nova Energy Consultants, Inc.  
1350 SE Maynard Road, Suite 101  
Cary, NC 27511  
*OCA Consultant*

Roger Colton  
Fisher, Sheehan and Colton  
34 Warwick Road  
Belmont, MA 02478  
*OCA Consultant*

Diane Burgraff  
37 Whittakers Mill Road  
Williamsburg, VA 23185  
*SBI Consultant*

James L. Crist  
Lumen Group, Inc.  
4226 Yarmouth Drive, Suite 101  
Allison Park, PA 15101  
*PII Consultant*

VIA FIRST CLASS MAIL


Daniel Killmeyer  
184 McKay Road  
Saxonburg, PA 16056

Samuel Givens  
132 Thunderbird Drive  
McKeesport, PA 15135

Charles F. Hagins  
420 Goucher Street  
Johnstown, PA 15905

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

Date: August 27, 2019



Devin T. Ryan

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

---

**REPLY OF PEOPLES NATURAL GAS COMPANY LLC TO THE  
EXCEPTION OF THE OFFICE OF SMALL BUSINESS ADVOCATE**

---

William H. Roberts, II (ID # 54724)  
Peoples Natural Gas  
375 North Shore Drive  
Pittsburgh, PA 15212  
Phone: 412-208-6527  
E-mail: William.H.RobertsII@peoples-gas.com

Michael W. Gang (ID # 25670)  
Anthony D. Kanagy (ID # 85522)  
Devin T. Ryan (ID # 316602)  
Post & Schell, P.C.  
17 North Second Street, 12<sup>th</sup> Floor  
Harrisburg, PA 17101-1601  
Phone: 717-731-1970  
Fax: 717-731-1985  
E-mail: mgang@postschell.com  
akanagy@postschell.com  
dryan@postschell.com

Date: August 27, 2019

Counsel for Peoples Natural Gas Company LLC

**TABLE OF CONTENTS**

	<b>Page</b>
I. INTRODUCTION .....	1
II. REPLY TO EXCEPTION .....	2
A. REPLY TO EXCEPTION NO. 1 – THE ALJ CORRECTLY DID NOT INCLUDE ORDERING PARAGRAPHS REGARDING THE FUTURE ALLOCATION OF COSTS UNDER PEOPLES NATURAL’S 150-FOOT MAIN ALLOWANCE PROPOSAL.....	2
III. CONCLUSION.....	6

## I. INTRODUCTION

Peoples Natural Gas Company LLC (“Peoples Natural” or the “Company”), pursuant to 52 Pa. Code § 5.535, hereby respectfully submits this Reply to the Exception of the Office of Small Business Advocate (“OSBA”). In a well-reasoned and detailed Recommended Decision (“RD”), Administrative Law Judge Joel H. Cheskis (the “ALJ”) recommends approval of: (1) the Joint Petition for Approval of Settlement Stipulation (“Settlement”) filed on July 9, 2019, which resolved most of the issues in the instant base rate proceeding; and (2) the Company’s proposal to adopt a standard allowance of 150 feet of main line per residential customer to establish new service, which was the only issue reserved for litigation.

In its Exception to the RD, OSBA no longer contests Peoples Natural’s 150-foot main line allowance proposal. However, OSBA claims that the ALJ erred in not including Ordering Paragraphs that direct the Company to assign all of the costs for the main line extensions under this proposal, including any “subsidy” that may be created, to the residential customer class in future base rate proceedings.

As explained in this Reply, OSBA’s Exception should be denied. Peoples Natural has not sought any ratemaking treatment regarding its proposal in this case. Indeed, the Company did not reflect any capital costs in this case for its 150-foot main line allowance proposal. In addition, it is not known at this time what level of costs will be incurred by the time of the Company’s next base rate proceeding and to what extent the revenue generated from the proposal will benefit all customer classes, not just residential customers. Therefore, any directive regarding future allocation of the costs associated with the proposal is premature. It is better to avoid a directive regarding cost allocation at this time given the unknown benefits that all classes could receive. As explained by the ALJ, all parties will have the opportunity to

present their cost allocation proposals regarding the extensions in the next proceeding and such proposals can reflect the actual experience and/or the 150-foot allowance.

Furthermore, OSBA's requested Ordering Paragraphs are based on its erroneous claim that a "subsidy" will be created by the Company's proposal. In the RD, the ALJ completely and correctly rejected OSBA's argument that a "subsidy" will be created by the Company's proposal. (RD at 56.) The ALJ further found that: (1) even if costs were passed through to general ratepayers, the amount of those costs would be small; and (2) any alleged "subsidy" needs to be viewed from the broader perspective of the proposal's public benefits shared by all ratepayers in expanding natural gas service. (RD at 59.) An important point to consider is that in the next proceeding, parties may dispute whether a subsidy exists or does not exist. Thus, no Ordering Paragraphs should be based on OSBA's claim that a "subsidy" may be created by Peoples Natural's 150-foot main line allowance proposal since such costs would not be recovered from customers until base rates are redetermined. Again, it is better to allow each party to present its proposal in the next base rate proceeding when all of the costs and benefits can be reviewed.

For the reasons explained below, the Company respectfully requests that the Pennsylvania Public Utility Commission ("Commission") deny OSBA's Exception and adopt the well-reasoned RD without modification.

## **II. REPLY TO EXCEPTION**

### **A. REPLY TO EXCEPTION NO. 1 – THE ALJ CORRECTLY DID NOT INCLUDE ORDERING PARAGRAPHS REGARDING THE FUTURE ALLOCATION OF COSTS UNDER PEOPLES NATURAL'S 150-FOOT MAIN ALLOWANCE PROPOSAL**

In the RD, the ALJ recommends approval of the Settlement and the Company's proposal to install the first 150 feet of main line without charge for each residential applicant that applies for a line extension. (RD at 55-60.) As part of his review, the ALJ explicitly rejected OSBA's



claim that the Company's proposal would result in residential applicants paying inadequate contributions in aid of construction ("CIACs") toward the extension of the Company's mains to provide natural gas service. (RD at 56.) Specifically, the ALJ declared "[i]t is unclear in the record that there will be a subsidy, or a shift of costs, for other customers to pay." (RD at 56.) Indeed, the record demonstrated 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." (RD at 56.) Thus, based on the record evidence, the ALJ rejected OSBA's argument that the Company's proposal would create a "subsidy" for new residential applicants that would be passed on to "general ratepayers." (RD at 56.)

In its Exception to the RD, OSBA no longer challenges Peoples Natural's 150-foot main line allowance proposal. (OSBA Exception at 2.) However, OSBA contends that the ALJ erred in not including Ordering Paragraphs that direct the Company to allocate all of the costs associated with its proposal, including any "subsidy" that may be created, to the residential customer class. (OSBA Exception at 2.) OSBA's Exception is without merit and should be denied.

First, any Commission directive regarding the allocation of the costs under Peoples Natural's proposal would be premature. Peoples Natural did not reflect any additional revenues or capital costs in this case for its 150-foot main line allowance proposal. (PNG RB at 6.) When the Company actually does reflect the costs associated with the proposal in a future base rate proceeding, all parties, including OSBA, can review the Company's residential extensions and propose to allocate amounts to the classes as they deem to be appropriate. (RD at 57, 59.) Other parties may take different positions on any "subsidy" in future base rate proceedings than OSBA

based upon the benefits that all customer classes may receive from the proposal. For example, although the extension rule applies to residential customers, these extensions could allow customers from other classes, such as the small business class, to obtain natural gas service when they otherwise would not have received service. Thus, until these costs are reflected in the Company's base rate case and parties can review all of the costs and benefits of the extensions, it is premature for the Commission to declare how these costs should be allocated and recovered by Peoples Natural. (PNG RB at 6.)

Second, OSBA's requested Ordering Paragraphs are based on its erroneous claim that a "subsidy" will be created. OSBA viewed any reduction in the average CIAC paid by a residential applicant as compared to the current policy to be a "subsidy" that would be passed onto general ratepayers. (RD at 56.) However, the ALJ completely and correctly rejected OSBA's claim that the evidence supports that a subsidy will be created by the Company's proposal. (RD at 56, 58-59.) As noted by the ALJ, 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." (RD at 56.)

Moreover, in the next proceeding, parties may dispute whether a subsidy exists or does not exist, based upon their definition of subsidy. The ALJ correctly determined that OSBA's claim of an alleged "subsidy" needs to be viewed from a broader perspective of the proposal's benefits. (RD at 59.) Specifically, "to the extent that a portion of the costs to change Peoples' main line extension policy is passed through to general ratepayers," the ALJ held that "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." (RD at 59.) Thus, even if the costs associated

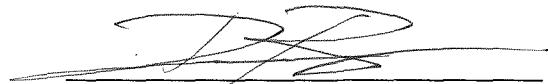
with the Company's proposal were passed onto general ratepayers, those ratepayers arguably would not be paying a "subsidy" because they share in the public benefits of promoting the expansion of natural gas service. Given this potential dispute, it is better to allow each party to present their own cost allocation proposals in the next proceeding based upon the facts at that time.

Based on the foregoing, OSBA's Exception No. 1 should be denied.

**III. CONCLUSION**

WHEREFORE, for all the foregoing reasons, as well as those more fully explained in the well-reasoned Recommended Decision of Administrative Law Judge Joel H. Cheskis, Peoples Natural Gas Company LLC respectfully requests that the Pennsylvania Public Utility Commission: (1) deny the Exception filed by the Office of Small Business Advocate; and (2) adopt the Recommended Decision without modification.

Respectfully submitted,



William H. Roberts, II (ID # 54724)  
Peoples Natural Gas  
375 North Shore Drive  
Pittsburgh, PA 15212  
Phone: 412-208-6527  
E-mail: William.H.RobertsII@peoples-gas.com

Michael W. Gang (ID # 25670)  
Anthony D. Kanagy (ID # 85522)  
Devin T. Ryan (ID # 316602)  
Post & Schell, P.C.  
17 North Second Street, 12<sup>th</sup> Floor  
Harrisburg, PA 17101-1601  
Phone: 717-731-1970  
Fax: 717-731-1985  
E-mail: mgang@postschell.com  
akanagy@postschell.com  
dryan@postschell.com

Date: August 27, 2019

Counsel for Peoples Natural Gas Company LLC